NATIONAL MULTIFAMILY HOUSING COUNCIL

RESEARCH NOTES NEWSLETTER

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Putting Rent Increases into Perspective

National apartment rent growth accelerated over the past three years, averaging 6.3 percent annually among professionally managed apartments tracked by RealPage. While this is considerably higher than the 3.4 percent annual rent growth averaged over the preceding five years (4Q 2014 to 4Q 2019), inflation has also become elevated since the outbreak of COVID-19.

Overall prices for goods and services rose by an average annual rate of 5.0 percent from 4Q 2019 to 4Q 2022, well above the 1.7 percent averaged between 2014 and 2019.

The cost of owning a home has been no exception. Rapid home price appreciation in recent years coupled with rising interest rates has caused the monthly cost of homeownership to rise far more than both the cost of rent and other consumer goods.

In this Research Notes, we examine the growth rate of apartment rents relative to the price of all consumer goods (overall inflation) as well as the monthly cost of homeownership. We find that real apartment rent growth—the amount by which rent growth exceeds inflation—has slowed since the outbreak of COVID and even turned negative within certain markets and unit types. Meanwhile, the premium to buy a new home relative to what it costs to rent an apartment rose to its highest level since the peak of the housing bubble in the mid-2000s.

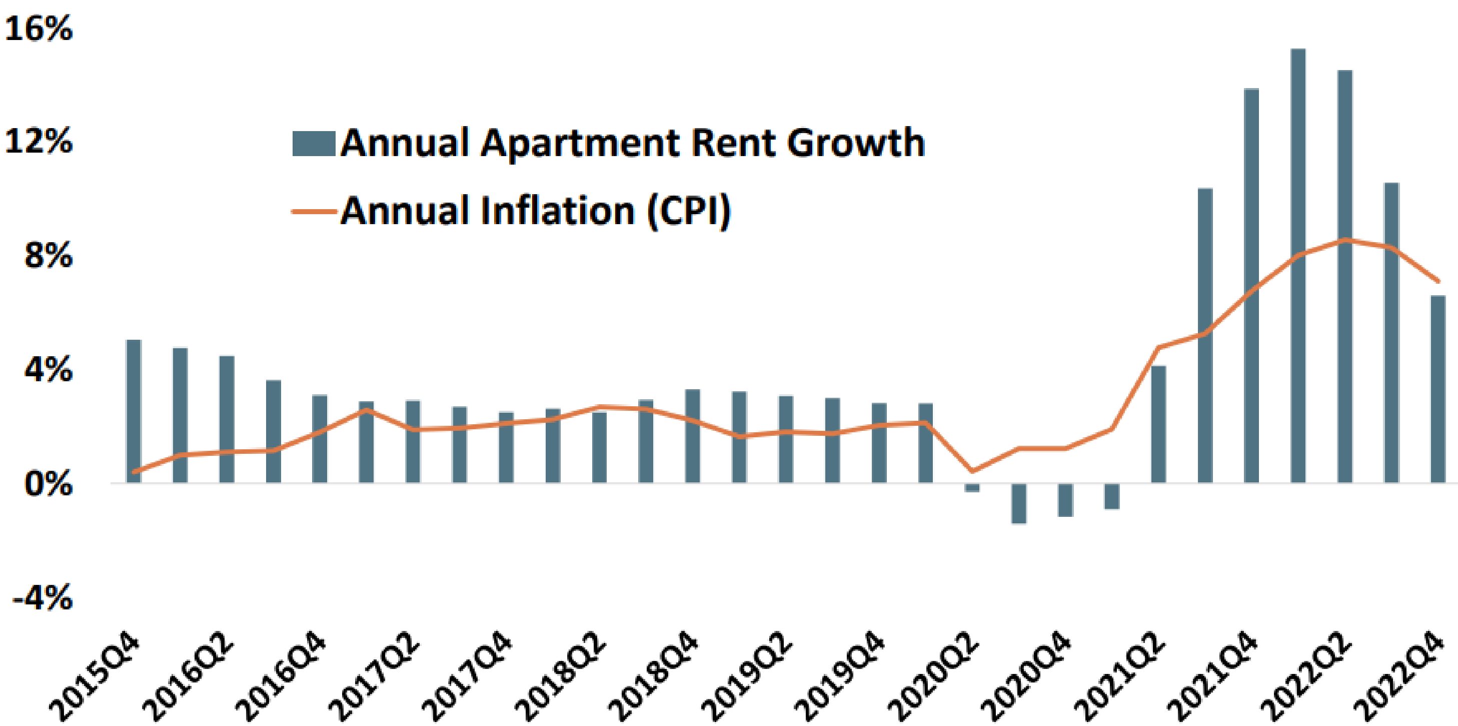
Real Rent Growth Slows

National apartment rent growth climbed to record highs in late 2021 and into early 2022, peaking at 15.3 percent year over year in the first quarter of 2022 among professionally managed apartments tracked by RealPage.

