The troubled homeowner market, along with demographic shifts, has highlighted the vital role that the rental sector plays in providing affordable homes on flexible terms. But while rental housing is the home of choice for a diverse cross-section of Americans, it is also the home of necessity for millions of low-income households.

And the share of US households unable to find affordable rentals has been on the rise for a half-century, with an especially large jump in the last decade as renter income fell even further behind housing and utility cost increases. Even as the need for affordable housing grows—both assisted by the government and supplied in the private market—long-run pressures continue to threaten this essential resource.

Rental markets are now tightening, with vacancy rates falling and rents climbing. With little new supply of multifamily units in the pipeline, rents could rise sharply as demand increases. Regardless, affordability is likely to deteriorate further over the next few years as persistently high unemployment limits renter income gains. Meanwhile, policymakers must find ways to do more with less as they confront the stark realities of federal budget cuts. In this difficult environment, all levels of government will be challenged to support efforts to meet the nation’s fundamental need for affordable, good-quality rental housing.

RENEWED IMPORTANCE OF RENTAL HOUSING
The foreclosure crisis gripping the owner-occupied housing market serves as a stark reminder of the advantages and importance of rental housing. The plunge in home prices across the country, coupled with steep job losses, has put the financial risks of homeownership into sharp relief as millions of Americans lose their homes. The economic distress caused by the recession—including the swelling ranks of low-income households—has also underscored the critical importance of an adequate supply of affordable rental housing.

Renting offers many benefits. First, moving to and from rental housing involves much lower transaction costs than homeownership. Although renters do incur moving costs and landlords typically demand the last month’s rent plus a security deposit, these outlays are smaller than the fees associated with buying and selling homes. Second, renting transfers primary responsibility for upkeep and mainte-
nance to a landlord. And third, renting does not tie up funds in the form of a downpayment, nor does it expose households to the risk of loss of that investment. While renters do face the risk of rent inflation and the loss of their security deposits, rental housing provides a safe haven during times of falling home prices or job insecurity.

Small wonder, then, that almost all Americans rent at some point in their lives. Among the population that reached adulthood around 1980, fully 95 percent lived in rentals sometime during the ensuing two decades, including the vast majority of those leaving their parents’ homes for the first time. Renting is a common choice for young adults since they face frequent moves as family, work, school, and living arrangements change—not to mention wealth and income constraints that prevent them from becoming homeowners. Moreover, many of those who do buy homes return to renting at least once as they relocate for new jobs or look for work, divorce or separate, or opt out or fail in homeownership. Even during the recent homebuying boom, the share of US households living in rental housing never fell below 30 percent. Of course, many households remain renters throughout their lives either because of the flexibility and freedom from property management responsibilities renting offers, or because of the financial barriers or risks associated with homeownership.

Renting has social as well as individual benefits. By sharply reducing the transaction costs of moving, the rental market allows the labor force to adjust more smoothly and rapidly to geographic shifts in the demand for workers. Rental units also provide a ready option for those who lack the wealth or credit quality to own but want to live independently. And for individuals as well as businesses, owning rental properties is an avenue for wealth creation. At the community level, good-quality rental housing can provide a key component in efforts to stabilize distressed neighborhoods.

Today, both economic conditions and demographic forces are bolstering rental demand. Reversing trends prevailing from the mid-1990s to the mid-2000s, the housing bust and Great Recession have pushed up the share and number of renter households. With millions of homeowners delinquent on their mortgages, further increases in the renter population are likely. Owners that have gone through foreclosure are especially likely to remain renters for a number of years to come.

