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Housing Morsel

Who is impacted the most by surging rents?

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Key talking points

- Median rent payments for Bank of America customers increased by 7.4% YoY in July, a slight pickup from the 7.2% YoY in June. Rent inflation is an important area of focus because 34% of US households are renters and, according to data from the Bureau of Labor Statistics, consumers spend 7% of their aggregate annual expenditure on rent.
- Who is impacted the most by surging rents? Among the most populous Metropolitan Statistical Areas, Phoenix and Atlanta saw the biggest %YoY increase in median rent payment, up 15% and 11% YoY, respectively in July, based on the Bank of America internal data. Middle income and younger generations are also seeing the largest increases in rent payments.
- With rent inflation being one of the stickiest components of inflation and expected to increase further, consumers will continue to face the downward pressure to their financial situations, although elevated savings and wages may provide an offset for now.

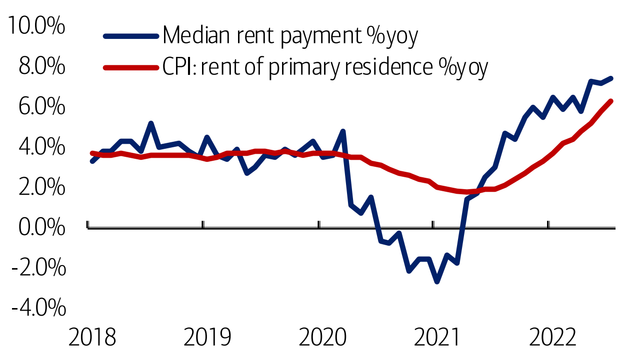
Back in the summer of 2021, inflationary pressures started to pick up, largely due to a few select sectors, such as car prices and travel prices that were the most impacted by the reopening. However, beginning in the fourth quarter of last year, inflation pressure became much more broad-based in the economy and even the "sticky components" (i.e. items that change prices relatively slowly) started to see meaningful inflation. Rent, one of the main "sticky components" of inflation, also surged. Notably, even as overall inflation pressure eased in July, rent of primary residence, according to data from the Consumer Price Index (CPI) report, increased further to 6.3% YoY, the fastest pace since 1986.

Rent inflation is an important area of focus because in the US, the homeownership rate, which is calculated by the Census Bureau as owner-occupied housing units divided by total occupied housing units, stood at 65.8% as of the second quarter of 2022. This means roughly 34% of US households are renters. For households with family income less than median income, home ownership was just 52.6% in 2Q, suggesting that 47% of lower income families are renters. Moreover, according to the Consumer Expenditure Survey from the Bureau of Labor Statistics, US consumers spent 7% of their annual expenditure on rents in 2020. Meanwhile those without college or above degrees (i.e. a proxy for the lower income consumers) spent nearly 10% of their total expenditure on rent.

As a result, a significant increase in rent prices can have meaningful impact on household financial situations, particularly for middle and lower income households.

Exhibit 1: Median rent payment in Bank of America internal data and rent inflation based on CPI (%YoY)

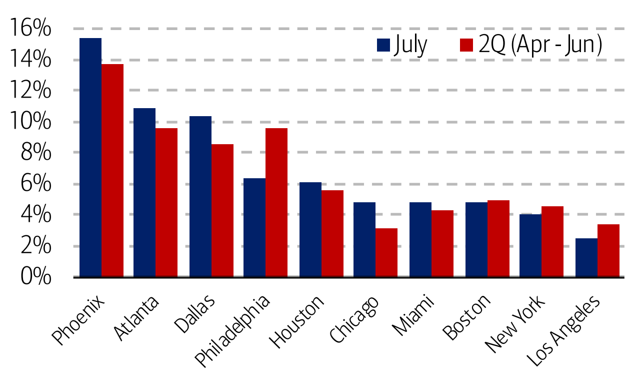
Median rent payments for Bank of America customers increased 7.4% YoY in July



Source: Bank of America internal data, Bureau of Labor Statistics

Exhibit 2: Median rent payment in Bank of America internal data for the top 10 most populous Metropolitan Statistical Areas (%YoY)

Phoenix saw the biggest %YoY increase in median rent payment in July



Source: Bank of America internal data

According to Bank of America internal data, median rent payments across debit/credit card, ACH (automated clearing house), and bill pay for Bank of America customers increased by 7.4% YoY in July, a slight pickup from the 7.2% YoY in June. As Exhibit 1 shows, Bank of America median rent payment %YoY has been directionally in line with rent inflation although the former tends to be more volatile for a few reasons. First, the sample for Bank of America rent payment data includes all customers who made a rent payment in a given month. The CPI meanwhile collects rent data from each sampled unit every six months. Therefore, the Bank of America median rent measure can be more volatile than the CPI measure. Second, the median rent payment based on Bank of America internal data can also be impacted by a change in composition of housing, such as upgrading to a luxury building or downgrading to a smaller apartment or taking on roommates. Rent inflation in CPI, on the other hand, is adjusted for quality of units.

