After a decade of broad-based growth, renter households are increasingly likely to have higher incomes, be older, and have children. The market has responded to this shift in demand with an expanded supply of high-end apartments and single-family homes, but with little new housing affordable to low- and moderate-income renters. As a result, part of the new normal emerging in the rental market is that nearly half of renter households are cost burdened. Addressing this affordability challenge thus requires not only the expansion of subsidies for the nation’s lowest-income households, but also the fostering of private development of moderately priced housing.

RENTER HOUSEHOLD GROWTH IN A SLOWDOWN

Rental housing markets have seen an unprecedented run-up in demand over the last decade, with growth in renter households averaging just under one million annually since 2010. But the surge in demand now appears to be ending, with the three major government surveys reporting a sharp slowdown in renter household growth to the 136,000–625,000 range in 2016. Early indications for 2017 suggest a further deceleration, with one survey showing essentially no increase and another posting a substantial decline (Figure 1). While these estimates are notoriously volatile from year to year, the consistent trend across surveys provides some confidence that growth in renter households is indeed cooling.

The recent wave in renter household growth reflects in part the sharp drop in the national homeownership rate after 2004. While many factors drove that decline, the massive wave of foreclosures after the housing crash was a key contributor. This drag on homeownership has now eased. And with the economy near full employment and incomes on the rise, more households that want to buy homes are able to do so.

Still, the housing crisis no doubt generated renewed appreciation for the advantages of renting that will help sustain demand in the years ahead. Indeed, even as the homeownership rate stabilizes, renters are still likely to account for slightly more than a third of household growth. According to Joint Center projections, the number of renter households will increase by nearly 500,000 annually over the ten years from 2015 to 2025—a still robust pace by historical standards.

The sweeping changes in the nature of rental demand, however, seem likely to persist. In particular, renting now appears to have greater appeal for households that could afford to buy homes if they desired. In 2006, 12 percent of households earning $100,000 or more were renters. In 2016, that share exceeded 18 percent, a cumulative increase of 2.9 million renters in this top income category. Indeed, these high-income households drove nearly 30 percent of the growth in renters over the decade. Even so, renting remains the primary housing option for those with the least means. A majority (53 percent) of households earning less than $35,000 rent their housing, including over 60 percent of households earning less than $15,000.
In addition, renters are now much older on average than a decade ago, reflecting both an increase in middle-aged households that rent and the overall aging of the population. The median age of renters thus increased from 38 in 2006 to 40 in 2016. Although roughly a third of renters are under age 35, nearly as many are now age 50 and over.

With renting more common across age and income groups, renter households are more representative of the broad cross-section of US families. Most notably, families with children now make up a larger share of households that rent (33 percent) than own (30 percent). Married couples without children, in contrast, make up 37 percent of homeowners and just 12 percent of renter households. Single persons are still the most common renter household type, accounting for fully 37 percent of all renter households.

While whites accounted for a large share of the overall growth in renters, renter households are quite racially and ethnically diverse. Unlike homeowners, who are overwhelmingly white, renter households include a large share (47 percent) of minorities. At the same time, one in five renter households is foreign born, reflecting the importance of rental housing to new immigrants.

**EVOLUTION OF THE RENTAL SUPPLY**

Soaring demand sparked a sharp expansion of the rental stock over the past decade. Initially, most of the additions to supply came from conversions of formerly owner-occupied units, particularly single-family homes, which provided housing for the increasing number of families with children in the rental market. Between 2006 and 2016, the number of single-family homes available for rent increased by nearly 4 million, lifting the total to 18.2 million. While single-family homes have always accounted for a large share of rental housing, they now make up 39 percent of the stock.

More recently, though, growth in the single-family supply has slowed. The American Community Survey shows that the number of single-family rentals (including detached, attached, and mobile homes) increased by only 74,000 units between 2015 and 2016, substantially below the 400,000 annual increase averaged in 2005–2015. With this slowdown in single-family conversions and a boom in multifamily construction, new multifamily units have come to account for a growing share of new rentals. Indeed, completions of new multifamily units intended for rent averaged 300,000 annually over the last two years, their highest level since the end of the 1980s.

