

The State of Rental Housing with Whitney Airgood-Obrycki

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Corey Aber [00:00:00] So, Sara, I was thinking, today, maybe it's just the weather, I don't know. I was thinking about great things to have come out of New England. So, kind of curious — name a couple of great things that have come out of New England.

Sara Hoffmann [00:00:11] I would probably have to go with the the Boston cream pie and New England clam chowder.

Corey Aber [00:00:16] So those are two really solid choices. You know, three things come to mind for me. So, Thoreau — both his pencils and his writing, Emerson and the Joint Center for Housing Studies' Rental Housing report.

Sara Hoffmann [00:00:29] Well, it sounds like today's topic probably won't be food or great American writers. So, I'm excited to learn more about America's Rental Housing report. Hello and welcome to this episode of the Freddie Mac Multifamily Podcast. I'm Sara Hoffmann.

Corey Aber [00:00:49] And I'm Corey Aber, and today we're really going to take a close look at the rental housing market and, and some great work that's been done on that recently by our guest, Whitney Airgood-Obrycki. So, she's [a] senior research associate at the Joint Center for Housing Studies (JCHS) of Harvard University. She works on research related to affordable rental housing for low-income households. And and, this is her third time on the show. So really happy to have you back. And, you know, she's been the the project manager and lead author of the report, "America's Rental Housing". And her research also, you know, includes housing policy, affordability measures, rental housing markets and suburban neighborhood change. So, a lot of great things for us to cover today. So, Whitney, really excited to have you back on the show.

Whitney Airgood-Obrycki [00:01:35] Thanks for having me.

Corey Aber [00:01:36] All right. So, let's dig in. I think I might not be, overstating it to say I understand this to be maybe one of the most popular, reports that that, you've put out in in a long time. So, I'd like to understand a little bit, as we start, you know, just what were you seeing when when you look, overall, the market, you know, what were you seeing? And then I really want to understand from you why this was the most popular one.

Whitney Airgood-Obrycki [00:02:00] Yeah, I think we had a couple of really big headlines that that people really latched on to this year. The first was that we were finally seeing rental markets start to cool after these really overheated conditions that we'd seen earlier in the pandemic. So, we were finally seeing rent growth start to slow a little bit, start to see things just kind of moderate in a way that's helpful for renters. But at the same time, we're left with affordability conditions that are worse than ever on record. We saw that with things like record high cost-burdened numbers. So, half of of renter households in the U.S. are now cost burdened, and a record high number of renter households are cost burdened. Record high numbers are severely cost burdened — so spending more than half of their incomes on rent and

utilities. And then we also saw things like record high homelessness. And so, a lot of these really intractable or seemingly intractable problems converging this year despite seeing some market cooling happening finally.

Sara Hoffmann [00:02:54] So maybe if we can take a step into that, because that definitely seems like they counter play each other. You expect markets to cool, you expect some of those affordability challenges to lessen a little bit. Can you maybe explain a little bit for why we didn't see that happen in this report?

Whitney Airgood-Obrycki [00:03:10] Part of the issue is that we have two different time frames of data, right? So, we have census data that we can use to track cost burdens or following median rents and median incomes, and what households are spending on, on rent each month. And that's pretty lagged, right? So, our latest data came out in around October 2023 and that was 2022 data. So, I always say, you know, as a researcher I'm usually living a couple of years in the past. But that's the case with our cost-burden numbers, that they're, you know, a year and a half old or so now — or at least a year old at this point.

The market data we're looking at, though, is tracked closer to real time and so that comes from, proprietary data sources. These are companies that are collecting this data from apartments that they're helping to manage and that they're, you know, managing the operations for different aspects of the leasing. And so, when we wrote the report, we were using data from one of these companies that went through the third quarter of 2023. And so, part of it is that there's this time difference in the data that we're looking at.

