2020 US RENTAL MARKET ANALYSIS

A Report by
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Contents

Methodology

Statistics cited in this report largely come from internal Zumper data on prices, migration, and renter characteristics. Price and migration data can be found in the Zumper National Rent Report and the Zumper Migration Report, respectively, along with the methodologies used.

Statistics on renter characteristics come from the Zumper Annual Renter Survey. The methodology of the survey is outlined here:

A total of 14,321 renters aged 18+ from all 50 U.S. states as well as Washington, D.C. were surveyed June through August 2020. The survey was sent to Zumper and PadMapper users based in the United States. All responses were gathered online, with a monetary incentive of the chance to win one of four $500 cash prizes. In an effort to minimize sampling bias and improve the representativeness of the American renter population, survey responses were calibrated on several renter characteristics to more closely match the makeup of the American renter population as estimated in the 2019 American Community Survey conducted by the U.S. Census Bureau. Responses were calibrated on renter age, race, sex, and educational attainment using the raking algorithm used by American National Election Studies.

All other statistics mentioned in this report come from external sources which are cited in the references section at the end or from the author's own calculations.

Introduction

The state of the american renter has changed

The US rental market and the state of the American renter have drastically changed since Zumper last surveyed American renters a year ago. The most glaring change has been the outbreak of the novel coronavirus towards the end of 2019, which has since escalated into a global pandemic—altering the global economy, nearly every person's lifestyle, and the way in which Americans rent.

In terms of the economy, the US officially entered a recession in February 2020 as defined by the NBER, which has continued through the time this report was authored. The labor market crashed in April at a peak unemployment rate of 14.7% and has inched its way to recovery, with unemployment at 6.9% in October.

Similar to the labor market, the stock market crashed in mid-March shortly after the novel coronavirus reached American shores. As a response to the recession, the Federal Reserve lowered interest rates to the zero lower bound in an effort to encourage spending. Similarly, congress passed the CARES Act, a $2 Trillion USD stimulus package. Home sales initially crashed, but have since rebounded and home prices have reached record highs despite the economy still being in a state of recovery—keeping more renters priced out of homeownership. Unlike home prices, rental prices have dipped nationally and trends have largely diverged from pre-April rates.

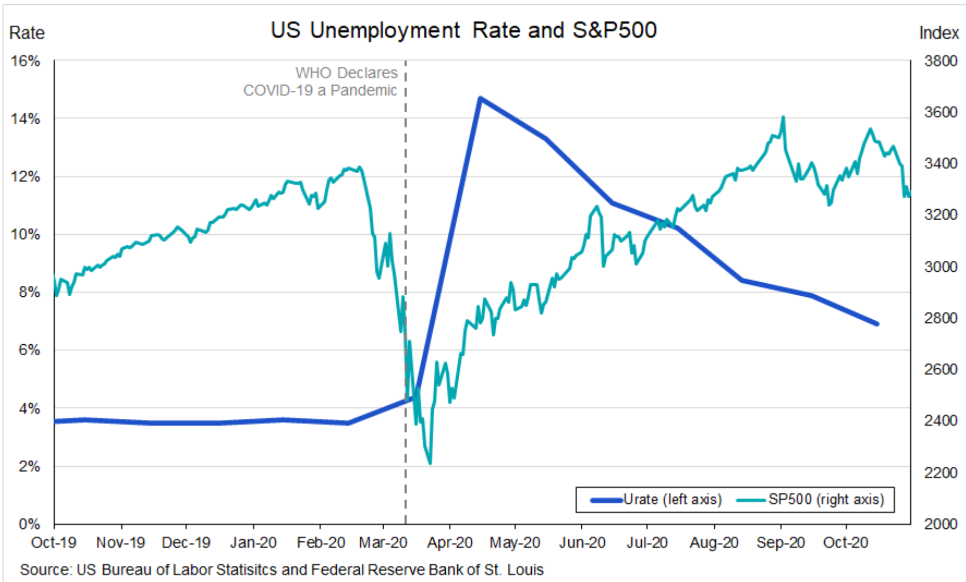

Figure 1.1 **US Unemployment and S&P 500**

These sweeping policy and economic changes brought on by COVID-19 have drastically altered the rental market for many Americans. Renters, who are on average less wealthy and more diverse than the broader population, were disproportionately affected by these changes.

