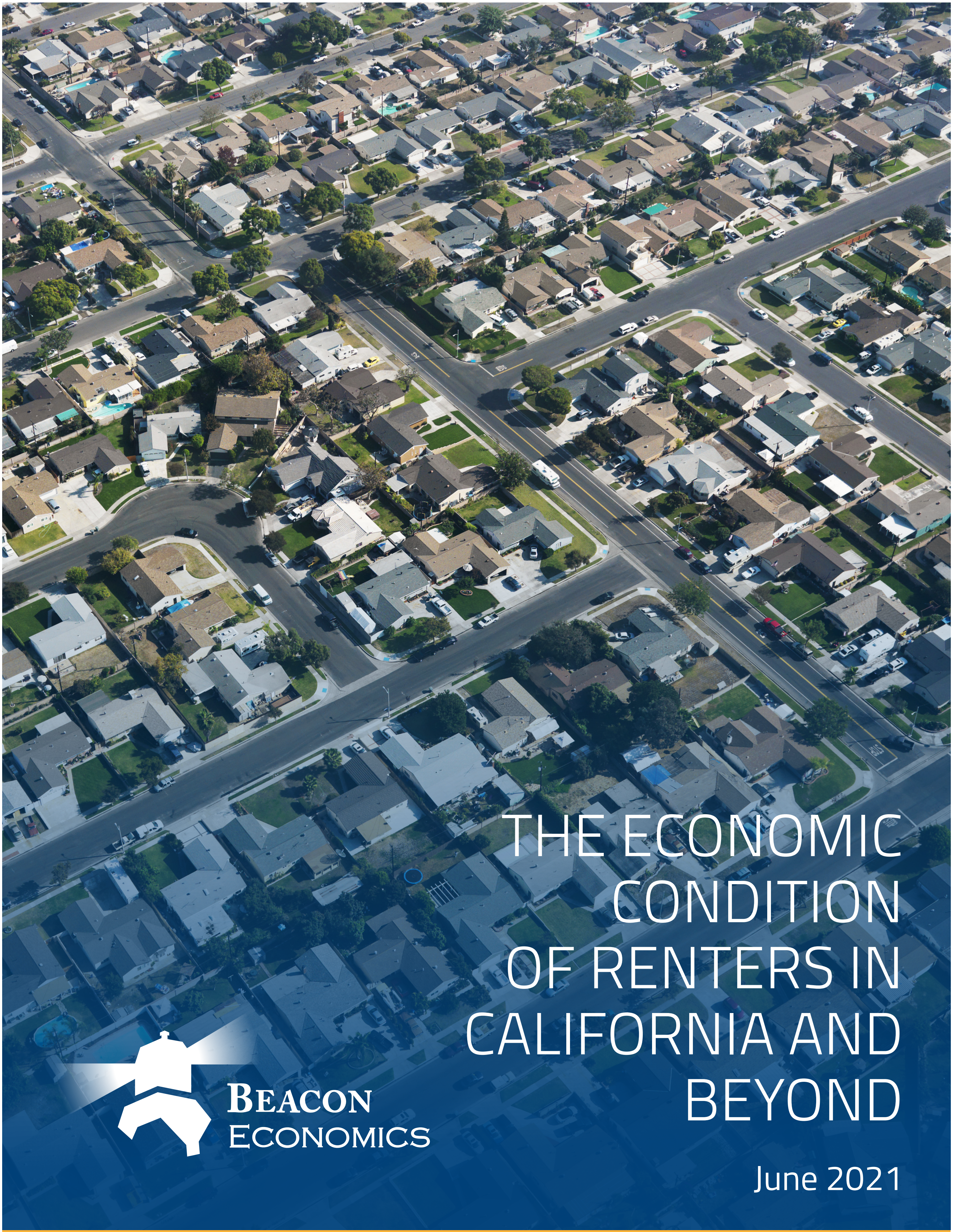

# THE ECONOMIC CONDITION OF RENTERS IN CALIFORNIA AND BEYOND

BEACON ECONOMICS

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Founded in 2007, Beacon Economics, an LLC and certified Small Business Enterprise with the state of California, is an independent research and consulting firm dedicated to delivering accurate, insightful, and objectively based economic analysis. Employing unique proprietary models, vast databases, and sophisticated data processing, the company's specialized practice areas include sustainable growth and development, real estate market analysis, economic forecasting, industry analysis, economic policy analysis, and economic impact studies. Beacon Economics equips its clients with the data and analysis required to understand the significance of on-the-ground realities and to make informed business and policy decisions. Learn more at www.BeaconEcon.com

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## COMMISSIONED BY THE CALIFORNIA APARTMENT ASSOCIATION

The California Apartment Association is the largest statewide rental housing trade association in the country, representing over 50,000 single family and multi-family apartment owners and property managers who are responsible for over 2 million affordable and market rental units throughout the State of California.

# Introduction

There is little doubt about the unprecedented impact the COVID-19 pandemic has wrought on the U.S. economy and households over the last year. And while economic recovery is clearly in full swing, there are still serious concerns about the most vulnerable households—low-income renters. A common forecast made over the last year by renter advocates asserts that 30 to 40 million renters in the United States will be evicted, absent moratoriums implemented across the nation, including in California. That estimate is derived from the Census Pulse Survey which launched at the start of the pandemic to provide insights regarding the health of households at a higher frequency than traditional metrics. However, data from the National Multifamily Housing Council suggests that the non-payment rate among renters has only increased by 4% since before the pandemic began, suggesting the number of at-risk renters is well below one million. Other studies have found a range of results that fall between these two extreme outcomes.

