NAHMAnalysis
NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION
**Ensuring NAHMA Members Receive the Latest News and Analysis of Breaking Issues in Affordable Housing**

National Affordable Housing Management Association – 400 N. Columbus Street, Suite 203 - Alexandria, VA 22314
Phone 703-683-8630 - Fax 703-683-8634 - www.nahma.org

February 7, 2022 NAHMAnalysis 2022-0207

# America's Rental Housing 2022

## Executive Summary

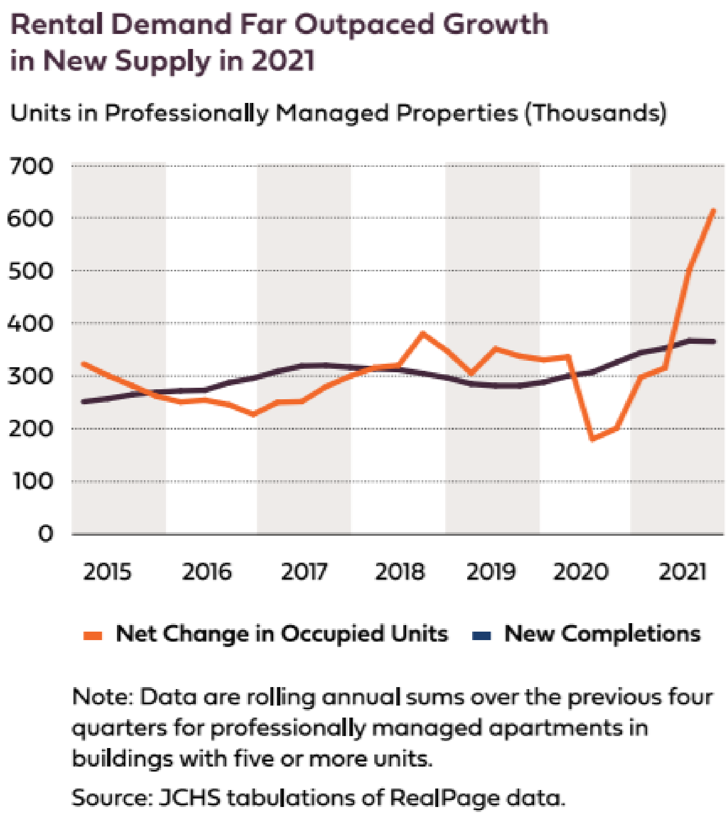
This NAHMAnalysis examines America's Rental Housing 2022, a recent report published by the Joint Center for Housing Studies of Harvard University (JCHS) that assesses the nation's rental markets, demographic trends, and housing challenges faced by renters. In 2021, rents dropped in the early months of the pandemic in nearly every market, but particularly in big urban markets. Many renters impacted by the pandemic had to give up their apartments to live with parents, friends, or relatives. As the economic recovery progressed, the demand for rental housing increased during the second year of the pandemic, reducing vacancy rates and increasing rents. This was partly due to the lack of inventory of homes up for sale on the market which kept many higher-income renters from buying a home. At the same time, many lower-income households, and especially lower-income households of color, still struggle to make their rental payments, despite increased federal and state assistance. As rents have increased, so have cost burdens—threating the ability of millions of families to stay in their homes. Ultimately, it will be up to Congress to address longstanding inequities in providing housing, to ensure that every household has access to a decent and affordable home.

## Renter Household Growth Increased During the Pandemic

Renter household growth increased by over 870,000 between the first quarter of 2020 and the third quarter of 2021. Between the third quarter of 2020 and the third quarter of 2021, the number of occupied apartments increased by 611,000, the largest increase since the early 1990s. This led occupied apartment rental growth to increase faster than new rental completions by almost 250,000 units during the same period (see graph below). Overall, rentership rates have seemed to stabilize at 34.6 percent at the end of 2021 following a peak of

