THE STATE OF THE NATION'S HOUSING

2022

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

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1 EXECUTIVE SUMMARY

After a record-shattering year in 2021, the housing market is at an inflection point. Higher interest rates have already taken some heat out of the homebuying market, and the large number of apartments under construction should bring some relief on the rental side. For lower-income households and households of color, though, the pressure of high housing costs is unlikely to relent. The surge in the prices of gas, food, and other necessities has made matters worse, especially now that most emergency government supports have ended. The housing stock itself is in dire need of investment to meet the demands of a rapidly aging population and the threats posed by climate change.

THE SOARING COSTS OF HOUSING

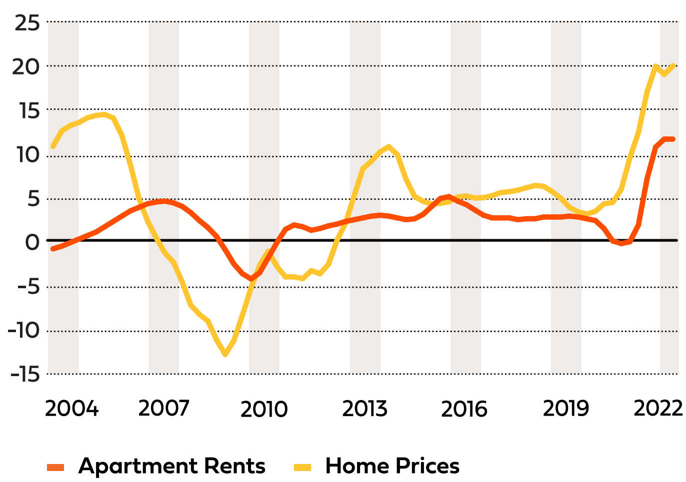
The costs of both owner-occupied and rental housing continue to climb **(Figure 1)**. Home price appreciation nationwide hit 20.6 percent in March 2022—topping the previous high of 20.0 percent in August 2021 and marking the largest jump in three decades of recordkeeping. The runup has been widespread, with 67 of the top 100 housing markets experiencing record-high appreciation rates at some point over the past year. And even in the other 33 major markets, home prices increased by at least 9 percent.

Meanwhile, rents for apartments in professionally managed properties were up 12 percent nationally in the first quarter of 2022 from a year earlier, with increases in several metro areas exceeding 20 percent. Although most of the hottest rental markets were in the South and West, RealPage data indicate that some of the largest increases were in coastal metros where rents had plummeted early in the pandemic. In the New York metro area, for example, apartment rents fell 15 percent year over year in the first quarter of 2021 but then shot up by 20 percent between then and the first quarter of 2022, leaving the median rent up 11 percent on net from the early 2020 level.

FIGURE 1

Home Prices and Apartment Rents Soared to New Heights in 2021

Year-over-Year Change (Percent)



Note: CoStar same-store rents are for professionally managed market-rate apartments in buildings with five or more units.

Source: JCHS tabulations of CoStar data; S&P CoreLogic Case-Shiller US National Home Price Index.

Rents for single-family homes rose even faster than those for apartments, pushed up by increasing demand for more living space among households able to work remotely. According to CoreLogic data, single-family rents nationally rose 14 percent in March 2022, the 12th consecutive month of record-high growth. The largest year-over-year increases were in Miami (39 percent) and Cape Coral (28 percent), as well as six other Florida metros. Other Sunbelt metros where single-family rents rose sharply include Phoenix (18 percent) and San Diego (17 percent).

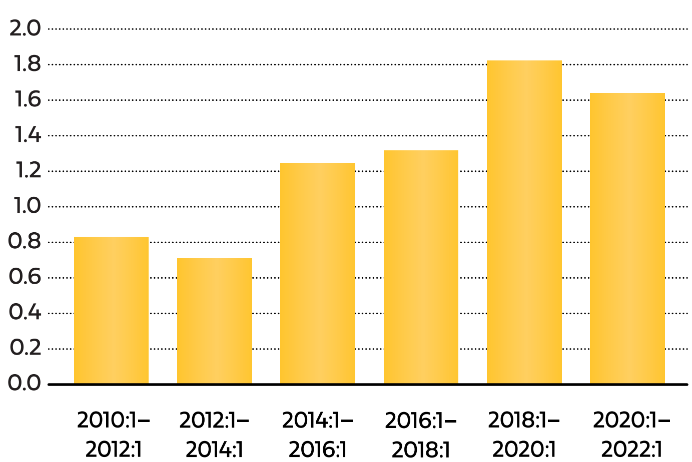
Adding to the pressure on prices, investors moved aggressively into the single-family market over the past year, buying up moderately priced homes either to convert to rental or upgrade for resale. CoreLogic reports that the investor share of single-family homes sold in the first quarter of 2022 hit 28 percent, well above the 19 percent share a year earlier and the 16 percent share averaged in 2017–2019. Not surprisingly, investors focused on markets with rapid home price appreciation, accounting for especially high shares of sales in Atlanta (41 percent), San Jose (38 percent), Phoenix (36 percent), and Los Angeles (34 percent) at the end of 2021.

Although leveling off from the record surge in 2021, both home prices and rents are still rising because of the severe constraints on supply. Indeed, the inventory of existing homes for sale set a new low of 850,000 units in January 2022 before edging up to 1.0 million units in April, still down 10 percent from the year-earlier level. Rental vacancy rates in the professionally managed apartment stock also reached an all-time low of 4.8 percent in the third quarter of 2021 and held at just 5.0 percent in the first quarter of 2022.

FIGURE 2

Household Growth Has Remained Strong Despite the Pandemic

Average Annual Change in Households (Millions)



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

HOUSING DEMAND ON THE RISE

Surprisingly strong household growth throughout the pandemic contributed to the sharp rise in housing costs. According to the latest Housing Vacancy Survey data, the number of new households increased at an average annual rate of 1.6 million between the first quarter of 2020 and the first quarter of 2022, only slightly below the average in the two years preceding the pandemic **(Figure 2)**. This increase is well above the Joint Center's baseline projection of 1.2 million new households annually in 2018–2028, the pace consistent with the underlying growth and shifting age structure of the population.

Much of the jump in household growth is among millennials that had delayed living on their own while in their 20s and early 30s. Indeed, the acceleration of growth in new households among adults under age 45—and particularly those in the 35–44 year-old age group—helped to lift overall household growth by an additional 400,000 annually on average over the past five years. In terms of sheer numbers, however, the 65-and-over age group still leads household growth as the large baby-boom generation moves into the traditional retirement years.

The pickup in household growth among younger adults was fueled by low unemployment and strong income gains in the years up to the pandemic, as well as the quick rebound in the economy last year. The unemployment rate dropped from 6.7 percent in December 2020 to 3.9 percent in December 2021, and nominal wages increased by 4.9 percent. These conditions helped to provide many younger adults the financial footing to form their own households. The federal government's steps to shore up incomes early in the pandemic—including expanded unemployment benefits, three rounds of stimulus payments, and the moratorium on student loan repayments—also kept some households intact that might otherwise have dissolved.

But now with the Federal Reserve in a battle to curb runaway inflation, rising interest rates will likely slow the growth of households along with that of the economy. Even so, household formation rates among young adults are still low relative to those of previous generations at similar ages, suggesting that there is still pent-up demand among the under-45 age group. Increased immigration may also provide a near-term lift to household growth as borders reopen and immigration services return. Indeed, the Pew Research Center reports that green card issuances were back to pre-pandemic levels at the end of 2021.

HOMEOWNERSHIP UP DESPITE THE PANDEMIC

Even with home prices rising so rapidly, homebuying remained relatively affordable in 2020–2021. Historically low interest rates for much of this period offset the price increases, holding down monthly mortgage payments. Some 2.2 million new homeowners were added on net between the first quarter of 2020 and the first quarter of 2022, lifting the national homeownership rate 0.1 percentage point to 65.4 percent.

Younger buyers accounted for a substantial share of these new homeowners. Homeownership rates among households under age 35 jumped by 1.5 percentage points over this two-year period, to 38.8 percent, while the rate for households aged 35–44 rose 0.8 percentage point, to 62.3 percent. Indeed, measured from their lows in the first quarter of 2016 to the first quarter of 2022, homeownership rates for these two age groups have rebounded by a solid 4.6 percentage points and 3.4 percentage points, respectively, outpacing the increases among all other age groups. As a result, the number of homeowner households under age 45 rose by 2.7 million over the past five years, to a total of 23.3 million, while their share of all homeowners increased to 28 percent.

Although their homeownership rates were essentially unchanged, the number of homeowners age 65 and over climbed even faster than the number of younger homeowners. The count of older homeowners was up by some 4.4 million over the past five years, to 27.3 million. Although most of these older households were not new homeowners, rapid growth in the 65-and-over population has pushed up their share of all homeowners to fully a third.

Households of color accounted for half of the total growth in homeowners between early 2016 and early 2022, and even a larger share (55 percent) of the increases over the past two years. Even so, disparities in homeownership remain large. In early 2022, the homeownership rates of Black households stood at just 45.3 percent—some 28.7 percentage points below the rate for white households. Although the homeownership rate for Hispanic households was somewhat higher at 49.1 percent, the gap was still substantial at 24.9 percentage points. These wide disparities are in part the legacy of centuries of discrimination—in education and labor markets as well as in housing—that has constrained the earning power of households of color.

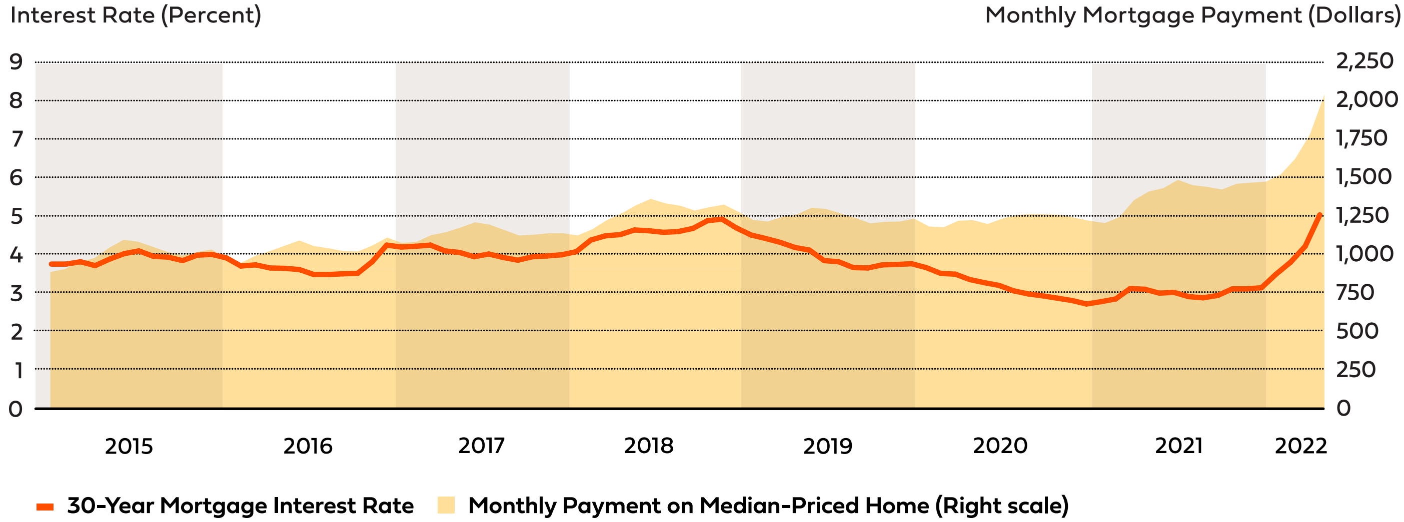
HIGHER HURDLES FOR FIRST-TIME BUYERS

The sharp rise in interest rates has had an enormous impact on the costs of homeownership, making it even more difficult to close longstanding disparities. Indeed, the impact on monthly mortgage payments of the 2.0 percentage point hike in interest rates between late December 2021 and mid-April 2022 is equivalent to that of a 27 percent jump in home prices.

With prices continuing to rise along with interest rates, the savings and income needed to qualify for a home

FIGURE 3

Higher Interest Rates Have Raised Payments on Median-Priced Homes by Over $600 a Month



Note: Monthly mortgage payments include principal and interest only and assume a 3.5% downpayment on a 30-year fixed-rate loan with no points.

Source: JCHS tabulations of Freddie Mac, Primary Mortgage Market Surveys; National Association of Realtors (NAR), Existing Home Sales.

loan have skyrocketed, raising the financial hurdles for first-time and middle-income buyers. At today's prices, the downpayment that a first-time buyer would have to make on a median-priced home—typically 7.0 percent of the sales price—amounted to $27,400 in April 2022. Without help from family or other sources, this requirement alone would rule out 92 percent of renters, whose median savings are just $1,500.

Reducing the downpayment to just 3.5 percent, the monthly mortgage payment on the median-priced home would be a hefty $2,020 **(Figure 3)**. In combination with rising prices, the recent interest rate hikes raised the minimum income needed to afford these payments from $79,600 in April 2021 to $107,600 in April 2022—effectively pricing out some 4 million renter households with incomes in this range.

Between high prices and rising interest rates, the homebuying frenzy has already started to cool. As of mid-May 2022, the Mortgage Bankers Association's unadjusted Purchase Index shows a 16 percent year-over-year drop in average weekly home purchase mortgage applications. In addition, sales of existing homes were down each month from January to April, bringing the total decline so far in 2022 to 13.6 percent on a seasonally adjusted basis. Given the additional bump in interest rates in May, home sales are likely to slow even further.

PERSISTENT INEQUALITIES IN WEALTH

Although making conditions more challenging for first-time buyers, the surge in home prices has been a boon for current homeowners. Federal Reserve data show that, in aggregate, owners' equity in real estate soared by $4.3 trillion between the fourth quarter of 2020 and the fourth quarter of 2021, to $26.4 trillion. At the same time, the amount of mortgage debt outstanding rose by only $823 billion, to a total of $11.7 trillion. By CoreLogic's estimates, the typical US homeowner saw an increase in equity of $55,300, although state-level averages reached as high as $128,000.

Many homeowners were able to take advantage of last year's low interest rates to tap some of their rapidly accumulating housing wealth. Black Knight's Mortgage Monitor indicates that homeowners cashed out $275 billion in equity in 2021, the highest level since the peak of the previous housing boom in 2005. Even so, aggregate real home equity was still 30 percent above that peak last year, while real aggregate mortgage debt remained about 6 percent below.

The massive windfall from rapid home price appreciation has no doubt widened the wealth gap between homeowners and renters. Even at last measure in 2019, the median wealth of homeowner households was $254,900—about 40 times the $6,270 median for renter households. And because of large gaps in homeownership rates, the recent equity gains have doubtless increased the overall disparities in wealth between white households and households of color.

Just as troubling, even households of color that own homes have far less housing wealth than white homeowners. In 2019, the median net wealth of Black homeowners ($113,100) was just over a third that of white homeowners ($299,900). Although their home equity rose substantially between 2010 and 2019, the median net wealth of Hispanic homeowners ($164,800) was still only about half that of white homeowners by the end of the decade. At least in part, these disparities reflect consistently lower home valuations in neighborhoods that are predominantly Black or Hispanic compared with neighborhoods that are predominantly white.

HOUSING CONSTRUCTION AT A NEW HIGH

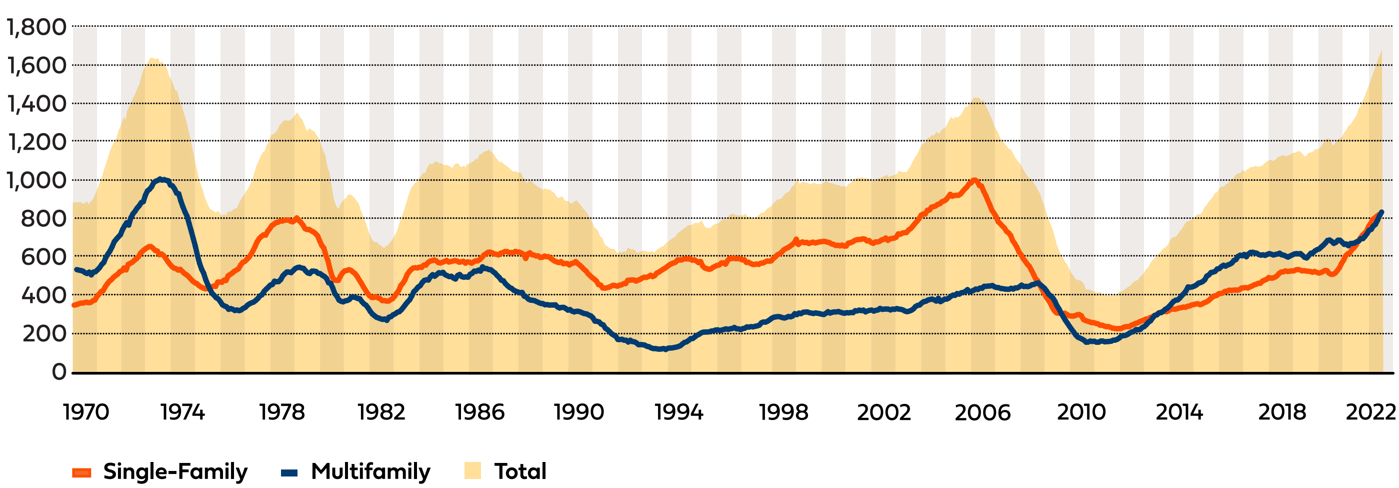
After trailing the pace of household growth for almost a decade, residential construction has finally picked up. Single-family starts hit 1.1 million in 2021, exceeding the million-unit mark for the first time in 13 years. Multifamily starts were also at a 30-year high of 470,000 units. However, supply-chain delays have lengthened the time to completion, leaving some 1.64 million homes still under construction in April 2022 **(Figure 4)**. The last time that housing production was nearly as high was 1973.

Together with rising interest rates, the strong pipeline of new housing should help to slow the rise in home

FIGURE 4

Record Numbers of Homes Are Currently Under Construction

Annualized Units Under Construction (Thousands, seasonally adjusted)



Source: JCHS tabulations of US Census Bureau, New Residential Construction data.

prices and rents. Even so, new construction adds supply primarily at the upper end of the market. In just the past two years, the share of new homes that sold for at least $400,000 increased from a third of all homes to more than half (56 percent). Meanwhile, the typical asking rent for new multifamily units stood at $1,740 per month in 2021, well above the $1,080 affordable to the median renter.

But chronic labor shortages and restrictive local land use regulations, among other factors, make it difficult for developers to build modestly priced housing. The pandemic exacerbated these challenges by causing a runup in building material prices and labor costs. The extremely tight supply of homes both for rent and for sale has spurred new efforts to ease some of the constraints on higher-density development. California and Oregon have taken the lead by allowing construction of small multifamily buildings, accessory dwelling units (ADUs), and other types of housing in areas previously zoned for single-family homes. Massachusetts has also required that the 175 communities served by Boston's transit system have at least one reasonably sized zoning district where multifamily construction is allowed by right. To date, however, only a minority of states have taken steps to override local land use regulations that limit the size, location, density, and affordability of new housing.

THE ONGOING AFFORDABILITY CRISIS

Job and income losses early in the pandemic increased the affordability challenges for millions of households already struggling to pay for housing. In 2020, the nationwide share of cost-burdened households paying more than 30 percent of their incomes for housing stood at 30 percent. Moreover, 14 percent of all households were severely burdened and spent more than half their incomes for shelter. Renter households were particularly hard-pressed, with 46 percent at least moderately burdened and 24 percent severely burdened **(Figure 5)**. The shares among lower-income households and households of color were also disproportionately high.

