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A Comparison of Renters and Homeowners in Recent Decades

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INTRODUCTION

Everyone needs housing; and, most adults secure housing through owning or renting. Yet economic forces from temporary financial hardship to codified residence restrictions can complicate owning and renting homes. In this paper, we cover the recent history of housing from the latter half of the 20th century to today, compare homeowner and renter experiences, and examine government policies meant to ease the financial burdens of finding and maintaining housing.

In the current crisis created by the COVID-19 pandemic, housing is an important policy issue with a critical relationship to public health. To prevent the spread of illness, people need safe and stable housing. Significant public policies have been enacted to help protect people from being forced to move. Although there have been gaps in both the application and effectiveness of those policies, they have included an eviction moratorium, mortgage forbearance, and indirect assistance in the form of direct stimulus payments.

Furthermore, at the end of December 2020 Congress enacted legislation that included $25 billion in assistance for renters who were behind on their payments. The American Rescue Plan Act of 2021, recently signed into law, provides an additional $21.6 billion in emergency rental assistance, $10 billion for emergency housing vouchers and homelessness assistance, and $10 billion in assistance for mortgage borrowers.

However, to gain a deeper understanding of the current crisis and who was the most vulnerable at the onset of the crisis, it is important to examine the role of racial disparities and discrimination within the US housing market. For example, in the United States non-white people are less likely to own their homes than white people; this disparity results from many factors, including explicit racial barriers to homeownership that are supported in US law (*Corrigan v. Buckley* 1926). While the mechanisms are varied for different groups, explicit and implicit racial bias and a lack of legal protection on the basis of race has made homeownership more expensive and sometimes impossible for people of color. Explicit racial discrimination in mortgage markets and by home sellers is now illegal, but the legacies of these practices are apparent in current patterns of where and how people live, what housing costs they face, and, critically, how likely they are to have housing wealth.

Housing costs are typically more onerous for renters than for homeowners. We find that, for renters, housing comprises a much greater proportion of total expenditures than for owners. This is particularly true for low- and middle-income households. Relatedly, we find relatively small variations in total spending on housing costs despite significant differences in incomes. In conjunction, we find that since 2002 rent has become a larger share of renters' household expenditures whereas mortgage costs have declined as a share for homeowners. In general, we find greater evidence of financial anxiety among renters, who—in addition to being more often non-white—are more often younger and poorer than homeowners.

From 2000 to 2019 the housing boom and bust brought disruptive changes for both renters and homeowners. Homeownership rates first skyrocketed from 1995 to 2005 and then fell sharply beginning in 2007, at the same time that millions of people lost their homes to foreclosure. Policy measures to support homeowners and, to a lesser degree, renters, were insufficient to prevent widespread pain, including large losses in housing wealth. Since 2007, higher-income homeowners have enjoyed faster recoveries in housing wealth than other homeowners. After adjusting for inflation, most other income groups have only recently seen real home equity recover to 1989 levels.

PROPENSITY FOR HOUSEHOLDS TO OWN VERSUS RENT

The propensity for households to own versus rent their homes has changed over time but some correlations with demographics have remained relatively stable. The US homeownership rate remained mostly constant from the mid to late 1980s through the mid-1990s (Federal Reserve Bank of St. Louis 2021). Then, from the mid-1990s to the early 2000s, several factors contributed to a homeownership boom that lasted until the housing bubble burst late in the first decade of the millennium. One significant factor in the rise in homeownership was a dramatic increase in access to mortgages and a loosening of mortgage terms and reductions in interest rates (Levitin and Wachter 2011). As the housing bubble continued to inflate, lenders became increasingly aggressive in their search for potential borrowers, using fraudulent and predatory tactics (Financial Crisis Inquiry Commission Report 2010). With low interest rates and higher prices boosting home equity, this period also saw a boom in cash-out refinancing. That boom, alongside the confluence of low down payments, the prevalence of second mortgages, and home equity lines of credit, meant that many mortgage borrowers were highly leveraged.

The bursting of the housing bubble led to millions of foreclosures, a dramatic decline in the homeownership rate, and a reduction in access to mortgage credit. Government programs that were meant to prevent foreclosures and keep mortgage credit flowing were not sufficient to prevent widespread and extraordinary hardship. After the housing crisis had passed, regulators put in place new rules and disclosure requirements meant to ensure that lending institutions issued mortgages only to borrowers who could afford the payments. Following the Great Recession, the homeownership rate continued to fall until about 2016, when it began to rise again, reaching its mid-1990s rate of 65 percent in early 2020. Over the course of that year, the rate swung wildly, peaking at 68 percent before falling back to 66 percent.

The propensity to own versus rent is correlated with demographics. Homeownership rises with age. Until age 35, a greater fraction of people rent (64 percent); between the ages of 35 and 44, a greater fraction (61 percent) own (Board of Governors of the Federal Reserve System 2020a). The reasons for this pattern are many: younger people tend to have less access to credit, lower wages, and less wealth. In addition, lower-income households are overrepresented among renters. For example, while nearly half of all households earned less than $50,000 in 2019, that group comprised more than 70 percent of all households who did not own a home (Board of Governors of the Federal Reserve System 2020a; University of California, Berkeley 2020).

For Asian, Black, and Hispanic non-white households, homeownership rates are persistently lower (US Census Bureau [Census] 2020a). For more than 20 years, the gap between the percentage of white and non-white households that are homeowners has remained relatively stagnant. From 1994 to 2020 rates of homeownership for Black and Hispanic individuals were 25 percentage points to 30 percentage points lower compared to non-Hispanic white individuals. While data on homeownership rates for Asian Americans and Pacific Islanders are available only starting in 2016, the gap since 2016 has ranged between 15 percentage points and 18 percentage points (Census 2020a).

Renters are at greater risk of housing instability compared to homeowners. Among the factors contributing to that risk are that renters' financial situations are more precarious and that renters are far more likely than homeowners to pay more than 30 percent of their income in housing costs, which is the US Department of Housing and Urban Development's (HUD) definition of housing cost-burdened (Office of Policy Development and Research [PD&R] 2014). In addition, a renter's housing situation is made more tenuous because rental leases typically last one year, creating the possibility that leases will not be renewed or rent will rise significantly from year to year. Survey evidence from 2020 shows that of those who were behind on housing payments, renters were far more worried about eviction than homeowners were worried about foreclosure (Census 2020b). Looking across regions, homeowners in the South and Midwest had the greatest concerns about foreclosure, while renters in the Northeast and Midwest were the most likely to worry about eviction. Both homeowners and renters in the West expressed the least amount of housing instability.

