

The Rise of Single-Family Rentals after the Foreclosure Crisis

Understanding Tenant Perspectives

April 2018

About the Turner Center

The Turner Center formulates bold strategies to house families from all walks of life in vibrant, sustainable, and affordable homes and communities. Our focus is on generating constructive, practical strategies for public policy makers and innovative tools for private sector partners to achieve better results for families and communities.

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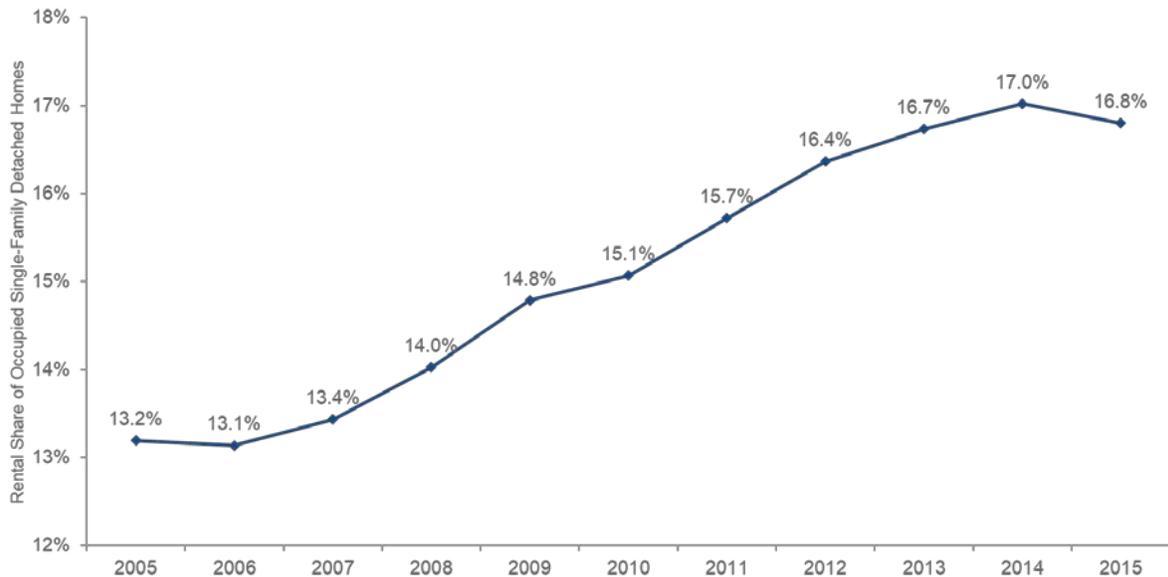
Introduction

In the popular imagination, the single-family home—a detached house with a yard and a white picket fence—is deeply intertwined with the American dream of homeownership. In the years after World War II, metropolitan areas rapidly expanded their stock of single homes, adding an average of nearly 1 million new units a year (compared with an annual production average of just 140,000 units in 1944). This trend has only continued: between 1990 and 2016, single-family structures comprised more than three quarters of the new housing stock in major metropolitan areas. Today, single-family detached homes make up more than 62 percent of the housing stock in the United States, with the vast majority located in suburban neighborhoods.

While single-family homes have largely been owned by their occupants, they have long played an important role in the rental housing market as well. In 1970, nearly 20 percent of single-family homes were rentals, though this share dropped in the 1990s as declining interest rates and expanded access to credit made buying a home more affordable. Single-family rentals accommodate a range of housing needs—from a family of four relocating to a new city for a job and wanting to get a “feel of the landscape” before committing to buy, to a new college graduate who wants the flexibility of renting before “settling down” but who has a dog and wants a yard, to a family who wants more space and privacy but who can’t afford to buy.

In the wake of the foreclosure crisis, however, the share of single-family rentals grew quickly. Between 2006 and 2016, more than 3.8 million additional households became renters of single-family homes. By 2015, nearly one in five single-family homes was occupied by a renter (Figure 1), and today, single-family rentals comprise the fastest growing segment of the housing market. This shift has its roots in both supply and demand trends. Neighborhoods swept up in the building boom of the early 2000s—particularly in suburban communities in Arizona, California, Florida and Georgia—were subsequently some of the hardest hit by foreclosures, resulting in a large stock of vacant single-family homes. The deep and prolonged recession—coupled with significant declines in house prices—meant that more households turned to renting, either because of financial distress or because they were wary of entering a volatile housing market.

Figure 1. The Growth in Single-Family Rentals



Note: While yearly historical data are not available, the rental share of single family homes declined from 19.4% in 1970 to 13.2% in 2000.
Source: Jed Kolko's tabulations of US Census Bureau, American Community Surveys.¹

The surge in single-family rentals has led to a renewed interest in this market segment, but existing research has focused mainly on the supply factors that have been driving this shift. Because there has been less qualitative work exploring the demand side of the market, the goal of this study was to explore why an increasing number of renters are choosing to live in single-family properties. Do they expect to own in the future? Are they renting by choice or by necessity? Why did they choose a single-family home over a unit in a multifamily apartment building? And how did neighborhood quality factor into their decisions?

To shed light on these questions, we fielded a national survey of single-family renters, and supplemented the survey findings with in-depth interviews to better understand the factors that shape the single-family rental experience. This report presents the results of our research. We begin by providing a brief overview of the single-family rental market, and describing the survey methodology and the sample of studied households. We then present the themes that emerged from our research, focusing on three key areas: the reasons households choose to rent single-family homes, their future housing aspirations and the barriers that keep those who want to own from being able to buy a home. We conclude with a discussion of the policy issues that the study raises, and suggest avenues for future research.

Background

The 2008 housing crisis prompted a national decline in the homeownership rate, which was accompanied by an increase in rental demand. The housing stock shifted to meet this demand: there were nearly 600,000 fewer owner-occupied units in 2015 than in 2006, while the rental stock increased by 7.2 million units, including both multifamily units and single-family homes. A

significant share of the growth in rental housing has been in single-family structures:² the addition of 3.8 million units has caused the stock of single-family rental homes to increase nearly 34 percent between 2006 and 2015. As a result, the single-family share of all rentals grew from 31 to nearly 35 percent.

