

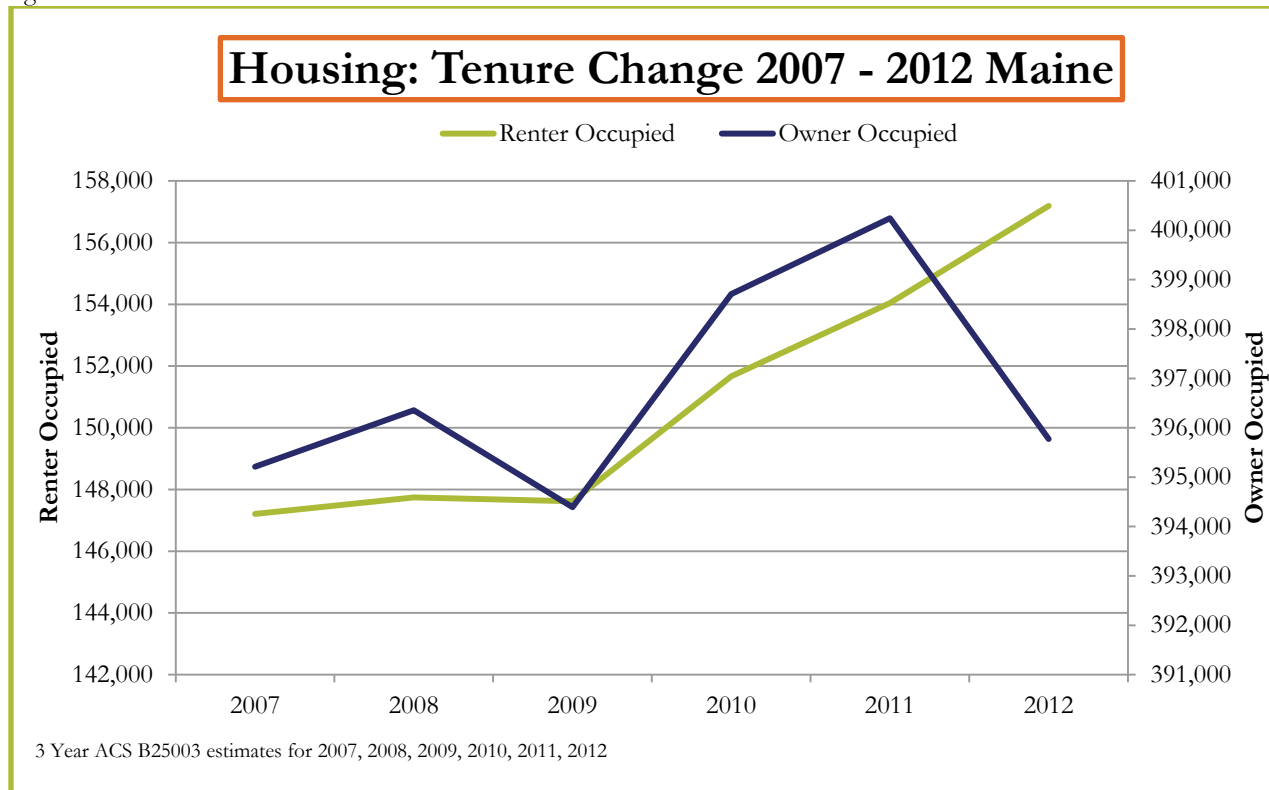
The Shift to Renting

By Richard Taylor
Communications and Research Manager

Maine prides itself in having a higher rate of home ownership than the nation as a whole. The trend toward homeownership had been moving upward in Maine and across the nation for decades. This trend has reversed nationally and data from the U.S. Census Bureau indicates a similar shift toward renting is taking place in Maine. Why is this happening and how long will it last? More importantly, how will it impact housing affordability?

Data from the Census Bureau's American Community Survey provides evidence of a shift to renting in Maine. Looking at data from the ACS 3 Year surveys in Figure 1 you can see renting is growing faster than owning. In fact, renter occupied units grew by 6.8 percent from 2007 – 2012 while owned units grew only 0.1 percent. Furthermore, what we see in this survey data is strongly supported when we examine more critically the 2000 and 2010 Census data in more detail.