These issues are important for policymakers to decipher in order to most effectively direct their efforts in helping the economy recover while protecting renters. To help better determine which of these eviction estimates is accurate, it is essential to understand the economic health of renting households and low-income groups, both nationally and in California, in order to evaluate their financial resiliency during the current economic cycle. By considering how these metrics look relative to past business cycles, particularly the Great Recession, we can create a neutral metric by which to consider the various claims raised about the economic health of renters. This report highlights the results of that analysis.

# Executive Summary

Pre-pandemic, the economic condition of renters was strong relative to recent years and pre-Great Recession

- The median income among renters stood at $35,600 in 2019, a multi-decade high and an increase from $30,700 in 2010 (see Figure 1)
- This trend held for the bottom quartile of earners who also saw their paychecks rise by 4% (y-o-y) annually since 2017 while other groups' income rose by around 3% or less (see Figure 2).
- The median rent payment as a percentage of income, as well as the percentage of households paying over 30 percent of their income in gross rent, declined significantly in California from 2010-2019 (see Figure 7).
- Rent burdens in California for these same groups have dropped precipitously since 2009 when they stood at 31% and 27% (declining from 22% and 21% as mentioned above).
- This was in part driven by rapidly rising weekly earnings among the bottom three quartiles of the income distribution in California (See Figure 3).
- Weekly earnings for these three quartiles rose by $259, $379, and $624 from 2007Q1 to 2021Q1.

Unsurprisingly, these trends coincided with an improvement in the financial health of many renters.

- As incomes rose, the median net worth of renters improved to $6,300, a level not reached since the early 2000s, according to Federal Reserve Board SCF data.
- Only 12% of renters were 60 days or more past due on debt payments in 2019, a considerable improvement from multi-decade highs reached in 2004 (18.6%) and 2010 (16.6%) (see Figure 6).

The surge in unemployment experienced last year undoubtably put stress on many lower-income renter households. However, the recovery in the economy has relieved much of this stress

- Data from the National Multifamily Housing Council suggests that the non-payment rate among renters has only increased by 4% since before the pandemic began
- Even the often-cited Census Bureau Pulse survey has showed a remarkable drop in reported late rent payments in California, dipping from 20.7% at the height of the pandemic in December 2020 to 11.8% in May 2021 (see Table 1).
- The unemployment rate for California renters, while elevated at 10.25%, is already lower than it was from 2008Q4 to 2014Q4 (see Figure9).
- Data from the Eviction Lab shows that even after eviction moratoriums were lifted, new eviction filings amounted to only 46.1% of a typical year.


# The State of Renters: Pre-Pandemic

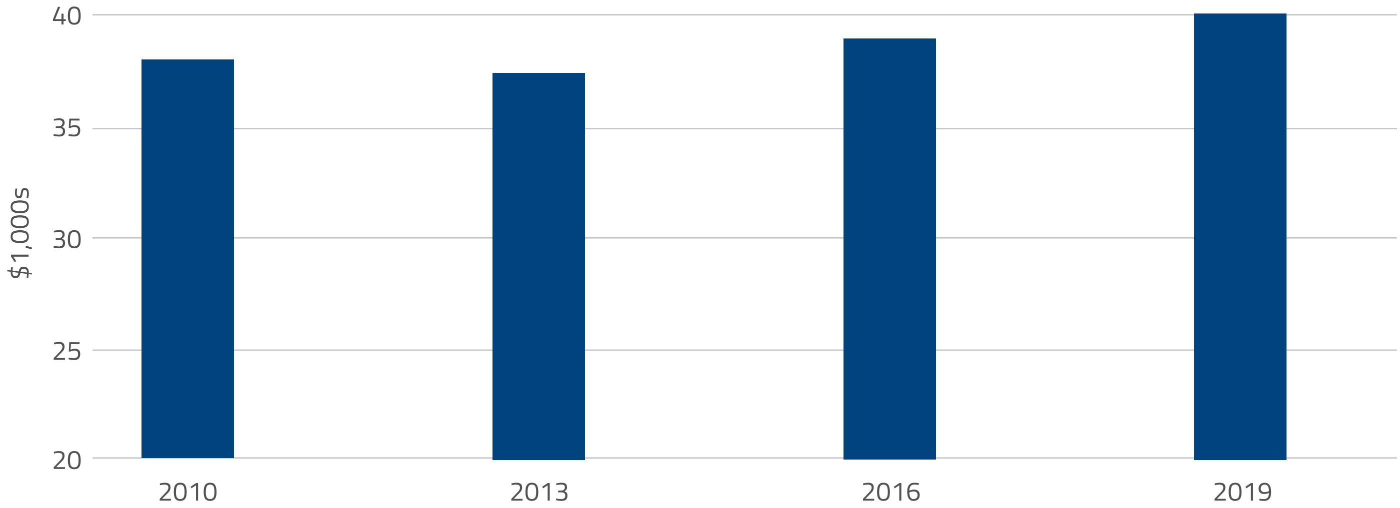
Granular data from the U.S. Federal Reserve's Distributed Financial Accounts (DFA) and Survey of Consumer Finances (SCF) shows that prior to the pandemic, renters across the country achieved the strongest economic health in almost two decades as debt, leverage, and late rent payments sank while checking account balances surged.

U.S. Census Bureau Current Population Survey (CPS) estimates indicate that this trend held for lower-income groups in California. The wage gains outpaced rising monthly housing costs as rent burdens decreased for lower-income households across the state, according to data from the Census Bureau American Community Survey (ACS).

