3 | RENTAL HOUSING STOCK

The nation's rental housing comes in all structure types, sizes, prices, and locations. But with the recent growth in high-income renter households, most additions to the stock have been at the upper end of the market. In contrast, the supply of rentals affordable to low- and moderate-income households has not kept pace with growth in demand, contributing to the spread of housing cost burdens. At the same time, the rising costs of land, materials, and construction make development of lower-rent units increasingly difficult.

SNAPSHOT OF THE RENTAL STOCK

JCHS analysis of the 2016 American Community Survey indicates that the rental stock comprises 47.1 million units, or 35 percent of the national housing supply. Just under 44 million of these units are currently occupied. Of the 3.4 million units that are vacant, 82 percent are available for rent while the remaining 18 percent are rented but unoccupied.

It is a common misconception that rental housing consists almost entirely of apartments in multifamily buildings. In fact, multifamily units account for 61 percent (28.9 million units) of the nation's rental stock, distributed across various-sized properties. Single-family homes make up a substantial—and, until recently, fast-growing—share of rentals **(Figure 14).** This stock includes 13.1 million detached homes, 2.9 million attached homes, and 2.1 million mobile homes, RVs, and similar dwellings.

Nearly half (46 percent) of all renter-occupied units are located in the principal cities of metro areas, 42 percent in surrounding suburban communities, and the remaining 12 percent in non-metro areas. Types of rental housing vary substantially by location, with large apartment buildings of at least 20 units concentrated in urban areas and single-family rentals found primarily in suburban and non-metro areas.

GEOGRAPHIC VARIATION IN SUPPLY

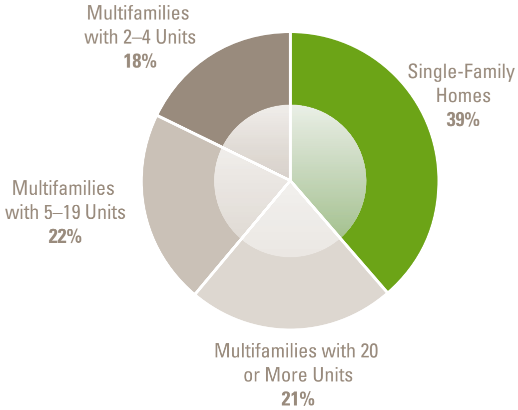
In the nation's 100 largest metros (home to almost 70 percent of all US households), detached single-family homes make up 24 percent of the rental stock while attached single-family units add another 7 percent. The remaining units are in multifamily structures, with 17 percent in small buildings of 2–4 units, 24 percent in mid-sized buildings of 5–19 units, and 25 percent in large buildings of 20 or more units. Mobile homes provide another 2 percent of the housing stock in the largest metros.

But given differences in topography, density of development, and average age of the stock, the mix of rental housing varies widely across metro and rural areas. For example, detached single-family

FIGURE 14

Single-Family Homes Now Account for Well Over One-Third of the Nation's 47 Million Rental Units

Share of National Rental Stock

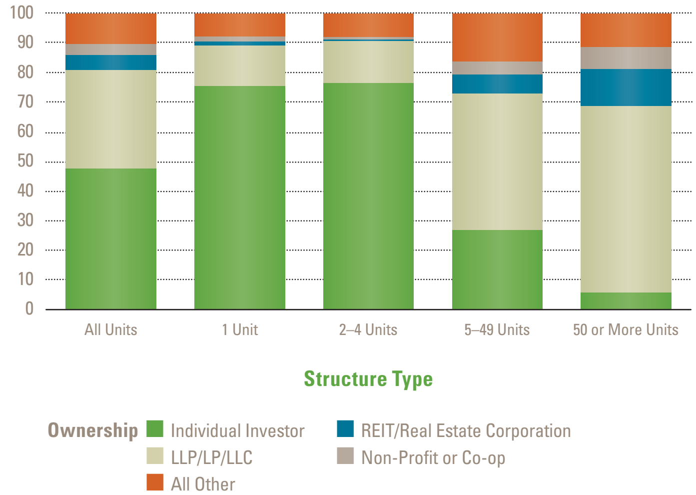


Notes: Stock estimates include renter-occupied units, vacant units for rent, and rented but unoccupied units. Single-family homes include detached and attached units, mobile homes, and units such as RVs and boats.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates.