These shares reflect the first substantial uptick in national cost-burden rates in 10 years and include large increases for some groups of households. In 2019–2020, the cost-burdened shares were up far more for renters (2.6 percentage points) than for homeowners (1.0 percentage point), and more for Black households (2.4 percentage points) than for white (1.6 percentage points), Asian (0.8 percentage point), and Hispanic households (0.6 percentage point). Although lowest-income households continued to have the highest cost-burden rate, the share for households earning between $30,000 and $45,000 increased the most—up 4.2 percentage points in 2019–2020, to 46.4 percent.

Since 2020, however, federal measures to prevent a wave of evictions and foreclosures, along with the rebound in the economy, have enabled many households to recover from financial setbacks early in the pandemic. Even so, Household Pulse Survey data for December 2021 through early April 2022 indicate that 10 percent of all households were still behind on their housing payments. While the overall share of renters in arrears had receded somewhat to 14.5 percent, the shares for Black renter households (24 percent) and renters with household incomes below $25,000 (20 percent) remained alarmingly high. The share of homeowners behind on mortgage payments was much lower at 6 percent, although the share of lower-income owners was still a concerning 17 percent.

The spike in inflation has compounded the pressures on these financially stressed households. Overall prices shot up 8.6 percent in March from a year earlier, the steepest rise in 40 years, and only edged down to 8.3 percent in April. The cost increases were especially large for necessities such as food (up 11 percent), in-home energy (up 16 percent), and gasoline (up 44 percent). Assuming a constant level of consumption, average household spending on these three items alone jumped by $200 per month from April 2021 to April 2022.

With eviction and foreclosure moratoriums now ended, housing insecurity is on the rise. When the CDC's moratorium on evictions was struck down in August 2021, filings were 54 percent below the annual average in 2012–2016. By March 2022, however, the Eviction Lab found that filings were just 2.5 percent below that average. Meanwhile, foreclosure filings jumped by 39 percent in the first quarter of 2022, to 78,300, after the Consumer Financial Protection Bureau's mortgage servicing safeguards ended. Despite this increase, filings were still 43 percent below their 2012–2016 average.

GROWING NEED FOR HOUSING RETROFITS

Beyond expanding the supply of both affordable and market-rate housing, upgrades to the existing stock are increasingly urgent. As it is, much of the stock is not equipped to meet the accessibility needs of an aging population or to withstand the impacts of climate change. Each of these challenges will require dedicated resources to address significant deficiencies, particularly for the millions of lower-income households that cannot afford to make these improvements.

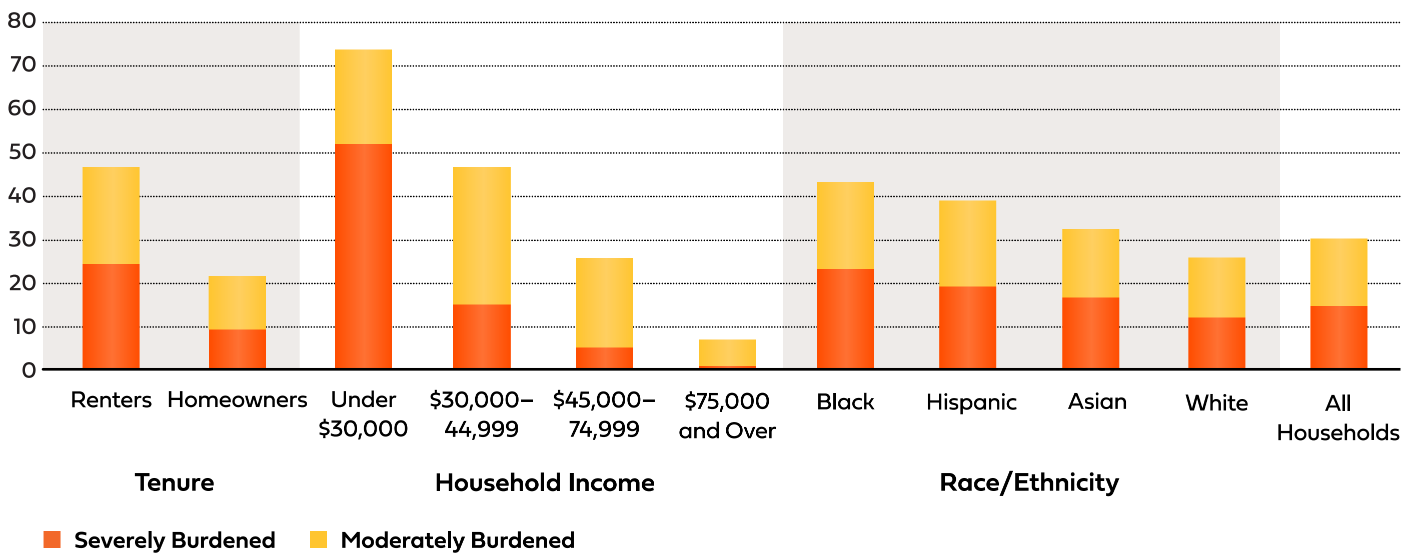
In the first case, the vast majority of US homes lack basic accessibility features—such as a no-step entryway and grab bars in the bathroom—that older adults and people with disabilities often need to live safely in their homes. As of 2019, more than 2.0 million households headed by adults aged 65–79 (8 percent) and nearly 1.5 million households age 80 and over (18 percent) reported having difficulties navigating or using their homes. Without substantial modifications to the stock, the number of households with these difficulties will rise dramatically in the decades ahead. Indeed, the Joint Center has projected that the number of households age 65 and over will grow to more than 50 million between 2018 and 2038. Some 17.5 million of these households will be in their 80s or older.

Recognizing the growing need for accessibility improvements, HUD allocated $30 million to the Older Adults Home Modification Grant Program in 2021. This program provides funding to state and local governments,

FIGURE 5

Cost Burdens Are Widespread among Renters, Lower-Income Households, and Households of Color

Share of Households with Cost Burdens (Percent)



Notes: Moderately (Severely) cost-burdened households spend 30–50% (more than 50%) of incomes on housing costs. Black, Asian, and white householders are non-Hispanic. Hispanic householders may be of any race(s).

Source: JCHS tabulations of US Census Bureau, 2020 American Community Survey 1-Year Estimates using experimental weights.

nonprofits, and public housing authorities to help lower-income homeowners pay for small-scale modifications. Another approach would be to increase coverage of home modifications under Medicaid and Medicare to help promising programs scale up their operations. For example, the Community Aging in Place—Advancing Better Living for Elders (CAPABLE) program has demonstrated how integrating the services of occupational therapists and registered nurses with delivery of home modifications helps recipients improve functional abilities and self-care, in turn reducing hospitalizations and nursing home days.

The second immediate, large-scale challenge is to improve the resiliency of the existing stock and to mitigate the risks of future damage from extreme weather-related events. Some 51.5 million households now live in areas under at least moderate threat of annual losses from natural disasters, including 11.6 million lower-income households with limited resources to recover or relocate.

So far, the federal approach has been largely reactive, providing funds through the FEMA recovery programs and HUD's CDBG program. However, repeated damage to the housing stock is costly and poses a serious risk to the housing finance system. To head off this threat, the Federal Housing Finance Agency has directed Fannie Mae and Freddie Mac to incorporate climate-change risks in their decision making to prevent disaster-related mortgage defaults.

Adapting to climate change will not only require shifts in where people live and where developers build, but also retrofits of the existing stock, particularly in high-exposure areas. Improving the resiliency of these homes would not just protect individual properties from the impacts of climate change, but also contribute substantially to the UN and IEA goal of net-zero emissions by 2050. However, the upfront costs of retrofits are often prohibitive for homeowners, and rental property owners have little incentive to make these investments because most tenants pay their own utility costs.

To overcome these hurdles, the Department of Energy offers a variety of programs for both owners and renters. For example, the Energy Star program helped more than 70,000 homeowners complete retrofits in 2020 by connecting owners with certified contractors and offering rebates on energy efficient equipment. The Weatherization Assistance Program also supports home upgrades for about 35,000 lower-income homeowners and renters. This program was recently allocated an additional $3.1 billion under the bipartisan infrastructure bill, estimated to cover retrofits for an additional 450,000 households. While a step in the right direction, this assistance still falls far short of need.

THE OUTLOOK

Assuming that the Federal Reserve can tame runaway inflation without causing a serious downturn, the near-term outlook for housing demand is largely positive. Demographic shifts are favorable, unemployment is low, and wage growth remains strong. Conditions on the supply side are also encouraging, with supply-chain delays diminishing and a record number of homes set for completion in the coming months.

Nevertheless, it will take time for additional supply to catch up with demand and produce any meaningful improvement in affordability. In the meantime, production of modestly priced homes remains a challenge. Innovations in construction techniques hold some promise of reducing costs, although it will take efforts from both the public and private sectors to bring them to scale. Reforms of local land use regulations to allow higher-density development are also essential. But even these major steps are not enough to build homes that lowest-income households can afford.

The pandemic clearly demonstrated the fundamental importance of stable housing for basic well-being. The lessons learned over the past two years have led to several proposals to greatly expand the housing safety net and increase support for first-generation homebuyers. It is now crucial to continue the debate over the best approaches to making housing affordable for all.

2 HOUSING MARKETS

Housing markets across the country remain extremely tight. The combination of soaring demand and historically low inventories of available homes pushed both home prices and rents to unprecedented heights in the past year. Although ramping up to its highest level in decades, residential construction is still being held back by supply-chain issues, labor shortages, and regulatory constraints on homebuilding. With interest rates now on the rise, housing markets are headed for a cooldown in 2022 as affordability pressures increase.

UNPRECEDENTED RISE IN HOUSING COSTS

The imbalance between supply and demand sent home prices up sharply in 2021. As measured by the S&P CoreLogic Case-Shiller index, nominal home prices rose at an unprecedented 20.0 percent annual rate in August—more than three times faster than the 5.8 percent increase a year earlier and the fastest pace in records going back more than 30 years. Even after adjusting for inflation, the year-over-year rate of price appreciation was at an all-time high of 12.7 percent.

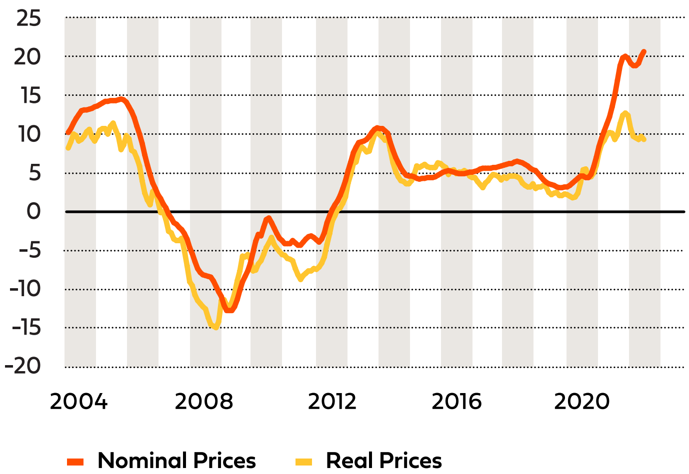
The breakneck pace of increases persisted into early 2022, with year-over-year nominal price growth slightly higher at 20.6 percent in March **(Figure 6)**. This strong trajectory left home prices 38.6 percent above their early 2020 level (before the pandemic took hold) and more than double the 2012 low (following the Great Recession). Indeed, nominal home prices stood 59.5 percent above the mid-2000s peak early this year while real home prices were up 14.4 percent.

Unlike the previous runup when loose credit and speculative buying fueled a housing bubble, the current home price surge largely reflects years of underbuilding. In the current market, the number of households with sufficiently high incomes and savings to buy homes far exceeds the for-sale inventory in places where people want to live. Historically low interest rates in much of 2020 and 2021 also played a large role, allowing buyers to bid up prices while still keeping their monthly payments affordable.

FIGURE 6

Home Price Appreciation Set New Records in the Past Year

Annual Change (Percent)

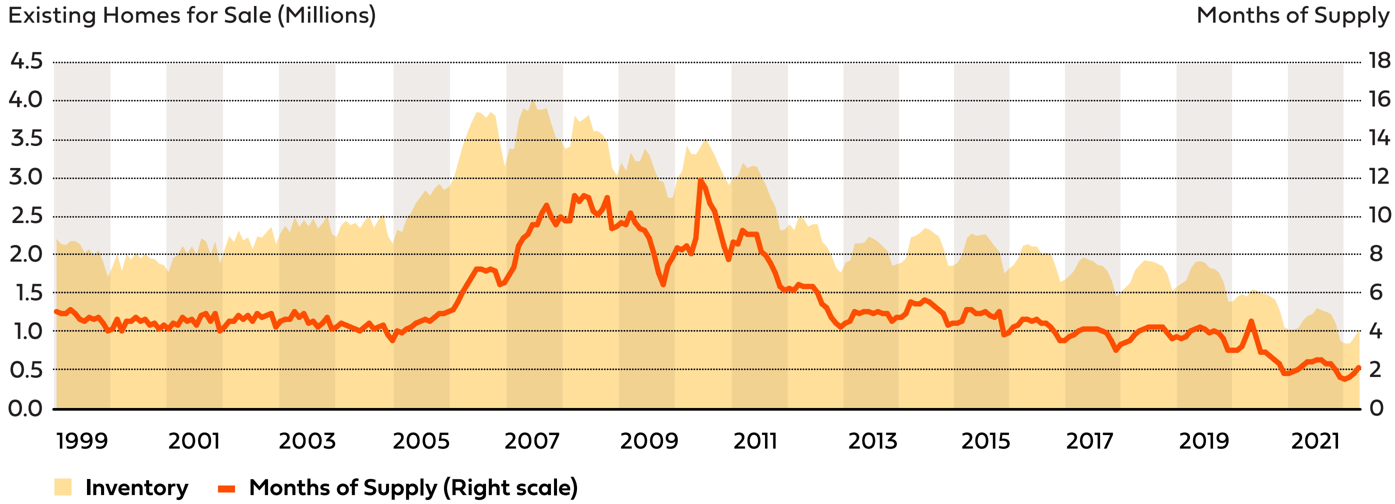


Note: Real home prices are adjusted for inflation using the CPI-U for All Items less shelter.

Source: JCHS tabulations of S&P CoreLogic Case-Shiller US National Home Price Index.

FIGURE 7

The Supply of Homes on the Market Has Reached New Lows



Note: Months of supply measure how long it would take homes on the market to sell at the current rate, where six months are typically considered a balanced market.

Source: JCHS tabulations of S&P CoreLogic Case-Shiller US National Home Price Index.

With the spectacular rise in home prices, the median home price-to-income ratio was at an all-time high in 2021. As estimated by Moody's Analytics, the median sales price for existing homes last year was 5.3 times the median household income—well above the 4.6 ratio in 2020 and a notable increase from the previous peak of 4.9 in 2005. By comparison, price-to-income ratios averaged 3.9 in the 2010s, 4.1 in the 2000s, and just 3.1 in the 1980s.

Soaring prices have kept many would-be homeowners in rental housing, contributing to the already strong growth in renter households. In turn, increased competition for the limited supply of rentals accelerated the year-over-year rise in typical rents from 0.8 percent in December 2020 to 16.2 percent in December 2021. Such large rent increases make it more difficult for would-be buyers to save for a downpayment, further delaying their transition to homeownership. However, given that home prices have risen even faster than rents, the price-to-rent ratio (typical home value divided by the annualized typical rent) stood at 14.5 at the end of last year, up from 14.1 a year earlier and just 12.2 in 2015.

PRICE GROWTH UP NATIONWIDE

Home prices have climbed across the country, with all 100 markets tracked by the FHFA Purchase-Only House Price Index posting year-over-year increases in the first quarter of 2022. In fully 67 of these markets, home price appreciation was at record highs at some point since the start of 2021.

Home prices were up year over year by more than 10 percent in 99 of the 100 markets, and by more than 20 percent in 34. By comparison, only 49 markets experienced double-digit price growth at the peak of the housing boom in the mid-2000s. Metro areas in the South and West saw the steepest increases, led by Cape Coral (41.1 percent), North Port (34.8 percent), Tampa (31.2 percent), West Palm Beach (30.4 percent), Knoxville (28.7 percent), and Phoenix (28.2 percent). Notably, the top four metros for price gains are all in Florida.

In the Midwest region, the metro areas with the highest home price appreciation were Columbus (18.1 percent), Grand Rapids (16.7 percent), and Kansas City (16.6 percent). The markets with the highest home price appreciation in the Northeast were smaller, relatively affordable markets such as Syracuse (16.9 percent), Allentown (16.5 percent), and Providence (16.1 percent).

But even in metros with the slowest home price growth, appreciation rates were still at or near double digits in early 2022. These markets were either on the East Coast or in the Midwest, and include Cambridge (9.1 percent), Washington, DC (11.0 percent), Minneapolis (11.5 percent), and New York (11.7 percent).

Home price-to-income ratios were sky-high in many markets in 2021. Median sales prices outstripped median incomes by a factor of 10 or more in four Western metros, including San Jose (12.6), Honolulu (12.5), San Francisco (11.3), and Los Angeles (10.3). At the same time, price-to-income ratios remained below 4.0 in 26 markets, with the lowest ratios in McAllen (2.8), Pittsburgh (2.9), Scranton (3.0), Syracuse (3.1), and Wichita (3.1).

FOR-SALE INVENTORY AT ALL-TIME LOW

Fewer existing homes were available for sale in January 2022 than at any point since the late 1990s **(Figure 7)**. Just 850,000 homes were on the market at the start of the year, including 740,000 single-family homes and 108,000 condos or co-ops. The for-sale inventory was down 17.5 percent from January 2021, which was itself at a record low. Months of supply dipped to only 1.6 months, down from 1.9 months a year earlier.

Inventories were already low even before the pandemic hit. On average, 1.74 million existing homes were available for sale in 2019, with supply declining modestly through the end of the year. But once the pandemic began, the number of available homes fell by an astounding 20 percent year over year by April 2020, then another 21 percent between April 2020 and April 2021, and yet another 10 percent between April 2021 and April 2022.

With rising interest rates now deflating demand and record numbers of new homes under construction, for-sale markets may finally loosen. Although the inventory of existing homes was still down a substantial 10.4 percent in April 2022, this was the smallest year-over-year decline since the start of the pandemic. In addition, the University of Michigan Surveys of Consumers indicate that 80 percent of respondents considered conditions in the first quarter of 2022 favorable for selling—close to the record-high set in the last quarter of 2021. This broad positivity could mean that more owners decide to put their homes on the market.

At the same time, though, the climb in interest rates above the 5.0 percent mark may prevent some homeowners with low-rate mortgages from selling, further reducing the for-sale inventory. According to FHFA data, over half of outstanding mortgages in the fourth quarter of 2021 had interest rates below 4.0 percent, including 13 percent with rates below 3.0 percent. Homeowners with such low-rate mortgages may hesitate to sell if they have to take on new loans at substantially higher rates.

Unlike the supply of existing homes, the inventory of new homes for sale increased last year. With supply-chain disruptions making delivery times uncertain, homebuilders delayed entering into sales contracts with buyers. As a result, some 350,000 new single-family homes were available on average at the end of each month in 2021, an uptick of 15 percent from 2020. Once completed, though, new homes were immediately snapped up. Indeed, the median time on the market for new single-family homes was just 2.5 months in October 2021—a new low in records going back to the mid-1970s.