# Financial Characteristics (Pre-Pandemic)

- Renters experienced relatively rapid wage growth in the years leading up to the pandemic.
- The median income among renters stood at $35,600 in 2019, a multi-decade high and an increase from $30,700 in 2010 (see Figure 1).

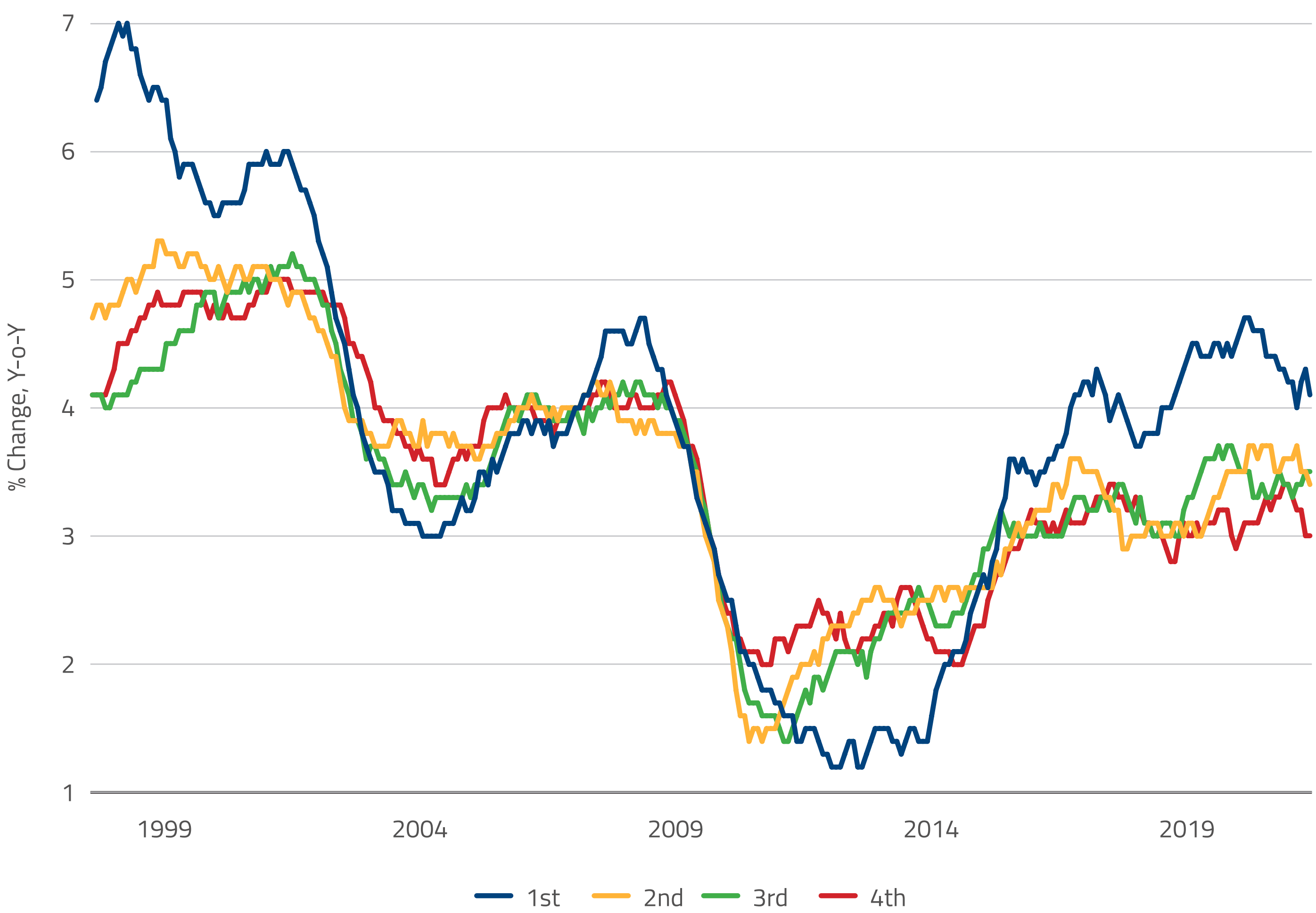
**Figure 1: Pre-Tax Income for the Median Renter Reached Survey Highs**
Pre-Covid




