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Housing markets will likely experience an uneven recovery after the COVID-19 pandemic, based on lessons from the Great Recession. Renters, Black and Latino households face the greatest challenges ahead.

The Housing Market and the COVID-19 Pandemic: Implications for Las Vegas, Phoenix, Riverside, Los Angeles, Orlando, and New Orleans

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Abstract

The COVID-19 pandemic has disrupted virtually every part of the U.S. economy in the past year, and wreaked havoc on people's daily lives. Housing markets are no exception. Millions of renters have fallen behind on their rent, fearing eviction while accumulating debts they cannot pay. At the same time, prices for owner-occupied housing have soared while the inventory of for-sale homes has plummeted. In this brief, we analyze several measures of housing distress from 2007 to 2019 for six metro areas, chosen based on their housing and labor market characteristics. Los Angeles, Riverside, Las Vegas, and Phoenix were among the areas hardest hit by foreclosures. Job markets in Las Vegas, Orlando, and New Orleans depend heavily on tourism and hospitality industries, which are disproportionately suffering in the public health emergency. How housing markets in these metros recovered from the Great Recession offers some guidance for what to expect over the next few years.

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Introduction

The COVID-19 pandemic has disrupted virtually every part of the U.S. economy in the past year, and wreaked havoc on people's daily lives. Housing markets are no exception. Millions of renters have fallen behind[1] on their rent, fearing eviction[2] while accumulating debts they cannot pay. Missed payments are putting pressure[3] on the nation's already fragile affordable housing supply. At the same time, prices for owner-occupied housing have soared[4] while the inventory of for-sale homes has plummeted.[5] The disparate outcomes in housing market segments mirror the pandemic's uneven impact on labor markets: college-educated workers in professional jobs can work from home, while low-wage workers in service jobs have experienced the highest rates of job loss.

In some ways, the current economic situation is the inverse of the Great Recession: homeowners were hit first by the foreclosure crisis and collapsing prices before the recession spread into rental markets. Despite this difference, the Great Recession and recovery can offer some context and insights into how households and housing markets might fare as the U.S. economy recovers. In this brief, we analyze several measures of housing distress from 2007 to 2019 for six metro areas, chosen based on their housing and labor market characteristics. Los Angeles, Riverside, Las Vegas, and Phoenix were among the areas hardest hit by foreclosures.[6] Job markets in Las Vegas, Orlando, and New Orleans depend heavily on tourism and hospitality industries, which are disproportionately suffering in the public health emergency. How housing markets in these metros recovered from the Great Recession offers some guidance for what to expect over the next few years.

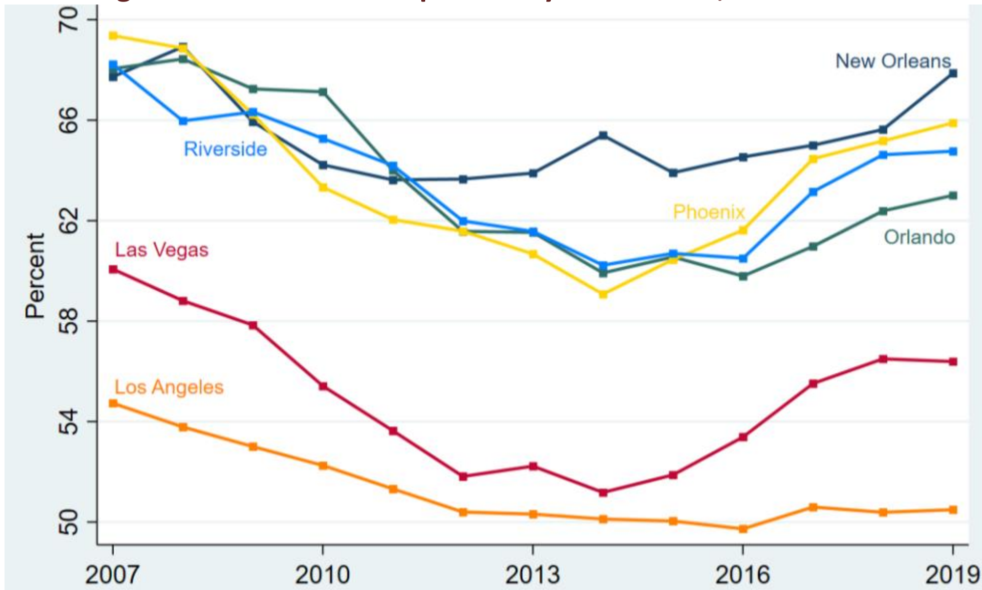
Housing distress lasted well beyond the end of the Great Recession

The Great Recession lasted from December 2007 through June 2009.[7] But two key metrics—housing prices and homeownership rates—show that housing markets continued to worsen for several years after the recession ended.

