



RENTAL HOUSING SUPPLY

The rental stock provides a broad range of housing options for the growing numbers of US households seeking to rent. To meet the rising tide of demand, construction activity has picked up pace in many markets across the country. The millions of homes switched from owner-occupied to rental in the aftermath of the housing crash have also helped to expand supply. The persistent challenge, however, is that the costs of adding new rentals or adequately maintaining existing units far exceed the ability of low-income renters to pay.

PROFILE OF THE STOCK

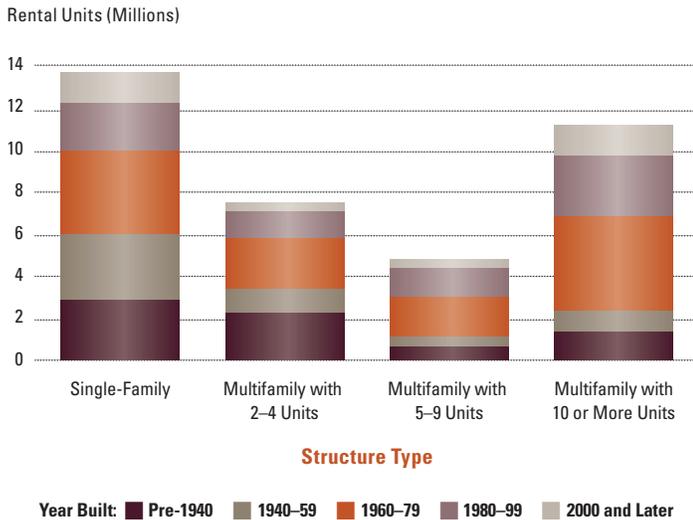
Contrary to popular perceptions, most rental units are not located in large apartment buildings. According to American Housing Survey estimates for 2011, about 35 percent of occupied rentals are in fact single-family homes and another 19 percent are in buildings with two to four units. Indeed, only 29 percent are in buildings with 10 or more units. It is important to note, however, that these estimates likely overstate the share of rentals in smaller properties, given that these structures may be part of large apartment complexes—a critical distinction when considering the ownership and financing of this housing. For example, the 2001 Residential Finance Survey reported that 43 percent of rentals were in properties with 10 or more units, while the AHS for that year also indicated that 29 percent were in buildings of this size.

The rental housing stock is somewhat older than the owner-occupied inventory. In 2011, the median-aged rental home was built in the early 1970s, or about five years earlier than the typical owner-occupied unit. During the 1960s and 1970s, multifamily construction took off in part to accommodate the first wave of baby boomers as they began to live on their own. Multifamily construction was strong again in the early 1980s, spurred by generous tax provisions intended to stimulate the economy after the 1981 recession. Building activity then slowed to a moderate pace for much of the next two decades. Overall, about a third of the nation's rental supply was built before 1960, another third in the two decades between 1960 and 1979, and the final third in the years since 1980.

The oldest rentals are primarily single-family detached homes or in two- to four-unit buildings, 44 percent of which were built before 1960 (**Figure 13**). The older age of single-family rentals reflects the tendency for growing shares of owner-occupied homes to switch to rentals over time. Meanwhile, construction of apartment buildings with two to four units has become less common over the years, with only 22 percent built since 1980. Apartments in buildings with 10

FIGURE 13

Smaller Rental Buildings Are Apt to Be Much Older than Larger Structures



Note: Data exclude mobile homes and vacant units.
 Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

or more units are newest on average, with large shares built during the 1960s and 1970s construction booms, as well as after 1980.