In this report, we take a deep dive into the state of the US rental market by uncovering new rental trends, providing robust analyses using Zumper's wealth of data, and describing how the state of the American Renter has changed.

New Rental Market Trends

Decrease in price gaps

The most prominent new rental market trend is the price gap decrease between expensive and cheaper markets. While expensive markets like San Francisco and New York City are still significantly pricier than other US cities, their rental premiums have shrunk to less exorbitant levels compared to a year ago. The standard deviation in median 1-bedroom prices across the 100 cities tracked in the Zumper National Rent Report has decreased by 17.1% from a year ago.

The price gap decrease between expensive and cheaper markets has come from drastic rental price decreases in the nation's most expensive cities coupled with modest price increases in less expensive ones. In fact, the largest price decreases came mostly from just 8 cities— San Francisco, New York, Boston, Oakland, San Jose, Washington DC, Los Angeles, and Seattle. Seven of these cities— all except Seattle— have ranked as the 7 most expensive rental markets in the country since April. These cities will be referred to as the "Top 7" throughout the remainder of this report. Seattle was consistently the 8th most expensive market prior to April, but was significantly cheaper than the other 7 and has since dropped out due to sustained price decreases. The median 1-bedroom price in the Top 7 cities plus Seattle decreased 15.2% from the beginning of the year, while the median in the other 92 cities tracked in the Zumper National Rent Report *increased* 5.3%.

While the Top 7 have managed to retain their placements despite massive decreases, cities in this group *could* go the way of Seattle and drop rank if price trends continue. Additionally, there likely could be ranking shifts *within* the Top 7 markets. San Francisco, for instance, has long held the crown for the country's most expensive place to rent. Since April, San Francisco has retained that crown, but simultaneously ranked the highest in price drops. If this trend continues, then New York City may very well claim the crown from San Francisco. New York City ranks highly in decreases as well, but San Francisco's price drops have consistently remained larger and have accelerated in recent months, resulting in a significantly decreased price gap between the two cities. San Francisco's median 1-bedroom price was 17.3% higher than New York's in January, 2020. As of October, San Francisco's median was only 9.8% higher than New York's.

Similar to San Francisco and New York, the decreased price gap between expensive and cheaper rental markets can be visualized in median price trends. In January, 2020, the 1-bedroom median price in the Top 7 cities plus Seattle was 119.6% higher than the median in the other 92 cities in the Zumper National Rent Report. In October, the Top 7 plus Seattle median was only 76.9% higher than the other 92.

