

AMERICA'S RENTAL HOUSING

MEETING CHALLENGES, BUILDING ON OPPORTUNITIES



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INTRODUCTION AND SUMMARY

The troubled homeowner market, along with demographic shifts, has highlighted the vital role that the rental sector plays in providing affordable homes on flexible terms. But while rental housing is the home of choice for a diverse cross-section of Americans, it is also the home of necessity for millions of low-income households.

And the share of US households unable to find affordable rentals has been on the rise for a half-century, with an especially large jump in the last decade as renter income fell even further behind housing and utility cost increases. Even as the need for affordable housing grows—both assisted by the government and supplied in the private market—long-run pressures continue to threaten this essential resource.

Rental markets are now tightening, with vacancy rates falling and rents climbing. With little new supply of multifamily units in the pipeline, rents could rise sharply as demand increases. Regardless, affordability is likely to deteriorate further over the next few years as persistently high unemployment limits renter income gains. Meanwhile, policymakers must find ways to do more with less as they confront the stark realities of federal budget cuts. In this difficult environment, all levels of government will be challenged to support efforts to meet the nation's fundamental need for affordable, good-quality rental housing.

RENEWED IMPORTANCE OF RENTAL HOUSING

The foreclosure crisis gripping the owner-occupied housing market serves as a stark reminder of the advantages and importance of rental housing. The plunge in home prices across the country, coupled with steep job losses, has put the financial risks of homeownership into sharp relief as millions of Americans lose their homes. The economic distress caused by the recession—including the swelling ranks of low-income households—has also underscored the critical importance of an adequate supply of affordable rental housing.

Renting offers many benefits. First, moving to and from rental housing involves much lower transaction costs than homeownership. Although renters do incur moving costs and landlords typically demand the last month's rent plus a security deposit, these outlays are smaller than the fees associated with buying and selling homes. Second, renting transfers primary responsibility for upkeep and mainte-

nance to a landlord. And third, renting does not tie up funds in the form of a downpayment, nor does it expose households to the risk of loss of that investment. While renters do face the risk of rent inflation and the loss of their security deposits, rental housing provides a safe haven during times of falling home prices or job insecurity.

Small wonder, then, that almost all Americans rent at some point in their lives. Among the population that reached adulthood around 1980, fully 95 percent lived in rentals sometime during the ensuing two decades, including the vast majority of those leaving their parents' homes for the first time. Renting is a common choice for young adults since they face frequent moves as family, work, school, and living arrangements change—not to mention wealth and income constraints that prevent them from becoming homeowners. Moreover, many of those who do buy homes return to renting at least once as they relocate for new jobs or look for work, divorce or separate, or opt out or fail in homeownership. Even during the recent homebuying boom, the share of US households living in rental housing never fell below 30 percent. Of course, many households remain renters throughout their lives either because of the flexibility and freedom from property management responsibilities renting offers, or because of the financial barriers or risks associated with homeownership.

Renting has social as well as individual benefits. By sharply reducing the transaction costs of moving, the rental market allows the labor force to adjust more smoothly and rapidly to geographic shifts in the demand for workers. Rental units also provide a ready option for those who lack the wealth or credit quality to own but want to live independently. And for individuals as well as businesses, owning rental properties is an avenue for wealth creation. At the community level, good-quality rental housing can provide a key component in efforts to stabilize distressed neighborhoods.

Today, both economic conditions and demographic forces are bolstering rental demand. Reversing trends prevailing from the mid-1990s to the mid-2000s, the housing bust and Great Recession have pushed up the share and number of renter households. With millions of homeowners delinquent on their mortgages, further increases in the renter population are likely. Owners that have gone through foreclosure are especially likely to remain renters for a number of years to come.

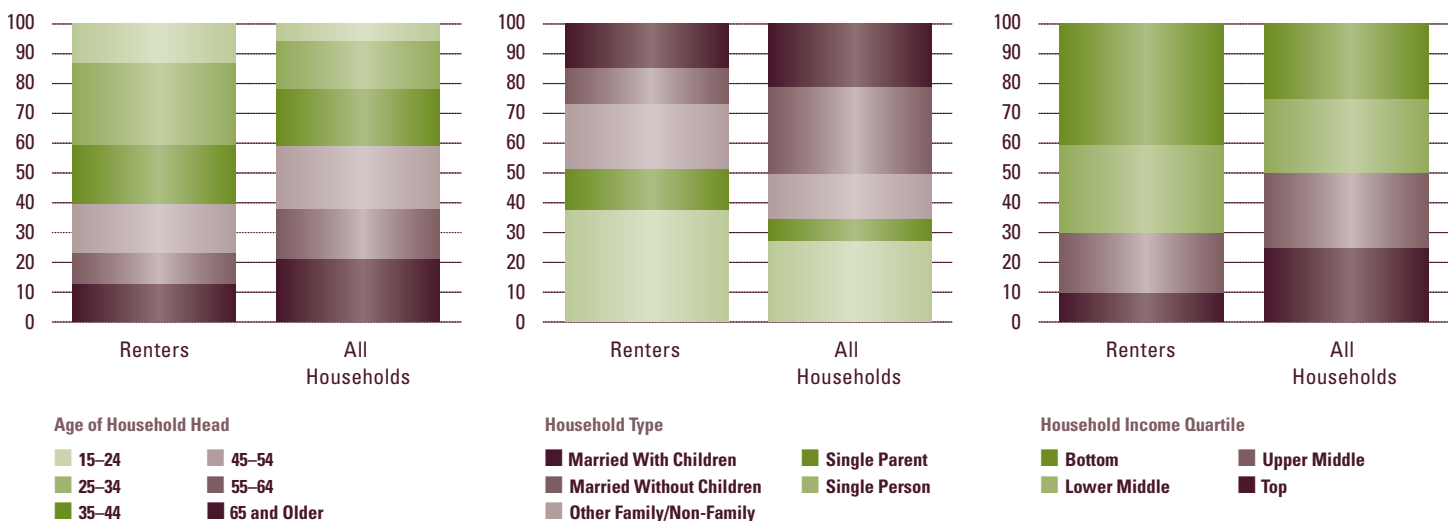
DIVERSE HOMES FOR DIVERSE HOUSEHOLDS

Through economic booms and busts, households of all types and ages live in rental housing. Single persons—with their more limited incomes and need for less living space—

FIGURE 1

Renters Reflect the Diversity of US Households, But Are More Likely to Be Young, Single, and Low-Income

Share of Households (Percent)



Notes: Children are the householders' own children under the age of 18. Income quartiles are equal fourths of all households (both owners and renters) sorted by pre-tax household income. Other family/non-family includes unmarried partner households.

Source: JCHS tabulations of US Census Bureau, 2010 Current Population Survey.

FIGURE 2

The Rental Market Shows Signs of Recovery

	2007:4	2008:4	2009:4	2010:4
US Rental Vacancy Rate (Percent)	9.6	10.1	10.7	9.4
MPF Research Apartment Vacancy Rate (Percent)	4.8	7.8	8.2	6.5
Consumer Price Index for Rent (Percent change)	4.0	3.6	1.0	0.6
MPF Research Rent Index (Percent change)	na	-0.3	-4.1	2.3
Moody's Apartment Property Price Index (Percent change)	-2.9	-13.6	-20.4	11.8
Multifamily For-Rent Starts (Units)	60,000	43,000	16,000	21,000
Multifamily For-Rent Completions (Units)	42,000	55,000	51,000	24,000

Notes: US rental vacancy rate is from the Housing Vacancy Survey. MPF Research data is for a sample of large investment-grade apartment properties. Moody's Apartment Property Price Index is based on sales of apartment properties worth at least \$2.5 million.

Sources: US Census Bureau, Housing Vacancy Survey; US Bureau of Labor Statistics, Consumer Price Index; Moody's Economy.com, Moody's/REAL National Commercial Property Price Index for Apartments; US Census Bureau, New Residential Construction; MPF Research.

make up nearly two out of every five renters (**Figure 1**). The rest of the renter population is divided among married couples with and without children, single-parent households, and other related and unrelated groups of people. While younger age groups are much more likely to rent, more heads of renter households are 35–64 years old (46 percent) than under 35 (41 percent). Elderly households account for the remaining 13 percent of renters by age.

Reflecting their disproportionately large shares of single-person, young, and minority households, renters are heavily concentrated in the bottom half of the income distribution. Nearly three-quarters of renters have incomes below the median income for all households, including 41 percent in the bottom income quartile and 30 percent in the lower-middle quartile. Relatively few renters have high incomes, with only 10 percent in the top quartile.

Renters are ethnically and racially diverse, with minorities accounting for 89 percent of the more than 4.0 million growth in their numbers from 2000 to 2010. Hispanics contributed 42 percent, and blacks 25 percent, of this increase. Over the decade, the minority share of renters thus rose from 39 percent to 45 percent—more than twice the minority share of owners. In large measure, these minority gains reflect the fact that half of all immigrants rent their housing. Indeed, the foreign-born head one in five renter households. With the recession-induced slowdown in immigration and the bust in the homeownership market, however, whites accounted for nearly half of all renter household growth in 2005–10.

While the common perception of rental housing is of large structures in urban areas, more than half of all rental units are in buildings with four or fewer units—including 34 percent that are single-family homes. Renters are in fact more likely to live in the center cities of metropolitan areas than homeowners, but more than half live in suburban and non-metropolitan areas. Indeed, two out of every five renters live in suburban areas and about one in seven in non-metro areas. And although center city rentals are more likely to be in larger buildings, nearly half are in structures with just 1–4 units even in urban areas. Almost three-fifths of rentals in suburban areas, and four out of five in non-metro areas, are also in these smaller structures.

MARKETS ON THE MEND

Although the Great Recession created a variety of financial stresses for rental property owners, market conditions are starting to improve (**Figure 2**). As measured by the Housing Vacancy Survey (HVS), the overall rental vacancy rate hit 10.7 percent at the end of 2009, up from 9.6 percent at the end of 2007. Meanwhile, the Consumer Price Index (CPI) indicates that nominal rents for primary residences stalled in mid-2009 for the first time in decades. Professionally managed apartments were particularly hard hit, with MPF Research reporting a 4.1 percent drop in effective rents nationally as of the fourth quarter of 2009. But the impact of the housing market bust was most evident in the prices of multifamily properties. After nearly doubling from the end of 2000 to the end of 2007, Moody's Commercial Property Price Index for apartment buildings was down 31 percent over the two-year period from the end of 2007 to the end of 2009.

But even as the economy struggled to add jobs in late 2010, signs emerged that rental markets were tightening. The

indicators of a rebound for professionally managed apartments were especially strong, with MPF Research reporting a 1.7 percentage-point drop in vacancy rates and a 2.3 percentage point annualized increase in rents as of the fourth quarter of 2010. Trends in multifamily prices also point to a rebound, with Moody's index up 12 percent from the end of 2009. Nevertheless, prices remained 28 percent below the peak in real terms.

The critical question now is whether supply and demand are approaching balance. While vacancy rates are near pre-recession levels, they are still well above 1990s levels. Since the 1980s, however, the rental vacancy rate has stair-stepped higher, suggesting that rates may not need to return to previous levels to trigger a fresh round of rent inflation. Moreover, the ingredients for a surge in demand may be present. The recession has not only dampened the rate at which young adults form independent households, but also stalled the pace of immigration—both drivers of rental demand. When job growth regains momentum, the number of renter households could climb quickly.

Given the long lead times needed to develop new multifamily housing, a sharp increase in demand could quickly reduce vacancy rates and put upward pressure on rents. While this would be good news for owners and investors in rental housing, it would also fuel the intense affordability pressures that low-income renters already face.

THE AFFORDABILITY CRISIS

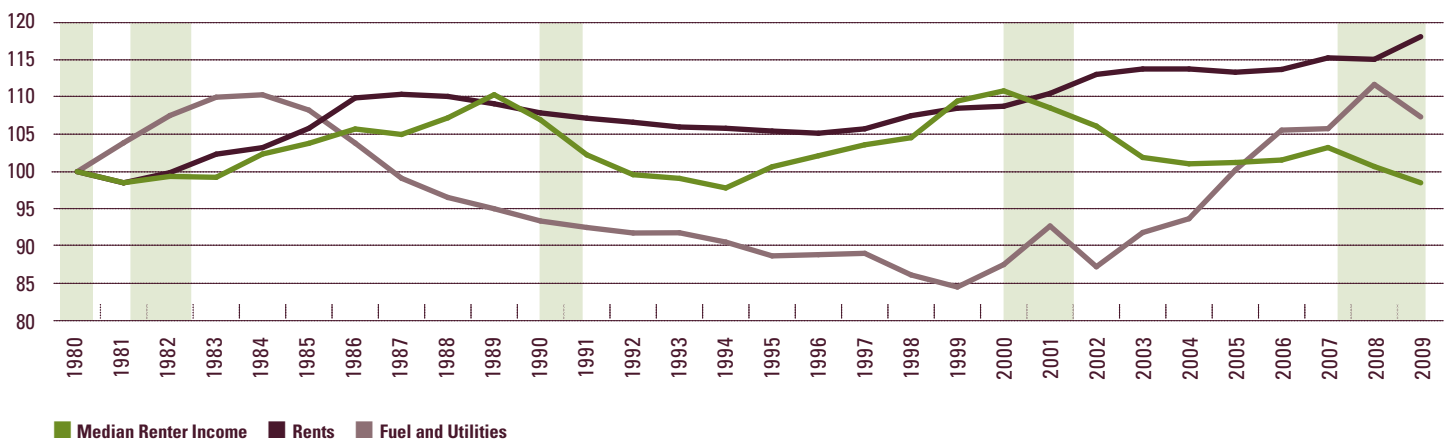
When considered over just a few years, changes in the shares of cost-burdened renters may not seem dramatic. Over the longer sweep of time, though, the increase is alarming. A common standard of affordability is that rent and utility costs together require less than 30 percent of household income. Above that limit, renter cost burdens are defined as moderate (between 30 and 50 percent of income) or severe (more than 50 percent of income). In 1960, 24 percent of renters were at least moderately burdened, including 12 percent that were severely burdened. By 2000, these shares had reached 38 percent and 20 percent. And by 2009, the share of at least moderately cost-burdened renters soared to 49 percent while the share of severely burdened renters jumped to 26 percent.

Both weak income gains and rising housing costs have contributed to this growth. Over the past 30 years, the median renter income has generally risen during economic expansions but then given back any gains during subsequent recessions. Following the 2001 downturn, however, real renter incomes failed to rebound and now remain below their 1980 level (**Figure 3**). At the same time, real contract rents have climbed by more than 15 percent since 1980. After stagnating for nearly a decade following the 1980s building boom, rents rose steadily from the mid-1990s on. And given that four out of five renters pay their own utility costs, the spike in energy prices since the start of the 2000s

FIGURE 3

In the 2000s, Real Renter Incomes Declined While Rents and Energy Costs Rose Sharply

Indexes



Notes: Values are adjusted for inflation using the CPI-U for All Items and are normalized to 100 in 1980. Shaded areas are recessions as defined by the National Bureau of Economic Research. Sources: US Bureau of Labor Statistics, Consumer Price Index; JCHS tabulations of US Census Bureau, Current Population Survey.

has also served to widen the gap between rent increases and renter income growth.

Affordability problems are especially common among the nation's lowest-income renters. Federal housing assistance programs generally target households with extremely low incomes (less than 30 percent of area medians) and very low incomes (30–50 percent of area medians). Fully 63 percent of extremely low-income renters had severe housing cost burdens in 2009, while an additional 15 percent had moderate burdens. Comparable shares among very low-income renters were 49 percent and 28 percent.

After paying such large portions of their incomes for housing, many renters have little left to cover other basic necessities—let alone save or invest in education in an effort to move out of poverty. In 2009, the average amount of pre-tax income that renters in the bottom expenditure quartile had to spend on all other items was a meager \$920 per month. For those in the bottom expenditure quartile with severe housing cost burdens, the amount left over was just \$571.

Moreover, housing affordability pressures are creeping up the income distribution. Over the past decade, the incidence of moderate cost burdens among renters in the lower-middle income quintile jumped from 32 percent to 41 percent. Renters in the middle income quintile saw an even larger increase, with the moderately burdened share more than doubling from 9 percent to 20 percent.

PRODUCTION AND PRESERVATION CHALLENGES

Addressing the rental affordability crisis ultimately boils down to the nation's ability to supply housing that meets the needs of lower-income (and increasingly, moderate-income) families and individuals without placing excessive strain on household budgets. Federal assistance programs provide subsidies to close the gap between what it costs to supply housing and what renters can afford to pay.

Since the advent of public housing in the 1930s, the federal approach has evolved from purely project-based assistance (tied to specific properties) to reliance on tenant-based assistance (housing vouchers that recipients are free to use in any homes that meet minimum standards and accept voucher payments). At present, there are up to 7 million federally assisted housing units nationwide—enough to house just one-quarter of the lowest-income renters eligible for assistance.

Now numbering 3.1 million units, the HUD project-based assisted stock has been dwindling since the 1990s. Indeed, more than 700,000 units were lost between 1995 and 2009 due to either physical deterioration or conversion to higher market-rate rents when subsidy contracts expired. Although increases in the housing voucher program over this period offset many of these losses, landlords are under no obligation to accept vouchers or stay in the program and maintain rents at affordable levels. Thus, a form of housing assistance that does not directly add to the affordable housing inventory has replaced one that did. Moreover, growth in the number of vouchers has also stalled since 2004.

Project-based developments, particularly public housing, are disproportionately located in high-poverty areas. One potential benefit of the voucher program is that it can provide assisted renters the chance to move to lower-poverty areas with access to better schools and jobs. Nevertheless, poverty rates in the locations where housing vouchers are used are generally similar to those where project-based assisted units are found, suggesting that voucher holders often do not take advantage of this opportunity.

At present, the Low-Income Housing Tax Credit (LIHTC) program is nearly alone in replenishing the affordable stock, supporting both new construction and substantial rehabilitation of existing properties including older assisted developments. (The HOME program also supports additions to assisted rentals, but funding is generally used in conjunction with other programs like the tax credit to make housing affordable.) From its inception in 1986 through 2007, the LIHTC program helped to develop 1.7 million affordable units, with roughly two-thirds newly constructed and one-third substantially renovated. The high-water mark for production through this program occurred in 2003–5 when strong investor demand increased the market value of credits. During that period, LIHTC development reached more than 125,000 units annually, including about 80,000 new apartments.

By themselves, however, tax credits cannot bring rents down to levels that extremely low- and very low-income households can afford. With the growing reliance on the LIHTC program and housing vouchers (both of which allow tenants to pay more than 30 percent of income for housing), the share of assisted renters with cost burdens is increasing. Moreover, the LIHTC program most commonly caps tenant eligibility at 60 percent of area median income (adjusted for family size), while the voucher program usually caps eligibility at 50 percent of area median income (also adjusted for family size). Households with incomes above 60 percent

of area medians are therefore excluded, despite the rising incidence of cost burdens among working households with incomes well above that threshold.

As important as federal assistance is in providing affordable housing, the majority of the nation's low-cost rental stock is unassisted. Among the inventory renting for less than \$400 a month (roughly what a family of two living near the federal poverty line or what one full-time, minimum-wage worker could afford), 2.1 million units were assisted and 3.0 million were unassisted in 2009. The supply of unsubsidized units renting for \$400–600 per month is even larger, numbering 7.1 million.

But the private low-cost stock is rapidly disappearing. Of the 6.2 million vacant or for-rent units with rents below \$400 in 1999, 11.9 percent were demolished by 2009. Upward filtering to higher rent ranges, conversions to seasonal or nonresidential use, and temporary removals because of abandonment added to the losses. On net, more than 28 percent of the 1999 low-cost stock was lost by 2009.

Smaller and older rental buildings, which account for high shares of affordable units, are especially vulnerable to loss.

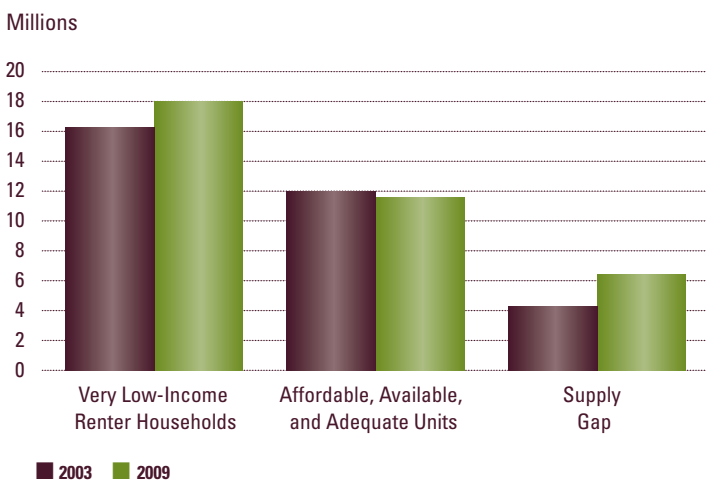
With a median age of 38 years, the rental housing stock is now older than it has ever been. As housing ages, owners must devote an increasing share of rents to maintenance and replacements of aging systems to maintain the structures in adequate condition.

The road to removal typically begins once a unit becomes temporarily uninhabitable. But abandoned homes often languish in this state for years, bringing blight to the surrounding neighborhood. Indeed, nearly a third of all housing units that were abandoned, condemned, or otherwise temporarily lost from the stock between 2001 and 2005 were still in those conditions in 2009. Since the recession, historically high levels of mortgage delinquencies and foreclosures have doubtless added to the number of abandoned properties. In 2009, 7.1 million households reported at least one abandoned or vandalized property within 300 feet of their residences—an increase of 1.5 million households from 2007 and more than 2 million from 2005.

In combination, the shrinking affordable stock, falling incomes, and increased competition from higher-income renters have widened the gap between the number of very low-income renters and the number of affordable, adequate, and available units. In 2003, 16.3 million very low-income renters competed for 12.0 million affordable and adequate rentals that were not occupied by higher-income households. By 2009, the number of these renters hit 18.0 million while the number of affordable, adequate, and available units dipped to 11.6 million, pushing the supply gap to 6.4 million units (**Figure 4**).

FIGURE 4

With the Number of Very Low-Income Renters Rising and the Affordable Stock Shrinking, the Supply Gap Has Widened



Notes: Affordable units have gross rents that are no more than 30% of the very low-income threshold (50% of HUD-adjusted area median family income). Gross rent includes rent and tenant-paid utilities. Available units are vacant or rented by households with incomes up to the very low-income threshold. Adequate units exclude occupied units that the AHS defines as severely inadequate and vacant units that lack full plumbing. Gross rent for vacant units is estimated at 1.15 times the asking rent. Units rented but not yet occupied are excluded.
Source: JCHS tabulations of US Department of Housing and Urban Development, 2009 American Housing Survey, using JCHS-adjusted weights.

POLICY DIRECTIONS

Long-run increases in the number and share of severely cost-burdened renters show no sign of reversing. Indeed, with unemployment expected to remain high for the next few years and rental markets beginning to tighten, competition for affordable housing will likely intensify.

