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HOUSING COSTS REPORT

How the pandemic caused home prices and rental prices to diverge

By Jeff Andrews, Zumper and Patrick Kearns, OJO Labs | Jan 06, 2022

Rental prices are surging as they play catch up to sky high home prices

The COVID-19 pandemic has impacted almost every aspect of American life, and the impact on how and where people live has been dramatic. With lockdowns and work-from-home edicts keeping everyone indoors, seemingly everyone has been compelled to reevaluate their living situation. That evaluation prompted countless households to relocate, remodel, or otherwise rework their home spaces to account for COVID's impact.

In the home sales market, that led to a sudden rush of demand for housing after the pandemic hit in 2020, and buying a house has become even more of a hassle as a result. Competition has been so stiff that a house on the market for mere hours can receive dozens of offers, often well above the asking price. This, in turn, has pushed prices through the roof. The average home price has risen by 25 percent since March 2020.

The rental market was slower to respond, however. Rent nationally stayed mostly flat throughout 2020, but since the beginning of 2021 it's risen at an unprecedented rate. In the first nine months of the year, the median one-bedroom rent in the United States rose by a staggering 10.7 percent, and there are no signs that it's slowing down any time soon.

The sales market's instant boom and the rental market's subsequent lag is notable, because historically rent and home prices tend to move in concert with each other; when one rises, the other also rises, and vice versa. But during the pandemic's first 9 months, home prices surged while rent stayed mostly flat. Now that home prices are starting to plateau, rent prices are accelerating rapidly. The delayed surge in rent appears to be a type of rapid market correction that's bringing rent back in sync with home prices.

This report combines Zumper's rental data with Movoto by OJO's home price data for 80 metropolitan areas in the United States to generate a complete picture of housing affordability over the course of the pandemic. By comparing the two, we're able to show how rent and home prices diverged in different types of areas, and where they've returned to moving in parallel. Finally, the data provides a glimpse into where we might be headed as the pandemic begins to move past the Delta variant.

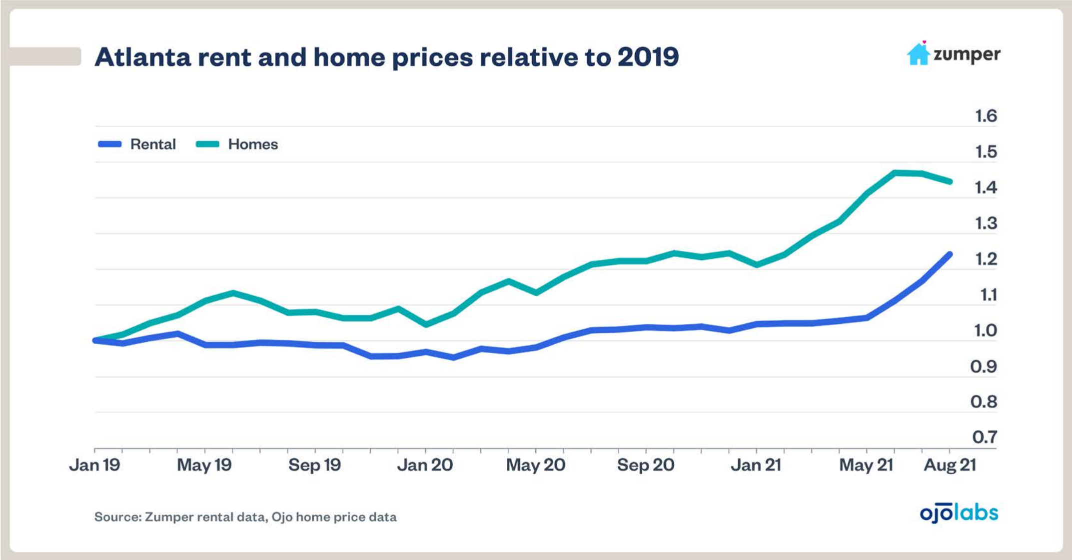
Housing Competition Data in July 2021

Limited supply. Intense competition. Slow construction. Rising building material costs. These general conditions led to the surge in home prices during the pandemic, but those conditions were present prior to the pandemic as well, and they largely defined the housing market in the years leading up to the pandemic. Many of the pandemic housing trends aren't actually new trends, but rather accelerations of preexisting trends.

