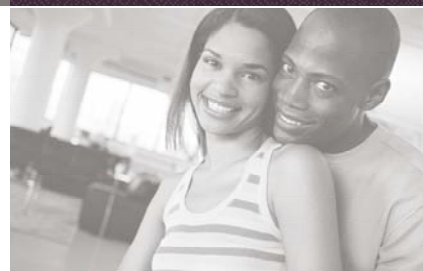
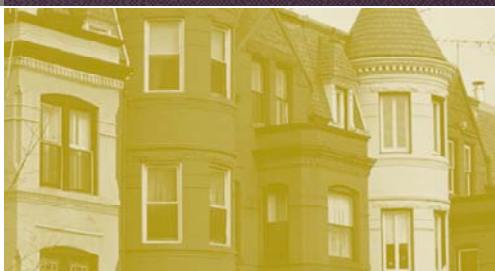
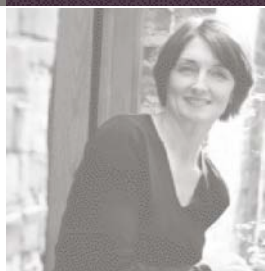


A large, close-up photograph of a hand holding a key. The hand is positioned palm-up, and the key is held between the thumb and index finger. The background is a dark, textured surface.

AMERICA'S RENTAL HOUSING

H O M E S F O R A D I V E R S E N A T I O N



Joint Center for Housing Studies of Harvard University

Joint Center for Housing Studies of Harvard University

Graduate School of Design
John F. Kennedy School of Government

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The opinions expressed in *America's Rental Housing—Homes for a Diverse Nation* do not necessarily represent the views of Harvard University, the Policy Advisory Board of the Joint Center for Housing Studies, or the MacArthur Foundation.



INTRODUCTION AND SUMMARY

In any given year, some 34 million US households make their homes in rental housing. Like the general population, renters are highly diverse in demographic and income terms, as well as in their reasons for residing where they do. Equally diverse is the nation's \$2.7 trillion rental stock, as is the mix of property owners, investors, builders, developers and managers involved in this vital sector of the national economy.

Adding another layer of complexity is the wide variety of public policies that govern rental housing, ranging from national efforts to expand access to affordable units for low-income families, to local land use regulations that limit the construction of apartments in many affluent neighborhoods. Because of the fundamental importance of the rental sector to quality of life for fully a third of American households, reexamining these federal, state and local policies is an essential step in ensuring that every individual is able to live in a decent and affordable home.

DIVERSITY OF DEMAND

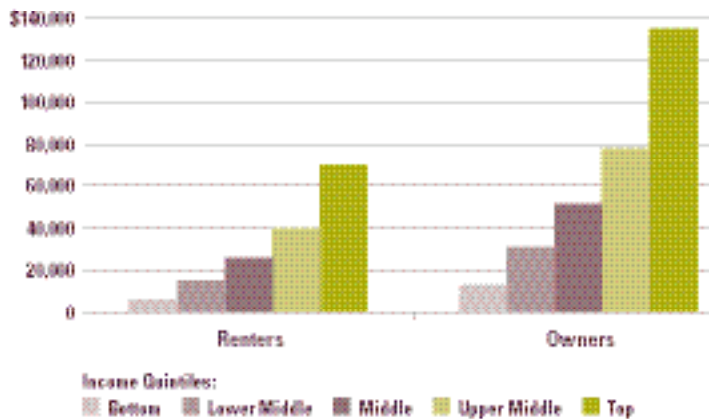
Like most segments of the American economy, the rental market is increasingly divided between the haves and have-nots. Indeed, 20 percent of all renters have median annual incomes that top \$60,000 while 20 percent have incomes below \$10,000 (Figure 1).

Many higher-income renters could buy homes but prefer to rent because they want to maintain a flexible lifestyle, with easy access to work and the amenities of the city. Others rent because they want to take advantage of the low transactions costs, at least relative to those involved in homeownership. Still others rent to avoid the risk of a potentially volatile home purchase market.

For working families with more modest incomes, rental housing provides a place to live during such life transitions as a job change or divorce. Renting also enables households to save to purchase a home. In combination with higher-income renters, these “middle market” households are sufficient in number and purchasing power to support a viable market for the construction, maintenance, and management of good-quality rental housing.

For those at the bottom of the income distribution, though, renting is not a matter of choice. Indeed, some 70 percent of the nation's 7 million lowest-income renters pay more than half their incomes for housing. This leaves almost nothing to

FIGURE 1 Many Renters Have the Incomes to Own
Median Income (2003 dollars)



Income Quintiles:

Bottom Lower Middle Middle Upper Middle Top

Note: Income quintiles defined separately for owner and renter households.
Source: JCHS tabulations of the 2003 American Housing Survey

cover food, medicine, and other essentials, let alone for education, retirement savings, and other investments that would secure their futures.

INVENTORY DYNAMICS

Even with the dramatic rise in homeownership, the number of renter households has held more or less steady at 34 million over the past decade, thanks primarily to the rapid pace of immigration. In fact, without this influx of foreign-born households, the number of renters would have fallen by over 2 million (or 5 percent) from 1993 to 2003 instead of rising modestly by 118,000.

Despite the weak growth of demand, nearly 3 million new rental units were built between 1994 and 2003 (Figure 2). New construction was strongest in the rapidly growing suburbs of major metropolitan areas, especially in the South and West. Most of these newly built units target the upper-end of the market, providing the additional space and amenities intended to make renting an attractive alternative to homeownership.

At the other end of the spectrum, the Low-Income Housing Tax Credit program (LIHTC) currently adds as many as 90,000 units each year for lower-income renters. These gains have not, however, offset the ongoing losses of other subsidized units either through demolition or through the “opt outs” of program participants.

Losses of older, lower-quality apartments in the private market are exacerbating the shortage of affordable rentals. Some 2 million low-cost units were razed and/or withdrawn from the rental housing inventory between 1993 and 2003. As a result, the number of units renting for less than \$400 in inflation-adjusted terms shrank by more than a million over the decade—a drop of nearly 13 percent.

While preservation efforts have focused primarily on subsidized units, stemming the loss of low-cost unsubsidized rentals is equally urgent. Indeed, about two-thirds of all lower-income families live in privately owned rental properties—typically older, smaller multifamily buildings and single-family homes.

Unfortunately, much of this inventory is owned by individuals without the skill and resources to manage their properties profitably. And when their rental units cannot generate enough revenue to cover basic operating costs, these owners have little choice but to cut back on maintenance and repairs. The decision to disinvest is the first step toward the property’s eventual removal from the inventory—but not before its general deterioration threatens the safety and well-being of any remaining tenants and brings down property values and investment throughout the neighborhood.

SIDE-EFFECTS OF SPRAWL

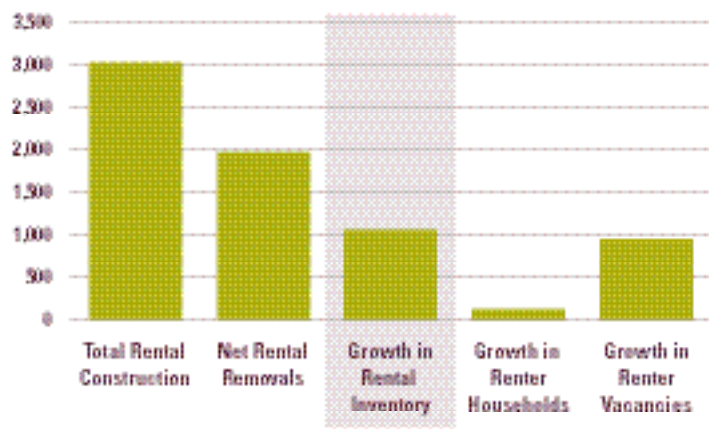
The spatial distribution of housing reflects the long-term movement of population and employment away from urban centers. Homeowners have led the way, increasing their median distance from the central business districts (CBDs) of the nation’s 91 largest metropolitan areas from 9.8 miles to 13.8 miles in just the past three decades. The comparable increase for renters is much more modest, up from 7.4 miles to 9.4 miles. As a result, renters are more geographically concentrated today than homeowners were 30 years ago (Figure 3).

While many forces are driving these development patterns, local land use regulations play a prominent role. For example, many suburban and outlying communities impose density restrictions that prevent the construction of affordable rental housing. The vestiges of housing market discrimination also contribute to the problem, with many minority renters preferring to remain in urban enclaves rather than move to potentially hostile neighborhoods in the suburbs.

Many lowest-income renters thus remain stuck in older, higher-density apartments close to the urban core. This isolation is reinforced by the concentration of public and other types of

FIGURE 2 New Construction Has Done Little to Augment the Rental Inventory

Inventory Changes, 1993-2003 (Thousands)



Note: Net removals equal total new construction minus change in households and vacant units.
Source: Table A-7.

FIGURE 3 Renters Lag Owners in the Move Away from Central Locations

Median Distance from the CBD (Miles)



Source: Table A-2

assisted housing in central locations. Black households are particularly affected, with half of all renters living less than 7.4 miles from the center city—closer than both white and Hispanic renters, and twice as close as white homeowners.

AFFORDABILITY PRESSURES

Over the coming decade, the continued strength of immigration and growth in the number of young minority households alone should keep rental demand on the rise. The Joint Center for Housing Studies currently projects that the number of renter households will increase by more than 1.8 million over the 2005–2015 period. This expanded demand will support modest growth in apartment construction in the years ahead.

This is good news for the rental construction industry, which is only now recovering from a period of record vacancies and production cutbacks. But with the demolition of 200,000 of units each year, new rental construction will not, by itself, limit the upward pressure on rents.

Indeed, in many higher-cost locations, even full-time workers are already paying disproportionate shares of their earnings for rent. According to the National Low Income Housing Coalition, workers in the vast majority of metro and non-metro area counties must earn two or three times the minimum wage—or live in households with multiple wage-earners—to afford a modest two-bedroom apartment. Little wonder, then, that some 7.5 million renters (or 22 percent) pay more than half their incomes for housing. Single-parent

families, seniors, and singles of all ages are especially likely to be so severely cost-burdened.

POLICY PRIORITIES

In recent years, policymakers have come to view homeownership as the cure for a host of social ills, largely ignoring the important role that the rental sector plays in housing our increasingly mobile and diverse population. While many Americans do indeed share the dream of buying a home, millions of families have a much more urgent need for good-quality rental housing that they can afford.

A more balanced policy approach should therefore focus on the larger goal of expanding access to decent and affordable housing for owners and renters alike. A good place to start is to reduce the barriers that prevent lower- and moderate-income households from moving up the economic ladder. While some progress has been made in creating service-enriched housing for the nation’s seniors, most lower-income families—and especially families with children—still lack access to good-quality schools, health and human services, transportation, and other workforce development resources that are essential to their advancement. Given that these resources are found primarily in affluent suburban communities, efforts must continue to loosen restrictions on the development of affordable, higher-density rental housing in these locations.

Preserving older, lower-cost, small multifamily and single-family rentals is also essential. Accessing capital for this submarket involves many of the same complexities as for large multifamily properties, but without the scale to spread the financing and underwriting costs. The lack of available financing options for small property owners calls for new financial products—on both the debt and equity sides of the ledger—to help fund investment in much-needed maintenance and repairs, or transfer control to more experienced owners.

Without increased resolve to bolster the earning capacity of lowest-income renters and to expand the supply of lower-cost rental housing, the affordability crunch will only worsen in the years ahead. It will take the combined efforts of both for-profit and not-for-profit entities, working with governments at all levels, to ease the housing cost burdens of renters—and, by doing so, open the doors of economic and social opportunity to millions of American families.



RENTER DEMOGRAPHICS

About one-third of US households live in rental housing. Indeed, nearly all Americans—including former homeowners—rent their homes at one time or another. Stereotypes to the contrary, renters are of every age, race/ethnicity, income, and family type, living in every setting from center city to rural countryside. But despite a sizable high-end market, rental housing remains home to a disproportionate share of the nation's most disadvantaged households.

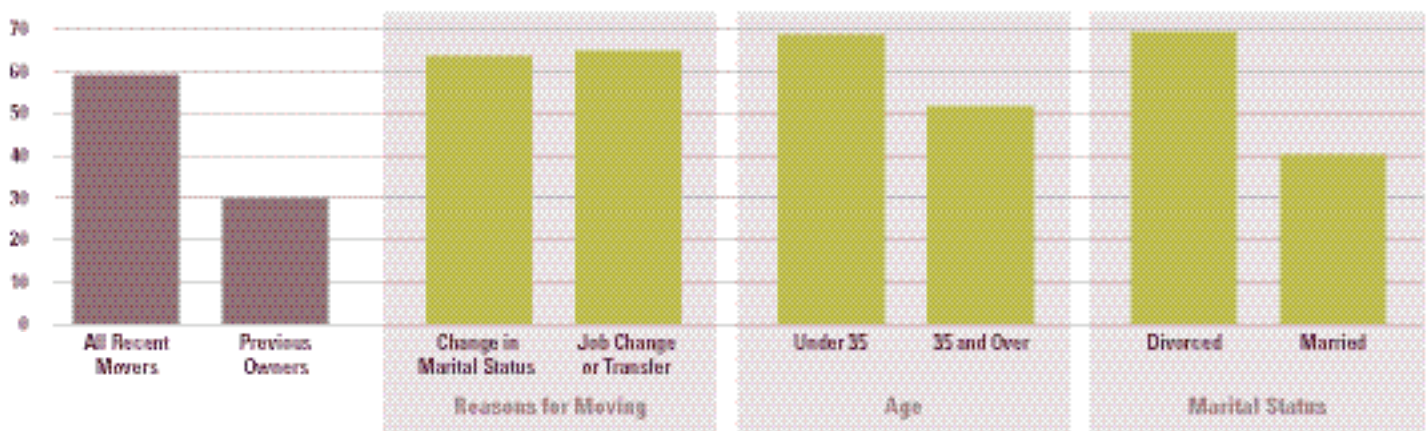
AGE AND MOBILITY

For many households, rental housing offers a number of advantages over homeownership. In particular, renting can provide more flexibility, greater convenience, and lower costs than buying a home. As a result, certain households are more likely to rent than own, including young singles starting out, families relocating to a new metropolitan area, recent immigrants to the United States, and low-income households.

Most notably, over 80 percent of all households aged 25 or under are renters, along with two-thirds of those aged 25 to 29. While the share of renter households declines steadily with age, large numbers of older Americans—including 4.1 million households with heads aged 65 and older—also rent their homes.

The relatively low cost of moving, at least compared with the transaction costs of buying or selling a home, makes renting an attractive option for people going through a major life

FIGURE 4 Households in Transition Often Choose to Rent
Share of Recent Movers that Rented in 2003 (Percent)



Note: Recent movers changed their primary residence in the 12 months prior to the survey.
Source: JCHS tabulations of the 2003 American Housing Survey

FIGURE 5**Immigrants Have Helped Offset Expected Declines in Renter Households**

Change in Renter Households, 1994–2004 (Percent)



Source: Table A-5.

transition, such as a change in job or marital status. For example, over 60 percent of households that moved in 2003 because of divorce or separation chose to live in a rented unit (Figure 4).

In addition, almost 30 percent of former owners that moved in that year rented rather than purchased another home. For owners who are relocating, rental housing can be a good option if they expect to move again within a few years. In addition, renting can provide a haven from asset depreciation during periods when house prices are falling. Former homeowners are thus free to invest the money they would otherwise tie up in housing, both in mortgage payments and in maintenance and repairs.

RACE/ETHNICITY

At the same time that they have set new records for homeownership, minorities have also expanded their share of the rental market. During the decade 1994–2004, the number of minority renters rose by nearly 3 million households, offsetting a comparable decline in the number of white renters.