HISTORICAL REASONS THAT HOMEOWNERSHIP IS CORRELATED WITH RACE

Some of the reasons for lower homeownership rates among certain racial and ethnic groups can be found in US history. Neighborhoods and homeownership are still shaped by policies long since repealed. For example, the effects of systemic racial segregation during post-Civil War reconstruction were still seen in patterns of where people lived into the middle of the 20th century (Logan and Parman 2017). In addition, alien land laws, which barred immigrants who were ineligible for citizenship from owning property, kept people of Asian descent out of many neighborhoods. The Immigration and Nationality Act of 1952 allowed Asian immigrants to become naturalized citizens and thus allowed them to own property, but the existence of urban ethnic enclaves such as Chinatowns and Japantowns are the legacy of the alien land laws.

In addition, the racial violence that targeted homeowners of color—such as occurred in Tulsa (Tulsa Historical Society and Museum n.d.), Birmingham (Elliott 2013), and Philadelphia (Norward 2019)—shaped housing patterns for many decades. The internment of Japanese Americans during World War II is another salient example of racial inequity with regard to homeownership (Zentner 2019). Under that policy, those Americans lost their homes as well as businesses—a total loss estimated at $2.2 billion to $5.4 billion in 2021 dollars (Zentner 2019). As part of the Civil Liberties Act of 1988, living former internees each received $20,000, equivalent to about $45,000 in 2021 dollars (Yamato 2020). Ultimately only about two-thirds of those interned, or 80,000 people, were paid, for a total of about $3.6 billion in 2021 dollars (Howard-Hassmann 2019). Finally, multiple Chinese communities throughout both urban and rural areas were deliberately destroyed, for example in San Jose (Pfaelzer 2007), Reno (Strekal 2018), and Tacoma (Long 2003).

Less violent but still insidious was the legal practice of redlining, which includes financial disinvestment and exclusion from mortgage lending based on race (Federal Reserve 2017). Redlining, which contributed to segregated neighborhoods and was a significant systemic barrier to homeownership, was a reality from 1934 to 1968 (Gross 2017). The 1968 Fair Housing Act sought to address this barrier by outlawing various forms of housing discrimination based on race. The law was later amended to include outlawing discrimination based on sex and ability. And in 2021 the law was amended once again to include protections that prevent discrimination against LGBTQ+ Americans (Fields 2021). Although redlining and other forms of housing discrimination are now illegal, the remnants of these discriminatory lending practices persist in many ways. Andre Perry and David Harshbarger performed a localized analysis of cities with a history of redlining and found a lasting relationship with segregation that was consistent with other research on this topic (Perry and Harshbarger 2019).

The period of redlining was also a time when people of color had little access to conventional mortgages. Mortgage lenders were legally allowed to deny the sale, rental, financing, and other residential real estate transactions to prospective homebuyers of color until the Fair Housing Act was passed. One alternative that people of color turned to was contract homebuying, wherein they would buy homes from

speculators with loans that had worse terms and that lacked the basic protections of traditional mortgages. Moreover, they did not own their homes outright until all the contract conditions had been met. That meant that speculators could capture all the home equity if, for example, the contract buyer fell behind on payments (George et al. 2019). The Contract Buyers League fought against this practice in Chicago, as did similar groups in other parts of the United States (Coates 2014). Ultimately, the Federal Housing Authority revised its underwriting policies as a result of the Fair Housing Act of 1968 to give Black families access to regular mortgages (Finley 2016).

Discrimination against people of color in housing markets continues today, manifesting itself through disparities in terms of lending, home valuation, and other nonfinancial barriers to homeownership. For example, a 2013 study by HUD found that housing providers showed Black and Asian homebuyers 17.7 percent and 18.8 percent fewer homes to purchase, respectively, compared to equally qualified white counterparts (Turner et. al 2013). Among equally qualified Black, Hispanic, and Asian renters, all groups were shown fewer units and, to a greater extent, were notified by the providers about fewer units (Turner et. al 2013). The Fair Housing Act makes this kind of discrimination illegal, but it persists and likely influences the ability of people of color to build housing wealth. In addition, zoning rules at the community level can have disproportionate effects on certain groups. For example, development standards and design guidelines in Fremont, California, limited the ability of families to live in multigenerational settings, which had a disproportionate effect on Asian families (Cohen and Brennan 2019). Another example of these inequities is the tendency for people of color and low-income individuals to be pushed into destabilized housing markets, which have higher risk of flooding or other climate-related disasters (Coes, Hadden Loh, and Myczkowska 2020).

The persistent effects of policies in earlier decades and the effects of structural barriers, implicit bias, and outright racial discrimination today continue to shape homeownership. These racial disparities in homeownership have significant effects on wealth accumulation. Experts note that inheritances, bequests, and intra-family transfers make up the lion's share of the racial wealth gap even after accounting for variables like education and income (Hamilton and Darity 2010). Indeed, the research shows that household wealth is a function of generational wealth and that most households hold wealth in the form of their primary residence or retirement accounts (Bhutta et al. 2020). Those disparities in wealth accumulation also work to reinforce racial disparities in home ownership. Historical patterns suggest that people are more likely to become homeowners if their parents are homeowners or are otherwise relatively wealthy (Choi, Zhu, and Goodman 2018).

TRENDS IN HOME EQUITY FROM 2000 TO 2019

While home equity—the difference between the market value of a house and the mortgage debt owed on that house—is typically greater for high-income groups, most groups see changes in home equity that move with national home prices. For example, as national home prices fell modestly in the early 1990s, median real home equity (adjusted for inflation to 2019 dollars) fell within most income groups, as shown in figure 1. Real home equity then displayed large swings during the housing boom and bust of the 2000s. Home equity fell the most for homeowners in the top income decile, but that same group also saw the fastest increase in home equity after the Great Recession. For homeowners in other income groups, median real home equity in 2019 was, at most, moderately higher than it was in 1989.

