Market Rate Rental Housing

For many households, rental housing is a preference; for others, it is a financial necessity. In 1996, households in the lowest 20 percent of County incomes, those with incomes below $37,500, could only afford 9 percent of all single-family houses sold that year, about 1,100 of 12,400 houses. With few exceptions, only households at the high end of the low-income range could afford any of the houses that were for sale. For the rest, rental housing is often the only choice. Households with limited choices include in-movers, especially recent immigrants; young workers; long-term workers in low-wage jobs; and older residents with limited incomes.

Many households at the very lowest income levels rely on subsidized units for housing. Such resources are discussed in depth in the “Assisted Housing” section starting on page 31. Market rate housing also provides some rental units that are affordable to low and moderate income households. This section of the Inventory concentrates on market rate units.

Some of the market rate complexes also include subsidized units or units that are publicly owned. A clear distinction between market rate and subsidized units can be difficult to draw. For example, some of the most expensive high-rise apartments in the County are in a mixed income building owned by HOC, the Metropolitan. This study considers units with rent rates that are expressed in dollar amounts and that are no more than about $50 below other units in the area to be market rate. Those with an income ceiling that charge a percentage of income or those with extremely low rents and public or nonprofit ownership are considered assisted. Some of the market rate units are also included in the assisted section as opportunity housing. Specialized housing for the elderly has also been excluded from the rental housing analysis. The rents for age segregated housing often include services and amenities such that spending a higher percentage of income for rent becomes reasonable.

Rents

In 1999 the maximum rent for a two-bedroom apartment leased with a Section 8 voucher was $820[2] per month. This analysis uses Section 8 voucher rents as an indicator of affordability. These rents are a convenient dividing point between market rate housing that is affordable to lower income households and housing that is not. Two-bedroom apartment rents are discussed in detail to illustrate the composition of the rental housing stock by price range.

According to housing industry standards, an affordable rent should represent no more than 30 percent of income. This means that the $820 per month apartment is considered affordable to households with incomes of $32,800, about 46 percent of Montgomery County's 1999 estimated median household income. The standard target rent of no more than 30 percent of income is an extremely desirable goal. However, U.S. Census data and other surveys routinely report that many households exceed this percentage in order to find an adequate place to live.

Supply of Affordable Two-Bedroom Units by Housing Type

Type	# Units Priced Below $820/Month	Total Two-Bedroom Units	Percent Below $820
Garden Apt.	8,992	21,448	41.9%
Mid-Rise	352	1,807	8.0%
High-Rise	358	4,422	8.1%
Total	10,541	27,677	38.1%

$820 represents the maximum 1999 Section 8 voucher low-income rent.

All rents discussed in this section are turnover rents – the rent that is charged to a new tenant. Long-term tenants may pay somewhat less as landlords often raise rents for continuing tenants less than they raise the rents for new tenants. The rental information in this Inventory is based on DHCA's 1999 Rental Apartment Vacancy survey. Some preliminary data from the 2000 survey are also included.

In 1999, 38 percent of the County's two-bedroom rental apartments were priced at or below $820 per month. Almost all of these, 85 percent, were garden apartments. Only four high-rise complexes were in this price range, three in Silver Spring or Takoma Park[3], and one in Kemp Mill/Four Corners. Their rents ranged from $691 to $800 per month. The least expensive of these units is affordable to a household with an annual income of just under $28,000.

Twelve mid-rise complexes were in the Section 8 Voucher rent range. Again, all but one of these are in Silver Spring and Takoma Park. The other is located in Fairland. The rents ranged from $571 to $820 per month. The least expensive unit would be affordable to a household with

[2]This rent is also known as the fair market rent.

[3]None of these units were in Silver Spring's Central Business District.

an annual income of $23,000. There were no market rate mid-rise or high-rise apartments in Bethesda-Chevy Chase or the I-270 Corridor reporting two-bedroom rents below $820.

Modestly priced two-bedroom units in garden apartment complexes were more plentiful and more widely dispersed throughout the County than similar units in high-rise or mid-rise complexes. Market rate, lower rent garden apartments could be found in every section of the County. Silver Spring and Takoma Park had the highest percentage of lower rent units, 77 percent, while Bethesda-Chevy Chase had the lowest percentage, 25 percent. The lowest rent was $495, requiring an income of $19,800 per year.

