



RENTAL HOUSING SUPPLY

Rental housing is diverse, located in a range of building types across metropolitan areas. Since the housing market crash, conversions of owner-occupied single-family homes to rentals have accounted for much of the growth in the stock. With new multifamily construction serving the high end of the market and stock losses concentrated at the low end, the supply of rentals affordable to lower- and moderate-income households remains tight. Meanwhile, demographic shifts are driving up the need for a greater variety of low-cost rental options.

COMPOSITION OF THE STOCK

As of 2013, fully 61 percent of the nation's 44 million rental units were in multifamily buildings. Nearly a fifth of all rentals were in small structures with 2–4 units and a quarter in mid-sized buildings with 5–19 units. Contrary to popular perceptions, large rental buildings (with 20 or more units) accounted for only 18 percent of the overall stock and just 25 percent of the rental supply in central cities (**Figure 12**).

The remainder are single-family homes. The single-family share of the stock has risen steadily since the housing market crash resulted in the conversion of millions of owner-occupied homes to rentals. Early in the crisis, owners often opted to rent their homes rather than sell in a depressed market; later in the downturn, many homes were converted to rentals after foreclosure.

While more than 40 percent of single-family rentals are located in the suburbs, a third are in central cities. Indeed, they account for a slightly larger share (27 percent) of the rental stock in central cities than units in large multifamily buildings with 20 or more units. Nearly a quarter of single-family rentals are located in rural areas. Mobile homes make up just 4 percent of the total rental stock, and are predominantly located in suburban and non-metropolitan areas. They are most commonly found in the South, where they account for 7 percent of the rental stock, compared with 2 percent in other regions of the country.

Units that are older and those in smaller buildings are typically less expensive than rentals in large multifamily buildings. More than a third (38 percent) of apartments in buildings with 2–4 units rent for less than \$600 a month. In sharp contrast, 27 percent of units located in buildings with 50 or more units charge rents this low.

Meanwhile, single-family homes serve a wide range of the market, accounting for 37 percent of all unassisted units renting for less than \$400 a month, but also having among the highest median rents of any structure type. This is particularly true in suburban areas, where 64 percent of single-family homes rent for \$800 or more per month. In general, however, most lowest-cost single-family rentals are outside of central cities, with 42 percent of units renting for less than \$400 a month located in non-metro areas, 27 percent in the suburbs, and 30 percent in central cities.

RENTAL PROPERTY OWNERSHIP

Ownership of rental properties is fragmented. National Multifamily Housing Council data indicate that the 10 largest investors owned about 6.3 percent of rentals in structures with five or more units in 2014 (1.3 million units), while the 50 largest investors owned about 13.8 percent (2.8 million units). Although ownership of this segment of the rental stock is more concentrated than other segments, it is still fairly decentralized and highly competitive, with no single company owning more than 1.3 percent of all apartments.

Owners of smaller multifamily properties are primarily individuals and trusts. Indeed, individuals and trusts own 87 percent of rental properties with 2–4 units and 62 percent of

properties with 5–24 units. According to the 2001 Residential Finance Survey, individuals also owned 83 percent of all single-family rentals. More recent Survey of Consumer Finances data suggest that this pattern continued even after the foreclosure crisis brought more institutional investors into the market. Between 2001 and 2013, the number of US households holding residential real estate in addition to their primary homes and reporting other business income (a proxy for rental property ownership) increased by 2.6 million, to 5.6 million.

Meanwhile, a 2015 Moody’s Analytics report notes that the seven largest single-family real estate investment trusts (REITs) own close to 150,000 single-family rentals. While these companies are the main players in this market, they collectively own only a small share of single-family rental properties.

AGE AND CONDITION OF THE STOCK

The smallest multifamily rental buildings (2–4 units) are typically the oldest, with a median age of 53 years. By comparison, buildings with at least five units have a median age of 38 years. Indeed, 29 percent of multifamily structures with 2–4 units were built before 1940, compared with just 15 percent of buildings with 20–49 units and 11 percent of buildings with 50 or more units. With new construction focused primarily on larger buildings, only 4 percent of apartments in buildings with 2–4 units were built in 2003 and later.

