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A Review of the JCHS Report: "The State of the Nation's Housing 2021"

Executive Summary

This NAHMAnalysis examines The State of the Nation's Housing 2021, a recent report published by the Joint Center for Housing Studies of Harvard University (JCHS), assessing the housing and rental markets, demographic trends, and housing challenges faced by households in the United States. According to the JCHS report, as the U.S. economy recovers from the effects of the pandemic, home sales will continue to rise as some families use savings built up during the pandemic combined with very low interest rates to purchase new homes. Others, however, have been locked out of opportunities to purchase a home due to increased prices from high demand. Moreover, many renters and homeowners are continuing to struggle with billions of dollars in back rent owed, unpaid mortgages, and are at risk of eviction or foreclosure. Families of color and households with low incomes comprise a disproportionately large share of those at risk. With many renters and property owners still struggling with recovery, the JCHS report recommends that further government support, in addition to the relief measures taken so far, will be necessary to ensure that both households and landlords benefit from a rebounding economy.

- **Home Sales at Highest Level Since 2006**

Prior to the onset of the COVID-19 pandemic, household growth in the suburbs and small metros was on the rise. The pandemic helped accelerate national homeownership rates upward, particularly among younger households who were ready to own homes and were looking for more space to work remotely. Sales of existing homes increased by 6 percent in 2020. Sales of new homes for single families also increased by about 20 percent during 2020. Overall, the housing market has not experienced such a large increase of new homes sold since 2006.

In fact, between September 2020 and February 2021, existing homes sales increased by an average of about 20 percent. New construction in residential properties has also increased, largely owing to low interest rates. Low interest rates and an increase in the price of homes also contributed to the increase in new construction. The spur in home-buying occurred despite historically tight supply; in late 2020, the months of supply of existing homes dipped below two months for the first time ever, including hitting a record low of 18 days for the median time a home stays on the market. According to the Housing Vacancy Survey, the national homeownership rate stood at 65.6 percent in early 2021. This represented a 0.3 percent

increase from the same time in 2020 and follows a wider 1.2 percentage point increase that occurred between 2016 and 2019.

An increase in demand coupled with limited supply helped generate a surge in home prices. The biggest change in price occurred primarily in the West, with Boise (Idaho) reporting a 28% jump. The second largest price increases occurred in Austin (Texas) and Tacoma (Washington), with prices increasing by about 22–23%. Last year, gains in home prices outpaced housing growth, boosting the national price-to-income ratio to levels not seen since 2006. The recent increases in the price of housing have started to raise concerns that the costs are rising artificially, influenced by more than market conditions. However, skeptics believe that the increase in housing prices reflects increased demand and limited supply, coupled with low interest rates.

- **Declines in Rental Payments**

At the on-set of the COVID-19 pandemic, NAHMA reported that rental markets had already started tightening and concerns about affordability were rising despite a slowdown in demand and the increase of new construction. In the previous decade, rents had risen faster than incomes in many segments of the market—increasing the number and share of cost-burdened and severely cost-burdened renters, hitting low and middle-income earners especially hard. The pandemic only exacerbated the ability for many families to afford their housing as millions of workers' incomes where reduced or eliminated due to the business shutdowns in early 2020. One year later, in March of 2021, 51 percent of renters reported having lost income as a result of the pandemic.

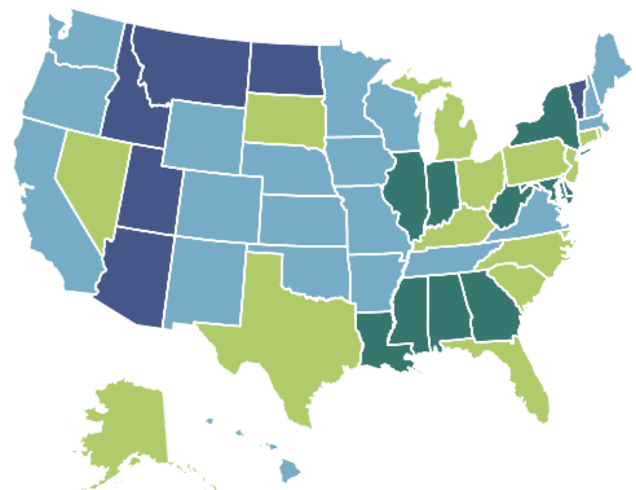
Due largely to accruing income losses, many renters found themselves without the ability to make full or partial payments at the start of 2021. About 14 percent of renters still owed back rent in late March of 2021, with low-income and minority renters most likely to be in arrears. In September 2020, about a quarter of rental properties reported having tenants that did not have ability to make full or partial payments. Five months later, in February 2021, 61 percent of rental property owners stated they had lost at least $5,000 in rental income.