ONGOING RISE IN EXISTING HOME SALES

Despite the limited supply of homes and record-high prices, the number of existing homes sold was up again last year. Some 6.1 million homes were sold nationally in 2021, an increase of 8.5 percent from 2020 and the highest level since 2006. Sales of single-family homes rose by 6.8 percent, to 5.4 million, while sales of condos and coops jumped 22.3 percent, to 707,000 units. Home sales climbed in all four regions, led by 10.2 percent growth in the South but with still-robust increases of 9.6 percent in the West, 7.1 percent in the Northeast, and 5.3 percent in the Midwest.

In contrast, sales of new single-family homes fell 6.2 percent last year, to 771,000 units, with declines across all four regions. The drop was largest in the West (down 10.1 percent), but still significant in the Midwest (down 7.5 percent), South (down 4.4 percent), and Northeast (down 2.7 percent). However, these declines followed a 20.4 percent surge in 2020, leaving new single-family home sales up 12.9 percent in 2021 from 2019.

The combination of rising prices and rising interest rates already took a toll on homebuying activity in early 2022. Indeed, the annualized pace of existing home sales fell from 6.5 million units in January to 5.6 million units in April, the lowest rate since June 2020. In addition, the Michigan Surveys of Consumers reported that the share of households that considered it a good time to buy a home stood at just 35 percent in the first quarter of 2022, the lowest reading since the early 1980s.

GROWING PRESENCE OF INVESTORS

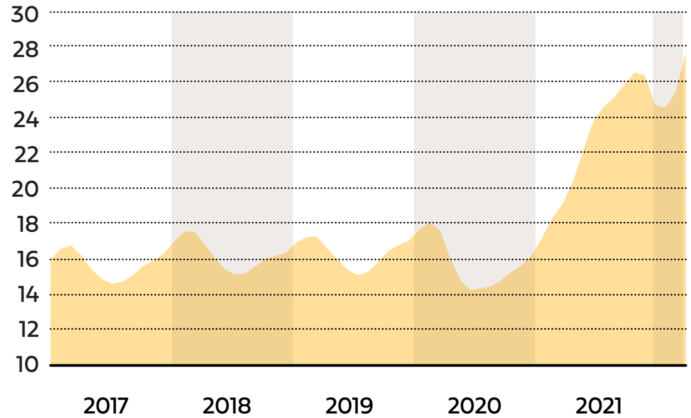
Investors have moved rapidly into the single-family market since the pandemic began. The investor share of homes sold averaged 28 percent per month in the first quarter of 2022, up from 19 percent a year earlier and well above the 16 percent share averaged in 2017–2019 **(Figure 8)**. Investors with large portfolios (at least 100 properties) drove much of this growth, nearly doubling their share of investor purchases from 14 percent in September 2020 to 26 percent in September 2021.

Investors have focused primarily on markets in the South and West. In the fourth quarter of 2021, the highest investor share of home sales was posted in Atlanta (41 percent), followed closely by San Jose (38 percent), Phoenix (36 percent), and Las Vegas (36 percent). The investor share was lowest at 14 percent in several markets in the Northeast, including Albany, Buffalo, Pittsburgh, and Rochester.

FIGURE 8

Investors Are Buying Up a Record Share of Single-Family Homes

Investor Share of Single-Family Sales (Percent)



Note: Data are 3-month trailing averages.
Source: JCHS tabulations of CoreLogic data.

By buying up single-family homes, investors have reduced the already limited supply available to potential owner-occupants, particularly first-time and moderate-income buyers. Indeed, investors are more likely to target lower-priced properties. In September 2021, investors bought 29 percent of the homes sold that were in the bottom third by metro area sales price, compared with 23 percent of homes sold in the top third. Investor-owned homes are typically converted from owner-occupied units to rentals or upgraded for resale at a higher price point.

Rising sales of second homes and vacation properties have also reduced the housing options for full-time owner-occupants, especially in rural areas. Redfin's Second Home Demand Index indicates that second-home demand jumped by more than 80 percent in mid-2020—far outpacing the demand growth for primary homes—and remained at least 50 percent above pre-pandemic levels through February 2022. At that point, rising mortgage rates and affordability concerns brought demand down sharply. Meanwhile, the NAR 2021 Vacation Home Counties Report shows that the share of existing homes sold for vacation use increased from 5.0 percent in 2019 to 5.5 percent in 2020 and to 6.7 percent in the first four months of 2021.

FIFTEEN-YEAR HIGH IN CONSTRUCTION

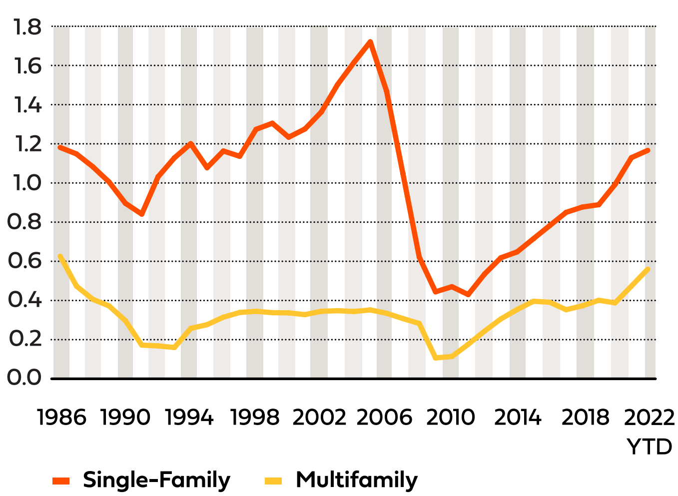
High demand, low inventories, and rapidly rising prices propelled a sharp increase in housing production in 2021. Housing starts rose 16.0 percent last year to 1.60 million units, the highest total since 2006. Starts in all four regions were strong, led by 22.4 percent growth in the Northeast but with robust increases in the West (17.5 percent), South (15.3 percent), and Midwest (12.5 percent) as well. Completions rose 4.2 percent nationally in 2021, to 1.34 million units, while the number of permits issued jumped 18.1 percent, to 1.74 million units.

For the second year in a row, single-family starts were up by double digits in 2021, rising 13.8 percent to 1.13 million units **(Figure 9)**. Until then, single-family production in the preceding 13 years had lagged below the 1.0 million unit annual rate averaged since 1980. Multifamily starts increased even faster, surging 21.8 percent to 473,800 units from already high levels. In fact, more multifamily units were started in 2021 than in any year since 1987. Multifamily construction has now topped 350,000 units for eight straight years, after hitting that mark only twice in the previous quarter-century. Starts of multifamily units continued to climb in the first four months of 2022 to a seasonally adjusted average annual rate of 560,000 units.

FIGURE 9

New Construction Picked Up Last Year and Remains on a Strong Upward Trend

Housing Starts (Millions of units)



Note: Housing starts for 2022 are the average of the seasonally adjusted annual rate for January–April.

Source: JCHS tabulations of US Census Bureau, New Residential Construction data.

Meanwhile, shipments of manufactured homes exceeded 100,000 units in 2021 for the first time since 2006, jumping 12 percent to 105,800 units. Even with this increase, though, shipments remained far below the 1990s annual average of about 291,000 units. But with an average sales price of $108,000 (excluding land) in 2021, manufactured housing provides an affordable homeownership option for moderate-income and entry-level buyers. By comparison, the average sales price for new single-family homes was $464,200 last year, with only 2 percent selling for under $200,000.

The building boom lifted the number of homes under construction above 1.6 million units in April 2022, up 24 percent from a year earlier and the highest total in records dating back to 1970. Homeowner improvement and repair spending also soared. According to the Joint Center's Leading Indicator of Remodeling Activity, annual homeowner expenditures jumped by more than 11 percent in the first quarter of 2022, to $391 billion. As a result, residential fixed investment—which includes spending on home improvements, manufactured housing, and brokers' commissions as well as new construction—accounted for some 4.7 percent of gross domestic product last year. This is a notable increase from the 3.3 percent average annual share in 2008–2020 and even exceeds the 4.4 percent share averaged since 1970.

The uptick in housing construction in 2021 was widespread, with permitting activity rising in 83 of the nation's 100 largest metros. In 11 of those metros—all located in the South and West—the number of new permits issued topped 30 per 1,000 housing units. The markets with the largest increases were among the nation's hottest, led by Provo (59 permits issued per 1,000 housing units), Austin (58 permits), Lakeland (43 permits), Boise (42 permits), and Nashville (40 permits). In sharp contrast, 11 markets in the Northeast and Midwest issued fewer than 4 permits per 1,000 housing units last year, including Syracuse (2 permits per 1,000 units), Springfield (3 permits), and New Haven (3 permits).

The pace of residential construction across submarkets also accelerated last year. After declining by about 2 percent in 2020, housing activity in core counties rebounded 17 percent in 2021, including a 25 percent jump in multifamily permitting and an 8 percent rise in single-family permitting. Housing production outside the urban core picked up even faster last year from already strong growth in 2020. Permitting rose 18 percent in the suburban counties of large metros in 2021, 19 percent in small and midsized metro areas, and 20 percent in rural areas.

PERSISTENT BARRIERS TO NEW HOUSING

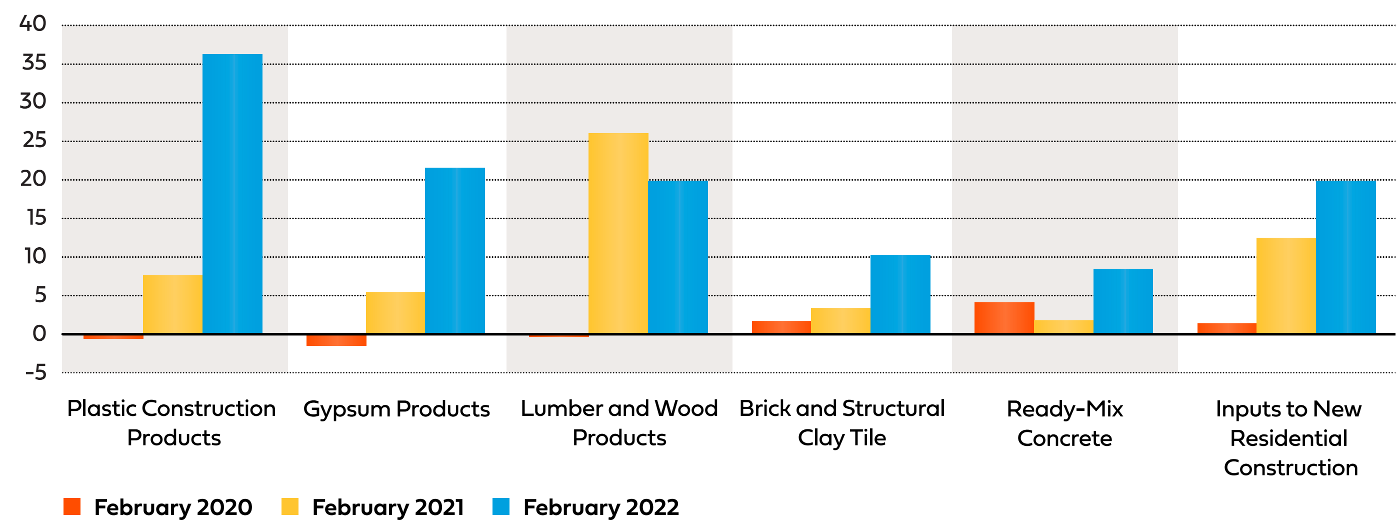
Even with the elevated pace of new construction, several barriers continue to limit how much new housing can be built. In the short term, the price and availability of materials remain key constraints. According to the NAHB/Wells Fargo Housing Market Index, 96 percent of builders surveyed in December 2021 considered the price of materials a significant issue, and 91 percent considered availability a significant issue. Echoing these results, multifamily developers responding to an NMHC COVID Construction Survey in August–September were nearly unanimous in reporting that building material prices had increased and that the lack of some materials had affected their operations.

Along with other inflationary pressures, these shortages have led to higher building material costs. The price of inputs to new residential construction (excluding capital, labor, and imports) was up 20 percent year over year in February 2022. Although significantly smaller than the 30 percent price jump in mid-2021,

FIGURE 10

Costs of Building Materials Have Soared Since the Start of the Pandemic

Year-over-Year Change in Prices (Percent)



Note: Inputs to new residential construction are not a composite of the other components, and exclude capital, labor, and imports.

Source: JCHS tabulations of US Bureau of Labor Statistics, Producer Price Indexes.

this increase was still 7 percentage points larger than the year-over-year increase in February 2021. Meanwhile, costs for a wide variety of materials were all rising considerably faster in early 2022 than a year earlier **(Figure 10)**. Although slowing somewhat from their hectic pace in 2021, the prices for lumber and wood products continued to climb at a 20 percent clip early this year.

The disruption of global supply chains has prevented builders from finishing homes and delivering them to market on time and on budget. According to data from Zonda for March 2022, more than a third of homebuilders experienced serious shortages of windows, home doors, and garage doors, while more than a fifth reported serious shortages of HVAC equipment and appliances. As a result, the average time from authorization to start of a single-family home hit an all-time high of 1.3 months in 2021, while the average time from start to completion was at a 12-year high of 7.2 months. On average, multifamily structures took 2.1 months to start and 15.4 months to complete, on pace with the previous two years but also tied with the all-time high.

The cost and availability of labor is another major challenge for homebuilders. Bureau of Labor Statistics data indicate that construction job openings averaged 335,000 per month last year, the highest number in records dating back to the early 2000s. At the same time, employee layoffs and discharges were at all-time lows. With homebuilders eager to retain workers, growth in total compensation for construction employees jumped from 1.6 percent at the beginning of 2021 to 4.3 percent at the beginning of 2022.

Limited availability of land and high lot prices also pose significant barriers to housing construction. According to Zonda's New Home Lot Supply Index, the inventory of single-family lots ready for development fell by 28 percent in the fourth quarter of 2021 from a year earlier and some 44 percent from two years earlier. In 2021 alone, inventory was down in 29 of the 30 large markets tracked by the index, and lot supply in all 30 markets was already significantly depleted.

Finally, land use policies can constrain residential construction, particularly of multifamily units. Because they are locally imposed, regulations vary widely from state to state and even within a metro area. The Connecticut Zoning Atlas provides a comprehensive view of zoning practices in a single state, but codes there are likely emblematic of restrictions in localities across the country. For example, Connecticut communities allow single-family construction by right on fully 91 percent of land, but construction of buildings with four or more units on just 2 percent of land.

Connecticut's regulations also make it difficult to add entry-level housing. Fully 81 percent of residential land in the state requires at least one acre to build a house, including 51 percent that requires at least two acres. Such large lot requirements both reduce the amount of housing that can be built and increase the cost of land—costs that are ultimately passed on to homebuyers. In effect, these types of regulations limit new housing development and, in turn, the access of middle- and lower-income households to some of the more desirable communities in which to live.

THE OUTLOOK

Housing markets are likely to remain tight in the near term. However, the steep rise in interest rates has already cooled homebuyer demand somewhat and should give inventories a chance to rebuild and help slow the pace of price growth. With higher interest rates making homeownership even less affordable, though, these changes will likely reinforce the tight conditions in rental markets.

Meanwhile, completions of new housing units should pick up pace as supply-chain issues ease, bringing some relief to both the for-sale and for-rent markets. But eliminating the sizable shortfall in housing nationwide will mean maintaining the current high level of construction activity. To do so will require the collaboration of local, state, and federal officials in removing some of the regulatory barriers to higher-density residential development.

3 DEMOGRAPHIC DRIVERS

Household growth was unexpectedly robust over the past two years as millennials aged into the prime household formation years, more than offsetting the drastic slowdown in overall population growth. Millions of these new householders are people of color, increasing the diversity of housing demand. The large and growing older population is also driving up the need for accessible housing and supportive services. Although the residential mobility rate continues to drift down, the movement of households away from large urban areas accelerated in 2021. Meanwhile, the unequal financial impacts of the pandemic have widened already large racial and ethnic disparities in income and wealth.

PERSISTENT STRENGTH OF HOUSEHOLD GROWTH

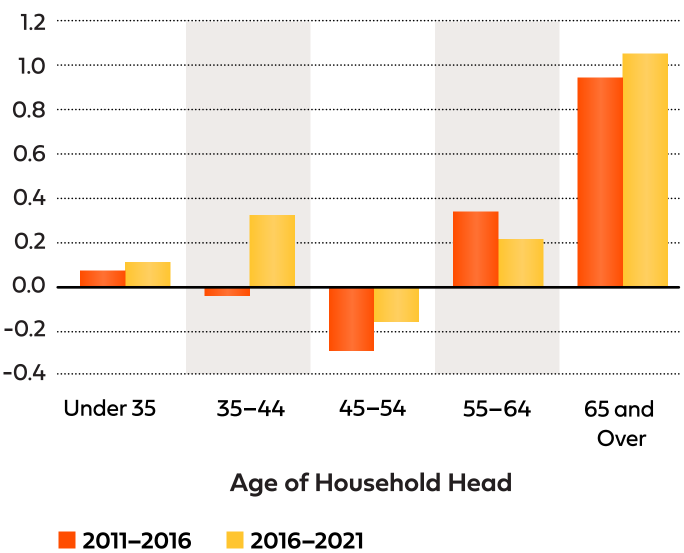
Although no reliable annual estimates for 2020 or 2021 are available, the latest Housing Vacancy Survey data indicate that some 3.2 million households were added between the first quarter of 2020 and the first quarter of 2022. This implies average annual growth of 1.6 million households, or just short of the 1.8 million average increases in the preceding two years. By this latest count, the total number of US households stood at 127.6 million in early 2022.

The current pace of household growth substantially outstrips the Joint Center's baseline projection of 1.2 million per year in 2018–2028. Nonetheless, private market measures mirror the unexpected strength of demand shown in the Housing Vacancy Survey data. For example, RealPage reports that the number of occupied apartments in the professionally managed rental segment rose by a record 713,000 units between the first quarter of 2021 and the first quarter of 2022. This large increase is notable given that this segment accounts for only about 13 percent of the housing stock.

FIGURE 11

Household Growth among Adults in Their Mid-30s to Mid-40s Has Picked Up Pace

Average Annual Change in Households (Millions)

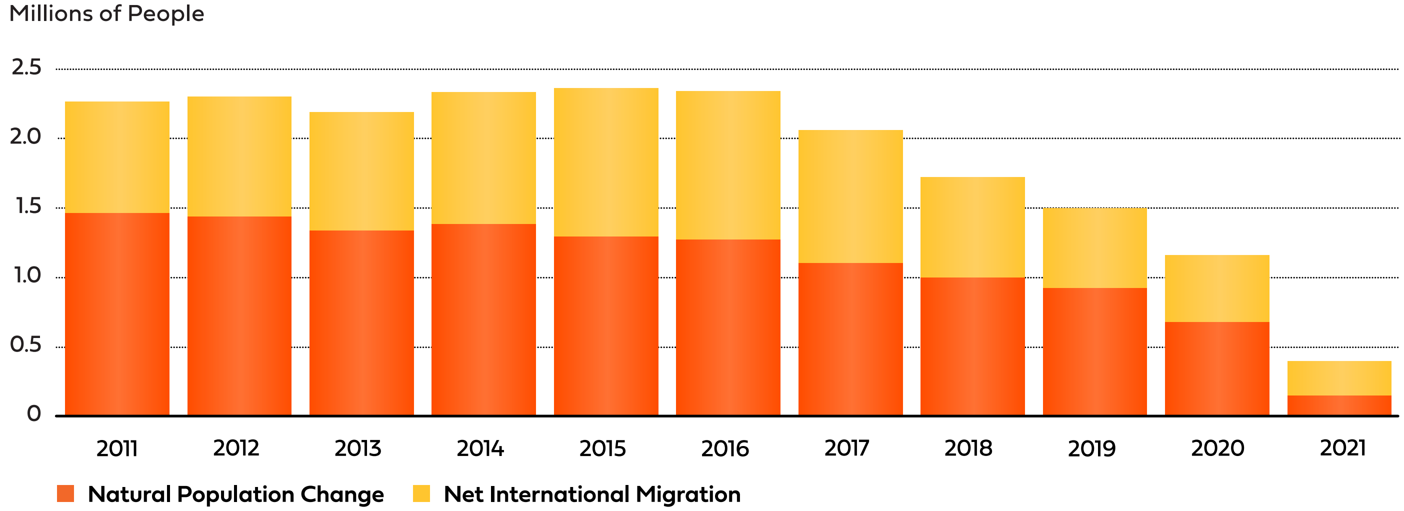


Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

Two major demographic trends have contributed to the surge in household growth. Over the decade from 2011 to 2021, the population of 25–34 year olds—the age group most likely to form new households—increased by some 3.7 million. Now numbering close to 46 million, this age group is the largest in history. In addition, the

FIGURE 12

Steep Declines in Both Immigration and Natural Population Change Have Pulled Down US Population Growth



Note: Natural population change is the difference between births and deaths.

