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AMERICA'S RENTAL HOUSING 2022

FOR IMMEDIATE RELEASE

New Report Shows a Surging Rental Market, Starkly Divided by Race and Renter Incomes

Harvard Joint Center for Housing Studies releases its biennial America's Rental Housing *report*

CAMBRIDGE, MA – Rental housing demand came roaring back in the second year of the pandemic, reducing vacancy rates and driving up rents, according to *America's Rental Housing 2022*, a new report released today by the Harvard Joint Center for Housing Studies. The report indicates that some of the rental rebound reflects the lack of inventory in the for-sale market, which has kept many higher-income renters from buying homes. At the same time, however, many lower-income households, and especially lower-income households of color, still struggle to pay the rent.

After a cooldown early in the pandemic, rental housing markets heated up again in 2021. With this resurgence in demand, the overall rental vacancy rate dropped to just 5.8 percent—its lowest reading since the mid-1980s. Strong demand also caused rents to increase; asking rents for all professionally managed apartments spiked in the third quarter last year, led by a 13.8 percent jump for units in higher-quality buildings.

Although unprecedented levels of federal assistance helped many tenants stay up to date on rent throughout the pandemic, lower-income renters, and especially lower-income renters of color, were hard-hit by income losses and more likely to fall behind. Nearly a quarter of Black renters were behind on rent in the third quarter of 2021, as well as 19 percent of Hispanic renters. The share of Asian renter households in arrears was slightly lower at 18 percent, while the share of white renter households was half that, at 9 percent. **[Interactive]** "This disparity reflects long-term discrimination in labor markets that has consigned many households of color to low-wage jobs in the service industry," says Chris Herbert, Managing Director of the Joint Center for Housing Studies. "And this sector suffered the most drastic employment cuts over the past two years, which has only compounded existing inequalities."

Putting further pressure on rental markets, higher-income households have increasingly turned to renting, driving nearly 70 percent of total renter household growth between 2009 and 2019. At least part of the growing popularity of renting among higher-income households is due to tight conditions in the for-sale market. Skyrocketing home prices and low for-sale inventories have put homeownership out of reach for many would-be buyers; typical home values were climbing at an 18.9 percent annual rate in September 2021, up from 5.7 percent the year before. **[Interactive]** And given the growing number of amenity-rich rental units in desirable locations, some higher-income households simply prefer to rent. At the same time, the increasing availability of rental options outside of central cities—in particular, single-family homes that provide more space for families—spurred a 3.6 million increase in renter households in suburban and small metro locations. **[Interactive]**

However, rental housing across the US continues to be highly concentrated in just a few neighborhoods and largely absent in others, limiting where renters can live. "Single-family only zoning and other density restrictions block the development of multifamily housing in many communities, thereby excluding renters from many neighborhoods," says Whitney Airgood-Obrycki, a Research Associate at the Center and lead author of the new report. "Given that people of color are more likely to have lower incomes and to rent rather than own their homes, the geographic concentration of rental housing helps to perpetuate patterns of racial and socioeconomic segregation."

Additionally, as high-end apartments continue to dominate rental construction, the country's stock of low-cost rentals is shrinking. The number of units renting for less than $600 fell by 3.9 million between 2011 and 2019. **[Interactive]** And some 17.6 million rentals—40 percent of the nation's supply—are located in areas with at least moderate risk from threats caused by climate change. Another urgent need is to modify rental housing to accommodate the aging population. The number of renter households headed by a person age 65 and over has already climbed to 7.2 million and will continue to rise over the next two decades.

"This is a pivotal moment for national housing policy," says Herbert. "The pandemic has brought the long-simmering rental affordability crisis to the fore, and the current administration supports large-scale investments in both new and existing rental housing, as well as in subsidy programs. By creating a comprehensive, well-funded housing safety net, the nation has the opportunity to pull millions of households out of poverty, address longstanding inequities in housing delivery, and ensure that every household has access to a decent and affordable home."

Download the full report along with interactive maps and data.

