



## RENTAL HOUSING STOCK

The foreclosure crisis has highlighted the dynamic nature of the rental housing stock, with significant numbers of single-family homes switching from owner- to renter-occupied. At the same time, though, a large share of privately supplied affordable rentals remains at risk of permanent removal. The aging of the stock further threatens to accelerate already significant losses. With new construction unable to meet the needs of low-income households without large subsidies, competition is increasing for an ever-dwindling supply of affordable units.

### CHARACTERISTICS OF THE RENTAL INVENTORY

Contrary to popular perceptions, most rental housing is not in high-density buildings or in urban settings. Indeed, more than half of all rentals are in small structures, including single-family homes, 2- to 4-unit buildings, and manufactured homes. Another quarter of the stock is in multifamily buildings with 5–19 units, with the rest equally divided between large structures with 20–49 and 50 or more units. In addition, more than half of renters live in suburban and non-metropolitan areas. Three-fifths of rentals in suburban areas, and roughly four out of five rentals in non-metro areas, are also in buildings with just 1–4 units.

The affordable rental supply consists of units that are assisted through various government programs, as well as private market properties with relatively low rents. According to the 2009 American Housing Survey, 6.0 million (16 percent) of the nation's 38.6 million occupied rentals were subsidized, assisted through the Low Income Housing Tax Credit program, or occupied by tenants using vouchers to make up the difference between a fixed fraction of their incomes and the fair market rents.

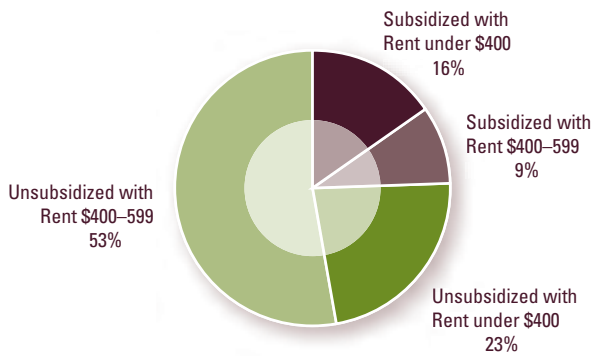
Affordability of course depends on a household's income. For minimum-wage workers, an affordable monthly rent using the 30-percent-of-income standard is just \$377. Yet many renter households have incomes well below even that level—including some working full time as well as those living on fixed incomes. In fact, a quarter of all renters, and more than half of all assisted renters, have household incomes below the full-time minimum-wage equivalent of \$14,500.

In 2009, a majority of assisted units rented for less than \$600, including 35 percent renting for less than \$400 and another 20 percent renting for \$400–599. In contrast, only 31 percent of unassisted units rented for less than \$600 and just 8 percent for less than \$400. Even so, unsubsidized rentals make up much larger shares of the low-cost stock (**Figure 18**). In 2009, 3.0 million unsubsidized units rented for less than \$400

FIGURE 18

### Unsubsidized Units Account for Three-Quarters of Low-Cost Rentals

Share of Units Renting for Under \$600 in 2009 (Percent)

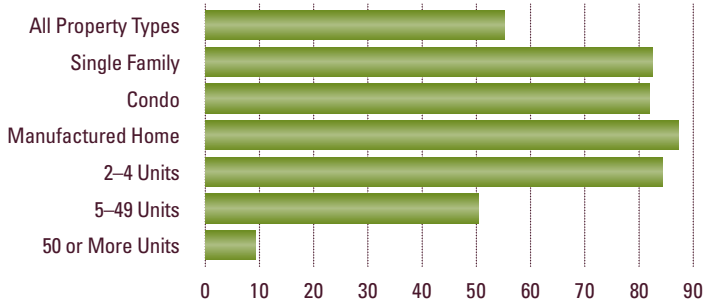


Notes: Subsidized renters include those who reported living in public housing or other government-subsidized housing, receiving a rent voucher, or being required to certify income to determine their rent. Rent does not include tenant-paid utilities.  
Source: Table A-5.

FIGURE 19

### Individual Investors Own a Large Share of Units in Small Rental Properties

Share of Rental Units Owned by Individuals, 2001 (Percent)



Source: JCHS tabulations of US Census Bureau, 2001 Residential Finance Survey.

and another 7.1 million rented for \$400–599. In all, these 10.1 million rentals outnumbered assisted units with comparable rents by a factor of three. As a result, much of the nation’s affordable housing stock is outside the purview of government housing programs.

