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NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

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July 1, 2020 NAHMAnalysis 2020-0506

State of the Nation's Rental Housing Market:

America's Rental Housing 2020 Report by the Joint Center for Housing Studies at Harvard University https://www.jchs.harvard.edu/americas-rental-housing-2020

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The GAP Report, A Shortage of Affordable Homes (March 2020), by the National Low Income Housing Coalition https://reports.nlihc.org/gap

Executive Summary

In 2019**,** overall, the rental markets remained tight and concerns about affordability grew despite a slowdown in demand and the increase of new construction. Rents continue to rise faster than incomes in many segments of the market—increasing the number and share of cost-burdened and severely cost-burdened renters, hitting low and middle-income earners especially hard. The increasing number of high-income renters has skyrocketed, accounting for three-quarters of the increase in the number of renters from 2010-2018. At the same time, low-income renters earning less than $30,000 fell by nearly 1 million, reversing a decade's long trend in the 2000s, when low-income households accounted for 93 percent of renter growth. Constraints on supply coupled with substantial losses of low-cost rentals also help explain the rise in cost and decrease in the availability of the affordable rental stock. Meanwhile, the supply of affordable housing for low- and extremely-low income families and individuals continues to be limited or non-existent. With limited support at federal, state and local levels, communities and business alike are seeking a comprehensive response from all levels of government to address the rental affordability crisis.

- **Renter Household Growth Driven by High Income Households: Households with incomes above $75,000 have accounted for more than 75 percent of the growth in renters during 2010-2018.**

After 12 years of growth, the number of renter households fell in 2017 and 2018, reflecting the leveling off of the national rentership rate over the past year, when renter household growth matched the pace of overall household growth. The US rentership rate in the third quarter of 2019 was at 35.6 percent, nearly in line with the rate in 1994, prior to the homeownership boom. However, while rentership rates today are generally higher than 1994, the national rate is close to its 1994 level because a larger share of households are in the oldest age group, when homeownership rates tend to increase.

Despite moderate household growth, overall rentership rates remain high for all age groups under 65 (however, in the next decade, aging populations will also increase the need for rental housing with accessibility features and proximity to or on-site services and supports). The most dramatic recent shift has been the surge in demand from high-income households. During 2004-2010, households earning less than $30,000 per year accounted for 68 percent of the growth in renter households, while those earning $75,000 made up only 19 percent. Since 2010, high-income households have become the primary source of rental demand, accounting for 75 percent of growth during 2010-2018. In 2019, the share of renter households with incomes of more than $75,000 stood at 26.5 percent, up from 18.9 percent on average from 1980 to 2010. Coincidently, rentership rates in 2019 were at their highest levels among households earning more than $75,000, at 22 percent. Rentership is more common now among age groups and family types that would traditionally be more likely to own their housing, impacting rental affordability. During 2004-2018, the number of married couples with children that owned homes fell by 2.7 million, while the number renting increased by 680,000. These changes have meant that families with children now make up a larger share of renter households (29 percent) than owner households (26 percent).

Renters are increasingly likely to be minority or foreign-born, to be older, and to be from nontraditional households. Minorities drove 76 percent of renter household growth during 2004-2018, while foreign-born households accounted for 30 percent of renter household growth during the same period. Even among households aged 55-64, the renter share increased 4.2 percent during 1994-2019.

Affordability still remains the highest barrier to homeownership, which in turn increases the demand for rental housing. Currently, 44 percent of workers aged 18-64 are in low-wage jobs, while nearly all of the net growth in homeowners from 2010-2018 was among households with incomes of $150,000 or more.

- **Income Inequality Among Renters Is Rising, Contributing to the Overall Shortage of Affordable Housing Available to Low-and Extremely-low Income Households**

The average real income of the top 1/5 percent of renters rose by 40 percent over the past 30 years, while that of the bottom 1/5 fell by 6 percent. In 2017, 64 percent of renter households had incomes of 80 percent or less of area medians, including 44 percent with incomes of 50 percent or less of area medians. This means that low-income renters are being priced out more than ever. The number of renter households with incomes under $30,000 fell by almost 1 million during 2010-2018. This in turn may explain the increase in the number of adults of all ages, living with their parents or in roommate situations.