Rent shortfalls for smaller property owners also are projected to continue into the near future. For landlords who manage buildings with 4 or less units, 17 percent of

More than a Fifth of Households in Several States Struggled to Pay Rent in Early 2021

Share of Renters (Percent)

- Under 12
- 12–15
- 16–19
- 20 and Over



Note: Households behind on rent reported that they were not caught up at the time of survey.
Source: JCHS tabulations of US Census Bureau, Household Pulse Surveys, January–March 2021.

renters had reported a decrease in rental payments as of March 2021. For single-family homes, 18 percent reported being in arrears.

While the pandemic caused many to lose their jobs or experience economic income losses, the individual financial pressures on renter households varied by state (see graph above). A large quantity of households who owed back rent and where still unable to make full rent payments in early 2021 were located primarily in the South. The JCHS report ranked Mississippi first in their list, reporting about 27 percent of renters were behind on their payments, followed by Delaware, Louisiana, Alabama, and Georgia. This may be in part due to lower-than-average median incomes coupled with higher-than-average shares of renter households of color, a segment of the population that was more likely to have lost economic income due to the fallout from the pandemic.

Areas of the country where the local economies are less reliant on service industries, and where the housing cost burdens are comparatively low, had the smallest share of renters behind on their rental payments. The JCHS report put Idaho at the top of its ranking, citing just 10 percent of renters behind on their rent, followed by Montana, North Dakota and Utah.

According to the JCHS report, in the 15 metro areas tracked by the Household Pulse Survey, four cities (Houston, New York, Chicago and Philadelphia) reported having renter households in arrears at or above 20 percent. Phoenix reported the lowest share, with about 11 percent of renters owing back rent. Several cities with higher costs of living, such as Washington, D.C., Seattle, Boston and San Francisco, also reported having low shares of renters behind on rent payments. The relatively small share of households behind on their rent in these high-cost markets was attributed largely to renters having higher incomes.

- **Rental Markets Begin to Stabilize with Diverging Trends in Submarkets**

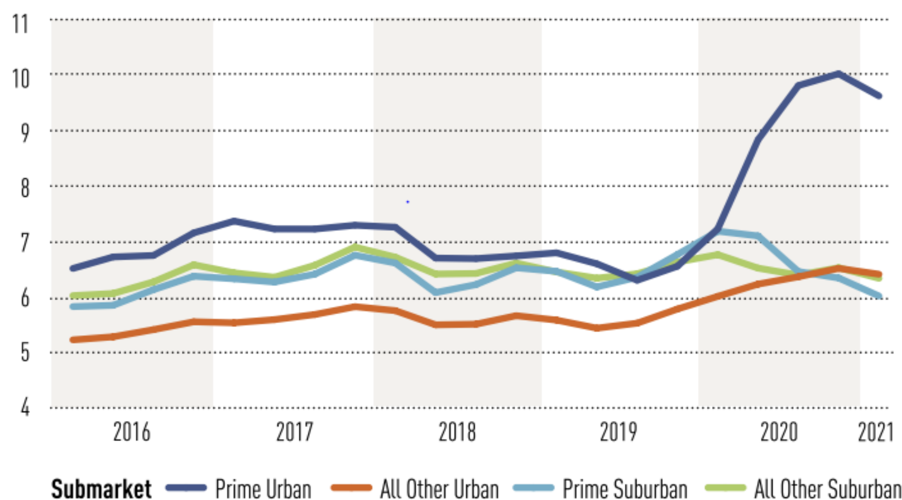
At the start of the pandemic, the share of U.S. households renting their housing was showing signs of slowing down, even dipping to 35.2 percent in the first quarter of 2020—its lowest point in six years. However, while overall rental demand has indeed slowed in recent years, housing data indicated that the number and share of higher-income renters were actually on the rise—7.9 million renter households were added between 2004 and 2019, bringing the total number to 44 million. With higher income households driving over half of this growth, the number of renter households with incomes of at least $75,000 increased by 4.6 million in 2004 to 2019, and their share of renter households jumped from 18 percent to 26 percent.