Other apartment sizes have similar patterns of availability of units affordable to households needing rents at or below the Section 8 Voucher level. The share of one-bedroom apartments affordable to low-income households is particularly small. Only 1.5 percent of high-rise one-bedroom units are below Section 8 levels, and a comparatively low 37 percent of garden apartment one-bedroom units are in this price range. Three-bedroom units, on the other hand, are more likely to be affordable. Almost all of the mid-rise three-bedroom apartments in the County are affordable based on the Section 8 Voucher rent level, as are 83 percent of the garden and 37 percent of the high-rise units. The main exception is units in high-rises in Bethesda-Chevy Chase and the I-270 Corridor. All of the 265 three-bedroom high-rise units in those areas are priced above the Section 8 Voucher level.

Overall, about 35 percent of the County's approximately 57,500 market rate apartments[4] had rents at or below the Section 8 Voucher maximum in 1999. These 20,000 units are an extremely important housing resource. They are not, however, sufficient to house all of the County's more than 50,000 low income households. Based on the 1997 Census Update Survey data, low income households were those with incomes below $40,000, approximately 60 percent of the 1996 median income. Even combining these lower cost apartments with the County's approximately 11,718 subsidized units (see Tables 6 and 7.) and various other affordable options, many households must still pay too much for housing or accept inadequate units. The 1997 Census Update Survey found that 28 percent of households in rental housing were paying 30 percent or more of their incomes for rent. Ten percent of all renter households were paying 50 percent or more of income for rent. A small proportion of these may be elderly households whose rent includes some meals. As mentioned above, such households would expect to pay a higher percentage of income for rent. Many of the rest may be sacrificing other necessities for their housing.

[4]Includes only complexes of 12 or more units that participated in the County's 1999 rental vacancy survey and meet the definition of market rate housing on page 8..

Vacancy Rates

Rental vacancy rates for all unsubsidized units have been steady or declining since 1994. As the economy has improved, the market has tightened considerably. Preliminary data for 2000 reveal an even tighter market with an overall vacancy rate of 2.5 percent. Apartments projects are usually structured so that the project is considered fully occupied at and reaching financial expectations at a 5 percent vacancy rate. When rates fall much below 4 or 5 percent, prospective tenants may not be able to find appropriate units in any price range. The level of demand tends to drive up rents, and owners have little time between tenants or incentive for routine maintenance, such as painting and for modernization.

Vacancy Rates by Building Type

Type	1994	1997	1999
High-Rise	3.8%	3.4%	1.8%
Mid-Rise	3.2%	4.3%	2.8%
Garden	4.5%	4.8%	3.4%
All Types	4.3%	4.4%	3.0%

All unsubsidized units.
Source: Department of Housing and Community Affairs

2000 Rental Apartment Vacancy Survey

Early results of the 2000 rental survey indicate that the housing situation for low income renters is deteriorating. County-wide, rents rose 7.8 percent between April 1999 and April 2000. The increase was 7 percent or more for every unit size. This increase was about triple the 1999 increase in the Consumer Price Index for the Baltimore-Washington area. Combined with the decreasing vacancy rates, the number of apartments available for lower income households appears to have declined.

The affordable market rate rental supply is also being eroded by another effect of a strong economy. Low vacancy rates, rising rents, and the thriving economy combine to encourage owners and investors to upgrade rental properties. This may result in a healthier housing stock but also in higher rents, much higher in some cases. It is too soon determine how many units are affected by this trend, but there are indications that such renovations are becoming widespread. Many of these modernization projects are moving apartments out of the affordable range of the market.

Findings

Rental housing is often the only real option for low- and especially for very low-income households. Montgomery County had a comparatively wide range of units with moderate rents in the 1990s. A major source of this supply was older apartment buildings showing their age and commanding fairly modest rents. Indications in the last few years are that the market is changing in response to a strong economy in ways that reduce the options for poorer households.

- Increasing rents and decreasing vacancy rates are creating an increasingly tight rental market. Early 2000 data show a continuation of this trend.

- While affordable apartments are reasonably plentiful now, pressure to upgrade older stock and build expensive new units threatens to decrease the affordable stock.

- County government is actively working to retain affordable units in the housing stock.