The other piece of it, though, is that the market cooling we were seeing in that proprietary data didn't mean that rents were falling. It meant rents were increasing at a slower rate, closer to zero, but still increasing in most markets. And so, we're probably going to see the cost-burden rate come down a little bit from where we were in 2022, but the reality is that we really saw these huge rent increases during the pandemic, and we're not going to be going back to like 2019 levels. So, we're seeing some relief, but really, rents are still increasing in a lot of places for a lot of people.

Corey Aber [00:04:46] And I would think that some of that, you know, period of growth too, is just going to stick in the public memory for a little while. So even as things cool, right, it's still going to feel like, they're not maybe, maybe for a bit.

Whitney Airgood-Obrycki [00:04:5-] I think that's probably true. You know, some markets we're seeing year-over-year rent increases of more than 20% in the professionally managed apartment market, just really huge rent increases nationally. Rent growth was out, just over 15% at the peak. And so, we just had this period of really fast rent increases that I think a lot of people felt. And the, you know, even in the markets where we are seeing decreases, we're not talking 15% decreases now, right? We're talking, fairly small decreases in relation to the the level of rent growth that was happening.

Sara Hoffmann [00:05:30] So maybe, to kind of jump in on that a little bit more, where do we see the demand for multifamily? Like, what's the, what's the landscape for the demand characteristics going forward? We talked a lot about millennials kind of hitting their peak; are we concerned that they'll start to fall off, leaving kind of a void for demand at the same time a lot of supply is coming on? Or do we have other generations kind of stepping in to fill that void?

Whitney Airgood-Obrycki [00:05:59] The longer-term prospect for demand is looking pretty good. One of the conclusions we came to in the report was that even though we're seeing this slowdown and we're probably seeing a pretty bad year ahead for multifamily, you know, property owners and operators, that the long-term prospect is actually good and this sort of market slowdown is not going to last too long.

And part of that is that even though the millennials are starting to drop off, they're still a huge generation, they're still renting at higher rates and so there's still a big chunk of the market.

The other thing, though, is that we're starting to see Gen Z come up into the rental world. And their numbers are increasing. They're actually the source of new and growing demand now. So, we have about roughly 8 million households now that are headed by someone from Gen Z. And when we looked to just sort of the demographic makeup of, of our populations here, we're finding that, you know, Gen Z is a smaller cohort by birth, but when you account for immigration, they're they're turning out to be almost as big as the millennial generation, after all. So, I think those are some some positive signs for the ongoing, you know, rental market demand.

The other piece of it, too, is that we have a really rapidly aging population and rental-ship rates tend to increase at age 80 and over as people move, you know, to places that have less maintenance requirements, less to take care of. And if that continues to hold true, then our, you know, baby boomer population is probably going to help support some rental demand going forward as well.

Corey Aber [00:07:26] Then the other side of the demand is supply, right? So, we've seen new new supply coming online. You know, what impact do you see that having?

Whitney Airgood-Obrycki [00:07:36] We're really seeing that new supply right now is finally at a level where it's it's more than demand. So, we have a little bit of excess supply coming online. And that's really what's helping to increase some of these vacancy rates in different markets and bring some of the rent growth down to, to slow things down a little bit. And so that's really positive. The the downside that we're seeing though is that the high interest rate environment and then some of the weakness that we've seen in the rental market over the last year or so has made people pull back from building multifamily housing. And so, we're starting to see a decline in starts. And so, we have this really good pipeline of supply now — we're at almost a million units that are under construction for the multifamily world. And that should help us for the next couple, you know, next year or so, but looking forward, the drop in starts is a little concerning. I think as a country, we've really been sort of counting on supply to solve some of our affordability problem and, you know, that's that's helped moderate things this last year, but if we start to see that supply, you know, not come online at quite the rate, we start to see demand pick up again then we're going to continue to have some problems with affordability.

