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Front Page

Rental Market Unprepared to Meet Quick Climb in Demand, Harvard Joint Center Warns

Rental housing is poised to recover quickly from the ill-effects of the recession and is likely to lead the housing recovery, according to new study from the Joint Center for Housing Studies of Harvard University.

But the supply of housing, the Harvard researchers suggest, may not be adequate to keep up with fast-rising demand, resulting in a significant climb in rents that will be especially difficult for households at the lower end of the pay scale who disproportionately make up the ranks of the nation's renters.

While rental housing lost significant ground during the Great Recession, "the ingredients for a surge in demand may be present," according to the report, "America's Rental Housing — Meeting Challenges, Building on Opportunities."

"The recession has not only dampened the rate at which young adults form independent households, but also stalled the pace of immigration — both drivers of rental demand," the study says.

But "when job growth regains momentum, the number of renter households could climb quickly," Harvard researchers conclude.

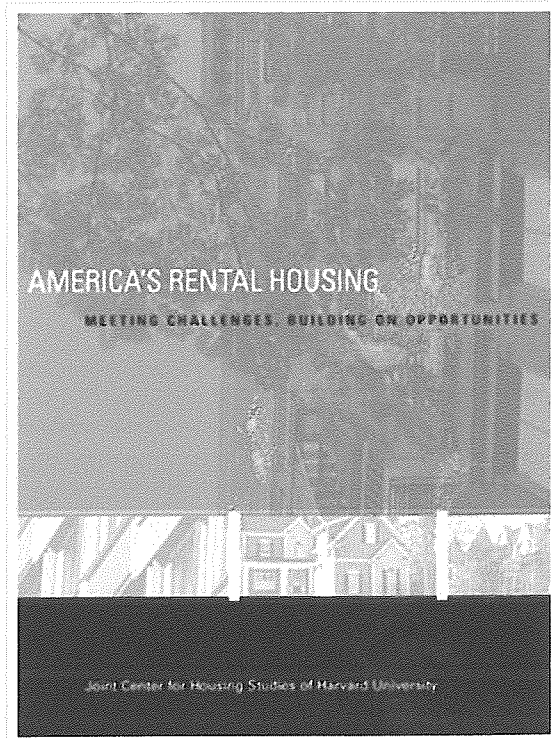
Given the extremely low production levels of new multifamily buildings in recent years — the result of a drought in available financing — and the long lead times needed to develop new multifamily housing, a sudden surge in demand for rental homes could result in a squeeze, with vacancy rates plummeting and rents rising to a gallop.

"While this would be good news for owners and investors in rental housing, it would also fuel the intense affordability pressures that low-income renters already face," the report says.

A weak economy pushed the overall rental vacancy rate to 10.7% at the end of 2009, up from 9.6% at the end of 2007.

Professionally managed apartments were particularly hard hit, with MPF Research reporting a 4.1% drop in effective rents nationally as of the fourth quarter of 2009.

But conditions in the rental property market have already improved, the Joint Center says, with MPF Research reporting a 1.7% percentage point drop in vacancy rates and a 2.3% annualized increase in rents as of the fourth quarter of last year.



Property values have also begun to recover.

After nearly doubling from the end of 2000 to the end of 2007, Moody's Commercial Property Price Index for apartment buildings was down 31% over the two-year period from the end of 2007 to the end of 2009.

That same index now points to a 12% rise in values since the end of 2009, leaving the rental housing industry with the need to rebound a 28% in order to reach its former peak in real terms.

A Boost From the Bust

The Harvard report notes that rental demand is receiving a big boost from the housing bust, the national decline in housing prices and skyrocketing foreclosures in the hardest-hit markets.

"With millions of home owners delinquent on their mortgages, further increases in the renter population are likely," the report says.

And "owners that have gone through foreclosure are especially likely to remain renters for a number of years to come."

The Joint Center estimates that the number of renter households could increase by 360,000 to 470,000 annually between 2010 and 2020 that is in line with growth over the past decade, it is woefully below recent production levels, which haven't even covered the number of renters being removed from the housing stock.

While the imbalance between supply and demand that is now shaping up is likely to have at least some impact on renters across the board, housing analysts at the Joint Center are particularly concerned about the burden it will impose on the nation's lowest-income renters, with affordability already at crisis proportions.

Affordable Rentals Getting Scarcer

"In the last decade, rental housing affordability problems went through the roof," said Eric S. Belsky, managing director of the Joint Center. One of the authors of the study.

"And these affordability problems are marching up the income scale," Belsky said. "In real terms, it means more people have less money to spend on household necessities such as food, health care or savings."

The study found that in 2009, 63% of extremely low-income renters — those with less than 30% of area median income — were paying more than 50% of their household income on rent and utilities. That left just \$571 a month to spend on all other items.

Today, one in four renters — or 10.1 million households — spends more than half their income on rent and utilities, the report says, and a quarter of renters — 26.2% — spends 30% to 50% of their income for that purpose.

At the same time, the supply of affordable rental housing has been shrinking, the study says.

Since the mid-1990s, more than 700,000 rentals with federal subsidies tied to them have been lost from the subsidized housing stock through demolition or their owners deciding to convert the units into market-rate rentals.

Meanwhile, nearly 12% of the low-cost market-rate rentals that existed in 1999 were demolished or otherwise permanently lost from the housing stock by 2009.

"Smaller and older rental buildings, which account for high shares of affordable units, are especially vulnerable to loss," the study says.

"With a median age of 38 years, the rental housing stock is now older than it has ever been. As housing ages, owners must devote an increasing share of rents to maintenance and replacements of aging systems to maintain the structures in adequate condition.

The report singles out the Low-Income Housing Tax Credit (LIHTC) because it is nearly alone among federal programs in replenishing the affordable rental stock through new construction and substantial rehabilitation of existing properties.

From its inception in 1986 through 2007, the LIHTC program helped to develop 1.7 million affordable units, with roughly two-thirds newly constructed and one-third substantially renovated.

"The high-water mark for production through this program occurred in 2003-5 when strong investor demand increased the market value of credits," the report says.

"During that period, LIHTC development reached more than 125,000 units annually, including about 80,000 new apartments."

However, the tax credits cannot bring rents down to affordable levels for extremely low- and very low-income households, Harvard says.

Also, the credits are capped at 60% of area median income, adjusted for family size, and the government's voucher program usually caps eligibility at 50% of area median income.

A Time to Get Creative

From a policy standpoint, "affordability problems will remain at staggeringly high levels, if not worsen," the researchers conclude, unless there is a dramatic expansion of federal assistance or a shift in state and local land use and building regulations to allow expansion of modest, high-density rental developments.

But the government most likely does not have the resources to run to the rescue and it is having a hard enough time maintaining existing support, the study suggests, which means that "creative approaches" will be needed to close the affordability gap.

"While the need for affordable rental housing is growing, the squeeze on government budgets is putting these much-needed programs in jeopardy," said Chris Herbert, director of research for the Joint Center.

"Investments to preserve existing assisted housing may be cost-effective," he said. "But the public sector can't tackle this problem on its own."

"Policy makers must look for ways to support efforts by the private sector to invest in both existing and new rental housing, while keeping it affordable."