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Affordability in the Rental Market: 1990-2000

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AFFORDABILITY IN THE RENTAL MARKET: 1990-2000

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During the mid/late-1990s, the U.S. witnessed housing bubbles spring up in various metropolitan areas across the country. A housing bubble occurs when the sales price of homes increase sharply, due to speculation, compared to all other goods. While bubbles in other industries, such as the tech bubble, have burst, the housing bubble has yet to stop rising. This paper analyzes how demand has driven up these bubbles, but more importantly, what sort of spillover effect this has had on the cost-burden among low-income rental households. When renters are spending more than 30% of their gross income on housing costs, they are considered to be cost burdened .

Renting a home is considered an inferior good to owning a home. Because of this model, rental rates should increase with the housing prices; however, they are not seen to rise as fast as home sales price. In fact, the number of renters per city is seen to be less cost-burdened from 1990-2000.

In this project, I have developed a model to explain what variables cause the change in home price, as well as the change in % cost-burdened. 1990 and 2000 census data compiled by the department of Housing and Urban Development is used to analyze these factors.