Sara Hoffmann [00:08:45] And one of the problems we've seen with a lot of the supply coming on is that it's not equally distributed across all renters. It's coming in at the very high end of that rent distribution. And so, you would think that that would eventually kind of help lessen the burden lower down on that rent distribution. But it seems like that's not necessarily kind of coming through, or at least not yet. How are you seeing — is that supply really helping those most in need of some lessening affordability challenges?

Whitney Airgood-Obrycki [00:09:16] I think that the nature of the data we have make it hard to see how fast things are filtering down. One thing we see from the proprietary data is that vacancy rates did increase in Class B and Class C apartments, and rent growth did moderate in those class apartments as well. And so that is a, you know, positive sign that there's potentially some filtering, but that's still in the professionally managed apartment market, which is not serving the lowest-income households, right? And so, I think we need to see how this plays out a little bit, but I think the intuition is that we're building at the upper end, and at the same time, we're losing units that are the lowest cost, and the benefit of this increased supply is not getting to the people who need it most as quickly as it needs to get there. So, we still are left with a lot of, you know, the lowest-income households who are who are severely cost burdened, who have very little left over after paying rent each month. And new supply is really not going to serve these households, with the immediacy that they need.

Sara Hoffmann [00:10:11] I think that's really interesting cause we hear all the numbers on the new supply; those are kind of headline numbers of how much is under construction or the start to the permits.

But what you don't see is kind of that demolition side or those that are going away. And especially in our recent environment with, you know, during the pandemic with construction costs so low, I know that that probably really took a hit to a lot of those, lower-end buildings that could then get better financing to, to kind of either get transferred over and that would lessen the inventory of households at that affordability side.

Whitney Airgood-Obrycki [00:10:49] Yeah. We've been tracking over the longer term, the loss of, you know, what, we talked term "low-rent units". And these are units that rent for less than \$600. And I know if you know you live in a place like Boston or D.C. [District of Columbia] like we do, that \$600 doesn't seem like a rent that is possible, right? That you wonder what unit could possibly rent for \$600 or less. And that's, in fact, the maximum amount that about a quarter of all renters could afford without being cost burdened, so this is a really, really important stock.

And when we look at the loss of these low-rent units, we've seen over the last decade that our stock has decreased by about 2 million units renting for less than \$600. Part of that, as you mentioned, are things like demolition, you know, some of these are going to be lower end, inadequate units that fall out of the stock for that reason. Some of these lower that, you know, we have a pretty robust demand coming from middle- and higher-income households. And as a landlord, you can increase rent, you can make some upgrades and then use that as justification to increase rent.

There are a lot of reasons for why these rents sort of shift around, but the net effect is that we've lost about 2 million renting for less than \$600, about 4 million renting for \$600 to \$1,000. And then all the increases in the stock really have been at \$1,400 and above. And so, you know, that's that's part of these rising rents and the increased cost of construction. But when you think about this sort of shifting rent distribution, we're losing rents that we, we're, we're losing units at rent levels that we most need for the, the deep affordability needs. And then we're increasing entirely at the high end, where it's actually unaffordable for the majority of renters.

Corey Aber [00:12:27] You know, Whitney, in the past couple of reports, there was an interesting point that that you all found with the average income of renters being higher in recent years than in than in prior years. And if I remember correctly, some of that was driven by just more higher-income renters — not that every renters' income was going up. But I think this time around you're seeing some things a little bit different. And I feel like that ties in with what we just discussed about affordability and loss of unit. So, what are you seeing in the population of renters in this year's report?

Whitney Airgood-Obrycki [00:13:00] We saw over the long term that there's been this rise in higher-income renters that you're referencing. So since, you know, in the last 12 years or so, since 2010 — I live two years in the past — so from 2010 to 2022 or so, the number of higher-income renters who make at least \$75,000 increased by about 43%. They make up about 30% of all renter households now. So pretty significant increase over the long term. But one thing we saw was that that trend had sort of slowed in the last three years. And so, part of that was that earlier in the pandemic, it seemed there were these opportunities where, you know, you're living in a pandemic, you've got a roommate, and suddenly the market does loosen a little bit. There was some vacancy, there were some deals to be had. And so, it looked like we were seeing some splitting of households into smaller and lower-income households overall — a little bit of new household formation there.

