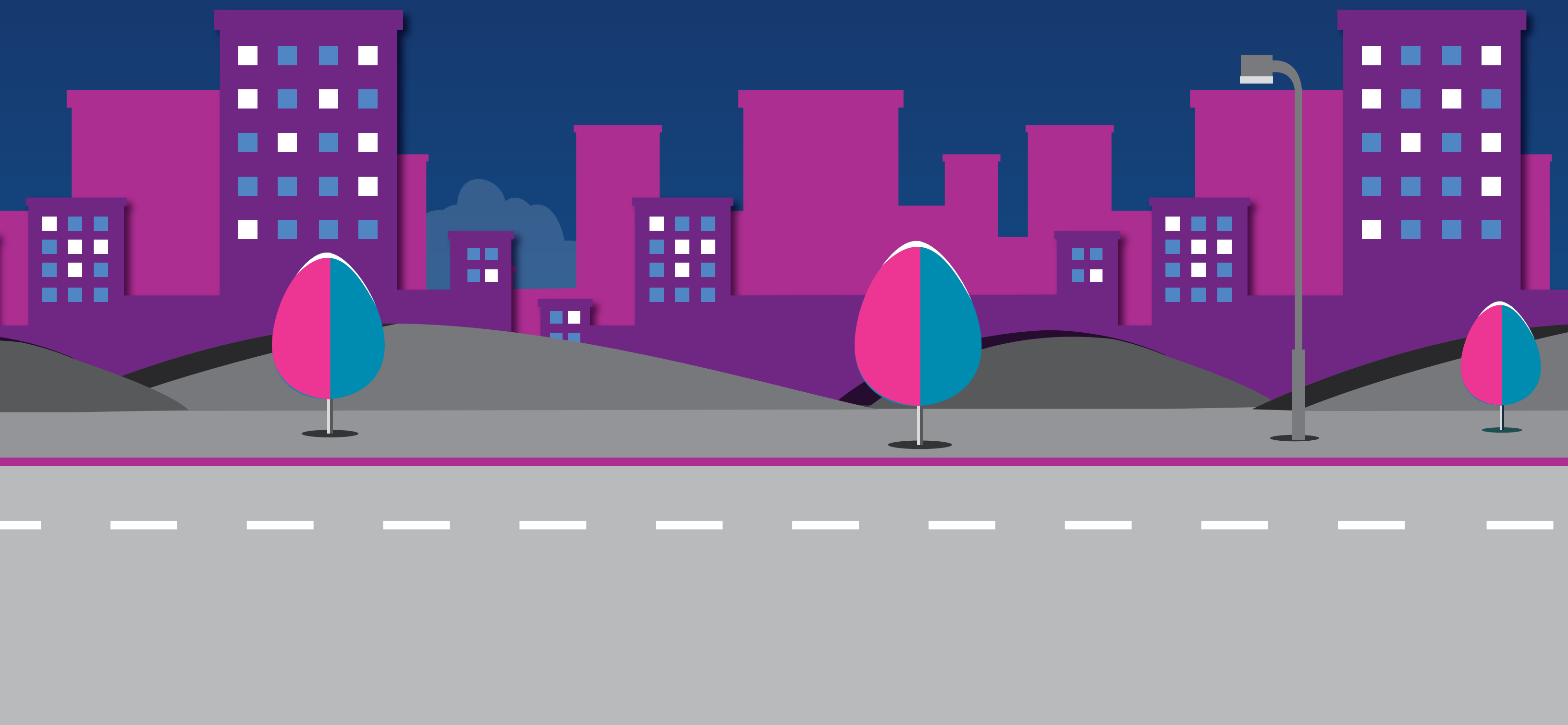
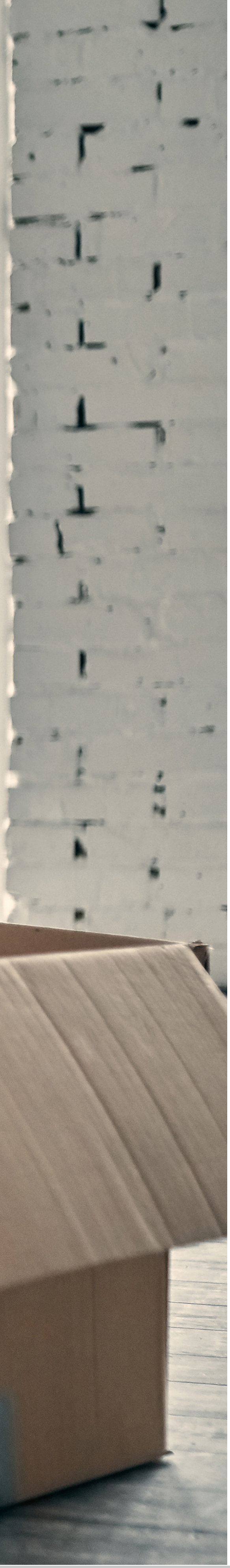
The State of the

U.S. Rental Housing Market Report





The State of the U.S. Rental Housing Market Report

After a period of historic, double-digit rent growth and razor-thin vacancy rates, the rental housing market has shown some signs of softening in 2023.

Rents were still showing year-over-year (YOY) growth at the end of 2022; however, industry analysts were generally predicting rents would grow in line with historical averages — instead of the record-shattering numbers observed in the past several years — over the course of 2023.

Still, economic uncertainty looms. The potential of a downturn this year and the existing economic strains faced by large swaths of renters may impact many rental housing owners and managers, nervous about their ability to find renters who can fulfill the terms of their leases.

About this report

In this report, Experian® data scientists and analysts offer key insights into the U.S. housing market's impact on renters. We provide a breakdown of recent trends and how they reflect the current state of residents, their rent obligations and the rental market economic climate. We also explore how incorporating rental payment history into the screening process can provide property owners and managers with a clearer picture of a lease applicant's risk profile.

The analysis in this report is derived from synthesizing various data samples and sources, including Experian credit attributes and models, the U.S. Census Bureau data and Experian® RentBureau®. RentBureau is the largest rental payment database that contains more than 25 million renter profiles.

This report yields three major takeaways:

- Soaring interest rates and a slowing mortgage sector over the last year have taken the heat out of the homebuying market.
- Inflation and other economic strains continue to squeeze renters' finances.
- As rent prices increase and negative payment activity becomes more frequent, rental housing owners and operators are striving to grow without expanding risk and need to find renters with the best chances of fulfilling the terms of their leases.

