

THE STATE OF THE NATION'S HOUSING **20 23**



JOINT CENTER FOR HOUSING
STUDIES OF HARVARD UNIVERSITY

THE STATE OF THE NATION'S HOUSING 2023

Joint Center for Housing Studies of Harvard University

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EXECUTIVE SUMMARY

Housing markets continue to cool even as homeowners and renters face higher costs. On the for-sale side, home sales and construction levels are declining, as is the pace of home price appreciation, while rental markets are experiencing sharply reduced rent growth and rising vacancy rates. Nevertheless, home prices and rents remain elevated from pre-pandemic levels. Millions of households are now priced out of homeownership, grappling with housing cost burdens, or lacking shelter altogether, including a disproportionate share of people of color, increasing the need for policies to address the national housing shortfall at the root of the affordability crisis. Likewise, there is growing urgency for public and private investment to address longstanding disinvestment in underserved communities of color, adapt the housing stock to increasing risks of climate change, and expand options for older adults to age safely in their communities.

Housing Markets Cool Rapidly

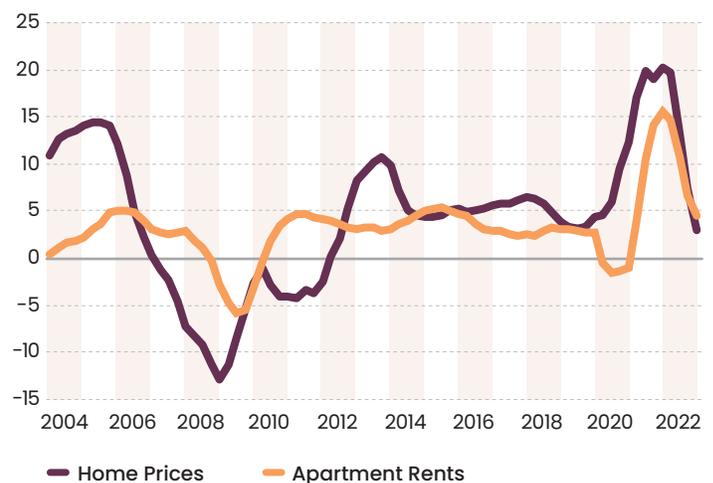
In both the for-sale and rental markets, housing demand softened and markets cooled by early 2023 in response to rising interest rates and deteriorating affordability. In the for-sale market, seasonally adjusted home prices declined month over month in July 2022 for the first time in over a decade, ticking down 2.8 percent by February 2023 from their pandemic peak. On an annual basis, home prices rose just 2.0 percent in February from the prior year, down from 20.1 percent annual growth a year earlier. Home prices fell year over year in 25 of the 100 largest metro areas tracked by Freddie Mac, with the steepest declines in markets in the West and South, including Austin, Boise, and San Francisco.

Asking rents nationally also rose year over year, though the rate of growth has slowed considerably. Annual rent growth for units in professionally managed apartments slowed from a record-high 15.3 percent in the first quarter of 2022 to just 4.5 percent in the first quarter of 2023 (**Figure 1**). Annual rent growth also slowed over

Figure 1

Home Price and Apartment Rent Growth Continued Sharp Decline in Early 2023

Year-Over-Year Change (Percent)



Notes: Asking rents are for professionally managed apartments in buildings with five or more units. Home prices in 2023q1 reflect data for January and February only. Source: JCHS tabulations of RealPage data; S&P CoreLogic Case-Shiller US National Home Price Index.

the past year in all 50 markets tracked by RealPage, including declines in two markets. Rent growth decelerated most rapidly in previously hot markets in the West and South. For example, in Phoenix, rents declined 1.9 percent in the first quarter of 2023 after rising 25.6 percent one year earlier, and in Tampa, rents rose just 3.4 percent after rising 27.6 percent the year before.

Still, housing costs remain high relative to pre-pandemic levels. Between the beginning of 2020 and early 2023, asking rents in the professionally managed sector rose 23.9 percent. Similarly, nominal home prices rose an astounding 37.5 percent, helping to push up the median sales price for existing homes from \$283,000 just before the pandemic to \$375,400 in March 2023. In the face of higher home prices, first-time homebuyers must save even more to afford the up-front and downpayment costs needed to secure a mortgage, and require ever-higher incomes for the ongoing payments.

In the near term, home prices are unlikely to return to pre-pandemic levels, due largely to the low number of homes available for purchase. However, the run-up in home prices during the pandemic has resulted in record-high levels of home equity for existing homeowners. According to the Federal Reserve, homeowner equity totaled \$31.0 trillion in the fourth quarter of 2022, \$7.7 trillion higher than in the first quarter of 2020 after adjusting for inflation. On average, homeowners had \$270,000 in equity, according to CoreLogic.

Robust Household Growth Likely to Slow

Household growth surged to 1.9 million per year in 2019–2022, fueled by the pandemic-induced need for space, the pause in federal student loan payments, various stimulus packages, the temporary decline

in rents in many major cities, and a boost in savings. Against this backdrop, millions of millennials in their 20s and 30s were able to form new households and financially distressed households were able to remain in their homes.

There has been particularly strong growth among homeowner households since the pandemic began, driven primarily by younger households able to take advantage of lower interest rates to fulfill aspirations for homeownership that had been delayed by the Great Recession. Favorable buyer conditions lifted homeownership rates by 1.2 percentage points overall since 2019 but by 2.2 percentage points among households under age 35 and by 2.1 percentage points for households ages 35–44. Consequently, the number of homeowner households headed by an adult under age 45 grew by 10 percent in just three years between 2019 and 2022.

Meanwhile, renter household growth slowed in 2022 following a brief mid-pandemic surge in late 2021. The slowdown has been most evident in professionally managed apartments, thanks in part to rising rents and the increased number of households with higher incomes transitioning to homeownership.

Looking forward, total household growth is likely to slow in the coming few years, in part because much of the pent-up demand for household formation among young adults has been released, and also because of deteriorating affordability and slowing population growth, the primary long-term driver of household growth. The oldest baby boomers are turning 77 this year and as they continue aging the death rate will eventually exceed that of births, making immigration the country's main source of population growth. But, compared with natural growth, immigration is much less predictable.

Higher Costs Push Homeownership Out of Reach

Homeownership rates were rising before the pandemic and continued rising through it, powered by low interest rates and a jump in savings in 2020 and 2021. Nearly 1.5 million households joined the ranks of homeowners between 2021 and 2022, lifting homeownership rates by 0.3 percentage point to 65.8 percent, and by 2.4 percentage points since the 2016 low. Notably, more than half—5.2 million—of the 9.1 million new homeowner households created since 2016 were established in just the past three years.

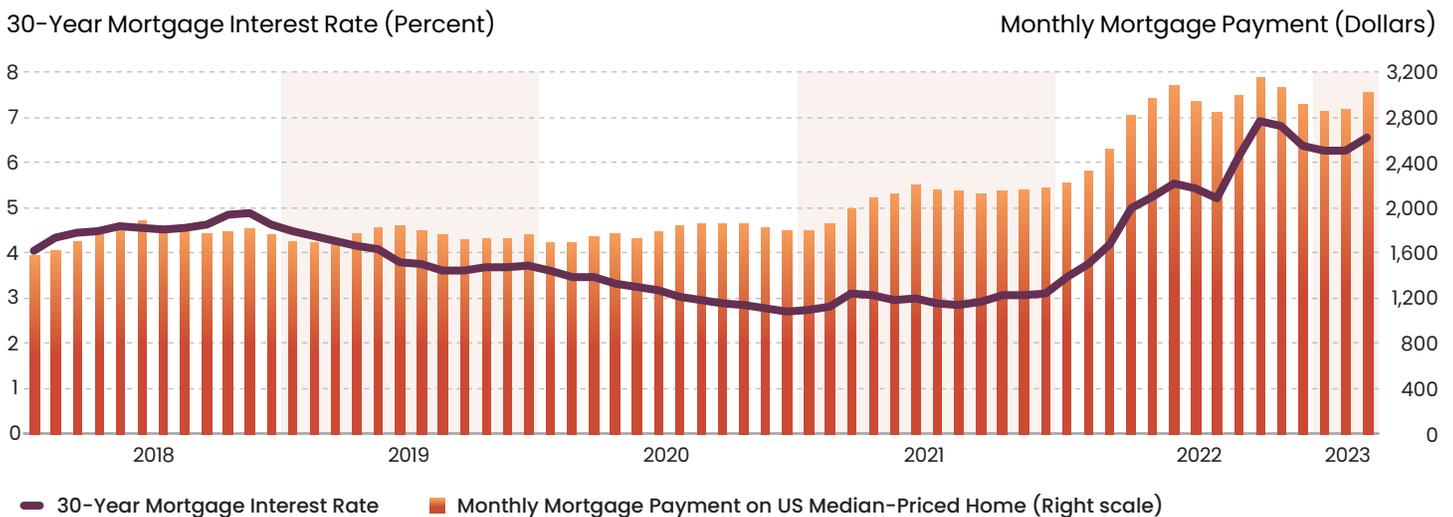
However, homeownership growth of this magnitude is unlikely to continue in 2023. First-time homebuying plummeted in the second half of last year in response to sharply rising interest rates that have significantly increased the cost of homeownership. Monthly payments on the US median-priced home, including taxes and insurance, shot up from \$2,200 in January 2022 to \$3,100 in October after the annual interest rate on 30-year fixed-rate mortgages jumped from 3.4 percent to 6.9 percent (**Figure 2**). Median monthly payments then settled to \$3,000 by March 2023 as interest rates plateaued at 6.5 percent, but

millions of renter households were nonetheless priced out of homeownership. Agency data provided by the Urban Institute show a 22 percent annual decline in the number of mortgages originated to first-time homebuyers in 2022, including a year-over-year drop in the fourth quarter of nearly 40 percent.

As the cost of homeownership rises, the prospect dims for eliminating racial homeownership rate gaps, even after slight progress in recent years. Between 2019 and 2022, gains in Black homeownership narrowed the historically large Black-white homeownership rate gap by 2 percentage points. However, these gains are in jeopardy as increasing costs disproportionately price Black and Hispanic renters out of homeownership. While the number of white renter households who could afford payments on the US median-priced home fell by 30 percent between March of 2022 and March of 2023, the number of Black and Hispanic renter households in this group dropped by 39 percent and 37 percent, respectively. With Black and Hispanic homeownership rates still fully 28.6 and 25.8 percentage points below white homeownership rates, policymakers and practitioners have a long way to go to reduce these disparities. Higher costs make the job more difficult.

Figure 2

Steeply Rising Rates Have Made Payments on the Median-Priced Home Much More Expensive



Note: Monthly mortgage payments include principal, interest, taxes, and insurance (PITI) and assume a 3.5% downpayment on a 30-year fixed-rate loan, 0.85% mortgage insurance, 0.35% property insurance, and 1.15% property taxes.
Source: JCHS tabulations of Freddie Mac, Primary Mortgage Market Surveys; National Association of Realtors (NAR), Existing Home Sales.

Single-Family Construction Slowing

Single-family homebuilding declined significantly last year as buyers reacted to sharply higher borrowing costs. Single-family housing starts dropped 10.8 percent in 2022, with the slowdown growing more pronounced throughout the year. The annualized rate of single-family housing starts averaged just 876,000 new units in the second half of the year, down 23.2 percent from the same period the year before and well below the 1.0 million units averaged since 1990 (**Figure 3**).

The decline in new homebuilding is particularly acute for lower-priced homes, due to rising construction and land costs, limited lot availability, and regulatory barriers like minimum lot sizes that restrict entry-level housing production. In 2021, just 24 percent of new homes—or 236,000 units—were under 1,800 square feet, compared with 37 percent of new completions in 1999. Likewise, manufactured housing, often an even more affordable option, totaled just 113,000 shipments in 2022. Although up from recent lows, manufactured home shipments regularly topped 200,000 units annually in the 1980s and 1990s.

The construction slowdown in 2022 raised concerns about the nation's large and ongoing housing shortfall. While estimates of the degree of the undersupply vary significantly, there is widespread agreement that new supply has not kept pace with demand, compressing vacancy rates and limiting the supply of homes for sale. In March 2023, just 970,000 existing homes (including 860,000 single-family homes) were available for purchase, an uptick from the all-time inventory lows reached during the pandemic but still 42 percent less than in 2019, when supply was already historically low. Movement in both interest rates and the economy will help determine whether single-family construction rebounds in 2023. Either way, there remains an urgent need for more new single-family construction.

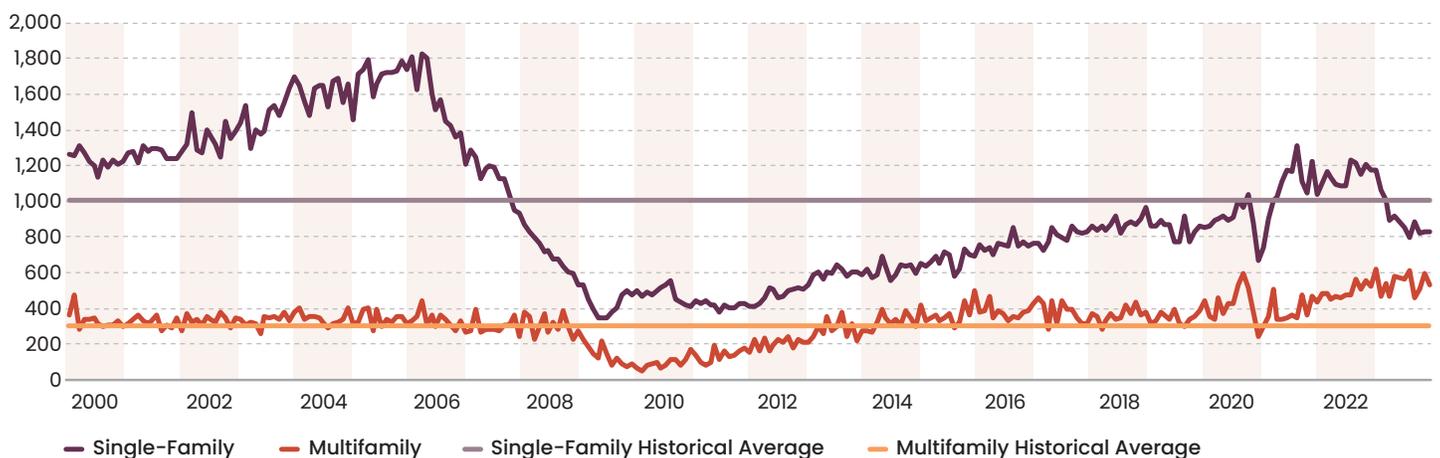
Multifamily Construction Thriving

Unlike single-family homebuilding, multifamily construction continued to rise in 2022 even as rental demand softened. Indeed, 547,000 new multifamily units were started last year, the highest number since the mid-1980s. Plus, fully 960,000 units in multifamily buildings were under construction as of March 2023, the highest number in half a century.

Figure 3

Single-Family Construction Dropped Dramatically, While Multifamily Development Remained Strong

Annualized Housing Starts (Thousands of units, seasonally adjusted)



Note: Single-family and multifamily historical averages are of seasonally adjusted monthly data from January 1990 to March 2023. Source: JCHS tabulations of US Census Bureau, New Residential Construction.

Meanwhile, rental vacancy rates are rising, which suggests a forthcoming slowdown in multifamily construction when combined with higher interest rates, tightening lending standards, and weak developer sentiment. The overall rental vacancy rate climbed to 6.4 percent in the first quarter of 2023 after falling to a four-decade low of 5.2 percent in late 2021. Likewise, the vacancy rate for professionally managed apartments has more than doubled from a record low of 2.5 percent in 2022 to 5.2 percent in early 2023, with vacancy rates highest for the highest-cost (Class A) units, at 5.6 percent, and lowest for the lower-cost (Class C) units, at 4.7 percent, suggesting the market for these units remained relatively tight.

Given that the bulk of new construction targets the higher-cost market segment, the robust pipeline of multifamily units may lead to additional vacancy rate increases that will simultaneously help to limit rent growth for high-cost units, while likely providing less relief to renters with lower incomes. According to data from the Survey of Market Absorption, the median asking rent for newly completed multifamily units in 2022 was \$1,800 and thus affordable only to households

earning more than \$72,000 assuming the 30 percent of income affordability standard. Moreover, fully 36 percent of newly completed multifamily units had asking rents of \$2,050 or more, while just 5 percent had asking rents below \$1,050, leaving renters with low and moderate incomes to reckon with a stubbornly tight supply of moderate- and lower-priced apartments.

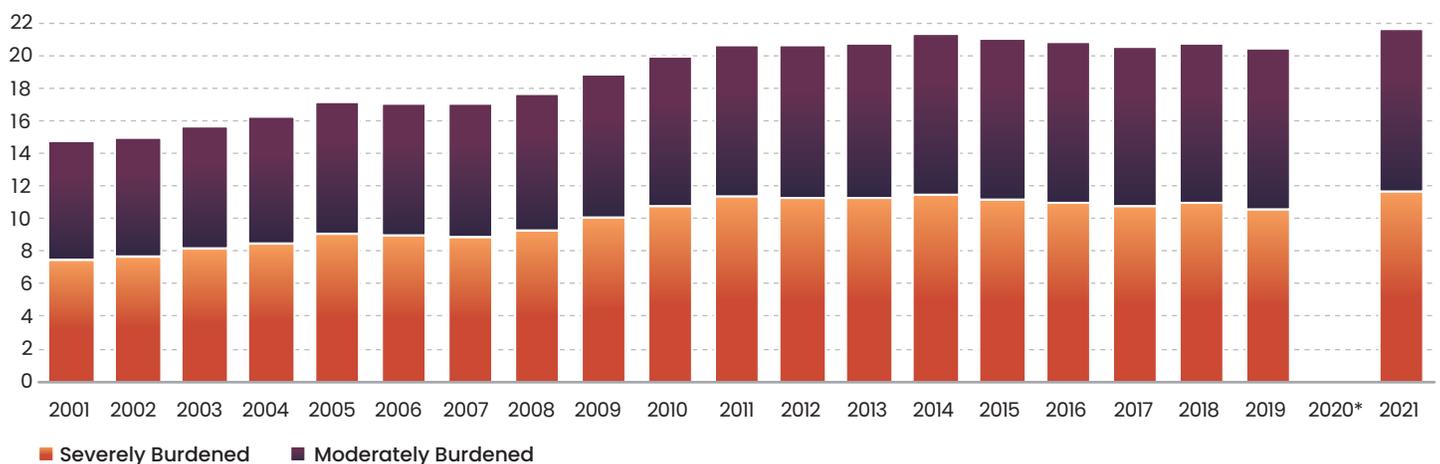
Cost Burdens Reach Record Levels

Rising housing costs, coupled with pandemic-era income losses, produced the most significant drop in housing affordability in years, as seen in the most recent Census data. Between 2019 and 2021, the number of cost-burdened renters—defined as those spending more than 30 percent of their income on housing—increased by 1.2 million to a record 21.6 million households (**Figure 4**). Among these, 11.6 million were severely cost burdened, spending more than 50 percent of their income on housing. Although the share of renter households with cost burdens had been steadily declining in the past decade, the trend reversed during the pandemic. Between 2019 and 2021, the share of cost-burdened renters grew by

Figure 4

Number of Cost-Burdened Renters Reached an All-Time High in 2021

Cost-Burdened Renter Households (Millions)



Notes: Moderately (severely) cost-burdened households spend more than 30% (more than 50%) of income on housing. Estimates for 2020 are omitted due to data collection issues experienced during the pandemic.

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

2.6 percentage points to 49 percent of renter households, approaching the 51 percent peak posted in 2011 in the wake of the Great Recession.

Likewise, the number of cost-burdened homeowners increased by 2.3 million to 19.0 million, including 8.7 million who were severely cost burdened in 2021. This increase upturned a years-long decline in the share of homeowners with cost burdens and drove the cost-burden rate up by 1.5 percentage points to nearly 23 percent of homeowners. In total, 40.6 million households were cost burdened in 2021, including 20.3 million who were severely burdened.