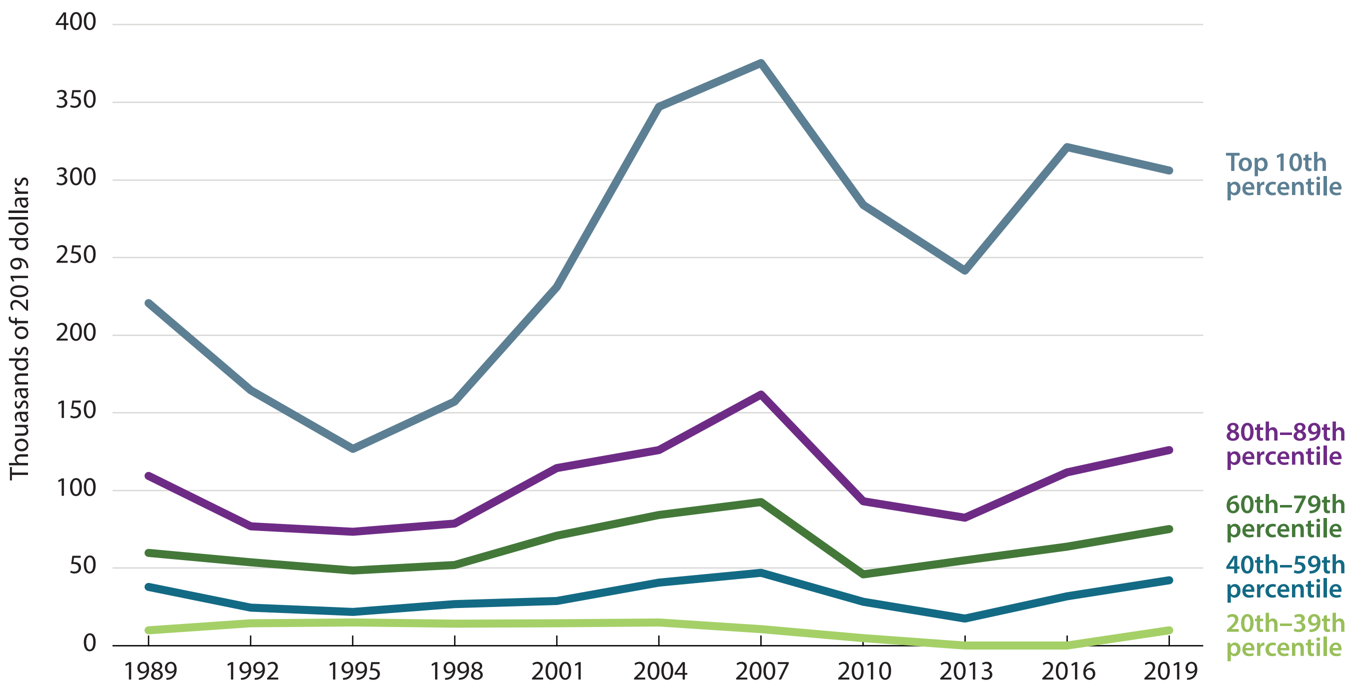
Differences in home equity across households result in significant differences in financial stability. Home equity is the most common and largest source of household wealth and borrowing against it can help households weather sharp income declines (Schuetz 2020). Houses can also be passed down to build generational wealth. Notably, since 2013 the median value of home equity for homeowners in the bottom 20 percentile of the income distribution was zero (not shown in figure 1).

When house prices plummeted after 2007, millions of households lost all their home equity and ultimately owed more in mortgage debt than their homes were worth. That, coupled with a severe economic recession, led to a foreclosure crisis. In all, 3.8 million homeowners lost their homes to foreclosure between 2007 and 2010 (Dharmasankar and Mazumder 2016). Households of color lost significantly more home equity during the Great Recession than their white counterparts, even though they already had relatively less to lose (Burd-Sharps and Rasch 2015; Courchane and Ross 2018; McKernan et al. 2014). The foreclosure rate was estimated to be around 8 percent for African Americans and Hispanics compared to 4.5 percent for whites during the housing crisis (Courchane and Ross 2018).

Those outcomes occurred despite a variety of efforts by policymakers to support the housing market. For example, efforts by monetary policymakers pushed down mortgage interest rates, which encouraged refinancing among those households that were able to access credit. The mortgage interest deduction limit was increased to lower the tax burden for some mortgage borrowers, but this was reversed in 2017. Other Great Recession–era housing assistance programs include the Home Affordable Refinance Program, which helped millions of families refinance their loans to lower interest rates and monthly payments; the Home Affordable Modification Program, which aided loan and proprietary mortgage modifications; and the Neighborhood Stabilization Program, which helped hardest-hit neighborhoods recover by purchasing and redeveloping foreclosed and abandoned properties. However, it is important to note that due

FIGURE 1.

Median Home Equity in Primary Residence, by Income Percentile, 1989 to 2019



Source: Survey of Consumer Finances, 1989–2019.

Note: The households with income below the 20th percentile had median home equity equal to zero over this period.

to implementation and design issues, the number of homeowners in crisis who were helped by those programs was millions fewer than initially intended (Dodaro 2010).

Significant racial disparities persist in the extent of home equity among homeowners. In 2019 the median home equity among Black homeowners was $66,800, a bit more than half that of white non-Hispanic households at $130,000. The median home equity among Hispanic/Latino homeowners was $95,000, also significantly below that of white non-Hispanic homeowners (Board of Governors of the Federal Reserve System 2020b; University of California, Berkeley 2020). Home values by race continue to have large gaps as well; in the latest iteration of the Survey of Consumer Finances, the median white homeowner had a home value of $230,000, while the median Black homeowner had a home value of $150,000 (Bhutta et al. 2020).

Consistent with those differences, among people with mortgage debt and other loans backed by their homes, homeowners of color are more likely than white homeowners to owe more in mortgage debt than the market value of their homes. Homeowners in that position have no home equity to borrow against and are at greater risk of foreclosure if they are temporarily unable to make their mortgage payments. About 1 percent of mortgage borrowers surveyed in 2016 and 2019 outside of the top income quintile had mortgage debt in excess of their home values (Board of Governors of the Federal Reserve System 2016, 2020b). Although non-white people made up roughly one-quarter of mortgage borrowers in that income group, non-white people comprised roughly half of borrowers with more mortgage debt than home value.

TRENDS IN MARKET FOR RENTERS FROM 2000 TO 2019

The Great Recession and the foreclosure crisis also had significant consequences for renters. Besides being potentially unable to pay rent, renters' housing security was threatened by the possibility of losing their homes to foreclosure, since multifamily properties were more likely to face foreclosure. The National Low Income Housing Coalition (NLIHC) estimated that renters in 2009 made up 40 percent of families facing foreclosure on their homes (NLIHC 2012).

During and after the Great Recession, multiple factors tightened the rental market for working class and middle-income households (US Government Accountability Office [GAO] 2020). The foreclosure crisis sent millions of former homeowners into rental markets. From 2004 to 2015 the number of renting households increased by 9.3 million (Currier et al. 2018). Construction overall contracted; even when it resumed, many new rental units were targeted to high-income households. Rents steadily increased through most of the Great Recession, and although 1.2 million households' finances declined to the point of meeting the eligibility

criteria for government assistance programs, government housing resources did not increase to match growing needs (Ellen and Dastrup 2012).

Although renters tend to be more financially vulnerable than homeowners, few programs were created in the wake of the housing crisis to address their housing needs. One such program that was created, however, was the National Housing Trust Fund (HTF), a funding source established in 2008. In this program, 90 percent of funds must be used for constructing and preserving affordable rental units (HTF 2020). Another initiative to help renters was the Protecting Tenants at Foreclosure Act (PFTA) of 2009, which mandated that renters in all residential properties may stay in their rental for 90 days after a foreclosure or the remainder of their lease, whichever term is greater. Before the PFTA's signing, landlords in most states could evict renters with just a few days' notice (NLIHC 2018). Landlords could also sell their rental property through foreclosure sales and leave tenants at the mercy of the new property owners, who were not necessarily bound to the terms of tenants' rental contracts. The PFTA expired in 2014, leaving tenants without protections at the federal level for several years until it was permanently extended in 2018 (National Housing Law Project n.d.).