Source: JCHS tabulations of US Census Bureau, Population Estimates Program.

peak of the millennial generation (born 1985–2004) was age 31 in 2021, implying that this large cohort is still moving through the age range with the highest household formation rates.

As a result, the number of households headed by someone aged 25–34 rose by 1.3 million from 2011 to 2021. Meanwhile, the number of householders aged 35–44 grew by 1.5 million, suggesting that many members of this age group were able to form households after living with others. Indeed, the average annual growth of householders aged 35–44 was 359,000 higher in 2016–2021 than in 2011–2016 **(Figure 11)**. Meanwhile, the number of householders aged 45–54 fell by 2.2 million from 2011–2021 as the smaller Generation X (born 1965–1984) replaced the baby boomers (born 1946–1964) in that age group. In turn, the baby boomers swelled the ranks of householders aged 55–64 by 2.8 million and the number of householders age 65 and over by 10.0 million.

Strong income growth even during the worst of the pandemic has also helped to lift the pace of household formations. After rising 15.2 percent in 2011–2019, real disposable personal income per capita was up by 5.9 percent in 2019–2020 and another 2.1 percent in 2021—buoyed in part by the infusion of federal income supports. In addition, emergency rent assistance and moratoriums on foreclosures and evictions helped to limit the number of households that would otherwise have dissolved during the pandemic.

HISTORIC SLOWDOWN IN POPULATION GROWTH

The recent strength of household growth is all the more remarkable given the slowdown in population growth. The number of people living in the United States increased just 0.1 percent in 2021, the slowest pace in records going back to 1900. The overall population grew by less than 400,000 people, a fraction of the 2.0 million annual average increase from 2011 to 2020. The slowdown reflects a drastic drop in international immigration as well as an ongoing decline in natural population change (difference between births and deaths) **(Figure 12)**.

International immigration receded to a trickle between 2016 and 2021, driven down first by federal policies discouraging immigration and then by pandemic conditions that limited entry into the country. According to the Census Bureau's Population Estimates Program, net immigration dropped from a recent peak of 1.07 million in 2016 to 570,000 in 2019, and then by more than half to just 245,000 in 2021.

Given the typical lag between the time when new immigrants arrive in this country and when they form new households, the severe drop in immigration has not yet become a noticeable drag on overall household growth. However, it has already had a significant impact on states that rely on immigrants to buoy population growth. The state experiencing the largest decline was California, where net international immigration plunged from a recent peak of 154,000 in 2015 to 14,000 in 2021. New York also posted a sharp decrease from 84,000 to 18,000 over this period.

At the county level, net international immigration to the core counties of large metros (with at least 1 million residents) plummeted from 536,000 in 2016 to 119,000 in 2021. At the same time, annual gains in the suburban counties of these metros fell from 255,000 to 64,000. Even counties in small- and medium-sized metros saw notable declines in net international immigration (from 221,000 in 2016 to 49,000 in 2021), as did non-metropolitan counties (from 48,000 to 13,000).

Meanwhile, natural population change contributed even less than immigration to population growth in 2021. The number of births had been declining well before the pandemic, notching down from 4.0 million in 2011 to 3.8 million in 2019. At the same time, the annual number of deaths climbed from 2.5 million to 2.8 million, due in part to the aging of the population. After the onset of the pandemic, births fell again to 3.6 million in 2021, while deaths shot up to 3.4 million. As a result, births exceeded deaths by only 148,000 last year—a small fraction of the 900,000 difference as recently as 2019 and the 1.5 million difference in 2011.

GROWING DIVERSITY OF DEMAND

The increasing racial and ethnic diversity of households, as well as the aging of the overall population, are reshaping housing demand. According to the new Decennial Census, the US population grew by almost 23 million from 2010 to 2020. People of color accounted for all of the net increase, with the Hispanic population growing by nearly 23 percent, the Asian population by 36 percent, and the Black population by 6 percent. The largest proportional increase was in the number of people identifying as multiracial, which jumped some 127 percent to almost 8 million. Meanwhile, the white population declined by nearly 3 percent over the decade.

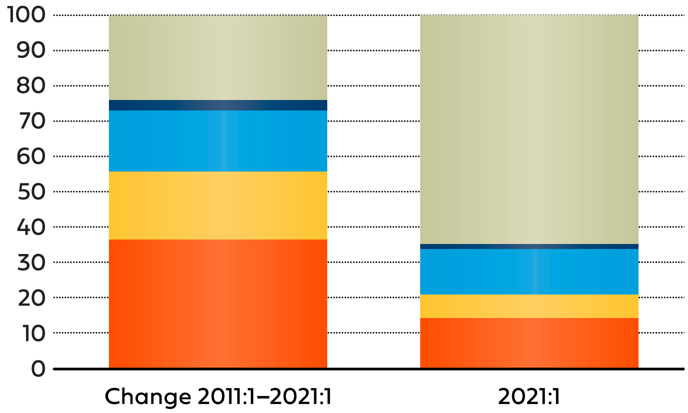
People of color also drove most of household growth. The latest Housing Vacancy Survey indicates that people of color formed 11.0 million of the 14.5 million households added from Q1 2011 to Q1 2022. The largest absolute increase was among Hispanic householders, up 40 percent to 18.6 million. The number of Black householders also rose by 18 percent to a total of 16.5 million, while the number of multiracial householders grew by 36 percent to 1.7 million. However, the largest proportional gain was among householders identifying as Asian or another race, whose numbers were up 53 percent to 8.1 million. Although increasing just 4 percent, white householders still accounted for 3.4 million new households over the decade—about a quarter of the total **(Figure 13)**.

The increasing diversity of households has several implications for future housing demand. First, there is evidence that people of color are more likely to live in households that include at least three generations. In 2019, 7.6 percent of Hispanic householders lived in multigenerational settings, along with 6.9 percent of Asian householders and 5.3 percent of Black householders. By comparison, the share among white householders was just 2.5 percent. As multigenerational households become more common, demand will increase for larger homes with floorplans and features that can accommodate the needs and preferences of both older and younger occupants.

FIGURE 13

People of Color Have Driven Most of Household Growth for a Decade and Now Account for a Third of Households

Share of Households (Percent)



Notes: Black, multiracial, white, and Asian or another race householders are non-Hispanic. Hispanic householders may be of any race(s).

Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

Second, the mix of households living in owner-occupied and rental housing may shift. Systemic racial discrimination has prevented many people of color from buying homes, widening the homeownership gap with white households. Black householders had the highest rentership rate in 2022 at 55 percent, followed by Hispanic householders at 51 percent. Meanwhile, the rate for white householders was just 26 percent.

And third, the meteoric rise in the number of older adults also adds to the diversity of housing demand. The peak of the baby-boom generation was age 59 in 2021, while the oldest members of this large cohort were age 75. As this large generation replaced the smaller one that preceded it in the 65-and-over age group, the number of older households grew by 10.0 million in 2011–2021 and is projected to continue to grow by an average of 1.1 million each year until 2028.

The likelihood of at least one household member having a disability increases sharply with age, doubling from 27 percent of households headed by someone aged 65–79 to 55 percent of households headed by someone in their 80s or older. Given that much of the existing housing stock lacks accessibility features, a growing number of older households will therefore require home modifications that enable them to safely navigate and use their homes as they age.

In addition, many of these older adults will ultimately live alone. Acccording to American Community Survey data, 28 percent of householders aged 50–64 were in single-person households in 2019, compared to 38 percent of those aged 65–79, and 56 percent of those age 80 and over. Particularly at older ages, many of these single adults will need both accessible housing and supportive services to maintain their health as well as social connections.

The need for affordable housing is also set to escalate. In 2019, fully 10.2 million households headed by someone age 65 and over paid a disproportionate share of their incomes for housing. Even if the cost-burdened share of this age group remains around a third in the decade ahead, the number of households requiring affordable housing will rise sharply with the aging of the large baby-boom generation.

PERSISTENT INCOME AND WEALTH INEQUALITY

New Current Population Survey estimates indicate that the median income of households in the top quartile ($202,000) in 2020 was eight times higher than that for households in the bottom quartile ($25,000). Inequalities by race and ethnicity were also evident. Asian households had the highest median income of $90,000, followed by white households at $74,000. Median incomes were significantly lower for other households of color, including Hispanic households ($54,000) and Black households ($44,000).

Households of color are also more likely to have experienced recent income losses. According to Household Pulse Survey data for early 2022, 25 percent of Hispanic households reported lost employment income within the previous four weeks, along with 20 percent of Black households, 20 percent of households identifying as another race or multiracial, and 12 percent of Asian households. The share for white households was only 11 percent.

These racial/ethnic disparities exist across income groups but are most pronounced among lower-income households. Fully 38 percent of Hispanic households earning less than $25,000 reported lost income in early 2022. Although lower, the shares for other households with similarly low incomes also ranged widely from 28 percent of those identifying as multiracial or another race and 27 percent of Black households, down to 22 percent of Asian households and 18 percent of white households.

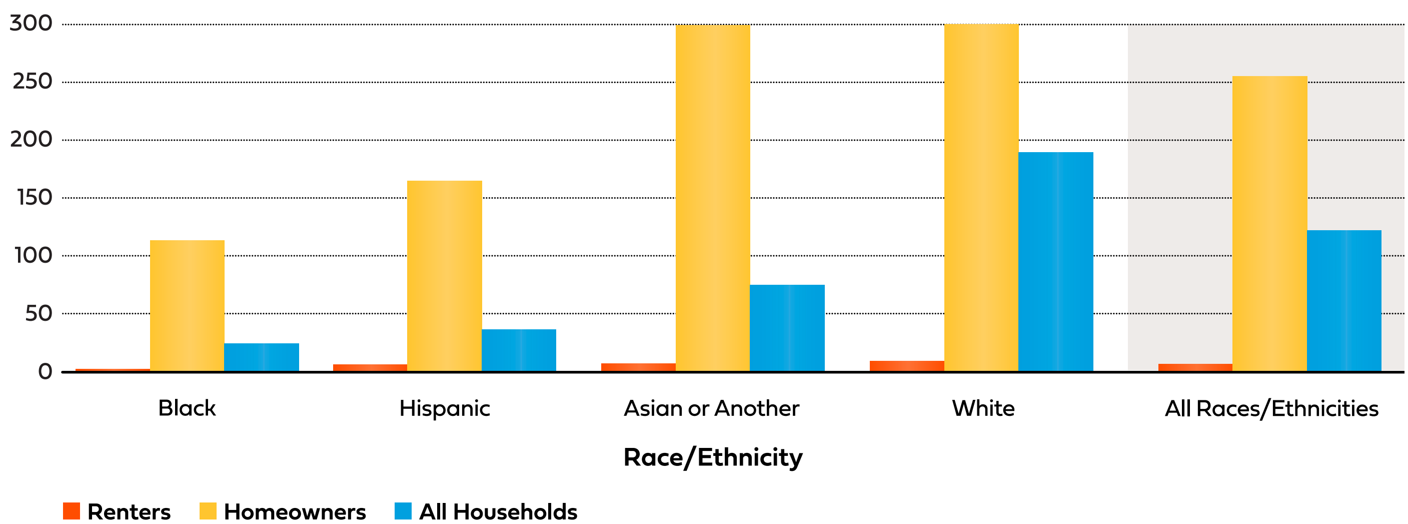
Income equalities are in part the legacy of longstanding discrimination in labor, financial, and housing markets that perpetuate large disparities in wealth. At last measure in 2019, the median net wealth for all US households was $122,000. But the median for white households was some $190,000—eight times that for Black households ($24,000), more than five times that for Hispanic households ($36,000), and about two-and-a-half times that for all other households, including Asian and multiracial households as well as those of another race ($75,000).

These stark contrasts reflect differences in the ability to build wealth through homeownership. In 2019, the median net wealth of homeowners ($255,000) was 40 times that of renters ($6,300). However, large racial/ethnic disparities also exist among households that own their homes **(Figure 14)**. The median net wealth of white homeowners ($300,000) was nearly $190,000 higher than that of Black homeowners and almost

FIGURE 14

Even If They Own Homes, Black and Hispanic Households Have Significantly Less Wealth than White Homeowners

Median Net Wealth in 2019 (Thousands)



Notes: Notes: Black, white, and Asian or another race(s) householders are non-Hispanic. Hispanic householders may be of any race(s).

Source: JCHS tabulations of Federal Reserve Board, 2019 Survey of Consumer Finances.

$140,000 higher than that of Hispanic homeowners. In contrast, the wealth gap with homeowners identifying as Asian, multiracial, or of another race was just $1,000, which may indicate that many of these households live in high-cost markets where home prices have appreciated sharply.

CONTINUING TRENDS IN HOUSEHOLD MOBILITY

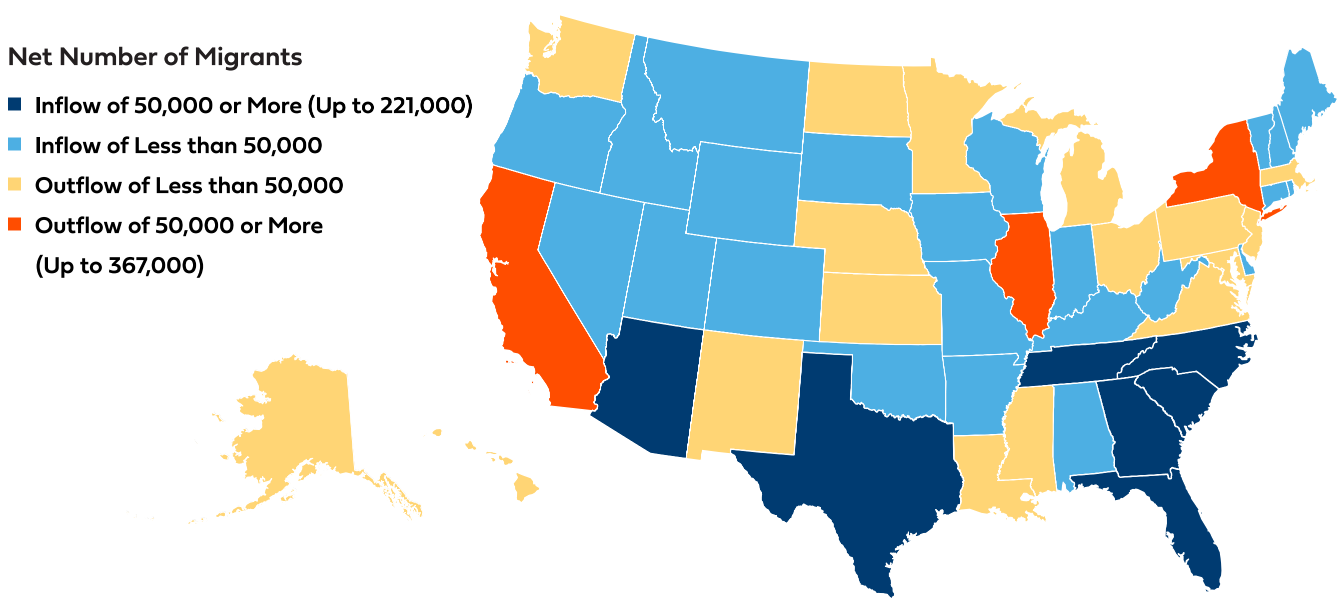
The decades-long slowdown in residential mobility continued in 2021. According to Current Population Survey data, only 8.5 percent of US households moved last year, down from 10.7 percent annually on average in 2011–2020. The decline occurred across all age groups, with the sharpest drops among the age groups most likely to relocate—householders aged 18–24 (from 41.2 percent to 37.0 percent) and aged 25–34 (from 22.7 percent to 19.3 percent). The mobility rate for renter households also fell significantly, from 22.7 percent annually on average in 2011–2020 to 16.8 percent in 2021.

A recent *Housing Studies* article pointed to housing shortages and worsening affordability since the Great Recession as a reason for the sharp decrease in mobility rates over the past decade. Current housing market conditions therefore suggest that residential mobility rates will slow even further. Sharply higher interest rates will likely reduce relocations among the many households that recently bought homes or refinanced, while record-low vacancy rates and rapidly rising rents will likely keep many renters in place.

Recent estimates from the Census Bureau's Population Estimates Program provide insight into where people moved in the first year of the pandemic. States with the largest population gains from domestic migration between July 2020 and July 2021 were concentrated in the Sunbelt, including Florida (221,000), Texas (170,000), Arizona (93,000), and North Carolina (89,000) **(Figure 15)**. Locations with the highest out-migration were high-cost states with large urban areas, such as

FIGURE 15

Domestic Migration Gave a Big Lift to Population Growth in Many Sunbelt States in 2021



Source: JCHS tabulations of US Census Bureau, 2021 Population Estimates Program.

California (367,000), New York (352,000), Illinois (122,000), and Massachusetts (46,000)

In addition, the migration from large urban counties continued in 2021. In total, the core counties of large metro areas lost 1.2 million people to domestic migration last year. In contrast, suburban counties of these large metros gained 428,000 people on net from domestic moves, while counties in small- and medium-sized metros added a net total of 539,000 migrants.

Reversing the long-term trend away from rural areas, non-metropolitan counties gained 235,000 people from net domestic migration last year. Given the small populations of these areas, this represents a substantial increase. This shift may, however, be temporary as households able to work remotely during the worst of the pandemic return to their offices. Indeed, Bureau of Labor Statistics data show that the share of full-time workers working remotely shrunk from a high of 38.0 percent in May 2020 to 8.7 percent in April 2022.

THE OUTLOOK

Household growth should remain robust in the short term. The sheer size of the millennial generation will continue to fuel increases as this large cohort moves through the age range of 24–34 when household formation rates are highest. Many other adults who fared well financially during the pandemic are also in a position to form independent households.

However, millions of households are still grappling with the financial impacts of the pandemic, as well as the sharply higher costs of housing and other necessities. In addition, the spectacular rise in house prices and interest rates has prevented many renters from making the move to homeownership and disproportionately benefited white households. Meanwhile, sharply higher rents have put lower-income households at even more of an economic disadvantage. These wide differences in financial circumstances mean that the large income and wealth disparities between homeowners and renters and across racial/ethnic groups are likely to widen.

In the longer term, housing demand is set to decline dramatically with the slowdown in population growth and the changing age structure of the population. Over the next decade, millennials will move out of the prime household formation years and be replaced by the smaller Gen Z generation in this age group. At the same time, the oldest baby boomers will be reaching their 80s, the age when mortality rates start to climb sharply. These trends will weaken the pace of household formations and ultimately curb the growth of housing demand.