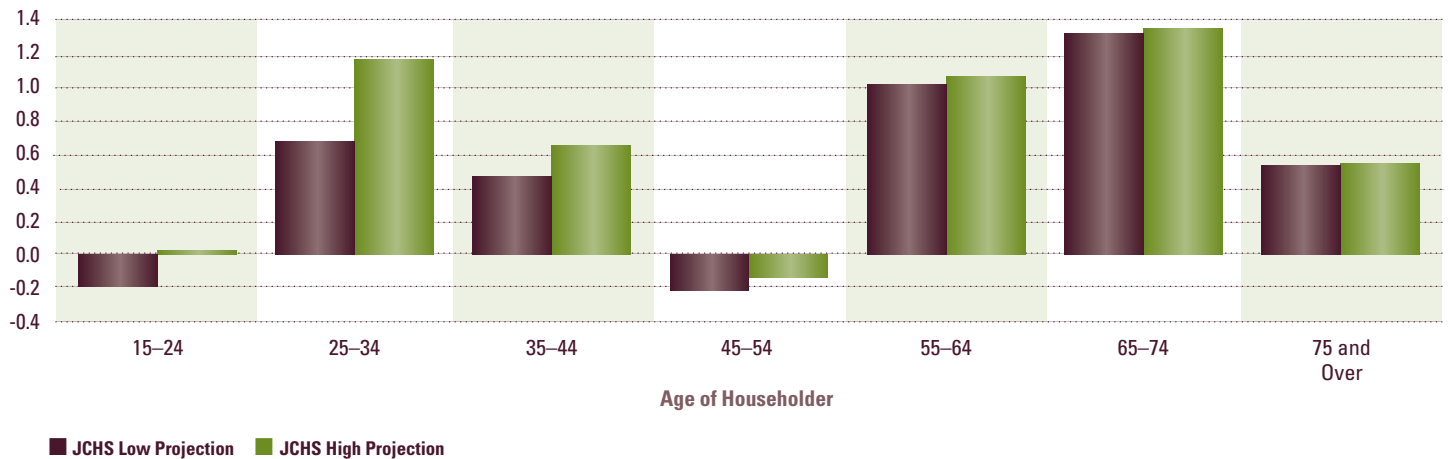
Based on demographic forces alone and assuming homeownership rates by age, race, and household type remain at 2010 levels, the Joint Center for Housing Studies estimates that the number of renter households could increase by 360,000–470,000 annually between 2010 and 2020, in line with growth over the past decade. The strongest growth will be among the household types that are most likely to rent multifamily housing—older and younger households, minorities, and single persons.

While not adding significantly to the overall renter population, the aging of the baby-boom generation will lift the

FIGURE 5

If Homeownership Rates Stay Constant, the Aging of the Population Will Shape Renter Growth in the Coming Decade

Projected Renter Household Growth, 2010–20 (Millions)



Notes: Renter household projections apply homeownership rates by age, race/ethnicity, and household type from the 2010 Current Population Survey to JCHS household growth projections. The high projection assumes immigration rises from 1.1 million in 2005 to 1.5 million in 2020, as estimated by the Census Bureau’s 2008 population projections. The low projection assumes immigration is half the Census Bureau’s projected totals.

Sources: JCHS tabulations of US Census Bureau, Current Population Survey; JCHS 2010 household growth projections.

number of renters over age 65 and boost demand for assisted units set aside for elderly households and for housing with accessibility features (Figure 5). At the same time, the aging of the echo-boom generation will propel growth in young adults living on their own for the first time. It is unclear, however, how post-crash conditions and changing attitudes toward homeownership will add to or detract from the demographic forces that would favor growth in renters in the decade ahead.

What does seem certain is that—absent a dramatic expansion of federal assistance to help defray the costs of renting, or a shift in state and local land use and building regulations to allow expansion of modest, high-density rental developments—affordability problems will remain at staggeringly high levels, if not worsen.

With efforts to trim the federal deficit gaining momentum, creative approaches will be necessary to close the gap between what low-income renters can afford to pay and the rents developers need to provide decent housing. The Obama Administration’s proposal to transform rental assistance is an attempt to stretch resources further by combining programs and by altering the financing of public housing. But even maintaining the status quo is in jeopardy as legislators take aim at tax expenditures and domestic discretionary spending—both of which play vital roles in meeting the

spiraling demand for affordable rental housing. Interest in preserving existing subsidized rentals is therefore high, particularly units located near public transit to help low-income households save on transportation costs as well as gain access to jobs in the broader market area.

Supporting private efforts to meet low-income housing needs—through both preservation and new construction—is also an essential component of any plan. An obvious policy lever for expanding the private supply is through tax treatment of investments in housing. The federal government can also support research and development of new technologies and management approaches to reduce the costs of housing production. State and local governments have perhaps an even greater role to play in ensuring that, at minimum, land use controls and building regulations do not add unnecessarily to the costs of building or improving rental housing.

Indeed, they could follow the examples of a number of states and localities that provide incentives to include affordable units in new developments or revise building codes to require less stringent standards for rehabilitation projects. Concerns about both affordability and greenhouse gas emissions also point to the need to reduce energy consumption in older rental housing through investment in system upgrades, perhaps through better targeting of ratepayer-funded programs.

Investing in new and existing rental housing requires access to affordable financing. A significant issue for policymakers to address is how the changing landscape for mortgage finance will affect the cost and availability of funds for this purpose. In the wake of the financial crisis, Fannie Mae and Freddie Mac, along with the Federal Housing Administration (FHA), have become the primary sources of financing for rental properties of all types. In considering whether the government should continue to guarantee mortgages through Fannie and Freddie or some other mechanism, policymakers should keep in mind their importance as a stable, long-term source of financing for rental as well as owner-occupied housing.

Of particular concern is that owners of smaller multifamily properties have access to affordable financing to maintain this valuable housing stock. There may be several upcoming opportunities—as part of reform of the government spon-

sored enterprises (GSEs), implementation of the Dodd-Frank financial reform measures, or changes to the Community Reinvestment Act—to create incentives for lenders to provide financing for this costly to serve market.

Rental is increasingly being thought of as an integral part of coordinated anti-poverty strategies, neighborhood redevelopment efforts, and regional and transportation planning. This broadening of the goals for assisted housing policy has gained some traction through the recently enacted Sustainable Communities and Choice Neighborhood programs, as well as the longer-standing Family Self Sufficiency, Moving to Opportunity, and Jobs Plus Housing programs. In today's challenging budgetary environment, investments in affordable rental housing thus offer opportunities to improve the well-being of low-income families while also building stronger communities.



RENTAL MARKET CONDITIONS

The housing market crash and Great Recession took a toll on rental markets, pushing up vacancy rates and pushing down rents and property values in many areas. While many measures indicate that rental markets remain under stress, other evidence points to the beginnings of a turnaround. Vacancy rates have retreated as the troubled homeowner market has spurred strong growth in renter households. And with limited new supply in the pipeline, the ingredients may be in place for rents to rise quickly when the economic recovery strengthens.

FALLING VACANCY RATES

Even before the Great Recession, rental housing production had been at modest levels. With renter household growth stalled in the midst of the homebuying boom, starts of single-family and multifamily rentals held below 300,000 units annually on average from 1995 through 2004. By comparison, homes built for sale exceeded 1.0 million units each year and topped out at 1.7 million in 2005. When the owner market crashed and the recession took hold, rental starts fell from their already weak levels to about 230,000 units a year in 2005–8, and then to just over 100,000 units in 2009—the lowest production in more than 50 years.

At the same time, renter household growth picked up sharply to more than 600,000 annually from 2005 to 2009. But despite rising demand and limited new construction, rental vacancy rates remained stubbornly high. After hovering near 8 percent for much of the 1990s, vacancy rates climbed to just under 10 percent by the mid-2000s and then to a new high of 10.6 percent in 2009 (**Table A-1**).

This trend reflects in part the flood of formerly owner-occupied homes into the rental market. After an increase of 720,000 units in the first half of the decade, the number of single-family rentals jumped by 2.3 million in the second half. Even so, much of the increase in the overall rental vacancy rate was concentrated in structures with 10 or more units, where rates climbed from 10.0 percent in 2006 to 12.7 percent in 2009. The vacancy rate for single-family rentals was unchanged, suggesting that many former owners relocated to these homes.

Recent trends indicate that rental markets are tightening (**Figure 6**). The annual vacancy rate fell to 10.2 percent in 2010, with a sharp drop at the end of the year to 9.4 percent. How far vacancies need to fall to restore the market to balance is difficult to determine. In the mid-2000s, vacancy rates consistently exceeded 9.5 percent; in the 1990s, they remained close to 8 percent; and in the 1980s, they held near 6 percent.

As of the fourth quarter of 2010, 4.0 million vacant housing units were available for rent. Assuming that markets are in balance with a rental vacancy rate of 8 percent (the rate prevailing in the decade before the housing boom), the excess would be about 700,000. Given that the number of renter households has been growing by more than 700,000 annually on average since 2006, working off this inventory would take about a year.

The process could, however, be much faster. The Great Recession has held down rental demand in two ways: by slowing the rate at which young adults form independent households, and by reducing the flow of immigrants into the United States. As the recovery strengthens, release of this pent-up demand could lift renter household growth quickly—long before multifamily construction could respond. In addition, the sustainable rental vacancy rate may be closer to the 10 percent averaged in 2003–7, which would trim the amount of excess inventory considerably. The accuracy of national vacancy rate estimates is also in question. Indeed, initial results from the 2010 Census indicate that the vacant share of the overall housing stock is much lower than national surveys report.

TRENDS IN RENTS

After climbing for much of the 2000s, rent increases came to a halt during the recession as vacancy rates rose and the recession took a toll on household incomes (Table A-2). Based on

the national consumer price index, contract rents (excluding tenant-paid utilities) increased by 1 percent from 2007 to 2010.

The consumer price index, however, tends to be a conservative measure. Rent indices for professionally managed apartments, in contrast, show sharper swings since 2007. According to MPF Research, nominal rents for large investment-grade apartment properties slipped 0.3 percent in 2008 and then dropped 4.1 percent in 2009—both declines outpacing the change in overall prices. The weakness in 2009 was widespread, with rents down in 61 of 64 metropolitan areas. The largest decline was in the West (6.2 percent) and the smallest in the Northeast (1.8 percent), with the South (3.3 percent) and Midwest (3.5 percent) falling between these extremes (Figure 7).

As of the fourth quarter of 2010, though, MPF Research surveys point to a 2.3 percent annualized rise in nominal rents. While only modestly faster than overall inflation, this increase still represents a sharp turnaround that is evident in all four regions. Across the 64 metropolitan areas surveyed, 61 posted rent increases. Indeed, the only declines were in Las Vegas (down 5.0 percent), Fort Meyers (down 2.1 percent), and Tucson (down 0.8 percent).

BOOM AND BUST IN MULTIFAMILY PRICES

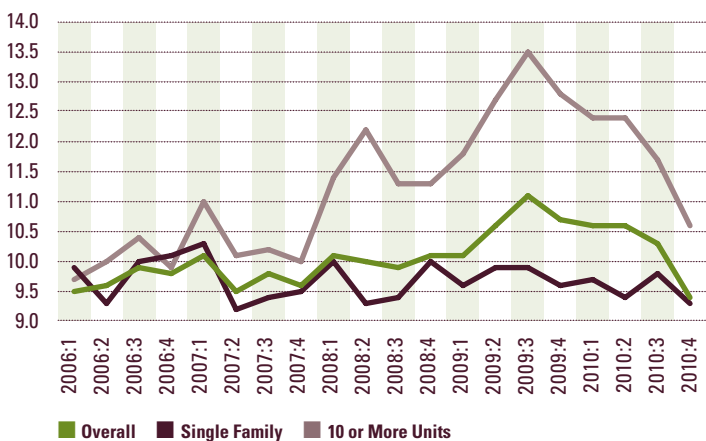
A similar mix of factors that fueled the single-family housing bubble also ignited multifamily property prices, including a flood of global capital seeking investment and falling risk premiums. The homeownership boom also helped to push up prices as property owners hoped to cash in on the homebuying frenzy by converting their rental units to condominiums. Initially affecting only high-end multifamily properties, conversion fever eventually spread to middle-market apartments as well. Properties began to change hands not on the basis of their fundamental value as rental housing, but of their speculative value when converted to homeownership. This put upward pressure on appraisals, and the potential for short-term profits attracted huge amounts of capital.

The ensuing cycle in multifamily property prices was spectacular. Moody's Commercial Property Price Index for apartment buildings surged by 95 percent from the end of 2000 to the peak in 2007 (Figure 8). While other series such as the NCREIF apartment price index do not show quite as large a rise, they still indicate a nearly 70 percent climb in apartment prices over this period. By comparison, the S&P/Case-Shiller Price index for single-family homes jumped 76 percent between the

FIGURE 6

With Vacancy Rates Falling, Rental Markets May be Turning the Corner

Rental Vacancy Rate (Percent)



Source: US Census Bureau, Housing Vacancy Surveys.

end of 2000 and the peak at the beginning of 2006. From peak to trough, Moody's index registered an even greater drop in multifamily prices (40 percent) than in single-family prices (32 percent), while the NCREIF index posted a decline of similar magnitude (30 percent).

The multifamily market now shows signs of recovering. According to Moody's index, prices for properties valued above

\$2.5 million rebounded by 20 percent from the third-quarter low in 2009 to the fourth quarter of 2010. Even so, property values remain 28 percent below peak levels and it is unclear whether the recovery evident in the larger, investment-grade property market extends to other multifamily segments.

FINANCING FOR RENTAL PROPERTIES

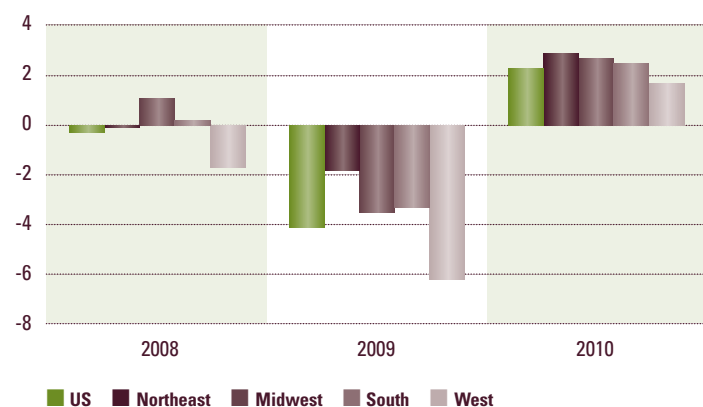
In tandem with property prices, multifamily lending volumes rose rapidly beginning in 1998. After holding near \$400 billion from 1975 until 1998 in real terms, the amount of outstanding multifamily debt doubled by 2008. Loans backed by the GSEs and FHA led growth, together driving 43 percent of the net increase in debt. Indeed, the GSE share of the market swelled from 18 percent to 31 percent. Commercial banks and commercial mortgage backed securities (CMBS) also contributed about a quarter of the increase. By 2008, the GSEs, commercial banks, and CMBS accounted for fully two-thirds of the market.

The financial market crisis then brought growth in overall multifamily debt to a halt. The CMBS market evaporated while banks wrestled with high losses on existing portfolios and had little appetite for new loans. As a result, the only net additions to multifamily debt since 2008 have come from the GSEs and FHA (Figure 9). The volume of outstanding loans held or guaranteed by the GSEs and FHA soared by \$71 billion between the first quarter of 2008 and the fourth quarter

FIGURE 7

After a Sharp Drop in 2009, Rents in Large Apartment Properties Rebounded Across the Country in 2010

Annual Change in Rents (Percent)

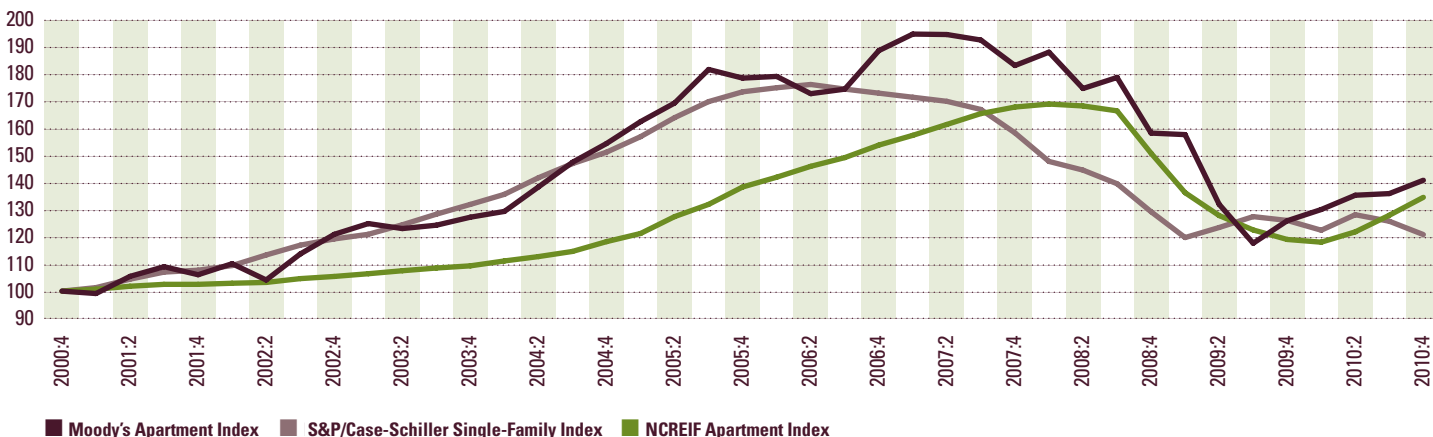


Note: Rent change is the average nominal change from fourth quarter to fourth quarter for a sample of large investment-grade apartment properties.
Source: MPF Research.

FIGURE 8

The Boom and Bust in Multifamily Property Prices Was as Dramatic as That in the Single-Family Market

Price Index



Notes: Data are normalized to 100 in 2000:4. Single-family index is based on sales of 1- to 4-unit properties. Moody's apartment index is based on repeat sales of apartment properties worth at least \$2.5 million, while the NCREIF index is based on appraised valuations of investment-grade apartment properties.
Sources: Economy.com, Moody's/REAL National Commercial Property Price Index for apartments and S&P/Case-Schiller National Home Price Index; National Council of Real Estate Investment Fiduciaries, Apartment Price Index.

of 2010, while the volume for all other financing sources combined dropped by \$40 billion. Just as in the single-family market, the GSEs and FHA have thus played a critical role in keeping credit flowing in the multifamily market.

While it is difficult to discern how restricted credit is playing out in different submarkets, lenders and investors alike clearly prefer larger, higher-end properties located in major metropolitan areas. Even in the best of times, properties that are smaller, of lower quality, and outside of larger markets face greater challenges in getting access to lower-cost funding available through national lenders. A combination of factors, including high fixed underwriting costs and greater default risk, make it difficult for large lenders to serve this submarket. For policymakers, however, smaller properties (generally with 5–19 units) are of particular concern because they represent a significant source of affordable rental housing.

It is also important to note that half of all rentals are in properties with 1–4 units and are financed through the single-family mortgage market. The credit options for these small investor-owned properties are more limited than for owner-occupied units because the risk of default is thought to be higher. Between the 2005 peak and 2009, the drop in loans for purchase of properties without owner-occupants (76 percent) was therefore even sharper than that for purchases

of properties with owner-occupants (60 percent). Refinance loan volumes for absentee owners of 1- to 4-unit properties were also down 41 percent, compared with just 17 percent for owner-occupants.

With other funding sources (including FHA) out of this market, the GSEs stepped in to keep credit flowing—nearly doubling their share of absentee-owner loans for home purchase from 30 percent in 2006 to 56 percent in 2009. Their share of refinances increased even more over this period, up from 24 percent to 61 percent.

MULTIFAMILY LOAN DELINQUENCIES

Many multifamily properties were purchased or refinanced when prices were surging in the 2000s. Debt financing was liberally available with looser underwriting based on rosy assumptions about future net operating income and property values. With the onset of the recession, however, the overly optimistic nature of these assumptions became apparent as delinquency rates began to rise in 2008 and then shot up in 2009.

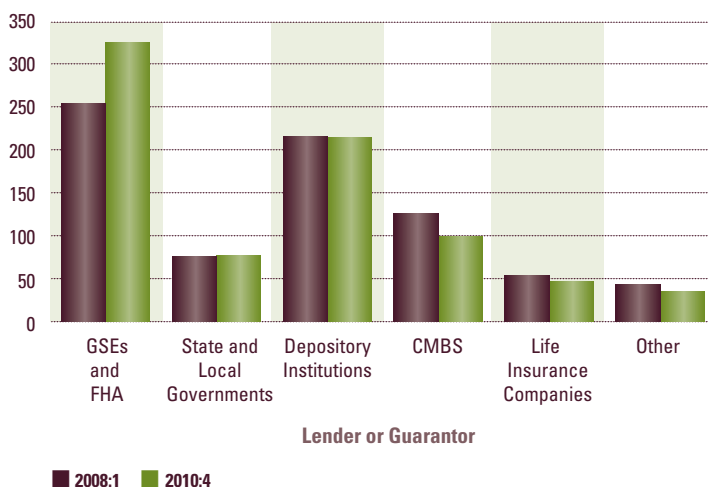
Loan performance, however, varies considerably by investor class (Figure 10). The share of multifamily loans held in CMBS that was 60 or more days delinquent or in some stage of foreclosure climbed to 7.3 percent at the end of 2009 and then hit 13.4 percent in the third quarter of 2010. Meanwhile, the 90-day delinquency rate for multifamily loans held by banks and thrifts jumped from 1.8 percent at the end of 2008 to 4.6 percent in the first quarter of 2010 before easing. In contrast, the share of troubled loans held or guaranteed by Fannie Mae rose much more modestly, up from less than 0.10 percent at the start of 2008 to a peak of 0.8 percent in the second quarter of 2010. The increase for Freddie Mac loans was even smaller, from 0.04 percent to 0.35 percent. FHA's 90-day delinquency rate held steady near 0.75 percent over this period.

