TransUnion

MAY 2020

Rental Housing Financial Impact Study

Introduction

The global COVID-19 pandemic is creating major economic and financial distress for consumers. In the rental industry, this is having a significant effect on the financial health and stability of the renter population, in turn impacting property owners and operators. TransUnion has conducted a detailed analysis of renters across the US to better understand how this rapidly evolving situation is impacting credit performance, and if early indicators of financial hardship are signaling future concerns about the renter populations' ability to pay their bills.

The findings in this report, resulting from TransUnion's intensive renter analysis, will help you make informed decisions at a time when information on renter financial health and the impacts on the rental industry are still emerging. We are providing this report and additional resources to the industry so we can come together to be of support during this difficult time.*

Is there a growing fiscal responsibility amongst renters more so than before?

See page six for answers

Key takeaways from the TransUnion analysis

- **32% of consumers whose income has been impacted by COVID-19 expressed concerns about their ability to pay rent (results of a TransUnion survey as of May 4, 2020). Still, rent payments are being made at modestly lower levels versus prior years – a 3.1% drop from 97.7% to 94.6% year-over-year from April 2019 to April 2020, according to the National Multifamily Housing Council (NMHC) rental payment tracker.**

- **Renter debt levels remain relatively flat and in some instances are declining.**
  - The percentage of renters actively opening new lines of credit decreased by 1.1% points month-over-month and has decreased 9% since December 31, 2019.
  - Credit card utilization rates fell 2.34% points month-over-month and decreased 13.7% year to date. This trend exists for all regions and property types.

- **The percentage of renters with at least one tradeline (excluding mortgage and student loans) in deferment, forbearance or other form of payment suspension increased from 0.3% to 3.8% month-over-month. While in the near term this may be viewed as positive, since renters are reducing their immediate debt obligations, it could mean increased financial hardship for renters in the future, with a greater propensity of bad debt.**

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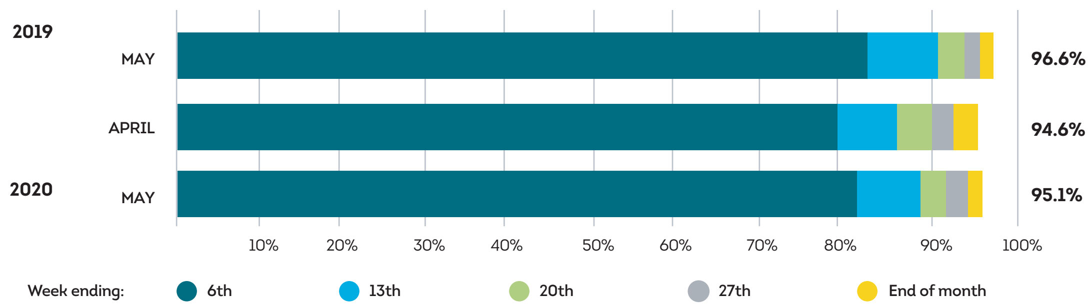
Impact on rental payments

Despite more than 30 million initial jobless claims, 22 million continued claims (insured unemployment) and an official unemployment rate of 14.7% by the end of April (Source: US Department of Labor), according to the National Multifamily Housing Council (www.nmhc.org/rentpaymenttracker), the percentage of rental payments made to professional property managers has only slightly decreased. As of May 1, 94.6% of apartment households made a full or partial rent payment for the month of April. This was a 3.5% decrease from April of the prior year, which ended at 97.7%.