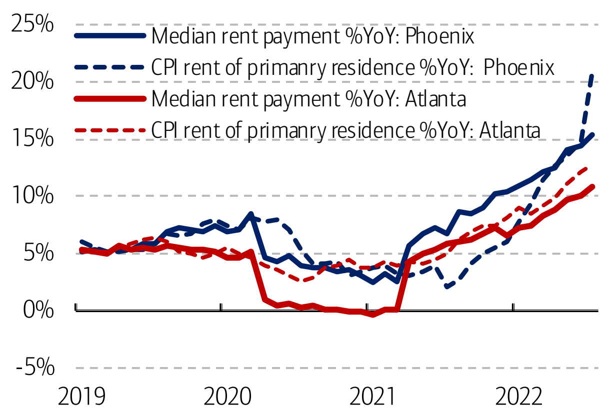
Like a Phoenix from the ashes

As we discussed in a recent Housing Morsel, the jump in domestic migration within the US during the pandemic had a meaningful impact on regional housing markets. Here we take a closer look at rent payments for major cities using Bank of America internal data. Of the top 10 most populous Metropolitan Statistical Areas (MSAs), Phoenix saw the biggest %YoY increase in median rent payment, up 15% YoY in July, followed by Atlanta (11%) and Dallas (10%). As Exhibit 3 shows, both Phoenix and Atlanta are among the MSAs that are seeing the highest rent inflation, with the rent component of CPI up 21% and 13% YoY, respectively in July, both much higher than the national average of 6.3%. Why are rent payments in southern cities increasing so fast? Limited supply is one reason. As Exhibit 4 shows, vacant rental units as a share of total housing units in the South dropped by nearly one percentage point, the steepest decline among all four regions since 2019.

On the flip side, median rent payment based on Bank of America internal data in Los Angeles and New York only increased by 3% and 4% YoY, respectively, in July. However, that median rent payment might not capture the real effective rent payment. For example, in New York City, during the pandemic some landlords offered several months free as concession instead of lowering the listed rent price. More recently, as the rental market started to heat up again, they are no longer offering those concessions. As a result, Bank of America median rent payment data could understate the effective increase in rent payments.

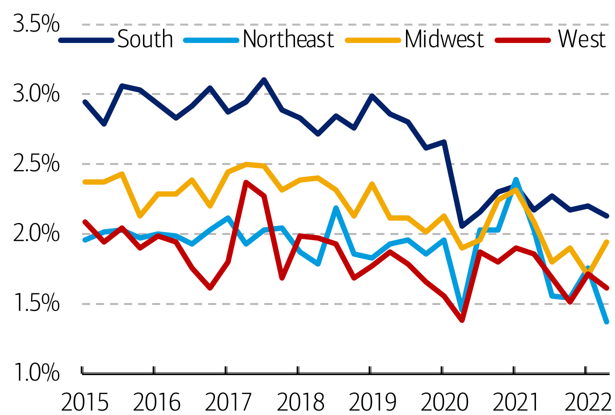
Interestingly, despite Miami also seeing surging rent prices with the rent component of CPI up 14% YoY in July, Bank of America customers' median rent payment increased by a smaller degree of 5% YoY. This difference could be related to the fact that the Bank of America internal data sample skews older and Gen X/Boomers are seeing lower rent inflation. Specifically, data by generation shows that younger consumers are getting squeezed the most by higher rent inflation with median rent payment up 16% YoY in July for Gen Z (those born after 1996), compared with just 3% for Baby Boomers (those born between 1946 and 1964), according to Bank of America internal data (Exhibit 5).