A note about data sources

While RentBureau doesn't represent the total U.S. rental market populous, internal studies reveal that RentBureau data aligns closely to historical U.S. Census data studies, which provides confidence in the deeper insights aggregated in the report. Projections are based on data released prior to January 2023.

U.S. housing development

Supply of homes on the market

When examining how the housing market has reached a point where many are burdened by high rents, there's a simple explanation. The economics of supply and demand are a major factor that drove rental prices up over the last few years. Homebuilders have not prioritized new construction of entry-level housing or affordable rentals for years, leading to an all-time shortage of options.

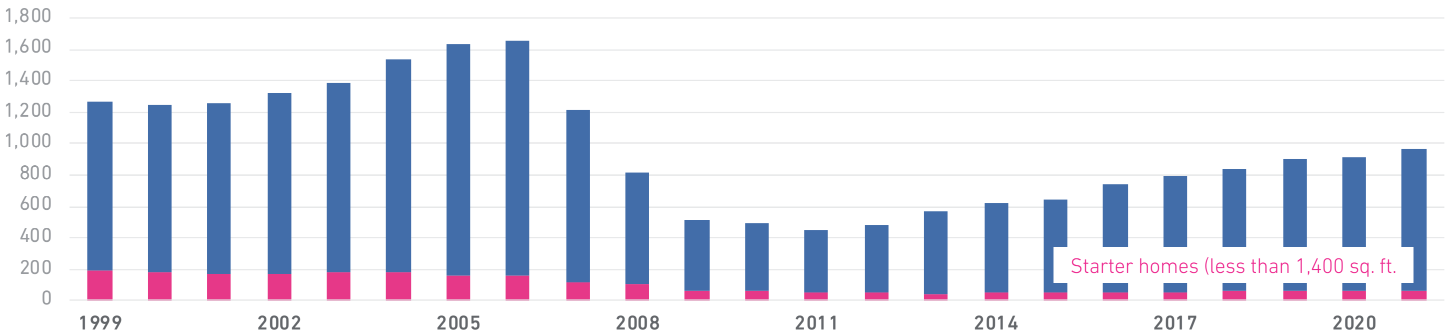
The undersupply of housing continued to worsen during the 2020 pandemic and into 2021 as millennials — the largest living generation — entered their prime homebuying years, and construction failed to keep up with the new demand. The lack of single-family housing has been a major factor driving up the costs of renting. Single-family starter homes — defined as 1,400 square feet or less — have fallen to less than 7% of the inventory built.

30-year home mortgage rate hits 6.7% — the highest since 2008

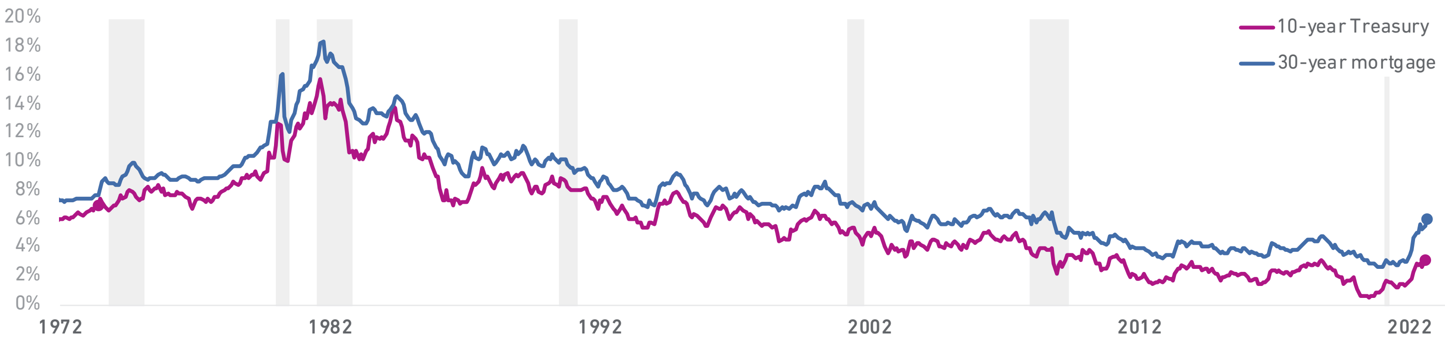
Additionally, rising interest rates over the past year have made homebuying less affordable, which has kept would-be homebuyers in the pool of renters and boosted demand for rental housing.

Rising interest rates over the past year have made homebuying less affordable.

New single-family houses completed[1]



Interest rates (monthly)[2]



[1]Census Bureau [2]Federal Reserve, Freddie Mac, and Experian Ascend Market Dashboard

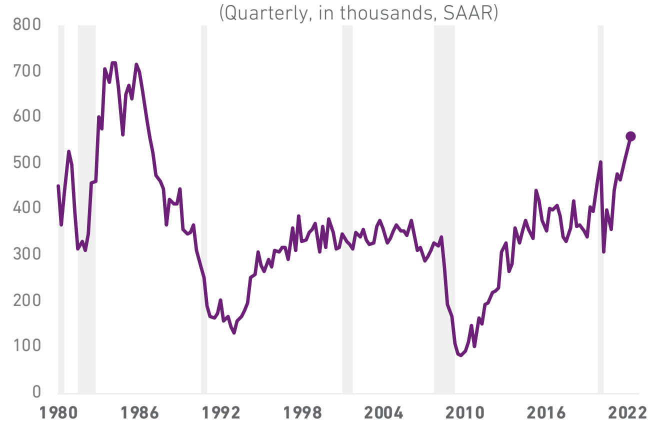
Construction is rising, but is it enough?

Housing construction has picked up in the past few years. In 2022, we saw the most multifamily units under construction since the 1970s with an estimated 561,000 units in development. With incremental growth in multifamily construction projected for 2023, this year would see the highest total observed in nearly half a century. However, with the backlog so severe, even a decade of record-level concentration in this area will still struggle to make inroads for affordability. And homebuilders may still resist this segment to focus on "move up" homes — larger homes that offer more luxury features — as they are more profitable for the builder.

While construction is rising, is it in the right places? Have we considered where different types of homes are being built and if they'll be the right mix of homes consumers need? States are facing unique regional trends and challenges that are deepening the impact the lack of supply is having on the market.