**DIVERSE HOMES FOR DIVERSE HOUSEHOLDS**

Through economic booms and busts, households of all types and ages live in rental housing. Single persons—with their more limited incomes and need for less living space—

---

**FIGURE 1**

**Renters Reflect the Diversity of US Households, But Are More Likely to Be Young, Single, and Low-Income**

Share of Households (Percent)

<table>
<thead>
<tr>
<th>Age of Household Head</th>
<th>Renters</th>
<th>All Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>15–24</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>25–34</td>
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<td>90</td>
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<td>35–44</td>
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<td>45–54</td>
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<td>70</td>
</tr>
<tr>
<td>55–64</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>65 and Older</td>
<td>50</td>
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</tr>
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</table>

<table>
<thead>
<tr>
<th>Household Type</th>
<th>Renters</th>
<th>All Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married With Children</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Married Without Children</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Single Parent</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Other Family/Non-Family</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Household Income Quartile</th>
<th>Renters</th>
<th>All Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Lower Middle</td>
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<tr>
<td>Upper Middle</td>
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<td>10</td>
</tr>
<tr>
<td>Top</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes: Children are the householders’ own children under the age of 18. Income quartiles are equal fourths of all households (both owners and renters) sorted by pre-tax household income. Other family/non-family includes unmarried partner households.

Renters are ethnically and racially diverse, with minorities accounting for 89 percent of the more than 4.0 million growth in their numbers from 2000 to 2010. Hispanics contributed 42 percent, and blacks 25 percent, of this increase. Over the decade, the minority share of renters thus rose from 39 percent to 45 percent—more than twice the minority share of owners. In large measure, these minority gains reflect the fact that half of all immigrants rent their housing. Indeed, the foreign-born head one in five renter households. With the recession-induced slowdown in immigration and the bust in the homeownership market, however, whites accounted for nearly half of all renter household growth in 2005–10.

While the common perception of rental housing is of large structures in urban areas, more than half of all rental units are in buildings with four or fewer units—including 34 percent that are single-family homes. Renters are in fact more likely to live in the center cities of metropolitan areas than homeowners, but more than half live in suburban and non-metropolitan areas. Indeed, two out of every five renters live in suburban areas and about one in seven in non-metro areas. And although center city rentals are more likely to be in larger buildings, nearly half are in structures with just 1–4 units even in urban areas. Almost three-fifths of rentals in suburban areas, and four out of five in non-metro areas, are also in these smaller structures.

MARKETS ON THE MEND
Although the Great Recession created a variety of financial stresses for rental property owners, market conditions are starting to improve (Figure 2). As measured by the Housing Vacancy Survey (HVS), the overall rental vacancy rate hit 10.7 percent at the end of 2009, up from 9.6 percent at the end of 2007. Meanwhile, the Consumer Price Index (CPI) indicates that nominal rents for primary residences stalled in mid-2009 for the first time in decades. Professionally managed apartments were particularly hard hit, with MPF Research reporting a 4.1 percent drop in effective rents nationally as of the fourth quarter of 2009. But the impact of the housing market bust was most evident in the prices of multifamily properties. After nearly doubling from the end of 2000 to the end of 2007, Moody’s Commercial Property Price Index for apartment buildings was down 31 percent over the two-year period from the end of 2007 to the end of 2009.

But even as the economy struggled to add jobs in late 2010, signs emerged that rental markets were tightening. The

make up nearly two out of every five renters (Figure 1). The rest of the renter population is divided among married couples with and without children, single-parent households, and other related and unrelated groups of people. While younger age groups are much more likely to rent, more heads of renter households are 35–64 years old (46 percent) than under 35 (41 percent). Elderly households account for the remaining 13 percent of renters by age.

Reflecting their disproportionately large shares of single-person, young, and minority households, renters are heavily concentrated in the bottom half of the income distribution. Nearly three-quarters of renters have incomes below the median income for all households, including 41 percent in the bottom income quartile and 30 percent in the lower-middle quartile. Relatively few renters have high incomes, with only 10 percent in the top quartile.
indicators of a rebound for professionally managed apartments were especially strong, with MPF Research reporting a 1.7 percentage-point drop in vacancy rates and a 2.3 percentage point annualized increase in rents as of the fourth quarter of 2010. Trends in multifamily prices also point to a rebound, with Moody’s index up 12 percent from the end of 2009. Nevertheless, prices remained 28 percent below the peak in real terms.

