



RENTER DEMOGRAPHICS

Rental housing serves a large and diverse population of nearly 39 million households. Although renting is most common among young adults, nearly everyone rents at some point in their lives—whether by choice or by necessity. But rental housing is particularly important for low-income and minority households, about half of whom are renters. As a result, supplying affordable units in a variety of structure types and neighborhoods is a critical housing policy priority.

RENTING OVER THE LIFECYCLE

Renting plays several roles over the lifecycle of the average householder. Most commonly, rental housing provides an opportunity to live independently. Among householders under age 25, some 78 percent are renters. Renting is a good option for many young households because the low transaction costs of moving suit their stage in life marked by higher mobility, more flexible job tenure, and changing relationships. Renting enables young householders to pursue job opportunities in new locations more easily and to experience different living arrangements. Even if young adults prefer to own, they usually lack the wealth to do so.

As householders age and become more settled, their homeownership rates rise steadily (**Table A-3**). At 25–30 years old, about one-third own their homes while the majority still rent. By the age of 40, however, two-thirds of householders own homes. Nevertheless, about a fifth of households over age 55 remain renters. Those choosing to rent often prefer to have limited responsibility for home maintenance and to avoid the financial risks associated with unexpected repairs and potential declines in house values.

Household type and life stage also influence tenure decisions. With a homeownership rate of more than 80 percent, married couples clearly prefer to buy while just over half of all unmarried householders rent. According to the American Housing Survey, only 25 percent of all married homeowners who moved between 2007 and 2009 switched to renting, but over half of all other homeowners who moved during that period did so. Rentership rates rise modestly among elderly households over age 75, especially among those that are single.

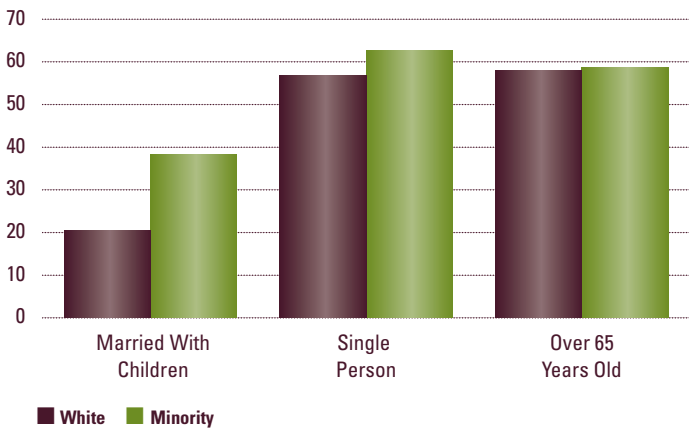
Demographic characteristics also affect the types of homes that renters choose (**Figure 12**). For example, singles and householders over age 65 are most likely to rent in larger multifamily buildings in center cities or suburbs. Renters who are married with children are most likely to live in single-family detached homes. At the same time, though,

FIGURE 12

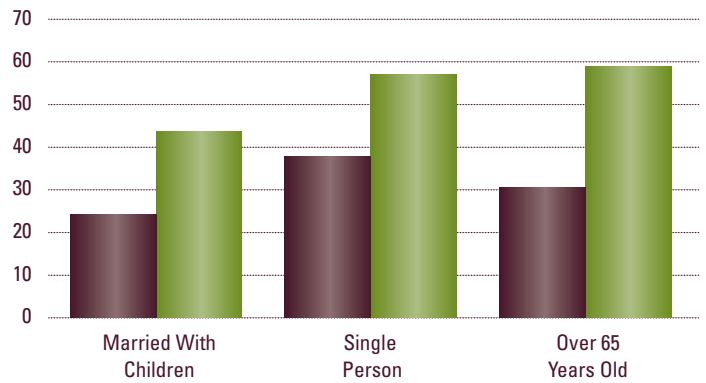
Household Characteristics Influence Where Renters Live

Share of Renter Households, 2009 (Percent)

Living in Buildings With 5 or More Units



Living in Center Cities



Notes: Characteristics are those of the head of the household. Children are the householder’s own children under the age of 18. White householders are non-Hispanic, and minorities are non-white.
Source: Table A-4.

minorities of all family types are much more likely to live in center cities than whites.