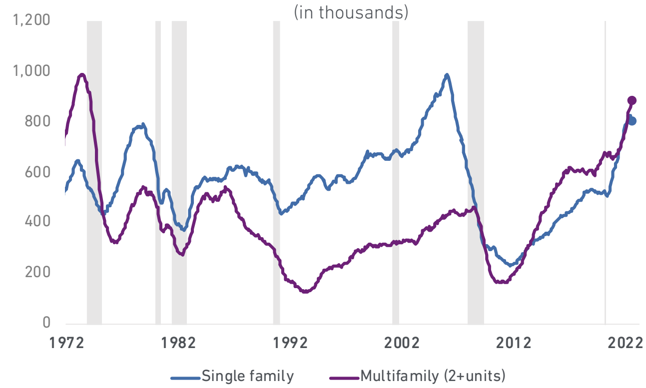
Additionally, rent growth continues to outpace income growth, making it increasingly difficult for renters to keep up with rising housing costs. In fact, according to RentBureau data, the average renter spends 38.6% of their income on rent. Households that spend more than 30% of their income on housing costs — including rent or mortgage payments, utilities and other fees — are considered "housing cost burdened" by the U.S. Department of Housing and Urban Development.

Multifamily housing starts[3]
(Quarterly, in thousands, SAAR)



Homebuilders have not prioritized new construction of entry-level housing or affordable rentals for years, leading to an all-time shortage of options.

Housing units under construction[4]
(in thousands)



KEY TAKEAWAY

Given the various macroeconomic climate factors at play, including soaring interest rates, a slowing mortgage sector, inflation and increasing rent prices, renters are feeling the squeeze and are often financially burdened. This means housing owners and managers need to carefully screen lease applicants and fully assess their risk profile.

[3]Census Bureau [4]Census Bureau

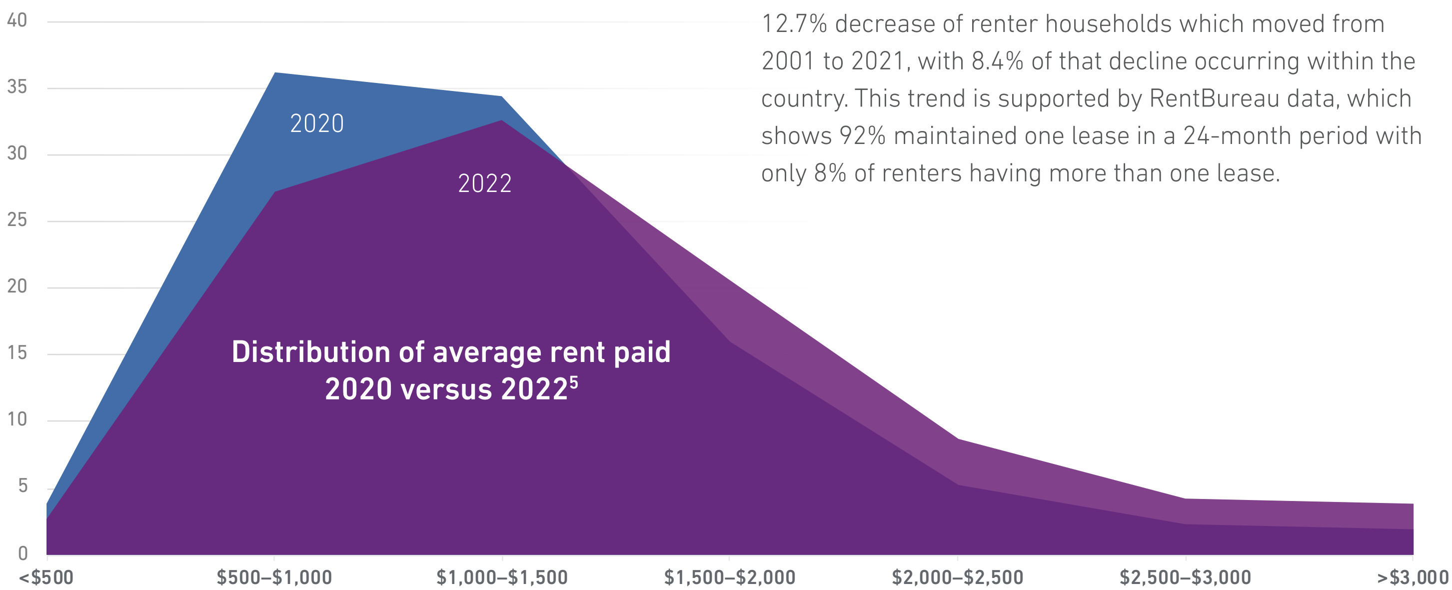
THE STATE OF THE
U.S. rental market

A shift in rental housing costs

While many renters find themselves stretched by rent payments after an extended period of rising costs, the U.S. rental housing market has shown signs of softening as inflation and economic uncertainty hit the country. In fact, rents across the United States observed temporary declines in some markets, when looking at month-to-month trends.

According to Experian RentBureau, the average asking rent for an apartment in the United States in October 2022 was $1,463.

However, even as rents began to slide, the averages rebounded to where prices increased $25 in November and continued trending upward into 2023. Rent growth, overall, while it may be slowing, is observed with a 6.8% growth rate when comparing January 2023 numbers to its equivalent in 2022. This can be visualized by comparing RentBureau average rent payment data from 2020 to 2022; there's a clear shift in average rents as monthly prices increase.



Distribution of average rent paid 2020 versus 2022[5]

[7]*Experian internal calculations on RentBureau data*

Shift in rental housing demands

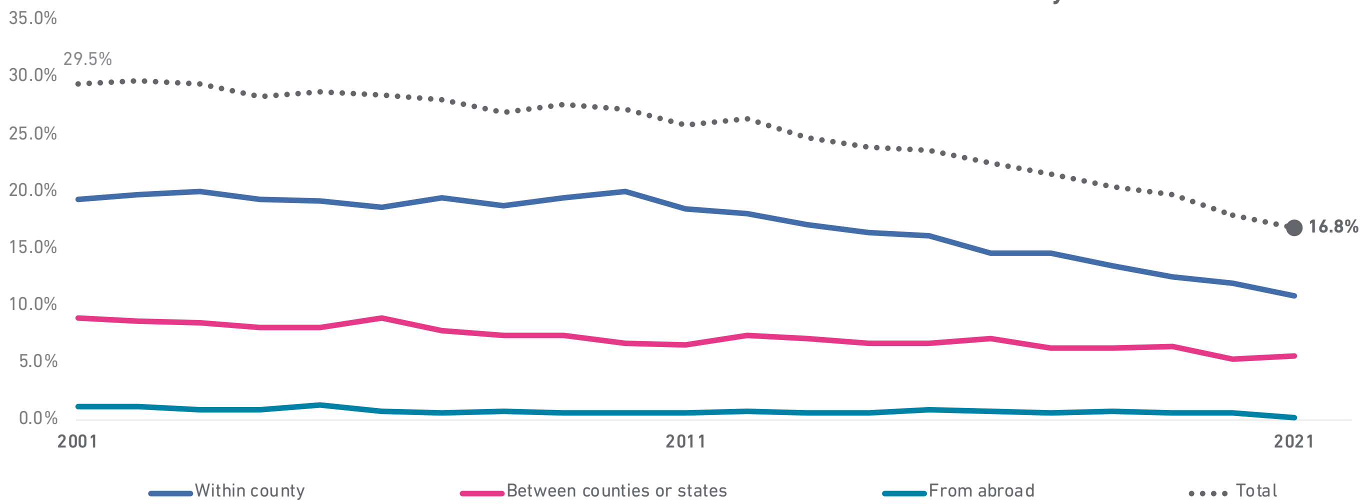
Even with rents trending higher, there appears to be a softening of the rental market, which is reflected in the National Multifamily Housing Council's (NMHC) Quarterly Survey of Apartment Market Conditions, through which NMHC's owner and manager members provide feedback about the markets in which they operate. In the most recent January survey, the Market Tightness Index (MTI) was 14.