The critical question now is whether supply and demand are approaching balance. While vacancy rates are near pre-recession levels, they are still well above 1990s levels. Since the 1980s, however, the rental vacancy rate has stair-stepped higher, suggesting that rates may not need to return to previous levels to trigger a fresh round of rent inflation. Moreover, the ingredients for a surge in demand may be present. The recession has not only dampened the rate at which young adults form independent households, but also stalled the pace of immigration—both drivers of rental demand. When job growth regains momentum, the number of renter households could climb quickly.

Given the long lead times needed to develop new multifamily housing, a sharp increase in demand could quickly reduce vacancy rates and put upward pressure on rents. While this would be good news for owners and investors in rental housing, it would also fuel the intense affordability pressures that low-income renters already face.

**THE AFFORDABILITY CRISIS**

When considered over just a few years, changes in the shares of cost-burdened renters may not seem dramatic. Over the longer sweep of time, though, the increase is alarming. A common standard of affordability is that rent and utility costs together require less than 30 percent of household income. Above that limit, renter cost burdens are defined as moderate (between 30 and 50 percent of income) or severe (more than 50 percent of income). In 1960, 24 percent of renters were at least moderately burdened, including 12 percent that were severely burdened. By 2000, these shares had reached 38 percent and 20 percent. And by 2009, the share of at least moderately cost-burdened renters soared to 49 percent while the share of severely burdened renters jumped to 26 percent.

Both weak income gains and rising housing costs have contributed to this growth. Over the past 30 years, the median renter income has generally risen during economic expansions but then given back any gains during subsequent recessions. Following the 2001 downturn, however, real renter incomes failed to rebound and now remain below their 1980 level (Figure 3). At the same time, real contract rents have climbed by more than 15 percent since 1980. After stagnating for nearly a decade following the 1980s building boom, rents rose steadily from the mid-1990s on. And given that four out of five renters pay their own utility costs, the spike in energy prices since the start of the 2000s...
has also served to widen the gap between rent increases and renter income growth.

Affordability problems are especially common among the nation’s lowest-income renters. Federal housing assistance programs generally target households with extremely low incomes (less than 30 percent of area medians) and very low incomes (30–50 percent of area medians). Fully 63 percent of extremely low-income renters had severe housing cost burdens in 2009, while an additional 15 percent had moderate burdens. Comparable shares among very low-income renters were 49 percent and 28 percent.

After paying such large portions of their incomes for housing, many renters have little left to cover other basic necessities—let alone save or invest in education in an effort to move out of poverty. In 2009, the average amount of pre-tax income that renters in the bottom expenditure quartile had to spend on all other items was a meager $920 per month. For those in the bottom expenditure quartile with severe housing cost burdens, the amount left over was just $571.

Moreover, housing affordability pressures are creeping up the income distribution. Over the past decade, the incidence of moderate cost burdens among renters in the lower-middle income quintile jumped from 32 percent to 41 percent. Renters in the middle income quintile saw an even larger increase, with the moderately burdened share more than doubling from 9 percent to 20 percent.

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PRODUCTION AND PRESERVATION CHALLENGES

Addressing the rental affordability crisis ultimately boils down to the nation’s ability to supply housing that meets the needs of lower-income (and increasingly, moderate-income) families and individuals without placing excessive strain on household budgets. Federal assistance programs provide subsidies to close the gap between what it costs to supply housing and what renters can afford to pay.

Since the advent of public housing in the 1930s, the federal approach has evolved from purely project-based assistance (tied to specific properties) to reliance on tenant-based assistance (housing vouchers that recipients are free to use in any homes that meet minimum standards and accept voucher payments). At present, there are up to 7 million federally assisted housing units nationwide—enough to house just one-quarter of the lowest-income renters eligible for assistance.

