

Joint Center for Housing Studies of Harvard University

Graduate School of Design
John F. Kennedy School of Government

Funding for this report was provided by the MacArthur Foundation and the Policy Advisory Board of the Joint Center for Housing Studies.

©2006 President and Fellows of Harvard College.

The opinions expressed in *America's Rental Housing—Homes for a Diverse Nation* do not necessarily represent the views of Harvard University, the Policy Advisory Board of the Joint Center for Housing Studies, or the MacArthur Foundation.



INTRODUCTION AND SUMMARY

In any given year, some 34 million US households make their homes in rental housing. Like the general population, renters are highly diverse in demographic and income terms, as well as in their reasons for residing where they do. Equally diverse is the nation's \$2.7 trillion rental stock, as is the mix of property owners, investors, builders, developers and managers involved in this vital sector of the national economy.

Adding another layer of complexity is the wide variety of public policies that govern rental housing, ranging from national efforts to expand access to affordable units for low-income families, to local land use regulations that limit the construction of apartments in many affluent neighborhoods. Because of the fundamental importance of the rental sector to quality of life for fully a third of American households, reexamining these federal, state and local policies is an essential step in ensuring that every individual is able to live in a decent and affordable home.

DIVERSITY OF DEMAND

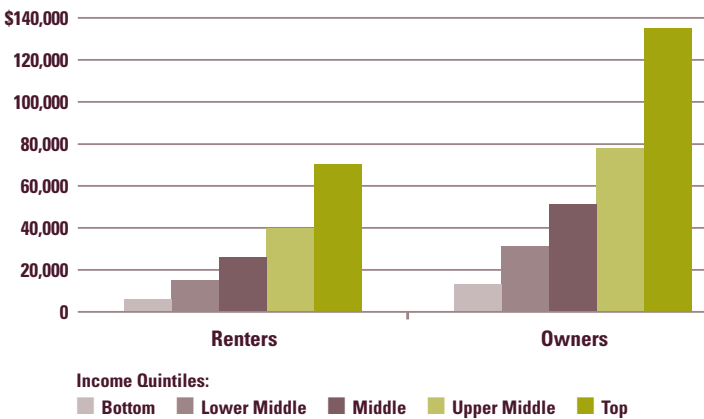
Like most segments of the American economy, the rental market is increasingly divided between the haves and have-nots. Indeed, 20 percent of all renters have median annual incomes that top \$60,000 while 20 percent have incomes below \$10,000 (Figure 1).

Many higher-income renters could buy homes but prefer to rent because they want to maintain a flexible lifestyle, with easy access to work and the amenities of the city. Others rent because they want to take advantage of the low transactions costs, at least relative to those involved in homeownership. Still others rent to avoid the risk of a potentially volatile home purchase market.

For working families with more modest incomes, rental housing provides a place to live during such life transitions as a job change or divorce. Renting also enables households to save to purchase a home. In combination with higher-income renters, these “middle market” households are sufficient in number and purchasing power to support a viable market for the construction, maintenance, and management of good-quality rental housing.

For those at the bottom of the income distribution, though, renting is not a matter of choice. Indeed, some 70 percent of the nation's 7 million lowest-income renters pay more than half their incomes for housing. This leaves almost nothing to

FIGURE 1 Many Renters Have the Incomes to Own
Median Income (2003 dollars)



Note: Income quintiles defined separately for owner and renter households.
Source: JCHS tabulations of the 2003 American Housing Survey.

cover food, medicine, and other essentials, let alone for education, retirement savings, and other investments that would secure their futures.

INVENTORY DYNAMICS

Even with the dramatic rise in homeownership, the number of renter households has held more or less steady at 34 million over the past decade, thanks primarily to the rapid pace of immigration. In fact, without this influx of foreign-born households, the number of renters would have fallen by over 2 million (or 5 percent) from 1993 to 2003 instead of rising modestly by 118,000.

Despite the weak growth of demand, nearly 3 million new rental units were built between 1994 and 2003 (Figure 2). New construction was strongest in the rapidly growing suburbs of major metropolitan areas, especially in the South and West. Most of these newly built units target the upper-end of the market, providing the additional space and amenities intended to make renting an attractive alternative to homeownership.

At the other end of the spectrum, the Low-Income Housing Tax Credit program (LIHTC) currently adds as many as 90,000 units each year for lower-income renters. These gains have not, however, offset the ongoing losses of other subsidized units either through demolition or through the “opt outs” of program participants.

Losses of older, lower-quality apartments in the private market are exacerbating the shortage of affordable rentals. Some 2 million low-cost units were razed and/or withdrawn from the rental housing inventory between 1993 and 2003. As a result, the number of units renting for less than \$400 in inflation-adjusted terms shrank by more than a million over the decade—a drop of nearly 13 percent.

While preservation efforts have focused primarily on subsidized units, stemming the loss of low-cost unsubsidized rentals is equally urgent. Indeed, about two-thirds of all lower-income families live in privately owned rental properties—typically older, smaller multifamily buildings and single-family homes.

Unfortunately, much of this inventory is owned by individuals without the skill and resources to manage their properties profitably. And when their rental units cannot generate enough revenue to cover basic operating costs, these owners have little choice but to cut back on maintenance and repairs. The decision to disinvest is the first step toward the property’s eventual removal from the inventory—but not before its general deterioration threatens the safety and well-being of any remaining tenants and brings down property values and investment throughout the neighborhood.