The surge in single-family rentals can be tied to a number of interrelated factors, including the foreclosure crisis,³ the impact of the recession on household incomes, rising student and consumer debt⁴ and the difficulties of obtaining credit as banks have tightened their lending standards.⁵ Much of the research trying to unpack this trend has focused either on these broad trends or on the supply side of the market.⁶ One focus of this research has been the rise of institutional investors as a new class of landlords. Historically, purchasers of single-family rental homes were typically smaller companies, or “mom and pop” landlords.⁷ In the wake of the financial crisis, however, corporate investors with access to capital began to purchase the large inventory of foreclosed homes.⁸ Researchers and advocates have raised concerns about the impact of these institutions on tenants and neighborhood stability.⁹

However, institutional owner-operators make up a very small share of the total single-family rental market, with estimates ranging between one and two percent.¹⁰ Among investors buying during the housing boom and bust (2000-2014), 38 percent of single-family rental properties were purchased by landlords who buy only one or two properties per year, and 60 percent were purchased by investors who buy 10 or fewer properties per year.¹¹

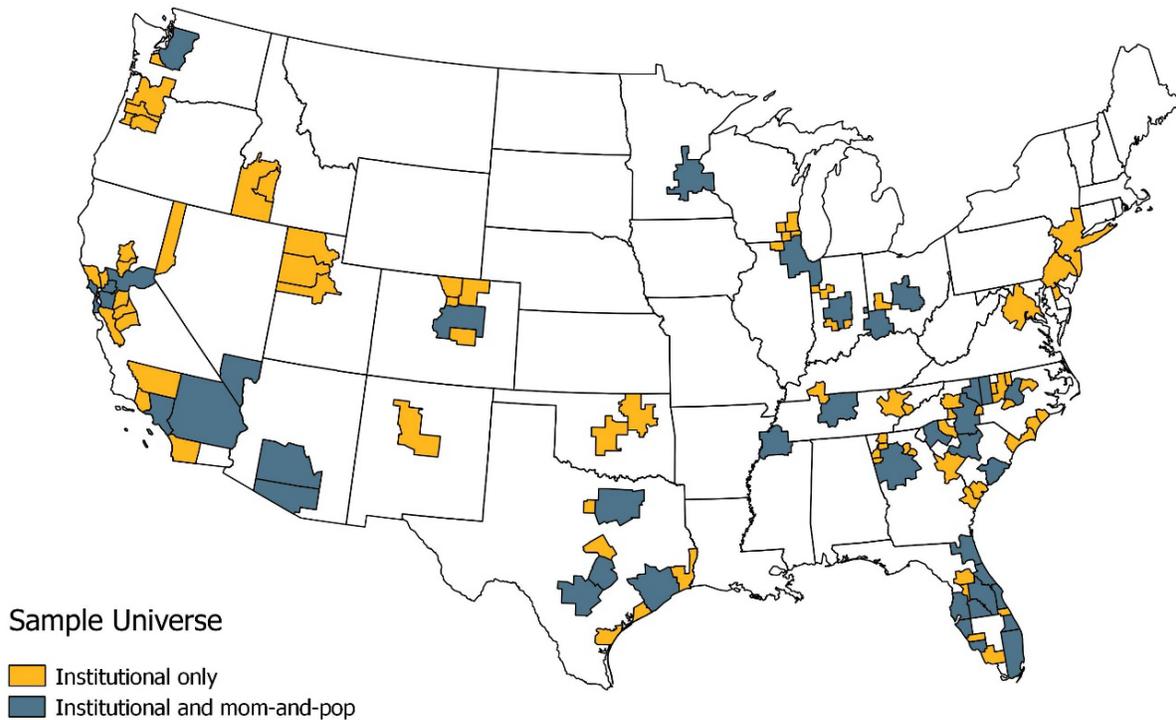
This suggests that the rise in single-family rentals isn’t only a product of shifting dynamics in who owns the supply of single-family homes. Rather, households are making the decision to rent, as well as to rent a single-family home. What underlies this decision-making process? Does it reflect a shift in attitudes surrounding homeownership? Or are households locked out of the ownership market? How important are neighborhood characteristics to a household’s decision to rent a single-family home? Our goal in this study was to examine these questions, and to learn more about how single-family renters are making decisions about their housing, and how those decisions are shaped by changes in household composition, finances, and perceptions about the benefits of owning relative to renting.

Research Methodology

To pursue these questions, we conducted a national survey of single-family renters. To distribute the survey, we partnered with two different groups: the National Rental Home Council (NRHC), a single-family rental industry group including institutional owner-operators, and Roofstock, an organization that supports small-scale landlords investing in single-family homes.¹² NRHC members provided us with a random sample of properties in their portfolios, and Roofstock randomly sampled units in the same geographic markets. The goal was to generate a random sample of renters living in single-family properties managed by both smaller and larger scale landlords. We did not receive any identifying information about the landlords from either group. We surveyed properties across 115 metropolitan areas in the United States, with some concentration on the coasts and in “sand” states that experienced the most dramatic housing boom and bust (Figure 2).

We sent out 7,726 solicitations (1,517 via email and 6,209 by mail), and asked respondents to complete an online survey. Solicitations were sent in early April 2017 (with reminders sent over the next eight weeks) and the online survey was live from April to the end of July 2017. We received 190 survey responses. In addition, we conducted telephone interviews with 19 single-family renters to delve deeper into their past housing trajectories as well as to better understand their future housing aspirations.

Figure 2. The Geographic Distribution of the Single-Family Renter Survey



Profile of Survey Respondents

Table 1 represents descriptive statistics for the 190 single-family renters who responded to our survey. While our sample was relatively small, our sample statistics are largely consistent with studies that have used national data to characterize single-family renters.¹³ In general, the typical single-family renter is between the ages of 25 and 54 and, compared to multifamily renters, are more likely to be married and/or have children living at home. We find the same in our sample: the majority of our respondents fell between the ages of 25 and 54, and nearly 60 percent were households with children. The racial representation of our sample also generally reflects national trends: approximately 39 percent of single-family renters are minorities, compared to 35.6 percent of our sample.¹⁴ However, our sample does show some bias in who responded to the survey: compared to the national distribution of single-family renters, our sample is skewed towards those with higher incomes with almost three quarters of the sample households earning more than \$50,000 per year and more than 25 percent of our sample earning \$100,000 or more. Single-family renters in our sample also have higher levels of education, with just under 10 percent having only a high school degree or lower.¹⁵