Predictably, cost burdens affect the vast majority of households with lower incomes, including 86 percent of those with incomes below \$15,000 and 68 percent with incomes between \$15,000 and \$29,999. But, cost-burden rates are rising quickly among those higher up the income scale, particularly among renters. Between 2019 and 2021, the share of cost-burdened renters with incomes between \$30,000 and \$44,999 increased 3 percentage points to 63 percent. Meanwhile, the share of cost-burdened renters earning between \$45,000 and \$74,999 increased by 4 percentage points to 34 percent—the largest increase of any income group.

With such high housing costs, many households with lower incomes may struggle to pay for other necessities like food, clothes, and healthcare, which have become more expensive as inflation has risen. In 2021, the median renter and homeowner households with incomes under \$30,000 had just \$380 and \$680 per month, respectively, after paying for housing to cover other necessities—the lowest residual incomes in two decades.

Residential Mobility Shifting Geography of Housing Demand

Mobility patterns dominant during the pandemic persisted in 2022, as people continued to move into lower-cost, lower-density areas. Social distancing put a premium on living space and motivated moves to less expensive suburban and rural areas. But as the pandemic has eased, the share of people working from home has remained elevated for many occupations, sustaining demand for housing in lower-cost areas.

Urban counties in the nation's largest metro areas saw significant population outflows in 2022, though not as severe as in 2021 and partially offset by increased gains from immigration, which more than doubled in these areas over the past year to the highest level since 2016. Meanwhile, counties in suburbs and small metros gained population, largely thanks to an influx of millennials at prime homebuying ages, many of whom have flexible work arrangements and thus less need to live near a large urban job center. Rural areas, too, continued a turnaround in demand and experienced a second year of modest gains from domestic mobility in 2022, with more than half of all rural counties (57 percent) recording more people moving in than out.

Longer-distance moves to states with warm climates and lower housing costs also remained high in 2022. Regionally, the South saw the largest net inflows, led by Texas, Florida, and North Carolina. Some mountain states, including Montana and Wyoming, also recorded net gains in movers from other states. As such, domestic migration has become the largest source of population growth in 20 states and the largest source of population decline in 23 states.

Unsheltered Homelessness Rises

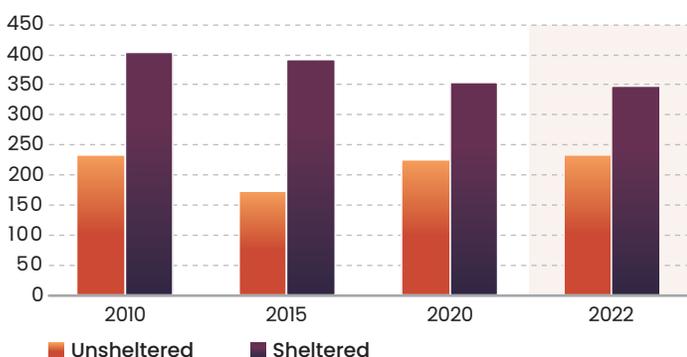
Despite the many pandemic-inflicted hardships, overall homelessness remained relatively stable during the crisis, according to the most recent point-in-time count from the US Department of Housing and Urban Development (HUD). The number of people experiencing homelessness on a given night in January 2022 was 582,460, a 0.3 percent (2,000 people) increase from 2020. That homelessness didn't increase more may indicate that government supports limited evictions and provided emergency rental assistance. The expiration of renter protections and the looming end of rental assistance could leave more people unhoused.

While overall homelessness has remained steady so far, the top-line number masks a substantial worsening of unsheltered homelessness, defined as the number of people living in places not intended for human habitation. In 2022, unsheltered homelessness hit 233,830, a 3.4 percent increase over two years (**Figure 5**). This reflects a longer-term trend, with the unsheltered population rising 35 percent (60,560 people) from 2015 to 2022. California, Washington, Arizona, Oregon, and Texas had the largest increases in unsheltered homelessness over this period.

Figure 5

Unsheltered Homelessness Continued Rising in 2022, Even as Fewer People Stayed in Shelters

People Experiencing Homelessness (Thousands)



Notes: People experiencing sheltered homelessness are those staying in emergency shelters, transitional housing programs, or safe havens. People experiencing unsheltered homelessness are those whose primary nighttime location is a place not intended for human habitation.

Source: JCHS tabulations of HUD, Annual Homeless Assessment Report Point-in-Time Estimates.

This rise in unsheltered homelessness underscores the need to increase the supply of low-cost permanent and supportive housing. While additional federal resources are available to address homelessness through the omnibus spending bill and the American Rescue Plan Act, appropriations for HUD rental assistance and programs that increase the affordable supply over the longer-term are currently insufficient to meet the scale of the challenge.

Growing Need to Invest in the Existing Housing Stock

In addition to expanding the supply of new homes, improving the existing housing supply is critical. Substantial investment will be needed to preserve the aging stock and respond to climate change. At 43 years of age, the median home in 2021 was the oldest it has ever been, up from 27 in 1991. The Federal Reserve Bank of Philadelphia estimates that the nation's housing stock needs repairs amounting to \$149 billion, including \$57 billion for homes occupied by households with lower incomes. This investment is particularly necessary for the 9.5 million homes that had severe structural deficiencies or lacked basic features like plumbing, electricity, water, and heat in 2021.

Further jeopardizing homes is the increasing damage from climate-related disasters. CoreLogic estimates that more than 14.5 million homes were affected by hazards in 2021, amounting to \$57 billion in damage. Even more homes are at potential risk, including 60 million units located in areas with at least moderate expected annual losses. Federal programs that help communities and households repair their homes after disasters are crucial for minimizing losses in housing stock. In 2022 alone, the Federal Emergency Management Association (FEMA) provided \$1.9 billion to 1.2 million households through its Individuals and Households Program, defraying the cost of home repairs and other recovery needs. Congress also appropriated \$10 billion of Community Development Block Grant

Disaster Recovery funds in 2021–2023 to help communities rebuild after disasters. While these recovery efforts are important, reduced development in high-risk areas, improvements to the stock to mitigate future damage, and better awareness of risk will be needed to adapt to climate change over the long term.

Moreover, the housing stock requires modifications to mitigate its impact on climate change given that homes are responsible for 20 percent of US greenhouse gas emissions. Recent federal efforts to reduce housing’s contribution to greenhouse gas emissions have been substantial. The 2022 Inflation Reduction Act provided nearly \$9 billion for energy-efficiency and electrification rebates and extended the Residential Clean Energy Credit, which helps homeowners offset the costs of renewable energy improvements. A one-time \$3.5 billion infusion into the Weatherization Assistance Program will further support energy-efficiency upgrades for households with lower incomes.

Racial Segregation and Its Consequences Persist

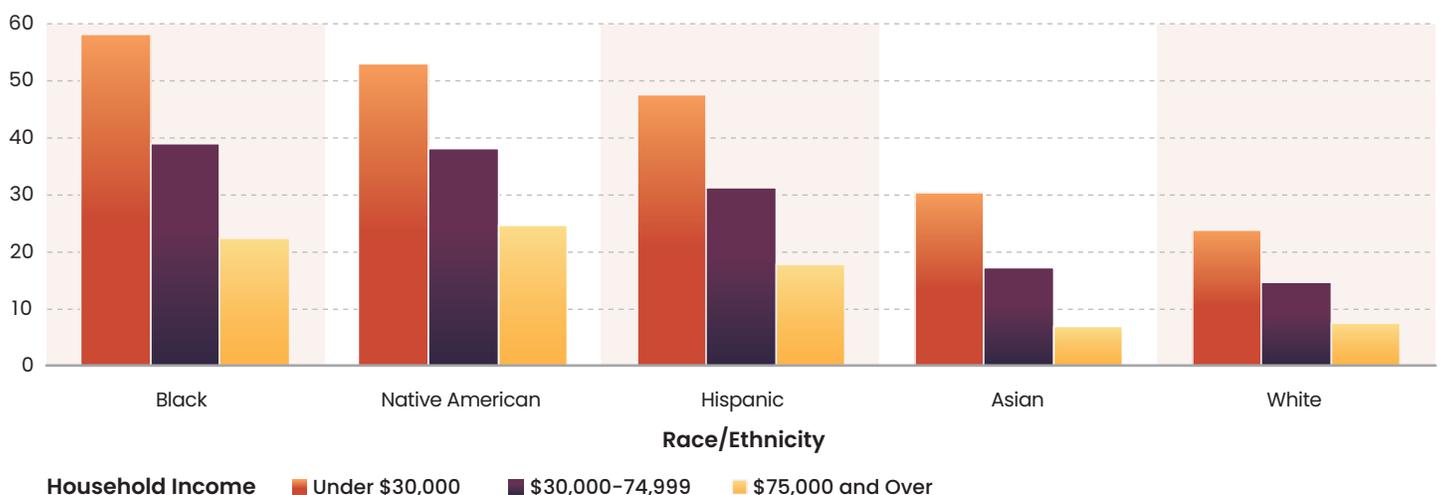
Racial segregation remains a persistent challenge. Systemic racism and concentrated poverty have resulted in disinvestment in communities of color, reducing access to quality public and private services and opportunities for financial security and mobility, in turn furthering racial income inequities. As a result, people of color are more likely to live in high-poverty neighborhoods, even if they have higher incomes (**Figure 6**).

Exclusionary zoning contributes to this continued pattern of residential racial segregation. In many cities and suburbs, zoning favors single-family homes, which are typically owner-occupied and more expensive than multifamily options. This limits opportunities for households and renters with lower incomes, many of whom are people of color. In an effort to address this problem, Washington and Montana recently joined California, Oregon, and Maine in passing legislation to allow more types of housing on land previously zoned exclusively for single-family homes.

Figure 6

Across Income Levels, People of Color Disproportionately Live in High-Poverty Areas

Share of Households Living in High-Poverty Census Tracts (Percent)



Notes: High-poverty census tracts are those where at least 20% of the population has incomes below the poverty line, as defined by the official measure of poverty established by the Office of Management and Budget. Individuals in the white category are non-Hispanic. Because Hispanic individuals may be of any race, some other racial categories overlap.

Source: JCHS tabulations of US Census Bureau, 2021 American Community Survey 5-Year Estimates.

The federal government is also encouraging communities to tackle restrictive land use through \$85 million in HUD grants that will help cities identify and implement zoning reforms.

Equally critical to addressing racial inequities are investments designed to benefit residents of historically underserved communities while avoiding fostering gentrification and displacement. Fair housing planning and enforcement are also needed. In 2023, HUD proposed a new Affirmatively Furthering Fair Housing rule to fulfill the Fair Housing Act of 1968 requirement that the federal government address discrimination and proactively promote inclusive communities. Under the new rule, HUD grantees submit an equity plan every five years that identifies obstacles to fair housing and concrete steps to overcome them.

The Outlook

The sharp interest rate hikes over the past year continue to impact housing markets and affordability for both homeowners and renters. Rising mortgage costs have pushed homeownership out of reach for millions of renters at a time when large numbers of millennial households are at prime homebuying ages and when homeownership disparities between white households and those of color are near historic highs. Higher interest rates have also sparked a slowdown in the construction of new single-family homes, even as a nationwide housing shortage contributes to high housing costs.

As long as housing remains prohibitively costly for millions of would-be buyers, builders will struggle to expand home production significantly. More lower-cost housing is clearly needed, but expanding development will require zoning reform to support a broader range of housing types and investments in off-site construction methods that could reduce development costs. Moving the needle on closing racial homeownership gaps will also require policy interventions to reduce the formidable financial barriers to homeownership.

Meanwhile, multifamily construction has remained strong, with a record number of apartments under construction. However, most of this new housing supply targets renters with high incomes, and renters with lower and moderate incomes will likely find little relief. Expanding the supply of modestly priced rentals would help alleviate this strain, although additional subsidies will be needed to make housing affordable for households with the lowest incomes.

Additionally, investments are needed to help property owners adapt the existing housing stock to climate change. The federal government has made a major step in this direction by significantly expanding funding to support home improvements that increase energy efficiency. However, to realize the full potential of this funding, state and federal agencies need the ability to implement these programs effectively. The remodeling industry must also have the capacity to meet this growing demand.

Beyond the greening of the housing stock, it is imperative to facilitate investment in distressed communities, where home values often do not support remodeling or new construction. Further investments are needed to accommodate the nation's rapidly growing population of older adults. Given that adults ages 75 and older will be the fastest-growing segment of the population in the coming decade, there is an increasing need for housing that supports older adults who wish to safely age in their communities.

In the face of ongoing debate about the need to pare back federal spending, now may not seem to be the right time to expand federal efforts to address the nation's housing challenges. But housing is a crucial engine of economic growth, and investments in this important sector pay broader dividends. As the pandemic highlighted, high-quality, stable, and affordable housing is foundational to widespread well-being and, as such, both merits and necessitates greater public attention.

HOUSING MARKETS

After reaching record highs during the pandemic, home price and rent growth have fallen through early 2023 as interest rates rose sharply, affordability worsened, and housing demand softened. In the for-sale market, significantly fewer homes sold in 2022. Despite historically low levels of supply, single-family homebuilding also declined. Likewise, in the professionally managed apartment market, the number of renter households dropped and vacancy rates returned to pre-pandemic levels. Nevertheless, multifamily development remained robust, with the number of units under construction the highest in half a century.

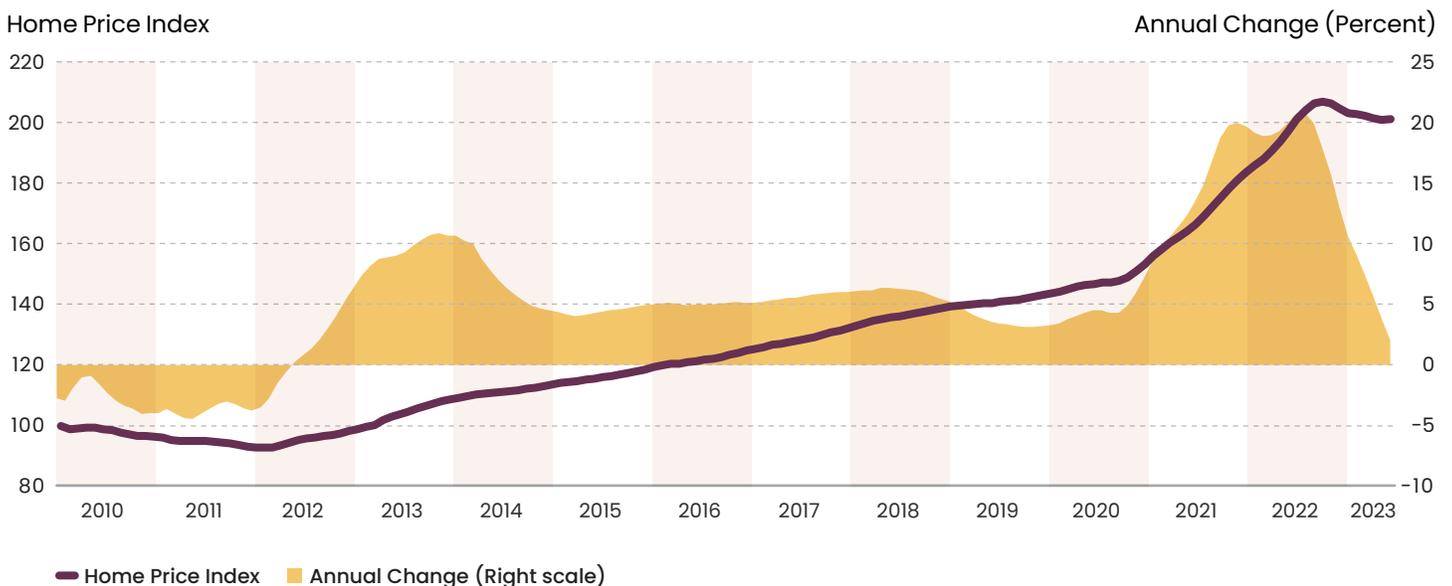
Decelerating Home Price Growth

As mortgage interest rates rose sharply in 2022, the for-sale housing market cooled rapidly, leading to a decline in home prices. According to Center tabulations of the S&P CoreLogic Case-Shiller home price index, monthly home prices dipped 0.2 percent in January 2023 on a seasonally adjusted basis, the

seventh consecutive month of declines following 124 months of growth, before ticking up slightly in February. On an annual basis, home prices rose just 2.0 percent year over year in February, down sharply from their peak of 20.8 percent annual growth in March 2022 (Figure 7). After adjusting for inflation, real home prices declined 2.8 percent relative to the prior year. Late 2022 was the first decline in real home prices in over a decade.

Figure 7

Despite Slowing Growth, Home Prices Remain Near Record Highs



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

This slowdown was felt in markets across the country. Nominal home prices declined year over year in fully a quarter of the 100 large markets tracked by the Freddie Mac House Price Index in March 2023, compared with zero metros a year earlier. Prices dropped most sharply in previously hot Western markets such as Boise, down 11.8 percent, and Austin, down 8.8 percent, and also fell significantly in Northern California, where the lack of affordability, a slumping tech sector, and the prevalence of remote work likely softened demand. While prices rose in the remaining 75 markets, the rate of increase slowed across the board.

Despite this slowdown, prices continued to rise in most markets. Knoxville was the lone market with double-digit price growth—up 10.5 percent year over year in March—as compared with all 100 metros a year earlier. On an annual basis, home prices rose most rapidly in the South, including Greensboro (8.8 percent), Columbia (8.0 percent), and Charleston (7.8 percent). Some Northeast and Midwest markets experienced similarly swift appreciation, including New Haven (7.5 percent), Syracuse (7.1 percent), Youngstown (7.1 percent), and Omaha (6.9 percent).

Although national home prices have declined in the past several months, they have risen astoundingly when measured from the start of the pandemic. Between February 2020 and February 2023, nominal home prices jumped a stunning 37.5 percent, or 17.5 percent after accounting for inflation. Over the longer term, nominal home prices since 2010 have more than doubled—rising 102.2 percent—while real home prices have climbed 51.5 percent.

That said, increased interest rates have also led to significantly higher monthly payments for potential homebuyers, and demand has cooled in response. As long as interest rates remain elevated, home price growth will likely continue to slow. But prices are unlikely to plummet like they did during the Great Recession thanks to the combination of the strong job market, the continued aging of millennials into peak homebuying years, the dearth of housing available for purchase, and the low foreclosure rate.

Persistent Shortage of For-Sale Housing Contributes to Declining Home Sales

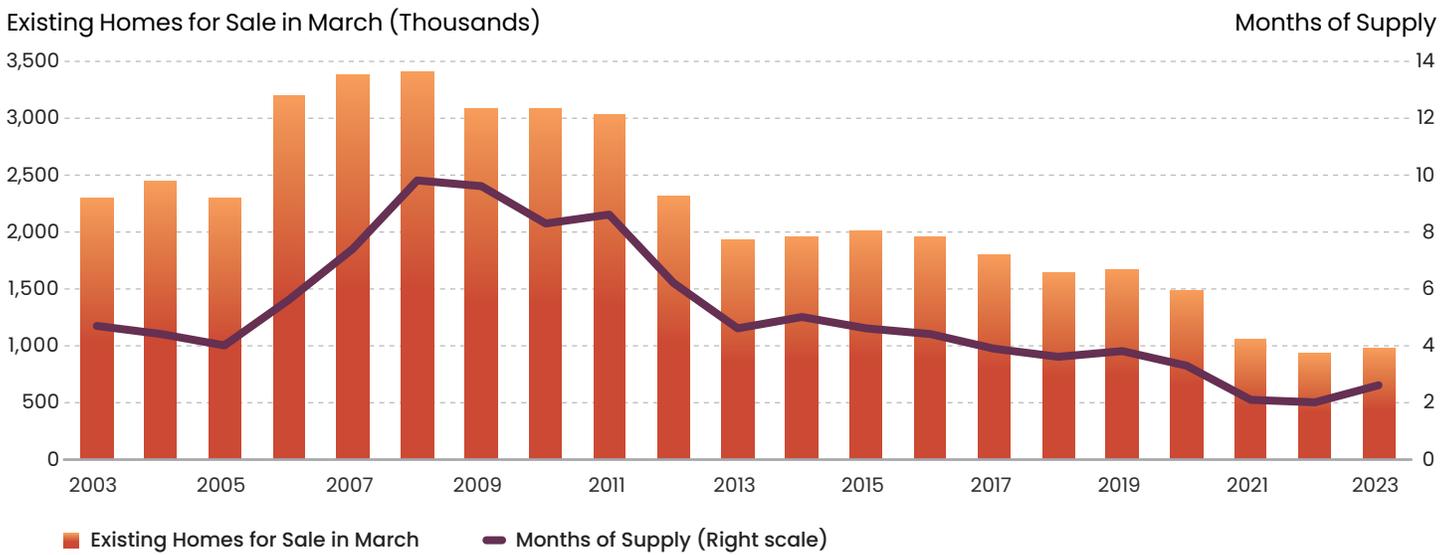
The number of homes available for sale remained near historic lows in early 2023, driven by a decade-long slowdown in the construction of single-family housing that preceded the pandemic, the growing population of older adults who are less likely to move, and the lack of available inventory for would-be sellers. According to the Housing Vacancy Survey, homeowner vacancy rates remained at 0.8 percent in the first quarter of 2023, tied for the lowest reading since data became available in the mid-1950s, and under 1.0 percent for the ninth consecutive quarter.

