

Revisiting Rental Housing: Setting the Stage

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What is Renting?

Payment to property owner for right to occupy/use a home

Or

Permission to use a home granted by an owner without payment

How is Renting Different From Owning?

- Pure consumption v. combined investment and consumption motivation of ownership
- Third party bears risks and responsibilities of property ownership (opportunities to build and lose assets)
- Sharply lower transactions costs of moving because property is not transferred- property purchase and sale is unnecessary
- Sharply lower tax benefits, especially compared to owners who benefit from itemizing deductions and with capital gains
- Landlord screening and upfront cash requirements generally lower than lender underwriting standards and cash to close
- Right to move if property is improperly maintained rather than cover costs of upgrades or maintenance
- Both: Face risk of losing home for failure to meet financial obligation, can contract (through rent or association fees, etc.) for maintenance and services for convenience, and can be high or low density

Why is Renting an Important Option?

- Reduces transactions costs and provides less of a barrier to moving– attractive to those who plan to move shortly
- Allows people to avoid risks and responsibilities of property ownership – attractive to risk averse individuals and at times of higher risk of price declines
- Provides opportunities for residential real estate risk to be pooled, diversified and professionally managed – a way to transfer risk to those better able to manage it
- More accessible because no mortgage is necessary to rent – it is the only option for some
- Rents are set in a competitive market while costs of ownership are idiosyncratic owing to mortgage decisions and pricing – renting can be a better deal for those with no or impaired credit histories
- As a practical matter, best choice of those seeking convenience and those with special needs

What Outcomes of the Operation of Rental Markets Are Cause for Concern?

- Rental affordability problems
- Concentration of rentals in and near city centers
- Concentration of poor renters and neighborhood decline
- Special housing needs of seniors, persons with disabilities, and the homeless
- Rental housing quality and crowding problems

What Forces Gives Rise to These Concerns?

- Structure of the economy
- Development, land use, and building regulations
- Spatial processes
 - Community preferences based on race and class
 - Institutional barriers
 - Balkanization of metropolitan political geographies
 - Relative costs of greenfield v. infill and brownfield development
 - Investment decisions of neighboring owners/tipping points
 - Home-voter interests
- Nature of the social safety net
- Incidences of frailties and disabilities, and needs
- Past and present codes, code enforcement practices, and hazard remediation costs
- Public investment decisions

Why Are These Concerns Important?

- Equity
- Serving the needs of the vulnerable
- Human costs and tradeoffs
- Social and public costs

Getting Beyond Old Debates

- Production v. tenant-based assistance
 - From versus to if, when, and where
- Revitalize poor areas v. disperse the poor
 - Redevelop distressed areas, aim for mixing of income, and aid displaced residents
 - Create more opportunities to move rental aid recipients to areas of opportunity *and* support transitions
- From “if” to “how”
 - How to design and implement programs to maximize their effectiveness
 - Emphasize policy experimentation and evaluation
- Preservation v. production
 - Preserve where possible and it is the lower cost option
 - Produce where preservation is not an option or not the lowest cost option

New Directions

- Rental housing in support of multiple policy goals
 - Enhance anti-poverty efforts
 - Build assets and encourage savings
 - Reduce concentration of poverty
 - Anchor neighborhood redevelopment
 - Strengthen families and childhood outcomes
 - Reduce needless public health and safety costs
 - Build rental housing near growth in low-wage jobs to reduce vehicle trips and miles
 - Promote informed tenure choices
- Preservation and prevention of deterioration of *unsubsidized and the smaller* rental housing stock
- Mix incomes and address work incentives

Tackling Critical Issues and Questions

- Is rental affordability an income problem, housing problem, or both? How does this bear on policy formulation?
- How important are development and land use regulations in generating rental housing concerns?
- Does housing assistance create disincentives to work and, if so, what can we do about it?
- Should government policy direct resources to moderate-income renters as well as low and very-low income residents?
- Can rental assistance be used to achieve the multiple objectives increasingly expected of it? If so, how?
- How effective can government programs be in addressing spatial outcomes given the forces that produce them?
- What is the best way to overcome local resistance and restrictions? Playing within the rules or altering the rules?
- Does nonprofit status confer special advantages over similarly well managed and mission-motivated for-profits? Enough to justify public investment in them?
- What role should each level of government play?