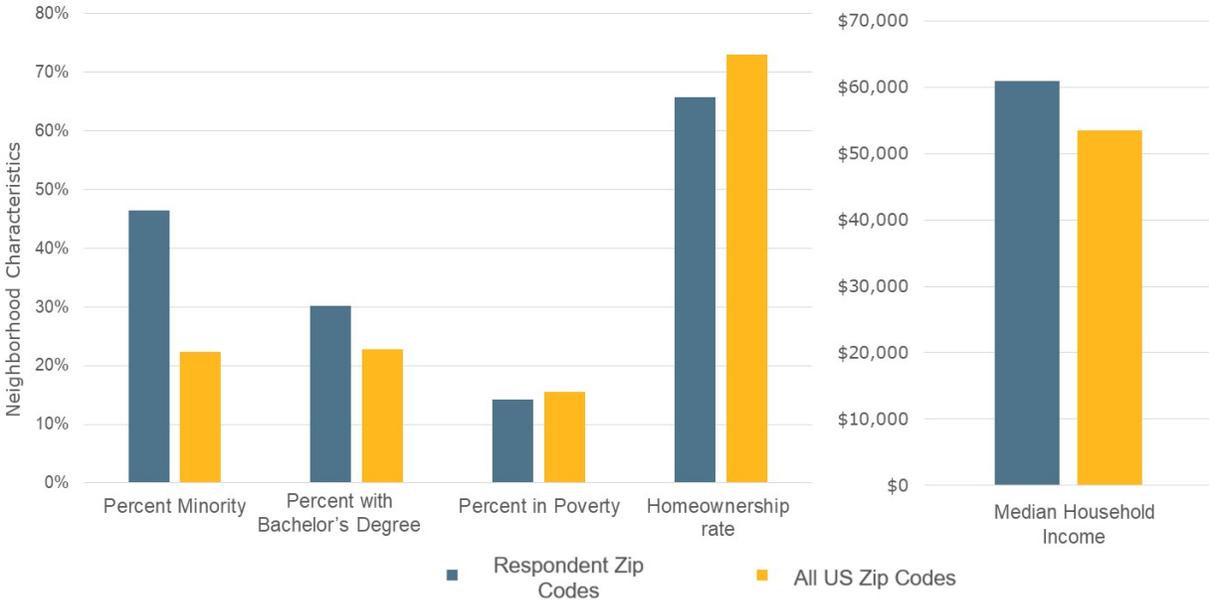
Table 1. Descriptive Characteristics of Single-Family Renter Survey Respondents

Age	Frequency	Percent		Education	Frequency	Percent
15-24	6	3.30%		Less than high school	3	1.60%
25-34	37	20.10%		High school	15	8.20%
35-44	64	34.80%		Some college	49	26.90%
45-54	42	22.80%		2-year degree	22	12.10%
55-64	28	15.20%		4-year degree	57	31.30%
65 and older	7	3.80%		Graduate degree	36	19.80%
Race/Ethnicity	Frequency	Percent		Family income	Frequency	Percent
White	117	64.30%		Less than \$25,000	13	7.30%
Black	29	15.90%		\$25,000-\$49,999	34	19.00%
Hispanic	23	12.60%		\$50,000 - \$74,999	49	27.40%
Asian / Other	13	7.10%		\$75,000 - \$99,999	34	19.00%
				\$100,000 - \$149,999	37	20.70%
				\$150,000 or more	12	6.70%
Household Type	Frequency	Percent				
Married/partnered, ¹⁶ no minor children	40	21.90%				
Married/partnered, with minor children	67	36.60%				
Single parent, with minor children	37	20.20%				
Other family type	12	6.60%				
Roommates	4	2.20%				
Single-person household	23	12.60%				

There are also differences in where the single-family homes in our sample are located compared to the average neighborhood in the United States (Figure 4). Respondent zip codes, on average, are more likely to have a greater share of minority residents (46.4 percent), a greater share of households with a college degree (30.2 percent), and a higher median household income (\$61,000) than the average US zip code. In addition, homeownership rates tend to be lower. In part, this reflects the demographic and socio-economic characteristics of neighborhoods that were affected by higher rates of foreclosures, resulting in higher numbers of single-family properties to rent. But the higher incomes and education, along with lower homeownership rates, are also reflective of the geographic representation of our survey respondents, who tended to be concentrated in larger metropolitan markets such as Atlanta, Denver, the San Francisco Bay Area, Portland, and Seattle.

These differences are important to bear in mind. While we sampled a random set of single-family renters, there is a potential for bias in who chose to respond to the survey and to our interview requests, making it difficult to generalize the findings in our survey to the entire population of single-family renters. However, the results presented here point to important dimensions that have been underexplored in research focused on single-family renters, and lay the groundwork for additional research and discussion on how to best serve this housing market segment.

Figure 4. Comparing Respondents' Neighborhood Characteristics to the Average U.S. Zip Code



Source: Author's tabulations of 2011-2015 ACS ZCTAs.

Findings

People often choose to rent because it offers flexibility and affordability.

First, we found that many households made the decision to rent for reasons that had nothing to do with the housing stock itself. Instead, the surveys and interviews revealed the important role that renting plays in people's housing trajectories, and especially in managing life transitions. U.S. housing policy has long privileged homeownership (including through the mortgage interest tax deduction as well as through institutions like the Federal Housing Administration), but rental housing provides important benefits, and the surveys and interviews revealed that the majority of respondents were happy with their decision to rent, at least for now. Nearly two-thirds of survey respondents were already renters before moving into their current units—35.8 percent rented single-family homes while 30.0 percent had been living in multifamily buildings. Many also said that they chose to rent because of its positive attributes: 42.9 percent of respondents indicated that they were renting because it was more affordable, more convenient, provided more flexibility, and/or allowed them to access a better neighborhood. Almost one in five respondents said that they had no plans to own in the future.

Interviews offered additional insights into why these households were currently renting. The first was the importance of renting as a way to facilitate major life transitions, including changes in family composition (e.g., getting married or divorced) or employment (e.g., relocation). Indeed, the ability to rent emerged as an important strategy households use pursue job opportunities or balance the

needs of two-earner households. One couple had to balance their respective goals to pursue graduate studies, moving from one city to the next as they were accepted into different schools. In addition, the flexibility that comes with renting was cited by many as a positive. One respondent said: “I like the flexibility of renting—it’s freeing. You can leave at any moment.” Divorce and children graduating and going off to college also prompted some of the older adults we interviewed to shift to renting, as they planned out the next stage in their lives.

The second key benefit to renting that emerged from the interviews was the lower maintenance costs (both in terms of capital and time). Overall, most respondents were responsible for the day-to-day maintenance of their homes, such as mowing the lawn and fixing smaller things, while landlords tended to manage the larger breakdowns. Especially for those who had owned a home prior to becoming a renter, not feeling responsible for long-term maintenance was a relief. Older single-family renters in particular noted their concerns with the upkeep associated with owning a home. One respondent said: “I was thinking, this [having the landlord do repairs] is really nice! When I was owning my own home, you know, your hot water heater goes out, you’ve got to come up with the money, you’ve got to get somebody to do it. In some ways, I’m thinking, maybe renting is really a good idea.” Particularly among older respondents, the concerns about the costs and physical labor associated with homeownership were paramount in their decision to rent.

Third, a few respondents noted that the foreclosure crisis and housing market instability had changed their views on homeownership. One single-family renter who had experienced a foreclosure shared that she was happy renting: “I’m not so concerned about owning. I used to think it was like the American dream, before this crunch came and everything went under... But I’m looking at it now and thinking, maybe that was not, maybe the dream is different. Or it was for me anyway. It’s ok this way. [...] I always thought it was a status thing. That people just rented because they couldn’t own. But now I’ve kind of really changed my attitude about it. I mean, from experience, I’m thinking, maybe this is just smarter for me, you know.” However, the survey results suggest that this perspective is in the minority, with most respondents viewing rental as a short-term tenure choice until they are in a position to “settle down.”