Unlike assisted rentals, unsubsidized affordable units are scattered across many small properties. Three-quarters of unassisted units renting for less than \$400 in 2009 were in 1- to 4-family structures, as were 58 percent of unassisted units renting for \$400–599.

### RENTAL PROPERTY OWNERSHIP

Multifamily property size—which is distinct from the number of units in a specific structure—strongly influences ownership characteristics and, in turn, financing options. And both of these factors have important implications for how rental units are managed and maintained. To understand the distinction between structure and property size, note that multifamily properties often consist of multiple buildings. For example, a garden apartment complex can have hundreds of units in a series of smaller structures.

The 2001 Residential Finance Survey (RFS), the most recent information available on rental ownership, reports on properties while the American Housing Survey reports on buildings. For instance, the 2001 AHS estimated that 9 percent of rental units were in buildings with 50 or more units, while the RFS estimated that 30 percent of all units were in this category. In addition, the concentration of rentals in the 5- to 19-unit building category is much higher in the AHS (25 percent) than in the RFS (9 percent), while the concentration of rentals in 2- to 4-unit buildings is somewhat higher in the AHS (20 percent) than in the RFS (14 percent).

According to the RFS, individuals own 55 percent of all rental units, often performing administrative and maintenance functions themselves. They own more than 80 percent of rental buildings with 1–4 units and about 70 percent of rentals in buildings with 5–9 units, but much more modest shares of rentals in larger properties (Figure 19).

When last surveyed nationwide in 1995 about their reasons for owning rentals, roughly three out of ten owners of 1- to 4-unit properties acquired their buildings as a residence, with the rest motivated by financial reasons. The same survey also found that a little less than 40 percent of these owners had made a profit in the preceding year, about one-sixth broke even, and a little more than one-quarter lost money. (The remainder did not know whether the property was profitable.) With such significant shares of owners under financial pressure, it is no surprise that 24 percent of those owning single-family detached rentals reported some degree of deferred maintenance, as did 19 percent of those owning properties with 2–4 units.

The remaining rental stock is owned by partnerships or corporate entities, usually with professional property management staff. Partnerships or joint ventures own about a quarter of these units, and corporations and limited liability companies about a tenth. The largest owners have investments in markets across the country, with portfolios of

more than 100,000 apartments. According to National Multi Housing Council data, the 50 largest owners supply 2.7 million units, or about one-sixth of the rentals in structures with 5 or more apartments.

Nonprofit organizations own less than 5 percent of all rental units, and less than 15 percent of subsidized housing for lower-income households. Some nonprofits are, however, becoming more active and capable within the rental market. They are playing a particularly important role in efforts to retain assisted housing for low-income households as earlier commitments by for-profit owners expire.

The single-family mortgage market provides financing for rental properties with 1–4 units and for condominiums, while the multifamily mortgage market finances properties with 5 or more units. The sources of credit, standards for underwriting, and characteristics of loans differ substantially within and between these markets. In particular, underwriting for properties with 2–4 units is distinct from that for single-family investor properties, although both segments generally face higher interest rates and more stringent standards than owner-occupied single-family homes. Similarly, larger multifamily properties (with 50 or more units) are more likely to get financing through the capital markets or Fannie Mae and Freddie Mac, while smaller multifamily

properties are primarily financed through depository institutions. Smaller property owners are also less likely to have mortgages, and more likely to have adjustable-rate loans if they do have financing.

### CONSTRUCTION TRENDS AND COSTS

With almost no growth in renter households for much of the 1990s and the first half of the 2000s, there was little need to add to the rental housing stock. As a result, the volume of multifamily starts remained relatively low in 2000–5 compared with previous decades, although remarkably stable at about 340,000 per year. But with the onset of the Great Recession, multifamily housing starts plunged below 100,000, a level not seen since recordkeeping began in 1959. Housing completions, however, remained above 250,000 through 2009 as construction continued on units started before the downturn struck, but then plummeted to 155,000 in 2010.

Market-rate rentals accounted for little more than half of the 300,000 new multifamily units completed each year from 1995 through 2009 (Figure 20). Of the remainder, 23 percent were assisted rentals produced through the Low Income Housing Tax Credit program and the other 24 percent were intended for sale as condominiums.

