RENTAL HOUSING DEMAND

Demand for rental housing continues to surge, driven by a combination of demographic, economic, and lifecycle trends. As millennials and immigrants form millions of new households, they are increasing the diversity of demand. At the same time, rentership rates among gen-Xers and baby boomers are also rising, changing the traditional profile of the renter population. With homeownership rates already at historic lows, however, the pace of renter household growth is likely to slow.

GROWTH IN RENTER HOUSEHOLDS

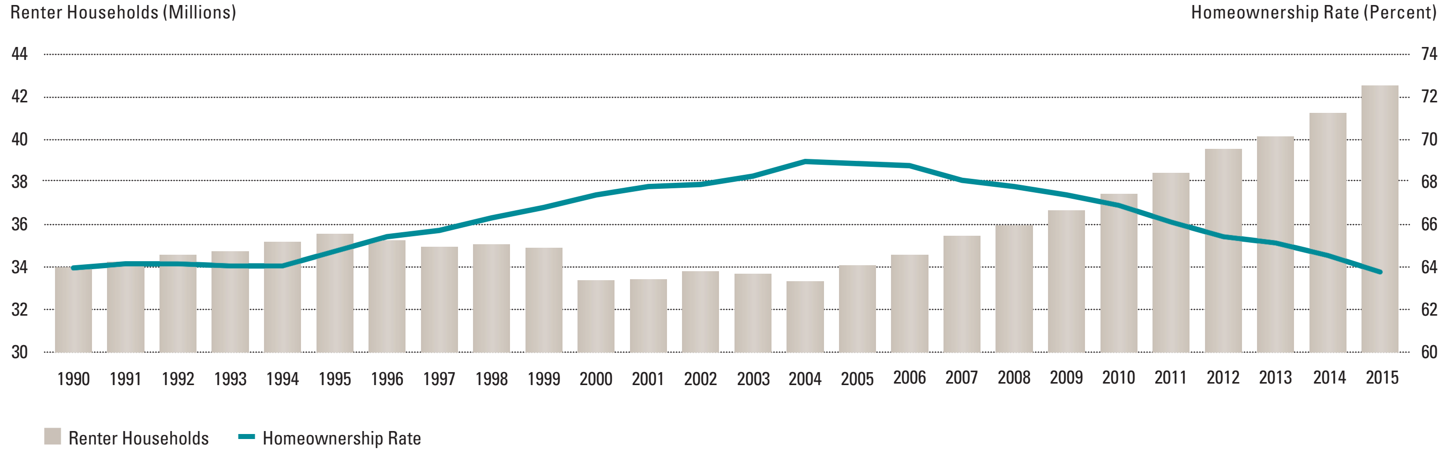
The number of renter households has climbed steadily for a decade **(Figure 6).** As measured by the Housing Vacancy Survey, renter growth soared by roughly 9 million households between 2005 and the third quarter of 2015—marking the largest increase over any 10-year period dating back to 1965 and bringing the total number of renters to 42.6 million. And with growth accelerating in recent years, the 2010s are on track to be the strongest decade of renter growth ever recorded, with the addition of 1.05 million net new households per year so far. This is nearly double the pace of growth in the 1970s when the baby boomers came of age.

Renting has increased among all age groups, household types, and income groups. Population growth on both ends of the age spectrum has driven up the numbers of both younger and older renters, while significant declines in homeownership rates have lifted the number of middle-aged renters. As a result, the number of renter households aged 50 and over jumped from 10 million to 15 million, accounting for more than half of renter growth over the decade. The number of middle-aged renters 30–49 years old climbed from 15 million to 18 million, contributing a third of the growth in renters. At the other end of the age distribution, the number of renter households under 30 years old rose from 10 million to 11 million, representing about 11 percent of renter growth in 2005–2015.