Tight vacancies have meant limited options for potential buyers. Just 970,000 existing homes were for sale in March 2023, according to data from the National Association of Realtors, 42 percent less than March 2019, when supply was already constrained (**Figure 8**). Nevertheless, this volume represents an uptick from the all-time lows experienced during the pandemic. The months of supply—how long it would take all homes on the market to sell at the current sales rate—also remained low. Just 2.6 months of inventory was available in March, up from 2.0 months a year earlier but still down from the 3.8 months available in March 2019 and far short of the 6.0 months that indicates a balanced market.

Inventories have remained low in part because many homeowners may be disinclined to move in the face of rising interest rates. According to the FHFA National Mortgage Database, nearly two-thirds of outstanding residential mortgages carry an interest rate of less than 4 percent, including one-quarter of mortgages with interest rates below 3 percent—significantly lower than the 6–7 percent averaged on a 30-year fixed-rate mortgage in early 2023.

Figure 8

Supply of Homes for Sale Remained Near Record Lows in Early 2023



Notes: Months of supply measures how long it would take homes on the market to sell at the current rate. Six months is typically considered a balanced market.

Source: JCHS tabulations of NAR, Existing Home Sales.

Consequently, the number of new listings continued to decline into early 2023, dropping 16 percent in the first quarter, according to Realtor.com. Instead, growth in overall inventory has been due to homes remaining on the market longer. On average, homes were on the market for a median of 65 days in the first quarter of 2023, up from 47 days the year before but far short of the 81 days recorded in the first quarter of 2019.

With such limited existing inventory, new construction has become an increasingly large share of housing available for purchase. In March 2023, 425,000 new single-family homes were available for sale, up just 5 percent from the year before but up 28 percent from the same period in 2019. New homes were about a third of single-family home inventory at the start of the year, nearing the all-time high set in 2022.

The constrained supply, along with rising interest rates and eroding affordability, contributed to a sharp decline in home sales last year. According to Center

tabulations of data from the National Association of Realtors, existing home sales dropped 18 percent in 2022 to 5.0 million, including a 17 percent decline in single-family home sales, to 4.5 million, and a 23 percent decline in condo/co-op sales, to 546,000 units. Sales of newly built single-family homes also fell. In 2022, 641,000 new homes sold, down 17 percent from the year prior and well below the pandemic peak of 822,000 in 2020.

The slowdown in existing sales hastened throughout 2022 as the effect of rising interest rates took hold. Seasonally adjusted existing home sales declined just 4 percent in the first quarter of 2022 relative to the first quarter one year earlier but 32 percent in the fourth quarter of that same year. In January 2023, the seasonally adjusted rate of existing home sales was just 4.0 million units, down 37 percent from the year prior and the lowest since 2010. As interest rates stabilized in early 2023, so, too, did the sales rate, which ticked up to 4.4 million units in March.

Investor Demand for Single-Family Homes Softens but Remains Strong

Investor activity in the housing market skyrocketed during the pandemic as interest rates hit record lows and home price and rent growth reached all-time highs. But, as interest rates rose in late 2022, investor home purchases fell significantly. According to CoreLogic, purchases of single-family homes by investors who simultaneously owned three or more properties within the past 10 years declined by 25 percent year over year in the fourth quarter of 2022. Nevertheless, investor purchases remained a high share of total sales because owner-occupant homebuying fell just as sharply. Investors bought 26 percent of single-family homes in the fourth quarter of 2022, just shy of the record-high 28 percent share recorded in early 2022 and well above the 16 percent share averaged in the three years immediately preceding the pandemic.

Investor activity in the housing market can exacerbate inventory shortages and limit homeownership opportunities for owner-occupant buyers by reducing the available supply, especially in markets where investor activity is highest. According to CoreLogic, investors purchased a third or more of single-family homes in Los Angeles, Memphis, and Salt Lake City, among others, in the fourth quarter of last year. And in one 2007–2016 study of home sales in metro Atlanta, large institutional investors accounted for up to three-quarters of annual single-family home sales in some neighborhoods. Investor activity in these neighborhoods was associated with a decline in homeownership for Black households in particular.

Likewise, investor activity influences the single-family rental market. According to CoreLogic, about 16 percent of investor purchases in the summer of 2022 were resold within six months, in line with historical averages. Many of the remaining homes were likely rented to tenants, and the implications of this

activity for renter households are still unfolding. On the one hand, large single-family rental operators can provide higher value and potential cost savings to renters through more professionalized property management. Moreover, they might increase access to rental housing in a wider variety of neighborhoods, including those typically less accessible to renters. On the other hand, research indicates that at least some of these investors might more aggressively pursue evictions, and their activity is associated with increased rents.

Cooling Rent Growth

As in the for-sale market, a substantial drop in demand in the second half of 2022 cooled rental markets. According to RealPage data, asking rents in the professionally managed apartment sector have moderated significantly after rising 15.3 percent year over year in the first quarter of 2022, an all-time high in data dating back more than 20 years. By the first quarter of 2023, rents rose 4.5 percent annually, just above the 3.6 percent average annual growth between 2015 and 2019. But even with the slowdown, rents have risen a stunning 23.9 percent between the first quarter of 2020 and the first quarter of 2023.

The slowdown in rent growth was evident across the country. Asking rents in the first quarter of 2023 declined outright year over year in two of the 50 large markets consistently tracked by RealPage: Phoenix, down 1.9 percent, and Las Vegas, down 1.0 percent. Asking rents in both markets had risen about 25 percent annually in early 2022. Though rents increased in the remaining 48 markets, the rate of rent growth slowed as compared with a year earlier. Beyond previously hot markets in the West, rent growth moderated most precipitously in parts of Florida. Asking rents in West Palm Beach, Tampa, and Fort Lauderdale each rose over 27 percent annually in the first quarter of 2022, but less than 6 percent annually in the first quarter of 2023.

Despite the widespread slowdown, rents still rose substantially in some markets (**Figure 9**). Asking rents rose 5 percent or more annually in 21 markets in the first quarter, still high but lower than last year, when they rose in all 50 markets. Rents increased the most year over year in Miami (9.5 percent) and growth was also strong in some of the more affordable markets in the Midwest and Northeast, including Cincinnati (8.2 percent), Newark (8.2 percent), and Indianapolis (7.7 percent).

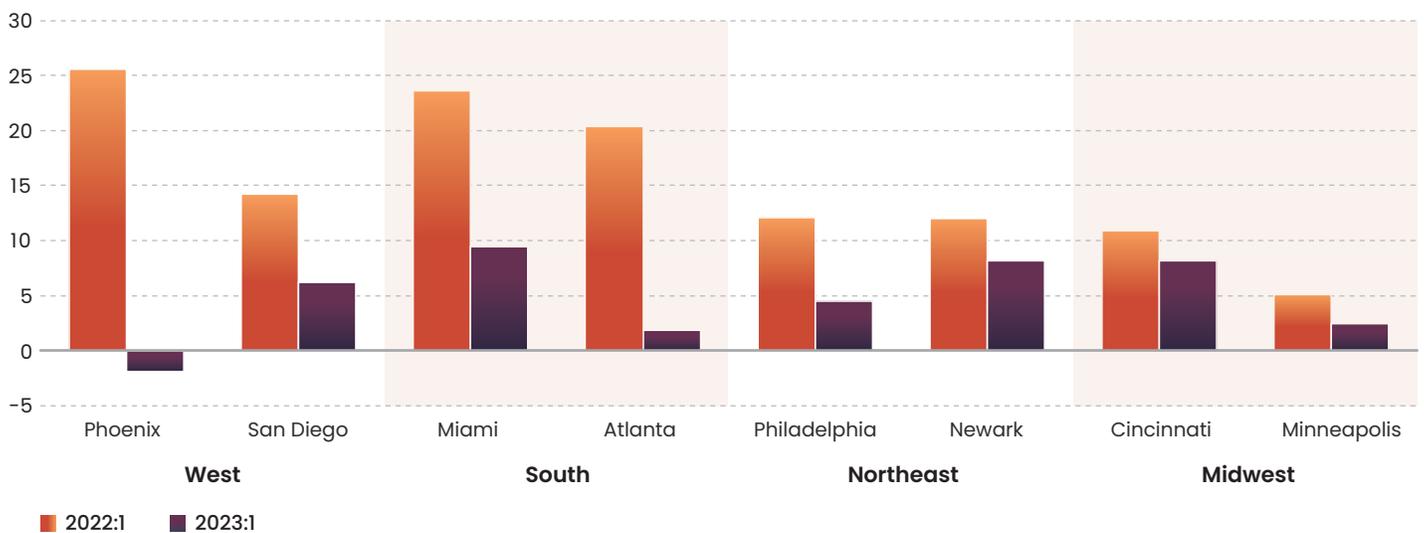
Similar to apartment trends, rent growth for single-family homes cooled significantly from pandemic-era record highs. According to CoreLogic, single-family rents in March 2023 rose 4.3 percent year over year, still somewhat higher than the pre-pandemic rate though down from the 13.6 percent growth experienced a year earlier.

Unlike most other indicators, the pace of rent growth from the Consumer Price Index (CPI) continued to accelerate in early 2023, rising 8.8 percent annually in March 2023, double the growth rate a year earlier and the highest rate in more than 40 years. This discrepancy relative to the sharp slowdown in gains among professionally managed apartments is partly explained by the CPI being a lagging indicator that estimates rents for the entire rental stock. Rising rents in the CPI show that many renters are still experiencing substantial rent growth as old leases turn over and rents reset at higher levels, and is an important indicator of inflation for the Federal Reserve to consider when deciding the course of interest rate increases. However, the softening of other rent indicators suggest that CPI rents will likely also slow in the future, which would be good news for those hoping for relief from today's higher interest rates.

Figure 9

Across the Country, Rent Growth Slowed in Early 2023

Year-over-Year Change in Asking Rents (Percent)



Notes: Asking rents are for professionally managed apartments in buildings with five or more units. Figure shows the markets in each region with the lowest and highest annual change in asking rents in the first quarter of 2023.

Source: JCHS tabulations of RealPage data.

Rising Rental Vacancies

New leasing traffic plunged in the second half of 2022, according to data from RealPage, leading to the first drop in annual apartment demand since 2009 despite high retention rates. Leasing then ticked up only slightly in early 2023, as the professionally managed apartment market added just 19,000 new renters on net in the first quarter—modestly reversing recent declines but the weakest first quarter in a decade. As a result, 177,000 renters left the market on net over the past year, following a 698,000 increase one year earlier amid the pandemic surge (**Figure 10**).

The decline in leasing, combined with new construction focusing on the high end of the market, pushed apartment vacancy rates back to recent norms. After falling to a record-low 2.5 percent in the first quarter of 2022, vacancy rates in the professionally managed apartment sector have subsequently increased every quarter. By the first quarter of 2023, vacancy rates had climbed to 5.2 percent, a full 2.7 percentage points

higher than the year before and above the 4.8 percent vacancy rate averaged in 2015–2019. Vacancy rate increases were widespread, rising year over year in the first quarter of 2023 in 148 of the 150 markets tracked by RealPage, including 117 markets with increases of at least 2 percentage points.

Nationally, vacancies remained lowest in less expensive market segments, where less new supply is coming online. The vacancy rate in more affordable Class C apartments was just 4.7 percent in the first quarter of 2023, lower than the 5.6 percent vacancy rate in higher-quality Class A apartments. Likewise, vacancies in the broader rental market ticked up in the first quarter, but remained near the decades-low set during the pandemic. According to Center tabulations of the Housing Vacancy Survey, 6.4 percent of all rental units were vacant in the first quarter of 2023, up 0.6 percentage point from a year earlier. Still, such low vacancy rates have not been recorded since the mid-1980s, aside from the pandemic and one reading at the end of 2019.

Figure 10

Demand for Professionally Managed Apartments Fell Sharply into Early 2023

Annual Change in Occupied Rental Units (Thousands)



Note: Data are for professionally managed apartment buildings with five or more units.
Source: JCHS tabulations of RealPage data.

Slowing New Construction

In both the for-sale and rental markets, significant amounts of new construction are required to alleviate the supply shortages. However, housing production declined modestly in 2022, driven by a sharp slowdown in single-family homebuilding. The number of newly started housing units fell from 1.60 million in 2021 to 1.55 million in 2022, a small but significant 3.0 percent decline in the context of the nation's housing shortfall. Similarly, the number of permitted units declined 4.1 percent to 1.67 million in 2022. However, in the near term, more supply is coming online as the number of housing units completed continued to rise 3.7 percent to 1.39 million units last year.

In the single-family market, construction dropped precipitously in 2022, after climbing to the highest level in 15 years in 2021. Just 1.01 million single-family homes were started last year, down 10.8 percent from a year earlier. The decline in construction was much starker in the second half of the year, as interest rate increases took hold. From January through June 2022, the seasonally adjusted, annualized rate of single-family housing starts was 1.13 million units, up 1.7 percent on average from the previous year. But from July through December 2022, the rate of single-family starts was just 876,000 units, down 23.2 percent, and remained at an 830,000-unit pace in the first quarter of 2023.

Most new units target the high end of the market. The median sales price for newly built single-family homes was \$457,800 in 2022, up an inflation-adjusted 23 percent since 2019. Likewise, the production of smaller, typically less expensive, single-family units remains historically low. In 2021, just 236,000 homes under 1,800 square feet were built, less than a quarter of all single-family home completions. By comparison, smaller single-family homes repre-

sented 37 percent of new units as recently as 1999. Manufactured housing, with an average sales price in 2022 of just \$127,000 excluding land, provides a more affordable alternative to site-built housing. However, just 113,000 manufactured homes shipped in 2022. By comparison, annual manufactured home production averaged 247,000 units in the 1980s and 302,000 units in the 1990s.

In contrast, the multifamily construction sector was extraordinarily resilient in 2022. The number of multifamily starts rose 15.5 percent from an already-high 474,000 units in 2021 to 547,000 units in 2022—the highest level since 1986. The seasonally adjusted rate of multifamily starts remained strong throughout the year, averaging 540,000–550,000 units in both the first and the second halves of the year.

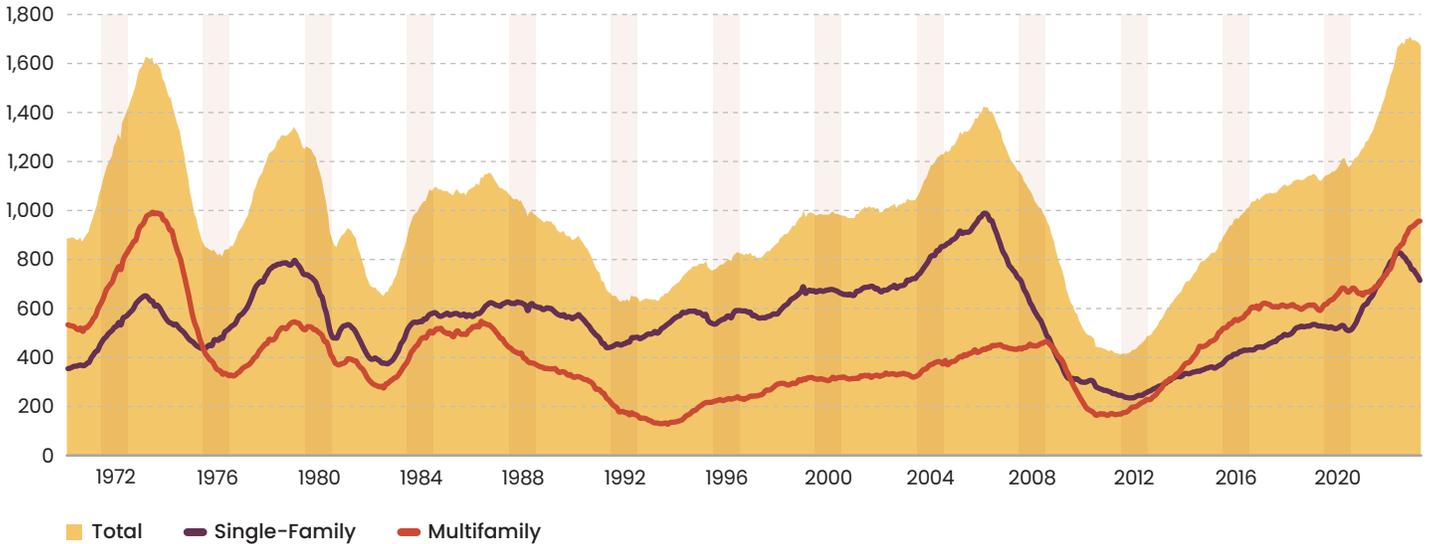
The number of multifamily units under construction continues to reach new heights, driven by the strong multifamily sector and the growing time required to complete such units as the costs of building materials rise and larger urban-infill apartments dominate production. Of the nearly 1.7 million housing units under construction in March 2023, fully 960,000 were in multifamily structures (**Figure 11**). This number represents an increase from 818,000 units a year earlier and is the highest rate of multifamily units under construction in almost 50 years.

Given the glut of apartments under construction and rising vacancies in the professionally managed apartment sector, multifamily construction is likely to moderate going forward. Already, the Federal Reserve Board's Senior Loan Officer Opinion Survey on Bank Lending Practices reported tighter lending standards and weaker demand for multifamily loans and commercial real estate construction loans.

Figure 11

Construction Pipeline Hovers Near Record High in Early 2023, Fueled by Multifamily Development

Annualized Units Under Construction (Thousands, seasonally adjusted)



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

The Outlook

The for-sale and rental markets will likely continue to moderate through 2023. On the for-sale side, the significant rise in interest rates over the past year has more than offset the decline in home price growth, keeping homebuyer costs high and cooling demand. Additionally, homeowners with lower interest rates will be reluctant to sell their homes, holding back inventory growth.

In a market with such limited homebuying options, more new construction is needed to provide potential buyers with options at a variety of price points and to address the long-term undersupply of housing.

Encouragingly, measures of homebuilder sentiment have rebounded strongly in recent months. Still, changes in interest rates are key, and persistently higher rates would remain a significant drag on new construction.

In the rental market, slowing rent growth and rising vacancies, especially in high-cost market segments, will likely lead to a slowdown in new apartment construction. But even as the abundance of mostly high-end apartment units under construction reaches the market, it remains unclear how much relief this will provide for households with low and moderate incomes.

03 DEMOGRAPHIC DRIVERS

Household growth remained high in 2022, driven largely by a surge in millennial household formation pent up since the Great Recession. However, the drivers of household growth are now likely receding, leaving record-low levels of population growth that will slow household growth going forward. Meanwhile, wide regional variation in housing affordability, combined with a rise in remote work, is spurring domestic migration, in turn shifting the geography of housing demand. As the US population ages and diversifies, the need to ensure equitable access to high-quality, affordable housing and communities becomes even more urgent.

