

The Bifurcation of American Renters



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Multifamily properties, like any product, are typically designed to appeal to a particular target market. An important component of the target market for multifamily properties is the income level of prospective tenants. For multifamily investors, understanding any trends in income distribution among the population

of renters is important. In this article, I use data from the US Census Bureau to examine trends in the distribution of renter households by income category and find that the market has been shifting outward, toward both high- and low-income renters. This bifurcation in the renting household population in the US, which seems likely to continue into the future, has implications for investors considering how to implement a multifamily strategy and what types of properties to target. At the same time, investors must be keenly aware of local dynamics in the renter population, which can vary significantly from the broad, national trends.

National Trends in Renter Households

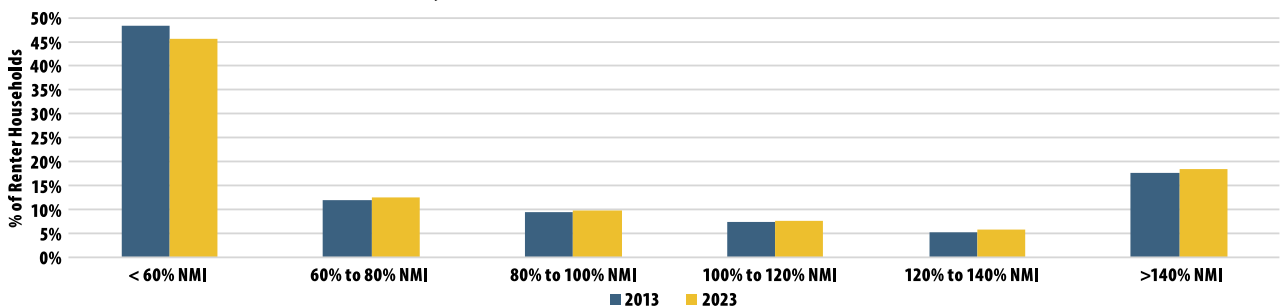
Exhibit 1 shows the distribution of renter households in the US by income category. Household income is measured relative to National Median Income (NMI), the median income across all households in the US, in both 2013 and 2023 (2023 is the most recent data available). NMI was \$52,000 in 2013, rising to \$76,170 in 2023. By definition, because it is the median, 50% of

all households have incomes above NMI and 50% below. However, NMI includes both homeowners and renters. Because Exhibit 1 includes only renter households and, on average, renters tend to have lower incomes than homeowners, the income distribution of renters relative to NMI is expected to be weighted toward the lower-income categories. This is exactly what the exhibit shows.

In 2023, a little over two-thirds (67.9%) of renter households had incomes below NMI. The largest income category is at the lowest end: 45.6% of renter households had incomes below 60% of NMI. Thus, renter incomes are strongly weighted toward lower-income categories. Notably, the second-largest category is actually at the top of the income scale—18.5% of renter households had incomes more than 140% of NMI in 2023. Although the greatest weight of the distribution is toward the lower-income categories, there is a significant component of high-income renters. Many of these high-income renters are likely “renters by choice,” people who have the financial capability to own their homes but are attracted to the amenities and flexibility of renting. Some, especially in high-cost cities, may be young professionals sometimes referred to as HENRYs—“high earners, not rich yet”—who, despite having relatively high incomes, do not feel they have the financial security to purchase homes.