Homeownership rates reached historic heights[8] during the housing boom of the early and mid-2000s, fueled in part by widespread expansion of mortgage availability[9] and loosened underwriting criteria. The foreclosure crisis that triggered the Great Recession caused homeownership rates to decline sharply in all six metros, generally hitting a trough around 2014, nearly five years after the recession officially ended. As Figure 1 illustrates,

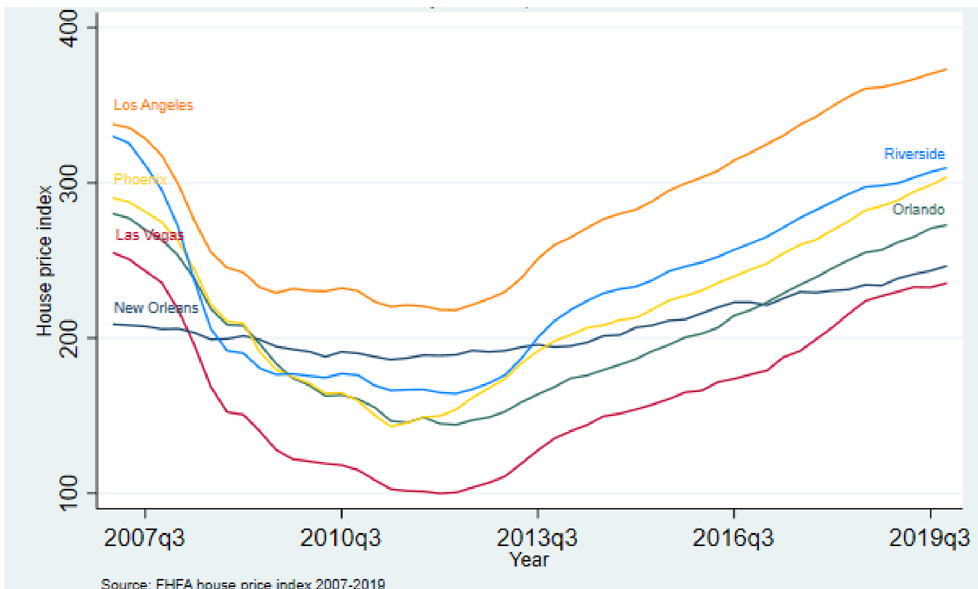
homeownership rates declined during the Great Recession before rebounding slightly. Most metros (with the exception of Los Angeles) have seen homeownership rebound by several percentage points from the lowest point, although not all have returned to their pre-recession peaks.

Figure 1: Homeownership Rates by Metro Area, 2007 to 2019



Housing prices show a similar pattern: prices dropped steeply during the Great Recession, followed by several years of gradual declines (see Figure 2). While the timing decline and rebound varies some across the six metros, most areas did not see a noticeable recovery of prices until 2013.

Figure 2: House Price Index, 2007 Q1 through 2019 Q4



Homeowners and renters experienced recession / recovery differently

While housing prices and homeownership rates are some of the most frequently used metrics to describe the aggregate health of housing markets, they do not provide direct insight into household-level well-being. To assess the level of financial stress experienced by owner and renter households during the Great Recession and Recovery, we look at housing cost burdens,[10] defined as the share of monthly income spent on housing costs. The U.S. Department of Housing and Urban Development recommends that households spend no more than 30 percent[11] of their income on housing; higher cost burdens may lead households to cut back[12] on food, transportation, or other necessities.

Homeowner cost burdens in most metros declined steadily during the Great Recession and recovery (see Figure 3). The decline in homeowner cost burdens reflects two underlying trends. First, financially vulnerable homeowners were more likely to lose their homes to foreclosure, so the remaining group of homeowners became more affluent through selection. Second, both housing prices and mortgage interest rates declined during this period of time, making homeownership effectively cheaper.

