

Single-Family Rental Housing – The Fastest Growing Component of the Rental Market

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Introduction

The Census Bureau’s Housing Vacancy Survey shows the U.S. homeownership rate peaking in Q4 2004 at 69.2 percent, then falling to 66.3 percent in Q3 2011. The Fannie Mae Data Note, [“A Bad Decade for the American Dream,”](#) used decennial census data to show that the homeownership rate in the United States fell to 65.1 percent from 66.2 percent during the first decade of the new millennium.^{1 2} This trend is significant, as every one percentage point drop in the homeownership rate represents a change in the living situation of about 1.1 million American households.

This raises an important question: Where are all these households living now and what housing choices have they made in regard to tenure (owner or renter occupied) and structure type? The question has three basic answers, as a former home-owning household is faced with an immediate future of renting a single-family or multifamily unit, merging and living with another household, or becoming homeless.

This Data Note uses the Census Bureau’s American Community Survey (ACS) to explore the shift from homeownership to renting that has accompanied the recent decline in house prices and recession. This market change has been the subject of little research, yet has had a significant impact on the economy and housing market. Analysis of this trend is particularly timely given the recent policy discussions on efforts to support the housing market through the conversion of a portion of the government-sponsored enterprises’ real estate owned (REO) stock to investor-owned rentals.

Examination of the ACS data reveals that single-family rental housing has gained in market share since the housing bust. This tenure shift is expected to continue to have a significant impact on the housing and mortgage market. Hence, this Data Note focuses on the patterns and characteristics of single-family renters and single-family rental housing at the national level. Also, this Data Note provides insight into the growth of single-family rentals as a share of the market at the metropolitan statistical area (MSA) level.

¹ The 2010 Census and Housing Vacancy Survey (HVS) produce significantly different estimates of homeownership rate levels and trends. For example, the estimated national homeownership rate for the first half of 2010 as measured in the HVS was 67 percent, compared with the 2010 Census homeownership rate of 65.1 percent. Although reasons for such discrepancies are not fully understood, some analysts have argued that a principal cause of the differences is sampling and nonsampling errors in the HVS. (See, for example, *Lawler Economic & Housing Consulting Newsletter*, January 31, 2012.)

² Simmons, Patrick, “A Bad Decade for the American Dream,” *Fannie Mae Data Note* (1, 8), October 2011.

The American Community Survey

The American Community Survey (ACS), released annually by the Census Bureau, provides a wealth of data useful for exploring changes in housing tenure. The ACS collects demographic and housing information on a multitude of topics including age, sex, income, educational attainment, housing tenure, and housing structure type. From 2005 on, the ACS has collected data from a sample of more than 1.9 million housing units per year and is the largest annual survey of its kind. The ACS also provides a unique dataset allowing analysts to drill down to the units in structure level by tenure and household characteristics.

Despite its many strengths, the ACS should be used with caution. Limitations of the ACS data include a lack of comparability over time for some variables, a weighting process that makes it difficult to utilize population or housing unit counts from the survey, and sampling error.³

Defining “Single-Family”

“Single-family” can be defined in a few different ways depending on the data source and purpose of discussion. Physically, one might think of a single-family home as a residential structure consisting of one independent unit. Alternatively, the Real Estate Settlement Procedures Act (RESPA) guidelines regulating mortgage lending and settlement procedures for individuals covers loans secured with a mortgage placed on one-to-four family residential properties.⁴ At the same time, a buyer of a triplex or fourplex might need to seek non-traditional financing that requires different underwriting criteria because part of the mortgage payment might be supported by rental income. This Data Note uses the physical definition and focus on growth in the renter-occupied stock of one-unit dwellings and their characteristics compared to other rental types. As used here,

³ To avoid potential pitfalls of ACS data usage, this Note: 1) uses variables that are defined and measured consistently across surveys, 2) examines percent distributions of population and housing characteristics rather than counts of people and housing units, and 3) tests for statistical significance of measured differences. Any differences referenced in this Note that did not test as statistically significant at a 90 percent confidence level are highlighted to provide caution to the reader.