With the aging of the population, single persons and married couples without dependent children made up large shares of renter household growth over the decade (33 percent and 18 percent, respectively). The number of renter households with children, including married couples and single-parent families, also accounted for a combined 25 percent of renter growth. And unlike in the 1990s and early 2000s when foreign-born and minority households drove all of the increase in renter households, native-born whites were responsible for 34 percent of growth in 2005–2015. Even so, foreign-born and minority households still contributed nearly two-thirds of renter household growth—foreign-born households were responsible

FIGURE 6

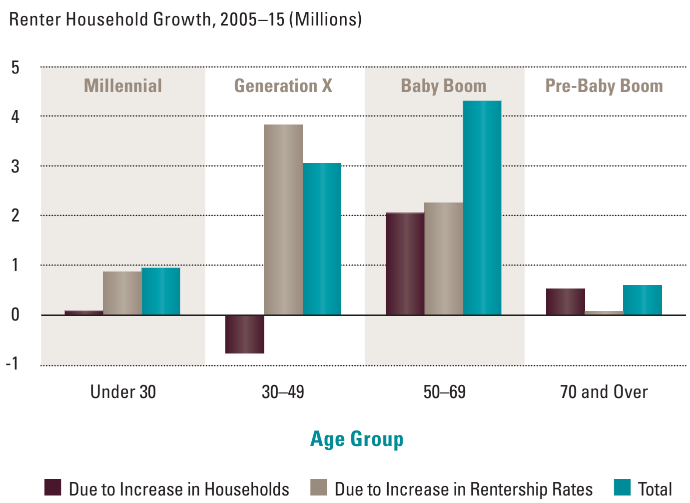
Renter Household Growth Has Surged with the Drop in Homeownership



Note: Data for 2015 are as of the third quarter.
Source: US Census Bureau, Housing Vacancy Surveys.

FIGURE 7

Gen-Xers and Baby Boomers Have Driven Most of the Recent Growth in Renter Households



Note: Growth estimates are based on annual data that are three-year trailing averages.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

for 23 percent while native-born minorities accounted for 43 percent. Among all minorities, Hispanics had the highest share, accounting for 29 percent of renter growth over the decade.

In another departure from previous trends, growth in renter households in 2005–2015 occurred across all income groups rather than primarily among those with lower incomes. In fact, growth was distributed about evenly across income groups, thanks in part to rapid increases among higher-income households. Indeed, the number of renters in the top income decile rose fully 61 percent—far faster than the growth rates among renter households in the bottom five income deciles.

DYNAMICS OF GROWTH

Several of the trends behind the recent growth in renters are playing out differently along generational lines **(Figure 7).** Millennials (born 1985–2004) are coming of age in record numbers, boosting the ranks of adults in their 20s—the prime ages for renting. Meanwhile, members of generation X are remaining renters longer, pushing up the rates for 30–49 year olds. And finally, the baby boomers are driving up the population aged 50 and over, while also renting at higher rates than the previous generation.

Among millennials, population growth is the major factor. Today, 45 million members of this generation are in their 20s, fully 2 million more than when the baby boomers were similarly aged. This is the stage in life when young adults typically form independent households and the share living on their own rises from about one in seven to one in two.

But even though the millennials formed 11 million new renter households over the past decade, the number of renters in the under-30 age group increased by only 1 million. The impact of the millennials on rental markets would have been even larger, if not for the sharp drop in their household formation rates following the Great Recession. Indeed, many young adults who would otherwise have become renters continued to live in their parents' homes or with others. As a result, while the number of adults aged 20–29 jumped 11 percent over the past decade, the number of households headed by adults in this age group rose only 2 percent. If household formation rates had remained constant, population growth would have added another 1 million renter households in this age group.

In contrast, growth in the number of renters aged 30–49 resulted entirely from higher rentership rates. In fact, the number of households in this age range actually declined over the past 10 years as the larger baby-boom generation moved into their 50s. The fact that 30–49 year-olds accounted for such a large share of renter household growth reflects the nearly 10 percentage-point decline in their homeownership rates in 2005–2015. On net, less than 2 percent of gen-X households made the transition from renting to owning over the decade. By comparison, more than 11 percent of baby-boomer households became homeowners when they were at a similar stage of life in 1984–1994. As a result, there are more than 3.0 million more renters in their 30s and 40s today than a decade ago, even though there are fewer households in this age group.

Although declines in homeownership rates also helped to drive growth in the number of renters aged 50 and over, population growth accounted for more than half of the boost in renting among this age group. With the youngest baby boomers turning 50 over the last decade, this age group made up fully 5 million of the 9 million increase in the number of renters.

