Rental housing has always provided a broad choice of homes for people at all phases of life. The recent economic turmoil underscored the many advantages of renting and raised the barriers to homeownership, sparking a surge in demand that has buoyed rental markets across the country. But significant erosion in renter incomes over the past decade has pushed the number of households paying excessive shares of income for housing to record levels. Assistance efforts have failed to keep pace with this escalating need, undermining the nation's longstanding goal of ensuring decent and affordable housing for all.

THE RESURGENCE OF RENTING

Reversing the long uptrend in homeownership, American households have increasingly turned to the rental market for their housing. From 31 percent in 2004, the renter share of all US households climbed to 35 percent in 2012, bringing the total number to 43 million by early 2013.

A confluence of factors drove this increase. The enormous wave of foreclosures that swept the nation after 2008 certainly played a role, displacing millions of homeowners. The economic upheaval of the Great Recession also contributed, with high rates of sustained unemployment straining household budgets and preventing would-be buyers from purchasing homes. Meanwhile, the experience of the last few years highlighted the many risks of homeownership, including the potential loss of wealth from falling home values, the high costs of relocating, and the financial and personal havoc caused by foreclosure. All in all, recent conditions have brought renewed appreciation for the benefits of renting, including the greater ease of moving, the ability to choose housing that better fits the family budget, and the freedom from responsibility for home maintenance.

Households of all but the oldest age groups have joined in the shift toward renting (Figure 1.1). The largest increase in share is among households in their 30s, up by at least 9 percentage points over an eight-year span. But shares of households across all five-year age groups between 25 and 54 also rose by at least 6 percentage points. In fact, the jump in rental rates for most age groups was well above the 4.0 percent overall rise, reflecting how the movement of the population into older age groups (when owning is more prevalent) stemmed some of the drop in homeownership.

With these widespread increases in the shares opting to rent, the 2000s marked the strongest decade of growth in renter households over the past half-century. After a modest rise early in the decade, the number of renter households soared after 2005, boosting average annual growth to more
than 500,000. Although estimates from the two key Census Bureau sources for 2010–13 differ widely, they both indicate that renter household growth continued at a torrid pace—rising at double the rate of recent decades (Figure 1.2).

The future pace of growth will depend largely on how the share of households that rent evolves. This in turn depends primarily on economic factors such as changes in household incomes, the direction of prices and rents, and the availability and terms of mortgage finance. But given the ongoing recovery in the homeowner market and the fact that rentership rates for households aged 30–64 are at their highest in the last 30 years, further increases in renter share are likely to be small and growth in the number of renters is likely to slow.

The Joint Center for Housing Studies has estimated renter household growth over the next decade applying current homeownership rates to recent household projections—in essence isolating the contribution of demographic forces from changes in rentership rates. Depending on the pace of immigration, the number of renter households is likely to increase by between 4.0 million and 4.7 million in 2013–23. While a considerable slowdown from the current rate, growth would still outstrip increases in both the 1960s and 1990s. These projections would of course understate renter household growth if renting becomes more popular over the next decade and overstate growth if homeownership rates rebound.

**HOMES FOR A DIVERSE AMERICA**

Offering greater flexibility and requiring less of a financial stretch than homeownership, renting is most common during the young adult phase of life when changes in work and relationships are frequent. But while four out of ten renters are under age 35, renting has appeal for households of all ages. In fact, more than a third are middle-aged (between 35 and 54), similar to that age group’s share among all households.
Even during the phases of life when people are most likely to own, many households rent for at least some period of time. For example, nearly one in five households that were in their 30s in 2001 switched from owning to renting at some point in 2001–11, as did nearly one in seven of those in their 40s. Even among households in their 50s and 60s in 2001 with longer histories of homeownership, 11 percent of those switched from owners to renters at some point during the ensuing decade. A return to renting is even more common later in life, with 24 percent of households over age 70 making that transition between 2001 and 2011.

Rental living often conjures up images of single people and unrelated roommates. Singles are indeed the most common type of renter, reflecting both their growing share of all households and the fact that renting often suits their need for less space at a lower cost. But contrary to the stereotype, families with children account for nearly as many renters as single persons (Figure 2). In fact, the share of families with children among renters is higher than the share among owners.