The much better performance of the GSE portfolios suggests that Fannie Mae and Freddie Mac did not get caught in a “race to the bottom” with the rest of the market. Strong investor demand for multifamily loans in the early to mid-2000s generated intense competition, reflected in more generous underwriting terms and pricing. Because multifamily loans helped to boost the value of commercial loan pools, demand from CMBS issuers was particularly strong. The GSEs thus appear to have better managed the screening and underwriting of the loans they purchased or guaranteed. The GSEs did, however, purchase a significant share of the most highly rated multifamily tranches of CMBS created

FIGURE 9

Federal Sources Account for Virtually All of the Growth in Multifamily Debt Since 2008

Outstanding Multifamily Debt (Billions of 2010 dollars)



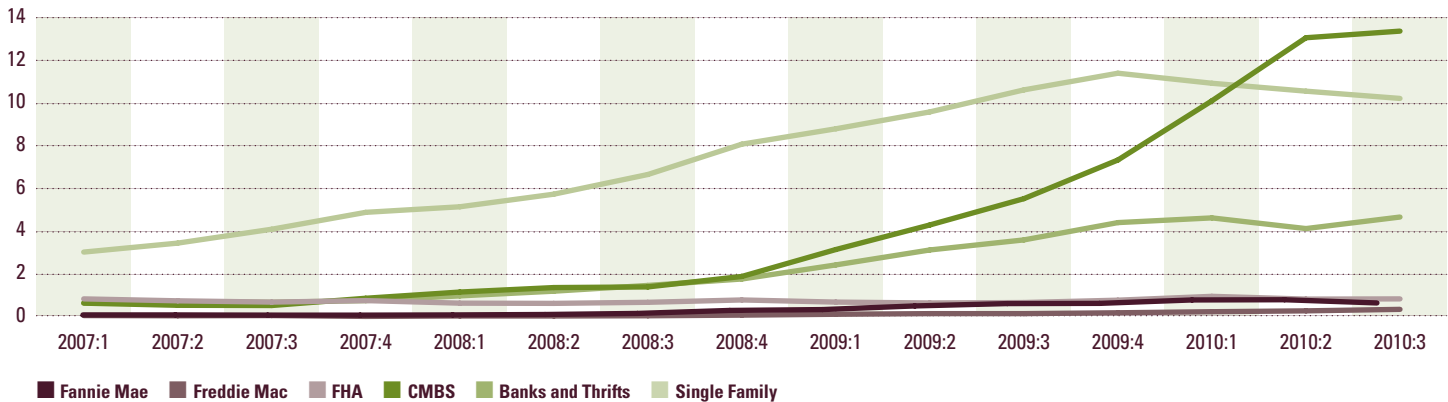
Notes: Values are adjusted for inflation by the CPI-U for All Items. GSEs (government sponsored enterprises) include Fannie Mae and Freddie Mac. FHA is the Federal Housing Administration, and CMBS are commercial mortgage backed securities. Other includes the federal government, finance companies, businesses, pension funds and REITs.

Source: Mortgage Bankers Association analysis of Federal Reserve, Flow of Funds and FDIC.

FIGURE 10

CMBS Multifamily Delinquencies Have Soared While Federally Backed Loans Have Performed Relatively Well

Share of Loans Delinquent or in Foreclosure (Percent)



Notes: Rates for different types of financial institutions are not directly comparable because of differences in data-gathering methods. Single family includes loans for 1- to 4-unit properties. All other categories are investors in or guarantors of multifamily loans. CMBS delinquencies include properties foreclosed but not yet sold. Delinquency rates for GSEs, CMBS and single family are the share of loans by volume or number that are 60 or more days delinquent; rates for banks and thrifts and FHA are the share 90 or more days delinquent.

Sources: Mortgage Bankers Association, National Delinquency Surveys and Commercial/Multifamily Mortgage Delinquency Rates; Moody's Multifamily CMBS Delinquency Tracker; Federal Deposit Insurance Corporation, Quarterly Loan Portfolio Performance Indicators; Federal Housing Administration.

especially for them, and thus were a source of demand for those securities.

One potential concern about the current credit environment is that borrowers with loans maturing in the next few years may be at risk of default. At the height of the lending boom, it was common for multifamily loans to have amortization periods of 25–30 years (the period over which the loan is fully paid off) but maturities of only 7–10 years (the date at which the loan must be repaid). With such a large volume of debt issued over the last decade, many property owners will therefore have to refinance in the next 5–7 years. The decline in both net operating income and property values, along with stricter underwriting guidelines, may thus make refinancing difficult.

While the magnitude of this problem is unclear, it appears to be most concentrated among CMBS and depository loans. A 2010 survey by the Mortgage Bankers Association (MBA) indicates that 15 percent of outstanding nonbank multifamily loans would mature between 2010 and 2012, with an additional 23 percent maturing by 2015. Fortunately, this means that more than half of outstanding nonbank multifamily mortgages will not come due until 2016 or later, including more than a quarter that will mature sometime after 2020.

But among CMBS loans, 22 percent will mature by 2012 and another 26 percent by 2015. Credit companies, which the MBA report notes tend to make shorter-term loans similar to

depositories, have 40 percent of their loans maturing by 2012 and another 12 percent by 2015. Loans guaranteed or held by the GSEs or FHA face less maturity risk than other classes of loans, with only 30 percent of outstanding loans maturing by 2015. Moreover, with rents and property values now on the upswing and vacancy rates falling, market conditions may well improve enough to make refinancing easier over the next few years.

FALLOUT FROM THE FORECLOSURE CRISIS

Based on Mortgage Bankers Association data, the number of home loans in some stage of foreclosure appears to have stabilized at around 2.0 million, but this number is still four times the average before the crisis began. Meanwhile, the number of homes forfeited through foreclosures, short sales, or deeds-in-lieu of foreclosure continues to rise, up 46.7 percent between 2009 and 2010 (Figure 11).

While the foreclosure crisis has obviously had its greatest impact on homeowners, it has also displaced a significant number of renters. All told, about half of renters live in the types of properties that are at the center of the crisis, including single-family homes, condominiums, manufactured homes, and buildings with 2–4 units. Indeed, the National Low Income Housing Coalition estimated that, as of 2009, renters may have accounted for some 40 percent of households that faced eviction because of foreclosure.

Foreclosure rates for small multifamily properties have increased at least as sharply as those for single-family homes. According to an analysis of the Chicago market area by James Shilling of DePaul University, the share of loans in foreclosure for buildings with 2–6 units climbed to 10 percent in 2009, about twice the MBA’s estimated rate for single-family properties. Similarly, researchers at the Federal Reserve Bank of Boston found that buildings with 2–4 units make up 10 percent of the Massachusetts’ housing stock but account for almost half of foreclosures.

Renters in low-income and minority neighborhoods appear to have felt the fallout from the foreclosure crisis most acutely. Based on data from First American CoreLogic, the 2010 foreclosure rate for loans originated in 2004–7 in low-income communities (with incomes below 80 percent of the area median) was almost two-and-a-half times that in higher-income areas (with incomes above 120 percent of the area median). The disparity is even larger in predominantly minority communities, where foreclosure rates are almost three times those in predominantly white areas. Not only are properties in these types of neighborhoods more likely to go through foreclosure, but foreclosures also affect a greater number of households because of the high concentration of buildings with 2–4 units. These properties account for 17 percent of occupied units in the poorest neighborhoods—more than three times the share in the highest-income areas.

The impact of rising multifamily loan delinquencies on tenants is unclear. When the single-family foreclosure crisis erupted in 2008, lenders often evicted tenants to prepare the units for sale. The federal Protecting Tenants at Foreclosure Act was then passed in May 2009, requiring that new owners of foreclosed or sold properties honor the terms of existing leases and provide tenants at least 90-days notice to vacate.

Renters of multifamily units, however, may be in less danger of eviction because property owners and lenders alike have incentives to retain good tenants to maintain cash flow. Instead, the main risk to tenants may be from under-maintenance of their buildings. If owners are squeezed by inadequate operating income and limited access to financing, they may be unable to invest in necessary upkeep and property quality may deteriorate. For marginal buildings, the inability of owners to provide adequate maintenance may also lead to further losses from the affordable housing stock.

THE OUTLOOK

A variety of rental market indicators suggest that the worst repercussions from the recession may be over. While this is good news for property owners, the recovery may increase the rent pressures on households still struggling in an environment of sluggish job growth. The ongoing foreclosure crisis should continue to spur growth in the number of renter households as former owners switch to renting. Single-family home foreclosures will also add a steady flow of units to the rental market. The ability of renter households to occupy these homes will be an important factor in maintaining the stability of distressed neighborhoods hard hit by the foreclosure crisis.

One of the most important questions going forward is whether mortgage financing will be available to fuel rental property purchases and investments. Even before the financial crisis, Fannie Mae and Freddie Mac were an important source of financing for both multifamily and investor-owned single-family properties. And during the crisis, the GSEs—along with FHA—accounted for the vast majority of new financing. As Congress takes up debate about what, if any, role the GSEs should play in the mortgage markets, policymakers must consider the vital importance they have as a source of capital for rental housing.

FIGURE 11

Home Forfeitures Continue to Escalate



Notes: In short sales, the selling price of the property is lower than the total amount due on the mortgage. Home forfeitures also include deeds surrendered in lieu of foreclosure (not shown). Homes forfeited include 1- to 4-unit properties and condominiums in multifamily buildings.

Source: Office of the Comptroller of the Currency and Office of Thrift Supervision, Mortgage Metrics Reports, 2009–2010.



RENTER DEMOGRAPHICS

Rental housing serves a large and diverse population of nearly 39 million households. Although renting is most common among young adults, nearly everyone rents at some point in their lives—whether by choice or by necessity. But rental housing is particularly important for low-income and minority households, about half of whom are renters. As a result, supplying affordable units in a variety of structure types and neighborhoods is a critical housing policy priority.

RENTING OVER THE LIFECYCLE

Renting plays several roles over the lifecycle of the average householder. Most commonly, rental housing provides an opportunity to live independently. Among householders under age 25, some 78 percent are renters. Renting is a good option for many young households because the low transaction costs of moving suit their stage in life marked by higher mobility, more flexible job tenure, and changing relationships. Renting enables young householders to pursue job opportunities in new locations more easily and to experience different living arrangements. Even if young adults prefer to own, they usually lack the wealth to do so.

As householders age and become more settled, their homeownership rates rise steadily (**Table A-3**). At 25–30 years old, about one-third own their homes while the majority still rent. By the age of 40, however, two-thirds of householders own homes. Nevertheless, about a fifth of households over age 55 remain renters. Those choosing to rent often prefer to have limited responsibility for home maintenance and to avoid the financial risks associated with unexpected repairs and potential declines in house values.

Household type and life stage also influence tenure decisions. With a homeownership rate of more than 80 percent, married couples clearly prefer to buy while just over half of all unmarried householders rent. According to the American Housing Survey, only 25 percent of all married homeowners who moved between 2007 and 2009 switched to renting, but over half of all other homeowners who moved during that period did so. Rentership rates rise modestly among elderly households over age 75, especially among those that are single.

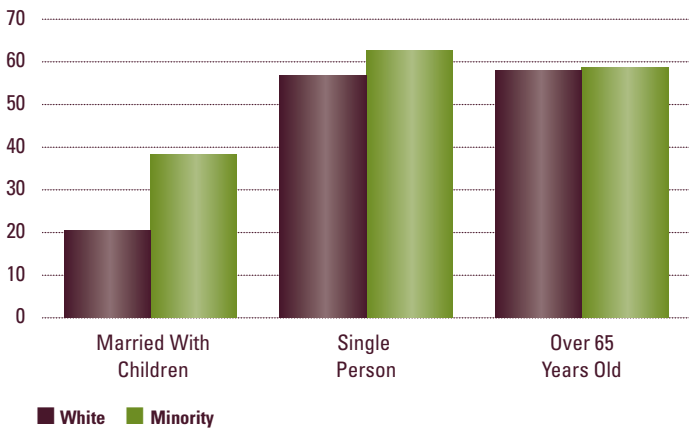
Demographic characteristics also affect the types of homes that renters choose (**Figure 12**). For example, singles and householders over age 65 are most likely to rent in larger multifamily buildings in center cities or suburbs. Renters who are married with children are most likely to live in single-family detached homes. At the same time, though,

FIGURE 12

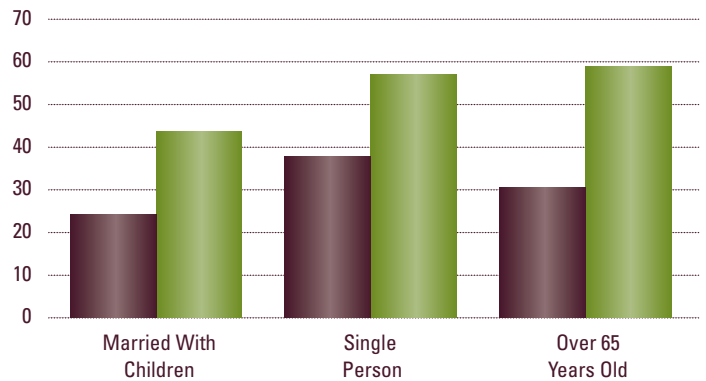
Household Characteristics Influence Where Renters Live

Share of Renter Households, 2009 (Percent)

Living in Buildings With 5 or More Units



Living in Center Cities



Notes: Characteristics are those of the head of the household. Children are the householder’s own children under the age of 18. White householders are non-Hispanic, and minorities are non-white. Source: Table A-4.

minorities of all family types are much more likely to live in center cities than whites.

The climb in overall homeownership rates as householders age masks the fact that many people switch in and out of owning over time. The National Longitudinal Survey of Youth indicates that 45 percent of first-time buyers in the 1980s and 1990s returned to renting or even a stay with parents or others. Indeed, the high rate of tenure switching belies the adage that “once an owner, always an owner.”

In addition, geography and local housing affordability affect the decision to own or rent. In high-cost urban areas, renting is often more financially feasible than owning given the significant savings needed for downpayments and closing costs. Rentals thus play a greater role in high-cost housing markets, allowing more householders to live closer to their jobs rather than “drive till they qualify” to buy homes in the suburbs. Among the 75 metropolitan areas covered by the Housing Vacancy Survey, homeownership rates in the top third of markets by median home price—including New York, Los Angeles, San Diego, and Honolulu—averaged a full four percentage points below those in the other two-thirds of markets.

RENTER DIVERSITY

Renters defy common perceptions that they are all young, minority, and have low incomes. Indeed, half of all rent-

ers are over age 40 and a majority (65 percent) are white. Although the median renter income is low, about 10 million renters are in the top half of the income distribution and 3.8 million are in the top quartile.

Nonetheless, renters do differ from homeowners in several ways. According to the 2009 American Community Survey, the median age of renters is 40—some 13 years below that of homeowners. Four out of every ten renter households are under 35 years old, compared with just one in ten homeowners. In contrast, only 13 percent of renters are 65 and older, a group that makes up more than 25 percent of homeowners.

Renter households also tend to be smaller than owner households, in part because only about one-quarter are married couples. Over a third (35 percent) are single persons and another 16 percent are headed by single parents. Even so, because single-parent households are more common among renters and many married-couple homeowners are empty-nesters, 36 percent of children—some 27 million in all—live in renter households.

Renters are also more ethnically and racially diverse than homeowners, and minority households are an increasingly large part of the rental market. In 2000, 39 percent of renters were minorities. From 2001 to 2010, minorities contributed 81 percent of the 3.9 million growth in the number of renter households. Hispanics accounted for 39 percent and blacks

for 27 percent of the increase. As a result, the minority share of renters rose to about 45 percent in 2010—more than twice the minority share of owners. In large measure, minority gains reflect immigration. Foreign-born householders add to renter diversity and make up a significant portion of the market. Almost one in five renter households is headed by an immigrant, twice the share among homeowners. About half of all immigrants are renters, including 74 percent of those under age 35.

But the Great Recession sharply reduced the inflow of immigrants as well as the outflow of native-born renters into homeownership (Figure 13). After averaging about 200,000 per year from 2000 to 2005, immigrant renter growth dropped by more than half from 2005 to 2010. A surge in the number of native-born renters has, however, more than offset this decline. Indeed, native-born households are now driving growth in the renter population at a pace unmatched since the 1980s. In a sharp turnaround from the first half of the decade, whites accounted for a majority of the increase in native-born renters in the second half of the 2000s.

THE INCOME AND WEALTH GAP

In 2010, more than half of all households in the bottom income quartile were renters, while fully 87 percent of households in the top income quartile were homeowners. In part, the lower incomes of renters reflect the large share of households with only one earner. Renters as a group

are therefore much more likely than owners to have low incomes, regardless of age. Across all age groups, the median income of renters is about half that of same-aged owners.

Renter incomes vary by race and ethnicity. Throughout the past decade, the median household incomes of Hispanic renters were approximately 15 percent lower, and those of black renters were 30 percent lower, than those of whites. Although the lower average age of minority renters explains some of this difference, the disparity holds even among households of comparable ages. Among 35 to 44 year-olds, for example, the median incomes of Hispanic and black renters were 24 percent and 28 percent below that of white renters.

Moreover, renters are becoming increasingly concentrated at the lowest income levels. From 1990 to 2010, households with incomes below the national median accounted for 84 percent of the growth in renters, while higher-income households drove virtually all of the growth in owners. Fully 60 percent of the increase in renters came from households in the bottom income quartile alone. By 2010, approximately 70 percent of renter households had incomes below the national median and more than 40 percent had incomes in the bottom quartile (Figure 14).

Recessions have been a major factor in holding back renter income growth, suggesting that renters are more susceptible to layoffs and unemployment in weak labor markets and have a more difficult time recovering afterward. The downturns in the early 1990s and 2000s hit renters especially hard, pushing their real median household incomes down three times more than those of homeowners. These declines were not offset during subsequent expansions, adding to the owner-renter income gap.

In addition, renters have only a fraction of the net wealth of owners. Near the peak of the housing bubble in 2007, the median net wealth of homeowners was \$234,600—about 46 times the \$5,100 median for renters. Even if homeowner wealth fell back to 1995 levels, it would still be 27.5 times the median for renters. This underscores the fact that, in addition to having the potential to accumulate wealth through home price appreciation, paying down principal, and controlling a portion of their housing costs, homeowners start out with higher incomes and wealth than renters.

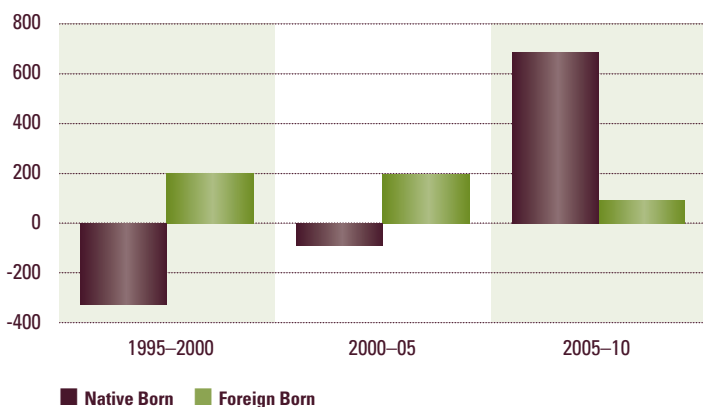
RETURN TO RENTER HOUSEHOLD GROWTH

After a long period of stagnation, the number of renter households is once again on the rise (Figure 15). The majority

FIGURE 13

Growth in Native-Born Renters Has Surged While Growth in Foreign-Born Renters Has Slowed

Average Annual Renter Household Growth (Thousands)



Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

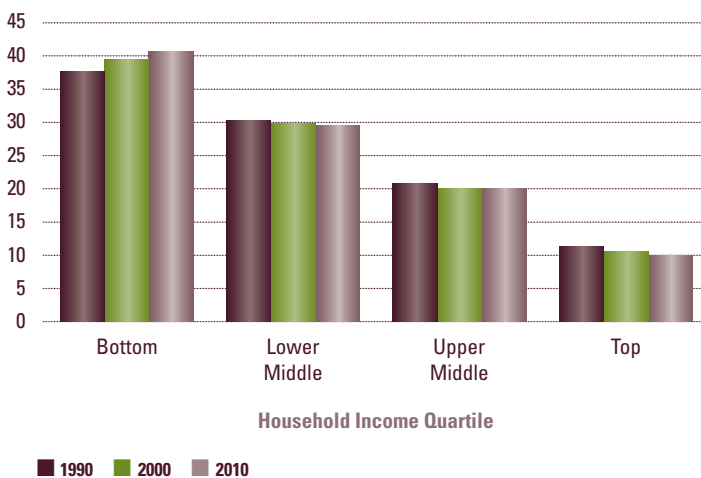
of this growth is not due to higher household formation rates among younger renters but rather to lower homeownership rates across a broad spectrum of the population. Declines in homeownership rates are evident among all demographic groups, but are most pronounced for households with children, blacks, and those aged 25 to 44 (Figure 16). These shifts have erased much of the homeownership gains made since 1995 and, in many cases, wiped out increases in the 2000s.

Had homeownership rates by age remained at 2005 levels, net renter household growth from 2005 to 2010 would have been just under 370,000 (resulting from the net formation of 5.1 million new renter households under age 30 and the net loss of 4.8 million older renters primarily to homeownership). Instead, renter household growth surged by nearly 4.0 million over this period. Indeed, the net dissolution of renter households over age 30 was just 1.8 million—fully 3.0 million less than expected assuming constant homeownership rates. The net formation of renter households under age 30 was also over 626,000 more than expected.

FIGURE 14

Renter Households Are Increasingly Concentrated in the Bottom Quarter of the Income Scale

Share of Renter Households, 1990–2010 (Percent)



Note: Income quartiles are equal fourths of all households (both owners and renters) sorted by pre-tax income.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

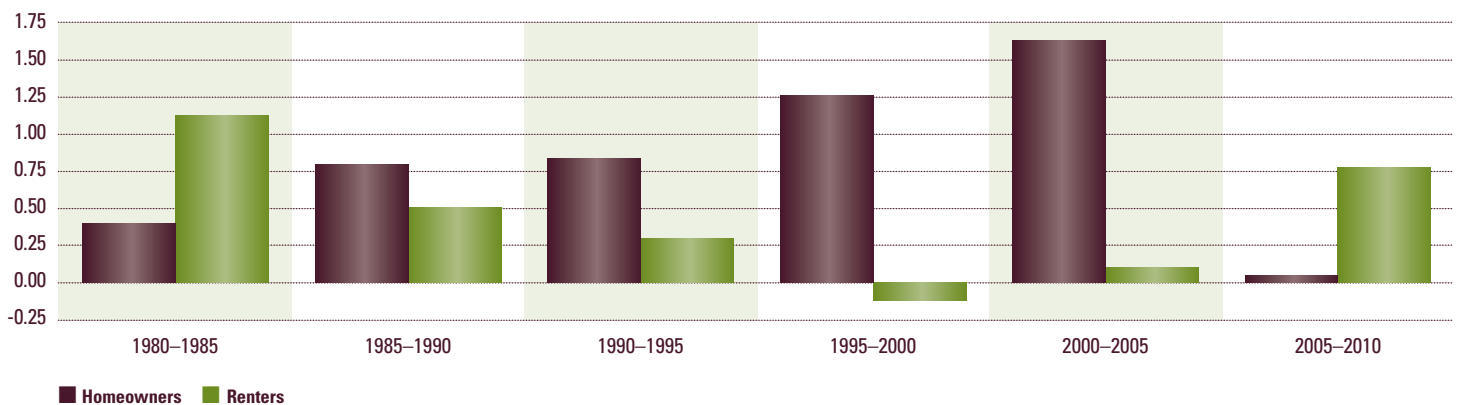
Over the next 10 years, demographic trends favor continued growth in the number of renter households. Conservatively assuming that homeownership rates by age, race, and household type stabilize at 2010 levels and that immigration is only half the current Census Bureau baseline projection, population growth alone should lift the number of renter households by more than 3.6 million in 2010–20. This projection reflects the net formation of 11.3 million new households among the huge echo-boom generation (those under age 35 in 2020) and the loss of 7.7 million households among renters in all older age groups. While younger renters live in all types of housing and geographic areas, they tend to favor multifamily housing in center city locations.