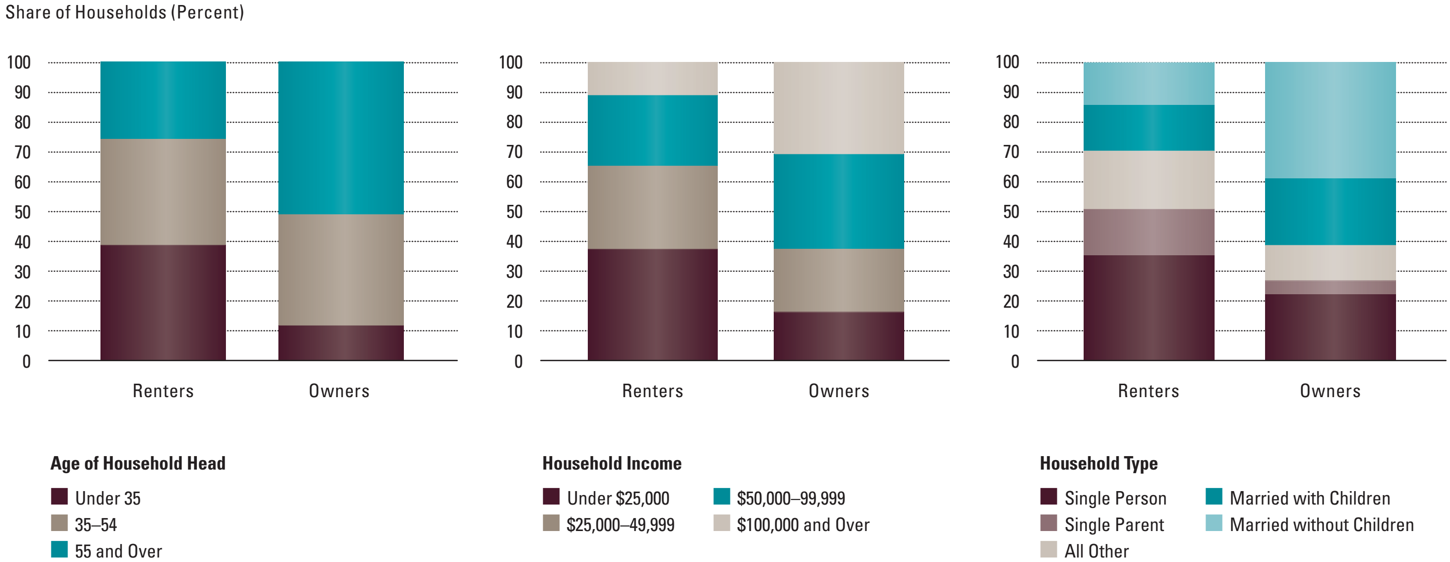
Given that the likelihood of an own-to-rent transition increases with age while the likelihood of a rent-to-own transition declines with age, today's relatively high rentership rates among households in their 40s and 50s may well persist. Research suggests, however, that former homeowners that rent frequently return to owning. As a result, some of today's older renters may buy homes in the future. For younger households, though, the question remains whether there is a true cultural shift away from homeowning or, if incomes and credit conditions improve, whether their homeownership rates will eventually catch up with those of previous generations.

DEMOGRAPHIC PROFILE OF RENTERS

Representing well over a third of all US households, renters are a highly diverse group with constantly evolving demographic characteristics. But renters differ somewhat from homeowners in certain ways **(Figure 8).** For instance, given that renting is generally the first step toward independent living, renter households are generally younger than owners,

FIGURE 8

Renters Reflect the Diversity of US Households, But Are More Likely than Owners to be Young, Low-Income, and Single



Note: Estimates are based on annual data that are three-year trailing averages and define children as under age 18 only.
Source: JCHS tabulations of US Census Bureau, 2013–15 Current Population Surveys.

with a median age of 40 compared with 55. In addition, just under half of renters are minorities, compared with less than a quarter of homeowners. Nationwide, black and Hispanic households each account for about 20 percent of renters, compared with just 8–9 percent of homeowners.