Now numbering 3.1 million units, the HUD project-based assisted stock has been dwindling since the 1990s. Indeed, more than 700,000 units were lost between 1995 and 2009 due to either physical deterioration or conversion to higher market-rate rents when subsidy contracts expired. Although increases in the housing voucher program over this period offset many of these losses, landlords are under no obligation to accept vouchers or stay in the program and maintain rents at affordable levels. Thus, a form of housing assistance that does not directly add to the affordable housing inventory has replaced one that did. Moreover, growth in the number of vouchers has also stalled since 2004.

Project-based developments, particularly public housing, are disproportionately located in high-poverty areas. One potential benefit of the voucher program is that it can provide assisted renters the chance to move to lower-poverty areas with access to better schools and jobs. Nevertheless, poverty rates in the locations where housing vouchers are used are generally similar to those where project-based assisted units are found, suggesting that voucher holders often do not take advantage of this opportunity.

At present, the Low-Income Housing Tax Credit (LIHTC) program is nearly alone in replenishing the affordable stock, supporting both new construction and substantial rehabilitation of existing properties including older assisted developments. (The HOME program also supports additions to assisted rentals, but funding is generally used in conjunction with other programs like the tax credit to make housing affordable.) From its inception in 1986 through 2007, the LIHTC program helped to develop 1.7 million affordable units, with roughly two-thirds newly constructed and one-third substantially renovated. The high-water mark for production through this program occurred in 2003–5 when strong investor demand increased the market value of credits. During that period, LIHTC development reached more than 125,000 units annually, including about 80,000 new apartments.

By themselves, however, tax credits cannot bring rents down to levels that extremely low- and very low-income households can afford. With the growing reliance on the LIHTC program and housing vouchers (both of which allow tenants to pay more than 30 percent of income for housing), the share of assisted renters with cost burdens is increasing. Moreover, the LIHTC program most commonly caps tenant eligibility at 60 percent of area median income (adjusted for family size), while the voucher program usually caps eligibility at 50 percent of area median income (also adjusted for family size). Households with incomes above 60 percent
of area medians are therefore excluded, despite the rising incidence of cost burdens among working households with incomes well above that threshold.

As important as federal assistance is in providing affordable housing, the majority of the nation’s low-cost rental stock is unassisted. Among the inventory renting for less than $400 a month (roughly what a family of two living near the federal poverty line or what one full-time, minimum-wage worker could afford), 2.1 million units were assisted and 3.0 million were unassisted in 2009. The supply of unsubsidized units renting for $400–600 per month is even larger, numbering 7.1 million.

But the private low-cost stock is rapidly disappearing. Of the 6.2 million vacant or for-rent units with rents below $400 in 1999, 11.9 percent were demolished by 2009. Upward filtering to higher rent ranges, conversions to seasonal or nonresidential use, and temporary removals because of abandonment added to the losses. On net, more than 28 percent of the 1999 low-cost stock was lost by 2009.

Smaller and older rental buildings, which account for high shares of affordable units, are especially vulnerable to loss.

With a median age of 38 years, the rental housing stock is now older than it has ever been. As housing ages, owners must devote an increasing share of rents to maintenance and replacements of aging systems to maintain the structures in adequate condition.

The road to removal typically begins once a unit becomes temporarily uninhabitable. But abandoned homes often languish in this state for years, bringing blight to the surrounding neighborhood. Indeed, nearly a third of all housing units that were abandoned, condemned, or otherwise temporarily lost from the stock between 2001 and 2005 were still in those conditions in 2009. Since the recession, historically high levels of mortgage delinquencies and foreclosures have doubtless added to the number of abandoned properties. In 2009, 7.1 million households reported at least one abandoned or vandalized property within 300 feet of their residences—an increase of 1.5 million households from 2007 and more than 2 million from 2005.

In combination, the shrinking affordable stock, falling incomes, and increased competition from higher-income renters have widened the gap between the number of very low-income renters and the number of affordable, adequate, and available units. In 2003, 16.3 million very low-income renters competed for 12.0 million affordable and adequate rentals that were not occupied by higher-income households. By 2009, the number of these renters hit 18.0 million while the number of affordable, adequate, and available units dipped to 11.6 million, pushing the supply gap to 6.4 million units (Figure 4).