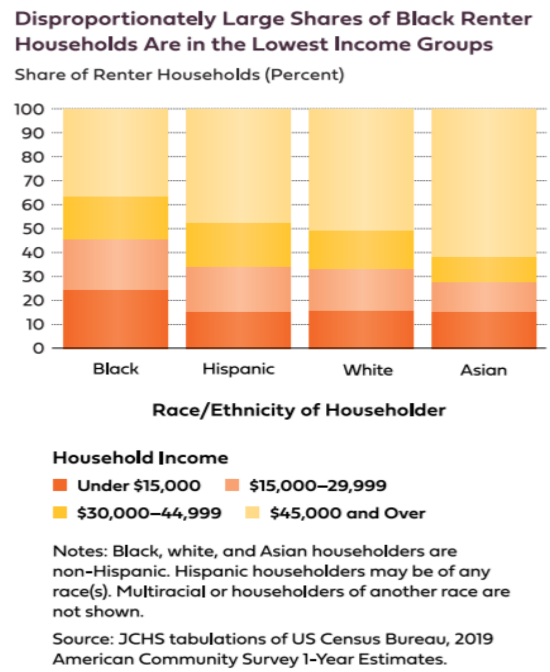
37.1 percent in 2016. Rentership rates remain high for all age groups and several factors contribute to the increase in the demand for rental housing.

Affordability remains a central issue and increasing home prices combined with supply-side disruptions and low inventories make the purchase of a home more expensive. This has the result of increasing rentership rates for higher-income and elderly households alike, while also decreasing the ability for younger and lower-income individuals to form renter households.
Rentership is more common now among age groups and family types that would traditionally be more likely to own their housing, impacting rental affordability.




Renters are also increasingly likely to be people of color or foreign-born, older, and from nontraditional households.
Affordability remains the highest barrier to homeownership, which in turn increases the demand for rental housing. Currently, 44 percent of workers aged 18-64 are in low-wage jobs, while nearly all of the net growth in homeownership during 2010-2018 was among households with incomes of $150,000 or more. The median income for homeowners was $81,000 in 2019 while the median income of renter households in the rental market was $42,000, despite the recent addition of higher-income households. More than a third (36 percent) of all renters made less than $30,000 and had roughly $320 in savings in 2019. These low-income households were also much more likely to be headed by someone who is 65 years old or older (26 percent), who is a single parent (56 percent), or who is a person of color (see graph below).

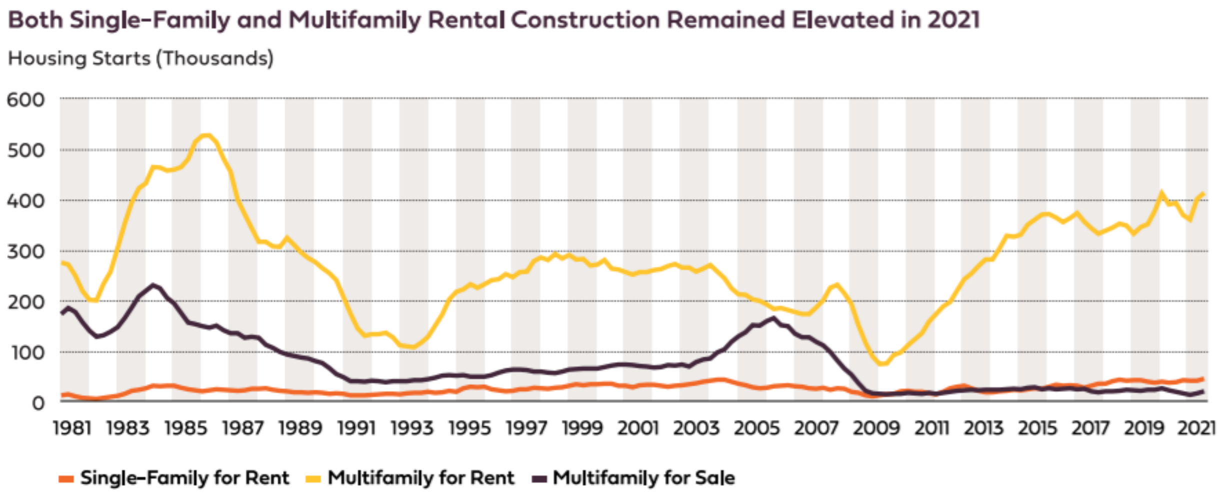
The pandemic's overall impact on renter household mobility has been negative, with 16.8 percent of renter households changed residences in 2021 compared to 18 percent in 2020, and 19.8 percent in 2019. With lower mobility rates, housing options continue to be limited and expensive, especially in desirable neighborhoods close to work or school.




