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April 12, 2016 NAHMAnalysis 2016-0406

Harvard's Joint Center for Housing Studies: Report on Trends in America's Rental Housing

Background

In December 2015, Harvard's Joint Center for Housing Studies (JCHS) issued a comprehensive report on the growing demand for rental housing across the United States entitled America's Rental Housing: Expanding Options for Diverse and Growing Demand[1]. This report examines numerous considerations in the U.S. rental market including demographic changes, the supply and demand for new rental units, federal and state policy changes, and affordability within the current market.

Overall, the report demonstrates that the rental housing market has seen a sharp increase in demand over the past decade and the challenge going forward is to ensure new units are being produced to meet this demand. Between 2005 and 2015, there was an increase of 9 million renter households, pushing the number of renters in the market to 43 million. Growth in demand was seen in nearly all demographics, with more millennials, baby-boomers, and immigrant groups seeking rental units. And with growth accelerating in recent years, the 2010s are on track to be the strongest decade of renter growth ever recorded, with the addition of 1.05 million net new renter households per year so far.

In addition to the increase in renters, the dramatic increases in rent and the unavailability of affordable housing causes a ripple effect in other facets of life. When individuals cannot afford to live in the places where they work, they often pursue less-expensive housing further from their jobs. This leads to an increase in transportation costs, causes strain on public transportation and also increases costs in child care services for families with young children.

Unless action is taken now to address the shortfalls in the affordable housing stock, the issues related to housing costs will continue to grow. This NAHMAnalysis highlights major findings of the Report, including updated renter demographics, state of rental stock, and policy challenges to current housing programs.

Demographics of Renters

[1] JCHS report website: http://www.jchs.harvard.edu/research/publications/americas-rental-housing-expanding-options-diverse-and-growing-demand

According to JCHS, renters make up a third of all U.S. households, and are a very diverse group with changing demographic characteristics. Renter households have an average age of 40. A little less than half of renters are minorities, with black and Hispanic households each accounting for roughly 20 percent of renters nationally.

In addition, households that rent are also more likely to have lower incomes. Renters make up 56 percent of all households in the bottom income quartile and just 17 percent of those in the top income quartile. The median income for renters was $35,000, based on the 2015 Current Population Survey. Finally, JCHS found that about a third of renter households are single persons, a third are families with children, and a third are couples without children and individuals sharing living quarters.

Overall, JCHS highlighted three major demographic trends that will shape rental housing demand over the next 10 years. "First, the aging of the millennial generation will continue to boost the number of new renter households." Millennials under age 30 currently make up 11.3 million renter households; however, if homeownership rates remain constant, the number of millennial renters will double to 22.6 million in the next decade.

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

The final demographic trend is the rapid growth of "Baby-Boomers," who will significantly increase the number of senior renters. JCHS states that "over the coming decade, most of these older renters will simply be aging in place. But as the baby boomers begin to reach their 70s in 2015–2025, some of the growth in renter households will come from older homeowners making the transition to rental housing in order to accommodate their changing needs for accessibility."

Aging Housing Stock and Accessibility

Similar to the growth in the number of renters and their changing demographics, the availability of rental units is a significant challenge. According to JCHS, "as of 2013, fully 61 percent of the nation's 44 million rental units were in multifamily buildings. Nearly a fifth of all rentals were in small structures with 2–4 units and a quarter in mid-sized buildings with 5–19 units. Contrary to popular perceptions, large rental buildings (with 20 or more units) accounted for only 18 percent of the overall stock and just 25 percent of the rental supply in central cities. The remainder are single-family homes."

JCHS noted that the rental stock is generally in good condition, "with only 3 percent considered severely inadequate and another 6 percent categorized as moderately inadequate. More than half of the nation's severely inadequate rental housing is located in central cities." Lower-cost rentals are more apt to be inadequate, with 12 percent of units renting for less than $400 a month having structural or maintenance problems compared with 7 percent of units renting for at least $1,000 a month. Inadequacy problems are also more common in low-cost unsubsidized units than in rentals with some form of federal assistance. The exception is public housing, where the units are in greater disrepair than all other types of occupied rentals. In 2013, over half of occupied public housing units experienced three or more heating equipment breakdowns lasting at least six hours, and 13 percent of units had water leaks due to equipment failures within the previous 12 months. Heating equipment failures were also relatively common in voucher-assisted units in 2013, affecting 38 percent of these rentals.

Older units and units in smaller buildings are usually less expensive than rentals in large multifamily buildings. New construction is focused primarily on larger buildings and is more expensive. The smallest multifamily rental buildings are typically the oldest, with a median age of 53 years. In contrast, buildings with at least five units have a median age of 38 years. With new construction focused primarily on larger buildings, only 4 percent of apartments in buildings with 2–4 units were built in 2003 and later.