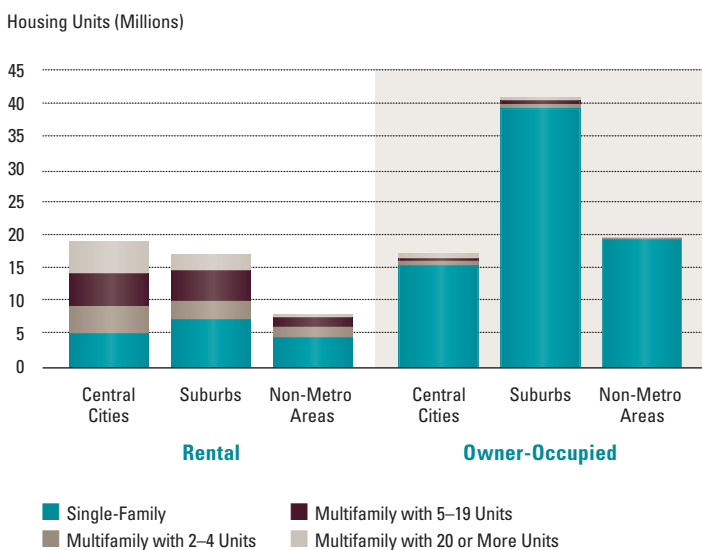
On the single-family side, the median age of detached rental homes is 53 years, while that of attached rental homes is 38 years. Owner-occupied units are much newer, with a median age of 43 years for single-family detached homes and 33 years for single-family attached units. Mobile homes are among the newest rentals, with a median age of 33 years.

The rental stock is generally in good condition, with only 3 percent considered severely inadequate and another 6 percent categorized as moderately inadequate. More than six out of 10 inadequate units were built either before 1940 or during the multifamily construction boom in 1960–1979. Apartments in buildings with under 10 units account for 35 percent of severely inadequate rentals, while detached single-family rentals account for 24 percent. More than half of the nation’s severely inadequate rental housing is located in central cities.

Lower-cost rentals are more apt to be inadequate, with 12 percent of units renting for less than \$400 a month having

FIGURE 12

The Rental Stock Provides Diverse Housing Options



Notes: Estimates include vacant units for rent, rented but unoccupied, for sale, and sold but unoccupied. Single-family homes include mobile homes.
Source: JCHS tabulations of US Department of Housing and Urban Development, 2013 American Housing Survey.

structural or maintenance problems compared with 7 percent of units renting for at least \$1,000 a month (Figure 13). Inadequacy problems are also more common in low-cost unsubsidized units than in rentals with some form of federal assistance. The exception is public housing, where the units are in greater disrepair than all other types of occupied rentals. In 2013, over half of occupied public housing units experienced three or more heating equipment breakdowns lasting at least six hours, and 13 percent of units had water leaks due to equipment failures within the previous 12 months. Heating equipment failures were also relatively common in voucher-assisted units in 2013, affecting 38 percent of these rentals.

LONGER-TERM DYNAMICS

Over time, the rental housing stock can undergo profound changes as units are added through new construction and conversions of existing structures from other uses, while other units are lost to demolitions and conversions to other uses. In addition, the availability of housing at different rents also constantly evolves as some units filter down to lower levels as they age or because of declines in demand, while others move up the rent scale due to upgrades and increases in demand.

Over the past decade, much of the growth in the rental housing stock came from conversions of owner-occupied and for-sale units to rentals. According to the American Housing Survey, there was a net gain of 3.8 million rental units converted from the owner-occupied stock between 2003 and 2013, including 3.0 million single-family detached units and 700,000 units in other types of small structures (attached single-families, mobile homes, and buildings with 2–4 apartments). Consistent with this finding, a 2011 HUD report found that attached, smaller, and older units—as well as those located in central cities—are most likely to transition to the rental market.

