AMERICA'S RENTAL HOUSING **2017**

Joint Center for Housing Studies of Harvard University

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

HARVARD GRADUATE SCHOOL OF DESIGN
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1 | EXECUTIVE SUMMARY

After a decade of broad-based growth, renter households are increasingly likely to have higher incomes, be older, and have children. The market has responded to this shift in demand with an expanded supply of high-end apartments and single-family homes, but with little new housing affordable to low- and moderate-income renters. As a result, part of the new normal emerging in the rental market is that nearly half of renter households are cost burdened. Addressing this affordability challenge thus requires not only the expansion of subsidies for the nation's lowest-income households, but also the fostering of private development of moderately priced housing.

RENTER HOUSEHOLD GROWTH IN A SLOWDOWN

Rental housing markets have seen an unprecedented run-up in demand over the last decade, with growth in renter housholds averaging just under one million annually since 2010. But the surge in demand now appears to be ending, with the three major government surveys reporting a sharp slowdown in renter household growth to the 136,000–625,000 range in 2016. Early indications for 2017 suggest a further deceleration, with one survey showing essentially no increase and another posting a substantial decline **(Figure 1).** While these estimates are notoriously volatile from year to year, the consistent trend across surveys provides some confidence that growth in renter households is indeed cooling.

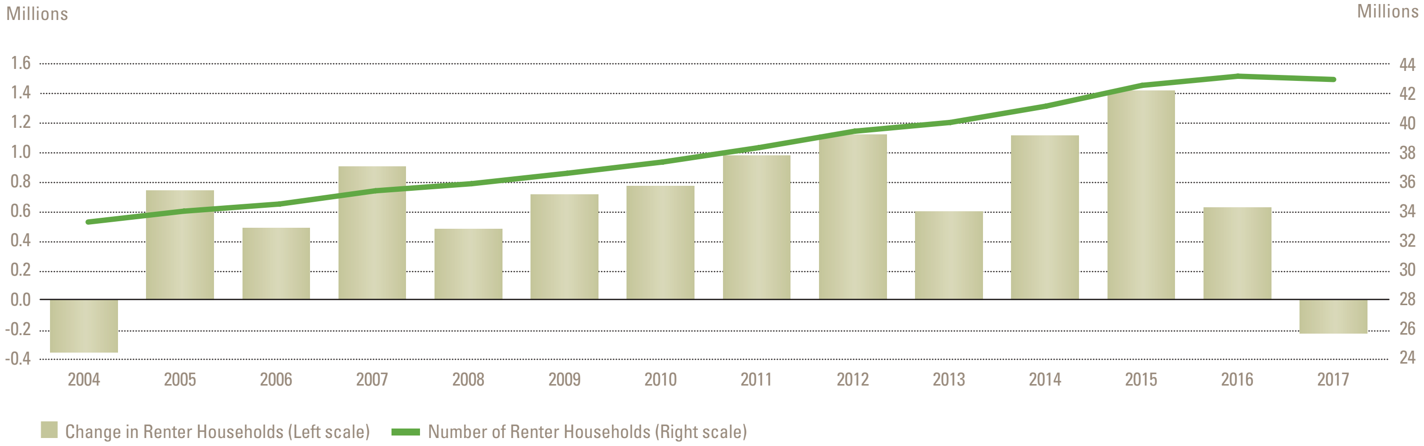
The recent wave in renter household growth reflects in part the sharp drop in the national homeownership rate after 2004. While many factors drove that decline, the massive wave of foreclosures after the housing crash was a key contributor. This drag on homeownership has now eased. And with the economy near full employment and incomes on the rise, more households that want to buy homes are able to do so.

Still, the housing crisis no doubt generated renewed appreciation for the advantages of renting that will help sustain demand in the years ahead. Indeed, even as the homeownership rate stabilizes, renters are still likely to account for slightly more than a third of household growth. According to Joint Center projections, the number of renter households will increase by nearly 500,000 annually over the ten years from 2015 to 2025—a still robust pace by historical standards.

The sweeping changes in the nature of rental demand, however, seem likely to persist. In particular, renting now appears to have greater appeal for households that could afford to buy homes if they desired. In 2006, 12 percent of households earning $100,000 or more were renters. In 2016, that share exceeded 18 percent, a cumulative increase of 2.9 million renters in this top income category. Indeed, these high-income households drove nearly 30 percent of the growth in renters over the decade. Even so, renting remains the primary housing option for those with the least means. A majority (53 percent) of households earning less than $35,000 rent their housing, including over 60 percent of households earning less than $15,000.

FIGURE 1

After a Decade of Expansion, the Pace of Growth in Renter Households Has Slowed



Note: Estimate for 2017 is the average of second- and third-quarter data.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Survey.

In addition, renters are now much older on average than a decade ago, reflecting both an increase in middle-aged households that rent and the overall aging of the population. The median age of renters thus increased from 38 in 2006 to 40 in 2016. Although roughly a third of renters are under age 35, nearly as many are now age 50 and over.

With renting more common across age and income groups, renter households are more representative of the broad cross-section of US families. Most notably, families with children now make up a larger share of households that rent (33 percent) than own (30 percent). Married couples without children, in contrast, make up 37 percent of homeowners and just 12 percent of renter households. Single persons are still the most common renter household type, accounting for fully 37 percent of all renter households.

While whites accounted for a large share of the overall growth in renters, renter households are quite racially and ethnically diverse. Unlike homeowners, who are overwhelmingly white, renter households include a large share (47 percent) of minorities. At the same time, one in five renter households is foreign born, reflecting the importance of rental housing to new immigrants.

EVOLUTION OF THE RENTAL SUPPLY

Soaring demand sparked a sharp expansion of the rental stock over the past decade. Initially, most of the additions to supply came from conversions of formerly owner-occupied units, particularly single-family homes, which provided housing for the increasing number of families with children in the rental market. Between 2006 and 2016, the number of single-family homes available for rent increased by nearly 4 million, lifting the total to 18.2 million. While single-family homes have always accounted for a large share of rental housing, they now make up 39 percent of the stock.

More recently, though, growth in the single-family supply has slowed. The American Community Survey shows that the number of single-family rentals (including detached, attached, and mobile homes) increased by only 74,000 units between 2015 and 2016, substantially below the 400,000 annual increase averaged in 2005–2015. With this slowdown in single-family conversions and a boom in multifamily construction, new multifamily units have come to account for a growing share of new rentals. Indeed, completions of new multifamily units intended for rent averaged 300,000 annually over the last two years, their highest level since the end of the 1980s.

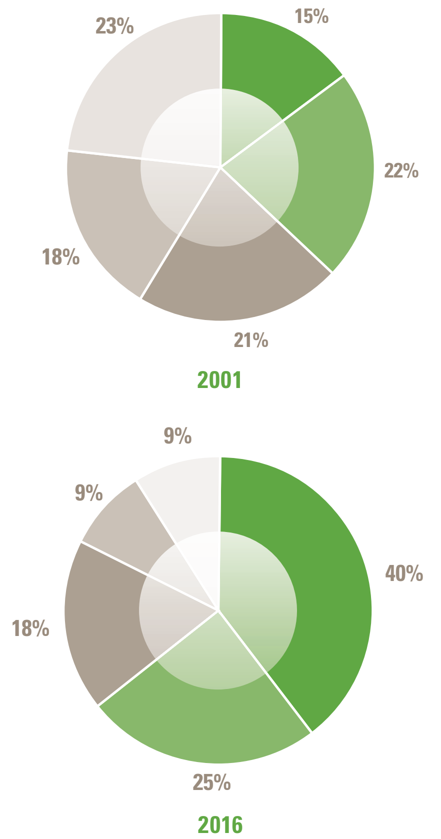
Much of this new housing is targeted to higher-income households and located primarily in high-rise buildings in downtown neighborhoods. Given that construction and land costs are particularly high in these locations, the median asking rent for new apartments increased by 27 percent between 2011 and 2016 in real terms, to $1,480. Using the 30-percent-of-income standard for affordability, households would need an income of at least $59,000 to afford these new units, well above the median renter income of $37,300.

At the same time, the supply of moderate- and lower-cost units has increased only modestly **(Figure 2).** While the share of new units renting for at least $1,100 jumped from 37 percent in 2001 to 65 percent in 2016, the share renting for under $850 shrank from just over two–fifths to under one–fifth. The lack of new, more affordable rentals is in part a consequence of sharply rising construction costs, includ-

FIGURE 2

Additions to the Rental Stock Are Increasingly at the Higher End

Share of Recently Built Units



Monthly Housing Cost

Under $650 | $650–849 | $850–1,099 | $1,100–1,499 | $1,500 and Over

Notes: Recently built units in 2001 (2016) were constructed in 1999–2001 (2014–2016). Monthly housing costs include rent and utilities and are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items Less Shelter. Data exclude vacant units and units for which no cash rent is paid.
Source: JCHS tabulations of US Census Bureau, 2001 and 2016 American Community Survey 1-Year Estimates.

ing labor and materials. According to estimates from RS Means, the costs of building a basic, three-story apartment building increased by 8 percent from 2016 to 2017 alone. Tight land use regulations also add to costs by limiting the land zoned for higher-density housing and entailing lengthy approval processes.

Given these high development costs, most of the demand for low-priced rentals must be met by older units. Only a fifth of existing units rented for under $650 a month in 2016, and nearly half of these units were built before 1970. Affordably priced rentals are frequently located in smaller multifamily structures, with one-quarter of low-cost units in buildings with 2–4 apartments.

In many cases, the supply of these so-called naturally occurring affordable rentals is replenished as rents on older housing fall due to aging and obsolescence. But with overall rental demand strong, particularly in centrally located communities, rents for an increasing number of once-affordable units have become out of reach for lower-income households. At the same time, the rents charged for units in neighborhoods with weak demand may not support adequate maintenance, leaving those rentals at risk of deterioration and loss. Given the lack of new construction of lower-cost rentals, preserving the existing stock of privately owned affordable units is increasingly urgent.

RENTAL MARKETS AT A TURNING POINT

Rental construction led the housing recovery, rebounding nearly four-fold from the market trough in 2009 to 400,000 units in 2015—the highest annual level since the late 1980s. But after moving sideways in 2016, the pace of multifamily starts has fallen 9 percent through October 2017. The slowdown has occurred in markets across the country, but is most evident in metros where multifamily construction had been strongest.

In addition to the slowdown in construction, a variety of measures suggest that the rental boom is cresting. RealPage reports increasing slack in the professionally managed apartment market, with vacancy rates rising over the past year in 94 of the 100 metros tracked. The clearest signs of loosening are in the higher-priced Class A segment, where the vacancy rate was up 1.5 percentage points year over year in the third quarter of 2017, to 6.0 percent **(Figure 3).** Vacancy rates in the lower-cost Class C segment also rose but remain quite low at 4.1 percent.

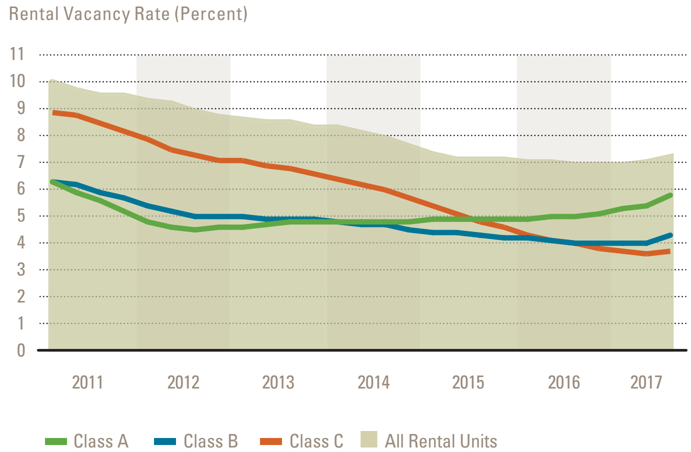
Apartment rents are also increasing more slowly in all three segments of the market **(Figure 4).** This deceleration has appeared in all four regions of the country and in large and small markets alike. Even so, conditions in selected markets—particularly smaller metros and locations in the Midwest, such as Cincinnati and Minneapolis—were still heating up.

Over the last six years, increases in the median rent have exceeded inflation in non-housing costs by more than a full percentage point annually, with the largest gains in the South and West. Median rents have risen at twice the national pace in markets with rapid population growth, such as Austin, Denver, and Seattle. And within these fast-growing metros, rents in previously low-cost neighborhoods rose nearly a percentage point faster each year than in high-cost neighborhoods.

Meanwhile, rental property owners continue to benefit from still healthy increases in operating incomes and property values. According to the National Council of Real Estate Investment Fiduciaries, net

FIGURE 3

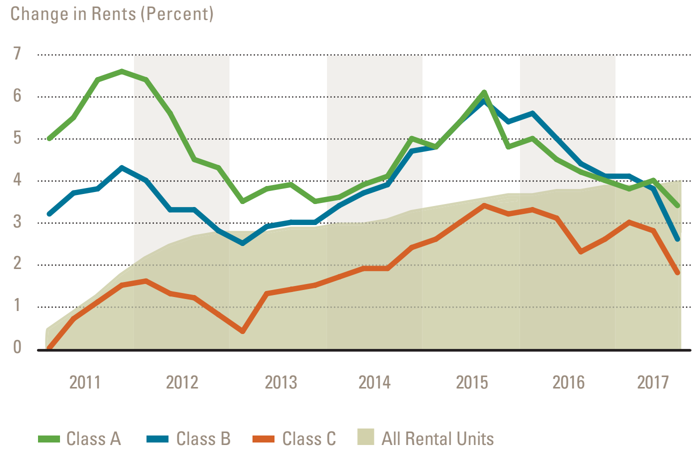
As Vacancy Rates Begin to Climb…



Notes: Vacancy rates are calculated as smoothed four-quarter trailing averages. Vacancy rate for all rental units is from the HVS. RealPage data cover professionally managed apartments in buildings with five or more units.
Sources: JCHS tabulations of US Census Bureau, Housing Vacancy Survey (HVS), and RealPage, Inc.

FIGURE 4

… Rent Growth Appears Set for a Steeper Slowdown



Notes: Growth in rents for all units is measured by the CPI for Rent of Primary Residence, including utilities. RealPage data cover professionally managed apartments in buildings with five or more units.
Sources: JCHS tabulations of Bureau of Labor Statistics, and RealPage, Inc.

operating incomes were up 3.8 percent in the third quarter of 2017 from a year earlier. In addition, Real Capital Analytics reports that real apartment prices climbed 6.3 percent in the second quarter of this year. Although declining, rates of return on investment remained relatively strong at 6.2 percent. The pace of investment, however, appears to be slowing, with the volume of large international and institutional deals falling in many major apartment markets.

Even so, multifamily financing remains at an all-time high. According to the Mortgage Bankers Association, the volume of outstanding multifamily mortgage debt increased by about 20 percent in 2015–2016, rising to nearly $1.2 trillion in early 2017. Federally backed debt rose by 25 percent, while bank and thrift lending was up 29 percent. Meanwhile, multifamily loan delinquencies are extremely low. Some caution appears to be creeping into the market, however, with the latest Federal Reserve loan officer surveys pointing to tightening credit and slowing demand.

SLIGHT EASING OF AFFORDABILITY PRESSURES

With the economy continuing to improve and income growth accelerating, the share of renters with cost burdens (paying more than 30 percent of income for housing) fell in 2016 for the fourth time in five years, to 47 percent **(Figure 5).** The number of cost-burdened renters also fell for the second consecutive year, declining from 21.3 million in 2014 to 20.8 million in 2016, with the number of severely burdened households (paying more than 50 percent of income for housing) dipping from 11.4 million to 11.0 million. However, this progress comes only after a decade of steep increases. At the average rate of improvement from 2014 to 2016, it would take another 24 years for the number of cost-burdened renters to return to the 2001 level.

The high incidence of cost burdens reflects the divergent paths of rental housing costs and household incomes. Between 2001 and 2011, median rental housing costs rose 5 percent in real terms while median renter incomes dropped 15 percent. Since 2011, however, real housing costs have increased 6 percent while income growth has picked up 16 percent (due in part to the increasing share of renters with higher incomes). But even with the recent turnaround in incomes, the cumulative increase in rental housing costs since 2001 has been far larger.

The rental market thus appears to be settling into a new normal where nearly half of renter households are cost burdened. An important element of this trend is that more middle-income renters are spending a disproportionate share of income for housing. Indeed, the share of renters earning $30,000–45,000 with cost burdens jumped from 37 percent in 2001 to 50 percent in 2016, and the share earning $45,000–75,000 nearly doubled from 12 percent to 23 percent. In addition, the cost-burdened share of lowest-income households (earning less than $15,000) was still a stunning 83 percent, with the vast majority experiencing severe burdens.

Given the fundamental need for shelter, rent is typically the first bill paid each month. High housing costs erode renters' purchasing power, leaving little money left over for other essentials such as food, childcare, and healthcare. In 2016, the median renter in the bottom income quartile had just $488 per month to spend on other essentials—18 percent less than in 2001 after adjusting for inflation. The added costs of utilities and transportation further strain household budgets. Low-income households with children and older adults with severe rental cost burdens are in a particularly precarious position and may be unable to afford other goods and services that are critical to health and well-being.

SHORTFALL IN RENTAL ASSISTANCE

Need for housing assistance continues to grow. HUD's Worst Case Housing Needs 2017 Report to Congress shows that the number of very low-income households receiving rental assistance increased by 600,000 from 2001 to 2015. Over the same period, the number of very low-income households (making less than 50 percent of area median) grew by 4.3 million, with extremely low-income households (making less than 30 percent of area median) accounting for more than half (2.6 million) of this increase. As a result, the share of renters potentially eligible for assistance and that were able to secure this support declined from 28 percent to 25 percent **(Figure 6).** Meanwhile, the share of very low-income renters facing worst case needs—that is, paying more than half their incomes for housing and/or living in severely inadequate units—increased from 34 percent to 43 percent.

Making matters worse, much of the subsidized rental stock is at risk of loss either due to under-maintenance or expiring affordability periods. Public housing is particularly under threat, with a backlog of deferred repairs last estimated at $26 billion in 2010. In fact, the number of occupied public housing units fell by 60,000 between 2006 and 2016. The Rental Assistance Demonstration (RAD) program was launched in 2012 to convert public housing into long-term project-based Section 8 contracts in order to provide more flexible financing for improvements. The RAD program quickly reached its initial cap of 60,000 units, which has since been increased to 225,000 units.

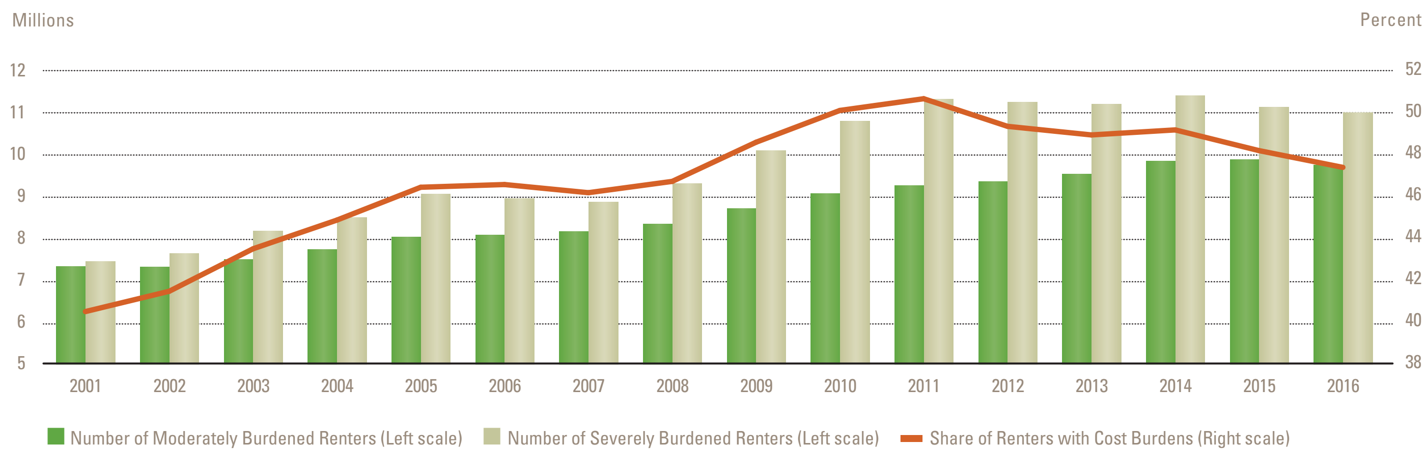
The two main sources of rental housing assistance are the Housing Choice Voucher and Low Income Housing Tax Credit (LIHTC) programs. Vouchers enable recipients to choose units on the open market as long as they meet rent and quality standards. Despite a 6.8 percent increase in funding between 2011 and 2016, rising rents kept growth in the number of voucher holders to just 5.8 percent.