However, as the pandemic worsened, rental demand fell sharply with large declines seen especially in New York and San Francisco. The JCHS report stated that when comparing first quarter annualized growth to the second quarter of 2020, demand in the number of occupied units was reduced by 157,000 (from 3330,000 units to 176,000).

Following several pandemic related economic recovery efforts by federal and state governments, the number of renter households has seemed to stabilize. The record number of renter households was attained in 2016, with 43.5 million. This year may see that record broken with 43.4 million renter households already reported in the first quarter of 2020.

When rental demand decreased last year in urban areas due to the pandemic, it increased in suburban markets. According the JCHS report, when analyzing recent CoStar data for professionally managed apartments, vacancy rates in prime urban neighborhoods increased by

3 percentage points in 2020--from 7.2 to 10.0--before decreasing to 9.6 percent early this year (see graph below).



- **Rising Urban Vacancy Rates, Declining Suburban Vacancy Rates**

With many higher-quality rental properties located in prime urban areas, vacancy rates in many of these areas increased during 2020. Expanding to 10.5 percent in the fourth quarter of 2020 from 10.1 percent in the first quarter, the vacancy rate fell to 9.9 percent in the first quarter of 2021. This resulted in 1.9 percent decrease in 2020 rents for higher-end units. The rate did bounce back slightly, increasing by .08 percent during the first couple months of 2021.

During the same time period, vacancy rates decreased in prime suburban areas. Vacancy rates remained unchanged during the first quarter of 2020 at 7.2 percent. However, as more renters exited urban areas in exchange for homes in the suburbs, vacancy rates continued to decline, hitting 6.0 percent in the first quarter of 2021.

In suburban markets outside of prime areas, vacancy rates dipped from 6.8 percent to 6.3 percent. This tightening of suburban markets may reflect a move by some urban renters to less expensive locations after the pandemic forced many commuters to stay at home to work.

Rental demand seemed to also vary by quality. According to the JCHS report, CoStar data showed that higher-quality units (4 and 5 star) saw their rates edge up to 10.5 percent in late 2020 and then drop back down to 9.9 percent in the beginning of 2021. For apartment units in the moderate quality range (3 star), the vacancy rate dropped to around 5.6 percent. In the early months of 2021, apartment units on the market categorized as lower quality (1 and 2 star) also exhibited a reduction in units available, with a vacancy rate of 5.2 percent.

With about 150 markets tracked by RealPage, the JCHS report found 48 metro areas experiencing vacancy rate increases in the first several months of 2021. The biggest increases were measured in areas where the cost of living is generally high. For example, San Francisco was ranked first as it experienced a 3.0 percent increase. San Jose saw its vacancy rates increase by 2.6 percent, and New York's vacancy rates increased by 2.3 percent. Around the same time, 101 metro areas reported a decrease in vacancy rates with the biggest reductions seen in Riverside and Virginia Beach (down 1.9 and 1.3 percent, respectively).

According to a 2020 JCHS report, as the virus progressed in the first half of 2020, rents for units in higher-quality properties were down by 1.6 percent year over year in the second quarter of 2020. This was the first actual decline since 2010 and a significant drop from the 2.7 percent increase a year earlier. Rents for top-quality units continued to slide in the third quarter, off 2.2 percent year over year. Rent growth for moderate-quality properties slowed somewhat less, easing from 3.1 percent in the third quarter of 2019 to 1.2 percent in the third quarter of 2020. The slowdown in the lower-quality segment was even more modest, with rent growth dipping from 2.7 percent to 1.7 percent.