In the case of home sales, demand for housing outpacing a limited supply of homes for sale has been pervasive across the country since the market recovered from the 2008 financial crisis. When the pandemic hit, a bunch of people all at once decided they needed to move, adding even more demand to the same limited supply of homes. While homeowners who buy a new home will put their previous place on the market after buying, the rush of demand created a bottleneck in the buying stage that caused even more intense competition, pushing prices up.

While tight supply existed in the rental market prior to the pandemic, there was initially a contraction in demand. In big coastal cities, that caused rent to stay flat or even drop. Wealthy households left their expensive rentals in the city to join the homebuying markets in other parts of the country. Workers who lost their jobs or started working from home temporarily moved in with other family or friends. And because renters have to wait until their leases expire, this movement happened over time instead of all at once. In places where rent dropped substantially, it started in summer 2020, as summer is when leasing activity is at its peak.

When the calendar turned to 2021, however, rent started surging. The vaccine allowed people who were previously uncomfortable with moving to do so. East Coast cities saw residents return, driving up rent. Rising home prices and intense competition in the sales market priced out a lot of renters who would otherwise have become homeowners, leaving more renters in the rental market and thus adding to demand. Even places known for being affordable—such as Phoenix, Atlanta, and Dallas—saw both rent and home prices skyrocket.

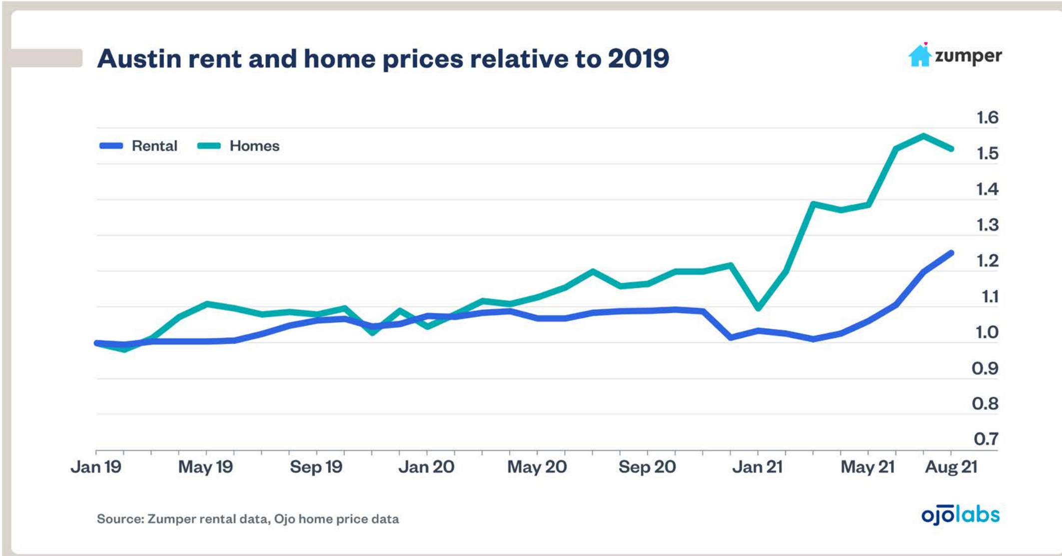


Low-density metropolitan areas saw rents lag behind home prices

After analyzing the two datasets, it's clear the relationship between rising rent and home price appreciation varies depending on the density of the area. In low-density areas where the majority of residents live in single-family suburbs outside of the city center, rent either stayed flat or rose modestly at the beginning of the pandemic when home prices started rising dramatically.