Source: Federal Reserve Board, SCF; Analysis By Beacon Economics

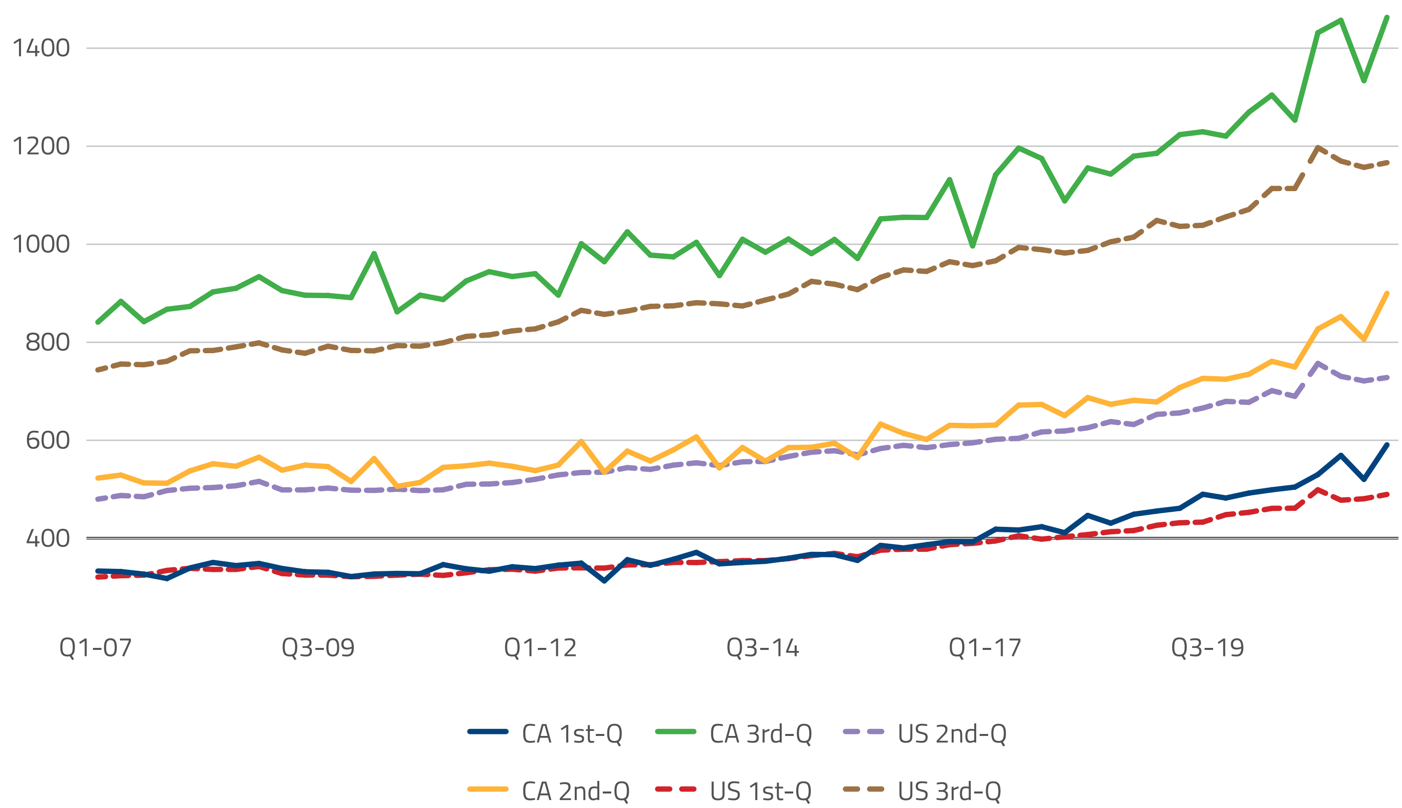
- This trend held for the bottom quartile of earners who also saw paychecks rise by 4% (y-o-y) annually since 2017 while other groups' income rose by around 3% or less (see Figure 2).
- The picture for California's low-wage earners was even brighter in the years prior to the pandemic as weekly earnings outgrew the national average for the bottom three quartiles (see Figure 3).
- Weekly earnings for these three quartiles rose by $259, $379, and $624 from 2007Q1 to 2021Q1.

### Figure 2: Wage for Lowest Earners Grew Faster Than Other Groups Since 2014




Source: Federal Reserve Bank of Atlanta; Analysis By Beacon Economics

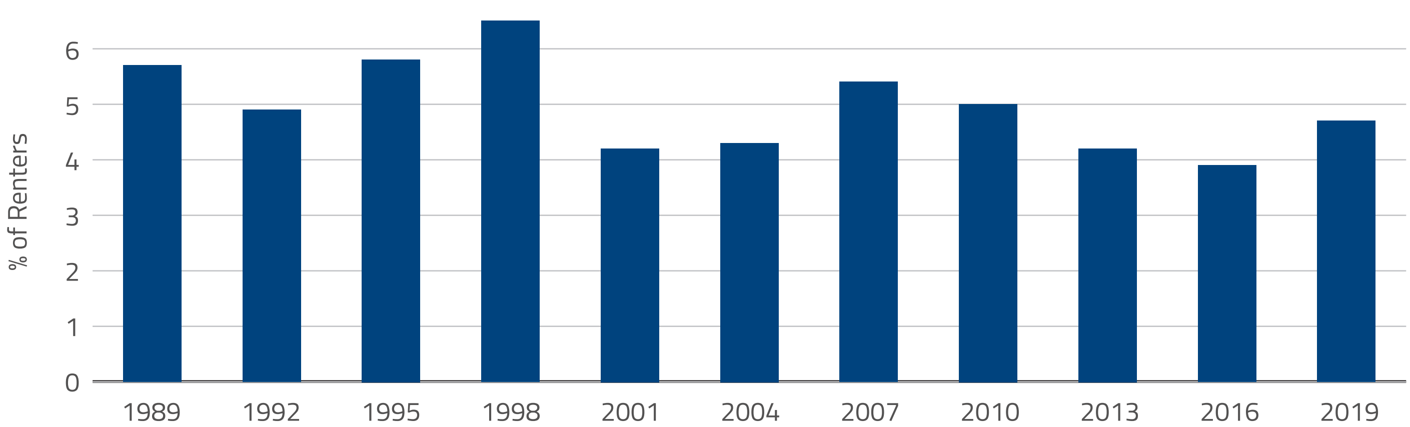
## Figure 3: Bottom 3 Quartiles Weekly Earnings in CA Outgrew the National Average




Source: Census Bureau CPS; Analysis By Beacon Economics

- Higher wages among renters were not all consumed; savings rates among renting families rose to 45.8% in 2019, up from 42% in 2010, according to the Federal Reserve's SCF data.
- Debt ratios improved for renters prior to the pandemic with only 7.4% of households burdened with debt ratios above 40% (see Figure 4).