FIGURE 15

Individual Investors Are the Largest Owners of Rental Stock, with Most of Their Units Concentrated in Small Buildings

Share of Rental Units (Percent)



Note: All other includes tenants in common, general partnerships, trustees for estate, and units for which ownership was not reported.
Source: JCHS tabulations of US Census Bureau, 2015 Rental Housing Finance Survey.

rentals make up just 8 percent of rentals in Boston, but 51 percent in Stockton **(Online Figure 2).** Over a third (35 percent) of Boston's rental stock consists of units in buildings with 2–4 apartments. Another 22 percent of rentals are in buildings with 5–19 units, 29 percent are in buildings with 20 or more units, and the remaining 6 percent are divided between attached single-family homes (5 percent) and mobile homes and other structures (1 percent). In contrast, just over 10 percent of the rental units in Stockton are in buildings with 2–4 units, 14 percent are in buildings with 5–19 units, and slightly more than 12 percent are in buildings with 20 or more units. Attached single-family homes (10 percent of the rental stock) and mobile homes (just under 3 percent) are somewhat more common in Stockton than in Boston.

In rural areas (as defined by the US Census Bureau), the rental stock primarily consists of single-family homes. Indeed, almost three-quarters of rural rentals are single-family units. The highest concentrations of single-family rentals are in New Mexico (89 percent of the rural stock) and Oregon (86 percent). But even in states with the smallest shares (Massachusetts, New Hampshire, and Vermont), single-family homes still make up about half of rural rentals.

Mobile homes are also an important component of the rural rental stock, contributing fully 20 percent of rural rental housing nationwide. At the state level, however, mobile homes are much more common in the rural communities of South Carolina (39 percent of the stock) and North Carolina (36 percent) than in the rural areas of Hawaii (0.4 percent of the stock) and Massachusetts (2.0 percent).

OWNERSHIP OF RENTAL HOUSING

Individual investors are the largest group of rental housing owners, followed by business entities such as limited partnerships (LPs), limited liability companies (LLCs), and limited liability partnerships (LLPs). Individual investors primarily own single-family rentals and small apartment properties, while LPs, LLCs, and LLPs own a majority of large apartment properties. As a result, individuals own three-quarters of rental properties (74 percent) but just under half of the nation's rental units (48 percent), while business entities own 15 percent of rental properties but a third of units **(Figure 15).** Housing cooperatives and nonprofit organizations own 2 percent of rental properties and 4 percent of rental units, while real estate corporations and investment trusts own 1 percent of rental properties and 5 percent of rental units. The remaining 8 percent of properties and 10 percent of units are under other forms of ownership, such as trustee for estate, tenant in common, and general partnership.

The latest Rental Housing Finance Survey reports that the single-family ownership share of individual investors slipped from 83 percent in 2001 to 76 percent in 2015 as institutional investors gained a foothold in the market. But this decline in individual ownership likely overstates institutional investment in single-family rentals. Indeed, real estate corporations and investment trusts owned only 250,000 single-family rentals in 2015. In addition, many individual investors reportedly transferred ownership of their properties to LLCs in recent decades to protect against legal problems and to take advantage of tax benefits.

Along with shifting patterns of ownership, motivations for acquiring single-family rental units may have also changed. While there is little research available on this topic, one study suggests that prior to the housing market crash, the two major reasons that owners bought single-family rentals were as primary residences, which they then decided to rent, or as income-generating investments. However, the housing boom and bust encouraged more speculation in the single-family rental market, including by mom-and-pop owners, which may mark a shift in their expectations. Institutional owners also jumped into the single-family rental market after the bust, but their longer-term presence in the market is unclear.

Understanding the evolving nature and financial motivations of rental property owners is important for designing policies that protect naturally occurring affordable units that may be at risk of either under-investment and deterioration or of upgrading and gentrification. In both cases, these units would be lost from the low-cost stock.