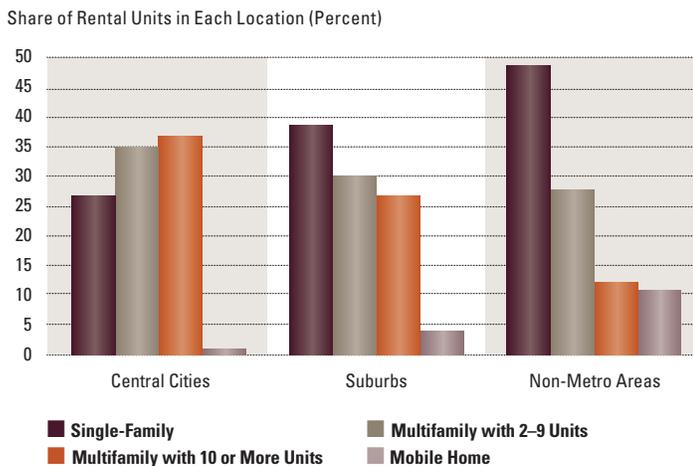
Rental housing is in generally good condition, with only 3.1 percent categorized as severely inadequate and 6.7 percent as moderately inadequate. These shares are, however, nearly twice those for all housing units. Given that older housing is more likely to be inadequate, more than 13 percent of rentals built before 1960 have some structural deficiencies. Still, a large majority of renters are satisfied with their living conditions. A 2012 Fannie Mae survey found that more than three-quarters of respondents were satisfied with the ongoing maintenance of their rentals, including 43 percent who were very satisfied. In keeping with the AHS estimate of housing adequacy, only 8 percent of respondents to that survey were very dissatisfied with the maintenance of their homes.

GEOGRAPHIC DISTRIBUTION

While available in communities across the country, rental housing is more concentrated in the central cities of metropolitan areas. Indeed, about 43 percent of all occupied rentals are located in central cities, compared with 29 percent of all households. The share of rentals in suburbs is nearly as large (40 percent), although lower than the share of households (49 percent) residing in those areas. The remaining 17 percent of rental homes are in non-metro areas, also below the 22 percent share of households living in those locations.

FIGURE 14

Large Multifamily Buildings Predominate in Central Cities, While Single-Family Homes Are Most Common in Rural Areas



Note: Data exclude vacant units.
 Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

Rental housing is particularly common in lower-income neighborhoods. Across the 100 largest metropolitan areas, 45 percent of occupied rental units in 2011 were located in low-income neighborhoods, compared with 28 percent of households. At the other end of the spectrum, 20 percent of rentals were in high-income neighborhoods, compared with 36 percent of households. In moderate-income areas, the shares are similar. The concentration of rental housing in low-income communities reflects in part the simple fact that more low-income households rent. But the limited supply of rental housing in higher-income neighborhoods may also constrain renters' ability to find affordable housing in areas offering access to better schools and suburban employment centers.

The prevalence of particular structure types is a function of land costs, zoning regulations, and historical development patterns. In central cities, where land costs are high and more

land is zoned for multifamily buildings, the majority of the rental stock is in fact made up of multifamily buildings, with larger structures dominating. Rentals in buildings with 10 or more units constitute fully 37 percent of the rental stock in central cities, compared with only 27 percent in suburban areas (Figure 14). This pattern is also due to the heavy volume of multifamily construction in the 1960s and 1970s, much of it built with federal support and concentrated primarily in urban areas. Even so, single-family rentals still represent a significant share of the central city stock (27 percent), albeit substantially less than in the suburbs (39 percent).

Renters in rural locations typically live in single-family or mobile homes, which account for six out of 10 rentals. In contrast, rentals in buildings with 10 or more units are relatively rare in these communities. The one constant across geographies, however, is the relative importance of small multifamily rentals, with the shares of buildings with two to nine units varying only between 35 percent in central cities and 28 percent in non-metro areas.

ADDITIONS THROUGH NEW CONSTRUCTION

Most additions to the rental housing inventory through new construction are in multifamily buildings, although

not all multifamily units are built as rentals. At the height of the homeownership boom, more than four out of 10 new multifamily units were built for sale. But with the recent rental market recovery, the share of multifamily units intended for renter occupancy rebounded to more than nine out of 10. A small though important share of single-family construction is also targeted to the rental market. Indeed, while just 6 percent of new single-family homes were built as rentals in 2012, these additions represented more than 30,000 units.

