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RENTAL VACANCY ISSUES AND A NATIONAL HOUSING TRUST FUND

The national vacancy rate is not an argument against the National Housing Trust Fund

Opponents of the National Housing Trust Fund and housing production programs in general often argue that the current national vacancy rate of near 10% indicates that affordable housing production is unnecessary. If there were too few units, they argue, the vacancy rates would be below 5%. There are a number of problems with this argument.

The link between the national vacancy rate and national rent levels is weak.

While the national vacancy rate is an indication of the strength of the nation's rental market, it does not perform well as a current indicator of trends in affordability. For example, the national vacancy rate rose significantly between the first quarter of 2006 and the first quarter of 2007. High and rising vacancy rates should put downward pressure on rents, yet median asking rents also increased significantly over the same period (Table 1).

Table 1 Both Vacancies and Rents Increased in 2006

	Vacancy Rate	Median Monthly Rent (2007 \$)
First Quarter 2006	9.5	\$615
First Quarter 2007	10.1	\$659

Source: US Census Bureau. Housing Vacancy Survey: First Quarter 2007. Table 8. Retrieved April 27, 2007 from www.census.gov/hhes/www/housing/hvs/qtr107/q107tab8.html

Vacant units are often priced out of reach of those who need them.

American Community Survey data from the Census indicated a national vacancy rate of 10% in 2005, similar to the rate the Housing Vacancy Survey indicated for the first quarter of 2007. Yet, in analyzing these data, NLIHC¹ found that for every 100 households earning

¹ Pelletiere, D. (2007). American Community Survey estimate shows larger national, state affordable rental housing shortages. Research Note #07-01. Washington, DC: NLIHC.

30% or less of the state’s median household income² that year, there were only 69 units of affordable rental housing nationwide. Moreover, for every 100 renters in this category, only 38 affordable units were either already occupied by these poorest households or vacant and for rent.³

There are more vacant units but they are also more expensive.

A similar pattern can be seen in the more recent Housing Vacancy Survey Data. According to that survey, nationwide just 5% of the units vacant and for rent in the first quarter of 2007 had asking rents of less than \$300 a month (Table 2). At the same time, 22% of the vacant units were on the market for \$1,000 or more. A unit renting for \$1,000 a month (including utilities) is affordable only to those with household incomes of \$40,000 or more.

Table 2 Low Cost Units Declined as a Proportion of the Vacant Rental

Percent distribution of vacant units by asking rent			
	Period		
Rent level	2006 (Q1)	2007 (Q1)	Change
Less than \$300	5	5	0
\$300-\$599	45	35	-10
\$600-\$799	20	23	3
\$800-\$999	13	13	0
\$1000+	17	22	5

Note: Percent distribution may not add to total, due to rounding.
 Source: US Census Bureau. Housing Vacancy Survey: First Quarter 2007. Table 3. Retrieved April 27, 2007 from www.census.gov/hhes/www/housing/hvs/qtr107/q107tab3.html

Making matters worse, between 2006 and 2007 there was no statistical increase in the proportion of the vacant units with monthly asking rents below \$300, and the proportion of units with asking rents of at least \$300 and less than \$600 declined significantly by 10%. At the same time, there was a 5% increase in the proportion of

vacant units with rents of \$1,000 or more (Table 2). Not only can low income families not afford \$1,000-a-month rent, but there is little evidence that high vacancy rates and the increasing number of higher priced vacant units over the years has reduced the costs of renting at the bottom of the market. The changing price distribution of vacant units explains how it is that median rents increased and vacancy rates rose.

Low cost vacant units are often “unrentable.”

One reason that rising vacancy rates do not mean relief throughout the market is simple economics: if a property owner is unable to rent a unit for an amount higher than that covering costs (financing, maintenance, etc.), the rent can not fall to, or at least can not be maintained at that level, even if there is demand.⁴ In these cases, the owner stops or defers maintenance, the unit falls into disrepair, it becomes un-rentable (often as a result of

² This category represents the lowest income households and roughly approximates the Extremely Low Income category employed by HUD in its programs and analyses.

³ As indicated in the NLIHC research note (Pelletiere, 2007) these findings are similar to those published by HUD and others.

⁴ A recent New York Times article quotes a landlord as stating, “It is not a problem renting apartments ... The problem becomes collecting ... people have limited incomes and are only able to afford a certain amount of rent.” “Softer Rents, but the Hunt Is Still Hard” New York Times, October 19, 2003

regulatory action), becomes vacant and is removed entirely from the housing stock.⁵ In fact, there is considerable evidence that controlling for quality of units reduces the available housing stock still further⁶ and today much of the vacant rental stock has been vacant for years.⁷

Vacant units are often not where they are needed.

It is not enough to have vacant units somewhere in the country; they must be located where people are moving and can make a living. The national vacancy rate, however, pools declining areas with historically larger rental stocks, often in the Midwest and Northeast, with growing Western areas with historical and growing shortages of rental housing. For example, while the national rental vacancy rate was 10.1%, the rate was just 6.5% in the West⁸. Nationwide, however, urban markets as diverse as New York City, Philadelphia, Las Vegas, Oakland and Miami have vacancy rates well below 5%.⁹ In New York City, the rental vacancy rate was 1% in all five boroughs in 2006.¹⁰ Many rural communities and resort and vacation areas have similar problems due to a severely limited stock of year-round rental homes.¹¹

The national vacancy rate is not an indicator of the need for affordable housing production where we live.

The national figure for vacancy rates is an easy statistic to cite, but it can serve to hide many important issues, especially those pertaining to the availability of units for lower-income households. Congress should create a National Housing Trust Fund to provide American with homes that are not only affordable, but also available to the lowest income households and difficult to serve populations. A National Housing Trust Fund would create a dedicated source of revenue to produce, rehabilitate and preserve 1.5 million affordable rental units for the lowest income people over 10 years.

⁵ For a fuller discussion see Apgar, W.C. (1993) An abundance of housing for all but the poor. In G.T. Kingsley & M. A. Turner, (Eds.) Housing markets and residential mobility (p. 116). Washington, DC: The Urban Institute Press.

⁶ See for example Vandenbroucke, D.A. (2007). Is There Enough Housing To Go Around? *Cityscape* 9(1): 175-188.

⁷ Over 10% of vacant units have been vacant at least a year. See for example, US Census Bureau. Housing Vacancy Survey: First Quarter 2007. Table 8. Retrieved April 27, 2007 from www.census.gov/hhes/www/housing/hvs/qtr107/q107tab8.html

⁸ US Census Bureau. Housing Vacancy Survey: First Quarter 2007. Table 3. Retrieved April 27, 2007 from www.census.gov/hhes/www/housing/hvs/hvs.html

⁹ Marcus and Millchap. (2007) 2007 National Apartment Report. Retrieved May 2, 2007 from www.marcusmillichap.com/Research/viewReports.asp?NIRRID=1&rt=FA.

¹⁰ "Manhattan: Survey on Apartment Vacancies" *New York Times*. April 24, 2007. Retrieved May 2, 2007 from www.nytimes.com/2007/04/24/nyregion/24mbrfs-rental.html?ex=1178251200&en=f8c7bd8fc50869aa&ei=5070

¹¹ In 2000 nearly 99 rural had rental vacancy rates below 6%. Analysis of Census 2000 data by the Housing Assistance Council.