Extremely low-income renter households account for 25 percent of all renter households and 8 percent of all US households. Currently, no state has an adequate supply of affordable and available housing for extremely low-income households, with a shortfall ranging from 7 to 8 million units. The shortages range from 8,201 rental homes in Wyoming to nearly 1 million in California. States where renters face the greatest challenges in finding affordable homes include Nevada, with 18 affordable and available rental homes for every 100 extremely-low income households, California, with 23 for every 100 extremely-low income households, Arizona (26 for every 100), Florida (26 for every 100), and Oregon (28 for every 100).

The states with the greatest supply of affordable and available housing still have significant shortages. This includes West Virginia, with 62 affordable and available rental homes for every

100 extremely low-income renter households, Alabama (56 for every 100), Mississippi (55 for every 100), Kentucky (53 for every 100), and Arkansas (52 for every 100).

With lower mobility rates, housing options are becoming increasingly limited or expensive, especially in desirable neighborhoods close to work or school. The demand for rental housing is only expected to increase, but there are several potential concerns on the horizon. In the current market, young-adults with low and extremely-low incomes may be discouraged from renting altogether, living with their parents until they save enough for a down payment on a house. The possibility of an economic downturn, such as a recession or depression, would further restrict housing options for young adults with low- and extremely-low incomes, inhibiting household formations and decreasing rental demand.

- **Rental Housing Stock Shifts toward Large Multifamily Rentals While Single-Family Rentals Decline**

Over the last decade, the composition of rental stock shifted toward two main structure types—large multifamily apartment buildings and single-family homes. The high growth in demand from high income renters has contributed to the growing share of rental construction in apartment structures with 50 or more units. This has increased from 11 percent in the 1990s, to 27 percent in the 2000s, to 61 percent in 2018.

In 2018, 17 percent of the nation's 47.2 million rental units were in small apartment buildings with 2-4 units, 23 percent in buildings with 5-19 units and 23 percent in buildings with 20 or more units. The number of buildings with 20 or more apartments increased by 31 percent (to 10.6 million) during 2008-2018, and the number of single-family rentals increased by 18 percent (to 15.5 million). Together, this accounts for 87 percent of the growth in the nation's rental stock (2008-2018). In 2018, 61 percent of multifamily units completed were in buildings with 50 units or more. In the 1990's, that average was 11 percent.

Meanwhile, the share of rental units in small- and midsized multifamily structures declined from 44 percent to 40 percent during 2008-2018. Since units in small and midsized buildings typically have lower rents and are therefore more affordable to modest-income households, their shrinking share of the rental stock is a good indicator that the middle of the market continued to erode over the last decade.

However, new construction of large multifamily buildings has more than offset the decline in single-family rentals. In 2018, the number of apartments in large buildings was up 507,000 units, while single-family rentals fell by 291,000. The decline in single-family rentals was more geographically concentrated in Georgia, Florida, and California (2018). States that saw the largest increase in single-family rentals are Texas, Alabama and South Carolina, with most of the single-family homes lost from the rental stock being converted to owner occupancy.
Large increases in investments are necessary to maintain current rental stock as it ages. Improvements spending was up 198 percent from 2010-2018, while maintenance spending increased by 31 percent. Spending on existing rentals totaled $128 billion in 2018, including $87 billion in capital improvements and $41 billion in maintenance expense. Higher costs are associated with development, which impede production of subsidized and market-rate rental housing. Between 2012-2019 nominal costs of commercial construction projects increased 39 percent, and the price of vacant commercial land nearly doubled. A labor shortage (job openings exceeded the 300,000 mark for first time in early 2019), along with increases in amenities and the concentration of construction in core counties, has led to longer build times for multifamily projects (14 months from start to finish). Local regulations, like high fees,

minimum setback and parking requirements are also economic restrictions that have added to the cost of new construction.

- **Despite a Leveling-off in Demand, Rental Marker Indicators Remain Positive: Vacancy Rates are Low and Rents Continue to Increase.**

The current nationwide rental vacancy rate is at its lowest since 1986, at 6.8 percent (between 3rd quarter of 2018 and 3rd quarter of 2019). Declines occurred in all market segments (market-rate conversions removed 50,000 subsidized units during 2014-2018). The overall vacancy rate for professionally managed apartments was 5.7 percent. The highest vacancy rate is at 8.2 percent for higher-quality properties with four- and five-star ratings. The lower-quality tiered one- and two- star apartments saw vacancy rates slip from 4.9 percent to 4.7 percent, while moderate-quality units with three-star ratings dropped from 5.4 to 5.3 percent. Geographically, rental vacancies fell in all regions except in the South.