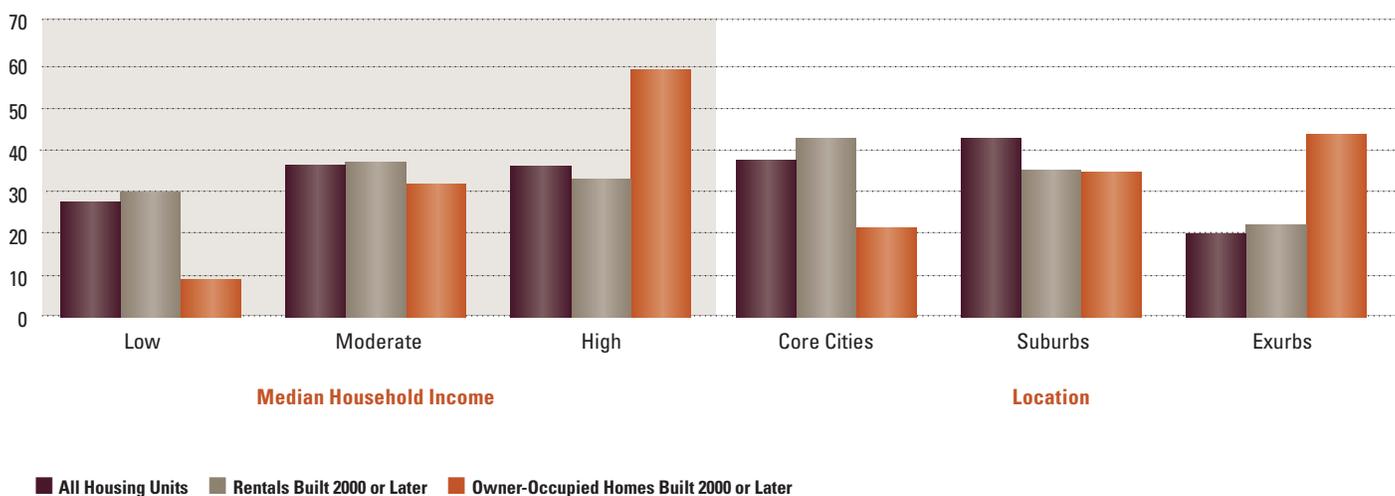
On average, 260,000 new rental housing units were completed each year between 2000 and 2009, including 41,000 single-family homes. But at the depth of the downturn in 2010, completions of homes intended for rent totaled a mere 151,000. Although rebounding to 186,000 in 2012, rental completions remain well below average annual levels in the ten years leading up to the recession despite the strength of renter household growth.

While the overall rental housing stock is concentrated in central cities and lower-income neighborhoods, the location of newer rentals closely matches the distribution of all existing housing (Figure 15). In contrast, new owner-occupied units are nearly twice as likely to be located in high-income

FIGURE 15

Newer Rental Housing Is More Evenly Distributed Across Metro Areas

Share of Occupied Units in the 100 Largest Metros (Percent)