Meanwhile, new construction intended for renter occupancy totaled 2.2 million over the same period, with most located in larger buildings. The American Housing Survey indicates that buildings with 20 or more units accounted for 49 percent of all multifamily rentals built between 2003 and 2013, while small buildings with 2–4 units represented just 16 percent.

The median monthly rent of housing built over the decade, at \$950, is close to that of all rentals. The most affordable new rentals are in smaller structures, with typical rents in buildings with 2–4 apartments considerably lower at \$765. At the other end of the spectrum, rentals in the largest multifamily buildings have the highest rents, with a median of \$1,290. Overall, only about a third of newly constructed housing rented for under \$800 in 2013.

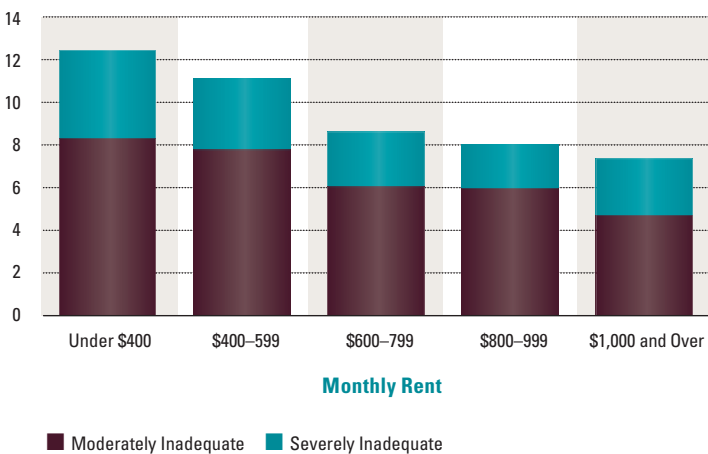
With new construction more likely to add housing at the middle and upper ends of the rent spectrum, filtering is responsible for most of the gains in the affordable supply. In 2013, downward filtering of higher-cost housing had increased the number of units renting for less than \$400 by 11 percent from the level in 2003 (Figure 14). At the same time, though, these gains were offset by a similar share of lowest-cost rentals that were permanently removed from the stock. And while conversions of housing from the owner-occupied stock made important contributions to the overall rental supply, relatively few of these units were at the lowest rent level. Factoring in additions from other sources, the total number of units renting for under \$400 in real terms grew by only 10 percent over the decade.

Meanwhile, with somewhat lower permanent loss rates and larger increases driven by tenure conversions, the moderate-cost stock (with rents of \$400–799) expanded by 12 percent in 2003–2013. In both of these market segments, the growth in supply was outstripped by increases in the numbers of renter households for which this housing would be affordable.

FIGURE 13

Lowest-Cost Rentals Are Most Likely to Have Major Quality Issues

Share of Units That Are Inadequate (Percent)

