Guest Editors’ Introduction

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Americans have long been in love with homeownership. Even Alexis de Tocqueville endorsed this preoccupation, arguing that homeowners would be more responsible citizens and predicted that nations with more homeowners would be more politically stable and have fewer revolutions. More recently, others have argued that homeownership makes people take better care of both their homes and their children and helps households to build wealth. The corollary of this fixation on homeownership is that researchers have paid far less attention to rental housing, and federal policymakers outside the halls of the U.S. Department of Housing and Urban Development largely ignore it. The unifying theme of the articles in this issue of Cityscape is that rental housing deserves more attention.

The genesis of this volume was a project of the What Works Collaborative (WWC), a foundation-supported research partnership that conducts timely research and analysis to help inform the implementation of an evidence-based housing and urban policy agenda. To stimulate more discussion about the role that rental housing should be playing in the post-crisis housing environment, the WWC commissioned six leading housing economists to draft articles about rental housing and then participate in a discussion about rental housing policy with Obama Administration officials. The articles provoked a great deal of debate in those discussions, and we hope that bringing them together in this volume will advance the debate further. To supplement the original six articles, we invited Robert Collinson to write an article on current conditions in the rental housing market and Hugo Priemus to offer an international perspective on rental housing policy.

We certainly cannot do justice to the nuances of the individual articles in this brief introduction. We encourage you to read all the articles, because each offers much for the reader to learn. The articles collectively offer several reasons why rental housing is important and why a robust rental housing market is vital to the U.S. economy. First, as many of the articles point out, rental units house a very large share of the population. About one-third of all U.S. households live in rental housing. Second, several articles make the point that rental housing allows greater mobility to respond to job opportunities, household composition changes, and the like. Third, the authors emphasize that, for most households, owning a home is a significant investment.
and requires substantial fixed cost, and rental housing thus may allow households to better
diversify their investments. Fourth, given the connection between ownership and structure
type, Edward Glaeser, in “Rethinking the Federal Bias Toward Homeownership,” underscores
that rental housing is simply greener, or more environmentally sustainable. Finally, several of the
authors maintain that the current market downturn and foreclosure crisis deliver a serious chal-
lenge to some key arguments that have traditionally been made to justify support for home-
ownership. Buying a home in the United States in 2005 surely was not a path to building wealth.

In addition to making the case for the importance of a vibrant rental housing market, the
authors explore the appropriate role of the federal government in ensuring a healthy rental
market. The authors point to potential externalities in arguing that it might be efficient for
government to support rental housing, especially for lower income households. In addition,
several authors also suggest that the enormous subsidies that the U.S. government provides
to homeowners (most notably through the mortgage interest deduction but also through local
zoning and the favored treatment of capital gains) may justify government support of rental
housing simply to level the playing field.

Of course, the authors’ agreement that government intervention in rental markets can be justi-
fied does not mean they embrace all current federal rental programs. The articles offer some
provocative suggestions for policy reform and experimentation. Several authors argue that the
mortgage tax deduction should be modified, if not abolished, given that it is hugely expensive,
highly regressive, and poorly targeted. Glaeser proposes that the federal government offer
funding, analogous to the Department of Education’s Race to the Top, to encourage localities
to change their land use regulations in ways that could open the door for substantial increases
in the supply of multifamily rental units.

A few of the articles also offer suggestions for helping to reduce the risks of renting. Denise
DiPasquale, in “Rental Housing: Current Market Conditions and the Role of Federal Policy,”
and Todd Sinai, in “Understanding and Mitigating Rental Risk,” each make a case for exper-
imenting with longer leases. In commercial real estate, longer leases are common; in residential
markets, they are rare. Fewer than 2 percent of residential leases are for longer than 1 year,
although longer leases would arguably bring some certainty to the cost of renting. Brendan
O’Flaherty, in “Rental Housing Assistance for the 21st Century,” suggests an innovative idea
that might help facilitate longer leases—government-provided rental insurance—to help
households protect against the risk of job losses, serious health crises, or other individual,
nonhousing risks. Finally, Sinai proposes an options market that would allow households to
hedge against future rent increases.