BUILDING AGE AND ACCESSIBILITY

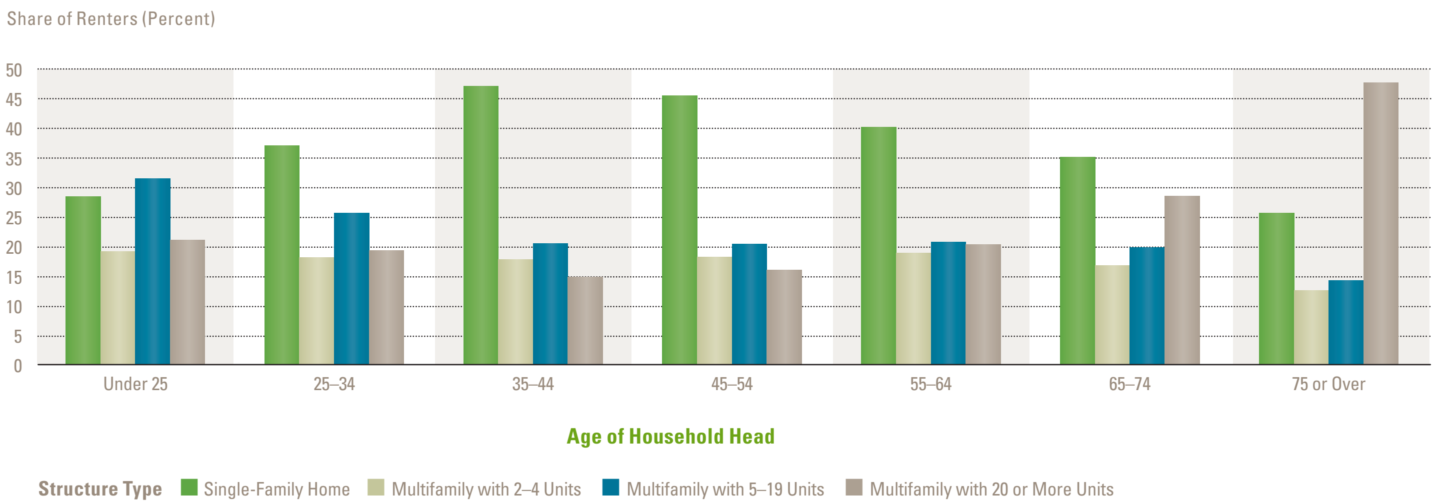
The median age of occupied rental units in 2015 was 42 years—somewhat higher than the median of 37 years for owner-occupied homes. The age gap between owned and rented units has been growing since 1985, when both types of units had an average age of 23 years. This disparity reflects the slowdown in rental construction in the 1990s following the booms of the 1970s and 1980s, as well as significant construction of owner-occupied housing in the early 2000s. In addition, a minor but still sizable share (8 percent) of rental housing was built before 1920. With the recent uptick in multifamily construction since 2015, however, the age gap between owned and rental units may be narrowing.

Today, the oldest units in the occupied rental stock are apartments in multifamily buildings with 2–4 units (median age of 51 years) and detached single-family homes (median age of 49 years). The typical renter-occupied single-family home is 10 years older than the typical owner-occupied home. Meanwhile, apartments in buildings with 20 or more units had a median age of 38 years in 2015, and the typical mobile home rental had the lowest median age of 29 years.

Older rental housing is more likely than newer housing to have quality and safety issues that may jeopardize the health of occupants. Under HUD definitions, 13 percent of occupied rental units built before 1940 have physical inadequacies, compared with 6 percent of units built in 1990 or later. Although overall inadequacy rates for renter-occupied housing are low (9 percent), they are still more than double those for owner-occupied homes (4 percent).