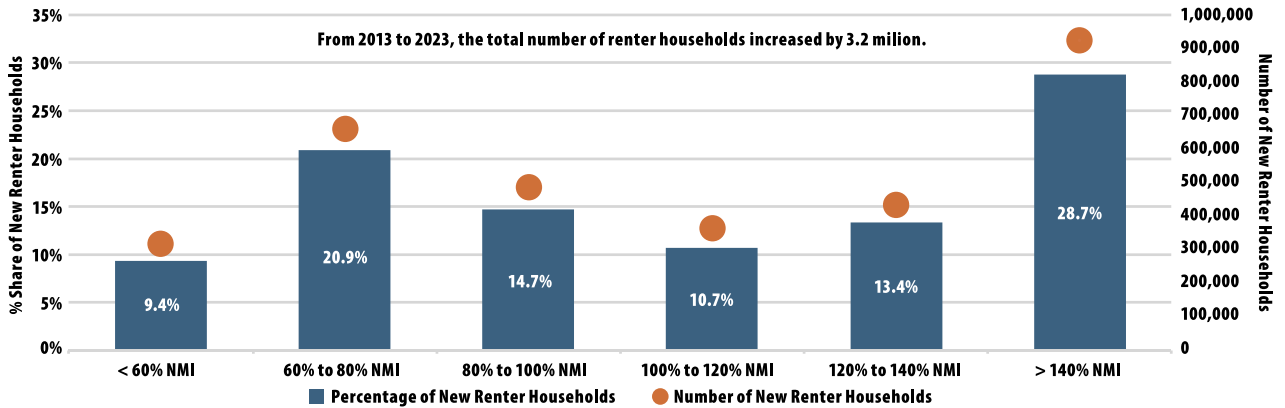
Of particular interest for my purposes is not just the distribution of renters in 2023 but how that distribution changed over the decade from 2013. The most obvious

Exhibit 1: Distribution of Renter Households by Income,* 2013 Versus 2023



Source: PREA Research based on data from US Census Bureau, American Community Survey, 2013 and 2023 (via IPUMS, University of Minnesota)

* NMI is National Median Income, measured across all households in the US.

Exhibit 2: Share of the Change in Renter Households, 2013 to 2023, by Income Category

Source: PREA Research based on data from US Census Bureau, American Community Survey, 2013 and 2023 (via IPUMS, University of Minnesota)

change is that the percentage of renters with incomes below 60% of NMI fell from 2013 to 2023. Accompanying that decline was an increase in the share of renters in each of the other categories, with the largest increase in the greater-than-140%-of-NMI category and the 60%-to-80%-of-NMI category.

These changes over ten years are easier to see in Exhibit 2, which depicts the change over the decade. In 2023, there were 3.2 million more renter households in the US than there had been in 2013. The exhibit shows the income distribution for these new renter households.

First, less than 10% of the renter households added over the decade to 2023 are in the lowest-income category, far below their proportion in the overall renter pool, as shown in Exhibit 1. The low rate at which renters in the less-than-60%-NMI category are entering the market explains why that category has a decline in its share of the overall renter market. Declining share does not mean there are fewer low-income renters; in fact, the exhibit shows that there were 300,000 more renter households in the lowest-income category in 2023. Rather, it means that growth in that category is below the growth in the overall renter population. Although part of this is a denominator effect—with more high-income renters entering the market, the percentage of renters at the low end looks smaller—importantly for multifamily investors, much of this is most likely a result of a supply issue rather than a demand issue. Because of the lack of housing affordable to this demographic, many continue to share housing with family or friends, try to find roommates to share expenses, utilize other forms of shared accommodation, or simply go without. A lack of affordable options is stalling household

formation for the lowest-income Americans, resulting in a drop in the share of renters below 60% of NMI.

Besides the lowest-income category, Exhibit 2 shows a distinct “smile” pattern. The largest increases, both in terms of the number of households and the share of overall increase in renters, occur in the moderate-low-income category (60% to 80% of NMI) and the highest-income category. In the ten years leading up to 2023, the number of renter households earning more than 140% of NMI increased by more than 919,000, representing 28.7% of the overall increase in renters over the period. This is a much larger share than high-income earners represented in the market overall (they were only 17.7% of the rental market in 2013, as shown in Exhibit 1) and explains the rising importance of this renter demographic nationally. The next-largest increase is in the moderate-low-income category, with the number of renters in the 60%-to-80%-of-NMI bracket increasing by more than 668,000. This accounts for 20.9% of the overall increase in renters; moderate-low-income renters represent a larger share of new renter households than they do in the overall renter market, resulting in an increased weight on this category over time.

