



AMERICA'S RENTAL HOUSING

EXPANDING OPTIONS FOR DIVERSE AND GROWING DEMAND

KEY FACTS

PURPOSE

Rental housing is home to a growing share of the nation's increasingly diverse households. But even with the strong rebound in multifamily construction, tight rental markets make it difficult for low- and moderate-income renters to find housing they can afford. As a result, the number of cost-burdened renters set another record last year. Addressing the challenge of affordability in a time of rising overall demand will require greater efforts from both the public and private sectors to expand the range of rental housing options.

FINDINGS

RECENT GROWTH IN RENTER HOUSEHOLDS HAS BEEN SIGNIFICANT

Millions more rent as rentership rates rise

- Renter households increased from 34 million in 2005 to nearly 43 million in 2015. The increase of nearly 9 million renter households between 2005 and 2015 exceeds growth during any 10 year period in recent history.
- The share of all US households that rent rose from 31 percent in 2005 to 37 percent in 2015, its highest level since the mid-1960s.

THE GROWTH IN DEMAND FOR RENTALS HAS BEEN BROAD BASED

Renting is becoming more common across income groups and household types

- Eighteen percent of the growth in renters in 2005-2015 was households with incomes of \$100,000 or higher (1.6 million); 38% was from those with incomes of \$25,000-\$99,999 (3.4 million); and 45% had incomes of less than \$25,000 (4.0 million).
- Renting grew fastest among the highest incomes: the number of renters in the top income decile grew at a rate of fully 61 percent in 2005-2015.

- Half of the growth was single person households or married couples without children, one quarter of the growth in renters was families with children, and the remaining quarter was other family and non-family households.
- After declining in 1995-2005, fully 34 percent of growth in renting in 2005-15 was native-born whites, while 43 percent was native-born minorities and 23 percent was foreign-born households.

Households of all generations rent, and are doing so in larger numbers

- The largest share of the growth in renters in 2005-2015 – 55 percent – was among households age 50 and older (Baby-boomers and older); 34 percent was among households age 30-49 (Gen-X), and 11 percent was among households under age 30 (Millennials).
- The number of renters aged 50 and over grew 50 percent in 2005-2015, from 10 million to 15 million.
- Despite a decline in the overall number of households headed by persons aged 30-49 in 2005-2015, the number of renter households among this age group climbed from 15 million to 18 million.
- The number of renter households headed by adults aged 20-29 jumped by 11 percent over the last decade even though the overall number of households headed by adults in this age group grew by just 2 percent.

DEMOGRAPHICS SUGGEST GROWTH IN RENTER DEMAND WILL CONTINUE

Strong demand projected into the next decade

- Under a scenario of constant homeownership rates, JCHS household projections suggest that growth in the adult population alone will be enough to drive the addition of more than 4.4 million renter households by 2025.

THE NATION'S RENTAL HOUSING STOCK IS DIVERSE

The majority of the rental stock is found in small multifamily and single-family structures

- Nearly one-fifth of rental units are in multifamily buildings with 2–4 units, while one quarter are in buildings with 5–19 units, and 18 percent are in large rental buildings with 20 or more units, according to the 2013 American Housing Survey.
- Single-family homes make up nearly two-fifths of the rental stock, and are a significant source of rental housing across central cities, suburbs, and non-metro areas.

Small multifamily buildings are more likely to offer lower-cost and family-sized units

- Over one third of units in buildings with 2–4 units rent for less than \$600 a month, compared to just 27 percent of units located in buildings with 50 or more units.
- Nearly two-thirds (65 percent) of single-family rentals and 19 percent of apartments in buildings with 2–4 units have at least three bedrooms, compared with just 9 percent of apartments in buildings with five or more units, according to the 2013 American Housing Survey.

Despite the recent surge in older renters, the rental stock is not prepared to meet growing accessibility needs

- According to the 2011 American Housing Survey, less than 1.0 percent of US rentals—roughly 365,800 units—include five basic universal design features that make housing accessible to those with impaired mobility: no-step entry, single-floor living, lever-style door handles, accessible electrical controls, and extra-wide doors and hallways.

MULTIFAMILY CONSTRUCTION IS RETURNING TO PRE-CRISIS LEVELS

Multifamily housing starts are rising

- Multifamily starts were at a 401,000 unit annual rate in the first nine months of 2015, more than 3.5 times the all-time low of 108,900 units in 2009 and higher than at any point since the 1980s.
- The pace of multifamily permitting exceeds pre-crisis levels in more than a third of the nation's 100 largest metros. Markets leading growth in permitting included San Jose, Austin, Houston and Dallas. Permitting has also rebounded strongly in Denver, Nashville, Raleigh, Seattle, Portland, Boston, Philadelphia, and Washington, DC.

