



RENTAL HOUSING DEMAND

Renting provides a flexible and financially suitable housing option for many Americans. While the likelihood of renting declines with age, many households switch between owning and renting at various points over their lives as their housing needs change. Although it is difficult to predict whether the recent shift toward renting will persist, the aging of the baby boomers and growth in the minority population alone will keep rental demand strong over the next decade.

THE BENEFITS OF RENTING

The recent turmoil in for-sale housing markets and the broader economy has highlighted the many advantages of renting. Since the onset of the Great Recession, unemployment has remained stubbornly high and incomes have fallen, straining household budgets. In this environment, renting offers a flexible housing choice that enables households to adapt to changing financial circumstances—including the need to relocate quickly, whether to find a more affordable home or to take a job elsewhere in the country.

The recent plunge in house prices also underscored the financial risks of homeownership. Falling home values are especially devastating to low- and moderate-income households, who often invest a substantial share of their resources in this single asset. And if forced to move when they owe more on their mortgages than their homes are worth, owners must cover the gap between the sales proceeds and the mortgage debt, or walk away from their loans and face the consequences of impaired credit for years to come.

For most households, renting is less of a financial stretch than buying a home. Even in the best of times, homeowners must come up with a substantial amount of cash to cover the downpayment and closing costs, as well as the expense of any immediate repairs. While renters typically have to pay a security deposit plus the last month's rent, the total outlay is usually more modest than the upfront costs of buying. Equally important, renters who want to move do not incur the steep costs associated with selling a home.

Renting also brings greater certainty to household budgeting because tenants do not have to cover the costs of unexpected but necessary home repairs. Owning a home, however, requires money, time, and skill to manage its upkeep. Renting transfers responsibility for maintenance to a landlord, reducing risk and worry for those who are either ill-suited to such tasks or who simply prefer to avoid these obligations.

A 2012 Fannie Mae survey reveals many of the reasons some households favor renting over owning. More than half of the renter respondents considered renting a better choice for living within a budget and having less stress (Figure 7). The other common reasons cited for preferring to rent are that it is the best decision in the current economic climate, allows one to live in a more convenient location, and provides more flex-

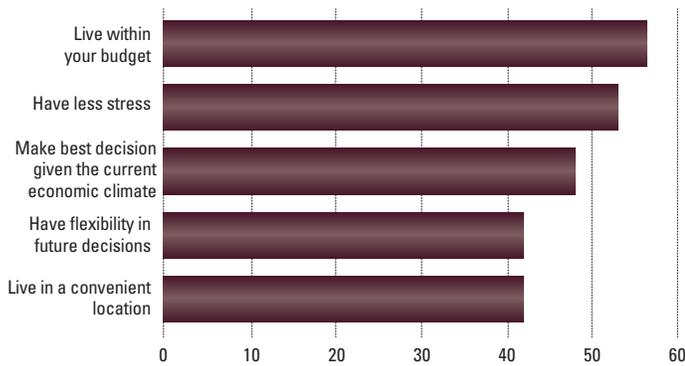
ibility in future decisions. At the same time, current homeowners overwhelmingly held the view that owning a home is a better way to achieve these goals, although 28 percent agreed that renting is less stressful.

Perhaps not surprisingly, attitudes toward renting have shifted somewhat as a result of the Great Recession. For example, slightly more than half (54 percent) of the households surveyed by Hart Research Associates in early 2013 stated that renting had become more appealing given the country's economic situation. Consistent with a variety of other sources, however, the same survey also found that a solid majority of renters (72 percent) still aspire to own homes in the future.

FIGURE 7

Renting's Appeal Lies in Affordability, Reduced Stress, and Flexibility

Percent of Renters Stating that Renting Is a Better Way to:



Source: Fannie Mae National Housing Survey, Q3 2012 Data Summary.