Since renting is more financially feasible for households of modest means, renters’ incomes are disproportionately low. Nearly a quarter of renters have annual incomes under $15,000 (roughly equivalent to earnings from full-time work at the minimum wage), while only 13 percent of all households fall into this income category. A similar share of renters takes home between $15,000 and $30,000 a year, again much higher than this group’s share of all households. Still, people at all income levels rent. More than a third of renters have moderate incomes (between $30,000 and $75,000), roughly matching their share of all households. The most underrepresented income group, earning $75,000 or more a year, still accounts for 17 percent of renters.

Over the next decade, two broad demographic trends—the aging of the population and the increasing importance of minorities for household growth—will drive significant changes in rental demand. Assuming current rentership rates, the aging of the baby-boom generation will lift the number of renters over age 65 by 2.2 million in the ten years to 2023, generating roughly half of overall renter growth. The older profile of renters means much of the increase will be among single persons and married couples without children, each group accounting for about 30 percent of growth. Many of these older households are already renters, but will be aging into the next phase of life. This trend suggests growing demand for smaller rentals, with good access to transportation and located near communities where households in their 50s and 60s are currently living.

Mirroring overall population growth, minorities will contribute virtually all of the net increase in renters over the coming decade, with Hispanics alone accounting for more than half of the total. Again assuming today’s rates of renting, minorities will add between 1.8 million and 2.2 million renter households in the 25–44 age group, with the wide range reflecting different assumptions about future immigration levels. Significant shares of these younger renter households will be married couples with children and single-parent families, which together will account for another 30 percent of new renters. This group of households will seek more spacious homes to accommodate their larger families and in locations with access to good schools and employment opportunities.

**The Range of Rental Housing Options**

Unlike owner-occupied housing, rentals come in a variety of configurations. Still, nearly four out of ten rental properties are single-family homes, and another fifth are in small buildings with two to four units (Figure 3). The more prototypical apartment buildings of 10 or more units account for 30 percent of rentals. Rental housing is more likely to be located...
in urban areas, with central cities home to 43 percent of renters. But nearly as large a share (40 percent) of renters reside in the suburbs—only slightly below the 49 percent of all households that live in these areas.

In keeping with the large share of renters of modest income, rental housing is concentrated in low-income communities. Based on American Community Survey (ACS) data from 2007 to 2011, 45 percent of occupied rental homes in the 100 largest metropolitan areas were located in low-income neighborhoods (with median incomes below 80 percent of the metro area median). In contrast, only 28 percent of all households lived in these areas. Nonetheless, rental housing is found in neighborhoods across the income spectrum, with nearly a fifth in communities where median income exceeds 120 percent of the metro area median.

Yet the location of newly built rental units within metropolitan areas nearly matches the distribution of existing owner and renter housing combined. Indeed, renter-occupied housing units built since 2000 are evenly distributed across neighborhoods by income level, as well as across core cities, suburbs, and exurban areas. In contrast, new owner-occupied units are highly concentrated in higher-income neighborhoods and in exurban areas.

The recent housing market upheaval has highlighted the dynamic nature of the housing stock. According to the Current Population Survey, the number of renter households increased by 3.4 million from 2007 through 2011. With construction volumes depressed, most of this new demand was met by the migration of 3.0 million units—primarily single-family homes—from the owner-occupied to the rental housing stock. This influx pushed the share of single-family rentals up 4 percentage points, to 35 percent, in 2011. While still a small share of the overall market, institutional investors also began buying up single-family properties for rentals, testing new business models for owning and managing portfolios of individual homes that may further expand rental housing options.

RENTAL MARKET REVIVAL
The collapse of the housing market was a key factor in the genesis of the Great Recession, and its painfully slow rebound is one of the major impediments to the broader economic recovery. Even so, the rental sector bounced back relatively quickly both because demand has been so strong and because it was less caught up in the lending excesses that fueled the housing bubble. By a variety of measures, the rental sector has been strengthening for several years, starting with the downturn in vacancy rates in 2010 (Figure 4). Rents picked up in 2011 as markets tightened. With these gains, the financial performance of rental properties also improved, with net operating income and property values making up much of the ground lost during the downturn.