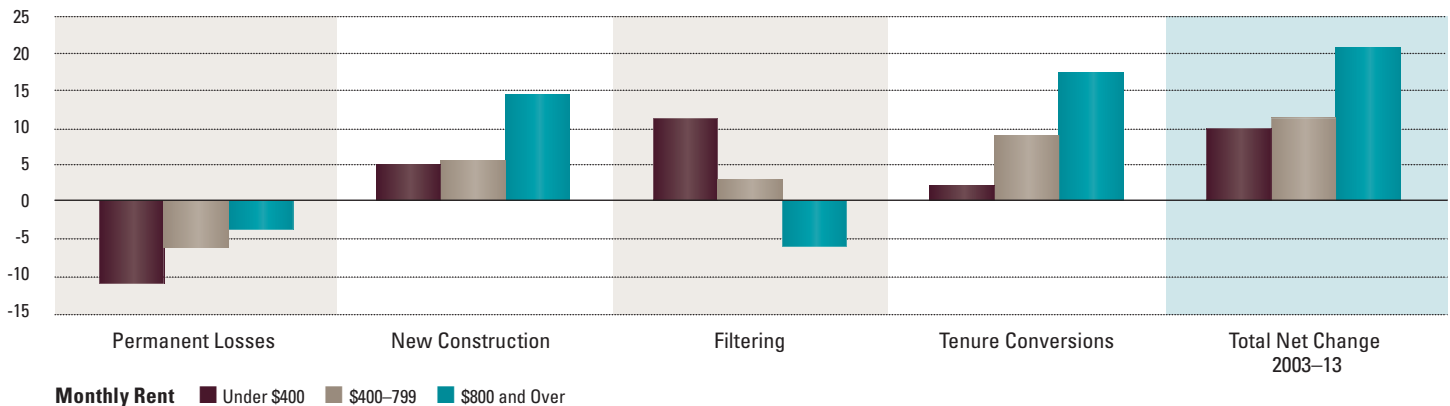


Notes: Estimates exclude vacant units, no-cash rentals, and other rentals where rent is not paid monthly. Inadequate units lack complete bathrooms, running water, electricity, or have other indicators of major disrepair. For a complete definition, see HUD Codebook for the American Housing Survey, Public Use File. Source: JCHS tabulations of US Department of Housing and Urban Development, 2013 American Housing Survey.

FIGURE 14

While Filtering Helps to Replenish the Supply, Affordable Units Are Often Lost to Upgrading

Gains and Losses as Shares of the 2003 Stock (Percent)



Notes: Estimates include only units with cash rent reported. Included in total net change but not shown separately are conversions to and from other uses, such as seasonal and non-residential.
Source: JCHS tabulations of US Department of Housing and Urban Development, 2003-2013 American Housing Surveys.

THE HIGH COSTS OF DEVELOPMENT

Since filtering does not adequately address the growing gap between demand for lower-cost units and the existing supply, new construction is necessary to help meet part of the shortfall. Rental housing developers, however, face a variety of regulatory and financing obstacles that limit their ability to add significantly to the lower-cost stock.

Producing rental units at the price that the median renter can afford (\$875) is difficult. Local land use regulations often restrict the area available for multifamily development, particularly in suburbs, which can increase the competition for available sites and raise land costs. Parcel assemblage and acquisition are also costly in locales where demand for market-rate rentals is strong. In addition, development economics rest heavily on allowable densities, but local zoning restrictions often limit the number of units in multifamily developments. This raises per-unit construction costs and ultimately the rents that developers must charge to be profitable.

Zoning review is an issue as well. While common for larger projects, discretionary reviews are sometimes required even for small multifamily developments. The conditions imposed during this process can increase per-unit costs; they also add uncertainty, further raising costs. Moreover, construction costs for structures with two or more units are already high, topping \$100,000 per unit on average in eight of the last ten years. In high-cost markets, per-unit construction costs can

be several times that national average. As a result, development increasingly focuses on the upper end of the market where the higher rents can cover the debt service associated with acquisition and construction.

Government subsidies to help address high rental housing development costs are limited. The Low Income Housing Tax Credit program, the main mechanism for subsidizing affordable development, is by itself insufficient, forcing developers to layer multiple subsidies to keep rents affordable. The complexity and requirements of these layered subsidies also add to costs. In addition, declining tax credit rates have reduced the amount of equity available for affordable housing development.

Meanwhile, the HOME program, another important source of affordable housing subsidies, has been cut by more than half since FY2010 and further reductions are on the table. According to a 2014 National Low Income Housing Coalition survey of over 200 affordable housing developers, HOME was the most commonly used subsidy program, with three-quarters of survey respondents noting that they had used HOME funds to subsidize affordable units.

NEED FOR MORE DIVERSE UNIT SIZES

With the number of one- and two-person households on the rise, demand for smaller, lower-cost rental units is increas-

ing. “Micro” units are one solution that is gaining traction. These units, often just a few hundred square feet in size, are generally targeted to younger professionals willing to trade off space for location, but they may have appeal for older single-person and two-person households as well. Since land use regulations often pose impediments to construction of these small units, several cities are experimenting with regulatory relief, including reduced parking requirements or waivers on minimum unit size.