But in 2021, rent started to rise at a similar rate as home prices, even as home price appreciation slowed in a lot of areas during the summer. Take the Austin metro area, for example. In June 2021, the median home price was up 54.3 percent relative to January 2019, but the median one-bedroom rent was only up 10.7 percent. But by August, the median home price was still up 54.3 percent while rent had risen to a whopping 25.1 percent above January 2019 levels.

The Atlanta metro area experienced something similar; in May 2021, the median home price was up 41.1 percent relative to January 2019, but the median one-bedroom rent was up just 6.3 percent. Three months later, the home price was up 44.4 percent while rent rose 24.1 percent higher than January 2019.

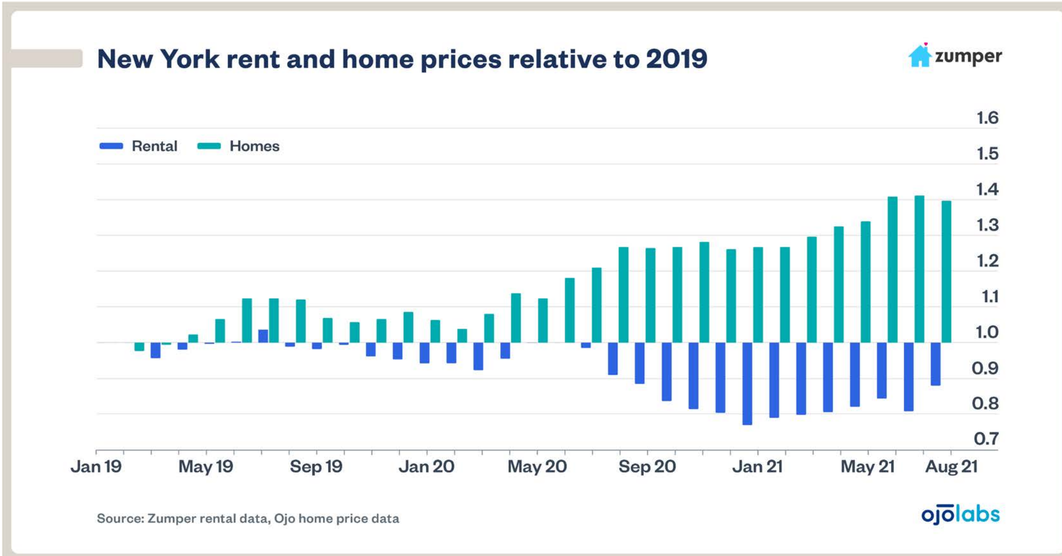


The reason for this lag is likely a combination of a few things. First, swings in the home sales market have happened unusually fast—once at the beginning of the pandemic when there was a rush of demand into the market, then again in the spring of 2021 after the COVID-19 vaccine was widely available. Renters generally are not able to move that fast because they have to wait for their lease to expire, meaning the landlord has to wait to raise rent in response to rising home prices.

Another factor: rising home prices make it harder for renters to become homeowners because rapidly rising home prices leave households in the rental market longer than they want to be. But it takes time for those types of renters to accumulate, so it makes sense that rising rent would lag behind home price appreciation in an environment where home prices are rising at breakneck speeds.