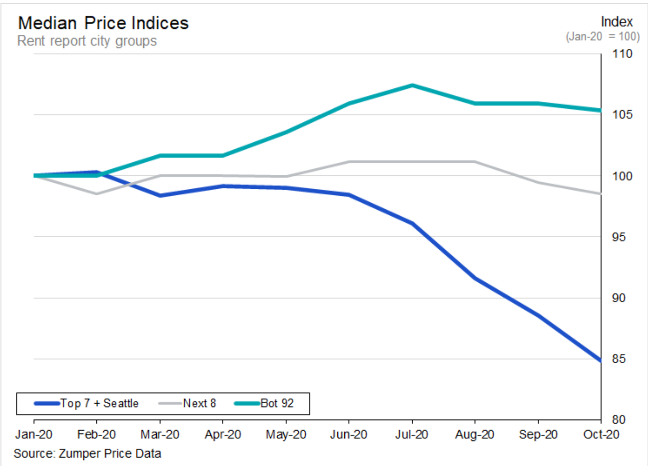

Figure 2.2 **Median Price Indices**

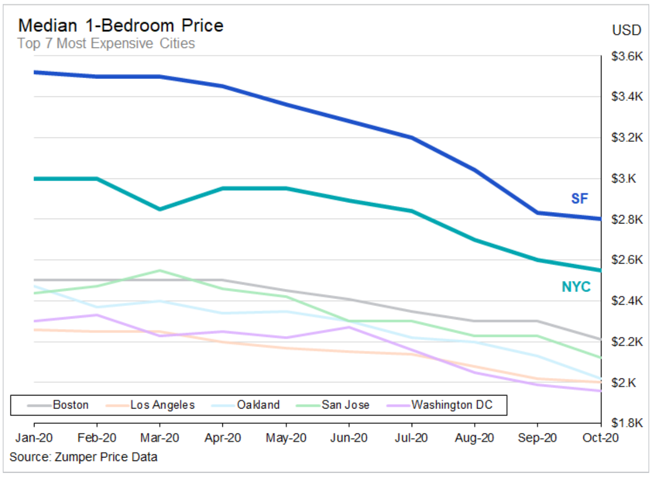

Figure 2.1 **Top 7 Median Prices**

Migration patterns

The decreased price gap between expensive and cheaper rental markets is likely a reflection of new migration patterns that did not exist before April, 2020-- specifically the migration of renters out of expensive cities in favor of cheaper, often *neighboring*, cities. Zumper's migration rate, calculated as the share of users on the platform that messaged rental properties outside their current metro area, increased 5.2 percentage points from a year ago. When considering only the Top 7 cities plus Seattle, the migration rate increased a whopping *12.1 percentage points*— indicating increased levels of migration out of these cities.

One caveat to Zumper's migration rate is that it captures where renters are interested in moving to, not where they are actually moving to, which is why we also asked renters if they had moved in the past year in the Annual Renter Survey. 24.5% of respondents indicated that they had moved, an increase of 6 percentage points from the same question in the prior year's survey, which is slightly higher than the change in the Zumper migration rate for the entire US.

These new renter migration patterns are almost certainly consequences of the COVID-19 pandemic. One reason renters elected to move at increased rates was likely due to changes in their financial situations. When the labor market crashed in April, resulting in the largest number of unemployment filings ever, many renters in expensive cities likely lost their jobs and could no longer afford the steep prices.

As a result, these renters may have opted to move to places with cheaper living costs. 4.9% of respondents in the Zumper survey reported moving in with a parent or family as a direct result of COVID-19— indicating that some renters chose to eliminate their rental costs altogether.

Another COVID-related reason these migration patterns may have emerged is that a substantial amount of renters started working from home as a method of preventing the spread of the virus. Many renters who held onto their jobs but no longer needed to be close to their places of work likely could no longer justify the exorbitant rents in places like San Francisco and New York City, and took the opportunity to lower their living costs by moving to cheaper places. The cost-per-square-foot in cheaper cities likely played into this calculation as rental units have become workspaces in addition to living spaces. For this group of renters, the migration may have been temporary at first, but evolved into a long-term decision as it became apparent that the coronavirus was not going away.

There may be a substantial amount of renters planning to return to expensive cities once their workspaces reopen and they feel comfortable enough to come back. But this population of "returnees" may be dwindling the longer the pandemic rages on with unclear signals of when a coronavirus vaccine would be readily available. In fact, some major companies with offices in Top 7 cities such as Facebook, Twitter, Square, and Dropbox announced permanent remote work options, further cutting away at the theoretical "returnee" population.