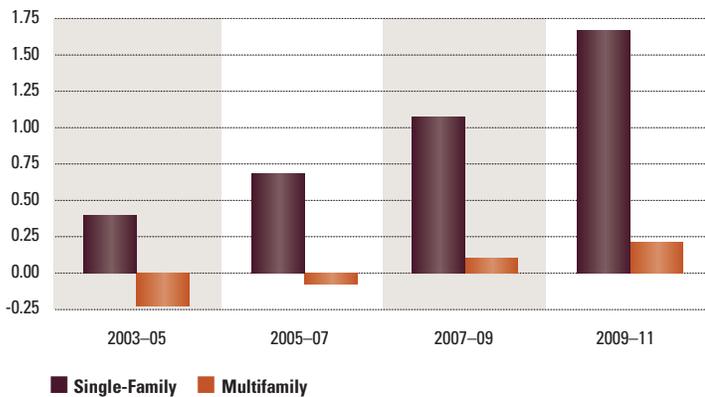


Notes: Low-/moderate-/high-income neighborhoods are census tracts with median income that is under 80%/80–120%/at least 120% of the metropolitan median. Core cities have populations above 100,000. Suburbs are urbanized areas in metros that are outside of core cities. Exurbs are all other areas.
Source: JCHS tabulations of US Census Bureau, 2007–11 Five-Year American Community Survey.

FIGURE 16

Millions of Single-Family Homes Have Become Rentals Since the Recession

Net Owner-to-Renter Conversions (Millions)



Source: JCHS tabulations of US Department of Housing and Urban Development, American Housing Surveys.

neighborhoods. Newer rental housing is also fairly evenly distributed across cities, suburbs, and exurbs, expanding the available housing options without contributing to sprawl. New owner-occupied housing, however, remains heavily concentrated in exurban areas.

It is also noteworthy that increasing shares of new rentals are in large buildings. From the 1970s through much of the 1990s, multifamily buildings with two to nine apartments were the most common rental structure. But a trend toward larger buildings emerged in the late 1990s. In both 2009 and 2010, nearly four out of five new rentals were in structures with at least 20 units, and nine out of 10 were in buildings with at least 10 units. In fact, some 43 percent of new apartments in 2010 were in buildings with 50 or more units. Although the housing market downturn reduced its share of new construction, the large building segment of the market still accounted for more than two-thirds of rental completions in 2012. Buildings with two to nine units accounted for less than 11 percent.

INFLUX OF OWNER-OCCUPIED HOUSING

While new construction and a reduction in vacant for-rent housing helped to meet the recent surge in rental demand, much of the increase in the rental inventory came from the flood of formerly owner-occupied homes into the market. In 2009-11 alone, about 1.9 million homes switched on net

from the owner-occupied to the rental stock. Another 1.1 million units had been converted on net to rentals between 2007 and 2009, bringing the inflow to more than 3.0 million homes over the four-year period. With signs that this trend continued after 2011, total additions are likely to be even higher today.

Most of the homes converted to rentals are single-family residences (Figure 16), lifting the single-family share of the rental housing stock to a new high of 35 percent in 2011. While the share of single-family homes that are rentals also ticked up from 14 percent to 16 percent over this period, this increase only brought the share back in line with its long-run average. Much of the growth in single-family rentals may thus reflect the fact that these homes have become a larger share of the overall housing stock since the late 1990s.

Although small-scale investors have traditionally owned the vast majority of single-family rentals, large investment pools began to buy up foreclosed homes after the housing crash to manage the properties as rentals. The largest of the groups amassed portfolios of 10,000-20,000 homes, many of them concentrated in a few select markets. While systematic information is hard to come by, CoreLogic found that institutional investors (defined as those acquiring at least five foreclosed properties or using a corporate identity) were most active in 2012 in Miami, where they bought 30 percent of foreclosed properties, followed by Phoenix (23 percent), Charlotte (21 percent), Las Vegas (19 percent), and Orlando (18 percent). These shares of corporately owned single-family rentals are in fact close to historical levels. At the same time, though, the scale of operation of the largest institutional investors is unprecedented.

These new, large-scale ventures may have importance not only in reviving moribund housing markets, but also in developing new models for financing and managing single-family homes as rental properties. Until now, institutional investors have shown little interest in this arena, presumably because of the high cost of managing geographically dispersed properties as well as the challenges of financing and titling individual units. If these business models can be profitable, they could help to expand the rental options in both the market-rate and affordable housing sectors. Some investors have recently sought to securitize the cash flow from these portfolios, while others have formed real estate investment trusts (REITs) as a way to sell off a portion of their interest. However, it remains to be seen whether large-scale investment in single-family rentals will become a permanent part of the landscape or fade as house prices recover and demand from owner-occupants picks up, reducing the financial returns to investors.