## Figure 4: Renters Leverage (Debt Ratio>40%) at Multi-Decade Lows Pre-Covid




Source: Federal Reserve Board, SCF; Analysis By Beacon Economics

**Figure 5: Average Checking Account Balance for Bottom 50% of Earners**

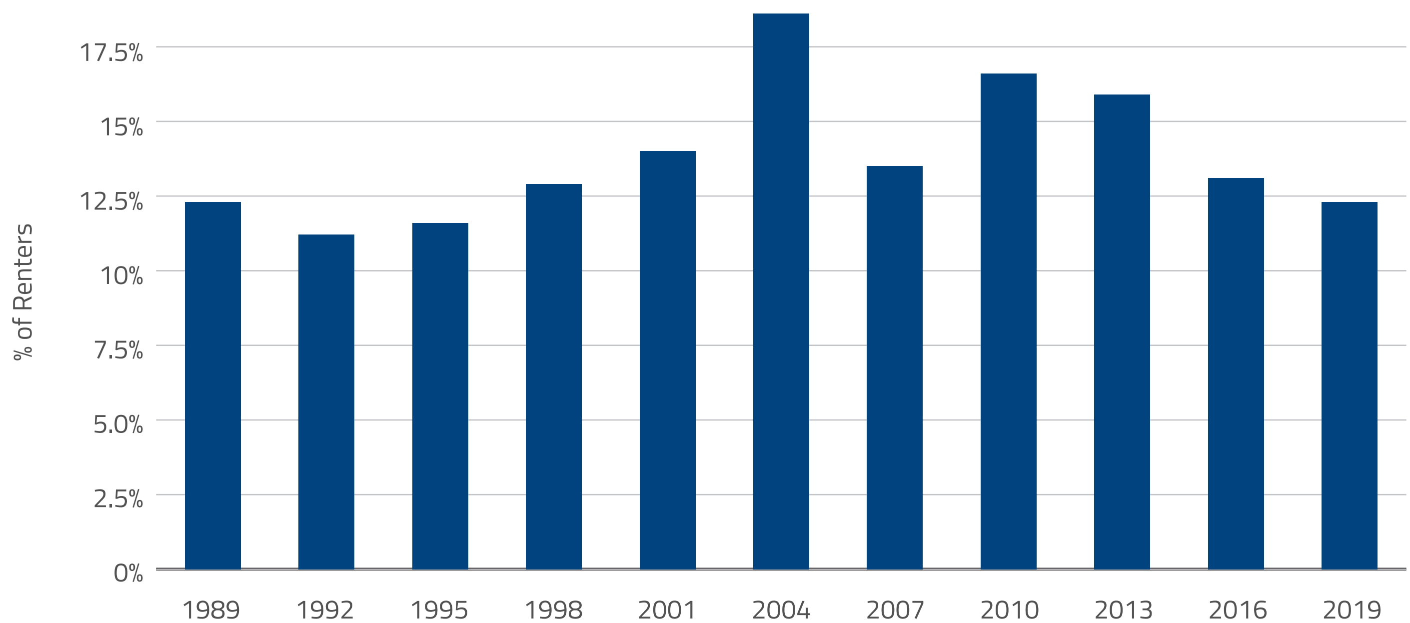

Source: Federal Reserve Board, DFA; Analysis By Beacon Economics

- As debt fell, the median net worth of renters rose to $6,300, a level not reached since early 2000, according to the Federal Reserve's SCF data.
- The improvement was seen across the bottom three income quintiles, which saw their net worth increase to record highs of $9,000, $43,000, and $95,000, respectively, according to the Federal Reserve's SCF data from 2019.
- It appears that a considerable portion of this new wealth was parked in highly liquid checking accounts, with balances growing rapidly for the bottom 50% of the income distribution over the past two years (see Figure 5).
- Data from the U.S. Federal Reserve's Distributed Financial Accounts showed a sharp spike in average net worth for the bottom 50% of the population – reaching a record $35,000 in 2020Q4.