Much of the growth in minority renters reflects the huge influx of immigrants since the 1960s. The number of new arrivals has risen each decade since then, with an estimated 10 million immigrants arriving in the 1990s alone. Hispanics account for half and Asians nearly a fifth of the total increase

in immigrants. Because they are younger, have lower incomes, and are just beginning to climb the economic ladder, most recent immigrants rent rather than purchase a place to live.

Immigration has had an especially important impact on renter rates among the so-called baby-bust generation (born between 1965 and 1974). When birth rates among the native-born population fell sharply after the baby boom, many feared that rental demand would drop off precipitously. But thanks to the strength of immigration, the number of renter households remained steady through the 1990s and early 2000s as foreign-born households supplemented the rental demand of native-born households (Figure 5). The arrival of young foreign-born households thus tempered the decline in renters aged 25–34 from 20 percent to 12 percent, and in renters aged 35–44 from 18 percent to 7 percent over the 1994–2004 period. Indeed, without these immigrants, the total number of renters would have fallen by more than 2 million (5 percent), rather than rising modestly by 100,000 (Table A-5).

INCOME AND WEALTH

Over the past quarter-century, the labor force has become increasingly divided between well-educated, high-skilled workers who can take advantage of the opportunities afforded by a growing economy, and less well-educated, low-skilled workers who are unable to advance up the economic ladder.

As it has for all segments of the American economy, the growing inequality in income and wealth has had adverse consequences for the rental housing sector.

The divergence is most striking among males. Between 1980 and 2000, the median earnings of men with less than a high school education fell by 20 percent in inflation-adjusted terms. Earnings for men with only a high school education were down 10 percent, with even sharper declines recorded for younger male workers. Less well-educated women fared

slightly better. Earnings of females with less than a high school education fell slightly over the 20-year period, while the earnings of female high school graduates grew a modest 6 percent. In sharp contrast, the median earnings of men with more than a college education jumped 16 percent, while those for college-educated women surged by 35 percent.

The consistent widening of the income divide is clearly evident in the rental market. Incomes at the high end of the distribution have grown disproportionately faster than those at the low end (Figure 6). This trend has accelerated in the last 10 years, with the top fifth of renter households seeing a 17 percent average gain in income and the bottom fifth seeing little growth from 1993 to 1999 and declines thereafter.

The disparity between owner and renter income gains is even more dramatic. During the economic slowdown in the early 1990s, median renter incomes fell so sharply that they failed to regain even pre-1990 levels by the end of the decade. With the mild recession early in the 2000s, renter incomes declined almost 10 percent in four years. Meanwhile, median owner incomes in the 1990s not only returned to their previous peak but also weathered the short recession in 2000 without major setbacks. As a result, the gap between median owner and renter incomes increased in real terms from \$22,500 in 1990 to \$26,700 in 2004.

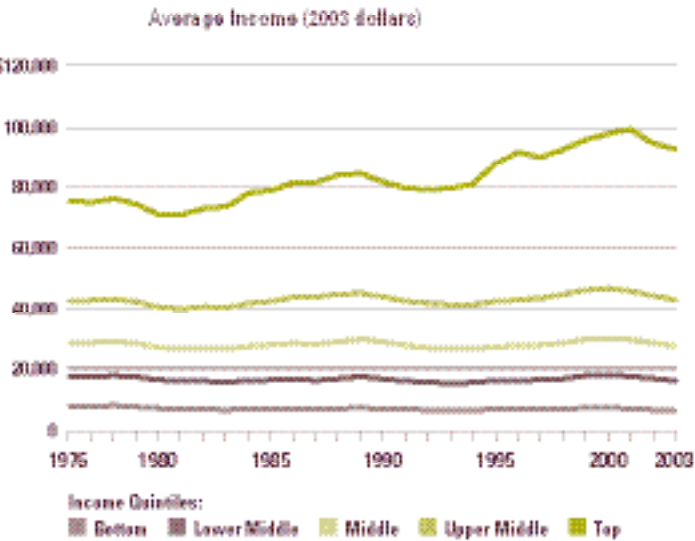
The wealth holdings of owners and renters are also diverging more sharply. While owners have always held more wealth than renters because of their ability to accumulate equity, the disparity grew noticeably wider during the recent surge in house prices (Figure 7). Older owners who bought their homes several years ago have particularly benefited from this latest round of house price appreciation. Older renters, in contrast, gained little net wealth and thus have limited resources to sustain themselves as they head into their retirement years.

LOWEST-INCOME RENTERS

Although millions of middle- and high-income households rent their homes, low-income and low-wealth households make up a large and rapidly growing segment of the market. Somewhat counter to conventional wisdom, more than half of these lowest-income households are white. In addition, some two-thirds of poor households are either elderly and/or employed—evidence enough that working and saving for retirement are no cure for poverty (Figures 8a and 8b).

Lowest-income renter households also include a wide range of family types living in a variety of neighborhood settings. While

FIGURE 6 Income Growth Among High-End Renters Far Outstrips Median Gains



Source: JCHS tabulations of the 1975-2004 Current Population Surveys.

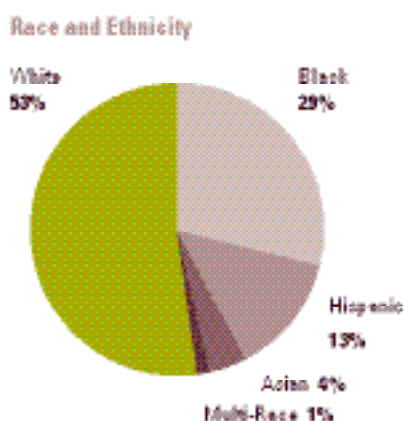
FIGURE 7 Renters Have Significantly Less Wealth than Owners

Median Net Wealth (2001 dollars)

| 1989 | Owners | Renters |
|-----------------|----------|---------|
| Under Age 45 | \$97,019 | \$2,315 |
| Age 45-64 | 181,703 | 3,119 |
| Age 65 and Over | 151,073 | 5,059 |
| 2001 | Owners | Renters |
| Under Age 45 | 107,300 | 4,100 |
| Age 45-64 | 219,600 | 6,590 |
| Age 65 and Over | 244,950 | 6,500 |

Source: JCHS tabulations of the 1989 and 2001 Surveys of Consumer Finances.

FIGURE 8a Most Lowest-Income Renters Are White...



thirds with overwhelming housing cost burdens that consume more than half their meager incomes.

HOUSEHOLD GROWTH

Despite a brief cyclical slowdown after the 2001 recession, 1.3 million new households have formed each year on average since the start of the decade. Bolstered by strong immigration and the coming of age of the “echo boomers,” the Joint Center for Housing Studies estimates that household growth over the decade 2005–2015 should total 14.6 million (Table A-9). This represents a slight acceleration from the growth of the past five years, as well as a more than 20 percent increase from the strong gains recorded in the 1990s.

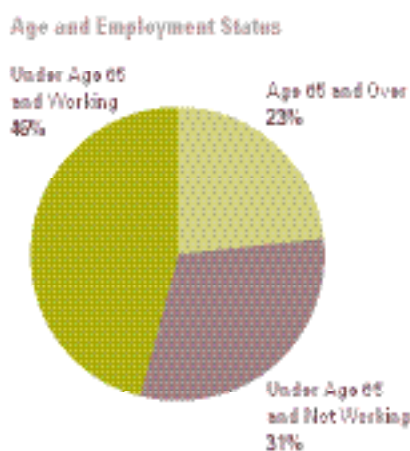
Joint Center projections also suggest that even as the share of renter households continues to shrink, the rapid pace of household formation will ensure that the number of renter households will still increase over the next decade. As the children of the baby boomers reach their 20s, most will move at least initially into rental apartments. At the same time, many baby boomers themselves may choose to downsize their housing by moving to smaller, more convenient rental units.

Moreover, the continued strength of immigration and the growth of young minority households alone are enough to keep rental demand growing in the decade ahead. The Joint Center now projects that the number of renter households will increase by more than 1.8 million over the 2005–2015 period. Minority renters will account for all of this growth as the number of white renters continues to decline. From a share of 4 in 10 today, minorities are expected to make up the majority of renters by 2015.

THE OUTLOOK

Looking ahead, the rental sector will continue to serve an increasingly diverse America. Even as growing numbers of households move into homeownership, rental housing will remain an important resource for families and individuals of all types—from new immigrants just settling into life in the United States to the aging baby boomers seeking to convert their home equity into much-needed retirement income. And for the nation’s households of little or no means, decent and affordable rental housing will provide the security and stability necessary to improve upon their circumstances.

FIGURE 8b ...And Either Work or Are Retired



Notes: Lowest-income renters earned under \$10,000 in 2003. Working households derive at least half their total income from wages.
Source: Table A-6.

more than half of poor renters are single persons living alone, an additional one in four lowest-income households include children—most living with a single parent. Moreover, close to half (3.3 million) lowest-income renter families live in center cities, another 2 million live in suburban locations, and 1.5 million live in rural areas (Table A-6).

While diverse in many ways, lowest-income renters do have one characteristic in common—a lack of resources to secure decent housing on the open market. Only a third of poor households receive housing assistance, leaving the other two-



RENTAL HOUSING PRODUCTION

A complex mix of market forces and public policy has altered the dynamics of rental housing construction. Although record-low interest rates and tax incentives have helped to stimulate investment in the multifamily sector, the supply of affordable rental housing has expanded little over the past decade. Indeed, despite some softness at the high end, rents in the broader market have continued to rise as millions of low-cost units drop out of the inventory. Looking ahead, density restrictions and the resulting pressure on land prices will limit production of multifamily apartments affordable to the vast majority of renters.

RENTAL CONSTRUCTION

From 1994 to 2003, some 3 million newly built units were added to the rental inventory. Of this total, 2.3 million were apartments in multifamily structures and another 700,000 were new single-family and manufactured homes for rent (Table A-7). But construction of fully 2.0 million units simply offsets demolition and/or conversion of rentals to the owner market. On net, these additions thus expanded the rental housing stock by just over 1.0 million units, bringing the inventory to 37.2 million.

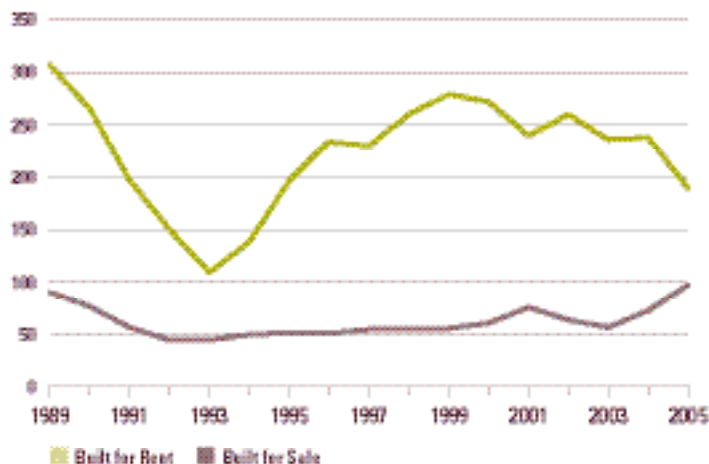
Despite weak growth in the demand for rental housing, the pace of multifamily construction remained surprisingly close to its decade-long average of 300,000 units annually. One explanation is that many new multifamily units are destined for the owner market. Indeed, with rental vacancies on the rise and single-family home prices soaring, more than a fifth of multifamily units built since 2001 have been targeted for sale as condominiums. This means that new construction for the rental market has fallen well below levels recorded in the mid-1990s (Figure 9).

Also contributing to the overall stability of multifamily production is the Low-Income Housing Tax Credit (LIHTC) program, the nation's largest affordable housing initiative. Created by the Tax Reform Act of 1986, this program provides generous tax benefits for developers agreeing to build modest-quality housing and set rents within reach of lower-income families. After a slow start, the program has generated close to 90,000 units annually since the mid-1990s. Nearly 60 percent of LIHTC rental units are newly built, with the balance added through rehabilitation of older subsidized apartments.

CHARACTERISTICS OF NEW UNITS

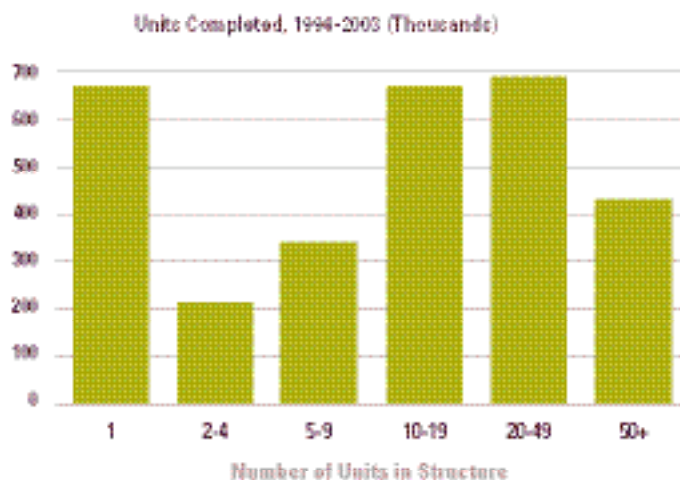
Continuing a decades-long trend, rental housing construction is strongest in the fast-growing regions of the country. Over the past 10 years, nearly half of all rental production has been concentrated in the South and another quarter in the West. In the

FIGURE 9 Multifamily Rental Construction Has Softened
Units Completed (Thousands)



Source: US Census Bureau, Construction Statistics.

FIGURE 10 Over Half of New Rentals Are in Buildings With 10 or More Units
Units Completed, 1994-2003 (Thousands)



Note: Single-family properties include manufactured housing.
Source: Table A-7.

slower-growing portions of the North and Midwest, rental construction activity has primarily replaced units demolished or otherwise removed from the inventory, although these regions have experienced some surplus supply as well.

Without the contribution of LIHTC units, rental construction in the Northeast and Midwest would have lagged even further. According to a recent HUD report, LIHTC units accounted for 36 percent of all new multifamily units added

in the Northeast and for 26 percent of those added in the Midwest between 1995 and 2002. In contrast, LIHTC units represented just 20 percent of production in the South and West during this period.

As the number of renter households in the lower-density portions of the West and South continues to grow, single-family and manufactured homes for rent have emerged as a significant component of rental construction. Nevertheless, over half of all newly built rentals are in structures with 10 or more units (Figure 10). In part, this reflects advances in construction technology and a growing acceptance of apartment living, but growth of the LIHTC program also plays a role. HUD reports that the average project size of tax credit developments has increased steadily since the program's inception and now stands close to 80 units. With half of all tax credit units located in developments with 50 or more units, large multifamily structures have become the fastest-growing segment of the rental housing market.

Meanwhile, the number of rental units in two- to four-unit buildings has fallen by 441,000 (5.4 percent) to 7.7 million over the past decade (Table A-7). Between 1994 and 2003, just 213,000 rental apartments were added in small multifamily structures—only a third the number needed to replace the 654,000 units lost in this category.

The stock of single-family rentals (including both site-built and manufactured homes) has also dropped significantly, although losses were more than offset by construction of nearly 700,000 new single-family units and net conversion of over 400,000 owner-occupied homes to rentals. These conversions are a common phenomenon in the older inner suburbs of slower-growth areas in the North and Midwest. Similarly, growth of the rental housing inventory in the South and West was propelled in part by conversion of over 250,000 manufactured homes from owner to renter status.

CHANGES IN MORTGAGE FINANCE

Innovations in mortgage finance have helped to stimulate multifamily production over the past decade. In particular, the share of multifamily mortgages (defined in the industry as loans on properties with five or more apartments) traded in the secondary market has more than tripled to over 30 percent. The rising share of multifamily mortgage debt held in mortgage-backed securities, along with greater standardization of underwriting criteria and loan documentation, has created a larger, more stable, and less expensive supply of capital for developers as well as better diversification for investors.