Much of this new housing is targeted to higher-income households and located primarily in high-rise buildings in downtown neighborhoods. Given that construction and land costs are particularly high in these locations, the median asking rent for new apartments increased by 27 percent between 2011 and 2016 in real terms, to $1,480. Using the 30-percent-of-income standard for affordability, households would need an income of at least $59,000 to afford these new units, well above the median renter income of $37,300.

At the same time, the supply of moderate- and lower-cost units has increased only modestly (Figure 2). While the share of new units renting for at least $1,100 jumped from 37 percent in 2001 to 65 percent in 2016, the share renting for under $850 shrank from just over two-fifths to under one-fifth. The lack of new, more affordable rentals is in part a consequence of sharply rising construction costs, includ-
In many cases, the supply of these so-called naturally occurring affordable rentals is replenished as rents on older housing fall due to aging and obsolescence. But with overall rental demand strong, particularly in centrally located communities, rents for an increasing number of once-affordable units have become out of reach for lower-income households. At the same time, the rents charged for units in neighborhoods with weak demand may not support adequate maintenance, leaving those rentals at risk of deterioration and loss. Given the lack of new construction of lower-cost rentals, preserving the existing stock of privately owned affordable units is increasingly urgent.

**RENTAL MARKETS AT A TURNING POINT**

Rental construction led the housing recovery, rebounding nearly four-fold from the market trough in 2009 to 400,000 units in 2015—the highest annual level since the late 1980s. But after moving sideways in 2016, the pace of multifamily starts has fallen 9 percent through October 2017. The slowdown has occurred in markets across the country, but is most evident in metros where multifamily construction had been strongest.

In addition to the slowdown in construction, a variety of measures suggest that the rental boom is cresting. RealPage reports increasing slack in the professionally managed apartment market, with vacancy rates rising over the past year in 94 of the 100 metros tracked. The clearest signs of loosening are in the higher-priced Class A segment, where the vacancy rate was up 1.5 percentage points year over year in the third quarter of 2017, to 6.0 percent (Figure 3). Vacancy rates in the lower-cost Class C segment also rose but remain quite low at 4.1 percent.

Apartment rents are also increasing more slowly in all three segments of the market (Figure 4). This deceleration has appeared in all four regions of the country and in large and small markets alike. Even so, conditions in selected markets—particularly smaller metros and locations in the Midwest, such as Cincinnati and Minneapolis—were still heating up.

Over the last six years, increases in the median rent have exceeded inflation in non-housing costs by more than a full percentage point annually, with the largest gains in the South and West. Median rents have risen at twice the national pace in markets with rapid population growth, such as Austin, Denver, and Seattle. And within these fast-growing metros, rents in previously low-cost neighborhoods rose nearly a percentage point faster each year than in high-cost neighborhoods.

Meanwhile, rental property owners continue to benefit from still healthy increases in operating incomes and property values. According to the National Council of Real Estate Investment Fiduciaries, net

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**Notes:** Recently built units in 2001 (2016) were constructed in 1999–2001 (2014–2016). Monthly housing costs include rent and utilities and are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items Less Shelter. Data exclude vacant units and units for which no cash rent is paid.

operating incomes were up 3.8 percent in the third quarter of 2017 from a year earlier. In addition, Real Capital Analytics reports that real apartment prices climbed 6.3 percent in the second quarter of this year. Although declining, rates of return on investment remained relatively strong at 6.2 percent. The pace of investment, however, appears to be slowing, with the volume of large international and institutional deals falling in many major apartment markets.