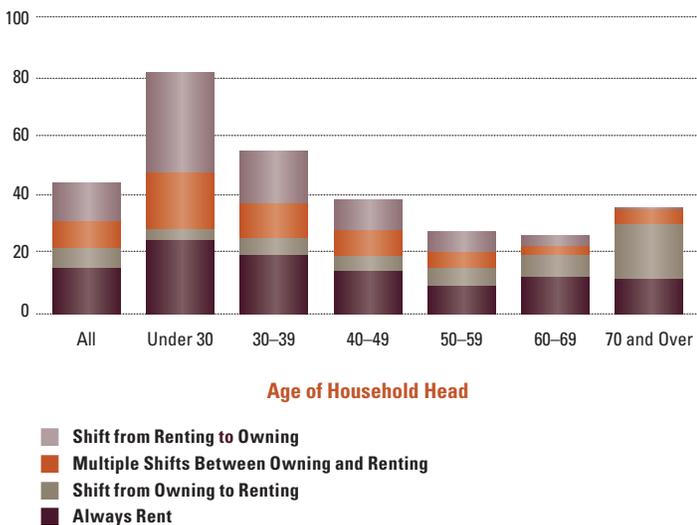
RENTING OVER THE LIFECYCLE

Young adults are the most likely age group to rent. For those first leaving their family homes, the lower transaction costs and flexibility of renting makes it a natural choice during a stage in life marked by frequent changes in jobs, periods as a student, and shifts in personal relationships. As a result, nearly four out of five individuals under age 25 who live independently choose to rent. As people age and become more settled, the share that rent declines until late in life when the likelihood of renting increases slightly. Nevertheless, nearly two-thirds of 25–29 year-olds and more than half of households in their early 30s rent their homes.

FIGURE 8

Households of All Ages Often Shift Between Renting and Owning Over the Course of a Decade

Share of 2001 Households Renting Sometime in 2001–11 (Percent)



Source: JCHS tabulations of the 2001–11 Panel Study of Income Dynamics.

While a majority of US households own homes at some point in their lives, many return to renting in response to changing fortunes and housing needs. For example, the Panel Study of Income Dynamics reports that 44 percent of families rented for some period between 2001 and 2011, but the renter share of households never exceeded 34 percent during the decade. Indeed, 16 percent of all households rented for the entire period, 13 percent started out as renters but made the transition to owning, 7 percent started out as owners but switched to renting, and 9 percent shifted between owning and renting multiple times (Figure 8).

Tenure transitions are most common among younger households, but increase again among the oldest households. In particular, the share that move from owning to renting rises first among those in their 60s and then more sharply as they reach age 70. According to the 2011 American Housing Survey, households that had recently shifted from owning to renting typically made the move to accommodate a change in employment or in marital status. Slightly more than half

of these households also stated that their housing costs declined as a result of the change.

Preferences for location and type of housing depend on renter household type. Non-family households, including roommate situations that are more common among the young, are more likely to live in multifamily housing in central cities (**Table A-2**). As they move into the childrearing phase of life, renters tend to prefer single-family homes in suburban or rural locations. In fact, married couples with children choose single-family rentals more than any other housing type. Single persons, many of which are seniors, are more likely to live in central cities and the most likely of all renters to live in multifamily structures.

GEOGRAPHIC VARIATIONS IN RENTING

Renting is much more prevalent in central cities, where land prices are high and low-income households are concentrated. In general, rentership rates are highest in cities of the Northeast, where more than 60 percent of households rent compared with 45–50 percent in other regions. About a quarter of households rent in suburban and non-metropolitan areas in most parts of the country, although rentership rates in these areas exceed 30 percent in the West.

Reflecting differences in housing costs, demographic characteristics, and the nature of the housing stock, renter shares also vary across metropolitan areas. Renting is somewhat more common in markets with higher house values, larger shares of young households, fewer senior households, and smaller shares of single-family homes. In the 20 largest metropolitan areas in the country, rentership rates thus range from 52 percent in Los Angeles to 30 percent in St. Louis (**Figure 9**). Most of the markets that have larger shares of renters are coastal metros with high home prices, including New York and San Diego. Renter shares are smaller in markets with lower house values, such as Detroit and Tampa.