But the growing secondary market primarily benefits owners and developers of large properties. According to the 2001 Survey of Residential Finance, 86 percent of all rental properties with 50 or more units had mortgages, thanks in large measure to the growing presence of Fannie Mae and Freddie Mac in the market (Table A-8). These two Government Sponsored Enterprises (GSEs) are much less apt to provide financing for smaller multifamily properties, whose mortgages generally come from banks and thrifts. Indeed, the GSEs hold mortgages on less than 20 percent of the properties with five to nine units (Figure 11).

Enhanced access to the secondary market provides owners with significant advantages. Most securitized lending is fixed-rate, non-recourse and intermediate term (10 to 30 years). Given the reluctance of the GSEs to focus on smaller properties, little wonder that only 38 percent of properties with 5 to 49 units have a level payment mortgage with a term longer than 10 years. For owners of properties with 50 or more units, the share nearly doubles to 64 percent.

The costs and complexity of administering subsidies make developing smaller affordable housing projects no less onerous than building a large development. As a result, today's supply-side housing programs, particularly the LIHTC, typically subsidize larger construction projects, even though most renters in need of assistance currently live in smaller buildings.

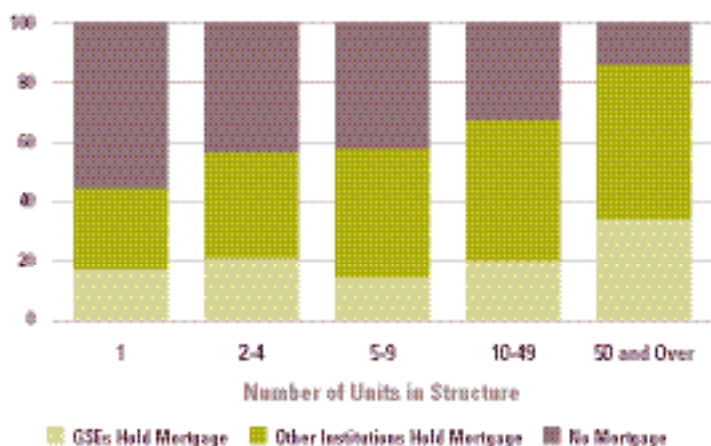
RISING INVESTOR DEMAND

A final factor that has bolstered multifamily production in recent years is strong investor demand. With record-low interest rates holding down financing costs, multifamily housing provides attractive yields relative to many competing fixed-income and equity investments. In fact, the sale prices of high-end apartment buildings climbed more than 10 percent from 2002 to 2004, at the same time that net operating incomes were down 20 percent (Figure 12).

As in the single-family market, rising valuations in the multifamily sector have raised fears of a dramatic price correction. While overbuilding could lead to a near-term drop in prices, long-term valuations reflect replacement costs. A recent Joint Center study suggests that land price appreciation was

FIGURE 11 Smaller Property Owners Have Limited Access to Mortgage Capital

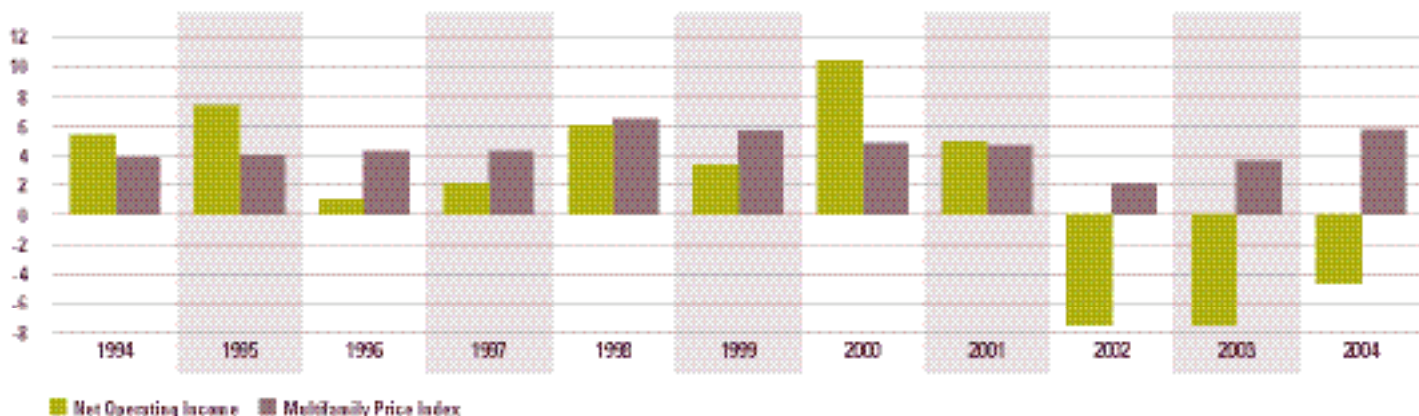
Shares of Rental Properties with Financing (Percent)



Notes: Single units include single-family detached and attached houses and condominium units for rent. They do not include manufactured homes.
Source: Table A-8.

FIGURE 12 Apartment Building Prices Have Continued to Rise Even Though Rent Revenues Have Fallen

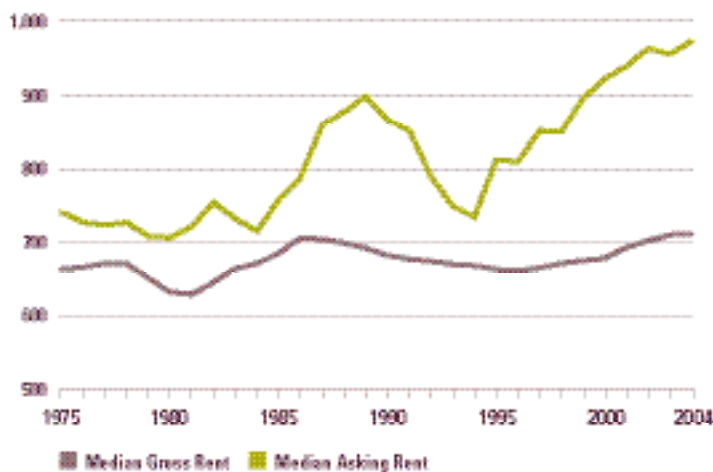
Annual Percent Change



Source: JCHS tabulations of data provided by National Council of Real Estate Investment Fiduciaries.

FIGURE 13 Rents for Newly Constructed Apartments Far Exceed Rents for Existing Units

2004 Dollars



Source: Table A-2.

responsible for over three-quarters of the inflation-adjusted increase in construction costs over the past 10 years. Without a drastic relaxation of land use restrictions, the values of rental apartment buildings are therefore likely to continue their ascent—especially in highly desirable neighborhoods with little remaining developable land.

On the plus side, strong valuations have also encouraged rental property owners to reinvest in their buildings. After years of sub-par spending, owners increased their real (inflation-adjusted) expenditures on repairs and improvements by 14 percent from 2001 to 2003, bringing total outlays to \$58.5 billion. Improvement spending slowed somewhat in 2004, but to a still-strong \$55.1 billion (Table A-1).

With interest rates now on the rise, investments in new multifamily construction are likely to moderate. At the same time, though, higher interest rates could boost rental demand by making homeownership less attractive. Increased demand would likely reduce vacancy rates and help restore balance to the high-end apartment market, although the adjustment process may take years. In any case, speculative investment in multifamily rentals appears to have run its course.

SUPPLY-SIDE CONCERNS

While market rents may fluctuate from year to year, in the long run they must reflect the cost of building new units.

With today's high land prices in most metropolitan areas and with restrictions on allowable densities, developers can no longer build affordable housing without subsidy.

In 1994, the median monthly asking rent for newly constructed, privately owned, unsubsidized units was \$734—only about 10 percent higher than the median for all rental units. Since then, median asking rents for newly built apartments have climbed sharply, although the recent rise in vacancies has moderated these increases. Even so, the 2004 median asking rent was up to \$974, more than 37 percent above the median for all units (Figure 13).

Most newly constructed units thus charge rents far above what the majority of renters can afford. At the 30-percent-of-income standard, a household needs an income of \$38,960 to afford the median rent on a newly built apartment. While as many as 30 percent of renters have incomes at least that high, the median asking rent of \$974 is well out of reach for the 40 percent of renters with incomes of less than \$20,600.

Fueling some of the increase in asking rents is the fact that newly constructed units are larger and provide more amenities than older apartments. In 2004, some 57 percent of all new multifamily apartments had two or more bathrooms, compared with just 35 percent of units built in 1984. Over this same period, the median size of newly built apartments increased by a third to 1,160 square feet (Table A-1).

While new construction activity has focused on the high-end market, building for the “middle market” (units with rents between the 40th and 80th percentiles) has also been robust. Indeed, the middle market's share of new construction in the past decade has remained in line with its share of the existing stock. Again, the LIHTC program has played an important role in adding middle market units, especially in the distressed center cities of the Northeast and Midwest.

THE OUTLOOK

Between the aging of the echo boomers and the continuing influx of immigrants, demand for modest rental apartments is likely to increase in the years ahead. But rising land prices and density restrictions in many jurisdictions have significantly raised the long-run costs of supplying housing that the vast majority of renters can afford. Although the high end of the rental market is still adjusting from a period of overbuilding, it seems inevitable that developers will continue to focus on this housing market segment—bringing little relief to the many renters with limited ability to pay.



SPATIAL PATTERNS

In keeping with long-term trends, people and jobs are moving away from high-density center cities to lower-density suburbs and outlying areas. But not all households are benefiting from the outward push of development. Many low-income families can neither afford the higher rents nor take advantage of the employment opportunities in these far-flung communities.

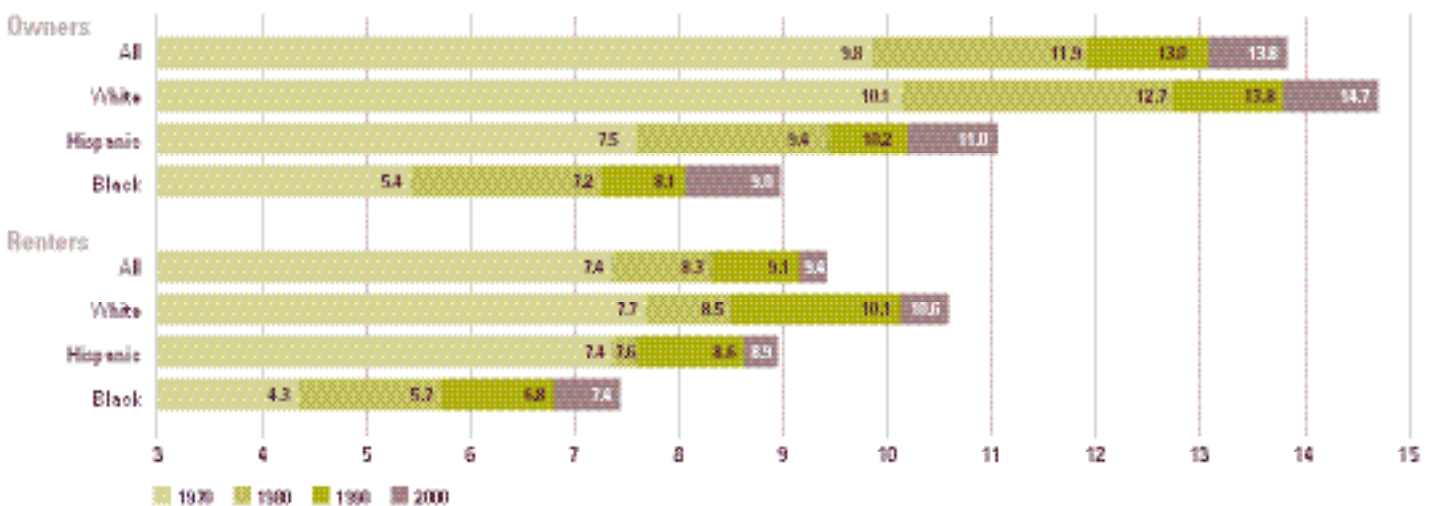
METROPOLITAN SPRAWL

Households have been steadily migrating from densely settled urban cores to lower-density areas for decades, encouraged in large part by the expansion of the highway system and the ideal of single-family suburban living. During the 1970s, 84 high-density center cities (with 1970 populations of over 100,000) experienced significant population losses—a collective total of 4.2 million residents or 11.3 percent of their 1970 populations.

Although population in most of these areas then stabilized, 32 cities sustained ongoing losses in the 1980s and 1990s. By 2000, this group had lost 27 percent of their 1970 population base. Among the most spectacular losers were Detroit (down 563,000), Philadelphia (down 431,000), St. Louis (down 314,000) and Baltimore and Cleveland (each down just over 250,000).

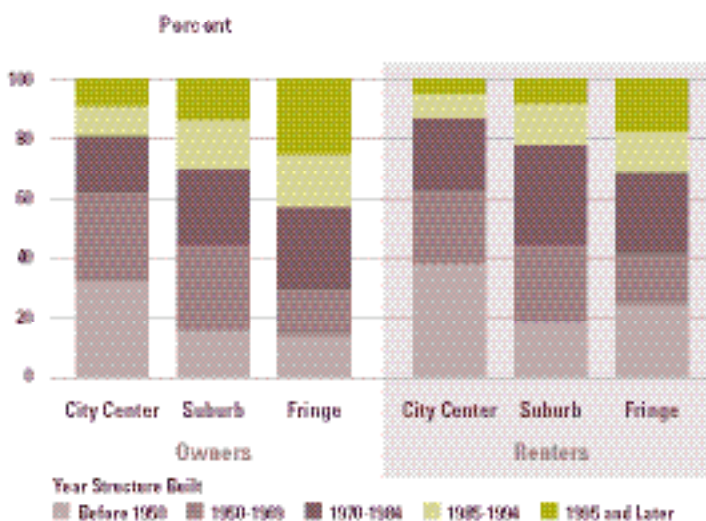
FIGURE 14 The Pace of Sprawl Varies by Race as Well as Tenure

Median Distance from CBD (Miles)



Source: Table A-3.

FIGURE 15 New Owner Homes Are Concentrated in the Suburbs and Beyond



Note: Fringe is portion of the metro area that was still classified as rural in 1994.
Source: JCHS tabulations of 2000 American Housing Survey.

Center city population losses would have been even greater without the dramatic increase in immigration. By the late 1990s, 43 percent of new immigrants were settling in the nation's 38 highest-density counties—the same areas that current residents were abandoning in droves. For example, after losing close to a million residents in the 1970s, New York experienced an immigrant-led renaissance that pushed its population back up to over 8 million by 2000—some 100,000 higher than in 1970. Immigrants have also helped to reverse population declines in the center cities of Atlanta, Boston, Chicago, and San Francisco.

Nevertheless, center city growth continues to lag well behind suburban growth. As decentralization proceeds, households are living farther and farther from the historical center of metropolitan areas. In 1970, half of all households in the nation's 91 largest metro regions lived more than 8.9 miles from the central business district (CBD). By 2000, that boundary had pushed to 12.2 miles. Over this same period, the number of large metros where at least one-fifth of households lived 20 or more miles from the CBD increased sharply from 17 to 44.

The degree of decentralization among homeowners is decidedly greater than among renters (Figure 14). In these same 91 metropolitan regions, the median distance that owner households live from the CBD increased from 9.8 miles to 13.8 miles over the past three decades, with most of this change occurring in

the 1980s. The comparable increase in distance for renters is much more modest, up from 7.4 miles in 1970 to 9.4 miles in 2000. As a result, renters are more geographically concentrated today than homeowners were 30 years ago.

In combination with tenure, the differences in location by race and ethnicity are even more striking. In particular, half of all black renters still live less than 7.4 miles from the center city—closer than both white and Hispanic renters, and twice as close as white homeowners. While both black renters and owners are making some movement away from center city communities, much of this migration has not been to outlying suburbs but instead to older neighborhoods located just across the city boundary. As a result, large shares of the minority population—and especially blacks—remain segregated in centrally located enclaves.