Even so, multifamily financing remains at an all-time high. According to the Mortgage Bankers Association, the volume of outstanding multifamily mortgage debt increased by about 20 percent in 2015–2016, rising to nearly $1.2 trillion in early 2017. Federally backed debt rose by 25 percent, while bank and thrift lending was up 29 percent. Meanwhile, multifamily loan delinquencies are extremely low. Some caution appears to be creeping into the market, however, with the latest Federal Reserve loan officer surveys pointing to tightening credit and slowing demand.

SLIGHT EASING OF AFFORDABILITY PRESSURES
With the economy continuing to improve and income growth accelerating, the share of renters with cost burdens (paying more than 30 percent of income for housing) fell in 2016 for the fourth time in five years, to 47 percent (Figure 5). The number of cost-burdened renters also fell for the second consecutive year, declining from 21.3 million in 2014 to 20.8 million in 2016, with the number of severely burdened households (paying more than 50 percent of income for housing) dipping from 11.4 million to 11.0 million. However, this progress comes only after a decade of steep increases. At the average rate of improvement from 2014 to 2016, it would take another 24 years for the number of cost-burdened renters to return to the 2001 level.

The high incidence of cost burdens reflects the divergent paths of rental housing costs and household incomes. Between 2001 and 2011, median rental housing costs rose 5 percent in real terms while median renter incomes dropped 15 percent. Since 2011, however, real housing costs have increased 6 percent while income growth has picked up 16 percent (due in part to the increasing share of renters with higher incomes). But even with the recent turnaround in incomes, the cumulative increase in rental housing costs since 2001 has been far larger.

The rental market thus appears to be settling into a new normal where nearly half of renter households are cost burdened. An important element of this trend is that more middle-income renters are spending a disproportionate share of income for housing. Indeed, the share of renters earning $30,000–45,000 with cost burdens jumped from 37 percent in 2001 to 50 percent in 2016, and the share earning $45,000–75,000 nearly doubled from 12 percent to 23 percent.

In addition, the cost-burdened share of lowest-income households (earning less than $15,000) was still a stunning 83 percent, with the vast majority experiencing severe burdens.

Given the fundamental need for shelter, rent is typically the first bill paid each month. High housing costs erode renters’ purchasing power, leaving little money left over for other essentials such as food, childcare, and healthcare. In 2016, the median renter in the bottom
income quartile had just $488 per month to spend on other essentials—18 percent less than in 2001 after adjusting for inflation. The added costs of utilities and transportation further strain household budgets. Low-income households with children and older adults with severe rental cost burdens are in a particularly precarious position and may be unable to afford other goods and services that are critical to health and well-being.

**SHORTFALL IN RENTAL ASSISTANCE**

Need for housing assistance continues to grow. HUD’s Worst Case Housing Needs 2017 Report to Congress shows that the number of very low-income households receiving rental assistance increased by 600,000 from 2001 to 2015. Over the same period, the number of very low-income households (making less than 50 percent of area median) grew by 4.3 million, with extremely low-income households (making less than 30 percent of area median) accounting for more than half (2.6 million) of this increase. As a result, the share of renters potentially eligible for assistance and that were able to secure this support declined from 28 percent to 25 percent (Figure 6). Meanwhile, the share of very low-income renters facing worst case needs—that is, paying more than half their incomes for housing and/or living in severely inadequate units—increased from 34 percent to 43 percent.

Making matters worse, much of the subsidized rental stock is at risk of loss either due to under-maintenance or expiring affordability periods. Public housing is particularly under threat, with a backlog of deferred repairs last estimated at $26 billion in 2010. In fact, the number of occupied public housing units fell by 60,000 between 2006 and 2016. The Rental Assistance Demonstration (RAD) program was launched in 2012 to convert public housing into long-term project-based Section 8 contracts in order to provide more flexible financing for improvements. The RAD program quickly reached its initial cap of 60,000 units, which has since been increased to 225,000 units.

The two main sources of rental housing assistance are the Housing Choice Voucher and Low Income Housing Tax Credit (LIHTC) programs. Vouchers enable recipients to choose units on the open market as long as they meet rent and quality standards. Despite a 6.8 percent increase in funding between 2011 and 2016, rising rents kept growth in the number of voucher holders to just 5.8 percent.

