

Rental Resurgence Marked by Single-Family Expansion and Diverging Affordability Trends for Owners and Renters

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- The national homeownership rate has declined for four consecutive years, and in 2011 was 2.6 percentage points lower than in 2007. Households aged 25-44 have experienced declines more than twice as large as the drop in the overall rate.
- Between 2007 and 2011, the proportion of renters living in single-family detached homes grew by 2.0 percentage points, a far larger increase than for any other building type.
- Between 2010 and 2011, the proportion of renters paying at least 30 percent of income for housing increased slightly to 53.4 percent. During the same period, the proportion of homeowners with affordability problems declined.

Introduction

The housing crisis and Great Recession have changed the supply and demand landscape of the housing market. Using the Census Bureau's recently released 2011 American Community Survey (ACS), this edition of *Housing Insights* finds that the decline in the homeownership rate over the past four years has been particularly pronounced among young households. Concurrently, single-family rental housing, a building type with high average rents, absorbed a disproportionate share of new rental demand. As demand in the rental market has expanded, so too have housing cost burdens among renters. The proportion of renters spending at least 30 percent of income for housing increased every year between 2007 and 2011.¹ In contrast, housing cost burdens among homeowners declined in 2011 and have fallen substantially for young owners during the last four years.

The findings related to homeownership rates and single-family rentals are important because they show continuation of the housing demand shift from owning to renting resulting from the housing crisis and Great Recession. Prior to the downturn, the homeownership rate increased for a decade and young households participated in homeownership gains. Conversely, rental housing demand was stagnant. Changes in the demand landscape have induced a number of supply responses from the housing industry, including a rebound in multifamily housing construction and increased capital flows into the single-family rental sector.

The findings related to housing affordability are noteworthy for two reasons. First, they indicate mounting rental affordability pressures that could squeeze renters' expenditures on other goods and services or cause them to adjust their future housing choices. Second, the decline in affordability problems among young homeowners likely reflects a combination of factors, including exits from homeownership by households who had high and unsustainable housing cost burdens, declining mortgage interest rates, and implementation of tighter

mortgage underwriting standards after the housing bust. Tightening of mortgage qualification criteria soon after the onset of the housing downturn probably contributed to the decline in homeownership rates among young households, but may have also helped to create a cohort of young homeowners who have housing costs that are better aligned with incomes.

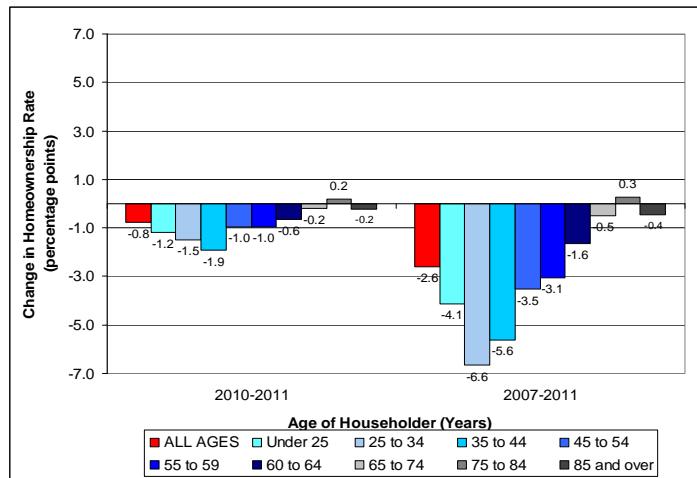
¹ Although ACS data are available beginning in 2005, this article uses 2007 as the base for most historical comparisons because it was the last year prior to the onset of the Great Recession. None of the trends described here would be altered substantially by using 2005 as the base year.

Homeownership Rates Continue to Fall

Five years after the onset of the housing bust, the shift from homeownership to rental occupancy continues apace. In 2011, the homeownership rate fell by nearly a percentage point, the fourth consecutive annual decline.² The 2011 homeownership rate of 64.6 percent was 2.6 percentage points lower than in 2007 and was the lowest rate recorded by the ACS since the survey was fully implemented in 2005.³

Young households have experienced outsized homeownership rate declines. Every age group except those 75 and older experienced a decrease in the homeownership rate between 2010 and 2011 (Exhibit 1). Households with heads of household aged 25 to 34 years and 35 to 44 years led homeownership rate drops among all age groups during both the most recent year and the last four years.⁴

Exhibit 1. The shift from owning to renting continues, particularly among the young.



Source: U.S. Census Bureau, American Community Survey.

Single-Family Homes Capture a Growing Share of the Rental Market

The latest ACS data confirm recent research showing that single-family housing has absorbed much of the increase in rental demand.⁵ Single-family detached units accounted for 27.9 percent of the renter-occupied stock in 2011, an increase of 0.5 percentage points since 2010 and a gain of 2.0 percentage points since 2007 (Exhibit 2). Some of the growth in single-family rental demand has come from former homeowners who lost their homes to foreclosure and subsequently rented single-family units.⁶

² Unless otherwise noted, all differences or changes noted in the text are statistically significant at the 90 percent confidence level.