Hence, the long-term trend has been a divergence in the rental market, with the greatest increases in the high- and moderately lower-income categories. The lowest-income renters—whose household formation has been impeded by a lack of affordable housing—are getting squeezed. Also affected are the middle-income categories from 80% to 120% of NMI (which many would define as “workforce housing”). This does not mean a decline in demand for

Exhibit 3: Ten Metros With Largest Increase in Proportion of Renter Households Earning Less Than 60% of Area Median Income

Metro CBSA	AMI (2023)	% of Renter Households <60% AMI (2013)	% of Renter Households <60% AMI (2023)	Change in Share of Lowest-Income Renter Households
Las Vegas–Henderson–Paradise, NV	\$74,000	38.2%	42.1%	3.9%
New Orleans–Metairie, LA	\$61,300	49.5%	51.5%	2.0%
Oklahoma City, OK	\$69,400	44.1%	45.9%	1.8%
Virginia Beach–Norfolk–Newport News, VA-NC	\$77,000	45.9%	47.0%	1.1%
Orlando–Kissimmee–Sanford, FL	\$76,000	39.5%	39.7%	0.2%
Portland–Vancouver–Hillsboro, OR-WA	\$93,500	46.6%	46.7%	0.1%
Baltimore–Columbia–Towson, MD	\$91,200	50.6%	50.6%	0.0%
Riverside–San Bernardino–Ontario, CA	\$86,000	44.4%	44.0%	-0.5%
Hartford–West Hartford–East Hartford, CT	\$90,000	54.6%	54.0%	-0.6%
Washington DC–Arlington–Alexandria, DC-VA-MD-WV	\$120,000	46.3%	45.7%	-0.6%

Source: PREA Research based on data from US Census Bureau, American Community Survey, 2013 and 2023 (via IPUMS, University of Minnesota)

Note: Based on only metros with more than 150,000 total renter households.

workforce housing; Exhibit 2 shows an increase in renter households of 814,000 from 2013 to 2023. However, this category is declining in importance relative to the higher-income and moderate-low-income categories.

The changing composition of the renter universe is not a new trend. A report from the Joint Center for Housing Studies of Harvard University¹ observed the increased share of high-income renter households in 2018, noting it was particularly pronounced in expensive coastal cities, and other studies have found similar results.² However, investors must remember that this reflects only part of the demand-supply dynamic. Most new construction naturally appeals to higher-income tenants, and lower-income tenants typically rent older properties (naturally occurring affordable housing, or NOAH) that are more affordable. Thus, as the percentage of higher-income renters grows, the question is whether new supply meets the increasing demand. For lower-income renters, it seems unlikely that supply will keep up with demand if this segment continues to grow. This article focuses on the demand side, but it's crucial to consider both demand and supply interactions to determine vacancy and rent growth over time, ultimately affecting multifamily investment performance.

Differences Across Metros

National statistics provide an interesting look at broad trends over time among the renter population, but every real estate investor knows that local dynamics are crucial for a particular investment. Renter dynamics can differ

dramatically from city to city; for example, large, high-cost cities tend to have more high-income renters than do more affordable locations. To examine how long-term trends in the renter population vary across cities, I repeated the same process for each metro area in the US (defined by Core Based Statistical Area, or CBSA), comparing renter households in each metro area with that metro's Area Median Income (AMI) and observing the changes from 2013 to 2023.

Presenting results on 242 metro areas across the US is problematic, so here I simply present a few highlights. PREA members interested in what their favorite metro area looks like in terms of the distribution of renters by income category can find the full results for all 242 metros in an [online appendix](#). For each metro, the appendix presents the AMI, the total number of renter households, and the number in each of the six income categories for both 2013 and 2023.

Exhibit 3 highlights the cross-metro data, showing the ten metro areas that bucked the trend and had the biggest increase in the share of renters in the lowest-income category, less than 60% of AMI. To make this of greatest interest to multifamily investors, the list is limited to metros with more than 150,000 renter households (50 metros). A handful of these large metros across the country

1. Alexander Hermann, "The Number of High-Income Renters Surged, Especially in the Nation's Highest-Cost Markets," Joint Center for Housing Studies of Harvard University, Feb. 26, 2018.