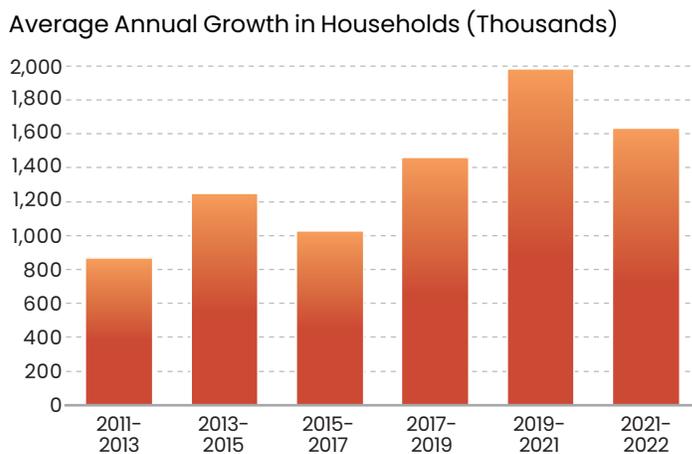
Rapid Household Growth Continues but Slowing Ahead

Despite rising housing costs and growing economic uncertainty, the number of US households grew by 1.6 million in 2022, continuing a period of strong household growth that started in 2017 (**Figure 12**). This recent surge has been driven by high rates of new household formation among millennials. Though the rate of millennial household formation started to recover before the pandemic, the financial conditions in late 2020 and 2021, including the federal stimulus and the suspension of student loan payments, helped young adults to afford to live on their own, particularly many older millennials forced to postpone independent living since the Great Recession. Growth in households headed by people ages 35–44 more than doubled from 210,000 per year in 2017–2019 to 560,000 per year in 2019–2022. In combination with a steady increase in the number of older households, this acceleration in younger household growth helped to push overall US household growth to the highest levels in decades.

Nevertheless, the household growth rate in 2022 represents a slowdown from the 2.0 million annual average between 2019 and 2021, and likely signals that the recent surge is waning. Likewise, the share of

Figure 12

Household Growth Slowed in 2022 but Remained Above Pre-Pandemic Levels



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

young adults who head their own households—also called the headship rate—has recovered much of the ground lost in the decade following the Great Recession, indicating that there is little room for these rates to rise higher. Because this pent-up demand has been largely satisfied, household growth will likely slow going forward, fueled by native population growth, which is at a near-record low, and immigration, which is inherently mired in politics and therefore is unpredictable.

Historically Low Population Growth

Population growth is the primary long-term driver of household growth and remains historically low. Overall, the US population grew by 1.26 million people in 2022, or just 0.38 percent. While this represents a slight uptick from previous years—population growth hit 100-year lows in 2019 and again in both 2020 and 2021—it is nevertheless a meager growth rate when compared with the 2.8 million annual average (0.94 percent) in the 2000s. In fact, if not for the 0.35 percent rate of growth in 2020 and the 0.16 percent growth rate in 2021, the 2022 growth rate would have marked a new 100-year low.

Population growth is generated by either “natural” growth—the net of births minus deaths—or immigration. Gains from immigration can be fickle because they are subject to unpredictable policy changes and economic cycles in the US as well as other countries. Natural growth, on the other hand, is more predictable because it is driven by slow-moving factors like

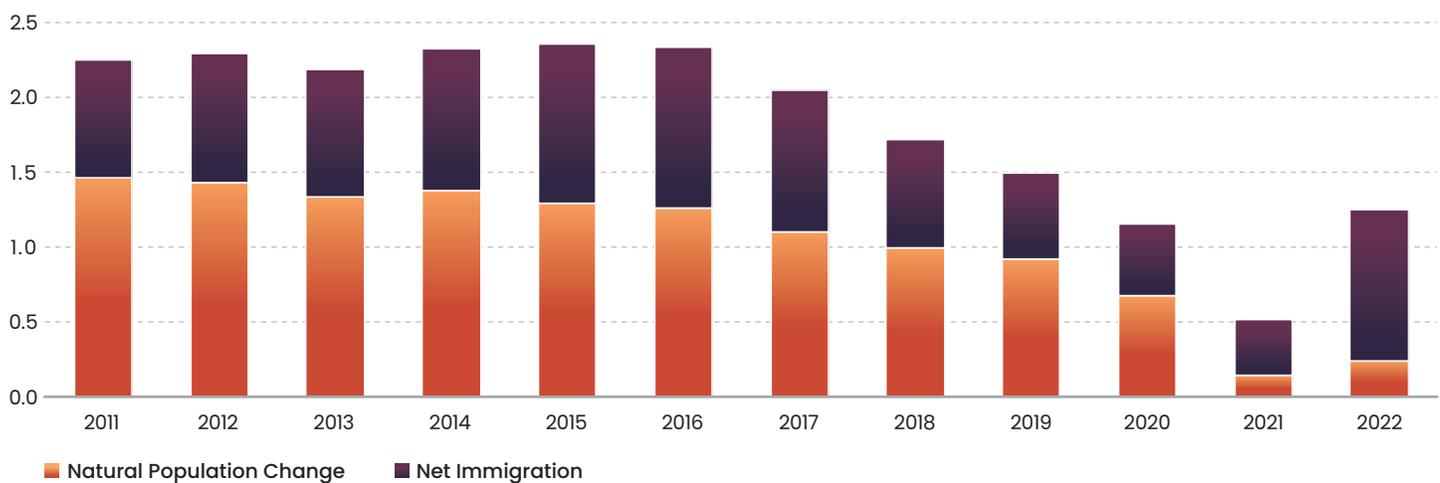
birth and mortality rates. Until recently, natural growth has been the primary source of population growth in the US.

Throughout the 2000s and early 2010s, natural growth gradually slowed from 1.7 million to 1.4 million per year while net gains from immigration fluctuated between 800,000 and 1.2 million. Then, in the late 2010s, both natural growth and immigration plummeted, with annual gains from immigration ultimately dipping below 400,000 and natural growth dropping to less than 150,000 in 2021. At last measure in 2022, annual gains from immigration rebounded to 1.0 million while annual gains from natural growth remained a modest 245,000 (**Figure 13**), highlighting both how quickly immigration can change and the persistence of the slowdown in natural growth. Indeed, deaths are projected to outnumber births beginning in 2043, according to the Congressional Budget Office, at which point population growth will rely entirely upon immigration. Recent estimates suggest we may reach that point much sooner.

Figure 13

Population Growth Still Near Record Lows in 2022, Despite a Rebound in Immigration

Annual Population Change (Millions)



Note: Natural population change is the difference between births and deaths.
Source: JCHS tabulations of US Census Bureau, Population Estimates Program.

Population and Household Growth Depending on Immigration

While immigration has recently emerged as the primary source of population growth nationwide, it has long been the largest driver in many areas across the country. In 2022, immigration was the largest source of population growth for 26 states and nearly a third (29 percent) of all counties (**Figure 14**), and has helped stabilize declining populations in both small rural counties and large urban counties experiencing net domestic outmigration of native-born residents.

Growth in immigrant-headed households accounted for more than a third (35 percent) of all household growth between 2002 and 2022, raising the share of households headed by an immigrant from 14 percent in 2002 to 17 percent in 2022. Immigrants make up even higher shares of households in some states, representing 33 percent—fully one-third—of households in California, 27 percent in New Jersey, and 21 percent in Texas. Immigrants also headed large shares of households in select metro areas, including 48 percent of households in the Miami metro, 40 percent in the Los

Angeles metro, and 35 percent in the New York City metro. As a significant driver of household growth, immigrants are a large source of new housing demand.

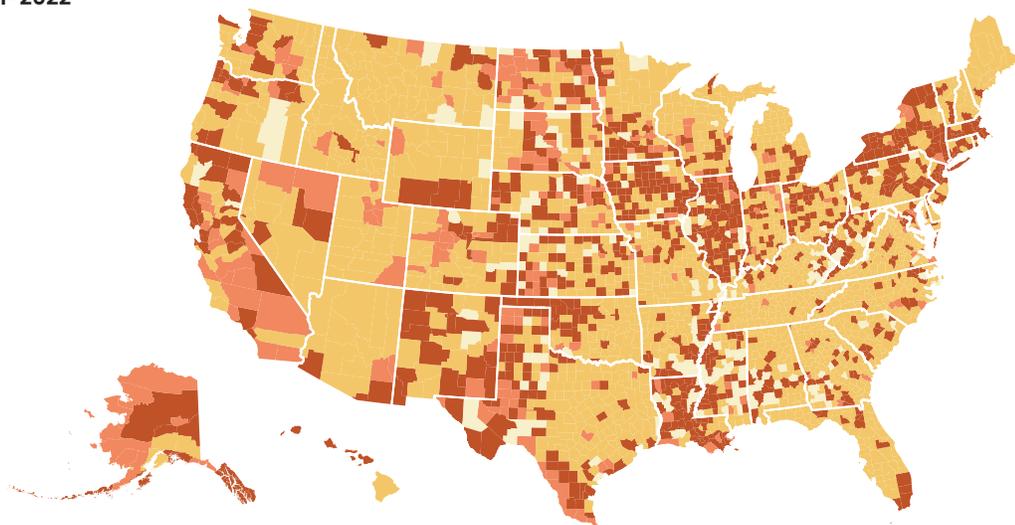
Immigrants constitute an extremely racially and economically diverse demographic. Overall, 43 percent of immigrant householders are Hispanic, 26 percent are Asian, 19 percent are white, and 10 percent are Black. And while high shares of immigrant workers have low levels of education, increasing numbers are highly educated. Among recent immigrants who have entered the country since 2016, 20 percent of foreign-born adults ages 25 and older lack a high school education, in contrast to 7 percent of native-born adults. However, 47 percent of immigrants have a bachelor's degree or higher, compared with just 35 percent of native-born adults. Unsurprisingly, immigrants with more skills and education generally earn higher incomes and are better positioned to form new households, buy homes, and afford different areas than their counterparts with less income, illustrating the need for more diverse housing options to meet the full range of housing demand from immigrants.

Figure 14

Immigration Was the Largest Source of Population Growth in Nearly a Third of Counties in 2022

Largest Component of County Population Growth, 2021–2022

- Immigration
- Domestic Migration
- Natural Change
- All Negative



Notes: Natural population change is the difference between births and deaths. “All negative” means that each component of population change was negative in 2021–2022.

Source: JCHS tabulations of US Census Bureau, 2022 Population Estimates Program.

Residential Mobility and the Shifting Geography of Housing Demand

As the rate of population growth slows, domestic migration will become a more important driver of household growth and housing demand. Already, domestic migration was the largest source of population growth in 20 states and in the majority of counties that experienced growth in 2022.

Suburbs, rural areas, and smaller metros—most of which have relatively more affordable home prices—are attracting a growing number of residents, while many larger, higher-cost urban areas are losing residents. Some of this shift has been accelerated by the pandemic-induced opportunity to work remotely, but longer-term changes in housing affordability, the age distribution of the population, and a host of other factors that predate the pandemic are also helping to change the places people are moving to and from.

On a regional scale, states in the South and Mountain West gained population from interstate moves in 2022, with Florida, Texas, and North and South Carolina posting high net inflows, as was the case before the pandemic. Further mimicking pre-pandemic trends, California, New York, and Illinois saw the largest number of net moves out of state. The biggest difference in 2022 relative to 2019 is that in 2022, the population gains in Southern states grew larger, while losses increased in states along the Pacific coast and in the Northeast. For example, the population gains from net moves into Florida more than doubled, from 139,000 in 2019 to 319,000 in 2022, while population losses from net moves out of California jumped over 50 percent, from 208,000 in 2019 to 340,000 in 2022.

Similarly, county-level migration patterns remained consistent, though they were generally larger in magnitude than before the pandemic (**Figure 15**). Urban counties in large metros with populations over 1 million lost more people from moves in 2022 than in 2019, while counties in smaller metros gained more people. Meanwhile, nonmetro counties posted popu-

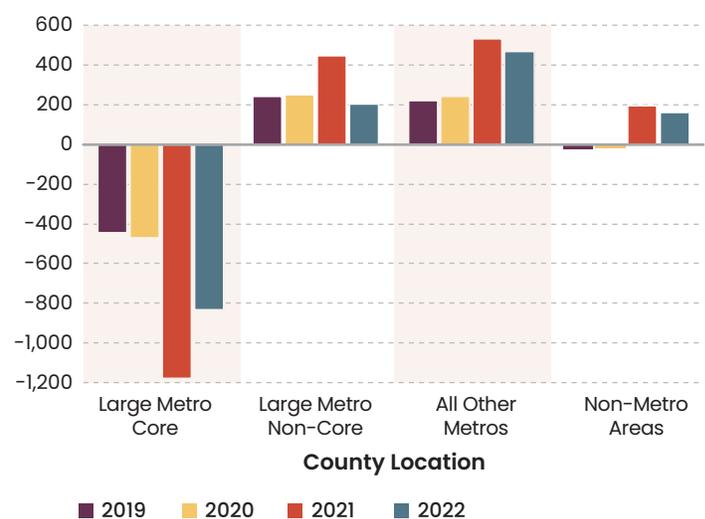
lation gains from domestic migration, reversing the pre-pandemic trend of decline. Gains occurred in a majority of these rural counties (57 percent), a rare event in decades of net urbanization.

Some of this shift in geography, particularly the increase in moves to smaller metros and rural areas, may be related to the pandemic-fueled rise in remote work. Between 2019 and 2021, the share of the workforce reporting that they usually worked from home tripled from 6 percent to 18 percent. Among younger workers ages 25–34, rates of working from home more than quadrupled from 4 percent to 18 percent. Given that younger adults have the highest mobility rates and that remote workers were more likely than commuters to move, the increase in working from home among younger workers likely contributed greatly to the recent rise in interstate mobility. In 2021, fully 29 percent of householders ages 25–34 who worked from home had moved in the past year, compared with 21 percent of commuters of the same ages.

Figure 15

Moves from Core Counties to Smaller and Rural Markets Accelerated During the Pandemic

Net Domestic Migration (Thousands)



Notes: Large metro areas have at least 1 million residents. Core counties contain either the largest city in the metro area or any city with at least 250,000 residents. Non-core counties are all other counties in large metro areas.

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

That said, surveys continue to show that, on net, interstate and intercounty mobility rates at best only inched upward in 2022. And, within-county moves—which account for the vast majority of household moves—continued to decline as they have for decades. In all, since 2010 the share of households moving outside their county each year has held at roughly 3.4–3.9 percent, with the interstate component hovering between 1.9 percent and 2.4 percent. Meanwhile, the share of households moving within their county dropped by nearly half, from 8.3 percent in 2010 to 4.8 percent in 2022. This decline in local mobility results in fewer homes available for sale or rent and less spending on pre- and post-move renovations, furnishings, and other services, and has shrunk the overall residential mobility rate. According to Current Population Survey data, the total share of households that reported having moved in the past 12 months—local or otherwise—fell from 11.9 percent in 2010 to 9.8 percent in 2019 and then again to 8.8 percent in 2022.

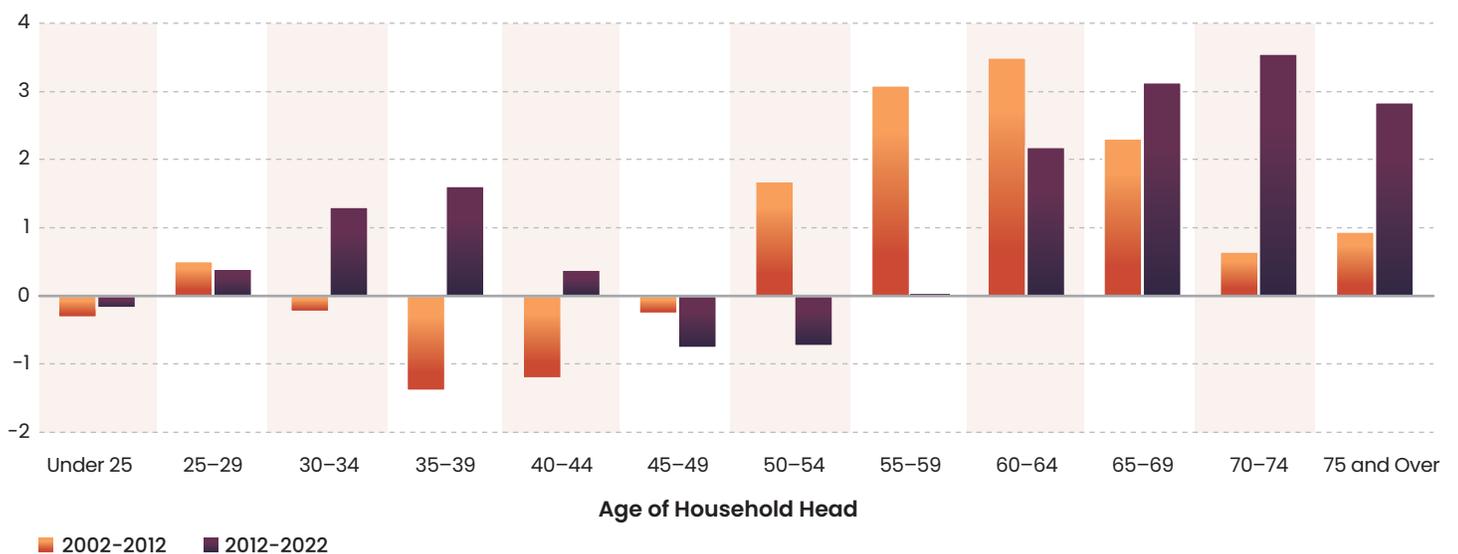
US Households Growing Older and Increasingly Diverse

Rapid growth in the older adult population is shifting the age composition of US households. Thanks to the baby boomers, the number of householders ages 65 and older grew by nearly 40 percent between 2012 and 2022 to a whopping 35 million households. Fully 27 percent of all households—and a third of all homeowner households—are now headed by someone age 65 or older. And with the oldest baby boomers having turned 75 in 2021, the highest rates of growth are shifting to the oldest age groups, who have substantially greater accessibility needs (**Figure 16**). There has been a parallel increase in smaller households, such as older single-person households and married couples living alone. As more of the older adult population chooses to age in the community, demand is increasing for smaller housing, accessibility features such as single-floor living, and services delivered to the home. At the same time, increases in multigenerational households are driving interest in flexible housing designs spacious enough to accommodate larger family households.

Figure 16

Older Adults Are Increasingly Driving Household Growth

Change in Households (Millions)



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

Meanwhile, the millennial generation—the largest generation in history—is aging into prime childbearing years, increasing the need for larger units affordable to younger families. Over the past decade, the number of households headed by someone ages 25–44 increased by 10 percent—3.7 million households—helping to grow the number of young family households with children after a decade of decline. That said, this generation is also large enough to increase the number of smaller households, too, as their lower rates of marriage and childbearing are growing the numbers of young single-person households and unmarried childless partner households.

Additionally, new, younger households are helping to make US households more racially and ethnically diverse. As of 2022, while 35 percent of all households were headed by a person of color, up from just 25 percent in 2000, people of color accounted for 44 percent of households ages 25–34 and 42 percent of households ages 35–44, as compared with 35 percent of households ages 45–64, and 24 percent of households ages 65 and older. People of color accounted for about 85 percent of household growth over the past 10 years, including 42 percent of total household growth from Hispanic households, 18 percent from Black households, and 25 percent from Asian households or households of another race. Going forward, people of color are expected to drive the majority of both population and household growth, while the older households lost will primarily be white.

This increasing diversity has numerous potential implications for housing markets. While people of color head households of all income levels, larger shares of households headed by people of color are lower income. Consequently, the need for more affordable housing options in a broad range of communities will only grow, as will the need to ensure fair access to these units and neighborhoods.

Income and Wealth Inequality Persist

Incomes have grown significantly in the past decade. According to 2022 Current Population Survey data, real median household income rose from \$60,200 in 2011 to \$70,200 in 2021, with particularly large gains among people of color, helping to reduce racial inequalities. During this period, median incomes rose 28 percent among Asian households, 26 percent among Hispanic households, and 25 percent among Black households, as compared with 18 percent among white households. Nevertheless, enormous racial income disparities persist. At last measure, the median income for white households was \$78,000, which was 35 percent higher than the \$57,900 median for Hispanic households and 62 percent higher than the \$48,100 median for Black households. Only Asian households, with a median income of \$101,000 in 2021, had incomes that exceeded white households.

Households with low incomes, which are disproportionately headed by people of color, are more likely to be disadvantaged in housing markets because they are more likely to be cost burdened, less likely to live in opportunity-rich neighborhoods, and less likely to meet the income and downpayment requirements for homeownership. Against this backdrop, it is easy to draw a line from long-standing income inequality to even more dramatic and entrenched racial wealth disparities. According to the latest Survey of Consumer Finances from 2019, the median net wealth for white households was \$189,100, more than five times the \$36,000 median for Hispanic households, nearly eight times the \$24,100 median for Black households, and over two and a half times the \$74,500 median for households of all other races, including Asian.