### Rental Construction Dominated by Large Multifamily Buildings

Over the last decade, the composition of rental stock shifted toward large multifamily apartment buildings. The high growth in demand from high income renters has contributed to the growing share of rental construction in apartment structures with 50 or more units. This has increased from 11 percent in the 1990s, to 27 percent in the 2000s, to 61 percent in 2018. The total rental supply increased by 650,000 units between 2014 to 2019 to 47.4 million, with the growth primarily driven by the net addition of 1.7 million units in buildings with at least 20 apartments, to a total of 11 million. According to the Census Bureau's New Residential Construction data, 89 percent of all rental unit completions between 2014 to 2019 were for multifamily buildings. On the other hand, single-family rentals decreased by 770,000 during the same period, with a current total of 15.3 million units. Multifamily apartments with 2-4 units also saw a decrease of 270,000, to a total of 8.2 million. Since units in small and midsized buildings typically have lower rents and are therefore more affordable to modest-income households, their shrinking share of the rental stock is a good indicator that the middle of the market continued to erode over the last decade.

The current distribution of rental stock varies geographically, with the Northeast enjoying the largest share of multifamily rentals in buildings with 20 or more units (32 percent). Followed by the West (25 percent), the Midwest (21 percent) and the South (19 percent). Given the demand from higher income households, combined with the tight supply of homes for sale, construction of large multifamily housing will continue to accelerate (see graph below). The robustness of multifamily construction is expected to continue, with multifamily starts hitting a 30 year high through November 2021 of 466,000 units (seasonally adjusted rate). In comparison, the average unit annual pace between 2014 and 2019 was 350,000. Low mortgage interest rates, ready access to capital, and strong property performance have helped bolster investor demand for rental properties and multifamily mortgage debt outstanding climbed to $1.77 trillion in the third quarter of 2021.




Note: Housing starts are the four-quarter trailing sum.
Source: JCHS tabulations of US Census Bureau, New Residential Construction data.

There are several challenges that still need to be addressed to increase the supply of affordable housing for low-income renters. This includes continuing to invest in capital improvements, such as basic maintenance or modifications, additional accessibility for elderly and disabled renters, addressing the increase in construction, labor and material costs, removing or preventing strict zoning regulations that forbid the construction of affordable multifamily housing developments, and dealing with the impact of climate change. Natural hazards and disasters in particular pose a threat, with 40 percent of all occupied rental stock located in areas that experience annual losses from natural hazards. This percentage represents 17.6 million occupied units under yearly threat, including 1.2 million rentals supported by the Low-Income Housing Credit (LIHTC), 700,000 project-based HUD units, and 200,000 USDA-subsidized rental units.

While LIHTC remains the largest source of new subsidized housing, low-income renters living in LIHTC units usually require additional assistance to make living there affordable. Many LIHTC units are approaching the end of their 30-year affordability periods. Meanwhile, many owners continue to choose to void the affordability agreement after 15 years through qualified contracts. This results in the loss of 10,000 LIHTC units annually. Additionally, almost 3,000 Section 8 units left the affordable housing stock in 2020 alone, and affordability restrictions on more than 100,000 additional units are set to expire before 2025.