As New York University’s Furman Center points out, however, even though their overall rents are lower, micro units in many cities often have higher rents per square foot than larger units. Given that single-person households have among the lowest median incomes of any renter household type, it remains to be seen whether new micro units will be a lower-cost alternative for this market.

Accessory dwelling units (ADUs)—apartments added to single-family properties—are another lower-cost rental option intended for smaller households. While many communities still prohibit or restrict ADUs, some are taking steps to reform zoning to reduce barriers to their construction. Other municipalities are considering how to legalize existing units that violate building or zoning codes. As a 2011 study from the Berkeley Institute of Urban and Regional Development found, illegal ADUs may account for 2–10 percent of the housing stock in some densely occupied communities on the East and West Coasts.

Meanwhile, nearly a third of renters are parents with children and thus require more space. Not surprisingly, close to half of these households rent single-family homes, which typically have more bedrooms than multifamily units and are more likely to be located in suburban communities. But as noted earlier, single-family homes have among the highest median rents of any type of rental housing and are therefore beyond the means of many lower-income families.

The other half of parent-child households live in multifamily housing. Apartments in buildings with five or more units tend to be smaller than single-family rentals: only 14 percent have at least 1,200 square feet, compared with 66 percent of single-family rentals. Similarly, just 9 percent of apartments in buildings with five or more units have at least three bedrooms, compared with 65 percent of single-family rentals.

Multifamily buildings with 2–4 units tend to be more family-friendly than larger structures, offering more bedrooms and lower rents (**Figure 15**). But these units are older and at higher

risk of loss from the housing stock. In addition, in some locations like Boston, these units are often occupied by groups of roommates who are able to pay higher rents than families. Several cities are considering financing and zoning mechanisms to encourage development of at least some larger rental units. The common concern for developers, however, is that these units are less economical to build. For residents of some suburban communities, the fear is that building larger apartments will attract more renter households with children and thus overburden local schools.

SHORTFALL IN ACCESSIBLE UNITS

According to the 2011 American Housing Survey, more than 7 million renter households have at least one member with a disability related to hearing, vision, cognition, mobility, self-care, or independent living. Some 4.3 million of these renter households have someone at home who has serious difficulty walking or climbing stairs. The incidence of disabilities increases sharply with age: among those aged 80 and over, fully 65 percent of renter households have at least one disability. With the aging of the baby-boom generation, the number of renters with disabilities is thus set to rise sharply in the years ahead.

Even so, less than 1.0 percent of US rentals—roughly 365,800 units—include five basic universal design features: no-step entry, single-floor living, lever-style door handles, accessible electrical controls, and extra-wide doors and hallways. With its older stock, the Northeast has the least accessible rental housing inventory in the country. And in the nation as a whole, the recent conversion of many single-family homes to rentals raises additional accessibility concerns, given that these units—particularly attached single-families—tend to have fewer universal design features, especially single-floor living.

Although rentals in newer and larger multifamily buildings are more apt to include some universal design features, few offer all five of the basic features listed above. Indeed, just 6 percent of units in buildings constructed in 2003 and later, and 11 percent of units in buildings with 20 or more units, do so. Although the Fair Housing Act requires that buildings with four or more units constructed after 1991 include some accessibility features, these regulations do not guarantee that rental units will be accessible to all persons with disabilities. In addition, existing legal protections related to accessibility better serve older renters living in multifamily buildings than those who rent single-family homes: unless the units receive federal subsidies, Fair Housing Act standards and other accessibility guidelines do not apply to single-family detached rentals or units in two- and three-family structures.

Given the projected addition of 26 million adults aged 65 and over in the next 15 years, retrofits of existing units to improve accessibility will be critical. Although some localities can set aside part of the funds they receive through the federal Community Development Block Grant and HOME programs for home modifications, this funding is typically targeted toward homeowners. For their part, rental property owners are usually obligated to pay for accessibility alterations only when their buildings are not in compliance with the law or when they are federally subsidized. In many cases, tenants must pay for home modifications themselves. Even then, however, property owners must approve the changes (unless required to do so if the retrofits are deemed reasonable under the Fair Housing Act). Both public and private investments in accessibility modifications to the rental stock are essential to ensure that growing numbers of older households with disabilities can live safely and independently in their homes.