Housing expenditures comprise rent or mortgage payments, utilities, and maintenance expenses. Looking at those components of housing expenditures for renters and homeowners with a mortgage, we find that rent is a larger fraction of expenditures than mortgages are. There is little variation in what makes up housing expenditures across income quantiles (Bureau of Labor Statistics 2019). In 2019 housing expenditures were relatively constant across low-, middle-, and high-income groups, regardless of whether a household owned or rented. For example, median income is seven times higher for high-income renters relative to low-income renters. However, the median housing expenditures for the high-income group is roughly double that of the low-income group.

Consistent with that lack of variation in housing expenditures across income groups, low-income households spend a greater share of household income on housing. Among renters, the lowest quantile spends 60 percent of median household income on housing, while the highest quantile spends 20 percent. The story is similar among homeowners, who spend 54 percent, 24 percent, and 18 percent of household income across the low-, middle-, and high-income quantiles, respectively.

Renters tend to spend a greater share of their income on housing than homeowners. The difference is largest for middle-income households. Middle-income renters spend 34 percent of their income on housing expenditures—nearly 10 percentage points more than owners (figure 2).

Larrimore and Schuetz document similar patterns from 2000 to 2015 (Larrimore and Schuetz 2017). For example, renters in the middle- and high-income groups spend a greater proportion of their annual income on housing than homeowners in those groups. In addition, those authors found that the lowest-quintile households in their analysis spent more than half of their income on rent. This leaves those households with less room to build financial wealth through paying off debt, saving, or making capital investments, which affects both their present and future financial conditions.

Among owners with mortgages, the median low-income homeowner spends a similarly large fraction of income on housing. Regardless of whether a household rents or owns, housing consumes most of a household's total expenditures relative to other basic needs (figure 3). This is especially true for the households in the lowest-income quantile, for whom housing takes up an average of almost 40 percent of total expenditures.

Some of the racial disparities in housing expenditures stem from systemic barriers, and implicit or explicit racial bias. The above-mentioned HUD (2013) study also analyzed pricing differences for renters by race. When white and Black tester pairs were told about units, the white testers were more likely to be offered a lower rate than the Black testers and Hispanic testers, although the difference in rate was very small. Significant results from that study include (Turner et al. 2013):

- A larger percentage of white testers were told about financial incentives and that various fees and one-time payments like security deposits were negotiable; the share of white testers who were informed was 5 percentage points higher compared to the share of both Black and Hispanic testers.

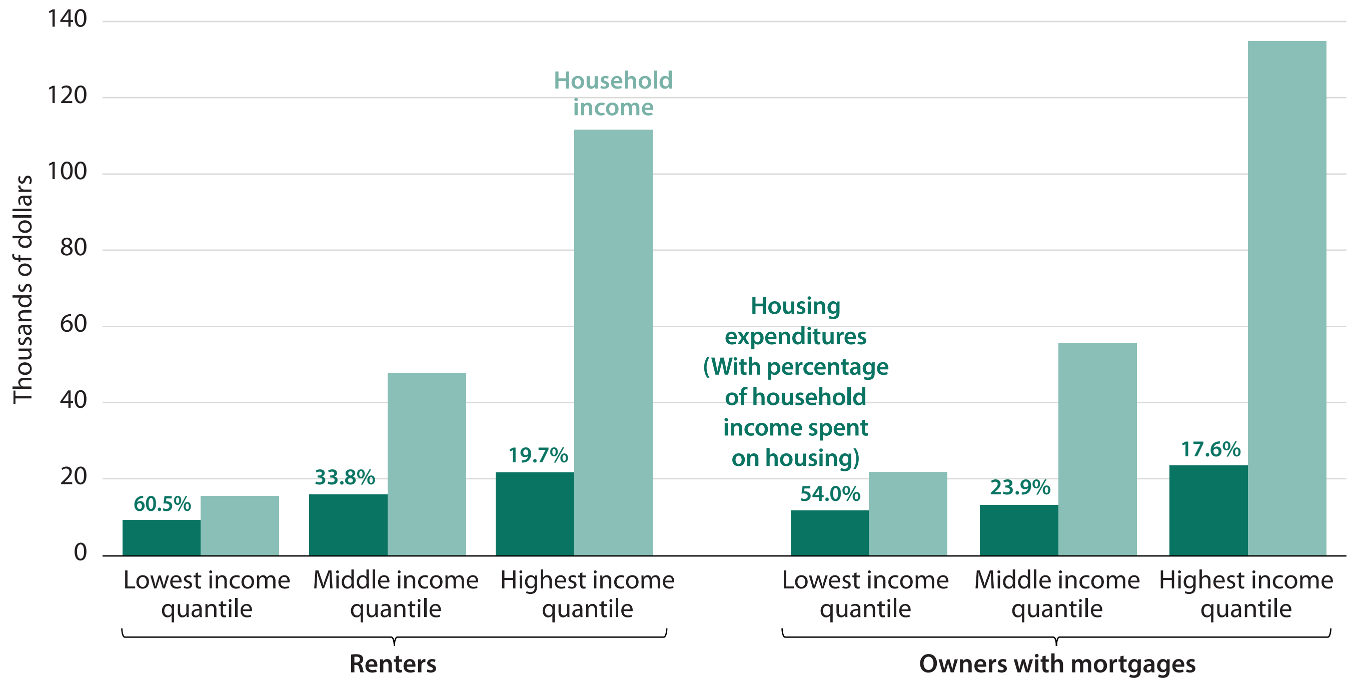
- Hispanic testers had a statistically significant difference in their average yearly net cost as a result, spending $101 per year more than white testers after fees, deposits, and other incentives.

- The share of Black testers asked about their credit when submitting a rental application was 3 percentage points higher than white testers.

Black and Hispanic households are more likely to be rejected for mortgages and face worse mortgage terms than white households. One study in 2015 found that less than 65 percent of Black and Hispanic homeowners had mortgage rates of less than 5 percent. By contrast, 73 percent and 83 percent of white and Asian households, respectively, paid these lower rates (DeSilver and Bialik 2017). In addition, a recent report that reviewed the findings of numerous studies found persistent differences in mortgage access and mortgage terms that could not be explained by observable financial characteristics (Quillian, Lee, and Honoré 2020). Those findings are broadly suggestive that implicit or explicit racial bias is limiting access to affordable mortgages for people of color.

FIGURE 2.

Median Annual Housing Expenditures and Household Income in 2019, by Income and Housing Tenure



Source: Consumer Expenditure Survey, 2019; authors' calculations.

Note: Housing expenditures include shelter, utilities, and other housing expenditures (detailed in the technical appendix). The lowest income quantile includes 2019 pre-tax household incomes less than $35,000. The middle income quantile includes 2019 pre-tax household incomes greater than $35,000 and less than $80,000. The highest income quantile includes 2019 pre-tax household incomes of $80,000 or greater.

