



# AMERICA'S RENTAL HOUSING

MEETING CHALLENGES, BUILDING ON OPPORTUNITIES

## Fact Sheet

The troubled homeowner market along with shifting demographics have produced a renewed appreciation for rental housing's vital role in providing homes on flexible terms. While rental housing is the home of choice for a diverse cross section of Americans, it is also a necessary choice for millions of low-income households unable to afford the costs of homeownership.

Still, the share of renters who are unable to find affordable housing has been growing for decades, and rose sharply over the last decade as renter incomes fell further behind housing and utility costs.

The next few years are likely to see further deterioration in affordability as rental markets are already beginning to tighten. The challenge for policy makers will be to do more with less, as the growing need for affordable rental housing confronts the stark realities of federal budgetary constraints. To help meet this challenge it will be particularly important for all levels of government to foster an environment that supports efforts by the private sector to help meet the nation's need for affordable, good quality rental housing.

### MARKET CONDITIONS

- The housing market crash and Great Recession took a toll on rental markets, pushing up vacancy rates and pushing down rents and property values. Yet there are indications that a revival in rental markets has already taken root. Vacancy rates have begun to fall as the continuing foreclosure crisis and other forces dampen the allure of homeownership and help spur strong renter household growth.
- After rising for much of the 2000s, rent increases came to a halt during the recent recession. However, survey data on professionally managed apartments show a return to increases in rents by the end of 2010. Annual growth in the fourth quarter of 2010 was 2.3 percent—just ahead of inflation.
- During much of the 1990s rental vacancy rates hovered around 8 percent, before rising to just under 10 percent by the mid 2000s. As the recession took hold vacancy rates reached a new high of 10.6 percent in 2009. But in the fourth quarter of 2010 rental rates fell sharply to 9.4 percent.
- Starts of both single-family and multifamily housing intended for the rental market averaged about 300,000 units annually from 1995–2004. As the housing market crash and recession took hold, starts fell to about 230,000 units a year in 2005–8, and then to just over 100,000 in 2009.
- The financial market crisis severely curtailed multifamily lending. The only net additions to outstanding multifamily debt since 2008 have come from Fannie Mae, Freddie Mac, and the FHA (Federal Housing Administration), while the volume for all other financing sources combined dropped by 40 billion.

## RENTER DEMOGRAPHICS

- Rental housing serves a large and diverse population of nearly 39 million U.S. households.
- Population trends should lift the number of renter households by more than 3.6 million in 2010–20.
- By 2010 approximately 70 percent of all renter households had incomes below the national median and 41 percent had incomes in the bottom quartile.
- Renters cover the age spectrum. While younger groups are much more likely to rent their housing, more heads of renter households are between the ages of 35 and 64 (46 percent) than under 35 (41 percent). Elderly households account for the remaining 13 percent of renters by age.
- Single person households make up nearly two out of every five renters. The rest of the renter population is fairly equally divided among married couples with and without children, single-parent households, and other related and unrelated groups of people.
- In 2000, 39 percent of renters were minorities. From 2001–10, the number of renter households increased by 3.9 million, with minorities contributing 81 percent of this growth. Hispanics accounted for 39 percent and blacks for 27 percent of the increase.
- Foreign-born householders have added to the diversity of renters. One in five renter households is headed by an immigrant, twice the share among homeowners.

## RENTAL HOUSING STOCK

- In 2009, more than half of renters lived in suburban and non-metropolitan areas.
- More than half of all rental units are in small structures, including single-family homes, properties with 2–4 units, and manufactured homes. Another quarter of the rental stock is in multifamily buildings with 5–19 units, with the rest equally divided between large properties with 20–49 and 50 or more units.
- Individuals own 55 percent of all rental units. They own more than 80 percent of rental units in properties with 1–4 units and about 70 percent of units in properties with 5–9 units. The remaining rental stock is owned by partnerships, corporations, limited liability companies, and nonprofit organizations.
- About one in six rental units are supported by some form of housing assistance, but approximately three-quarters of homes with rents under \$600 a month are privately supplied and unsubsidized.
- New construction mostly serves the upper end of the rental market. The median asking rent of new unfurnished apartments was \$1,067 in 2009 while that for all rental housing was \$808. Fully a third of all new apartments rented for \$1,250 or more, compared with only 14 percent of all occupied rental housing.
- The foreclosure crisis and falling homeownership rate have led to a large volume of homes switching from owner to renter occupied. The pace of net conversions from owner to renter tripled in 2005–7 relative to 2001–3 and 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 net conversions to rentals between 2007 and 2009.
- Fully 6.3 percent of the rental stock in 1999 was permanently lost by 2009. With 37.4 million occupied or vacant rental units in 1999, this equates to 2.4 million lost units.
- Rental housing losses were much higher among low-cost units. In 1999–2009, 12 percent of low-cost rentals were permanently removed from the stock, twice the share of units renting for \$400–799 and four times that of units renting for \$800 or more.

- For every two units that moved into the low-cost category in 1999–2009, three units moved to higher rent categories—a net loss of 9.1 percent of the 1999 low-cost stock.
- The incidence of abandonment has increased substantially 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 million from 2005.