4 HOMEOWNERSHIP

The national homeownership rate edged up last year as millennials rushed into the market. However, multiple interest rate hikes, on top of unprecedented price growth, have now made homes much less affordable in much of the country, especially for first-time buyers. For many current owners, though, soaring prices have brought spectacular gains in home equity, in turn exacerbating large wealth inequalities with renters and people of color. Meanwhile, robust federal efforts to support homeowners through the pandemic, as well as the improving economy, have brought mortgage delinquencies to record lows, although many struggling homeowners may need further assistance to avoid foreclosure.

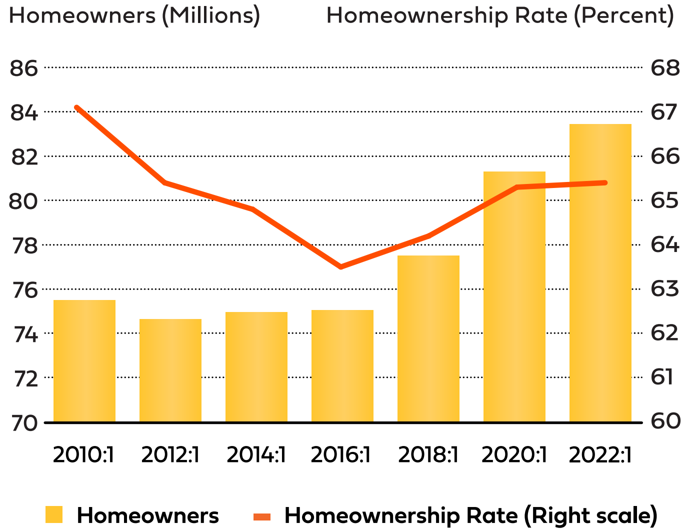
HOMEOWNERSHIP GAINS DESPITE HEADWINDS

Despite the economic downturn brought on by the pandemic and the surge in home prices, some 2.2 million new homeowners were added on net between the first quarter of 2020 and the first quarter of 2022, lifting the total number of homeowner households to 83.4 million **(Figure 16)**. Under the circumstances, this is substantial growth even if considerably short of the 3.8 million increase between early 2018 and early 2020. The US homeownership rate did manage to inch up 0.1 percentage point between the start of the pandemic and early 2022, ending at 65.4 percent.

Rising homeownership rates among the large millennial generation (born 1985–2004) have helped to keep the national rate on the rise. Indeed, households under 35 years old posted the largest increase in homeownership rates of any age group between early 2020 and early 2022, up 1.5 percentage points to 38.8 percent. Rates for households aged 35–44 also rose by a more modest 0.8 percentage point, to 62.3 percent. In contrast, the homeownership rate among households in the 45–54 year-old age group dipped 0.9 percentage point (to 69.4 percent) while that for households aged 55–64 slid 1.3 percentage points (to 75.0 percent). Meanwhile, homeownership rates among households aged 65 and over held relatively steady, slipping just 0.1 percentage point over the past two years (to 78.6 percent).

FIGURE 16

The Number of Homeowners Continued to Climb in Early 2022



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

IMPROVED FINANCES FUELING DEMAND

Strong income growth before and through much of the pandemic has helped to put many more millennials in a financial position to buy first homes. American Community Survey data for 2017–2019 indicate that the median income for renters aged 25–34 increased 4.7 percent in real terms, to $50,000. Real growth in incomes for renters aged 35–44 was even stronger at 5.0 percent, lifting the median income for this age group to $50,400. Although comparable data are not available for the first two years of the pandemic, the Bureau of Economic Analysis reports that real disposable income per capita climbed 8 percent from $49,700 in 2019 to $53,700 to 2021.

The lockdown during the pandemic also helped households increase their savings. Indeed, the personal saving rate more than doubled from 7.6 percent in 2019 to 16.3 percent in 2020, before receding to a still strong 12.1 percent in 2021. In addition, the moratorium on federal student loan repayments benefited younger adults that had been paying significant amounts each month on their debt. The Federal Reserve Bank of New York has estimated that this moratorium saved nearly 37 million borrowers an average of $5,300 in payments, or over $200 per month, from March 2020 through April 2022.

With more younger households financially ready to purchase homes, the share of first-time buyers increased last year. According to NAR's 2021 Profile of Home Buyers and Sellers report, first-time buyers accounted for 34 percent of all purchases between July 2020 and July 2021, up from 31 percent in the preceding year and the highest share since 2017. However, trends in more recent mortgage lending data are mixed. The first-time buyer share of FHA-backed mortgages peaked at 85.5 percent in May 2021 and declined steadily to 83.2 percent in March 2022, while the share with loans backed by Fannie Mae and Freddie Mac remained near long-term highs, at 51.4 percent. In either case,

FIGURE 17

Recent Interest Rate Hikes Have Further Eroded Affordability

	April 2021	April 2022	Change 2021–2022
Interest Rate (Percent)	3.06	4.98	1.92
Median Home Price (Dollars)	340,700	391,200	50,500
Downpayment & Closing Costs	22,100	25,400	3,300
Monthly Mortgage Payment	1,400	2,020	630
Total Monthly Owner Costs	2,060	2,780	720
Annual Income Needed	79,600	107,600	28,000

Notes: Estimates assume a 3.5% downpayment on a 30-year fixed-rate loan with zero points, 0.85% mortgage insurance, 0.35% property taxes, 1.15% property taxes, 3% closing costs, and a maximum 31% debt-to-income ratio.

Source: JCHS tabulations of Freddie Mac, Primary Mortgage Market Surveys; NAR, Existing Home Sales.

mounting affordability challenges will make it difficult to sustain such high shares of first-time homebuyers.

GROWING PRESSURE ON AFFORDABILITY

The average rate on a 30-year mortgage hit a record low of 2.68 percent in December 2020 and remained under 3.00 percent through most of 2021. Even though home prices continued to climb, these rock-bottom rates helped many first-time buyers qualify for mortgages while also providing current owners a chance to reduce their monthly mortgage payments through refinancing.

But the recent dramatic round of interest rate hikes has made homebuying much less affordable. The average 30-year mortgage interest rate jumped by more than 2.0 percentage points between the first week of January and the first week of May 2022, to 5.27 percent—the highest level in 10 years. The impact of sharply higher interest rates on affordability has been compounded by the outsized growth in home prices over the past year. As a result, the total monthly payments (mortgage payments plus estimated property tax and insurance costs) on the median-priced home shot up by 35 percent, from $2,100 in April 2021 to $2,800 in April 2022, the latest month for which house price data are available **(Figure 17)**.

In turn, the substantial increase in monthly payments pushed up the amount of income necessary to qualify for a mortgage. In April 2021, a household had to earn at least $79,600 a year to afford payments on the median-priced home of $340,700. One year later, the income requirement stood at $107,600. According to the latest American Community Survey data, this cost increase meant that roughly 4 million renter households earning between $79,600 and $107,600 that could have bought a median-priced home last year could no longer afford that home in April 2022.

The substantial increase in total monthly homeowner costs is evident in markets across the country. Over the past year, total monthly payments were up by at least $500 in 70 of the 100 largest metro areas tracked by Zillow, with especially steep increases in high-cost markets such as San Francisco ($3,000), San Diego ($2,200), and Los Angeles ($2,000). Indeed, payments in 30 metros jumped by more than $1,000 per month between April 2021 and April 2022.

But in percentage terms, some of the largest increases in homeowner costs have been in less expensive markets. In Fort Myers, for example, monthly payments on the median-priced home surged by more than 77 percent over the year, to $2,996. This raised the annual income needed to qualify for a mortgage from $65,400 to $116,000. As it is now, prospective buyers in 43 of the top 100 metros must make more than $100,000 a year to afford payments on a median-priced home. Indeed, in high-cost San Francisco and San Jose, the minimum income exceeds $400,000.

Interest rate increases aside, rising home prices have pushed downpayment requirements up drastically, posing yet another high hurdle for first-time and middle-income buyers. Assuming a typical downpayment for first-time buyers of 7.0 percent, the amount that a household would have to put down on a median-priced home was $27,400 in April 2022. Even for mortgages requiring just 3.5 percent down, the amount necessary to qualify at current prices would still be $13,700.

These amounts far exceed the typical renter's savings. At last measure in 2019, the Survey of Consumer Finances estimated that the median savings of renter households was just $1,500. Indeed, renters in the top income quintile had only $26,100 in savings, or just under the 7.0 percent of the median sales price that first-time buyers typically put down. Even if home price growth slows, the gap between renter household savings and downpayment costs at current prices will remain a significant obstacle for first-time buyers, leaving many potential homeowners on the sidelines.

STUBBORNLY LARGE RACIAL/ETHNIC DISPARITIES

Despite recent modest gains, homeownership gaps by race and ethnicity remain wide. According to the

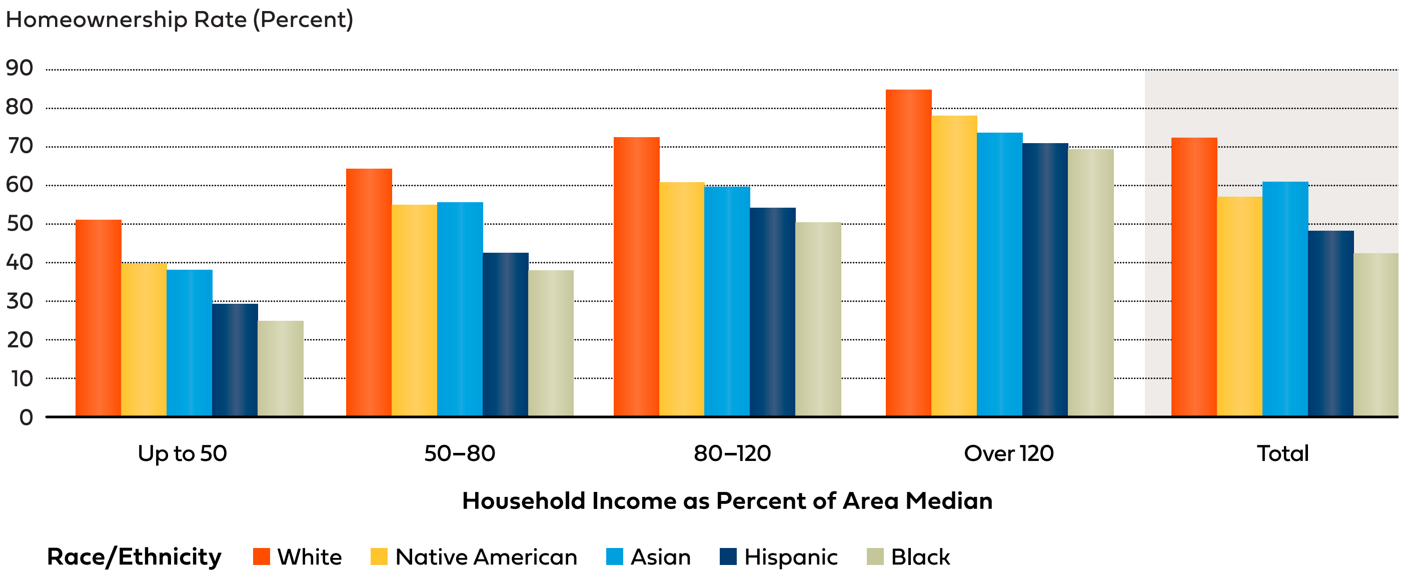
Housing Vacancy Survey, the share of Black households owning homes was at 45.3 percent in early 2022, up 0.6 percentage point from early 2020—twice the 0.3 percentage increase for white households. But with fully 74.0 percent of white households owning homes, the Black-white gap still stood at 28.7 percentage points. Meanwhile, the homeownership rate among Hispanic households increased by just 0.2 percentage point, to 49.1 percent, slightly widening the gap with white households to 24.9 percentage points.

The particularly large disparity between Black and white homeownership rates reflects the nation's long history of racial discrimination in housing markets, including covenants barring Black households from purchasing homes in many communities and mortgage lending practices limiting their access to financing. But today's homeownership gaps also reflect discriminatory treatment in the broader economy that has constrained their earning power. Indeed, 39 percent of Black households earned less than half of area median income in 2019, nearly twice the 20 percent share of white households. Hispanic households, which include many recent immigrants, also face significant challenges gaining equal footing in the labor market, with 32 percent earning less than half of area median income.

But even accounting for the fact that households of color generally have lower incomes than white households, racial/ethnic homeownership gaps are still evident within the moderate- and higher-income groups **(Figure 18)**. The Black-white disparity is some 22 percentage points among households earning 80–120 of area median income and 15 percentage points among those earning more than 120 percent of the area median income. The Hispanic-white homeownership gaps for these two income groups are nearly as large at 18 percentage points and 14 percentage points. The disparities for Asian and Native American households at these income levels are only slightly smaller than for Hispanics.

FIGURE 18

Regardless of Income, Households of Color Have Lower Homeownership Rates than White Households



Notes: White, Native American, Asian, and Black householders are non-Hispanic. Hispanic householders may be of any race(s).

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

To remedy these inequalities, policymakers should be mindful of how much assistance is necessary to make homeownership affordable for each income group and which households are most likely to benefit from this aid. Although households earning 50–80 percent of the area median income would seem to be a prime focus for downpayment programs, even fairly generous levels of assistance—such as the $25,000 included in the Build Back Better budget proposal—would not be enough to make even modest homes in most markets affordable for these households. At the same time, capping eligibility for assistance at 120 percent or more of area median income may be short-sighted. The homeownership gaps among these higher-income households are also sizable, and downpayment assistance is precisely what many renters and people of color with these incomes need to overcome limited savings and a lack of financial help from family. While broadening income eligibility runs the risk of aiding some households unnecessarily, targeting the funding to first-generation homebuyers would help to address these concerns.

UNEQUAL BENEFITS FROM RISING PRICES

Surging home prices have given a big lift to the balance sheets of current owners. The latest Federal Reserve Flow of Funds data show that real aggregate owners' equity in real estate rose for 39 consecutive quarters, increasing from $10.1 trillion in early 2012 to a new peak of $26.3 trillion at the end of 2021. Meanwhile, real aggregate home mortgage debt remained essentially flat, dipping from $11.9 trillion in 2012 to a low of $11.0 trillion in 2014 before rising to $11.7 trillion at the end of last year.

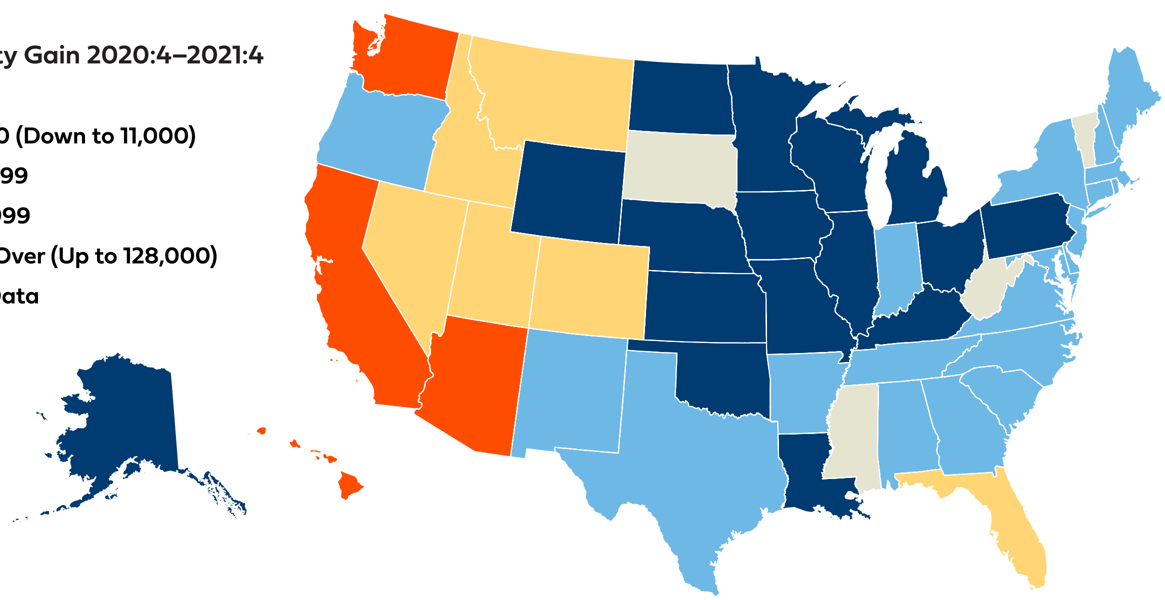
For individual owners, the average annual gains in home equity doubled from $26,300 in 2020 to $55,300 in 2021. But this national number masks large differences across the country, with some of the biggest increases in states where rapid appreciation occurred on top of already high prices. Indeed, homeowners in Western states saw the largest dollar increase, ranging as high as $128,000 in Hawaii, $117,000 in California, and $95,500 in Washington **(Figure 19)**. At the other extreme, Alaska

FIGURE 19

Homeowners in Much of the Country Benefited from Huge Equity Gains in Just One Year

Average Equity Gain 2020:4–2021:4 (Dollars)

- Under 30,000 (Down to 11,000)
- 30,000–59,999
- 60,000–89,999
- 90,000 and Over (Up to 128,000)
- Insufficient Data



Source: CoreLogic Homeowner Equity Insights.

was the Western state with the smallest average equity gain of just $19,000.

Home equity growth in the South was also relatively strong, with Florida leading the region with an increase of $76,000. The Southern state with the smallest gains was Kentucky, with typical gains of $21,000. In the Northeast, homeowners in Massachusetts had the highest average equity growth of $54,000, while those in Pennsylvania had the lowest, at $26,000. The increases were smallest but still substantial in the Midwest, with a high of $33,000 in Indiana and a low of $17,000 in North Dakota.

These enormous increases have added to the already large wealth disparities between homeowners and renters. And given substantial homeownership gaps, they also increase the racial/ethnic differences in wealth. Even among homeowners, research suggests that white households benefited more from rising home values than households of color, particularly Black homeowners. Indeed, a recent Brookings Institution report found that, even accounting for differences in housing and neighborhood quality, homes in predominantly Black communities were valued $48,000 less on average than homes in largely white communities.

Whatever their origins, the racial/ethnic disparities in home equity are massive. At last measure in 2019, the median white homeowner had housing wealth of $299,900—nearly three times that of Black homeowners ($113,000), and almost twice that of Hispanic homeowners ($164,800). Given these large existing differences, the spectacular growth in home equity over the past two years likely worsened inequalities in wealth.