In contrast, the LIHTC program provides funding for new construction as well as rehabilitation and preservation of existing assisted housing. In recent years, the LIHTC program has supported 70,000 affordable rental units per year, with roughly 55 percent added through new construction. But over the next decade, nearly 500,000 LIHTC units, along with over 650,000 other subsidized rentals, will come to the end of their required affordability periods. The need for funding to help rehabilitate and preserve this important stock will fuel significant demand for LIHTC funding, thus limiting opportunities to build new affordable rentals.

In recognition of the important role that the LIHTC program plays, the Congress is considering a bipartisan proposal to expand funding while also introducing reforms that would improve the ability of the program to serve both lower- and moderate-income households

FIGURE 5

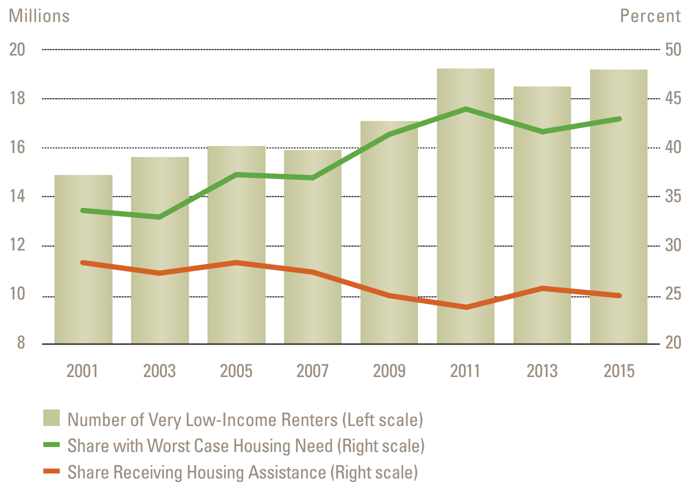
Despite Recent Declines, the Number and Share of Cost-Burdened Renters Remain Well Above Levels a Decade Ago



Notes: Moderately (severely) cost-burdened households pay 30–50% (more than 50%) of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

FIGURE 6

Growth of Very Low-Income Renters Continues to Outpace Availability of Housing Assistance



Notes: Very low income is defined as less than 50% of area median. Households with worst case housing needs are very low-income renters paying more than 50% of income for rent or living in severely inadequate conditions, and do not receive housing assistance.

Source: US Department of Housing and Urban Development, 2003–2017 Worst Case Housing Needs Reports to Congress.

in high-cost markets. However, tax reform proposals also under debate call for elimination of the 4 percent LIHTC program, which accounted for just under half of production in 2015.

THE CHALLENGE OF REBUILDING AFTER DISASTERS

The series of disasters this past year—including devastating hurricanes in Texas, Florida, and Puerto Rico, and massive wildfires in densely populated areas of California—have affected millions of owners and renters alike. A key lesson from previous disasters is that rental property owners are slower than homeowners to rebuild or replace their units. For example, five years after Hurricanes Katrina and Rita ravaged the Gulf coast, three-quarters of severely damaged owner-occupied housing in Louisiana and Mississippi had been rebuilt, compared with only 60 percent of small rental properties.

A recent report by the Community Preservation Corporation recommends a series of improvements to the federal disaster response process, including provision of additional housing vouchers to help displaced renters and special allocation of LIHTC authority to speed rebuilding of affordable housing. The study notes that the awarding of additional LIHTC authority supported development of 30,000 rentals on the Gulf Coast after Katrina. In contrast, the Northeast was without similar authority after Hurricane Sandy and has subsequently struggled to rebuild its affordable stock.

The incidence and severity of natural disasters is on the rise. In developing their recovery plans to improve resiliency after such events, governments at all levels must keep in mind the needs of renters—particularly very low-income renters—for replacement housing.

THE OUTLOOK

Slower growth in rental housing demand could be good news if it helps to check the rapid rise in rents. But even if the homeownership rate stabilizes near current levels, the number of renter households is likely to continue to increase at a healthy clip, driving up the need for additional supply. And given that a broader array of households has turned to renting, this also means a growing need for a range of rental housing options.

With the divergence between housing costs and household incomes after 2001, cost burdens are a fact of life for nearly half of all renters **(Online Figure 1).** The lack of affordable rental housing is a consequence of not only strong growth in the number of lower-income households, but also steeply rising development costs. The complex set of forces driving these increases includes the escalating costs of inputs and a lack of innovation in production methods, the design of homes, and the means of financing housing. Addressing all of these challenges requires action on the parts of both the public and private sectors. Government at all levels has a role to play in ensuring that the regulatory environment does not stifle much-needed innovation, and that tax policy and public spending support the efficient provision of moderately priced housing. Industry has its own part to play in fostering and advancing new approaches.

However, the market simply cannot supply housing at prices affordable to the nation's lowest-income households. The best means of supporting these families and individuals depends on both local market conditions and the value placed on other policy goals, such as helping to revitalize communities and improving the geographic distribution of permanently affordable housing. Another consideration for policymakers is to find ways for housing assistance programs to enable and encourage economic mobility.

While there is much to debate about the best approaches to pursue, the current level of rental housing assistance is grossly inadequate. It is concerning that discussions about federal tax reform have not addressed ways to expand the availability of affordable housing, and proposed measures could even erode the limited support that currently exists. As a growing body of evidence shows, the costs that poor-quality, unstable housing situations impose on individuals and families—as well as on broader society in terms of lost productivity and the strain on public budgets—are simply too high to ignore.

2 | RENTER HOUSEHOLDS

More than a third of US households live in rental housing. After the Great Recession and housing market crash, the number of renters surged across all ages, races/ethnicities, and household types, with especially large increases among higher-income and older households. Nevertheless, younger, lower-income, and minority households are still the most likely to rent and thus make up large shares of renters. While growth in rental demand now appears to be slowing, demographic changes will continue to drive strong increases in the number of renter households over the coming decades.

A DECADE OF SOARING DEMAND COMING TO AN END

Rental housing demand has grown at an unprecedented pace for more than a decade. According to the Census Bureau's Housing Vacancy Survey, the number of renter households jumped by nearly a third, or roughly 10 million, between the homeownership peak in 2004 and 2016. From 2010 through 2016, growth has averaged 976,000 renters per year, far exceeding the 430,000–500,000 added annually in the 1970s and 1980s when the baby boomers started to enter the rental market. As of mid-2017, the number of US renters stood at 43 million.

The surge in renter households erased a decade of declining demand between 1994 and 2004, when the national rentership rate fell from 36 percent to just 31 percent **(Figure 7).** The share of renter households was back up above 36 percent by early 2015, where it has stabilized now that fewer owners are losing their homes to foreclosure and more young households are buying first homes. As a result, rental markets generally are drawing less demand from homeowner markets.

The latest survey data are beginning to reflect these trends. All of three annual Census Bureau household surveys reported slowdowns in renter growth in 2016. Indeed, the Housing Vacancy Survey showed a year-over-year decline in the number of renter households in mid-2017. But given that the trend is new and survey data are unprecise, the full extent and duration of the decline in rental demand are still unclear. Assuming that the homeownership rate does stabilize, renters should continue to account for roughly a third of household growth in the years ahead.

THE SURGE IN HIGH-INCOME RENTERS

Households of all ages, incomes, races/ethnicities, and family types helped to fuel the recent growth in renters, but the role of high-income households is particularly noteworthy. According to the Current Population Survey, households with real annual incomes of $50,000 or more—a group that accounted for just one-third of all renter households in 2006—drove well over half (60 percent) of the growth in renter households from 2006 to 2016. Moreover, house-

FIGURE 7

The Wave of Growth Since 2004 Has Lifted the Number and Share of Renter Households

Note: Estimate for 2017 is the average of second- and third-quarter data.
Source: JCHS tabulations of US Census Bureau, Housing Vacancy Survey.

holds with real annual incomes of $100,000 or more—making up just 9 percent of renters in 2006—were responsible for 29 percent of the 9.9 million increase in renters over the decade **(Figure 8).**

Many, though not all, of the outsized increases in higher-income renters were concentrated in high-cost metro areas. For example, households earning $100,000 or more accounted for 65 percent of the growth in renter households in the New York City metro and fully 93 percent in San Francisco **(Figure 9).** But even in metros where they were less prevalent, higher-income households were responsible for significant shares of renter growth, including Miami (15 percent) and Phoenix (20 percent).

Strong growth in high-income renter households was driven in large measure by sharply higher rentership rates among this group. Indeed, the share of households with incomes of at least $75,000 that rented their housing jumped by 6.9 percentage points in 2006–2016, more than twice the 3.3 percentage point increase among households earning less than $50,000. Without this increase in rentership rates among high-income households, there would be 3.4 million fewer renters today.

The strong growth in higher-income households altered the distribution of renter household types. Unlike lower-income renters, who primarily live in single-person households, higher-income renters live in a variety of household settings that are likely to include multiple adults, such as married couples or unmarried partners. These types of households, which are apt to have at least two earners, made up half of the growth in renters earning $50,000 or more over the past decade.

ROLES OF OLDER AND WHITE HOUSEHOLDS

While the largest increase in rentership rates was among young, high-income households, much of the overall growth in renter households was driven by older households. Indeed, adults age 50 and over accounted for half of the increase in the total number of renters in 2006–2016 **(Figure 10).** Although much of this increase simply reflects changes in the age structure of the population, rising rentership rates among this age group lifted the number of older renters well above what population aging alone would suggest. In addition, higher rentership rates among households in their 30s and 40s also helped to offset what would have otherwise been declines among that age group as the youngest baby-boomers moved into their 50s.

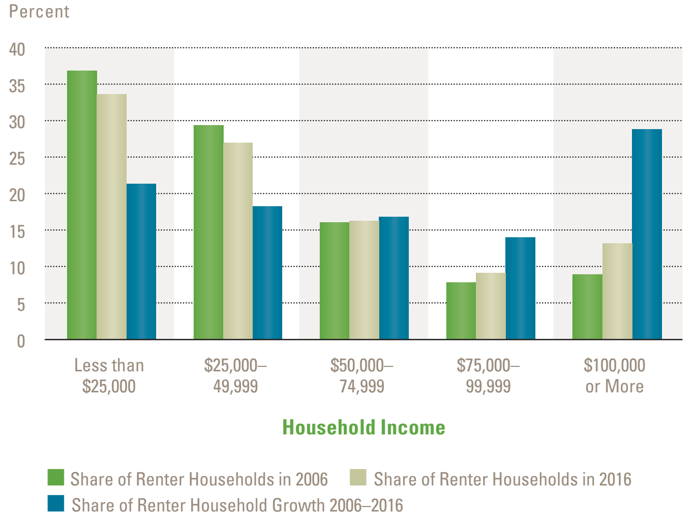
Given that older adults are likely to live alone, the increase in older renters added significantly to the number of single-person households. Single persons accounted for 37 percent of renter household growth overall in 2006–2016, but fully 52 percent of the growth in renter households age 50 and over. By comparison, single persons made up only 20 percent of the increase in renter households under age 50. As a result, three out of every four single-person renter households added over the decade were at least age 50.

After single persons, married couples without children accounted for the next-largest share of renter growth (17 percent). This group includes older renter households with adult children no longer living at home. Running a distant third, married couples with children made up just 10 percent of the growth in renter households.

A resurgence of renting among white households also helped to keep demand on the rise. The number of renter households headed by a

FIGURE 8

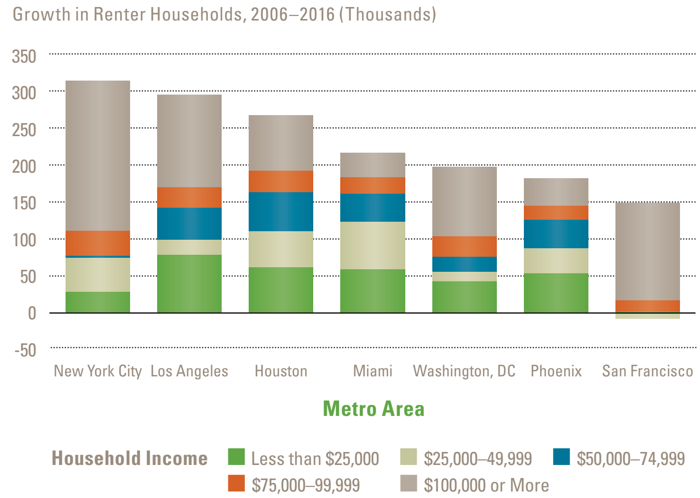
Higher-Income Households Represent a Growing Share of Renters…



Note: Household incomes are in constant 2015 dollars, adjusted for inflation using the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

FIGURE 9

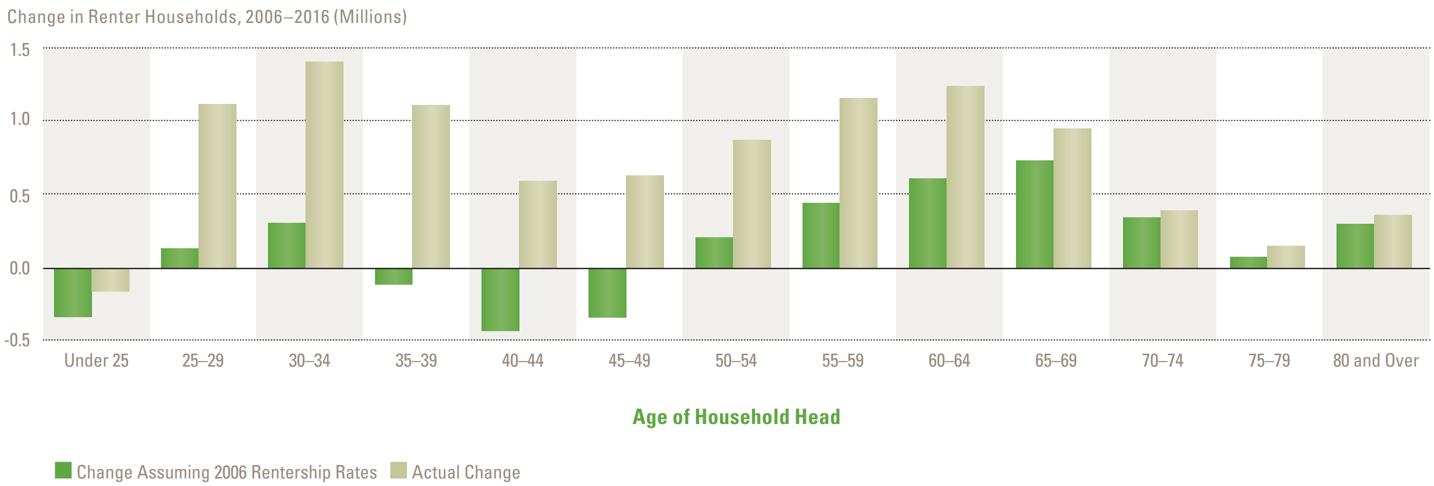
…Particularly in High-Cost Metros Like New York, San Francisco, and Washington, DC



Note: Household incomes are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates using the Missouri Census Data Center MABLE/Geocorr14.

FIGURE 10

With Rising Rentership Rates and a Growing Adult Population, Households Age 50 and Over Accounted for Half of the Recent Surge in Renters



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

white person was up by 3.6 million in 2006–2016, more than offsetting the 2.6 million decline that had occurred over the previous 20 years. While minority renters collectively drove most of the increase in renter households over the decade, white households were responsible for the largest share of growth (37 percent), followed by Hispanics (27 percent), blacks (21 percent), and Asians/others (15 percent). The majority of the increase in white renters (65 percent) was among households age 50 and over, but younger households—particularly those in the 25–34 year-old age group—also contributed significantly to growth.

PROFILE OF RENTER HOUSEHOLDS

Despite the changing composition of renter household growth over the past decade, households that rent their housing differ in systematic ways from those that own homes **(Figure 11)**. In particular, renters tend to be younger, with a median age of 40 in 2016 compared with 56 for homeowners. Rentership rates decline with age, dropping from more than two-thirds (68 percent) of households under age 35 to less than a quarter (24 percent) of households age 55 and over. Nevertheless, the overall aging of the population has meant that one in three renters is now over the age of 50.

Although the majority of renter households are white, the minority share of renters (47 percent) is twice that of homeowners. As measured by the Current Population Survey, rentership rates of Hispanic, black, and all other minority households are higher than for whites both overall and across age groups. Renters are also more apt to be foreign born than homeowners, with immigrants accounting for 20 percent of renters but just 12 percent of owners.

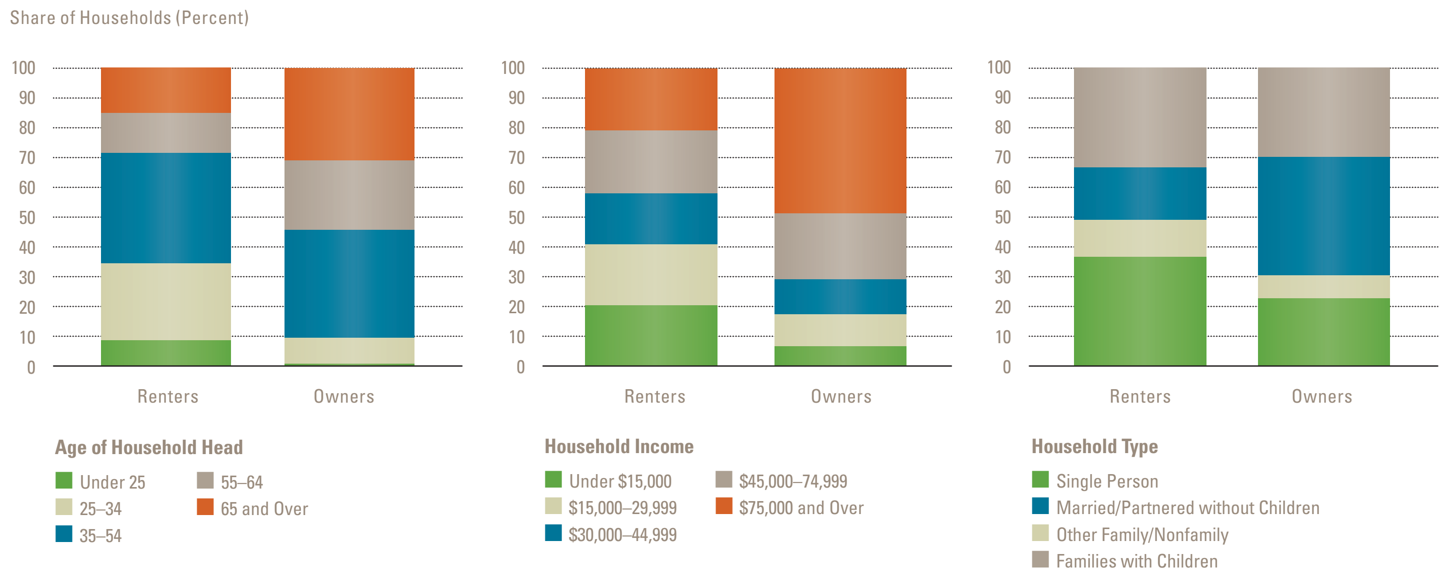
Renter households are smaller on average than owner households. Over a third of renter households (37 percent) are single persons living alone—far higher than the 23 percent share among owners. Still, families make up a significant share of renter households, and families with children in fact account for a larger share of renter households (33 percent) than homeowner households (30 percent) in the 2016 ACS.