Yet, these figures measure rent growth relative to what was an uncharacteristically weak apartment market during 2020 due to the outbreak of COVID-19. In 3Q 2020, effective asking rents had fallen 1.4 percent from the prior year. Rent growth also started to moderate in the latter half of 2022, with rents decreasing during the last four months of the year. When we take an average over the past three years, apartment rents grew by an annual rate of 6.3 percent.

FIGURE 1

Annual Price Growth



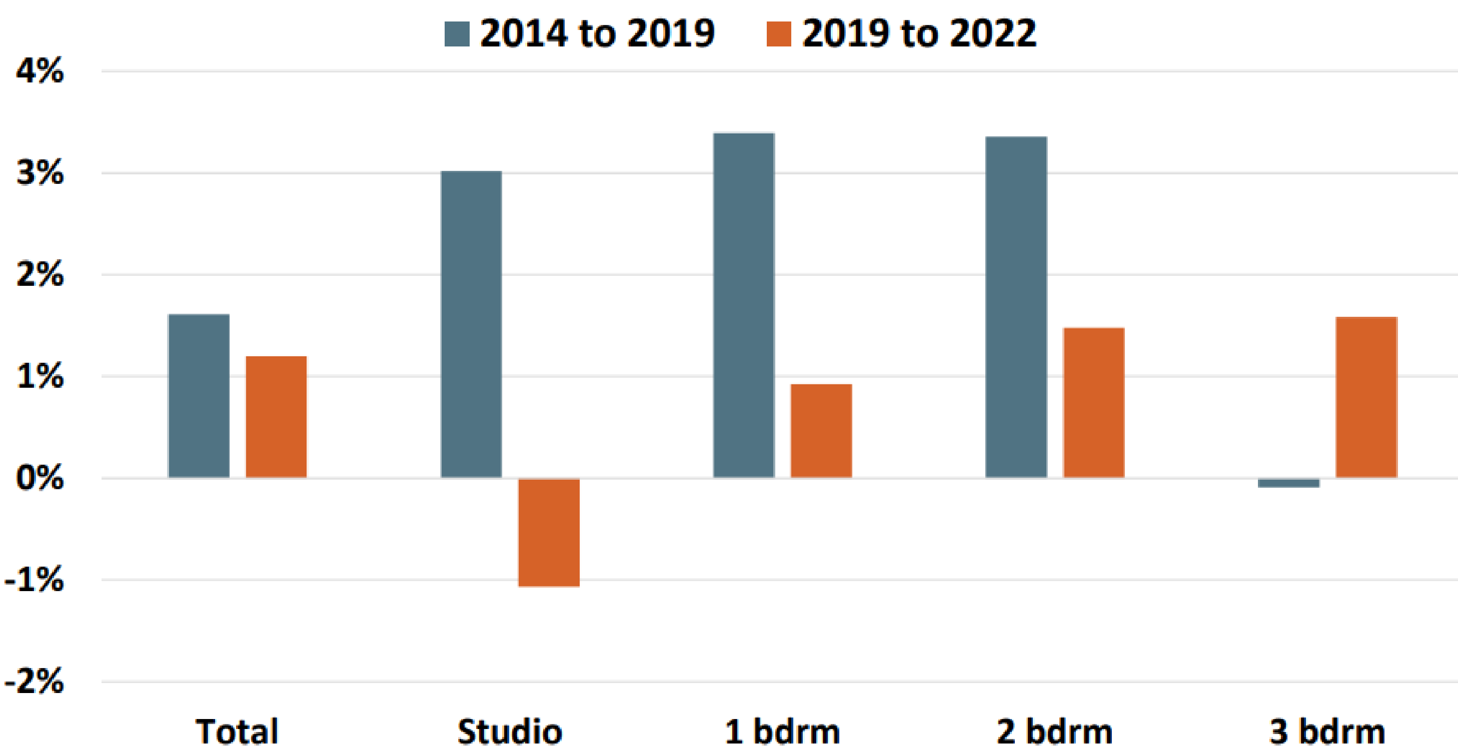
Source: RealPage; U.S. Bureau of Labor Statistics

While 6.3 percent may still seem high—this is indeed considerably higher than the 3.4 percent annual apartment rent growth averaged over the preceding five years (4Q 2014 to 4Q 2019)—inflation has also climbed since the outbreak of COVID-19. Overall prices for goods and services rose by an average annual rate of 5.0 percent from 4Q 2019 to 4Q 2022, well above the 1.7 percent averaged between 2014 and 2019.