America's Rental Housing 2022 will be released in a live webcast today at 12:00 pm ET featuring:

Peggy Bailey, Senior Advisor, Rental Assistance, U.S. Department of Housing and Urban Development
Jerusalem Demsas, Policy Reporter, Vox (Moderator)
Calvin Gladney, President & CEO, Smart Growth America
Chris Herbert, Managing Director, Harvard Joint Center for Housing Studies
Kara McShane, Head of Commercial Real Estate, Wells Fargo

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KEY FACTS

RENTER HOUSEHOLD GROWTH ACCELERATED DURING THE PANDEMIC

- During the pandemic, the number of renter households climbed by more than 870,000 between the first quarter of 2020 and the third quarter of 2021 to a total of 44 million.
- Record-high annual growth in occupied apartments from the third quarter of 2020 to the third quarter of 2021 outran new rental completions by nearly 250,000 units, pushing occupancy rates to record highs as well.
- Rentership rates for households aged 35–44 rose most sharply in 2009–2019, likely signaling delayed transitions to homeownership. The share of households aged 25–34 that rent their housing climbed by 4.1 percentage points, and the increase for households aged 35–44 was even larger at 5.2 percentage points.
- Nearly half of renters with incomes under $25,000 live in high-poverty tracts, along with a third of renter households earning $25,000–49,999.
- 51 percent of Black renter households, 45 percent of Native American renter households, and 44 percent of Hispanic renter households lived in neighborhoods with at least 20 percent poverty in 2019.
- The net impact of the pandemic on renter household mobility appears to be negative. The share of renter households that changed residences within the previous year declined from 19.8 percent in 2019 to 18.0 percent in 2020 and set a new low of 16.8 percent in 2021. By comparison, the mobility rate for renter households two decades earlier was 29.5 percent.

LARGE MULTIFAMILY BUILDINGS CONTINUE TO DOMINATE RENTAL CONSTRUCTION

- Between 2014 and 2019, the total rental supply increased by 650,000 units. Robust multifamily construction increased the number of rentals in buildings with at least 20 apartments by 1.7 million, to 11.0 million units. Completions of single-family rentals also increased, although not enough to offset conversions to owner occupancy, and the number of single-family rentals fell by 770,000 units, to 15.3 million.
- 30 percent of occupied rental units in urban areas are apartments in buildings with 20 or more units, compared to 16 percent of the suburban stock and just 8 percent of the rural stock. In addition, 25 percent of rental units in urban areas had contract rents of $1,500 and over in 2019, compared to 15 percent in suburban areas and 4 percent in rural areas. **[Interactive]**
- In 2019, 7 percent of the rental stock was considered at least moderately inadequate, with structural problems such as large holes and leaks, or the absence of basic features such as plumbing, electricity, water, or heat. Older rental units are more likely to have structural deficiencies, with 11 percent of the rental stock built before 1940 rated inadequate, compared to just 4 percent of units built after 2000.
- Nominal spending on the rental housing stock increased over the last decade, from $43 billion in 2009 to $79 billion in 2019. This growth was driven almost entirely by spending on capital

improvements such as replacement projects and major renovations, with outlays more than doubling from $23 billion to $57 billion over the decade. Meanwhile, spending on routine maintenance was nearly flat, increasing from $21 billion to $22 billion in 2019.

- Natural hazards and disasters pose a serious threat to the rental stock. 17.6 million occupied rental units, or 40 percent of the occupied rental stock, are located in areas with at least moderate expected annual losses from natural hazards. Many of the units under threat are low-rent or subsidized, including 4.0 million units with contract rents under $600, nearly 1.2 million rentals supported by the Low-Income Housing Tax Credit program, 700,000 project-based HUD units, and 200,000 USDA-subsidized rentals.