FIGURE 16

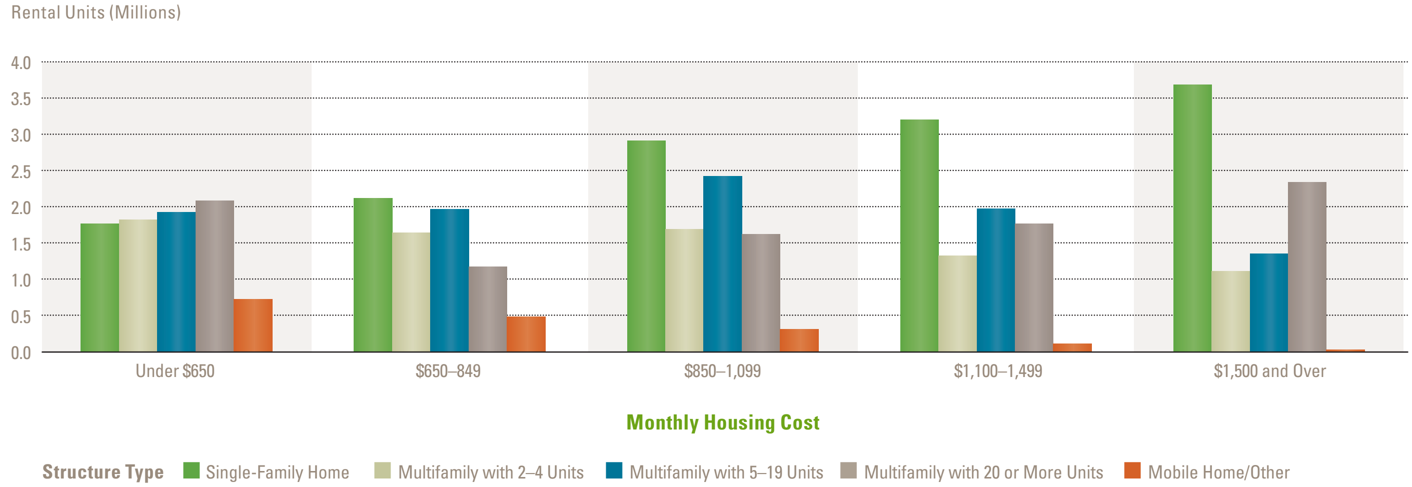
Larger Multifamily Properties Attract a Significant Share of Older Renters



Note: Single-family homes include detached and attached units, mobile homes, and other units such as RVs and boats.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates.

FIGURE 17

Low-Cost Rentals Are More Evenly Distributed Across Building Types than High-Cost Rentals



Notes: Monthly housing costs include rent and utilities. Rental units exclude vacant units and units where no cash rent is paid. Single-family homes include attached and detached units. Other structures include units such as boats and RVs.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates.

Another limitation of older rental units is that they are seldom accessible to households with mobility or other physical challenges. As of 2011, only 3 percent of rental units provided three basic universal design features (extra-wide hallways and doors, bedroom and bathroom on the entry level, and a no-step entrance). Newer and larger buildings, however, tend to offer more of these amenities: one-fifth of apartments in buildings with 50 or more units dating from 1990 or later provided all three features. Given that accessibility needs increase with household age, it is therefore unsurprising that about half of the renters age 75 and over live in larger apartment buildings (**Figure 16).**

Accessibility features are less common in the single-family and smaller multifamily rental stocks. Just 2.4 percent of renter-occupied detached single-family homes and apartments in buildings with 2–4 units have the three basic universal design features, along with 2.5 percent of attached single-family homes and 1.2 percent of mobile homes. The fact that the majority (52 percent) of renters in the 75-and-over age group live in single-family homes and apartments in small buildings is cause for concern because these rental units are unlikely to provide the accessiblity features that would enable tenants to age safely in place.

The availability of rentals with accessibility features varies by region. With its older stock of primarily small properties and multi-story structures, the Northeast has the lowest share of renter-occupied accessible units, with only 2.0 percent offering no-step entry, single-floor living, and extra-wide hallways and doors, followed by the South (3.3 percent), West (3.4 percent), and Midwest (3.6 percent). While no-step entries and single-floor living are more common in the South and West, in no region does the share of units with extra-wide hallways and doors exceed the single digits.

VARIATION IN RENTS

The median monthly housing cost (including rent and utilities) for all occupied rental units was $981 in 2016. Location is perhaps the strongest determinant of cost. In the high-priced San Francisco metro area, for example, well over half (62 percent) of occupied units rent for more than $1,500 per month, compared with 17 percent in mid-priced Dallas and just 5 percent in low-cost Cleveland **(Online Figure 3).** The median rent for a detached single-family home, typically the most expensive type of rental unit, was $2,125 in San Francisco, $1,240 in Dallas, and $920 in Cleveland.

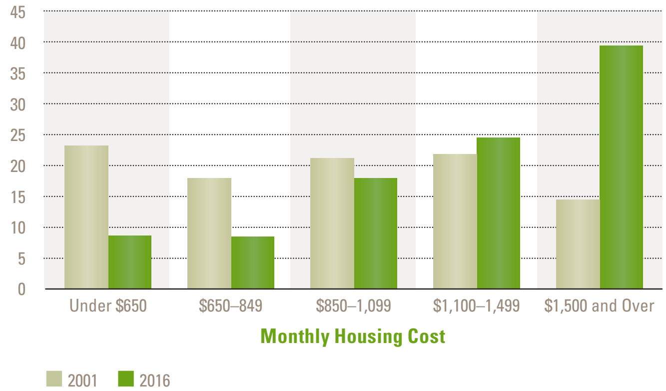
Monthly rents vary widely by structure type, ranging from $890 for apartments in buildings with 2–4 units, to $1,070 for those in buildings with 50 or more units, to $1,087 for single-family homes. Rents also vary with age of the home, with the newest ones (built in 2014 or later) commanding the highest median rents ($1,318) and those built in the 1970s the lowest ($915).