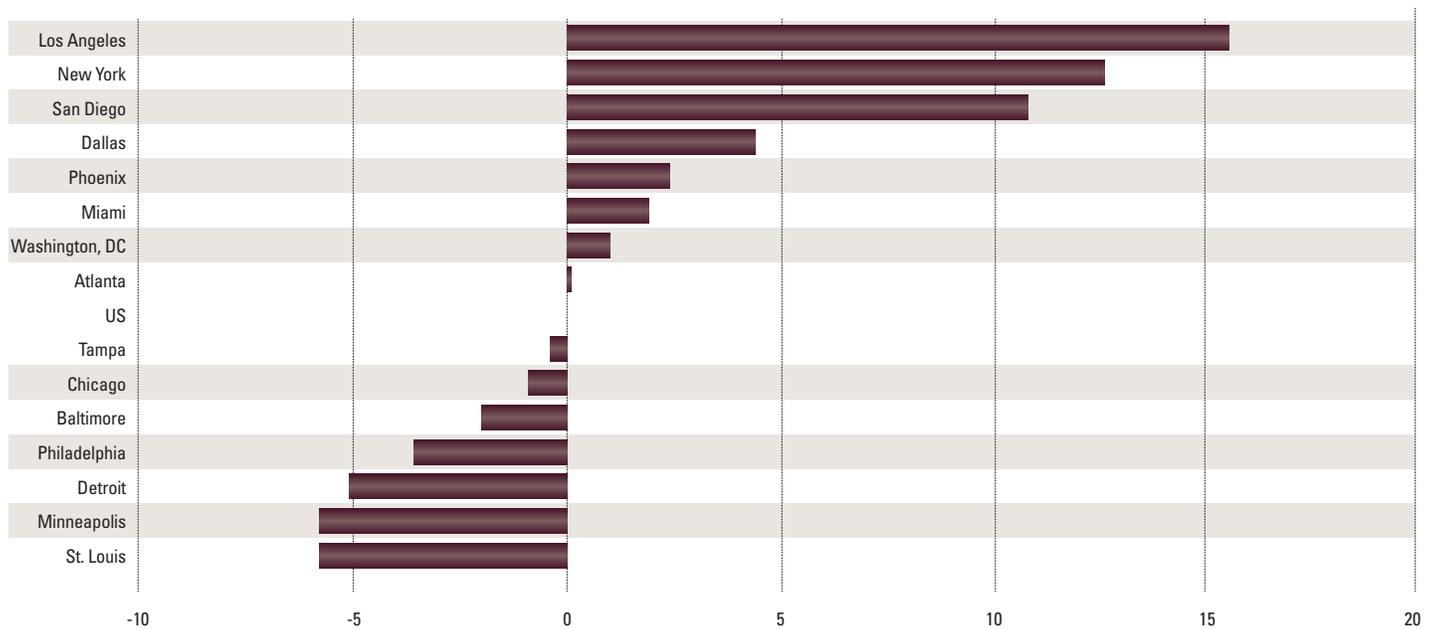
HOMES FOR A DIVERSE POPULATION

According to the Current Population Survey, 43.0 million US households rented their homes in 2013. Given the appeal of renting for young adults, 39 percent of these renters were under age 35—almost twice their share in the overall population (**Figure 10**). But nearly as many renters were between the ages of 35 and 54 (36 percent). Households aged 55 and over currently make up a small share of renters (25 percent) relative to their share of all households.

FIGURE 9

Rentership Rates Vary Widely Across Metro Areas, Reflecting Differences in Housing Costs and Demographic Profiles

Percentage Point Difference from US Rentership Rate of 36 Percent



Source: JCHS tabulations of US Census Bureau, 2012 American Community Survey.

With their need for less living space and their lower incomes, single persons are the most common renter household. Even so, nearly as many renters are households with children. Fully 32 percent of renters are married couples with children and single-parent families. Married couples without children are the most underrepresented household type among renters relative to their share of all households.

While households of all incomes rent their homes, it is nonetheless true that a disproportionate share of renters have low incomes. Nearly half (46 percent) of renters have incomes below \$30,000, including 22 percent with annual incomes below \$15,000 (roughly equivalent to working year-round at the minimum wage) and 24 percent earning between \$15,000 and \$30,000. By comparison, only 30 percent of all households have incomes this low. However, the renter share of moderate-income households (with \$30,000–74,999 in annual income) is 37 percent—just above their share of total households. Higher-income households make up only about one in six renters, compared with about a third of all households.

Many lowest-income renters are among the country’s more vulnerable households. Roughly four out of ten renters with incomes under \$15,000 are out of the workforce because they are disabled or retired. Of the remainder, half are employed

but earn only modest amounts, while another sixth are unemployed and looking for work. Among renters earning \$15,000–29,999, nearly a quarter are disabled or retired and fully 80 percent of the rest are employed.