When we then looked at, you know, the most recent data, looked like we had seen another pickup in these higher-income households as things had tightened again. And so, it does look like we have this continued trend of higher-income households, but it's definitely slowed from what we had seen, you know, when we did the previous report two years ago. And so, I think this is a trend that's being driven in part because we have so many good options for renting now. We have single-family rentals, if you want sort of your your single-family home with a yard in a suburban neighborhood. We've got really nice, new multifamily buildings in urban areas with a lot of amenities. But also homeownership has become so out

of reach for a lot of these households that we're seeing people renting at higher incomes and until later stages of life. And so, this is a trend that I think is slowing, but probably not entirely going away.

Corey Aber [00:14:42] So Whitney, I mentioned at the beginning, this is one of the most popular reports — I know you've been getting a lot of attention in in the press. You know, we've talked about a lot so far, but just give me a quick — what are the two most, most common questions you're getting from from reporters?

Whitney Airgood-Obrycki [00:14:58] I think the biggest one is how we got here. So how did we get to a record high number of renter households who are cost burdened? And then the other one is, how can we make it better, right? And how how do we fix this problem now? Is it going to get better? And part of, you know, part of the how did we get here is trying to understand, like if things are looking better on their face, like if things are cooling, why doesn't it feel like things are better? Like, why don't we have this significant relief, right? And I think that also aligns with how do we fix this, and how do we go beyond just, like, rents moderating to actually solving these problems so that people aren't cost burdened, people aren't homeless. And I think, you know, these are like the big policy challenges our country is facing. So, it's fun to have to answer that in a 30-second radio clip.

Corey Aber [00:15:49] And then have it distilled to one published sentence later, right?

Whitney Airgood-Obrycki [00:15:52] Yeah, exactly. But I think these are the, you know, the, the, the things that households across the country are really struggling with right now. When you pay too much for rent, you have less left over for everything else. I think households are really feeling that. The inflation pressure over the last couple of years has meant you have less left over after paying rent, and it also doesn't go as far when you're trying to pay for food and everything else. And so, I think part of this is that households are really feeling the pain right now. And then when you see these record high numbers, it really gives people something to use as like a conversation starter around this issue of affordable housing.

Corey Aber [00:16:28] So if you were a reporter asking yourself questions, what's the third question that you would ask?

Whitney Airgood-Obrycki [00:16:34] I think the biggest one is probably around climate change, because this is also a really pressing issue that we're seeing, you know, on a daily basis. Some wild event that's happened and, people who are, you know, struggling to keep their homes and to rebuild. We see climate change as a major housing issue right now. And part of that is, how do we make our stock more energy efficient because energy bills are also a huge piece of of cost burden that gets rents and utilities, right? There are 8 million lower-income households who have had a various, have had some form of energy insecurity because they couldn't afford their energy bill. So that's a major challenge, and we just have a really old housing stock that also needs energy-efficiency upgrades if we're going to really meaningfully reduce the greenhouse gas emissions from our housing stock.

So that's one piece of it, but also as we see these increasing environmental hazards, we have about 40% of our occupied rental stock that's in areas with at least moderate risk of loss and so that's a that's a huge issue, too. After we have, you know, these disaster events, we lose affordability, people are at risk of displacement, we have all these long-term effects and then it's really hard for renters to get the relief to rebuild and recover. And so, I think that these are really big challenges that should also be sort of front and center for, for people who are covering this.

Corey Aber [00:18:00] With each of these challenges and sort of the tough spot we're in, I think, right, we have an affordability crisis. We need to upgrade the housing stock. That costs more money that needs to be paid for in in some capacity, and I think you're seeing a lot more sort of a government focus on this,

you know, public programs focus on this. But yeah, curious from you, from your perspective and from your work, what are some of the ways that that people are trying to address this now?