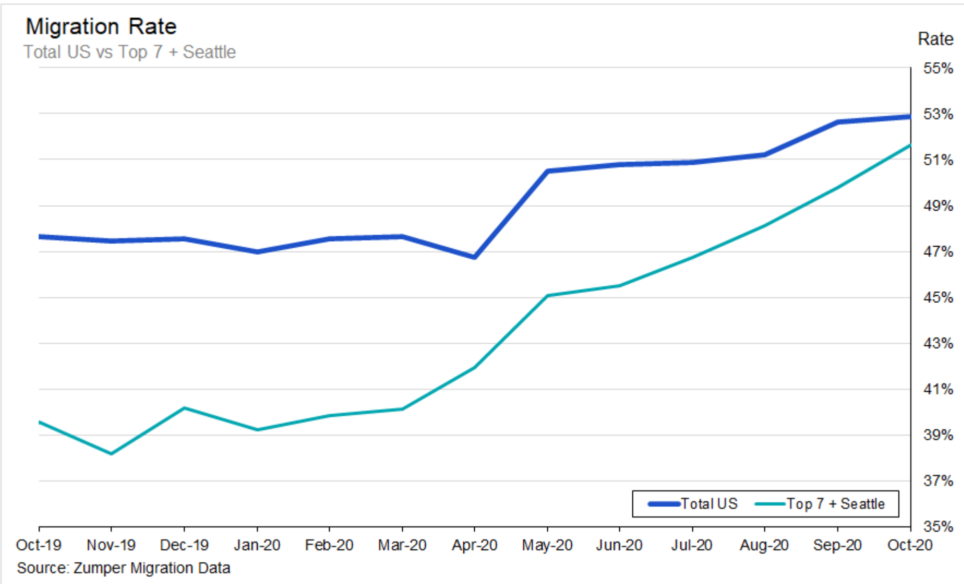

Figure 2.3 **Zumper Migration Rate**

Where prices are increasing

A significant predictor of where prices are growing seems to be, not only places with historically cheaper prices, but also distance from an expensive city with a net migration outflow. According to Zumper's migration and price data, these historically cheaper, neighboring cities have become cost of living safe havens for renters abandoning the priciest markets. In several cases, there are pairs of neighboring cities that have undergone equal and opposite price trends.

Below is a chart displaying average annual growth in median 1-bedroom prices in several neighboring cities since April, 2020 from the Zumper National Rent Report. In California specifically, price decreases in historically expensive cities-- San Francisco, San Jose, Oakland, and Los Angeles-- have been offset by gains in historically cheaper cities like Sacramento, Fresno, and Bakersfield.

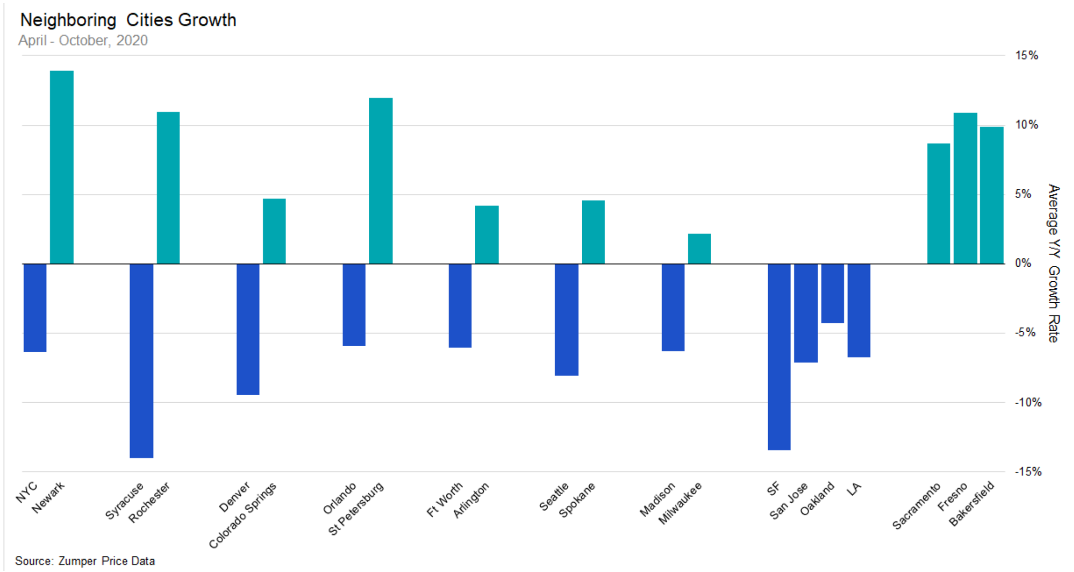

Figure 2.4 **Neighboring Cities Growth**

Additionally, clusters of historically cheaper Midwestern, Appalachian, and Southwestern cities have been increasing in price, offsetting decreases in historically expensive markets.