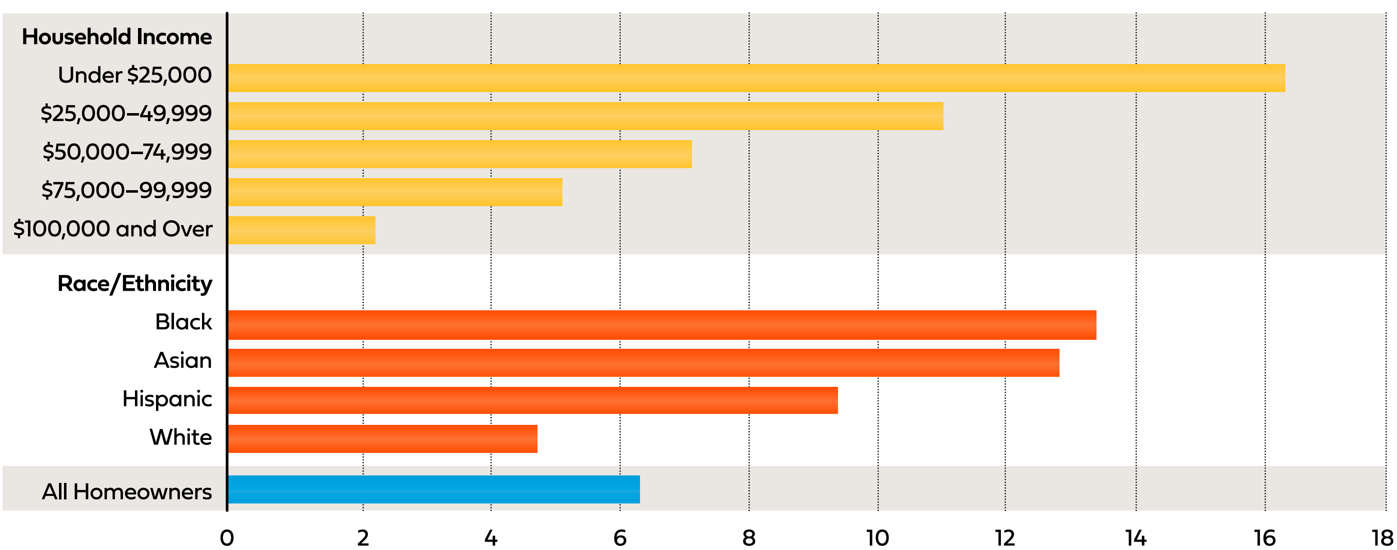
CHALLENGES DESPITE LOW DELINQUENCIES

Reflecting the continued improvement in the economy, mortgage delinquencies nationwide were at a record low in early 2022. Black Knight reports that the mort-

FIGURE 20

Lower-Income Homeowners and Homeowners of Color Were More Likely to Be Behind on Their Mortgage Payments in Early 2022

Share of Homeowners Behind on Mortgage Payments (Percent)



Notes: Households behind on their mortgages reported that they were not caught up at the time of the survey. Black, Asian, and white householders are non-Hispanic. Hispanic householders may be of any race(s).

Source: JCHS tabulations of CoStar data; CoreLogic Single-Family Rent Index.

gage delinquency rate (loans 30 or more days late) hit just 2.8 percent in April. The serious delinquency rate (loans 90 or more days late) was down to only 1.2 percent, compared with a peak of 4.4 percent in August 2020. After a jump in January 2022, the number of foreclosures trended downward through April and remained below pre-pandemic levels.

The low rates for delinquencies and foreclosures so far attest to the effectiveness of federal interventions that helped millions of homeowners weather the economic disruptions brought on by the pandemic. According to Black Knight, of all borrowers that were ever in forbearance between March 2020 and April 2022, 92 percent exited their plans. Among this group, 53 percent were current on their mortgage payments, 29 percent had paid off their loans by refinancing or selling, and only 10 percent remained in delinquency or were in active foreclosure.

However, with the expiration of the CARES Act moratorium and other safeguards in late 2021, hundreds of thousands of financially stressed homeowners could be at risk of losing their homes. As of April 2022, there were 689,000 loans still actively in forbearance, indicating that these homeowners were still struggling to be current on their loans. Another 279,000 homeowners were delinquent on their payments and had exhausted their forbearance and loss mitigation options, while some 78,000 homeowners were in foreclosure proceedings.

The latest Household Pulse Survey provides additional evidence of ongoing financial distress among homeowners. While the overall share of homeowners behind on their mortgage payments fell from 9 percent in early 2021 to 6 percent in early 2022, the shares for households of color and lower-income households were still disproportionately high **(Figure 20)**. Just over 13 percent of Black homeowners reported being behind on mortgage payments at the start of the year, along with nearly 13 percent of Asian homeowners and 9 percent of Hispanic homeowners. The share of white homeowners was considerably lower at 5 percent.

The Homeowner Assistance Fund (HAF) may provide some relief for homeowners still experiencing financial hardship. Created by the American Rescue Plan Act, this program has nearly $10 billion in funding to help income-eligible homeowners cover their mortgage payments, utility bills, or insurance costs. Recipients may also use the funds to pay down principal or lower the interest rate on their mortgages to ensure long-term affordability. State, territory, and tribal agencies are responsible for establishing programs to administer this aid. According to the National Council of State Housing Agencies, most states had their HAF programs up and running by May 2022, although six (including the District of Columbia) were still in the pilot stage and three only had preliminary information on programs available.

THE OUTLOOK

The homeowner market has showed remarkable strength since the onset of the pandemic, driven in large measure by growing demand among millennial households. But higher interest rates, coupled with rapidly rising prices, are putting the brakes on demand. The Fannie Mae National Housing Survey in April points to growing pessimism about the market, with only 19 percent of households reporting that they thought it was a good time to buy, down from 47 percent just a year ago.

Given persistently large disparities in homeownership rates, the challenges that households of color face in buying homes are of particular concern. Many of these households simply do not have the incomes and savings to afford homes in most markets. One proposed approach is to target downpayment assistance to first-generation homebuyers—households whose families have been excluded from previous efforts to promote homeownership. The CFPB and HUD have also taken steps to support programs providing credit on favorable terms to borrowers of a protected class that has suffered economic disadvantages. Coupling these type of financial assistance with homebuyer education and counseling, plus funding to increase the supply of homes in communities of color, would go a long way to providing more equitable access to homeownership.

5 RENTAL HOUSING

Rental markets across the nation bounced back quickly from the pandemic-induced downturn, with rents rising at a record pace and vacancy rates hitting new lows. Although at a decades-long high, multifamily construction has not kept up with the growth in rental demand even at the upper end of the market. These tight conditions have boosted returns from multifamily properties and in turn sparked a surge in new investment. At the same time, however, job and income losses over the past two years have left many lower-income households and households of color unable to cover their rents and potentially at risk of eviction.

RECORD SURGE IN RENTS

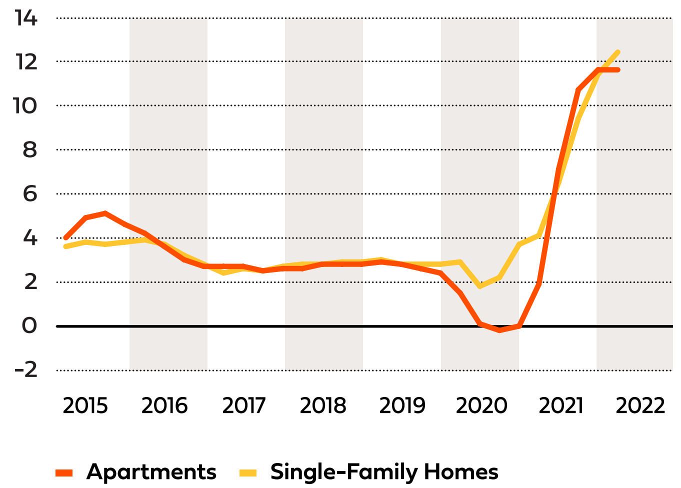
Strong demand and low vacancy rates pushed apartment rents up rapidly over the past year **(Figure 21)**. After a brief dip in 2020, rent growth in the professionally managed segment hit a record 11.6 percent at the end of 2021 and remained at that pace in the first quarter of 2022. This was the largest year-over-year increase in two decades and more than three times the 3.2 percent average annual rise in the five years preceding the pandemic.

According to CoStar data, asking rents for higher-quality (4- and 5-star) apartments fell the most early in the pandemic but also rebounded the fastest, increasing at a record 14.0 percent year-over-year rate in the fourth quarter of 2021 and then at a 13.5 percent rate in the first quarter of 2022. The recent pace of growth is more than five times the 2.5 percent annual average in 2015–2019. Rents for moderate-quality (3-star) units were also up by a substantial 12.1 percent in early 2022 from a year earlier, or more than three times their pre-pandemic average of 3.8 percent. Meanwhile, rents for lower-quality (1- and 2-star) units rose 5.9 percent year over year in the first quarter of 2022, well above the 3.5 percent growth rate averaged in 2015–2019.

FIGURE 21

Rents for Both Apartments and Single-Family Homes Have Surged

Year-over-Year Change in Rents (Percent)

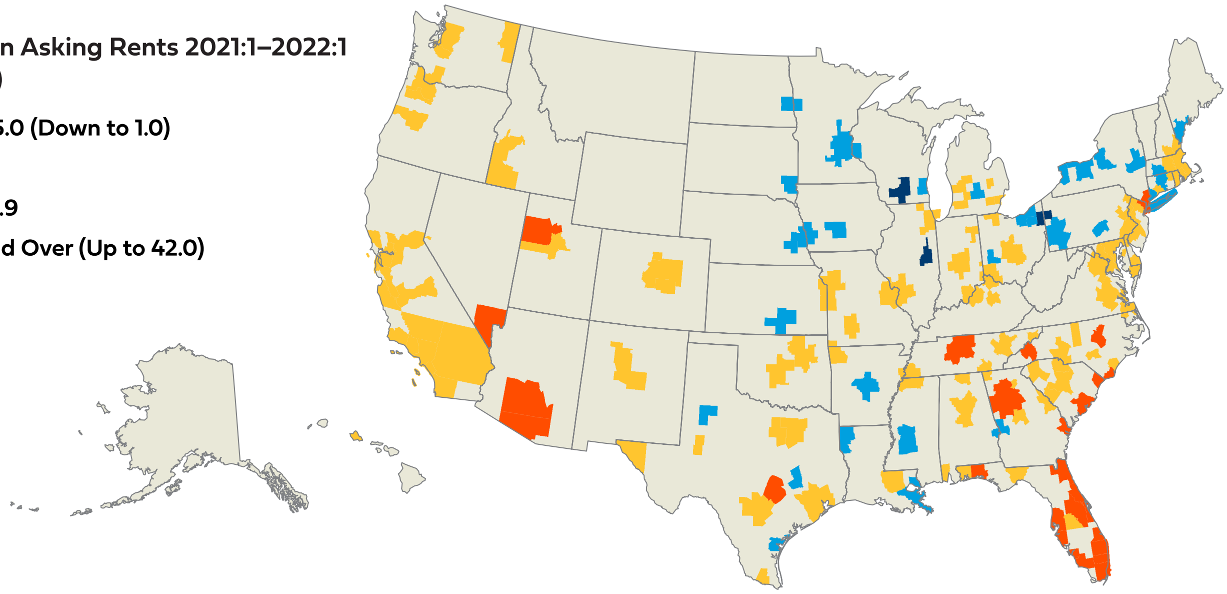


Notes: Single-family rent increases in 2022:1 are for January and February alone. CoStar same-store rents are for professionally managed market-rate apartments in buildings with five or more units.

Source: JCHS tabulations of CoStar data; CoreLogic Single-Family Rent Index.

FIGURE 22

Rents in Most Major Markets Were Up by Double Digits in Early 2022



Note: Asking rents are for professionally managed apartments in buildings with five or more units in the 150 markets that RealPage tracks.
Source: JCHS tabulations of RealPage data.

Rents for single-family homes also surged. CoreLogic reports that single-family rents shot up 12.4 percent year over year in the first quarter of 2022, the fastest pace in records going back to 2004. The increase in February alone of 13.1 percent was also an all-time high. By comparison, year-over-year rent growth for single-family homes averaged just 3.1 percent in 2015–2019. The rapid climb in single-family rents since 2020 in part reflects the jump in demand for more living space after the pandemic forced the closure of offices and schools.

Even the Consumer Price Index for rent of primary residence, which covers the entire rental stock and is slow to register changing conditions, was up 4.8 percent in the year ending April 2022. This increase was more than double the 1.8 percent rise in April 2021 (the smallest uptick since the pandemic began) and the largest change since March 1987. The latest reading also surpassed the 3.7 percent average annual increase in rents in 2015–2019.

RENTS ON THE RISE NATIONWIDE

Rents in all 150 markets tracked by RealPage were up in the first quarter of 2022, with 116 markets posting year-over-year increases of at least 10 percent **(Figure 22)**. Indeed, rent growth in 25 markets climbed by more than 20 percent. By comparison, just 2 metros had rent growth of at least 10 percent in the first quarter of 2021, and in both cases, the increase did not exceed 20 percent. At the other extreme, the number of metros where rent growth was under 3 percent fell from 78 in early 2021 to just 2 markets in early 2022, while the number posting rent declines dropped from 25 to zero.

The largest rent increases were concentrated in the West and South. Eight of the top ten metros for rent growth are located in Florida alone, led by Naples (42 percent), Sarasota (37 percent), and Cape Coral (32 percent). Other large metros in the top 20 for rent growth include Phoenix (26 percent), Austin (24 percent), Las Vegas (24 percent), Raleigh (22 percent), and Tucson (22 percent).

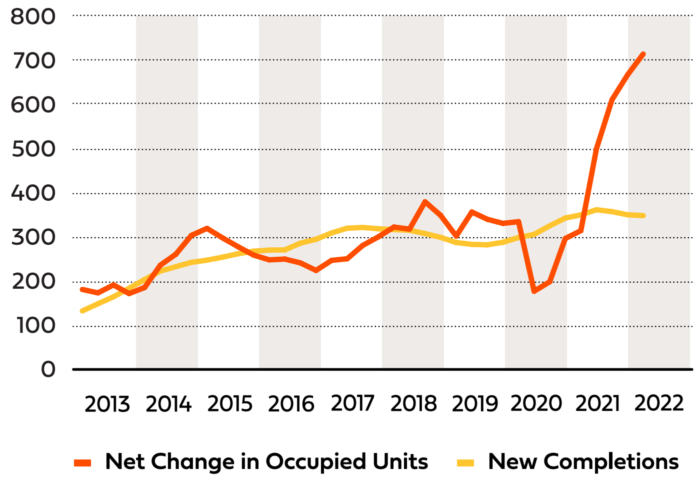
Of the 34 metros where year-over-year rent growth was under 10 percent, most were in the Midwest (15 markets) and Northeast (11 markets). Just 8 were in the South, and none were in the West. Rent growth was lowest but still positive in Midwestern markets that include Champaign-Urbana (1 percent), Youngstown (2 percent), and Fargo, Madison, and Minneapolis (all at 5 percent). In general, lower-cost housing markets posted relatively modest increases in rents.

Meanwhile, rent growth in expensive coastal markets recovered quickly from the 2020 plunge and accelerated rapidly over the course of 2021. For example, rents in the New York City market started 2021 down 15 percent from a year earlier, but then rose 20 percent year over year in the first quarter of 2022. Similarly, rents in Boston, Los Angeles, San Francisco, and Washington DC, declined by at least 5 percent in early 2021 but were increasing by double digits year over year in early 2022.

FIGURE 23

Growth in Apartment Demand Far Outpaced Additions to Supply Over the Past Year

Units in Professionally Managed Properties (Thousands)



Note: Data are 4-quarter rolling averages for professionally managed apartment properties with five or more units.

Source: JCHS tabulations of RealPage data.

REBOUND IN RENTAL DEMAND

Despite the pandemic and recession, renter household growth continued to climb between early 2020 and early 2022. According to the Housing Vacancy Survey, the number of households that rented their housing grew by 1.1 million over this two-year period, to 44.2 million. This implies an average annual increase of about 529,000 households, significantly exceeding the year-over-year addition of 474,000 households in the first quarter of 2019.

Demand for rental units in the professionally managed segment bounced back sharply in the past year. RealPage reports that net new leases for professionally managed apartment properties were up by 713,000 units in the first quarter of 2022 compared with a year earlier, the largest annual increase in net occupancy in records going back to 2000. This was more than double the average annual pace of 296,000 units in the five years leading up to the pandemic **(Figure 23)**.

A number of temporary factors helped to buoy rental demand in 2021. Federal cash supports, student loan payment deferrals, and the pickup in employment likely boosted the incomes of many young adults enough so that they could afford to form their own households. Other government interventions protected millions of renters behind on their rents from eviction. The high prices and tight supply of for-sale homes also played a role in driving up demand by keeping many would-be buyers in rental housing.

Although emergency income supports have ended, job and wage growth remain strong. Meanwhile, rising interest rates have made the costs of homeownership even less affordable. These conditions should keep the demand for rental housing on the rise in the near term.

VACANCY RATES AT NEW LOWS

The resurgence in rental demand left the national vacancy rate at a record low last year. Housing Vacancy Survey data indicate that the vacancy rate fell in each quarter of 2021, ending the year at 5.6 percent—the lowest quarterly reading since 1984. Although edging up to 5.8 percent in the first quarter of 2022, the vacancy rate remained a full percentage point below the average in 2019.

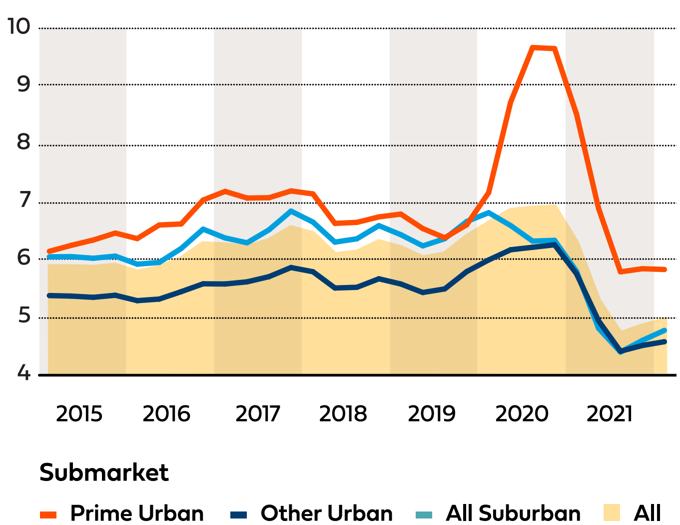
Conditions in the professionally managed stock are especially tight. According to CoStar data, the vacancy rate in this segment hit a record low of 4.8 percent in the third quarter of 2021 and held at just 5.0 percent in the first quarter of 2022. By comparison, the vacancy rate for professionally managed apartments averaged 6.1 percent annually in the five years preceding the pandemic.

These low rates in part reflect a dramatic turnaround in prime urban areas (the highest-cost and highest-density neighborhoods), where vacancy rates plunged from a record high of 9.7 percent in the third quarter of 2020 to just 5.9 percent in the first quarter of 2022 **(Figure 24)**. This latest reading is 0.9 percentage point lower than the pre-pandemic average. Even so, conditions in other urban and suburban areas are even tighter. The rental vacancy rate in other urban neighborhoods stood at just 4.6 percent in early 2022 (0.9 percentage point below the 2015–2019 annual average) while that in suburban markets was at 4.8 percent (a full 1.5 percentage points below the 2015–2019 average).

FIGURE 24

Vacancy Rates Have Fallen Back Near Historic Lows Even in Prime Urban Areas

Apartment Vacancy Rate (Percent)



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.

According to RealPage data for 150 markets, the number of metros with vacancy rates below 2 percent jumped from just 10 in the first quarter of 2021 to 56 in the first quarter of 2022. At the same time, the number of markets where vacancy rates were falling in early 2022 surged to an astounding 144, up from 101 in early 2021. However, these unusually tight conditions may begin to ease as the large supply of new apartments now under construction becomes available.

JUMP IN NEW RENTAL SUPPLY

With vacancy rates so low and demand so high, rental housing construction is booming. In 2021, starts of multifamily units reached 474,000—the highest level since the mid-1980s and 24 percent above the average annual increases in 2015–2019. Of those units, 88 percent were in larger buildings with 20 or more apartments. In addition, fully 94 percent of all multifamily units started last year (446,000 units) were intended for the rental market.