Figure 1. Rent payment tracker: Full month results



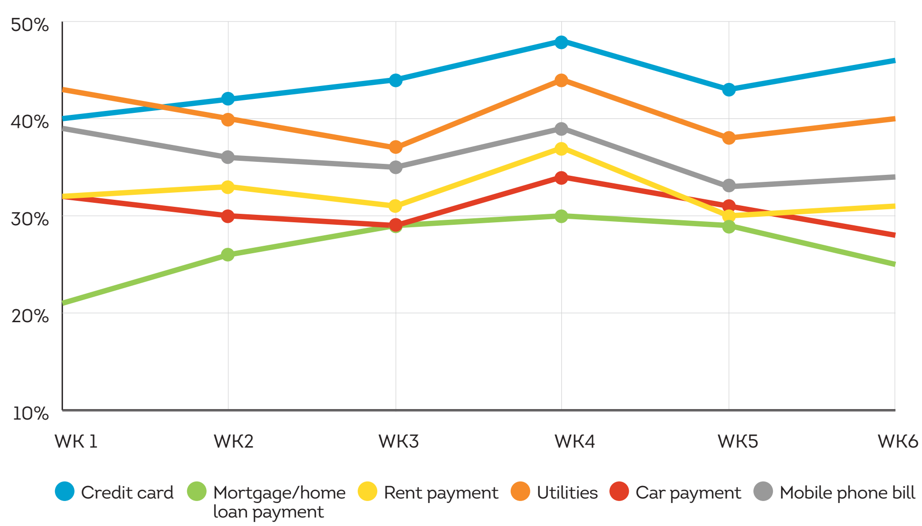
Source: https://www.nmhc.org/rentpaymenttracker

32%

OF CONSUMERS STATED THEY WERE CONCERNED ABOUT THEIR ABILITY TO PAY RENT

Contrast the overall rental payment performance with a recent TransUnion survey of all consumers (both renters and non-renters), in which 56% of consumers indicated that their household income has been impacted by COVID-19, 32% of whom stated they were concerned about their ability to pay rent.

Figure 2. Bills and loans consumers are concerned about their ability to pay over time



Source: https://content.transunion.com/v/financial-hardship-report-us-week-seven

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38%

of all consumers plan to use their government stimulus check to help pay immediate bills

As this data suggests, it seems as though payment deferments, unemployment benefits and government aid are helping to maintain renters' current financial health; but it is still to be determined whether this is merely postponing payment risk increases for renters. The remainder of our study will focus precisely on renter credit activity to explore if payment risks are increasing.

Figure 3. What is your plan to help pay your current bills or loans?

	Overall	Change	Gen Z	Millennnials	Gen X	Baby Boomers
Use my stimulus check from the federal relief package	38%	▼4%	33%	35%	38%	46%
Use money from savings	34%	▼5%	28%	39%	33%	31%
Pay a partial amount that I can afford - but not the whole balance	31%	▼1%	18%	34%	32%	35%
Borrow money from a friend or family member	22%	▲1%	24%	27%	19%	13%
Use credit cards/balance transfers	17%	▼1%	16%	19%	16%	16%
I do not know how I am going to pay my bills/loans	14%	▲4%	11%	11%	19%	14%
Use the payment holiday or other accommodations provided by bill and loan providers	12%	0%	15%	14%	9%	8%
Take out personal loans	12%	▲1%	14%	17%	9%	4%
Refinance or renegotiate current payments/rates with my financial institution	11%	▼3%	7%	14%	10%	10%
File my tax return quickly as I am due a tax refund	10%	▼2%	14%	11%	7%	6%
Open new credit cards	7%	▼3%	8%	10%	6%	4%
Other	2%	0%	1%	1%	1%	6%