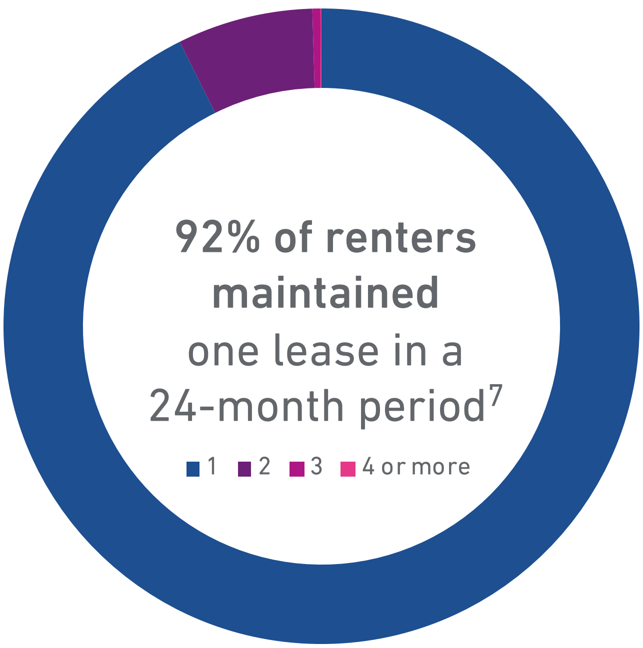
A reading above 50 indicates that, on balance, apartment markets around the country are getting tighter, while a reading below 50 indicates they are getting looser. The survey defines tight markets as those with low vacancies and high rent increases. The January results marked the second consecutive quarter in which time the index was below 50 in the last six quarters.

Digging deeper into the results of the January survey, 78% of the respondents said their markets were looser than three months prior, while 5% said their markets have become tighter. Another 16% said conditions in their markets were unchanged from three months earlier.

This softening may be attributed to changes in renter frequency of moving. Renters are moving less, which is likely to continue as rents remain high. Research from the Joint Center for Housing Studies of Harvard University found a 12.7% decrease of renter households which moved from 2001 to 2021, with 8.4% of that decline occurring within the country. This trend is supported by RentBureau data, which shows 92% maintained one lease in a 24-month period with only 8% of renters having more than one lease.

% of renter households that moved within the last year[6]





Renters are moving less often — this trend is likely to continue as rents remain high. There is a 12.7% decrease of renter households which moved from 2001 to 2021.

KEY TAKEAWAY

Despite the increase in rents from a year ago, the apartment market has recently shown signs of weakening. As a result, property owners and managers may now be experiencing reduced revenue. Additionally, many renters are struggling with the high cost of rent. To optimize revenue in the current market, property managers must focus on attracting tenants who are most likely to fulfill the terms of their lease.

[6] *Joint Center for Housing Studies of Harvard University* [7] *Experian internal calculations on RentBureau data*