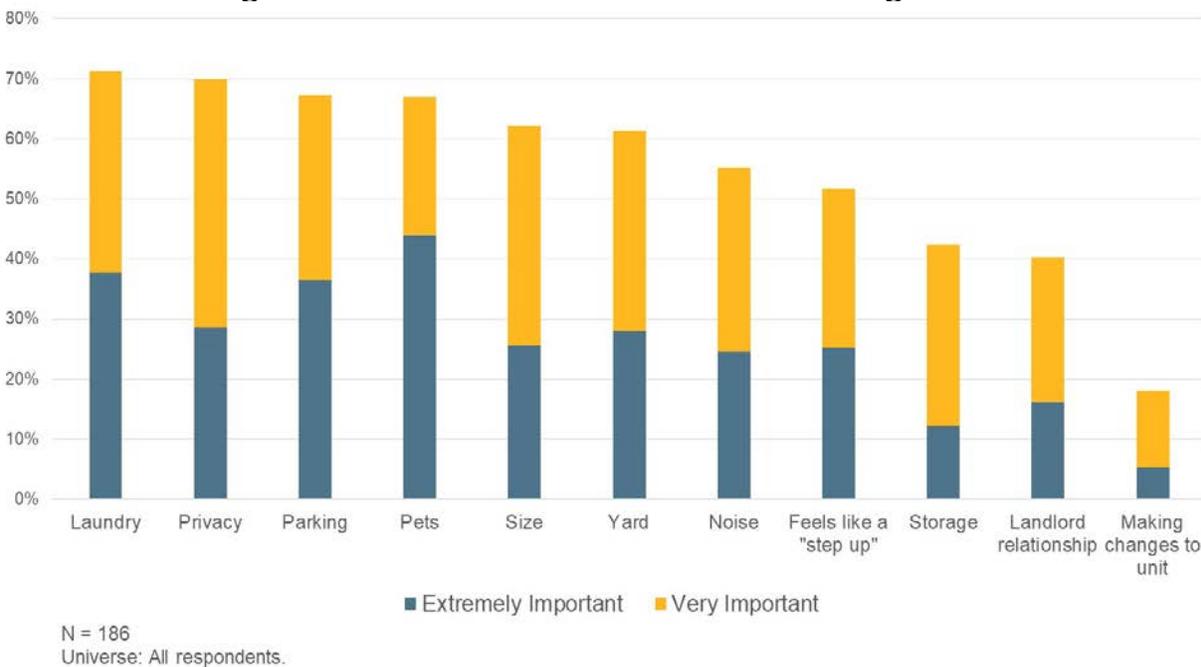
People choose to rent single-family homes for their size and amenities, and because they provide the benefits associated with single-family neighborhoods.

One of the goals of the survey was to understand consumer preferences for housing type, and to parse out why renters were choosing single-family homes and neighborhoods (as opposed to multifamily buildings and/or in denser communities). The majority of respondents had lived in a single-family home prior to their current housing: 25 percent of respondents had previously owned a single-family home, while nearly 36 percent had previously rented a single-family home, making the single-family structure the dominant choice of housing type even before their current address.

The vast majority responded that they preferred single-family over multifamily properties. While this is likely due in large part to selection bias (after all, we were surveying those who chose single-family homes), it was striking that only one person out of 190 answered that they would prefer living in a multifamily unit instead.

Why a single-family home? For the most part, respondents pointed to the amenities associated with a larger, self-standing home. Seventy percent of respondents selected “private laundry” as an extremely or very important factor influencing their housing choice, eclipsing all other characteristics in the survey (Figure 5). Privacy came in as a close second, with interviews emphasizing that they wanted to get away from “shared wall living” and upstairs or downstairs neighbors. The role of pets—and particularly the desire to have a yard for dogs—also played a prominent role in respondents’ housing choice. But, interview respondents also associated a single-family home with a more normative vision of housing type and life course stage. One respondent said: “We felt more like adults, the fact that we’re in a house, with a driveway, with a garage. I liked that I had more freedom to, you could say, be myself at home, because I’m not worried about making noise with the neighbors upstairs, downstairs, left or right.”