THE OUTLOOK

The rental housing supply is dynamic, with millions of units flowing into the stock from construction of new multifamily units and conversions of single-family homes. But most recent additions to the inventory serve the higher end of the market. Downward filtering of units to lower rents has

met only a small portion of the growing need for affordable rentals, and lower-cost units are most likely to be lost from the stock. This bifurcation in the rental supply is a growing concern for millions of moderate- and lower-income renters seeking housing that not only fits their budgets, but also their specific needs for location and unit size.

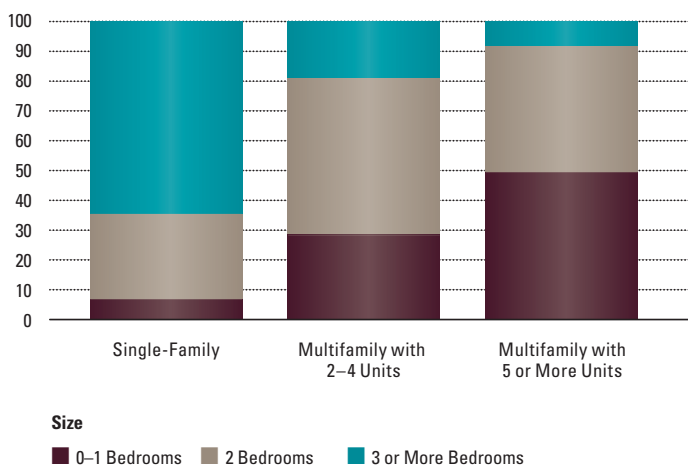
The barriers to the development of lower-cost units are numerous. At the local level, it will take significant political will to overcome concerns about increased density—and about rental housing itself—to reduce the regulatory barriers to development of multifamily properties, micro units, and ADUs. Furthermore, the need for development subsidies for affordable housing far outstrips the funds available.

To support the nation’s aging population, the passage of “visitability” ordinances mandating universal design features in new single-family construction would help meet some of the need for accessible rental housing, although it may take time for new single-family units to find their way into the rental stock. More immediately, increased funding for accessibility modifications to the existing stock would enable millions of older renters to age in place without risk to their health and safety.

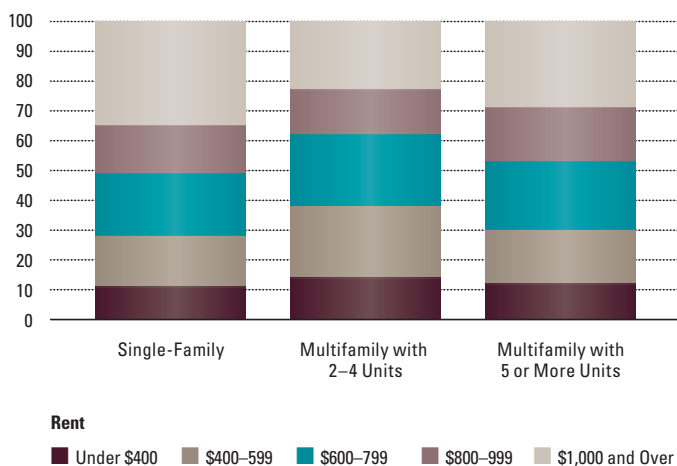
FIGURE 15

Small Buildings Play a Key Role in Providing Low-Cost, Family-Sized Units

Distribution of Rental Units by Size (Percent)



Distribution of Rental Units by Rent (Percent)



Notes: Estimates include vacant units. Monthly rent calculations exclude no-cash rentals and other rentals where rent is not paid monthly.
Source: JCHS tabulations of US Department of Housing and Urban Development, 2013 American Housing Survey.