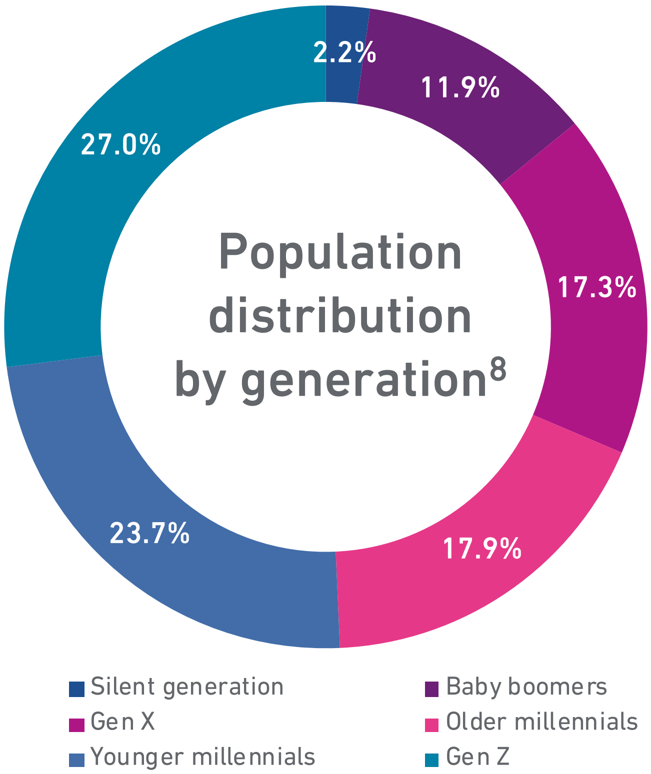
U.S. renter

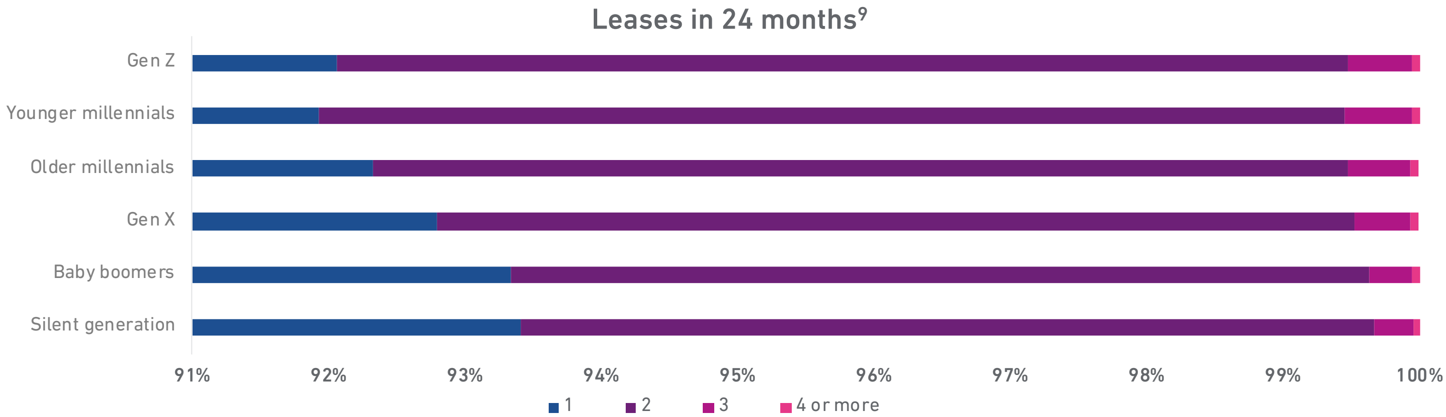
As 2023 begins with a strong but mitigating demand for rental housing and the prospect of a cooler U.S. economy looms, property managers need to prepare. Who is the American renter, and where do they stand in terms of their ability to meet the terms of their lease?

To start with, unsurprisingly, today's renters are typically younger. According to RentBureau, 68.6% of today's renters are either millennials (41.75%) or Gen Z (27%). Meanwhile, 17.3% are Gen X, 11.9% are baby boomers and 2.2% are from the silent generation.

Overall, renters alike appear to be staying put and have a lower likelihood to move. According to RentBureau, 92% of renters reflected in the database held one lease within a 24-month period.

Interestingly, when you look at the renters who have a higher propensity to move — and thus need a new apartment or home to rent — they tend to skew younger. Our analysis shows that, of the renters who made two or more moves during the last two years, 43.2% were millennials. The younger millennial segment accounts for 25.2% of the frequent movers. However, this is closely proportional to the volume of renters by demographic representation, meaning among 8% of frequent movers, there's no consequential difference between age groups.





[8]*Experian internal calculations on RentBureau data* [9]*Ibid*

What is their financial status?

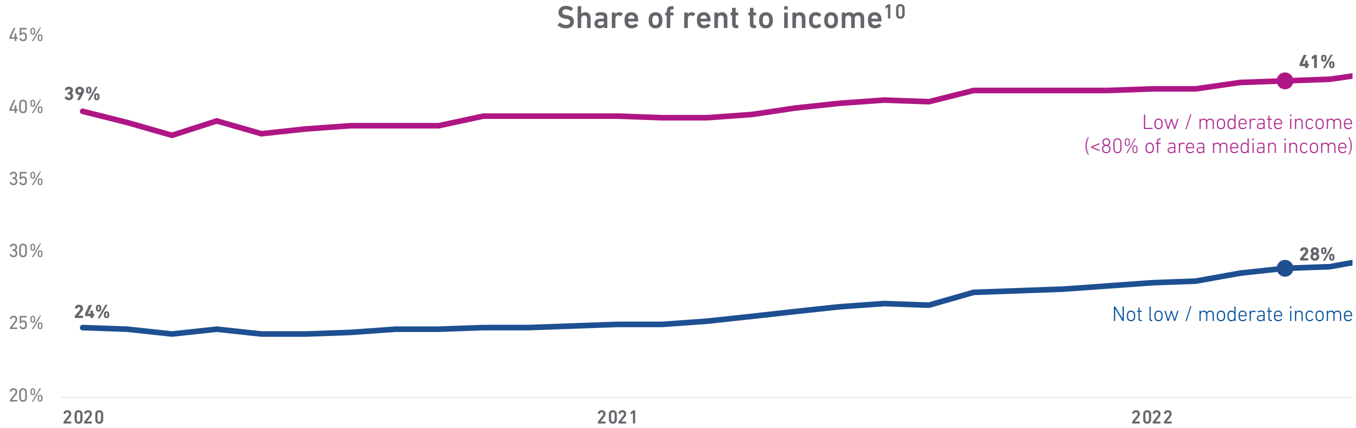
As the population of renters has increased over the past decade, the concentration of growth among income brackets appears to be in the $75,000 or higher yearly household income range.

While there's growth in the higher income cohort, what does the overall population look like? By some measurements, U.S. consumers — and, by extension, renters — improved their financial standing during the pandemic era. Credit scores rose as consumers used stimulus payments to pay down debt and save, but this trend is starting to normalize. The median conventional credit score rose above 700 in 2022, up from just above 680 in 2019.

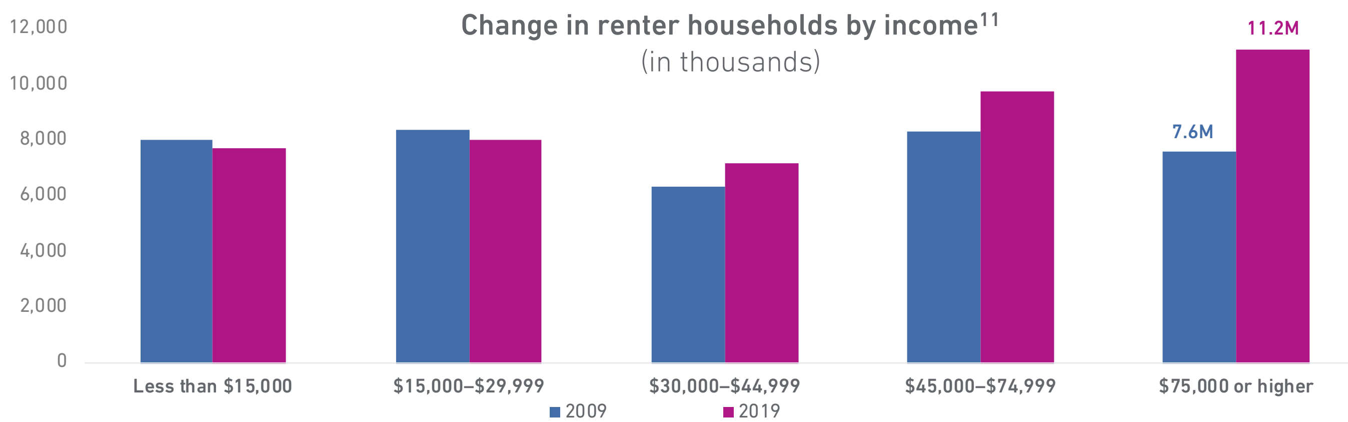
Even with this upward mobility in income, low-to-moderate income earners still make up most renters. Low-to-moderate income earners are defined as making less than 80% of the area median income, and account for 63% of all renters. For renters with reduced income, economic uncertainty is more challenging. This is proven by RentBureau data, which shows that low-to-moderate income earners are twice as likely to have negative payment activity compared to other renters.