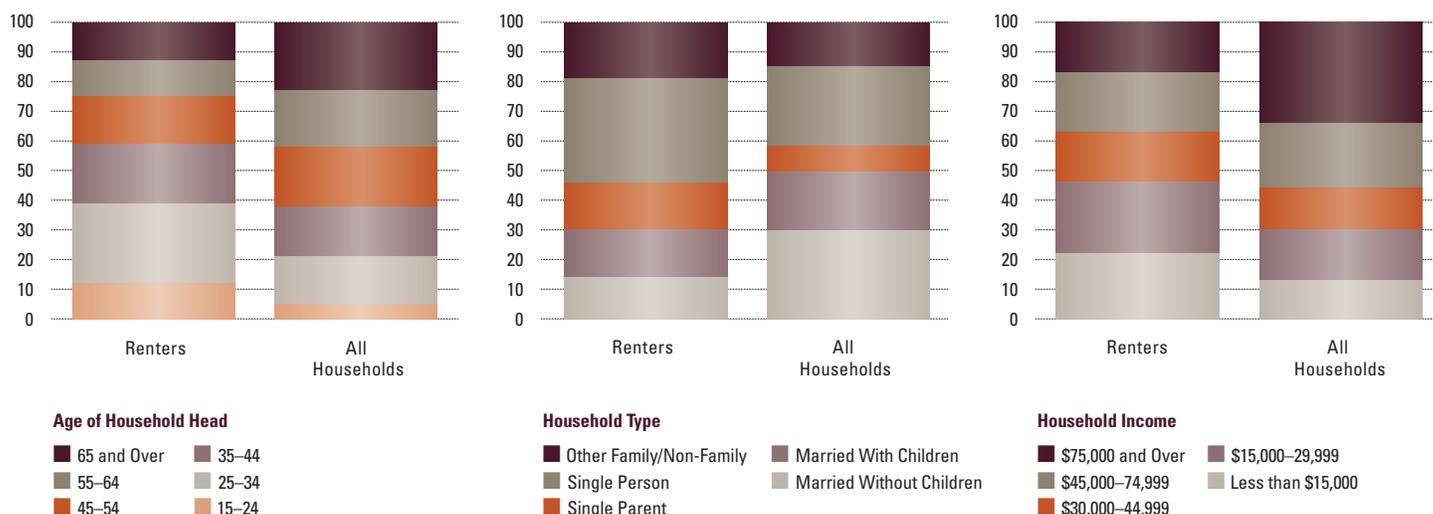
Since the mid-2000s, rentership rates have risen across all household types, income categories, and age groups except the oldest. While the sharpest increases have been among young adults, fewer individuals in this age group have been striking out on their own. As a result, adults under age 35 as a share of all renters actually fell between 2005 and 2013. And while the overall number of households aged 35–54 dropped by over 1.2 million during this time, higher rentership rates meant the number of renters within this age group actually rose by over 3 million. The aging of the baby-boom generation also meant that seniors accounted for a large share of renter household growth over this period.

With their overall numbers climbing, low-income (under \$15,000) and Hispanic households also contributed a large share of the recent increase in renters. Indeed, while each group currently represents approximately 13 percent of all households, low-income households were responsible for 26 percent of renter growth in 2005–13 while Hispanic households accounted for 29 percent.

FIGURE 10

Renters Reflect the Diversity of US Households

Share of Households (Percent)

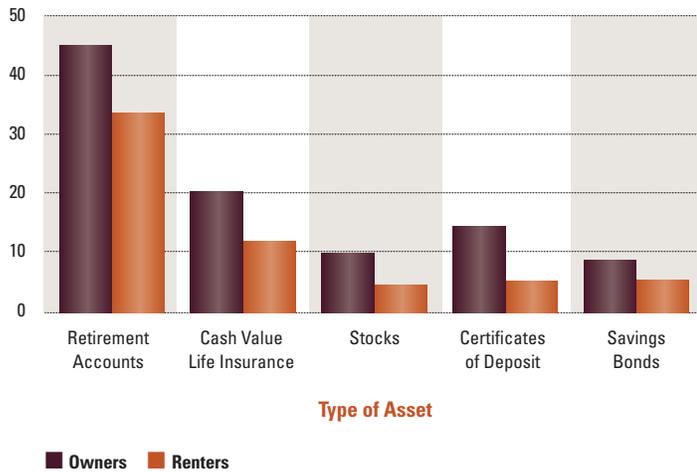


Source: JCHS tabulations of US Census Bureau, 2013 Current Population Survey.