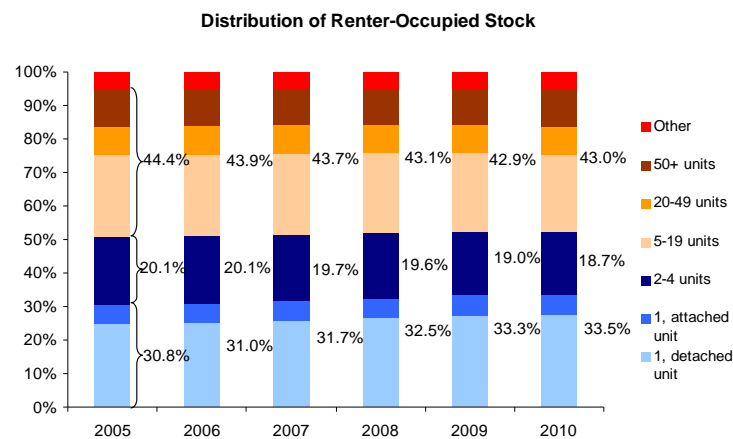
⁴ http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/res/respa_hm

single-family includes both detached and attached (i.e., townhomes or rowhouses) one-unit structures.

Changing Landscape of Household Tenure Choice

Since the middle of the last decade, the homeownership rate has fallen in the United States. Conversely, rentership has increased, and single-family homes have captured a large portion of growth in renter-occupied units. From 2005 to 2010, single-family units as a share of the renter-occupied stock grew from 30.8 percent to 33.5 percent, which was the largest increase among all rental property types (Exhibit 1).

Exhibit 1: Single-Family Units Have Grown as a Share of the Renter-Occupied Stock



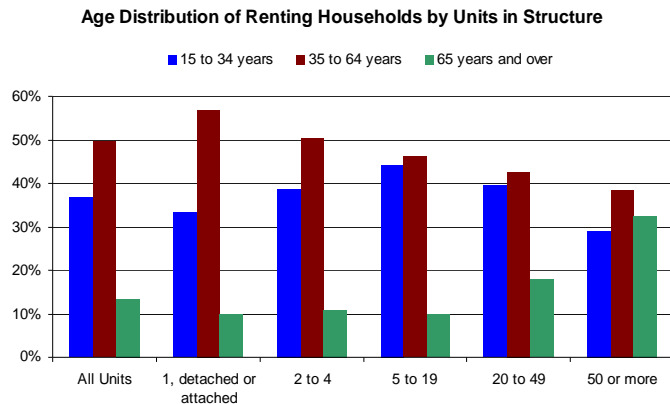
Source: U.S. Census Bureau, American Community Survey

Characteristics of the Single-Family Renter

The 2010 ACS includes data on household characteristics by tenure and structure type that provide insights into the characteristics of single-family renters. The single-family renting household differs from single-family owner-occupants and other renting households in household age, income, and household size.

Renters tend to be younger than owner-occupants. In 2010, 35- to 64-year-olds made up 49.7 percent of renting households compared to 63.1 percent of owning households. However, as shown in Exhibit 2, 35- to 64-year-olds accounted for 56.8 percent of all single-family renting households.

Exhibit 2: More Single-Family Renters Are “Middle-Aged” Than Other Renters



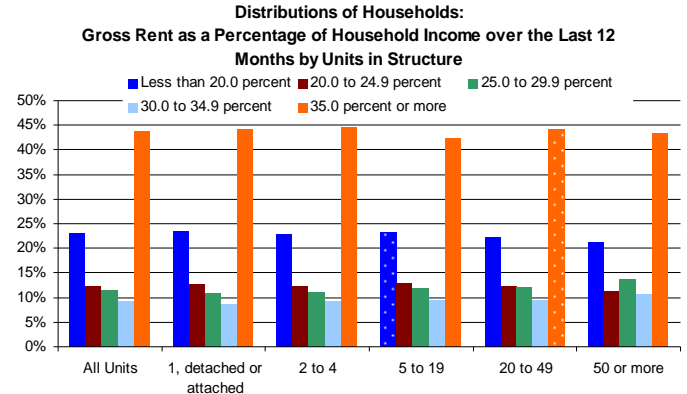
Source: U.S. Census Bureau, American Community Survey