The climb in overall homeownership rates as householders age masks the fact that many people switch in and out of owning over time. The National Longitudinal Survey of Youth indicates that 45 percent of first-time buyers in the 1980s and 1990s returned to renting or even a stay with parents or others. Indeed, the high rate of tenure switching belies the adage that “once an owner, always an owner.”

In addition, geography and local housing affordability affect the decision to own or rent. In high-cost urban areas, renting is often more financially feasible than owning given the significant savings needed for downpayments and closing costs. Rentals thus play a greater role in high-cost housing markets, allowing more householders to live closer to their jobs rather than “drive till they qualify” to buy homes in the suburbs. Among the 75 metropolitan areas covered by the Housing Vacancy Survey, homeownership rates in the top third of markets by median home price—including New York, Los Angeles, San Diego, and Honolulu—averaged a full four percentage points below those in the other two-thirds of markets.

RENTER DIVERSITY

Renters defy common perceptions that they are all young, minority, and have low incomes. Indeed, half of all rent-

ers are over age 40 and a majority (65 percent) are white. Although the median renter income is low, about 10 million renters are in the top half of the income distribution and 3.8 million are in the top quartile.

Nonetheless, renters do differ from homeowners in several ways. According to the 2009 American Community Survey, the median age of renters is 40—some 13 years below that of homeowners. Four out of every ten renter households are under 35 years old, compared with just one in ten homeowners. In contrast, only 13 percent of renters are 65 and older, a group that makes up more than 25 percent of homeowners.

Renter households also tend to be smaller than owner households, in part because only about one-quarter are married couples. Over a third (35 percent) are single persons and another 16 percent are headed by single parents. Even so, because single-parent households are more common among renters and many married-couple homeowners are empty-nesters, 36 percent of children—some 27 million in all—live in renter households.

Renters are also more ethnically and racially diverse than homeowners, and minority households are an increasingly large part of the rental market. In 2000, 39 percent of renters were minorities. From 2001 to 2010, minorities contributed 81 percent of the 3.9 million growth in the number of renter households. Hispanics accounted for 39 percent and blacks

for 27 percent of the increase. As a result, the minority share of renters rose to about 45 percent in 2010—more than twice the minority share of owners. In large measure, minority gains reflect immigration. Foreign-born householders add to renter diversity and make up a significant portion of the market. Almost one in five renter households is headed by an immigrant, twice the share among homeowners. About half of all immigrants are renters, including 74 percent of those under age 35.

But the Great Recession sharply reduced the inflow of immigrants as well as the outflow of native-born renters into homeownership (Figure 13). After averaging about 200,000 per year from 2000 to 2005, immigrant renter growth dropped by more than half from 2005 to 2010. A surge in the number of native-born renters has, however, more than offset this decline. Indeed, native-born households are now driving growth in the renter population at a pace unmatched since the 1980s. In a sharp turnaround from the first half of the decade, whites accounted for a majority of the increase in native-born renters in the second half of the 2000s.

THE INCOME AND WEALTH GAP

In 2010, more than half of all households in the bottom income quartile were renters, while fully 87 percent of households in the top income quartile were homeowners. In part, the lower incomes of renters reflect the large share of households with only one earner. Renters as a group

are therefore much more likely than owners to have low incomes, regardless of age. Across all age groups, the median income of renters is about half that of same-aged owners.

Renter incomes vary by race and ethnicity. Throughout the past decade, the median household incomes of Hispanic renters were approximately 15 percent lower, and those of black renters were 30 percent lower, than those of whites. Although the lower average age of minority renters explains some of this difference, the disparity holds even among households of comparable ages. Among 35 to 44 year-olds, for example, the median incomes of Hispanic and black renters were 24 percent and 28 percent below that of white renters.