The rapid pace of multifamily production continued in early 2022, with starts totaling 124,000 units in the first quarter. This was the highest first-quarter reading in any year since 1986. Some 113,000 of the multifamily units started in early 2022 (91 percent) were intended as rentals, also among the highest shares recorded since the 1980s.

Starts of single-family rentals also reached a new high in 2021 of 60,000 units. Although just 5 percent of all single-family homes started, this number is well above the 50,000 starts of single-family rentals in 2020 and considerably higher than the 39,000 averaged annually in the five years preceding the pandemic.

Completions of multifamily units reached 371,000 last year—just short of the 375,000 units in 2020, which was the highest total since the late 1980s. Of these new units, 348,000 (94 percent) were built as rental housing. In addition, fully 311,000 (89 percent) of these new rental units were in buildings with 20 or more apartments. Meanwhile, completions of single-family homes for rent edged up from 51,000 in 2020 to a high of 52,000 units in 2021.

But even at this elevated pace, completions of new rental housing have not caught up with the record-breaking growth in absorptions. In the five years preceding the pandemic, supply and demand for professionally managed apartments were in much closer balance, with annual completions averaging 291,000 units and net new leases averaging 296,000 units. But as RealPage data show, despite completions running at a robust 349,000 unit annual rate in the first quarter of 2022, the number of occupied apartments was rising at more than twice that pace. It will take a significant increase in housing production for the rental supply to match such strong demand.

CONSTRUCTION TARGETED TO THE HIGH END

New rental construction has added supply almost exclusively at the upper end of the market. Although helping to meet strong demand from higher-income households, these new units have rents that are generally out of reach for low- and moderate-income households. According to preliminary data from the Survey of Market Absorption, the median asking rent for newly completed units in 2021 was $1,740, up 24 percent from the median in 2015. Meanwhile, the share of newly completed units renting for less than $1,250 fell from 39 percent in 2015 to 15 percent in 2021, including a drop in the share of units renting for less than $850 from 9 percent to just 2 percent.

The central location of new multifamily construction has contributed to high asking rents. According to the NAHB Home Building Geography Index, 41 percent of multifamily permitting between 2016 and 2021 was in core counties of large metro areas, where land prices have risen sharply in recent years. Added amenities have also helped to push up asking rents. For example, the share of newly completed multifamily units built for rent offering in-unit laundry facilities increased from 70 percent in 2010 to 89 percent in 2020. Although the overall share of new rental units with air conditioning only edged up from 93 percent to 95 percent over the past decade, the share in the Northeast increased some 14 percentage points in 2010–2020, to 99 percent.

Another factor in high asking rents is the increasing size of new apartments. The share of new multifamily rental units with less than 1,000 square feet declined from 45 percent in 2000 to 37 percent in 2020, while the share with at least 1,400 square feet rose from 9 percent to 12 percent. Even so, the share of newly completed rentals that were studios or one-bedroom units rose from 37 percent to 53 percent, while the share with two bedrooms fell from 47 percent to 39 percent, and that with three or more bedrooms dropped from 15 percent to 8 percent.

SURGE IN RENTAL PROPERTY INVESTMENT

With vacancy rates at record lows and rent growth at record highs, the National Council of Real Estate Investment Fiduciaries Property Index shows a 24.1 percent jump in returns on investment in multifamily apartment properties in the four quarters ending in early 2022. Much of this strength comes from a rebound in net operating incomes, which were up 23.5 percent over the year—a spectacular comeback from the 17 percent year-over-year drop in the fourth quarter of 2020 and further declines in the subsequent two quarters. The current pace of growth is more than four times the 5.3 percent average annual increase in 2015–2019.

Meanwhile, rental property prices reached a 20-year high in early 2022. Real Capital Analytics data indicate that year-over-year price appreciation hit a record 22.5 percent in February and only inched down to 22.4 percent in March. The February and March readings were three times the pandemic low of 7.3 percent in September 2020 and more than double the 8.4 percent average monthly increases in 2019. With property prices rising so rapidly, capitalization rates fell to a new low of 3.9 percent in the first quarter of 2022, more than a percentage point below the 2015–2019 annual average of 5.1 percent.

The strong performance of multifamily properties attracted a rush of new investment at the end of last year. CoStar data show that transaction volumes set a new quarterly record of $96.5 billion at the end of 2021, bringing the total for the year to $215 billion. However, transaction volumes in the first quarter of 2022 were back down to $36.5 billion, close to quarterly averages in 2015–2019.

Multifamily loan originations also increased significantly in late 2021. According to the MBA Commercial/Multifamily Mortgage Bankers Originations Index, originations were up 57 percent year over year in the fourth quarter of 2021, raising multifamily mortgage debt outstanding to $1.8 trillion. At the same time, delinquency rates for multifamily mortgages remained historically low. MBA reports that delinquency rates on loans held by Fannie Mae briefly hit a two-decade high of 1.12 percent in 2020 but receded to just 0.42 percent by the fourth quarter of 2021. By the FDIC's measure, the delinquency rate for loans secured by multifamily properties in late 2021 was double the late 2019 rate but still near historic lows at just 0.25 percent.

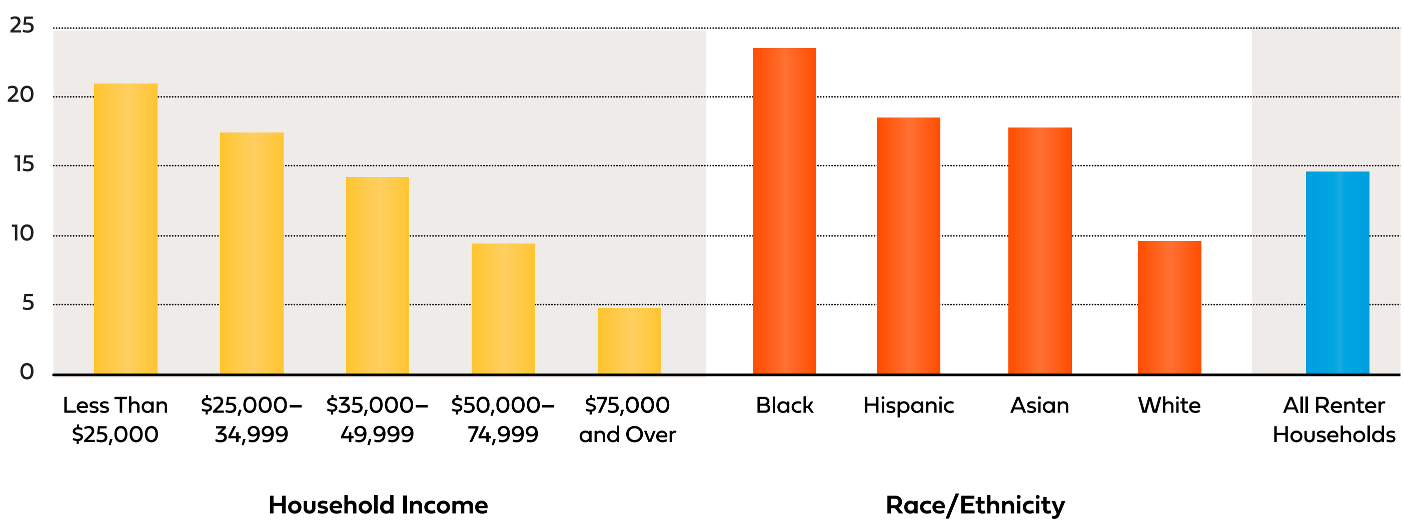
ONGOING FALLOUT FROM THE PANDEMIC

Despite the economic recovery and resurgence in employment, many renter households remained in financial straits in early 2022 **(Figure 25)**. According to Household Pulse Surveys covering late December through April, one in five renter households said that they had lost income in the preceding four weeks. Although declining from a peak of 19 percent, the share of households behind on rent in early 2022 was still at a concerning 15 percent. The shares of renters in arrears varied widely by state, ranging from a high of 23 percent in Mississippi, followed by Louisiana, New York, and New Jersey, to a low of just 7 percent in Idaho, followed by Utah, Vermont, and Montana.

FIGURE 25

Many Lower-Income Households and Households of Color Still Struggled to Pay Rent in Early 2022

Share of Households Behind on Rent (Percent)



Notes: Households behind on rent reported that they were not caught up at the time of the survey. Black, Asian, and white householders are non-Hispanic. Hispanic householders may be of any race(s).

Source: JCHS tabulations of US Census Bureau, Household Pulse Surveys, December 2021–April 2022.

Disproportionately large shares of renters that lost income or were behind on rent have lower incomes or are households of color. Fully 27 percent of renter households earning less than $25,000 said that they had lost income in the previous four weeks, compared with 9 percent of those with incomes of $75,000 or more. Since lower-income households are also more likely to have housing cost burdens and limited savings to cover those income losses, they are also more likely to have fallen behind on rent. Indeed, 21 percent of lower-income renters stated that they were in arrears—more than four times the 5 percent share of households making $75,000 or more.

Reflecting systemic discrimination in education and the labor market, households of color have lower median incomes than white households and are more likely to have been affected by the economic disruptions caused by the pandemic. In early 2022, 32 percent of Hispanic renter households and 23 percent of Black renter households said that they had lost employment income in the preceding four weeks. The shares for white and Asian renter households were far lower at just 15 percent each. Due at least in part to these income losses, 24 percent of Black renter households were behind on rent early this year, along with 18 percent of Hispanic households, and 18 percent of Asian households. The share for white renters was considerably lower at 10 percent.

But even households able to pay their rent in full and on time are still under significant financial pressure. A Joint Center analysis of spending by renter households that had lost income in late 2020 and early 2021 found that many used credit cards, tapped savings, and borrowed from friends and family to cover their housing costs as well as other expenses. Many of the lower-income households that depleted these resources are in an especially precarious situation, with no cushion to fall back on if they face a personal emergency or a major economic downturn.

THE OUTLOOK

As long as the economy remains strong, demand for rental housing should be brisk as the large number of adults now in their 20s, 30s and 40s continue to form new households at a rapid clip. Extremely tight conditions on the supply side should ease somewhat as the record number of new units now under construction become available. As a result, rent growth is likely to cool from its recent torrid pace.

However, even with a substantial increase in supply, the high asking rents for new rental units are well beyond the reach of many households. Indeed, moderate- and lower-income renters must compete for an ever-shrinking supply of rental housing that they can afford. As it is, many of the renter households now behind on their rents may be at risk of eviction, making the need for moderately priced housing increasingly urgent.

The longer-term picture is quite different from today's overheated conditions. Over the next decade, the millennials will be replaced in the prime household formation years by a smaller generation, reducing the demand for housing among young adults. At the same time, the baby boomers will age into their late 70s, the time of life when mortality rates begin to rise more quickly. And with overall population growth already at historic lows, household growth will ultimately slow as well, dragging down the demand for rental housing.

6 HOUSING CHALLENGES

The recent surge in housing costs has added yet more fuel to the affordability crisis. Although temporary relief measures helped to keep people in their homes during the pandemic, that support has largely ended even as many households remain on the brink of eviction or foreclosure. The national shortage of both market-rate and affordable housing has helped to keep home prices and rents high, prompting some state and local governments to ease some restrictions on residential development. Meanwhile, the existing housing stock is largely unprepared to accommodate the accessibility needs of an aging population or to withstand the devastating impacts of climate change.

THE AFFORDABILITY SQUEEZE

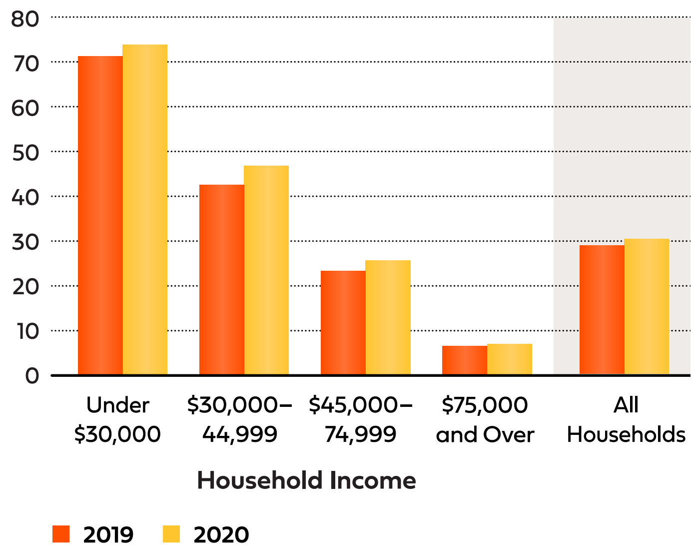
Millions of US households are unable to afford their housing. According to the American Community Survey, nearly a third of households spent more than 30 percent of their incomes on housing costs in 2020, including 14 percent that spent more than half of their incomes for shelter. Renters were particularly hard-pressed, with 46 percent at least moderately cost burdened and 24 percent severely burdened. Just over a fifth of homeowners also had cost burdens, including 9 percent with severe burdens.

The national share of cost-burdened households rose in the first year of the pandemic, climbing 1.5 percentage points to 29.9 percent in 2020. This includes a substantial 2.6 percentage point jump in the rate for renters and a 1.0 percentage point increase in the rate for homeowners. The increase among Black households was also disproportionately large at 2.4 percentage points, far exceeding that of white (1.6 percentage points), Asian (0.8 percentage point), and Hispanic households (0.6 percentage point). Although households with incomes under $30,000 still had by far the highest cost-burdened rates, households earning between $30,000 and $45,000 saw the largest increase in share—up some 4.2 percentage points **(Figure 26)**.

FIGURE 26

Cost Burden Rates Increased for Households at All Income Levels in 2020

Share of Households with Cost Burdens (Percent)



Notes: Incomes are adjusted for inflation using the CPI-U for All Items. Cost-burdened households pay more than 30% of income for housing..

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

Even before the pandemic, housing costs were rising much more rapidly than household incomes. Indeed, the real median rent climbed 16 percent from 2001 to 2019, more than three times faster than the 5 percent gain in the real median renter income. In contrast, homeowners' incomes rose 9 percent over the two decades and their housing costs actually fell 3 percent.

Whether owning or renting, though, lower-income households lost significant buying power in this period. After paying for housing, homeowners with incomes under $30,000 had just $810 left over each month in 2019 to cover all other expenses, a decline of 9 percent. Renters with comparable incomes were even worse off, with only $490 per month left to spend on all other needs—a full 18 percent drop in real terms from 2001.

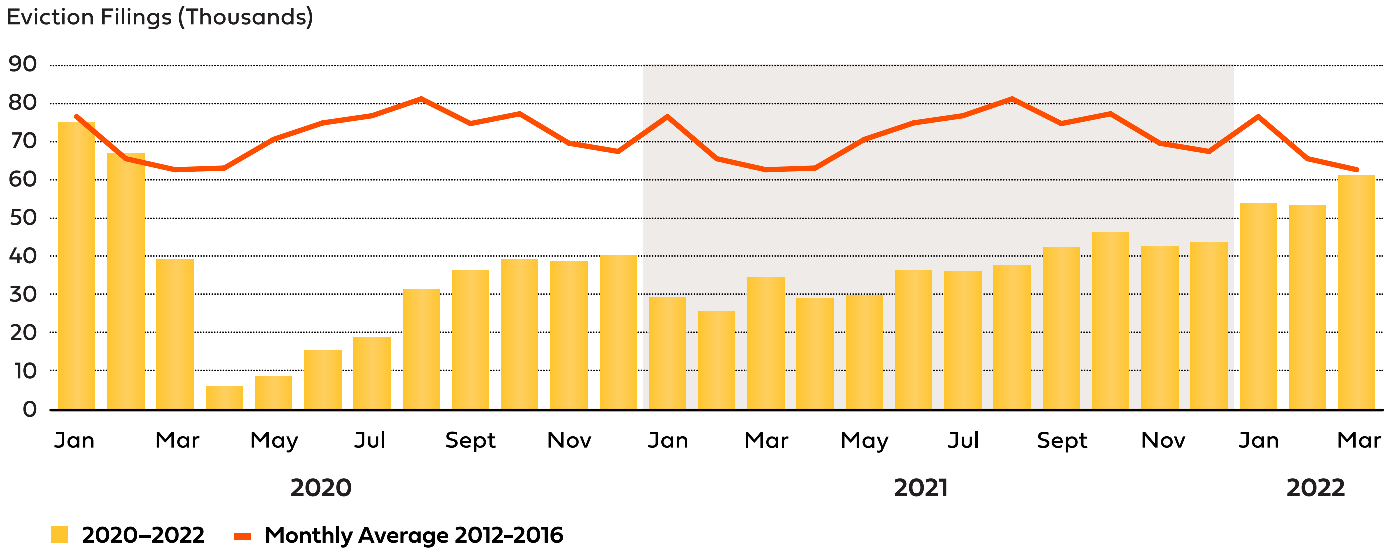
The recent increases in housing costs have put even more pressure on lower-income households. As of April 2022, the Consumer Price Index for shelter was up 5.1 percent from a year earlier—the fastest rise since 1991. This jump actually understates the increase in housing costs for households that moved because asking rents and home prices were climbing even more rapidly. Historically high inflation in the prices for all other goods—including energy (up 16 percent), gasoline (up 44 percent), and food (up 11 percent)—has added to the financial strain on household budgets. The surge in energy prices has hit lower-income households especially hard, given that they typically spend about 12 percent of their limited incomes on monthly utility costs.

HOUSING INSTABILITY ON THE RISE

With government protections now ended, eviction filings have picked up pace. In fact, evictions were increasing even before the Supreme Court struck down the federal moratorium in August 2021 and continued to climb through December as state-level measures expired and emergency rental assistance ran out in some locations. With conditions worsening in early 2022, the Eviction Lab reports that filings in its sample reached 61,300 in March—just 2.5 percent below the average for the same month in 2012–2016 **(Figure 27)**.

FIGURE 27

Evictions Were Back Near Pre-Pandemic Levels in Early 2022



Note: Data include eviction filings in six states and 31 cities.
Source: JCHS tabulations of Eviction Lab, Eviction Tracking System through March 31, 2022.

Indeed, evictions in more than half of the cities tracked were back to 2012–2016 levels.

After remaining relatively low during the first two years of the pandemic, foreclosures are also rising rapidly. When the CARES Act moratorium and mortgage forbearance were in effect in January 2021, foreclosure starts were down 86 percent from a year earlier, to 5,900. But as Black Knight reports, monthly starts began to climb once the additional restrictions imposed by the Consumer Financial Protection Bureau expired in December 2021, reaching 32,900 in January 2022. Starts jumped another 25,000 in February, leaving foreclosures just 23 percent below the January 2020 level.

Homelessness trends are less clear, given the disruption of HUD's 2021 Point-in-Time Count in many locations. However, a full count of the population living in shelters in January 2021 indicates that their numbers were down by more than 28,000 from a year earlier, to 326,000. This drop may reflect efforts to de-densify shelters to limit the spread of COVID-19, as well as the decision of some unhoused people to avoid shelters because of the risk of illness. Eviction moratoriums and diversion programs, as well as federal income supports, may have also served to slow the number of people moving to shelters.