Meanwhile, the sheer size of the baby-boom generation relative to its predecessor will push up the number of renters over age 65 by nearly 2 million, generating increased demand for assisted units set aside for elderly households as well as for accessible features and other adaptive changes to con-

FIGURE 15

After Stagnating for More than a Decade, Growth in Renter Households Revived in 2005

Average Annual Household Growth (Millions)

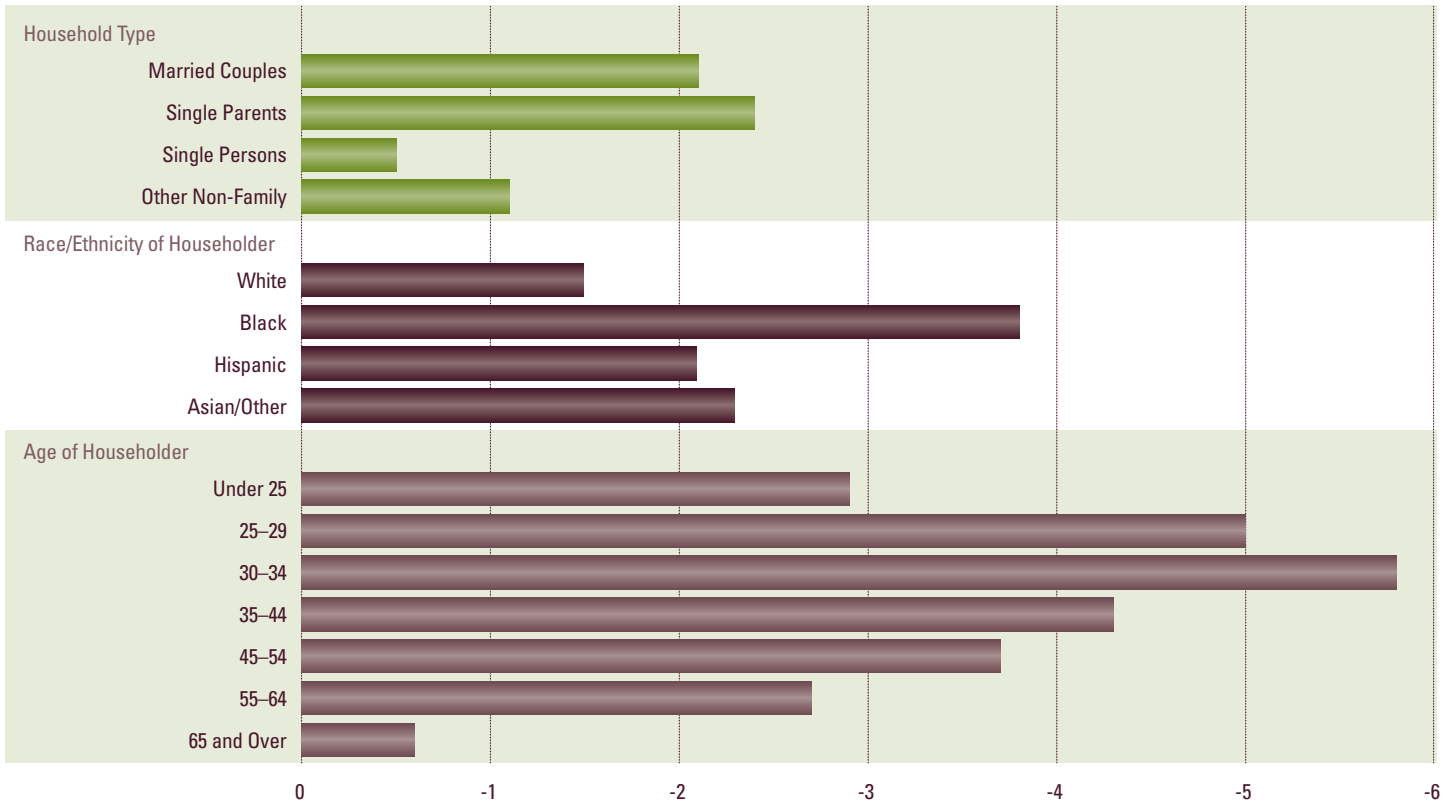


Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

FIGURE 16

Led by Young Adults and Blacks, Homeownership Rates Have Fallen for All Demographic Groups

Change in Homeownership Rate, Post-2000 Peak to 2010 (Percentage points)



Notes: White, black, and Asian/other householders are non-Hispanic. Hispanics may be of any race.
Source: JCHS calculations using US Census Bureau, Housing Vacancy Surveys.

ventional apartments. Assuming the age- and race-specific distribution of household types remains constant, the number of single-person renter households will also rise by more than 1.6 million in 2010–20.

Significant shares of newly forming renter households will be single persons, single-parent families, and other household types such as unmarried partners and unrelated roommates (Figure 17). In addition, minorities and immigrants—who tend to have larger households than whites and the native-born—will almost certainly account for a growing share of these new, young households. This diversity will likely boost demand for a greater variety of rental housing.

As noted, these estimates of renter household growth assume that homeownership rates remain close to their 2010 levels. But it is an open question whether the housing bust will have a lasting impact on Americans’ preference to own rather

than rent their homes. To date, attitudes about owning have become only slightly more negative while attitudes about whether now is a good time to buy are little different than before the housing boom. In the latest Fannie Mae housing survey from October–December 2010, the vast majority of respondents—including renters—continued to believe that homeownership makes more financial sense than renting. In addition, nearly two-thirds of all renters surveyed reported their intention to buy homes in the future.

When compared with earlier surveys, however, the preference for homeownership has weakened, especially among delinquent or underwater borrowers but also among current renters and respondents as a whole. For example, the share of renters indicating that homeownership makes more financial sense than renting dropped from 75 percent in January 2010 to 68 percent in the fourth quarter. However, many of the strongest reasons for buying mentioned in the survey—

including providing a good education for children, a safe living environment, more living space, and more control to make improvements and renovations—are not financial. It is therefore too soon to tell whether attitudes toward homeownership have undergone a fundamental shift that goes beyond cyclical economic effects.

THE OUTLOOK

Falling homeownership rates since the mid-2000s have strengthened the demand for rental housing. Over the coming decade, changes in the age structure of the population as the echo-boom generation enters the housing market will keep demand climbing. But overall renter household growth will depend on whether immigration rates rebound and

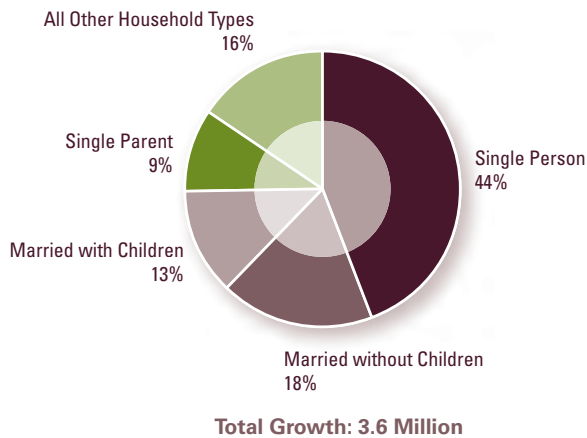
where homeownership rates settle. Immigration flows are key because foreign-born households are younger on average than native-born households and they have lower homeownership rates. For example, if actual immigration rates are only half of the Census Bureau’s current projections, the difference will amount to 1.1 million fewer renter households in 2020 than under the full projection.

Trends in homeownership are another wild card. With the ongoing foreclosure crisis and stubbornly high unemployment rates, homeownership rates have steadily declined. Tighter underwriting and income verification standards have also made it much more difficult for potential homebuyers to qualify for loans. If homeownership rates continue to fall, the demand for rental housing will increase.

FIGURE 17

Single Persons Will Account for Almost Half of Renter Household Growth Over the Coming Decade

Share of Projected Renter Growth (Percent)



Note: Renter household growth projection applies homeownership rates by age, race/ethnicity, and household type from the 2010 Current Population Survey to JCHS 2010 low-series household growth projections. All other household types includes unmarried partners, unrelated roommates, and living arrangements not otherwise categorized.

Sources: JCHS tabulations of US Census Bureau, Current Population Survey; JCHS 2010 household growth projections.



RENTAL HOUSING STOCK

The foreclosure crisis has highlighted the dynamic nature of the rental housing stock, with significant numbers of single-family homes switching from owner- to renter-occupied. At the same time, though, a large share of privately supplied affordable rentals remains at risk of permanent removal. The aging of the stock further threatens to accelerate already significant losses. With new construction unable to meet the needs of low-income households without large subsidies, competition is increasing for an ever-dwindling supply of affordable units.

CHARACTERISTICS OF THE RENTAL INVENTORY

Contrary to popular perceptions, most rental housing is not in high-density buildings or in urban settings. Indeed, more than half of all rentals are in small structures, including single-family homes, 2- to 4-unit buildings, and manufactured homes. Another quarter of the stock is in multifamily buildings with 5–19 units, with the rest equally divided between large structures with 20–49 and 50 or more units. In addition, more than half of renters live in suburban and non-metropolitan areas. Three-fifths of rentals in suburban areas, and roughly four out of five rentals in non-metro areas, are also in buildings with just 1–4 units.

The affordable rental supply consists of units that are assisted through various government programs, as well as private market properties with relatively low rents. According to the 2009 American Housing Survey, 6.0 million (16 percent) of the nation's 38.6 million occupied rentals were subsidized, assisted through the Low Income Housing Tax Credit program, or occupied by tenants using vouchers to make up the difference between a fixed fraction of their incomes and the fair market rents.

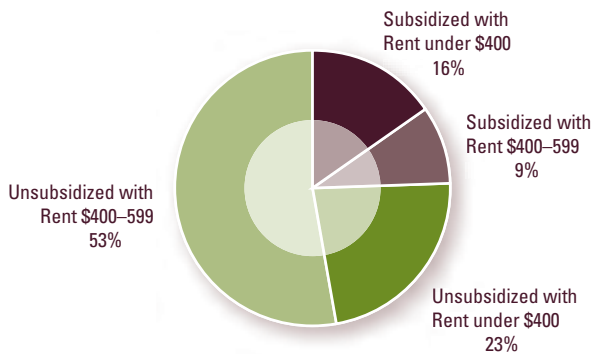
Affordability of course depends on a household's income. For minimum-wage workers, an affordable monthly rent using the 30-percent-of-income standard is just \$377. Yet many renter households have incomes well below even that level—including some working full time as well as those living on fixed incomes. In fact, a quarter of all renters, and more than half of all assisted renters, have household incomes below the full-time minimum-wage equivalent of \$14,500.

In 2009, a majority of assisted units rented for less than \$600, including 35 percent renting for less than \$400 and another 20 percent renting for \$400–599. In contrast, only 31 percent of unassisted units rented for less than \$600 and just 8 percent for less than \$400. Even so, unsubsidized rentals make up much larger shares of the low-cost stock (**Figure 18**). In 2009, 3.0 million unsubsidized units rented for less than \$400

FIGURE 18

Unsubsidized Units Account for Three-Quarters of Low-Cost Rentals

Share of Units Renting for Under \$600 in 2009 (Percent)



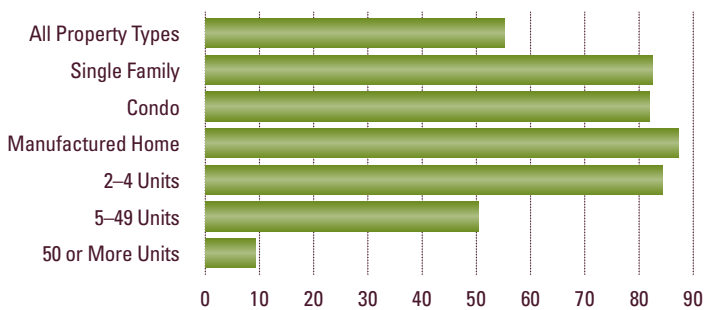
Notes: Subsidized renters include those who reported living in public housing or other government-subsidized housing, receiving a rent voucher, or being required to certify income to determine their rent. Rent does not include tenant-paid utilities.

Source: Table A-5.

FIGURE 19

Individual Investors Own a Large Share of Units in Small Rental Properties

Share of Rental Units Owned by Individuals, 2001 (Percent)



Source: JCHS tabulations of US Census Bureau, 2001 Residential Finance Survey.

and another 7.1 million rented for \$400–599. In all, these 10.1 million rentals outnumbered assisted units with comparable rents by a factor of three. As a result, much of the nation’s affordable housing stock is outside the purview of government housing programs.

Unlike assisted rentals, unsubsidized affordable units are scattered across many small properties. Three-quarters of unassisted units renting for less than \$400 in 2009 were in 1- to 4-family structures, as were 58 percent of unassisted units renting for \$400–599.

RENTAL PROPERTY OWNERSHIP

Multifamily property size—which is distinct from the number of units in a specific structure—strongly influences ownership characteristics and, in turn, financing options. And both of these factors have important implications for how rental units are managed and maintained. To understand the distinction between structure and property size, note that multifamily properties often consist of multiple buildings. For example, a garden apartment complex can have hundreds of units in a series of smaller structures.

The 2001 Residential Finance Survey (RFS), the most recent information available on rental ownership, reports on properties while the American Housing Survey reports on buildings. For instance, the 2001 AHS estimated that 9 percent of rental units were in buildings with 50 or more units, while the RFS estimated that 30 percent of all units were in this category. In addition, the concentration of rentals in the 5- to 19-unit building category is much higher in the AHS (25 percent) than in the RFS (9 percent), while the concentration of rentals in 2- to 4-unit buildings is somewhat higher in the AHS (20 percent) than in the RFS (14 percent).

According to the RFS, individuals own 55 percent of all rental units, often performing administrative and maintenance functions themselves. They own more than 80 percent of rental buildings with 1–4 units and about 70 percent of rentals in buildings with 5–9 units, but much more modest shares of rentals in larger properties (**Figure 19**).

When last surveyed nationwide in 1995 about their reasons for owning rentals, roughly three out of ten owners of 1- to 4-unit properties acquired their buildings as a residence, with the rest motivated by financial reasons. The same survey also found that a little less than 40 percent of these owners had made a profit in the preceding year, about one-sixth broke even, and a little more than one-quarter lost money. (The remainder did not know whether the property was profitable.) With such significant shares of owners under financial pressure, it is no surprise that 24 percent of those owning single-family detached rentals reported some degree of deferred maintenance, as did 19 percent of those owning properties with 2–4 units.

The remaining rental stock is owned by partnerships or corporate entities, usually with professional property management staff. Partnerships or joint ventures own about a quarter of these units, and corporations and limited liability companies about a tenth. The largest owners have investments in markets across the country, with portfolios of

more than 100,000 apartments. According to National Multi Housing Council data, the 50 largest owners supply 2.7 million units, or about one-sixth of the rentals in structures with 5 or more apartments.

Nonprofit organizations own less than 5 percent of all rental units, and less than 15 percent of subsidized housing for lower-income households. Some nonprofits are, however, becoming more active and capable within the rental market. They are playing a particularly important role in efforts to retain assisted housing for low-income households as earlier commitments by for-profit owners expire.

The single-family mortgage market provides financing for rental properties with 1–4 units and for condominiums, while the multifamily mortgage market finances properties with 5 or more units. The sources of credit, standards for underwriting, and characteristics of loans differ substantially within and between these markets. In particular, underwriting for properties with 2–4 units is distinct from that for single-family investor properties, although both segments generally face higher interest rates and more stringent standards than owner-occupied single-family homes. Similarly, larger multifamily properties (with 50 or more units) are more likely to get financing through the capital markets or Fannie Mae and Freddie Mac, while smaller multifamily

properties are primarily financed through depository institutions. Smaller property owners are also less likely to have mortgages, and more likely to have adjustable-rate loans if they do have financing.

CONSTRUCTION TRENDS AND COSTS

With almost no growth in renter households for much of the 1990s and the first half of the 2000s, there was little need to add to the rental housing stock. As a result, the volume of multifamily starts remained relatively low in 2000–5 compared with previous decades, although remarkably stable at about 340,000 per year. But with the onset of the Great Recession, multifamily housing starts plunged below 100,000, a level not seen since recordkeeping began in 1959. Housing completions, however, remained above 250,000 through 2009 as construction continued on units started before the downturn struck, but then plummeted to 155,000 in 2010.

Market-rate rentals accounted for little more than half of the 300,000 new multifamily units completed each year from 1995 through 2009 (Figure 20). Of the remainder, 23 percent were assisted rentals produced through the Low Income Housing Tax Credit program and the other 24 percent were intended for sale as condominiums.

While most newly constructed single-family housing is intended for sale, on average about 40,000 new homes were built with the intention of being rented each year during the 2000s. With so few market-rate rental apartments being built, this added supply of single-family rentals was significant. This estimate may in fact understate the volume of new single-family rentals because units sold to investors (which was common during the housing boom) are not counted as intended for the rental market.

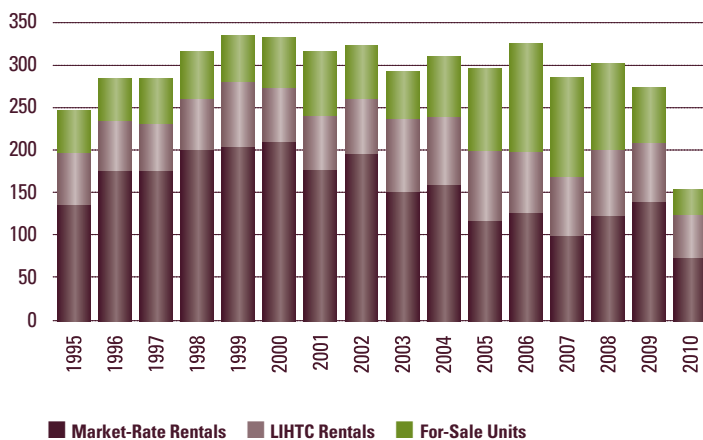
Apart from new LIHTC units, recent multifamily construction has focused primarily on the high end of the market. In 2009, the median asking rent for new unfurnished apartments was \$1,067 while that for all rental housing was \$808. Indeed, fully a third of new apartments rented for \$1,250 or more, compared with only 14 percent of all rental housing.

The rising costs of construction make it difficult to build new housing for lower-income households without a subsidy. One factor pushing costs higher is rising demand for materials, particular from China and India. US trade barriers on imports of lumber, steel, and cement also add to these costs. As measured by R. S. Means, construction costs per square

FIGURE 20

Private Multifamily Rental Construction Dipped in the Mid-2000s When Condo Production Surged

Multifamily Completions (Thousands of units)



Notes: LIHTC completions are estimated based on US Census Bureau data on housing completions and HUD data on LIHTC units placed in service. All LIHTC completions are assumed to be units in multifamily structures.

Sources: JCHS calculations using US Census Bureau, Survey of Market Absorption and New Residential Construction; and US Department of Housing and Urban Development, Low Income Housing Tax Credit database.

foot for 4- to 7-story, brick-faced, concrete block multifamily structures was up 84 percent in 1999–2009, more than twice the increase in residential rents.

Another factor boosting construction costs is the trend toward larger multifamily buildings, which may reflect the high fixed costs of assembling financing and dealing with regulatory requirements. More apartments are also being built in infill locations in developed areas that required mid- or high-rise buildings, rather than garden-style apartments on the suburban fringe. In 1999, 13 percent of new rental apartments were in buildings with 50 or more units. By 2009, this share had tripled to 39 percent. At the same time, the share of new rental apartments in buildings with 4 or more stories rose from 10 percent to 35 percent. The methods and building materials needed to build these larger structures also push up construction costs.

In addition to construction costs, the ability to supply new housing depends on the cost of land, the amount of time required to begin and complete the project, and the cost of financing. Local zoning laws often raise land costs by restricting the parcels available for multifamily and high-density single-family housing. Numerous regulatory requirements also contribute to delays in production, not only increasing costs but also making supply less responsive to changes in demand and thus leading to over- and under-building.

Moreover, productivity in the building trades has improved much less than in other industries, at least as captured by available measures. This may reflect in part the organization of the residential construction industry. General contractors and merchant builders subcontract nearly all of their produc-

tion work and typically own little capital equipment. While such “lean and mean” organizations clearly help development firms ride out construction cycles, this business structure may also impede innovation and productivity gains.

THE CHALLENGE OF PRODUCING LOW-INCOME HOUSING

While high construction costs are a barrier, the biggest obstacle to meeting the housing needs of many renters is their very low incomes. Over the past two years, the construction cost per unit for new multifamily structures averaged about \$90,000. That figure excludes land costs and some other development costs, raising the effective average to about \$110,000.

The monthly rent generally required to provide acceptable returns to investors is 1 percent of property value. The median asking rent of \$1,067 reported in the Census Bureau’s 2009 Survey of Market Absorption is consistent with that standard. A household with the median renter income of about \$31,000 in 2009 would therefore have to pay more than 40 percent of that income to meet that asking rent. Including tenant-paid utilities, the total housing cost burden would be about 50 percent (Figure 21). To develop new apartments affordable to renter households with incomes equivalent to the full-time minimum wage, the construction cost would have to be 28 percent of the current average (which is already 30 percent below the 2007 peak in real terms).

While more efficient construction methods would reduce the cost of new housing somewhat, providing renters the opportunity to consume less housing would yield greater savings. Existing rental units occupied by low- and moderate-income

FIGURE 21

The Incomes of Many Renters Are Too Low to Support Development of New Market-Rate Housing

Income Standard	Equivalent Annual Income	Affordable Monthly Rent	Supportable Per-Unit Development Costs
Household Income Needed to Afford Typical New Unit	\$51,800	\$1,300	\$110,000
Median Renter Income	30,500	760	64,800
Full-Time Minimum Wage Equivalent	14,500	360	30,800

Notes: Median renter income is as of 2009. Construction costs of a typical new unit roughly equal the average per-unit costs for new multifamily structures in 2009–10. Supportable development costs allow rent and tenant-paid utilities to equal 30% of household incomes assuming that (1) tenant-paid utilities equal 15% of rent; (2) investors require monthly rent equal to 1% of total development costs; and (3) land and other costs add about 20% to construction costs. The full-time minimum wage equivalent is the annual income of a worker earning \$7.25 per hour, working 40 hours a week for 50 weeks a year.

Source: JCHS calculations using data from US Census Bureau, 2009 and 2010 Surveys of Market Absorption and 2009 American Community Survey.

households are hardly luxurious, but they often offer more room and amenities than necessary to meet basic needs and protect health and safety. Households facing excessive rent burdens may in fact be willing to live in smaller, less elaborate, and therefore less expensive units. But regulatory constraints or market dynamics limit the availability of such housing. Even where construction of lower-cost housing is theoretically permitted, community pressures often push developers to build more expensive structures.

ADDITIONS FROM THE OWNER-OCCUPIED MARKET

The shift of homes from the owner-occupied stock has made increasingly important additions to the rental supply. In fact, the rental market has played a stabilizing role in the mortgage crisis by absorbing an enormous number of foreclosed homes. AHS data indicate that about 9.1 percent of the rental housing stock in 2009 had been owner-occupied two years earlier. Tenure switching was most common among rented single-family detached houses, with some 22.6 percent of these units having changed from owner to renter occupancy between 2007 and 2009. Contrary to the popular view that multifamily condos are more likely to flow back to the rental market, only 2.5 percent of multifamily rental units in 2009 were owner-occupied in 2007.

