

## *Editors' Introduction*

# **Toward a New Understanding of Rental Housing in America**

Eliza F. Gleason, Amy S. Bogdon, and Robert E. Lang  
*Fannie Mae Foundation*

In the last quarter of 1998, the U.S. homeownership rate reached an all-time high of 66.3 percent. The U.S. Department of Housing and Urban Development (HUD) heralded the event as an indication that one of its main policy goals—increasing homeownership—was being achieved. Given this current state of affairs, it may seem a bit odd to devote an entire issue of *Housing Policy Debate* to the status of renters and rental housing in the United States. But the status (and attendant problems) of renters remains an important public policy and market issue even in a nation where two in three households now own rather than rent. Although the national homeownership rate is high, rates are much lower in central cities and among minority groups. Rental housing, especially multifamily, remains a key resource in meeting the housing needs of millions. Some households rent by choice, but more do so out of necessity. In this issue of *Housing Policy Debate*, we examine who is renting multifamily housing, what the financial condition of the rental stock is, how multifamily properties affect nearby property values, what efforts are under way to preserve affordable housing, and what innovations improve distressed public housing.

The first article in this issue, Donald A. Krueckeberg's "The Grapes of Rent: A History of Renting in a Country of Owners," examines the U.S. prejudice against renters and rental housing and provides one viewpoint of why it exists. Krueckeberg asserts that this bias is perpetuated by policies that reflect the historic link of suffrage rights to property ownership. He uncovers what social scientists once referred to as a cultural lag in policies that unquestioningly favor homeownership. Even though homeownership no longer elevates one's citizenship status, its favored treatment among policy makers (e.g., in the mortgage interest deduction) and in U.S. popular culture as a symbol of "succeeding" survives in our social structure. For example, consider the genre of explicitly antirenting films (*It's a Wonderful Life* and *Mr. Blanding Builds His Dream House*) and television series (*The Life of Riley*) that appeared in the early postwar years, just as the suburban expansion of homeownership began: *It's a Wonderful Life's* George Bailey helped the working class own homes, Mr. Blanding built a dream house for his affluent

New York City family in suburban Connecticut, and Chester Riley longed for the day when he could own his own home and finally be free of a burdensome and arbitrary landlord.

Krueckeberg asserts that too much social significance is given to owning, implying that renting, by definition, is a social problem. When federal departments such as HUD highlight and promote the success of their homeownership policies, the subtext reads that renting is to be grouped among social ills such as teenage pregnancy or dropping out of high school. To Krueckeberg, the bias against renters is found even in the language used in court decisions describing a rental property as a “parasite,” with its dwellers considered nonresidents who do not belong in the community of owners.

While Krueckeberg provides a provocative view of renters and their status throughout American history, he leaves out much of the story. Perhaps renting is more strongly associated with urbanism in general than poverty in particular. To an extent that a bias exists, it may be more a function of disdain for cities. To be sure, suburban communities often resist rental housing because of class and race concerns. However, in urban settings and among mobile professional and white-collar consumers, virtually no stigma is attached to renting.

Krueckeberg fails to account for why owning property has been so highly regarded in the United States. Many settlers came to this country for the opportunity to own land. It is no accident that colonial Americans chose a land tenure system that not only favored owning but also allowed maximum liberty with respect to what one did with one’s property. The Puritans, for example, transplanted the Kentish tenure system from England, which allowed for fee-simple landholding. Most other tenure systems of the 17th century required a much greater obligation on the part of the owner to the state—for example, military service (Warner 1972). The fact is that Americans not only wanted to own land but also sought minimum interference from government. Thus, the real attraction of ownership may be freedom rather than status—freedom from both landlords and the state.

Krueckeberg’s analysis of the relative tax benefits of homeownership and renting is one-sided. He lists the various tax expenditures attributable to homeownership without mentioning the analogous tax benefits that accrue to landlords and thus, albeit indirectly, to tenants. Further, his measure of the tax expenditure attributable to the deductibility of mortgage interest actually reflects the way the purchase is financed—whether from debt or equity—and is not a

measure of the tax revenue “lost” owing to the mortgage interest deduction (Follain and Dunsky 1997; Follain and Melamed 1998).<sup>1</sup>

Despite whatever bias may exist in favor of homeownership in the United States, rental housing remains the most suitable or affordable housing option for many families. Multifamily rental housing—rental units in structures with five or more units—is the choice of close to half of all renters and is the second most prevalent combination of tenure and structure type, following only single-family homeownership. In his analysis of the current characteristics of multifamily renters, Jack Goodman shows that multifamily rental housing serves three broad markets: It provides housing to those incapable of owning, meets the needs of transient population groups, and fills the demand of wealthy renters-by-choice in the form of luxury apartments. Goodman holds that through a combination of high-density structures and rental tenure types, multifamily rental housing can help solve many social problems including suburban sprawl, housing affordability, and urban decay as well as house the swelling ranks of the elderly. With multifamily housing, cities can encourage downtown living by attracting residents who will bring fiscal and social benefits to central-city locations. Multifamily development can help slow sprawl and support smart growth policies by improving the jobs–housing balance in core commercial centers and edge cities (Danielsen and Lang 1998).