# Housing Characteristics (Pre-Pandemic)

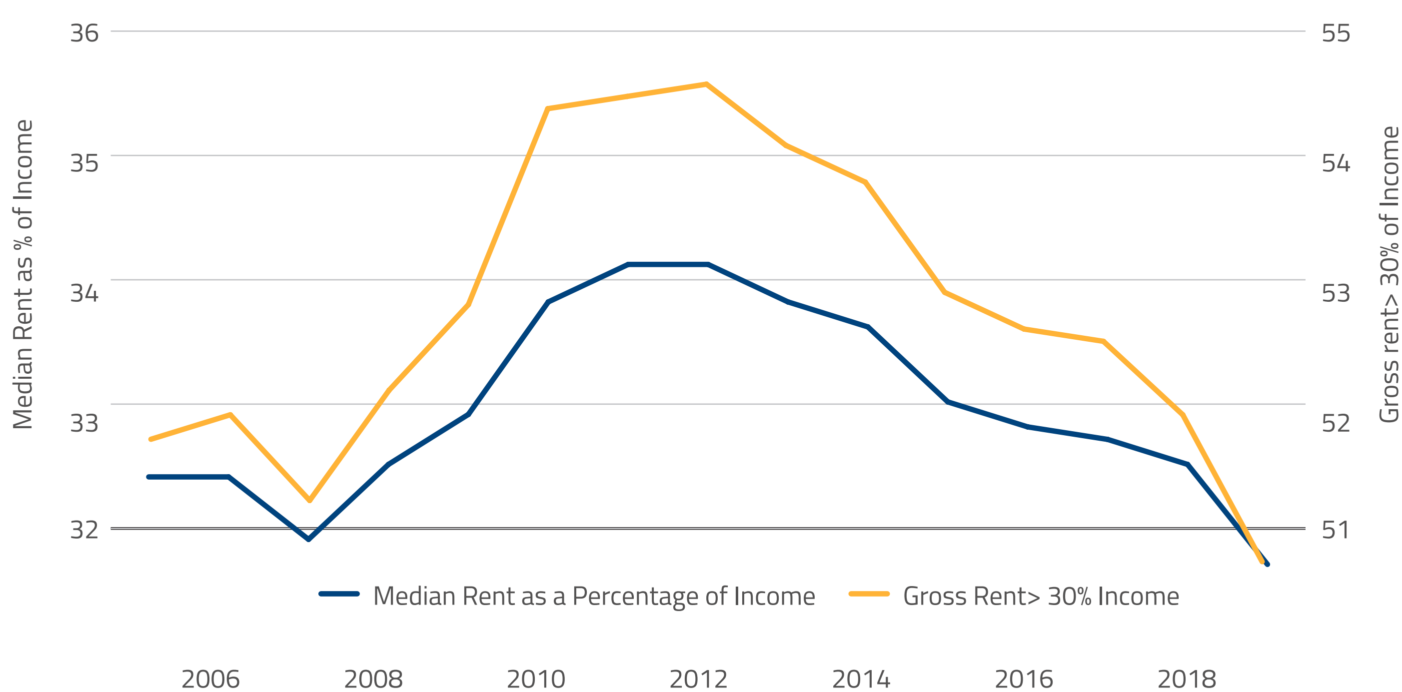
- Healthier finances translated into fewer delinquencies in the rental market prior to 2020.
- Only 12% of renters were 60 days or more past due on debt payments in 2019, a considerable improvement from multi-decade highs reached in 2004 (18.6%) and 2010 (16.6%) (see Figure 6).
- The median rent payment as a percentage of income, as well as the percentage of households paying over 30 percent of their income in gross rent, declined significantly in California from 2010-2019 (see Figure 7).
- Rent burdens in California among these same groups have dropped precipitously since 2009 when they stood at 31% and 27% (declining from 22% and 21% as mentioned above).
- It is important to note that these improving outcomes do not appear to be an artifact of overcrowding as the share of renter households in California with less than 1.49 people per room has remained constant at 92% from 2009 to 2019.
- The share of renter households with less than one-person per room also remained constant, at around 70%, from 2009 to 2019.

## Figure 6: Debtors with Any Payment 60 Days or More Past Due




Source: Federal Reserve Board, SCF; Analysis By Beacon Economics

## Figure 7: Median Rent as a percentage of Income




Source: Census Bureau, ACS; Analysis By Beacon Economics

# The State of Renters: During the Pandemic

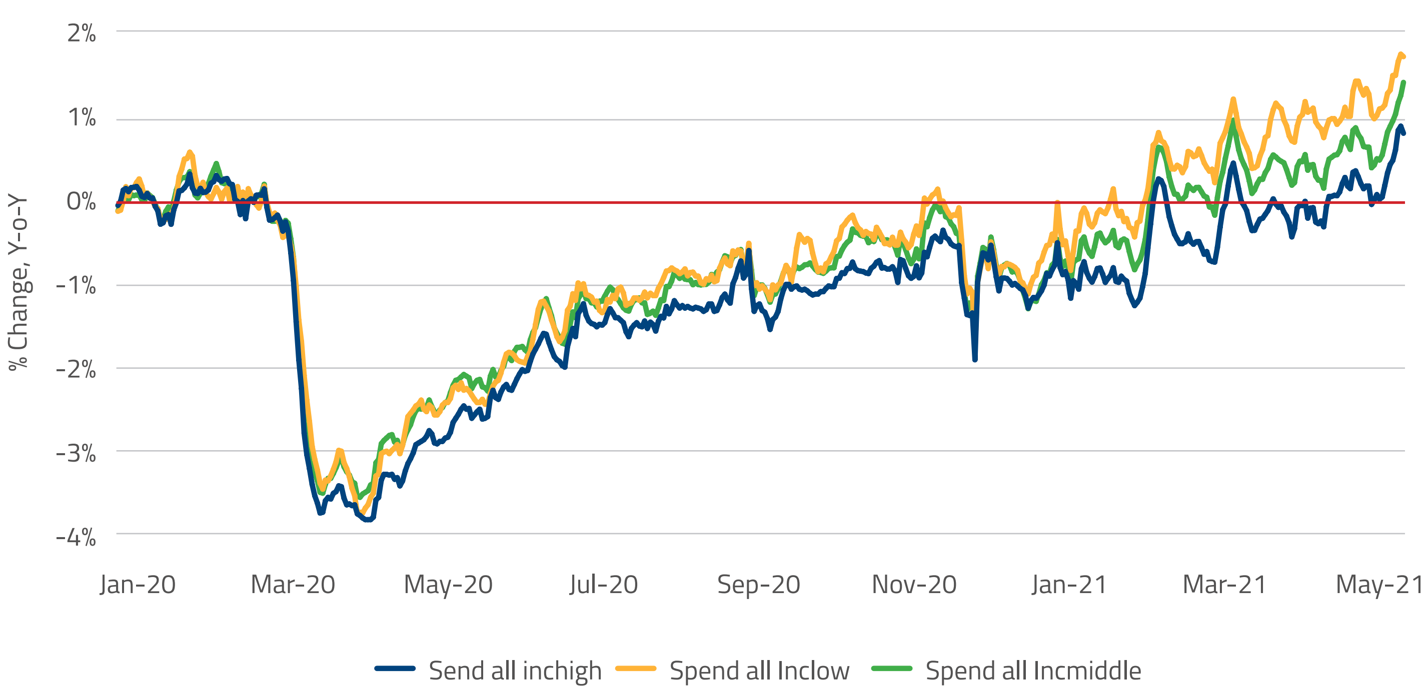
In the early stages of the COVID-19 pandemic, estimates claimed that between 30-40 million people were at risk of eviction. Yet, recent data from the Federal Reserve's Report on the Economic Well-Being of U.S. Households, the Federal Reserve Bank of Philadelphia, as well as the often-cited Census Bureau Pulse survey, paint a more sanguine picture of the roughly 43 million renting households in the nation.