Each year, hundreds of thousands of homes switch from owner- to renter-occupied and vice versa. These shifts favored the owner-occupied market in the early 2000s as sales heated up, but have favored the rental market since the crash (**Figure 22**). The pace of net conversions from owner to renter tripled in 2005–7 relative to that in 2001–3, then nearly doubled again in 2007–9 to 1.9 million units. Single-family detached homes were the driving force, accounting for three out of every four conversions to rentals between 2007 and 2009.

But the units added recently through tenure switching are unlikely to stay in the rental stock. In the past, many converted units—especially single-family detached homes—have not remained a long-term source of rental housing. Of all the single-family detached homes that switched from owner to renter occupancy between 1997 and 1999, 45 percent reverted to owner-occupancy by 2001—about twice the share that switched from renter to owner and back again. As the net flow of housing into the rental stock increased over the 2000s, the share of tenure-switching units that quickly reverted to ownership fell while the share that reverted to rentership rose. Still, more than a third of the homes that shifted from owner to renter occupancy in 2005–7 switched back to ownership by 2009. Given the historically high rates

at which single-family homes exit the rental market, many units that are currently for rent are likely to return to owner-occupancy once the housing market stabilizes.

ONGOING RENTAL STOCK LOSSES

Significant portions of the rental supply are permanently lost each year. In all, 6.3 percent of the rental stock in 1999 was permanently lost by 2009 (**Table A-6**). With 37.4 million occupied or vacant rental units in 1999, this equates to average annual losses of 240,000 units over the decade. A major contributing factor is that the rental stock is rapidly aging. As of 1989, the median rental housing unit was 26 years old. By 2009, the median age stood at 38 years.

Low-cost units (renting for less than \$400 in 2009 dollars) are most at risk of permanent loss because the modest rent they earn is often insufficient to maintain the properties in good condition. In 1999–2009, 11.9 percent of low-cost rentals were permanently removed from the stock—nearly twice the share of units renting for \$400–799 and four times the share of units renting for more than \$800. In addition, decade-long loss rates for vacant low-cost units (20.6 percent) were nearly twice those for occupied units (10.9 percent).

Excluding manufactured housing (which has very high loss rates but makes up less than 9 percent of the low-cost housing stock), the worst losses are among the most common structure types. More than one in ten single-family detached homes, which made up over a quarter of the low-rent housing stock in 1999, were permanently removed by 2009. Loss rates for multifamily properties with 2–4 units, accounting for a quarter of the 1999 low-cost stock, were even higher at 15.1 percent. Low-cost rentals in buildings with 5 or more units fared much better, with permanent loss rates of 7 percent.

Not surprisingly, older structures are lost at higher rates. The difference in loss rates for older and newer multifamily properties is especially large, with rates for multifamily units built before 1960 (about 10 percent) more than six times those for units built between 1980 and 1999. Loss rates for low-rent units also vary widely by age of structure, although these units are more likely to be in older properties. More than 15 percent of low-cost units built before 1940 were permanently lost by 2009, compared with just 6.4 percent of units built in 1980–99.

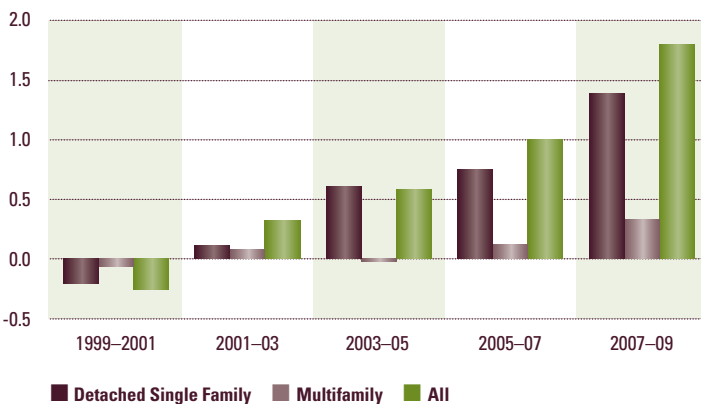
Over time, property owners must make substantial investments to replace aging systems. According to the 2001 RFS, even in multifamily properties under 10 years old, about 8 percent of annual rental receipts went to capital invest-

ments. Expenditure levels rise to about 15 percent of rents by the time buildings are 20 years old. Among smaller properties (with 5–49 units), the rate of investment is lower when the building is newer, but then climbs to 20 percent of rents when it exceeds 40 years old.

FIGURE 22

Tenure Switching Has Added Significantly to the Rental Housing Stock Since 2001

Net Conversions from Owner to Renter Occupancy (Millions of units)

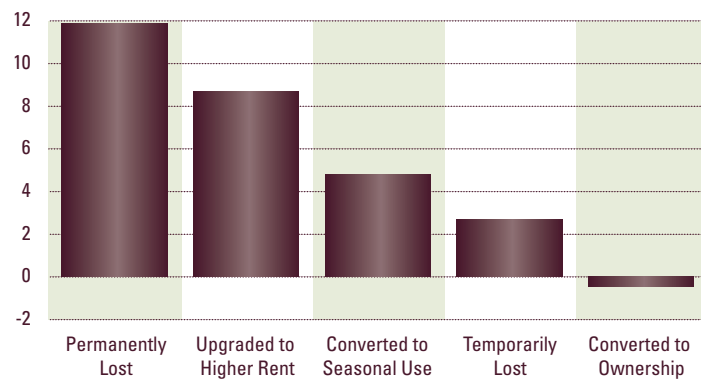


Note: All structures also includes attached single-family homes and mobile homes.
Source: JCHS tabulations of US Department of Housing and Urban Development, American Housing Surveys, using JCHS-adjusted weights.

FIGURE 23

More than a Quarter of the Low-Cost Rental Stock Has Been Lost Since 1999

Net Losses of Units with Rents under \$400 in 1999 Dollars (Percent change 1999–2009)



Notes: Temporary losses are defined as units condemned, exposed to the elements, converted to non-residential or institutional use, or otherwise removed temporarily from the housing stock. Rent levels are adjusted for inflation using the CPI-U for All Items.
Source: JCHS tabulations of US Department of Housing and Urban Development, 1999 and 2009 American Housing Surveys.

With the median rental unit now approaching that age, substantial outlays are necessary to stave off losses. However, local building codes often frustrate rehabilitation and improvement of older housing because they require that renovated properties conform to standards for new construction. In some cases, complying with these standards—such as for wider hallways or less steep staircases—would mean completely reconfiguring the building. Faced with such substantial costs, owners may decide to disinvest in their buildings and ultimately abandon the properties altogether.

In addition to high permanent removal rates, a variety of other factors reduce the number of low-cost rental units. Of these, most significant are losses due to some degree of gentrification (Figure 23). Although the filtering of properties from higher to lower rents over time is commonly seen as replenishing the low-cost stock, losses due to real rent increases are in fact a major drain on the inventory. For every two units that moved down to the low-cost category in 1999–2009, three units moved up to higher rent levels—a net loss of 9.1 percent of the 1999 low-cost stock.

Smaller but still significant shares of low-rent units are also converted to seasonal and other uses, or abandoned and otherwise temporarily removed from the stock. While switching from renter to owner occupancy is another potential source of loss, such conversions actually yielded a small net gain in low-rent units over the past decade. Taking all of these potential sources of loss into account, the number of units renting for less than \$400 would have dropped 28.4 percent between 1999 and 2009. Fortunately, actual losses were not this severe thanks primarily to additions from construction of new assisted units.

ABANDONED PROPERTIES AND NEIGHBORHOOD DISTRESS

Temporary losses of housing units are important not only because they are often the first step toward permanent loss, but also because long-term abandonment introduces blight and safety concerns that reduce quality of life and property values in the surrounding community. According to the AHS, nearly a third of housing units that were abandoned, condemned, or otherwise temporarily lost between 2001 and 2005 were still languishing in 2009. In fact, only a quarter of the units reported as temporarily lost in 2005 (some of which were also reported in earlier surveys) were permanently removed by 2009. In keeping with the view that these structures are unlikely to be reclaimed, only a 30 percent of units reported as temporary losses were occupied four years later.

Since the foreclosure crisis, the incidence of abandonment has increased sharply in neighborhoods across the nation. In 2009, 7.1 million households reported at least one abandoned or vandalized home within 300 feet of their residences—an increase of 1.5 million households from 2007 and more than 2.0 million from 2005. Nearly half (45.5 percent) of housing units with abandoned properties nearby are in center cities, 30.6 percent in suburbs, and the remaining 23.8 percent in non-metropolitan areas.

Fully 12 percent of units located in center cities had at least one abandoned property nearby, compared with just 5 percent of suburban units. Reflecting the concentration of foreclosures, the share of households reporting multiple abandoned homes nearby has increased much more rapidly (up 56 percent since 2005) than the share with just one (up 25 percent over the same period). While center city homes (regardless of tenure) are most likely to have multiple abandoned properties nearby, the incidence of this problem in suburban areas doubled in 2005–9.

THE OUTLOOK

Although there appears to be an excess supply of rental housing at present, this could change quickly as the economy recovers and household formation among younger adults returns to a more typical pace. An upsurge in demand

could outstrip the available supply and push construction activity back up.

Over the longer term, the preservation of existing affordable rentals is key. While policymakers are rightly concerned about preserving the nation's assisted housing stock, they should focus more attention on the privately owned unsubsidized stock that supplies three times as many low-cost units but is threatened by high permanent loss rates. For example, federal tax provisions could be altered to encourage preservation of existing housing. More generous deductions and depreciation schedules for repairs and system replacements could increase investment in the stock and help restore dilapidated buildings to occupancy.

Without subsidies, developers are generally unable to produce housing for those at the bottom of the income distribution, leaving the growing number of poor renters to compete for a dwindling supply of affordable units. Absent greater efforts to preserve the existing low-cost stock and build more affordable units, these trends are likely to persist. The fact that much of the private low-cost stock is spread across many small properties owned by individual investors makes preservation particularly difficult. Nevertheless, policymakers have a number of opportunities to use tax policies, regulatory changes, and mortgage market oversight to create incentives to invest in this vital resource.



RENTAL AFFORDABILITY

Despite brief periods of easing, rental housing affordability has deteriorated for more than a half-century. Falling real incomes and the Great Recession made the 2000s an especially difficult decade, substantially boosting the ranks of cost-burdened renters. Some 10.1 million renters—more than one in four—now spend over half their incomes on housing. Low-income renters are particularly likely to be severely cost-burdened because of the shortage of affordable housing across the country.

A DISMAL DECADE

The 2000s were terrible for affordability. Lagging renter incomes during the housing boom drove up the already high share of renters with housing cost burdens. Then, just as affordability problems were beginning to moderate, the Great Recession hit and widespread unemployment pushed the cost-burdened share of renters even higher.

In 2001, one-fifth of renters already had severe cost burdens, spending more than half of pre-tax household income on rent and utilities. Another fifth had moderate burdens, spending between 30 and 50 percent of income on housing. After the economic downturn, employment took an unprecedented four years to return to pre-recession levels. With labor demand slack, real median household income fell. Compounding the problem, real rents rose as the housing bubble inflated during the 2000s. The number of severely cost-burdened renters thus climbed by 1.5 million in the first half of the decade, hitting 9.1 million.

Although easing somewhat in 2007, the share of renters with severe cost burdens remained near its all-time high. When the Great Recession struck, rents softened and vacancy rates rose, but affordability failed to improve. Instead, persistently high unemployment and falling real incomes lifted the number of severely cost-burdened renter households to 10.1 million in 2009 (**Table A-7**).

At the end of the decade, 18.8 million renters had at least moderate housing cost burdens. The increase in 2008–9 alone was 1.2 million, or nearly twice the rise in 2007–8. But since the start of the recession, more than two-thirds (69.0 percent) of the growth in cost-burdened renters was among households paying more than half their incomes for housing. Indeed, the upswing in the number of severely burdened renters in 2009 was the largest annual increase in a decade of increases.

While the total number of renters grew by 2.2 million over the decade, the number of severely cost-burdened renters

was up by 2.6 million, lifting the share from 20.7 percent in 2001 to 26.1 percent in 2009. At the same time, the share of renters with moderate burdens rose from 20.5 percent to 22.6 percent. As a result, nearly half of all renters faced at least moderate housing cost burdens by 2009.

LONG-RUN EROSION IN AFFORDABILITY

Rental affordability problems have been steadily spreading for at least a half-century. In 1960, housing cost burdens were only half as prevalent as they are today, with 11.9 percent of renters severely burdened and the same percentage moderately burdened. By 2009, only half of renters had affordable housing, and the number and share of those with severe burdens had reached all-time highs (**Figure 24**).

Both falling incomes and rising rents have contributed to the long-run rise in cost-burdened renters. Renter income gains have been weak since 1975, leaving larger shares of renters in the lowest income quintiles. As a result, even though the real median household income rose from 1975 to 2009, the real median renter income fell. Meanwhile, the inflation-adjusted cost of providing rental housing has climbed in recent decades in response to rising land costs, increases in housing quality and average unit size, and higher material and labor costs.

Using an alternative measure of rental affordability—the share of units a median-income renter can afford at 30 percent of income—it is possible to decompose the impact of changes in housing costs and changes in incomes by decade. By this calculation, affordability problems ratcheted up the most in the 1970s and 2000s. While rising housing costs have put pressure on affordability in every decade, renter income gains helped to offset those increases in the 1960s, 1980s, and 1990s. In the 1970s and 2000s, however, real renter incomes declined. As a result, the shares of renters with cost burdens shot up 8.4 percentage points in 1970–79 and 10.6 percentage points in 2000–9—together accounting for more than three-quarters of the total increase in the share of cost-burdened renters over the last 50 years.

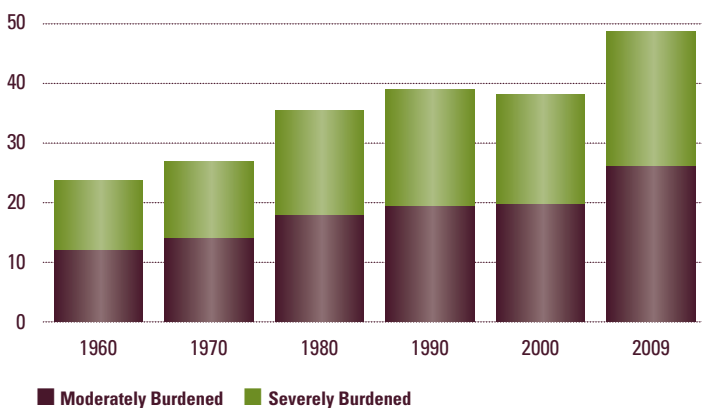
BURDENS OF LOWEST-INCOME RENTERS

What many cost-burdened renters have in common is poverty. In 2009, the share of renters in the bottom income quintile paying more than half their incomes for housing was 61.4 percent, an increase of 4 percentage points from 2007. Another 20.0 percent of these lowest-income renters devoted 30–50 percent of their incomes to housing in 2009. For renters in the lower-middle income quintile, the incidence of severe burdens was a much more modest 14.8 percent, although another 40.8 percent faced moderate rent burdens. Only a small share (2.8 percent) of renters in the middle income quintile paid more than half their incomes for housing. Fully 83.0 percent of severely burdened renters were therefore in the bottom income quintile while another 14.7 percent were in the lower-middle income quintile.

FIGURE 24

The Share of Renters with Affordability Problems Has Doubled in the Last 50 Years

Shares of Cost-Burdened Renter Households (Percent)



Notes: Rent includes tenant-paid utilities. Moderately (severely) cost-burdened renters pay 30–50% (more than 50%) of pre-tax household income for housing. Renters with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened. Source: Table A-8.

Many lowest-income households are retirees or living on transfer payments. Even allowing for the fact that standard measures may not capture some of the income these households receive, the housing cost burdens of these renters are substantial. But many employed renters are also in this group. Indeed, wages and salaries account for half the aggregate income reported for bottom-quintile households. For these working poor, their earnings are usually insufficient to avoid paying more than 30 percent of income for housing.

A substantial majority of almost all demographic groups with the lowest incomes have severe rental cost burdens. Among this group, younger households are especially vulnerable, with 71.3 percent of renters under age 25 and 69.1 percent of those aged 25–44 severely burdened. Large shares of lowest-income families with children—including 72.7 percent of married couples and 70.5 percent of single-parent house-

holds—also pay more than half their incomes for housing. Moreover, 72.7 percent of lowest-income households with one unemployed member, and 75.3 percent of those with multiple unemployed members, are similarly burdened.

SPREAD OF COST PRESSURES

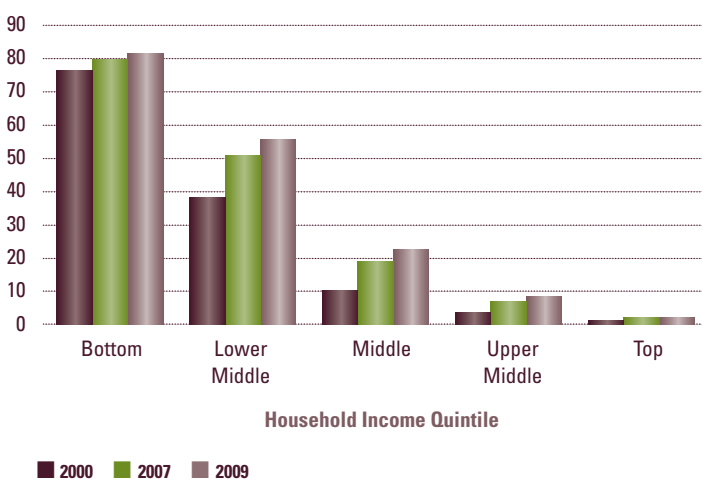
Although housing cost burdens are much more common among lowest-income renters, affordability problems are moving up the income scale (Figure 25). Between 2007 and 2009, 1.1 million more renters in the three middle-income quintiles faced at least moderate housing cost burdens. By 2009, more than one in five middle-income renters, and more than half of lower-middle-income renters, spent at least 30 percent of income on rent and utilities.

Some of the largest percentage increases are among demographic groups traditionally less likely to have affordability problems. These include householders aged 25–64, married couples with children, and renters with some college education but no degree. The share of Hispanic householders with severe rental cost burdens has also risen sharply.

FIGURE 25

While Lower-Income Households Are Most Likely to Be Cost Burdened, Higher-Income Groups Increasingly Face Affordability Problems

Shares of Cost-Burdened Renter Households (Percent)



Notes: Renters with housing cost burdens pay more than 30% of household income for rent and utilities. Income quintiles are equal fifths of all households (both owners and renters) sorted by pre-tax household income. Renters with zero or negative income are assumed to be burdened, while renters not paying cash rent are assumed to be unburdened.

Source: JCHS tabulations of US Census Bureau, 2000 Decennial Census and 2007 and 2009 American Community Surveys.

The number of severely burdened households aged 25–64 with two or more earners increased 11.2 percent in 2007–9 alone. Over the decade as a whole, the deterioration in affordability among these multiple-earner households was even more pronounced, with the severely burdened share rising from just 4.0 percent in 2001 to 6.6 percent in 2009. The share of single-earner renters with severe burdens also climbed sharply over the decade, from 15.8 percent to 21.6 percent.

Among all working-age adults living in rental units, the share facing severe housing cost burdens rose 3.3 percentage points in 2001–7 and another 2.0 percentage points in 2007–9, to 17.4 percent. Among civilian adults, the highest incidence of severe burdens was among service workers, including more than a quarter of personal care, cleaning, and food service workers, as well as nearly a quarter of those in healthcare support.

But housing cost burdens also increased across the board. Construction workers and farm workers were particular hard hit by the recession, with their shares with severe burdens up roughly 4 percentage points in just two years. At the same time, the share of managers with severe burdens also jumped from 6.2 percent in 2001 to 9.7 percent in 2009.

As cost burdens have moved up the income ladder, they have affected a growing fraction of the near-poor. Three-quarters of working-age households with incomes equivalent to the full-time minimum wage were severely housing cost-burdened in 2009, only slightly higher than in 2001 in inflation-adjusted terms. Meanwhile, though, the share of severely burdened renters with incomes between one and two times the 2009 minimum wage rose from one-quarter to nearly one-third. Even the shares of housing cost-burdened renters earning at least twice the minimum wage more than doubled from 3.6 percent to 7.5 percent over the decade. These increases are particularly troubling because so many renters fall within these income categories. In 2009, nearly half of working-age renter households had incomes that were less than the earnings from two minimum-wage jobs.

DIFFICULT TRADEOFFS

Renters paying large shares of their incomes for housing must make difficult choices. They can scrimp on housing costs by settling for poorer-quality units and neighborhoods, or they can trade higher transportation costs for higher-quality housing in outer areas. But even these difficult tradeoffs do not ensure manageable housing costs.

FIGURE 26

Lower-Income Families with High Housing Costs Have Little Left to Spend on Other Necessities

Average Monthly Non-Housing Expenditures for Renter Families with Children, 2009 (Dollars)



Notes: Renters with low (high) housing outlays devoted less than 30% (more than 50%) of total outlays to housing. Lower-income renters are defined based on expenditure quartiles. Source: Table A-9.

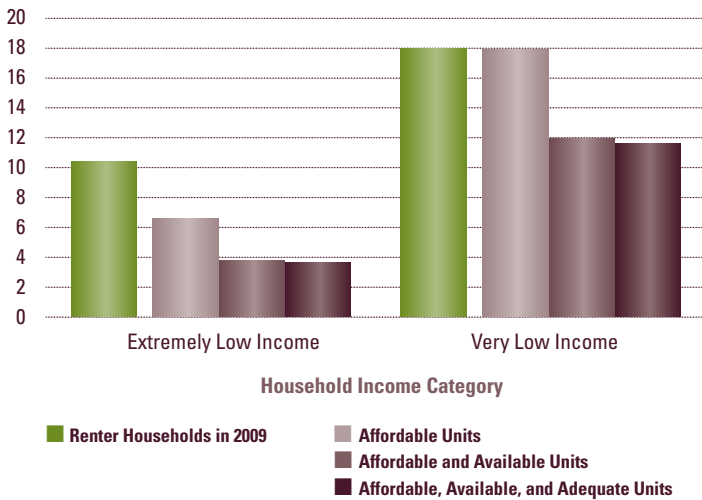
Moreover, renters with excessive housing cost burdens have little left to pay for other necessities such as food, clothing, and healthcare. In 2009, families with children in the bottom expenditure quartile spent less than \$1,450 each month on housing and all other needs. On average, those with severe rent burdens devoted more than three times as much of their monthly budgets to housing than their counterparts in affordable units, and had only half as much (\$571) as unburdened renters (\$1,107) for all other expenses (Figure 26). On average, these severely housing cost-burdened families spent 71 percent less on transportation, 52 percent less on clothes, 52 percent less on healthcare, and 37 percent less on food than those living in affordable housing.