Since 2002 rent as a share of total household expenditures has risen across income groups while mortgage interest costs as a share of expenditures have declined. (A mortgage payment is made up of both an interest payment and an amount to pay down principal, but the latter component is essentially savings for the household since it directly contributes to greater home equity. As a result, for renters and mortgage borrowers, the comparable non-savings part of housing expenditures is rent and mortgage interest payments.) As shown in figure 4, most of that movement occurred after the Great Recession. While the rise in rent as a share of expenditures for the highest- and middle-income quantiles has been inconsistent, the share for the lowest-income quantile households has steadily increased since the end of the Great Recession. On the other hand, homeowners across the income spectrum have seen steady declines in the proportion of their household income that mortgage interest payments take up. Some of the significant factors leading to these developments are described below. In particular, the cost of mortgages declined with reductions in interest rates over the period while greater demand for rental housing coupled with a contraction in construction pushed up the cost of rent.

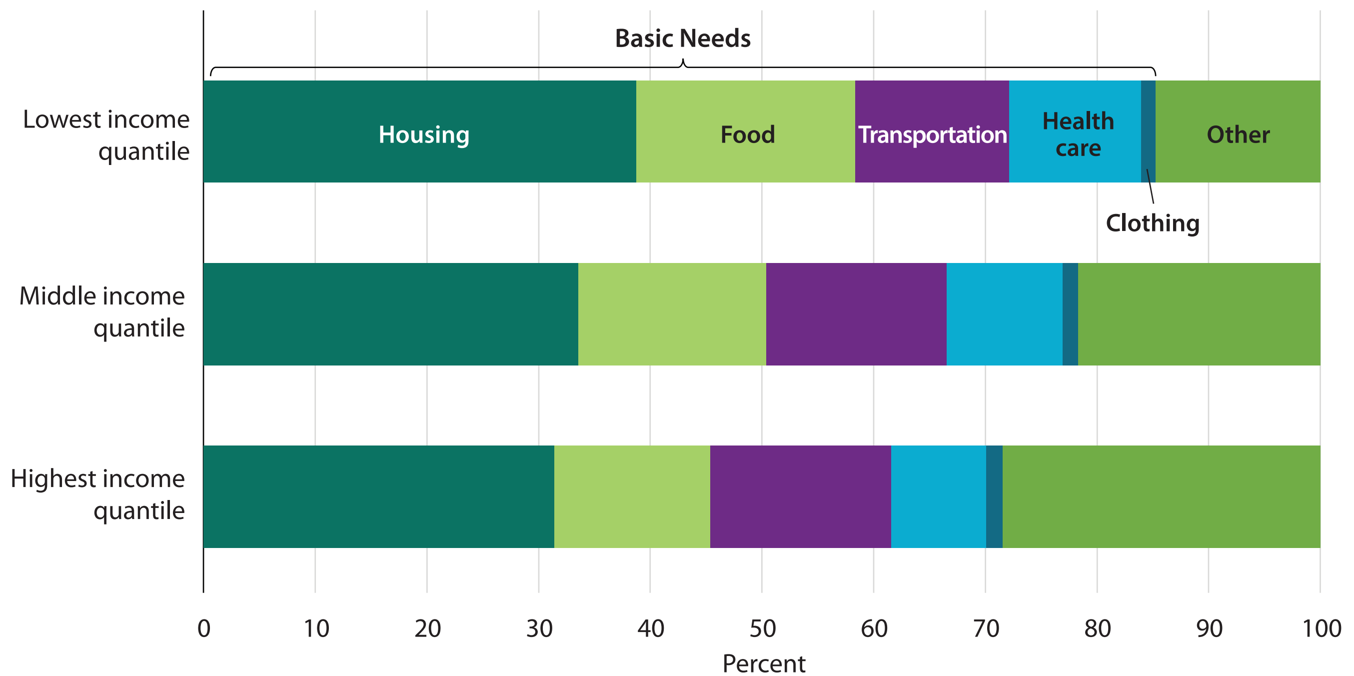
BRIEF OVERVIEW OF HOUSING POLICIES IN PLACE BEFORE THE COVID-19 RECESSION

Most housing assistance programs target homeowners instead of renters; housing programs primarily help homeowners keep their homes, maintain home equity, or encourage home ownership. In 2015 more than 70 percent of all federal housing assistance went to homeowners even though homeowners make up only 40 percent of the severely cost burdened (renters are the remaining 60 percent) (Fischer and Sard 2017). In 2017 mortgage interest deductions alone constituted an annual subsidy of approximately $66 billion, which was nearly twice as much as the largest direct subsidies low-income renters receive annually (HUD 2017; Joint Committee on Taxation 2018). Dr. Jenny Schuetz, a senior fellow at the Metropolitan Policy Program at Brookings, discusses the various forms of housing assistance in more detail, and shows how US housing policy predominantly targets homeowners (Schuetz 2018b).

Policies to help homeowners include the mortgage interest deduction, the real estate tax deduction, and the capital gains exclusion. The mortgage interest deduction allows mortgage borrowers who itemize on their tax returns to deduct interest on up to $1 million of mortgage debt (only $750,000 for recent mortgages). The enactment of Public

FIGURE 3.

Household Spending in 2019, by Income



Source: Consumer Expenditure Survey, 2019; authors' calculations.

Note: The lowest income quantile includes 2019 pre-tax household incomes less than $35,000. The middle income quantile includes 2019 pre-tax household incomes greater than $35,000 and less than $80,000. The highest income quantile includes 2019 pre-tax household incomes of $80,000 or greater. The "Other" category contains all household expenditures that do not fall into the other categories. For more information on what is included in the "Other" category, refer to the technical appendix.

Law 115-97 in 2017, commonly referred to as the Tax Cuts and Jobs Act, meant that fewer households now itemize, making the deduction less valuable than it was. The real estate tax deduction allows homeowners who itemize to deduct up to $10,000 in property taxes. And, finally, the capital gains exclusion means that households that sell their primary homes pay tax on capital gains only in excess of $500,000 (Internal Revenue Service [IRS] 2021). Because those forms of support for homeowners reduce taxes, their value increases at higher tax rates (IRS 2021). As a result, those forms of support increase inequality in after-tax income.

