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### Rent Divergence Within Neighborhoods

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Housing rents continue to be a policy focus, given housing's large expenditure weight in household budgets—particularly for low-income renters or renters in high-rent cities. Rent inflation is a large component of overall inflation, adding prominence to its accurate measurement. Rent inflation for different types of housing units sometimes diverge. In the United States, apartment rents have outpaced rents for detached houses since 2011. If the influence of location entirely explains the difference, then weighting rent data based on location may give an accurate rent index. If rents diverge by more than the influence of location can explain, then an unrepresentative mix of housing types will incorrectly measure rent dynamics.

Housing survey microdata from the U.S. Bureau of Labor Statistics (BLS) allows estimation of location and structure type effects. The survey scientifically selects small neighborhoods from within a city, then samples a half-dozen rental units from each selected neighborhood (irrespective of structure type or management structure). This procedure ensures that the sample contains units from all parts of the rental market and contains some competing rental units within every selected neighborhood. These sample-randomizing features contrast with the procedures underlying other housing data sources, which often omit significant portions of the rental market or which contain no location data. Further, BLS housing data are panel data. Rents in the BLS sample are collected on each unit every six months, allowing a study of higher-frequency rent dynamics.

We find that, controlling for location and for other observables, rent dynamics differ in a statistically- and economically-significant manner across structure types, over long periods. For instance, between 2013 and 2016, after controlling for the effects of location, multiunit rent growth exceeded single-family detached rent growth by 2.5 percentage points.

Thus, sample-representativeness is an upmost concern. In the U.S., several new data sources are based on rents of professionally-managed apartment complexes. They would need to be supplemented (and not merely reweighted) to become representative of the whole rental market.

The need for locationally- and structurally-representative samples also has implications for how the BLS estimates the value of services from owner occupied housing. Detached houses are more common among owners than among renters in the same neighborhoods, so changes in owners' equivalent of rent could be mis-measured by a method that relies on distribution of structure types from the rental market. We discuss other methodological options.