Exhibit 3: Median rent payment in Bank of America internal data and rent inflation based on CPI ((%YoY)
Both Phoenix and Atlanta are among the MSAs that are seeing the highest rent inflation



Source: Bank of America internal data, Bureau of Labor Statistics

Exhibit 4: Vacant rental units as a share of total housing units by four Census regions (quarterly, %)
The South saw the steepest drop in available rental units since 2019 though the Northeast has the lowest absolute value



Source: Census Bureau

Getting squeezed in the middle

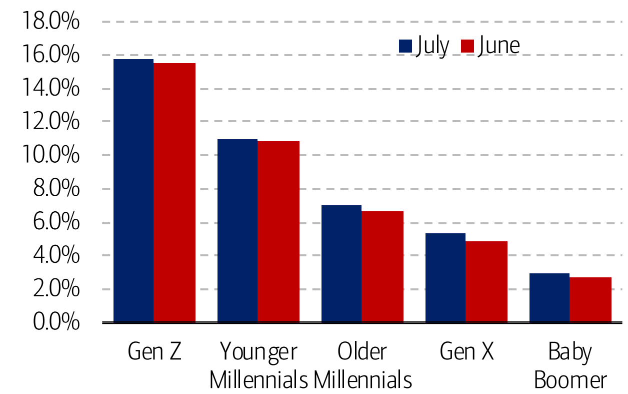
Based on Bank of America internal data, all income groups are seeing increases in rent payments with the %YoY in median rent the biggest for those with annual household income between $51k and $150k (Exhibit 6). For households making $51k to $100k annually, median rent payment jumped by 8.3% YoY in July. This compares to an also elevated 7.4% YoY for the bottom income group (<=$50k) and 5.9% YoY for the top income group (>$251k). A survey conducted by CivicScience also shows broad-based inflationary pressures on rent: 38% of surveyed renters with annual income higher than $100k quoted higher rent now compared with a year ago[1]. For those making $50k or less, 36% of renters said they are paying higher rent now.

The path ahead

The Dallas Fed recently published their forecasts for the path of rent inflation through yearend 2023. According to the authors, the rent component of CPI, which stood at 6.3% YoY in July 2022, will continue to increase in the coming months on a %YoY basis and will peak at 8.4% in May 2023 before gradually easing to a still elevated 6.7% in December 2023. This suggests the squeeze from higher rent will likely persistent for the foreseeable future. Despite elevated bank balances and strong wages at the moment (for more details please refer to Consumer Checkpoint), rent inflation could eventually bite into consumers' purchasing power elsewhere in a more meaningful way.

Exhibit 5: Median rent payment growth by generation in Bank of America internal data (%YoY)

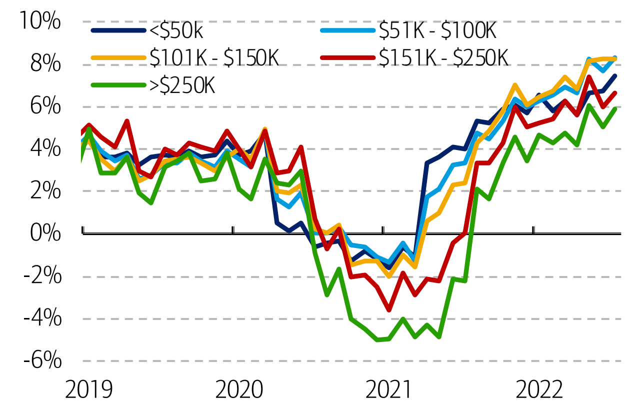
Younger consumers are getting squeezed the most by higher rent inflation



Source: Bank of America internal data

Exhibit 6: Median rent payment in Bank of America internal data by income group (monthly, %YoY)

All income groups are seeing significant increases in rent payments



Source: Bank of America internal data

The bottom line

Median rent payments for Bank of America customers increased by 7.4% YoY in July, a slight pickup from the 7.2% YoY in June. Rent inflation is an important area of focus because 34% of US households are renters and, according to data from the Bureau of Labor Statistics, consumers spend 7% of their aggregate annual expenditure on rent. Who is impacted the most by surging rents? Among the most populous MSAs, Phoenix and Atlanta saw the biggest %YoY increase in median rent payment, up 15% and 11% YoY, respectively in July, based on the Bank of America internal data. Middle income and younger generations are also seeing the largest increases in rent payments. With rent inflation being one of the stickiest components of inflation and expected to increase further, consumers will continue to face the downward pressure to their financial situations, although elevated savings and wages may provide an offset for now.

[1] Survey was conducted between July 29 and Aug 3 for 4350 US Adult Renters.

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Sources

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Methodology

Selected Bank of America transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available

Rent payment data include payments through debit/credit card, ACH (automated clearing house), and bill pay. Data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Generations in Exhibit 5 are defined as follows:

1) Gen Z, born after 1996

2) Younger Millennials: born between 1989-1995

3) Older Millennials: born between 1978-1988

4) Gen Xers: born between 1965-1977

5) Baby Boomer: 1946-1964.

Additional information about the methodology used to aggregate the data is available upon request.

Disclosures