What's Driving the Nation's Housing?

For just over a third of a century, Harvard Joint Center for Housing Studies' (JCHS) *State of the Nation's Housing* has been an annual must-read for its comprehensive, omni-sourced examination of all things housing – and its disciplined just-the-facts-ma'am compilation makes it fertile ground for a guru to discover the invisible drivers of housing. In the just released 35th edition, so far, I've found these ten:

1. The pandemic's impact on housing is over. Although we are currently experiencing a 'long-COVID economy' where the damage done by decisions made during the COVID period—inflation, disrupted supply chains and recession—will take years to wear off, housing markets have bounced back in a big way. New household formation has returned to pre-COVID levels. Rents and home prices are both rising rapidly. Evictions, so greatly feared during COVID, never spiked above pre-COVID levels, in large part, due to 5.3 million Federal rent support payments averaging $5,000 per affected household/landlord, totaling $26 billion to date.

2. Housing is gaining market share as an urban land use. Although densely vertical cities (New York City, San Francisco, Boston) saw big drops in rental occupancy during COVID, they've recovered what they lost and then some. Conversions from offices to housing are picking up: 20,000 apartments in 2021 alone. Along with reduced parking requirements for new developments and increasing YIMBY rezoning, housing will continue to be prioritized.

3. Inflation is hitting lower-income households hard. With structural inflation running above eight percent, the highest level in 40 years, food is up 11 percent, in-home energy up 16 percent and gasoline up 44 percent. All these necessities hit lower-income households harder than affluent ones. Then add rising rents—professionally managed apartments' rents rose virtually everywhere, an average of 12 percent year-on-year—and the result is inescapable.

4. Thirty percent of income for housing isn't the right number anymore. Between the increased prevalence of hybrid work or work-from-home, the house consumes a larger percentage of a person's wakeful week, and as commuting costs go down, the income dedicated to housing must rise, and has been doing so even as inflation is making families cut costs elsewhere.

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5. Incumbent homeowners are loving their pre-recovery fixed-rate mortgage loans. In 99 of the top 100 markets, single-family home prices were up by more than ten percent year-on-year; in a third of markets, prices were up more than 20 percent, boosting the average U.S. homeowner's equity by $55,000. As a result, homeowners' net equity rose to hit "a new peak of $26.3 trillion."

6. Wealth is tiptoeing out of megacities. Though owning a home is once again a rosy prospect, the biggest gains came outside the megacities. Some of this may be demand for post-COVID stay-aways: Redfin estimated that second homes and vacation properties jumped 80 percent in mid-2020, and in 2022 were still 50 percent above pre-COVID levels. Some of it is also clearly the desirability of a hybrid-work occasional commute: JCHS cites Cape Coral (41 percent), North Port (35 percent), Tampa (31 percent), West Palm Beach (30 percent), Knoxville (29 percent) and Phoenix (28 percent)—yes, the top four metros are all in Florida—but Columbus, Grand Rapids, Syracuse, Kansas City, Allentown and Providence all experienced gains of 16 percent or more.

6. First-time home buying is rapidly disappearing for aspirational households. JCHS notes that the recent 200-basis-point boosts in new long-term mortgage rates are equivalent to a 27 percent jump in effective home occupancy costs. Couple that with high inflation concentrated in middle-income essentials and it's no wonder that foreclosure filings jumped 39 percent year-on-year, probably among newer homebuyers.

7. Many urban markets have priced new homeownership out of reach. A great rule of thumb for homeownership unavailability is median sale price relative to median income. According to Moody's Analytics, in the 1980s, our national price-to-income average was 3.1. Today the only metros meeting that standard are places where jobs are evaporating: Syracuse (3.1), Wichita (3.1), Scranton (3.0), Pittsburgh (2.9) and McAllen, TX (2.8).

That old three-to-one rule of thumb has been whittled away for decades: in the 2000s and 2010s it hovered around 4.0x, in 2020 it was 4.6x and in 2022 it's 5.3x.

8. Cities complaining about housing unaffordability have only themselves to blame. In homeownership, some markets have it much worse: Los Angeles 10.3x (twice as costly as the national average), San Francisco 11.3x, Honolulu 12.5x and San Jose 12.6x. All are locales with toxically exclusionary zoning and development approval processes.

Conversely, where developers are allowed to build, by-laws and markets, they do so: "single-family starts hit 1.1 million in 2021, exceeding the million-unit mark for the first time in 13 years ...multifamily starts were also at a 30-year high of 470,000 units." They choose sites based on permitting and labor costs: "The markets with the largest increases [in supply] were among the nation's hottest, led by Provo (59 permits issued per 1,000 housing units), Austin (58 permits), Lakeland (43 permits), Boise (42 permits) and Nashville (40 permits). …But chronic labor shortages and other factors make it difficult for developers to build modestly priced housing."

9. YIMBYism is slowly awakening. States whose voters are groaning most over high housing costs are taking baby steps toward breaking the NIMBY stranglehold. YIMBYism, however, is still teething: still, California and Oregon allow (but don't mandate) "construction of small multifamily buildings, accessory dwelling units and other types of housing in areas previously zoned for single-family homes." Minneapolis canceled single-family zoning, and Massachusetts mandated that 175 cities and towns on Boston's world-class transit system "have at least one reasonably sized zoning district where multi-family construction is allowed by right."

10. No one knows what to make of private-equity single-family rental (SFR). SFR has arisen from a capital vacuum caused by rapidly rising home prices, cities squeezing out new production and aspirational households who can't buy post-COVID. SFR is pervasive – nationwide, 28 percent of all single-family purchases in the first quarter of 2022, up from 19 percent a year earlier and 16 percent share pre-COVID. It's a huge new species and nobody knows where it's going. TCA