Renters faced very different conditions: renter cost burdens increased from 2007 to about 2011, before starting to decline (see Figure 4). As distressed homeowners moved out of their homes following foreclosure, they entered the rental market, putting additional pressure on rents. Ultimately, housing cost burdens for owners and renters moved in different directions.

Figure 3: Owner Cost Burdens by metro, 2007 to 2019

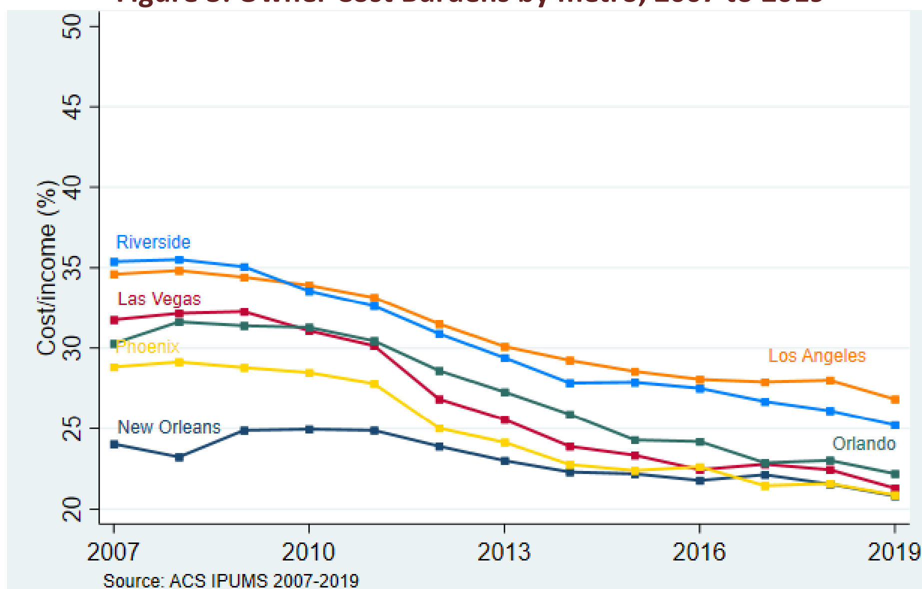
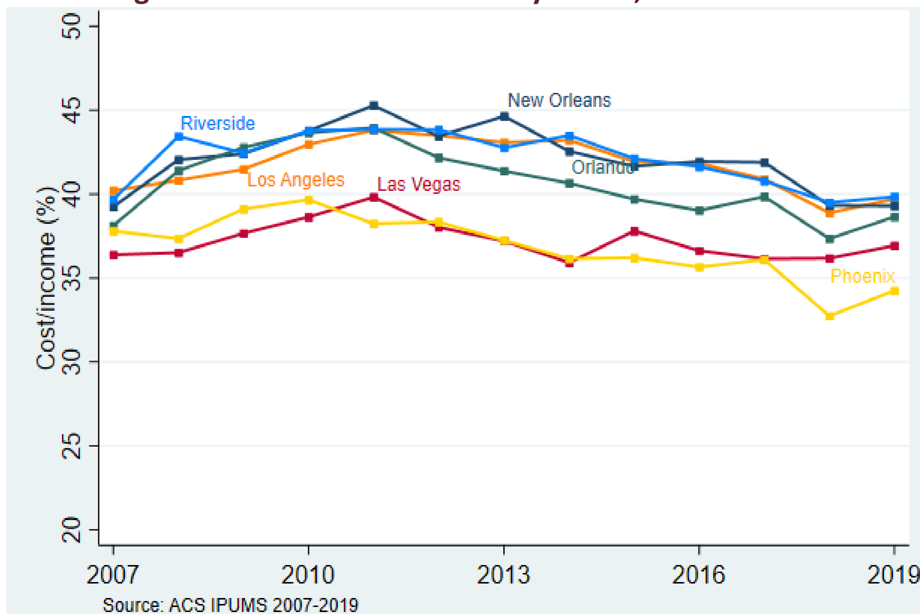