While most newly constructed single-family housing is intended for sale, on average about 40,000 new homes were built with the intention of being rented each year during the 2000s. With so few market-rate rental apartments being built, this added supply of single-family rentals was significant. This estimate may in fact understate the volume of new single-family rentals because units sold to investors (which was common during the housing boom) are not counted as intended for the rental market.

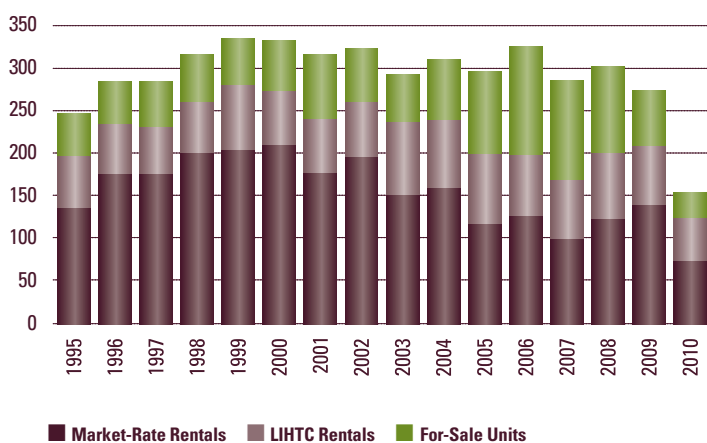
Apart from new LIHTC units, recent multifamily construction has focused primarily on the high end of the market. In 2009, the median asking rent for new unfurnished apartments was \$1,067 while that for all rental housing was \$808. Indeed, fully a third of new apartments rented for \$1,250 or more, compared with only 14 percent of all rental housing.

The rising costs of construction make it difficult to build new housing for lower-income households without a subsidy. One factor pushing costs higher is rising demand for materials, particular from China and India. US trade barriers on imports of lumber, steel, and cement also add to these costs. As measured by R. S. Means, construction costs per square

FIGURE 20

### Private Multifamily Rental Construction Dipped in the Mid-2000s When Condo Production Surged

Multifamily Completions (Thousands of units)



Notes: LIHTC completions are estimated based on US Census Bureau data on housing completions and HUD data on LIHTC units placed in service. All LIHTC completions are assumed to be units in multifamily structures.

Sources: JCHS calculations using US Census Bureau, Survey of Market Absorption and New Residential Construction; and US Department of Housing and Urban Development, Low Income Housing Tax Credit database.

foot for 4- to 7-story, brick-faced, concrete block multifamily structures was up 84 percent in 1999–2009, more than twice the increase in residential rents.

Another factor boosting construction costs is the trend toward larger multifamily buildings, which may reflect the high fixed costs of assembling financing and dealing with regulatory requirements. More apartments are also being built in infill locations in developed areas that required mid- or high-rise buildings, rather than garden-style apartments on the suburban fringe. In 1999, 13 percent of new rental apartments were in buildings with 50 or more units. By 2009, this share had tripled to 39 percent. At the same time, the share of new rental apartments in buildings with 4 or more stories rose from 10 percent to 35 percent. The methods and building materials needed to build these larger structures also push up construction costs.

In addition to construction costs, the ability to supply new housing depends on the cost of land, the amount of time required to begin and complete the project, and the cost of financing. Local zoning laws often raise land costs by restricting the parcels available for multifamily and high-density single-family housing. Numerous regulatory requirements also contribute to delays in production, not only increasing costs but also making supply less responsive to changes in demand and thus leading to over- and under-building.

Moreover, productivity in the building trades has improved much less than in other industries, at least as captured by available measures. This may reflect in part the organization of the residential construction industry. General contractors and merchant builders subcontract nearly all of their produc-

tion work and typically own little capital equipment. While such “lean and mean” organizations clearly help development firms ride out construction cycles, this business structure may also impede innovation and productivity gains.

### THE CHALLENGE OF PRODUCING LOW-INCOME HOUSING

While high construction costs are a barrier, the biggest obstacle to meeting the housing needs of many renters is their very low incomes. Over the past two years, the construction cost per unit for new multifamily structures averaged about \$90,000. That figure excludes land costs and some other development costs, raising the effective average to about \$110,000.