Household incomes for renters are lower than for owners. According to the American Community Survey, the median income for cash renters in 2016 was $37,300—more than 49 percent below the median income of owners of $73,100. In addition, two-thirds of all renter households (30.5 million) were in the bottom half of the income distribution (below the US median household income). As measured by HUD's Worst Case Housing Needs 2017 Report to Congress, 64 percent of renters had low incomes (80 percent or less of area medians) and 26 percent had extremely low incomes (30 percent or less of area medians).

In addition to their lower incomes, renter households have very little savings and wealth. The latest Survey of Consumer Finances indicates that the median net worth of renter households was only $5,000 in 2016, a small fraction of the median owner's net worth of

FIGURE 11

Renters Are More Likely than Owners to Be Young, Low Income, and Single



Note: Families with children include any household with a child under the age of 18.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates.

$230,000. The median amount of cash savings held by renters was similarly low at just $800, compared with $7,300 for owners.

The discrepancy in wealth is even greater among households headed by adults age 65 and over, who generally need to draw down their assets in retirement. The median net wealth of older renters was $6,700 in 2016, compared with a median for older homeowners of $319,200. Not all of this difference is due to housing wealth, however. The non-housing wealth of renters in all age groups is also several times lower than that of homeowners.

THE GEOGRAPHY OF RENTING

The 2016 American Community Survey indicates that just under half (46 percent) of all renter households reside in principal cities of metropolitan areas. By comparison, about a quarter (26 percent) of homeowner households live in these locations.

Among the nation's 100 largest metro areas, the highest rentership rates are in high-cost markets such as Los Angeles (52 percent) and New York City (49 percent), as well as in fast-growing areas such as Las Vegas (49 percent) and Austin (42 percent). The shares of renters are much smaller in low-cost and slow-growth areas like Detroit (32 percent), Grand Rapids (29 percent), and Pittsburgh (31 percent). Rentership rates are also relatively low in metros with large shares of older householders, such as Cape Coral, Deltona, and several other Florida metros, consistent with the high homeownership rates among this age group.

Higher-income households are more apt to rent in high-cost housing markets **(Figure 12).** This makes the renter population in these areas somewhat more economically diverse than the US average. However, these metros still have large numbers of low-income renters and the highest rates of renting among low-income households.

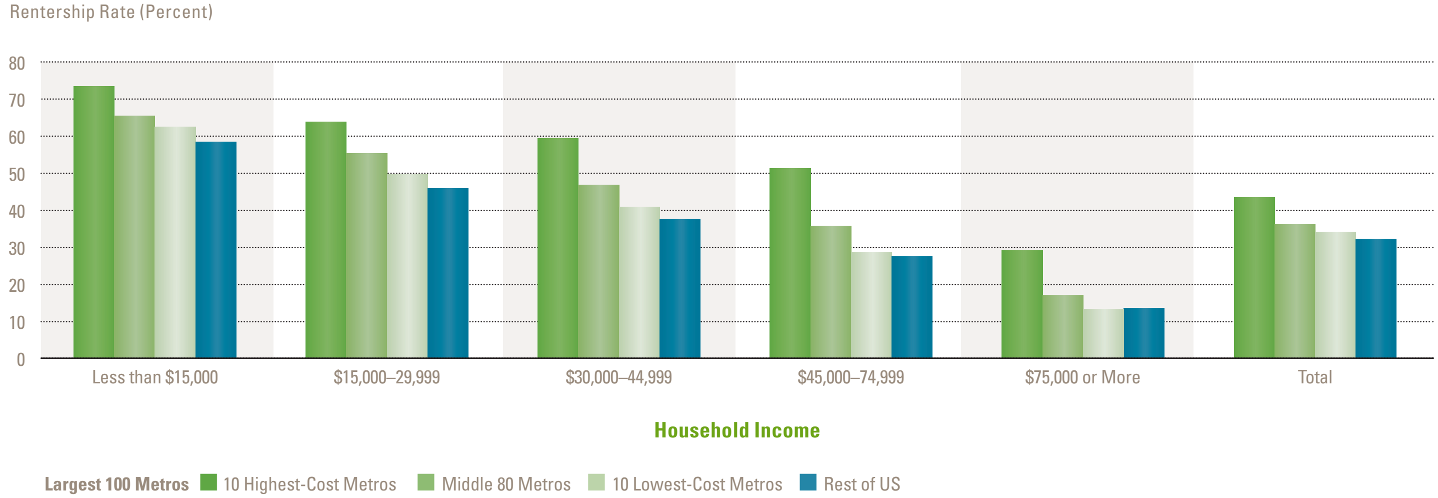
Given their greater income diversity, renters in high-cost metros are also more diverse in terms of household type. Nearly half (45 percent) of all married couples with children that live in Los Angeles and San Diego rent their housing. By comparison, the share of married couples with children that rent is just 15 percent in Pittsburgh and 18 percent in Philadelphia. At the same time, high-cost markets tend to have larger shares of nontraditional households, which may include extra workers to help afford the high rents. For example, households with three or more adults made up 13 percent of renter households nationally in 2015, but 23 percent in the Los Angeles metro area.

RENTING THROUGH THE LIFECYCLE

The vast majority of households rent at some point in their lives. According to a JCHS analysis of the Panel Study of Income Dynamics (PSID), about half (49 percent) of owners under age 60 in 2015 had been renters at some point within the previous 20 years. Among owners under age 50, the share was even higher at nearly three-quarters (72 percent).

FIGURE 12

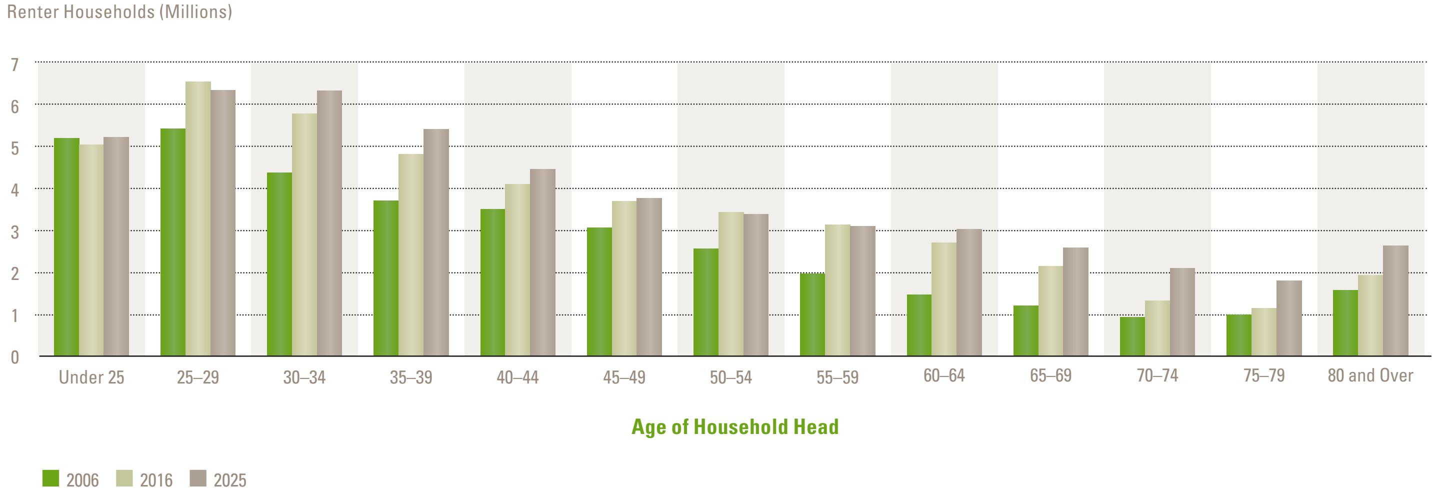
Renting Is More Common in High-Cost Housing Markets, Especially Among Higher-Income Households



Note: Metros are the 100 largest by population as defined in the 2016 American Community Survey.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates using the Missouri Census Data Center MABLE/Geocorr14.

FIGURE 13

Over the Next Ten Years, Aging of the Baby Boomers and Millennials Will Drive Growth in Renter Households



Note: JCHS projection for 2025 assumes homeownership rates by five-year age group and race/ethnicity hold at current values.
Sources: JCHS tabulations of US Census Bureau, Current Population Surveys; JCHS 2016 Household and Tenure Projections.

Without the downpayment and other costs entailed in buying and selling homes, renting is often an affordable housing option for young adults. Indeed, the 2015 American Housing Survey shows that 86 percent of all newly formed households were renters. Low transaction costs also make renting a good choice for households that move frequently. As measured by the Current Population Survey, renters accounted for three out of four residential moves in 2016, as well as for the majority of moves made by all age groups.

But renting is not merely a life phase or a steppingstone to homeownership for all households. The JCHS analysis of PSID data also indicated that 17 percent of renters in 1995 remained renters through 2015. In addition, 23 percent of homeowners in 1995 switched to renting sometime in the ensuing two decades, often in response to changes in family structure and other life events. For instance, renters made up over 80 percent of recent movers who were divorced or separated. Other owners shifted to renting to have less responsibility for home maintenance. This preference, along with the desire to downsize or to meet accessibility needs, is reflected in the increasing shares of renters among the oldest age groups. PSID data indicate that 1 in 12 owners age 55–64, 1 in 8 owners age 65–74, and 1 in 5 owners age 75 and over made own-to-rent transitions between 2005 and 2015.

THE OUTLOOK

Given the sharp swings in rentership rates over the past two decades, predicting future rental demand is difficult. Shifting preferences, macroeconomic conditions and government policy help to shape many of the factors that determine rates of renting and owning, including housing affordability, mortgage accessibility, labor markets, and household incomes. As a starting point, though, future rental demand depends on the rate of household growth. JCHS projections suggest that overall household growth will be strong over the next 10 years as increasing numbers of the large millennial generation reach adulthood **(Figure 13).** At the same time, the aging of the baby-boom generation will lift the number of older households. Household growth is therefore expected to total 13.6 million in 2015–2025, before moderating to 11.5 million in 2025–2035 when losses of older households begin to accelerate.

Despite the aging of the adult population (which tends to favor higher homeownership rates), certain other demographic forces should support healthy growth in rental demand. Over the next 10 years, the younger half of the millennial generation—the largest generation in US history—will move into their 20s and 30s, the age groups most likely to rent. In addition, minority households are expected to account for nearly three-quarters of household growth in 2015–2025 and fully 90 percent in 2025–2035. If minority homeownership rates remain at current levels, the national rentership rate will increase in the coming decades.

Taking all of these forces into account, the base scenario from the 2016 JCHS household tenure projections shows that, if homeownership rates stabilize at their 2015 levels, underlying demographics—that is, growth and change in the composition of US households by age, race/ethnicity, and family type—will support the addition of 4.7 million renters and 8.9 million homeowners between 2015 and 2025.

3 | RENTAL HOUSING STOCK

The nation's rental housing comes in all structure types, sizes, prices, and locations. But with the recent growth in high-income renter households, most additions to the stock have been at the upper end of the market. In contrast, the supply of rentals affordable to low- and moderate-income households has not kept pace with growth in demand, contributing to the spread of housing cost burdens. At the same time, the rising costs of land, materials, and construction make development of lower-rent units increasingly difficult.

SNAPSHOT OF THE RENTAL STOCK

JCHS analysis of the 2016 American Community Survey indicates that the rental stock comprises 47.1 million units, or 35 percent of the national housing supply. Just under 44 million of these units are currently occupied. Of the 3.4 million units that are vacant, 82 percent are available for rent while the remaining 18 percent are rented but unoccupied.

It is a common misconception that rental housing consists almost entirely of apartments in multifamily buildings. In fact, multifamily units account for 61 percent (28.9 million units) of the nation's rental stock, distributed across various-sized properties. Single-family homes make up a substantial—and, until recently, fast-growing—share of rentals **(Figure 14).** This stock includes 13.1 million detached homes, 2.9 million attached homes, and 2.1 million mobile homes, RVs, and similar dwellings.

Nearly half (46 percent) of all renter-occupied units are located in the principal cities of metro areas, 42 percent in surrounding suburban communities, and the remaining 12 percent in non-metro areas. Types of rental housing vary substantially by location, with large apartment buildings of at least 20 units concentrated in urban areas and single-family rentals found primarily in suburban and non-metro areas.

GEOGRAPHIC VARIATION IN SUPPLY

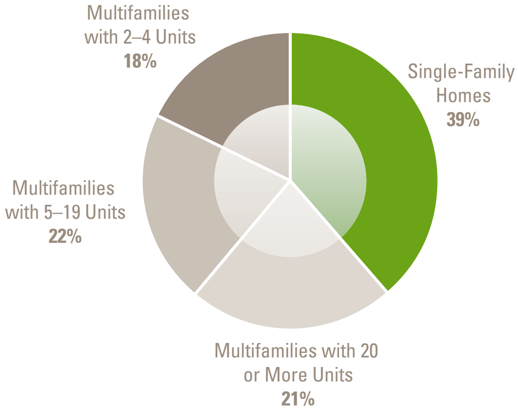
In the nation's 100 largest metros (home to almost 70 percent of all US households), detached single-family homes make up 24 percent of the rental stock while attached single-family units add another 7 percent. The remaining units are in multifamily structures, with 17 percent in small buildings of 2–4 units, 24 percent in mid-sized buildings of 5–19 units, and 25 percent in large buildings of 20 or more units. Mobile homes provide another 2 percent of the housing stock in the largest metros.

But given differences in topography, density of development, and average age of the stock, the mix of rental housing varies widely across metro and rural areas. For example, detached single-family

FIGURE 14

Single-Family Homes Now Account for Well Over One-Third of the Nation's 47 Million Rental Units

Share of National Rental Stock

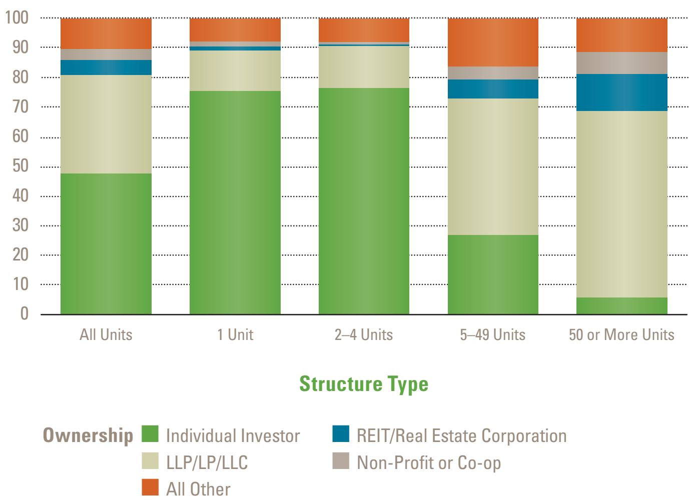


Notes: Stock estimates include renter-occupied units, vacant units for rent, and rented but unoccupied units. Single-family homes include detached and attached units, mobile homes, and units such as RVs and boats.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates.

FIGURE 15

Individual Investors Are the Largest Owners of Rental Stock, with Most of Their Units Concentrated in Small Buildings

Share of Rental Units (Percent)



Note: All other includes tenants in common, general partnerships, trustees for estate, and units for which ownership was not reported.
Source: JCHS tabulations of US Census Bureau, 2015 Rental Housing Finance Survey.

rentals make up just 8 percent of rentals in Boston, but 51 percent in Stockton **(Online Figure 2).** Over a third (35 percent) of Boston's rental stock consists of units in buildings with 2–4 apartments. Another 22 percent of rentals are in buildings with 5–19 units, 29 percent are in buildings with 20 or more units, and the remaining 6 percent are divided between attached single-family homes (5 percent) and mobile homes and other structures (1 percent). In contrast, just over 10 percent of the rental units in Stockton are in buildings with 2–4 units, 14 percent are in buildings with 5–19 units, and slightly more than 12 percent are in buildings with 20 or more units. Attached single-family homes (10 percent of the rental stock) and mobile homes (just under 3 percent) are somewhat more common in Stockton than in Boston.

In rural areas (as defined by the US Census Bureau), the rental stock primarily consists of single-family homes. Indeed, almost three-quarters of rural rentals are single-family units. The highest concentrations of single-family rentals are in New Mexico (89 percent of the rural stock) and Oregon (86 percent). But even in states with the smallest shares (Massachusetts, New Hampshire, and Vermont), single-family homes still make up about half of rural rentals.

Mobile homes are also an important component of the rural rental stock, contributing fully 20 percent of rural rental housing nationwide. At the state level, however, mobile homes are much more common in the rural communities of South Carolina (39 percent of the stock) and North Carolina (36 percent) than in the rural areas of Hawaii (0.4 percent of the stock) and Massachusetts (2.0 percent).

OWNERSHIP OF RENTAL HOUSING

Individual investors are the largest group of rental housing owners, followed by business entities such as limited partnerships (LPs), limited liability companies (LLCs), and limited liability partnerships (LLPs). Individual investors primarily own single-family rentals and small apartment properties, while LPs, LLCs, and LLPs own a majority of large apartment properties. As a result, individuals own three-quarters of rental properties (74 percent) but just under half of the nation's rental units (48 percent), while business entities own 15 percent of rental properties but a third of units **(Figure 15).** Housing cooperatives and nonprofit organizations own 2 percent of rental properties and 4 percent of rental units, while real estate corporations and investment trusts own 1 percent of rental properties and 5 percent of rental units. The remaining 8 percent of properties and 10 percent of units are under other forms of ownership, such as trustee for estate, tenant in common, and general partnership.

The latest Rental Housing Finance Survey reports that the single-family ownership share of individual investors slipped from 83 percent in 2001 to 76 percent in 2015 as institutional investors gained a foothold in the market. But this decline in individual ownership likely overstates institutional investment in single-family rentals. Indeed, real estate corporations and investment trusts owned only 250,000 single-family rentals in 2015. In addition, many individual investors reportedly transferred ownership of their properties to LLCs in recent decades to protect against legal problems and to take advantage of tax benefits.

Along with shifting patterns of ownership, motivations for acquiring single-family rental units may have also changed. While there is little research available on this topic, one study suggests that prior to the housing market crash, the two major reasons that owners bought single-family rentals were as primary residences, which they then decided to rent, or as income-generating investments. However, the housing boom and bust encouraged more speculation in the single-family rental market, including by mom-and-pop owners, which may mark a shift in their expectations. Institutional owners also jumped into the single-family rental market after the bust, but their longer-term presence in the market is unclear.

Understanding the evolving nature and financial motivations of rental property owners is important for designing policies that protect naturally occurring affordable units that may be at risk of either under-investment and deterioration or of upgrading and gentrification. In both cases, these units would be lost from the low-cost stock.

BUILDING AGE AND ACCESSIBILITY

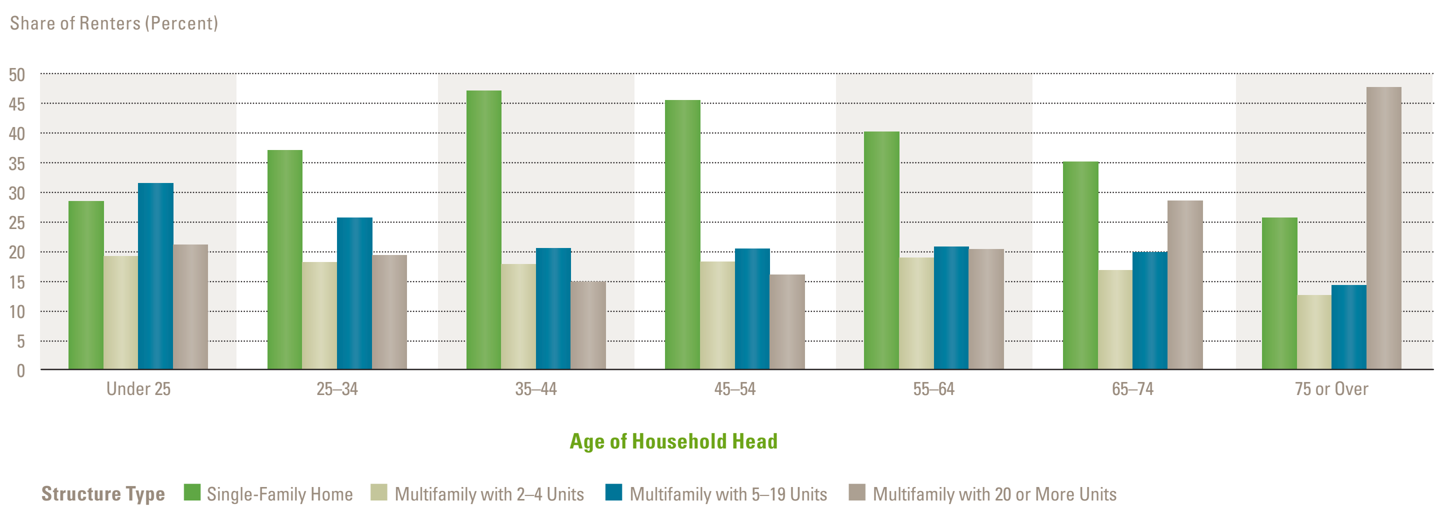
The median age of occupied rental units in 2015 was 42 years—somewhat higher than the median of 37 years for owner-occupied homes. The age gap between owned and rented units has been growing since 1985, when both types of units had an average age of 23 years. This disparity reflects the slowdown in rental construction in the 1990s following the booms of the 1970s and 1980s, as well as significant construction of owner-occupied housing in the early 2000s. In addition, a minor but still sizable share (8 percent) of rental housing was built before 1920. With the recent uptick in multifamily construction since 2015, however, the age gap between owned and rental units may be narrowing.