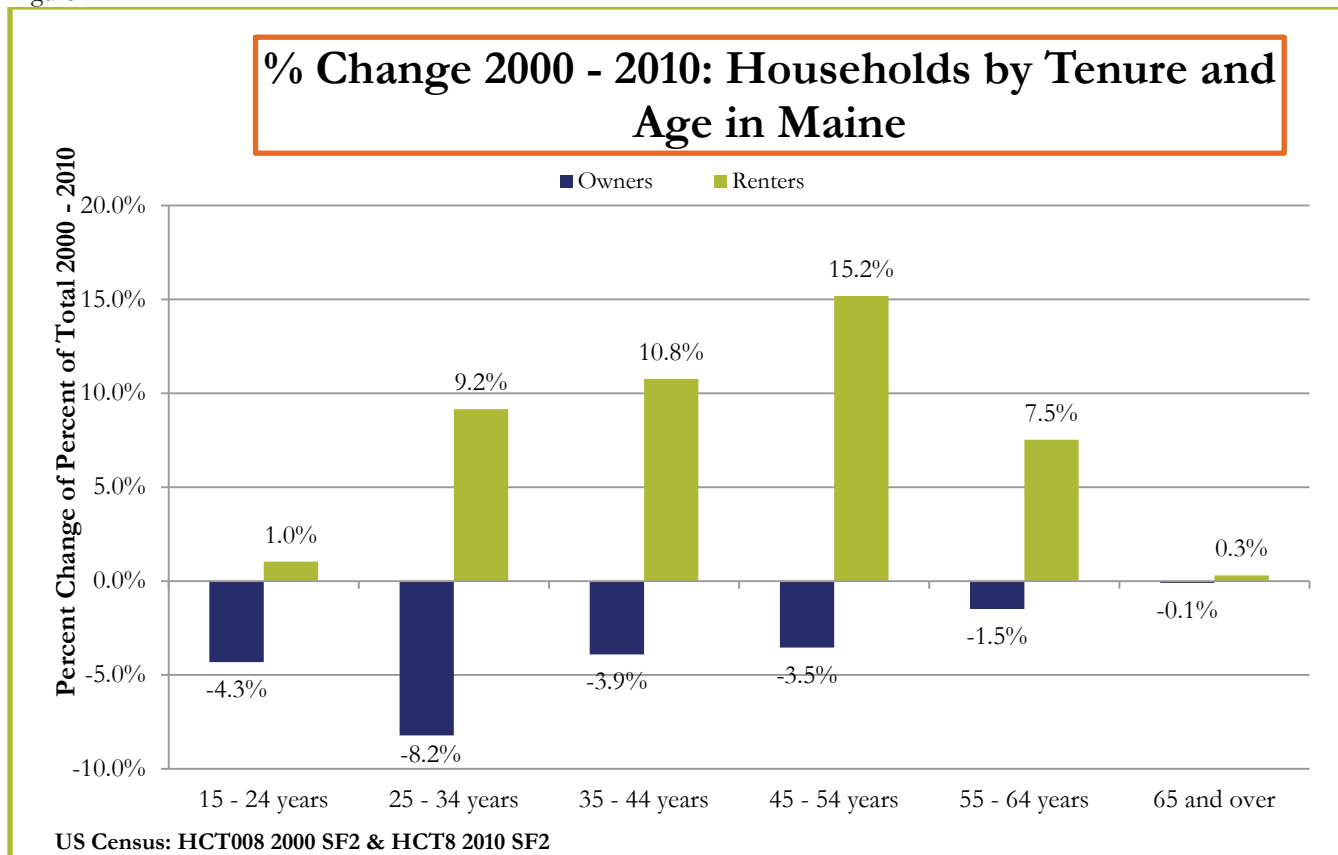
Figure 1



A closer examination beneath the basic owner-to-renter distributions reveals a more dramatic cross generational shift in preference to renting. To do this you look at a count of total households for each age cohort in the 2000 and 2010 Censuses (see Figure 2), then calculate what percent of total households were

rented and owned for each age cohort in each Census and finally, calculate how that percentage changed from 2000 to 2010. What you find is that owned households (blue bars) are negative and that negative holds across all age groups while renter households (green bars) are positive across all age groups.

Figure 2



Why the shift to renting and what will it mean for housing in Maine into the future? A number of factors combined appear to be driving this change. The recession saw a rise in foreclosures dispersing residents into either rental units or shared occupancies. Tepidity about buying a home combined with the impact of higher unemployment and slow income growth coming out of the recession all worked to slow homeownership and make renting appear to be a better option. Additionally rental units, though older than owned, generally have fewer bedrooms and less space making them a more attractive option from a heating cost perspective. For some owners, selling has not been an option during and after the recession because they owe more on the home than the home's value. These owners won't sell. Owners who needed to relocate opted to rent rather than sell at a loss and ended up increasing the rental stock. Tougher credit restrictions, despite historically low interest rates, have also made renting the only option for some.

How long will this last? Though most analysts agree that home-ownership will rebound nationally, they vary as to when. The supply of single family (owned) homes has grown significantly faster than rental units over the past three decades. Nationally, multifamily construction has led the way during the recovery but not so in Maine. In fact, it's lagged behind single family construction for three decades. Eighty-four percent of residential permits in Maine were issued for single family units and 16 percent were multifamily since the 1980's. This distribution remained unchanged during the recovery though both at lower rates.