The recent stabilization of rents and vacancy rates in prime urban areas and higher-quality properties suggests that the strengthening economy and the easing of COVID-19 related restrictions are going to make the decrease in rental demand temporary. For example, rents in the first quarter of 2021 decreased in 16 percent of the biggest markets (150 metro areas) tracked by RealPage. The greatest reductions were evident, again, in areas with high costs of living—a 20 percent decline in San Francisco, a 16.5 percent decline in San Jose, a 15 percent decline in New York and an 8 percent loss in Boston. At the same time as rents decreased in larger cities, rents increased by around 2.0 percent in 94 smaller metro areas. Boise experienced the biggest gains with an 11 percent increase and Fayetteville was a close second, reporting a 10 percent increase.

- **Large Multifamily Construction Holds Steady**

Prior to the start of the national lockdown measures to help combat the virus, construction of multifamily housing in the beginning of 2020 was above the previous year's pace. Multifamily housing starts fell sharply during the lockdown, but they made a quick and strong comeback, lifting year-to-date starts in September above those in the same period in 2019 (which was already the strongest year for multifamily construction in three decades). However, given the lengthy development process, a falloff in multifamily volumes would lag behind any drop in demand for new rentals. A concerning indicator that multifamily construction was heading for a slowdown in 2021 was that permitting activity was down 10 percent from the previous year's levels through September 2020.

Multifamily rental construction was largely concentrated in larger buildings during the years leading up to the pandemic. Completions for new multifamily buildings with 50 units or more hit a peak of 62 percent in 2018. The recent pace of multifamily rental construction indicates that this trend is to continue in the near term. In 2020, 56 percent of all new multifamily buildings constructed had 50 units or more.

Another factor that indicates multifamily construction of larger buildings will continue is that initial construction of units in buildings with five or more apartments increased by 87,000 between the last quarter of 2020 (342,000) and the first quarter of 2021 (429,000). As construction in 2021

continues, starts of new multifamily apartments are currently on pace to exceed the 1987 record of 400,000 units.

- **Maintenance Backlogs Remain Amid Aging Rental Stock**

Even when accounting for the continued strength of multifamily construction, the current rental stock is getting older, with many units in a state of disrepair. According to the JCHS report, about 39 percent of renter households currently live in housing built before 1970. These aging units are likely to show signs of structural deficiencies and may also expose renters to health hazards, such as lead or asbestos. These aging units also lack energy efficiency technology, are prone to damage from natural disaster like flooding or climate change, and usually lack newer accessibility features for elderly or disabled residents.

The JCHS report stated that for renter households located in the Northeast, more than 60 percent live in apartments that are at, or over, 50 years old. For households in the Midwest, 45 percent live in units that are at least 50 years old. The next highest share of renter households living in older units is in the Midwest, with about 45 percent living in buildings over 50 years old. The trends for the West (34 percent) and South (27 percent) are much lower. A 2019 analysis conducted by the Federal Reserve Bank of Philadelphia and Policy Map, the JCHS report estimates the cumulative cost of fixing up rental housing deficiencies close to be around $45 billion, with median repair needs of $1,355 per unit. Indeed, the JCHS report suggests older units rented to lower-income households represent most of the costly maintenance and repair needs.

- **Racial and Economic Disparities Persist**

Although the homeownership rate at the national level is rising, disparities have remained and, in some cases, widened due to pandemic related economic hardships. This is especially true when comparing White households with households of color. At the beginning of this year, the gap in homeownership was measured to be 28.1 percent between Black and White households. Differences in income between White households (median income of $71,000), Black households (median income of $43,000) and Hispanic households (median income of $55,000) is one of biggest factors contributing to the wide homeownership gap. Other factors, such as securing the necessary down payment or dealing with closing fees and associated costs, have also created obstacles for households of colors seeking homeownership.

The COVID-19 economic recession and its resulting job and wage losses have only magnified and accelerated the inequality gap, especially for those who were already struggling. More than 20 million renters live in households that have suffered COVID-19-related job loss. While the overall unemployment rate fell to 6.7% by the end of 2020, the Black and Latino unemployment rates were still considerably higher—9.9% and 9.3%, respectively—and a recent Federal Reserve analysis found the unemployment rate for workers in the bottom wage quartile may have been higher than 20%.