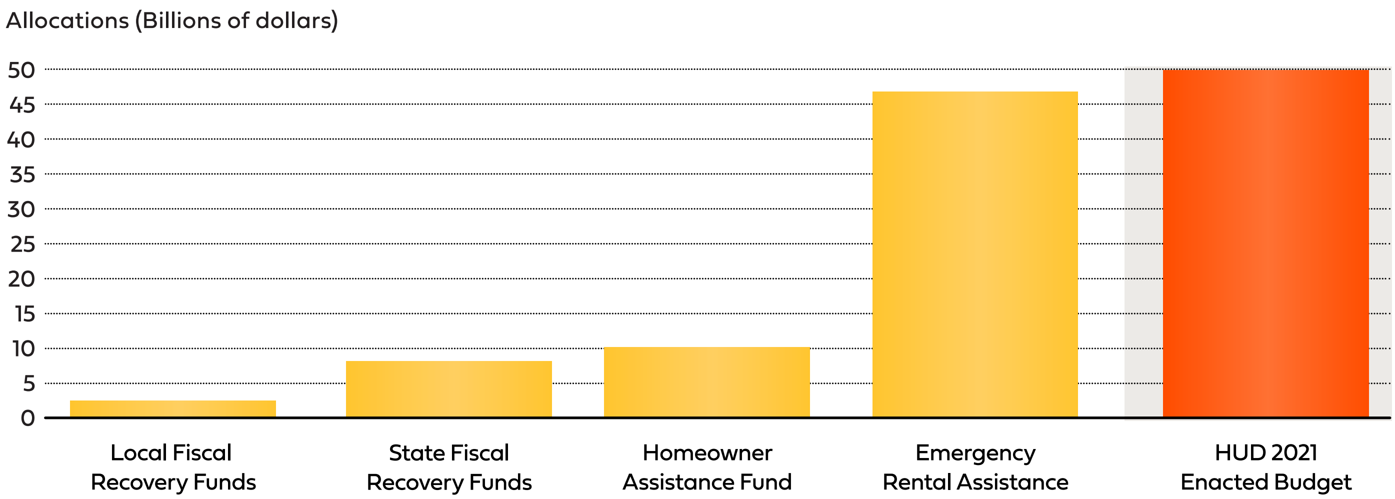
However, the unsheltered population likely grew once the pandemic hit. Although no full national count is available, a 2021 survey by the National Alliance to End Homelessness found that nearly two-thirds of homeless service providers said they had reason to believe the number of people experiencing unsheltered homelessness was increasing in their areas.

ONGOING RELIEF MEASURES

Although many of the measures enacted early in the pandemic expired in 2021, funding provided by the CARES Act, the American Rescue Plan Act (ARPA), and other legislation continues to support both renters and homeowners in distress. These one-time allocations have been substantial, exceeding total discretionary HUD appropriations for 2021 **(Figure 28)**.

FIGURE 28

Outlays for Emergency Rental Assistance Nearly Equaled HUD's 2021 Budget



Note: State and local fiscal recovery fund allocations are the estimated amounts to be spent on housing-related activities.

Sources: Brookings Institution, Local Government ARPA Investment Tracker; National Council of State Housing Agencies; US Department of Treasury; and National Low Income Housing Coalition.

Just over $46 billion in emergency rental assistance was targeted to households that lost income during the pandemic. As of March 2022, 5.3 million payments—covering current and back rents, plus utility expenses—had been made on behalf of these hard-hit renters. According to the National Low Income Housing Coalition, states and localities still had about $20.4 billion left to spend in early May 2022.

In addition to rent and utility bills, some emergency funds have supported increased legal representation for renters at risk of eviction. As of November 2021, the National Coalition for a Civil Right to Counsel identified 74 programs (including 27 state-level programs) that used CARES Act, emergency rental assistance, or ARPA funds to provide legal services to tenants. ARPA also set aside $100 million to fund a broader counseling program for people facing housing instability.

Meanwhile, ARPA allocated nearly $10 billion for the Homeowner Assistance Fund to help owners experiencing financial hardship pay their mortgages, homeowner's insurance, and utilities. As of early June 2022, 47 states and Washington, DC, were serving homeowners in need, while the remaining states were expected to open their programs soon.

ARPA also includes ongoing support for affordable housing and homelessness services through the Coronavirus State and Local Fiscal Recovery Funds program. The National Council of State Housing Agencies estimates that 24 states applied these allocations to affordable housing initiatives, utility payment assistance, or grants for struggling tenants and landlords, with outlays totaling more than $8 billion by April 2022. At the local level, estimates from the Brookings Institution indicate that some $2.3 billion of ARPA funds had gone toward housing-related activities as of February, including $867 million for projects to expand the affordable supply and $1.1 billion for housing and services for people experiencing homelessness.

Some of the ARPA funds have also been used to convert hotels left vacant by the pandemic into affordable housing. California's Project Homekey is the largest of these initiatives, using a combination of federal relief funds, state appropriations, and philanthropic donations to convert more than 6,000 units to permanent affordable housing in 2020. Additional funds awarded in March 2022 will support conversion of another 600 units through this program. On a more modest scale, Oregon's Project Turnkey had converted nearly 900 vacant hotel units to housing as of July 2021, while Vermont had created 247 permanent homes through hotel conversions and manufactured home placements.

LONGER-TERM ASSISTANCE NEEDS

The stopgap measures put in place over the past two years underscore the need for substantial, consistent investment in affordable rental housing. At last count in 2019, some 7.8 million unassisted households with very low incomes had severe cost burdens, lived in severely inadequate housing, or both. Moreover, just one out of every four income-eligible renter households actually receives federal assistance. According to the Center on Budget and Policy Priorities, there were 737,000 households on waiting lists at just 44 housing agencies in 2021.

Federal subsidies remain a vital way to expand the affordable supply and reduce the incidence of cost burdens among the nation's most vulnerable households. The vast majority of the 4.5 million households that HUD serves are older adults (39 percent), families with children (28 percent), and people with disabilities (21 percent). The subsidies bring down the average rent to just $360, reducing the cost-burdened share of recipients to about 15 percent. By comparison, the average cost-burden rate for all renters with incomes below 30 percent of area median is 84 percent.

But HUD-funded programs face a variety of challenges. Chronic underinvestment has left the stock of 932,000 public housing units with capital needs estimated at $81 billion in 2020. The Rental Assistance Demonstration (RAD) program has addressed some of the maintenance backlog by converting properties to more predictable Section 8 contracts, enabling public housing authorities to leverage additional funding sources. Between 2012 and 2021, conversions of 160,000 public housing units increased the stock of project-based Section 8 housing to 1.3 million units.

The RAD program relies heavily on the Low-Income Housing Tax Credit (LIHTC) program, which provides tax breaks to investors in affordable housing development. This limits the number of additional affordable units that the tax credits can support. Still, LIHTC remains the nation's largest affordable housing production program. Indeed, the National Council of State Housing Agencies reports that the LIHTC program supported the acquisition, construction, or preservation of about 3.6 million rent-restricted units between 1986 and 2020.

One drawback of both the Section 8 and LIHTC programs is that the units they support can revert to market rate once their affordability periods expire. The Public and Affordable Housing Research Corporation and NLIHC estimate that 130,700 project-based Section 8 and 138,300 LIHTC units could come to the end of their affordability periods by 2025. The dwindling stock of rural USDA Section 515 housing is also at severe risk of loss. According to the Housing Assistance Council, an average of 2,000 USDA-subsidized units will exit the program annually in 2022–2027, and the affordability requirements on all 395,000 units will expire by 2050.

The Housing Choice Voucher program provides its 2.3 million recipients greater options about where they live. However, the effectiveness of vouchers depends on the participation of private landlords and the availability of suitable housing that meets HUD's payment standards. The regulatory requirements of the program can be onerous for landlords, who are under no obligation to accept vouchers in most places. Indeed, a 2018 Urban Institute study in five cities found that 59 percent of tests simulating rental inquiries from voucher holders were denied.

With limited federal funds available and millions of renters with unmet housing needs, state and local governments increasingly use bonds to fund the production and preservation of affordable units. In 2020 alone, state agencies issued more than $17.2 billion in multifamily private activity bonds, surpassing the previous year's record high of $16.4 billion. In addition, more than 820 state and local housing trust funds generate about $3 billion annually for affordable housing through developer impact fees, real estate transfer taxes, sales taxes, property taxes, and general funds.

EXPANDING THE MARKET-RATE SUPPLY

The national housing shortage is not just in affordable homes. According to Freddie Mac estimates, the shortfall in market-rate housing both for sale and for rent amounts to some 3.8 million units. Although the federal government has limited power to expand the residential stock, the Biden Administration's new Housing Supply Action Plan would advance this goal by giving communities higher scores on competitive grants if they reduce exclusionary zoning and other regulations that severely restrict housing development. State and local zoning reforms have in fact gained traction in recent years, allowing construction of other types of housing in areas previously limited to single-family homes. Minneapolis and Oregon took the lead with changes that went into effect in 2020 and 2021, followed by California in 2022.

Construction of accessory dwelling units (ADUs) has also picked up momentum. After California passed legislation to reduce barriers to ADUs, the average annual number of permits jumped from under 2,000 units in 2016–2017 to more than 11,000 units in 2018–2020. Recognizing that financing is an obstacle for some homeowners, the state provided additional grants and financial incentives in 2021 to help low- and moderate-income homeowners build ADUs on their properties. A recent Freddie Mac study found that the national ADU supply increased 8.6 percent annually between 2009 and 2019, bringing the total number of properties with these units to 1.4 million.

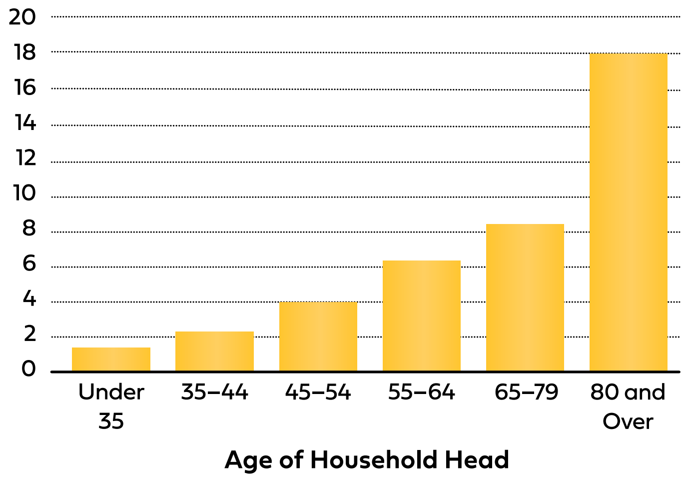
Commercial properties vacated during the pandemic are another potential source of housing. After many companies shifted to remote work and others closed, conversions of office buildings to residences became more common. RentCafe reports that conversions added a record 20,000 apartments in 2021 alone, nearly four times the level in 2010. In total, about 32,000 units were converted over the first two years of the pandemic. However, adaptive reuse can be more expensive than new construction and not every commercial structure is suitable for conversion, limiting the upside potential for new housing.

For its part, the homebuilding industry could help to expand the market-rate supply by adopting more efficient construction methods. A 2019 University of Denver study found that using factory-built components reduced framing time by two to six days, saved a third of labor costs, and lowered waste of materials. But despite these impressive advantages, most homebuilders have yet to shift to off-site construction because of the significant upfront investment required and the logistical challenges of getting prefabricated components to building sites.

FIGURE 29

Adults in Their 80s Are Much More Likely to Have Difficulties Using or Navigating Their Homes

Share of Households with Difficulties (Percent)



Note: Difficulties are defined as challenges with entering, navigating, or using the home without assistance.

Source: JCHS tabulations of HUD, 2019 American Housing Survey.

MEETING THE NEEDS OF AN AGING POPULATION

The Joint Center projects that the number of households headed by adults age 65 and over will surge from about 33 million in 2018 to more than 50 million in 2038, lifting the older-adult share of all households from 26 percent to 34 percent. In addition, the number of households in their 80s and older is expected to more than double from 8.1 million to 17.5 million over this period.

The soaring number of older households is escalating the need for accessible housing. As they age, older adults are increasingly likely to have disabilities that make it difficult to navigate or use their homes. Indeed, the share of households reporting these housing difficulties jumps from 8 percent of those aged 65–79 to 18 percent of those age 80 and older **(Figure 29)**. The absence of accessibility features—such as a no-step entry into the home, grab bars in the bathroom, and lever-style door handles—in much of the nation's housing stock contributes to these challenges.

Federal and state funding could play a pivotal role in improving home accessibility for older adults. Although Medicare does not generally pay for home modifications, expanded coverage could help accelerate adoption of some promising programs that do. For example, Community Aging in Place—Advancing Better Care for Elders (CAPABLE) brings together occupational therapists, nurses, and home repair professionals to make home modifications for older households.

Strengthening the connections between housing and services would also support the health and well-being of older adults. In particular, better access to assistance with personal care, household tasks, transportation, and healthcare would greatly improve older adults' ability to live on their own safely and comfortably. The availability of these services would particularly benefit middle- and lower-income households that are unable to afford assisted living or simply prefer to remain in their homes as they age.

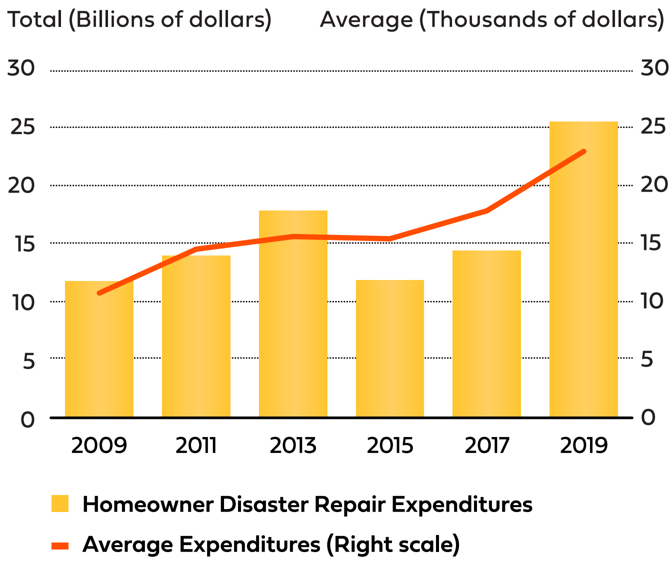
Improved coordination of service delivery can also have substantial payoffs. A recent Joint Center study found that onsite service coordinators at a sample of subsidized properties were able to connect older residents with resources for medical care, food and medication, and social engagement during the pandemic. Meanwhile, HUD is currently evaluating the Integrated Wellness in Supportive Housing (IWISH) model, which has placed nurses and other staff in 40 federally funded properties that primarily serve older households. A 2021 evaluation found that enhanced service coordination and new health and wellness programming led to fewer unplanned hospitalizations and greater adoption of preventive care.

GROWING RISKS FROM CLIMATE CHANGE

The nation's housing stock is under threat from the impacts of climate change. CoreLogic estimates that hurricanes, winter storms, and other disasters damaged some 14.5 million residential properties in 2021, at a cost of $56.92 billion. The real costs of disaster repairs for homeowners alone have steadily climbed, rising 117 percent in 2009–2019 to $26 billion **(Figure 30)**.

FIGURE 30

Homeowner Spending on Disaster Repairs Is Trending Up



Notes: Annual expenditures are adjusted to 2019 dollars using the CPI-U for All Items. Average expenditures are outlays per homeowner that spent on disaster repairs.

Source: JCHS tabulations of HUD, American Housing Surveys.

The federal response to climate change has largely focused on helping property owners recover and rebuild in the aftermath of wildfires, floods, and other extreme events. For disasters declared in 2021, FEMA provided $2.2 billion for rental assistance, home repairs, home replacements, and property loss coverage for nearly 850,000 households. Community Development Block Grant Disaster Recovery (CDBG-DR) funds also support such efforts, although with a substantial lag.

Floods present a special threat because private insurance policies typically do not pay for the damage. Instead, homeowners can purchase coverage through the National Flood Insurance Program (NFIP), which currently insures about 5.1 million property owners. In 2021, NFIP received nearly 45,000 claims totaling $2.2 billion. With historically low premiums and such high annual payouts, the program has had to borrow from the Treasury Department to cover claims. However, risk pricing introduced last year may help shore up the program's solvency by raising the premiums for homeowners living in areas with higher exposure to hazards. At the same time, however, these increases will make the insurance less affordable for lower-income homeowners—the households least able to cover the costs of flood damage themselves.

In addition to threatening the homes and lives of residents, weather-related disasters pose serious risks to the housing finance system. The destructive impacts of climate change have the potential to increase mortgage defaults among borrowers whose homes are severely damaged in disasters, leading to losses for the government entities that back home loans. To head off this possibility, the Federal Housing Finance Agency is assessing how Fannie Mae and Freddie Mac can account for climate-change risks in their decision making and make the housing finance system more resilient.

Adaptations to climate change must also include shifts in where people live, where developers build, and the features of homes constructed in higher-risk areas. So far, the FEMA Hazard Mitigation Grant Program has supported modest relocation efforts by acquiring more than 10,000 properties since 2000 in areas prone to flood loss. Over the longer term, securing the housing stock against increasingly severe weather-related events will require limits on the construction of new homes in high-exposure areas, as well as incentives for current owners in these locations to either mitigate their risk or relocate.

MITIGATING HOUSING'S ENVIRONMENTAL IMPACTS

The residential sector is a major contributor to climate change, generating fully a fifth of the nation's direct greenhouse gas emissions. Efforts to reduce this large carbon footprint include stricter requirements for the energy efficiency of new homes and energy-efficient retrofits of existing homes, as well as a shift toward electrification and renewable energy sources. To this end, the federal government offers a variety of incentives and assistance programs for both owners and renters.

The Energy Star program, run by the Environmental Protection Agency and Department of Energy (DOE), helped more than 70,000 owners complete retrofits of their homes in 2020 by connecting them with certified contractors and offering rebates on energy-efficient equipment or improvements. In addition, the Consolidated Appropriations Act of 2021 extended the availability of tax credits for installing renewable energy systems such as geothermal heat pumps, solar panels, and small wind turbines through 2024.

In addition, DOE's Weatherization Assistance Program is targeted to low-income households and supports upgrades to about 35,000 homes per year. These improvements provide residents average annual savings of $370 on energy bills. The DOE significantly expanded the program in 2021 with $18.6 million in competitive grants, on top of the $3.2 billion provided to the program through the Infrastructure Investment and Jobs Act.

THE OUTLOOK

The record surge in home prices and rents over the past year exacerbated affordability challenges nationwide. Soaring prices for everyday necessities, on top of high housing costs, have added to the pressure on household budgets, especially among lower-income households and households of color. Indeed, even before inflation took off, many of these households were unable to cover their housing payments because of financial setbacks over the past two years.

As interest rates continue to notch up, overheated housing markets should start to cool. The large supply of homes under construction should also help to meet demand, although do little to address the lack of housing affordable to lower- and middle-income households. The immediate concern, however, is that tightening monetary policy will rather stifle economic growth and even trigger a recession. With so many households financially stressed by high housing costs, a serious downturn could transform the recent uptick in housing insecurity into a wave.

This potential threat underscores yet again the need for more moderate-priced housing as well as expanded support for lowest-income households. Developing the policies and practices to meet this need will take concerted efforts by both the public and private sectors. The Biden Administration's Housing Supply Action Plan makes a good start with a blueprint for reducing the severe shortfall in affordable housing. At the same time, states such as California and Oregon provide examples of how to reform land use regulations to help expand the supply of more modest units. For its part, the homebuilding industry has an opportunity to reduce the costs of housing production by adopting more efficient construction methods. Progress on each of these fronts is essential to ensure that every household has access to good-quality housing that they can afford.

The State of the Nation's Housing 2022 was prepared by the Harvard Joint Center for Housing Studies. The Center advances understanding of housing issues and informs policy. Through its research, education, and public outreach programs, the Center helps leaders in government, business, and the civic sectors make decisions that effectively address the needs of cities and communities. Through graduate and executive courses, as well as fellowships and internship opportunities, the Center also trains and inspires the next generation of housing leaders.

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