The median household income of renters is lower than that of owner-occupants.⁵ One important policy goal of the federal government and the GSEs is to help provide “affordable” rental housing, which can be measured by a rental cost to income ratio. Single-family renters are just slightly more burdened by their rental costs than those in other types of rentals when comparing the share of renters with a high portion of their income going toward rent. The ACS 2010 data show that 43.8 percent of all renters pay more than 35 percent of their gross household income toward rental costs, including utilities. This compares to 44.1 percent for single-family renters, which is second only to renters of two- to four-unit buildings (44.6 percent). In general, however, rental affordability distributions are similar across the rental property types (Exhibit 3).⁶

⁵ In the 2010 ACS, renting households had a median household income of \$30,671 versus \$62,898 for owning households, a gain of 7.9 percent and 8.7 percent since 2005, respectively. The ACS summary tables, however, do not break these data down by structure type. Comparatively, the American Housing Survey 2007 summary tables provide a breakout of median income by units in structure. For 2007, the latest data available, owner-occupiers were reported as having a median household income of \$59,886. All renter-occupiers were reported as having a median household income of \$26,673, while single-family renting households reported the highest median income of any rental structure type at \$29,647.

⁶ Renters for whom a rent-to-income ratio was not computed (representing 7.7 percent of total renter-occupied units) were dropped from the universe used in these calculations. These are units where no rent is reported as being paid or no income is reported as being earned.

Exhibit 3: Single-Family Renting Households Are About Average in Rent Burdens

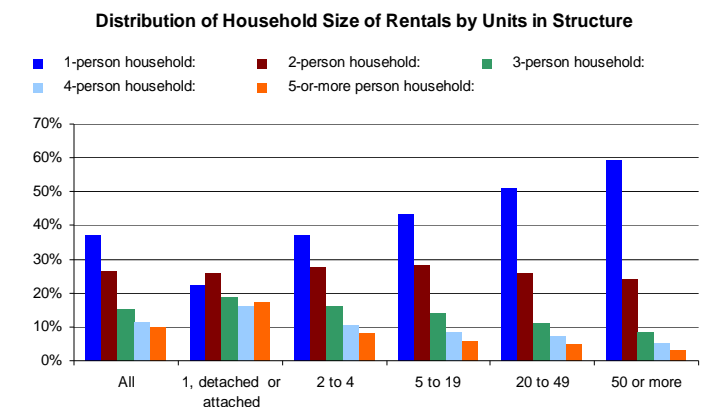


Note: Perforated bars were not considered statistically significant after testing against all units

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

Not surprisingly, households renting single-family houses tend to be larger than those renting multifamily units. The largest share of single-family rental households have two members (25.7 percent) while the largest share of all renting households have one member (37 percent). Also, as can be seen in Exhibit 4, single-family renters with three or more members have a much larger share of the total when compared to all rental households.⁷

Exhibit 4: Single-Family Rentals Have Larger Households than Other Rental Units



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

⁷ Single-family rentals also are larger in number of bedrooms. In 2005, the last year the summary table was available in the ACS, more than 90 percent of single-family residences had more than two bedrooms, while the same was true for less than 60 percent of multifamily units.

The Geography of Single-Family Rental Markets

Real estate is always local, and that is no different in the case of the single-family rental market. Single-family units would be expected to capture a larger share of the rental market in some areas than others because of differences in factors such as foreclosure rates, or changes in employment and median income. This is proven by analysis of ACS data for the 100 most populous MSAs.