Such income inequalities contribute vastly to the disparities in homeownership. The JCHS report found that, among households who earn between 50 and 80 percent of the area median income, 64 percent of White households own their homes compared to 38 percent of Black households. This is followed by 43 percent of Latino households, 53 of Native Americans and 56 of Asian households.

When determining whether a household can withstand a sudden, unexpected loss of income, homeowners appear to have a clear advantage over renters. The JCHS report states that in 2019, the median wealth for homeowners was $254,900 (see graph). This was 40 times larger when compared to the median wealth for renters ($6,270). Similarly, when excluding home equity, the median wealth of owners is more than 15 times that of renters ($98,000).

Differences also exist in household wealth and financial resiliency for renter households of color. Based on a November 2020 survey by the Federal Reserve, the JCHS report estimates that less than half of Black and Hispanic adults (45 and 47 percent, respectively) have enough savings to pay for an emergency expense of $400. The discrepancy becomes self-evident when compared to White adults, with 72 percent of White adults having enough emergency reserves to cover unexpected losses. The JCHS report also found that Black household median wealth was seven times less than White household median wealth in 2020. For Hispanic households, their median wealth was five times less than that of White households.

When measured by income, wealth inequalities between households are on the rise. This is especially troubling for low-income households, whose hardships will only increase if they experience further economic losses if they become unemployed.

The JCHS report found that households in the lowest income quartile had 60 times less median net wealth than households in the top quartile. A worrisome concern remains, in that 90 percent of households have less combined wealth ($22.6) than the top 1 percent of households ($35.7 trillion) when measured by income. On the other hand, the average, bottom quartile renter had less than one month's usual expenditures for this group—$1,900 in total wealth, including roughly $360 in savings.

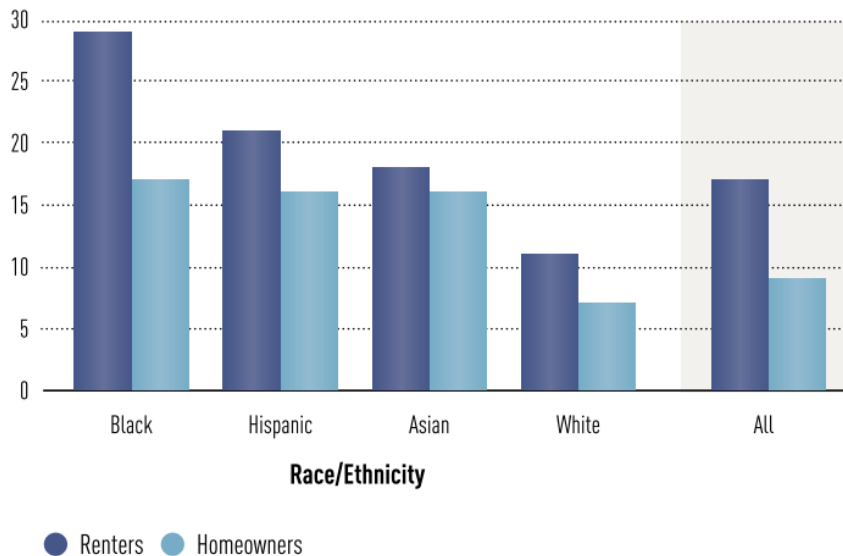
Wide Disparities in Wealth Leave Renters at a Large Disadvantage in the Housing Market

Median Household Wealth (Dollars)

	Owners	Renters	All Households
All Households	254,900	6,270	121,760
Race/Ethnicity			
Black	113,130	1,830	24,100
Hispanic	164,800	5,800	36,050
Asian and All Other Races	299,000	6,710	74,500
White	299,900	8,900	189,100
Income Quartile			
Bottom	108,100	1,900	10,700
Lower Middle	161,000	8,300	64,800
Upper Middle	240,200	20,700	164,000
Top	703,000	154,000	627,000

Notes: White, Black, and Asian and all other race households are non-Hispanic. Hispanic households may be of any rac
Source: JCHS tabulations of the Federal Reserve Board, 2019 Survey of Consumer Finances.