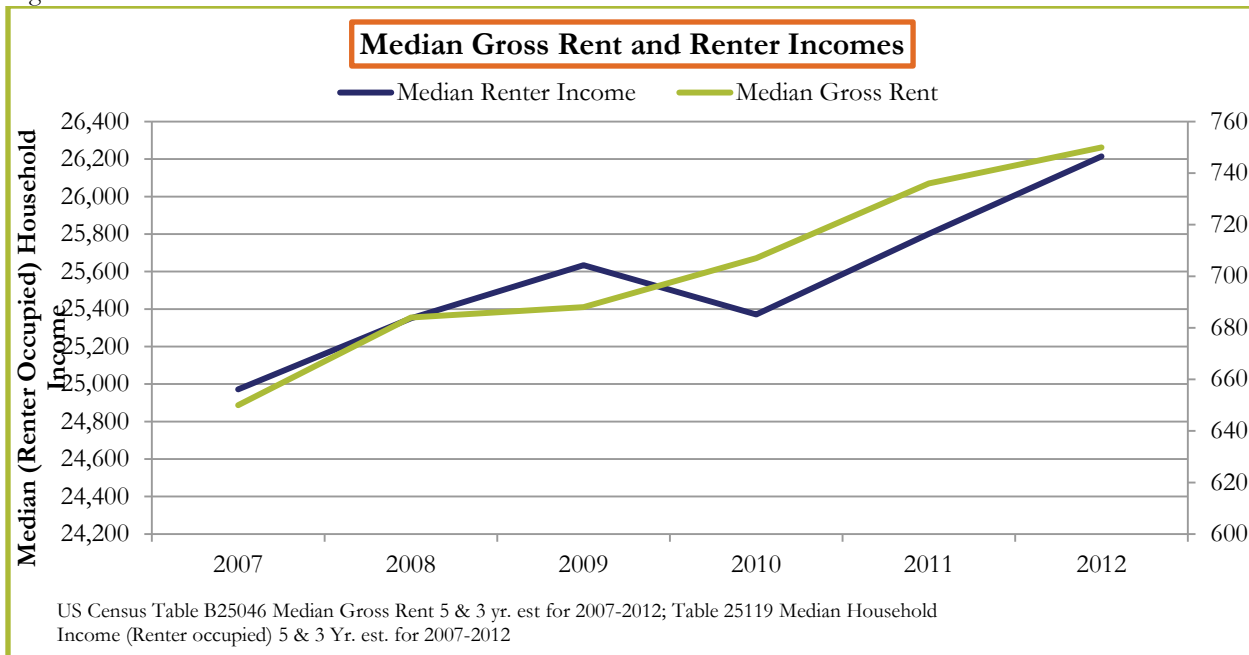
Absent more rental units being built the rental vacancy rate will continue to drop as the remaining rental stock is absorbed or remain the same as more single family homes become rental units.

Maine's slow income growth, diminishing youth, and aging population are key variables. What will older Mainers do? Surveys indicate they wish to stay at home living independently. In a state as large and rural as Maine that is more complex and difficult to predict and plan for. The youthful population, those who have traditionally been the renters, is the population who were perhaps most negatively influenced by the foreclosure problem many homeowners faced and may likely continue to prefer renting because it is less risky and conducive to more flexible lifestyles.

What does this mean for housing affordability in Maine? During the recovery, 2009 to present, rental housing has edged out home ownership as being less affordable using the standard housing affordability indexes. Renter households are already more cost burdened than owned. An estimated 52 percent of Maine's renter households are paying more than 30 percent of income for housing related costs. If the supply of existing rental units remains at current levels the cost of renting should continue to increase and add to the affordability problem we're seeing. This problem of supply combined with the probability that government will not likely issue more housing assistance, vouchers or other aid, makes it easy to assume that overall housing affordability may worsen.

When you look at gross rent and renter incomes the two have run parallel, supporting the demand-cost relationship. As the supply of rental units tightens we're likely to see gross rents begin to outpace incomes rendering rental housing, and again the overall cost of housing, less affordable in Maine than it is at present.

Figure 3



If this shift to rental housing continues, Maine will need to increase the affordable rental housing stock to ensure an adequate supply of affordable housing. A strategy that develops community friendly older adult housing with home ownership targeted for younger buyers might work, given the Maine's changing demography. Such a strategy would combine the needed supporting role younger workers provide in an

economy with the demand for services older adults create. This assumes, however, that young Mainer's will want to own. Surveys strongly suggest that despite being tepid about buying, younger professionals still dream of having a home they own.

Developers and policy makers will have to pay closer attention to see if this shift is cyclical or structural. One thing is for certain: changing demographics are going to require change in housing patterns regardless of whether the home is owned or rented.