More affluent households are moving to rentals.

Share of rent to income[10]



Change in renter households by income[11]
(in thousands)



[10] *Experian internal calculations on Rent Bureau data and Income Insights* [11] *Joint Center for Housing Studies of Harvard University*

Rent to income ratios are being tested

Many renters are still struggling with high rent-to-income ratios. As mentioned earlier, according to RentBureau data, the average renter spends 38.6% of their income on rent.

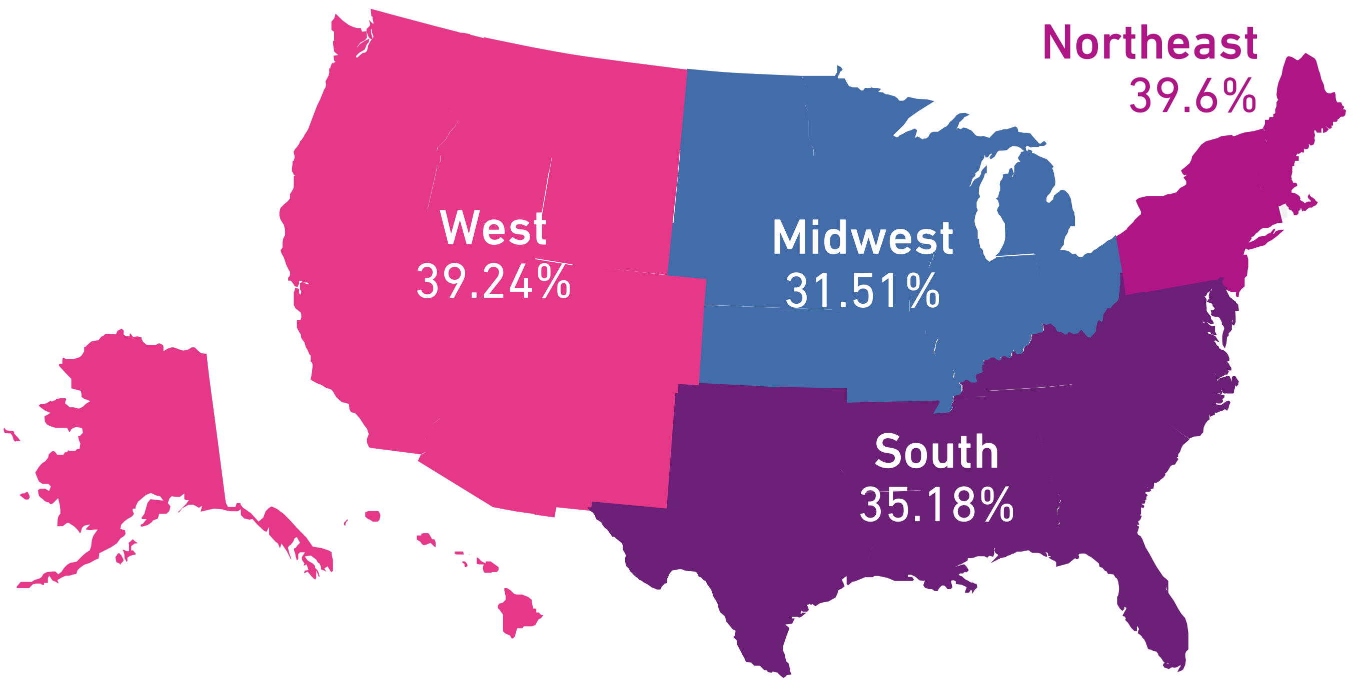
Low-to-moderate income earners allocated 41% of their income for rent in 2022, up from 39% in 2020. Renters making more than a moderate income used 28% of their income for rent in 2022, up from 24% of their income in 2020.

With the current YOY average monthly rent increase of $104 a month nets out to over $1,248 a year over the aggregate, regionally this increased yearly spend has a broader spectrum with many renters paying significantly more. Additionally, as inflation remains high and unemployment low, rent growth is outpacing income growth, which creates an overall net loss for renters.

Rent-to-income ratios are highest in the West and the Northeast, with some of the highest states including California and New York. In the face of the high cost of housing, more renters are having a hard time making their monthly payments. Our data shows 28% of renters with negative payment activity in 2022, with negative payment activity defined as having late charges, insufficient funds, write-offs or outstanding balances. The figure represented an increase from 5.7% in 2021. Digging deeper, low-to-moderate income renters are twice as likely to have negative payment activity compared to other renters.

Low-to-moderate income earners are defined as making less than 80% of the area median income, and account for 63% of all renters.