DEVELOPMENT DYNAMICS

The process of decentralized development is transforming the backcountry of America. In the first pioneering stages, it was affluent, highly educated households that moved far from the CBD, redefining rural and semi-rural areas as desirable places to live. Jobs soon followed, and incomes in these once low-density areas rose well above the metropolitan area average. Rising incomes in turn triggered increased construction of owner-occupied housing, often displacing former lower-income residents in the process.

Although the spatial pattern and timing of development vary from one metro area to the next, one consistent trend is for the supply of newer, higher-quality, owner-occupied housing to expand with distance from the center city. Today, some 44 percent of owner-occupied homes located near the metropolitan fringe were built since 1985, while less than 15 percent of center city rental units are this new (Figure 15).

Nevertheless, rental housing can be found in nearly every part of the nation's 91 largest metropolitan regions, accounting for at least 10 percent of the stock in seven out of eight census tracts. Over half of all renters do, however, live in one of the nearly 8,000 neighborhoods where rental housing dominates (Figure 16). In addition, two-thirds of these largely rental areas are located less than 10 miles from the CBD. By comparison, of the 12,700 tracts where rentals make up less than 20 percent of the stock, three-quarters are located more than 10 miles from the city center.

The uneven distribution of owner and renter housing reflects a variety of forces, but zoning and land use restrictions appear

to be a primary factor. As jobs moved away from the urban core, many center city renters may have preferred to live in apartments closer to the new employment centers. All too frequently, though, local regulations prevent construction of affordable, higher-density rental housing in suburban communities. In addition to raising the cost of housing, these restrictions thus reduce the access of renter households to neighborhoods offering well-paid jobs and good-quality public services.

The limited suburban rental market is also a vestige of racial discrimination. More than three decades after enacting comprehensive fair housing legislation, lower-income minority renters still encounter various forms of discriminatory practices in certain communities. Rather than move to a potentially hostile environment, minority renters often choose to remain in older and often lower-quality units located relatively close to the CBD.

EMPLOYMENT GROWTH

In 1980, the nation's center cities were home to more than 60 percent of all metropolitan area employment. Just 20 years later, though, the majority of jobs had shifted to the suburbs. Over this period, the fastest employment growth was occurring in the lowest-density counties at the metro fringe. Even the inner-ring suburbs saw larger job gains than center cities.

With this decentralization of employment have come new commuting patterns. In the past, people tended to live and work in the center city or commute from so-called "bedroom suburbs." Today, some 44.6 million individuals both live and work in the suburbs, an increase of more than 8 million in the last decade alone. The number of workers that "reverse commute"—that is, live in the center city and commute to a job in the suburbs or beyond—has also climbed sharply, up 21 percent or 2 million since 1990.

FIGURE 16 The Majority of Metro Area Renters Live in Predominantly Rental Neighborhoods

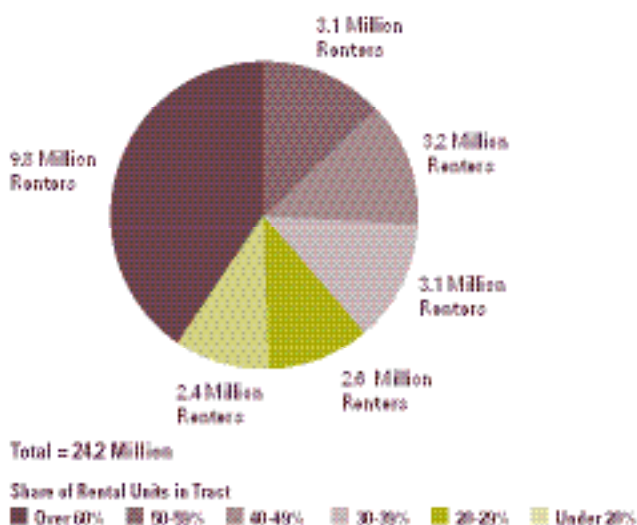


FIGURE 17 Reverse Commuting Within Large Metro Areas Has Become More Common

Share of Center City Workers Commuting to Suburbs (Percent)

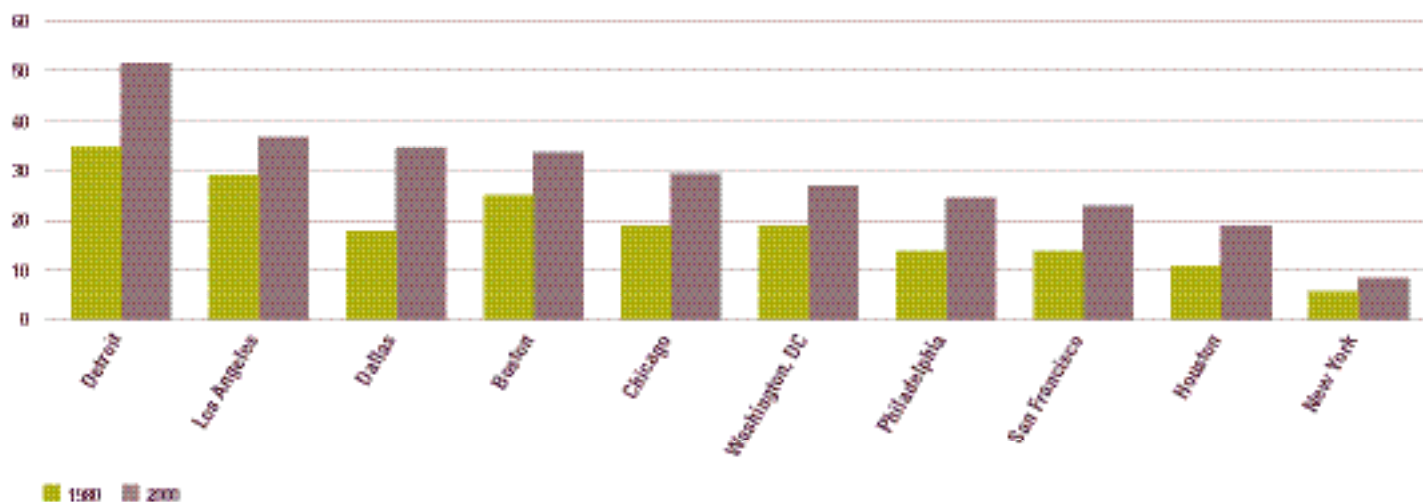
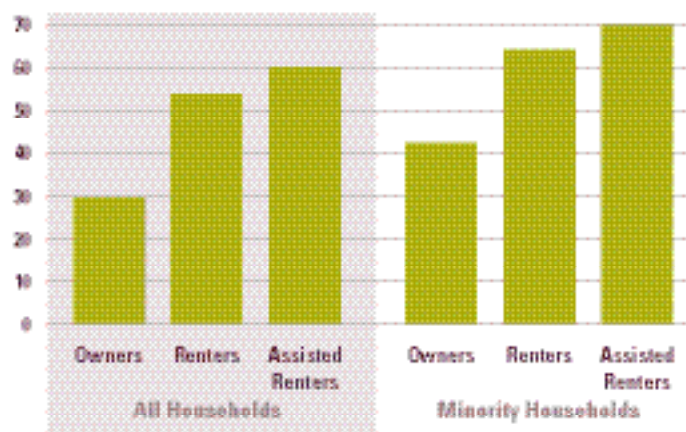


FIGURE 18**The Concentration of Assisted Households in Center Cities Reinforces Racial Isolation**

Share of Metro Households Living in Center Cities (Percent)



Source: JCHS tabulations of 2003 American Housing Survey.

Nationally, one in four employed center city residents now works in the suburbs. The extent of reverse commuting, however, differs widely across metro areas depending on the size of the center city relative to its suburbs, as well as the degree to which city job growth has lagged behind suburban growth. For example, the share of reverse commuters ranges from over half in Detroit, to approximately a third in Dallas and Los Angeles, to just a tenth in New York. Regardless of these differences, though, the share of residents in the nation's 10 largest center cities that commute to distant jobs has grown markedly over the past two decades (Figure 17).

Reverse commuting can be both difficult and expensive. This is especially true for center city residents without access to an automobile. Although auto ownership has become nearly universal among middle- and upper-income households, almost 60 percent of lowest-income renters living in the center city do not own cars.

The ongoing decentralization of jobs thus makes the lack of an automobile an increasingly formidable obstacle for low-income city dwellers. While taking public transit to a suburban job site is sometimes possible, these systems are ill-suited to move people from core areas to far-flung suburbs. And even for center city residents that are able to take public transportation to outlying areas, the higher salaries they may earn in these locations often do not offset the added costs of time and travel.

ISOLATION OF POOR RENTERS

While the concentration of lowest-income renters near the urban core is not new, the degree of their isolation is. Nearly two-thirds of all poor renters in metro areas live in center cities—more than twice the share of poor owners that call the city home. The share among lowest-income minority renters is even higher, at nearly 70 percent.

Moreover, many lowest-income renters live in high-poverty neighborhoods. Some 45 percent of lowest-income renters live in tracts with at least 20 percent poverty. This is nearly twice the share (26 percent) of renter households overall. This spatial isolation makes it even more difficult to combat the problem of poverty and its associated social ills.

The geographic concentration of lowest-income renters is due in part to the availability of subsidized housing, and particularly public housing. Nearly 60 percent of assisted renters—and almost 70 percent of assisted minority renters—live in center city locations (Figure 18). This reflects the fact that the bulk of the public housing inventory was built three decades ago before sprawl accelerated.

For a variety of reasons that include zoning restrictions as well as racial prejudice, construction of assisted housing in distant suburban locations continues to be the exception rather than the rule. The housing voucher program has, however, had some success in expanding the access of lower-income households to suburban neighborhoods. Even so, most rental units affordable to voucher recipients also tend to be centrally located, either in center cities or close-in suburbs.

The centralized location of most subsidized housing serves to reinforce poverty because tenants have little access to employment opportunities. Today, less than one in 80 subsidized units is located in an area with strong job growth, and one in 20 is located in an area where employment is on the decline.

THE OUTLOOK

Economic and racial disparity is growing not only between owners and renters, but also between renter households living inside and outside center cities. Unable to afford the higher rents for newer suburban units, many lowest-income renters remain stuck in older, lower-quality apartments close to the urban core with limited access to well-paying jobs and other advancement opportunities. Without more production of affordable rentals in the suburbs and expanded community development efforts in center cities, the economic prospects of the nation's most disadvantaged are certain to worsen.



AFFORDABILITY CHALLENGES

Affordability is far and away the most pressing problem for renters. Today, minimum-wage earners working full time cannot cover the cost of a basic two-bedroom apartment at the local fair market rent. For the nation's nearly seven million lowest-income renters—including many elderly and disabled households as well as families with children—the high cost of housing imposes a difficult tradeoff between paying rent or buying food, medicine, and other essentials.

RECORD-HIGH RENTS

Although slower to reflect market changes than other measures, the Consumer Price Index (CPI) provides the best sense of long-term rent trends. According to this index, gross rents (rents plus utility costs) have been increasing faster than inflation and now stand at an all-time high. After a 10-year slide starting in 1986, gross rents moved up steadily from \$611 in 1996 to \$711 in 2004 (Table A-2). With the recent jump in energy costs, gross rents are certain to head even higher.

Rents have been on the increase despite significant weakness in the high-end segment of the market. With mortgage interest rates at historical lows and the number of first-time buyers growing rapidly, demand for higher-end rental units dropped off sharply after 2000. Nationally, vacancy rates rose for five consecutive years to more than 10 percent in 2004. But now that job growth has picked up and new construction of multifamily apartments has slowed, rents on high-end units have resumed their upward climb in most areas. Indeed, average vacancy rates in 41 of the 59 metro areas surveyed by M/PF Yieldstar fell in 2004.

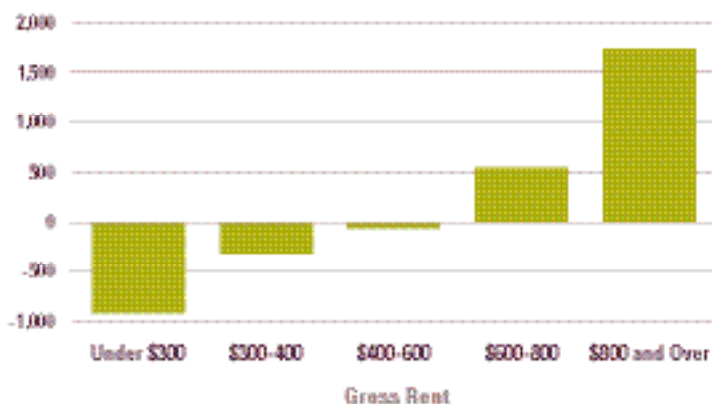
Meanwhile, rentals at the low end of the market are rapidly disappearing from the stock. Between 1993 and 2003, the number of units renting for \$400 or less in inflation-adjusted terms fell by 13 percent—a loss of more than 1.2 million (Figure 19). By comparison, the number of housing units renting for more than \$800 a month increased by 1.7 million over this same 10-year period. While these higher-priced apartments undoubtedly offer more amenities than less costly ones, the annual income required to afford these units (using the 30-percent-of-income standard) is \$32,000—well beyond the means of more than half of all renters.

MOUNTING COST BURDENS

With low-cost units disappearing and incomes essentially flat, the housing cost burdens of renter households (gross rent as a percent of income) are mounting. In 2003, some 7.5 mil-

FIGURE 19 Rental Stock Losses Are Primarily at the Low End

Change in Units, 1993-2003 (Thousands)



Notes: Includes occupied and vacant for rent units. Ranges based on gross rent of unit including utilities.
Source: JCHS tabulations of the 1993 and 2003 American Housing Surveys.

lion renters were severely cost-burdened in that they paid more than 50 percent of their incomes for rent. Overall, 14.8 million renter households (44 percent) pay more than 30 percent of their incomes for housing—an all-time record and an increase of nearly one million renters since 1999.

The share of cost-burdened households is especially high among the 20 percent of renters earning under \$10,600 a year. Within this lowest-income group, 70 percent pay more than half of their incomes for housing, and another 12 percent pay 30–50 percent. Despite devoting such high shares of income to rent, 15 percent of these households are still forced to live in structurally inadequate units (Figure 20).

With incomes ranging from \$10,600 to \$20,600, renters in the lower-middle quintile fare only slightly better. Although just 31 percent face severe rental cost burdens, another 40 percent have moderate cost burdens and 16 percent live in structurally inadequate housing.

Rising rents are particularly onerous for the nation’s 4.1 million elderly renters. Most of these households (with heads aged 65 and over) live on fixed incomes that are insufficient to cover rent and utility payments and still meet the costs of other necessities such as food and medicine. Nearly 2.4 million seniors (57 percent) pay more than 30 percent of their incomes for rent, while nearly 1.4 million (34 percent) pay more than 50 percent for housing.

High housing costs also take a toll on families with children, especially those with only one wage earner. For example, some 3.2 million single-parent households (29 percent) pay more than half their incomes for rent. Parenting is a difficult job under the best of circumstances, but severe rent burdens limit the ability of low-income parents to meet even the basic needs of their children—not to mention pay for the extracurricular activities and other enrichment programs that help students succeed and thrive.

Even households receiving rent subsidies are not immune to these cost pressures. While 6.2 million renters report receiving some form of housing assistance, many of these households participate in programs that do not cap recipients’ contributions to rent at 30 percent. As a result, half of all subsidized renters pay more than 30 percent of their incomes for rent, while a quarter pay more than 50 percent. Similarly, over 700,000 assisted households live in structurally inadequate units. While typically concentrated in older, federally subsidized properties, inadequate conditions are also found in properties covered under the Section 8 voucher program.