Moreover, renters are becoming increasingly concentrated at the lowest income levels. From 1990 to 2010, households with incomes below the national median accounted for 84 percent of the growth in renters, while higher-income households drove virtually all of the growth in owners. Fully 60 percent of the increase in renters came from households in the bottom income quartile alone. By 2010, approximately 70 percent of renter households had incomes below the national median and more than 40 percent had incomes in the bottom quartile (Figure 14).

Recessions have been a major factor in holding back renter income growth, suggesting that renters are more susceptible to layoffs and unemployment in weak labor markets and have a more difficult time recovering afterward. The downturns in the early 1990s and 2000s hit renters especially hard, pushing their real median household incomes down three times more than those of homeowners. These declines were not offset during subsequent expansions, adding to the owner-renter income gap.

In addition, renters have only a fraction of the net wealth of owners. Near the peak of the housing bubble in 2007, the median net wealth of homeowners was \$234,600—about 46 times the \$5,100 median for renters. Even if homeowner wealth fell back to 1995 levels, it would still be 27.5 times the median for renters. This underscores the fact that, in addition to having the potential to accumulate wealth through home price appreciation, paying down principal, and controlling a portion of their housing costs, homeowners start out with higher incomes and wealth than renters.

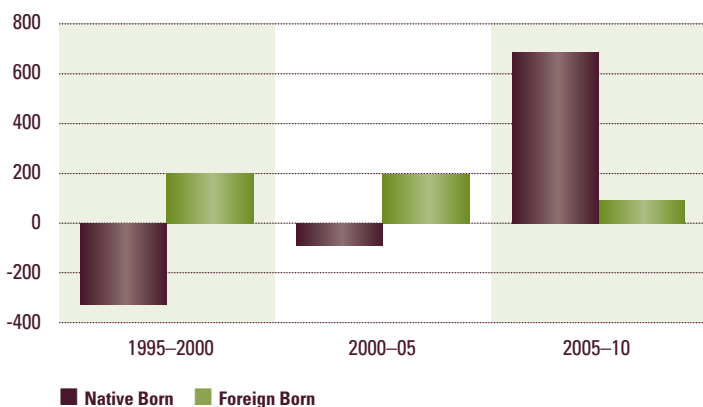
RETURN TO RENTER HOUSEHOLD GROWTH

After a long period of stagnation, the number of renter households is once again on the rise (Figure 15). The majority

FIGURE 13

Growth in Native-Born Renters Has Surged While Growth in Foreign-Born Renters Has Slowed

Average Annual Renter Household Growth (Thousands)



Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

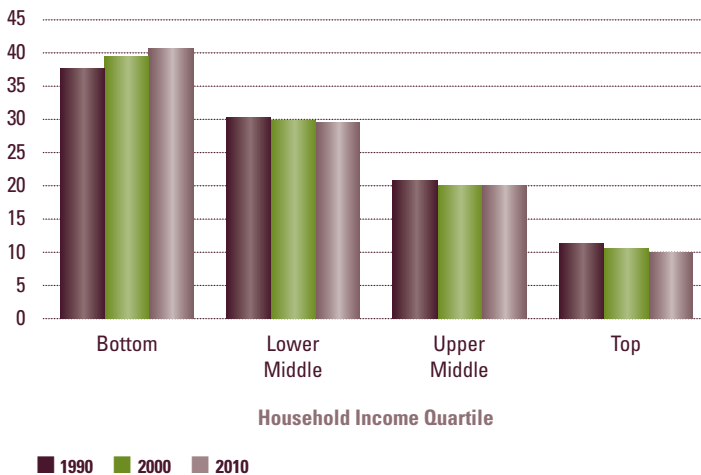
of this growth is not due to higher household formation rates among younger renters but rather to lower homeownership rates across a broad spectrum of the population. Declines in homeownership rates are evident among all demographic groups, but are most pronounced for households with children, blacks, and those aged 25 to 44 (Figure 16). These shifts have erased much of the homeownership gains made since 1995 and, in many cases, wiped out increases in the 2000s.