Figure 5. Factors That Influence Rental Housing Choice

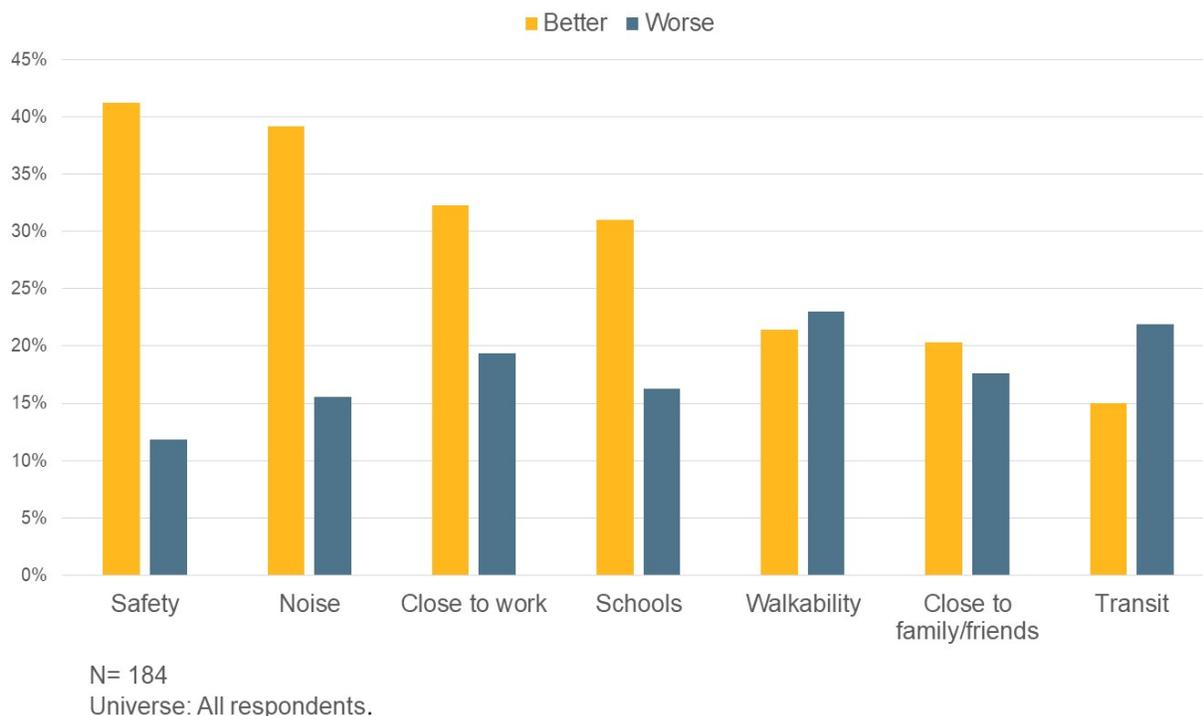


The size of the residence was also a major factor in selecting single-family homes (only 1.1 percent of renters rated it as “not important” and 6.4 percent as only “slightly important”). In part this may have to do with the high proportion of single-family renters who have children, in comparison to the overall renter population. However, the interviews also revealed that households often plan for housing others beyond their immediate family members. Having space to accommodate others who might be going through a rough time financially led many to choose homes bigger than they needed themselves. One respondent described the importance of size as follows: “There’s adequate parking, a detached garage, so I don’t have to rent a separate storage unit, detached home. But I take on a lot of foster kids, informally, when they need a place. I have enough space to accommodate others in need, make sure they have housing. The main compromise is that it is really expensive, so not great for my long-term financial picture.” Some of the older respondents also reported taking care of their grandchildren. One respondent said: “I think it’s becoming more common. [...] When people ask me what my hobby is I say my grandkids—trying to find activities for them, to keep them interested and grounded.”

The interviews consistently pointed to the influence that children have on the housing decision, and the strong association between housing type (single-family), neighborhood type (suburbia) and access to open space and good schools. Families with children often prioritized schools, mentioning it as the primary reason for choosing their neighborhood. Several families also mentioned that they planned to move after their children graduated from the school system, suggesting that families sacrificed other housing and neighborhood preferences in order to access preferred schools. Neighborhood safety also rose to the top of concerns for respondents with children (as for respondents overall), followed by low levels of noise and traffic. Interview respondents with children similarly emphasized these factors. For example, one respondent noted that “I have kids, if it was just my wife and I, we could live in a shack, live anywhere. Single biggest factor is my children—school district, safe neighborhood.” Another interview respondent living in Austin made the connection between the historical legacy of investments in homeownership that have created a link between single-family homes and better schools: “But obviously for us, having a place that has a good school district, and school districts are tied to property values, if you have high property values you have very good school district. This pushed us towards renting—we can move the day she graduates from high school.”

On average, single-family renters also reported that their neighborhood conditions had improved by moving into their current unit (Figure 6). The two exceptions to this were measures of “walkability” and “access to transit.” To some extent, this reflected the fact that respondents prioritized the other features of neighborhoods with single-family homes over transit and walkability, which are associated with denser housing development. For many interviewees, renting a single-family home gave them the opportunity to live in a “better” neighborhood than they could afford to buy in. But others reported that cost considerations had pushed them further out to the suburbs. One interview respondent noted that “moving to a single-family home in the suburbs reduced my rent by \$300.” Another said she chose her current neighborhood largely due to cost considerations: “We had to compromise on location versus what we could afford. The neighborhood we previously lived in, in 2009, we were priced out of by 2012. We had to move further out from the city core because of affordability concerns. A huge difference in three and a half years.”

Figure 6. Respondents' Perceptions of Current Neighborhood Compared to Prior Neighborhood



But renting comes with uncertainty and its own limitations.

While the research highlighted the benefits of renting, it also revealed respondents' concerns about renting, and the risks renters face, particularly in housing markets with rising rents. Among those who said that they wanted to own a home in the next five years, nearly a third indicated that this decision was driven by a desire to protect themselves against rent increases and/or evictions (Figure 7). Lower income households in the survey (earning less than \$50,000 annually) were more likely to indicate this as a reason than households with incomes above \$50,000 (who were more likely to select the investment motivation for owning). Multiple interviewees expressed concerns about being displaced if their landlords were to decide to sell the home, or of having to move due to being priced out of their home after rent increases.

Indeed, interviews revealed that rent increases are a significant concern, and respondents expressed anxiety about how their rent will be affected by market conditions. As one interview revealed: "My landlord has raised the rent a couple of times. He's a real estate agent who has a couple of single-family homes in the neighborhood. He's basically like 'oh the rental market is better so I'll just raise the rent.' I get it, but I don't get anything from that, except raised rent. I don't like the idea of being just swept along with the market." These perceptions were exacerbated by the price volatility in the housing market—areas that were hard hit by foreclosures in some markets also appeared to be rebounding quickly, up from deeply depressed price levels after the market crash and returning to previous peaks. Survey and interview respondents noted that they felt concerned about being pushed out of their current neighborhoods and were worried about their ability to afford rising rents.

Renters also expressed concern about the lack of control over landlord decisions about the property or transitions in who owned their unit. For example, one renter was forced to move from her

apartment when her landlord retired and his successor took a different management approach. She had had a positive relationship with the original landlord, who let her on occasion pay her rent late to buy Christmas presents for her daughter. However, the new landlord wasn't as flexible, and began updating the units and doubling the rents. She said: "I had no choice but to move, so I am now renting this single-family home. But it's not in as nice a neighborhood, but I couldn't afford anything closer." Her experience reflects other research that has shown that the tenant/landlord relationship is often a process of informal negotiation as much as it is a legal contract; this can benefit tenants when landlords are flexible about rental payments but can also put tenants at risk.¹⁷

Interviews revealed that most respondents had a good relationship with their landlords. One interview respondent, who had lived in at least five different single-family rental properties over the last seven years (from both smaller and institutional owner-operators), explained: "We've been really lucky—we've had really good landlords. [Our current landlords] are very quick to respond to anything, when our water heater blew up, water running down the driveway, they had somebody out within two hours. When they've asked for rent increases, they've always laid out the justification, for example, that property taxes went up, so they're increasing it by \$50 to cover the new property taxes."

Yet sentiments were also shaped by the dependability and responsiveness of the landlord: in some cases, interviews pointed to poor communications, delays in repairs and tensions during the move-out process. Improved communications and transparency about rental contracts—as well as more accountability of landlords to resident concerns—were the most common areas in which renters felt their landlords could improve.

Finally, while most renters reported satisfaction with their current unit, 57 percent reported that they would not buy the house they were renting. The primary reason given was the quality of the unit (60 percent), followed by size (40 percent) and design (37 percent). Approximately a third said they would prefer to live in a different neighborhood. As one renter noted, "We know the wear and tear on the property, and we're concerned about what this neighborhood going to look like in five years. [It's experiencing rapid change] and our daughter's school will be different in five years." Nevertheless, several of the interview respondents mentioned that they had spoken to their landlord about the possibility of buying their current rental, but none had done so, in large part because the landlord was not interested in selling the home.

Home ownership remains a goal for most respondents.