These wealth disparities both reflect and perpetuate homeownership disparities. Home equity is often the largest source of household wealth but, at the same time, the lack of wealth in the form of a downpayment is commonly the greatest barrier to homeownership. Black and Hispanic renters had a median of just \$800 and \$1,000 in cash savings, respectively, less than half the \$2,200 reported for white renters, and well below the amount needed for a down payment on a modestly priced home in most areas.

Growing inequality in wealth also contributes to the ability of households with higher incomes to bid up overall housing costs and exacerbates housing affordability challenges. Data show that the median wealth of households in the top income quartile grew by 27 percent between 2010 and 2019, to \$627,000, while the median wealth of households in the bottom income quartile grew just 10 percent to \$10,700, making it that much easier for those with more—and that much harder for those with less—to secure housing.

The Outlook

The pandemic era of rapid household growth, fueled by the release of pent-up demand from millennials to form their own households, appears to be nearing an end as headship rates among most age groups have recovered much of the losses incurred since the Great Recession. Going forward, population growth

will once again become the main driver of household growth, as has been the case for decades. However, population growth is at a near-record low, with little sign of recovery on the horizon. Birth rates are declining and mortality rates are rising, consistent with the aging of the enormous generation of baby boomers, many of whom are in their mid-70s. Consequently, low population growth is likely for the foreseeable future, leading to both a reduction in household growth and an increased reliance on international and domestic migration to fuel new household formations.

Looking to the future, one of the primary drivers of domestic migration, and in turn the geography of housing demand, will be remote work, and here trends are still evolving. Some workers are returning to the office, others are continuing to work from home, and still others are employing some combination of the two. Regardless, it is clear that the aging and growing diversity of the population, coupled with some workers' increasingly flexible work options, will change the shape of housing demand and necessitate housing adaptations. These include additional options for older households seeking to remain in their communities and homes in a broad range of communities and at a broad range of price points for a diverse array of households of all ages, races, and income groups. Further, in the face of persistent and growing racial wealth and income disparities, the need for safe, affordable housing for households with lower incomes and households of color is ever more urgent.

HOMEOWNERSHIP

Homeownership has become much more expensive in the wake of last year’s sharp rise in interest rates. While the homeownership rate increased in 2022, by the end of the year the higher costs appeared to be taking a toll as the rate of homeownership growth slowed. Meanwhile, many homeowners thrived, with home equity levels hitting new highs and delinquency and foreclosure rates remaining low. That said, aggregate data may somewhat mask the distress experienced by more financially vulnerable homeowners, underscoring the continued and urgent need to reduce the nation’s gaping racial homeownership disparities and expand access to affordable homeownership among people of color, especially in light of the increased cost of homebuying.

High Costs of Homeownership Price Out Many Potential Buyers

Despite softening prices and week-to-week volatility in mortgage interest rates in early 2023, the costs of homeownership remain significantly higher than a year ago, pricing many potential buyers out of the market. Between March of 2022 and March of 2023, the annual interest rate on a 30-year fixed-rate mortgage jumped from an average of 4.2 percent to an average of 6.5 percent, a level not seen since 2008.

Meanwhile, home prices have started to decline, though not nearly enough to counteract the impact of increased interest rates on costs. In March 2023, the US median existing home price was \$375,400, down 1.0 percent year over year and 9.3 percent from its mid-2022 peak. Nevertheless, monthly mortgage payments on the median-priced home in March 2023 were up by 20 percent, or more than \$500 higher than in March 2022, due to the rise in interest rates (Figure 17).

These increased costs have left millions of households unable to afford to buy a home. As of March 2023, monthly mortgage payments on the US medi-

an-priced home—assuming a 30-year mortgage and a 3.5 percent downpayment—were \$2,300, with property taxes and insurance costs boosting it to \$3,000 per month. Assuming an underwriting model in which all debt is capped at 43 percent of monthly household income, of which non-housing debt payments account for 12 percent and mortgage, insurance, and tax payments are capped at 31 percent, the

Figure 17

Higher Interest Rates Eroded Affordability over the Past Year

	March 2022	March 2023	Percent Change
Interest Rate (Percent)	4.2	6.5	+57
Median Home Price (Dollars)	379,300	375,400	-1
Downpayment & Closing Costs	24,700	24,400	-1
Monthly Mortgage Payment	1,780	2,300	+29
Total Monthly Owner Costs	2,500	3,000	+20
Required Annual Income	97,400	117,100	+20

Note: Estimates assume a 3.5% downpayment on a 30-year fixed-rate loan, 0.85% mortgage insurance, 0.35% property insurance, 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.

annual income needed to afford payments on the median-priced home rose over the past year by 20 percent from \$97,400 to \$117,100. As a result, the number of renter households able to afford these higher payments shrunk by 32 percent, from 7.5 million to 5.1 million, a loss of 2.4 million potential homebuyers.

Because interest rates increased nationwide, would-be homebuyers in every corner of the country felt these increased costs, although the scale varied by market. In the 177 metros whose median home prices are reported by the National Association of Realtors, monthly payments on the median-priced home were up anywhere from 4 percent to 44 percent year over year in the first quarter of 2023—between \$50 and \$1,400 per month—depending on the metro, with a median increase of 28 percent, or \$500. Notably, costs rose even where home prices themselves declined, such as in the San Francisco metro area. There, the monthly payment on a 30-year fixed-rate mortgage for a median-priced home increased 8 percent—\$630 per month—between the first quarters of 2022 and 2023, even as the median single-family home price in the area dipped 14.5 percent.

In a growing number of metros, these rising costs pushed homebuying out of reach for all households but those with the highest incomes. From the first quarter of 2022 to the first quarter of 2023, the share of metros requiring an annual income of at least \$100,000 to afford payments on the median-priced home more than doubled, from 16 percent to 38 percent. Whereas last year, home prices in the typical metro required an annual income of \$67,000 for payments to be affordable, a year later the required income has jumped to \$86,000.

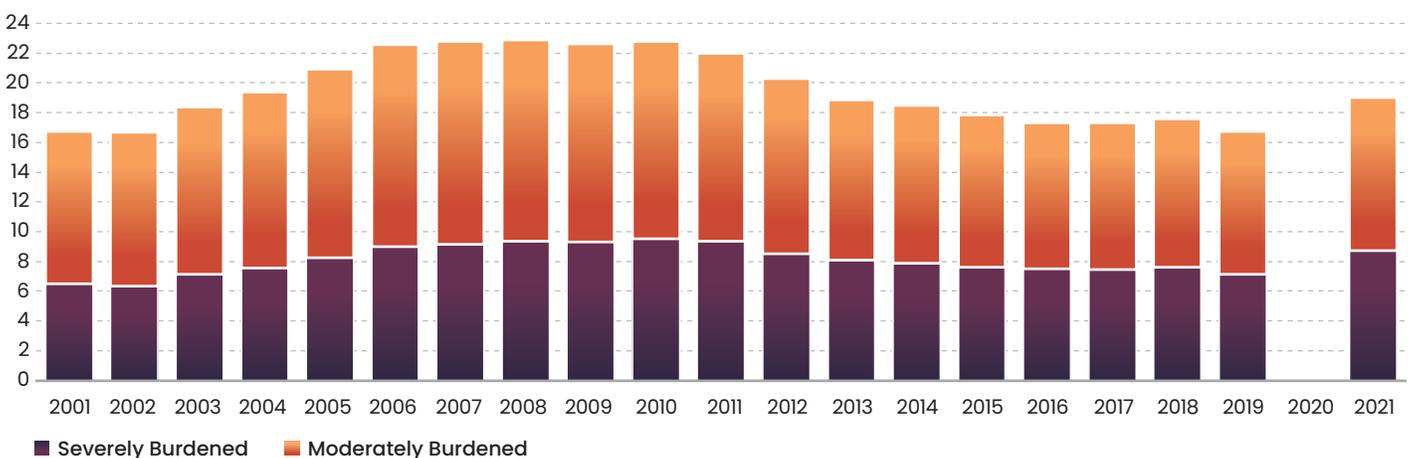
Homeowner Cost Burdens Skyrocket

As homebuyer affordability has deteriorated, cost burdens among current homeowners have climbed sharply. Between 2019 and 2021, the number of homeowners spending more than 30 percent of their income on housing costs jumped by 2.3 million households, the largest increase in cost-burdened homeowners since the height of the housing boom in 2005–2007 (**Figure 18**). As a result, 19.0 million homeowner households, or 22.7 percent, were burdened by monthly housing costs in 2021, of which 8.7 million (10.4 percent of all homeowners) had housing costs that exceeded 50 percent of their income.

Figure 18

Number of Cost-Burdened Homeowners Rose Sharply in 2021, a First Since the Mid-2000s

Cost-Burdened Homeowner Households (Millions)



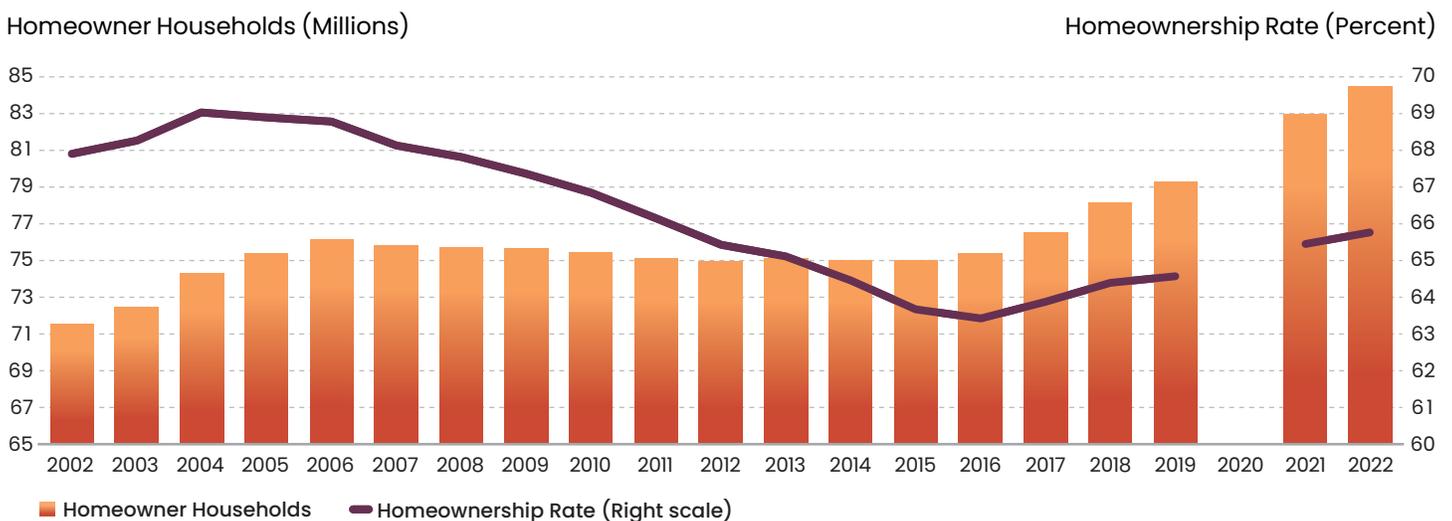
Notes: Moderately (severely) cost-burdened households spend more than 30% (more than 50%) of income on housing. Estimates for 2020 are omitted due to data collection issues experienced during the pandemic. Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

Over half of the increase in cost-burdened homeowners between 2019 and 2021 was among households with the lowest incomes, earning less than \$30,000 annually. As a result, the cost-burden rate among this group of homeowners grew 3.2 percentage points between 2019 and 2021, to 68.6 percent. Furthermore, nearly all of the increase was for households with severe burdens. By 2021, 49.2 percent of the 12.2 million homeowner households with incomes below \$30,000 were affected.

Homeowners with low incomes were only one of the many vulnerable populations whose burden rates increased between 2019 and 2021. Cost burdens affected a quarter of all homeowners age 65 and over (26 percent) and more than a third of all single-person (39 percent) and single-parent (36 percent) homeowner households in 2021. Additionally, burdens reached nearly a third of all Black (31 percent) and Hispanic (29 percent) homeowners and more than a quarter (26 percent) of Asian homeowners, compared with one in five white homeowners (21 percent). Such high rates of burden leave many homeowners struggling to pay for other monthly necessities and acutely vulnerable to sudden losses of income, urgent home repairs, or other financial shocks.

Figure 19

Growth in Homeowner Households Continued to Lift Homeownership Rates in 2022



Note: Estimates for 2020 are omitted due to data collection issues experienced during the pandemic.
 Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

Homeownership Rates Climb

Despite rising costs, the number of homeowner households rose in 2022, though at a slower pace than in previous years. Housing Vacancy Survey data show the number of homeowner households increased by 1.5 million between 2021 and 2022, slower than the rapid 1.9 million average annual growth rate observed between 2019 and 2021 but still greater than the rate heading into the pandemic (Figure 19).

Consequently, the Housing Vacancy Survey indicates the US homeownership rate grew to 65.8 percent in 2022, up from 65.5 percent a year earlier and continuing the six years of consecutive homeownership growth started in the aftermath of the Great Recession, after rates bottomed out at 63.4 percent in 2016. Younger households were the primary drivers of the increase. For households under age 35, homeownership rates rose by 0.8 percent in 2021–2022 to 39.0 percent, and have now risen 2.3 percentage points since 2019. Likewise, homeownership rates for those ages 35–44 also increased, up 2.1 percentage points since 2019, to 62.2 percent, as more millennials entered the market after experiencing financial constraints during the Great Recession that forced them to delay homeownership.

The overall homeownership rate has been further boosted by the nation’s aging population. Older adults have the highest homeownership rates of any age group, with 79 percent of households ages 65 and older owning a home in 2022. While homeownership rates for older households have remained relatively stable, hovering between 78.5 and 80.0 percent since 2016, their share of households rose from 24 percent to 27 percent during that period and has helped to lift the overall homeownership rate.

However, there are signs that the increase in homeownership is slowing. For one, the number of home purchases by first-time homebuyers is rapidly declining. Agency data from the Urban Institute show that the number of purchase loans originated to first-time homebuyers decreased 22 percent in 2022. Furthermore, declines accelerated through the year such that, by the fourth quarter, lending to first-time homebuyers was down nearly 40 percent relative to a year earlier. Unless this trend is reversed in the near future, declines will most likely continue into 2023, with even fewer households reaping the benefits of homeownership.

Home Equity Reaches Record Levels

While rising home values have added to the challenges for first-time buyers, they have been a boon for existing homeowners. According to the Federal Reserve, homeowner equity in the US totaled \$31.0 trillion in the fourth quarter of 2022, up 33 percent (\$7.7 trillion) in real terms since the start of the pandemic (**Figure 20**). Despite declining home prices, aggregate equity remains up \$3.5 trillion year over year nominally and is nearly 2.5 times the aggregate mortgage debt.

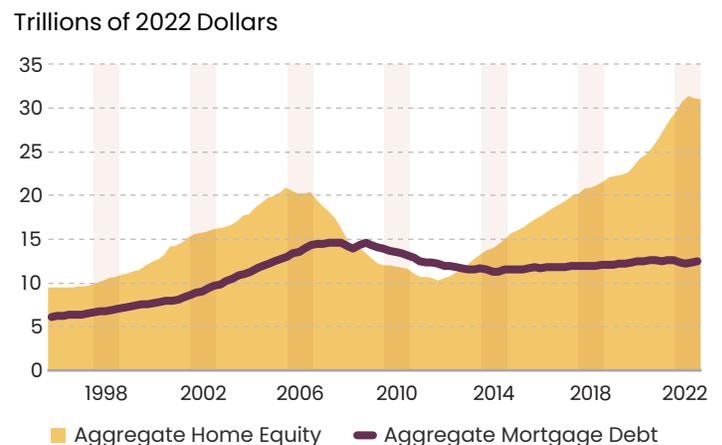
CoreLogic reports that the average homeowner had \$270,000 in equity in their home as of the fourth quarter of 2022, having gained \$14,300 in equity over the past year and fully \$95,900 over the past three years. But there are significant geographic variations that follow the trends in home prices. Changes in equity from the fourth quarter of 2021 to the fourth quarter of 2022 ranged from an average gain of \$49,000 for home-

owners in Florida to a loss of \$21,400 for homeowners in Idaho. Nationwide, however, just 2.2 percent of all mortgaged properties faced negative equity in the fourth quarter of 2022, far below the 26 percent peak at the height of the mortgage crisis in 2009. That said, if home prices continue to fall, more owners could be pushed into having negative equity positions, particularly first-time buyers who purchased their home near their peak price.

Nevertheless, these huge variations in equity highlight the critical role homeownership plays in wealth inequality, not simply between homeowners and renters, the most commonly cited disparity, but also among homeowners, particularly as home equity relates to the racial wealth gap. Recent research has shown that appraisals have undervalued homes owned by Black households or in predominantly Black neighborhoods, translating directly into less home equity for Black homeowners compared with white homeowners. Overall, at last measure in 2019, median home equity held by white homeowners (\$130,000) was nearly twice that of Black homeowners (\$66,800) and more than a third higher than that of Hispanic homeowners (\$95,000).

Figure 20

Home Equity Has Reached Unprecedented Heights as Mortgage Debt Holds Steady



Note: Homeowner equity and mortgage debt are adjusted for inflation using the CPI-U for All Items Less Shelter. Source: JCHS tabulations of US Federal Reserve Board, Financial Accounts of the United States.

Mortgage Delinquencies and Foreclosures Remain Below Pre-Pandemic Levels

Despite ongoing affordability pressures, federal assistance and a resilient labor market have helped mortgage loan performance remain strong through early 2023. At last measure from Black Knight in March, the overall delinquency rate was 2.92 percent, down from 3.37 percent a year earlier, backed by declines in both short- and long-term mortgage delinquencies. Likewise, just 32,200 new foreclosure actions were started that month—5.6 percent fewer than a year ago. In all, both foreclosures and delinquencies remained below pre-pandemic levels.

Some of these low levels may be attributable to federal assistance. For example, the \$9.9 billion Homeowner Assistance Fund has helped more than 241,000 homeowners pay mortgage, utility, and home insurance bills since it was established as part of the American Rescue Plan Act of 2021. And, though it was feared that the expiration of the CARES Act forbearance period would lead to a wave of foreclosures, current data indicate that this is not the case. Overall, 86 percent of the 8.5 million loans given forbearances during the pandemic have exited and are performing or paid off. Only 422,000 loans remain in active forbearance, and they are exiting at a pace of roughly 100,000 per month.

Nevertheless, these low overall rates of serious delinquency conceal higher levels of distress among homeowners. Fully 576,000 loans that have exited the forbearance program are either delinquent or in loss mitigation, while an additional 105,000 loans are in active foreclosure or liquidation following their forbearance plan exit, as of April 2023. This financial distress disproportionately impacts households with low incomes and people of color. According to the Census Bureau's Household Pulse Survey, rates of missed payments for Black (10.3 percent), Asian (10.1 percent), and Hispanic homeowners (7.9 percent) were each well above the share reported by white homeowners (3.8 percent) in late 2022. Racial income inequality plays a role in these disparities, as households of color

are more likely to have lower incomes, and are also much more likely to be behind on payments. Overall, 13.0 percent of homeowners earning less than \$25,000 reported being behind on housing payments, along with 9.8 percent of homeowner households earning between \$25,000 and \$50,000, versus less than 4 percent of homeowners earning \$75,000 or more. While the bulk of the Homeowner Assistance Fund remains unobligated and thus will be able to assist some distressed homeowners, more resources will be needed to help homeowners after the fund is fully committed.