Households in the lower-middle expenditure quartile are also under significant pressure. Families with children had roughly \$2,550 per month to spend on housing and all other needs. Those with high housing outlays, however, had only \$1,050 available for non-housing expenses—again, roughly half as much as those living in affordable housing. These housing cost-burdened families spent on average 63 percent less on transportation, 59 percent less on clothing, 74 percent less on healthcare, and 24 percent less on food than families with affordable housing. Clearly, the availability of affordable rental housing options has a dramatic impact on the basic well-being of lower-income families.

FIGURE 27

Low-Income Renters Far Outnumber Affordable, Available, and Adequate Units

Millions



Notes: Extremely (very) low-income households have incomes up to 30% (up to 50%) of HUD-adjusted area median family income. Gross rent includes rent and tenant-paid utilities. Affordable units have gross rents up to 30% of the income threshold for the category. Available units are vacant or rented by households with incomes no higher than the threshold for the category. Adequate units exclude occupied units that the AHS defines as severely inadequate and vacant units that lack full plumbing. Gross rent for vacant units is estimated at 1.15 times the asking rent. Units rented but not yet occupied are excluded. Source: JCHS tabulations of US Department of Housing and Urban Development, 2009 American Housing Survey, using JCHS-adjusted weights.

THE WIDENING SUPPLY GAP

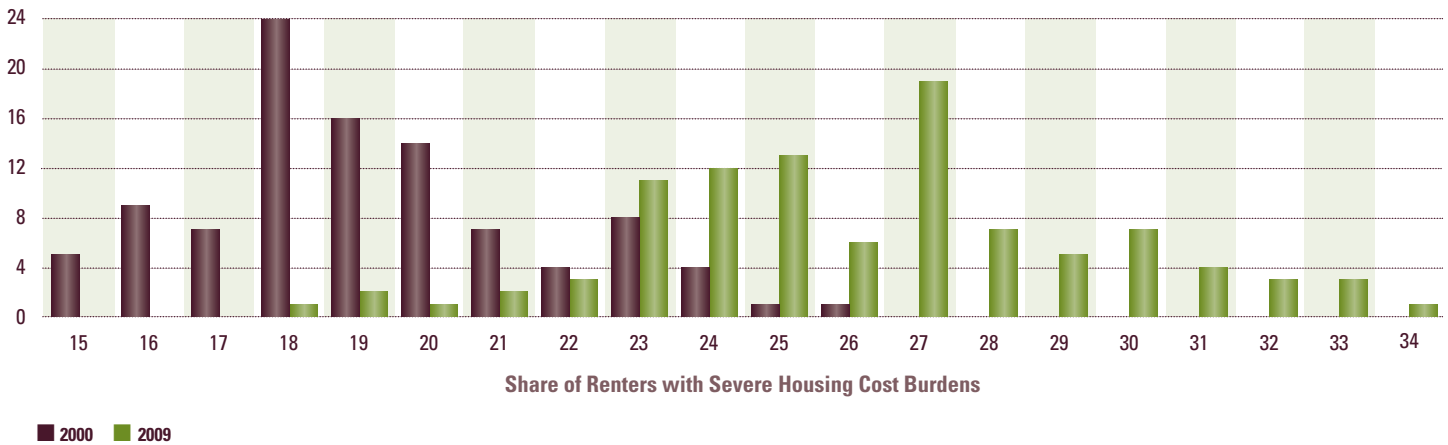
The shortage of affordable, adequate rental units for low-income households is increasingly acute (Figure 27). The widening supply gap reflects the difficulty of producing market-rate housing at affordable rents, as well as the ongoing loss of low-cost units. Moreover, as affordability problems move up the income scale, more middle-income renters are competing for the shrinking inventory of affordable units.

Affordability is by far the primary housing problem facing low-income renters. Indeed, the incidence of severe housing inadequacy has declined in recent years, falling from 3.2 percent of occupied rental units in 2005 to just 2.8 percent in 2009. Still, 1.1 million renters lived in units with incomplete plumbing, inadequate heat or electricity, or other serious deficiencies in that year. Among extremely low-income renters (earning less than 30 percent of area median income, adjusted for household size), 3.9 percent lived in severely inadequate units. The share of black extremely low-income renters living in inadequate conditions was even higher. Many extremely low-income renter households could not even afford this poor-quality housing, with 3.0 percent pay-

FIGURE 28

Over the Past Decade, the Number of Major Metros with Large Shares of Severely Cost-Burdened Renters Increased Sharply

Number of Metros



Notes: Renters with severe housing cost burdens pay more than 50% of household income for rent and utilities. Metros are the top 100 metros by population in 2009. Source: JCHS tabulations of US Census Bureau, 2000 Decennial Census, and 2009 American Community Survey.

ing more than half their meager incomes for units with severe structural inadequacies.

In 2003, there were 9.4 million extremely low-income renter households but only 3.8 million occupied or vacant units that they could afford, were available, and were of adequate quality—a supply gap of 5.6 million units (Table A-10). All other rental units were either more expensive or occupied by more affluent renters. By 2009, the number of extremely low-income renter households swelled to 10.4 million and the number of available, affordable, and adequate units fell to 3.6 million, bringing the supply gap to 6.8 million units. As a result, only 35 percent of extremely low-income renters lived in, or had access to, adequate units they could afford.

The supply gap for very low-income renters (with incomes up to 50 percent of area medians) also increased. In 2003, 16.3 million of these households competed for 12.0 million affordable, available, and adequate units. In 2009, these renters numbered 18.0 million while the supply of units dipped to 11.6 million, widening the gap from 4.3 million to 6.4 million units.

STATE AND LOCAL MARKET CONDITIONS

Affordability pressures are mounting across the country. In the 100 largest metro areas, the share of severely cost-burdened renters climbed by an average of 7.0 percentage points

between 2001 and 2009, with increases ranging from 1.9 percentage points to 12.8 percentage points. By the end of the decade, the shares of renters spending more than half their incomes on rent and utilities exceeded 24 percent 73 metros, 28 percent in 26 metros, and 30 percent in 15 metros (Figure 28).

Miami had the largest share of severely burdened renters in 2009, followed by McAllen and Detroit. Two Connecticut metros (New Haven and Bridgeport) and two Ohio metros (Toledo and Akron) also had shares above 30 percent. New Orleans, Orlando, and Memphis rounded out the list of the 10 least affordable metros. In contrast, the most affordable metros include Des Moines, Harrisburg, Ogden, Lancaster, and Worcester. Even there, though, roughly one in five renters still faced severe housing cost burdens (Table A-11).

This variation reflects differences in housing costs and renter incomes. In some areas, such as San Francisco and Boston, the presence of larger shares of higher-income renters (due, for example, to lower homeownership rates) offset high rents. In other areas such as Detroit, Buffalo, and Toledo, housing costs are low but renter incomes are even lower. In general, metros with greater income inequality have higher shares of rent-burdened households.

At the state level, the share of cost-burdened renters tends to track the share of population living in metro areas, because

cost burdens are substantially lower in non-metro areas. Thus, 22.6 percent of renters living in non-metro areas had severe rent burdens in 2009, compared with 27.0 percent living in metro areas. An exception is Michigan, the state with the highest unemployment in 2009 and the highest share of severely burdened renters. Florida, Connecticut, California, and New York were the other four least affordable states. Alaska, Wyoming, North Dakota, Montana, and South Dakota were the most affordable, with shares of severely burdened renters of less than 20 percent.

THE ROLE OF RISING ENERGY COSTS

During the 1980s and 1990s, falling real energy prices offset rising rents and helped to moderate the spread of affordability problems. The trend reversed in 1999 as rising global demand fueled sharply higher prices (Figure 29). Household utility costs rose 22.7 percent in 2000–10 in real terms, more than three times the increase in rents. As a result, energy costs as a share of gross rents rose from 10.8 percent to 15.0 percent between 2001 and 2009. Lowest-income renters saw the largest increase in their utility share, a jump from 12.7 percent to 17.4 percent.

Since low-income renters must pay a substantial share of income for utilities, they are especially vulnerable to rising energy costs. Combining landlord- and tenant-paid utilities, utility costs in 2005 accounted for nearly 30 percent of total housing costs among bottom-income quintile renters. In some cases, tenants of low-cost rentals may pay even

more for energy than tenants in more expensive properties because their buildings have poor insulation and aging systems. Indeed, three-quarters of extremely low-income renters in 2009 lived in units built before 1980, compared with two-thirds of higher-income renters.

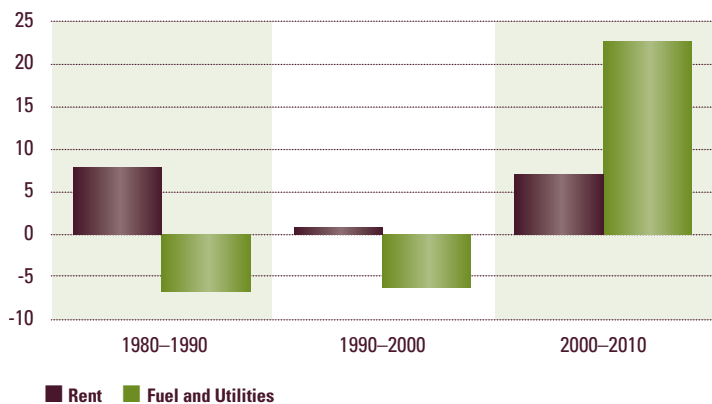
Substantial investments in weatherization, upgraded heating systems and appliances, and other measures could lower household energy use, which would not only improve affordability but would also reduce carbon emissions. The Benningfield Group estimates that the energy efficiency of multifamily properties in the US could be economically improved by 30 percent, saving \$9 billion in energy costs and reducing carbon emissions by an amount equivalent to the level currently generated by 4 million households.

Regardless of who pays for the cost of utilities, tenants and landlords have conflicting motivations for investment and conservation. When renters pay for utilities, landlords have little incentive to upgrade their properties. When landlords pay for utilities, renters have little incentive to conserve. Even when renters have reason to make energy-efficient investments—such as by buying new appliances that they own themselves—their low incomes may make it difficult to afford these purchases. Overcoming these obstacles may require greater government efforts to provide incentives for investments in energy efficiency in rental housing. Ratepayer-funded energy efficiency programs—which supported an estimated \$4.5 billion in investments in 2009—are one possible approach. To date, however, the multifamily sector appears to be underrepresented in these investments.

FIGURE 29

Soaring Energy Costs Have Added to Affordability Pressures Since 2000

Real Change in Price Indexes (Percent)



Note: Indexes for rent of primary residence and fuel and utilities are deflated using the CPI-U for All Items.

Source: Bureau of Labor Statistics, Consumer Price Index.

THE OUTLOOK

Improvements in affordability require both increasing renter incomes and moderating housing costs. But with persistently high unemployment, the prospects for renter income gains are dim and rising demand for rental housing may well put added pressure on rents. Moreover, global energy demand is almost certain to grow, further limiting the ability of the poorest renters to afford housing.

As a result, the affordable housing shortfall is unlikely to improve any time soon. Innovations in housing production may, however, be able to help bridge the gap between what low-income renters can afford to pay and the rents necessary to supply and maintain affordable housing. In the meantime, most low-income renters will continue to face difficult tradeoffs between paying for housing and paying for other necessities.



POLICY CHALLENGES

Despite appropriating more than \$40 billion a year to housing and community development assistance and forgoing about \$10 billion in tax revenues, the federal response to the rental affordability problem is modest relative to the scale of the challenges. Only about one in four eligible renters receives housing assistance, losses of affordable units are alarmingly high, three in five lowest-income renters are severely cost burdened, and many poor neighborhoods suffer from disinvestment in the rental housing stock.

Moreover, even as the number of cost-burdened renters has soared, the growth in federally assisted renters has slowed. The only increase since 2000 has come through the Low Income Housing Tax Credit program. Meanwhile, the supply of public housing and privately owned assisted units continues to dwindle, with one in five lost since 1995. While the most effective solutions are open to debate, achieving meaningful progress in addressing the persistent problems facing low-income renters and their communities clearly demands greater public efforts.

ESCALATING NEED

While eligibility criteria and income levels vary, many government housing programs target very low-income households (with incomes up to half of area medians, adjusted for family size). In some cases, programs give preference to extremely low-income households (with incomes below 30 percent of area medians), but even in these cases not all participants have to meet this income threshold. Despite modest growth in renter households overall, the number of renter households with incomes at these levels has risen almost steadily since 1989, climbing from 13.3 million to 18 million in 2009 (**Figure 30**). In 2007–9 alone, the recession boosted the number of very low-income renters by 1.2 million.

For renters lucky enough to obtain it, government housing assistance can make an important difference in well-being. In 2009, the median annual income for extremely low-income renters was just \$8,640, while that for very low-income renters was \$14,200. For such households, rental assistance can free up a substantial share of their modest incomes to help pay for food, clothing, healthcare, transportation, and other necessities.

Unlike programs like Medicare and Medicaid, however, rental assistance is not an entitlement and serves only a fraction of those eligible. Indeed, only 27.4 percent of very low-income renters received assistance in 2007 and that share dropped

to 25.0 percent in 2009 despite growing need. Even among extremely low-income renters, only a third received assistance in 2009.

Without this help, most of these households would be housing cost burdened. Three-quarters of extremely low-income renters without assistance pay more than 50 percent of income for housing, as do more than half of unassisted very low-income renters. While a surprising share of assisted renters face housing cost burdens, unassisted very low-income renters are much more likely to devote such large shares of their income to housing. Moreover, many above the income threshold are also burdened. For example, 39.8 percent of renters with incomes that are 50–80 percent of area medians have at least moderate housing cost burdens.

Meanwhile, net additions to the assisted housing stock have declined continuously since the late-1970s peak of roughly 300,000 units a year. Growth in the number of assisted units fell to about 150,000 per year by the mid-1990s, and then to about 75,000 annually over the last five years, consisting almost entirely of LIHTC units. The number of renters eligible for rental assistance is likely to continue to rise rapidly as both demographic and economic forces boost the growth in low-income households. As fiscal pressures escalate, the federal commitment could dwindle further and leave increasing numbers of low-income renters to fend for themselves in the unsubsidized market.

SHIFTING FEDERAL APPROACHES

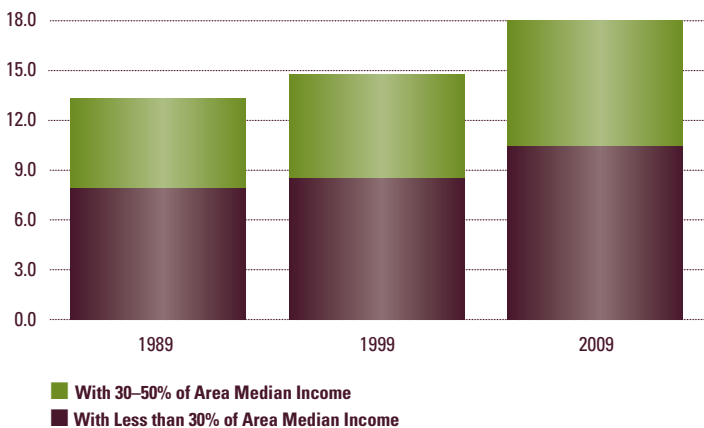
Approaches to rental assistance have evolved over time, creating a patchwork of programs with varying funding mechanisms, affordability criteria, and tenant populations. These shifts in part reflect attempts to meet a variety of challenges: the high cost of existing housing, a lack (or loss) of affordable units, neighborhood disinvestment, and concentration of the poor in distressed areas. These conditions are still entrenched, and the various programs face a range of problems related to containing the cost of assistance and to maintaining the affordability and quality of the housing they provide.

The two major types of housing programs are property-based (subsidies or tax incentives directed to properties that are reserved for eligible low-income tenants) and tenant-based (vouchers that renters can use for any unit that meets program quality standards and accepts vouchers as a form of rent payment). Much of the property-based assistance was delivered under older programs that are no longer expanding, including public housing and privately owned but publicly assisted housing under long-term subsidy contracts. At their peak in the mid-1990s, these two types of programs provided 3.8 million affordable rentals (Figure 31). Since then the supply has shrunk as new funding ended and units were lost to under-maintenance and expiring subsidy contracts (and, in the case of the HOPE VI program, redevelopment of public housing with less than one-for-one replacement). As of 2009, there were just 1.1 million public housing units and 2.0 million privately owned subsidized units, an overall loss of 700,000 units from peak levels.

FIGURE 30

The Ranks of Very Low-Income Renters Are Growing

Renter Households (Millions)



Note: Household income categories are based on HUD-adjusted area median family income.
Sources: Sources: US Department of Housing and Urban Development, *Affordable Housing Needs 2003*; Table A-10.

At present, the primary support for new construction and preservation of assisted housing is through the Low-Income Housing Tax Credit program, created as part of the Tax Reform Act of 1986. The HOME program also funds the development of rental housing, but is generally used in conjunction with tax credits or other forms of assistance. Unlike previous private production programs, the LIHTC program delivers its subsidies in the form of equity raised by selling tax credits that investors can claim over 10 years. With fairly consistent additions of 100,000 units per year, an estimated 1.9 million LIHTC units were in service as of 2009. At this rate, this program will become the single largest source of assisted housing within the next few years.

With older project-based programs ebbing in the late 1990s, tenant-based assistance became a critical source of additions to the assisted housing inventory. But the growth in

vouchers stalled by the middle of the 2000s. As of 2009, 2.1 million housing vouchers were in use, supporting nearly 3 in 10 assisted renter households.

TARGETING AND SPECIAL USES OF RENTAL ASSISTANCE

Rental assistance attempts to reach the most vulnerable households—the elderly, the disabled, and single-parent families. In 2008, one-fifth of HUD-assisted rentals were occupied by non-disabled elderly residents, a third by persons with disabilities, and nearly two-fifths by female headed households with children (Figure 32). These three types of households make up four-fifths of renters who reported receiving any kind of assistance in 2009, but only three-fifths of all very low-income households. Despite this targeting, the incidence of severe cost burdens for these groups is still high. Among very low-income assisted households, 48.5 percent of renters age 62 and over and 52 percent of renters with a disabled householder or spouse paid more than half their incomes for housing in 2009.

A large majority of residents of assisted housing have very low incomes. Across all HUD programs, roughly half of renters had annual incomes under \$10,000 in 2008, and nearly three-quarters had incomes under \$15,000. While incomes vary little across the major categories of HUD assistance, renters with higher incomes are somewhat more likely to

use vouchers while those with lower incomes are somewhat more likely to live in public housing.

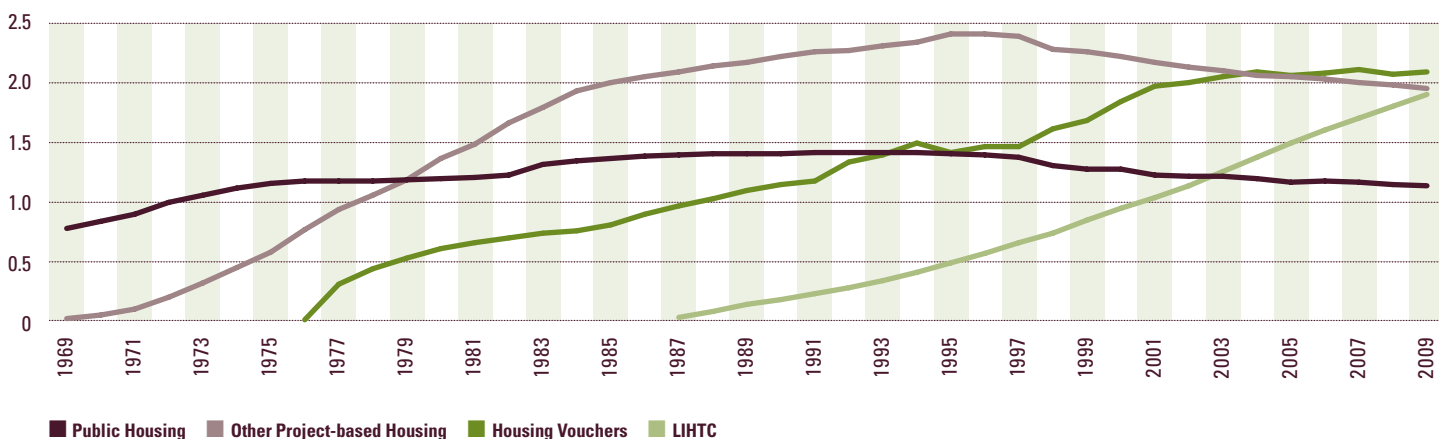
To some extent, rental assistance programs also attempt to meet the special needs of the homeless. Efforts have shifted away from providing emergency shelters and toward moving people directly into permanent housing with supportive services. In addition, rental assistance is also being used to aid households at risk of homelessness. Under its Continuum of Care programs, HUD funds a variety of initiatives offering a range of housing options—including apartments, single-room occupancy buildings, and group quarters—with such services. These programs, too, fall well short of need. While efforts to reduce chronic homelessness have made strides, the number of families and individuals that spent time in homeless shelters in 2008 and 2009 held nearly steady at an estimated 1.6 million.

Rental assistance can also serve as a platform for broader antipoverty goals that include job training, social services, and asset building. For example, the HOPE VI program often integrates supportive services with rental assistance to help residents move up the economic ladder. On the asset-building front, the Family Self Sufficiency (FSS) program, run in conjunction with both vouchers and public housing, provides a range of social services for tenants. The program also establishes escrow accounts where tenants save increases in rent payments due to increases in earned income. If tenants

FIGURE 31

The Number of Tax Credit Units Has Climbed Steadily Even as Other Types of Rental Assistance Have Stagnated or Declined

Federally Subsidized Rental Units (Millions)



Notes: Units receiving more than one form of subsidy may be counted more than once. Other project-based housing includes Section 8 New Construction/Substantial Rehabilitation, USDA Section 515, and Rent Supplement units. LIHTC estimates for 2008 and 2009 assume that 100,000 units were placed in service annually. Sources: Ingrid Gould Ellen, presentation at the Next Generation Housing Policy Convening on Rental Policy, 2010; JCHS estimates.

FIGURE 32

Assisted Housing Targets the Most Vulnerable Americans

Share of Households (Percent)



Notes: Elderly households have a householder or spouse aged 62 or over, and disabled households have a householder or spouse with a disability. Female-headed families have minor children living at home. Very low-income renters have household incomes that are less than half of HUD-adjusted area median family incomes. HUD-assisted renters are based on HUD administrative data, while very low-income renters are based on AHS data.
Sources: US Department of Housing and Urban Development, 2008 Picture of Subsidized Households; JCHS tabulations of US Department of Housing and Urban Development, 2009 American Housing Survey.

succeed in becoming independent of welfare and maintain employment over a five-year period, they receive the amount accrued in this account. A demonstration project in public housing taking a similar approach found that these efforts can improve work outcomes. The scale of the FSS program is small, however, reaching only 75,000 households out of more than 3 million assisted renters in 2004.

THE GEOGRAPHIC CONCENTRATION OF ASSISTED HOUSING

A key criticism of project-based rental assistance is that the housing is disproportionately located in poor urban environments, increasing the concentration of poverty to the detriment of both occupants and the surrounding neighborhoods. High-poverty areas tend to have higher rates of violent crime and offer only limited educational and employment opportunities for residents. More affordable housing thus comes at the cost of living in dangerous neighborhoods that provide tenants little chance for advancement.