POLICY DIRECTIONS

Long-run increases in the number and share of severely cost-burdened renters show no sign of reversing. Indeed, with unemployment expected to remain high for the next few years and rental markets beginning to tighten, competition for affordable housing will likely intensify.

Based on demographic forces alone and assuming homeownership rates by age, race, and household type remain at 2010 levels, the Joint Center for Housing Studies estimates that the number of renter households could increase by 360,000–470,000 annually between 2010 and 2020, in line with growth over the past decade. The strongest growth will be among the household types that are most likely to rent multifamily housing—older and younger households, minorities, and single persons.

While not adding significantly to the overall renter population, the aging of the baby-boom generation will lift the
number of renters over age 65 and boost demand for assisted units set aside for elderly households and for housing with accessibility features (Figure 5). At the same time, the aging of the echo-boom generation will propel growth in young adults living on their own for the first time. It is unclear, however, how post-crash conditions and changing attitudes toward homeownership will add to or detract from the demographic forces that would favor growth in renters in the decade ahead.

What does seem certain is that—absent a dramatic expansion of federal assistance to help defray the costs of renting, or a shift in state and local land use and building regulations to allow expansion of modest, high-density rental developments—affordability problems will remain at staggeringly high levels, if not worsen.

With efforts to trim the federal deficit gaining momentum, creative approaches will be necessary to close the gap between what low-income renters can afford to pay and the rents developers need to provide decent housing. The Obama Administration’s proposal to transform rental assistance is an attempt to stretch resources further by combining programs and by altering the financing of public housing. But even maintaining the status quo is in jeopardy as legislators take aim at tax expenditures and domestic discretionary spending—both of which play vital roles in meeting the spiraling demand for affordable rental housing. Interest in preserving existing subsidized rentals is therefore high, particularly units located near public transit to help low-income households save on transportation costs as well as gain access to jobs in the broader market area.

Supporting private efforts to meet low-income housing needs—through both preservation and new construction—is also an essential component of any plan. An obvious policy lever for expanding the private supply is through tax treatment of investments in housing. The federal government can also support research and development of new technologies and management approaches to reduce the costs of housing production. State and local governments have perhaps an even greater role to play in ensuring that, at minimum, land use controls and building regulations do not add unnecessarily to the costs of building or improving rental housing.

Indeed, they could follow the examples of a number of states and localities that provide incentives to include affordable units in new developments or revise building codes to require less stringent standards for rehabilitation projects. Concerns about both affordability and greenhouse gas emissions also point to the need to reduce energy consumption in older rental housing through investment in system upgrades, perhaps through better targeting of ratepayer-funded programs.
Investing in new and existing rental housing requires access to affordable financing. A significant issue for policymakers to address is how the changing landscape for mortgage finance will affect the cost and availability of funds for this purpose. In the wake of the financial crisis, Fannie Mae and Freddie Mac, along with the Federal Housing Administration (FHA), have become the primary sources of financing for rental properties of all types. In considering whether the government should continue to guarantee mortgages through Fannie and Freddie or some other mechanism, policymakers should keep in mind their importance as a stable, long-term source of financing for rental as well as owner-occupied housing.

Of particular concern is that owners of smaller multifamily properties have access to affordable financing to maintain this valuable housing stock. There may be several upcoming opportunities—as part of reform of the government sponsored enterprises (GSEs), implementation of the Dodd-Frank financial reform measures, or changes to the Community Reinvestment Act—to create incentives for lenders to provide financing for this costly to serve market.

Rental is increasingly being thought of as an integral part of coordinated anti-poverty strategies, neighborhood redevelopment efforts, and regional and transportation planning. This broadening of the goals for assisted housing policy has gained some traction through the recently enacted Sustainable Communities and Choice Neighborhood programs, as well as the longer-standing Family Self Sufficiency, Moving to Opportunity, and Jobs Plus Housing programs. In today’s challenging budgetary environment, investments in affordable rental housing thus offer opportunities to improve the well-being of low-income families while also building stronger communities.