RENTS ARE CLIMBING BUT HOME PRICES ARE RISING EVEN MORE

- Following a substantial rise in 2020, the vacancy rate in professionally managed apartment buildings dropped dramatically in 2021. The national rate fell by 2.3 percentage points, to 4.6 percent—far below pre-pandemic levels and the lowest rate since at least the early 2000s.
- Asking rents in professionally managed apartment buildings skyrocketed in 2021. Year-over-year rent growth shot up from 1.7 percent in the first quarter of 2021 to an astounding 10.9 percent in the third quarter. The third-quarter spike in rents occurred in 148 of 150 markets, with more than half of these metros (77) posting double-digit rent increases.
- Although rents were up sharply last year, their increase pales next to the climb in home prices. According to Zillow data, typical rents were rising at a 11.0 percent annual rate in September 2021. At the same time, typical home values rose an astounding 18.9 percent. **[Interactive]**
- The multifamily construction pipeline remains robust. Through November 2021, multifamily starts hit a three-decade high of 466,000 units at a seasonally adjusted annual rate, far exceeding the 350,000 unit annual pace averaged from 2014 to 2020.
- Apartment price appreciation was rising 16.8 percent year-over-year by October 2021—the fastest rate since at least the early 2000s and outpacing increases for both retail (14.1 percent) and office (13.7 percent) buildings.
- The ownership of rental properties continues to shift from individuals to business entities: the share of rental properties owned by non-individual investors rose 8 percentage points from 2001 to 2018, to 26 percent. This trend may well have continued through the third quarter of 2021, when investor purchases of homes—many of which are ultimately converted to rentals—hit their highest level in two decades.

HOUSEHOLDS OF COLOR DISPROPORTIONATELY AFFECTED BY INCOME LOSSES DURING THE PANDEMIC

- Massive job losses early in the pandemic compounded the housing challenges for millions of renter households. In the third quarter of 2021, 23 percent of renters reported they had lost employment income in the previous four weeks and 15 percent of renters were behind on rent in that quarter.
- Households of color were especially likely to fall behind on rent. In the third quarter of 2021, nearly a quarter of Black renter households and 19 percent of Hispanic households were behind on their housing payments. Asian household arrears were 18 percent, meanwhile white renter household arrears were only 9 percent. **[Interactive]**

- The number of cost-burdened renter households remained elevated at 20.4 million in 2019—a 38 percent increase from 2001. However, the 2019 total was 883,000 lower than the 2014 peak.
- The vast majority of lower-income renters are cost burdened. In 2019, 83 percent of households making less than $15,000 paid a disproportionate share of income for housing. Of these households, 72 percent faced severe burdens. The cost-burdened share of renter households making less than $30,000 also topped 80 percent, where it has held for 10 years.
- Severely cost-burdened renters must make difficult tradeoffs about how to spend their limited funds. For instance, severely burdened renters in the bottom expenditure quartile (a proxy for lowest income) spent 38 percent less on food and 70 percent less on healthcare than otherwise similar renters living in housing that they could afford.
- The number of units with rents under $600 a month fell sharply between 2011 and 2019, bringing the net decline to 3.9 million**.** Nationwide, the share of low-rent units dropped from 32 percent of the stock to just 22 percent over this period. **[Interactive]**

UNPRECEDENTED ASSISTANCE HELPED STABILIZE RENTERS, HIGHLIGHTING THE NEED FOR A PERMANENT SAFETY NET

- The pandemic brought about unprecedented efforts to stabilize renter households, including eviction moratoriums, more than $46 billion in emergency rental assistance, and various income supports. These efforts, in addition to landlord flexibility and court closures, helped keep eviction filings about 40 percent below historical averages in November 2021.
- The affordability crisis that predated the pandemic was accompanied by a rising trend in homelessness. As of the most recent count in January 2020, there were 226,000 people experiencing homelessness outside of emergency shelters and transitional housing, including those living in informal encampments, a 15,000-person increase from January 2019. Available evidence indicates that unsheltered homelessness has increased further during the pandemic.
- Federal subsidies fall well short of need. In 2019, about 13.3 million households with incomes below 50 percent of area median were eligible for rent subsidies but unable to secure that support because housing assistance is not an entitlement. As a result, some 7.8 million of these households lived in severely inadequate housing, spent more than half of their incomes on housing costs, or both.
- Lower-income renter households struggled to pay their energy bills in the past year, in the face of increasingly extreme weather and the financial challenges stemming from the pandemic. Fully 56 percent of renters earning less than $25,000 had to cut back on basic necessities such as food or medicine to pay an energy bill at least once in the past year, including one fifth for whom this tradeoff happened almost every month.

Download the full report along with interactive maps and data.

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