Households that rent are also more likely to have lower incomes than those that own their homes. According to the 2015 Current Population Survey, the median income for renters was $35,000—about half of the $67,900 median income for homeowners. Renters make up 56 percent of all households in the bottom income quartile and just 17 percent of those in the top income quartile. The fact that renters tend to be younger explains part of this disparity, although the gap remains even after controlling for age.

Finally, renter households are smaller on average than owner households. Renting is often a good option for these households, given their generally lower incomes and more modest space needs. Single persons living alone make up 35 percent of renter households, while single-parent families account for another 16 percent. Despite their higher homeownership rates, married couples with children represent one in seven renter households. Indeed, households that include children make up an even larger share of renters (31 percent) than owners (27 percent). All in all, about a third of renter households are single persons, a third are families with children, and a third are couples without children and individuals sharing living quarters.

RENTING OVER THE LIFE CYCLE

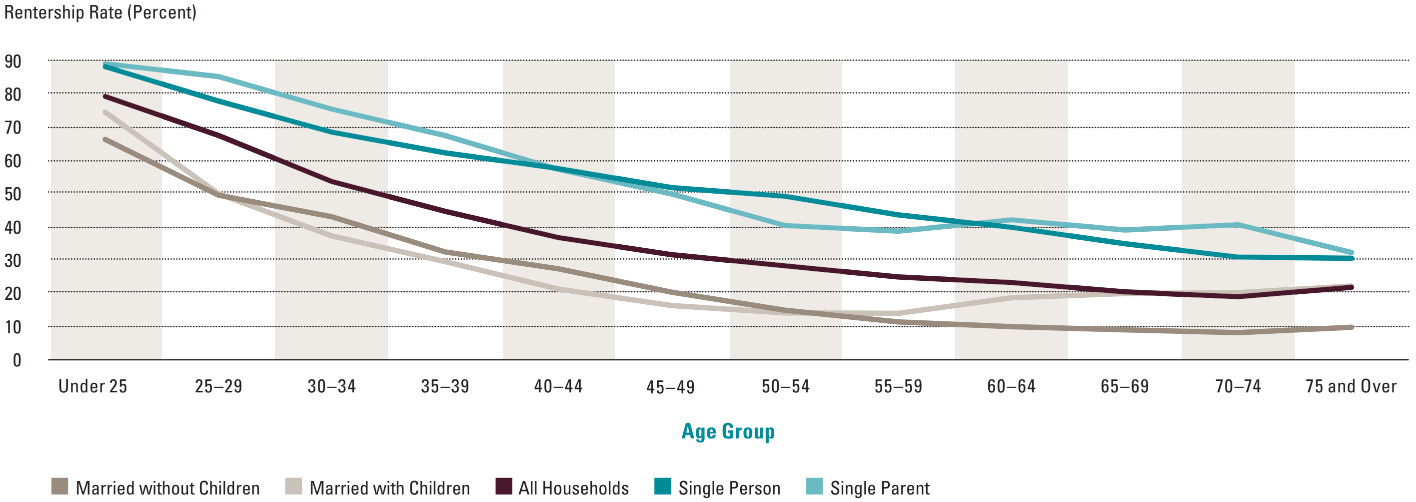
Differences in rentership rates by age, income, household type, and other characteristics generally correspond with changes in housing needs over time. For young adults, renting can be a short-term commitment that provides flexibility during a highly mobile stage of life. It may also be a relatively affordable housing option during their student years or early in their careers, especially if they live in high-cost areas and are single. As a result, young households typically rent smaller units and are somewhat more apt to live in large multifamily buildings in urban centers.

As they age into their 30s, 40s, and 50s, adults often become homeowners once they get married, have children, or become established in their careers. But many households at this stage of life continue to rent their housing **(Figure 9).** Given their need for more space or perhaps better schools, renter households with children tend to live in single-family homes in suburban neighborhoods.

Middle-aged households that continue to rent do so for different reasons depending on their incomes. According to the

FIGURE 9

Renting Remains an Important Housing Option Throughout the Life Cycle



Note: Estimates are based on annual data that are three-year trailing averages and define children as under age 18 only.
Source: JCHS tabulations of US Census Bureau, 2013–15 Current Population Surveys.