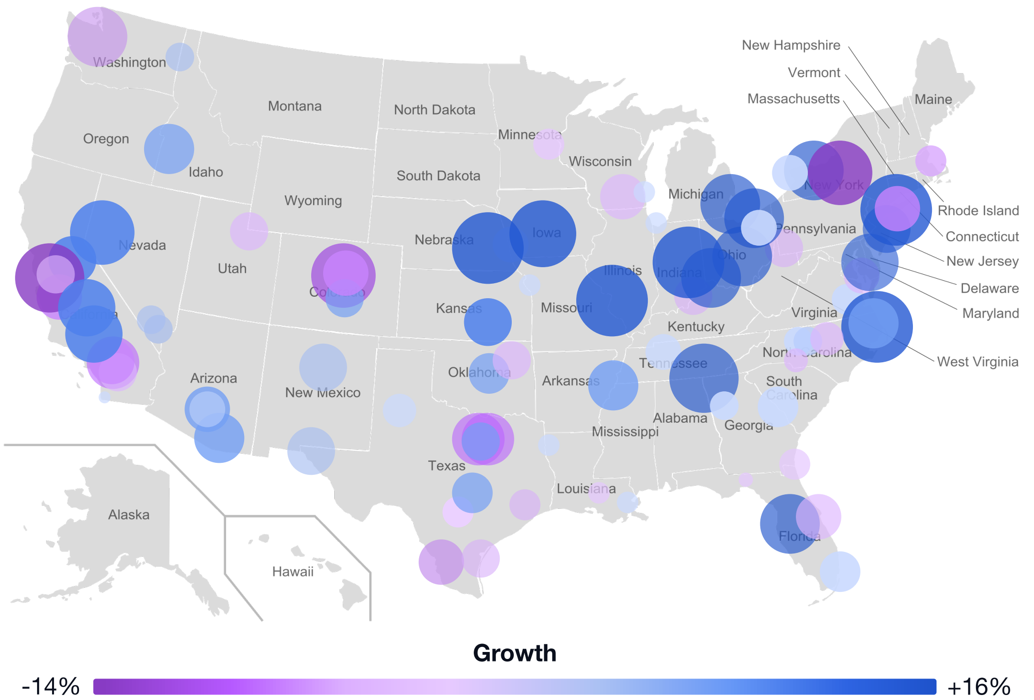

Figure 2.5 **Average Annual 1-Bedroom Median Growth Since April**

Intra-city trends

Similar to how new migration patterns across cities are shifting price dynamics nationwide, new migration patterns *within* expensive cities are shifting price dynamics *inside* these cities. While some renters have fled expensive cities entirely, some have opted to stay, but moved to cheaper neighborhoods or the suburbs. This intra-city migration pattern is likely a direct result of the COVID-19 pandemic as people have moved out of population-dense neighborhoods and the demand to be close to a workspace has decreased. The result is that the same phenomenon of decreased price variance across cities is also happening within expensive rental markets. The variance decrease in expensive markets is coming from expensive units outpacing less expensive units in decreases.

In the Top 7 cities, the annual growth rate in the median 1-bedroom price for units in the top quartile of prices averaged -16%, while the growth rate of the median in the bottom quartile averaged -6%. In the other 93 cities tracked in Zumper's Rent Report, those growth rates averaged +3% for both the bottom and top quartile medians. The result is a 26% average decrease in the standard deviation of prices in the Top 7 cities against a 22% average *increase* in the other 93 cities. This phenomenon is very similar to what has happened nationwide where the most expensive cities have come down faster than less expensive ones.

The American Renter

The rental and economic trends discussed in the previous sections largely did not exist prior to April, 2020. These trends illustrate how drastically different the State of the American Renter is this year compared to last. However, while price and migration data are useful for describing how markets have changed, that data do not describe the American Renter Population or capture how the sentiments of this population have evolved. For that, we largely rely on data from the Zumper 2020 Annual Renter Survey.

What does the american renter look like?

American renters are younger, more diverse, more female, and less affluent than their home-owning counterparts. The median renter is 15 years younger than the median homeowner at 42 years of age versus 57. However, the largest disparities between the renter population and the homeowning population are in race and age. The charts below show the differences in the racial and age makeup of the homeowner and renter populations in the US according to the 2019 American Community Survey.