The low-cost stock (renting for under $650 per month, or roughly the bottom quintile for rents) consists of units in a broad mix of structure types **(Figure 17).** In 2016, the number of occupied low-cost rentals was distributed fairly evenly across structure types, with 1.8 million each in single family homes and buildings with 2–4 units, 1.9 million in buildings with 5–19 units, and 2.1 million in buildings with 20 or more units. Mobile homes account for another 724,000 low-cost units. In contrast, some 71 percent of higher-cost units (renting for at least $1,500 per month, or roughly the top quintile) are attached or detached single-family homes or in buildings with 20 or more units.

Rental apartments in buildings with 2–4 units are the most likely to be affordable, accounting for 22 percent of the lowest-cost stock but just 13 percent of the highest-cost supply. Multifamily buildings with 5–19 apartments are also more likely to have moderate rents, providing 27 percent of units renting for $850–1,099 and only 16 percent of highest-cost rentals.

FIGURE 18

Additions to the Rental Stock Are Increasingly at the Higher End



Notes: Recently built units in 2001 (2016) were built 1999-2001 (2014-2016). Monthly housing costs include rent and utilities and have been adjusted to 2016 dollars using the CPI-U All Items Less Shelter. Rental units exclude vacant units and units where no cash rent is paid.
Source: JCHS tabulations of US Census Bureau, 2001 and 2016 American Community Survey 1-Year Estimates.

ADDITIONS TO THE RENTAL STOCK

The number of single-family rentals shot up from 14.2 million units in 2001 to 18.2 million units in 2016—a 29 percent increase that far outpaced the 18 percent growth in the overall rental stock. Own-to-rent conversions drove almost all of this gain, with only 575,000 single-family homes built expressly for the rental market over this period. Indeed, in 2011–2013 alone (the last year for which a constant sample is available), tenure conversions of occupied housing units resulted in a net gain of more than 420,000 single-family rentals.

However, this trend may be moderating. According to the American Community Survey, 2015 was the first year since 2006 when the number of single-family rentals declined, suggesting that there were at least some conversions back to owner occupancy. While turning up again in 2016, growth in the number of single-family rentals nonetheless remained well below average annual levels in the previous decade.

Meanwhile, most new rental construction consists of larger properties. Census construction data show that the share of completed rentals in buildings with 20 or more units grew from 54 percent in 2001 to 83 percent in 2016. As a result, apartments in these larger properties accounted for just over one-fifth of the rental stock (9.9 million units) in 2016, an increase of 37 percent—or more than 2.6 million units—since 2001.

In addition to their concentration in large structures, many recent additions to the rental stock have high rents **(Figure 18).** The share of newly built units renting for $1,500 or more soared from 15 percent in 2001 to 40 percent in 2016. Over this same period, the share of newly built units renting for less than $850 per month fell from 42 percent of the rental stock to 18 percent.

RISING CONSTRUCTION COSTS

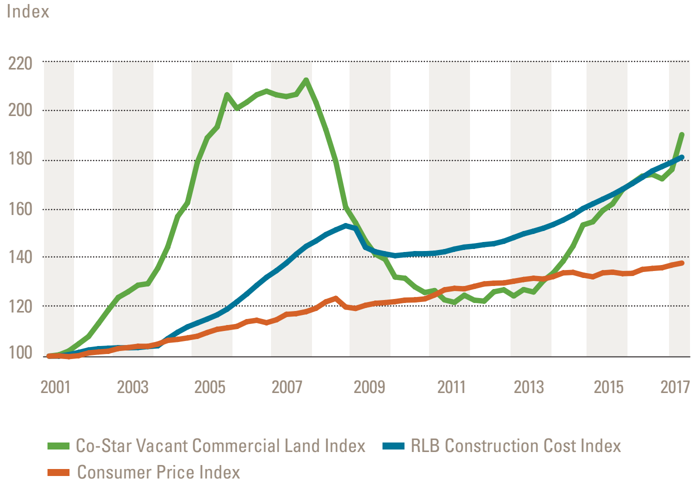
At least part of the reason for the surge in high-end construction is that developing multifamily housing is increasingly expensive. Between 2012 and 2017, the price of vacant commercial land—a proxy for developable multifamily sites—was up 62 percent. Over this same period, the combined costs of construction labor, materials, and contractor fees rose 25 percent, far faster than the general inflation rate of just 7 percent **(Figure 19)**. Cost increases for key building materials, such as gypsum, concrete, and lumber, have also outpaced inflation in recent years.