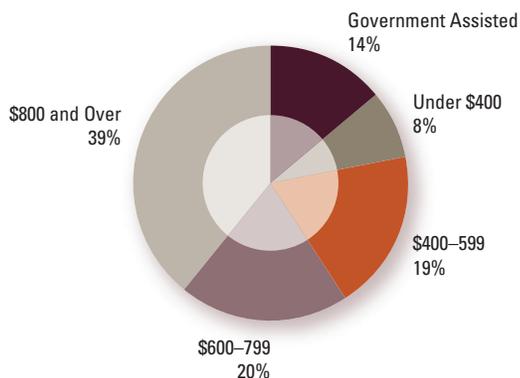
THE SUPPLY OF LOW-RENT HOUSING

According to AHS data, the median contract rent (excluding tenant-paid utilities) was \$725 in 2011. When factoring in typical monthly utility costs, the median gross rent was \$843. At the 30-percent-of-income standard, households would have to earn at least \$33,700 a year—several thousand dollars more than the median renter income—to afford this home. And for the nearly one-quarter of renters with incomes of \$15,000 or less, rents plus utilities would have to total well under \$400 a month to be affordable. Only 8 percent of units have such low costs, although another 14 percent receive some form of public subsidy that helps to close the gap between the demand for affordable housing and the private supply (Figure 17).

Affordable private market rentals are likely to be single-family or mobile homes, which together account for 56 percent of residences renting for less than \$400. Moderately priced units (with rents between \$400 and \$800) are more likely to be in multifamily buildings with two to nine apartments. Meanwhile, 32 percent of units renting for at least \$800 are located in larger multifamily buildings—almost double the share (17 percent) of units renting for less than \$400 in such buildings. A large percentage of single-family rentals also has high rents, given that these homes are often more spacious and located in higher-income areas.

FIGURE 17

Very Few Rental Homes Are Affordable for Lowest-Income Renters



Notes: Excludes units without cash rent or with rent paid other than monthly. Affordable rents are defined as no more than 30% of household income. Monthly rents of \$400 are roughly 30% of income for a household earning \$15,000 per year, which is also roughly equivalent to full-time work at the federal minimum wage.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

Much of the lowest-cost rental stock is at least 50 years old. Nearly half (46 percent) of all unassisted housing with rents under \$400 were built before 1960, compared with just a third of all units. In addition, many of the homes renting in the \$400–599 range were built between 1960 and 1979. Newer housing is much more likely to have higher rents, with 52 percent of unassisted cash rentals built in 1980 or later leasing for at least \$800 a month and just 6 percent renting for less than \$400.

ONGOING LOSSES OF THE LOW-END STOCK

With little revenue to cover operating and maintenance costs, the low-rent housing stock is especially vulnerable to removal. Of the 34.8 million rentals that existed in 2001, some 1.9 million were demolished by 2011—a loss rate of 5.6 percent. Losses of units renting for less than \$400, however, were nearly twice as high at 12.8 percent (Figure 18). Although making up only a small share of the overall rental supply, homes renting for less than \$400 thus accounted for more than a third (650,000) of total removals. Removal rates for units with rents between \$400 and \$600 were also relatively high at 6.7 percent. Loss rates decline as rents increase, falling to just 3.0 percent for units with rents of \$800 or more.

Age is a key factor in the high loss rates for low-cost rentals, with removals of homes built before 1960 at roughly 8 percent. Removal rates for single-family homes and two-to four-unit apartment buildings are also comparatively high. Fully 8.1 percent of rental units in non-metro areas were lost from the stock over the decade, compared with 5.7 percent in central cities and 4.7 percent in suburbs. High losses in rural areas reflect the greater presence of mobile homes, particularly in the South and West where they account for more than 10 percent of rentals. Mobile homes have by far the highest loss rates of any structure type, with more than one in five removed from the stock between 2001 and 2011.

