Texas Sees Postrecession Turnaround in Rental Housing Market

By Wenhua Di

It's not surprising that the rental market has picked up and led the recovery from the housing crisis. Families have lost their homes to foreclosure, young adults uncertain about job prospects have delayed home purchases and more people have enrolled in college and need housing. Further, many households face challenges meeting down payment and credit requirements for buying homes as stringent underwriting criteria have made it more difficult to qualify for a mortgage.

For most areas of the country, the demand for rental housing has grown rapidly. During 2011, the number of renter households went up by 1 million.[1] The homeownership rate has gradually declined to 65.5 percent from the historic high of 69.2 percent in 2004 (*Figure 1*). Homeownership trends vary across Texas metros, and the overall rate for the state has stayed around 65 percent.

As a result of this demand for rental housing, the national rental vacancy rate dropped from 10.6 percent in 2009 to 9.5 percent in 2011.[2] Texas' metropolitan areas have some of the nation's lowest vacancy rates. From 2006 to 2010, renter-occupied housing in Texas increased by 184,000 units, which accounts for 43 percent of all occupied housing units added. The demand has been met through not only vacant multifamily units, but also 91,500 additional single-family units. The latter accounted for almost half of total renter-occupied units added in Texas over the four-year period.

Since the government's homebuyer tax credit expired in 2010, multifamily permits and starts have rebounded (*Figure 2*). The owner-occupied market is still under pressure, partly due to a large inventory of distressed sales. The share of homes with negative equity was 22.5 percent in the U.S. and 9 percent in Texas as of September 2012, suggesting a shadow inventory that may emerge when housing prices improve.[3] Construction of single-family homes is not recovering as quickly as it is for multifamily homes.

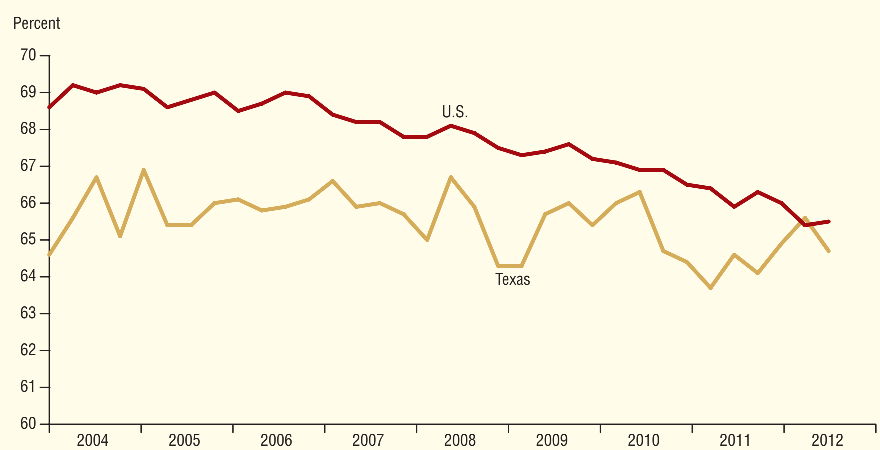
Still, the rental market has tightened in almost all major metros in Texas, particularly for multifamily properties that are professionally managed.[4] Rents have gone up relative to mortgage payments since the recession started. The median cost to rent in Texas increased from $711 in 2006 to $786 in 2010, a 2 percent increase when adjusted for inflation. In addition, the renter's cost distribution also shifted to the higher end over the same period (*Figure 3*). In contrast, the median monthly housing cost for owners with a mortgage changed little in real terms over those years.

Is the Market Overbuilding?

If the number of rental units added cannot keep up with demand, rents will continue to rise. But in some markets, if too many new units are delivered too quickly, rents may drop sharply. Overall, multifamily deliveries are still lower than absorption. The construction activities in Texas have not yet recovered to prerecession levels despite recent upward trends.

Figure 1

Texas Homeownership Holding Near 65 Percent

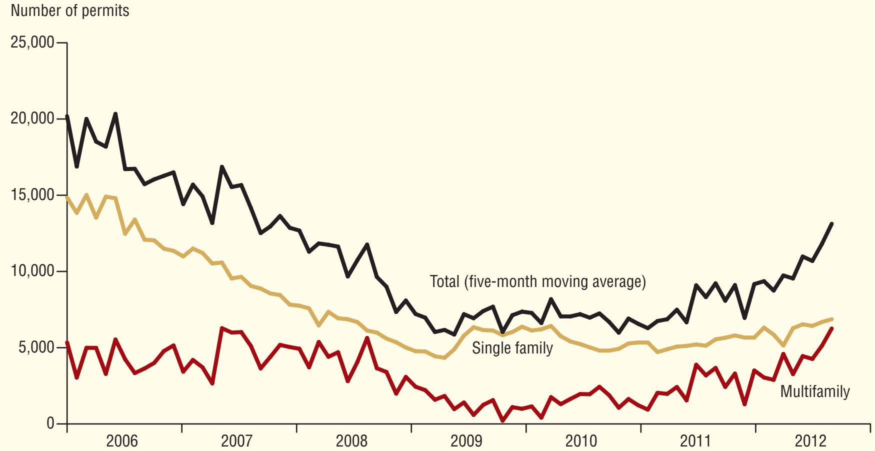


SOURCES: Census Bureau/Haver Analytics.

Whether the multifamily sector is overbuilding also depends on future demand for rentals. In recent years, Texas has had the largest population and job growth among all states.