After adjusting for inflation, effective asking rents among professionally managed apartments tracked by RealPage grew at an average annual rate of just 1.2 percent between 4Q 2019 and 4Q 2022, down from the 1.6 percent annual rate averaged during the preceding five years. In other words, the amount by which rent growth exceeds inflation has come down in recent years.

FIGURE 2

Annual, Inflation-Adjusted Rent Growth (Professionally Managed Apartments)



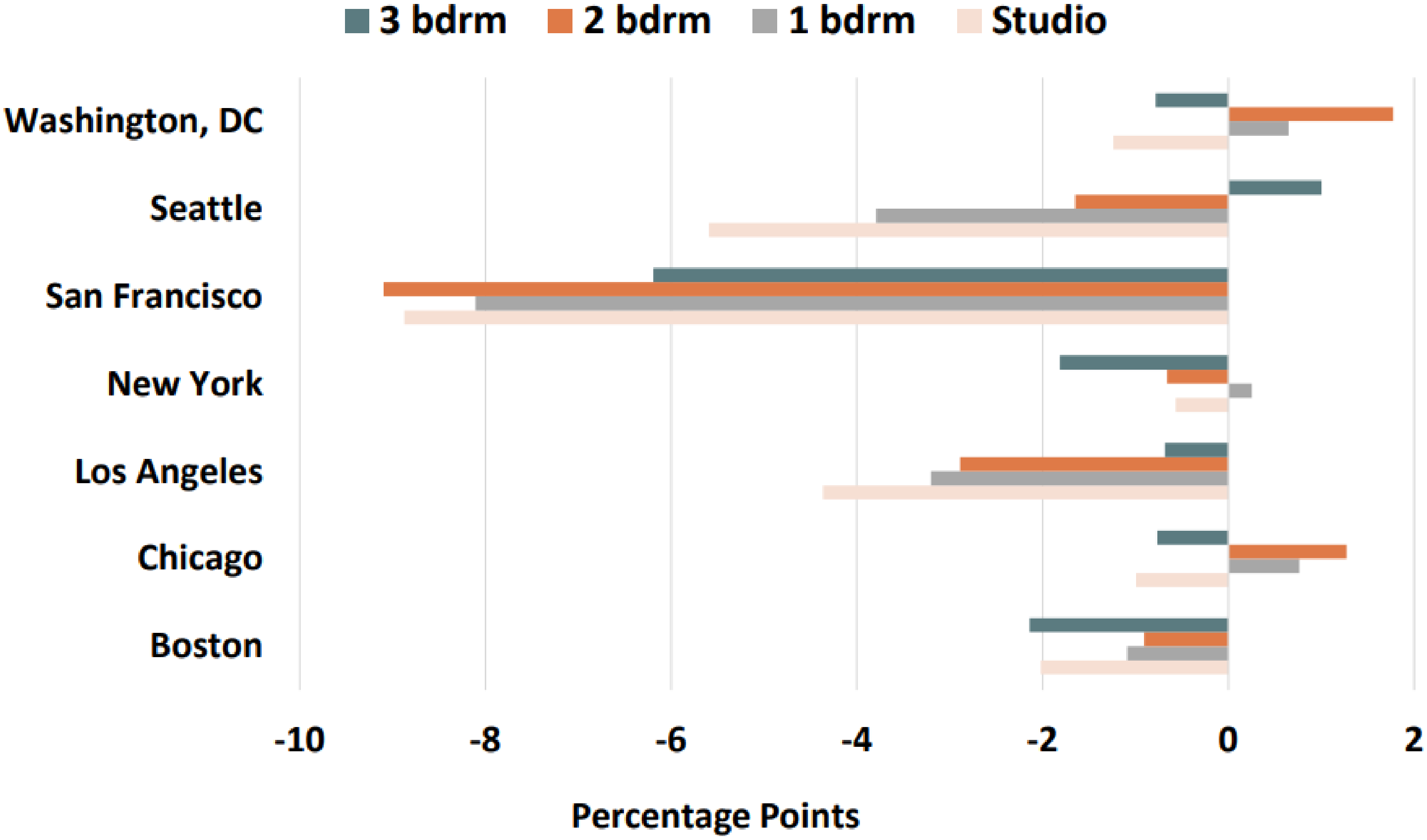
Source: RealPage; U.S. Bureau of Labor Statistics

This slowdown in real rent growth was more pronounced among smaller unit types and especially in more expensive, coastal metro areas.