The Rental Stock Provides a Broad Array of Housing Choices

Note: Includes vacant for-sale and for-rent units.
Most important for the economy, construction activity also accelerated in 2011 as multifamily starts—the vast majority intended for the rental market—jumped 54 percent. Midway through 2013, starts were on pace to total 294,000 for the year, still below the 340,000 annual rate averaged in the early 2000s before the housing bust. Because of the lengthy construction process for large properties, however, completions are still far below levels a decade ago.

The rental housing recovery is widespread, with lower vacancies, higher rents, and higher construction levels evident in a large majority of markets. Indeed, multifamily permitting has accelerated in two-thirds of the 100 largest metropolitan areas, exceeded averages during the 2000s in a third of those markets, and even surpassed previous peaks in a few metros. The rapid expansion of production has raised alarms about potential overbuilding, particularly since long development periods may mask the total volume of new multifamily housing coming on the market. So far, though, there are no signs of large increases in vacancies or decreases in rents that would indicate an oversupply of units. Still, vacancy rates do appear to be bottoming out and rent increases are slowing in many markets, suggesting that supply and demand are moving into balance.

One aspect of the rental market that does bear watching, however, is multifamily finance. During the downturn, most credit sources dried up as property performance deteriorated and the risk of delinquencies mounted. Much as in the owner-occupied market, though, lending activity continued through government-backed channels, with Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA) playing an important countercyclical role.

But as the health of the multifamily market improved, private lending revived. According to the Mortgage Bankers Association, banks and thrifts greatly expanded their multifamily lending in 2012, nearly matching the volume for Fannie and Freddie. Given fundamentally sound market conditions, multifamily lending activity should continue to increase. The experience of the last several years, however, clearly testifies to the importance of a government presence in a market that provides homes for millions of Americans, particularly during periods of economic stress.

THE SPREAD OF COST BURDENS
Against the backdrop of the rental market recovery, declining renter incomes continue to add to longstanding affordability pressures. Already up sharply before the recession began, the share of cost-burdened renters took a turn for the worse.
after 2007. As a result, the share of renters paying more than 30 percent of income for housing, the traditional measure of affordability, rose 12 percentage points over the decade, reaching 50 percent in 2010 (Figure 5). Much of the increase was among renters facing severe burdens (paying more than half of income for rent), boosting their share nearly 8 percentage points to 27 percent. These levels were unimagined just a decade ago, when the fact that the severely cost-burdened share was nearly 20 percent was already cause for serious concern.

In 2011, the last year for which detailed information is available, both the overall share of renters with cost burdens and the share with severe burdens moved up by about half a percentage point. These increases expanded the ranks of cost-burdened renters to 20.6 million, including 11.3 million that pay more than half their incomes for housing. Initial estimates for 2012 indicate the number of cost-burdened households again increased to a record 21.1 million. Although the share of cost-burdened renters receded slightly, this modest improvement occurred only because the number of higher-income renters rose sharply.

Housing cost burdens are nearly ubiquitous among lowest-income renters. An astounding 83 percent of renters with incomes of less than $15,000 were housing cost burdened in 2011, including a dismal 71 percent with severe burdens. But the largest increases in shares in 2001–11 were for moderate-income renters, up 11 percentage points among those with incomes of $30,000–44,999 and 9 percentage points among those with incomes of $45,000–74,999.

Rising unemployment clearly contributed to deteriorating affordability. In 2011, three-quarters of renters with household heads that were unable to find work in the previous year had housing cost burdens. The number of such households nearly quadrupled between 2007 and 2011, adding 830,000 to the ranks of cost-burdened renters. But high unemployment rates are not the main culprit because the spread of burdens has been even greater among households with full-time workers. The cost-burdened share of renters who worked throughout the preceding year rose by nearly 10 percentage points between 2001 and 2011, boosting their numbers by more than 2.5 million over the decade.