Meanwhile, the current economic recovery has already blown past the dismal economy that persisted in California from 2008 until 2014, according to data from the Census Bureau's Current Population Survey (CPS). Moreover, data from Princeton University's Eviction Lab indicates that eviction rates have not spiked in several regions that have lifted moratoriums.

# Financial Characteristics (During-Pandemic)

- A survey conducted by the Federal Reserve in November 2020 indicated that the share of adults who were doing "at least ok financially" remained unchanged from 2019 at around 75%.
- 24% of those surveyed had experienced an increase in income compared to 19% who reported a decline.
- The share of adults able to withstand financial emergencies (75%) also remained the same from prior to the pandemic, although this was starkly different among demographic groups.
- While estimates for the financial state of Californians remains sparse, the "perceived chance of running out of money in the next three months" in Los Angeles County has declined from 40% in March 2020 to 15% today, according to a survey conducted by the University of Southern California (USC).
- Even as unemployment rates sharply spiked during the pandemic, extraordinary government support and potentially larger savings prior to the crisis prevented a sharp drop in consumption among low-income households.
- In California, compared to higher-income groups, low-income zip code spending shrank by a smaller margin (dropping by less than 10% y-o-y) from March to September 2020 and has recovered faster in 2021 (increasing by 15% y-o-y), according to data from Opportunity Insights (see Figure 8).

**Figure 8: California Low Income Spending Remains Elevated Despite Pandemic**

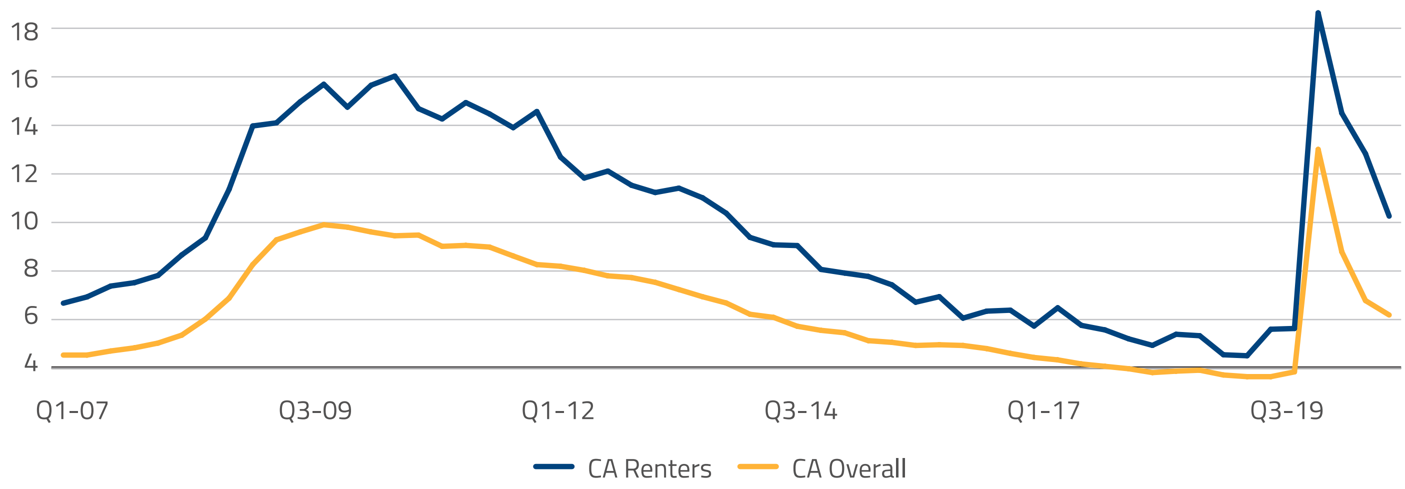



Source: Opportunity Insights; Analysis By Beacon Economics


# Employment Characteristics (During-Pandemic)

- The unemployment rate for California renters, while elevated at 10.25%, is already lower than it was from 2008Q4 to 2014Q4 (see Figure 9).
- Beacon Economics believes unemployment will continue to drop with the help of expansionary fiscal support along with a strong recovery in consumption as households tap savings that built up during the pandemic.
- As a result, we do not foresee a slow labor market recovery a la 2008.