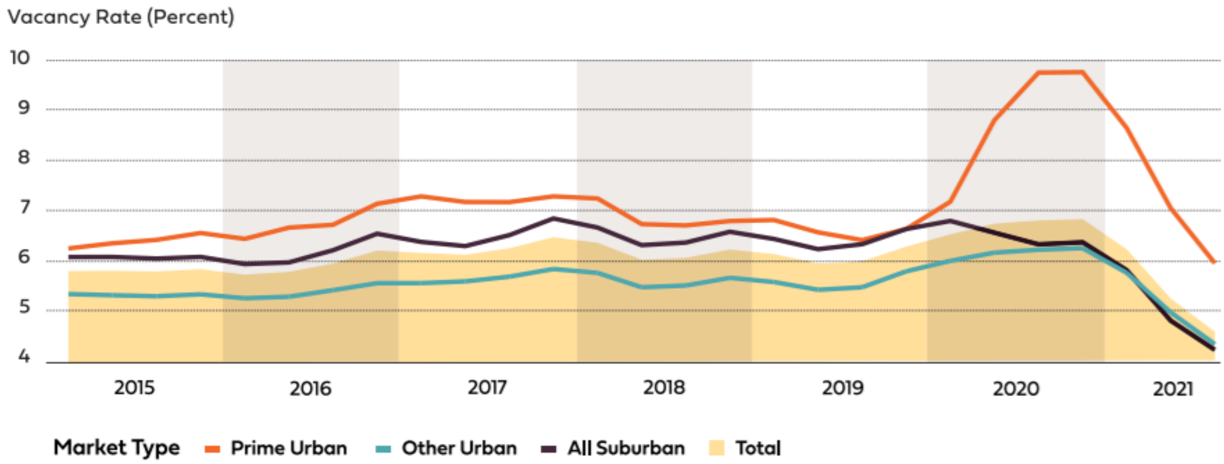
**Rental Markets Remain Positive: Vacancy Rates are Low and Rents Continue to Increase**

After an initial increase in 2020, the nationwide rental vacancy rate for professionally managed apartments fell to 4.6 percent in 2021 (see graph below). This represents the lowest rate since the early 2000s. The largest declines were in higher-quality, prime urban market segment, with vacancy rates declining to 6.2 percent after spiking near 10 percent during the height of the pandemic. For moderate and lower-quality apartments, the vacancy rates declined by 1.6 percent and 1.2 percent, respectively. According to RealPage, vacancy rates were down year-over-year at the end of 2021 in 146 out of 150 metro markets tracked and in all regions except for two markets in the South and West.

Asking rents increased dramatically during 2021, with half of the largest markets hitting double digits in 2021. This was especially true in professionally managed apartment buildings, where year-over-year rent growth increased from 1.7 percent in the first quarter of 2021 to 10.9 percent in the third quarter. Rents in higher-quality apartments increased the most, by 13.8 percent in 2021 after only seeing a 1.7 percent increase the year prior. Rents in moderate-quality apartments increased to 11 percent, having only increased 1.5 percent the year prior. Rents in lower-quality apartments increased from 2 percent to 4.3 percent. Rent growth increased in every region year-over-year and the only metro areas that experienced negative rent growth were San Francisco and Midland, Mich.

Rent levels also continued to vary geographically. In 2019, the largest share of low-income units renting for $600 or less was in the Midwest (35 percent), followed by the South (29 percent), the Northwest (21 percent) and the West (14 percent). Alternatively, the Midwest had the lowest share of units renting for $1,500 or more (8 percent), followed by the South (15 percent), and the Northeast (30 percent). The West had the largest share with 38 percent of rental units renting for $1,500 or more.

**After a Sharp Rise, Vacancy Rates in Prime Urban Markets Plunged to Historic Lows**




Notes: Urban/suburban areas are based on density in the 54 largest markets that CoStar tracks. Prime submarkets have the highest rents.
Source: JCHS tabulations of CoStar data.

Despite high rent growth and increasing occupancy rates, the demand for rental housing continues to expand. According to RealPage data, the net increase in occupied apartments was more than 600,000 in the third quarter of 2021, a record jump in demand in data that goes back to the 1990s. Additionally, the dramatic growth in rents was outpaced by the sharp increase in home prices. In September 2021, the average rent was increasing by an 11-percent annual rate while home prices were increasing by almost 19 percent. With home prices continuing to rise, rental rates are also expected to follow—rent increases trailed home price appreciation in 99 out of the 100 markets tracked by Zillow (September 2021).