Today, the oldest units in the occupied rental stock are apartments in multifamily buildings with 2–4 units (median age of 51 years) and detached single-family homes (median age of 49 years). The typical renter-occupied single-family home is 10 years older than the typical owner-occupied home. Meanwhile, apartments in buildings with 20 or more units had a median age of 38 years in 2015, and the typical mobile home rental had the lowest median age of 29 years.

Older rental housing is more likely than newer housing to have quality and safety issues that may jeopardize the health of occupants. Under HUD definitions, 13 percent of occupied rental units built before 1940 have physical inadequacies, compared with 6 percent of units built in 1990 or later. Although overall inadequacy rates for renter-occupied housing are low (9 percent), they are still more than double those for owner-occupied homes (4 percent).

FIGURE 16

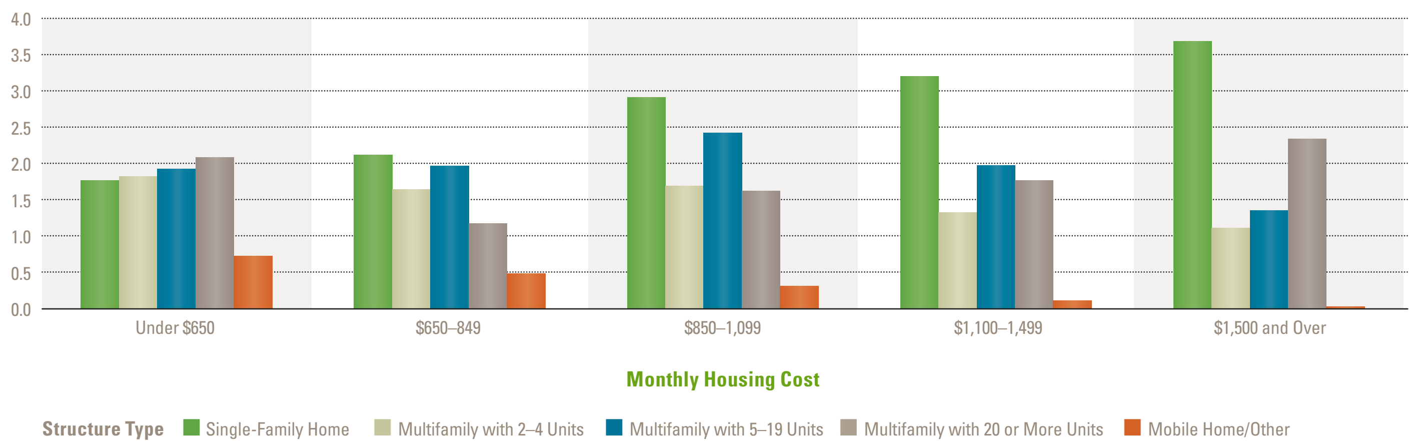
Larger Multifamily Properties Attract a Significant Share of Older Renters



Note: Single-family homes include detached and attached units, mobile homes, and other units such as RVs and boats.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates.

FIGURE 17

Low-Cost Rentals Are More Evenly Distributed Across Building Types than High-Cost Rentals



Notes: Monthly housing costs include rent and utilities. Rental units exclude vacant units and units where no cash rent is paid. Single-family homes include attached and detached units. Other structures include units such as boats and RVs.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates.

Another limitation of older rental units is that they are seldom accessible to households with mobility or other physical challenges. As of 2011, only 3 percent of rental units provided three basic universal design features (extra-wide hallways and doors, bedroom and bathroom on the entry level, and a no-step entrance). Newer and larger buildings, however, tend to offer more of these amenities: one-fifth of apartments in buildings with 50 or more units dating from 1990 or later provided all three features. Given that accessibility needs increase with household age, it is therefore unsurprising that about half of the renters age 75 and over live in larger apartment buildings (**Figure 16).**

Accessibility features are less common in the single-family and smaller multifamily rental stocks. Just 2.4 percent of renter-occupied detached single-family homes and apartments in buildings with 2–4 units have the three basic universal design features, along with 2.5 percent of attached single-family homes and 1.2 percent of mobile homes. The fact that the majority (52 percent) of renters in the 75-and-over age group live in single-family homes and apartments in small buildings is cause for concern because these rental units are unlikely to provide the accessiblity features that would enable tenants to age safely in place.

The availability of rentals with accessibility features varies by region. With its older stock of primarily small properties and multi-story structures, the Northeast has the lowest share of renter-occupied accessible units, with only 2.0 percent offering no-step entry, single-floor living, and extra-wide hallways and doors, followed by the South (3.3 percent), West (3.4 percent), and Midwest (3.6 percent). While no-step entries and single-floor living are more common in the South and West, in no region does the share of units with extra-wide hallways and doors exceed the single digits.

VARIATION IN RENTS

The median monthly housing cost (including rent and utilities) for all occupied rental units was $981 in 2016. Location is perhaps the strongest determinant of cost. In the high-priced San Francisco metro area, for example, well over half (62 percent) of occupied units rent for more than $1,500 per month, compared with 17 percent in mid-priced Dallas and just 5 percent in low-cost Cleveland **(Online Figure 3).** The median rent for a detached single-family home, typically the most expensive type of rental unit, was $2,125 in San Francisco, $1,240 in Dallas, and $920 in Cleveland.

Monthly rents vary widely by structure type, ranging from $890 for apartments in buildings with 2–4 units, to $1,070 for those in buildings with 50 or more units, to $1,087 for single-family homes. Rents also vary with age of the home, with the newest ones (built in 2014 or later) commanding the highest median rents ($1,318) and those built in the 1970s the lowest ($915).

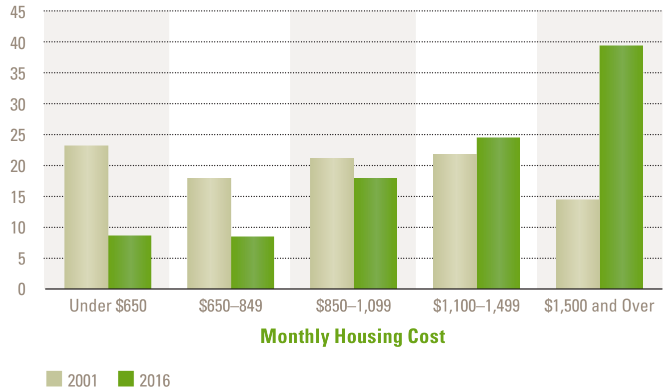
The low-cost stock (renting for under $650 per month, or roughly the bottom quintile for rents) consists of units in a broad mix of structure types **(Figure 17).** In 2016, the number of occupied low-cost rentals was distributed fairly evenly across structure types, with 1.8 million each in single family homes and buildings with 2–4 units, 1.9 million in buildings with 5–19 units, and 2.1 million in buildings with 20 or more units. Mobile homes account for another 724,000 low-cost units. In contrast, some 71 percent of higher-cost units (renting for at least $1,500 per month, or roughly the top quintile) are attached or detached single-family homes or in buildings with 20 or more units.

Rental apartments in buildings with 2–4 units are the most likely to be affordable, accounting for 22 percent of the lowest-cost stock but just 13 percent of the highest-cost supply. Multifamily buildings with 5–19 apartments are also more likely to have moderate rents, providing 27 percent of units renting for $850–1,099 and only 16 percent of highest-cost rentals.

FIGURE 18

Additions to the Rental Stock Are Increasingly at the Higher End

Share of Recently Built Units (Percent)



Notes: Recently built units in 2001 (2016) were built 1999-2001 (2014-2016). Monthly housing costs include rent and utilities and have been adjusted to 2016 dollars using the CPI-U All Items Less Shelter. Rental units exclude vacant units and units where no cash rent is paid.
Source: JCHS tabulations of US Census Bureau, 2001 and 2016 American Community Survey 1-Year Estimates.

ADDITIONS TO THE RENTAL STOCK

The number of single-family rentals shot up from 14.2 million units in 2001 to 18.2 million units in 2016—a 29 percent increase that far outpaced the 18 percent growth in the overall rental stock. Own-to-rent conversions drove almost all of this gain, with only 575,000 single-family homes built expressly for the rental market over this period. Indeed, in 2011–2013 alone (the last year for which a constant sample is available), tenure conversions of occupied housing units resulted in a net gain of more than 420,000 single-family rentals.

However, this trend may be moderating. According to the American Community Survey, 2015 was the first year since 2006 when the number of single-family rentals declined, suggesting that there were at least some conversions back to owner occupancy. While turning up again in 2016, growth in the number of single-family rentals nonetheless remained well below average annual levels in the previous decade.

Meanwhile, most new rental construction consists of larger properties. Census construction data show that the share of completed rentals in buildings with 20 or more units grew from 54 percent in 2001 to 83 percent in 2016. As a result, apartments in these larger properties accounted for just over one-fifth of the rental stock (9.9 million units) in 2016, an increase of 37 percent—or more than 2.6 million units—since 2001.

In addition to their concentration in large structures, many recent additions to the rental stock have high rents **(Figure 18).** The share of newly built units renting for $1,500 or more soared from 15 percent in 2001 to 40 percent in 2016. Over this same period, the share of newly built units renting for less than $850 per month fell from 42 percent of the rental stock to 18 percent.

RISING CONSTRUCTION COSTS

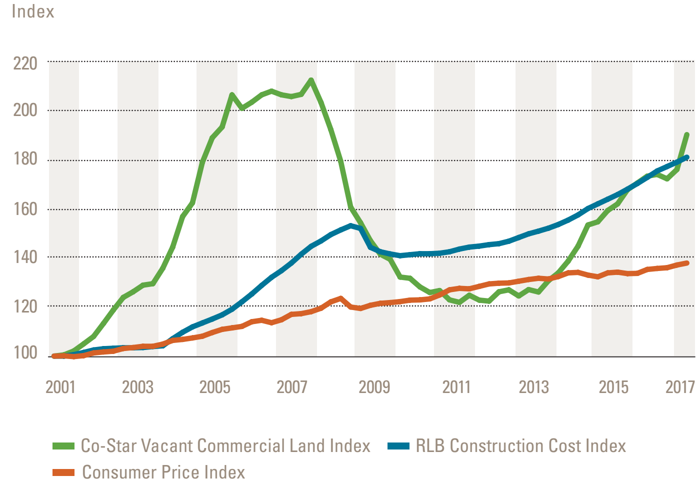
At least part of the reason for the surge in high-end construction is that developing multifamily housing is increasingly expensive. Between 2012 and 2017, the price of vacant commercial land—a proxy for developable multifamily sites—was up 62 percent. Over this same period, the combined costs of construction labor, materials, and contractor fees rose 25 percent, far faster than the general inflation rate of just 7 percent **(Figure 19)**. Cost increases for key building materials, such as gypsum, concrete, and lumber, have also outpaced inflation in recent years.

Data obtained from RS Means indicate that construction of a three-story, 22,500 square-foot apartment structure with a reinforced concrete frame—including the cost of materials, labor at union wages, and fixed contractor and architectural fees, but excluding land costs—would average $192 per square foot in 2017. The cost of building that same structure in 2016, however, would have been 8 percent lower. Of course, costs vary widely by location. For example, construction costs for this sample building would be 43 percent above the national average in New York City and 17 percent below the national average in Dallas.

Adding to development costs, recent construction of rental housing is largely concentrated in central cities. Between 2013 and 2016,

FIGURE 19

Construction Costs Are Rising Much Faster than Inflation



Notes: The RLB Construction Cost Index measures the bid cost of construction, which includes labor, building materials, and contractor fees. The Co-Star Vacant Commercial Land Index serves as a proxy for developable multifamily sites.

Sources: Co-Star Vacant Commercial Land Index; RLB Construction Cost Index; and US Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers.

nearly 60 percent of new unfurnished units were built in the principal cities of metro areas—up 10 percentage points from the period between 2000 and 2012. This trend appears to have continued in early 2017, with the share of rental completions in principal cities nudging above 65 percent.

The supply of developable sites in central locations is extremely limited, which raises land prices and generally entails more extensive permitting, higher legal fees and site preparation costs, and the design of taller, more expensive buildings. According to the Survey of Market Absorption, these costs are reflected in the nearly 15 percent differential in median asking rents for new apartments built in principal cities ($1,600) than in suburbs ($1,390) in 2016.

Regardless of location, though, new multifamily rentals are less affordable to the growing number of households with middle and lower incomes. The real median asking rent for newly completed multifamily units increased 27 percent between 2011 and 2016, to $1,480, while real median renter income increased only 16 percent over the same period. In addition to rising construction costs, this jump in asking rents also reflects increased construction of luxury apartments for higher-income renters.

THE OUTLOOK

Strong demand has sparked the addition of millions of rental units over the past decade. This growth has come from construction of new units, mainly in large apartment buildings, as well as conversion of single-family homes from owner occupancy. However, with the aging of the overall stock and new construction focused primarily on the high end of the market, concerns are mounting that the rental supply will have even less capacity to meet the needs of lower- and middle-income households or the growth in demand for accessible housing as the population ages.

While local policymakers have little sway over the price of construction materials, they do influence the amount of land available for high-density development, the process needed to gain approvals, and the characteristics of housing that is allowed—all of which help determine the amount, type, and cost of the housing that is built. Local governments can therefore promote construction of much-needed rental units (particularly lower-rent units) by expediting approvals; guaranteeing by-right development of small multifamily buildings, particularly those with affordable units; reducing parking and other property requirements; and allowing higher densities for projects that are transit-accessible.

For their part, developers have increasingly adopted cost-saving technologies and switched to lower-cost building materials—for example, using plastics for plumbing and electrical boxes or relying more on prefabrication and modularization, which can significantly reduce waste and construction time. Collectively these efforts would reduce per unit development costs and the rents that households have to pay, ultimately encouraging more construction targeted to lower- and middle-income renters. Investments in energy efficiency would also provide long-term utility savings for tenants and could reduce maintenance costs for owners.

Efforts to preserve the stock of older affordable rentals are also vital. Expanding existing approaches can help. For example, certain states and localities allow the use of housing trust funds for operating and maintenance costs of affordable units, as well as for emergency repairs. The National Housing Trust Fund is also making a limited share of program funds available for these purposes. Real estate tax relief programs can also incent landlords to maintain their affordable units in good repair. Finally, programs that help nonprofits purchase lower-rent, unsubsidized units in exchange for affordability restrictions can help prevent further losses from the affordable supply, particularly in neighborhoods with rising rents.

4 | RENTAL MARKETS

While the fundamentals remain strong for investors, there are signs that rental markets are at a turning point. Real rents are still climbing, but at a slower pace now that vacancy rates are ticking up. Returns to rental property investors remain healthy, but the influx of high-end supply has begun to dampen financial performance in many prime urban locations. Meanwhile, conditions in the vastly undersupplied low-cost segment continue to be extremely tight.

RENTAL HOUSING'S ROLE IN THE ECONOMY

Rental housing is an increasingly important contributor to the US economy. According to Bureau of Economic Analysis estimates, households spent $519 billion on rent alone last year, accounting for 2.8 percent of GDP in 2016—up substantially from the 2.2 percent share averaged during the boom years of the 2000s. Indeed, renters' real aggregate housing expenditures climbed a strong 3.2 percent annually in 2006–2016, and drove 58 percent of the growth in domestic personal housing consumption over the decade.

With the sustained strength of rental demand and sluggish recovery in single-family construction, over a third of housing starts are now intended for the rental market. This is a larger share than in any year since 1974. Before the recent run-up in multifamily construction, rentals accounted for only about one in five new homes started in a single year. Among multifamily properties, the share of starts intended for the rental market was 93 percent in 2016. Among single-family homes, 4.9 percent are now being built as rentals, significantly higher than the 2.2 percent share averaged in the 1980s and 1990s.

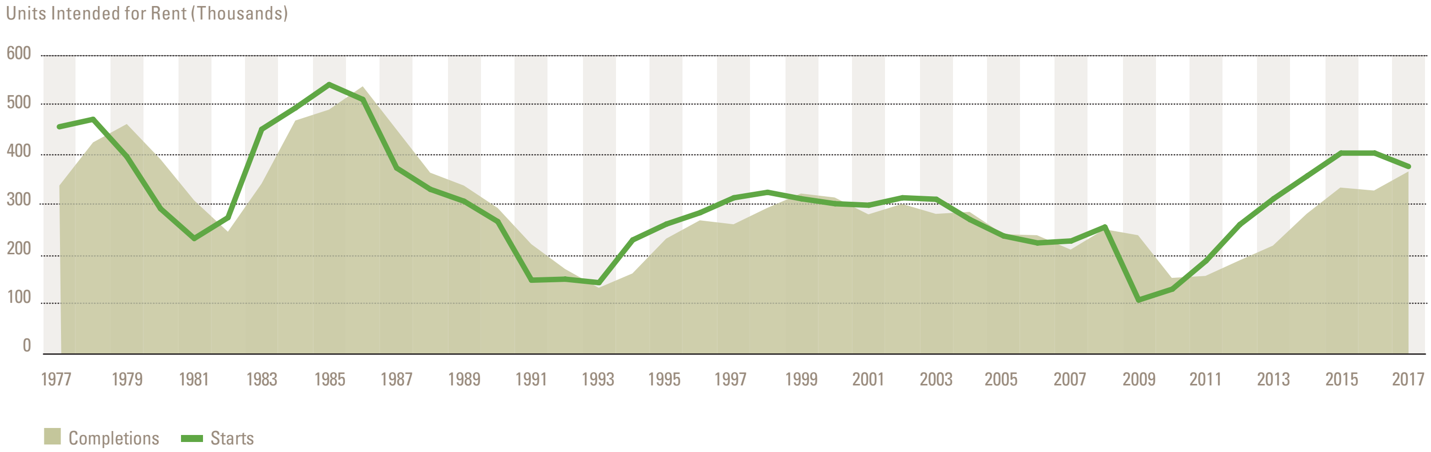
Investments in new multifamily housing have also helped to drive the economy. The multifamily share of private domestic investment in new permanent residential structures grew from just 11 percent in 2000 to nearly 20 percent in 2016. The Census Bureau estimates that the value of private multifamily construction put in place (including labor, materials, soft costs, taxes, and profits) exceeded $62 billion in the 12 months ending in August 2017, similar to multifamily activity near the peak of the housing boom. In sharp contrast, the value of new single-family construction remained nearly 50 percent below the 2006 peak.