Had homeownership rates by age remained at 2005 levels, net renter household growth from 2005 to 2010 would have been just under 370,000 (resulting from the net formation of 5.1 million new renter households under age 30 and the net loss of 4.8 million older renters primarily to homeownership). Instead, renter household growth surged by nearly 4.0 million over this period. Indeed, the net dissolution of renter households over age 30 was just 1.8 million—fully 3.0 million less than expected assuming constant homeownership rates. The net formation of renter households under age 30 was also over 626,000 more than expected.

FIGURE 14

Renter Households Are Increasingly Concentrated in the Bottom Quarter of the Income Scale

Share of Renter Households, 1990–2010 (Percent)



Note: Income quartiles are equal fourths of all households (both owners and renters) sorted by pre-tax income.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

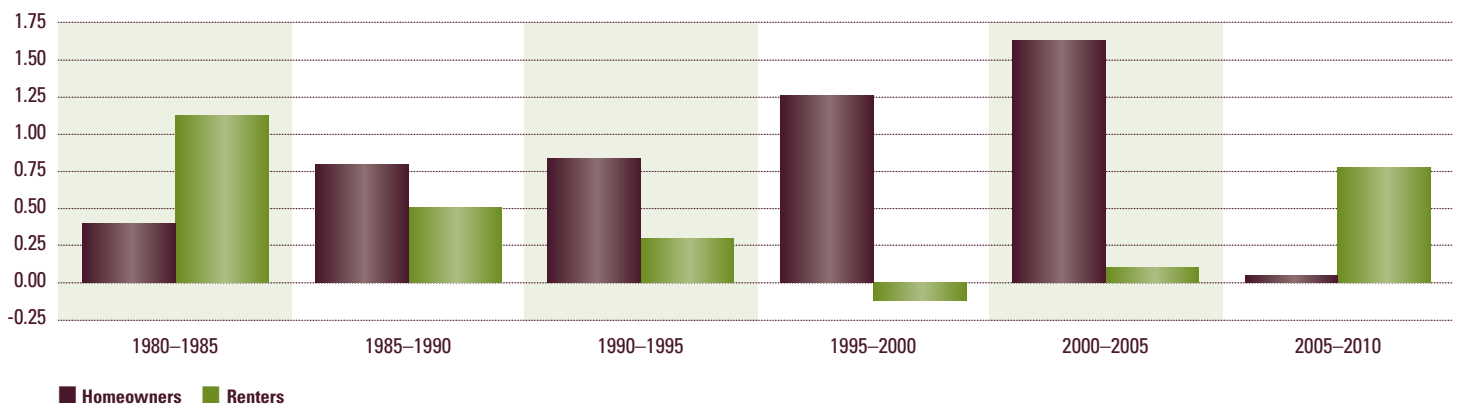
Over the next 10 years, demographic trends favor continued growth in the number of renter households. Conservatively assuming that homeownership rates by age, race, and household type stabilize at 2010 levels and that immigration is only half the current Census Bureau baseline projection, population growth alone should lift the number of renter households by more than 3.6 million in 2010–20. This projection reflects the net formation of 11.3 million new households among the huge echo-boom generation (those under age 35 in 2020) and the loss of 7.7 million households among renters in all older age groups. While younger renters live in all types of housing and geographic areas, they tend to favor multifamily housing in center city locations.