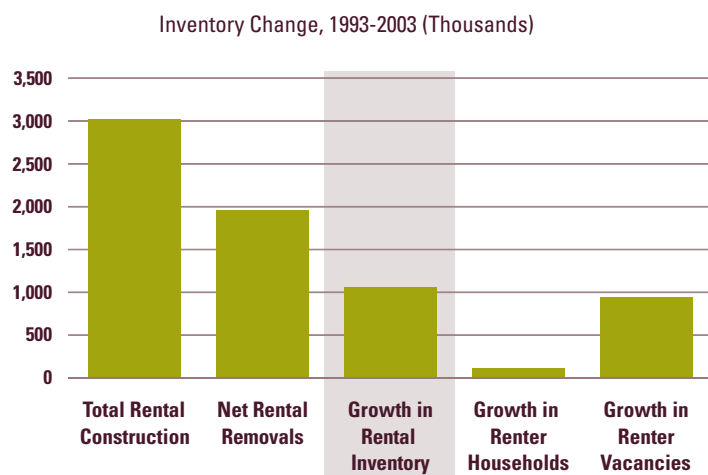
SIDE-EFFECTS OF SPRAWL

The spatial distribution of housing reflects the long-term movement of population and employment away from urban centers. Homeowners have led the way, increasing their median distance from the central business districts (CBDs) of the nation’s 91 largest metropolitan areas from 9.8 miles to 13.8 miles in just the past three decades. The comparable increase for renters is much more modest, up from 7.4 miles to 9.4 miles. As a result, renters are more geographically concentrated today than homeowners were 30 years ago (Figure 3).

While many forces are driving these development patterns, local land use regulations play a prominent role. For example, many suburban and outlying communities impose density restrictions that prevent the construction of affordable rental housing. The vestiges of housing market discrimination also contribute to the problem, with many minority renters preferring to remain in urban enclaves rather than move to potentially hostile neighborhoods in the suburbs.

Many lowest-income renters thus remain stuck in older, high-density apartments close to the urban core. This isolation is reinforced by the concentration of public and other types of

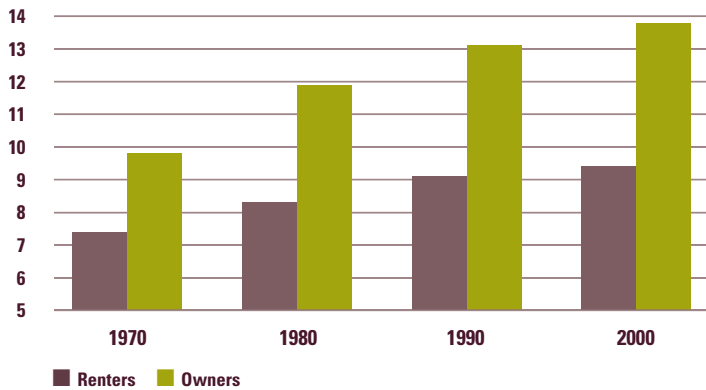
FIGURE 2 New Construction Has Done Little to Augment the Rental Inventory



Note: Net removals equal total new construction minus change in households and vacant units.
Source: Table A-7.

FIGURE 3**Renters Lag Owners in the Move Away from Central Locations**

Median Distance from the CBD (Miles)



Source: Table A-3.

assisted housing in central locations. Black households are particularly affected, with half of all renters living less than 7.4 miles from the center city—closer than both white and Hispanic renters, and twice as close as white homeowners.

AFFORDABILITY PRESSURES

Over the coming decade, the continued strength of immigration and growth in the number of young minority households alone should keep rental demand on the rise. The Joint Center for Housing Studies currently projects that the number of renter households will increase by more than 1.8 million over the 2005–2015 period. This expanded demand will support modest growth in apartment construction in the years ahead.

This is good news for the rental construction industry, which is only now recovering from a period of record vacancies and production cutbacks. But with the demolition of 200,000 of units each year, new rental construction will not, by itself, limit the upward pressure on rents.

Indeed, in many higher-cost locations, even full-time workers are already paying disproportionate shares of their earnings for rent. According to the National Low Income Housing Coalition, workers in the vast majority of metro and non-metro area counties must earn two or three times the minimum wage—or live in households with multiple wage-earners—to afford a modest two-bedroom apartment. Little wonder, then, that some 7.5 million renters (or 22 percent) pay more than half their incomes for housing. Single-parent

families, seniors, and singles of all ages are especially likely to be so severely cost-burdened.

POLICY PRIORITIES

In recent years, policymakers have come to view homeownership as the cure for a host of social ills, largely ignoring the important role that the rental sector plays in housing our increasingly mobile and diverse population. While many Americans do indeed share the dream of buying a home, millions of families have a much more urgent need for good-quality rental housing that they can afford.

A more balanced policy approach should therefore focus on the larger goal of expanding access to decent and affordable housing for owners and renters alike. A good place to start is to reduce the barriers that prevent lower- and moderate-income households from moving up the economic ladder. While some progress has been made in creating service-enriched housing for the nation’s seniors, most lower-income families—and especially families with children—still lack access to good-quality schools, health and human services, transportation, and other workforce development resources that are essential to their advancement. Given that these resources are found primarily in affluent suburban communities, efforts must continue to loosen restrictions on the development of affordable, higher-density rental housing in these locations.

Preserving older, lower-cost, small multifamily and single-family rentals is also essential. Accessing capital for this submarket involves many of the same complexities as for large multifamily properties, but without the scale to spread the financing and underwriting costs. The lack of available financing options for small property owners calls for new financial products—on both the debt and equity sides of the ledger—to help fund investment in much-needed maintenance and repairs, or transfer control to more experienced owners.

Without increased resolve to bolster the earning capacity of lowest-income renters and to expand the supply of lower-cost rental housing, the affordability crunch will only worsen in the years ahead. It will take the combined efforts of both for-profit and not-for-profit entities, working with governments at all levels, to ease the housing cost burdens of renters—and, by doing so, open the doors of economic and social opportunity to millions of American families.