ROBUST GROWTH IN RENTAL SUPPLY

Unprecedented growth in renter households—totaling nearly 10 million between 2006 and 2016—fueled one of the fastest rental construction recoveries in history. After hitting a low of just 90,000 units in early 2010, the number of rental housing starts peaked at a 408,000 unit annual rate in early 2017. While this represents the highest volume in any four-quarter period since the late 1980s,

FIGURE 20

While Completions Are Still on the Upswing, Starts of Rental Units Have Slowed



Notes: Data include both multifamily and single-family units. Estimate for 2017 is based on the four quarters ending in 2017:3.
Source: JCHS tabulations of US Census Bureau, New Residential Construction.

recent production of new multifamily units (which make up the lion's share of rental construction) is still slightly below the 420,000 unit annual rate averaged since 1960. Growth in single-family rentals averaged some 390,000 annually from 2006 to 2016, supplementing new construction in meeting the sharp increase in demand.

Although the national recovery has been robust, the pace of growth in multifamily construction varied widely across markets. Over the latest cycle from 2010 to 2016, multifamily starts added 15 percent or more to the multifamily stock in fast-growing metros such as Austin, Charlotte, Nashville, and Raleigh, but as little as 1 percent in slow-growing areas like Cleveland and Providence. The largest increases in multifamily supply occurred mainly in the South and West, where production was still catching up with rapid population growth.

Overall, however, construction activity has begun to moderate **(Figure 20).** Indeed, multifamily starts are down 9 percent year-to-date through October 2017 on a seasonally adjusted basis. The slowdown was first evident in 2016 when permitting fell in nearly half of the nation's 50 largest markets. The five markets with the most multifamily permitting in 2013–2015 declined sharply, collectively registering a 35 percent drop in 2016. This total includes declines of more than 50 percent in Houston and New York, as well as more moderate cuts in Dallas, Los Angeles, and Seattle. Permitting in other large markets, like Atlanta and Denver, continued to increase.

Meanwhile, multifamily starts also fell in nearly half of the nation's 100 largest metros in the 12 months ending August 2017. By comparison, construction activity slowed in less than two-fifths of these markets just a year earlier. Multifamily starts were down across metro areas of all sizes, with the biggest declines reported in the South and Northeast.

Even so, multifamily construction in many locations was still strong by historical standards. In the year ending August 2017, multifamily starts in nearly half of the nation's 100 largest metro areas exceeded their annual averages in the two decades leading up to the housing peak (1986–2005). In 26 of these areas, multifamily starts were up by more than 50 percent. Moreover, starts in several markets where multifamily construction had not fully recovered by 2017—including Jacksonville, Riverside, and Sacramento—remained on the rise.

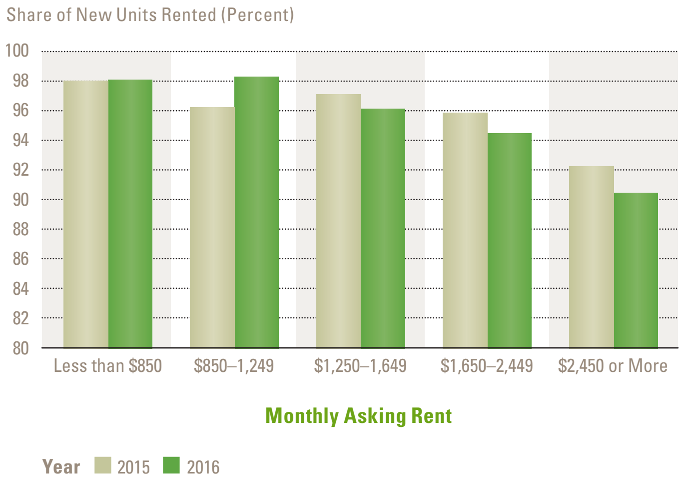
EASING MAINLY AT THE HIGH END

With rental demand soaring, the national stock of vacant rental units shrank from nearly 4.5 million in mid-2010 to just 3.2 million in 2016. As a result, the rental vacancy rate fell sharply from 10.8 percent to 6.9 percent in the third quarter of 2016. However, the national vacancy rate rose to 7.2 percent in the third quarter of 2017, suggesting the rental market is at a turning point.

Vacancy rates for professionally managed apartments in multifamily buildings are even lower. RealPage, Inc. reports a vacancy rate of 4.5 percent in the third quarter of 2017, comparable to those at the peak of the housing boom in 2006. Vacancy rates were under 4.0 percent in more than 40 of the 100 markets tracked, and under 3.0 percent in 16 markets.

FIGURE 21

New High-End Units Have Become Harder to Fill, But Low-Rent Units Remain in High Demand



Note: The annual absorption rate covers privately financed, non-subsidized, unfurnished rental apartments in buildings with five or more units completed in the previous year.
Source: JCHS tabulations of US Census Bureau, Survey of Market Absorption.

But there are signs that conditions are loosening. According to the US Census Bureau, the vacancy rate in multifamily buildings with 5 or more units rose 0.9 percentage point in the third quarter from a year earlier, to 8.5 percent, indicating some easing in that segment. RealPage also reports that the apartment vacancy rate rose by a full percentage point in the year ending in the third quarter, with increases in 95 of the 100 metro areas tracked.

Underlying this shift is growing softness at the high end of the market. In the Class A segment where rents average $1,700 per month, the vacancy rate hovered near 6.0 percent in the first three quarters of 2017—up from around 4.5 percent a year earlier. This is the highest vacancy rate reported since 2011, and the highest rate for any property class.

Newly constructed high-end apartment properties became more difficult to fill last year. According to the Survey of Market Absorption, 10 percent of rentals completed in 2015 and priced at more than $2,450 remained vacant after 12 months. In contrast, only 2 percent of units with rents below $1,250 were still unfilled within one year **(Figure 21).** Apartment absorption rates fell most in the principal cities of metro areas, where most new supply has come online. In contrast, absorption rates were up in suburban and non-metro markets, where fewer new rentals have been added.

Demand for mid-market (Class B) rentals, which rent for $1,180 a month on average, has also begun to ease. The vacancy rate in this segment ticked up by a full percentage point to 4.6 percent in the third quarter of 2017. While the rate remains relatively low, this increase indicates that softness in the high-end market is beginning to affect mid-market conditions. Nearly 90 of the 100 apartment markets tracked by RealPage reported a year-over-year increase in Class B vacancies in the third quarter.

Meanwhile, the vacancy rate in the lowest-cost segment of the professionally managed market (Class C) was down to just 3.3 percent in the second quarter of this year—its lowest reading since 2001—before jumping back up to 4.1 percent in the third quarter. Despite this uptick, Class C vacancy rates were at or below 3.0 percent in nearly half (46) of the 100 metros tracked by RealPage.

With rents for Class C units about a third lower than the market average, tightness in this segment indicates both ongoing demand for modestly priced rentals as well as a persistent shortfall in supply. Broader measures of vacancy rates that include all rentals confirm these conditions. For example, 2016 American Community Survey data show that vacancy rates for less expensive units (with contract rents below the area median) were below those for more expensive units in 42 of the nation's 50 largest metros. Indeed, 14 large metros reported rates in the lower-cost segment at or below 5.0 percent last year, compared with just 3 metros in 2006. The tightest conditions were in Los Angeles, Portland, San Francisco, and Seattle, where vacancy rates for low-cost rentals were under 3.0 percent.

Tight conditions are also evident in certain rental structure types tracked by the Housing Vacancy Survey. For example, vacancy rates in buildings with 2–4 units—which tend to be older and less expensive—held at 7.0 percent in the third quarter of 2017. Rates for single-family rentals, however, declined to 6.2 percent in response to strong demand and limited inventory.

RENTS STILL UNDER PRESSURE

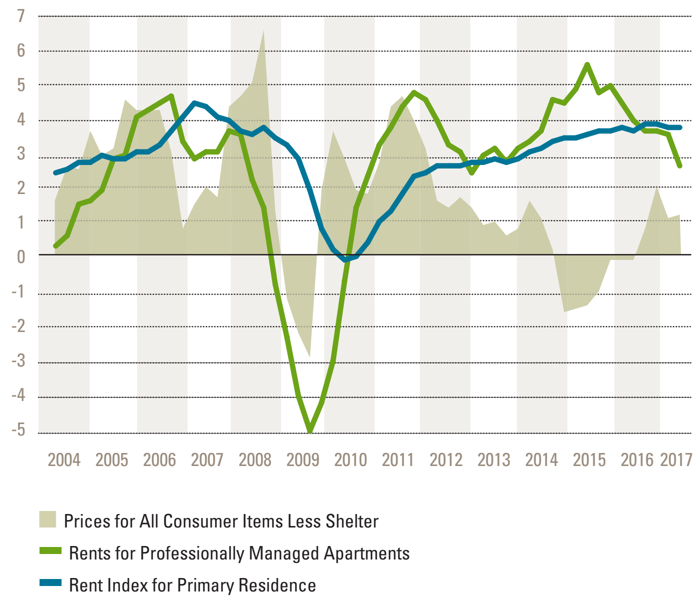
The CPI index for rent of primary residence, which covers the broadest range of rental property types, was up 3.9 percent in the year ending September 2017. Although only a modest gain from the previous year, this increase is still noteworthy because it marks yet another year when housing costs have risen faster than the prices of non-housing goods **(Figure 22).** Rent increases were highest in the West (5.5 percent) and South (3.5 percent), held steady in the Midwest (at 2.9 percent), and slowed somewhat in the Northeast (from 2.9 percent to 2.6 percent).

According to RealPage, the year-over-year increase in nominal rents for professionally managed apartments was 2.7 percent in the third quarter of 2017, continuing the slowdown from 4.0 percent a year earlier and 5.6 percent two years earlier. However, trends vary widely across apartment property types. At one extreme, a flood of

FIGURE 22

Increases in Rents Continue to Outstrip Inflation in Non-Housing Goods

Annual Change (Percent)



Notes: Data are through 2017:3. RealPage annual rents are for professionally managed apartment properties in Classes A through C.
Sources: JCHS tabulations of US Bureau of Labor Statistics, RealPage, Inc.

new construction brought annualized rent gains for recently built units down to just 1.1 percent in the third quarter (below the rate of inflation in non-housing goods). Rent increases for high-rise properties—which have the highest average rent of $1,890 per month—were also modest at only 1.1 percent. Meanwhile, rents for units in low-rise structures rose 3.1 percent, reflecting the strong demand for lower-cost housing.

Rents for single-family homes (including condos) rose steadily for seven years, with growth hitting a high of 4.4 percent in early 2016, before slowing to 2.8 percent in mid-2017. Much of the slowdown was at the high end (units renting for more than 25 percent above median), where rent growth dropped to just 1.9 percent. Meanwhile, though, rents for low-end single-family units (renting for at least 25 percent below median) climbed by a strong 4.4 percent.

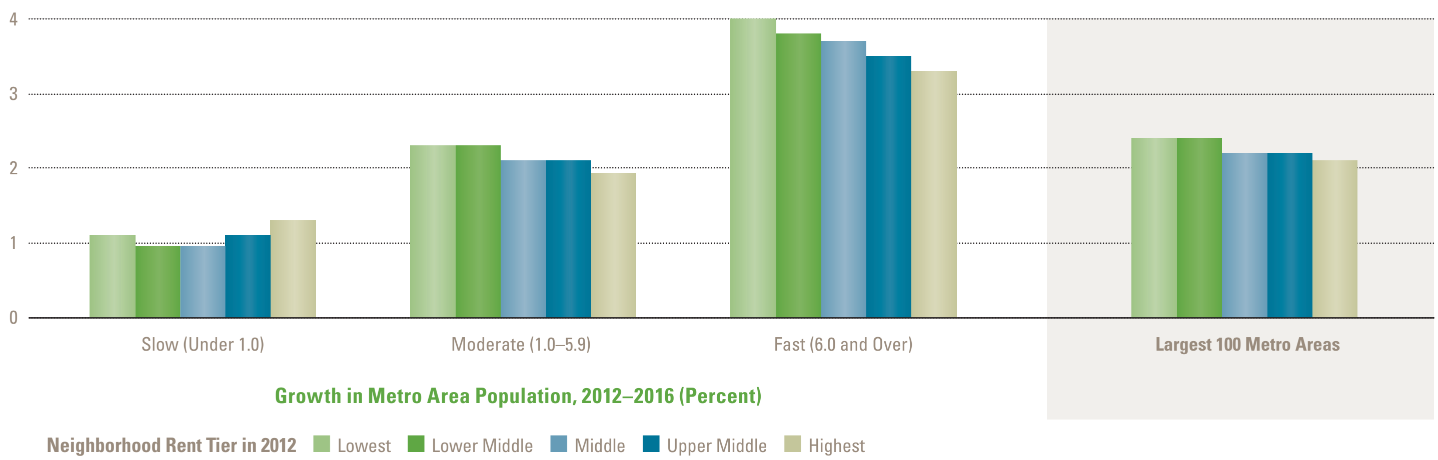
THE GEOGRAPHY OF RENT GROWTH

Annual rent growth in some 70 of the 100 apartment markets tracked by RealPage slowed in the third quarter of 2017 compared with a year earlier **(Online Figure 4).** Even so, nominal increases in almost three-quarters (73) of these markets still outpaced the 1.3 percent inflation in non-housing goods prices, with nearly one in five reporting strong growth above 4.0 per-

FIGURE 23

The Largest Rent Hikes Have Occurred in Formerly Low-Cost Neighborhoods of Fast-Growing Metros

Annualized Change in Rent, 2012–2017 (Percent)



Notes The top 100 metros are the largest by population as defined by the 2015 American Community Survey, but exclude Las Vegas and Tucson due to data limitations. Annualized growth in rent is from July 2012 to July 2017, and adjusted for inflation using the CPI-U for All Items Less Shelter. Rent quintiles are based on rents within each metro in 2012. Neighborhood rent growth is weighted by the share of renter households in each ZIP code over total renters in each metro. Slow-(fast-) growth metros are in the bottom (top) quartile for population growth. Moderate-growth metros are in the middle two quartiles for population growth.
Source: JCHS tabulations of the Zillow Rent Index and US Census Bureau, 2015 American Community Survey 5-Year Estimates.

cent. Most of the areas with rapidly rising rents—including Las Vegas, Orlando, Sacramento, and Seattle—are located in the West and South. Other prominent metros in these two regions also had rent gains over the past few years, but these increases have either moderated (Dallas, Riverside, and Sacramento) or slowed considerably (Austin, Nashville, and Portland).

Meanwhile, nominal rent growth in the Midwest and Northeast has remained slow to moderate, with only a handful of markets reporting annual increases above 3.0 percent over the past year (including Cincinnati and Minneapolis). In contrast, several metros in these regions—Bridgeport, Dayton, Des Moines, Pittsburgh, Providence, Syracuse, and Wichita—posted nominal rent growth that lagged behind general inflation.

Within metro areas, rent increases in once low-cost neighborhoods have been especially large. In the 100 metro areas tracked by Zillow, rents in lowest-tier neighborhoods in 2012 were up sharply by mid-2017 in metros with the highest population growth **(Figure 23)**. In Denver and Houston, for example, annual rent increases in the lowest-cost neighborhoods exceeded those in the highest-cost neighborhoods by more than 2 percentage points. In metros where the population was either stable or declining, however, rents grew slowly across all neighborhood types.

STRONG RENTAL PROPERTY PERFORMANCE

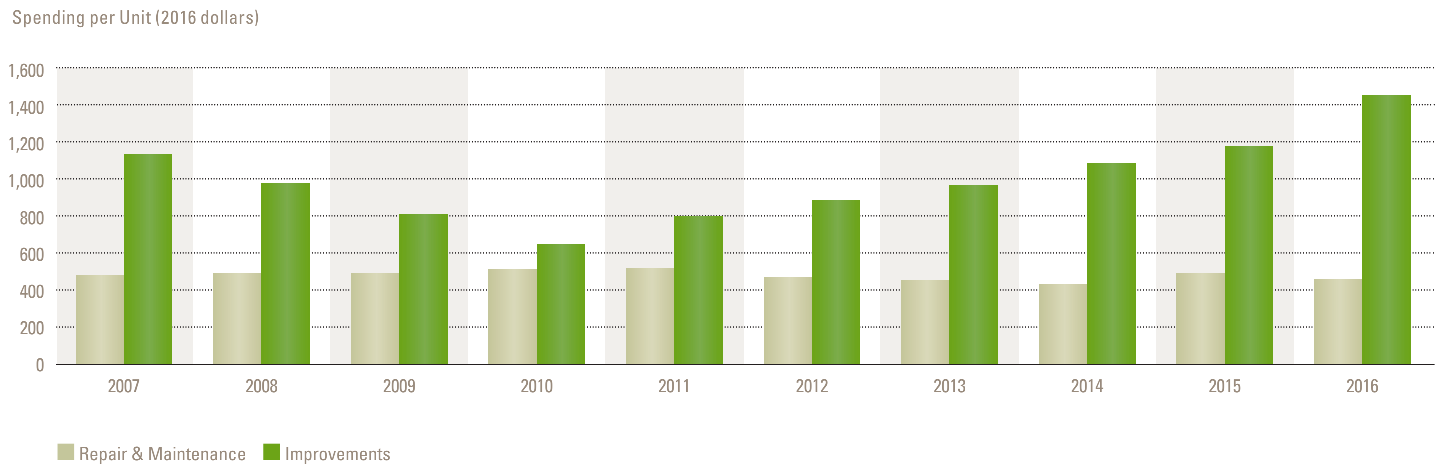
The rental property market has been among the best-performing sectors of the economy. The National Council of Real Estate Investment Fiduciaries (NCREIF) reports that nominal growth in net operating income (NOI) for investment-grade properties averaged some 7.7 percent annually in the seven years ending in the third quarter of 2017, compared with just 2.8 percent annually on average in 1983–2010. These strong gains reflect high occupancy rates as well as rising rents. With apartment occupancy rates falling and rent growth slowing, however, NOI growth moderated to a 3.8 percent annual rate in the third quarter—still outpacing the national rate of inflation and in line with historical averages.

Solid growth in operating incomes allows property owners to reinvest in their units. According to the National Apartment Association, real improvement spending per unit more than doubled from 2010 to 2016 **(Figure 24).** Owners of large apartment properties invested $1,480 per unit on average in 2016, or roughly 10 percent of gross potential rents, up from about 8 percent per year on average between 2001 and 2015.

There is also little sign that single-family rentals are returning to the owner-occupied market. According to the latest American Community Survey, growth in the total number of single-family rent-

FIGURE 24

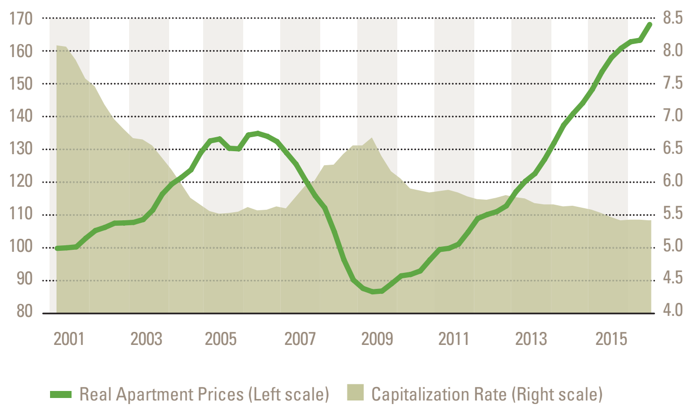
Owners Have Invested Heavily in Apartment Property Upgrades in Recent Years



Notes: Data include apartment properties with 50 or more units under professional management with stabilized operations. Dollars adjusted for inflation using the CPI-U for All Items.
Source: National Apartment Association Survey of Operating Income & Expenses in Rental Apartment Communities, 2008–2017.

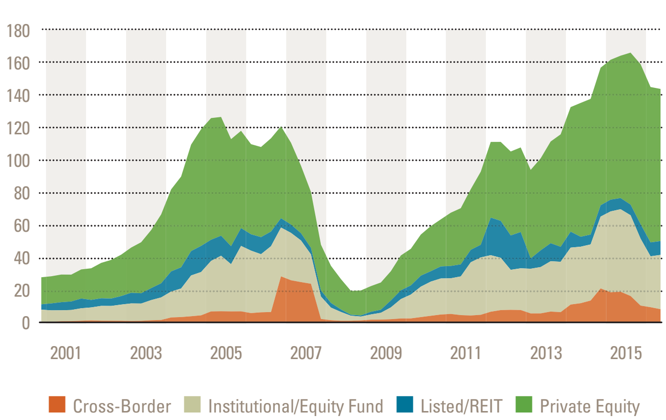
FIGURE 25

With Apartment Prices at an All-Time High...