FIGURE 11

Lower-Income Renters Are Much Less Likely than Owners to Hold Various Financial Investments

Share of Lower-Middle Income Quartile Households Holding Asset (Percent)



Note: Income quartiles are equal fourths of all households by income.
Source: JCHS tabulations of Federal Reserve Board, 2010 Survey of Consumer Finances.

WEALTH ACCUMULATION AMONG RENTERS

Savings and other forms of wealth provide economic security in times of job loss, poor health, or unexpected expenses. They also support life-changing investments in education and business opportunities, and lay a solid foundation for retirement. Even after controlling for their lower average incomes, though, renters accumulate much less wealth than homeowners. For example, among households in the upper-middle income quartile, the median net worth of homeowners in 2010 was nearly nine times that of renters. The median for all owners was 34 times that of renters.

Home equity accounts for a significant share of the difference, but by no means all. Excluding housing wealth, homeowners still had a median net worth of \$72,520 in 2010—more than 14 times that of renters. And even accounting for differences in the ages as well as the incomes of owners and renters, the disparities remain wide. Among households aged 35–44 in the upper-middle income quartile, for example, median net wealth in 2010 was just \$13,300 for renters but \$69,700 for owners.

With the housing market crash, the median net wealth of homeowners plunged 30 percent between 2007 and 2010. Renters' median wealth fell only 5 percent. This modest decline largely reflects the fact that what little wealth they had was mostly in lower-risk, lower-yielding accounts. Even so, the median wealth of renters in the highest income quartile,

who held a broader range of investments, dropped nearly 50 percent as the recession drove down the values of a full range of financial assets as well as housing.

Again, even after accounting for differences in income, renters are less likely than owners to own assets such as retirement accounts, cash-value life insurance policies, stocks, certificates of deposit, or savings bonds (Figure 11). The gap in retirement savings is especially large, and may be due to differences in the nature of owners' and renters' employment as well as the types of benefits they receive. But what is perhaps most troubling is that holdings of these and other financial assets are low for owners as well as renters, underscoring the urgent public policy need to promote saving outside of employment and by means other than homeownership.

DEMOGRAPHIC DRIVERS OF FUTURE DEMAND

Two key factors will drive rental housing demand over the next decade: changes in the number and characteristics of households, and changes in the tendency of different groups to own their homes. Of these, changes in the distribution of households is somewhat easier to project because the age structure of the adult population is already known with some certainty and the rate at which they form different types of households changes relatively slowly.

In contrast, homeownership rates can fluctuate significantly over a several-year span as economic conditions change. Consider trends in rental demand between 2005 and 2012. If homeownership rates had held constant, overall household growth would have lifted the number of renter households by 2.0 million. Instead, plummeting homeownership rates boosted the number of renters by some 6.6 million over this period.

Homeownership rates are determined in large part by household incomes, housing prices, and the cost and availability of mortgage financing—all of which are highly uncertain. Preferences for owning or renting also play a role, but are similarly hard to gauge. Joint Center estimates of renter household growth therefore assume that homeownership rates by age, race/ethnicity, and household type remain at their 2012–13 averages. If current trends continue and homeownership rates decline further over the next decade, growth in the number of renters will be stronger than projected. At the same time, however, homeownership may well rebound, given that current rates for 25–54 year-olds are at their lowest point since annual recordkeeping began in the 1970s. In that case, the projections will overstate renter growth.

Given constant homeownership rates and using the Census Bureau's high and low population projections, the Joint Center estimates that the number of renter households will increase between 4.0 million and 4.7 million in 2013–23. Immigration rates are the major source of difference between the two scenarios. While a slowdown from its recent pace, growth in the number of renters would be comparable to increases in the 1980s—that is, somewhat slower than in the 1970s when the baby boomers entered the rental market, and in the 2000s when homeownership rates plunged.