Meanwhile, the sheer size of the baby-boom generation relative to its predecessor will push up the number of renters over age 65 by nearly 2 million, generating increased demand for assisted units set aside for elderly households as well as for accessible features and other adaptive changes to con-

FIGURE 15

After Stagnating for More than a Decade, Growth in Renter Households Revived in 2005

Average Annual Household Growth (Millions)

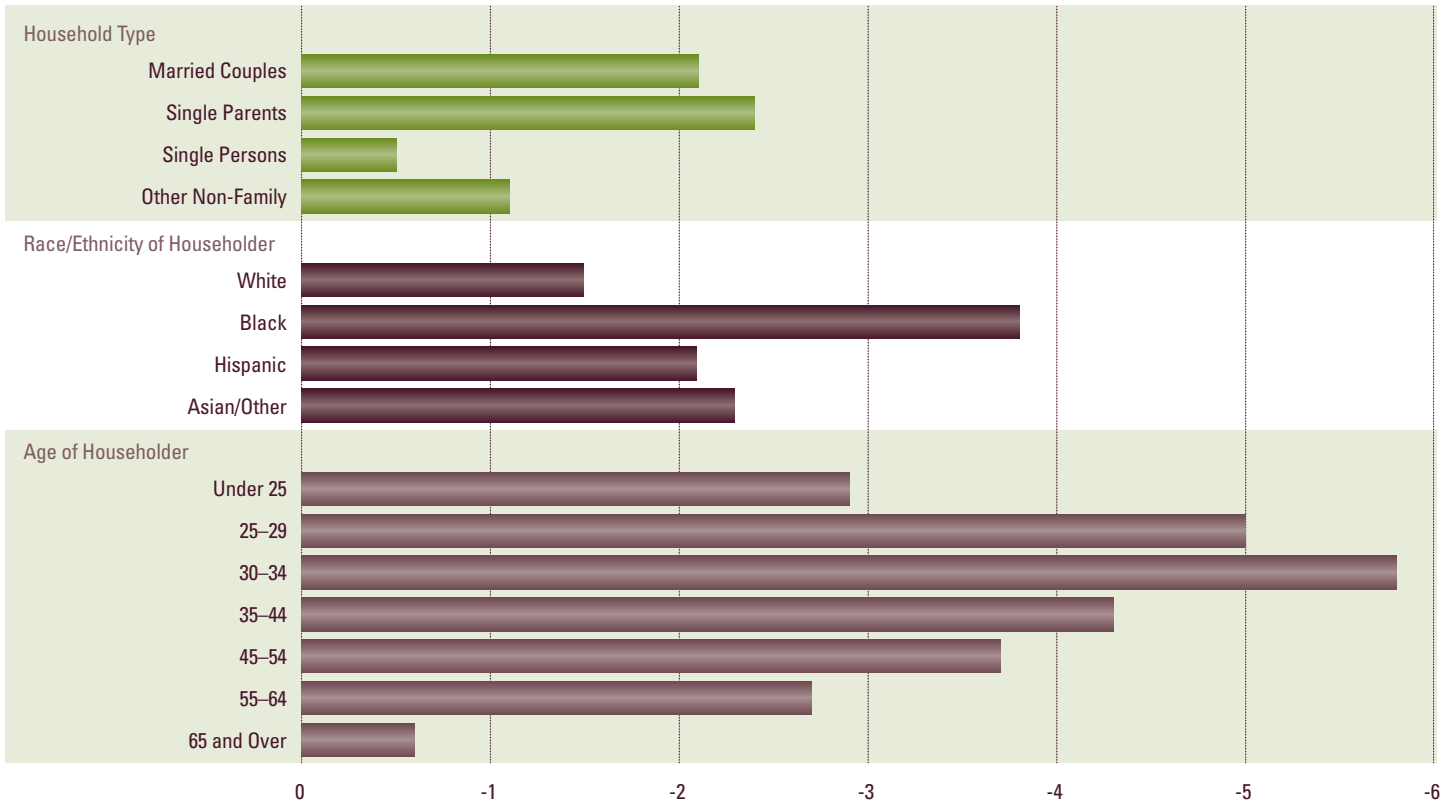


Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

FIGURE 16

Led by Young Adults and Blacks, Homeownership Rates Have Fallen for All Demographic Groups

Change in Homeownership Rate, Post-2000 Peak to 2010 (Percentage points)



Notes: White, black, and Asian/other householders are non-Hispanic. Hispanics may be of any race.
Source: JCHS calculations using US Census Bureau, Housing Vacancy Surveys.

ventional apartments. Assuming the age- and race-specific distribution of household types remains constant, the number of single-person renter households will also rise by more than 1.6 million in 2010–20.