Notes: Data are adjusted for inflation using the CPI-U for All Items, and updated through 2017:2. Capitalization rate is the initial annual unlevered return on an acquisition, and measures the ratio between the net operating income produced by a property and its capital cost (the original price paid to buy the asset).
Source: JCHS tabulations of Real Capital Analytics data.

...Growth in Acquisitions Has Slowed



Notes: Data are adjusted for inflation using the CPI-U for All Items, and updated through 2017:2. Net acquisitions include transactions of $2.5 million or more (calculated as acquisitions net of dispositions). Cross-border means that one or more buyers are headquartered outside of the US. Listed/REIT includes real estate investment trusts, publicly traded funds investing directly in real estate, and real estate operating companies. Figure excludes unknown/other buyers.
Source: JCHS tabulations of Real Capital Analytics data.

als (both attached and detached, and including vacant units) was essentially flat between 2014 and 2016, and increased only slightly (by 0.6 percent) in 2015–2016. However, recent growth in occupied single-family rentals remained strong in fast-growing markets of the West and South, including Austin, Charlotte, Denver, Houston, Orlando, and Phoenix.

Healthy investor appetite has driven up the real prices of investment-grade apartment properties by 9.3 percent annually over the past seven years. Real Capital Analytics data indicate that real apartment prices stood 24 percent above their 2007 peak in mid-2017 **(Figure 25).** Prices for properties in highly walkable central business districts are particularly high, up 84 percent from their previous peak. Properties in highly walkable suburbs have also appreciated rapidly, exceeding the previous peak by more than 40 percent. Although much slower to recover, rental property prices in more car-dependent suburbs still surpassed previous peaks by 13 percent by mid-2017.

The apartment property market is, however, cooling. Prices declined slightly for the Midwest and Northeast regions over the past year. And while prices in several metros in the West and South (including Atlanta, Los Angeles, Nashville, Phoenix, San Diego, Seattle, and Tampa) continued to climb through mid-year, prices in several others (Charlotte, Houston, Orlando, and San Jose) declined in real terms.

NCREIF estimates show that the total return on investment in the multifamily sector, including net income and appreciation in property values, exceeded 10 percent annually from late 2010 through early 2016. But with price appreciation slowing, ROI ramped down to a still respectable 6.2 percent in mid-2017. Investor appetite nonetheless remains strong, with CBRE reporting historically low capitalization rates for multifamily assets in nearly all markets and tiers in the first half of this year.

MULTIFAMILY SALES VOLUME SOFTENING

According to Real Capital Analytics, the annual volume of large apartment purchases (prices of $2.5 million or more), net of dispositions, hit a record high of $169.6 billion in the third quarter of 2016 in real terms, a 30 percent increase from the previous peak in the second quarter of 2006. By mid-2017, though, deal volume edged down to 148.1 billion, with declines in both international and institutional/equity fund investments. More than half (63 percent) of net acquisitions came through private domestic sources, while 33 percent were through institutional and equity funds. The shares of REITs and foreign investment were small by comparison, in the 5–6 percent range.

With pricing at or near all-time highs and limited inventory on the market, large apartment deals in five of the six major metro areas tracked by RCA—Boston, Los Angeles, New York City, San Francisco, and Washington, DC—slowed in the first half of 2017 from a year earlier. The exception was Chicago, where net sales continued to pick up. Large purchases of high- and mid-rise apartment buildings also rose in non-major metros.

Investors and lenders alike appear more cautious at this stage of the cycle. According to a recent Federal Reserve survey for the third quarter of 2017, bank loan officers on net reported weakening demand for loans secured by multifamily residential structures, while also reporting more stringent lending standards—the ninth consecutive quarter of tightening.

Nevertheless, the Mortgage Bankers Association reports that the volume of multifamily loans outstanding (including both originations and repayment/write-offs of existing loans) hit a new high of $1.2 trillion in nominal terms in early 2017, a 9 percent increase from a year earlier and a 44 percent jump from early 2011. Federal lending sources were responsible for fully two-thirds of the net increase in debt financing over the past year. Banks and thrifts have also steadily expanded their lending, raising their share of mortgage debt outstanding from a quarter in 2011 to about a third.

Despite signs that the rental market may be cresting and that investors are facing greater headwinds, measures of credit risk remain low overall. Only 0.15 percent of all FDIC-insured loans secured by multifamily residential properties were in noncurrent status (90 days past due or in nonaccrual status) in the second quarter of 2017, down from 0.23 percent a year earlier. According to Moody's Delinquency Tracker, the noncurrent rate for commercial mortgage-backed securities (60 days past due, in foreclosure, or REO), though higher, was still a modest 2.8 percent in August 2017.

THE OUTLOOK

After seven years of tightening, rental market conditions have begun to ease in many metro areas. So far, most of the slack is at the upper end of the market and in core urban areas, where most new rental units have come online. However, supply pressures may be lessening in the moderately priced segment as well.

While this does appear to be a turning point, the extent of any potential slowdown depends in large part on the strength of future rental demand. The most likely scenario is that renters will still account for about a third of household growth going forward, which would make for a soft landing from current market conditions. But if the downshift in renter household growth is more significant, the impact on markets would be more negative.

Whatever the short-term outlook, there will be ongoing need for lower-cost rental housing. Now that the high end is saturated, developers may turn their attention to the middle-market segments. But given the challenges of supplying lower-cost units amid high and rising development costs, government at all levels will have to find new ways to facilitate preservation and expansion of the affordable stock. The housing industry must also play its part in fostering innovation to meet the nation's rental affordability challenges.

5 | RENTAL AFFORDABILITY

While affordability has improved somewhat, the share of renter households with cost burdens remains well above levels in 2001. Although picking up since 2011, renter incomes still lag far behind the 15-year rise in rents. Renters of all types and in all markets face affordability challenges, although lower-income households are especially hard-pressed to find units they can afford. Indeed, high housing costs have eroded the recent income gains among these households, leaving many renters with even less money to pay for other basic needs.

RENTER INCOMES AND HOUSING COSTS

Despite some recent improvement, the rental housing affordability gap remains wide. Median monthly rental costs were up 15 percent in real terms in 2000–2016, increasing from $850 to a high of $980. At the same time, median renter household income fell sharply between 2000 and 2011, from $38,000 to $32,000, before gradually recovering to $37,300 in 2016. Part of this rebound, however, reflects the growing presence of higher-income households in the rental market rather than income gains alone.

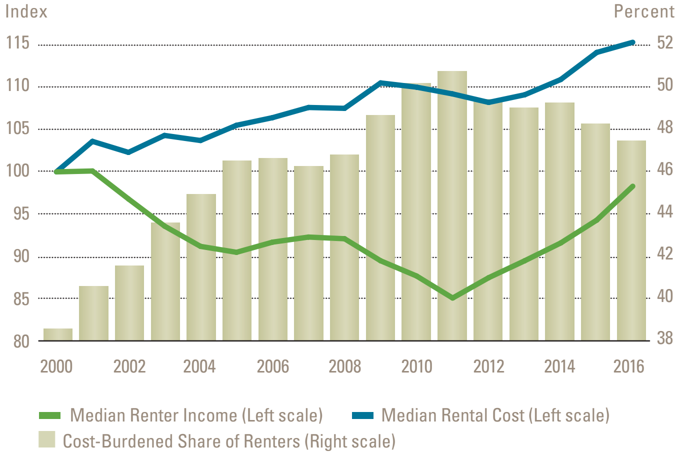
Even so, growth in renter incomes across all income quartiles has outpaced the rise in housing costs since 2011, modestly narrowing the affordability gap. The median monthly income for renters in the bottom quartile increased 10 percent in real terms from $1,000 in 2011 to $1,100 in 2016, while their monthly housing costs rose 3 percent from $740 to $760. By comparison, the median monthly income for renter households in the top quartile grew 9 percent over this period, to $11,300, but their housing costs jumped 6 percent, from $1,600 to $1,700.

With this pickup in income growth, the number of cost-burdened renter households (paying more than 30 percent of income for housing, including utilities) receded from a high of 21.3 million in 2014 to 20.8 million in 2016. The number of severely cost-burdened renters (paying more than 50 percent of income for housing) also edged down from 11.4 million to 11.0 million. The declines in the number of cost-burdened households between 2015 and 2016 coincide with the largest increase in median renter income since 2000.

While down sightly since its 2011 peak, the share of cost-burdened renter households remains high **(Figure 26).** After increasing from 39 percent in 2000 to 51 percent in 2011, the share of cost-burdened households dipped to 47 percent in 2016. The share of severely cost-burdened renters also fell from 28 percent in 2011 to 25 percent. Again, these small improvements reflect not only a drop in the number of cost-burdened renters but also rapid growth in the number of renters with higher incomes—the group least likely to be cost burdened. In fact, the number of renters earning at least $75,000 rose by 40 percent between 2011 and 2016, to 9.1 million, the fastest growth in renter households in any income group.

FIGURE 26

Despite Rising Incomes, the Share of Cost-Burdened Renters Remains High

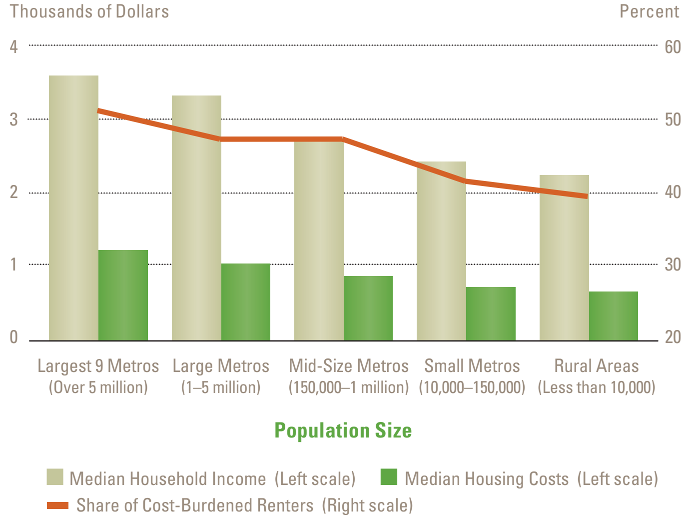


Notes: Median costs and household incomes are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items. Housing costs include cash rent and utilities. Cost-burdened households pay more than 30% of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens. Indexed values represent cumulative percent change.

Source: JCHS tabulations of US Census Bureau, American Community Surveys.

FIGURE 27

While Most Common in Large Metros, Cost Burdens Are Widespread in Markets of All Sizes



Notes: Household income is monthly. Housing costs are monthly and include cash rent and utilities. Cost-burdened households pay more than 30% of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens. Small metros include micropolitan areas with populations between 10,000 and 50,000.

Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates using the Missouri Census Data Center MABLE/Geocorr14.

GEOGRAPHY OF COST BURDENS

Despite declines in the majority of states between 2015 and 2016, large shares of renters across the country are housing cost burdened. Indeed, the shares in California, Colorado, Florida, Hawaii, and New York range from 51 percent to 54 percent, although for different reasons. For example, renters in Colorado, Florida, and New York have relatively moderate median incomes but face high housing costs. In contrast, renters in California and Hawaii have high incomes but even higher housing costs, with both rents and incomes ranking in the top five in the country. Alaska is currently the most affordable state, with the cost-burdened share of renters at 37 percent. Although housing costs in Alaska are the sixth highest nationwide, median renter income is the second highest.

Lower housing costs, however, do not mean greater affordability. Although median housing costs in Alabama, Kentucky, Maine, Mississippi, and West Virginia are in the bottom fifth for the nation, the shares of cost-burdened renters in these states are above 41 percent. The states with the smallest shares of cost-burdened renters are located primarily in the Great Plains region—including Montana, North Dakota, South Dakota, and Wyoming—where median housing costs are low and renter populations are small. But even in these states, more than one-third of renters have housing cost burdens.

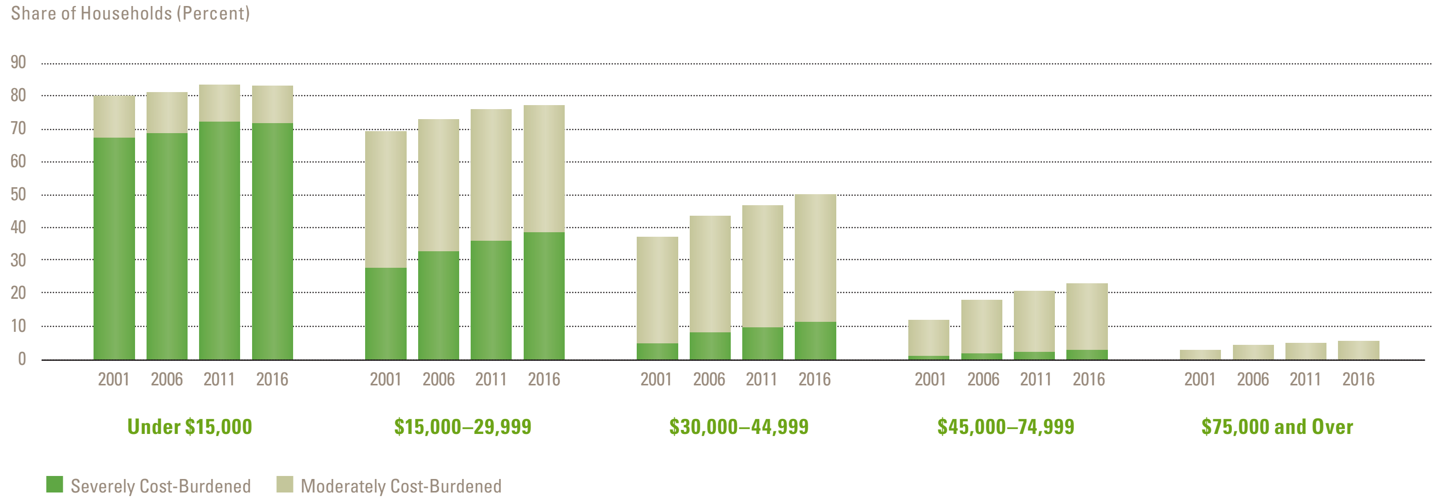
Cost-burdened renters live in communities of all sizes, but finding affordable housing in larger metro areas is particularly challenging. About half (51 percent) of renter households in the nation's nine largest metros pay more than 30 percent of income for housing **(Figure 27).** The median monthly housing cost in these areas is $1,200 while the median renter income is $3,600. Among this group of nine metros, Miami has the highest shares of cost-burdened renters at 61 percent. The shares of cost-burdened renters are slightly lower in large (47 percent), mid-size (47 percent), and small metros (42 percent). Small metros have the lowest median housing costs of any urbanized areas at $720 and the lowest median incomes at $2,400.

From 2011 to 2016, the cost-burdened shares of renters declined in 220 out of the nation's 275 mid-size and larger metros (80 percent), but primarily because increasing numbers of moderate- and higher-income households had entered the rental market. The number of cost-burdened renters decreased in only 46 percent of these metros over this period.

In 63 of the nation's 658 small metros (10 percent), more than half of renters were housing cost burdened in 2016. About two-thirds of small metros with majority shares of cost-burdened renters are in the South and West. Meanwhile, the number of cost-burdened renters in 385 small metros (59 percent) fell between 2011 and 2016.

FIGURE 28

The Share of Middle-Income Renters with Cost Burdens Is Growing Rapidly



Notes: Household incomes are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items. Moderately (severely) cost-burdened households pay 30–50% (more than 50%) of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

Rural areas tend to have lower, but still sizable, shares of cost-burdened renters (40 percent). Even so, more than 46 percent of rural renters in California, Maryland, New Hampshire, and New York are housing cost burdened. These states are largely urbanized, suggesting that high rents in metropolitan areas extend into rural areas. Cost-burdened households in rural areas are often more dispersed than in metro areas, making it difficult to target effective policy interventions.

UNIVERSALITY OF COST BURDENS

Renters in many demographic groups are cost burdened, but low-income households are the most likely to pay a disproportionate share of their incomes for housing. In 2016, 83 percent of renter households with incomes below $15,000 had cost burdens, including 72 percent with severe burdens. Some 77 percent of renters earning between $15,000 and $30,000 were also cost burdened. By comparison, only 6 percent of renters making at least $75,000 were cost burdened in 2016.

Over the past 15 years, more than half of the growth in the number of cost-burdened renters has been among renters earning under $30,000. However, the largest increases in cost-burdened shares have been among moderate-income households. From 2001 to 2016, the number of cost-burdened renters earning $30,000–45,000 rose by 1.3 million, bringing the share for this income group from 37 percent to 50 percent **(Figure 28).** Similarly, the addition of 1.1 million cost-burdened households with incomes of $45,000–75,000 nearly doubled the share in this group from 12 percent to 23 percent.

Being fully employed is no panacea. In 2016, some 56 percent of renters with jobs in personal care and service occupations were housing cost burdened **(Online Figure 5).** Indeed, more than half of renters working in food preparation and service, building and grounds maintenance, and healthcare support—industries with many low-wage jobs—had cost burdens. Conversely, less than 20 percent of renters in higher-paying fields such as computer science, mathematics, architecture, engineering, and oil extraction, were housing cost burdened in 2016.

In addition to low income, several household characteristics—including race/ethnicity, age, household composition, and disability status—are associated with cost burdens. For example, 55 percent of black and 54 percent of Hispanic renters were housing cost burdened in 2016, an increase of about 7 percentage points for both groups in 2001–2016. By comparison, 43 percent of white renters and 47 percent of Asian and other minority renters were cost burdened, up 5–6 percent over this period.

In addition, cost burdens are common among households age 65 and over, as well as among those under age 25. As of 2016, 54 percent of older renters had cost burdens, along with 60 percent of younger renters. Many members of these age groups are out of the workforce or have low wages, either because of retirement and/or disability or because they are still students.

Household composition also makes a difference. Married or partnered households with more than one potential earner are less frequently cost burdened. Those with children present are more frequently burdened, perhaps reflecting the more limited hours that parents are available to work. For these reasons, single parents have the highest cost-burdened share (63 percent) of any household type, well above that for married or partnered parents (39 percent).

Finally, 55 percent of renter households that have a member with a disability have cost burdens, compared with 45 percent of those with no disabilities. Rental cost burdens can be particularly detrimental to households with disabilities in that high housing costs may constrain their ability to pay for medical and other essential needs.

THE LOW-COST HOUSING DEFICIT

The prevalence of cost burdens among lower-income renters is due in part to a shortage of low-cost housing in the private market. To be low cost, housing must be affordable at the 30-percent-of-income standard to very low-income renters (earning up to 50 percent of area median income).

HUD's Worst Case Housing Needs 2017 Report to Congress documents the growing gap between supply of and demand for low-cost rentals. Worst case needs are defined as the number of very low-income renters who are severely cost burdened or living in inadequate housing. After a slight dip from 8.5 million in 2011 to 7.7 million in 2013, the number of renter households with worst case needs increased to 8.3 million in 2015. Nearly all of these cases (98 percent) arise from lower-income households having to pay more than half their incomes for housing costs rather than from problems of housing adequacy.

Some of the pressures on the low-cost supply arise from the fact that households with moderate or even high incomes occupy the units that low-income renters could afford. HUD estimates that 93 units are affordable for every 100 very low-income renters, but of these, only 54 are both available and adequate. For extremely low-income renters, the supply of affordable housing nationally is just 66 units per 100 renters, with only 33 of those units meeting the available and adequate criteria.