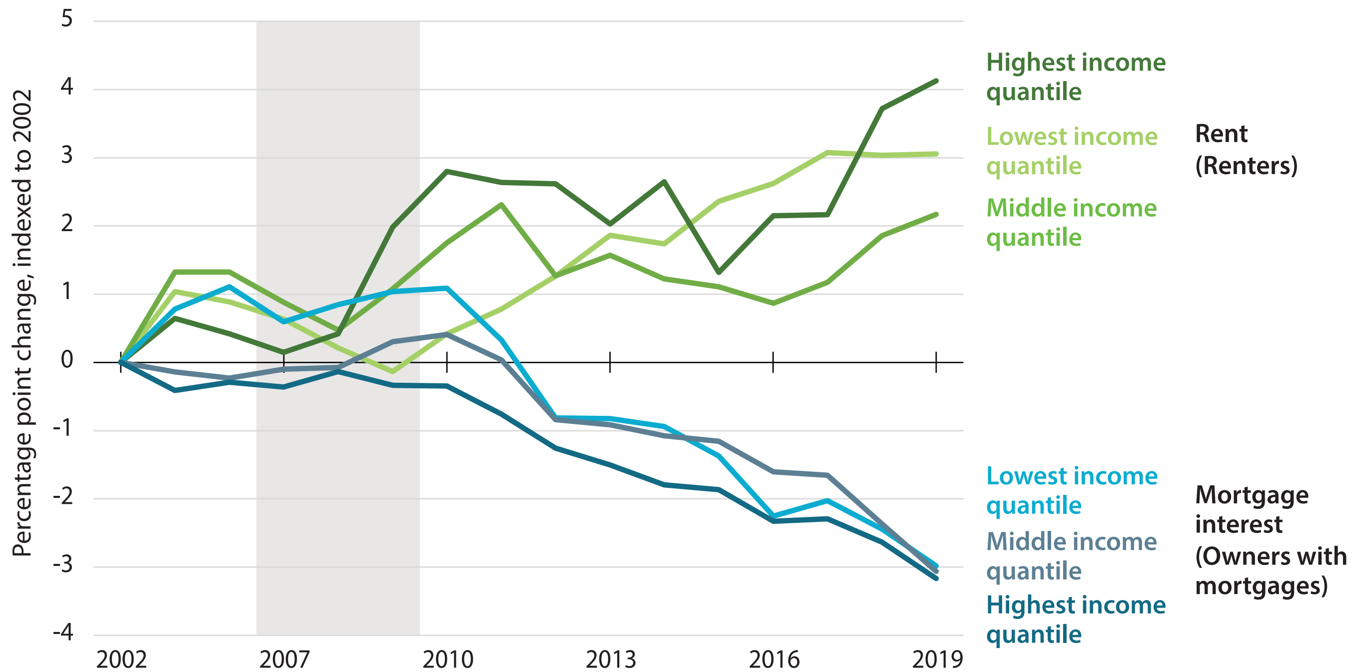
Policies that are aimed at helping renters include vouchers and the Low-Income Housing Tax Credit (LIHTC). HUD's Housing Choice Voucher Program (known as Section 8) uses rental vouchers to help low-income families afford rentals on the private market. The program assisted more than 5 million people in 2019 (Mazzara and Knudsen 2019). Public Housing and Project Based Rental Assistance (Section 8 PBRA) is a program that enhanced the stock of public housing, although new units are no longer being produced (HUD 2020). The HTF is a large source of new construction for low-income renters and owners, but is structured to predominately assist renters (HTF 2020). The LIHTC encourages the production of low- to moderate-income housing by subsidizing the cost of construction or rehabilitation of these properties. Also, as mentioned above, the PFTA expired in 2014 but was permanently extended in 2018, offering renters significant protections if rental properties go through foreclosure. A patchwork of state and local policies also buttress the federal system.

THE CRISIS IN HOUSING MARKETS DURING THE COVID-19 RECESSION

The COVID-19 pandemic and recession has created enormous challenges for homeowners and renters. The primary priority has been keeping people in their homes even if they are unable to afford their housing costs. For renters, eviction moratoriums were put in place at the federal level by the Centers for Disease Control and Prevention as well as at the local and state levels. Nonetheless, with some renters unaware of the moratorium and some local officials unwilling to enforce it, some evictions have continued to go forward due to easily exploitable loopholes (Capps, Dottle, and McCartney 2021; Yentel and Roller 2021). In addition, emergency rental assistance programs put in place in 2020 have often required landlord buy-in for participation, which may have hindered the programs' take-up rates. Moreover, no formal mechanisms have been put in place for tenants to file complaints against such landlords or for any such complaints to

FIGURE 4.

Change in Housing Expenditures as a Share of Total Household Expenditures, by Tenure and Income, 2002 to 2019



Source: Consumer Expenditure Survey, 2002–2019; authors' calculations.

Note: Data are 3-year moving averages of the percentage point changes in household spending on rent (among renters) and mortgage interest (among owners with mortgages) as shares of total housing expenditures, indexed to 2002. The lowest income quantile includes pre-tax household incomes less than $35,000 in 2019 dollars. The middle income quantile includes pre-tax household incomes greater than $35,000 and less than $80,000 in 2019 dollars. The highest income quantile includes pre-tax household incomes of $80,000 or greater in 2019 dollars.

be resolved. Worryingly, researchers note that there could be an eviction cliff when moratoriums across the country expire (Casellas-Barnes and Battisto 2020; Cunningham, Hariharan, and Fiol 2021).

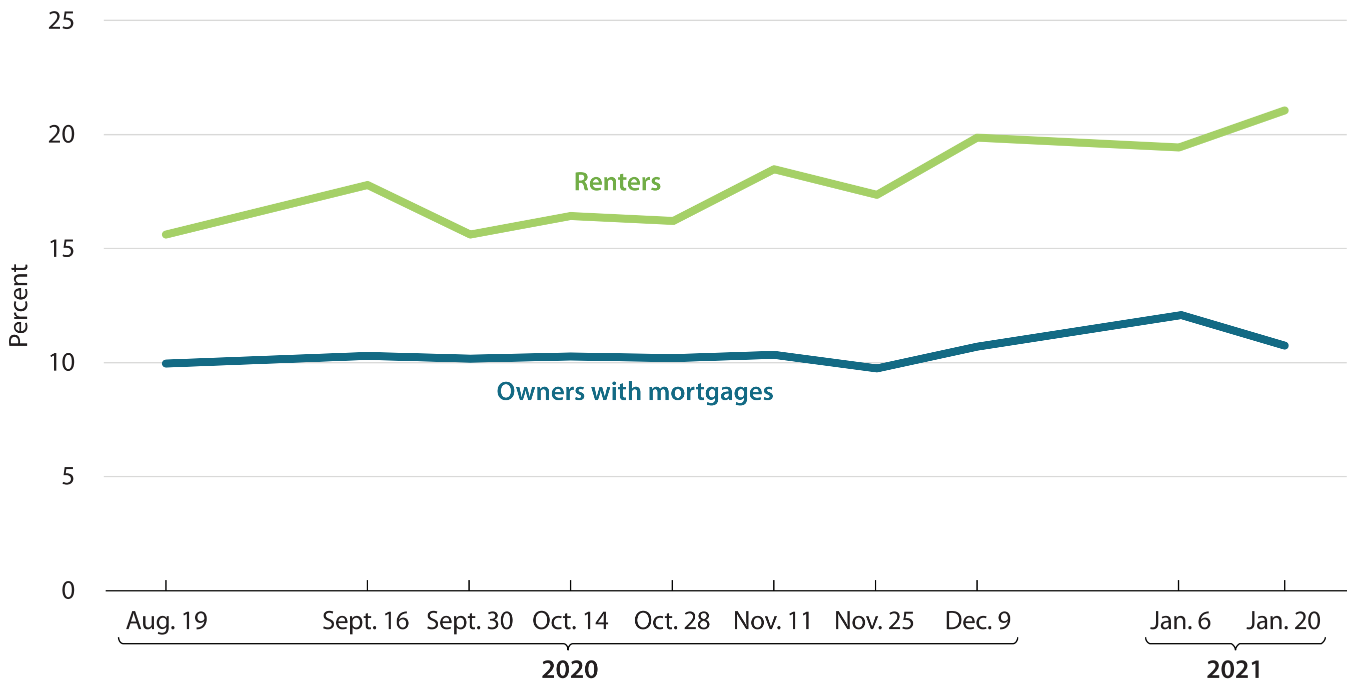
As shown in figure 5, the fraction of renters reporting that they are not caught up on housing payments rose from about 15 percent in the summer of 2020 to over 20 percent in early 2021. Additionally, despite the eviction moratoriums, between 42 percent and 52 percent of renters who were not caught up on their rent payments reported fearing eviction within the next two months in every Pulse survey between August 2020 and January 2021. Although fear of eviction may reflect anxiety rather than actual risk, renters are clearly reporting being significantly more stressed.