Source: https://content.transunion.com/v/financial-hardship-report-us-week-eight

39%

OF MILLENIALS PLAN TO USE MONEY FROM SAVINGS TO HELP PAY CURRENT BILLS OR LOANS

35%

OF BABY BOOMERS WILL PAY A PARTIAL AMOUNT, BUT NOT THE WHOLE BALANCE TO HELP PAY CURRENT BILLS OR LOANS

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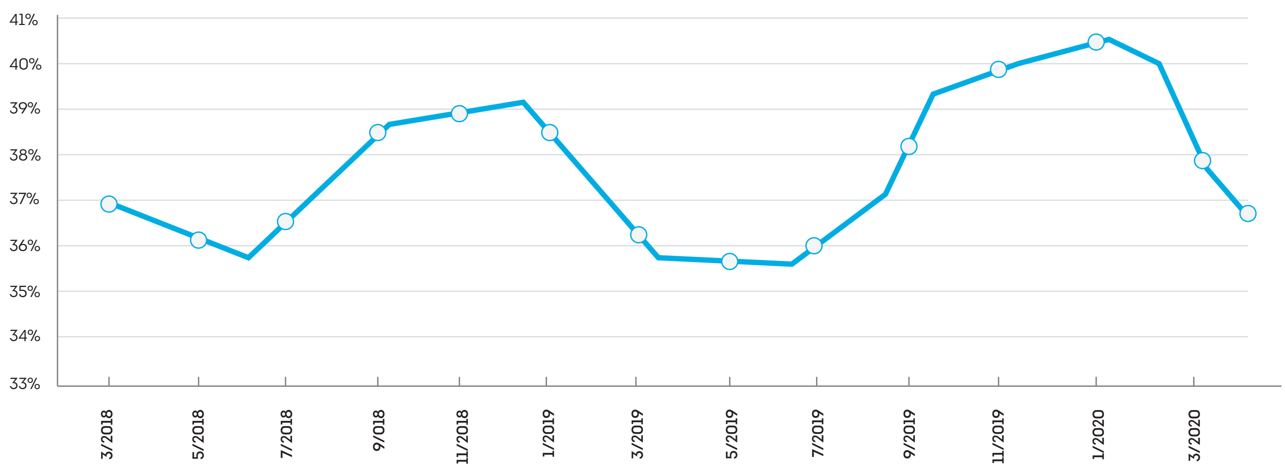
New credit borrowing

Are renters taking on new forms of debt as a response to COVID-19?

Our analysis shows no indication of increased credit borrowing due to the pandemic. In fact, the percentage of renters who opened a new tradeline in the past six months decreased by 1.1% points month-over-month (37.8% to 36.7%), and only slightly increased when compared to April 2019 (0.9% year-over-year).

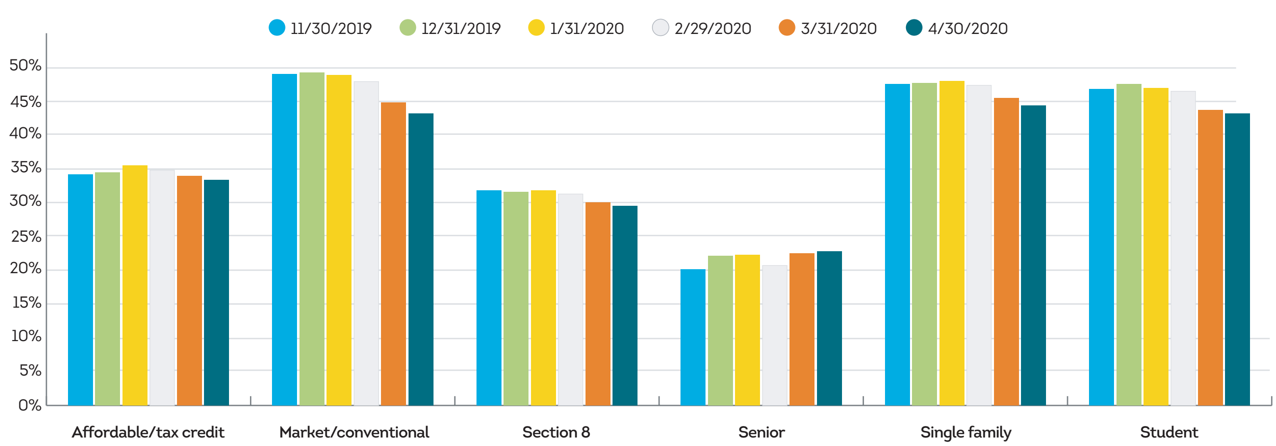
It is common to see seasonality in the rate of new tradeline openings throughout the calendar year. The current decrease in activity is in line with expected trends through the months of January to May, and can be witnessed across all regions and property types. The only exception to this is the senior market, which has increased 3% since December 31, 2019.