Some of the articles also offer specific suggestions about multifamily rental housing financing,
and DiPasquale’s article underscores the important role that government-sponsored enterprises
(GSEs) have played in providing multifamily housing finance. She urges that any GSE reform
pay close attention to the implications for financing multifamily housing, especially the small
multifamily buildings with 5 to 50 units, which are poorly served by today’s credit markets.

Finally, the articles offer a number of suggestions for improving the delivery of low-income
housing assistance. Virtually all the articles argue for a strong preference for voucher programs
versus unit-based assistance (although a few authors believe that place-based housing investments may be justified in some circumstances to promote neighborhood revitalization). Both O’Flaherty and John Quigley (“Rental Housing Assistance?”) also suggest moving to an entitlement rental program.

In the first article in this issue, Glaeser argues that policies that encourage homeownership also foster low-density living, because a strong link exists between rental housing and multifamily structures. Given the environmental and social benefits of population density, he argues for reducing the biases in federal and local policies that favor homeownership.

Richard Green, in “Thoughts on Rental Housing and Rental Housing Assistance,” similarly highlights the bias of the nation’s current policies that favor homeownership. He suggests that federal rental housing subsidies may be justified to level the playing field, but he contends that subsidies should be delivered through tenant-based vouchers.

The next two articles in the issue focus on current conditions and trends in the rental housing market. DiPasquale highlights the financial vulnerability of the multifamily housing stock. She reports that rental vacancy rates are at historic highs, although rents and renters’ incomes are falling. As policymakers reconstruct the U.S. housing finance system, she makes a strong case that consideration must be given to rental housing providers’ credit needs, especially as an increasing share of households are renting.

Collinson, in “Rental Housing Affordability Dynamics, 1990–2009,” focuses on the experience of renter households. He reports that, although rent burdens fell slightly during the 1990s, the combination of stagnant incomes and rising real rents pushed rent burdens to historic highs between 2000 and 2009. But he highlights the tremendous variation across metropolitan areas in affordability, which is likely to continue. Finally, he points to several gaps and shortcomings in existing data sets and calls for more detailed, timely, nationally representative data on actual rents paid.

The next two articles emphasize that rental housing policies should pay attention to both risks and costs. Sinai contends that, although the recent housing crash is a reminder that homeownership is risky, renting housing also has risks. Indeed, he maintains that neither tenure mode is more or less risky than the other in any absolute sense. But given that renters tend to spend less on housing, they may be better able to handle volatility. He also suggests some policies that might minimize the risks that renters face, such as encouraging longer term leases.

O’Flaherty focuses on two important roles government can play in the rental market: (1) providing a safety net for renters against risks of job loss, illness, or changes in relationships that may make it impossible for them to pay their rent for some period; and (2) generating external benefits from the provision of housing in good neighborhoods. He explains why the private market generally does not offer rental insurance and proposes that the government step in. He also argues that government should revamp housing assistance programs to make the federal subsidy depend on whether the housing is located in neighborhoods that provide decent environmental quality, good schools, convenient job access, and other opportunities.
Like O’Flaherty, Quigley focuses on low-income housing assistance. He discusses the rationale for renter assistance programs and then recommends a universal housing entitlement program, targeted to a narrower band of low-income households and administered through the tax system. He suggests that reducing the limits on the deductibility of interest payments for high-income homeowners could finance the program. He reasons that the government should subsidize the construction of housing developments only when the community spillovers are deemed large enough to justify those investments.

Finally, the international discussant, Priemus (“Renting in the USA: A Dutch Perspective”), offers a useful perspective on U.S. policy and reminds us that other housing assistance models might be examined and adopted. Priemus highlights some areas of similarity, calling for reforms to policies in the Netherlands, which are very similar to those recommended by the authors in this volume for the U.S. system (such as eliminating the mortgage interest deduction and adopting universal housing vouchers), but he also points to substantial areas of difference.

The need to learn from and avoid repeating the recent housing crisis provides an opportunity to rethink the role that rental housing should play in meeting the needs of the huge variety of American households during the different stages of their lives. We hope that the creative and thoughtful articles in this volume will provoke and enrich that conversation.