High-density metropolitan areas saw rent and home prices diverge

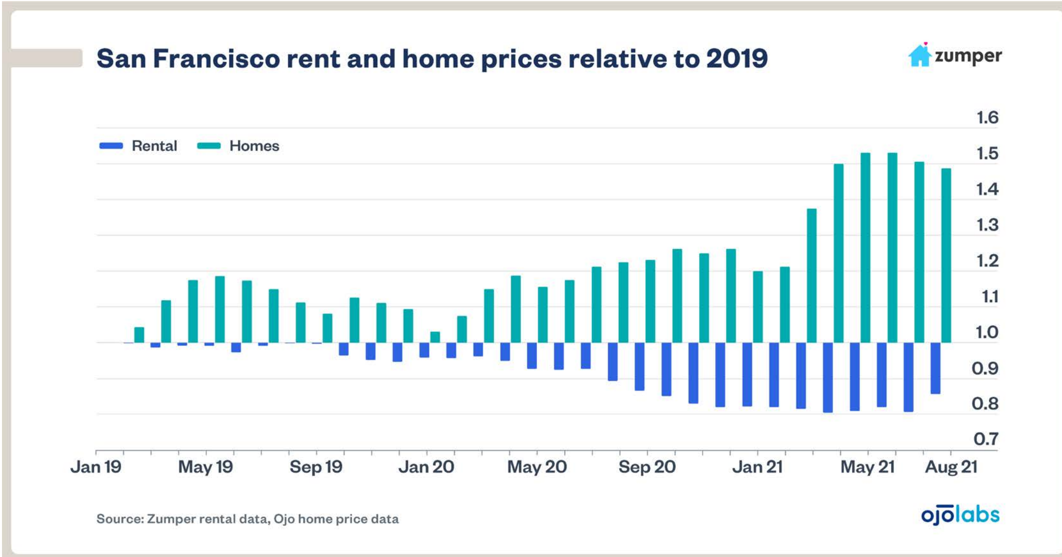
While low-density metro areas saw rent lag behind home prices, costs in urban metros have moved in opposite directions for much of the pandemic. Most of the areas are on the coasts and were hit earlier by the pandemic than other parts of the country. Broad adoption or work-from-home policies and the fear over the virus initially led to a minor outflow of the population in areas that froze rents. Then when leases started to expire over the summer, rent began to fall.



But the opposite occurred in the home sales market; prices surged just as they did in other parts of the country. The most illustrative examples are the New York and San Francisco metro areas. In New York, the median one-bedroom rent bottomed out in January 2021, when it was down 23.1 percent relative to January 2019. At the same point in time, the median home price was up 26.2 percent. Since then rent and home prices have been more in line, with rent up 14 percent in 2021 and home prices up 10.3 percent.

An even more dramatic divergence occurred in the San Francisco metro area. Home price appreciation accelerated after the pandemic began, even as renters started leaving the city. Rent went into free fall during the summer of 2020 while home prices ballooned. During 2021, rent in the Bay Area has only risen modestly while home prices have experienced another spike. In May, San Francisco's median one-bedroom rent was down 19.1 percent relative to January 2019. The median home price was up 53.1 percent.

This pattern or a similar one has occurred in Boston, Miami, Seattle, and Philadelphia, among others. Many residents left the city centers, and the shock to demand caused rent to drop in the most expensive parts of the metro area. In cities where residents are returning, namely New York, rent is once again on the rise.



Rent's market 'correction' means the pandemic has permanently raised housing costs

Given that pandemic housing trends are mostly preexisting trends accelerated, it's possible home prices and rents would have risen to levels similar to where they are now even without the pandemic. It would have happened more evenly and more slowly. But looking ahead, it's hard to conclude anything other than housing costs are going to be permanently higher moving forward.

Home price data show the market cooling off slightly. The rate of home price appreciation has fallen, but is still abnormally high. It's possible that home price appreciation flattens as more buyers get priced out, more inventory comes online, and fewer households feel compelled to move in response to a pandemic that is waning. But rarely in the history of American housing have home prices fallen substantially, and in those instances it was spurred by a catastrophic event, like the 2008 financial crisis.

The torrid pace at which rent is rising seems unsustainable, but if rent hikes are in fact a delayed correction related to home prices, then it's likely rent will continue to rise substantially in the near-term. After that, they might level off as home prices have, and then moving forward we'd see home prices and rent move in lockstep as they have historically. However, if demand continues to outpace supply, as it has for much of the last decade, then rent could rise significantly for the foreseeable future.