For instance, real rents among studio apartments in Seattle fell by an average annual rate of 3.9 percent between 2019 and 2022 (negative real rent growth means that rents did not keep pace with inflation), marking a 5.6 percentage point decrease from the preceding five years. Real rent growth for studios similarly decreased 2.0 percentage points in Boston, 4.4 percentage points in Los Angeles, 8.9 percentage points in San Francisco and 4.1 percentage points on a national scale. It is noteworthy that all the metro areas listed in Figure 3 below (Boston, Chicago, Los Angeles, New York, San Francisco, Seattle and Washington, D.C.) recorded negative real rent growth over the past three years.

FIGURE 3

Change in Real, Average Rent Growth for Professionally Managed Apartments (2019 to 2022 vs. 2014 to 2019)



Source: RealPage; U.S. Bureau of Labor Statistics

The Cost of Homeownership Skyrockets Compared with Renting

The cost of purchasing a new home, meanwhile, has become considerably more expensive over the past few years, fueled by a combination of rapid home price appreciation and rising interest rates.

- From December 2019 to June 2022, the median sales price of existing homes in the U.S. grew nearly 50 percent (49.4 percent), or an average of 17.4 percent per year.[1] For reference, home prices grew at an average annual rate of 5.9 percent over the preceding five years (December 2014 to December 2019).

- The 30-year fixed rate mortgage average in the U.S. rose from 2.65 percent in January 2021 to a peak of 7.08 percent in November 2022. The rate has since moderated to 6.60 percent as of March 16 of this year.[2]

- Rising mortgage rates have caused home prices to start to come down. The median sales price of existing homes decreased 11.4 percent from its peak in June 2022 to $366,500 in December—but not enough to offset the cost of higher rates.

This combination of appreciating home prices and rising interest rates caused the monthly cost of homeownership for a newly purchased home—assuming a 10-percent downpayment and 30-year fixed rate mortgage—to increase 71 percent over the past three years, or by an average of 19.7 percent per year.[3] This growth in the cost of homeownership far exceeded the 5.0 percent average annual inflation during this period.

Consequently, by 4Q 2022, the monthly cost of homeownership became $1,176 higher than the cost of renting a professionally managed apartment, according to NMHC estimates.[4] This marks the highest buy-to-rent premium (on an inflation-adjusted basis) since the third quarter of 2006 (the peak of the housing bubble).

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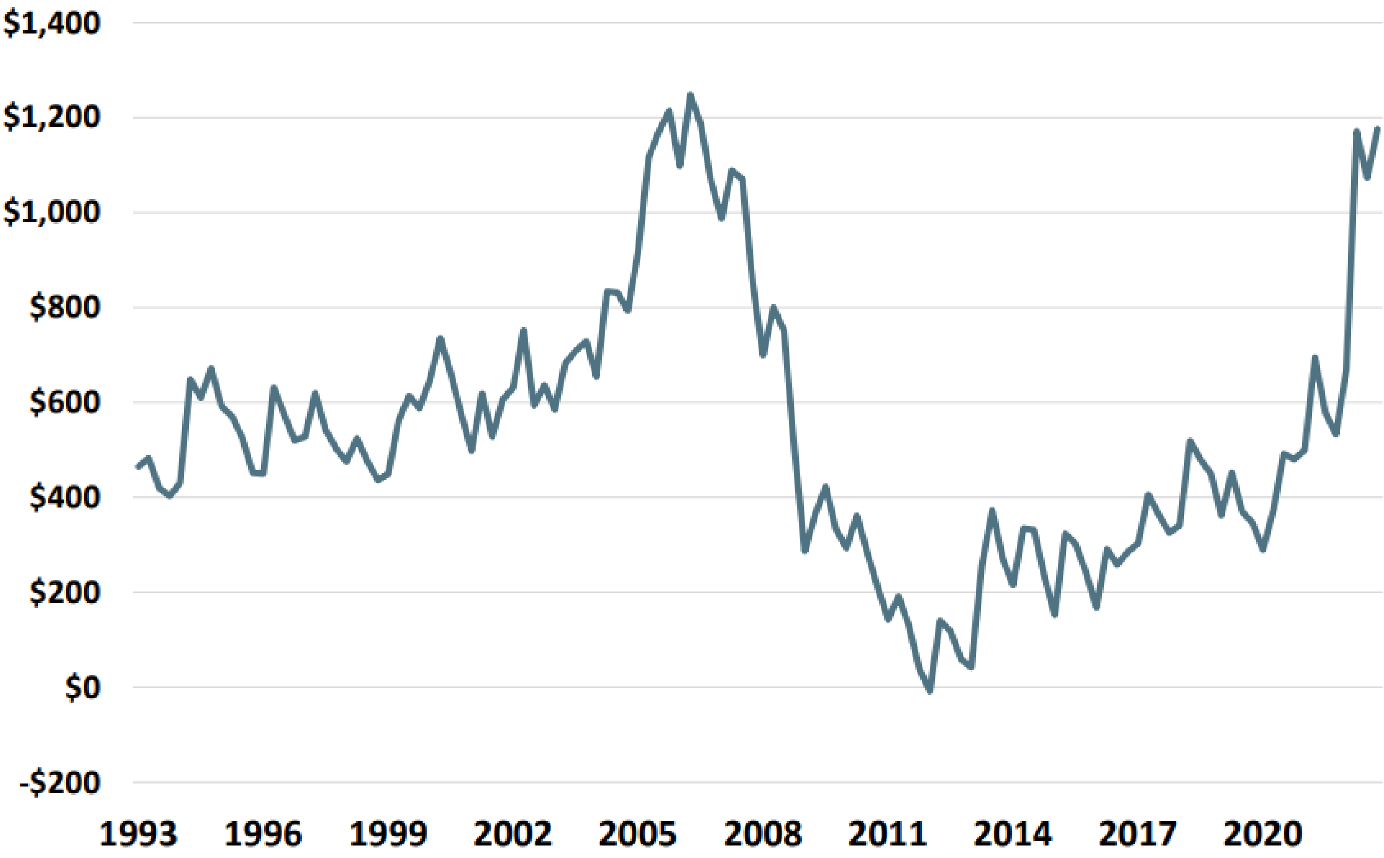
[1] National Association of Realtors [2] Freddie Mac [3] Monthly cost includes mortgage payment, property taxes, PMI and hazard insurance [4] NMHC tabulations of data from RealPage, The National Association of Realtors, The Federal Reserve, The U.S. Bureau of Labor Statistics and The American Housing Survey