Rents also continued to increase in 2019. Nationally, rents were up 3.7 percent year-over-year in the third quarter of 2019. From 2012-2019, the Consumer Price Index for rent of primary residence rose 28 percent. Professionally managed apartment rents rose 2.9 percent (year-over-year in 3rd quarter of 2019), and slightly below the 3.1 percent in the previous year. Moderate-quality apartments rose fastest, increasing by 3.2 percent, followed by higher-quality apartment rents, which rose by 2.7 percent in both 2018, and 2019. Lower-quality apartment rents rose by 2.5 percent (down from 3.1 percent in 2018).

Low vacancy rates and strong net growth have kept multifamily construction on the rise. The level of multifamily starts through the first three quarters of 2019 remained at an annual rate just under 380,000 units, after a 6 percent rise in 2018. In the first three quarters of 2019, 93 percent of all new multifamily units started were intended as rentals (well above the 78 percent average share posted in records back to 1974). More than 600,000 multifamily units are currently under construction, and new construction continues to target the high-end market.

The median monthly asking rent for unfurnished apartments completed in 2018 was just over $1,600, above the $900 median contract rent for all units in 2018. The location, building type, and quality of new rental construction have pushed up asking rents for new units as well. Of all the multifamily units completed in 2018, 61 percent (211,000) were in buildings with 50 units or more (larger than the 27 percent averaged in the 2000s). Apartment property prices rose 8.2 percent year over year nominally in the third quarter of 2019 (more than doubled since 2010). However, even while taking into account the increase in construction activity, the overall stock of multifamily units has expanded only marginally because of the shift of many single-family rentals back to the for-sale market.

- **Challenges to Rental Housing Affordability and Stability Keep Growing: The shortage of affordable housing, coupled with cost burdens and the lack of fully funded federal rental assistance programs creates affordability challenges for most low and middle-income renters.**

Affordability has worsened for middle-income households and minorities. Rental households paying at least 30 percent of income for housing and utilities increased to 20.8 million in 2018, with the cost burdened share reaching 47.5 percent. One in four renters spend more than half of their incomes on housing (2018). Indeed, in 2018, the cost-burdened share of renters in 46 states exceeded 40 percent, including seven states with rates above 50 percent. Florida was

the highest (55 percent), followed by California (53 percent). North Dakota had the lowest rate of 36 percent (out of four states with cost burdened shares under 40 percent).

Cost burdens are rising fastest among middle-income households. The cost-burdened share for renter households earning $30,000-44,999 reached 55.7 percent in 2018 (up 5.4 percentage points since 2011). The largest increases occurred in metros with populations above 5 million. Miami had the highest rate of cost burdened renters at 61 percent. Cost-burdens have affected minority households especially. Black renters had the highest cost-burden rate at 55%, followed by Hispanic renters at 53%, and Asian renters at 45%. For white renter households, the cost-burden share was 43%.

Affordability has also worsened in rural communities. Two million renters live in rural communities, and 40 percent of rural renters are cost burdened, including 20 percent that have severe burdens. Cost-burdened Native Americans renters face high rates of housing inadequacy and overcrowding in rural areas. From 2016-2018 the number of USDA-subsidized properties fell from 398,450 to 390,110. It's estimated that 21,000 Section 515 units will exit the subsidized rural stock by 2027. Meanwhile, the Indian Housing Block Grant has seen a 7 percent real cut in real funding from 2014--when HUD reported that the level of assistance was already inadequate.

Affordability has worsened for lower-income households as well, since being fully employed doesn't automatically relieve cost-burdens. More than half of renters working in food preparation and services in 2018 were cost burdened as well as half of all renters working in healthcare support services. In 2018, the median renter earning less than $15,000 had only $410 left over each month, leaving little income for other expenses and necessities such as food and medicine. For the lowest income households with children under the age of 18, food is the largest expense after housing, which directly impacts the ability to provide adequate nutritional needs.

In conclusion, the prognosis for the future looks dire for lower income households. Public-housing units are numbered at below 1 million, and only 1 out of 4 eligible households receive rental assistance. The average assisted family currently lives on $14,000 a year. NAHMA members must continue advocacy for more affordable housing for families in need.