The monthly rent generally required to provide acceptable returns to investors is 1 percent of property value. The median asking rent of \$1,067 reported in the Census Bureau’s 2009 Survey of Market Absorption is consistent with that standard. A household with the median renter income of about \$31,000 in 2009 would therefore have to pay more than 40 percent of that income to meet that asking rent. Including tenant-paid utilities, the total housing cost burden would be about 50 percent (**Figure 21**). To develop new apartments affordable to renter households with incomes equivalent to the full-time minimum wage, the construction cost would have to be 28 percent of the current average (which is already 30 percent below the 2007 peak in real terms).

While more efficient construction methods would reduce the cost of new housing somewhat, providing renters the opportunity to consume less housing would yield greater savings. Existing rental units occupied by low- and moderate-income

FIGURE 21

### The Incomes of Many Renters Are Too Low to Support Development of New Market-Rate Housing

Income Standard	Equivalent Annual Income	Affordable Monthly Rent	Supportable Per-Unit Development Costs
Household Income Needed to Afford Typical New Unit	\$51,800	\$1,300	\$110,000
Median Renter Income	30,500	760	64,800
Full-Time Minimum Wage Equivalent	14,500	360	30,800

Notes: Median renter income is as of 2009. Construction costs of a typical new unit roughly equal the average per-unit costs for new multifamily structures in 2009–10. Supportable development costs allow rent and tenant-paid utilities to equal 30% of household incomes assuming that (1) tenant-paid utilities equal 15% of rent; (2) investors require monthly rent equal to 1% of total development costs; and (3) land and other costs add about 20% to construction costs. The full-time minimum wage equivalent is the annual income of a worker earning \$7.25 per hour, working 40 hours a week for 50 weeks a year.

Source: JCHS calculations using data from US Census Bureau, 2009 and 2010 Surveys of Market Absorption and 2009 American Community Survey.

households are hardly luxurious, but they often offer more room and amenities than necessary to meet basic needs and protect health and safety. Households facing excessive rent burdens may in fact be willing to live in smaller, less elaborate, and therefore less expensive units. But regulatory constraints or market dynamics limit the availability of such housing. Even where construction of lower-cost housing is theoretically permitted, community pressures often push developers to build more expensive structures.

### ADDITIONS FROM THE OWNER-OCCUPIED MARKET

The shift of homes from the owner-occupied stock has made increasingly important additions to the rental supply. In fact, the rental market has played a stabilizing role in the mortgage crisis by absorbing an enormous number of foreclosed homes. AHS data indicate that about 9.1 percent of the rental housing stock in 2009 had been owner-occupied two years earlier. Tenure switching was most common among rented single-family detached houses, with some 22.6 percent of these units having changed from owner to renter occupancy between 2007 and 2009. Contrary to the popular view that multifamily condos are more likely to flow back to the rental market, only 2.5 percent of multifamily rental units in 2009 were owner-occupied in 2007.

Each year, hundreds of thousands of homes switch from owner- to renter-occupied and vice versa. These shifts favored the owner-occupied market in the early 2000s as sales heated up, but have favored the rental market since the crash (**Figure 22**). The pace of net conversions from owner to renter tripled in 2005–7 relative to that in 2001–3, then nearly doubled again in 2007–9 to 1.9 million units. Single-family detached homes were the driving force, accounting for three out of every four conversions to rentals between 2007 and 2009.

But the units added recently through tenure switching are unlikely to stay in the rental stock. In the past, many converted units—especially single-family detached homes—have not remained a long-term source of rental housing. Of all the single-family detached homes that switched from owner to renter occupancy between 1997 and 1999, 45 percent reverted to owner-occupancy by 2001—about twice the share that switched from renter to owner and back again. As the net flow of housing into the rental stock increased over the 2000s, the share of tenure-switching units that quickly reverted to ownership fell while the share that reverted to rentership rose. Still, more than a third of the homes that shifted from owner to renter occupancy in 2005–7 switched back to ownership by 2009. Given the historically high rates

at which single-family homes exit the rental market, many units that are currently for rent are likely to return to owner-occupancy once the housing market stabilizes.

### ONGOING RENTAL STOCK LOSSES

Significant portions of the rental supply are permanently lost each year. In all, 6.3 percent of the rental stock in 1999 was permanently lost by 2009 (**Table A-6**). With 37.4 million occupied or vacant rental units in 1999, this equates to average annual losses of 240,000 units over the decade. A major contributing factor is that the rental stock is rapidly aging. As of 1989, the median rental housing unit was 26 years old. By 2009, the median age stood at 38 years.