For homeowners, two kinds of federal housing assistance have helped them remain in their homes: mortgage forbearance and foreclosure moratoriums. The CARES Act of 2020 allows households experiencing COVID-related hardships to request mortgage forbearance of up to 180 days from their loan servicer. Households that are already on forbearance and have mortgages backed by Fannie Mae, Freddie Mac, or the federal government may request extensions to repay their suspended payments or reduce mortgage payments for some time. Additionally, mortgage servicers cannot require households receiving forbearance under the CARES Act to repay their suspended payments in a lump sum after the forbearance period (Consumer Financial Protection Bureau [CFPB] 2020a, 2020b).

The Federal Housing Finance Agency's (FHFA) national foreclosure moratorium, which applies to single-family foreclosures, is another channel for homeowner relief (FHFA 2021). Depending on the mortgage backer, mortgage lenders foreclosing on households until March 31; for some households, that restriction was extended to June 30, 2021 following the signing of an Executive Order by President Biden (CFPB 2020b, White House 2021). If a borrower went into forbearance on a federally backed loan on or before June 30, 2020, they are now able to extend their forbearance in three-month increments for up to six more months. This is crucial because more than 10 million homeowners are currently behind on their mortgage payments. And, in the spring of 2020, Black and Latino borrowers were the most likely to say they had little to no confidence in their ability to pay their mortgage while Asian borrowers were the most likely to say they would defer their payments (Greene and McCargo 2020; White House 2021). Across households not caught up on their mortgage payments, between 15 percent

FIGURE 5.

Percent of Households Not Caught Up on Housing Payments, by Housing Tenure



Source: Census Household Pulse Survey, 2020–2021.

Note: The proportion of homeowners who are not caught up on housing payments is the proportion of respondents who are homeowners with a mortgage and not caught up on mortgage payments. The proportion of renters who are not caught up on housing payments is the proportion of respondents who are renters and not caught up on rent.

and 20 percent of homeowners from August 2020 to January 2021 reported being concerned about foreclosure within the next two months. This level of anxiety may partly reflect how many mortgage borrowers are unaware of the foreclosure moratorium or whether their loan qualifies.

The Fed's 2020 Survey of Household Economics and Decisionmaking showed that renters across the board reported greater economic insecurity than owners with mortgages, qualitatively similar to results in 2019. As shown in figure 6, that difference between renters and homeowners was even more stark among households with children. Within that group, more than double the number of renters compared to owners were unable to pay their bills. The presence of children was generally associated with greater economic insecurity, but renters with children reported particularly high rates of insecurity. One factor contributing to economic insecurity in the current recession has been struggles with child care, which is one of the top-cited reasons for people withdrawing from the labor force (Pulse Survey question on main reason for not working; Census 2020b).

State and local rental assistance money is available in some areas. Some of those programs come with stringent requirements or barriers to access that limit take up, however. In December 2020 Congress made $25 billion (US Department of the Treasury [Treasury] 2021a) available through the Consolidated Appropriations Act to existing and new state administered programs under the Emergency Rental Assistance program. Households or landlords must apply for funds through those programs, and relief appears to be reaching families slowly (Romm, Stein, and Siegel 2021).

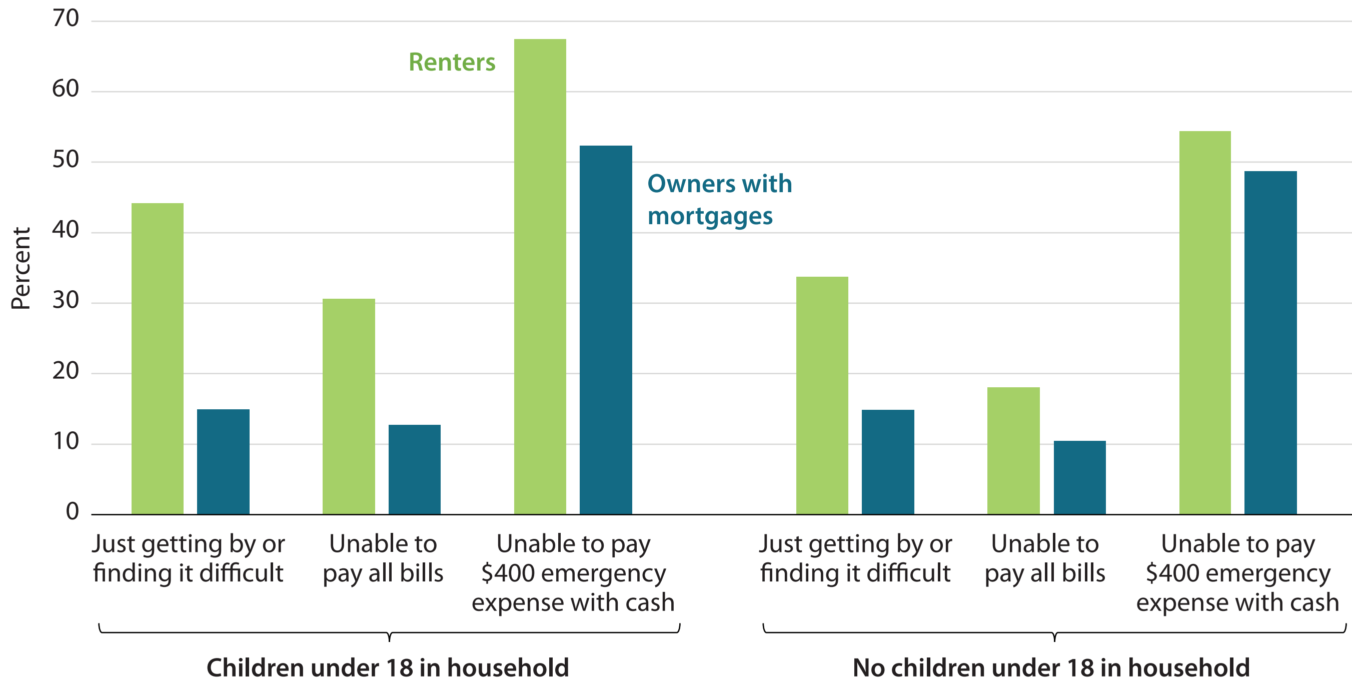
Most recently, an additional $21.6 billion of emergency rental assistance and other relief for the homeless was made available, bringing the total emergency rental assistance during this recession to just shy of $50 billion (Treasury 2021b). Congress also allocated $10 billion through the American Rescue Plan Act of 2021 to the Homeowner Assistance Fund to help homeowners who are facing housing insecurity.