NEW CONSTRUCTION HAS ADDED TO THE HIGHER-RENT STOCK, WHILE FILTERING SUPPORTS MODERATE- AND LOWER-RENT UNITS

Newly constructed units ask higher rent and are found in larger structures

- The median rent for a newly constructed apartment unit was \$1,372 in 2014, compared to a median rent of \$934 among the overall stock of rental units.
- Buildings with 20 or more units accounted for 49 percent of all multifamily rentals built between 2003 and 2013, while small buildings with 2–4 units represented just 16 percent.

Conversions of existing units to the rental stock have boosted supply, especially at moderate and higher rent levels

- According to the American Housing Survey, there was a net gain of 3.8 million rental units converted from the owner-occupied stock between 2003 and 2013, including 3.0 million single-family detached units.
- Conversions tend to be targeted to moderate and higher-income renters as they increased the total number of units renting for \$400-\$799 by 9 percent and those renting for \$800 and over by 17 percent from the 2003 level.

The lower cost stock has expanded through filtering, but units are more likely to face quality issues and be removed from the stock

- According to the American Housing Survey, the total number of units renting for under \$400 in real terms grew by only 10 percent between 2003 and 2013 on net, with much of this growth coming from filtering of higher-cost housing and lesser contributions from conversions of owner-occupied stock and new construction.
- Housing quality issues tend to be more prevalent among lower-cost rentals, with 12 percent of units renting for less than \$400 a month having structural or maintenance problems compared with 7 percent of units renting for at least \$1,000 a month.
- Eleven percent of units renting for under \$400 per month in 2003 were permanently lost from the housing stock by 2013.

RENTAL MARKETS ARE TIGHTENING ACROSS THE COUNTRY

Vacancy rates are down and rents are up

- The national rental vacancy rate averaged 7.1 percent in the first three quarters of 2015, its lowest point in 30 years and down from a record high of 10.6 percent in 2009.
- The consumer price index for contract rents shows an average nominal growth rate of 3.5 percent for the 12 months ending September 2015.

- Rents for professionally managed apartment rents grew even faster – according to MPF Research’s same-store measure, nominal apartment rents were up at a 5.6 percent annual rate in the third quarter of 2015.
- All major metro areas saw rent growth exceed overall inflation in the third quarter of 2015. Year-over-year increases in markets in the South and West were especially large, with real rents in 32 metros climbing 5.0 percent or more.

RENTAL PROPERTIES ARE PROVIDING STRONG RETURNS FOR DIVERSE INVESTORS

Apartment returns and prices are rising while cap rates are falling

- According to National Council of Real Estate Investment Fiduciaries data, annual returns on apartment properties increased to 12.0 percent in the third quarter of 2015—well above the 9.5 percent rate averaged since 1984.
- Moody’s Commercial Property Price Index for apartments rose by 15.2 percent in the past year, and indicates apartment prices are fully a third higher than their pre-crisis peak. Price appreciation has been substantial in many areas, particularly in Northeastern and West Coast metros as well as Denver, Dallas, Houston, and Austin, according to Real Capital Analytics data.
- Cap rates for investment grade properties declined to just under 5 percent in mid-2015, a level not seen since the peak of the housing bubble.

Rental property ownership is diffuse

- Owners of smaller multifamily rental properties are primarily individuals and trusts, with this group owning 87 percent of rental properties with 2–4 units.
- Among larger properties, the 10 largest investors own only about 6 percent of units in structures with 5 or more units as of 2014.

MULTIFAMILY DELINQUENCY RATES ARE DOWN AND LENDING IS UP

As performance improves, private investors are returning to the market

- The share of multifamily loans held by FDIC-insured institutions that were at least 90 days past due or in non-accrual status declined to just 0.34 percent in the second quarter of 2015, compared with 4.65 percent at the peak in 2010.
- The Mortgage Bankers Association (MBA) reports that the volume of multifamily loans outstanding hit \$1 trillion in 2015. Multifamily lending by the private sector increased by 68 percent from 2012 to 2014, meanwhile lending backed by Fannie Mae and Freddie Mac increased by just 5 percent, and lending by FHA fell 29 percent.

HOUSING AFFORDABILITY IS A CHALLENGE FOR MANY RENTER HOUSEHOLDS

As renter housing costs and incomes have diverged over the past decade, cost burdens have increased

- Renters continue to be squeezed by affordability pressures as median renter housing costs rose to \$934 per month in 2014, up 7 percent in real terms since 2001, while the median renter annual household income was \$34,000, down 9 percent in real terms since 2001, according to the American Community Survey.
- The number of renters facing housing cost burdens (spending more than 30 percent of income on housing costs) reached a new high of 21.3 million in 2014, including 11.4 million renter households with severe cost burdens (spending more than 50 percent of income on housing), also a record level.
- Nearly half (49.3 percent) of all renter households spent more than 30 percent of income on housing in 2014, including more than one quarter (26.4 percent) who devoted more than half of income to housing.
- At least 37 percent of renter households in each state were cost-burdened in 2014, with the highest shares of 54 percent or more in Florida, California, and Hawaii.
- Among the 100 most populous metro areas, eight of the ten with the highest share of cost-burdened renters are in Florida and California, with the highest share of nearly 62 percent in Miami.