THE CONTRIBUTION OF LOW WAGES

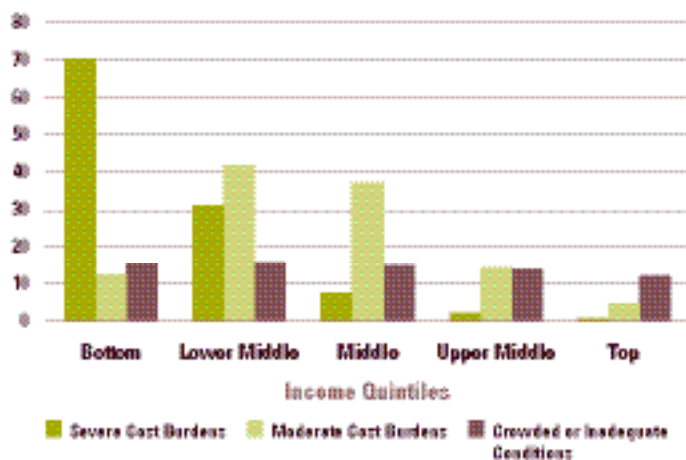
Contrary to popular perceptions, nearly 60 percent of non-elderly lowest-income renters do work—although typically at a low-wage or part-time job that does not pay enough to cover the cost of decent housing (Table A-6). Moreover, studies of the non-working poor living in assisted housing suggest that most are elderly, disabled, or otherwise incapable of holding down a job, or cannot work because they are the primary caregiver for a disabled child or relative.

Using HUD’s fair market rent measure, the National Low Income Housing Coalition estimates that the current “housing wage”—the amount it takes to afford a standard two-bedroom apartment at 30 percent of income—is two to three times the minimum wage in most larger metropolitan areas. Even in smaller, lower-cost metro areas and non-metro counties, minimum-wage workers cannot afford basic rental housing. Indeed, households with one full-time minimum wage earner cannot afford to rent even a one-bedroom apartment anywhere in the country (Figure 21).

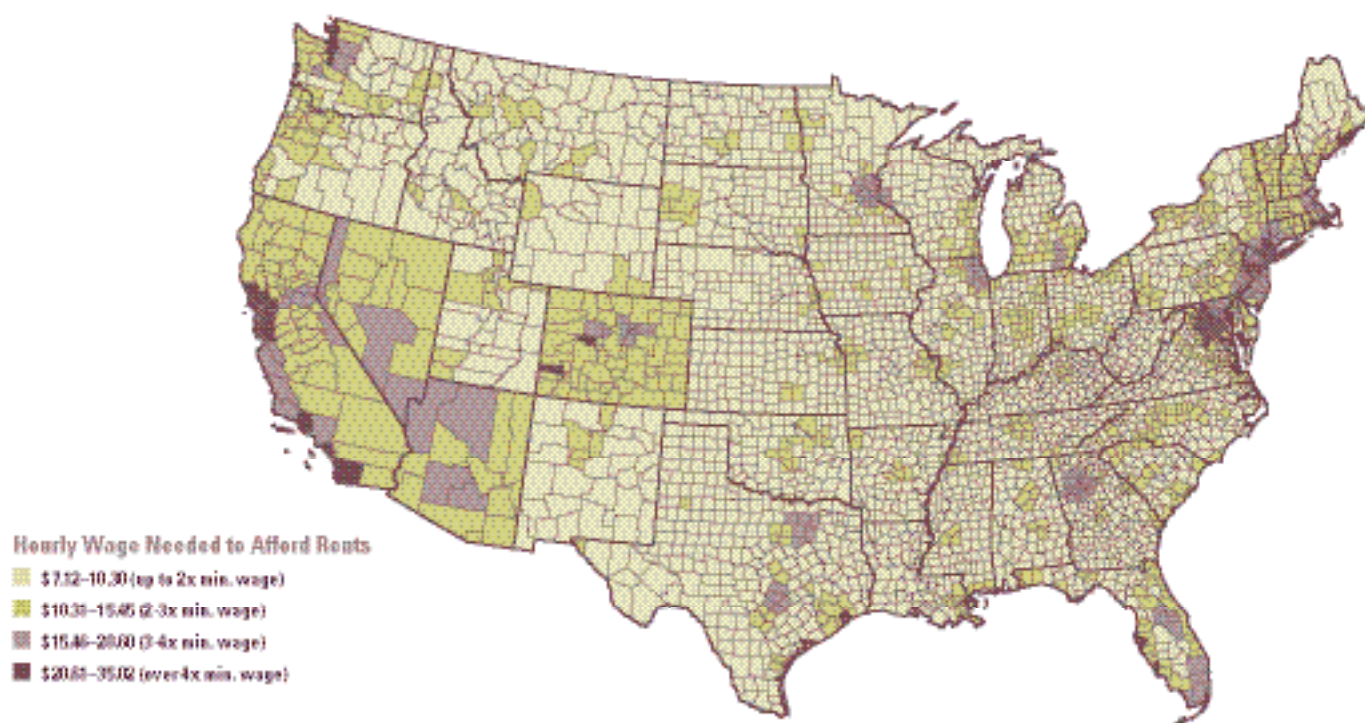
Seniors and others unable to work who receive basic Supplemental Security Income (SSI) also face high cost burdens. At the 30-percent-of-income standard, the basic SSI payment of \$579 is only enough to afford an apartment renting for \$174 per month. As reported by the National Low Income Housing Coalition, this amount does not even cover

FIGURE 20 Housing Problems Are Widespread Among Lowest-Income Renters

Share of Renters with Housing Problems (Percent)



Note: See source for definitions.
Source: Table A-6.

FIGURE 21**Even Modest Rental Housing Is Beyond the Means of Many Low- and Moderate-Wage Workers**

Notes: Federal minimum wage in 2004 was \$5.15 per hour. Hourly wage needed to afford the Fair Market Rent on a modest 2-bedroom unit assumes paying 30% of income on housing and working 40 hours a week for 52 weeks a year.
Source: HUD's Fair Market Rents for 2004, based on methodology developed by the National Low Income Housing Coalition.

the fair market rent for an efficiency apartment, let alone a unit with a separate bedroom.

Of course, affordability problems are most severe in the nation's most overheated housing markets. In San Francisco, for example, the income needed to afford the fair market rent for a two-bedroom apartment in 2000 was \$54,480 (Figure 22). In Boston, the income required was \$37,680. Even households in areas with lower rents—such as Washington, San Diego, and Chicago—needed incomes of at least \$30,000 to afford a modest two-bedroom apartment.

These income levels are well above the earnings of lower-skilled workers such as retail salespersons and janitors. But even professionals with higher-paying jobs do not necessarily have the financial resources to afford local rents. For instance, the median earnings of teachers living in Washington, DC do not match the amount needed to afford the basic two-bedroom apartment. Similarly, nurses in both San Diego and Washington, DC would have to pay more than 30 percent of their incomes to rent a modest unit.

DIFFICULT TRADEOFFS

High housing costs clearly undermine quality of life. To find units they can afford, many working households live at great distances from their jobs. Indeed, while a growing number of low-wage renters do manage to find apartments that rent for less than 30 percent of their incomes, they must pay disproportionately more for transportation—whether for keeping a car on the road or for taking public transit. For the many workers who commute by public transportation to distant worksites, the time spent traveling to their jobs imposes another large cost.

After paying more than half of their incomes on rent, households in the lowest expenditure quartile have just \$384 a month left over to meet all of their other needs (Figure 23). This means spending only \$177 on food, \$44 on transportation, and \$28 on healthcare each month. By comparison, households in the bottom expenditure group who live in affordable rental housing manage to have \$59 more a month for food, \$98 more for transportation, and \$22 more for healthcare. Though modest, these incremental increases in expenditures

FIGURE 22 Affordability Problems Are Moving Up the Income Scale

Fair Market Rents and Median Incomes for Sample Metro Areas in 2000

| | San Francisco | Boston | Washington | San Diego | Chicago | Dallas |
|---|---------------|----------|------------|-----------|----------|----------|
| Monthly Rent for Standard Two-Bedroom Apartment | \$1,362 | \$942 | \$840 | \$805 | \$762 | \$749 |
| Income Needed to Afford | \$54,480 | \$37,680 | \$33,600 | \$32,200 | \$30,480 | \$29,960 |
| Median Income for: | | | | | | |
| Retail Salespersons | \$19,323 | \$17,930 | \$17,285 | \$17,139 | \$17,971 | \$17,243 |
| Janitors | 20,800 | 20,987 | 15,787 | 16,536 | 18,824 | 14,810 |
| Nurses | 39,603 | 39,541 | 33,280 | 31,990 | 31,990 | 38,938 |
| Biological Technicians | 36,546 | 36,109 | 32,219 | 32,781 | 35,526 | 32,011 |
| Teachers | 38,293 | 38,584 | 32,781 | 38,584 | 36,733 | 34,861 |

Notes: Fair Market Rent (FMR) is the median price of a modest two-bedroom apartment. Income to afford the FMR is based on the 30 percent of income standard.
Source: HUD Fair Market Rents and Bureau of Labor Statistics.

FIGURE 23 High Housing Costs Limit Household Expenditures on Other Necessities

Average Monthly Expenditures in 2003

| Share of Expenditures on Housing | Food | Transportation | Insurance and Pensions | Healthcare | Total |
|----------------------------------|-------|----------------|------------------------|------------|-------|
| 50% and Up | \$177 | \$44 | \$31 | \$28 | \$384 |
| 30-50% | 231 | 94 | 56 | 45 | 606 |
| Under 30% | 236 | 138 | 52 | 50 | 729 |

Source: Table A-4.

can make the difference between keeping the family car in decent repair and having grocery money at the end of the month.

Working within these tight budgets, lowest-income families have little margin for emergencies. One unexpected bill, one spell of unemployment, or even a minor health problem may make it impossible to pay the rent. Recent research by the Poverty and Race Action Council suggests that evictions and forced movements diminish the quality of life of poor renters and their families in several ways. In addition to limiting community involvement and the development of beneficial social capital, frequent moves make it difficult for parents to hold jobs and manage childcare duties.

Perhaps most importantly, this instability is damaging to children's educations. In fact, high turnover in schools disrupts the educational achievement not only of the children that move but also of those that stay. These educational impacts are especially significant for lower-income and minority children, who are more likely to attend schools in largely rental neighborhoods with relatively high turnover.

Constant fear of eviction is just one of the many stresses that lowest-income renters face. For many, it is a daily struggle to dodge creditors or bill collectors and to decide which bills to pay. Many become severely depressed in the face of such pressures, eroding their ability to live independently. A recent study shows, however, that many very low-income households show remarkable resilience when they are able to move from distressed public housing.

THE OUTLOOK

The recent string of natural disasters in the United States has made it abundantly clear that affordability is not just a housing issue, but part of a larger set of social problems. Without sustained efforts to attack the root causes of poverty and expand the supply of decent and affordable rental housing, many of the nation's lowest-income households will remain unable to meet even basic needs—much less protect themselves and their families in a time of emergency.



PRESERVING THE AFFORDABLE INVENTORY

Federal resources are increasingly dedicated to preserving rather than to expanding the stock of assisted rentals. At the same time, hundreds of thousands of privately owned, unsubsidized units are at risk of loss from the affordable stock, whether through deterioration and removal or upgrading. Since about two-thirds of the nation's lowest-income households live in unsubsidized rentals, preserving privately owned low-cost units is an urgent priority.

FEDERAL PROGRAMS

In the past, the federal government provided affordable rental housing for low- and moderate-income households by subsidizing production of both publicly and privately owned units. Under the traditional public program, local housing agencies received operating and capital grants to rent units to the nation's poorest families. Under the various private production programs, project-based subsidies—either in the form of reduced mortgage payments or other operating support—allowed tenants to pay lower rents.

The Housing and Community Development Act of 1974 then refocused federal assistance by taking a new tenant-based approach, now known as the Housing Choice Voucher Program. Under this system, renters receive certificates to lease housing in the private market. More recently, the 1986 Tax Reform Act created the Low Income Housing Tax Credit (LIHTC) program, an initiative that has since become the primary source of new affordable housing construction.

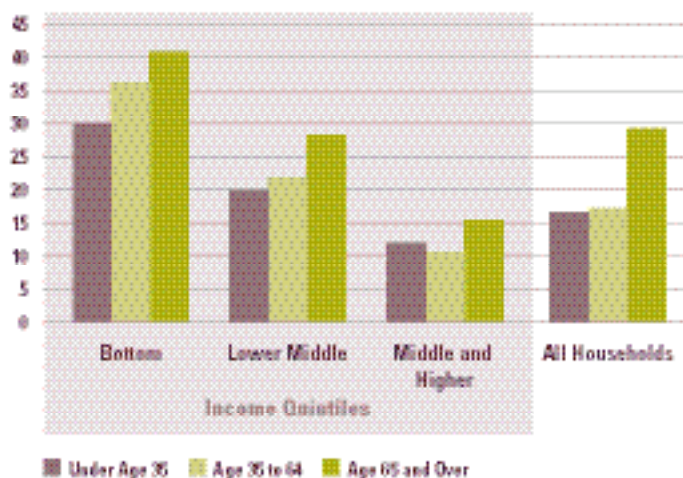
Recognizing that housing assistance is not an entitlement program, Congress has attempted to target funds to the neediest families. But at current funding levels, government housing programs serve just over a third of lowest-income renters (Figure 24). What is more, only four in ten lowest-income elderly renters—a segment consistently targeted for preferential treatment—receive housing assistance.

Pressures to limit federal domestic spending have hit housing programs particularly hard. Although precise statistics are difficult to assemble, the American Housing Survey estimates that only 6.2 million households receive rental assistance. Included in this total are the nearly 1.5 million households living in units built under the LIHTC program, which annually adds some nearly 90,000 units to the nation's assisted housing inventory.

Unfortunately, other components of the subsidized rental inventory have shown little growth in recent years.

FIGURE 24 Assisted Housing Covers But a Fraction of Renter Families in Need

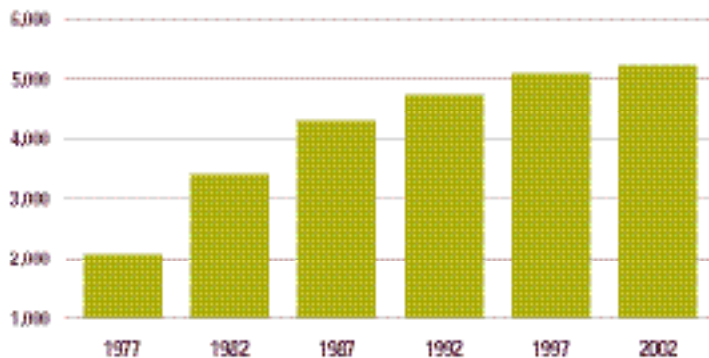
Share of Renters Receiving Assistance in 2003



Source: Table A-6.

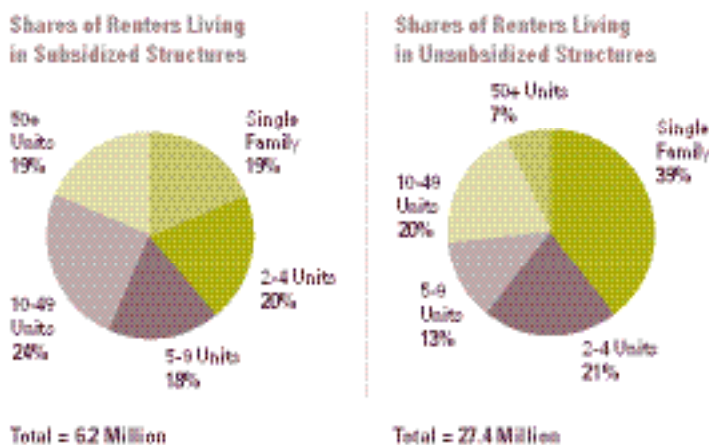
FIGURE 25 Growth in Rental Assistance Has Slowed in Recent Years

Assisted Households (Thousands)



Source: U.S. House of Representatives, Committee on Ways and Means, 2003 and 2004. Seven Digits.