Whitney Airgood-Obrycki [00:18:28] I think on the climate change front, the biggest thing has been through the Inflation Reduction Act, which had about \$9 billion in household tax credits and rebates, that's really positive. There was also \$1 billion in that that went specifically to HUD [Department of Housing and Urban Development] assisted housing for, you know, water- and energy-efficiency improvements. And so that's the biggest one we've seen.

On the sort of like disaster front, I think the challenges that a lot of our policy has been around providing support after a disaster occurs, and it's really lopsided toward homeowners rather than renters. But we really need to start thinking, you know, more proactively about how we're building and where we're building and, sort of doing those, you know, pre-disaster upgrades to make sure that we're adapting to climate change in that respect. I think on the affordability front, part of it is that over time, we just have to increase the availability of rental assistance to meet the growing need of income-eligible households.

Corey Aber [00:19:26] Yeah and it's interesting, the point about rental assistance is a big one because we saw like maybe the largest rental assistance program in history during the pandemic. But I think what you're describing is a little bit different from that sort of point in time and point of most need sort of emergency assistance to something that's more long term and programmatic.

Whitney Airgood-Obrycki [00:19:50] That's right. I think during, you know, during the pandemic, we had the Emergency Rental Assistance program in particular, that was like \$46.5 billion to help households who are at risk of eviction, who were behind on their rent. It was a huge program, massively helpful, helped stave off an increase in homelessness early in the pandemic, so that was a huge program. Over the longer term, when we look at — it's called HUD's "Worst Case Housing Needs report" and so they track the number of households who are very low income, which is a threshold for eligibility, and who receive any form of assistance — so federal, state or local. And then those who go without assistance and who might have worst case housing needs, which means they spend more than half of their incomes on housing, or they're living in severely inadequate conditions or both. And so, what that report has found over time is that, you know, since, from 2001 to 2021, the number of income-eligible households increased by about 4 million, and the number of assisted households in that income category increased by just 910,000. And at that latest count, 2021, we now have 14 million households who are income eligible but don't receive assistance, and we also have a record high number of households at 8.5 million who have worst-case housing needs, so those are those unassisted households who have those severe needs. And so, we're really at a point where the assistance hasn't kept up and then the consequences of not receiving assistance are even higher because the private market has gotten so expensive.

Corey Aber [00:21:20] Whitney, one of the things that that's interesting, right, we've had you on, you know, this is the third time in the past few years, right. And you're looking at things closely, regularly, that, you know, sometimes it feels like we're talking about, you know, some of the same things, but I, but I kind of wonder, you know, are there signs that that you're seeing and what, what you're looking at, etc., that might point to some longer-term trends or some change over time that we're we're in the midst of or entering into?

Whitney Airgood-Obrycki [00:21:48] We always find this funny because we are always saying that affordability is terrible. And, you know, we're called the Joint Center for Doom and Gloom because we're always pointing out that this is a problem. And when we're immersed in this world, it doesn't feel like a headline anymore that we have this many households who are cost burdened. And so, in that respect, it kind of feels like we've been saying the same things and it's just getting worse. But I think the positive note is that there does seem to be a growing policy momentum behind actually doing something and part of that is, is likely related to the fact that this is touching more households up the income scale, it's it's touching broader geographies. You know, there's unsheltered homelessness rising in places like Ohio

and Tennessee that we would think of as very affordable, right? And so, I think because we're seeing this affect so many people so broadly, we are starting to see some policy action around increasing supply or even moving to like a social housing model or a public ownership model or just exploring like what the different possibilities are for addressing the affordable housing crisis, which is, it feels different and does feel very exciting.

Sara Hoffmann [00:23:01] That was also a really interesting statistic about the homelessness record high numbers, especially, like you said, in some of those states that kind of always fall off our radar for being cost burdened, but you're seeing them increase there. Can you dive into those numbers a little bit more?