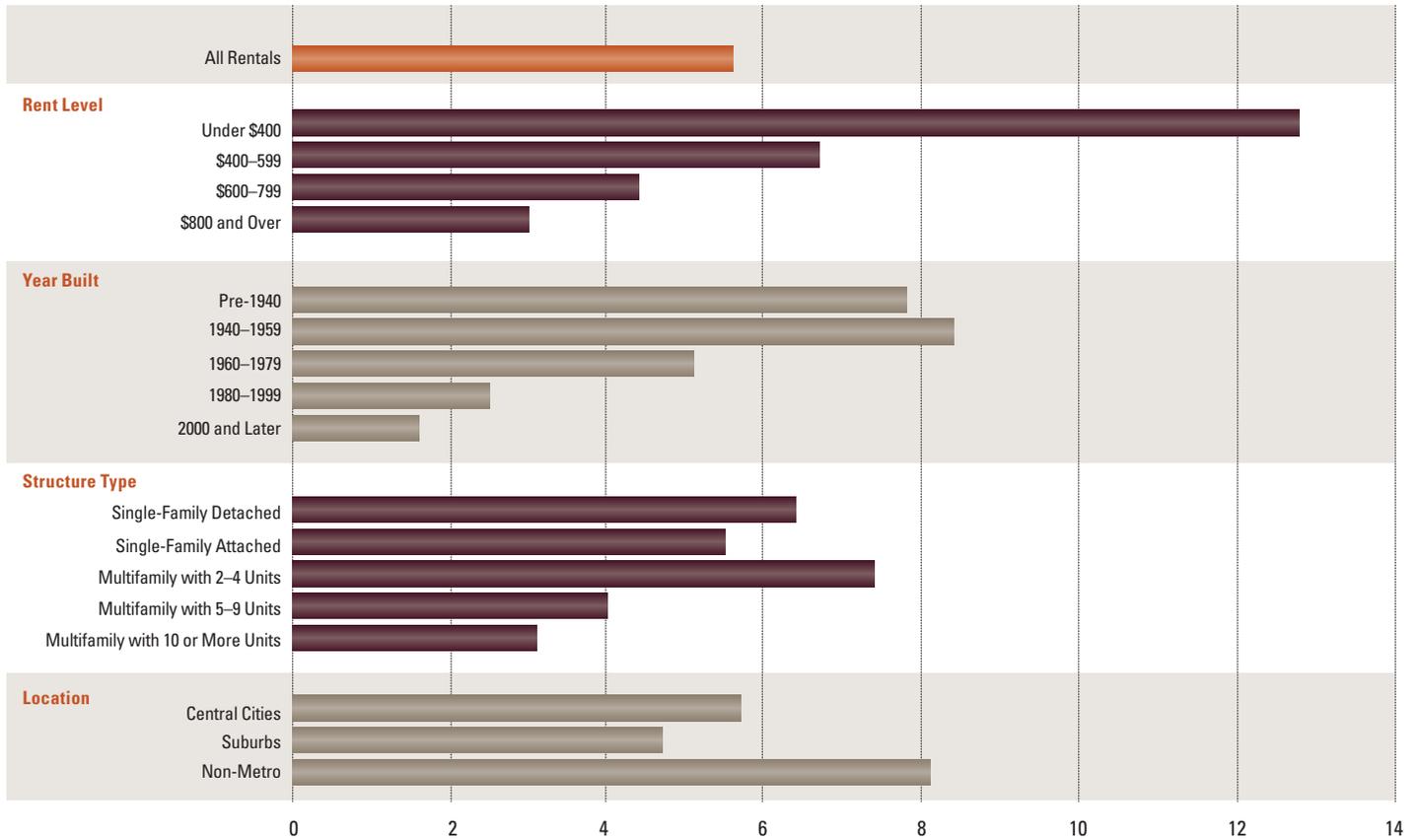
SUPPLYING LOW-COST HOUSING

While losses of existing rentals are concentrated among low-rent units, new construction typically adds residences at the upper end of the rent distribution. The 2011 AHS reports that the median monthly gross rent for units built in the preceding four years was \$1,052—affordable only for households earning at least \$42,200 a year. Only 34 percent of new units had rents below \$800, or roughly at costs affordable for the median renter.