Figure 4. Percentage of renters with trade opened in the past six months



Source: Internal TransUnion analysis for this study

Figure 5. Percentage of renters with trade opened in the past six months



Source: Internal TransUnion analysis for this study

Debt spending and utilization

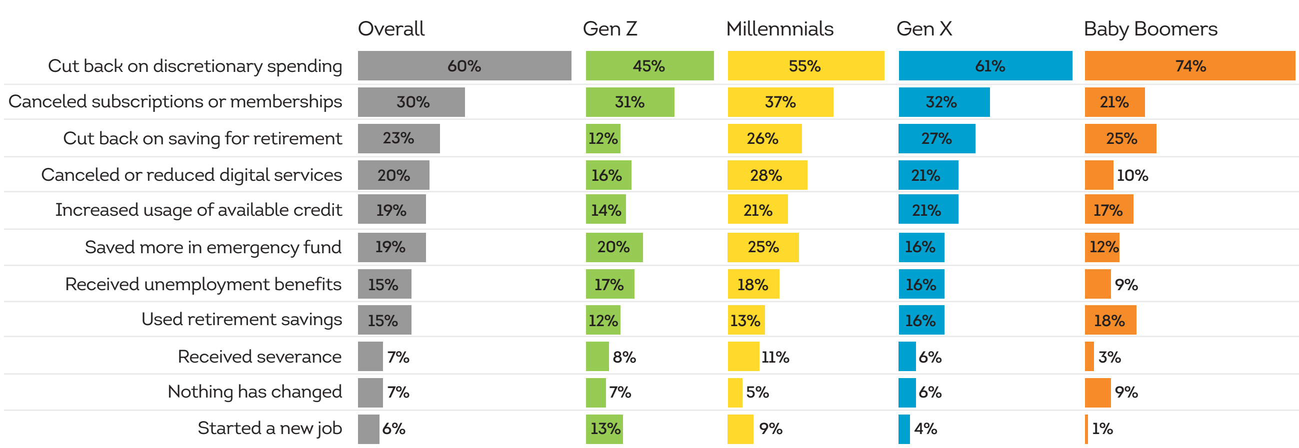
Consumer expenditures saw significant decreases in March and April of 2020 (-6.9% and -13.6%, respectively), reversing a steady trend of increased spending (Source: US Bureau of Economic Analysis, www.bea.gov). The sudden drop in spending led many to believe that renters were struggling financially and would begin using some form of debt to finance their expenses.

	2019	2020			
	DEC.	JAN.	FEB.	MAR.	APR.
	Percent change from preceding month				
Personal income:					
Current dollars	0.2	0.6	0.5	-2.2	10.5
Disposable personal income:					
Current dollars	0.2	0.6	0.5	-2.1	12.9
Chained (2012) dollars	-0.1	0.5	0.4	-1.8	13.4
Personal consumption expenditures (PCE):					
Current dollars	0.4	0.4	0.2	-6.9	-13.6
Chained (2012) dollars	-0.1	0.3	0.1	-6.7	-13.2

Are renters even more fiscally responsible now, or are they relying on existing debt to help pay for rent?

Our analysis shows that renters are exhibiting conservative behavior in their debt spending. Portfolio-wide, existing renter debt levels have remained relatively flat and renters are utilizing less of their total available credit on credit cards. This could be an indicator that renters are avoiding paying rent on their credit cards and are actively engaged in controlling the balances across all of their credit obligations.

Figure 6. What has changed in your household budget during the covid-19 pandemic?