2. See, among others, Andreea Neculau, "Millionaire Renters Triple, While High-Income Renters Earning \$150,000 or More Reach 2.6 Million," RentCafe, Jan. 30, 2023.

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Exhibit 4: Ten Metros With Largest Increase in Proportion of Renter Households Earning 140% or More of AMI

Metro CBSA	AMI (2023)	% of Renter Households >140% AMI (2013)	% of Renter Households >140% AMI (2023)	Change in Share of High Income Renter Households
San Francisco–Oakland–Hayward, CA	\$125,000	19.4%	23.2%	3.8%
Denver–Aurora–Lakewood, CO	\$101,000	12.9%	16.6%	3.7%
Buffalo–Cheektowaga–Niagara Falls, NY	\$68,880	12.1%	15.2%	3.1%
Milwaukee–Waukesha–West Allis, WI	\$76,500	11.7%	14.7%	3.0%
Seattle–Tacoma–Bellevue, WA	\$109,600	16.4%	19.3%	2.9%
Nashville–Davidson–Murfreesboro–Franklin, TN	\$81,300	14.6%	17.4%	2.8%
Austin–Round Rock, TX	\$96,000	14.7%	16.9%	2.1%
Richmond, VA	\$83,000	14.1%	16.0%	1.9%
Salt Lake City, UT	\$91,500	12.9%	14.7%	1.8%
Columbus, OH	\$77,400	13.0%	14.9%	1.8%

Source: PREA Research based on data from US Census Bureau, American Community Survey, 2013 and 2023 (via IPUMS, University of Minnesota)

Note: Based on only metros with more than 150,000 total renter households.

have gone against the national trend and increased the share of renters in the lowest-income category, such as Las Vegas, where the proportion of very-low-income renters went from 38.2% in 2013 to 42.1% in 2023 (a gain of 3.9% in low-income share of the renter pool), and New Orleans, where the share of low-income renters increased 2% over the decade. However, the main conclusion of Exhibit 3 is how widespread the decline is in the share of renters in the lowest-income category. The exhibit presents the ten metros with the largest increase in share, but one of them shows zero change and three are actually negative. Of the 50 metros with more than 150,000 renter households, only six had an increase in the share of low-income renters from 2013 to 2023, with the remainder having a decrease. This indicates that the shortage of affordable housing for renter households earning less than 60% AMI is almost ubiquitous in major cities across the US.

Exhibit 4 shows the ten metro areas (with at least 150,000 total renter households) with the largest increase in the share of renters in the highest-income category from 2013 to 2023. Although high-cost cities, e.g., San Francisco, are represented as well as markets that had high growth since 2013, e.g., Austin, Nashville, Salt Lake City, markets that might be surprising, such as Milwaukee and Buffalo, are also shown.

Conclusion

Overall, though national-level trends are clear, discerning a pattern across metros is difficult, with both Exhibits 3

and 4 showing metros with varying characteristics and from a variety of regions. Other examples demonstrate that, besides the decline in the less-than-60%-AMI category, change in renter population is a very local phenomenon: Los Angeles follows the national trend, with an increase in the proportion of renters with incomes greater than 140% and of those with incomes between 60% and 80% of AMI, yet nearby Riverside, CA, had declines in both these categories. Boston appears on trend with the overall country, whereas Denver and Austin had accentuated versions of the national trends, with large gains in upper-income renters. Unlike Austin, other cities in Texas, such as Dallas and Houston, had declines in the share of renter households at greater than 140% AMI, as did Phoenix.

Investors should be aware of trends in the composition of the renter universe at the national level because that provides significant information on the background trends affecting multifamily investment. However, renter dynamics are unique to each metro area. No matter what income level their properties target, investors need to understand the trends in the areas relevant to them, which may vary depending on economics, growth, and local policies affecting residential properties. National trends in renter households are an important component of the story, but only the introductory section and not the conclusion of the narrative. ■

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