FIGURE 26 Most Renters Live in Single-Family Homes or Small Multifamily Apartment Buildings



Note: Single-family units include manufactured housing.
Source: JCHS tabulations of the 2003 American Housing Survey.

Congressional sources estimate that the number of households receiving direct assistance (public housing, housing choice vouchers, or project-based rental assistance) has increased only 2 percent since 1999, to just over 5.2 million. This represents a sharp slowdown from the rapid gains made between 1977 and 1987, when the number of directly assisted renters more than doubled (Figure 25).

Contrary to popular perceptions, over half of the assisted housing inventory is made up of single-family homes or small multifamily apartment buildings (Figure 26). These include units rented by voucher holders as well as public housing and

project-based developments located in smaller metropolitan and non-metropolitan areas. Only one-fifth of assisted rentals are in buildings with 50 or more units. These larger properties are typically older public housing and project-based developments, as well as newly built LIHTC projects.

LOSSES OF ASSISTED RENTALS

At the same time that the LIHTC program and incremental funding for housing vouchers have managed to add to the affordable stock, other subsidized rentals are dropping out of the inventory. Beginning in the late 1980s, private owners of subsidized housing became eligible to “opt out” of programs by prepaying their mortgages. By the mid-1990s, the trickle of opt-outs became a flow as more and more project-based Section 8 contracts expired. According to the National Low Income Housing Coalition, more than 200,000 units with project-based assistance have been lost from the affordable inventory over the past ten years.

Opting out of project-based subsidies is particularly common among owners of properties located in prosperous neighborhoods, given that they can charge higher market rents and/or convert the units to condos. In either case, these opt-outs have removed some of the most desirable units from the affordable housing inventory.

In 1999, HUD attempted to stem the tide of losses by raising the subsidies for project-based units to be more in line with market rents. In another effort to preserve project-based units, HUD also began to provide additional subsidies to encourage owners to transfer their assisted properties to non-profit entities and to help fund needed capital improvements on properties already owned by nonprofits.

The success of these efforts of course depends largely on the willingness of Congress to appropriate sufficient funds to renew expiring project-based contracts. Failure to fully fund these renewals means that losses of subsidized units will continue. Of most immediate concern are HUD-insured projects nearing the end of their 40-year mortgages, when their use restrictions are set to expire. According to the GAO, mortgages on 1,800 subsidized properties—comprising more than 196,000 units—are at risk of loss over the next 10 years.

SMALLER PROPERTIES AT RISK

While much of the housing preservation debate focuses on the subsidized inventory, of equal concern is the fate of the privately owned, unsubsidized rental stock that serves the vast

majority of low-income renter households. This affordable inventory consists primarily of single-family and small multi-family units that filtered down to the rental housing market when their original owner-occupants traded up to bigger and more modern homes.

More than half of the low-cost, privately owned rental stock was built at least 30 years ago when construction techniques and capital markets were less sophisticated and households were less affluent. As a result, much of this inventory is now in need of substantial repair. According to the American Housing Survey, 3 million private market rental units have severe structural deficiencies and are at risk of removal. Given their limited choices in the marketplace, one in seven lowest-income renters live in such housing.

Over the ten years beginning in 1993, an estimated 2.3 million rental units (6 percent) were demolished or otherwise permanently removed from the inventory. Over half of these rentals were in older (built before 1960) one- to four-family buildings located in the nation's most distressed neighborhoods (Table A-10). As might be expected, loss rates are higher for properties with such additional risk factors as low rent, long-term vacancies, and structural deficiencies. For older, smaller multifamily units, these added risk factors push the loss rate to 13 percent. Combining all the risk factors, including structural inadequacy, pushes the loss rate to over 20 percent (Figure 27).

FRAGMENTED OWNERSHIP STRUCTURE

Loss of approximately 200,000 rental units each year vastly exceeds net additions of subsidized housing through the LIHTC or voucher programs. Little wonder, then, that the number of units renting for less than \$400 a month in inflation-adjusted terms has dropped by nearly one million in the last 10 years.

Among other things, losses of this magnitude reflect the fragmented ownership of the older, low-cost rental inventory. Information on the characteristics of rental property owners is limited, but recently released data from the 2001 Residential Finance Survey (RFS) suggest that many owners—and especially those with only a few units—are ill-equipped to operate and maintain their properties profitably.

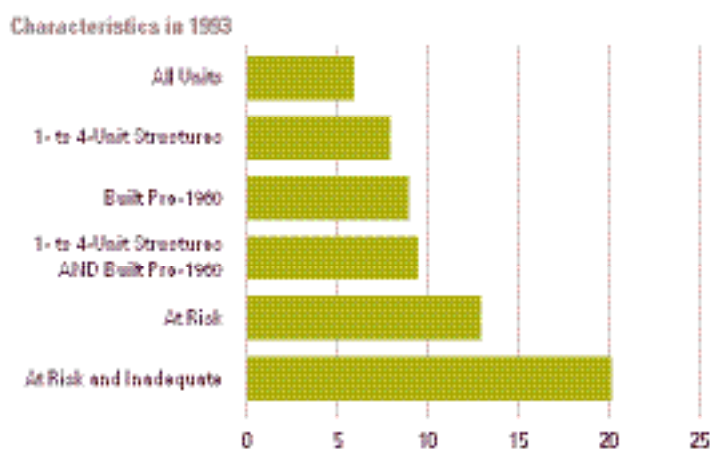
Overall, the RFS data indicate that close to two-thirds of the nation's nearly 26 million unsubsidized rental units are owned by individuals or couples (Figure 28). The rest are owned by a variety of corporations and other entities, ranging from limited partnerships to churches and nonprofit organizations to real estate investment trusts.

According to the Property Owners and Managers Survey (POMS)—perhaps the most comprehensive look at owner characteristics—most individuals have fewer than ten rental units, and many have just one. This is consistent with the RFS report that individuals own more than 80 percent of the nation's single-family and two- to four-family rentals, and more than 70 percent of rentals located in buildings with five to nine units. Moreover, individuals own disproportionately larger shares of older, lower-rent units and are more likely than other owners to be financially distressed.

For many, the rental business is a part-time activity that at best provides supplemental income or housing for friends and relatives. Many individual owners bought their properties as a place to live and then became landlords because they were unable to sell when they moved. The POMS data reveal that almost a third of nonresident owners with fewer than ten rental units are themselves poor, with incomes of \$30,000 or less from all sources. Only one in ten can afford the services of a third-party manager. It is therefore unsurprising that over a third of nonresident owners report no profit from their rentals, and over 60 percent say that, given the choice, they would not buy their properties again.

For financially pressured owners, it makes sense to abandon the properties if the rents do not meet operating expenses or the selling price would not cover outstanding debt or property

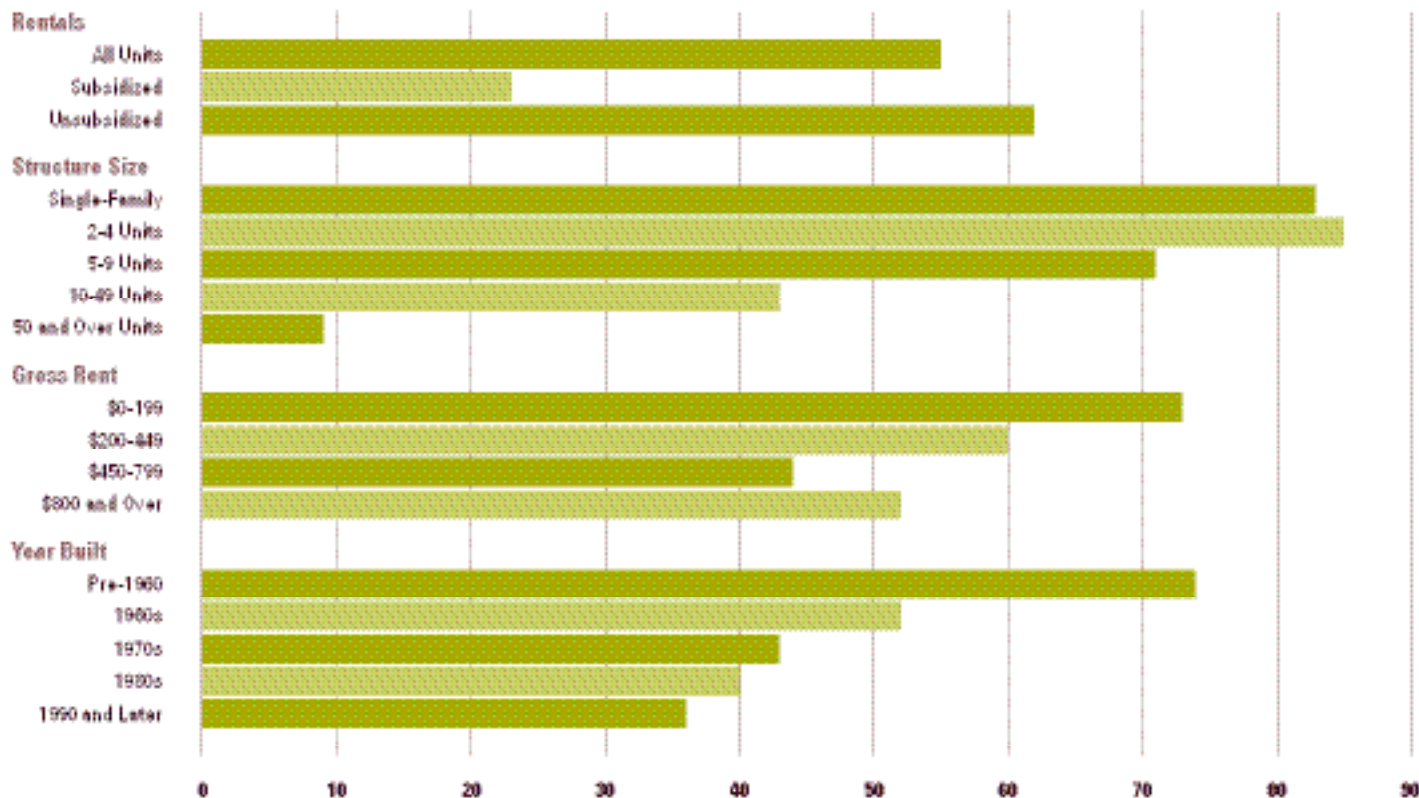
FIGURE 27 Smaller, Older Rental Properties Are Particularly at Risk of Removal
Loss Rates 1993-2003



Notes: Loss rates defined as share of all units in 1993 that were reported as permanently removed from the inventory by 2003. At-risk units are those in 1- to 4-unit structures, built prior to 1960, and renting for under \$300, vacant for more than 6 months, and/or reported as severely inadequate. Single-family structures include manufactured housing. Source: Table A-10.

FIGURE 28 Individuals Own Much of the Smaller, Older Rental Stock

Shares of Units Owned by Individuals (Percent)



Notes: Single-family units include pre-war detached and attached structures and condominium units for rent. They do not include non-occupied homes.
 Source: JCHS tabulations of the 2001 Residential Finance Survey.

tax liens. Unfortunately, abandonment leads first to structural deterioration, which not only threatens the safety and well-being of any remaining tenants, but also degrades the general attractiveness of the surrounding neighborhood. Abandoned buildings in turn bring down rents in the area, spreading the financial distress to nearby property owners.

The absence of suitable financing options only makes matters worse for small rental property owners. Loans for acquiring and improving smaller, nonresident-owned rental properties are poor candidates for securitization and sale into the secondary mortgage market. The limited availability and higher costs of financing thus prevent many small property owners from investing in needed capital improvements or selling to more financially stable owners. In addition, high administrative costs keep tax credits and other project-based assistance flowing primarily into the production and preservation of larger rental properties, allowing smaller multifamily units to drop out of the bottom of the market.

THE OUTLOOK

At the same time that federal funding restrictions prevent expansion of subsidized housing, efforts to stem losses of the rapidly deteriorating stock of privately owned, low-cost rental apartments have gained little attention. Unfortunately, capital markets have been slow to discover ways to meet the requirements of this most “at risk” portion of the housing. Without new policies to address these barriers to preservation, both subsidized and unsubsidized units will continue to disappear from the inventory of affordable rental housing.



APPENDIX TABLES

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Table A-1 Rental Housing Market Indicators, 1975–2004

| | Multifamily Permits ¹ | Multifamily Starts ² | Multifamily Completions | | Single-Family Completions | Size of New Multifamily Units ⁴ | Residential Upkeep and Improvement of Rental Units ⁵ | Rental Vacancy Rates | Value Put in Place: Multifamily Units ⁷ |
|------|----------------------------------|---------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|---|----------------------|--|
| Year | (Thousands) | (Thousands) | For Rent ³ (Thousands) | For Sale ³ (Thousands) | For Rent ³ (Thousands) | (Median sq. ft.) | (Millions of 2004 dollars) | (Percent) | (Billions of 2004 dollars) |
| 1975 | 263 | 268 | 321 | 121 | 12 | 942 | 28,654 | 6.0 | 23,451 |
| 1976 | 402 | 375 | 268 | 75 | 10 | 894 | 27,995 | 5.6 | 22,940 |
| 1977 | 564 | 536 | 322 | 77 | 15 | 881 | 24,898 | 5.2 | 31,225 |
| 1978 | 618 | 587 | 408 | 91 | 16 | 863 | 31,251 | 5.0 | 37,177 |
| 1979 | 570 | 551 | 434 | 135 | 27 | 893 | 30,786 | 5.4 | 44,272 |
| 1980 | 481 | 440 | 371 | 174 | 19 | 915 | 28,053 | 5.4 | 38,303 |
| 1981 | 421 | 379 | 283 | 164 | 24 | 930 | 29,593 | 5.0 | 36,284 |
| 1982 | 454 | 400 | 226 | 148 | 18 | 925 | 26,695 | 5.3 | 30,416 |
| 1983 | 703 | 636 | 314 | 152 | 27 | 893 | 28,329 | 5.7 | 42,573 |
| 1984 | 757 | 665 | 430 | 197 | 38 | 871 | 43,307 | 5.9 | 51,308 |
| 1985 | 777 | 670 | 447 | 184 | 43 | 882 | 54,058 | 6.5 | 50,102 |
| 1986 | 692 | 626 | 503 | 133 | 34 | 876 | 61,289 | 7.3 | 53,495 |
| 1987 | 510 | 474 | 412 | 134 | 38 | 920 | 64,289 | 7.7 | 42,323 |
| 1988 | 462 | 407 | 329 | 117 | 34 | 940 | 62,291 | 7.7 | 35,605 |
| 1989 | 407 | 373 | 307 | 90 | 30 | 940 | 64,072 | 7.4 | 33,978 |
| 1990 | 317 | 298 | 266 | 76 | 26 | 955 | 69,605 | 7.2 | 27,822 |
| 1991 | 195 | 174 | 197 | 56 | 22 | 980 | 56,803 | 7.4 | 21,009 |
| 1992 | 184 | 170 | 150 | 44 | 19 | 985 | 53,700 | 7.4 | 17,630 |
| 1993 | 212 | 162 | 109 | 44 | 23 | 1,005 | 55,035 | 7.3 | 14,103 |
| 1994 | 303 | 256 | 138 | 49 | 23 | 1,015 | 50,947 | 7.4 | 17,948 |
| 1995 | 335 | 278 | 196 | 51 | 33 | 1,040 | 50,894 | 7.6 | 22,173 |
| 1996 | 356 | 316 | 234 | 50 | 33 | 1,030 | 51,565 | 7.9 | 24,469 |
| 1997 | 379 | 340 | 230 | 54 | 29 | 1,050 | 46,625 | 7.8 | 26,932 |
| 1998 | 425 | 346 | 260 | 55 | 32 | 1,020 | 39,742 | 7.9 | 28,479 |
| 1999 | 417 | 338 | 279 | 55 | 43 | 1,054 | 49,458 | 8.1 | 31,106 |
| 2000 | 394 | 338 | 272 | 60 | 41 | 1,091 | 53,084 | 8.0 | 31,000 |
| 2001 | 390 | 329 | 240 | 75 | 39 | 1,094 | 51,329 | 8.4 | 32,324 |
| 2002 | 415 | 346 | 260 | 63 | 40 | 1,092 | 54,409 | 9.0 | 34,601 |
| 2003 | 428 | 349 | 236 | 56 | 44 | 1,107 | 58,497 | 9.8 | 36,259 |
| 2004 | 448 | 345 | 238 | 72 | 46 | 1,160 | 55,124 | 10.2 | 38,745 |

Note: All value series are deflated by the Bureau of Labor Statistics Consumer Price Index (CPI-UX) for All Items.