Across all HUD-assisted housing (including units rented by voucher holders), the neighborhood poverty rate in 2000 averaged 21 percent—significantly above the national rate of 11 percent. Public housing tends to be located in particularly distressed communities, with an average poverty rate of 29

percent. The average poverty rate in neighborhoods where vouchers are used was 18 percent, only slightly lower than the rate for LIHTC properties (19 percent) and other project-based housing (21 percent). This pattern likely reflects the fact that efforts to help voucher holders move to lower-poverty neighborhoods are limited and, even when initially successful, some recipients return to higher-poverty areas.

Assisted housing is also much more likely to be located in minority communities. With minorities accounting for 59 percent of HUD-assisted renters, the geographic concentration of this housing reinforces racial and ethnic isolation. In 2000, the average minority share of the neighborhood population where HUD-assisted properties were located was 47 percent, compared with 31 percent in the nation as a whole. Public housing is especially likely to be in areas with high minority shares compared with other types of assisted units.

Moreover, assisted housing is concentrated in a relatively small number of neighborhoods. In 2008, 27 percent of assisted renters were clustered in neighborhoods where at least 20 percent of occupied housing units were assisted (**Figure 33**). These 2,770 neighborhoods include just 3 percent of all households. Another quarter of assisted renters lived in census tracts where 10–20 percent of housing is subsidized, accounting for just 7 percent of households. Overall, more than half of assisted renters lived in neighborhoods where at least 10 percent of the housing is subsidized.

The substantial federal commitment in these communities represents an opportunity to leverage government influence in support of policy priorities. Among the 808 census tracts with the heaviest concentrations of subsidized housing (40 percent or more), the average number of subsidized renter households was about 600. With monthly federal expenditures averaging \$589 per HUD-assisted unit in 2008, this amounts to \$4.2 million directed to each of these neighborhoods every year. In the 2,770 tracts where at least 20 percent of households are subsidized, the average annual federal expenditure is \$2.9 million.

RENTAL POLICY DEBATES

Decades of experience with different types of assistance, evaluations of various programs, and evolving policy objectives have sparked calls for reforms. One longstanding difference of opinion is whether rental assistance should come entirely in the form of vouchers or whether it should still include project-based assistance to create incentives for new construction and preservation.

The argument for vouchers is that they may be a more cost-effective means of providing rental assistance. The voucher program is also hailed as enabling tenants to move to neighborhoods offering a better quality of life and more economic opportunities. The challenge, however, is that voucher holders must be able to find landlords willing to participate in the program as well as units that meet quality standards at a price they can afford. According to a HUD study in 2000, only 69 percent of voucher recipients succeeded in finding such apartments and using the subsidy. A more recent HUD study also found that the voucher success rate related to whether local laws prohibited landlords from discriminating against tenants based on the source of income they relied on to make rental payments. Perhaps as a result of these challenges, the neighborhoods where vouchers are used have an economic profile similar to that of other areas with assisted housing.

While programs supporting new construction and preservation of rental housing may be more expensive, there are circumstances where this approach may be worth the additional costs. For example, new construction programs may be necessary in fast-growing areas because the private market cannot supply affordable housing without subsidy. Furthermore, new construction and preservation programs can help to stabilize distressed neighborhoods at risk of further disinvestment and decline. Indeed, investments in

assisted housing developments are often the keystone of neighborhood revitalization, sometimes lifting property values in the surrounding community. These positive impacts have been found to increase over time. And in tight rental markets, new construction may help prevent rent inflation in the low-cost stock, a benefit for all renters.

Preservation of existing assisted units is another key issue. Many privately owned subsidized housing developments are now nearing the end of the period that they are contractually obligated to remain affordable—generally 20 years, although the agreements usually range from 5 to 30 years. When the contracts expire, property owners can opt out of the program and convert their apartments to market-rate rentals. For owners of properties in strong rental markets, opting out may have great appeal and put these affordable units at risk of loss from the assisted stock. But even in weak markets, affordable units may also be lost if owners are unable to generate enough rent to cover adequate maintenance.

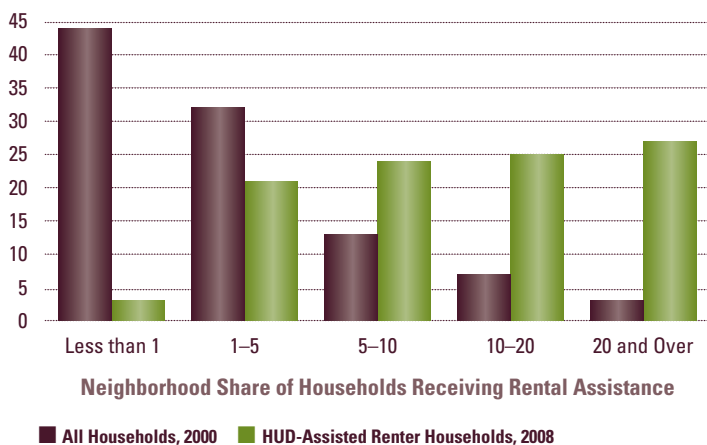
The cost of preserving affordable units is generally much lower than the cost of new construction, even if substantial upgrading is required. Over time, Congress has funded a variety of efforts to preserve project-based assisted housing, although the federal commitment to these initiatives has waxed and waned. Preserving properties in strong markets is a means of providing affordable housing in desirable locations, which is difficult and costly to do through new development. An analysis of developments with project-based assistance in 20 large markets found that five-eighths of the 400,000 assisted units were located within one-half mile of public transit. Of these units, 176,000 had subsidy contracts that would expire within five years. Having assisted housing options close to transit often reduces the financial burden on low-income households since transportation costs can account for a large share of household budgets. Transit access is particularly important for elderly and disabled individuals so that they can live independently.

The stock of publicly owned housing—the oldest of the assisted housing stock—faces its own set of challenges. Over the years, federal funding has failed not only to meet the operating costs of these properties, but also to keep up with capital needs. A 1998 HUD study estimated that bringing public housing units up to a decent and sustainable condition would cost \$22.5 billion, with another \$2 billion required for annual maintenance. While an updated assessment of modernization needs is not yet available, a substantial backlog of investment no doubt remains.

FIGURE 33

Assisted Rental Housing Is Concentrated in Relatively Few Neighborhoods

Share of Households (Percent)



Notes: Neighborhoods are census tracts as defined in the 2000 Decennial Census. Households receiving more than one form of subsidy may be counted more than once. Assisted households include only those for which census tracts are identified.

Sources: JCHS tabulations of US Department of Housing and Urban Development, 2008 Picture of Subsidized Households, and US Census Bureau, 2000 Decennial Census.

Over the past two decades, the HOPE VI program has funded redevelopment of nearly 100,000 severely distressed public housing units. The program is, however, not without its critics. On the one hand, it has successfully replaced some of the worst public housing with new units in excellent condition. In the process, the program has helped strengthen property markets in surrounding communities. On the other hand, replacement of affordable units has not been one for one, and tighter selection criteria have displaced a significant fraction of former tenants. Although these tenants receive vouchers they can use elsewhere, their inability to return to their homes has been a point of contention. Another source of complaint is that the program has in some cases intensified gentrification by incorporating market-rate units in properties in more desirable locations.

The Obama Administration has announced plans to reduce the number of rental assistance programs, streamline their operations, and respond to longstanding concerns about the physical condition of assisted housing. One controversial aspect of these plans is to redesign the funding mechanism for public housing. Under the Transforming Rental Assistance initiative, public housing units would receive long-term project-based vouchers to pay housing authorities the difference between tenant rents and local fair market rents. This would allow housing authorities to meet capital needs by borrowing against their future income streams on the private market. Among the concerns is that this strategy might result in the loss of public housing units if housing authorities are unable to meet their debt service obligations.

Another key focus of the current housing policy debate relates to the LIHTC program. Plans for addressing the federal deficit have included eliminating all tax expenditures, putting the LIHTC program in jeopardy. Debates over the LIHTC program are not new. Since the program's inception in 1986, questions have been raised about how shallow a subsidy it provides, how efficient it is, and how its terms compare with competing business tax credits that have since been created. Although a series of important reforms were created in 2008 to improve the efficiency and flexibility of the program, these changes have yet to be fully implemented because of the disruptions caused by the financial crisis.

But unlike many previous project-based approaches, the Low Income Housing Tax Credit program has sound financial underpinnings and a track record of success in delivering rental housing assistance. Among its many appealing features are its allocation primarily by state, and some local, agencies (making it responsive to local market conditions);

the leveraging of private capital with strong interests in managing properties (so tax credits are not recaptured); and the placement of liability on owners rather than the federal government in the event of failure.

However, tax credit development depends on private investors purchasing equity stakes at prices anticipated, but not locked in, when properties are underwritten and receive allocations. During the recent financial market meltdown, these features created problems for two reasons. First, tax credits only have value if investors have taxable income to offset. During the crisis, the financial institutions that were the largest purchasers of tax credits reported sizable losses. Second, when tax credit prices suddenly plummeted, the amount of equity that investors expected to raise from sale of the credits was much higher than the amount they could actually raise at the time of sale. While the federal government put two stopgap measures in place to deal with these issues, the drop in investor demand greatly disrupted delivery of affordable rental housing in 2009–10 and still looms as a potential problem over the longer term.

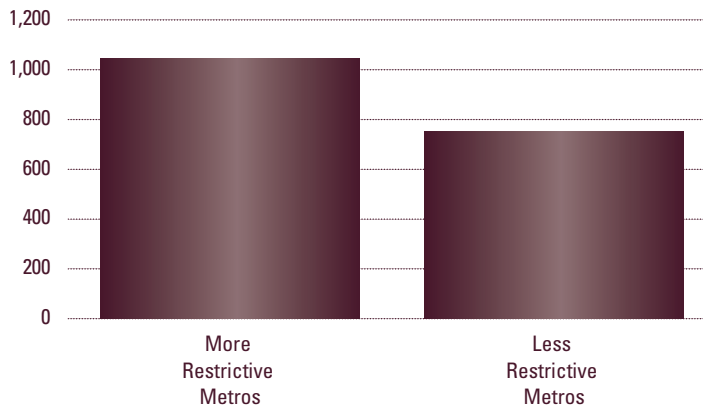
THE ROLE OF STATE AND LOCAL GOVERNMENTS

Control over key aspects of affordable housing policy has shifted from federal to state and local governments in recent years. Today, formula-based funding mechanisms for newer programs, including LIHTC and HOME, let states and localities tailor assistance to local objectives and economic conditions. In high-growth areas, states are working to expand the supply of affordable rental housing, while in lower-growth areas the emphasis is on rehabilitating the existing stock. An important benefit of the devolution of authority is the greater ability to negotiate with local stakeholders and to partner with local private for-profit and nonprofit partners.

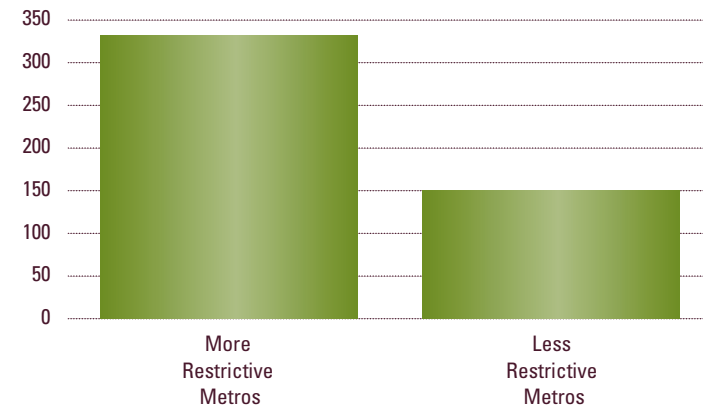
At the state and local levels, though, the most important impact of government on affordable housing development is not the channeling of federal funds, but rather control over land use and construction standards. Local governments can limit the land area in which multifamily housing can be developed, establish subdivision standards that use up developable land, set minimum unit sizes and quality, and charge impact fees that add to costs. Moreover, local officials often have discretionary authority over specific development projects. The time it takes to navigate the regulatory process and negotiate approvals also increases the cost—and reduces the likelihood—of building affordable rental housing. While many of these regulations are intended to address such important public policy concerns as environmental

FIGURE 34**Housing Costs Are Higher in Areas with Restrictive Land Use Regulations**

Average Gross Rent, 2009 (Dollars)



Average Home Value, 2009 (Thousands of dollars)



Notes: Data are the averages of metro-area medians. Gross rent includes rent and tenant-paid utilities. More (less) restrictive metros rank in the top (bottom) third of the Wharton Residential Land Use Regulatory Index, out of the 46 for which data are available. Rent and house values use US Census metro area definitions from 2009, while the Wharton Index uses definitions from 1999.
Sources: Joseph Gyourko et al., *A New Measure of the Local Regulatory Environment for Housing Markets*, *Urban Studies*, 2007; US Census Bureau, 2009 American Community Survey.

protection and public health and safety, they often lead to high rents and home prices (Figure 34).

But regulations can also be used to advance affordable housing goals. For example, a handful of states—including California, New Jersey, Massachusetts, and Connecticut—encourage affordable housing production either by limiting local authority to impose exclusionary zoning or by providing developers with zoning relief in exchange for including affordable units in rental developments. Inclusionary zoning programs, which require the integration of affordable housing in market-rate developments, have also become more

common. By one conservative estimate, these programs led to the development of up to 90,000 affordable units nationally through the early 2000s. Although demonstrating the potential of such efforts, this modest progress highlights how much further policy needs to go to meet the housing needs of millions of low-income renters.

CONCLUSION

The nation continues to grapple with the chronic challenges of rental affordability, which are now creeping up the income scale. To date, the political will to either increase the incomes of the poor or to provide housing they can afford has been absent. In addition, there is heated debate about the allocation of current resources and the most effective approach to housing assistance. How these differences in opinion are reconciled and how existing programs are reformed and funded will fundamentally shape rental housing markets moving forward.

But federal programs currently serve only a small fraction of those eligible for assistance. With government budgets under pressure, that share may even shrink. About three-quarters of the nation's 18 million low-income renters are left to compete for an ever-dwindling supply of low-cost, unassisted rentals. Policymakers at the federal, state, and local levels have a role to play in saving this critical resource by ensuring that tax and regulatory policies promote, rather than impede, private and nonprofit efforts to preserve affordable housing.

Stronger support for affordable, well-located rental housing provides an opportunity to address a number of America's most pressing problems: supplying decent homes for the growing number of low-income households, revitalizing communities hard hit by the foreclosure crisis, and reducing the nation's carbon footprint with more compact residential redevelopment. But the magnitude and complexity of the issues will require the full collaboration of the public, private, and nonprofit sectors. Making meaningful progress in meeting the nation's rental housing challenges is in everyone's best interests.



APPENDIX TABLES

- Table A-1 Multifamily Housing Market Indicators: 1980–2010
- Table A-2 Renter Income and Housing Costs: 1980–2010
- Table A-3 Rentership Rates by Age, Race/Ethnicity, and Region: 1995–2010
- Table A-4 Renter Household Characteristics by Structure Type and Metro Status: 2009
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- Table A-6 Characteristics of Housing Units in 1999 Permanently Lost from the Stock by 2009
- Table A-7 Renters by Household Characteristics and Housing Cost Burden: 2007 and 2009
- Table A-8 Cost-Burdened Renter Households by Household Income Quintile: 1960–2009
- Table A-9 Average Monthly Spending of Renter Families with Children by Expenditure Quartile and Housing Outlays: 2009
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TABLE A-1

Multifamily Housing Market Indicators: 1980–2010

Year	Permits ¹	Starts ²	Completions ³		Size of New Units ⁵	Rental Vacancy Rates ⁴	Value Put in Place: New Units
	(000s)	(000s)	For Sale (000s)	For Rent (000s)	(Median sq. ft.)	(Percent)	(Millions of 2010 dollars)
1980	480	440	174	371	915	5.4	44,215
1981	421	379	164	283	930	5.0	41,884
1982	454	400	148	226	925	5.3	35,110
1983	704	636	152	314	893	5.7	49,144
1984	759	665	197	430	871	5.9	59,228
1985	777	670	184	447	882	6.5	57,836
1986	692	626	133	503	876	7.3	61,752
1987	510	474	134	412	920	7.7	48,855
1988	462	407	117	329	940	7.7	41,101
1989	407	373	90	307	940	7.4	39,222
1990	317	298	76	266	955	7.2	32,116
1991	195	174	56	197	980	7.4	24,252
1992	184	170	44	150	985	7.4	20,351
1993	213	162	44	109	1,005	7.3	16,280
1994	303	259	49	138	1,015	7.4	20,718
1995	335	278	51	196	1,040	7.6	25,596
1996	356	316	50	234	1,030	7.8	28,246
1997	379	340	54	230	1,050	7.7	31,089
1998	425	346	55	260	1,020	7.9	32,874
1999	417	339	55	279	1,041	8.1	35,907
2000	394	338	60	272	1,039	8.0	35,784
2001	401	329	75	240	1,104	8.4	37,313
2002	415	346	63	260	1,070	8.9	39,941
2003	428	349	56	236	1,092	9.8	41,616
2004	457	345	72	238	1,105	10.2	46,109
2005	473	353	97	199	1,143	9.8	52,808
2006	461	336	127	198	1,172	9.7	57,113
2007	419	309	116	169	1,197	9.7	51,489
2008	330	284	101	200	1,122	10.0	44,905
2009	142	109	66	208	1,113	10.6	28,709
2010	151	116	31	124	1,111	10.2	14,022

Notes: Value put in place is adjusted for inflation using the US Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U) for All Items. Rental vacancy rate is for all rental units, both single-family and multifamily. All other series are multifamily only. Web links confirmed as of April 2011.

Sources: 1. US Census Bureau, Construction Statistics, New Privately Owned Housing Units Authorized by Building Permits, www.census.gov/pub/const/bpenn.pdf.

2. US Census Bureau, New Privately Owned Housing Units Started, www.census.gov/const/startsan.pdf.

3. US Census Bureau, New Privately Owned Housing Units Completed in the United States, by Intent and Design, www.census.gov/const/compsuintenta.pdf.

4. US Census Bureau, Housing Vacancy Survey, www.census.gov/hhes/www/housing/hvs/hvs.html.

5. US Census Bureau, Annual Value of Private Construction Put in Place, www.census.gov/const/www/c30index.html.

6. US Census Bureau, Annual Value of Private Construction Put in Place, www.census.gov/const/C30/private.pdf and <http://www.census.gov/const/C30/privateha.pdf>.

TABLE A-2

Renter Income and Housing Costs: 1980–2010

Year	Monthly Income and Housing Costs (2010 dollars)				Housing Costs as a Share of Income (Percent)		
	Median Renter Income	Contract Rent	Gross Rent	Asking Rent for New Apartments	Contract Rent	Gross Rent	Asking Rent for New Apartments
1980	2,684	659	747	815	24.6	27.9	30.4
1981	2,648	651	743	832	24.6	28.0	31.4
1982	2,674	662	760	870	24.8	28.4	32.5
1983	2,668	681	784	845	25.5	29.4	31.7
1984	2,749	689	792	825	25.0	28.8	30.0
1985	2,790	708	810	875	25.4	29.0	31.4
1986	2,823	738	837	909	26.1	29.7	32.2
1987	2,795	741	836	992	26.5	29.9	35.5
1988	2,879	739	831	1,014	25.7	28.9	35.2
1989	2,975	732	822	1,038	24.6	27.6	34.9
1990	2,881	724	811	1,001	25.1	28.2	34.7
1991	2,761	719	806	983	26.1	29.2	35.6
1992	2,685	716	801	911	26.7	29.8	33.9
1993	2,657	711	797	865	26.8	30.0	32.5
1994	2,640	711	795	848	26.9	30.1	32.1
1995	2,690	708	790	937	26.3	29.4	34.8
1996	2,714	706	788	934	26.0	29.0	34.4
1997	2,775	710	792	984	25.6	28.5	35.4
1998	2,831	722	801	982	25.5	28.3	34.7
1999	2,932	729	806	1,035	24.8	27.5	35.3
2000	2,950	730	809	1,065	24.8	27.4	36.1
2001	2,926	742	826	1,085	25.4	28.2	37.1
2002	2,816	759	838	1,113	27.0	29.8	39.5
2003	2,722	764	847	1,103	28.1	31.1	40.5
2004	2,684	764	848	1,127	28.5	31.6	42.0
2005	2,701	761	851	1,053	28.2	31.5	39.0
2006	2,776	764	858	1,124	27.5	30.9	40.5
2007	2,788	774	868	1,070	27.8	31.1	38.4
2008	2,686	773	871	1,105	28.8	32.4	41.1
2009	2,665	793	889	1,085	29.8	33.4	40.7
2010	2,659	782	878	1,076	29.4	33.0	40.5

Notes and Sources: Values are adjusted for inflation using the CPI-U for All Items. Renter incomes through 2009 are median renter household incomes from US Census Bureau, Current Population Survey (CPS) published reports. Renters exclude those paying no cash rent. Income for 2010 is based on Moody's Economy.com forecast estimate for all households, adjusted by the three-year average ratio of CPS renter incomes to all household incomes. Contract rent equals median 2009 contract rent from US Department of Housing and Urban Development, American Housing Survey, indexed by the CPI residential rent index with adjustments for depreciation in the stock. Gross rent equals median 2009 gross rent from the American Housing Survey, indexed by a weighted combination of the CPI residential rent index, the CPI gas and electricity index, and the CPI water and sewer index. Asking rent is median asking rent from US Census Bureau, Survey of Market Absorption, and is for newly completed, privately financed, unsubsidized unfurnished rental apartments in structures of five or more units. Asking rent for 2010 is the average of the first three quarters.

TABLE A-3

Rentership Rates by Age, Race/Ethnicity, and Region: 1995–2010

Percent

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All Households	35.3	34.6	34.3	33.7	33.2	32.5	32.1	32.1	31.7	31.0	31.1	31.2	31.9	32.2	32.6	33.1
Age of Householder																
Under 35	61.4	60.9	61.3	60.7	60.3	59.2	58.8	58.7	57.8	56.9	57.0	57.4	58.3	59.0	60.3	60.9
35–44	34.8	34.5	33.9	33.1	32.8	32.1	31.8	31.4	31.7	30.8	30.7	31.1	32.2	33.0	33.8	35.0
45–54	24.8	24.4	24.2	24.3	24.0	23.5	23.3	23.7	23.4	22.8	23.4	23.8	24.6	25.0	25.6	26.5
55–64	20.5	20.0	19.9	19.1	19.0	19.7	18.7	18.9	18.6	18.3	18.8	19.1	19.4	19.9	20.5	21.0
65 and Over	21.9	21.1	20.9	20.7	19.9	19.6	19.7	19.4	19.5	18.9	19.4	19.1	19.6	19.9	19.5	19.5
Race/Ethnicity of Householder																
White	29.1	28.3	28.0	27.4	26.8	26.0	25.7	25.3	24.6	24.0	24.2	24.2	24.8	25.0	25.2	25.6
Hispanic	58.0	57.2	56.7	55.3	54.5	54.0	52.7	53.0	53.3	51.9	50.5	50.3	50.3	50.9	51.6	52.5
Black	57.1	55.5	54.6	53.9	53.3	52.8	51.6	51.8	51.2	50.3	51.2	51.6	52.2	52.1	53.4	54.1
Asian/Other	48.5	48.5	46.7	46.3	45.9	45.7	45.3	45.0	43.1	40.3	39.7	39.2	39.9	40.5	41.0	41.8
All Minority	56.3	55.1	54.2	53.2	52.6	52.1	51.0	51.1	50.5	49.0	48.7	48.7	49.1	49.4	50.3	51.1
Region																
Northeast	38.0	37.8	37.6	37.4	36.9	36.6	36.3	35.7	35.6	35.0	34.8	34.8	35.0	35.4	36.0	35.9
Midwest	30.8	29.4	29.5	28.9	28.3	27.4	26.9	26.9	26.8	26.2	26.9	27.3	28.1	28.3	29.0	29.2
South	33.3	32.5	32.0	31.4	30.9	30.4	30.2	30.3	29.9	29.1	29.2	29.5	29.9	30.1	30.4	31.0
West	40.8	40.8	40.4	39.5	39.1	38.3	37.4	37.5	36.6	35.8	35.6	35.3	36.5	37.0	37.4	38.6

Notes: White, black and Asian/other householders are non-Hispanic. Hispanic householders may be of any race. After 2002, Asian/other also includes householders of more than one race. Caution should be used in interpreting changes before and after 2002 because of rebenchmarking.