Source: https://content.transunion.com/v/financial-hardship-report-us-week-eight

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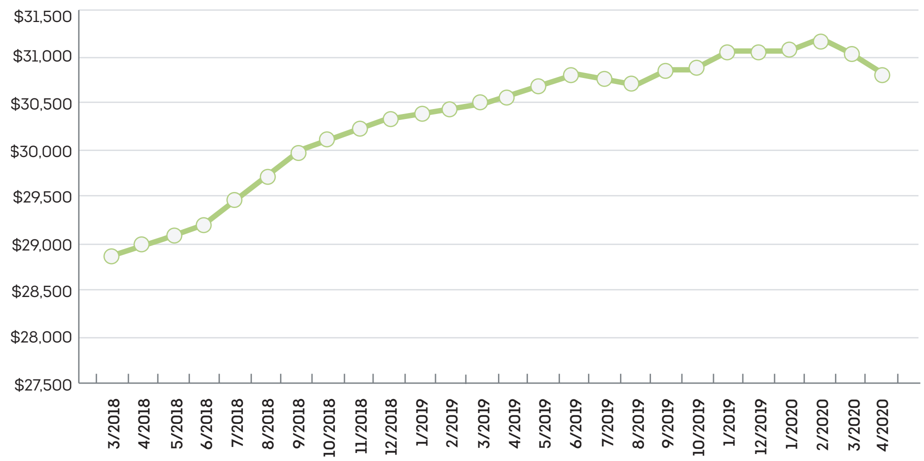
Debt balances

The total balance owed across all debt obligations (excluding mortgage and home equity) has remained largely unchanged since the beginning of 2020. At the beginning of the year, the average renter had a balance of $31,099, which has decreased by 0.8% as of April 30 to $30,835.

Figure 7. Total balance owed on open trades



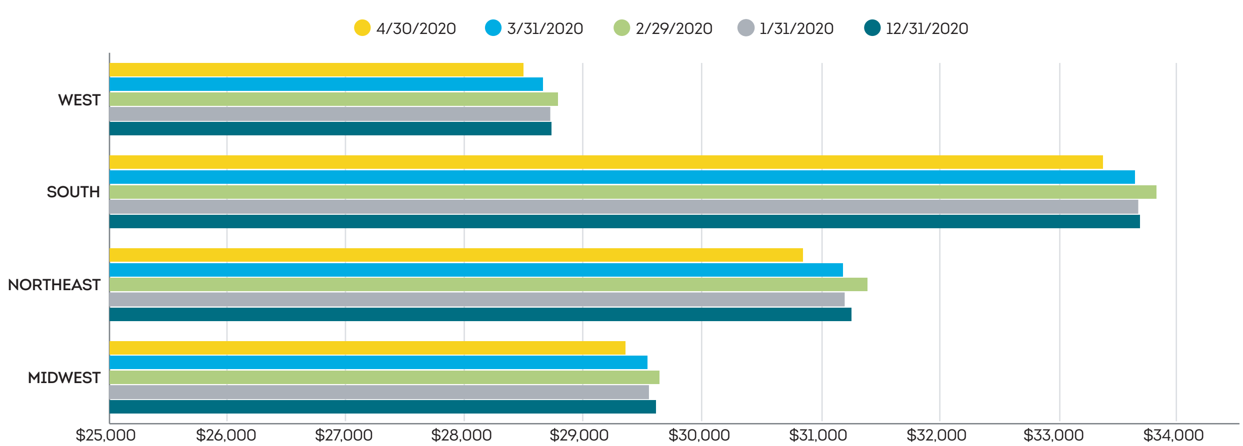
Source: Internal TransUnion analysis for this study

Figure 8. Month-over-month % change in total balance owed on open trades

Source: Internal TransUnion analysis for this study

Geographically, we have seen a consistent month-over-month downward trend in balances beginning in March and accelerating in the month of April 2020.