Racial Homeownership Gaps Persist Despite Recent Progress

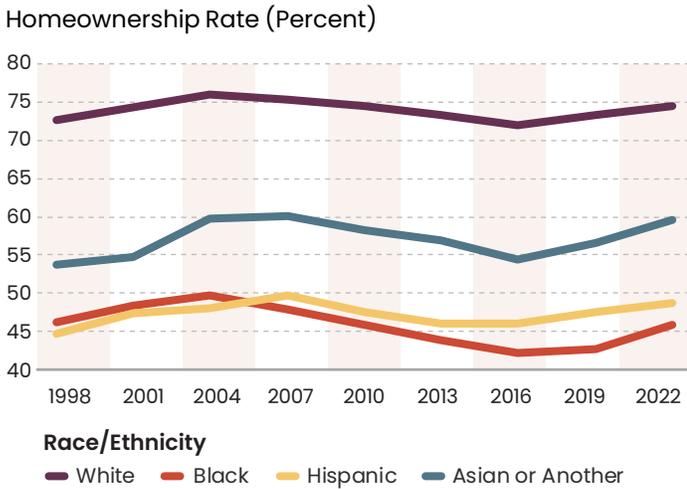
As gains in homeownership slow, so do prospects for reducing racial disparities in homeownership rates. On the one hand, pandemic-era increases in homeownership were widespread by race and ethnicity, and resulted in some progress toward narrowing racial homeownership gaps. In fact, homeownership rates for Black and Hispanic households rose 3.1 percentage points and 1.2 percentage points, respectively, between 2019 and 2022, outpacing the 1.1 percentage point increase for white households.

On the other hand, Black households' pandemic-era homeownership gains may be at least partially a product of the low Black homeownership rate before the pandemic. While Black homeownership rates have increased modestly since the eve of the pandemic in 2019, rates for Black households were then near their lowest levels in decades. This was due at least in part to the fact that Black households did not share equally in the economic recovery experienced by white and Hispanic households after homeownership rates bottomed out in 2016. And so, while the low interest rates of 2020 and 2021 helped Black homeownership rates to begin to catch up, the progress was only incremental.

Despite these recent gains, the homeownership rate for Black households, at 45.9 percent, remains a full 28.6 percentage points below the white rate of 74.4

Figure 21

Despite the Recent Rise in Homeownership Rates, Large Disparities Persist by Race and Ethnicity



Notes: Householders who are white, Black, and Asian or another race are non-Hispanic. Hispanic householders may be of any race. Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

percent. Meanwhile, the white-Hispanic homeownership rate gap is nearly as large at 25.8 percentage points, with the Hispanic homeownership rate at 48.6 percent (Figure 21).

Nor are these disparities on track to shrink. High home prices and relatively high interest rates over the past year have disproportionately priced out Black and Hispanic renter households, who have lower average incomes, from homebuying. Based on the income requirements alone, the number of Black renter households able to afford the median-priced home in the US dropped by 39 percent, while the number of Hispanic renter households dropped by 37 percent. Meanwhile, the number of white renter households dropped by 30 percent. While each of these decreases represents a significant decline in access to homeownership, the outsized decrease for Black and Hispanic households works against efforts to reduce racial homeownership rate gaps.

Incomes are not the only barrier to homeownership for people of color. Even among households earning over 120 percent of the median household income for their area, just 71 percent of Black households and 72 percent of Hispanic households own homes, compared with 85 percent of white households. Generations of racist housing, labor, and education practices have placed households of color at a disadvantage in terms of generational wealth, access to credit, access to high-quality housing and neighborhoods, and other factors that continue to be reflected in today's households and markets. As such, reducing racial homeownership gaps is critical to inclusive economic growth for both households and communities and an important policy issue, to ensure not only the health of housing markets, but also that of local economies and of the nation.

Increasing Access to Affordable Homeownership

In recent years, various programs and policies have been introduced to advance homeownership among people of color. For example, a growing number of for-profit and nonprofit lenders now offer targeted downpayment assistance programs to help eligible applicants meet lending requirements, a frequent barrier to homeownership for many households of color that may lack the generational wealth of many white homebuyers. Some such programs are created as special purpose credit programs, which are able to target households of color as an economically disadvantaged class of persons under the 1974 Equal Credit Opportunity Act. Many programs instead target specific neighborhoods or metropolitan areas that have racially diverse populations. Notably, these programs are not limited to downpayment assistance and may also offer favorable mortgage terms and more flexible underwriting criteria to further facilitate access to affordable and sustainable homeownership.

Credit score minimums are a second significant barrier to homeownership for many people of color, who have disproportionately high rates of low credit scores or lack of credit history. In response, Fannie Mae and Freddie Mac now provide a new tool for lenders to assess credit quality by offering the option to consider a prospective borrower's record on a wider set of monthly service payments that are not usually included in credit histories, such as rent payments. Credit bureaus such as Experian are also working with some rental management companies, utility companies, and even streaming services to enable renters to incorporate on-time payment of monthly rent or utility bills into credit scores.

Other barriers to homeownership are due to the economics of mortgage lending. Because lenders' fixed costs on mortgage loans are the same regardless of the loan size, lenders are incentivized against making smaller loans. However, in distressed housing markets, as well as in many rural areas where the typical home price can be less than \$70,000, low-balance mortgages and additional specialized lending programs are needed to accommodate lower home prices and expand homebuying opportunities.

Another area where policy action is needed is the cost of financing, which can push homeownership out of reach for households with lower incomes. Over the past year, the Federal Housing Finance Agency eliminated up-front fees on loans made to first-time borrowers with lower incomes and those in underserved communities. These changes are intended to expand access to mortgage financing and reduce monthly costs for homebuyers while still reflecting the relative risks of different categories of borrowers. While these are helpful and necessary steps, more is needed to overcome the many barriers to homeownership.

Indeed, efforts to increase homeownership cannot be limited to financial products. To truly provide equitable access to homeownership, concerted efforts are needed to reduce the cost and increase the supply of homes available for first-time buyers. Manufactured housing is an affordable path to homeownership that is underutilized in most of the country and could be encouraged by reducing zoning limitations and by providing owners of manufactured homes better access to lower-cost mortgage products like those available to site-built homes. Other general reforms of zoning laws, regulatory restrictions, approval processes, and development fees could help to drive down production prices on the types of more affordable homes that buyers want and need. Lastly, along with the production of new units, policy needs to help preserve the affordable owner-occupied stock to prevent losing properties to disrepair as the housing stock ages.

The Outlook

Over the coming year, overall higher housing costs will continue to make access to homeownership a challenge. That said, interest rates have plateaued and home prices have declined modestly in much of the nation since mid-2022, allowing buyers time to adjust to these new conditions. Homeownership demand persists, evidenced by the rise in loan applications that has accompanied every dip in interest rates in recent months. Against this backdrop, policymakers and practitioners will need to continue to adapt homeownership programs to improve access to affordable homeownership; address the racial disparities in income, wealth, and access to credit that fuel the nation's racial homeownership rate gaps; and increase the housing supply to satisfy anticipated demand from future buyers. Additionally, policies for distressed homeowners are needed to stave off potential harms when the next economic downturn arrives.

RENAL HOUSING

A drop-off in demand is cooling the formerly heated rental markets. Rental vacancy rates are climbing from historic lows, and rent growth is slowing from last year’s all-time high. Nonetheless, rents are still rising, the supply of low-rent units is falling, and new construction is adding primarily to the high-end rental stock. In response, renter cost burdens have risen to their highest recorded level, underscoring the worsening affordability challenges facing many renters with lower incomes.

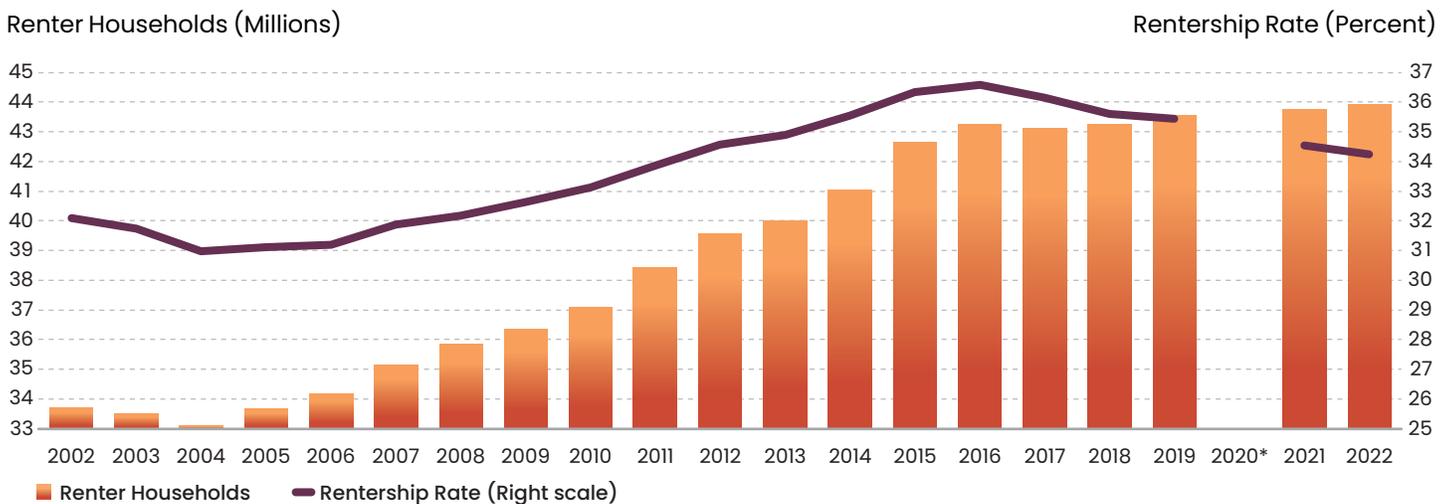
Slowing Demand for Rental Units

Rental demand declined in early 2023. According to the Housing Vacancy Survey, the number of renter households decreased by 158,000 between the first quarter of 2022 and the first quarter of 2023. The recent decline came after a surge in rental demand early in the pandemic, when the number of renter house-

holds grew by 1.0 million between the first quarter of 2020 and the first quarter of 2022, an implied annual average increase of 510,000 renter households. The recent drop-off in the number of renter households, coupled with robust growth in the number of homeowner households, fueled a continued downward trend in rentership rates from a peak of 36.6 percent in 2016 to 34.2 percent in 2022, with 43.9 million households renting their housing in 2022 (Figure 22).

Figure 22

Rentership Rates Declined as Renter Household Growth Slowed in 2022



Note: Estimates for 2020 are omitted due to data collection issues experienced during the pandemic. Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

The decline was even sharper in early 2023, particularly for professionally managed apartments, which account for about a quarter of the total rental stock and primarily serve households with higher incomes. According to data from RealPage, the net number of occupied apartments within the professionally managed segment dropped by 177,000 between the first quarter of 2022 and the first quarter of 2023. This drop-off in apartment demand marked a sharp reversal from the surge in the first quarter of 2022, when the net number of occupied apartments increased by a record-breaking 698,000 units annually.

Several factors have contributed to the recent drop-off in rental demand. Many renter households with higher incomes transitioned to homeownership during the pandemic-era homebuying boom. Further, demand may simply be normalizing after the temporary surge in rental household formations that happened when restrictions were lifted. Lastly, high inflation rates, rapidly rising rents, and economic uncertainty may have presented additional barriers to household formation, either disincentivizing or simply preventing some individuals from moving out of homes shared with family or roommates to form new households.

Softening Rental Markets Cool Multifamily Investor Demand

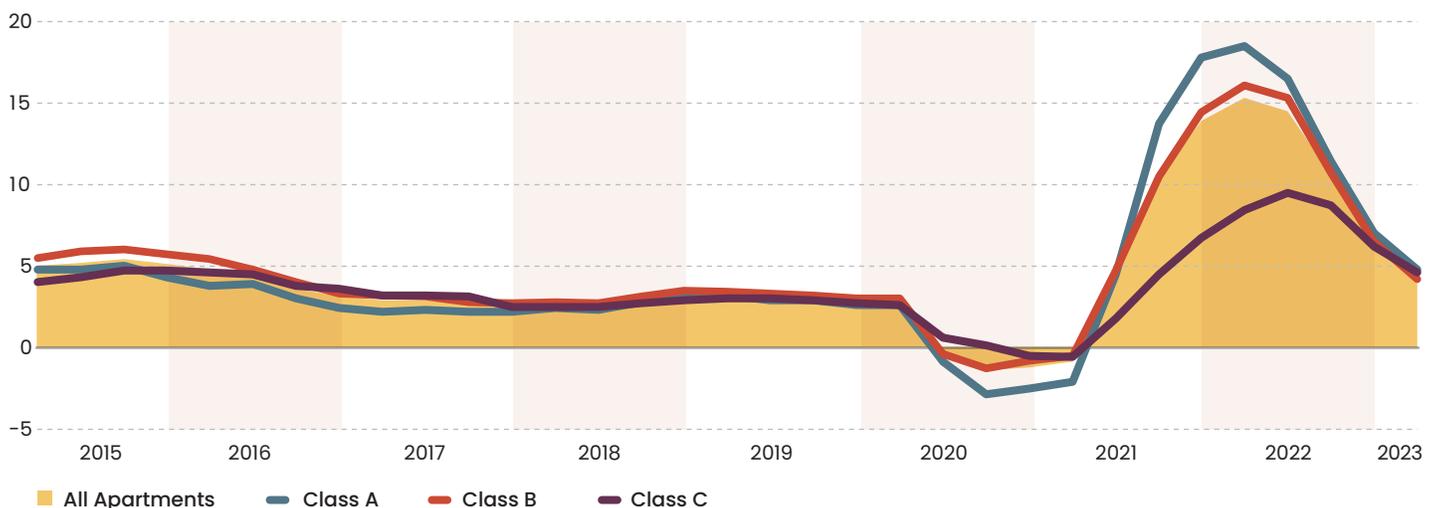
Slowing rent growth, combined with rising vacancies, interest rates, and operating costs, has hurt multifamily property performance through early 2023. In the first quarter of 2023, the rental vacancy rate increased to 6.4 percent, up from its lowest level in decades (5.6 percent) in the fourth quarter of 2021, according to the Housing Vacancy Survey. Meanwhile, the vacancy rate in the professionally managed apartment segment increased even more dramatically, reaching 5.2 percent in early 2023, according to data from RealPage, nearly 3 percentage points above its record-low reading of 2.5 percent in the second quarter of 2022.

The pace of rent growth has slowed remarkably over the past year, though rates of increase remain above pre-pandemic averages (**Figure 23**). Between the first quarter of 2022 and the first quarter of 2023, rents for units in professionally managed apartments were up by just 4.5 percent—well below the record-high annual rate of 15.3 percent one year earlier at the height of the pandemic-era surge, but nearly a percentage point above the 3.6 percent rate averaged in the five years

Figure 23

Despite Slowing Rent Growth, Rent Increases Remain Above Pre-Pandemic Levels

Annual Change in Rents (Percent)



Notes: Asking rents are for professionally managed apartments in buildings with five or more units. Class A (Class C) apartments are relatively higher (lower) quality.

Source: RealPage.

leading up to the pandemic. This slowdown in the pace of rent growth occurred across property classes. Rents for higher-cost Class A units, which increased at a rapid annual rate of 18.5 percent in the first quarter of 2022, grew by just 4.8 percent in early 2023. Rent growth for lower-cost Class B and Class C units also decelerated but remained slightly higher than pre-pandemic averages. Rents for Class B apartments grew by 4.2 percent annually in early 2023, down from a peak of 16.1 percent, and rents for Class C apartments grew by 4.6 percent, down from a peak of 9.5 percent.

Cooling market conditions along with increased operating costs have reduced multifamily investment activity. Indeed, rising costs of labor, maintenance materials, insurance, and property taxes pushed operating expenses up nearly 8 percent in 2022, according to Yardi Matrix. Consequently, net operating income growth dropped to 8.1 percent on a four-quarter trailing basis in the first quarter of 2023, down from a pandemic-high of 24.8 percent in the second quarter of 2021, according to the NCREIF Property Index. As a result, investor activity decreased precipitously. Transaction volumes declined to \$26.7 billion in the first quarter of 2023, fully 50 percent lower than the \$53.2 billion recorded a year earlier and 23 percent lower than the same period in 2019.

The reduction in multifamily investment comes after an extended period of strong property performance. Apartment prices fell 10 percent annually in March 2023 but were still up 131 percent over the past decade, according to Real Capital Analytics. The longer-term strong financial performance attracted non-individual investors such as LLPs, LLCs, real estate corporations, and others to the market. According to the Rental Housing Finance Survey, the share of rental properties owned by non-individual investors increased by 9 percentage points over the past two decades to 27 percent in 2021.

Non-individual ownership has grown across all property types, especially for small and mid-sized multifamily properties. Between 2001 and 2021, the share of 2- to 4-unit multifamily properties owned by non-individual investors increased by 17 percentage points to about a third of properties while the share of properties with 5 to 24 units owned by non-individual investors increased by 32 percentage points to about two-thirds of properties. Meanwhile, the share of single-family rental properties owned by non-individual investors increased by 8 percentage points, reaching 25 percent in 2021. In contrast, non-individual investors owned 93 percent of rental properties with at least 50 units in 2021.

The growing presence of non-individual investors in some market segments could have important implications for rental affordability and the rental stock. Research has shown that increased investor purchases of multifamily rental housing in some neighborhoods is associated with increased evictions. At the same time, larger corporate landlords are more likely to have digitalized and automated rent collection and property management processes, which can increase efficiency and reduce costs for property owners.

New Construction Targets High-End Market

Multifamily production was extraordinarily strong over the past year, with 342,000 multifamily rental units added in 2022 alone, mostly targeting the high end of the market. According to data from the Survey of Market Absorption, in the third quarter of 2022, the median asking rent for new units reached \$1,805, an increase of \$125, or 7 percent, from the \$1,680 median in the third quarter of 2015 after adjusting for inflation. This growth in rents has shifted the distribution of asking rents for new multifamily units. Between 2015 and 2022, the share of newly completed units with asking rents

of \$2,050 or more in nominal terms nearly doubled, from 19 percent to 36 percent. Meanwhile, the share of newly completed units with asking rents below \$1,050 fell from 22 percent of units in 2015 to just 5 percent of new units in 2022.

Rising rents are at least partly driven by increased amenities in new units to meet demand from households with higher incomes. For example, in 2021, 92 percent of multifamily for-rent completions had in-unit laundry, an all-time high and well above the 76 percent share in 2011. Additionally, new multifamily construction remains highly concentrated in large metro areas, where land is most expensive. According to the National Association of Home Builders' Home Building Geography Index, 70 percent of multifamily permitting in the third quarter of 2022 was in large metro areas, including 38 percent in core counties and 28 percent in suburban counties. In comparison, just 27 percent of multifamily permitting was in small metro areas and under 4 percent was outside metro areas.

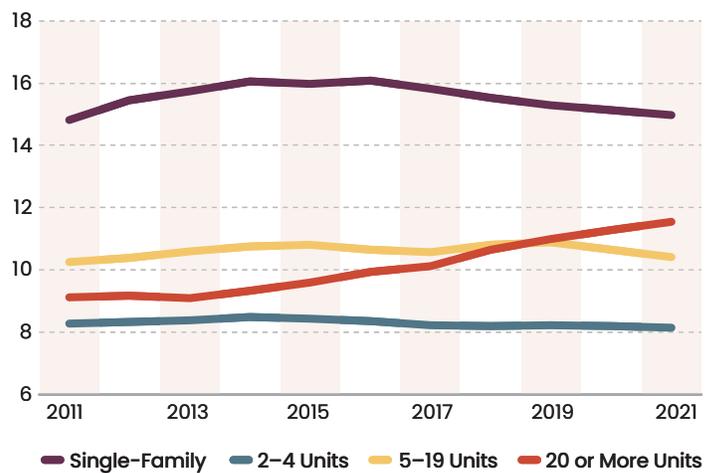
Because rental demand has been strongest in high-cost urban centers, multifamily completions have become increasingly concentrated in large buildings. Apartments in buildings with at least 20 units constituted 89 percent of new multifamily completions in 2021, up from 77 percent a decade earlier, according to the Census Bureau's Survey of Construction. Units in buildings with at least 50 units rose from 30 percent of all new units in 2011 to 59 percent in 2021. As a result, the number of apartments in large multifamily buildings increased from 9.1 million units in 2011 to 11.6 million in 2021, according to the American Community Survey (**Figure 24**).