Figure 4: Renter Cost Burdens by metro, 2007 to 2019



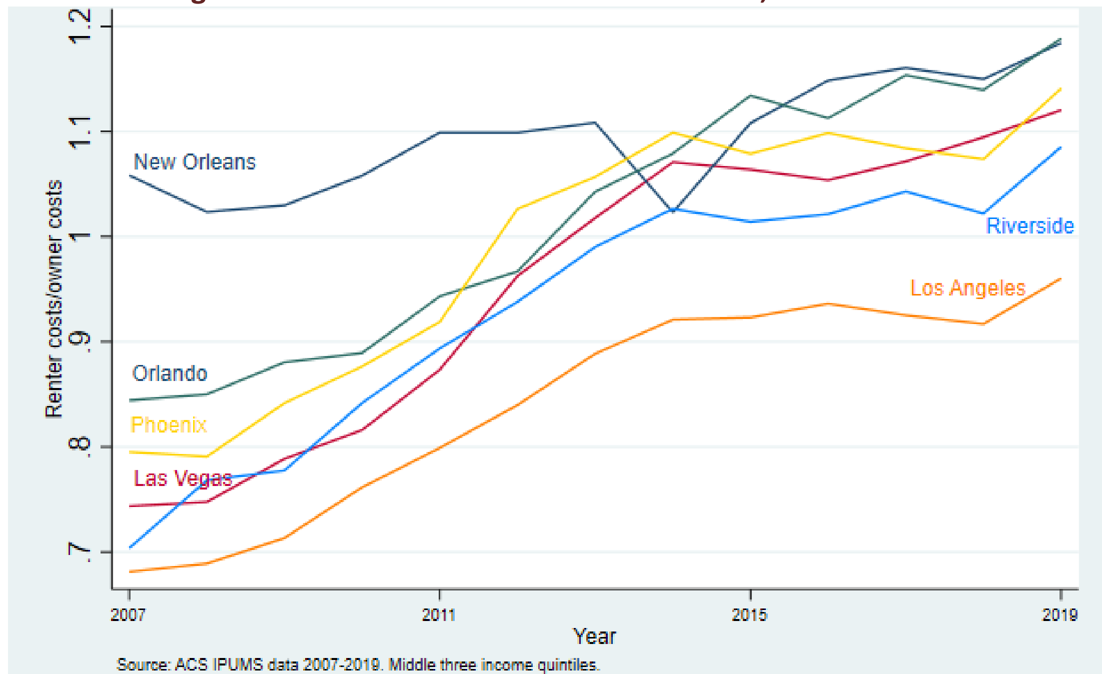
One limitation to comparing cost burdens for all homeowners to all renters is that homeowners, on average, have higher incomes than renters. And during this time period, the foreclosure crisis played a large role in shifting the income composition[13] of the two groups.

To compare changes over time in the relative costs of owning versus renting for households of similar income, we calculate the ratio between renter and owner cost burdens within a particular income band, metro, and year. To illustrate, in 2009, middle-income renters (households in the 3rd income quintile) in the Las Vegas metro spent 25% of their monthly income on rent. Middle-income homeowners spent 33% of their income on housing. The ratio of these two numbers is 0.76 (renters had smaller cost burdens than homeowners of similar income). In 2019, middle-income renters spent on average 23% of their income on rent, while middle-income homeowners had cost burdens of 20%, for a ratio of 1.12. That is, between 2009 and 2019, renting had become relatively more expensive for middle-income households in Las Vegas.

Graphing the ratio of renter-to-homeowner cost burdens (Figure 5) shows that renting became relatively more expensive for middle-income households over time in all six metro areas. Figure 5 shows ratios for households in the three middle income quintiles: a large majority of households in the highest income quintile are homeowners, with most households in the lowest quintile renting their homes. From 2007 to 2011, five of the six metros had cost burden ratios below one, meaning that middle-income renters spent a lower share of their income on housing than similarly affluent homeowners. The cost

burden ratios increase over time in all metros, so that by 2013, all metros except Los Angeles had ratios above one. The last two years of the graph show a sharp uptick in slope for five of the six metros, illustrating the growing affordability pressures[14] for renters across much of the US.

Figure 5: Renter to Owner Cost Burden Ratio, 2007 to 2019



The rising relative cost of renting reflects several underlying trends in both the rental and owner-occupied markets. On the homeownership side, declining housing prices combined with falling interest rates[15] made owning cheaper – for the lucky households who had not entered foreclosure. Households who were able to purchase their first home benefitted from both lower prices and cheaper capital, while many existing homeowners refinanced their mortgages to take advantage of lower rates. At the same time, rent levels rose in most metros, due to increased demand. The Los Angeles metro also suffers from highly restrictive land use regulations[16] that constrain[17] the development of multifamily housing.