Fannie Mae National Housing Survey, households earning more than $100,000 often choose to rent because it provides flexibility and involves less stress for upkeep than owning. In contrast, those with incomes below $25,000 rent because it is affordable and/or because they are preparing to buy.

By the time they reach their 60s, homeowners may make the transition to renting when they are no longer able or willing to dedicate time and effort to home maintenance. And by age 75, when the chances of having a disability and of living alone increase, rentals can provide single-floor living and other accessibility features that make it possible to age safely in place. For these reasons, increasing shares of renters in the oldest age groups live in large multifamily buildings with elevators and other amenities, typically in urban areas.

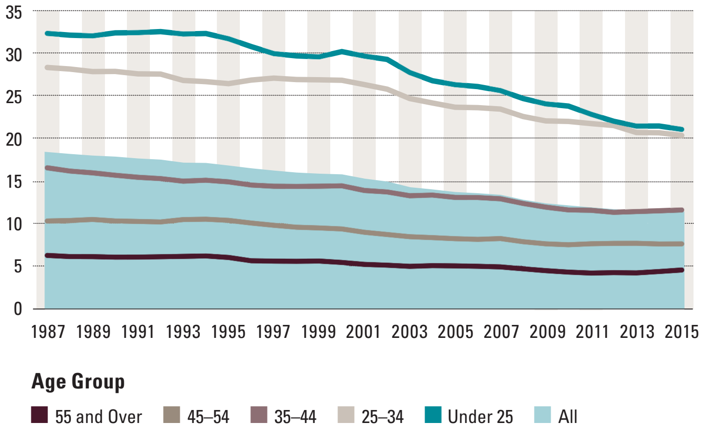
RENTER MOBILITY AND STABILITY

One advantage of renting is the lower cost of moving. Without the challenge and expense of selling one home and buying another, renters are more able to take advantage of job opportunities in new locations or respond to changes in their finances or neighborhood conditions. Renting particularly benefits those needing time-limited living arrangements, such as those with short-term work assignments (a rapidly growing segment of the job market) and those getting to know a new area before investing in homes. Indeed, renters of all ages and incomes are much more apt to relocate than owners.

FIGURE 10

Mobility Rates Have Been Falling, Especially Among Younger Adults

Share of Adults That Moved in the Previous 12 Months (Percent)



Note: Estimates are based on annual data that are three-year trailing averages and include adults aged 18 and over only.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

But as a society, the US population has become less mobile over the last few decades. While part of this decline reflects the overall aging of the population (given that people move less often as they grow older), the sharpest drop in mobility rates has been among younger adults **(Figure 10).** In fact, millennials are the least footloose group of young adults in recent history. A possible explanation for this trend is that job opportunities—particularly in service industries—vary less geographically than in the past, thus reducing the migration of workers across markets or regions. In addition, the increase in two-worker households makes relocating more difficult, while innovations in communications technology have made it easier to work remotely rather than move closer to a job.

For some households, greater residential stability may be a positive trend. Recent research has shown that frequent moves—whether voluntary or forced—are associated with adverse health outcomes, particularly for low-income families. For example, an analysis of survey data collected by Children's HealthWatch found that children who had moved two or more times in the previous year were more likely than otherwise similar children to be in fair or poor health and also to be at risk of developmental delays.

