THE STATE OF THE NATION'S HOUSING 2023

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Home Prices and Rents Remain High, as Steep Interest Rates Lock Homeowners in Place and Slow Construction

Harvard Joint Center for Housing Studies releases The State of the Nation's Housing 2023 report

CAMBRIDGE, MA – The sharp interest rate hikes over the past year continue to impact housing markets and affordability for both homeowners and renters across the US, according to The State of the Nation's Housing 2023, a new report from the Harvard Joint Center for Housing Studies released today. Rising mortgage costs have pushed homeownership out of reach for millions of renters at a time when large numbers of millennial households are at prime homebuying ages and when homeownership disparities between white households and those of color are near historic highs. Higher interest rates have also sparked a slowdown in the construction of new single-family homes, even as a nationwide housing shortage contributes to high housing costs.

Markets Cool but Housing Costs Remain High

By early 2023, in both the for-sale and rental markets, housing demand softened and markets cooled across the country. "Rent growth slowed over the past year and home prices declined in a number of areas," says Daniel McCue, a Senior Research Associate at the Center. "Nonetheless, housing costs remain well above pre-pandemic levels thanks to the substantial increases over the last few years." Since the beginning of 2020, asking rents in the professionally managed sector are up by 24 percent while home prices are up by an astounding 37.5 percent. **[INTERACTIVE CHART]**

Higher Costs Push Homeownership Out of Reach

First-time homebuying plummeted over the last year in response to the increased cost of homeownership. Between March 2022 and March 2023, payments on the median-priced home shot up from $2,500 to $3,000 as the annual interest rate on 30-year fixed-rate mortgages jumped from 4.2 percent to 6.5 percent. **[INTERACTIVE MAP]** The result was a 22 percent annual decline in the number of mortgages originated to first-time homebuyers in 2022, including a year-over-year drop in the fourth quarter of nearly 40 percent, as over 2.4 million potential homebuyers were priced out of homeownership. Rising costs disproportionately affected potential homebuyers of color who were already much less likely to own homes than white households; Black and Hispanic homeownership rates were 28.6 and 25.8 percentage points below white homeownership rates in 2022.

Single-Family Construction Slows, While Multifamily Construction Thrives

Single-family housing starts dropped 10.8 percent last year, raising concerns about the nation's large and ongoing housing shortfall. Similarly, in the existing home market, just 970,000 homes were available for purchase in March 2023, 42 percent less than in 2019. "On the other hand, multifamily construction continued to rise in 2022 even as rental demand softened," says Alexander Hermann, a Research Associate at the Center. "Indeed, nearly 1 million multifamily units were under construction in early 2023, the highest rate in almost 50 years." However, rising vacancy rates, along with higher interest rates and tighter lending standards, suggest a forthcoming slowdown in multifamily construction.

Cost Burdens Reach Record Levels

Between 2019 and 2021, the country saw the most significant drop in housing affordability in years. The number of cost-burdened homeowners—defined as those spending more than 30 percent of their income on housing—increased more than any time since the housing boom of 2005-2007, and the number of cost-burdened renters hit a record high of 21.6 million households. **[INTERACTIVE MAP]** Of these, 11.6 million renters were severely cost burdened, spending over half of their income on housing. Making matters even worse, the supply of low-cost rental units continues to decline: the market has lost 3.9 million units with contract rents below $600 in the last decade. **[INTERACTIVE CHART]** This leaves the most vulnerable with few options and has fueled a 35 percent nationwide increase in unsheltered homelessness since 2015.

Mobility Shifting Housing Demand

Mobility patterns that were dominant during the pandemic persisted in 2022, as people continued to move into lower-cost, lower-density areas. **[INTERACTIVE MAP]** Counties in smaller metro areas and states in the South saw the largest net inflows, led by Texas, Florida, and North Carolina, while counties in large metro areas and states like California, New York, and Illinois saw the largest outflows. Domestic migration has become the largest source of population growth in 20 states and the largest source of population decline in 23 states.

The Outlook

As pandemic-era assistance programs wind down, housing remains prohibitively costly for millions of households. More lower-cost housing is clearly needed, but expanding development will require zoning reform to support a broader range of housing types and investments in off-site construction methods that could reduce costs. Additionally, investments are needed to preserve the country's aging housing stock and respond to climate change; more than 14.5 million homes were affected by hazards in 2021, amounting to $57 billion in damage. "Housing is a crucial engine of economic growth, and investments in this important sector pay broader dividends," says Chris Herbert, Managing Director of the Center. "As the pandemic highlighted, high-quality, stable, and affordable housing is foundational to widespread well-being and, as such, both merits and necessitates greater public attention."

The State of the Nation's Housing 2023 will be released in a
live webcast on Wednesday, June 21 at 11:30 am Eastern. Registration required.

Download the full report along with interactive maps and data

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