Figure 9. Total balances owed on open trades



Source: https://content.transunion.com/v/financial-hardship-report-us-week-eight

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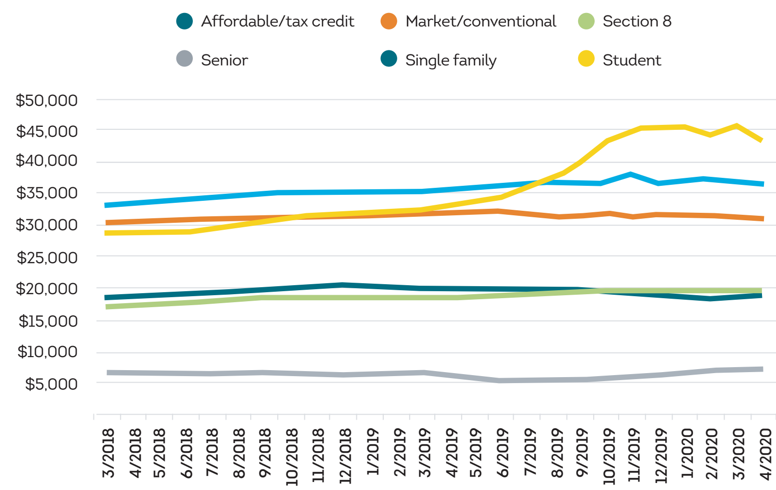
Demographically, there has been a noteworthy 15.1% increase in debt balances for residents at senior properties since the beginning of the year. Although the increase is large in terms of percentage, it is only an average increase of $961, still keeping overall debt balances relatively low compared to other demographics (an average of $7,327 per person compared to an average across the market of $30,835). It is too early to make determinations about whether this change in credit behavior is positive or negative.

Credit card utilization

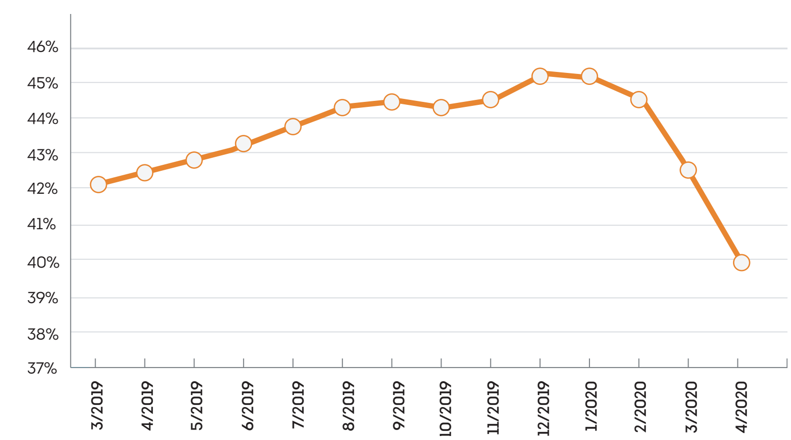
Credit card utilization rates have also been decreasing month-over-month across the entire portfolio. As of December 31, 2019, the average renter was utilizing 45.3% of the available credit on their credit cards. As of April 30, utilization rates fell to 39.8%, which represents a 13.7% decrease year to date. We see this trend in utilization rates across all property types and all regions.

Figure 10. Total balances by property type



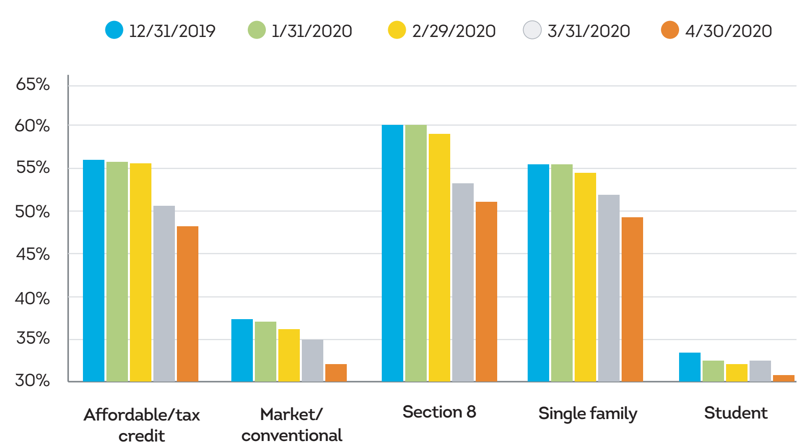
Source: Internal TransUnion analysis for this study