For families and individuals unable to find affordable housing, the consequences are dire. Among households with less than $15,000 a year in expenditures (a proxy for low income), severe cost burdens mean paying about $500 more for housing than their counterparts living in units they can afford. With little else in their already tight budgets to cut, these renters spend about $130 less on food—a reduction of nearly 40 percent relative to those without burdens. Severely burdened households with expenditures between $15,000–30,000 (one to two times full-time federal minimum wage work) cut back on food by a similar amount. Housing affordability is thus clearly linked to the problem of hunger in America. Both lower-income groups with severe housing cost burdens also spend significantly less on health care and retirement savings, with direct implications for their current and future well-being. But even those lower-income households that manage to secure affordable housing face difficult tradeoffs, often living in inadequate conditions or spending more on transportation.

THE CHALLENGE OF SUPPLYING LOW-COST HOUSING

While the steady erosion of household incomes has helped lift the ranks of cost-burdened renters, the affordability problem fundamentally reflects the simple fact that the cost of providing decent housing exceeds what low-income renters can afford to pay. Consider the case of renters with $15,000 in annual income. To meet the 30-percent-of-income affordability standard, they would have to find housing that costs no more than $375 a month. By comparison, the 2011 median monthly cost for housing built within the previous four years was more than $1,000. Less than 34 percent of these new units rented for less than $800, and only 5 percent for less than $400.

Given this mismatch, it is no surprise that the gap between the number of lower-income renters and the supply of affordable units continues to grow. In 2011, 11.8 million renters with extremely low incomes (less than 30 percent of area median income, or about $19,000 nationally) competed for just 6.9 million rentals affordable at that income cutoff—a shortfall of 4.9 million units. The supply gap worsened substantially in 2001–11 as the number of extremely low-income renters climbed by 3.0 million while the number of affordable rentals was unchanged. Making matters worse, 2.6 million of these affordable rentals were occupied by higher-income households.

Housing affordable to lowest-income renters tends to be older. Nearly half of unassisted rentals available for $400 a month or less in 2011 were built more than 50 years ago. These low-rent units are also more likely to be in poor condition, with 13.7 percent failing to meet the criteria for adequacy defined by the American Housing Survey, compared with 9.8 percent of all rentals. As a result, these homes are
most at risk of being demolished or otherwise permanently lost from the housing stock. Over the 10 years ending in 2011, 5.6 percent of all units available for rent were removed from the inventory. The rate for those renting for less than $400, however, was more than twice as high at 12.8 percent. While filtering of higher-cost units into the lower-cost segment offsets some losses, the net result is that the number of affordable units has stagnated for the past decade.

To make progress on the nation’s legislative goal of affordable homes for all requires a multi-pronged approach. Part of the solution is to persist in efforts to reduce regulatory barriers to construction of rental housing in general, because expanding the supply helps to reduce rent inflation for all households. But efforts to develop low-cost rentals deserve particular attention. A growing number of jurisdictions have in fact put some form of requirements or incentives in place to include more affordable housing in larger developments. State and local governments are also under growing pressure to provide greater allowances for the construction of smaller units, higher-density developments, and rentals with fewer amenities. For example, building accessory dwelling units (ADUs) within established neighborhoods is a promising means of adding modest rentals in convenient locations. Development of very small apartments, or micro units, may also help increase the affordable supply in high-density, high-cost areas.

At the same time, there must be greater incentives to invest in existing affordable housing. These might entail more generous tax breaks for maintenance and improvements or exemption from certain local building code requirements, allowing the rehabilitation of properties in cost-effective ways that fully protect residents’ safety but not necessarily to the standards of new construction. And for households with incomes too low to cover the costs of operating even lower-quality units in less desirable markets, public subsidies are essential.

**POLICY DIRECTIONS**

Rental subsidies are generally targeted at households with very low incomes, defined as not exceeding 50 percent of area median income. Between the onset of the Great Recession in 2007 and the latest count in 2011, the number of such renters soared by 3.3 million while the number able to obtain housing assistance expanded by just 225,000 (Figure 6). As a result, the share of income-eligible households receiving assistance shrank from an already modest 27.4 percent to 23.8 percent. Meanwhile, the number of unassisted very low-income renters with worst case needs (paying more than half of income for rent or living in severely inadequate housing) jumped by 2.6 million to 8.5 million. Continued economic recovery will ultimately boost renter incomes and thereby alleviate these conditions, but even in the best of times, the scale of need for assistance far outstrips available resources. And over the coming decade, rapid growth in the senior population will bring another surge in demand for assisted housing, straining the already limited capacity of programs specifically aimed at older Americans.