CONCLUSION

To address the current crisis, supplying additional funding, though vital, is not enough to ensure that renters and mortgage borrowers will be able to stay in their homes. Implementation challenges will impede relief efforts if infrastructure is not already in place to help those facing housing insecurity. Landlords, renters, and homeowners are frequently required to know that these programs exist and then to navigate difficult systems and eligibility requirements in order to access them.

FIGURE 6.

Household Economic Security in July 2020, by Housing Tenure and Presence of Children



Source: Survey of Household Economics and Decisionmaking, 2020; authors' calculations.

More broadly, significant changes to policy are necessary to create a robust and successful housing policy for those who need longer-term assistance. As an excellent starting point, Schuetz (2018a) lays out nine goals for improved housing policy:

- Housing should not harm the health and safety of families or communities.
- Information about housing transactions should be clear, so that people and companies can make good decisions.
- Housing location, construction, and maintenance should improve environmental sustainability and resilience.
- Housing supply should be able to expand to meet demand.
- All families should have access to neighborhoods that offer economic opportunity.
- To help poor families achieve housing stability, increase their incomes.
- Don't subsidize housing in some locations more than in others.
- Don't subsidize homeownership over renting.
- Don't subsidize real estate over other wealth-building mechanisms.

In addition, housing policy should be improved to better stabilize households and housing markets during future downturns. A recent Hamilton Project proposal (Collinson, Ellen, and Keys 2021) discusses the ways in which our housing safety net can be improved and automated by reducing the complexity and tying policies to automatic triggers so that help is received in a timely manner by those who need it. Specifically, Collinson, Ellen, and Keys's proposal would

- Create new emergency rental assistance accounts for low-income households.
- Implement an automatic, three-month forbearance period for vulnerable mortgage borrowers in response to elevated local unemployment.
- Establish a permanent tax credit exchange program that allows states to exchange tax credits for direct subsidies at a fiscally neutral price when demand from tax credit investors falls.

Those changes would help to address some of the persistent issues that have plagued housing markets: too many

families overstretched by housing costs, housing assistance programs that do not automatically provide more support during period of heightened housing insecurity, and a market afflicted with perverse incentives. Implementing the changes outlined above would greatly improve the housing safety net in the United States—a need made distressingly apparent in the recent crisis.

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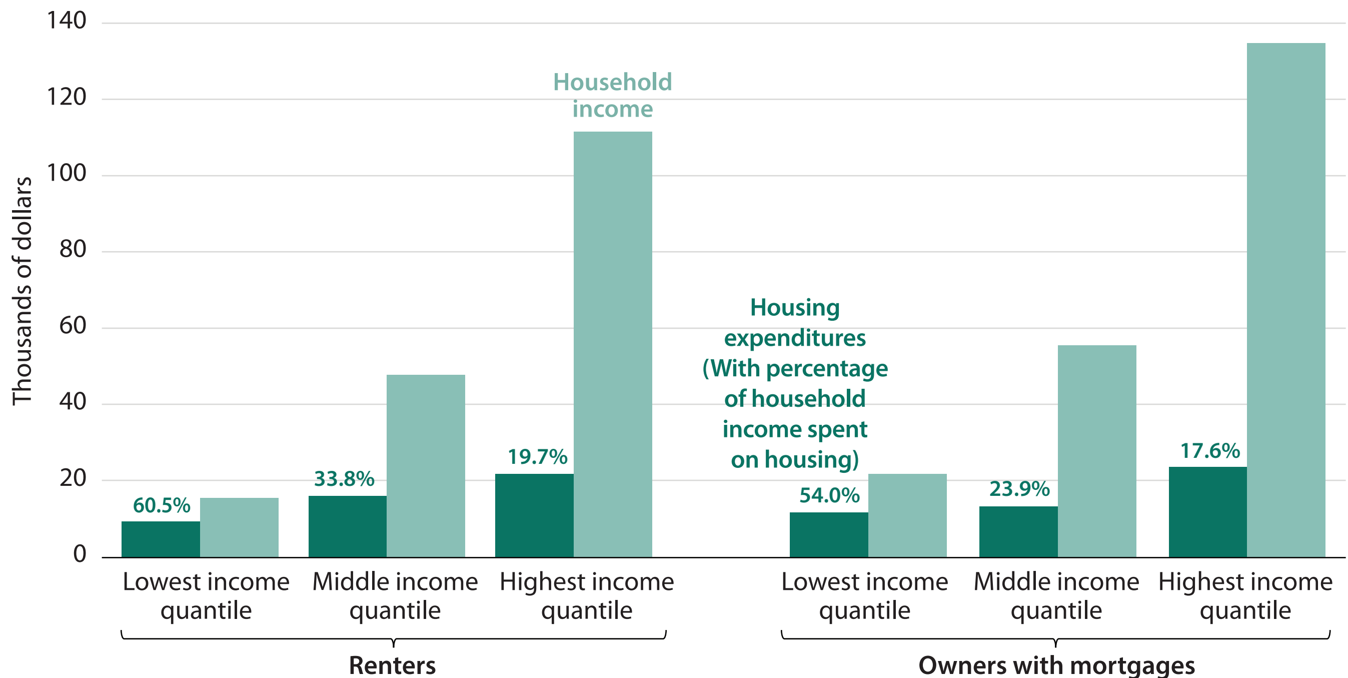
Abstract

Housing policies over the past several decades have overwhelmingly benefited owners with mortgages instead of renters. In this piece, the authors examine the historical reasons for inequities in the housing market, who rents and who owns, how this has changed over time, and the policies to help renters and owners with mortgages. As a share of total household expenditures, rents have skyrocketed in comparison to mortgage interest payments since the Great Recession. In addition, housing expenditures are a significant burden for the lowest income groups.

Median Annual Housing Expenditures and Household Income in 2019, by Income and Housing Tenure



Source: Consumer Expenditure Survey, 2019; authors' calculations.

Note: Housing expenditures include shelter, utilities, and other housing expenditures (detailed in the technical appendix). The lowest income quantile includes 2019 pre-tax household incomes less than $35,000. The middle income quantile includes 2019 pre-tax household incomes greater than $35,000 and less than $80,000. The highest income quantile includes 2019 pre-tax household incomes of $80,000 or greater.

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