Source: JCHS tabulations of US Census Bureau, Housing Vacancy Survey.

TABLE A-4

Renter Household Characteristics by Structure Type and Metro Status: 2009

Thousands of Renter Households

Renter Characteristics	Total	Single Family			2-4 Units			5 or More Units		
		Center City	Suburb	Non-Metro	Center City	Suburb	Non-Metro	Center City	Suburb	Non-Metro
All Renters	38,667	4,292	6,201	4,122	3,493	2,719	1,382	8,613	6,400	1,445
Age of Householder										
Under 25	4,390	405	496	411	383	256	251	1,203	693	291
25-34	10,377	1,295	1,564	983	986	765	365	2,267	1,866	287
35-44	7,921	1,008	1,645	926	786	612	225	1,451	1,097	173
45-54	6,663	766	1,273	797	606	446	180	1,375	1,019	201
55-64	4,276	484	618	492	405	342	155	986	633	161
65-74	2,349	211	312	245	180	134	108	657	393	108
75 and Over	2,690	124	293	269	146	164	98	674	698	224
Race/Ethnicity of Householder										
White	21,938	2,004	4,066	3,134	1,627	1,599	982	3,892	3,529	1,106
Hispanic	6,601	864	969	390	739	447	148	1,842	1,133	69
Black	7,346	1,181	815	394	859	480	165	2,077	1,227	148
Asian/Other	2,783	244	351	204	268	193	86	802	512	122
Education of Householder										
Not High School Graduate	7,062	869	1,104	859	698	476	261	1,589	927	280
High School Graduate	11,588	1,272	1,984	1,557	960	872	498	2,222	1,743	481
Some College	11,605	1,380	1,882	1,195	982	831	475	2,369	2,001	489
Bachelor's Degree or More	8,412	770	1,230	512	853	541	148	2,432	1,730	195
Household Income Quintile										
Bottom	7,737	718	796	764	821	487	424	2,137	1,049	541
Lower Middle	7,731	847	915	955	635	545	354	1,886	1,196	400
Middle	7,739	867	1,294	857	707	514	295	1,556	1,396	251
Upper Middle	7,722	852	1,339	900	710	575	201	1,515	1,445	185
Top	7,737	1,007	1,857	647	619	598	108	1,518	1,315	68
Household Type										
Married Without Children	4,656	459	966	696	400	269	114	881	754	117
Married With Children	5,348	832	1,507	798	415	388	122	628	601	58
Single Parent	6,491	983	1,095	762	625	513	287	1,090	904	232
Other Family	3,313	485	608	327	301	263	87	682	495	66
Single Person	14,684	932	1,439	1,191	1,313	985	609	4,408	2,993	814
Other Non-Family	4,174	601	586	348	439	302	163	923	652	160

Notes: White, black and Asian/other householders are non-Hispanic. Hispanic householders may be of any race. Asian/other includes householders of more than one race. Household income quintiles are equal fifths of all households, (both owners and renters) sorted by pre-tax household income. Other family householders live with family members other than a spouse or child. Non-family householders live with unrelated individuals.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2009 American Housing Survey, using JCHS-adjusted weights.

TABLE A-5

Renter Households by Rent and Subsidy Status: 2009

Monthly Contract Rent	Number of Renter Households (000s)			Share of Renter Households (%)		
	Subsidized	Unsubsidized	Total	Subsidized	Unsubsidized	Total
Under \$400	2,083	3,035	5,118	40.7	59.3	100.0
\$400–599	1,236	7,081	8,318	14.9	85.1	100.0
\$600–799	1,057	7,157	8,214	12.9	87.1	100.0
\$800 and Over	1,503	12,843	14,345	10.5	89.5	100.0
No Cash	75	1,886	1,961	3.8	96.2	100.0
Other	92	619	711	13.0	87.0	100.0
Total	6,046	32,621	38,667	15.6	84.4	100.0

Notes: Subsidized renter households reported living in public or government-subsidized housing, holding a rent voucher, or being required to certify income to determine their rent. The other category includes rents that are paid at some interval other than monthly.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2009 American Housing Survey, using JCHS-adjusted weights.

TABLE A-6

Characteristics of Housing Units in 1999 Permanently Lost from the Stock by 2009

Percent

	All Units	Single-Family		Multifamily	Mobile Homes
		Detached	Attached		
All Units	4.6	2.9	5.2	5.4	23.9
Tenure in 1999					
Renter	6.3	6.5	7.0	5.4	29.2
Owner	2.7	1.7	2.1	2.2	19.9
Occupancy in 1999					
Occupied	3.7	2.2	4.3	4.7	20.9
Renter	6.1	6.3	6.9	5.1	29.1
Owner	2.6	1.7	2.0	2.0	19.4
Vacant	9.1	7.9	6.6	8.3	32.6
Renter	9.2	11.3	7.9	8.4	30.9
Owner	8.9	6.7	4.0	7.1	33.3
Seasonal Occupancy	15.8	12.4	14.2	13.9	36.8
Structure Type					
Single-Family Detached	2.9	2.9	na	na	na
Single-Family Attached	5.2	na	5.2	na	na
2-4 Units	8.5	na	na	8.5	na
5-19 Units	4.4	na	na	4.4	na
20 or More Units	2.9	na	na	2.9	na
Mobile Homes	23.9	na	na	na	23.9
Rent in 1999 (2009 dollars)					
Less than \$400	11.9	10.8	13.6	10.4	35.1
\$400-599	6.4	6.7	5.8	5.7	32.5
\$600-799	4.1	4.8	6.1	3.6	6.8
\$800 or More	3.0	3.2	3.7	2.8	19.1
Region					
Northeast	3.5	1.9	4.4	5.5	15.2
Midwest	3.8	2.5	6.0	5.8	19.2
South	6.5	4.1	6.1	6.5	29.3
West	3.1	2.0	3.9	3.5	15.1
Metro Status					
Center City	4.5	2.5	7.0	6.1	25.6
Suburb	3.4	2.2	2.8	3.9	21.0
Non-Metro	7.1	4.4	10.5	7.5	25.9
Year Built					
Before 1940	6.8	5.3	9.2	9.4	40.4
1940-1959	5.3	3.6	14.0	11.3	26.9
1960-1979	3.9	2.0	4.5	3.9	23.8
1980-1999	3.5	1.4	1.6	1.6	23.6

Notes: Rent values are adjusted for inflation using the CPI-U for All Items. Permanently lost units appear in the 1999 American Housing Survey but are classified as Type C non-interview units in 2009 (permanently lost from the sample due to demolition, natural disaster, the movement of a mobile home, structural conversion, or other reasons). na is not applicable.

Source: JCHS tabulations of US Department of Housing and Urban Development, 1999 and 2009 American Housing Surveys.

TABLE A-7

Renters by Household Characteristics and Housing Cost Burden: 2007 and 2009

Thousands

Renter Characteristics	2007				2009				Percent Change 2007–9			
	No Burden	Moderate Burden	Severe Burden	Total	No Burden	Moderate Burden	Severe Burden	Total	No Burden	Moderate Burden	Severe Burden	Total
All Renter Households	19,813	8,174	8,880	36,866	19,858	8,724	10,105	38,687	0.2	6.7	13.8	4.9
Household Income Quintile												
Bottom	2,680	2,909	7,536	13,125	2,531	2,733	8,386	13,650	-5.6	-6.1	11.3	4.0
Lower Middle	4,762	3,733	1,167	9,663	4,451	4,093	1,487	10,031	-6.5	9.6	27.5	3.8
Middle	5,785	1,194	156	7,135	5,743	1,471	204	7,418	-0.7	23.1	31.1	4.0
Upper Middle	4,223	292	21	4,535	4,503	376	28	4,907	6.6	28.9	32.2	8.2
Top	2,362	46	-	2,408	2,630	51	-	2,681	11.3	11.4	-	11.3
Age of Householder												
Under 25	1,861	986	1,487	4,335	1,748	1,000	1,649	4,397	-6.1	1.4	10.9	1.4
25–44	9,926	3,876	3,692	17,495	9,920	4,131	4,256	18,306	-0.1	6.6	15.3	4.6
45–64	5,727	2,125	2,300	10,152	5,846	2,368	2,731	10,945	2.1	11.4	18.7	7.8
65 and Over	2,299	1,186	1,400	4,885	2,345	1,225	1,469	5,039	2.0	3.2	4.9	3.1
Household Type												
Married Without Children	3,598	939	734	5,270	3,617	1,006	803	5,426	0.5	7.1	9.5	3.0
Married With Children	3,273	1,287	935	5,495	3,297	1,372	1,112	5,781	0.7	6.6	19.0	5.2
Single Parent	2,393	1,613	2,145	6,152	2,351	1,687	2,439	6,477	-1.8	4.6	13.7	5.3
Other Family	1,587	583	567	2,738	1,657	694	692	3,043	4.4	19.0	22.0	11.1
Single Person	6,605	3,101	3,827	13,534	6,567	3,206	4,227	14,000	-0.6	3.4	10.4	3.4
Non-Family	2,357	650	671	3,678	2,370	759	831	3,960	0.6	16.7	23.8	7.7
Race/Ethnicity of Householder												
White	12,301	4,344	4,465	21,109	12,266	4,632	5,060	21,958	-0.3	6.6	13.3	4.0
Black	3,169	1,661	2,131	6,960	3,161	1,781	2,403	7,346	-0.2	7.2	12.8	5.5
Hispanic	2,919	1,606	1,640	6,166	2,944	1,723	1,934	6,601	0.9	7.3	17.9	7.1
Asian/Other	1,424	563	644	2,631	1,487	587	709	2,783	4.4	4.4	10.0	5.8
Education of Householder												
No High School Diploma	3,053	1,730	2,281	7,064	2,875	1,722	2,481	7,078	-5.8	-0.5	8.8	0.2
High School Graduate	6,945	3,142	3,347	13,434	6,374	3,193	3,594	13,161	-8.2	1.6	7.4	-2.0
Some College	4,552	1,923	2,033	8,508	5,015	2,316	2,627	9,958	10.2	20.5	29.2	17.0
Bachelor's Degree or More	5,262	1,379	1,219	7,860	5,595	1,492	1,403	8,490	6.3	8.2	15.1	8.0

Notes: Renters with moderate (severe) housing cost burdens pay 30–50% (more than 50%) of pre-tax household income for rent and utilities. Renters with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened. White, black and Asian/other householders are non-Hispanic, while Hispanic householders may be of any race. Asian/other includes multiracial householders. Household income quintiles are equal fifths of all households (both owners and renters) sorted by pre-tax household income.

Source: JCHS tabulations of US Census Bureau, 2007 and 2009 American Community Surveys.

TABLE A-8

Cost-Burdened Renter Households by Household Income Quintile: 1960–2009

Percent

	1960	1970	1980	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Moderate Burdens														
Bottom	21.6	24.5	22.3	23.1	23.7	23.8	23.8	22.0	21.7	20.6	21.4	22.2	21.5	20.0
Lower Middle	20.4	20.8	32.1	34.7	31.9	37.1	36.6	37.4	38.6	39.7	39.2	38.6	38.9	40.8
Middle	4.2	3.5	8.6	13.0	8.9	11.9	12.6	14.1	14.8	16.7	17.1	16.7	17.6	19.8
Upper Middle	1.1	1.1	1.7	4.9	3.2	4.1	4.3	5.3	5.4	6.2	6.5	6.4	6.7	7.7
Top	-	0.3	0.0	0.5	0.9	2.0	1.7	1.5	1.6	1.7	1.7	1.9	1.6	1.8
All	11.9	13.0	17.7	19.6	18.4	20.5	20.7	20.9	21.4	21.9	22.1	22.2	22.1	22.6
Severe Burdens														
Bottom	44.0	49.0	51.8	53.9	52.7	55.2	55.0	56.4	57.6	59.4	58.5	57.4	59.2	61.4
Lower Middle	2.6	2.9	5.6	8.3	6.4	7.9	8.9	10.5	11.1	12.4	12.6	12.1	12.6	14.9
Middle	0.1	0.2	0.2	1.3	1.4	1.3	1.4	1.6	2.0	2.1	2.2	2.2	2.4	2.7
Upper Middle	-	0.1	-	-	0.2	0.4	0.4	0.5	0.5	0.5	0.6	0.5	0.5	0.6
Top	-	-	-	-	-	-	-	-	-	-	-	-	-	-
All	11.9	14.0	17.8	19.4	19.7	20.7	21.4	22.6	23.5	24.7	24.5	24.1	24.7	26.1
Total														
Bottom	65.6	73.5	74.1	77.0	76.4	79.0	78.8	78.4	79.3	80.1	80.0	79.6	80.7	81.5
Lower Middle	23.0	23.7	37.8	43.0	38.2	45.0	45.5	47.8	49.7	52.1	51.8	50.7	51.5	55.6
Middle	4.3	3.7	8.8	14.2	10.2	13.2	14.0	15.7	16.7	18.8	19.3	18.9	20.0	22.6
Upper Middle	1.1	1.1	1.7	4.9	3.4	4.6	4.7	5.7	5.9	6.8	7.0	6.9	7.2	8.2
Top	-	0.3	-	0.5	0.9	2.0	1.7	1.5	1.6	1.7	1.7	1.9	1.6	1.9
All	23.8	27.0	35.4	39.0	38.1	41.2	42.2	43.5	45.0	46.5	46.7	46.3	46.8	48.7

Notes: Renters with moderate (severe) housing cost burdens pay 30–50% (more than 50%) of pre-tax household income for rent and utilities. Renters with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened. Household income quintiles are equal fifths of all households (both owners and renters) sorted by pre-tax household income.

Source: JCHS tabulations of US Census Bureau, 1960–2000 Decennial Censuses and 2001–9 American Community Surveys.

TABLE A-9

Average Monthly Spending of Renter Families with Children by Expenditure Quartile and Housing Outlays: 2009

Dollars

Expenditure Quartiles and Share of Expenditures on Housing	Housing	Non-Housing Expenditures							
		Total	Transportation	Food	Clothes	Healthcare	Personal Insurance and Pensions	Entertainment	Other
Bottom									
Less than 30%	249	1,107	206	452	67	28	90	60	205
30–50%	615	933	153	378	60	30	93	48	170
More than 50%	841	571	59	284	32	13	60	31	92
All	528	920	153	385	56	26	85	49	166
Lower Middle									
Less than 30%	573	2,045	458	587	115	103	215	127	439
30–50%	968	1,567	330	525	79	64	207	88	273
More than 50%	1,387	1,050	167	447	47	27	152	62	146
All	870	1,685	359	540	89	74	204	100	320
Upper Middle									
Less than 30%	890	3,126	767	741	148	209	377	205	679
30–50%	1,451	2,449	474	681	129	141	407	147	470
More than 50%	2,360	1,594	350	538	40	45	360	61	200
All	1,169	2,798	633	710	137	175	388	176	577
Top									
Less than 30%	1,366	5,756	1,322	1,082	252	348	741	396	1,615
30–50%	2,510	4,081	898	941	173	286	676	270	837
More than 50%	4,908	3,156	682	698	104	127	584	200	761
All	1,821	5,193	1,180	1,028	224	322	717	353	1,368
All									
Less than 30%	751	2,877	662	699	141	166	337	187	684
30–50%	1,112	1,809	364	557	93	91	261	106	337
More than 50%	1,346	943	150	382	41	26	141	52	151
All	974	2,200	476	603	109	118	283	137	474

Notes: Expenditure quartiles are equal fourths of all households (both owners and renters) sorted by total expenditures. Housing costs include rent and utilities. Transportation expenditures are adjusted for cash purchases of cars, with expenditures calculated at 10% of the cash payment.

Source: JCHS tabulations of US Bureau of Labor Statistics, 2009 Consumer Expenditure Survey.

TABLE A-10

Affordable Rental Supply Gaps: 2003–9

Thousands

	2003	2005	2007	2009
Extremely Low-Income Renters				
Households	9,403	10,429	9,249	10,442
Affordable Units	7,298	7,221	7,218	6,567
Affordable and Available Units	3,984	4,230	4,117	3,749
Affordable, Available, and Adequate Units	3,834	4,083	3,992	3,643
Supply Gap	5,569	6,346	5,258	6,799
Very Low-Income Renters				
Households	16,262	17,113	15,872	18,004
Affordable Units	19,881	19,705	17,616	17,914
Affordable and Available Units	12,425	12,825	11,361	11,935
Affordable, Available, and Adequate Units	12,005	12,357	11,011	11,587
Supply Gap	4,257	4,756	4,861	6,418

Notes: The supply gap is the difference between the number of renter households and the number of affordable, available, and adequate rental units. Extremely (very) low-income households have incomes up to 30% (up to 50%) of HUD-adjusted area median family income. Gross rent includes rent and tenant-paid utilities. Affordable units have gross rents up to 30% of the household income threshold for the category. Available units are vacant or rented by households with incomes no more than the threshold for the category. Adequate units exclude occupied units that the American Housing Survey defines as severely inadequate and vacant units that lack full plumbing. Gross rent for vacant units is estimated at 1.15 times the asking rent. Units rented but not yet occupied are excluded.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2003–9 American Housing Surveys, using JCHS-adjusted weights.

TABLE A-11

Share of Severely Cost-Burdened Renter Households by Metro: 2000 and 2009

Percent

Metro Area	Share of Households With Severe Burdens	
	2000	2009
Akron, OH	19.4	31.8
Albany, NY	19.7	24.2
Albuquerque, NM	20.5	26.2
Allentown, PA	17.3	23.3
Atlanta, GA	17.7	26.8
Augusta, GA	18.4	24.8
Austin, TX	21.1	25.0
Bakersfield, CA	22.9	29.6
Baltimore, MD	18.9	27.0
Baton Rouge, LA	23.5	28.6
Birmingham, AL	19.9	27.5
Boise City, ID	17.8	23.3
Boston, MA	19.7	24.8
Bridgeport, CT	18.6	30.5
Buffalo, NY	24.1	30.3
Cape Coral, FL	19.6	27.2
Charleston, SC	20.5	27.6
Charlotte, NC	16.4	25.5
Chattanooga, TN	18.1	26.9
Chicago, IL	20.4	28.6
Cincinnati, OH	18.2	26.5
Cleveland, OH	20.8	27.9
Colorado Springs, CO	16.6	24.6
Columbia, SC	17.6	23.9
Columbus, OH	17.9	26.8
Dallas, TX	15.9	23.3
Dayton, OH	17.8	27.2
Denver, CO	18.4	26.2
Des Moines, IA	15.8	17.9
Detroit, MI	20.0	32.8
El Paso, TX	19.8	21.8
Fresno, CA	23.2	27.3
Grand Rapids, MI	19.0	26.9
Greensboro, NC	17.3	25.0
Greenville, SC	17.4	23.9
Harrisburg, PA	15.1	18.8
Hartford, CT	18.8	27.5
Honolulu, HI	19.0	26.8
Houston, TX	17.9	24.2
Indianapolis, IN	16.2	23.9
Jackson, MS	22.6	25.7
Jacksonville, FL	16.6	26.2
Kansas City, MO	16.2	22.3
Knoxville, TN	20.0	29.9
Lakeland, FL	17.8	27.7
Lancaster, PA	14.6	19.5
Las Vegas, NV	19.4	23.8
Little Rock, AR	18.1	26.8
Los Angeles, CA	23.8	30.2
Louisville, KY	17.1	23.0

Metro Area	Share of Households With Severe Burdens	
	2000	2009
Madison, WI	19.3	28.8
McAllen, TX	21.6	33.1
Memphis, TN	21.8	31.6
Miami, FL	26.0	34.2
Milwaukee, WI	18.0	30.5
Minneapolis, MN	16.9	24.9
Modesto, CA	21.1	30.5
Nashville, TN	17.5	23.0
New Haven, CT	21.6	32.7
New Orleans, LA	24.5	31.8
New York, NY	24.0	27.7
Ogden, UT	14.6	19.3
Oklahoma City, OK	19.5	25.0
Omaha, NE	15.0	23.2
Orlando, FL	19.3	30.9
Oxnard, CA	18.7	27.3
Palm Bay, FL	20.7	26.9
Philadelphia, PA	22.3	28.6
Phoenix, AZ	19.5	26.8
Pittsburgh, PA	18.9	22.9
Portland, ME	15.5	26.9
Portland, OR	18.8	25.5
Poughkeepsie, NY	20.6	28.4
Providence, RI	19.1	25.4
Provo, UT	16.1	23.6
Raleigh, NC	18.2	23.3
Richmond, VA	17.6	23.0
Riverside, CA	23.0	29.3
Rochester, NY	24.5	28.2
Sacramento, CA	21.4	26.7
St. Louis, MO	18.6	25.2
Salt Lake City, UT	17.7	24.8
San Antonio, TX	17.6	23.9
San Diego, CA	20.9	28.4
San Francisco, CA	19.8	24.5
San Jose, CA	17.8	24.0
Scranton, PA	16.2	23.5
Seattle, WA	18.2	22.7
Springfield, MA	20.1	24.2
Stockton, CA	22.7	30.5
Syracuse, NY	23.3	27.2
Tampa, FL	19.2	27.4
Toledo, OH	20.2	30.8
Tucson, AZ	22.8	29.5
Tulsa, OK	18.4	25.1
Virginia Beach, VA	17.9	24.2
Washington, DC	15.9	21.5
Wichita, KS	16.3	21.4
Worcester, MA	18.0	21.1
Youngstown, OH	17.6	24.3

Notes: Renters with severe housing cost burdens pay more than 50% of household income for rent and utilities. Renters with zero or negative income are assumed to be severely burdened, while renter households not paying cash rent are assumed to be unburdened. Metros are the top 100 metros by population in 2009.

Source: JCHS tabulations of US Census Bureau, 2000 Decennial Census and 2009 American Community Survey, using JCHS-adjusted metro-area weights.

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