



FACT SHEET

America's Rental Housing – The Key to a Balanced National Policy

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PURPOSE:

America's Rental Housing- The Key to a Balanced National Policy is the Joint Center for Housing Studies' latest look at rental housing issues, and in particular the effect that current mortgage market meltdown is having on the wellbeing of renters and the construction and preservation of the rental housing inventory. Its goal is to provide public policy makers, state and local housing agencies and private business leaders engaged in the rental market with information about the role of rental housing in the national housing agenda, and shed light on this important resource at a time when many are rethinking national housing policy.

FINDINGS:

IMPACT OF MORTGAGE MARKET TURMOIL

- Soaring foreclosure rates are an unintended side effect of extending homeownership opportunities to higher risk households with limited incomes and wealth. As early as 2004, some 240,000 subprime home mortgages were seriously delinquent (with payments 60 days late or more and/or just entering into foreclosure).
- As more and more households struggled to buy in the face of rapidly rising home prices, the number of seriously delinquent subprime home mortgages rose to 750,000 in 2007.
- Over 12 percent of all subprime loans were seriously delinquent by the end of 2007, compared to 1.7 percent of prime loans.
- Although the mortgage market meltdown only emerged as the dominant national housing policy issue in 2007, serious mortgage delinquencies and foreclosures have been on the rise in Ohio, Michigan and Indiana for more than 10 years.
- The plentiful supply of mortgage capital also fed a substantial rise in high-risk lending to absentee owners of one- to four- unit rental properties. While varying from one state to the next, in 2007 nearly one in five of all foreclosure actions started were on loans made to non-resident owners.
- Mirroring the concentration of subprime lending, foreclosures are also highly concentrated in the lowest-income and minority communities where many of the most disadvantaged renters live. Nationwide, loans in low-income minority communities are more than twice as likely to be foreclosed than loans in high-income white areas
- High levels of foreclosures produce collateral damage that can easily destabilize already vulnerable communities, by depressing property values, lowering local property tax revenue, and imposing additional costs on cash-strapped public agencies.
- Mortgage foreclosures are adding to the number of units held off the market, while the weak home buying market is also helping to expand the supply of higher-priced rentals as owners attempt to rent out their newly vacant condominiums and single-family homes. But because most renters do not have adequate income to take advantage of these opportunities, the market has limited ability to absorb the current excess supply.

DEMOGRAPHIC DRIVERS OF RENTAL DEMAND

- After averaging just 0.7 percent annual growth from 2003 to 2006, the number of renter households jumped by 2.8 percent or nearly one million in 2007
- The minority share of renter households increased from 37 percent in 1995 to 43 percent in 2005, with Hispanic renters accounting for nearly half of the minority gains. The number of black and other minority renter households rose more modestly, while that of white households fell by about 433,000.

- Of the nearly 37 million renter households in 2005, one in six were headed by an immigrant. Over 80 percent of the 1.6 million immigrants who had lived in the United States for five years or less in 2005 rented their housing, though only one-third of the immigrants who came to the United States before 1990 remained renters in 2005, nearly matching the share of same-aged native-born households.
- Some 19 percent of all households reported a change of residence between 2003 and 2005, including 1.9 million owners who became renters. Over this period, homeowners in the bottom income quartile were three times more likely than those in the top income quartile to switch from owning to renting.
- The mean debt of renters in the lowest income quartile surged 62 percent in real terms, growing from \$3,200 in 1995 to \$5,200 in 2004. While up across all age and racial groups, mean debt for renter households with heads aged 55 and older increased by 76 percent, to \$8,800, and for minorities by 61 percent to \$7,900.

RENTAL PRODUCTION AND SUPPLY

- Last year, completions of multifamily units for rent fell to 169,000 units—just two-thirds of the 2002 figure and only one-third of the 1986 record high.
- From 1996 through 2005, 1.2 million of the 3.2 million rentals completed were in structures with 20 or more units, and another million were in buildings with 5–19 units. Meanwhile, completions of rentals in structures with two to four apartments totaled only about 200,000, while site-built and manufactured single-family homes added another 733,000.
- The median asking rent for newly built apartments in buildings with five or more units stood at a record high of \$1,057 in 2006—well above the \$766 median gross rent for all units and up more than 30 percent from mid-1990s levels. As a result, only 20,000 new unfurnished apartments renting for less than \$750 were completed in 2006, despite being the types of units most in demand.
- The combination of record-low interest rates, rising occupancy rates, and attractive yields helped to lift sales and prices of apartment complexes starting in 2003. Hefty increases in net operating income brought in even more investors, with property prices advancing 50 percent from 2003 to 2007.
- The number of units in large multifamily properties that were converted from rentals to condos rose from a few thousand in 2003 to 235,000 in 2005—more than the total new multifamily rental completions in that year. However, conversions fell to only 60,000 units in 2006 and had virtually disappeared by 2007.

RENTAL AFFORDABILITY CHALLENGES

- The national median gross rent rose 2.7 percent in real terms from 2001 to 2006 while the median renter income fell by 8.4 percent.
- Nearly half of all renters paid more than 30 percent of their incomes for housing in 2006, and about a quarter spent more than 50 percent. Among renters in the bottom income quartile, fully 52 percent spent more than half their incomes on housing in 2006, up from 47 percent in 2001.
- Even full-time employment is no guarantee that a household can afford rental housing. In 2006, 42.6 percent of all working families did not earn enough to afford an appropriately sized housing unit.
- Seniors and others unable to work who have basic Supplemental Security Income (SSI) are especially likely to face high housing-cost burdens. Nearly 2.5 million senior renters (53 percent) pay more than 30 percent of their incomes for rent, while 1.4 million pay more than 50 percent.
- From 1995 to 2005, nearly 2.2 million (or 6 percent) of all rental units were demolished or otherwise permanently removed from the inventory, including 1.4 million units with

inflation-adjusted rents of \$600 or less in 1995. Loss rates of single-family and small multifamily rentals are more than three times those of units in large multifamily buildings.

- Between 1995 and 2005, two rental units were permanently removed from the inventory for every three units built. Inventory losses were highest in the Northeast, where two rental units were lost for every one built.

POLICY DIRECTIONS

- Despite persistent affordability problems, only one in five renters live in assisted housing. Even among elderly renters in the lowest income quartile, less than four in ten receive housing assistance.
- In addition to limited federal support, local regulations also contribute to the lack of affordable housing development, as the most restrictive communities have the largest shares of cost-burden renter households.
- Among all metro area households, renters are nearly twice as likely as owners to live in central city locations. Over 60 percent of all minority renters live in central city locations, in large measure a reflection of the geographic concentration of assisted housing.
- In today's soft housing market, many holders of foreclosed properties will be forced to sell these assets for deep discounts. This creates an opportunity for a well-capitalized mission-driven entity to acquire properties with the goal of expanding the supply of affordable rental housing and promoting economically stable communities.

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Harvard's Joint Center for Housing Studies is the nation's leading center for information and research on housing in the United States. Established in 1959, the Joint Center is a collaborative unit affiliated with the Graduate School of Design and Harvard Kennedy School. The Director of the Joint Center for Housing Studies is Nicolas P. Retsinas, who was appointed in 1998. The Center's research and additional information about its programs and activities are available at www.jchs.harvard.edu.

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