Low-cost units (renting for less than \$400 in 2009 dollars) are most at risk of permanent loss because the modest rent they earn is often insufficient to maintain the properties in good condition. In 1999–2009, 11.9 percent of low-cost rentals were permanently removed from the stock—nearly twice the share of units renting for \$400–799 and four times the share of units renting for more than \$800. In addition, decade-long loss rates for vacant low-cost units (20.6 percent) were nearly twice those for occupied units (10.9 percent).

Excluding manufactured housing (which has very high loss rates but makes up less than 9 percent of the low-cost housing stock), the worst losses are among the most common structure types. More than one in ten single-family detached homes, which made up over a quarter of the low-rent housing stock in 1999, were permanently removed by 2009. Loss rates for multifamily properties with 2–4 units, accounting for a quarter of the 1999 low-cost stock, were even higher at 15.1 percent. Low-cost rentals in buildings with 5 or more units fared much better, with permanent loss rates of 7 percent.

Not surprisingly, older structures are lost at higher rates. The difference in loss rates for older and newer multifamily properties is especially large, with rates for multifamily units built before 1960 (about 10 percent) more than six times those for units built between 1980 and 1999. Loss rates for low-rent units also vary widely by age of structure, although these units are more likely to be in older properties. More than 15 percent of low-cost units built before 1940 were permanently lost by 2009, compared with just 6.4 percent of units built in 1980–99.

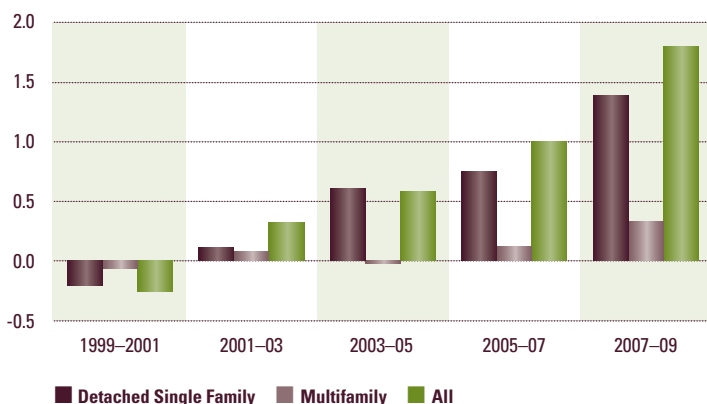
Over time, property owners must make substantial investments to replace aging systems. According to the 2001 RFS, even in multifamily properties under 10 years old, about 8 percent of annual rental receipts went to capital invest-

ments. Expenditure levels rise to about 15 percent of rents by the time buildings are 20 years old. Among smaller properties (with 5–49 units), the rate of investment is lower when the building is newer, but then climbs to 20 percent of rents when it exceeds 40 years old.

**FIGURE 22**

### Tenure Switching Has Added Significantly to the Rental Housing Stock Since 2001

Net Conversions from Owner to Renter Occupancy (Millions of units)



Note: All structures also includes attached single-family homes and mobile homes.  
Source: JCHS tabulations of US Department of Housing and Urban Development, American Housing Surveys, using JCHS-adjusted weights.

With the median rental unit now approaching that age, substantial outlays are necessary to stave off losses. However, local building codes often frustrate rehabilitation and improvement of older housing because they require that renovated properties conform to standards for new construction. In some cases, complying with these standards—such as for wider hallways or less steep staircases—would mean completely reconfiguring the building. Faced with such substantial costs, owners may decide to disinvest in their buildings and ultimately abandon the properties altogether.

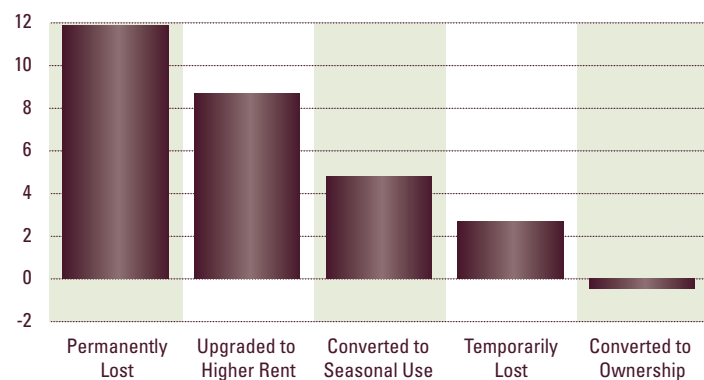
In addition to high permanent removal rates, a variety of other factors reduce the number of low-cost rental units. Of these, most significant are losses due to some degree of gentrification (Figure 23). Although the filtering of properties from higher to lower rents over time is commonly seen as replenishing the low-cost stock, losses due to real rent increases are in fact a major drain on the inventory. For every two units that moved down to the low-cost category in 1999–2009, three units moved up to higher rent levels—a net loss of 9.1 percent of the 1999 low-cost stock.