FIGURE 18

Low-Cost and Older Rentals Are Especially at Risk of Loss

Share of Units Permanently Removed from Stock 2001–11 (Percent)



Note: The removal rate for all rentals includes mobile homes.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2001–11 American Housing Surveys.

One possible approach to lowering the costs of new construction would be to reduce the regulatory constraints on certain types of housing—for example, by allowing higher-density construction to economize on land costs, permitting smaller unit sizes, and relaxing requirements for parking or other amenities. In addition, requiring that rehabilitation of existing rental properties meet the same building standards as new construction can make preservation efforts extremely costly. Allowing more flexibility in meeting these goals, but without requiring specific building materials or techniques, could help relieve some of these costs. Any relaxation of land use regulations and building codes must of course ensure the safety of residents and limit the costs imposed on surrounding communities.

Accessory dwelling units (ADUs) also offer a promising way to add more affordable rentals in higher-cost locations

without subsidies. ADUs are generally modest units located inside of or attached to a single-family home, or in a structure on the same property, providing homeowners a rental income stream or a place to house relatives or caregivers. But they also increase the housing options for people otherwise unable to afford to live in the communities where they work, help satisfy demand for smaller residences (including from owners who may want to downsize and rent out their primary residences), and add housing without the loss of open space or the need for new infrastructure.

Yet local regulations enacted to preserve a community's character often pose barriers to the creation of ADUs. If allowed at all, ADUs may be subject to minimum lot or house sizes, minimum and maximum unit sizes, and requirements for landscaping and design, off-street parking, and having an

owner-occupant on site. A number of communities around the country, however, have now created or liberalized ADU regulations and offer technical assistance, low- or no-interest loans to modify or create units, or amnesty programs to bring illegal housing into compliance.

Like accessory units, micro-units are a potential housing alternative for those seeking affordable urban living. Given that these apartments are typically just a few hundred square feet, development of micro-units frequently requires changes to zoning laws related to minimum unit size or maximum number of dwellings per parcel. Off-street parking requirements pose another barrier, though some cities provide waivers in areas well served by transit. Despite growing demand for smaller, centrally located rentals, concerns about increased density and the untested nature of new developments of this type have led some communities to establish initial limits on micro-units and to require evaluation of their impacts on neighborhoods and affordability to inform future changes to regulations.

THE OUTLOOK

The recent housing boom and bust highlighted the dynamic nature of the nation's rental supply. Although new construction slowed sharply following the Great Recession,

surging demand was met by the conversion of some 3 million owner-occupied units into rentals, pushing the single-family share of the rental stock to a new high. But while the market has proven highly responsive to changing conditions, supplying housing for very low-income renters continues to be a challenge because of the fundamental gap between the cost of development and what these households can afford to pay.

The deterioration and loss of low-cost rental housing are grave concerns. To some extent, the loss of older rentals may be inevitable as time takes its toll, particularly when maintenance is deferred. Older housing may also be less efficient to operate and have outdated designs. While renovation and improvements might address some of these deficiencies, the costs of upgrading older properties to current building codes are often prohibitive. Still, rehabilitation of older buildings would provide the kind of modest but secure housing that is difficult to add through new construction. To encourage these investments, one strategy would be to offer tax incentives for upgrades to existing rentals that meet affordability standards. At the local level, it may be important to exempt renovated housing from some current building code requirements where doing so would help maintain affordability without compromising residents' safety.