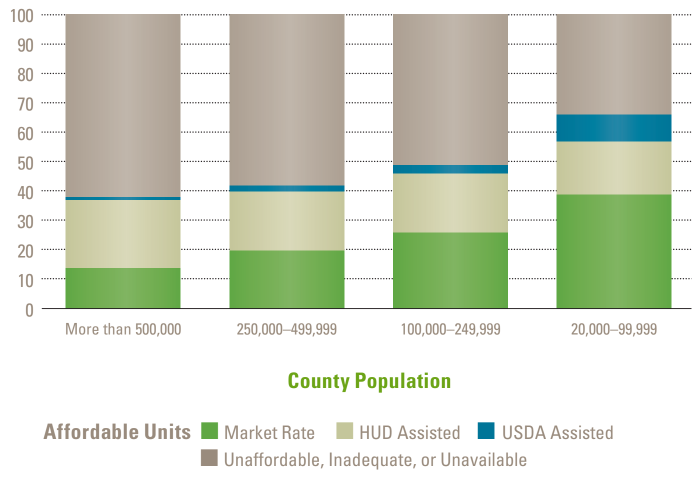
HUD adjusts incomes based on household size to determine affordability and eligibility for housing subsidies. Given that the median income of very low-income families nationally was $28,400 in 2015, a very low-income family of four could afford to pay $710 per month for rent. This number, however, is much lower in some counties. Moreover, the median family of four with extremely low income could afford only $430 in monthly housing costs.

Recent data from the Urban Institute confirms the shortage of privately owned affordable rental housing (also known as naturally

FIGURE 29

The Most Populous Counties Face the Largest Shortfalls in Affordable Supply

Average Number of Units per 100 Extremely Low-Income Renters

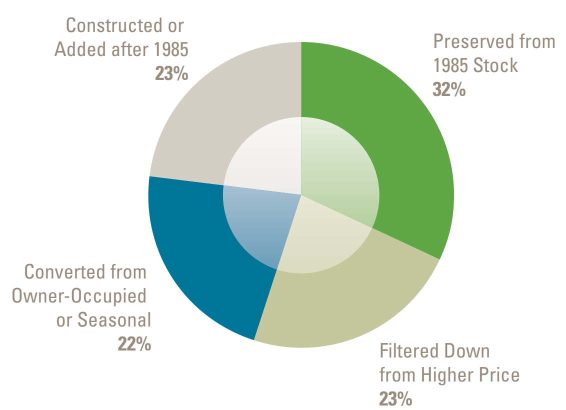


Notes: Affordable is defined as costing no more than 30% of income for households with extremely low incomes (earning up to 30% of area median). Adequate units have complete bathrooms, running water, electricity, and no sign of major disrepair. Available units are not occupied by higher-income households.
Source: JCHS tabulations of Urban Institute, Mapping America's Rental Housing Crisis, 2017.

FIGURE 30

Maintaining the Stock of Rental Housing Depends Largely on Preservation

Share of Affordable Rental Stock in 2013

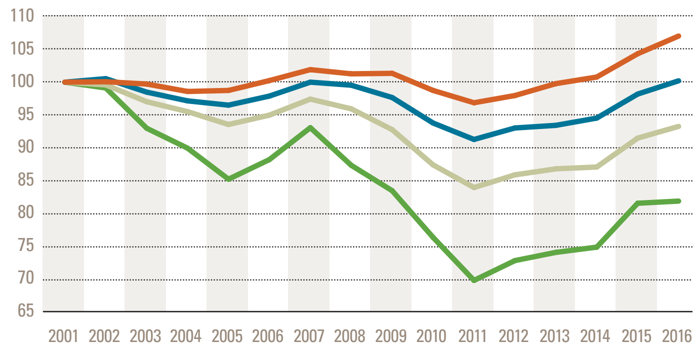


Notes: Affordable is defined as costing no more than 30% of income for households with very low incomes (earning up to 50% of area median). Units added after 1985 include rentals that were temporarily out of the stock in that year.
Source: JCHS tabulations of Weicher, Eggers, and Moumen, 2016.

FIGURE 31

Rising Housing Costs Have Eroded Disposable Incomes…

Median Income Left Over After Paying for Housing Costs (Indexed)

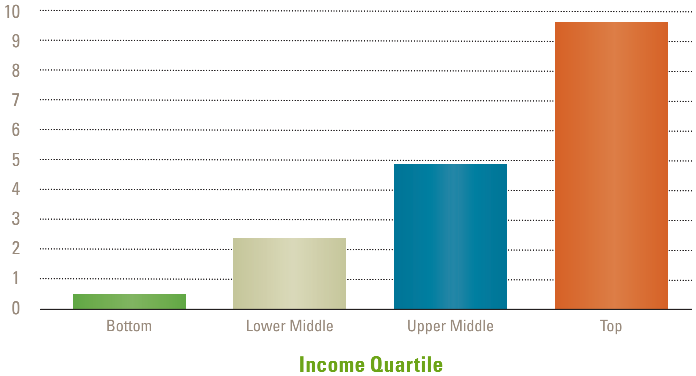


Notes: Income quartiles include both owners and renters. Median housing costs and household incomes are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items. Housing costs include cash rent and utilities. Indexed values are cumulative percent change.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

FIGURE 32

…Especially Among Lowest-Income Renters

Median Income Left Over After Paying for Housing Costs (Thousands of dollars)



Notes: Income quartiles include both renters and owners. Housing costs include cash rent and utilities.
Source: JCHS tabulations of 2016 American Community Survey.

occurring affordable housing) available to extremely low-income renters. In 2014, counties with populations of at least 20,000 had an average of 34 naturally occurring affordable, adequate, and available units per 100 extremely low-income renters. Of these counties, 29 (about 2 percent) had no units meeting the criteria, while the most affordable counties provided 81 units for every 100 extremely low-income renters. On average, smaller counties have a higher ratio of supply to demand than larger urban counties, while large urban counties have the greatest deficit **(Figure 29).**

At the same time, a Hudson Institute report finds that losses of low-cost units are high. About 60 percent of the 15 million rentals affordable in 1985—some 8.7 million units—were lost by 2013. The biggest reductions were due to permanent removals, with 27 percent of affordable rentals in 1985 (4.1 million units) demolished, destroyed in disasters, or reconfigured into fewer units. About 18 percent (2.7 million units) were converted to owner-occupied or seasonal housing, while 12 percent (1.7 million units) were upgraded to higher rents through gentrification. The remaining 276,000 units were temporarily out of the affordable stock.

This same report also documents how the low-cost rental stock is replenished over time. A little under a third of affordable rentals in 2013 were also affordable in 1985, highlighting the importance of preservation. Even so, a large majority of affordable rentals were added through a variety of other means over time, with roughly equal shares coming from new construction and conversion of non-residential structures, filtering from higher price points, and conversion of owner-occupied or seasonal housing to rentals **(Figure 30).**

Given the lack of naturally occurring affordable units, federal housing assistance is crucial for lowest-income renters. The Urban Institute estimates that HUD and USDA programs assist 53 percent of units affordable to extremely low-income renters. In the largest counties where supplies of naturally occurring affordable units are especially tight, federal programs on average contribute an average of 24 units per 100 extremely low-income renters. In smaller and non-metropolitan counties, federal programs account for an average of 27 units per 100 extremely low-income renters.

THE ADDED BURDEN OF UTILITY AND TRANSPORTATION COSTS

For renters that pay for their own use, utilities can be a sizable component of total housing outlays. The 2016 American Community Survey reports that the median renter spent $140 per month on electricity, gas, heating fuel, and water bills beyond any utility costs included in the rent.

Utility spending varies across income groups and geographies. Lowest-income renters (making less than $15,000) spend the least on utilities, or $120 per month at the median. Renters in this income group living in the East South Central census division, including Alabama, Kentucky, Mississippi, and Tennessee, have the highest median outlays of $155 per month. Renters making $75,000 or more have the highest utility bills, amounting to $150 per month. Highest-income renters in the East South Central area spend the most, or $188 per month.

Although lower-income households spend less than higher-income households on utilities, they must dedicate a larger share of their incomes to these costs. Renters in the lowest income group spend 17 percent of their annual incomes on utilities, and highest-income households spend only 2 percent. While the median share of income devoted to utility costs has fallen across all income groups over the last five years, these costs still contribute significantly to overall housing outlays.

Some renter households make tradeoffs between housing they can afford and location, thus adding to their transportation costs. Indeed, the median household with no housing cost burden spends more on transportation than the median household that is cost burdened. The 2016 Consumer Expenditure Survey reports that transportation costs account for 31 percent of total housing and transportation spending for the median renter. Even excluding vehicle purchases, the median transportation cost represents 21 percent of housing and transportation costs combined.

CONSEQUENCES OF HIGH HOUSING COSTS

High housing costs have eroded renter incomes and exacerbated inequality among renter households. After paying for their housing, the amount of money that lowest-income renters had left over for all other expenses fell 18 percent from 2001 to 2016 **(Figure 31).** Over the same period, the amount of money that highest-income renters had to spend on other costs increased by 7 percent.

In 2016, the median renter household in the bottom income quartile paid 60 percent of its income for housing. For the median renter in this income group, the amount left over for all other needs was less than $500 per month **(Figure 32).** By comparison, the median renter in the top quartile paid just 14 percent of household income for housing and had nearly $9,700 left over for other expenses.

A recent JCHS working paper assesses the gap between household incomes and outlays for both housing and basic living expenses (including transportation, food, childcare, healthcare, and income taxes) in three metropolitan areas in 2015. Not surprisingly, low-income households faced significant challenges in paying for basic necessities after covering their rents, even if these households were fortunate enough to find housing they could afford. Despite lower living expenses, lowest-income single-person households still faced significant financial challenges in covering housing costs and necessities. The results also show that childcare costs incurred by families leave even moderate-income households with cost burdens.

THE OUTLOOK

While the recent drop in the number of housing cost-burdened renters is good news, future meaningful progress is far from certain. Indeed, at the average annual pace of decline from 2014 to 2016, it would take another 15 years just to return to the 2006 level of 17.0 million cost-burdened households and 24 years to hit the 2001 level of 14.8 million households. In effect, the latest economic cycle seems to have defined a new normal for the nation's rental affordability challenges.

Improvement in rental affordability depends on the trajectories of household incomes and housing costs. The recent growth in renter incomes has come at a time when the economy is nearing full employment, so sustained gains are uncertain. In addition, the Bureau of Labor Statistics expects that the fastest employment growth will be in several low-wage occupations—such as personal care, healthcare support, and food preparation—with large shares of housing cost-burdened workers. For earners in these occupations, full employment will not guarantee access to housing they can afford.

Meanwhile, tight rental market conditions have propelled rapid growth in housing costs relative to incomes, although the recent rise in vacancy rates may help to ease some of the pressure on rents in the short term. Turning back the tide on the nation's rental affordability challenges thus requires efforts to address lagging incomes among those near the bottom of the economic ladder as well as steps to help reduce the cost of housing. And for those with low incomes, increasing access to rental assistance, expanding the low-cost stock, and preserving affordable housing will be necessary to close the gap between income and housing costs.

6 | RENTAL HOUSING CHALLENGES

The gap between the supply of and demand for rental housing assistance is still growing. Reversing this trend will require increased efforts to preserve assisted units, construct new affordable rentals, and expand the availability of vouchers and other forms of assistance. More immediately, the lack of affordable rentals in high-cost metros may be putting low-income households at greater risk of housing instability, evictions, and homelessness. The need for additional rental housing is especially acute in areas recently devastated by hurricanes and wildfires.

REDUCED ACCESS TO RENTAL ASSISTANCE

Between 2001 and 2015, the number of very low-income households (making less than 50 percent of area median) was up 29 percent, from 14.9 million to 19.2 million. According to HUD's Worst Case Needs 2017 Report to Congress, this includes a comparably large increase in the number of extremely low-income households (making less than 30 percent of area median) from 8.7 million to 11.3 million households. At the same time, the number of very low-income households receiving rental assistance rose only 14 percent, from 4.2 million to 4.8 million. As a result, the share of very low-income households that receive rental assistance declined from 28 percent to 25 percent over this period.

The growing gap between need and assistance is evident in the long waiting lists for rental assistance in most cities. In fact, many local housing agencies have closed their waitlists in response to oversubscribed demand, sometimes not accepting new applicants for years. In one extreme example, Los Angeles reopened its waitlist for housing choice vouchers in October 2017 for the first time in 13 years, anticipating as many as 600,000 applications for 20,000 spots on the list.

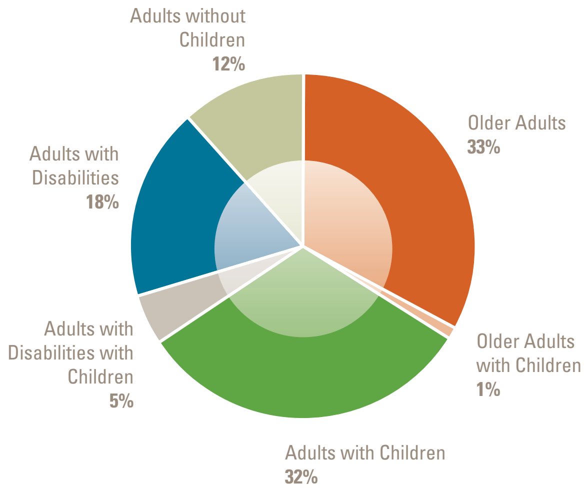
The shortfall in rental assistance has been accompanied by changes in the stock of federally assisted units. HUD data indicate that the number of public housing units fell from 1.1 million in 2006 to 1.0 million in 2016, while the number of privately owned units with project-based subsidies was down from 1.4 million to 1.3 million. These declines have been offset by an increase in housing choice vouchers, from 2.0 million to 2.3 million. The number of households receiving assistance from the US Department of Agriculture also rose modestly from 263,000 in 2008 to 269,000 in 2016. Although the net change across programs is positive, the increase has not kept pace with growth in the number of very low-income households.

The Low Income Housing Tax Credit (LIHTC) program remains the primary source of support for new affordable rental units. Between 2006 and 2015, the stock of LIHTC units expanded from 1.6 million to 2.3 million. While adding to the overall supply of affordable

FIGURE 33

Most Assisted Households Are Older Adults, Persons with Disabilities, or Families with Children

Share of Assisted Households



Notes: Household counts include those assisted by housing choice vouchers, public housing, project-based Section 8, Section 202, and Section 811. Older adult households are headed by a person age 62 or older, including those with a disability or a spouse with a disability. Adults with disabilities are households headed by a person age 61 or younger with a disability or a spouse with a disability. Adults with children include households with at least one child under age 18 present.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2016 Public Use Microdata Sample.

housing, these units generally have rents affordable to households with incomes 50–60 percent of the area median. To be affordable to extremely low-income households, LIHTC units often must be coupled with other subsidies. Indeed, a 2014 HUD analysis estimated that 38 percent or more of LIHTC tenants received rental assistance of some kind from federal, state, or local sources.

Households receiving rental assistance are predominantly families with children, older adults, and persons with disabilities **(Figure 33).** According to HUD data for 2016, 38 percent of recipients were low-income families with children, including 5 percent with a household head with a disability and 1 percent with a household head age 62 or over. With the aging of the baby-boom generation, older adults now occupy one-third of assisted units and this share is and set to increase over the coming decades. Meanwhile, 18 percent of assisted households in 2016 were headed by a person under age 62 with a disability. Only 12 percent of recipients were childless adults under age 62.

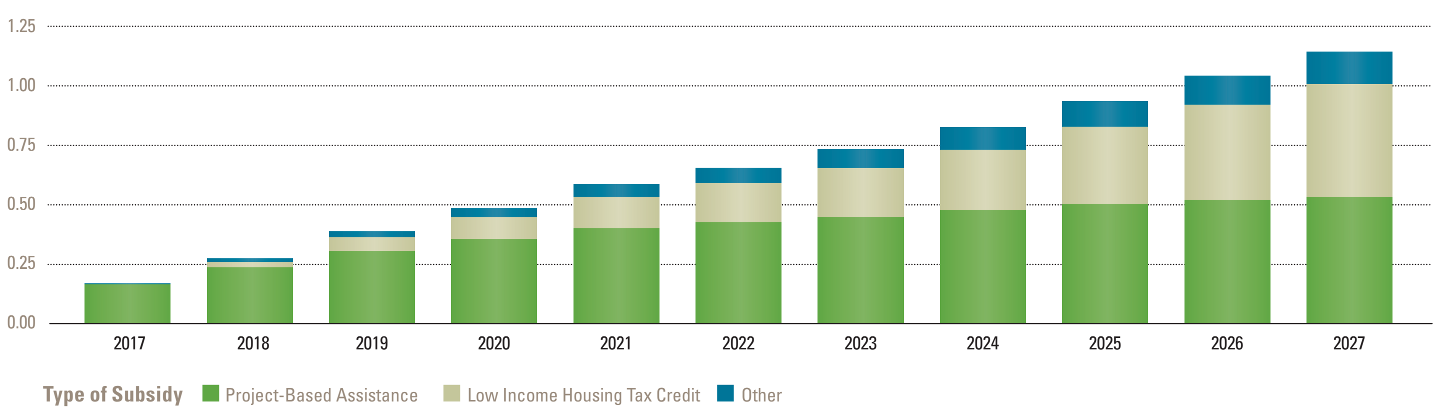
PRESERVING THE AFFORDABLE HOUSING STOCK

The nation's stock of both assisted and privately owned low-cost rentals includes many units at risk of loss. Public housing, in particular, has a large backlog of needed repairs and improvements, last estimated at $26 billion in 2010, and its annual maintenance needs of $3.4 billion exceed Congressional appropriations. Although Congress has not addressed this deficit through additional capital funding, it did establish the Rental Assistance Demonstration (RAD) in 2012 to give public housing and other eligible properties more

FIGURE 34

Affordability Restrictions on 1.1 Million Rental Units Will Expire by 2027

Cumulative Number of Units with Expiring Affordability (Millions)



Notes: Data include properties with active subsidies as of January 1, 2017. Other includes units funded by HOME Rental Assistance, FHA Insurance, Section 236 Insurance, Section 202 Direct Loans, USDA Section 515 Rural Rental Housing Loans, and units in properties with more than one subsidy type expiring on the same day. For properties with multiple subsidies, if one subsidy expires but one or more others remain active, the difference between the number of units assisted by the expiring subsidy and the number of units assisted by the remaining subsidies are counted as expired.

Source: JCHS tabulations of Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, National Housing Preservation Database.

funding flexibility through conversion to project-based Section 8 contracts. After applications for participation in RAD reached the initial limits, Congress raised the cap to 225,000 units for fiscal year 2017. At last count 423 public housing authorities (14 percent) are currently participating in the demonstration.

The impending expiration of affordability restrictions on federally subsidized units presents another preservation challenge. Over the next 10 years, 530,000 rentals with project-based rental assistance, 478,000 units with LIHTC subsidies, and 136,000 units with other types of subsidies will reach the end of their required affordability periods **(Figure 34).** While some of these properties are owned by nonprofits and other mission-driven organizations, many are privately owned and at risk of converting to market rate. Properties located in areas with high or rising rents are particularly vulnerable to loss from the affordable stock.

Expirations of LIHTC affordability restrictions are set to increase in 2020 as the oldest units built under the program reach the 30-year mark. In response, several states have enacted mandates to extend the affordability periods of LIHTC properties. For example, California now requires 25 years of additional affordability, while New Hampshire, Utah, and Vermont require 69 years. However, these state-level actions do not include funding for maintenance expenditures and were mostly undertaken after 2000, implying that they will only have an impact after 2030. Additional preservation efforts are therefore necessary to keep LIHTC units with expiring affordability restrictions in the subsidized housing stock.

Finally, after a decade of tight rental markets and rising rents, the stock of privately owned low-cost units continues to shrink. These losses are particularly concerning in metros with rapid rent growth, where downward filtering and conversions from the owner-occupied stock have done little to offset the disappearance of low-cost rentals. To combat losses of naturally occurring affordable housing, nonprofit organizations have begun to acquire and manage at-risk properties to keep rents affordable to current and future tenants.

TRACKING HOMELESSNESS

In the early 2000s, HUD launched an initiative challenging cities to develop plans to end chronic homelessness within ten years. The 2010 Federal Strategic Plan to Prevent and End Homelessness subsequently broadened this effort, setting goals to end chronic and veteran homelessness within five years and homelessness among families with children and unaccompanied youth within ten years.