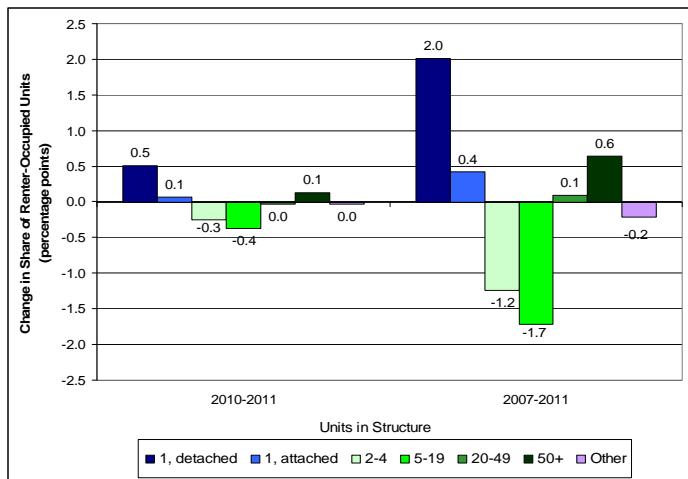
³ Several Census Bureau surveys provide homeownership rate estimates. Although these surveys portray broadly similar trends, they differ in detail. A substantial advantage of using the ACS is that its huge sample size affords more precise estimates of homeownership rates for sub-national geographies and demographic subgroups than do other surveys.

⁴ Although homeownership rates fell slightly more for 25 to 34 year-olds than for those younger than 25 between 2010 and 2011, the difference was not statistically significant at the 90 percent confidence level. In all other cases, 25 to 34 year-olds and 35 to 44 year-olds experienced larger homeownership rate declines than the other age groups depicted in Exhibit 1.

⁵ See, for example, Ryan Kurth, "Single-Family Rental Housing – The Fastest Growing Component of the Rental Market," Fannie Mae Data Note (2, 1), March 2012.

⁶ Molloy and Shan find that most individuals who experience a foreclosure and subsequently move end up in single-family rentals. See Raven Molloy and Hui Shan, "The Post-Foreclosure Experience of U.S. Households," Finance and Economics Discussion Series (2011-32), Federal Reserve Board, May 2011.

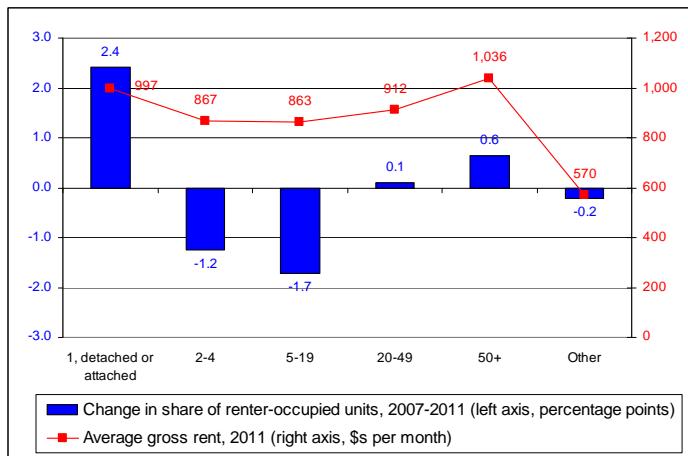
Exhibit 2. As detached single-family homes capture a growing rental market share, small multifamily buildings lose out.



Source: U.S. Census Bureau, American Community Survey.

The increase in market share for single-family detached units was much larger than for any other building type, and came largely at the expense of small multifamily buildings. These trends in market share are shifting the composition of the rental market toward higher-cost unit types (Exhibit 3). Single-family homes and apartment buildings with 50 or more units – building types that captured market share in recent years – have average rents that are at least \$100 per month greater than small multifamily buildings, which lost market share.⁷

Exhibit 3. Rental market shifts toward building types with higher rents.



Source: U.S. Census Bureau, American Community Survey.

⁷ Exhibit 3 collapses detached and attached 1-unit buildings into a single category because these structure types are combined in ACS summary tables that provide rent data.

Affordability Deteriorates for Young Renters, But Improves for Young Owners

One common method for analyzing housing affordability compares a household's monthly housing costs, including utilities, to its pre-tax income to determine if the ratio surpasses a maximum affordable level. For most federal programs, this maximum level currently stands at 30 percent. Households with cost-to-income ratios that exceed this cutoff are defined to have an affordability problem, or "housing cost burden."