Sources: 1. US Census Bureau, Construction Statistics, "New Privately Owned Housing Units Authorized by Building Permits," www.census.gov/pub/const/bpann.pdf (as of May 2005).

2. US Census Bureau "New Privately Owned Housing Units Started," www.census.gov/const/startsan.pdf (as of May 2005).

3. US Census Bureau "New Privately Owned Housing Units Completed in the United States, by Intent and Design," www.census.gov/const/compsusintenta.pdf (as of Dec 2005).

4. US Census Bureau, "New Privately Owned Housing Units Started in the United States, by Intent and Design," www.census.gov/const/startsusintenta.pdf (as of May 2005).

5. US Census Bureau, "Expenditures by Region and Property Type," www.census.gov/const/C50/table_s2.pdf (as of May 2005).

6. US Census Bureau, Housing Vacancy Survey.

7. US Census Bureau, "Annual Value of Private Construction Put in Place," www.census.gov/const/C30/Private.pdf (as of May 2005).

Table A-2

Renter Income and Housing Costs, 1975–2004

| | Monthly Renter Incomes | Housing Costs | | | Housing Cost as Share of Income (%) | | |
|------|------------------------------|------------------|---------------|----------------|-------------------------------------|---------------|----------------|
| Year | 2004 Dollars | Contract Rent | Gross Rent | Asking Rent | Contract Rent | Gross Rent | Asking Rent |
| 1975 | 2,532 | 588 | 663 | 741 | 23.2 | 26.2 | 29.3 |
| 1976 | 2,458 | 587 | 666 | 727 | 23.9 | 27.1 | 29.6 |
| 1977 | 2,473 | 587 | 671 | 723 | 23.7 | 27.1 | 29.2 |
| 1978 | 2,506 | 585 | 671 | 727 | 23.3 | 26.8 | 29.0 |
| 1979 | 2,452 | 565 | 650 | 708 | 23.0 | 26.5 | 28.9 |
| 1980 | 2,325 | 543 | 631 | 706 | 23.4 | 27.1 | 30.4 |
| 1981 | 2,294 | 537 | 628 | 721 | 23.4 | 27.4 | 31.4 |
| 1982 | 2,316 | 546 | 644 | 754 | 23.6 | 27.8 | 32.6 |
| 1983 | 2,311 | 561 | 664 | 732 | 24.3 | 28.8 | 31.7 |
| 1984 | 2,382 | 568 | 671 | 715 | 23.8 | 28.2 | 30.0 |
| 1985 | 2,417 | 584 | 685 | 758 | 24.2 | 28.3 | 31.4 |
| 1986 | 2,445 | 608 | 706 | 788 | 24.9 | 28.9 | 32.2 |
| 1987 | 2,421 | 611 | 704 | 860 | 25.2 | 29.1 | 35.5 |
| 1988 | 2,494 | 609 | 699 | 878 | 24.4 | 28.0 | 35.2 |
| 1989 | 2,577 | 604 | 692 | 899 | 23.4 | 26.8 | 34.9 |
| 1990 | 2,496 | 597 | 682 | 867 | 23.9 | 27.3 | 34.7 |
| 1991 | 2,392 | 593 | 677 | 852 | 24.8 | 28.3 | 35.6 |
| 1992 | 2,326 | 590 | 674 | 789 | 25.4 | 29.0 | 33.9 |
| 1993 | 2,302 | 586 | 670 | 749 | 25.5 | 29.1 | 32.5 |
| 1994 | 2,272 | 586 | 668 | 734 | 25.8 | 29.4 | 32.3 |
| 1995 | 2,331 | 584 | 663 | 812 | 25.1 | 28.5 | 34.8 |
| 1996 | 2,351 | 582 | 661 | 809 | 24.8 | 28.1 | 34.4 |
| 1997 | 2,404 | 586 | 665 | 852 | 24.4 | 27.7 | 35.4 |
| 1998 | 2,453 | 595 | 671 | 851 | 24.3 | 27.4 | 34.7 |
| 1999 | 2,540 | 601 | 675 | 897 | 23.6 | 26.6 | 35.3 |
| 2000 | 2,556 | 602 | 678 | 923 | 23.6 | 26.5 | 36.1 |
| 2001 | 2,534 | 612 | 693 | 940 | 24.1 | 27.3 | 37.1 |
| 2002 | 2,440 | 626 | 702 | 964 | 25.7 | 28.8 | 39.5 |
| 2003 | 2,358 | 630 | 710 | 956 | 26.7 | 30.1 | 40.5 |
| 2004 | 2,348 | 630 | 711 | 974 | 26.8 | 30.3 | 41.5 |

Notes: All dollar amounts are in 2004 constant dollars using the Bureau of Labor Statistics Consumer Price Index (CPI-UX) for All Items. Renter median incomes through 2003 are from Current Population Survey P60 published reports and exclude those paying no cash rent. The 2004 incomes are estimated from change in HUD median family income applied to 2003 CPS income. Contract rent equals median 2001 contract rent from the American Housing Survey, indexed by the CPI residential rent index with adjustments for depreciation of the stock. Gross rent is equal to contract rent plus fuel and utilities. Asking rent is for newly built, privately financed, nonsubsidized, unfurnished, rental apartments in buildings of five units or more. See www.census.gov/hhes/www/housing/soma/soma.html (December 2005).

Table A-3

Distribution of Households in the 91 Largest Metro Regions, 1970–2000

Median Distance from the CBD (Miles)

| | Renters | | | | Owners | | | |
|---|---------|------|------|------|--------|------|------|------|
| | 1970 | 1980 | 1990 | 2000 | 1970 | 1980 | 1990 | 2000 |
| Race/Ethnicity of Household Head | | | | | | | | |
| All Households | 7.4 | 8.3 | 9.1 | 9.4 | 9.8 | 11.9 | 13.0 | 13.8 |
| White | 7.7 | 8.5 | 10.1 | 10.6 | 10.1 | 12.7 | 13.8 | 14.7 |
| Hispanic | 7.4 | 7.6 | 8.6 | 8.9 | 7.5 | 9.4 | 10.2 | 11.0 |
| Black | 4.3 | 5.7 | 6.8 | 7.4 | 5.4 | 7.2 | 8.1 | 9.0 |
| Selected Metro Regions | | | | | | | | |
| Los Angeles, CA | 15.9 | 16.2 | 16.4 | 16.6 | 15.7 | 16.7 | 17.6 | 18.2 |
| New York, NY | 8.4 | 8.5 | 8.6 | 8.7 | 15.4 | 19.7 | 19.9 | 20.3 |
| Chicago, IL | 7.9 | 8.6 | 9.2 | 9.3 | 14.2 | 16.7 | 18.7 | 20.5 |
| Philadelphia, PA | 6.9 | 8.5 | 9.1 | 9.3 | 9.3 | 10.5 | 11.9 | 13.2 |
| Washington, DC | 5.8 | 7.0 | 8.2 | 8.8 | 8.7 | 11.1 | 13.6 | 15.1 |
| Detroit, MI | 8.3 | 10.8 | 12.5 | 13.6 | 12.5 | 14.1 | 15.4 | 17.0 |
| Houston, TX | 7.0 | 9.5 | 12.4 | 12.4 | 10.3 | 13.6 | 15.9 | 17.6 |
| Atlanta, GA | 6.1 | 8.5 | 11.9 | 12.7 | 9.6 | 13.6 | 17.5 | 19.8 |
| Dallas, TX | 6.1 | 8.2 | 10.9 | 11.5 | 9.2 | 11.1 | 13.3 | 15.0 |
| Boston, MA | 8.6 | 12.7 | 14.5 | 14.5 | 15.9 | 20.8 | 22.2 | 23.0 |
| Phoenix, AZ | 4.8 | 7.1 | 9.4 | 10.2 | 7.4 | 9.9 | 12.0 | 13.7 |
| Minneapolis, MN | 5.7 | 6.9 | 7.8 | 8.2 | 8.0 | 10.0 | 11.6 | 12.9 |
| San Diego, CA | 6.6 | 8.2 | 9.3 | 9.5 | 8.9 | 11.4 | 13.4 | 14.2 |
| St. Louis, MO | 6.3 | 8.4 | 9.7 | 10.6 | 10.7 | 12.7 | 13.9 | 15.2 |
| Baltimore, MD | 4.5 | 6.1 | 6.9 | 7.6 | 7.6 | 8.8 | 10.1 | 11.6 |
| Seattle, WA | 6.4 | 7.7 | 9.6 | 10.2 | 9.5 | 11.2 | 12.6 | 13.6 |
| Tampa, FL | 16.0 | 16.0 | 15.7 | 15.2 | 16.0 | 17.7 | 18.2 | 18.2 |
| Pittsburgh, PA | 7.3 | 8.3 | 9.5 | 9.7 | 10.2 | 12.4 | 13.7 | 14.2 |
| Miami, FL | 4.7 | 6.1 | 7.4 | 7.9 | 8.4 | 9.9 | 10.8 | 11.3 |
| Cleveland, OH | 6.6 | 7.9 | 8.5 | 8.8 | 9.6 | 11.5 | 12.2 | 13.1 |
| Denver, CO | 4.4 | 6.6 | 7.6 | 7.9 | 7.3 | 8.8 | 9.7 | 10.9 |
| Portland, OR | 6.3 | 7.8 | 8.4 | 9.0 | 8.0 | 9.8 | 10.6 | 11.3 |
| Kansas City, MO | 7.1 | 8.3 | 9.8 | 10.5 | 9.0 | 10.4 | 12.0 | 13.2 |
| San Francisco, CA | 9.6 | 11.1 | 12.9 | 13.1 | 15.5 | 18.8 | 20.2 | 21.1 |
| Fort Worth, TX | 6.0 | 8.4 | 10.1 | 10.4 | 7.8 | 9.1 | 10.7 | 11.6 |
| San Jose, CA | 6.1 | 6.3 | 6.3 | 6.3 | 6.8 | 6.9 | 7.0 | 7.1 |
| Cincinnati, OH | 4.7 | 5.6 | 6.5 | 7.1 | 8.2 | 9.0 | 9.9 | 11.1 |
| Orlando, FL | 5.5 | 6.8 | 7.9 | 8.3 | 7.7 | 9.2 | 10.5 | 11.6 |
| Sacramento, CA | 7.1 | 8.3 | 8.8 | 9.2 | 8.6 | 10.3 | 11.6 | 12.9 |
| Fort Lauderdale, FL | 5.3 | 6.2 | 7.3 | 7.7 | 6.7 | 7.8 | 8.3 | 9.2 |

Notes: Median distance is estimated from the distribution of households by distance from the Central Business District (CBD), expressed in rings (0-2 miles, 2-5 miles, 5-10 miles, 10-15 miles, 15-20 miles, 20-30 miles, etc.). The 91 largest metro regions consist of the top 100 metro areas, with the seven metro areas of Bergen, Newark, Jersey City, New York, Middlesex, Somerset-Hunterdon, Monmouth-Ocean, and Nassau-Suffolk combined into the New York CMSA; the three metro areas of Los Angeles, Riverside-San Bernardino and Orange County combined into the Los Angeles CMSA; and the three metro areas of Oakland, Vallejo, and San Francisco combined into the San Francisco CMSA.

Source: JCHS tabulations of Decennial Census tract-level data.

Table A-4 Renter Household Spending for Non-Housing Items, 2003

| Income Quartile and Share of Expenditures on Housing | Transportation | Food | Clothes | Healthcare | Personal Insurance and Pensions | Entertainment | Other | Total Non-Housing Expenditures |
|--|----------------|-------|---------|------------|---------------------------------|---------------|-------|--------------------------------|
| Bottom Quartile | | | | | | | | |
| Up to 30% | \$138 | \$236 | \$45 | \$50 | \$52 | \$42 | \$167 | \$729 |
| 30-50% | 94 | 231 | 30 | 45 | 56 | 37 | 112 | 606 |
| 50% or More | 44 | 177 | 16 | 28 | 31 | 21 | 66 | 384 |
| All | 96 | 218 | 31 | 42 | 48 | 35 | 118 | 589 |
| Lower Middle Quartile | | | | | | | | |
| Up to 30% | 383 | 379 | 81 | 102 | 180 | 94 | 385 | 1,603 |
| 30-50% | 271 | 362 | 63 | 74 | 156 | 70 | 218 | 1,214 |
| 50% or More | 113 | 295 | 40 | 51 | 88 | 41 | 120 | 747 |
| All | 297 | 361 | 68 | 82 | 158 | 76 | 272 | 1,314 |
| Upper Middle Quartile | | | | | | | | |
| Up to 30% | 636 | 515 | 129 | 163 | 352 | 155 | 589 | 2,539 |
| 30-50% | 446 | 487 | 94 | 117 | 296 | 118 | 360 | 1,918 |
| 50% or More | 241 | 383 | 57 | 125 | 152 | 70 | 231 | 1,258 |
| All | 549 | 497 | 113 | 146 | 320 | 138 | 493 | 2,255 |
| Top Quartile | | | | | | | | |
| Up to 30% | 1,151 | 754 | 272 | 308 | 637 | 321 | 1,348 | 4,792 |
| 30-50% | 700 | 709 | 175 | 213 | 551 | 200 | 622 | 3,171 |
| 50% or More | 521 | 698 | 102 | 195 | 225 | 150 | 514 | 2,405 |
| All | 1,046 | 744 | 248 | 287 | 609 | 293 | 1,185 | 4,412 |

Notes: Quartiles are defined by total expenditures rather than income because one out of five households in the survey failed to report income. Housing costs include mortgage principal and interest, insurance, taxes, maintenance, rents, and utilities. Transportation expenditures were adjusted for those who paid cash to buy cars. Expenditures were calculated at 10% of the cash payment.

Source: JCHS tabulations of the Consumer Expenditure Survey, using the Quarterly Interview Survey data for calendar 2003.

Table A-5 Renter Households by Age and Origin of Head, 1994 and 2004

Thousands

| Age of Household Head | 1994 | | | 2004 | | |
|-----------------------|--------------|-------------|--------|--------------|-------------|--------|
| | Foreign Born | Native Born | All | Foreign Born | Native Born | All |
| Under 25 | 450 | 4,095 | 4,544 | 737 | 4,325 | 5,062 |
| 25-34 | 1,586 | 9,596 | 11,183 | 2,162 | 7,639 | 9,801 |
| 35-44 | 1,166 | 6,642 | 7,807 | 1,806 | 5,442 | 7,248 |
| 45-54 | 670 | 3,503 | 4,173 | 958 | 4,424 | 5,382 |
| 55-64 | 343 | 2,155 | 2,497 | 485 | 2,575 | 3,060 |
| 65 and Over | 535 | 4,135 | 4,670 | 737 | 3,720 | 4,457 |
| All | 4,740 | 30,125 | 34,875 | 6,886 | 28,125 | 35,011 |

Source: JCHS tabulations of March 1994 and 2004 Current Population Surveys.