**Figure 9: Unemployment Rate for Renters in Already Below 2014-Q4**

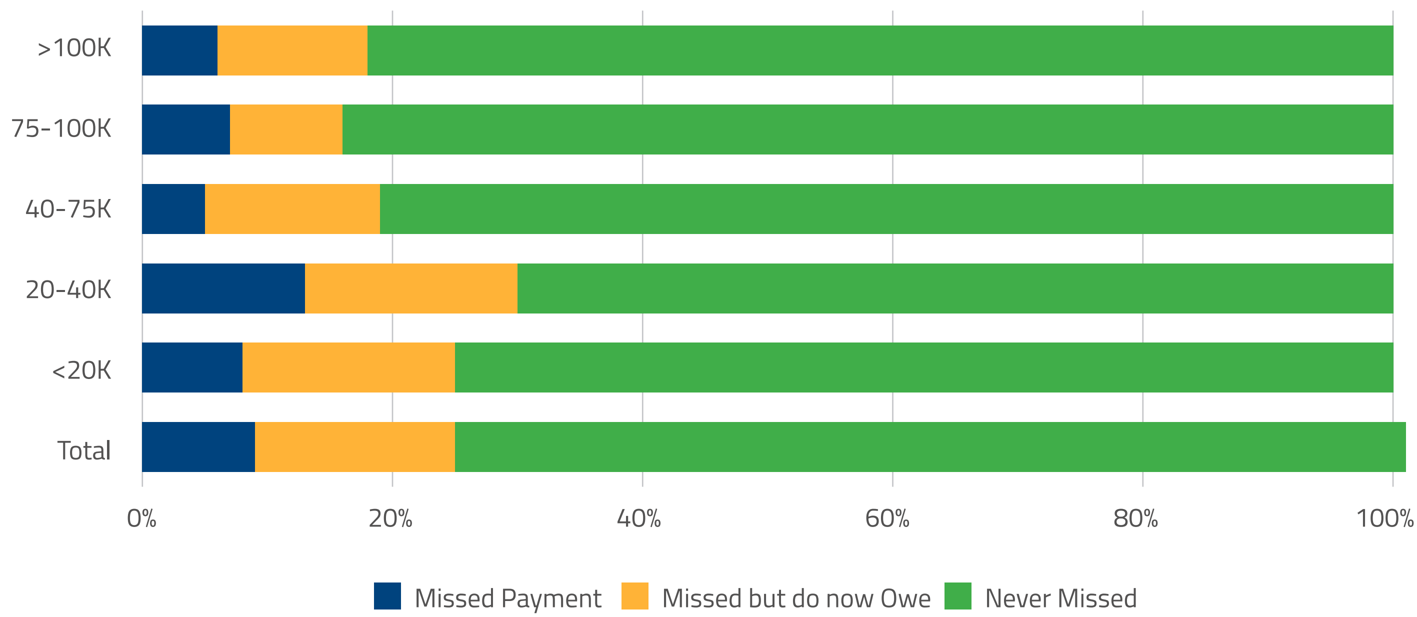



Source: Census Bureau,CPS; Analysis By Beacon Economics

# Housing Characteristics (During-Pandemic)

- Only 9% of households have missed a rental payment, according to a March 2021 survey conducted by the Federal Reserve Bank of Philadelphia (see Figure 10).

**Figure 10: Lowest Earners Not Missing Rent Payment More than Other Groups**




Source: Federal Reserve Bank of Philadelphia; Analysis By Beacon Economics

- That 9% translates to approximately 3.8 million households (roughly 9.6 million people), estimated to owe around $6.7 billion in rental debt.
- To put that figure in perspective, the Consolidated Appropriations Act of 2021 and the American Rescue Plan set aside $25 billion and $21.6 billion, respectively, for rental assistance.
- Meanwhile, the National Multifamily Housing Council estimates that 95% of rent payments were made in April 2021, an improvement from the 2020 low of 93.6%.
- This data implies late rent payments only increased by 4% since before the pandemic.
- Even the often-cited Census Bureau Pulse survey has showed a remarkable drop in reported late rent payments in California, dipping from 20.7% at the height of the pandemic in December 2020 to 11.8% in May 2021(see Table 1).

- Late rent payments in Los Angeles, San Francisco, and Riverside are still slightly elevated at around 15% but remain drastically lower than at the end of last year (see Table 1).

- The quick recovery in rent payments may be the result of the healthy wage and savings growth among renting households prior to the pandemic.

- Meanwhile, the Federal Reserve Bank of Philadelphia found that 76% of renters never missed a full rent payment.

### Table 1: Census Bureau Pulse Survey

| Metro Area | Behind rent as of: May-2021 | Change from: Dec-2020 |
|---|---|---|
| US | 13.33% | -4.67% |
| CA | 11.82% | -8.92% |
| Boston | 14.47% | +0.73% |
| Detroit | 15.17% | -2.00% |
| LA | 15.21% | -9.79% |
| Riverside | 16.78% | -6.05% |
| SF | 10.39% | -5.55% |

- Despite a high level of available government assistance, only 11% of renters have applied for rental assistance.

- Surveys find that many renters are unaware of government-funded rental assistance.

- A February 2021 survey conducted by Avail in partnership with the Urban Institute found that 68% of renters and 48% of landlords were not aware of rental assistance.

- Research suggests that lifting local mortgage moratoria is not associated with a spike in eviction filings above historical average.

- Data from the Eviction Lab indicated that even after eviction moratoriums were lifted, new eviction filings were, on average, only 46.1% of a typical year.

- Although the Eviction Lab does not track evictions across all of the United States, the multi-year panel data set showed that evictions dropped by 66% in 2020 compared to previous years.

- In a typical year, around 3.7 million evictions occur across the United States.