FIGURE 4

Monthly Premium to Buy vs. Rent (4Q 2022 Dollars)



Source: NMHC tabulations of data from RealPage, The National Association of Realtors, The Federal Reserve, The U.S. Bureau of Labor Statistics and The American Housing Survey

The monthly cost of homeownership also says nothing of the amount of funds required for a downpayment on a home, which increased 35.5 percent over the past three years (assuming a 10-percent downpayment).

Rising Costs Take Toll on Affordability

This analysis neither suggests that the rising cost of rental housing is not an issue (it clearly is) nor implies that people who wish to be homeowners—and can afford to do so—should avoid purchasing a home just because of the cost, as there are many non-financial costs and benefits of owning a home as well. In fact, the cost of housing (both rented and owned) has been rising for decades. However, these cost increases are simply more eye-popping in an inflationary environment, placing an increasing burden on American households.

- The share of cost-burdened apartment households (those paying more than 30 percent of their income on housing) increased steadily from 42.4 percent in 1985 to 57.6 percent in 2021, according to data from the American Housing Survey. Also, during this period, the share of severely cost-burdened apartment households (those paying more than half their income on housing) increased from 20.9 percent to 31.0 percent.

- The share of cost-burdened owner households increased from 19.7 percent in 1985 to 28.1 percent in 2021, while the share of severely cost burdened owner households increased from 6.8 percent to 13.6 percent during the same timeframe.

Increasing costs are due to a chronic undersupply of housing of all types. Freddie Mac estimated that we were short 3.8 million units at the end of 2020, while a recent NMHC and NAA study found a shortfall of approximately 600,000 apartment units in 2021.

When we fail to build enough housing, housing costs rise. Not only does this place an increasing burden on American households, but it also contributes to higher overall inflation (housing accounts for a full 40 percent of core CPI). And, when we fail to address inflation on the supply side, the Federal Reserve must curb *demand* through raising interest rates. This results in higher mortgage costs for home buyers and a higher cost of capital for builders, which further contributes to our nation's supply shortage.

Thus, to ease the cost of housing, it is essential that we build more of it and double down on efforts to renovate and preserve our existing, aging stock.

About Research Notes

Published quarterly, Research Notes offers exclusive, in-depth analysis from NMHC's research team on topics of special interest to apartment industry professionals, from the demographics behind apartment demand to effect of changing economic conditions on the multifamily industry.

Questions

Questions or comments on Research Notes should be directed to **Chris Bruen**, Senior Director of Research, NMHC, at cbruen@nmhc.org.

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