While the number of rentals in smaller and midsize buildings has increased as well, the growth was more tempered. The number of units in buildings with 5 to 19 units increased by 171,000 units (2 percent) between 2011 and 2021. Growth of single-family rental homes

Figure 24

Large Multifamily Buildings Constituted the Bulk of Rental Stock Growth in the Last Decade

Number of Rental Units (Millions)



Notes: Rental units may be occupied, vacant for rent, or rented but unoccupied. Estimates for 2020 are interpolated due to data collection issues experienced during the pandemic. Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

was slightly slower still, increasing by just 163,000 units (1 percent) between 2011 and 2021. The most substantial growth in single-family rentals occurred in the first half of this period and is attributed largely to tenure conversions of units that were previously owner-occupied. Meanwhile, the number of rentals in small multifamily buildings with 2 to 4 units fell by 136,000, a decline of 2 percent.

The changing characteristics and geography of new rental construction have shifted the distribution of rents, reducing the share of units available to households with low and moderate incomes. So, while multifamily rental construction is at a decades-long peak, the high asking rents of new units make them unaffordable for many households.

Shrinking Supply of Low-Cost Rentals

The supply of low-cost units has been declining consistently in recent years, leaving renters with lower incomes with even fewer affordable places to live. In 2021, just 17.1 percent of rental units offered contract rents below \$600, the maximum amount affordable to households with incomes of \$24,000 or less—about 30 percent of all renter households—down from 26.7 percent in 2011 after adjusting for inflation (**Figure 25**). The market has lost 3.9 million units with contract rents below \$600 in the last decade, and the loss has been accelerating. This low-rent segment declined by 1.2 million between 2019 and 2021 alone, to 8.0 million units.

During those same two years, virtually every state saw declines in their low-cost rental stock, with 36 states losing more than 10 percent of units with contract rents below \$600 and 14 states losing more than 15 percent. Many states with the most substantial losses were previously more affordable but have experienced increasing demand and relatively strong population growth. For example, the number of units with rents below \$600 declined by 86,000 in North Carolina, more than in any other state, and also dropped significantly in Georgia (67,000) and Texas (64,000). Other large losses were recorded in less expensive Midwestern states experiencing slower population growth, including Ohio (73,000), Illinois (63,600), Missouri (44,000), Indiana (41,000), and Michigan (40,000).

The extent of state losses relates to the size of the state—those with the fewest units had the smallest absolute losses—and also reflects the existing availability of low-rent units. Regardless, such substantial losses, particularly in states with historically lower rents, make it even more difficult for households with low incomes to secure affordable rentals. Nor is there any indication of shifting tides. Trends driving the reduction in low-rent units persist, including rent increases to existing units, property upgrades, and losses of this stock due to conversions to owner-occupancy, deterioration, or demolition.

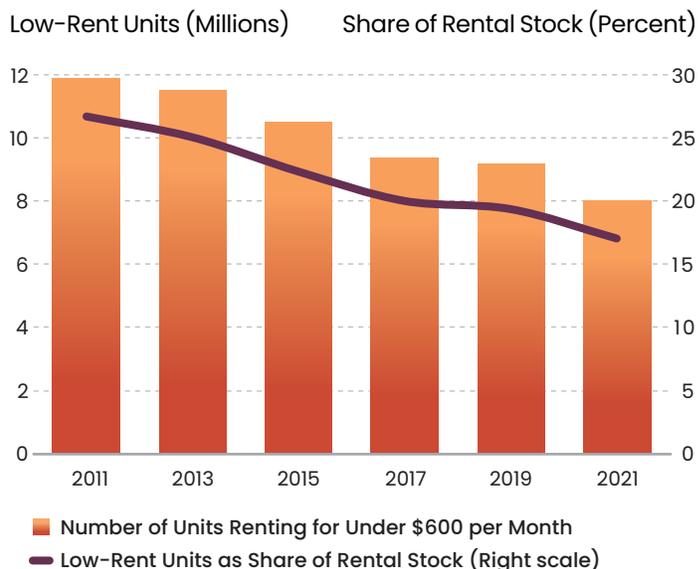
Deepening Unaffordability Reflected in Record Cost Burdens

Affordability challenges have worsened for many renters due to the recent sharp rise in rents, as well as income lost during the pandemic. In 2021, the number of cost-burdened renter households reached 21.6 million, the highest recorded level since 2001, according to the American Community Survey. This number increased swiftly during the pandemic, growing by 1.2 million households between 2019 and 2021. Households that were severely cost burdened accounted for most of the growth, increasing by 1.1 million households to 11.6 million. While the share of renter households with cost burdens had declined nearly every year since 2014, the sharp increase in 2021 reversed this trend, increasing the cost burden rate by 2.6 percentage points to 49.0 percent of renter households.

Renters with low incomes are by far the most likely to be cost burdened. In 2021, fully 85 percent of households with incomes below \$15,000—the approximate wages

Figure 25

The Stock of Low-Rent Units Continues to Shrink



Notes: Low-rent units have contract rents under \$600. Rents are inflated to 2021 dollars using the CPI-U for All Items Less Shelter. No-cash units are excluded.

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

of a person working full-time at the federal minimum wage—were cost burdened, the vast majority of whom (76 percent) were severely burdened. In addition, 81 percent of households earning between \$15,000 and \$29,999 were cost burdened—well above the 9 percent of households with incomes of \$75,000 or more.

However, cost-burden rates increased across all income levels in 2021, with middle-income renter households experiencing the largest uptick (**Figure 26**). Between 2019 and 2021, the cost-burden rate increased 3 percentage points for renters with incomes between \$30,000 and \$44,999, and 4 percentage points for renters earning between \$45,000 and \$74,999, as compared with a 1 percentage point increase for those earning at least \$75,000. At the other end of the income spectrum, the cost-burden rate for renters with incomes below \$15,000 increased 2 percentage points, a smaller rate of growth than that of middle-income households but also a population with many more burdened renters.

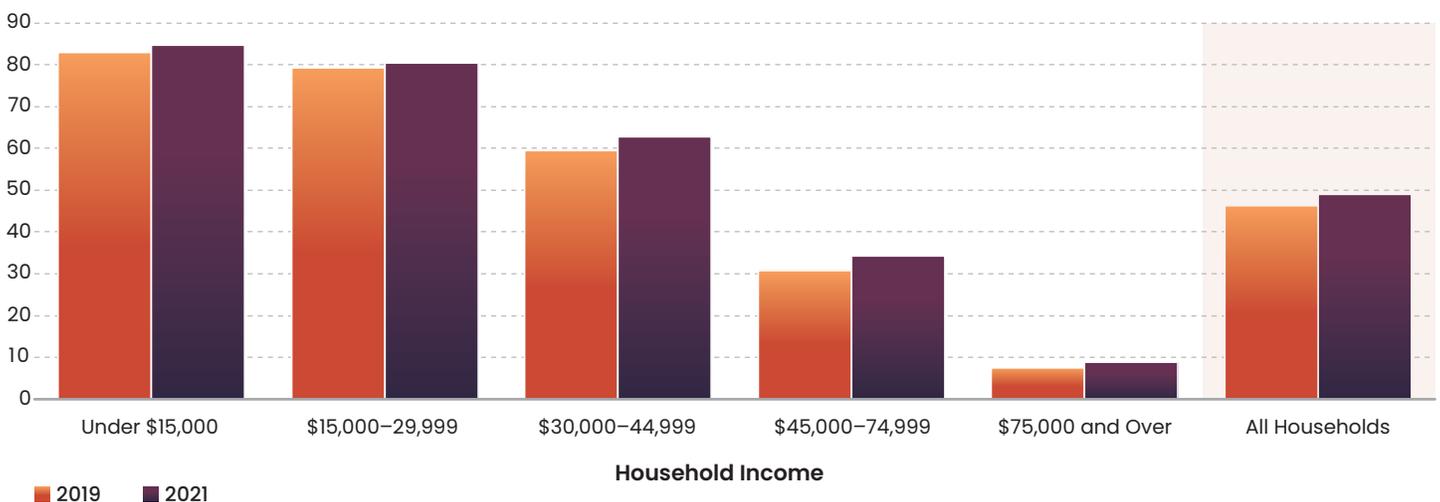
Cost burdens remain persistently high for households of color, a product of long-standing discrimination in housing and labor markets. While 43 percent of Asian and 45 percent of white renter households were cost burdened in 2021, 57 percent of Black renter households were burdened, along with 53 percent of Hispanic renters, 50 percent of both Native Hawaiian and Pacific Islander and multiracial renters, and 47 percent of American Indian and Alaska Native renters.

Half of renters living in metropolitan areas were cost burdened in 2021, compared with 41 percent in smaller metropolitan areas and 39 percent in rural areas. Despite the relatively lower rate, 725,000 renter households living in rural areas were cost burdened in 2021, including 376,000 households who were severely burdened. Cost-burden rates also varied significantly by metro, with higher cost-burden rates concentrated in areas with higher rents, larger shares of households with low incomes, or some combination of the two. Examples include Miami (61 percent), Los Angeles

Figure 26

Across Income Levels, Cost Burden Rates Increased for Renters in 2021

Share of Cost-Burdened Renter Households (Percent)



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

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

(57 percent), San Diego (57 percent), and Honolulu (54 percent)—some of the nation’s costliest metros—as well as New Orleans (55 percent), Baton Rouge (55 percent), and Memphis (52 percent)—metros with large numbers of renters with low incomes.

While increasing cost burdens are widespread, rates vary by geography and household characteristics. Yet, the primary driver is the same: rents have been rising faster than incomes. Between 2019 and 2021, the median monthly rent increased 3 percent while the median renter income fell 2 percent. The disparities are even worse for renters with lower incomes. For renter households making less than \$30,000 a year, rents rose 5 percent in real terms between 2019 and 2021 while incomes fell by 6 percent. Consequently, the median residual income—the amount of money that remains after paying housing costs—fell 5 percent for all renters, while residual incomes for renters earning less than \$30,000 annually fell by 22 percent to the lowest level in two decades. This left these renters with an average of just \$380 per month to cover all other needs and increasingly thin financial margins.

The Outlook

Despite cooling demand in 2022 and growing affordability challenges, rental demand will be bolstered by several factors in the coming years. The substantial and increasing barriers to homeownership will keep many households in the rental market, even many with relatively high incomes. Rental demand will be further boosted by the high numbers of younger households and households of color, both of whom have higher rentership rates.

At the same time, rental affordability challenges have been worsening and show little sign of improvement. Recent declines in real incomes and increases in rents produced a record-high number of renter households with housing cost burdens. Although the pace of rent growth in the professionally managed segment is slowing from its record-breaking post-lockdown surge, atypically fast rent growth and high inflation will continue to put pressure on household budgets in the short term. Moreover, new construction continues to target the high end of the market, while the declining number of low-rent units will leave renters who have low and moderate incomes with fewer affordable options. Even though multifamily construction is at historic highs, increasing production of moderately priced rental housing is an urgent priority.

HOUSING CHALLENGES

The nation continues to face critical housing challenges. There is a significant housing shortage, and affordable housing programs pale in comparison to the need. Housing insecurity and homelessness are on the rise as pandemic-era programs expire. The existing housing stock requires investment to meet the needs of an aging population and to address climate change. Meanwhile, racial segregation and inequities persist. Programs and policies at the federal, state, and local levels are making incremental progress toward addressing these various challenges, but more resources are needed.

Addressing the National Housing Shortage

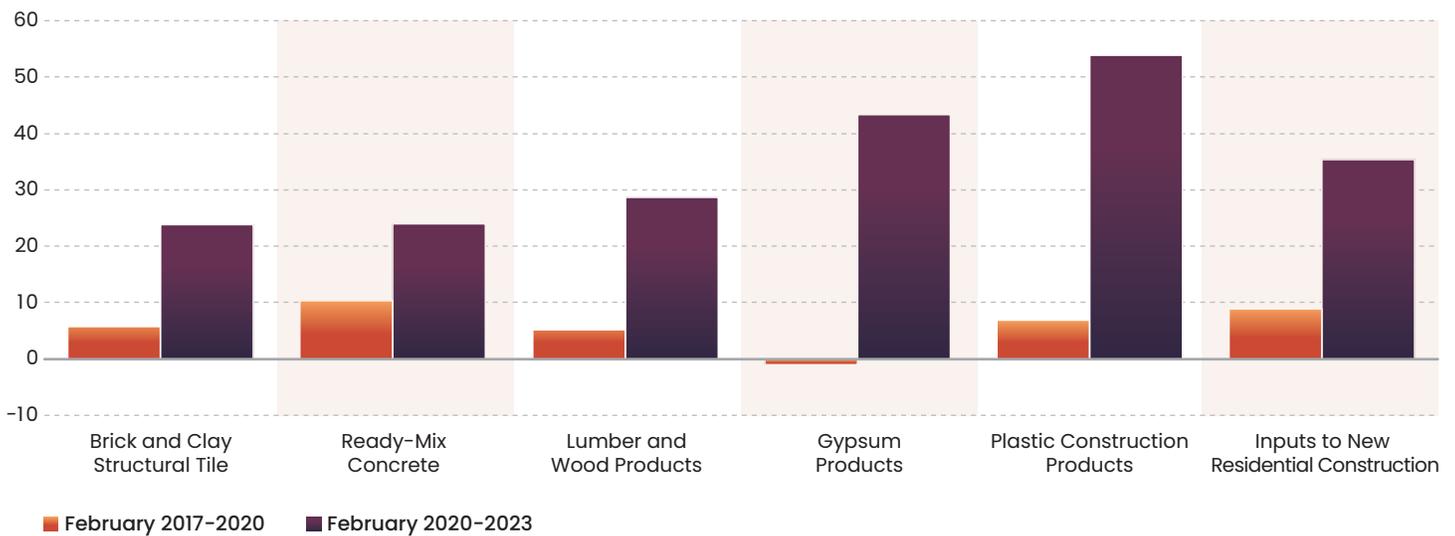
The country continues to face a substantial housing shortfall of at least 1.5 million units. The rising cost of land, labor, and building materials has emerged as a key challenge for homebuilders and developers and

impedes efforts to build the amount and variety of housing needed. The price of inputs to new residential construction has increased 35 percent since the start of the pandemic, including even steeper rises for some common building materials like plastic construction and gypsum products (**Figure 27**).

Figure 27

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

Change in Prices (Percent)



Note: Inputs to new residential construction is not a composite of the other components and excludes capital, labor, and imports. Source: JCHS tabulations of US Bureau of Labor Statistics, Producer Price Indexes.

Increasing the use of alternative construction techniques—such as manufactured housing and off-site, modular, or panelized construction—could help to address cost constraints. The Turner Center found that off-site construction can reduce construction times on a 3- to 4-story multifamily building by at least 40 percent and costs by 20 percent. Despite these potential savings, most homebuilders use on-site, stick-built construction, in part because of the high up-front costs and lack of financing for off-site techniques.

Another alternative construction model is the accessory dwelling unit (ADU), a type of infill housing that can help increase supply in communities with limited available land. Some states and cities have created policies and financing mechanisms to facilitate ADU construction, including California, where lawmakers passed a suite of innovative bills in 2019 that streamline the process and make it easier to build ADUs. Two years later, the state introduced grants to help homeowners with low to moderate incomes build ADUs. San Diego went one step further with its ADU Bonus program, allowing property owners to add one ADU for every deed-restricted ADU that maintains affordability for at least 10 years.

The national housing shortage is also the product of local restrictive zoning policies and other regulatory barriers that make it difficult to build a range of housing types at different price points. An estimated 75 percent of land in many cities is zoned exclusively for single-family homes. Growing policy momentum at the federal level seeks to address restrictive zoning. For example, the 2023 omnibus appropriations bill included \$85 million in HUD grants for cities to identify and implement reforms that will increase density, reduce minimum lot sizes, and streamline permitting processes.

Similarly, some states are using legislation to reduce local zoning barriers. In 2023, Montana and Washington passed sweeping reforms allowing other types of housing on parcels previously zoned exclusively for single-family homes, joining California, Oregon, and

Maine. And in Massachusetts, communities served by public transit must now designate at least one zoning district that permits multifamily housing. Colorado also offers communities grants for affordable housing development as an incentive to reform zoning and expedite approval processes. Although these reforms do not guarantee increased construction, they remove substantial barriers to developing more housing types that may also be more affordable to produce.

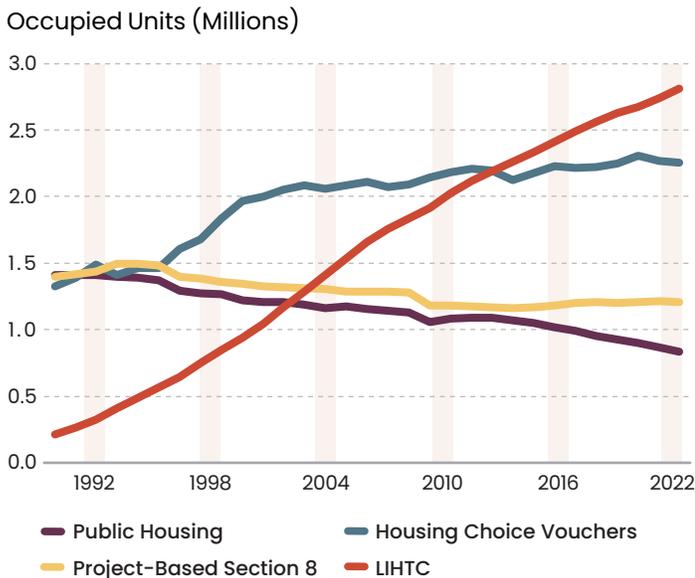
Federal Assistance Continues to Fall Short

While construction techniques and a broader range of housing types can help to increase the supply of modestly priced homes, subsidies are needed to make housing affordable to households with the lowest incomes, who are overwhelmingly renters. For every 100 renter households who earn less than 50 percent of area median income, only 55 units are affordable and available. With just one of every four income-eligible households receiving rental assistance, there are also not enough subsidies to bridge the gap between rents and what these households can afford. There is an urgent need to expand subsidy programs and improve their efficacy.

Increasingly, the federal government has turned to tenant-based assistance in the form of Housing Choice Vouchers, which typically cover the difference between 30 percent of a household's income and their rent, up to a local fair market rent. In 2022, vouchers served 2.3 million households (**Figure 28**). However, the program's regulatory requirements and inspections can be cumbersome for landlords, who are not required to accept vouchers in most places. Laws that prevent discrimination against voucher holders could help renters successfully use vouchers and have recently been adopted in Hawaii, Illinois, and several cities, but do not address landlords' concerns with the program.

Figure 28

Rental Subsidies Have Increasingly Shifted to Tenant-Based Assistance and Tax Credits



Notes: LIHTC occupancy is based on the 98.6% rate reported by Novogradac in 2021. LIHTC units include low-income units only. Source: JCHS tabulations of HUD, *Picture of Subsidized Households Reports and Low-Income Housing Tax Credit Database*; Robert Collinson, Ingrid Gould Ellen, and Jens Ludwig, *Low-Income Housing Policy*, NBER Working Paper, 2015.

On the supply side, the Low-Income Housing Tax Credit (LIHTC) has supported more than 3.6 million low-income units since 1986. The credit incentivizes affordable rental housing by reducing the tax bill of a development’s investors. In return, the property owners commit to keeping a portion of the development’s units affordable to households with lower incomes. LIHTC properties typically have a 30-year affordability period, after which the unit can flip to market rate. But because property owners can opt to convert units to market rate after 15 years through the qualified contract process, an estimated 10,000 low-income units per year are lost prematurely.

Another major challenge is the preservation of the dwindling public housing stock, which was home to

835,000 households in 2022. Due to federal legislation, this deeply affordable housing cannot be increased beyond 1999 levels, and chronic underfunding has created a severe maintenance backlog, estimated at more than \$80 billion, that threatens the remaining stock. One of the only options available to public housing providers to address maintenance, rehabilitation, and redevelopment needs is the Rental Assistance Demonstration program. RAD converts public housing units to longer-term Section 8 contracts, offering a more stable, predictable funding stream that property owners can leverage to secure other financing to redevelop properties. As of early 2023, 214,000 units have been converted through RAD. The remaining stock has substantial maintenance needs.

Similar preservation challenges exist with units funded by USDA Section 515, an important source of affordable rental housing that provided housing for 378,000 rural households in 2022. The program has made few new loans in recent years and most of the existing loans are reaching maturity, at which point the properties no longer have to remain affordable. The program is also losing units due to loan prepayments. The Housing Assistance Council found that nearly 22,000 units left the program from 2016 to 2021 alone.