If, as Goodman believes, affordable multifamily housing is key to solving some of our most vexing social problems, research must address the major barrier to its development—NIMBY (“not in my backyard”) arguments. Some contend that multifamily housing, in particular subsidized units, lowers the property values of single-family dwellings. Chang-Moo Lee, Dennis P. Culhane, and Susan M. Wachter attempt in their article to separate the real and perceived impacts of the siting decisions of subsidized multifamily housing by examining how the presence of such structures affects nearby property values.

Although the literature on the effects that assisted housing programs have on neighborhood quality is rich (Ellen and Turner 1997; Newman and Schnare 1997), only a few studies have assessed the impact of assisted housing on the real estate market. Lee, Culhane, and Wachter’s study adds to this literature by offering a comparative framework for evaluating the relative impacts of various assisted housing program types on property values.

---

<sup>1</sup> If the mortgage interest deduction were eliminated, households with sufficient wealth would substitute equity for debt, reducing the estimated revenue gain from over \$40 billion to about \$10 billion or less, depending on the amount of wealth households would use to pay down mortgage debt (Follain and Melamed 1998).

Although their study is limited to Philadelphia, it provides compelling results that are worth pursuing in further research. The analysis shows modest to slightly negative impacts of public housing and Section 8 rental assistance on property values after controlling for neighborhood characteristics. By contrast, U.S. Federal Housing Administration (FHA) housing, Section 8 new construction and rehabilitation, and public housing authority (PHA) homeownership programs have modest positive effects. The finding supports the provisions of the recently passed Quality Housing and Work Responsibility Act of 1998 (QHWRA), which encourage diversity of public housing residents through income mixing. In addition, the study addresses a key part of the bias against renters—the perceived negative effects on property values. Perceptions matter, for if people define a threat as real, they act in response to it even if in actuality the threat is minimal. Hopefully, research such as Lee, Culhane, and Wachter’s will play a role in changing perceptions toward assisted housing so that they are more aligned with reality.

To attract investors to the multifamily rental sector, better measures of multifamily performance are clearly needed. Without this information, market participants may overprice multifamily risks, resulting in higher mortgage rates and ultimately higher rents than would otherwise be necessary. In “Alternative Measures for the Financial Condition of the Multifamily Housing Stock,” George Galster, Peter Tatian, and Charlene Wilson explore the financial characteristics of a nationally representative sample of multifamily housing. They examine how five commonly used indicators of the financial condition of multifamily rental properties—the loan-to-value ratio, debt coverage ratio, rent-to-value ratio, net operating income-to-value ratio, and vacancy loss ratio—relate to one another. They find that the correlations among these ratios vary markedly, making different groups of properties appear on paper to be financially distressed. If information were available on the default or delinquency status of the mortgages or on the physical condition of the properties, it might be possible to determine how these five measures reflect current or potential property distress. However, until such information is available, it is important not to use just a single-dimensional indicator to evaluate the financial condition of the multifamily rental stock.

In “Mark to Market: A Fundamental Shift in Affordable Housing Policy,” David A. Smith provides a comprehensive overview of the now one-year-old Multifamily Assisted Housing Reform Affordability Act (MAHRA). MAHRA was intended to solve the problem of expiring Section 8 contracts on the 900,000 apartments in project-based subsidized properties—a challenge that the housing industry, HUD, and Congress have struggled with for years. His analysis provides a road map for how the law may be implemented by HUD and

for the role that a market-based approach will have on preserving affordable housing. Implementation of MAHRA provides the litmus test for market-based housing assistance and involvement of new entities in the restructuring of the Section 8 project-based properties. Smith finds that the “mark-to-market” legislation represents a sound redirection of policy that provides a mechanism for the restructuring or refinancing of properties with minimized net costs, restores economic equity by allowing transfusions of new capital, places investors under a “constructive tension” that will encourage innovation, transfers properties to more capable owners, and transforms residents into consumers with greater options.