In contrast, the LIHTC program provides funding for new construction as well as rehabilitation and preservation of existing assisted housing. In recent years, the LIHTC program has supported 70,000 affordable rental units per year, with roughly 55 percent added through new construction. But over the next decade, nearly 500,000 LIHTC units, along with over 650,000 other subsidized rentals, will come to the end of their required affordability periods. The need for funding to help rehabilitate and preserve this important stock will fuel significant demand for LIHTC funding, thus limiting opportunities to build new affordable rentals.

In recognition of the important role that the LIHTC program plays, the Congress is considering a bipartisan proposal to expand funding while also introducing reforms that would improve the ability of the program to serve both lower- and moderate-income households.
in high-cost markets. However, tax reform proposals also under debate call for elimination of the 4 percent LIHTC program, which accounted for just under half of production in 2015.

**THE CHALLENGE OF REBUILDING AFTER DISASTERS**

The series of disasters this past year—including devastating hurricanes in Texas, Florida, and Puerto Rico, and massive wildfires in densely populated areas of California—have affected millions of owners and renters alike. A key lesson from previous disasters is that rental property owners are slower than homeowners to rebuild or replace their units. For example, five years after Hurricanes Katrina and Rita ravaged the Gulf coast, three-quarters of severely damaged owner-occupied housing in Louisiana and Mississippi had been rebuilt, compared with only 60 percent of small rental properties.

A recent report by the Community Preservation Corporation recommends a series of improvements to the federal disaster response process, including provision of additional housing vouchers to help displaced renters and special allocation of LIHTC authority to speed rebuilding of affordable housing. The study notes that the awarding of additional LIHTC authority supported development of 30,000 rentals on the Gulf Coast after Katrina. In contrast, the Northeast was without similar authority after Hurricane Sandy and has subsequently struggled to rebuild its affordable stock.

The incidence and severity of natural disasters is on the rise. In developing their recovery plans to improve resiliency after such events, governments at all levels must keep in mind the needs of renters—particularly very low-income renters—for replacement housing.

**THE OUTLOOK**

Slower growth in rental housing demand could be good news if it helps to check the rapid rise in rents. But even if the homeownership rate stabilizes near current levels, the number of renter households is likely to continue to increase at a healthy clip, driving up the need for additional supply. And given that a broader array of households has turned to renting, this also means a growing need for a range of rental housing options.

With the divergence between housing costs and household incomes after 2001, cost burdens are a fact of life for nearly half of all renters (Online Figure 1). The lack of affordable rental housing is a consequence of not only strong growth in the number of lower-income households, but also steeply rising development costs. The complex set of forces driving these increases includes the escalating costs of inputs and a lack of innovation in production methods, the design of homes, and the means of financing housing. Addressing all of these challenges requires action on the parts of both the public and private sectors. Government at all levels has a role to play in ensuring that the regulatory environment does not stifle much-needed innovation, and that tax policy and public spending support the efficient provision of moderately priced housing. Industry has its own part to play in fostering and advancing new approaches.

However, the market simply cannot supply housing at prices affordable to the nation’s lowest-income households. The best means of supporting these families and individuals depends on both local market conditions and the value placed on other policy goals, such as helping to revitalize communities and improving the geographic distribution of permanently affordable housing. Another consideration for policymakers is to find ways for housing assistance programs to enable and encourage economic mobility.

While there is much to debate about the best approaches to pursue, the current level of rental housing assistance is grossly inadequate. It is concerning that discussions about federal tax reform have not addressed ways to expand the availability of affordable housing, and proposed measures could even erode the limited support that currently exists. As a growing body of evidence shows, the costs that poor-quality, unstable housing situations impose on individuals and families—as well as on broader society in terms of lost productivity and the strain on public budgets—are simply too high to ignore.