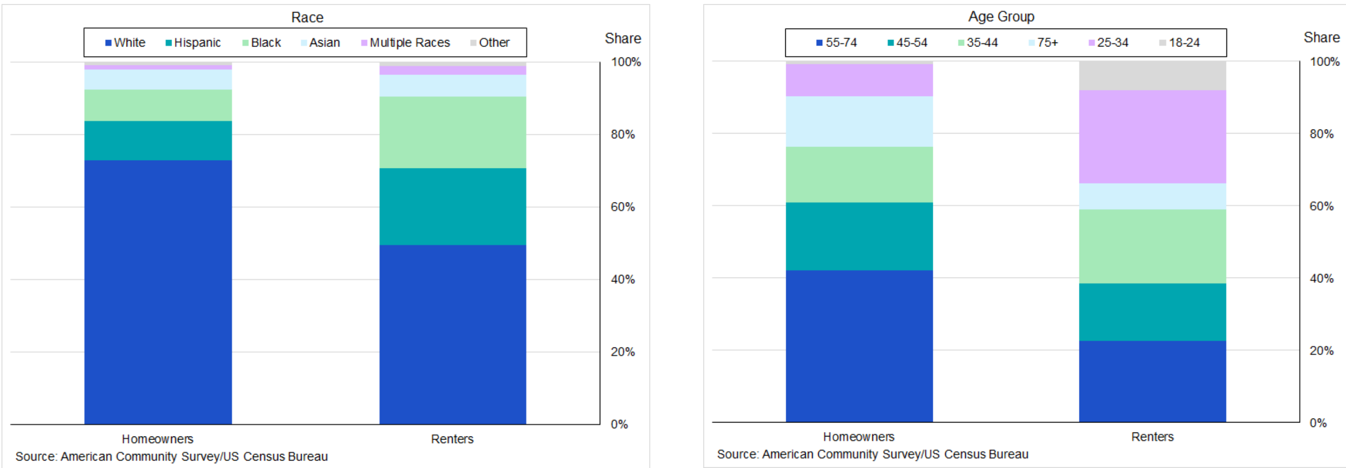

Figure 3.1 **Racial and Educational Breakdown of Renter and Total Populations**

In terms of race, the largest difference between the two populations is the white population share— 73.0% of the homeowning population versus 49.5% of the renter population. The lower share of white people in the renter population is almost entirely offset by increased shares of black and hispanic people. In terms of age, the largest disparities are in the 25-34 and the 55-74 age brackets. 25-34 year olds make up roughly a fourth of the renter population but only account for 8.8% of homeowners, while 55-74 year olds account for 22.7% of renters and 42.1% of homeowners. These demographic differences are what disproportionately expose the renter population to the effects of COVID-19, and highlight why rental trends have shifted so dramatically since April. In aggregate, the renter population makes up roughly 31% of the US population, amounting to about 100 million people.

The Survey was calibrated against the renter population in the 2019 American Community Survey (ACS) on the dimensions of race, age, sex, and education. Thus, this information in the Zumper survey more or less matches the ACS and offers no new insights on the population. However, the Zumper survey included other demographic questions not used for calibration that are either novel or more up to date than estimates in the ACS. These questions in the Zumper survey provide insights into the demographics of the American renter population as of summer 2020. These “renter characteristic” questions can roughly be divided into demographic and economic categories.

Other demographic characteristics

On the demographic end, Zumper estimated marital statuses and employment levels. According to the survey, American renters are predominantly single -- 74.2% of respondents reported being single and never married, divorced, separated, or widowed.

Of those categories, single and never married was the largest at 45.0% of respondents. In terms of employment, 62.0% of respondents reported being employed this year compared to 70.1% last year, while 12.7% reported being unemployed but looking for work this year and 3.4% reported being furloughed by their employer.

This is a higher unemployment rate than the peak of 11.1% in the national unemployment rate during the months in which the Zumper survey was active.

The national unemployment rate dropped to 10.2% in July, 2020 and 8.4% in August, 2020, both months when the Zumper survey was still active. These statistics combined indicate that the renter population likely experienced higher rates of unemployment than the broader US population-- likely due to demographic differences. Additionally, 3% of respondents in the survey reported being furloughed for some amount of time by their employer.

Economic characteristics

The Zumper survey included many questions on renters' economic characteristics, which yields insights on the financial situations of this population.

When asked what percentage of pre-tax income they think they should spend on rent, 77.3% of respondents reported percentages below 30. Given that a growing number of Americans are spending over 30% of their income on rent, there is clearly a disconnect between what renters think they should be paying on rent and what they actually pay, which is not a new trend. The share of income put towards rent has likely decreased for renters who have remained in expensive markets, given the significant rental price decreases in those places.

61.1% of respondents reported saving less than 15% of their pre-tax monthly income, while 86.2% reported saving less than 30%. Given unemployment increases during the time this survey was active, these numbers could be higher than normal, and do not paint the most ideal picture for renters' savings rates.