#### **AFFORDABILITY**

- Falling incomes and the Great Recession have pushed both the number and share of renters facing severe cost burdens (those spending more than 50 percent of income on rent and utilities) to all time highs. The number of severely cost-burdened renters increased by 2.6 million over the last decade to 10.1 million—more than one in four renters. Simultaneously, the number of moderately cost-burdened renters (those spending 30 to 50 percent of their income on rent and utilities) rose from 20.5 percent to 26.2 percent, meaning that nearly half of all renters face at least moderate housing cost burdens.
- Low-income renters are particularly likely to be severely cost burdened because of the growing shortage of affordable housing across the country. In 2009, the share of renters in the bottom income quintile paying more than half their incomes for housing was 61.4 percent, an increase of 4 percentage points from 2007 alone.
- Affordability worsened in all 100 largest US metropolitan areas over the past decade. Between 2001–9, the share of severely cost-burdened renters grew by an average of 7.0 percentage points in the top 100 metros, with increases ranging from 1.9 percentage points to 12.8 percentage points.
- A majority of almost all demographic groups among lowest-income renters have severe housing cost burdens. Younger households are especially vulnerable, with 71.3 percent of renters under age 25 and 69.1 percent of those aged 25-44 in the bottom income quintile severely burdened.
- Renters with high housing cost burdens have little left to pay for other necessities such as food, clothing, and healthcare. On average, severely burdened families spent 71 percent less on transportation, 52 percent less on clothes, 52 percent less on healthcare, and 37 percent less on food than those living in affordable housing.
- The growing incidence of renter payment burdens reflects a growing shortage of affordable housing. In 2003, there were 9.4 million extremely low-income renter households (those with incomes below 30 percent of area medians) but only 3.8 million units that were affordable for this income level, in adequate condition, and not rented by upper income households—a supply gap of 5.6 million units. In 2009, the supply gap widened to 6.8 million units as the number of extremely low-income renter households grew to 10.4 million and the number of units fell to 3.6 million.
- Rising energy costs are exacerbating affordability concerns. Household utility costs rose 22.7 percent in 2000–10. Energy costs rose from 10.8 percent to 15.0 percent of renters' housing costs between 2001–9. Lowest-income renters saw the largest increase, climbing from 12.7 percent to 17.4 percent.

#### **POLICY CHALLENGES**

- Despite appropriating more than \$40 billion a year to housing and community development assistance and forgoing about \$10 billion in tax revenues, the federal response is modest relative to the scale of the nation's rental affordability problems. Only about one in four eligible renters receives housing assistance, losses of affordable units are alarmingly high, three in five of lowest-income renters are severely cost burdened, and many poor neighborhoods suffer from disinvestment in the rental housing stock.
- Much of the property-based assisted housing was developed under older programs which are no longer funded to add additional rentals. These programs peaked in the mid-1990s when they accounted for 3.8 million affordable rentals. This type of housing

dwindled and as of 2009, there were just 1.1 million public housing units and 2.0 million privately owned subsidized units.

- In the 1990s, housing vouchers became an important source of additions to the assisted housing inventory. But growth in the number of vouchers stagnated by the middle of the 2000s. As of 2009, 2.1 million housing vouchers were in use, supporting 3 out of 10 assisted renter households.
- At present, the primary source of new construction and preservation of assisted housing is the Low-Income Housing Tax Credit program. In 2007, there were 1.7 million LIHTC units. With additions averaging about 100,000 units per year, there were perhaps 1.9 million units in service as of 2009. At this rate, the LIHTC program will become the single largest source of assisted housing in the next few years. But unless combined with other subsidies, LIHTC units provide a shallower rent subsidy than other assistance programs.
- The vast majority of assisted housing serves the nation's most vulnerable families and individuals. One-fifth of HUD-assisted rentals in 2008 were occupied by non-disabled elderly residents, a third by persons with disabilities, and nearly two-fifths by single women with children. These three types of households make up four-fifths of assisted housing residents.
- Project-based assisted housing is disproportionately located in poor urban environments. Across all HUD-assisted housing, the neighborhood poverty rate in 2000 averaged 21 percent—significantly above the national rate of 11 percent. Public housing tends to be located in particularly distressed communities, with an average poverty rate of 29 percent.
- Assisted housing is also much more likely to be located in minority communities. In 2000, the average minority share of the neighborhood population where HUD-assisted properties were located was 47 percent, compared with 31 percent in the nation as a whole.
- The most recent HUD study in 2000 found that only 69 percent of households awarded vouchers succeeded in finding apartments and using the subsidy.

The nation continues to grapple with the chronic challenges of rental affordability, ongoing losses of the affordable stock, neighborhood decline, and the need to help lift poor renters out of poverty. To date, there has been a lack of political will to assemble the resources needed to keep these problems from worsening, let alone make serious strides toward their resolution. In addition, opinions differ about how available resources should be used, what new programs, if any, should be created, and how existing programs should be reformed. How these differences are reconciled and how programs are reformed and funded will have critical influences on rental housing moving forward.

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