Similar to age of rental buildings, accessibility is another major issue. JCHS found that, “based on the 2011 American Housing Survey, more than 7 million renter households have at least one member with a disability related to hearing, vision, cognition, mobility, self-care, or independent living....The incidence of disabilities increases sharply with age: among those aged 80 and over, fully 65 percent of renter households have at least one disability. With the aging of the baby-boom generation, the number of renters with disabilities is thus set to rise sharply in the years ahead.” According to JCHS, the Northeast has the least accessible rental housing inventory in the country. However, this is a national problem, as less than one percent of U.S. rental units include five basic universal design features: no-step entry, single-floor living, lever-style door handles, accessible electrical controls, and extra-wide doors and hallways.

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Affordable Housing Policy Challenges

In addition to changing demographics and aging rental stock, affordability is presenting a new challenge, especially for rental housing programs. According to the Report, between 2001 and 2014, the number of cost-burdened renters (paying more than 30 percent of their income for housing) increased from 14.8 million to a new high of 21.3 million. The number of these households with severe burdens (paying more than half of their income for housing) soared from 7.5 million to 11.4 million. These tenants are furthered squeezed since real rents rose 7 percent in the last ten years while household incomes fell by 9 percent.

For rental households making less than $15,000 a year, the demand for affordable units is as high as ever, but with vacancy rates now at their lowest point since 1985, rents are rising 3.5 percent annually in real terms—the fastest pace in nearly 30 years. In general, renters in this bottom income quintile faced a drop of 9.9 percent in income while their monthly housing costs increased by 6.2 percent. In 2014, approximately 84 percent of households in this income quintile were cost burdened by their rent. The report notes that these burdens are most prevalent among the youngest renters (aged 25 and below) and the oldest (aged 65 and over). In 2014, the share among renters aged 65 and over who were cost burdened stood at 55 percent, while the share among renters under age 25 was at 62 percent.

The report notes that federal rental assistance plays a vital role in housing low-income renters, with Project-Based Section 8 alone providing housing for 1.2 million people in 2014. But this assistance has its limits, as federal funding is not keeping pace with need. In 2013, HUD was able to only serve one in four eligible households, and the average wait for a Housing Choice Voucher (HCV) was 23 months.

There are particular challenges created by stagnant federal investment in affordable housing. The report does not explore the real availability challenges in the HCV program, which has only received enough funding in recent years to cover the bare minimum cost of renewing existing vouchers. Current funding levels for HUD’s housing assistance programs remains below 2008 levels. In 2013 when the automatic budget cuts known as sequestration took effect, the HCV program lost approximately 60,000 vouchers. Families who had only recently been approved for a voucher literally lost this assistance in a matter of days. As a result of the sequestration cuts and lagging funding increases, low-income voucher holders have fewer choices and must pay more in rent.

For low-income households, the report highlights the Low-Income Housing Tax Credit (LIHTC) as the primary source for new affordable units. The LIHTC assisted in the development of 76,200 new affordable units each year between 2009 and 2013, and it has spurred the completion of approximately 2.2 million units since the creation of the tax credit in 1986. The LIHTC's affordability requirements (i.e., maximum rents must be affordable to tenants with incomes at or below 60 percent area median income) allow low and moderate-income residents to access housing, and tenants are permitted to use other rental assistance programs, such as the HCV program, for further help. The HCV program, coupled with the LIHTC, has been the principal vehicle for expanding housing assistance in recent decades.

The HOME Investment Partnerships program is also cited as a critical tool in developing new affordable housing units. HOME is used as gap financing for the construction and rehabilitation of multifamily properties under the LIHTC, and some properties could not be completed without the program. But as the report notes, HOME has been subject to severe cuts, with funding down by more than half from FY 2010 to FY 2015 in real terms. Since HOME funding is often used in conjunction with tax credits, these funding cuts also weaken the LIHTC program's ability to support development and preservation of affordable rental units.

Conclusion

In conclusion, it is clear from the JCHS analysis that social and economic forces will shape future rental demand. Across all demographics, more households of all types are renting their housing. Furthermore, longer-term structural shifts in the economy may play a role in increasing rental demand, such as growth in lower-wage service jobs and declines in higher-wage production jobs.

This housing report paints a bleak picture of rental housing affordability in the United States; however, much of the information in the report could be used to strengthen advocacy activities for affordable housing programs. Government leaders must support increased funding for affordable housing programs. Lawmakers should act now to address rental housing affordability so that future generations are not bogged down by their rent. NAHMA will continue to ensure this issue remains on the radar of government leaders. We will continue to advocate for the production of new affordable units and preservation of the aging assisted stock, which is becoming increasingly urgent.