Whitney Airgood-Obrycki [00:23:16] Yeah. Nationally, according to HUD's point-in-time count, which is just going out one night in January and saying, who's living in shelters or who's living, you know, on the streets and cars, in places not intended for human habitation is how they term it. And they found that there were 653,000 people who were, you know, homeless on this one night in January in 2023. So that was a record high number. The records go back to 2007, and it was also the largest single-year jump we'd ever seen. So, an increase of 71,000 people experiencing homelessness in just one year. We also saw a record high number of people in unsheltered, homeless situations. So that would hit a record high of 256,000 people, an increase of about 23,000 people in just one year. And that's really been a longer-term trend. So, since 2015, we've seen rising numbers of unsheltered homelessness each year. And it's really reaching states where you wouldn't necessarily expect it. So certainly places like California, Washington, Oregon that get, you know, a lot of publicity in the news for having a big unsheltered homeless population and sort of problem, had really large increases. But also, we're seeing those large increases in places like Ohio, Tennessee, Arizona and Texas where you might think of them as traditionally more affordable, but as they've become less affordable, I've also seen this increasing problem of homelessness that they're also trying to address.

Sara Hoffmann [00:24:39] And I think that's really interesting cause that's a lot of what we're seeing when we talk about where rents have grown the most is in those more affordable areas of the country as people are kind of migrating out of the the more expensive coastal, gateway cities. And that's been causing those rents to increase faster there, which then probably puts more people at risk of homelessness if, if the rents or their housing is disrupted by these migration trends.

Whitney Airgood-Obrycki [00:25:07] We're certainly seeing more pressure on a lot of different markets, right? And that the pandemic really sort of changed where people were willing to move, where people could move, and where some of these rent increases are happening. And it's just, I think the underlying conditions of unaffordability that we were seeing even before that have just started to lead to this increase across the country, too. And so, it's a really challenging problem, and it's, it's one that's going to take a lot of commitment to, to try to really address and resolve.

Corey Aber [00:25:36] So Whitney, on the on this point of homelessness, right, we have seen an increase in this, but I think we're also seeing increase in attention on it as well, right? And some more programs. So, what are you seeing on on that front?

Whitney Airgood-Obrycki [00:25:48] At the federal level, we have a commitment to trying to address and decrease homelessness and so that that has been a big important thing. And part of that has been, you know, record high contributions to the Continuum of Care grants and so that's very important. It's billions of dollars that are going out each year. Twice in a row, we've had a record high amount go to that. We're really seeing, you know, states and local governments using some of that pandemic relief money to, to address, homelessness through different programs and services and that's been a really big deal as well.

But really, you know, we've also seen the opposite response. We've seen places try to criminalize homelessness. We have, you know, a big case that's going to go to the Supreme Court and, that could

really change the landscape as well. And, and so I think there's been kind of a mixed response to how we handle this. I think the the optimism is that it's, it's reached a level that we can't ignore. And we have policymakers across the country who are trying to do something, who are putting resources toward it, who are trying to expand affordable housing systems and to really put, you know, the services and housing, toward really reducing and hopefully ending homelessness.

Corey Aber [00:27:02] So as we've discussed today, many interrelated and and complex problems kind of go on going on at once and at a national level and at a local level, all all intertwined. So, Whitney, really appreciate you being here today with us to to dig into this and, and help us untangle all of this, at least for our understanding today. And hopefully, put us all, you know, across the country focused on this in, in a good position to put our best efforts forward to try and resolve these issues.

Whitney Airgood-Obrycki [00:27:32] Thanks for having me on to to talk about the rental report. It's always great to talk to you guys.

Corey Aber [00:27:39] The Freddie Mac Podcast is produced and supported by a team of our Freddie Mac colleagues, including our production lead Jenny Nguyen and our audio producer Dalton Okolo. To listen to more and keep up with the latest episodes, be sure to subscribe wherever you get your podcasts and check out our website mf.freddiemac.com/research for the full catalog of podcast episodes and original Freddie Mac research.