Preserving subsidized housing in all its forms requires additional resources. The national Housing Trust Fund (HTF) is one flexible source of funding that could help. However, its annual funding varies based on Fannie Mae’s and Freddie Mac’s earnings, with allocations hitting a record \$740 million in 2022 before dropping to \$382 million in 2023. Additionally, HTF resources are modest compared with the scale of the problem and are split between new construction and preservation. According to the National Low Income Housing Coalition, just 15 percent (\$41 million) of the 2018 HTF allocations went to preserving existing affordable units.

The Sunset of Pandemic Housing Resources

The pandemic fueled a growing awareness of the dangers of housing instability and spurred new housing assistance programs for both renters and homeowners. Three years after the start of the pandemic, key programs are winding down even as households continue to experience financial distress. For renters, the Emergency Rental Assistance program, which provided more than \$46 billion to keep renters housed and support landlords, now has less than \$8.5 billion in remaining funds. Meanwhile, 13 percent of renter households were behind on rent in the last half of 2022.

Additionally, in response to concerns of widespread pandemic-induced housing instability, Congress provided three rounds of funding to HUD from 2020 to 2022 to ensure at-risk renters have legal representation to help avoid eviction. However, this funding is limited and eviction filings are rising in states and cities across the country, nearly reaching pre-pandemic levels at the end of last year after dropping quickly early in the pandemic (**Figure 29**). As federal programs and eviction protections end, some states

Figure 29

Evictions Returned to Historic Average by Late 2022

Eviction Filings Relative to Pre-Pandemic Average (Percent)



Notes: Data include eviction filings in 10 states and 34 cities. Rates are filings relative to a pre-pandemic average baseline. Source: JCHS tabulations of Eviction Lab, Eviction Tracking System through December 31, 2022.

and localities have tried to fill the gap. Since 2021, Connecticut, Maryland, Washington, and nine local governments have enacted right to counsel legislation.

Compared with renters, homeowners fared better during the pandemic, both because they were less likely to lose employment income and because those unable to make their mortgage payments benefited from widely available forbearance protections. Nevertheless, delinquencies are a concern for about 2 million homeowner households. The \$9.9 billion provided through the Homeowner Assistance Fund will help some to make mortgage, homeowner's insurance, and utility payments. By the fourth quarter of 2022, \$3.8 billion was obligated, providing critical assistance for over 241,000 households. However, with more than a third of available resources already spent, the fund will likely be depleted quickly.

As federal pandemic housing assistance programs wind down, state and local governments are turning to general fiscal recovery funds to meet ongoing housing needs. With longer spending timelines and more potential uses, \$14.2 billion of state and local fiscal recovery funds were budgeted as of September 2022 to support nearly 1,800 housing affordability projects and programs to address short- and longer-term housing needs. At the end of 2021, these funds had already helped 770,000 households with rent, mortgage, or utility assistance and 100,000 households with eviction prevention services. The experience with pandemic assistance for both emergency and longer-term housing needs has demonstrated that these are effective means to keep people stably housed and merit continued support.

A Rising Number of People Experience Homelessness

Overall homelessness increased only slightly during the pandemic, in part due to declining numbers of people staying in shelters. However, this masked a substantial rise in people experiencing unsheltered homelessness, that is, living in places not intended for

human habitation. While the total number of people experiencing homelessness grew to 582,460 in 2022, up 0.3 percent, or 2,000 people, since January 2020, unsheltered homelessness increased by 3.4 percent, or 7,750 people, to 233,830 people, offsetting the 1.6 percent decrease in people staying in shelters. These pandemic trends continued a longer-term shift—the unsheltered population increased by 35 percent from 2015 to 2022 with the addition of 60,560 people. Homelessness is rising in many states and communities across the country. Since 2020, homelessness has increased in 27 states, with the most notable growth in California, followed by Louisiana, Tennessee, Oregon, and Arizona. Though more than half of all people who are unhoused live in urban areas, homelessness decreased in major cities during the pandemic. Meanwhile, homelessness increased 4 percent in suburban areas, where another quarter of people live who are experiencing homelessness. The remaining 18 percent of unhoused people live in rural areas, which experienced the largest increase in homelessness (6 percent) during the pandemic.

People of color continue to be overrepresented in the unhoused population due to discrimination in housing, employment, and social services. Black people constitute 37 percent of people experiencing homelessness and just 12 percent of the total population. Similarly, Hispanic/Latino people are nearly a quarter of unhoused people and less than a fifth of the total population. Additionally, the largest increases in homelessness during the pandemic were among Native Hawaiian and Pacific Islander (19 percent), Asian (8 percent), and Hispanic/Latino (8 percent) people.

Today, new federal resources are available to address homelessness. The 2023 omnibus spending bill provided \$3.6 billion for homelessness assistance grants and \$2.7 billion to support veterans experiencing homelessness. The 2021 the American Rescue Plan Act included \$5 billion for state and local governments to fund services, shelter, and housing for unhoused people and at-risk households through the HOME-ARP program. Smaller efforts included \$315 million in grants to address rising unsheltered and rural homeless-

ness. Additionally, state and local governments have collectively committed more than \$3.3 billion in fiscal recovery funds to homelessness services and housing. Nevertheless, more funding is needed to meet the scale of the challenge, including increased support for rental housing assistance and affordable housing to help address the root of the problem.

The Aging Housing Stock Needs Investment

In the face of a sustained housing shortage, improving existing housing is critical. In 2021, the age of the median home hit 43 years, up from 27 years in 1991, and 9.5 million homes (6.7 percent) had structural deficiencies or lacked basic features like plumbing, electricity, water, and heat. The federal Community Development Block Grant Program and HOME Investment Partnerships Program fund needed repairs for households with low incomes, who are most likely to live in inadequate housing. Many state and local governments offer home repair programs as well, including a substantial new \$120 million commitment for Pennsylvania’s Whole-Home Repairs Program that helps small landlords and homeowners with low incomes. However, the Federal Reserve Bank of Philadelphia estimates that a full \$57.1 billion will be needed nationwide just to repair homes occupied by these households.

Much of the existing housing stock lacks basic accessibility features, such as no-step entrances, bathroom grab bars, or other modifications to support the nation’s rapidly aging population. As of 2019, more than 2 million households headed by someone age 65–79 (8 percent) and nearly 1.5 million headed by someone age 80 and over (18 percent) reported difficulty navigating or using their homes, threatening their ability to age in their homes and increasing the likelihood of incurring nursing home expenses. Recognizing this urgent need, the 2023 omnibus spending bill doubled to \$30 million the funding for the Older Adult Homes Modification Program and expanded eligibility to include renters, helping more older adults to remain in their current homes through low-cost modifications.

Additionally, in many states, Medicaid waivers fund physical modifications and assistive technologies that can allow older adults and people with disabilities to remain in their homes. However, because waivers are not an entitlement, many states have waiting lists and eligibility criteria vary.

Modifications to the existing housing stock are also needed to reduce greenhouse gas emissions from the residential sector, and several recent efforts aim to help households make incremental changes. The Inflation Reduction Act of 2022 provided almost \$9 billion in energy-efficiency and electrification rebates, and also extended tax credits, such as the Residential Clean Energy Credit, that incentivize homeowners to make energy improvements. Likewise, the Infrastructure Investment and Jobs Act provided an additional \$3.5 billion to the Weatherization Assistance Program, which helps 35,000 low-income households make energy-efficient upgrades in a typical year.

Climate Change Increasingly Threatens Homes

The nation’s housing stock is at risk from increasingly frequent disasters. CoreLogic estimated that more than 14.5 million homes were affected by climate-related hazards—such as hurricanes, wildfires, and hail—in 2021, amounting to \$56.9 billion in damage from large events. Even more homes are at future risk across the country, including 59.9 million in areas with at least moderate expected annual losses from hazards (**Figure 30**), leaving people vulnerable to damaged or destroyed homes and displacement.

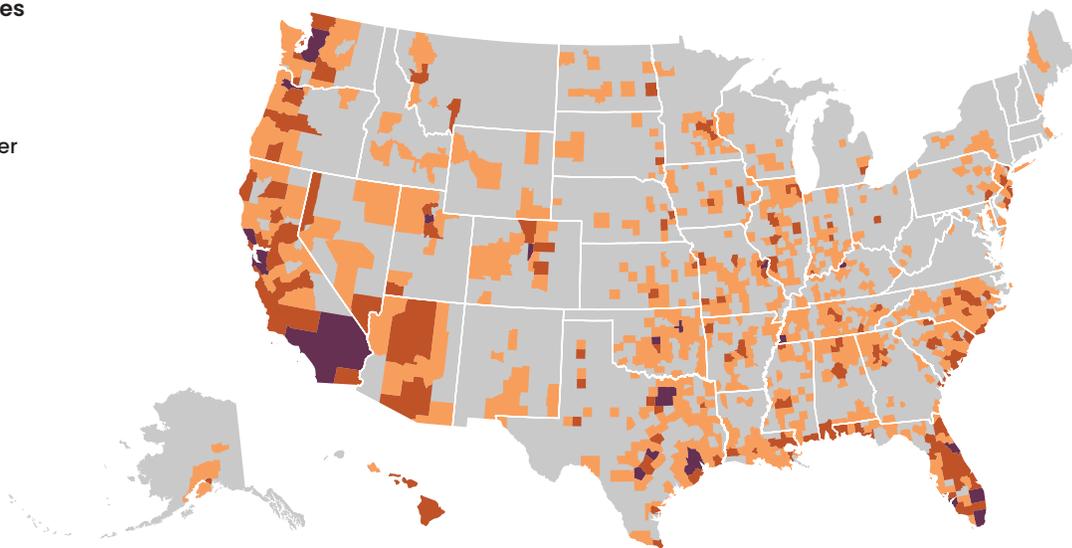
Most of the federal response to climate change has focused on helping communities and households recover from disasters rather than proactively protecting them from future risks. FEMA provides direct assistance following disasters through its Individuals and Households Program, offsetting costs such as

Figure 30

Across the Country, More Than 59 Million Homes Are Threatened by Climate-Related Disasters

Number of Units In High-Risk Counties

- Under 10,000
- 10,000–49,999
- 50,000–199,999
- 200,000 and Over



Notes: High-risk areas have a relatively moderate, relatively high, or very high expected annual loss (EAL) score. EAL represents the average annual dollar loss resulting from natural hazards. The number of units in high-risk counties is aggregated from the tract level. Sources: JCHS tabulations of Federal Emergency Management Agency, November 2021 National Risk Index EAL data; US Census Bureau, 2021 American Community Survey 5-Year Estimates.

temporary housing and home repairs. In 2022, FEMA provided \$1.9 billion to 1.2 million households through this program. To fill gaps in FEMA assistance, the 2022 Rapid Unsheltered Survivor Housing (RUSH) program enables communities to provide emergency shelter, rapid re-housing, and homelessness services after disasters. However, these funds are limited, with \$56 million initially set aside and \$6.8 million allocated to Florida after Hurricane Ian. For long-term recovery, Congress also appropriated a total of \$10 billion of Community Development Block Grant Disaster Recovery funds in 2021–2023 to help communities rebuild.

Preventing or minimizing future losses is difficult, especially as people increasingly move to places at high risk of disaster hazards. Hazard risk disclosures could help more people understand risks when purchasing homes, but only a handful of states require such disclosures at the point of sale. At the federal level, the National Flood Insurance Program implemented a pricing change in 2021 that better reflects a property’s flood risk. While this change helps to spotlight the risk of floods, it also raises both affordability concerns for homeowners with low incomes and the stakes for those priced out of insurance.

Ultimately, to adapt to increasing risks from climate change, less development on high-risk land, physical improvements to reduce exposures, and better household awareness of risks will be necessary. FEMA’s Hazard Mitigation Grant Program has supported such efforts, including the New Jersey Blue Acres Buyout Program, which pairs property acquisitions with supportive services to manage retreat from flood-prone areas. Stronger building codes for new construction in hazard-prone areas can also help to prevent an estimated \$1.6 billion per year in losses, according to a recent FEMA study. Over the longer term, mitigation efforts and disaster response will require a substantial commitment from federal and state governments to help high-risk communities.

Segregation and Racial Inequities Persist

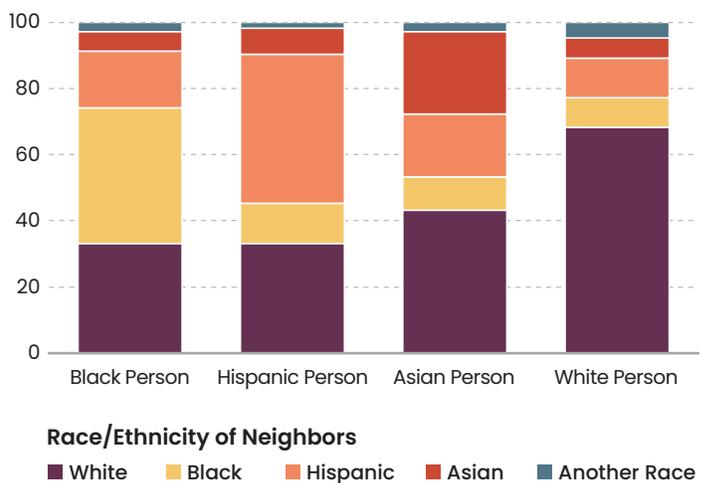
Racial segregation remains a hallmark of the nation’s housing, with Black and Hispanic households concentrated in communities of color. According to the Diversity and Disparities Project, the typical white person in 2020 lived in a neighborhood where people of color made up less than a third of the population, while the typical Black or Hispanic person lived in a neighborhood that was two-thirds people of color (**Figure 31**).

Decades of exclusionary land use, inequitable housing policies, and systemic racism have led to underinvestment in communities of color, creating wide disparities in access to quality public and private services, with negative implications for the health, well-being, and life trajectory of the residents. Under- or disinvestment also limits the ability of people of color to build wealth through housing.

Figure 31

Racial Segregation Persists Across the Country

Average Neighborhood Composition (Percent)



Note: Neighborhoods are census tracts.

Source: Brown University, Diversity and Disparities Project estimates of US Census Bureau, 2020 Decennial Census.

Investing in communities of color is critical for addressing these racial inequities. However, care must be taken to mitigate the risk of displacement of current residents. Mindful of that balance, Enterprise Community Partners launched the Equitable Path Forward program in 2020, an initiative expected to leverage \$3.5 billion over five years to extend capital to communities of color and diversify the real estate industry. In Seattle, the 2021 Equitable Communities Initiative started with an initial \$100 million commitment to invest in BIPOC communities and housing. The city also created the Equitable Development Monitoring Program to track community indicators related to race and social equity and to mitigate displacement risks.

In addition to investing in underserved communities, several recent efforts seek to open more communities to people of color. At the beginning of 2023, HUD proposed a new Affirmatively Furthering Fair Housing rule, a reference to the mandate in the Fair Housing Act of 1968 that requires the government not just to eliminate discriminatory treatment but to proactively promote inclusive communities. The rule would require recipients of HUD funding to submit an equity plan every five years that identifies fair housing issues in their community, as well as goals and strategies to address them.

At the state and local levels, communities are experimenting with racially equitable zoning and planning initiatives to provide a broader range of housing options in a variety of neighborhoods. In 2021, Washington State passed a law requiring local governments to identify and reform land use policies and other regu-

lations that have racially disparate impacts or that result in displacement or exclusion. The New York City Council enacted legislation in 2021 that creates an equitable development data tool and requires certain land use applications to include a racial equity report detailing how the project addresses fair housing goals and equitable access to opportunity. However, given the widespread persistence of segregation, much more needs to be done.

The Outlook

The end of pandemic relief comes as worsening affordability puts continued pressure on the already inadequate housing safety net. Despite signs of market cooling, households across the country are feeling the effects of the past two years' rapidly rising rents and home prices. Recent zoning reforms may help increase the range of housing options available over the long term, but immediate solutions to address the housing affordability crisis are also needed. Indeed, more housing assistance and affordable housing support from all levels of government are necessary to stave off rising homelessness and housing insecurity among households with low incomes, as is a concerted effort from the nonprofit and for-profit sectors. Additionally, communities must confront the considerable challenges brought about by the aging housing stock, climate change, and persistent systemic racism. Thoughtful reinvestment in the housing stock and in neighborhoods is critical to meeting future needs while reducing long-standing inequities and helping communities recover from natural disasters.

ADDITIONAL RESOURCES

Table A-1: Housing Cost-Burdened Households by Tenure and Income: 2001, 2019, and 2021

The following interactive maps and data tables are a sample of the additional resources available at www.jchs.harvard.edu.

Interactive Maps and Data

Shares of Cost-Burdened Homeowner and Renter Households by Metro Area: 2021

Components of Population Change by County: 2021–2022

Decline in Low-Cost Rentals by State: 2011–2021

Homebuyer Affordability by Metro Area: 2023:1

Annual Home Price Growth by Metro Area: 2010–2023

Data Tables

Housing Market Indicators for the US: 1980–2022

Housing Cost-Burdened Households by Demographic Characteristics: 2021

Shares of Cost-Burdened Homeowners and Renters by State: 2021

Monthly Costs for the US Median-Priced Home by Metro Area: 2022:1–2023:1

Domestic Migration by County Type: 2019–2022

Household Median Wealth, Home Equity, and Cash Savings by Race/Ethnicity: 2019

Table A-1

Housing Cost-Burdened Households by Tenure and Income: 2001, 2019, and 2021

Households (Thousands)

Tenure and Income	2001				2019				2021			
	Not Burdened	Moderately Burdened	Severely Burdened	Total	Not Burdened	Moderately Burdened	Severely Burdened	Total	Not Burdened	Moderately Burdened	Severely Burdened	Total
Owners												
Under \$15,000	625	625	2,366	3,616	575	591	2,929	4,094	608	655	3,799	5,061
\$15,000–29,999	3,401	1,529	1,749	6,678	3,189	1,673	1,922	6,784	3,232	1,714	2,212	7,157
\$30,000–44,999	4,733	1,727	1,058	7,519	4,815	1,875	1,070	7,760	4,997	2,003	1,276	8,276
\$45,000–74,999	11,125	3,261	908	15,294	11,875	2,835	832	15,542	12,453	3,103	989	16,544
\$75,000 and Over	33,348	3,129	404	36,880	41,605	2,639	367	44,611	43,209	2,808	430	46,448
Total	53,231	10,270	6,485	69,986	62,058	9,613	7,121	78,791	64,499	10,282	8,706	83,487
Renters												
Under \$15,000	1,184	671	4,227	6,082	1,256	784	5,355	7,395	1,192	727	5,938	7,857
\$15,000–29,999	1,819	2,575	2,554	6,949	1,615	2,694	3,499	7,808	1,474	2,380	3,714	7,569
\$30,000–44,999	3,225	2,406	481	6,112	2,827	2,982	1,187	6,996	2,610	3,018	1,374	7,002
\$45,000–74,999	7,196	1,365	170	8,731	6,718	2,549	435	9,702	6,438	2,874	487	9,798
\$75,000 and Over	8,234	317	25	8,576	11,206	861	43	12,110	10,774	947	110	11,831
Total	21,658	7,335	7,457	36,450	23,623	9,870	10,518	44,012	22,488	9,947	11,623	44,058
All Households												
Under \$15,000	1,809	1,296	6,593	9,698	1,831	1,375	8,284	11,489	1,799	1,382	9,737	12,919
\$15,000–29,999	5,220	4,104	4,303	13,627	4,804	4,368	5,420	14,592	4,706	4,094	5,926	14,726
\$30,000–44,999	7,958	4,133	1,540	13,631	7,642	4,857	2,257	14,756	7,607	5,021	2,650	15,278
\$45,000–74,999	18,322	4,626	1,078	24,025	18,593	5,384	1,267	25,244	18,891	5,977	1,475	26,343
\$75,000 and Over	41,581	3,446	429	45,456	52,811	3,500	410	56,721	53,983	3,756	540	58,279
Total	74,889	17,605	13,942	106,436	85,681	19,483	17,639	122,803	86,986	20,229	20,329	127,545

Notes: Moderately (severely) cost-burdened households spend more than 30% (more than 50%) of income on housing. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be unburdened. Income cutoffs are adjusted to 2021 dollars using the CPI-U for All Items.

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

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