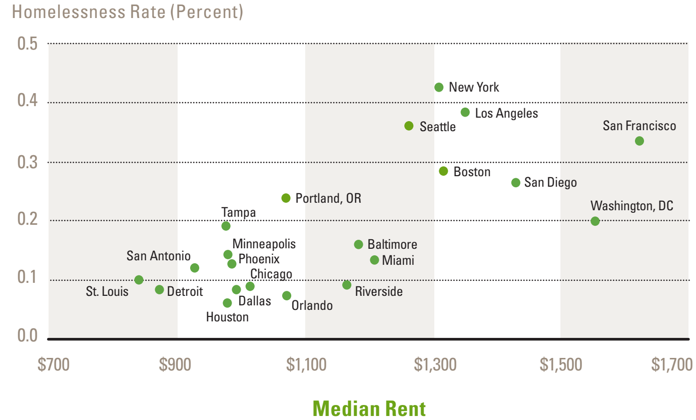
Efforts to reduce homelessness appear to be working, at least at the national level. According to HUD's Annual Homelessness Assessment Report (AHAR), the number of people who were homeless on a single night in January fell 15 percent from 647,000 in 2007 to 550,000 in 2016. Nearly all of this decline is due to decreases in the number of unsheltered homeless people, with the number of sheltered homeless people remaining almost constant. The reductions are also largest among the groups most likely to be unsheltered, including the chronically homeless (down 35 percent in 2007–2016) and homeless veterans (down 47 percent in 2010–2016). Less progress has occurred in reducing homelessness among families with children (down 17 percent in 2007–2016).

The point-in-time count, however, provides only a conservative estimate of the number of people and families that experience homelessness over the course of a year. An alternative AHAR measure of the extent of homelessness is that nearly 1.5 million people spent at least one night in a shelter in 2015. Even this figure is low, given that it does not include the unsheltered homeless or at-risk individuals living in doubled-up or other unstable housing situations. The national estimates also mask considerable variation across locations. Metros with the highest rates of homelessness are frequently those with the highest median rents **(Figure 35),** raising concerns about the consequences of tight conditions in these high-cost markets.

Achieving further reductions in homelessness will require attention to the needs of multiple subpopulations. A recent analysis of HUD's Family Options Study suggests that housing vouchers may be

FIGURE 35

Homelessness Is Especially High in More Expensive Rental Markets



Notes: Included metros are the 21 metropolitan statistical areas (MSAs) among the 25 largest MSAs by total population for which at least 80% of population falls within one or more metro Continuums of Care (CoCs). Metro CoCs are defined here as having at least 90% of their population falling within one MSA. Median rent is median gross rent including utilities. Homelessness rate is the point-in-time count of homeless people, both sheltered and unsheltered, divided by the MSA population.

Sources: JCHS tabulations of US Department of Housing and Urban Development, 2016 Point-in-Time Count of Homelessness, and US Census Bureau, 2015 American Community Survey 1-year Estimates.

the best strategy for reducing family homelessness. This study was launched in 2008 to test the relative efficacy of several approaches, including priority access to long-term subsidies, temporary subsidies, project-based transitional housing, and usual care through the shelter system and other available supports. According to HUD's evaluation of long-term outcomes, priority access to housing choice vouchers significantly reduced the likelihood of homelessness, doubling up, and shelter stays three years after enrollment in the study.

Less is known about the relative effectiveness of strategies to reduce homelessness among the young. HUD's point-in-time estimates found 36,000 unaccompanied homeless youths in January 2016, while the Homeless Management Information System shows that 137,000 unaccompanied homeless youths used the shelter system at some point in 2015. HUD continues to improve its data collection processes, and 2017 will be the initial year for estimating changes in the number of homeless youth over time.

Findings from the Veterans' Homelessness Prevention Demonstration also highlight the unique physical and mental health needs of homeless veterans. For example, two-thirds of veterans in the demonstration reported experiencing serious depression, anxiety, or tension—including 43 percent with symptoms of post-traumatic stress disorder. The project also revealed the need for service providers to have cultural competency in military norms and the ways in which veterans experience civilian life.

EVICTIONS AND FORCED RELOCATIONS

The frequency and consequences of evictions and forced relocations have gained new attention from policymakers. According to the 2015 American Housing Survey, 7.5 percent of all renter households that moved in the prior two years did so because they were "forced to move by a landlord, a bank or other financial institution, the government or because of a disaster or fire." It is difficult to know how many of these forced moves were due to formal evictions through the court system, informal evictions, or other events.

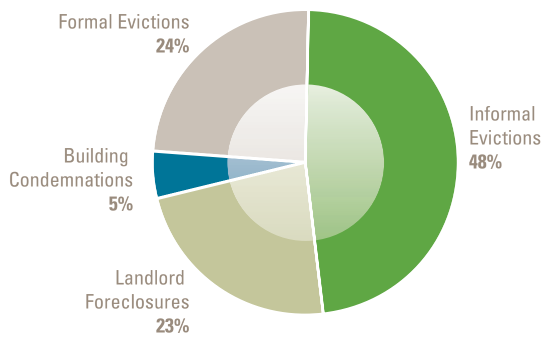
The Milwaukee Area Renters Study offers a more complete picture, reporting that 13 percent of renter households in the City of Milwaukee experienced a forced move within the two years preceding the study. Of these moves, almost half (48 percent) resulted from informal evictions, 23 percent from landlord foreclosures, and 5 percent from building condemnations, and only a quarter were due to formal evictions **(Figure 36).** While not broadly generalizable, these estimates suggest that court records seriously understate the frequency of forced relocations of renters.

In addition to stress and psychological trauma, evictions impose high costs on renter households in terms of both time and money, and can result in job absences, drain savings or increase debt, and damage credit histories. Forced moves can also disrupt children's school attendance and adults' employment options, particularly if the household moves to a new town or school district. And for the

FIGURE 36

A Milwaukee Study Suggests that Informal Evictions May Be Twice as Frequent as Formal Evictions

Share of Forced Moves

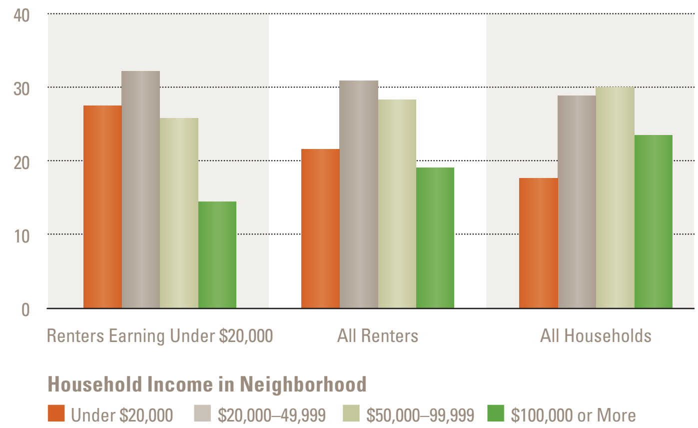


Notes: Formal evictions are processed through the court system. Informal evictions include forced moves in cases where the tenants were threatened with eviction or moved in anticipation of eviction.
Source: Milwaukee Area Renters Study data reported in Desmond and Shollenberger, 2015.

FIGURE 37

Low-Income Renters Are Likely to Live in Neighborhoods with Other Low-Income Households

Average Share of Households in Neighborhood (Percent)



Note: Shares are calculated as the weighted average of households in each income category across all US census tracts.
Sources: JCHS tabulations of US Census Bureau, 2015 American Community Survey 5-Year Estimates, and the JCHS Neighborhood Change Database.

community at large, forced displacements entail direct public costs in the form of fees for court services, social services, and use of homeless shelters and emergency foster care.

The recent focus on forced relocations has led several cities to review their eviction procedures. In 2017, New York City became the first city in the country to guarantee legal representation to low-income residents facing eviction. Other cities have taken steps to limit the set of causes for which landlords can pursue eviction. Expanding support for emergency rental assistance and rapid re-housing programs would also help to protect households most at risk of homelessness.

GROWING INCOME SEGREGATION

Residential segregation by income has increased steadily in recent years, especially among households with the highest and lowest incomes. This trend adds to the challenges posed by entrenched residential segregation by race and ethnicity in many cities. It also raises concerns that low-income renters have increasingly limited access to a full range of neighborhoods.

In 2015, the average renter household earning under $20,000 lived in a neighborhood where 28 percent of residents had comparably low incomes and only 15 percent had incomes above $100,000 **(Figure 37).** In comparison, the average US household lived in a neighborhood where 18 percent of residents had incomes below $20,000 and 24 percent had incomes above $100,000.

A recent JCHS working paper provides evidence of the detrimental effects of residential segregation on the educational attainment, employment, socioeconomic mobility, and health of low-income renters. Households living in areas of concentrated poverty are particularly vulnerable. Such segregation not only limits economic potential for individuals and society as a whole, but also reduces social cohesion and intergroup trust, increases prejudice, and erodes democratic participation.

Reversing this trend is difficult and would require changes in both private markets and the location of assisted units. A key step would be to increase the supply of low-cost rental units in neighborhoods of all types, including construction of assisted units in a broader range of neighborhoods. Many states have in fact begun to incentivize LIHTC applicants to propose projects that do just that. In addition, the recently finalized Affirmatively Furthering Fair Housing (AFFH) rule establishes a planning process for local HUD grantees to assess current residential patterns and to take meaningful actions that foster inclusion.

Reforms to the housing choice voucher program would also help to increase the options available to low-income households. Outreach to landlords, protections against source-of-income discrimination, and mobility counseling would all serve to expand the range of properties and neighborhoods available to voucher holders. For example, the results of Baltimore's Special Mobility Housing Choice Voucher program demonstrate that mobility counseling can help to increase neighborhood choice among voucher holders. HUD's Small Area Fair Market Rent demonstration is also testing whether adopting neighborhood-level fair market rents (FMRs) would induce moves into a broader set of neighborhoods. HUD currently sets a single fair market rent for each metropolitan area, often forcing voucher holders to choose from units clustered in a few neighborhoods where rents fall below the FMR. While the interim report on the demonstration found evidence that neighborhood-level FMRs broadened the location choices of voucher recipients in some areas, the results were less encouraging in other areas, and HUD has suspended expansion of the demonstration to additional metros.

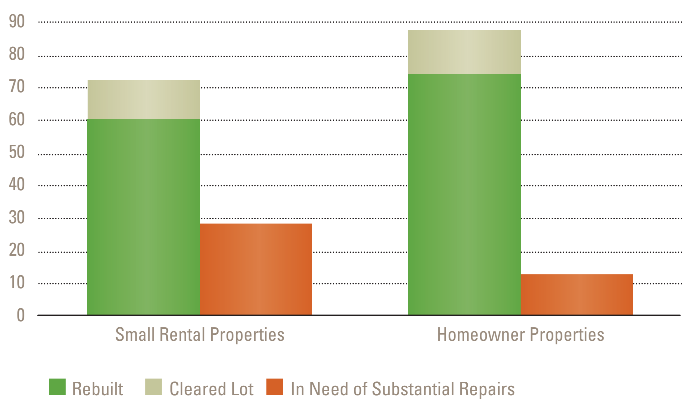
REBUILDING AFTER DISASTERS

The damage wrought by natural disasters in 2017 will pose substantial rebuilding challenges for years to come. Much of the housing stock lost in the recent hurricanes, for example, was renter-occupied. Indeed, the latest American Community Survey indicates that rental units accounted for 41 percent of all housing in the Houston metro area, 36 percent in Florida, and 32 percent in Puerto Rico.

FIGURE 38

Rental Property Owners Are Slower than Homeowners to Rebuild Following Disasters

Condition of Hurricane-Damaged Properties in Louisiana and Mississippi After Five Years (Percent)



Notes: Sample is representative of residential properties that experienced major or severe hurricane damage and were located on significantly affected blocks. Rebuilt structures are residences that do not show substantial repair needs. Cleared lots contain an empty lot or a foundation with no standing structure.
Source: Spader, 2015.

One lesson from prior disasters is that rental housing is restored much more slowly than owner-occupied homes. This is likely due to several factors. While homeowners directly control the rebuilding of their properties, renters must depend on their landlords' decisions. Owners of just a few rental properties may be especially slow to invest in rebuilding if their own homes are also damaged. In addition, policymakers have historically been more generous in assisting homeowners than rental property owners who lack adequate insurance coverage.

According to a 2010 HUD survey, only 60 percent of rental properties that sustained major damage in Hurricanes Katrina and Rita in 2005 had been rebuilt by 2010, compared with 74 percent of homeowner properties with similar levels of damage **(Figure 38).** Instead, 12 percent of former rental properties were cleared lots and 28 percent contained residential structures with substantial remaining damage, including 13 percent that did not meet the Census criteria for habitability. While there are legitimate concerns about bailing out under-insured rental property investors, a secondary effect of limited rebuilding in these disaster-stricken areas has been to reduce the housing available to renters.

The rebuilding of public housing, project-based units, and units available to voucher recipients presents other challenges. Following Hurricane Katrina, Congress made appropriations for disaster recovery that included supplemental allocations of both low-income housing tax credits and housing choice vouchers. While providing much-needed resources, these allocations require attention to ensure that LIHTC units are completed quickly and that the supply of units available to voucher holders is sufficient. After the 2017 hurricanes, rebuilding of units available to voucher holders may be particularly urgent, given that these rentals account for 62 percent of the HUD-assisted stock in Houston and 64 percent in Tampa.

A recent report from the Community Preservation Corporation documents other lessons from the rebuilding effort following Hurricane Sandy and recommends multiple potential improvements to streamline the application process, speed delivery of rebuilding assistance, and allow federal agencies to better prepare for future events. Given that it is just a matter of time before the next natural disaster occurs, taking these steps in advance will help to protect renter households in the wake of future storms.

THE OUTLOOK

With the economic expansion now in its ninth year, the immediate challenges facing America's rental markets depend on the outlook for the broader economy and the policy decisions of Congress and the Administration. On the one hand, continued economic growth would give a further lift to household incomes, but could also put additional pressure on rents. On the other, though, a recession would put more renters at risk of unemployment and reduced income.

Meanwhile, proposals for tax reform and changes to the LIHTC program make future funding for affordable housing production and preservation uncertain. While its prospects are unclear, a bipartisan bill in the Senate proposes to expand support for the LIHTC program and to change program rules to provide additional flexibility to states and improve the program's ability to serve extremely low-income households. In contrast, the tax reform proposals under consideration could substantially reduce production of LIHTC units by eliminating the important 4 percent credit.

Regardless of the short-term outlook, however, the growing gap between the number of income-eligible households and the availability of rental assistance is a long-term challenge. In some markets, demand-side subsidies—such as expanded access to housing choice vouchers—may be an effective response. However, in many metros across the country, increases in supply have not kept pace with population growth, putting even greater pressure on lowest-income households. In these markets, responding to rapid population growth requires both expansion of the overall rental supply and additional support for new construction and preservation of assisted units.

While the federal government remains the primary source of rental assistance, states and localities must continue to take steps to provide increased support for affordable housing through bond issues, trust funds, inclusionary zoning, and other approaches. Since states and localities also define the regulatory context for market-rate housing, they must also lead efforts to ensure that additions to the rental housing stock keep pace with population growth and to mitigate losses of low-cost units in the private market.

7 | APPENDIX TABLES

Additional appendix tables, maps, and interactive tools are available at www.jchs.harvard.edu/americas-rental-housing

TABLE A-1

Characteristics of Growth in Renter Households: 2006–2016

Renter Households (Thousands)

	2006	2016	Change 2006–2016 Number	Change 2006–2016 Percent
All Renter Households				
Total	36,054	45,915	9,861	27.4%
Household Income				
Less than $15,000	7,631	8,914	1,283	16.8%
$15–24,999	5,797	6,637	840	14.5%
$25–34,999	4,679	5,772	1,093	23.4%
$35–49,999	5,997	6,715	718	12.0%
$50–74,999	5,835	7,509	1,674	28.7%
$75–99,999	2,857	4,243	1,386	48.5%
$100,000 or More	3,258	6,125	2,868	88.0%
Race/Ethnicity				
White	20,027	23,647	3,620	18.1%
Black	7,064	9,118	2,055	29.1%
Hispanic	6,416	9,093	2,677	41.7%
Asian/Other	2,548	4,057	1,510	59.3%
Age of Householder				
Under 25	5,216	5,059	(157)	-3.0%
25–29	5,445	6,566	1,121	20.6%
30–34	4,384	5,795	1,411	32.2%
35–39	3,714	4,829	1,115	30.0%
40–44	3,512	4,108	596	17.0%
45–49	3,077	3,711	634	20.6%
50–54	2,563	3,437	874	34.1%
55–59	1,976	3,139	1,163	58.8%
60–64	1,473	2,716	1,243	84.3%
65–69	1,200	2,154	954	79.5%
70–74	933	1,326	393	42.1%
75 and Over	2,562	3,076	514	20.1%
Houshold Type				
Married Without Children	3,793	5,424	1,631	43.0%
Married With Children	5,723	6,754	1,031	18.0%
Single Parent (No Other Adults)	4,154	4,241	87	2.1%
Other Family with Children	3,131	4,153	1,022	32.7%
Single Person	13,513	17,144	3,632	26.9%
Unmarried Partners Without Children	1,537	2,477	941	61.2%
Other Family/Non-Family Without Children	4,204	5,722	1,518	36.1%

Note: Incomes are in constant 2015 dollars adjusted for inflation using the CPI–U for All Items.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys.

TABLE A-2

Characteristics of the Rental Housing Stock: 2016

Rental Units (Thousands)

	Single-Family		Multifamily						Mobile Home/ Other	Total
	Detached	Attached	2 Units	3–4 Units	5–9 Units	10–19 Units	20–49 Units	50 Units or More		
Census Region										
Northeast	1,119	623	1,240	1,244	939	756	972	1,615	117	8,626
Midwest	2,794	550	785	998	1,176	965	777	991	267	9,304
South	5,690	1,006	961	1,409	2,023	2,228	1,239	1,720	1,341	17,617
West	3,537	763	527	1,185	1,322	1,244	1,086	1,531	411	11,606
Metro Area Status										
Principal City	4,294	1,280	1,519	2,270	2,551	2,516	2,210	3,508	234	20,383
Other City	5,908	1,336	1,295	1,742	2,058	1,970	1,257	1,720	1,051	18,338
Non-Metro	2,265	174	440	499	427	255	219	167	671	5,117
Year Built										
Pre-1940	2,029	429	992	954	622	387	552	576	23	6,564
1940–1959	3,208	447	643	665	530	436	439	568	46	6,983
1960–1979	3,526	702	882	1,410	1,740	1,625	1,151	1,641	612	13,290
1980–1999	2,626	803	661	1,281	1,779	1,808	1,128	1,517	1,089	12,692
2000 or Later	1,752	560	335	526	789	937	804	1,556	365	7,623
Monthly Cost										
Less than $650	1,474	290	772	1,051	1,100	822	774	1,309	724	8,316
$650–849	1,782	337	680	963	1,039	925	586	588	485	7,386
$850–1,099	2,335	573	690	1	1,206	1,217	807	819	311	8,958
$1,100–1,499	2,528	673	549	779	955	1,020	799	965	111	8,379
$1,500 or More	2,887	793	472	637	654	701	697	1,643	31	8,515
No Cash Rent	1,403	107	101	64	58	48	53	75	294	2,203
Vacant	732	168	248	344	448	459	358	459	180	3,395
Number of Bedrooms										
0	88	31	139	258	348	404	496	939	35	2,737
1	672	265	685	1,384	1,788	1,945	1,800	2,830	154	11,523
2	3,266	1,295	1,784	2,393	2,691	2,377	1,496	1,747	906	17,956
3	6,449	1,122	764	701	564	408	235	281	928	11,452
4	2,182	196	118	86	60	51	33	39	97	2,862
5 or More	484	33	23	14	10	8	14	22	16	623

Notes: Data include vacant units that are for rent and rented but not yet occupied. Metro area status classifications include only occupied rental units due to data constraints.
Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates.

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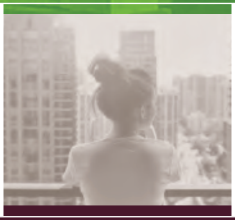
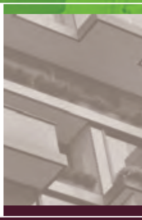

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