MSAs differ in the share of the renter-occupied stock that comprises single-family units. Below, we highlight MSAs with the largest and smallest single-family shares of the rental stock. Also highlighted are the MSAs where that share changed the most over the last five years. It is more useful to analyze ACS data over time with this methodology than simply measuring the growth in stock.⁸ Data of this nature can help analysts and decision makers narrow a broader trend geographically in order to bring better focus to research overall.

According to ACS estimates, the single-family share of renter-occupied units ranged from 57.8 percent in the Stockton MSA to only 9.8 percent in the New York City MSA in 2010 (Exhibit 5). Simply drawing from the names on the list, the reader can draw some inferences between general housing market characteristics and the concentration of single-family rental housing. Many reasons could be at play as to why one MSA is more or less concentrated toward single-family rentals, including housing options (or supply) and housing preference (or demand). Housing options are a function of land scarcity, local development regulation, and home builder trends while housing preferences are a function of social trends, housing affordability/income levels, household demographics, and the historical timing of peak immigration.

⁸ In sample surveys, such as the Housing Vacancy Survey, American Community Survey, and American Housing Survey, the accuracy of estimated counts are affected by the accuracy of independently developed population or housing unit control totals that are used in the estimation process. These sample surveys are designed principally for estimating the distribution of population and housing characteristics, including the distribution of housing units by structure type, and not the number of people, households, and housing units.

Exhibit 5: Rental Markets Ranked by Single-Family Market Share

Top 20 MSAs - 2010 - Renter Market Share of Single-Family Renter-Occupied Housing		Bottom 20 MSAs - 2010 - Renter Market Share of Single-Family Renter Occupied Housing	
Stockton, CA	57.8%	New York-No. New Jersey-Long Isl., NY, NJ, PA	9.8%
Bakersfield-Delano, CA	51.7%	Boston-Cambridge-Quincy, MA-NH	13.5%
Boise City-Nampa, ID	48.3%	Hartford-West Hartford-East Hartford, CT	14.5%
Riverside-San Bernardino-Ontario, CA	47.4%	New Haven-Milford, CT	15.1%
Oklahoma City, OK	46.6%	Worcester, MA	15.4%
Deltona-Daytona Beach-Ormond Beach, FL	46.0%	Providence-New Bedford-Fall River, RI-MA	16.6%
Oxnard-Thousand Oaks-Ventura, CA	45.8%	Madison, WI	16.7%
Tulsa, OK	44.5%	Albany-Schenectady-Troy, NY	16.7%
Fresno, CA	44.4%	Springfield, MA	17.8%
Sacramento-Arden-Arcade-Roseville, CA	43.9%	Milwaukee-Waukesha-West Allis, WI	18.3%
Wichita, KS	43.1%	Bridgeport-Stamford-Norwalk, CT	19.5%
Youngstown-Warren-Boardman, OH-PA	42.6%	Syracuse, NY	19.8%
Memphis, TN-MS-AR	42.4%	Buffalo-Niagara Falls, NY	20.3%
Colorado Springs, CO	42.2%	Chicago-Joliet-Naperville, IL-IN-WI	21.0%
McAllen-Edinburg-Mission, TX	42.1%	Minneapolis-St. Paul-Bloomington, MN-WI	23.2%
Palm Bay-Melbourne-Titusville, FL	42.1%	Poughkeepsie-Newburgh-Middletown, NY	23.6%
Augusta-Richmond County, GA-SC	41.9%	Rochester, NY	23.8%
Cape Coral-Fort Myers, FL	41.6%	Austin-Round Rock-San Marcos, TX	24.6%
Dayton, OH	41.1%	Portland-South Portland-Biddeford, ME	26.5%
Phoenix-Mesa-Glendale, AZ	40.9%	San Francisco-Oakland-Fremont, CA	27.6%

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

The ACS data also give insight into how markets changed in single-family rental market share from 2005 to 2010. In the United States, single-family share of the rental market increased by 2.7 percentage points while small multifamily properties (5 to 19 units) lost nearly three points of market share. Meanwhile, many MSAs hardest hit by the recession have experienced above average growth in single-family rentership. For example, from 2005 to 2010 single-family rentals in the Phoenix, AZ and Las Vegas, NV MSAs gained 12.3 percentage points and 10.1 percentage points of rental market share, respectively (Exhibit 6).