Table A-6

Renter Households by Income Quintiles and Subsidy Status, 2003

Thousands

| | Unsubsidized Renters | | | | | Subsidized Renters | | | | |
|---------------------------------|----------------------|--------------|--------|--------------|-------|--------------------|--------------|--------|--------------|-----|
| | Bottom | Lower Middle | Middle | Upper Middle | Top | Bottom | Lower Middle | Middle | Upper Middle | Top |
| Total Renters | 4,359 | 5,210 | 5,798 | 5,940 | 6,076 | 2,358 | 1,503 | 923 | 779 | 642 |
| Race | | | | | | | | | | |
| White | 2,452 | 2,762 | 3,341 | 3,660 | 4,095 | 1,048 | 697 | 412 | 360 | 372 |
| Black | 1,078 | 1,109 | 1,122 | 934 | 769 | 874 | 448 | 280 | 186 | 125 |
| Hispanic | 566 | 1,046 | 992 | 941 | 744 | 322 | 285 | 158 | 156 | 90 |
| Asian | 195 | 224 | 256 | 326 | 393 | 83 | 54 | 55 | 70 | 48 |
| Multi-race | 69 | 69 | 87 | 79 | 75 | 31 | 19 | 19 | 8 | 8 |
| Age | | | | | | | | | | |
| Under 35 | 1,700 | 2,106 | 2,673 | 2,766 | 2,674 | 727 | 530 | 439 | 394 | 287 |
| 35-64 | 1,735 | 2,153 | 2,624 | 2,854 | 3,171 | 989 | 599 | 375 | 333 | 325 |
| Over 65 | 924 | 952 | 502 | 320 | 231 | 642 | 374 | 109 | 52 | 30 |
| Family Type | | | | | | | | | | |
| Married With No Children | 290 | 528 | 593 | 784 | 1,172 | 74 | 103 | 74 | 105 | 108 |
| Married With Children | 233 | 595 | 1,041 | 1,192 | 1,374 | 85 | 135 | 128 | 168 | 150 |
| Single Parent | 749 | 1,011 | 1,000 | 774 | 502 | 658 | 471 | 255 | 141 | 70 |
| Other Family | 310 | 376 | 524 | 475 | 532 | 145 | 120 | 85 | 84 | 80 |
| Single Person | 2,513 | 2,263 | 2,143 | 1,981 | 1,285 | 1,338 | 611 | 316 | 200 | 130 |
| Non-Family | 264 | 437 | 498 | 735 | 1,211 | 58 | 63 | 66 | 82 | 105 |
| Metro Status | | | | | | | | | | |
| Center City | 2,118 | 2,301 | 2,558 | 2,417 | 2,586 | 1,141 | 738 | 500 | 388 | 322 |
| Suburbs | 1,332 | 1,869 | 2,181 | 2,626 | 2,808 | 675 | 478 | 305 | 299 | 296 |
| Non-Metro | 909 | 1,040 | 1,059 | 897 | 681 | 542 | 287 | 118 | 92 | 24 |
| Region | | | | | | | | | | |
| Northeast | 938 | 933 | 960 | 1,293 | 1,500 | 591 | 364 | 223 | 188 | 165 |
| Midwest | 902 | 1,079 | 1,293 | 1,143 | 985 | 536 | 361 | 175 | 130 | 83 |
| South | 1,702 | 1,943 | 2,102 | 1,985 | 1,812 | 846 | 459 | 260 | 226 | 201 |
| West | 817 | 1,255 | 1,443 | 1,520 | 1,778 | 385 | 319 | 265 | 235 | 194 |
| Cost Burden | | | | | | | | | | |
| None | 547 | 1,193 | 3,181 | 4,965 | 5,762 | 633 | 669 | 557 | 657 | 611 |
| Moderate | 319 | 2,230 | 2,138 | 844 | 282 | 506 | 551 | 346 | 105 | 31 |
| Severe | 3,494 | 1,787 | 479 | 131 | 32 | 1,220 | 283 | 20 | 17 | 0 |
| Crowded | | | | | | | | | | |
| Less than One Person/Room | 4,208 | 4,929 | 5,468 | 5,686 | 5,812 | 2,287 | 1,453 | 871 | 736 | 606 |
| More than One Person/Room | 151 | 282 | 330 | 255 | 264 | 71 | 50 | 52 | 43 | 36 |
| Adequacy | | | | | | | | | | |
| Adequate | 3,740 | 4,576 | 5,205 | 5,349 | 5,587 | 2,118 | 1,346 | 833 | 692 | 578 |
| Moderately Inadequate | 438 | 449 | 445 | 411 | 376 | 156 | 97 | 53 | 66 | 43 |
| Severely Inadequate | 181 | 185 | 148 | 180 | 113 | 84 | 60 | 37 | 21 | 21 |
| Employment Status | | | | | | | | | | |
| Not Employed | 1,968 | 1,395 | 521 | 290 | 389 | 1,468 | 557 | 83 | 39 | 57 |
| Employed | 2,391 | 3,815 | 5,277 | 5,651 | 5,687 | 890 | 946 | 840 | 741 | 585 |
| Employment Status by Age | | | | | | | | | | |
| Under 35 | | | | | | | | | | |
| Not Employed | 336 | 139 | 60 | 33 | 116 | 277 | 47 | 12 | 7 | 10 |
| Employed | 1,364 | 1,966 | 2,612 | 2,734 | 2,558 | 450 | 483 | 427 | 387 | 277 |
| Total | 1,700 | 2,106 | 2,673 | 2,766 | 2,674 | 727 | 530 | 439 | 394 | 287 |
| 34-64 | | | | | | | | | | |
| Not Employed | 838 | 426 | 140 | 101 | 173 | 618 | 188 | 21 | 5 | 28 |
| Employed | 897 | 1,726 | 2,484 | 2,754 | 2,998 | 371 | 411 | 354 | 328 | 298 |
| Total | 1,735 | 2,153 | 2,624 | 2,854 | 3,171 | 989 | 599 | 375 | 333 | 325 |
| Over 65 | | | | | | | | | | |
| Not Employed | 794 | 829 | 321 | 157 | 99 | 573 | 322 | 50 | 27 | 20 |
| Employed | 130 | 122 | 181 | 163 | 132 | 69 | 52 | 59 | 25 | 10 |
| Total | 924 | 952 | 502 | 320 | 231 | 642 | 374 | 109 | 52 | 30 |

Notes: Income quintiles each contain approximately one-fifth of renter households. White, black, and Asian are Non-Hispanic. Hispanics may be of any race. Working households are those whose income is derived at least 50% from employment. Severe cost burden is defined as housing costs of more than 50% of pre-tax income. Moderate burden is defined as housing costs of 30-50% of pre-tax income. Crowded conditions are defined as more than one person per room. Inadequate conditions are defined by the US Department of Housing and Urban Development (HUD).

Source: JCHS tabulations of the 2003 American Housing Survey, using JCHS-adjusted weights.

Table A-7

Components of Rental Inventory Change by Structure Type and Location, 1993–2003

Thousands

| | 1993 | 1993 | 2003 | 2003 | Change 1993–2003 | | Completions | Net Removals |
|--------------------------------|----------|--------|----------|--------|------------------|--------|-------------|--------------|
| | Occupied | Vacant | Occupied | Vacant | Occupied | Vacant | | |
| Total Units | 33,472 | 2,651 | 33,590 | 3,592 | 118 | 941 | 3,015 | 1,956 |
| Structure Type | | | | | | | | |
| Single-family | 10,979 | 583 | 10,682 | 897 | -297 | 314 | 357 | 340 |
| 2-4 Units | 7,509 | 641 | 7,021 | 688 | -488 | 47 | 213 | 654 |
| 5-9 Units | 4,315 | 388 | 4,589 | 530 | 274 | 142 | 340 | -76 |
| 10-19 Units | 3,831 | 432 | 4,029 | 599 | 198 | 167 | 671 | 306 |
| 20-49 Units | 2,819 | 285 | 2,873 | 369 | 54 | 84 | 689 | 551 |
| 50 Units and Over | 2,850 | 217 | 3,064 | 283 | 214 | 66 | 431 | 151 |
| Manufactured | 1,169 | 104 | 1,332 | 226 | 163 | 122 | 314 | 29 |
| Region and Metro Status | | | | | | | | |
| Northeast | | | | | | | | |
| Center City | 3,757 | 280 | 3,887 | 278 | 130 | -2 | 70 | 1,037 |
| Suburbs | 2,741 | 151 | 2,613 | 173 | -128 | 22 | 104 | 210 |
| Non-Metro | 657 | 58 | 654 | 59 | -3 | 1 | 34 | 36 |
| Total | 7,155 | 489 | 7,155 | 510 | 0 | 21 | 208 | 187 |
| Midwest | | | | | | | | |
| Center City | 3,149 | 314 | 2,861 | 414 | -288 | 100 | 198 | 386 |
| Suburbs | 2,411 | 141 | 2,284 | 271 | -127 | 130 | 232 | 229 |
| Non-Metro | 1,855 | 98 | 1,542 | 156 | -313 | 58 | 163 | 418 |
| Total | 7,415 | 552 | 6,687 | 840 | -728 | 288 | 592 | 1,032 |
| South | | | | | | | | |
| Center City | 4,813 | 424 | 4,646 | 661 | -167 | 237 | 382 | 312 |
| Suburbs | 4,091 | 377 | 4,452 | 529 | 361 | 152 | 760 | 247 |
| Non-Metro | 2,192 | 176 | 2,439 | 382 | 247 | 206 | 358 | -95 |
| Total | 11,096 | 977 | 11,537 | 1,572 | 441 | 595 | 1,500 | 464 |
| West | | | | | | | | |
| Center City | 3,475 | 309 | 3,676 | 227 | 201 | -82 | 258 | 139 |
| Suburbs | 3,381 | 254 | 3,519 | 332 | 138 | 78 | 331 | 115 |
| Non-Metro | 951 | 71 | 1,015 | 111 | 64 | 40 | 126 | 22 |
| Total | 7,807 | 633 | 8,210 | 670 | 403 | 37 | 715 | 275 |

Note: Net removals equal the total rental units built during the period minus change in renter households and vacant for-rent units.

Sources: US Census Bureau, "New Privately Owned Housing Units Completed in the United States, by Intent and Design," www.census.gov/const/compsusintenta.pdf (as of December 2005) and JCHS tabulations of the 1993 and 2003 American Housing Surveys using JCHS-adjusted weights.

Table A-8

Rental Properties by Mortgage Status, 2001

Thousands

| Property Type | Total Properties | No Mortgage | Mortgage Held by | |
|-------------------|------------------|-------------|------------------|-------|
| | | | GSE | Other |
| All | 15,794 | 8,861 | 2,533 | 4,400 |
| One Unit | 11,475 | 6,384 | 1,964 | 3,127 |
| Single-Family | 9,856 | 5,619 | 1,635 | 2,602 |
| Condominium | 1,619 | 765 | 329 | 525 |
| 2-4 Units | 2,035 | 891 | 424 | 720 |
| 5-9 Units | 263 | 111 | 37 | 115 |
| 10-49 Units | 210 | 69 | 42 | 99 |
| 50 Units and Over | 71 | 10 | 24 | 37 |
| Manufactured | 1,741 | 1,397 | 42 | 302 |

Source: US Census Bureau, Survey of Residential Finance.

Table A-9

Household Projections by Tenure and Minority Status, 2000–2020

Thousands

| Tenure and Year | Non-Hispanic White Households | Minority Households | Total Households | Minority Share (%) |
|-----------------|-------------------------------|---------------------|------------------|--------------------|
| Renter | | | | |
| 2000 | 20,847 | 14,366 | 35,214 | 40.8 |
| 2005 | 19,911 | 15,920 | 35,831 | 44.4 |
| 2010 | 19,155 | 17,574 | 36,730 | 47.8 |
| 2015 | 18,329 | 19,319 | 37,647 | 51.3 |
| 2020 | 17,364 | 20,994 | 38,358 | 54.7 |
| Owner | | | | |
| 2000 | 59,188 | 13,036 | 72,224 | 18.0 |
| 2005 | 62,253 | 15,954 | 78,207 | 20.4 |
| 2010 | 65,444 | 19,146 | 84,590 | 22.6 |
| 2015 | 68,512 | 22,511 | 91,023 | 24.7 |
| 2020 | 71,269 | 26,062 | 97,331 | 26.8 |
| Total | | | | |
| 2000 | 80,035 | 27,403 | 107,438 | 25.5 |
| 2005 | 82,164 | 31,874 | 114,038 | 28.0 |
| 2010 | 84,600 | 36,720 | 121,320 | 30.3 |
| 2015 | 86,841 | 41,829 | 128,670 | 32.5 |
| 2020 | 88,633 | 47,056 | 135,689 | 34.7 |

Source: JCHS enhanced interim household projections, based upon 1.2 million annual net immigrants (1/12/06).

Table A-10 Rental Units Removed from the Housing Inventory, 1993–2003

| | All Rental Units | | | At Risk Units | | |
|-------------------------|------------------|---------------|----------------|-----------------|---------------|----------------|
| | Total Inventory | Units Removed | Loss Rates (%) | Total Inventory | Units Removed | Loss Rates (%) |
| Total Units | 36,123 | 2,258 | 6.3 | 3,866 | 512 | 13.2 |
| Occupancy | | | | | | |
| Occupied | 33,472 | 1,978 | 5.9 | 3,438 | 435 | 12.7 |
| Vacant | 2,651 | 280 | 10.6 | 429 | 77 | 17.9 |
| Structure Type | | | | | | |
| Single-Family | 12,835 | 1,039 | 8.1 | 2,467 | 304 | 12.3 |
| Detached | 8,816 | 605 | 6.9 | 2,105 | 241 | 11.4 |
| Attached | 2,746 | 147 | 5.4 | 314 | 46 | 14.6 |
| Manufactured | 1,273 | 287 | 22.5 | 48 | 17 | 35.4 |
| 2–4 Units | 8,150 | 658 | 8.1 | 1,399 | 208 | 14.9 |
| 5 Units and Over | 15,139 | 560 | 3.7 | NA | NA | NA |
| Age of Structure | | | | | | |
| Built Pre-1960 | 12,268 | 1,488 | 12.1 | 3,866 | 512 | 13.2 |
| Built 1960-1993 | 19,989 | 771 | 3.9 | NA | NA | NA |
| Adequacy | | | | | | |
| Adequate | 32,262 | 1,700 | 5.3 | 2,849 | 312 | 11.0 |
| Moderately Inadequate | 2,852 | 355 | 12.4 | 662 | 114 | 17.2 |
| Severely Inadequate | 1,010 | 204 | 20.2 | 355 | 85 | 23.9 |
| Region | | | | | | |
| Northeast | 7,644 | 493 | 6.4 | 640 | 86 | 13.4 |
| Midwest | 7,967 | 494 | 6.2 | 1,115 | 119 | 10.7 |
| South | 12,072 | 899 | 7.4 | 1,595 | 244 | 15.3 |
| West | 8,441 | 372 | 4.4 | 517 | 63 | 12.2 |
| Metro Status | | | | | | |
| Center City | 16,520 | 934 | 5.7 | 1,478 | 176 | 11.9 |
| Suburbs | 13,545 | 756 | 5.6 | 970 | 152 | 15.7 |
| Non-Metro | 6,058 | 569 | 9.4 | 1,419 | 185 | 13.0 |

Notes: Loss rates defined as share of all units in 1993 that were reported as a Type C Non-Interview (permanent removal from stock) in 2003. At risk units are those in 1- to 4-unit structures, built prior to 1960, and either with gross rents under \$300, vacant for more than 6 months, or reported as severely inadequate.

Source: JCHS tabulations of the 1993 and 2003 American Housing Surveys.

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