Data obtained from RS Means indicate that construction of a three-story, 22,500 square-foot apartment structure with a reinforced concrete frame—including the cost of materials, labor at union wages, and fixed contractor and architectural fees, but excluding land costs—would average $192 per square foot in 2017. The cost of building that same structure in 2016, however, would have been 8 percent lower. Of course, costs vary widely by location. For example, construction costs for this sample building would be 43 percent above the national average in New York City and 17 percent below the national average in Dallas.

Adding to development costs, recent construction of rental housing is largely concentrated in central cities. Between 2013 and 2016,

FIGURE 19

Construction Costs Are Rising Much Faster than Inflation



Notes: The RLB Construction Cost Index measures the bid cost of construction, which includes labor, building materials, and contractor fees. The Co-Star Vacant Commercial Land Index serves as a proxy for developable multifamily sites.

Sources: Co-Star Vacant Commercial Land Index; RLB Construction Cost Index; and US Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers.

nearly 60 percent of new unfurnished units were built in the principal cities of metro areas—up 10 percentage points from the period between 2000 and 2012. This trend appears to have continued in early 2017, with the share of rental completions in principal cities nudging above 65 percent.

The supply of developable sites in central locations is extremely limited, which raises land prices and generally entails more extensive permitting, higher legal fees and site preparation costs, and the design of taller, more expensive buildings. According to the Survey of Market Absorption, these costs are reflected in the nearly 15 percent differential in median asking rents for new apartments built in principal cities ($1,600) than in suburbs ($1,390) in 2016.

Regardless of location, though, new multifamily rentals are less affordable to the growing number of households with middle and lower incomes. The real median asking rent for newly completed multifamily units increased 27 percent between 2011 and 2016, to $1,480, while real median renter income increased only 16 percent over the same period. In addition to rising construction costs, this jump in asking rents also reflects increased construction of luxury apartments for higher-income renters.

THE OUTLOOK

Strong demand has sparked the addition of millions of rental units over the past decade. This growth has come from construction of new units, mainly in large apartment buildings, as well as conversion of single-family homes from owner occupancy. However, with the aging of the overall stock and new construction focused primarily on the high end of the market, concerns are mounting that the rental supply will have even less capacity to meet the needs of lower- and middle-income households or the growth in demand for accessible housing as the population ages.

While local policymakers have little sway over the price of construction materials, they do influence the amount of land available for high-density development, the process needed to gain approvals, and the characteristics of housing that is allowed—all of which help determine the amount, type, and cost of the housing that is built. Local governments can therefore promote construction of much-needed rental units (particularly lower-rent units) by expediting approvals; guaranteeing by-right development of small multifamily buildings, particularly those with affordable units; reducing parking and other property requirements; and allowing higher densities for projects that are transit-accessible.

For their part, developers have increasingly adopted cost-saving technologies and switched to lower-cost building materials—for example, using plastics for plumbing and electrical boxes or relying more on prefabrication and modularization, which can significantly reduce waste and construction time. Collectively these efforts would reduce per unit development costs and the rents that households have to pay, ultimately encouraging more construction targeted to lower- and middle-income renters. Investments in energy efficiency would also provide long-term utility savings for tenants and could reduce maintenance costs for owners.

Efforts to preserve the stock of older affordable rentals are also vital. Expanding existing approaches can help. For example, certain states and localities allow the use of housing trust funds for operating and maintenance costs of affordable units, as well as for emergency repairs. The National Housing Trust Fund is also making a limited share of program funds available for these purposes. Real estate tax relief programs can also incent landlords to maintain their affordable units in good repair. Finally, programs that help nonprofits purchase lower-rent, unsubsidized units in exchange for affordability restrictions can help prevent further losses from the affordable supply, particularly in neighborhoods with rising rents.