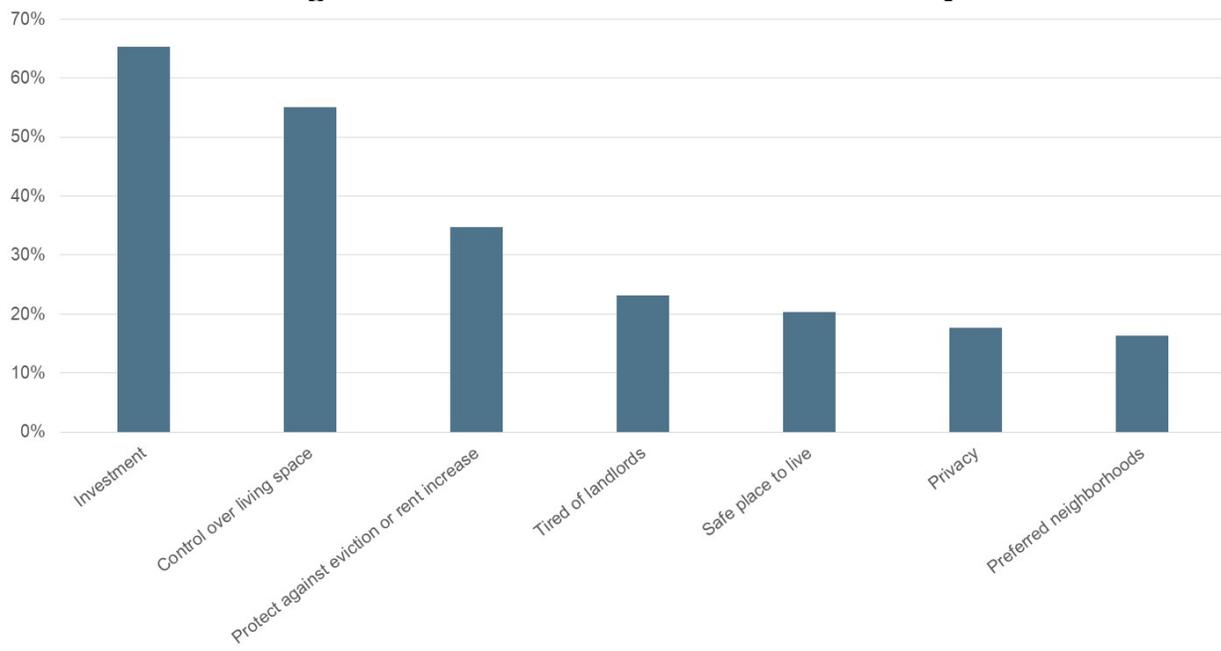
The survey results also suggest that the American dream of homeownership is far from dead. There has been speculation in the media that the foreclosure crisis, coupled with the rise of a "sharing economy" mentality among millennials, has dampened the desire to own. But a significant majority—80 percent—of survey respondents not only want to own a home, but are hopeful that they will be able to move from renting to owning in the next five years.

When asked to select the reasons for wanting to buy a home, respondents pointed to multiple reasons, but the most common answer was related to the investment and wealth-building potential of homeownership. Almost two-thirds (65.3 percent) of the respondents who wanted to buy a home in the future answered that they wanted to own due to its investment value (Figure 7). In line with other studies that have examined the tenure decision,¹⁸ interview respondents noted that renting felt like "throwing money away," and that they were motivated to buy to have an asset to pass on to their

children. Control over living space also emerged as central in the desire to own. Many interview respondents mentioned the greater autonomy that comes with homeownership, including the ability to own pets, repaint (“If I want to paint the front door purple, I could paint it purple”), and maintain their homes to their standards.

One interview respondent, who had experienced a foreclosure during the crisis, articulated his continued view of the benefits of homeownership over renting: “The benefits of homeownership still apply to me, even though I’ve been through foreclosure. There’s the mortgage interest tax deduction. Real estate is appreciating again, so when I take into account the consideration of future generations, it’s a good move. And I still need somewhere to live. I prefer to live somewhere where I can paint the walls, have a dog. More autonomy.”

Figure 7. Perceived Benefits of Homeownership



N=147
 Universe: Respondents who were planning to buy a home in the next 5 years.

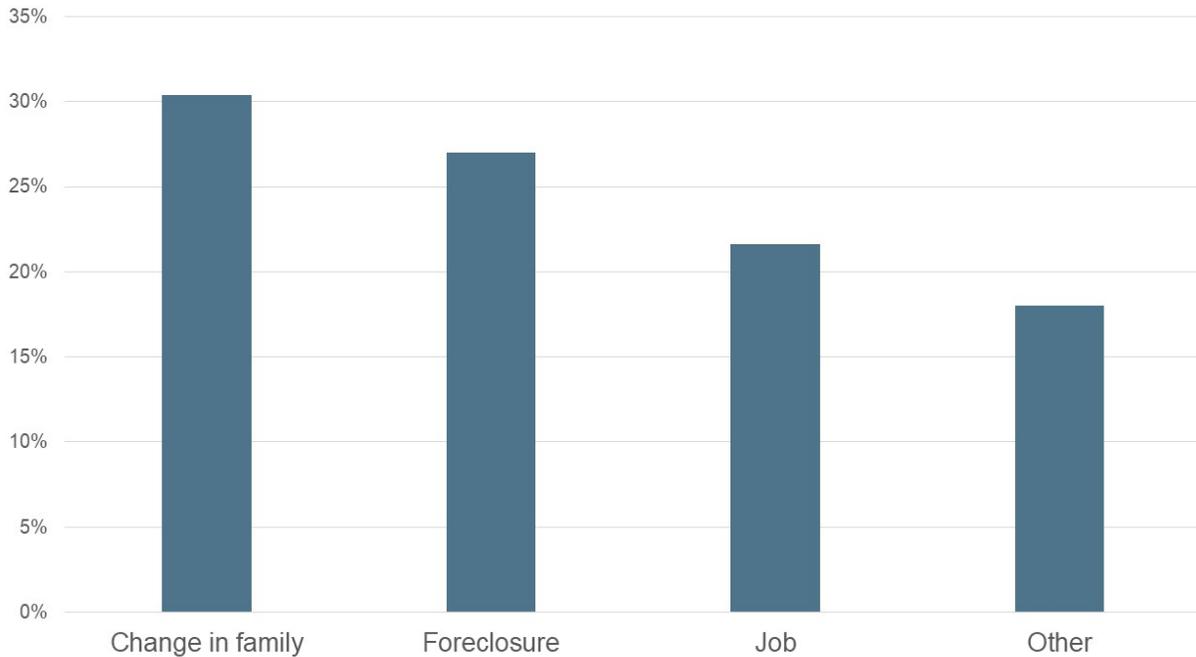
Barriers keep many renters out of the homeownership market.