Previous research showed that renter income growth lagged substantially behind rent gains between 2008 and 2010, driving an increase in the proportion of renters with affordability problems.⁸ By contrast, the proportion of homeowners with affordability problems remained flat.⁹

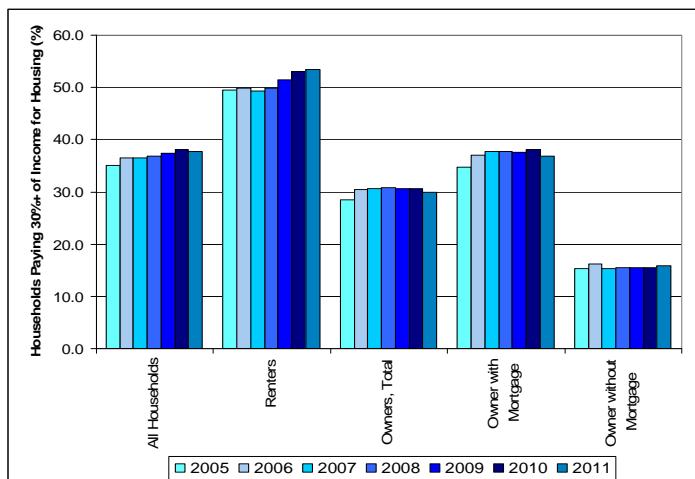
The 2011 ACS data reveal further divergence in affordability for renters and owners.¹⁰ The proportion of renters paying at least 30 percent of income for housing increased between 2010 and 2011, although more slowly than in the preceding year (Exhibit 4). In contrast, the share of homeowners with affordability problems declined by nearly a percentage point last year. The decline was a result of improved affordability among homeowners with mortgages, reflecting declines in mortgage rates to record lows. When renters and homeowners are considered together, the proportion of all households with housing cost burdens declined slightly between 2010 and 2011.

⁸ The 2011 ACS data show that growth in renters' median household income continued to lag behind the increase in median gross rent between 2010 and 2011.

⁹ See, for example, Patrick Simmons, "Income Declines Drive Increase in Renter Cost Burdens," Fannie Mae Data Note (2, 2), May 2012. The article discusses characteristics and limitations of the affordability measure used here.

¹⁰ Comparisons of housing cost-to-income ratios for homeowners and renters have limitations and should be interpreted with caution. For example, these measures are based on pre-tax costs and incomes, and as such do not reflect the value of tax benefits received by homeowners.

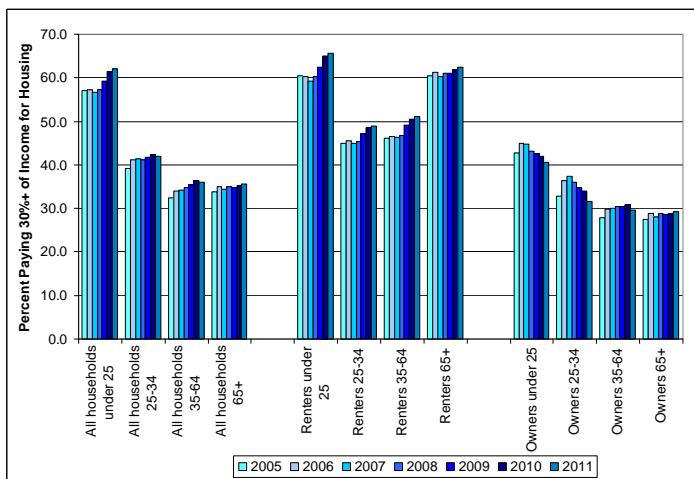
Exhibit 4. Affordability problems tick up among renters, but fall among homeowners.



Source: U.S. Census Bureau, American Community Survey.

Affordability problems have increased very rapidly among young renters. Between 2007 and 2011, the share of renters under age 25 with housing cost burdens increased by 6.2 percentage points, and that for renters aged 25 to 34 grew by 4 points. However, during the same period the proportion of owners in these two age groups with affordability problems declined by 4.3 and 5.8 percentage points, respectively (Exhibit 5). In fact, the share of homeowners in these two age groups with affordability problems in 2011 was lower than in 2005, prior to the onset of the housing crisis. Between 2007 and 2011, the sharp decline in affordability problems among young homeowners was not enough to offset large increases in rental affordability problems, resulting in an increase in the share of all households with cost burdens for those under age 25 and between the ages of 25 and 34.

Exhibit 5. Affordability trends diverge for young homeowners and renters.



Sources: U.S. Census Bureau, American Community Survey.

One encouraging finding for renters is that affordability problems did not worsen in 2011 for occupants of single-family rentals or apartment buildings with at least 50 units – the fastest growing rental market segments.¹¹ After rising in 2009 and 2010, housing cost burdens for occupants of these housing types were flat in 2011.

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¹¹ Data for detached and attached 1-unit buildings are collapsed into a single category because these structure types are combined in ACS summary tables that provide rent-to-income data.