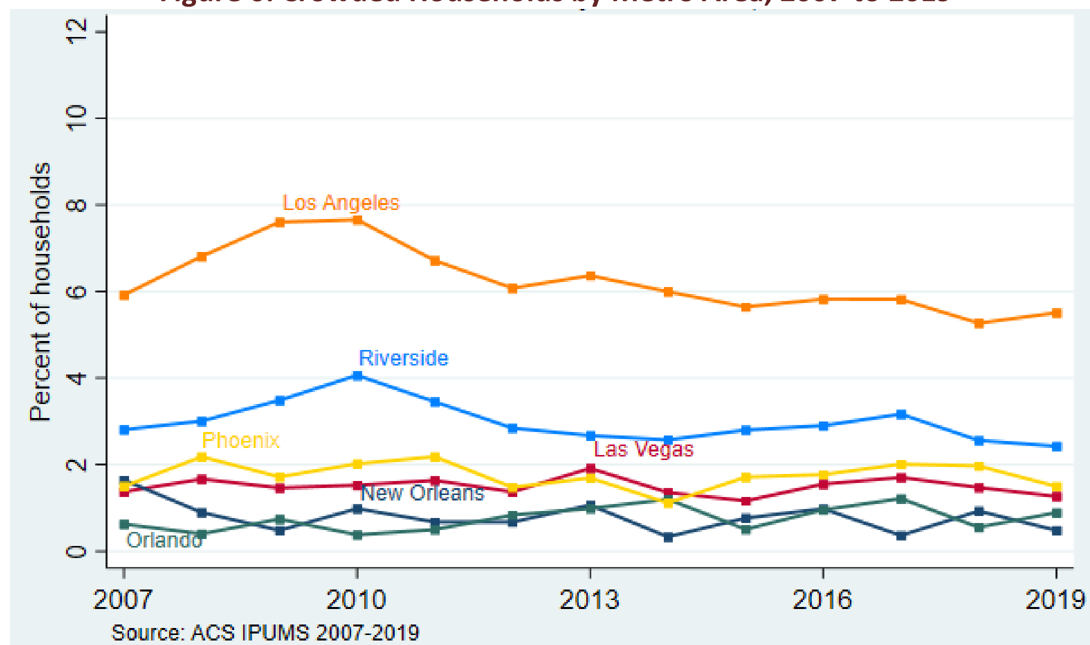
Crowding is concentrated among Hispanic households in California

The COVID-19 pandemic has drawn renewed attention to another metric of housing distress: crowded[18] homes (more than two people[19] per bedroom). Even without the health risks created by a global pandemic, living in overcrowded homes can harm[20] people's mental and physical well-being. While crowding is a relatively scarce problem

nationally, it is more prevalent in high-cost areas and among immigrant populations.[21] Doubling-up with multiple households is one way that low-wage workers can bring down per-person housing costs. People who undergo evictions, foreclosures, or other types of displacement often move in with family or friends, at least temporarily. Therefore, we would expect to see crowding increase during times of widespread financial hardship and/or rising housing costs.