Low-income renters are nearly universally cost-burdened, and affordability pressures are moving up the income scale in high-cost metros

- Just under 84 percent of renter households with incomes below \$15,000 – equivalent to full-time work at the federal minimum wage – were cost-burdened in 2014, with 72 percent facing severe cost burdens (spending more than half of income on housing).
- Over 77 percent of renters with incomes between \$15,000 and \$30,000 were cost-burdened in 2014, 37 percent severely so.
- Over half of moderate-income renters earning between \$30,000 and \$45,000 were cost-burdened in 2014 in high-cost areas including Washington, DC, San Francisco, Los Angeles, New York, Miami, Boston, Seattle, Philadelphia, Atlanta, and Chicago.

Extremely low-income renters face an absolute shortage of affordable units, especially in the private market

- As of 2013, 11.1 million extremely low-income renters (earning up to 30 percent of the area median) could find only 7.2 million units affordable to them, according to the US Department of Housing and Urban Development.

- Excluding units that were physically inadequate or occupied by higher-income renters, there were just 34 affordable rentals for every 100 extremely low-income renters in 2013.
- The average county with a population of 500,000 or more provided only 25 affordable, adequate, and available units for every 100 extremely low-income renters in 2013, with 21 of these units receiving federal housing assistance and only 4 offered by the private market.

FEDERAL HOUSING ASSISTANCE SUPPORTS MILLIONS OF RENTER HOUSEHOLDS, BUT FALLS SHORT OF NEED

Additions to the assisted stock are blunted by funding shortages

- The US Treasury Department's Low Income Housing Tax Credit (LIHTC) program is the primary public funding source for additions to the affordable rental stock, helping to add or preserve more than 2.2 million subsidized units since its inception in 1986.
- Despite an 18 percent jump in the number of very low-income households (earning up to 50 percent of the area median) from 15.9 million in 2007 to 18.5 million in 2013, real funding for the largest HUD programs remains below 2008 levels.
- Although the number of units with voucher assistance rose from under 2.1 million in 2004 to 2.2 million in 2014, this increase was more than offset by the loss of 105,700 public housing units and 145,600 units with project-based rental assistance.
- Federal funding for necessary repairs to the nation's aging public housing stock continues to decline—appropriations for the public housing capital repairs program fell in real terms from about \$2.8 billion in FY2010 to just under \$1.9 billion in FY2015.

MANY ASSISTED UNITS ARE AT RISK OF LOSS FROM THE AFFORDABLE STOCK

Expiring contracts place affordability in jeopardy

- Affordable-use periods for nearly 2.2 million privately owned and federally assisted units will end between 2015 and 2025, with LIHTC units representing nearly 60 percent of rentals with expiring subsidies.
- Given the increased incidence of opt outs among properties with project-based rental assistance that have rents below the fair market rent, more than half (53 percent) of the units with this type of assistance are at risk of being removed from the affordable rental stock between 2015 and 2025.

ASSISTED RENTAL UNITS CAN BE HIGHLY CONCENTRATED IN DISADVANTAGED NEIGHBORHOODS

Public housing units are frequently located in high-poverty, high-minority neighborhoods

- In 2013, some 27 percent of public housing units were located in census tracts with poverty rates of at least 40 percent, compared with just 6 percent of all rental units.
- Four out of ten public housing units were located in census tracts where at least three-quarters of residents were black or Hispanic, in contrast to nearly one out of six rentals overall.

LIHTC and housing choice voucher units are found in a somewhat broader range of communities

- In 2013, just 10-12 percent of units assisted through LIHTC or housing choice vouchers were located in tracts with poverty rates of at least 40 percent.
- Thirty percent of LIHTC units and 27 percent of voucher units were in neighborhoods where at least three-quarters of residents are black or Hispanic.

ENERGY USAGE ADDS TO RENTER COSTS AND TO THEIR FOOTPRINT

Significant room remains to improve efficiency of the rental stock

- Among renters paying utilities separately from rent, the median household spent \$130 per month on utility costs in 2014, equivalent to 4 percent of income and 14 percent of housing costs.
- Older rentals remain less energy-efficient than newer ones; in 2009, rentals built in the 2000s consumed 28 percent less energy on average than those built before 1980.
- According to the most recent Residential Energy Consumption Survey (RECS), renters were responsible for more than a fifth (22 percent) of all residential energy use in 2009.

DATA

The Joint Center uses current data from the US Census Bureau, the Department of Housing and Urban Development, the US Energy Information Administration, the Bureau of Labor Statistics, the Federal Reserve, Fannie Mae, MPF Research, CoreLogic, Moody's Analytics, Moody's Economy.com, Moody's Investors Service, Real Capital Analytics, the Mortgage Bankers Association of America, the National Apartment Association, the National Multifamily Housing Council, the National Council of Real Estate Investment Fiduciaries, the Urban Institute, the National Low Income Housing Coalition, the National Housing Preservation Database, and the Center on Budget and Policy Priorities and others to develop its findings.