According to the JCHS report, the brunt of negative economic consequences resulting from the pandemic were felt primarily by renters in the lowest income brackets. Due to losses in income, 17 percent of renter households were in arrears at the onset of 2021. This includes almost 25 percent of renters who earn less than $25,000 per year and about 20 percent of renters who earn between $25,000 and $34,999. The JCHS report indicated that most renter households who were behind in their rent payments were also households of color. 29 percent of Black renters, 21 percent of Hispanic renters, and 18 percent of Asian renters were in arrears compared to only 11 percent of White renters (see graph).



Finding affordable housing continues to remain a challenge for renters in the lowest income brackets. The JCHS report indicated that more than 80 percent of renters earning less than $25,000 were cost burdened in 2019 (spending over 30 percent of their income for housing) and the majority spent more than half their income on housing. More than three-fifths of renter households whose income ranged between $25,000 and $34,999, and about half of renter households with incomes between $35,000 and $49,999 reported being cost burdened. While housing subsidies offer much-needed support for these segments of the population, only a quarter of eligible households receive federal housing assistance.

- **Millions Potentially Face Risk of Eviction**

As a result of widespread income losses experienced during the pandemic, millions of renters continue to struggle in making their housing payments, placing themselves further in an economically precarious position. Families experiencing financial hardships prior to the pandemic and who currently continue to be severely housing cost-burdened, spending more than half of their incomes on housing, face a heightened risk of housing instability or possible eviction.

With the federal government providing rental assistance relief and along with implementing a nation-wide moratorium on evictions, the fallout from the pandemic has been less severe than originally predicted. But as the economy continues to recover, many renters and landlords will still need access to rental assistance in the short-term. The most recent update by Department of Treasury, which oversees the most recent rental relief programs (ERAP 1 and ERAP 2) is of

particular concern—out of the $46 billion in rent relief funds provided by Congress to assist struggling renters and landlords in December 2020 and March 2021, only $1.5 billion has been spent.

With the federal eviction moratorium expected to end on July 31, 2021, combined with the slow delivery of rental assistance relief, the White House ordered an all-of-government approach to prevent evictions. Most recently, the Biden Administration recently held a virtual Eviction Prevention Summit to encourage and facilitate coordination among local public officials, court officials, legal services organizations, local bar associations, community-based organizations, emergency rental assistance administrators, and local philanthropies from cities across the country to work on developing local eviction prevention action plans.

Homeowners also received assistance from the federal government, including providing loan forbearances up to 18 months on federal loans and instituting a moratorium on foreclosures. The JCHS report states that, as of this March, more than half of the 7.1 million loans that had entered forbearance had left that status.

The JCHS report stated that a majority of the 7.1 million loans that had entered forbearance had left that status as of March of this year. However, the report also indicated that certain outcomes are still uncertain, and this includes 2.3 million individual borrowers who have yet to resume their mortgage payments. This indicates that there are still many households are still unable to recovery fully from the economic losses accrued during the pandemic.

- **Policymakers Need to Keep Those At-Risk from Falling Further Behind**

Initially, rental demand dropped sharply in high-cost prime urban markets in March of 2020, attributed largely to the pandemic-imposed shutdowns. Many renter households left the large metro areas for suburbs or for smaller, lower-cost markets. However, this trend seemed to reverse in the first couple months of 2021. The recent increase in urban rental demand is largely due to a reviving economy—evident in rents increasing and vacancy rates decreasing in many markets.

However, the road to recovery is still plagued with uncertainty. Millions of households are still struggling to cover their rent or mortgage obligations. Low-income renters are still having difficulties in ensuring they can make their rental payments on time. Racial disparities also continue to persist even as the economy starts showing signs of recovery and many lower-income households of color are still struggling to emerge from the crisis. Even though Congress has approved assistance in the form of rental relief, the roll out has been slow and cumbersome. With the recovery still in progress, and millions still facing economic hardships including the inability to make their full housing payments on time, policymakers must be attuned to the needs of those who continue have fallen or remain behind on their rental or housing obligations. Ultimately, it will be up to federal and state leadership to ensure that no one is left behind and that those most in need have timely access to rental relief.