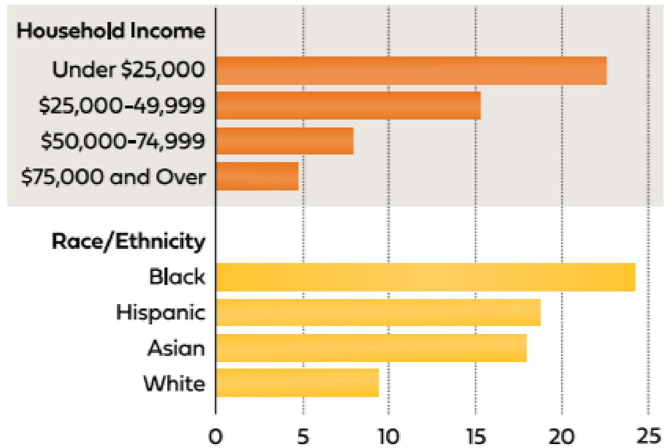
### Challenges to Rental Housing Affordability and Stability Keep Growing, Disproportionately Affecting Households of Color

The associated job losses that coincided with the economic shutdowns only exasperated the pre-existing housing challenges experienced by millions of Americans. The economic fallout impacted primarily low-income renters in service sector positions, who were already struggling to pay for their housing. In the third quarter of 2021, 23 percent of renter households with incomes under $25,000 were behind on their rent compared to 15 percent of renter households earning between $25,000 and $49,999 (see graph below). In comparison, 8 percent of renter house households with incomes between $50,000 and $74,999 reported being behind and only 4 percent of renter households with incomes between $75,000 and over did so.

Nearly all states saw an increase in the number of renters who were unable to meet their full monthly housing obligations during 2021, but eight out of ten states with the highest percentage of renter households in arrears were in the South. With a large share of lower-income households who experienced pandemic-related job losses, 22 percent of renters in Mississippi and Louisiana were in arrears during the third quarter of 2021. In comparison, the third-largest share of renter households in arrears was in New York with 21 percent, largely due to high housing costs and a large number of lower-income households. Job loss and cost burdens remain the primary factors hindering the ability of low- and moderate- income renter households from making their full monthly rental payments on time.

**The Financial Fallout from the Pandemic Left Many Households Struggling to Pay Rent**

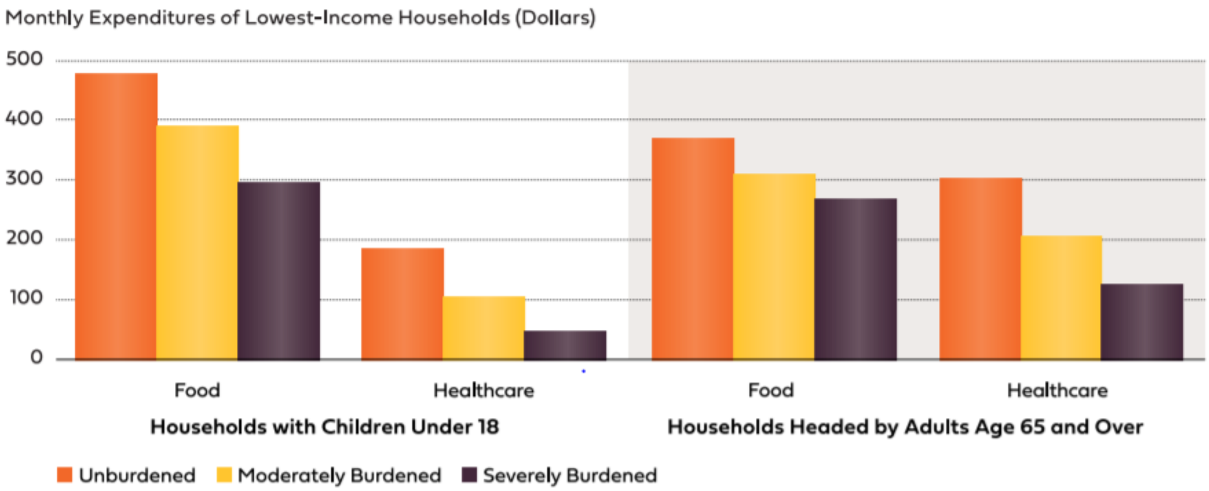
Share of Households in Arrears (Percent)




Notes: Households behind on rent were not caught up at the time of survey. Black, white, and Asian households are non-Hispanic. Hispanic households may be of any race.