Significant shares of newly forming renter households will be single persons, single-parent families, and other household types such as unmarried partners and unrelated roommates (Figure 17). In addition, minorities and immigrants—who tend to have larger households than whites and the native-born—will almost certainly account for a growing share of these new, young households. This diversity will likely boost demand for a greater variety of rental housing.

As noted, these estimates of renter household growth assume that homeownership rates remain close to their 2010 levels. But it is an open question whether the housing bust will have a lasting impact on Americans’ preference to own rather

than rent their homes. To date, attitudes about owning have become only slightly more negative while attitudes about whether now is a good time to buy are little different than before the housing boom. In the latest Fannie Mae housing survey from October–December 2010, the vast majority of respondents—including renters—continued to believe that homeownership makes more financial sense than renting. In addition, nearly two-thirds of all renters surveyed reported their intention to buy homes in the future.

When compared with earlier surveys, however, the preference for homeownership has weakened, especially among delinquent or underwater borrowers but also among current renters and respondents as a whole. For example, the share of renters indicating that homeownership makes more financial sense than renting dropped from 75 percent in January 2010 to 68 percent in the fourth quarter. However, many of the strongest reasons for buying mentioned in the survey—

including providing a good education for children, a safe living environment, more living space, and more control to make improvements and renovations—are not financial. It is therefore too soon to tell whether attitudes toward homeownership have undergone a fundamental shift that goes beyond cyclical economic effects.

THE OUTLOOK

Falling homeownership rates since the mid-2000s have strengthened the demand for rental housing. Over the coming decade, changes in the age structure of the population as the echo-boom generation enters the housing market will keep demand climbing. But overall renter household growth will depend on whether immigration rates rebound and

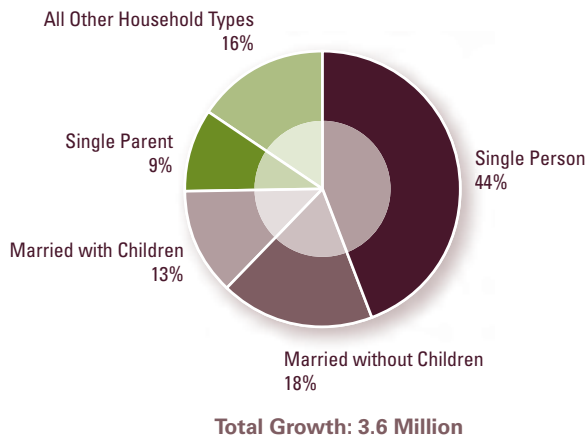
where homeownership rates settle. Immigration flows are key because foreign-born households are younger on average than native-born households and they have lower homeownership rates. For example, if actual immigration rates are only half of the Census Bureau’s current projections, the difference will amount to 1.1 million fewer renter households in 2020 than under the full projection.

Trends in homeownership are another wild card. With the ongoing foreclosure crisis and stubbornly high unemployment rates, homeownership rates have steadily declined. Tighter underwriting and income verification standards have also made it much more difficult for potential homebuyers to qualify for loans. If homeownership rates continue to fall, the demand for rental housing will increase.

FIGURE 17

Single Persons Will Account for Almost Half of Renter Household Growth Over the Coming Decade

Share of Projected Renter Growth (Percent)



Note: Renter household growth projection applies homeownership rates by age, race/ethnicity, and household type from the 2010 Current Population Survey to JCHS 2010 low-series household growth projections. All other household types includes unmarried partners, unrelated roommates, and living arrangements not otherwise categorized.

Sources: JCHS tabulations of US Census Bureau, Current Population Survey; JCHS 2010 household growth projections.