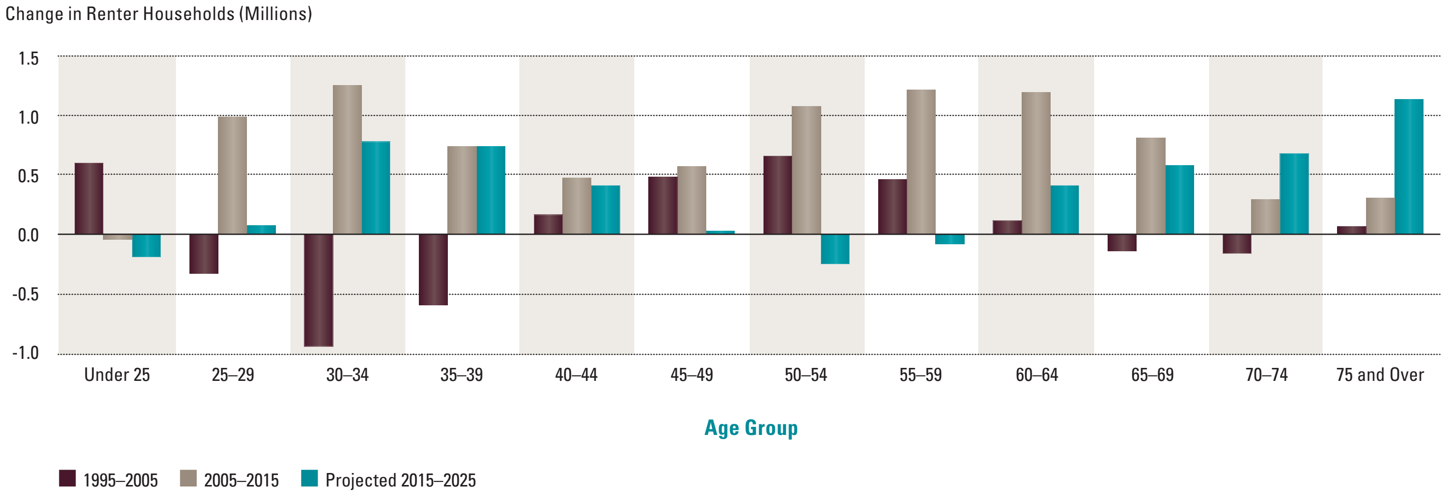
Low-income renters are likely to face the highest rates of housing instability and evictions. As the Survey of Consumer Finances reports, these households had median cash savings of just $550 in 2013 to weather the spells of unemployment that low-wage workers frequently experience. And as other recent research has shown, forced evictions disproportionately affect single mothers, women overall, and minorities, resulting in recurring bouts of homelessness. To the extent that it reflects greater housing stability, the nationwide decline in residential mobility may benefit these households in particular.

THE OUTLOOK

Three major demographic trends will shape rental housing demand over the next 10 years. First, the aging of the millennial generation will continue to boost the number of new renter households **(Figure 11).** Millennials under age 30 currently make up 11.3 million renter households, and half of the members of this generation are still in their teens. Over the coming decade and barring any change in homeownership rates, the number of millennial renters will double to 22.6 million and the subsequent generation will add another 500,000 new households to the ranks of renters.

FIGURE 11

Even Without Further Homeownership Rate Declines, Demographics Will Drive Up the Number of Renter Households Over the Next 10 Years



Notes: Projected renter growth assumes homeownership rates by age, race, and household type remain at their averages in 2014–2015. Historical growth rates are based on annual data that are three-year trailing averages.
Sources: JCHS tabulations of US Census Bureau, Current Population Surveys; 2013 JCHS household growth projections.

The second trend supporting strong rental demand is the growing minority share of households. Strong immigration both past and present means that minorities will contribute more than three-quarters of household growth in 2015–2025. Hispanics alone should account for 40 percent of the increase. Given the persistently large gap between white and minority homeownership rates, growth in the minority share of households may boost demand for rental housing.

The third demographic trend is the movement of the baby-boom generation into the 70-and-over age group, significantly increasing the number of senior renters. Over the coming decade, most of these older renters will simply be aging in place. But as the baby boomers begin to reach their 70s in 2015–2025, some of the growth in renter households will come from older homeowners making the transition to rental housing in order to accommodate their changing needs for accessibility.

Other social and economic forces will shape future rental demand as well. With across-the-board declines in homeownership rates and delays in major life events such as education, career advancement, marriage, and parenthood, more households of all types are renting their housing. High student debt, damaged credit, and limited availability of mortgage financing are also reducing the demand for homeownership. Furthermore, longer-term structural shifts in the economy may play a role in increasing rental demand, such as growth in lower-wage service jobs and declines in higher-wage production jobs. While some of these conditions are tied to the economic downturn and may be temporary, others may persist.

Given that homeownership rates for most age groups are now at historic lows, however, renter household growth will almost certainly slow from its current torrid pace. Even so, JCHS household projections suggest that growth in the adult population alone will be enough to drive the addition of more than 4.4 million renter households by 2025.