Smaller but still significant shares of low-rent units are also converted to seasonal and other uses, or abandoned and otherwise temporarily removed from the stock. While switching from renter to owner occupancy is another potential source of loss, such conversions actually yielded a small net gain in low-rent units over the past decade. Taking all of these potential sources of loss into account, the number of units renting for less than \$400 would have dropped 28.4 percent between 1999 and 2009. Fortunately, actual losses were not this severe thanks primarily to additions from construction of new assisted units.

**FIGURE 23**

### More than a Quarter of the Low-Cost Rental Stock Has Been Lost Since 1999

Net Losses of Units with Rents under \$400 in 1999 Dollars  
(Percent change 1999–2009)



Notes: Temporary losses are defined as units condemned, exposed to the elements, converted to non-residential or institutional use, or otherwise removed temporarily from the housing stock. Rent levels are adjusted for inflation using the CPI-U for All Items.  
Source: JCHS tabulations of US Department of Housing and Urban Development, 1999 and 2009 American Housing Surveys.

### ABANDONED PROPERTIES AND NEIGHBORHOOD DISTRESS

Temporary losses of housing units are important not only because they are often the first step toward permanent loss, but also because long-term abandonment introduces blight and safety concerns that reduce quality of life and property values in the surrounding community. According to the AHS, nearly a third of housing units that were abandoned, condemned, or otherwise temporarily lost between 2001 and 2005 were still languishing in 2009. In fact, only a quarter of the units reported as temporarily lost in 2005 (some of which were also reported in earlier surveys) were permanently removed by 2009. In keeping with the view that these structures are unlikely to be reclaimed, only a 30 percent of units reported as temporary losses were occupied four years later.

Since the foreclosure crisis, the incidence of abandonment has increased sharply in neighborhoods across the nation. In 2009, 7.1 million households reported at least one abandoned or vandalized home within 300 feet of their residences—an increase of 1.5 million households from 2007 and more than 2.0 million from 2005. Nearly half (45.5 percent) of housing units with abandoned properties nearby are in center cities, 30.6 percent in suburbs, and the remaining 23.8 percent in non-metropolitan areas.

Fully 12 percent of units located in center cities had at least one abandoned property nearby, compared with just 5 percent of suburban units. Reflecting the concentration of foreclosures, the share of households reporting multiple abandoned homes nearby has increased much more rapidly (up 56 percent since 2005) than the share with just one (up 25 percent over the same period). While center city homes (regardless of tenure) are most likely to have multiple abandoned properties nearby, the incidence of this problem in suburban areas doubled in 2005–9.

#### **THE OUTLOOK**

Although there appears to be an excess supply of rental housing at present, this could change quickly as the economy recovers and household formation among younger adults returns to a more typical pace. An upsurge in demand

could outstrip the available supply and push construction activity back up.

Over the longer term, the preservation of existing affordable rentals is key. While policymakers are rightly concerned about preserving the nation's assisted housing stock, they should focus more attention on the privately owned unsubsidized stock that supplies three times as many low-cost units but is threatened by high permanent loss rates. For example, federal tax provisions could be altered to encourage preservation of existing housing. More generous deductions and depreciation schedules for repairs and system replacements could increase investment in the stock and help restore dilapidated buildings to occupancy.

Without subsidies, developers are generally unable to produce housing for those at the bottom of the income distribution, leaving the growing number of poor renters to compete for a dwindling supply of affordable units. Absent greater efforts to preserve the existing low-cost stock and build more affordable units, these trends are likely to persist. The fact that much of the private low-cost stock is spread across many small properties owned by individual investors makes preservation particularly difficult. Nevertheless, policymakers have a number of opportunities to use tax policies, regulatory changes, and mortgage market oversight to create incentives to invest in this vital resource.