22.7% of respondents reported still having student loans. 6.6% of respondents reported receiving familial assistance in covering their rent, an increase of roughly 2 percentage points from last year's survey, perhaps a reflection of the stressed financial situation renters were in this year.

How does the american renter feel about the economy?

In addition to economic characteristics, respondents were also surveyed on their perceptions of the economy and homeownership. Renters' economic sentiments were particularly negative in the Zumper survey. While the economy has recovered in some respects since the Zumper survey concluded, sentiments may not have shifted much given the level of economic uncertainty that has persisted to the time this report was authored.

When given the prompt: "The US economy is in good condition", 39.6% of respondents indicated that they "strongly disagreed", and 21.1% indicated that they "slightly disagreed". Only 6.1% of respondents replied "strongly agree" to this question. Perceptions of the economy were correlated with age in the survey; respondents in younger age groups tended to have less-favorable views on the US economy than older respondents.

When asked if they thought now was a good time to purchase a home, respondents were pretty evenly split with 50.6% replying yes and 49.4% replying no.

However, compared to last year's survey, more respondents indicated they wanted to purchase a home sooner— 34.6% of respondents in the 2020 survey indicated they wanted to purchase a home within the next 2 years vs 29.4% in the 2019 survey. In a similar vein, 68.9% of respondents indicated they believed that the American dream involves homeownership, an increase of about 3 percentage points from last year's survey.

This increase in the relationship between homeownership and the American Dream overwhelmingly came from older renters. 64.3% of respondents in the 55-74 age group replied "yes" to this question in this year's survey compared to 55.0% last year. The only age group to decrease their affirmative response rate to this question from last year was 18-24 year olds, which was the youngest age group surveyed. These shifting sentiments around homeownership could be a reflection of the Federal Reserve's interest rate decrease in response to the COVID-19 pandemic, and the subsequent effect that had on mortgage rates.

Direct COVID effects

In this year's survey, we included a section dedicated to capturing how COVID-19 directly impacted American renters. We presented respondents with several situations and asked which happened to them as a result of the COVID-19 pandemic. This is how they responded:

12.3%

of respondents reported that they had missed rent as a result of COVID-19.

2.2%

reported receiving rent forgiveness.

5.3%

reported moving to a cheaper residence. This rate is close to Zumper's estimate of increased migration.

2.3%

reported breaking their leases. A somewhat surprisingly low rate given the increased levels of renter migration that have been estimated. However, 2.3% of the American Renter Population is roughly 2.3 million people.

3.4%

reported successfully negotiating a rent decrease with their landlord.

4.9%

reported moving in with a parent or family.

3.4%

reported moving in with a significant other. This is typically considered a cost saving strategy in more expensive cities.

14.8%

reported that their employer laid them off.

8.9%

reported being furloughed by their employer.

14.3%

reported that they started working from home.

Conclusions

The COVID-19 pandemic has dramatically altered the State of the American Renter from a year ago through underlying economic and lifestyle changes. Given the demographic makeup of the renter population, renters were likely affected more by the pandemic than the broader population. This is evident in the survey results which indicate that the American renter is, on average, in a worse financial situation than a year ago. Impacts of the COVID-19 pandemic on the renter population led to dramatic new rental market trends. The most significant trends have been the increased level of migration out of expensive markets in favor of cheaper, often neighboring ones, and the subsequent price gap decrease between expensive and cheaper markets. Similar migration and price gap trends have also arisen within the nation's most expensive cities.

At the time this report was authored, there was still significant uncertainty around the pandemic, the development of a vaccine, and how soon the economy would fully re-open. Given these uncertainties, it is possible that the rental market trends discussed in this report could continue for some time.

If trends do continue, the landscape of the US rental market could undergo sustained, fundamental changes. Incredibly expensive cities like San Francisco and New York could become reasonably priced places to live as the US population becomes more evenly distributed across the country.

At the same time, renters are certainly aware of discounted prices in expensive cities. Even now, there is evidence of increased levels of interest in moving to the Top 7 cities from renters outside these places. This increased interest is likely from renters that had previously found places like New York City and San Francisco too expensive, but are considering moving there now that prices have decreased. Given the significant, downward price trends in expensive markets in recent months, it is unlikely that the floor has yet been reached in these places. But the increased outside interest in these markets is indicative of the fact that, at some point, an equilibrium will be reached and prices will stabilize.

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