Figure 2

Multifamily Driving Uptick in Texas Residential Building Permits



SOURCE: Census Bureau/Haver Analytics.

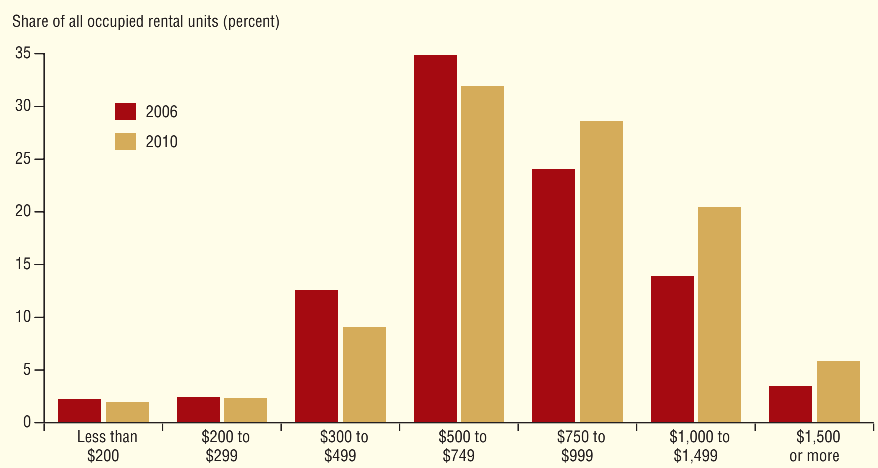
Whether the multifamily sector is overbuilding also depends on future demand for rentals. In recent years, Texas has had the largest population and job growth among the states. The demand for both rental and owner-occupied housing will continue to increase and help absorb the new units produced. Household preferences also change over time for different demographic groups. More higher-income or younger households embrace the idea of renting for style and mobility.

Nationally, rentership increased from 2006 to 2011 for all age groups except those 65 years and older.[5] Texas saw a small increase (0.8 percentage points) in rentership in the 35-to-44 age group from 2006 to 2010. There was no observable increase in rentership for those age 35 and younger in Texas, and there was a decrease in rentership for those age 45 to 74.[6] Some renters choose homeownership when the cost of buying compares favorably with renting.

Another factor that can influence the

Figure 3

Upper End of Rental Market Sees Growth



SOURCE: American Community Survey.

Table 1

Housing Cost Burdens Increase for Renters in Texas

Occupant income	Renter-occupied units added		Units with housing cost burden (percent)			
	Number	Percent	Renter occupied		Owner occupied	
	2006–10	2006–10	2006	2010	2006	2010
<20k	–30,502	–3.6	90	91	70	69
20-35k	13,639	2.1	57	65	46	46
35-50k	36,735	8.5	18	25	33	35
50-75k	65,938	17.6	6	8	20	21
>75k	91,368	34.5	1	8	6	6

NOTES: Occupant incomes are nominal value. Households are considered cost-burdened if they devote more than 30 percent of their income to housing. Costs of owners without a mortgage are not included in calculation.
SOURCE: American Community Survey.

Rent inflation is higher in the upper-end market, which pushes higher-income households to seek lower-cost alternatives. This has left a relatively smaller number of units available for lower-income households.

rental market is the financing of multifamily development. Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA) are still backing most new multifamily loans. The magnitude of government support may not be sustainable, with federal fiscal challenges looming large and the reform of government-sponsored enterprises (GSEs) continuing. Banks, insurance companies and private investors remain cautious about opportunities and decisions regarding multifamily developments given the uncertain future of GSE and FHA guarantees.

Widening Affordable-Rental Gap

From 2006 to 2010, the number of renter-occupied units in Texas increased 6.5 percent to 3 million. As Table 1 suggests, higher-income renters grew disproportionally compared with other income groups. Rent inflation is higher in the upper-end market, which pushes higher-income households to seek lower-cost alternatives. This has left a relatively smaller number of units available for lower-income households.

Considering that real median household income barely increased (by only 2 percent in Texas) over the four-year period, the discrepancy between demand for and availability of affordable rental units increased. For households making less than $20,000 a year, housing options became so limited that many may have doubled up with other families or become homeless.

The share of renters classified as "housing cost burdened" increased from 2006 to 2010 at all income levels.[7] For occupants with incomes between $20,000 and $35,000, the share increased 8 percentage points to 65 percent. For those with incomes between $35,000 and $50,000, the share increased 7 percentage points to 25 percent.

Meanwhile, homeownership has become a relatively affordable option because of low mortgage rates and price stagnancy. The share of owners considered housing cost burdened remained almost unchanged at all income levels from 2006 to 2010.[8] For lower-income households, homeownership with a fixed-interest mortgage can reduce the impact of future rent inflation and provide opportunities to preserve assets and build equity.

Notes

[1] The State of the Nation's Housing 2012, Joint Center for Housing Studies of Harvard University, June 14, 2012, www.jchs.harvard.edu/research/publications/state-nation%E2%80%99s-housing-2012.

[2] See note 1.

[3] The MarketPulse, CoreLogic, November 2012. Data as of September 2012.

[4] CBRE Multi-Housing Outlook with MPF Research, CBRE, 2012.

[5] See note 1. Data based on JCHS tabulations of Census Bureau Housing Vacancy Survey.

[6] American Community Survey, 2006 to 2010.

[7] Households that pay more than 30 percent of their income for housing are considered cost burdened.

[8] Only the costs of owners with a mortgage are included in the calculation.