Exhibit 6: Rental Markets Ranked by Growth in Single-Family Market Share

Top 20 - Change in Market Share of Single-Family Renter-Occupied Housing - 2005 to 2010		Bottom 20 - Change in Market Share of Single-Family Renter-Occupied Housing - 2005 to 2010	
Phoenix-Mesa-Glendale, AZ	12.3%	Augusta-Richmond County, GA-SC	-3.6%
Tucson, AZ	12.2%	McAllen-Edinburg-Mission, TX	-3.4%
Stockton, CA	11.9%	Knoxville, TN	-3.2%
Boise City-Nampa, ID	10.3%	Syracuse, NY	-2.9%
Las Vegas-Paradise, NV	10.1%	Baton Rouge, LA	-1.5%
Memphis, TN-MS-AR	8.9%	Wichita, KS	-1.5%
Salt Lake City, UT	8.8%	Poughkeepsie-Newburgh-Middletown, NY	-1.4%
Palm Bay-Melbourne-Titusville, FL	8.4%	New Haven-Milford, CT	-0.9%
Colorado Springs, CO	8.2%	Omaha-Council Bluffs, NE-IA	-0.4%
Riverside-San Bernardino-Ontario, CA	7.1%	Bakersfield-Delano, CA	-0.4%
Honolulu, HI	6.2%	Hartford-West Hartford-East Hartford, CT	-0.3%
Tampa-St. Petersburg-Clearwater, FL	6.1%	New Orleans-Metairie-Kenner, LA	-0.1%
Orlando-Kissimmee-Sanford, FL	6.0%	Bridgeport-Stamford-Norwalk, CT	0.1%
Cleveland-Elyria-Mentor, OH	6.0%	San Diego-Carlsbad-San Marcos, CA	0.1%
Lakeland-Winter Haven, FL	6.0%	Youngstown-Warren-Boardman, OH-PA	0.2%
Sacramento-Arden-Arcade-Roseville, CA	5.9%	Rochester, NY	0.5%
Jacksonville, FL	5.8%	Boston-Cambridge-Quincy, MA-NH	0.6%
San Antonio-New Braunfels, TX	5.8%	Buffalo-Niagara Falls, NY	0.6%
Miami-Fort Lauderdale-Pompano Beach, FL	5.7%	Columbus, OH	0.7%
Cape Coral-Fort Myers, FL	5.6%	Greenville-Mauldin-Easley, SC	0.8%

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

Implications: A Market Segment with Potential

The word “renter” often evokes images of an apartment-dwelling urbanite. It is quite clear, however, that the single-family rental market has historically been and is an increasingly important part of the United States real estate market.

Foreclosures and the distressed property overhang have put downward pressure on home prices. As of this writing, there is much talk of a desire to support the housing recovery by embracing the single-family rental market, and subsequent single-family investor market, as an option for reducing the overhang of distressed properties.

A trend toward single-family rentals could have an impact on the multifamily business. This Data Note shows that increased demand for rentals does not always translate fully into increased demand for multifamily units. However, the depth of this potential impact is debatable. This Data Note also shows that the single-family renter does not fit neatly into the age and income demographic that typically drives multifamily rental demand. The growth trend of single-family rentals can be attributed to an increase in vacant single-family housing, a decline in the homeownership rate, and a growing renter constituency with demand for a rental unit that provides the benefits of the single-family structure.

The ACS data analyzed in this Data Note provide an introduction to what, up until now, has been somewhat of a forgotten segment in the real estate market. This analysis also aims to help market participants and policymakers better understand who occupies these units and where both supply and demand lie in order to better serve the single-family rental market.

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