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REAL ESTATE

A punishing U.S. housing market is squeezing renters

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A new housing development in Portland, Ore., on July 2. Higher mortgage rates and slowing residential construction are again giving landlords the upper hand. Ruth Fremson —The New York Times

By Sydney Ember
The New York Times

Karla Guity and her family pay just $1,800 a month for a three-bedroom house with a yard in Shoreline, Wash., just north of Seattle. The modest rent meant she did not have to work when her two daughters were young. She loves the neighborhood and the local schools.

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She also worries she will never be able to leave.

Although Guity, 33, and her husband want to own their own home in the area, buying would be too much of a financial stretch as long as mortgage rates remained high. The possibility that a monthly mortgage payment would exceed $6,000 was enough to convince her that her family would stay renters for much longer than she had once thought.

"We're depending on the graces of the landlord," she said.

Higher mortgage rates are compelling aspiring homeowners across the country to continue renting, tightening competition for rentals and putting upward pressure on rents for the first time in years. According to private-sector data from real estate sites including Zillow and Apartment List, rents have steadied in recent months after a prolonged softening driven by a glut in new apartment buildings that sprouted up after the pandemic. Government data also shows sturdier rent growth.

The upswing in rents could pose a challenge for the Federal Reserve in its fight against persistent price increases. Although the Fed held rates steady Wednesday, investors anticipate the central bank will raise borrowing costs once more before year-end, which would keep mortgage rates elevated.

"We're not in deceleration world anymore, probably not going to get a lot of disinflationary pressures from rents," said Jonathan Millar, senior U.S. economist at Barclays. "If anything, the risks are that we may be going the other direction."

The emerging signs of strength in the rental market follow a roller coaster of a period. During the depths of the pandemic, housing demand soared, fueled by a desire for more space, the ability to work from home and swelling savings. Without the supply to match, both home prices and rents skyrocketed in much of the country.

That demand for housing, coupled with rock-bottom interest rates, encouraged residential builders to flood growing cities, especially in the Sun Belt, with new rental properties. The mushrooming housing stock, along with generous incentives to attract renters, decreased landlords' pricing power and compelled them to slash rents rapidly in many big cities nationwide. Rents in cities including Austin, Texas, and Phoenix plummeted in the years after the pandemic.

Then rising interest rates starting in 2022 made it more expensive to finance large construction projects, which slowed the building frenzy.

Tariffs and supply chain troubles have pushed up material costs, and a labor shortage, exacerbated by President Donald Trump's immigration policy, has also weighed on construction.

Higher mortgage rates and lofty home prices are making homebuying increasingly inaccessible for a vast number of people.

Homeowners who secured ultralow rates during the depths of the pandemic are reluctant to sell, further slowing the housing market.

At the same time, the labor market, which has been characterized by relatively few layoffs and a low unemployment rate, is allowing many workers to continue spending.

The result is that fewer new rental units are becoming available just as more people are clamoring for them.

National rents rose 2.7% in September, according to the Zillow Observed Rent Index, compared with 2% a year earlier.

"Higher mortgage rates put pressure on the rental market not only from renters who are kind of stuck in there creating that demand," said Molly Boesel, senior principal economist at Cotality, a housing market data provider. "But you also have that making it more difficult for builders to finance new apartments, so you could see a drastic slowdown in supply on the multifamily side."

Most private rent indexes track new leases, which tend to adjust more quickly to market conditions. The rush of new apartment buildings in recent years, many of which reduced rents to lure tenants, caused rents in a number of cities to drop. Renters who renewed their leases continued to see their rents go up.

Lance Swank, CEO of the Sterling Group, a multifamily builder in Mishawaka, Ind., said his company had taken advantage of low interest rates to ramp up construction. When it became clear that a wave of new rental developments was about to inundate the market, his company decided to scale back.

"We became much more selective," he said.

Swank, whose company builds and owns rental communities in the Midwest and Southeast, said he had also noticed the effects of rising mortgage rates on certain tenants. While renters in luxury apartments seemed less influenced by higher rates, fewer renters were moving out of his company's lower-tier housing, he said.

"It's just a math equation for people," he said. "It's what they can afford."

It is not clear how much momentum the rental market is gaining. Yet the fact that it appears to be on slightly stronger footing at all has defied some economic projections.

Most notably, Stephen Miran, who served briefly as a Fed governor, said in a speech last year that he expected that the Labor Department's measure of rent inflation would fall below 1.5% in 2027, from its level at the time of about 3.5%. One reason he cited was stricter immigration policy, which he believed would reduce the demand pressure on rents.