The finding that 80 percent of single-family renters hope to buy in the next five years stands in stark contrast with the reality of their finances: we found that many of the renters living in single-family homes are struggling financially and are finding it hard to build savings or recover from past income shocks experienced during the recession. This creates significant barriers to their goals of becoming homeowners in the future.

First, the survey shows how the rise in single-family renters is a direct consequence of the foreclosure crisis. More than a quarter (26.5 percent) of single-family renters who had owned their home previously were now renting due to foreclosure (Figure 8).¹⁹ This was not limited to the lower income households in the sample—even among prior homeowners earning more than \$100,000, approximately 1 in 4 had experienced foreclosure. The reasons for default were primarily job and income losses during the recession coupled with significant negative equity, although a few

respondents noted that they had been marketed a high-cost loan or other loan product that proved to have unsustainable payments over time. As one respondent described: “I got stuck in a high interest loan—12 percent—and I got older and had more health problems. I heard about people who got a permanent modification but they only gave me a three-month modification and I couldn’t [handle it] anymore.”

Figure 8. Reasons for Returning to Renting after Owning a Home



Notes: “Change in family” includes changes like marriage, new children, or divorce.
 “Job” refers to needing to move for a job.
 “Other” includes answers such as renting for personal reasons, temporary rental, renting makes financial sense, and change in neighborhood.
 N = 102
 Universe: Renters who had owned before.

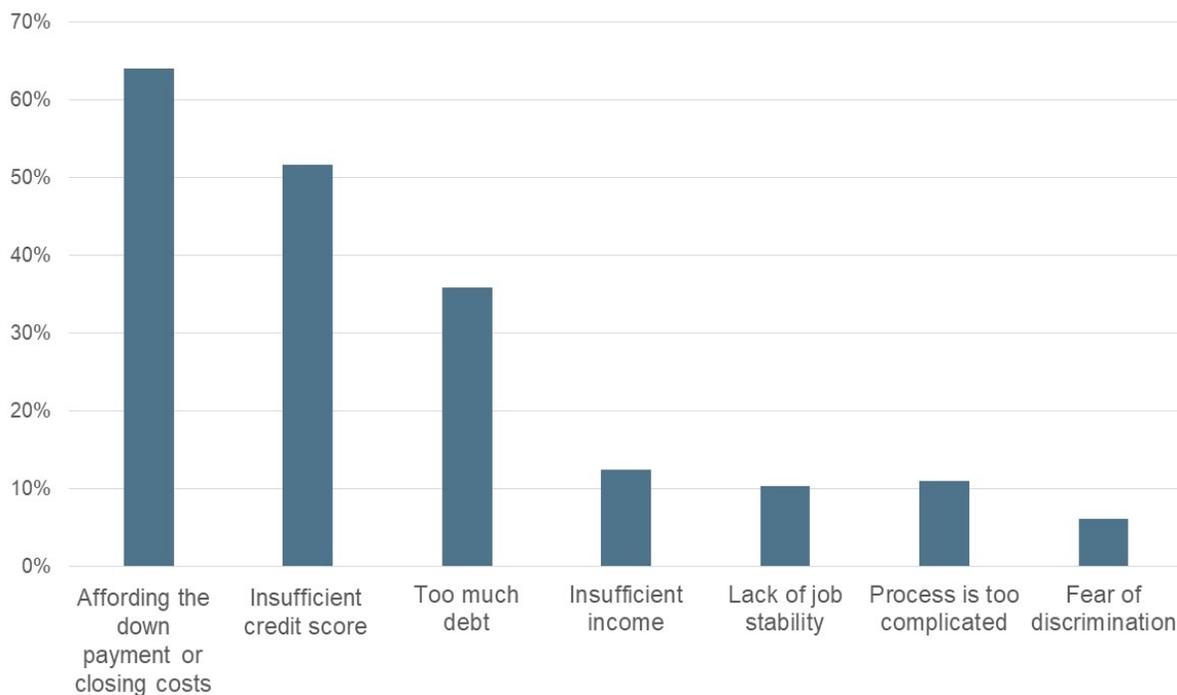
Those who had experienced foreclosure were still struggling to re-establish financial stability. Eighty-one percent of those who experienced a foreclosure said they needed to improve their credit score before they could return to homeownership. Respondents who had experienced foreclosure were also more likely to report concerns about the affordability of homeownership. One interview respondent noted the challenges in recovering from having defaulted on their previous home: “Our credit was destroyed from foreclosure. We’ve been rebuilding our credit and our savings. But I’m in the Bay Area, as much as my income is, it doesn’t count for much in this area. There’s not much left over at the end of the month.”

The foreclosure crisis also undermined some renters’ source of income. One interview respondent from southern California had owned her previous home for 24 years. However, during the subprime boom, she had taken out a home equity line of credit to support her small business. As the housing market collapsed, demand for her business dropped, and she lost her home despite trying to get a loan modification. She said: “I tried very hard to get the lenders to settle, to come to some kind of agreement to keep my home. I ultimately lost that battle. They were unwilling to do principal reduction. We ended up in pre-foreclosure. And I lost my business, because it was not a high priority

during the recession. The crisis really affected me because you can't survive if you have a premium rent and no customers.”

Second, even among those who did not experience a foreclosure, the financial barriers to buying a home still loom large. Nearly all—91 percent—of single-family renters reported personal financial concerns influencing their decision to rent and preventing them from moving into homeownership. The most significant financial concerns were related to credit scores, too much debt, and insufficient income—as well as a combination of all three. When asked to identify obstacles they would face in getting a mortgage, 64.1 percent reported difficulty in saving enough to afford the down payment or closing costs, and 51.7 percent named insufficient credit score or history as a barrier (Figure 9). More than a third of respondents also reported too much debt. Among those in the 25-40 age group, this was often connected to student loans, as opposed to credit card or auto loan debt. One interview respondent noted that they had decided to pay back their student loans before buying a home: “After graduate school, we moved back to Austin, but with \$75,000 in student loan debt. We decided we would first pay off student loans and then buy a home. If you speak to people my age, 35 years old, you're going to hear that a lot.”

Figure 9. Barriers to Obtaining a Mortgage and Buying a Home



N= 145

Universe: Respondents who were planning to buy a home in the next 5 years.

Third, single-family renters constitute part of the growing “missing middle” of families who earn above the area median income, but still severely constrained in their ability to buy. While only 12 percent of respondents selected insufficient income as a barrier to homeownership, interviews revealed that respondents perceived there to be a significant gap between what they could afford and house prices, particularly in more desirable neighborhoods. One divorced, 65-year-old renter living in the Minneapolis area has been looking at rural properties due to their lower cost, but still does not

have enough for a down payment. A single renter in her forties in the Bay Area already moved to a lower-income neighborhood an hour away from her job to pay a lower rent. Despite being preapproved for a \$375,000 mortgage she is struggling to find a home to purchase that has features similar to her rental property without moving into a worse neighborhood. The availability of homes on the market generally, or starter homes in particular, were also a factor affecting the timing of a home purchase for 28.8 percent of renters hoping to buy.