Source: JCHS tabulations of US Census Bureau, Household Pulse Surveys, July–September 2021.

Almost 25 percent of Black renters and 19 percent of Hispanic renters reported being behind on their rental payments during the third quarter of 2021. This is in comparison to 18 percent of Asian and 9 percent of white renter households. Households of color, who've long endured inequities in housing, labor, and education, continue to experience a disproportionate increase in cost burdens resulting, in part, from the pandemic. Black renter households accounted for the biggest share of households with cost burdens with 54 percent, followed closely by 52 percent for Hispanic households. This is in comparison to 42 percent for both Asian and white renter households. The disparity between renter households of color and white renter households is largely attributed to income, with the median income of white renter households being 42 percent higher than Black and 7 percent higher than Hispanic renter households (2019).

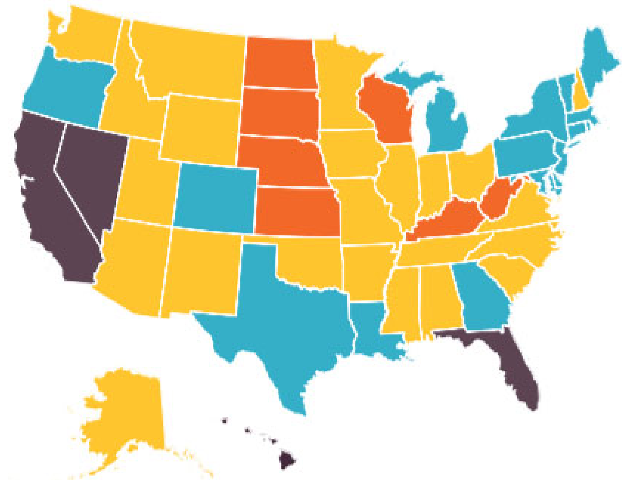



Notes: Lowest-income households are in the bottom expenditure quartile. Moderately (severely) burdened households devote more than 30% (more than 50%) of their expenditures to housing. Healthcare spending includes out-of-pocket costs and premiums.

Source: JCHS tabulations of Bureau of Labor Statistics, 2020 Consumer Expenditure Survey.

According to American Community Survey data, the number of units affordable to renters with incomes up to $30,000 fell by 1 million from 2018 to 2019. Limited availability of affordable rental housing, combined with strong demand and rising rents, have led to high shares of cost-burdened renters across the country. Many of these renters, especially those with lower-income, had to use their savings, increase their credit card debt, or borrow from friends and family to afford their rental payments. Still, many lower-income renter have been unable to meet even the most basic of needs such as healthcare or food (see graph above). In the fall of 2021, 40 percent of households that were behind on their rental payments reported that they sometimes or often did not have enough food. Larger shares of renter households in the youngest and oldest age groups are also heavily cost burdened, with more than half of all renters under the age of 25 and over age 65 having spent more than 30 percent of their incomes on rent (2019).

The states that have the highest housing costs typically also have the largest share of cost-burdened renters, with California, Florida and Hawaii ranking in the top three with both (see graph).



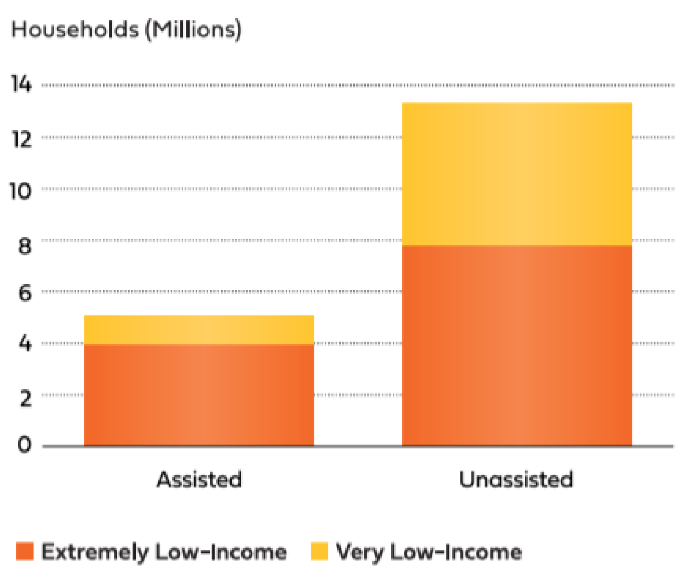
Share of Cost-Burdened Renters (Percent)
Under 40 (Down to 38) 40–44
45–49 50 and Over (Up to 54)

Note: Cost-burdened households pay more than 30% of income for housing.