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**Notes:**

Very low-income (VLI) renters have incomes below 50% of area median. Worst case needs are defined as having no government housing assistance and paying more than 50% of income for rent or living in severely inadequate housing, or both.

Source: US Department of Housing and Urban Development, Worst Case Housing Needs Reports to Congress.
The limited growth in rental housing assistance reflects a range of challenges facing the programs delivering support. While funding for Housing Choice Vouchers—the main vehicle for expanded assistance—increased over the past decade, rising rents and falling incomes combined to raise the per-tenant costs of aid, limiting the program’s ability to reach more households. Public housing, the nation’s oldest assisted units, requires an estimated $26 billion in capital investments that remain unfunded. Many privately owned subsidized developments were also built more than 30 years ago and are now at risk of loss from the assisted stock due to aging and/or expiration of contracts. Mandatory funding cuts under federal budget sequestration have added to these pressures and could lead to a reduction of 125,000 vouchers this year.

So far, the Low Income Housing Tax Credit (LIHTC) program has been spared from sequestration because it operates through the tax code and therefore does not require annual appropriations. Since its inception in 1986, the LIHTC program has provided a critical piece of the financing used to support construction or preservation of some 2.2 million affordable housing units, filling a void left by the termination of most other assisted housing production programs several decades ago. The program has been highly successful in part because it puts private investors at risk of loss if developments fail.

By itself, however, the LIHTC does not provide deep enough subsidies to make units affordable for extremely low-income tenants, so it is often combined with other forms of assistance. The LIHTC program will come under scrutiny when debate about tax reform begins in earnest. In considering which tax expenditures to rein in, it will be important to recognize the LIHTC program’s exceptional track record and its unique role in adding to the affordable housing supply. It is also essential to look holistically at reforms of the LIHTC program and other assisted housing efforts to ensure that these resources work together effectively to meet the needs of the nation’s lowest-income renters.

With Fannie Mae, Freddie Mac, and FHA providing the lion’s share of longer-term, fixed-rate multifamily rental loans, impending reform of the housing finance system will also have profound implications for the cost and availability of multifamily credit. Although some have called for winding down Fannie’s and Freddie’s multifamily activities and putting an end to federal backstops beyond FHA, most propose replacing the implicit guarantees of Fannie Mae and Freddie Mac with explicit guarantees for which the federal government would charge a fee. Proposals for a federal backstop differ, however, in whether they require a cap on the average per unit loan size or include an affordability requirement to ensure that credit is available to multifamily properties with lower rents or subsidies. While the details are clearly significant, what is most important is that reform efforts do not lose sight of the critical federal role in ensuring the availability of multifamily financing to help maintain rental affordability, as well as in supporting the market more broadly during economic downturns.

A variety of proposals for rental housing assistance reform are on the table that are intended to make more efficient use of existing resources, tailor interventions to serve as a springboard for individual opportunity, revitalize distressed neighborhoods, and expand the scope of assistance. In particular, the US Department of Housing and Urban Development (HUD) has proposed a number of improvements to existing programs, including major changes to public housing. The Bipartisan Policy Center Housing Commission has attempted to jumpstart an even broader policy debate by laying out a framework of guiding principles and identifying a series of specific proposals that support those principles. The Housing Partnership Network has also created a detailed blueprint for reforms, while the Center on Budget and Policy Priorities has designed a new mechanism for delivering rental subsidies through the tax system, similar to the support provided by housing vouchers. Meanwhile, many organizations are calling for finally funding the National Housing Trust Fund, which was created in 2008 to support production of housing affordable to households with extremely low incomes. The question now is whether Congress will recognize the vital importance of this assistance to millions of Americans and take action on these promising new directions.