One interview revealed that consumers are also balancing prices with quality: “There’s not much for sale, and the ones that are for sale I wouldn’t pay for because they need too much fixing up. People are trying to get top dollar for a house that hasn’t been ever remodeled, and they have a lot of antiquated looking stuff inside these homes.”

Finally, the tightened credit market also emerged as a central barrier to being able to make the switch to homeownership. One respondent said: “I don’t mind being a renter – that doesn’t bother me. What does bother me is that I couldn’t buy a house if I wanted to. I don’t have the credit right now, and a bank wouldn’t make me a loan. Because home-owning is such a part of wealth building, I’m shut out of that potential.” Another interviewee reported struggling to get approved for a mortgage because he is an independent contractor, and can’t document his income in a way that satisfies current lenders. He said: “With a W-2 it would be easier to qualify for a home loan. We’ll need to put down 20-30 percent instead of 3.5 percent for an FHA loan—I feel like my career is blocking me from an FHA loan. I’m making enough money to make house payments and qualify for an FHA loan but when they look at your taxes they don’t see that.” Overall, respondents reported that their rents were significantly higher than what their mortgage payments would be, but that the inability to qualify a mortgage was holding them back.

Policy Implications

What do these findings suggest for public policy?

Expanding Access to Homeownership

First, the study illuminates that many of these renters are interested in homeownership, but the tightened credit box in the wake of the financial crisis has made it more difficult for renters—even among those with higher incomes—to qualify for a mortgage. While it would be a mistake to return to the expansive credit regime of the subprime boom, access to credit remains severely constrained, with only the most “pristine” borrowers being able to access a mortgage. According to the Urban Institute’s latest credit index,²⁰ access to credit remained difficult throughout 2017, despite some loosening in the past year. While there are numerous factors that have contributed to this tightening of lending standards, it is critical that policymakers working to revamp the housing finance system consider questions of access. The single-family renters in our survey—and especially households in the 25-45 age range with kids—noted how important neighborhood quality and housing stability were to their children’s success, and many felt that this type of stability was best provided by owning a home.

In addition, the research suggests a need for expanded policies to help consumers build their credit scores. As one respondent noted: “Everyone judges you by your credit score.” Two-thirds of all renters have credit scores below 700,²¹ meaning that even if the credit box expands, they are more likely to receive a higher-priced loan and pay more for credit over the long-term. Programs to specifically target households who lost their homes to foreclosure—including credit repair counseling—could also help some of these households return to owning and/or stabilize their finances.

Furthermore, while expanding the credit box is important, access to homeownership—especially in higher cost markets where the gap between incomes and house prices has been growing—will require new approaches and products that can help reduce savings or income barriers. One option is through supporting alternative pathways to homeownership, like lease purchase or shared equity programs.²² Multiple interviewees expressed interest in these types of models. One respondent said that he had explored the possibility of a lease to purchase arrangement with his landlord: “Lease to own—I discussed this with my landlord, at least, to see what his thoughts were. But he wasn’t interested. Barrier to entry for me has been the down payment. It’s not the expense itself—I can sustain the rent/mortgage payments. So lease-purchase, or shared equity, that could help to bridge that gap.” The challenges of saving for a down payment—even among households earning well above the median income—also point to the important role that the Federal Housing Administration plays in providing access to homeownership through mortgage products with low down payments and long-term fixed interest rates.²³

Supporting the Single-Family Rental Sector

Second, single-family rentals serve a very important part of the market, and provide access to some of the non-financial benefits of single-family homeownership such as more space, safer neighborhoods, and higher quality schools. The financial circumstances of many single-family renters are also indicative of a growing challenge in the housing field: how do we best serve households who on average have incomes that are too high to qualify for housing subsidies but who are nevertheless still struggling with covering their housing costs? While in general single-family renters are higher-income than renters overall,²⁴ financial concerns rose to the foreground of the survey and interviews. From rising rents and affordability concerns, to significant barriers to achieving their goals of homeownership, single-family renters are struggling with income instability, significant debt (including student debt among younger adults), and inability to save toward a down payment. Rising interest rates may put homeownership even further out of reach, especially in high-cost markets with constrained supply. If single-family rentals are a trend that is here to stay, it is critical to develop a robust policy framework as well as strategies to support this sector in order to ensure that these households have access to high-quality and stable housing.

What might some of these strategies be? Certainly, rebalancing the respective benefits of owning vs. renting could help to ensure that a longer-term trend towards renting doesn’t continue to widen the wealth gap. While the Trump administration’s recent tax plan does lower the ceiling on properties eligible for the mortgage interest tax deduction, it fails in providing support for renters, and in fact the administration is proposing to slash funding for important housing subsidy programs. A renters’ tax credit could help to address affordability concerns as well as allow households to save more.²⁵ Providing households with greater certainty over rent increases and improving housing stability could also reduce the long-term risks of renting. For example, longer-term leases, which have

generally not been popular in the United States, could help to promote residential stability and some of the benefits of homeownership for those households who continue to rent.

Policymakers should also consider strategies to strengthen the capacity of landlords to effectively manage and maintain single-family rentals.²⁶ In addition to their geographic spread, single-family homes have more variable fixtures, as well as their own roofs, yards and sidings, making maintenance and repair more difficult to standardize than in a multifamily property. Legal protections around rental units also differ by structure and ownership type. For example, federal fair housing law applies to large multifamily structures, but has exemptions for certain classes of single-family and small multifamily buildings. Landlords who own more than three units or use brokers to rent their properties must follow the Fair Housing Act, but a renter in a single-family home owned by a ‘mom and pop’ landlord does not benefit from the same protections. The perception that multifamily units are all occupied by renters and single-family units are all occupied by owners does not reflect the reality of how today’s households live, so it is important to ensure that protections cover all segments of the rental market.

Expanding Data and Research on Single-Family Rental Market

Finally, given the relative importance of the single-family rentals, we need more data and research on both the supply and demand factors that are influencing this market segment. This research was largely exploratory, and while national in scope, nevertheless only provides a small slice of the perspectives and experiences of single-family renters. How do demand and supply factors interact in different types of markets (e.g., legacy cities versus higher cost markets) to influence homeownership affordability? How do differences in where single-family rentals are located—for example, in poorer inner-ring suburbs versus new exurban developments—influence resident outcomes? What are the challenges in managing scattered site rental properties, and how do we build the capacity of landlords that manage single-family properties? Answering these questions could help to identify local and state level policies to support this market and ensure positive outcomes for tenants.

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