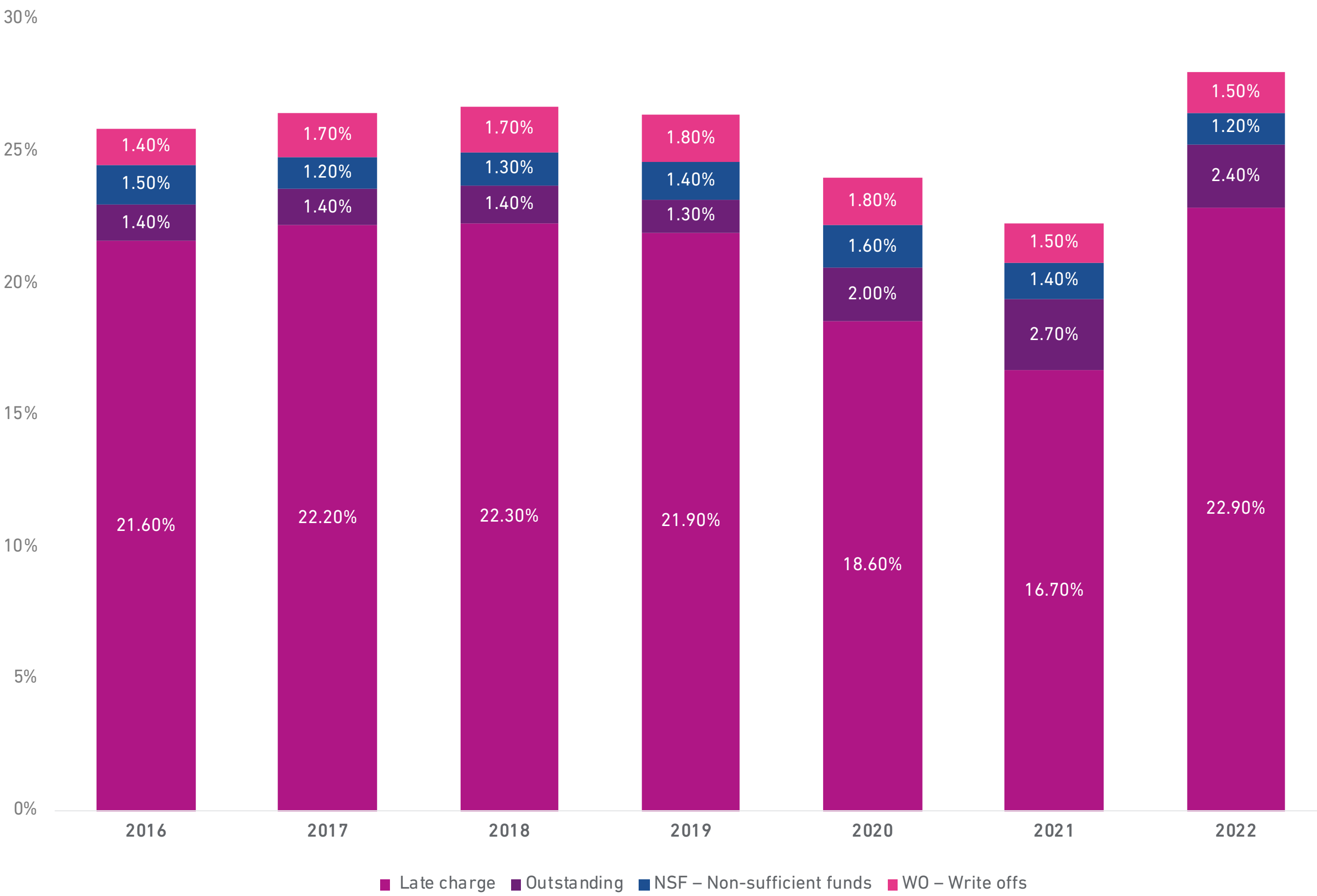
Rent-to-income ratio by region[12]



[12] *Experian internal calculations on Rent Bureau data and Income Insights*

As rent growth continues to outpace income growth, renters impacted the hardest are those who reside in the states with the highest rent-to-income ratios including California and New York.

Negative payment behavior[13]



KEY TAKEAWAY

Renters are already having to devote a large chunk of their income to rent. With a possible economic downturn on the horizon, many renters could be harder pressed to make their rent payments on time and in full.

[13] *Experian internal calculations on RentBureau data*

U.S. rental housing market

With the recent softening of the rental market, the various economic strains tugging at renters and the frequent talk of a potential economic downturn, housing owners and managers may find themselves anxious about how their properties will perform in 2023. In general, they may anticipate slower rent growth than in previous years, and they should be on the lookout for an economic downturn that could blunt household formations and increase vacancies.

The year ahead

Broadly speaking, rental housing industry experts and analysts are forecasting a relatively modest operating performance by the industry in 2023.

For example, Freddie Mac is forecasting that apartment rents will increase by 3.9% over the year. For some perspective, in the eight years pre-pandemic, annual apartment rent growth ranged from 3.6% to 6.1%, according to Freddie Mac's analysis.

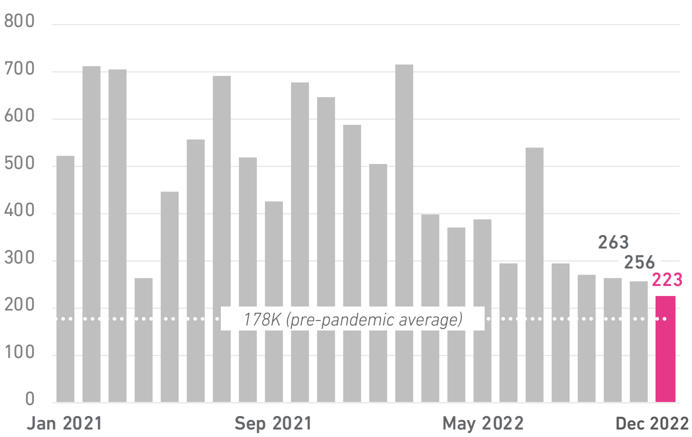
"Our forecast of 3.9% [is] near the lower end of that range but is considered healthy returns," says Freddie Mac in its 2023 Multifamily Outlook.

One factor that will loom over the performance of rental housing this year is the possibility of an economic downturn. In December, Bloomberg surveyed economists and found they believe there's a 70% chance of a recession in the U.S. economy in 2023. Another factor that could hinder rent growth and increase vacancy rates in certain markets is the wave of another new construction of 561,000 units predicted to be finished this year.

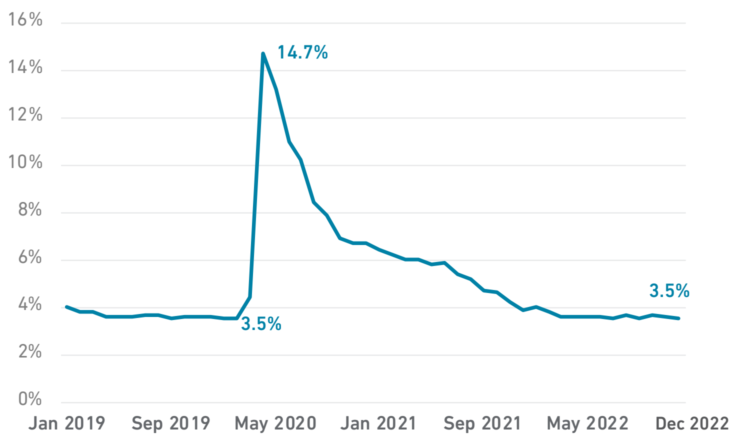
At the same time, unemployment figures have remained historically low despite interest rate hikes designed to cool inflation and the economy, and employment is a major indicator of rental housing demand. In December 2022, the U.S. unemployment rate stood at 3.5%, down from 3.6% one month earlier, and the economy added 223,000 jobs. Other than January 2022, when the rate was 4.0%, the national unemployment rate was below 4% in every month of last year.