Source: JCHS tabulations of US Census Bureau, 2019 American Community Survey 1-Year Estimates.

**Assistance Helped Stabilize Renters: Additional Congressional Action Is Necessary**

The shortage of affordable housing, coupled with increasing cost burdens had created affordability challenges for most low- and middle-income renters even before the devasting impact of COVID-19. The pandemic has starkly revealed the limits of the existing housing safety net, with about 13.3 million income-eligible households (incomes below 50 percent of area median) not receiving any form of federal rental assistance (see graph below).

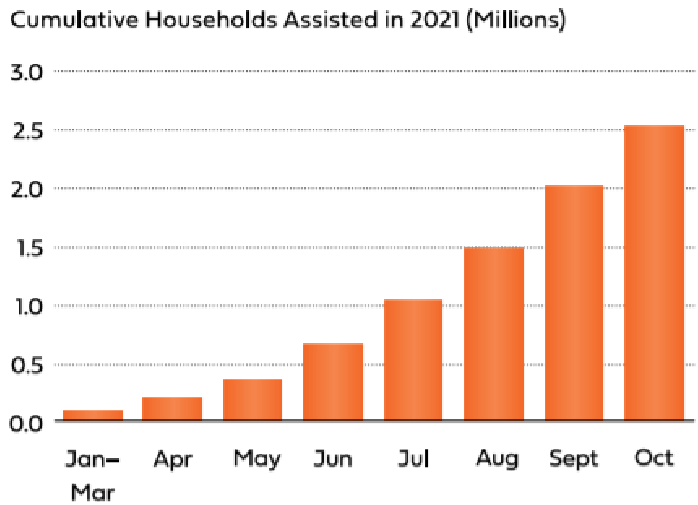



Notes: Extremely (very) low-income households make up to 30% (30–50%) of area median income. Assisted households receive a rental subsidy.

Source: JCHS tabulations of HUD, 2021 Worst Case Housing Needs Report to Congress.

Having initially fallen off at the onset of the pandemic, rentership rates recovered and currently remain high for all age and income groups. The demand for rental housing is strong, and high-income households have become the primary source of rental demand, accounting for almost 70 percent of rental growth. Homeownership affordability continues to remain out of reach for many and remains a primary driver behind the increase in demand for rental housing. While demand is increasing, the supply of affordable housing options continues to be marginal.

Short term income support and federal emergency rental assistance helped to make up for the shortfall in rents that threatened to leave property owners in financial distress. Congress provided $25 billion in emergency rental assistance at the end of December 2020 (ERA1), followed by another $21.55 billion allocated under the American Rescue Plan Act in March 2021 (ERA2). However, emergency rental assistance payments were slow to reach renters (see graph). Many states lacked permanent rental support systems that can respond quickly during a crisis. The Housing Initiative at Penn conducted a recent survey that found that nearly three-quarters of state and local rental assistance programs were newly created. The need to update existing systems, burdensome documentation requirements, and lengthy procurement processes for contracts, added to the bottleneck.




Notes: Some households may have received multiple payments and be double-counted. Households served by ERA2 from April to June are included in the June count.

Source: JCHS tabulations of US Department of the Treasury data.

**Conclusion**

Rental affordability has worsened since the start of the pandemic for lower-income, middle-income and households of color. But the shortage of affordable housing options combined with continually increasing cost burdens has left many more American teetering on the brink of homelessness. The need and urgency for Congress to fully fund and improve affordable housing programs is underscored by the additional variations of the COVID-19 virus that continue to obstruct a full economic recovery. NAHMA will continue to advocate with key Members of Congress for more affordable housing funding and supportive options for families in need.