The changing age structure of the population and the growing racial/ethnic diversity of Americans will alter the face of rental demand over the next decade. With the aging of the baby boomers, the number of renters over age 65 will increase by 2.2 million and account for roughly half of renter household growth (Figure 12). The echo boomers will provide the impetus for much of the rest of growth, replacing the smaller baby-bust generation in the 25–44 age group and adding between 1.9 million and 2.4 million renter households. The number of renters under age 25 will dip somewhat over the next 10 years as the echo boomers move out of this age group.

The aging of the population means that the numbers of renter households that are either single or married couples without children will rise. These two groups are each projected to account for 1.2–1.3 million additional renter households over the decade, or roughly 30 percent of overall growth. The number of renter households with children is also expected

to climb as the echo-boom generation moves into the 25–34 and 35–44 year-old age groups. In combination, the number of married couples with children and single-parent families that rent housing is projected to increase by 1.1–1.5 million.

The growing diversity of American households will be evident in the sizable increase in the number of Hispanic renters. While currently making up about 20 percent of renter households, Hispanics are projected to account for more than half of renter household growth in 2013–23, with increases in the 2.2–2.4 million range. African-Americans, Asians, and other minorities will drive the rest of renter household growth over the decade as the net number of white renters holds steady.

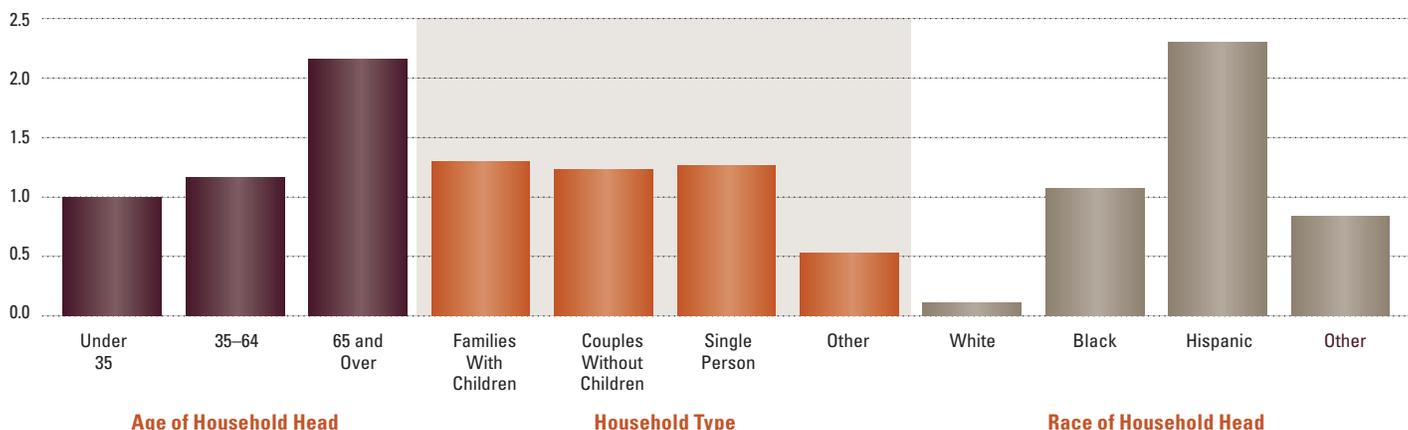
THE OUTLOOK

Projected changes in the age and race/ethnicity of US households have important implications for housing markets and for policymakers. The burgeoning number of seniors points to increasing demand for housing that meets the needs of aging renters. While many of these households may be able to stay in their current homes, others may have to move to housing with better access to services and social networks when they can no longer drive. In addition, the growing number of seniors on fixed incomes is likely to outstrip the limited supply of affordable rentals. With the number of families with children also on the rise, demand for larger rental units will increase as well, particularly in communities with access to good schools and employment centers.

FIGURE 12

Broad Changes in the Age and Racial Composition of Households Will Drive Future Rental Demand

Projected Renter Household Growth 2013–23 (Millions)



Notes: Families with children may be headed by married or partnered couples or single parents, and only include children of the household head that are under age 18. Other family households include children under age 18 that are not those of the household head, such as grandchildren. White, black, and other household heads are non-Hispanic. Hispanics may be of any race. Source: JCHS 2013 household projections, middle series.