A survey conducted in December 2022 among the Federal Reserve Board members and Federal Reserve Bank presidents indicated that they anticipate the unemployment rate to reach 4.6% this year, as per the median projection. This projection is attributed to the influence of increasing interest rates. When faced with higher borrowing costs, business growth slows, and demand for labor drops. This in turn reduces consumer spending, which pumps the brakes on inflation. For rental housing, a rise in unemployment could reduce household formation, which could serve to reduce housing demand.

Monthly job creation (thousands)[14]



Unemployment rate[15]



[14]*Bureau of Labor Statistics* [15]*Ibid*

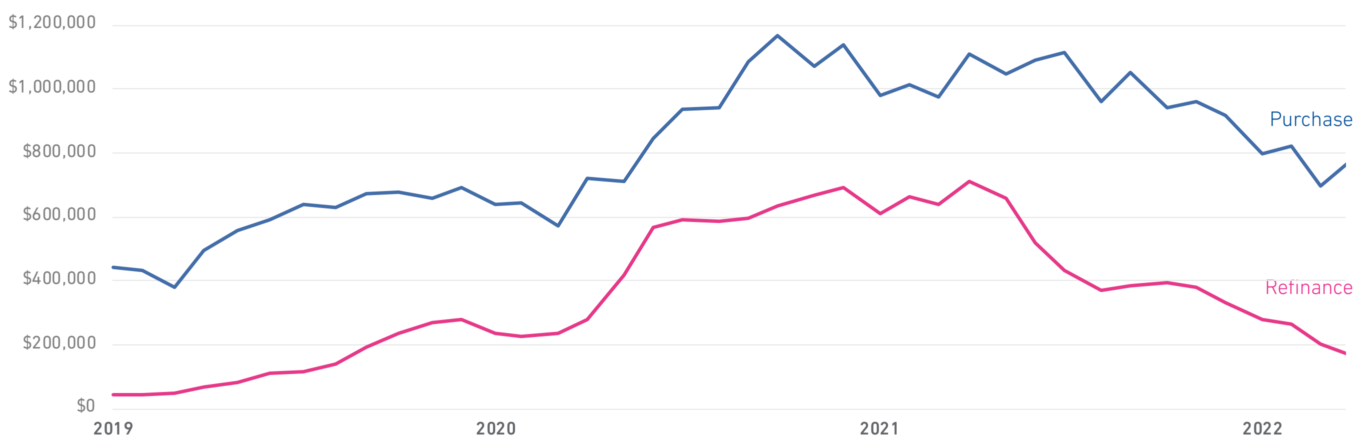
Alternatively, rising interest rates may benefit rental housing, as homebuying starts to become out of reach for many Americans, due to increased questions of affordability, renting and its amenities become more attractive. Predictably, the rise in home mortgage rates has depressed home prices to an extent. In third-quarter 2022, the median home sales price in the United States declined by 1.8%, according to Freddie Mac and the National Association of Realtors (NAR). However, these growing rates combined with the overall increase in home prices in recent years meant that, by the third quarter of last year, the monthly principal and interest (P&I) payment for a median-priced home had almost doubled to $2,409, since first-quarter 2020.

Over the first nine months of 2022, the cost to own a home grew by more than 40%, according to Freddie Mac, compared with a 6.8% increase in the cost to rent. Accordingly, 600,000 mortgages were originated for home purchases in July 2022, down from 1.1 million in October 2020. NAR's chief economist has predicted that home sales will decrease by 6.8% in 2023 when compared to 2022. These dynamics could serve as a boost for rental housing demand.

Add it all up, and there's reason to believe that rental housing demand should remain relatively strong in 2023, but property owners and operators will also likely have to navigate a softer market than in recent years, meaning they will collect less revenue, and renters who are already stretched by their rent payments might have to face additional economic challenges. Considering these trends, how should rental housing owners and managers make sure their screening processes give them the best chance of finding renters who are likely to pay their rent on time and in full?

There's reason to believe that rental housing demand should remain relatively strong in 2023, but property owners and operators will also likely have to navigate a softer market.

First mortgage originations[16]



[16]Federal Reserve, Freddie Mac, and Experian Ascend Market Dashboard

U.S. housing development
U.S. rental market
U.S. renter
U.S. rental housing market

Three tips to optimize the tenant screening process

Rental housing owners and managers can continue to optimize their screening procedures and technologies. Doing so is a great way to minimize risk, and that should be a goal regardless of the strength of the rental housing market. But in 2023, with rent growth showing some signs of slowing and economic headwinds that could place pressure on a lot of renters, optimizing the screening of lease applicants is especially important.

1 Leverage positive and negative rental payment history

Incorporating an applicant's rental payment history into the screening process provides the most comprehensive understanding of that applicant's risk profile and their likelihood of paying rent on time and in full. When screening applicants it is important to take into consideration all available data, especially the most relevant — rental payment history.

2 Report rental payments

On the flip side, property managers can't limit themselves to just accessing an applicant's rental payment history. Reporting current residents' rental payment history to a database can help bolster the ability of other rental housing managers to efficiently screen applicants. Also, reporting residents' rent payments to a database is beneficial as the database reports positive rental payments to credit bureaus to help residents build their credit histories. This can serve as an amenity that attracts and retains residents.

3 Double-check applicant's references

There are several ways to authenticate and enhance a renter's given information. Solutions like credit reports and income and employment verification all provide an additional layer of data about a prospective renter. These solutions eliminate the need for managers to collect voluminous documentation from applicants and reduce the opportunity for applicants to supply falsified documentation.

About Experian

Experian is the world's leading global information services company. During life's big moments — from buying a home or a car to sending a child to college to growing a business by connecting with new customers — we empower consumers and our clients to manage their data with confidence. We help individuals to take financial control and access financial services, businesses to make smarter decisions and thrive, lenders to lend more responsibly, and organizations to prevent identity fraud and crime.

We have 21,700 people operating across 30 countries, and every day we're investing in new technologies, talented people and innovation to help all our clients maximize every opportunity. We are listed on the London Stock Exchange (EXPN) and are a constituent of the FTSE 100 Index.

About Experian RentBureau

RentBureau is the largest and most widely used database of rental payment information and currently includes information on more than 25 million residents nationwide. Property management companies and third-party rent reporters send rental payment data directly and automatically to RentBureau daily or monthly. This detailed information enables organizations to make better-informed decisions. Property management companies use this data to screen new rental applicants' payment histories as part of their existing resident screening services.

Experian is the first major credit reporting agency to incorporate the positive rental payment data reported to RentBureau in consumer credit reports, enabling residents to build credit history by paying rent responsibly.

Learn more at www.experian.com/rental

Experian
475 Anton Blvd.
Costa Mesa, CA 92626
T: 1 855 339 3990