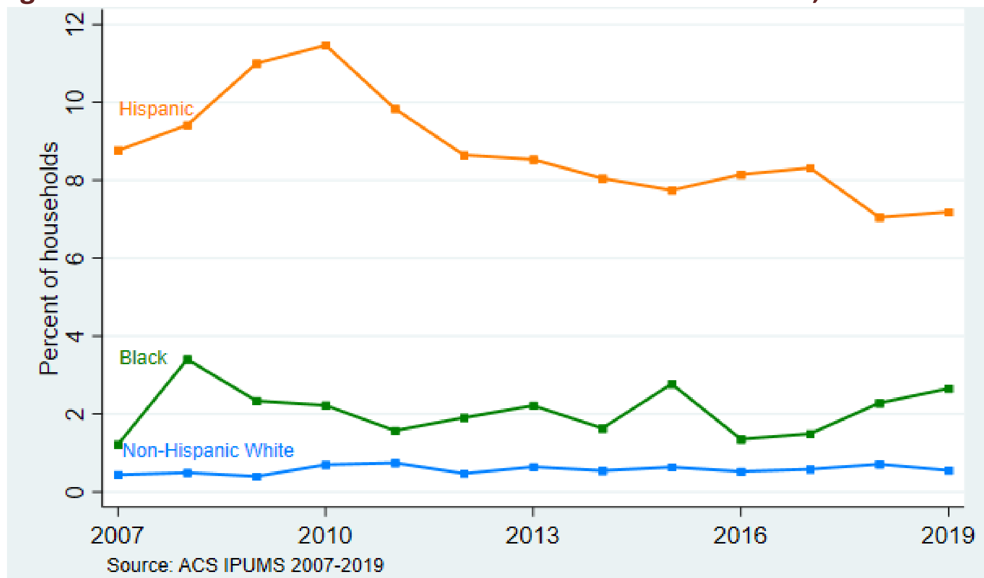
Among the six metros studied, Los Angeles had by far the worst levels of crowding – as well as the highest housing costs (see Figure 6). Between 6% and 8% of households in Los Angeles had more than two people per bedroom over this time period. Riverside (the next most expensive metro) had crowding rates about half those in Los Angeles, while the remaining metros were under two percent. Crowding increased noticeably in both Los Angeles and Riverside during the early years of the Great Recession, before returning to earlier levels. The other metros do not show clear time trends in crowding over this period.

Figure 6: Crowded Households by Metro Area, 2007 to 2019



Withing California metros of Los Angeles and Riverside, which saw increased crowding during the Great Recession, we find that Hispanic households experienced the highest rates of crowding, followed by Black households (see Figure 7). Crowding increased among both groups after 2007 before declining during the recovery. Similarly, we find higher rates of crowding among renters and low-income households.

Figure 7: Households with More Than 2 Persons Per Bedroom, 2007 to 2019



Racial disparities in homeownership persist over time

Decades of discrimination in housing,[22] credit,[23] and labor[24] markets have limited Black and Latino families' access to homeownership, creating large and durable disparities in homeownership rates. The gap between Black and white homeownership rates ranges from 20 to 40 percentage points (see Figure 8), while the Hispanic-white gap ranges between 10 and 30 percentage points (see Figure 9). The size of the gaps varies across metro areas, but within metros, patterns are remarkably persistent over time.

Figure 8: Black-white homeownership gap, 2007 to 2019

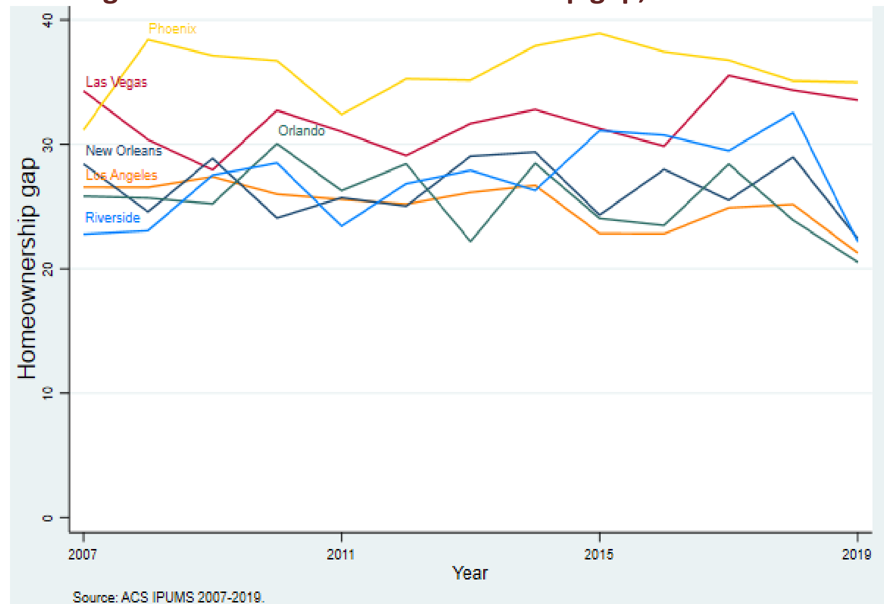
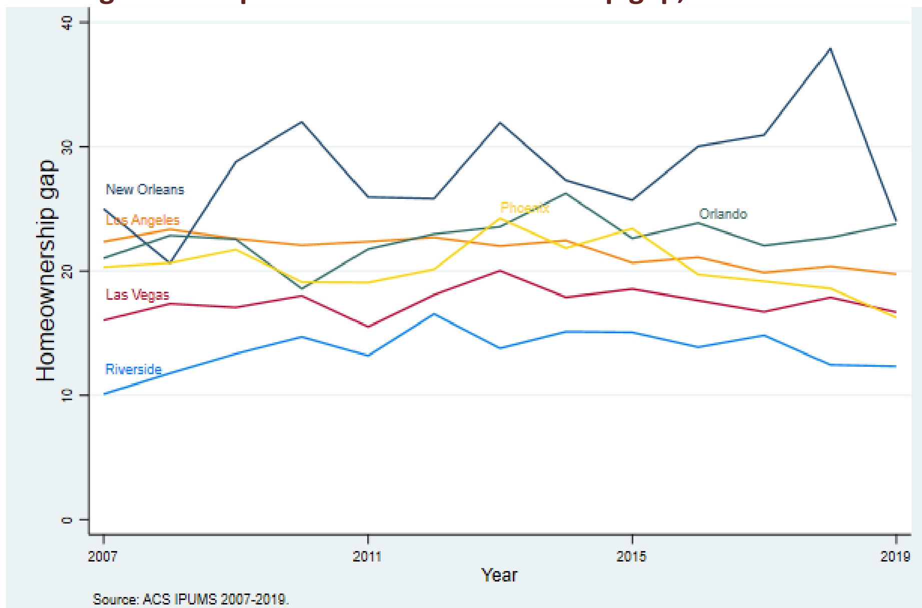