Jerry J. Salama, in his article “The Redevelopment of Distressed Public Housing: Early Results from HOPE VI Projects in Atlanta, Chicago, and San Antonio,” tackles a reform effort for the most embattled of subsidized multifamily types—public housing. Examining the progress of HOPE VI redevelopment of three sites operated by PHAs, Salama questions the feasibility of the various and ambitious social, physical, community, and economic goals of the program and outlines the factors and project conditions that led to greater success in achieving these goals.

One of HOPE VI’s primary objectives, to lessen the concentration of low-income residents in public housing by developing mixed-income communities, creates two significant challenges for PHAs: avoiding the displacement of public housing residents and promoting PHAs’ capacity for developing and managing housing using a market-based approach. Salama finds that leveraging private resources for public housing redevelopment may simply be unrealistic. He suggests targeting the HOPE VI program to communities where the market can attract a diversity of residents. In the absence of strong markets, policy makers need to provide a significant subsidy to draw mixed-income tenants.

Salama’s analysis of the experiences of three housing authorities in the redevelopment of public housing underscores the important link between achievement of HOPE VI goals and a strong real estate market. Housing authorities must use the market-based tools provided in QHWRRA in order to successfully meet these goals. For instance, consider the case of Chicago, where the Cabrini-Green public housing development near affluent neighborhoods on the city’s North Side benefits from good market potential. By contrast, the Robert Taylor Homes in a poverty-stricken neighborhood on the city’s South Side are less desirable to potential investors. The market cuts both ways when it comes to HOPE VI redevelopment. In places with strong market potential, not only are there strong opportunities for investment, but market-rate units can also generate revenue that cross-subsidizes low-income units. However,

development of market-rate units may also displace too many low-income families, thus defeating the goal of public housing (Hornburg and Lang 1997; Quercia and Galster 1997). Regardless of an area's market strength, Salama concludes, redevelopment of distressed multifamily public housing developments is not an inexpensive proposition owing to the extraordinary costs associated with necessary activities such as relocation of residents, site preparation, and provision of supportive social services.

The series of articles that follows examines both the stigma and strength of rental housing, which fills important niches in U.S. housing markets. It is often the first new housing to appear in revitalized downtowns as investors test new markets. Rental housing also constitutes the most important delivery system for low-income households. And as regions move to curb sprawl, multifamily rental housing provides a key form of infill development in the new, more dense metropolis. Even in a "country of owners," rental housing meets a need, and its status and condition remain important policy considerations.

### *Authors*

Eliza F. Gleason is Associate Editor of *Housing Policy Debate* and a Research Fellow at the Fannie Mae Foundation. Amy S. Bogdon is Co-editor of the *Journal of Housing Research* and Director of Housing Economics at the Fannie Mae Foundation. Robert E. Lang is Managing Editor of *Housing Policy Debate* and Director of Urban and Metropolitan Research at the Fannie Mae Foundation.

The authors wish to thank Carol Bell, Rebecca Sohmer, and Tracey Rutnik for useful comments they made on this introduction.

### *References*

- Danielsen, Karen A., and Robert E. Lang. 1998. The Case for Higher-Density Housing: A Key to Smart Growth? In *ULI on the Future: Smart Growth*, 20–27. Washington, DC: Urban Land Institute.
- Ellen, Ingrid Gould, and Margery Austin Turner. 1997. Does Neighborhood Matter? Assessing Recent Evidence. *Housing Policy Debate* 8(4):833–66.
- Follain, James R., and Robert M. Dunskey. 1997. The Demand for Mortgage Debt and the Income Tax. *Journal of Housing Research* 8(2):155–99.
- Follain, James R., and Lisa Sturman Melamed. 1998. The False Messiah of Tax Policy: What Elimination of the Home Mortgage Interest Deduction Promises and a Careful Look at What It Delivers. *Journal of Housing Research* 9(2):179–99.
- Hornburg, Steven P., and Robert E. Lang. 1997. Comment on Roberto G. Quercia and George C. Galster's "The Challenges Facing Public Housing Authorities in a Brave New World." *Housing Policy Debate* 8(3):583–92.

Newman, Sandra J., and Ann B. Schnare. 1997. ". . . And a Suitable Living Environment": The Failure of Housing Programs to Deliver on Neighborhood Quality. *Housing Policy Debate* 8(4):703–41.

Quercia, Roberto G., and George C. Galster. 1997. The Challenges Facing Public Housing Authorities in a Brave New World. *Housing Policy Debate* 8(3):535–69.

Warner, Sam Bass, Jr. 1972. *The Urban Wilderness: A History of the American City*. New York: Harper and Row.