Figure 9: Hispanic-white homeownership gap, 2007 to 2019



It’s tough to make predictions, especially about the future

What insights do these past events offer into how housing markets will react to the COVID-19 pandemic? With the caveat that no two recessions are exactly the same, four lessons seem likely to apply.

- **Distressed properties and indebted households can slow economic recovery.** The foreclosure process can take years to resolve, tying up homes[25] in legal and financial limbo. People with large amounts of debt--whether homeowners, renters, or landlords--are not in a position to spend at local businesses and shops.
- **Watch for problems crossing over housing market segments.** Households that lost their homes to foreclosure contributed to upward pressure on rents, making life harder for existing renters. Today’s renters would normally be tomorrow’s first-time homebuyers--but not with a pile of rent debt[26] and an eviction[27] on their record.
- **Overcrowded homes increase future health risks.** COVID-19 may be the worst public health crisis since the Spanish flu,[28] but it is unlikely to be the last (especially given climate change[29]). Taking steps now to help low- and moderate-income renters afford sufficient space[30] in decent quality homes is an investment in everyone’s future health.

- **Racial disparities in housing won't solve themselves.** More than 50 years after the Fair Housing Act was passed, Black and Hispanic families still face substantial barriers to homeownership. Both the Great Recession and the COVID-19 pandemic have disproportionately harmed Black and brown communities. Intentional,[31] sustained policy intervention[32] to close the racial wealth gap is long overdue.

Conclusion

Federal, state, and local governments have offered housing support during the pandemic through three channels: direct financial assistance to households, rent relief distributed through local agencies, and temporary moratoriums on foreclosures and evictions.[33] Direct financial support from the CARES Act—one-time stimulus payments and expanded unemployment insurance benefits—have been very effective in keeping people in their homes, for households that received them. The additional support in the recently passed American Recovery Program will allow millions of households to continue paying their rent and mortgage until the public health threat diminishes and the economy fully re-opens. *Eviction moratoriums*[34] and emergency *rent relief programs*[35] were implemented very differently across state and local governments, making it more difficult to draw broad conclusions on their effectiveness. Research suggests preventing households from being displaced can help *slow the spread*[36] of COVID-19, an important step in the public health strategy. But the accumulating rent debt adds to financial strains on both renters and landlords, so the moratorium should be paired with substantial rent relief efforts.

Two key lessons from the CARES Act point the way towards more effective implementation of housing assistance at the state and local level. First, federal agencies need to provide clear, consistent guidance to state and local governments on how to distribute funds, such as rent relief programs. Second, keeping eligibility rules simple and flexible makes it easier for local governments to reach people in need, especially the most vulnerable populations.

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