Figure 11. Utilization of open credit cards



Source: Internal TransUnion analysis for this study

Figure 12. Utilization of open credit cards by property type



Source: https://content.transunion.com/v/financial-hardship-report-us-week-eight

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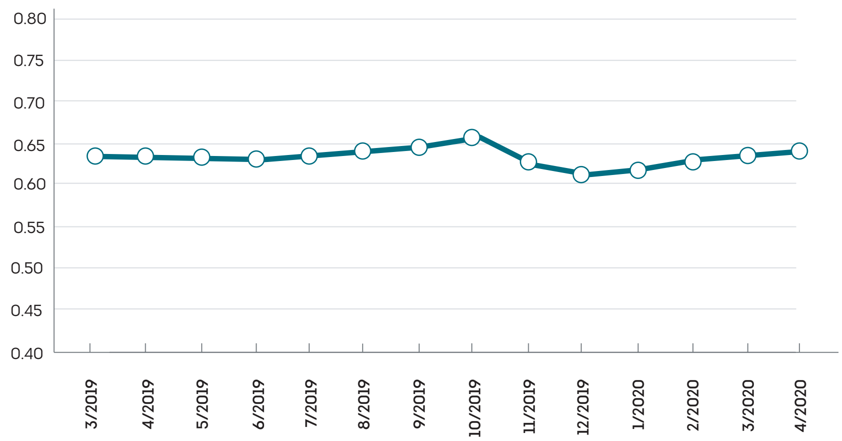
Early indicators of financial hardship

Immediate risk: Delinquencies

Even though renters are not increasing their debt or taking on new lines of credit, it is worth analyzing delinquencies to see if renters are missing payments for their existing obligations. This type of behavior would tend to indicate increased risks of missed lease payments in the near future.

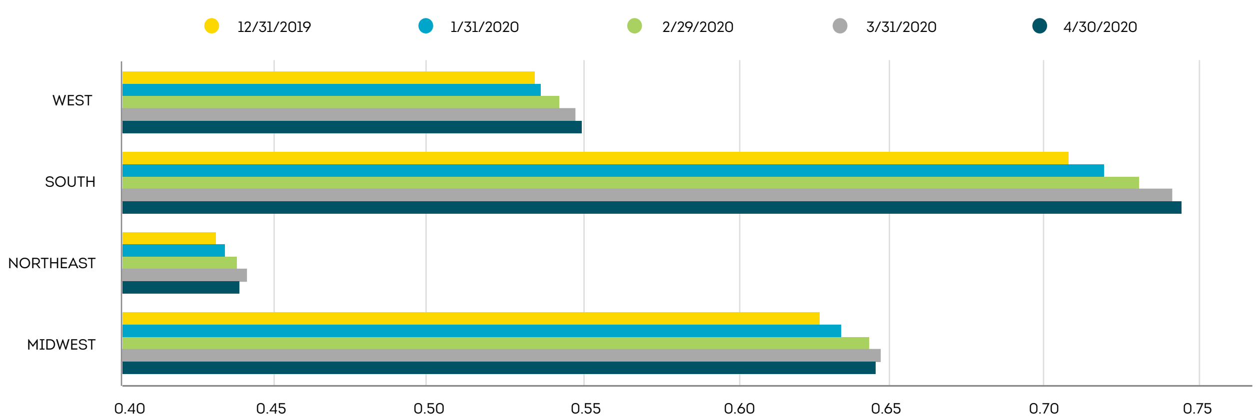
Figure 13. Average number of charged-off trades



Source: Internal TransUnion analysis for this study

We have found a small increase in charged-off trades – 0.3% from the previous month and 0.8% year-over-year. Year to date the percentage of charged-off trades has been steadily increasing (4.0%), and this is true across the all property types, with the single-family and student sectors increasing at the largest rate. Across the US, the greatest year-to-date increase in charge-offs has been seen in the Southern region.

Figure 14. Number of charged-off trades



Source: Internal TransUnion analysis for this study

4%

YEAR TO DATE THE PERCENTAGE OF CHARGED-OFF TRADES HAS BEEN STEADILY INCREASING ACROSS ALL PROPERTY TYPES

PROPERTY TYPE	% CHANGE IN CHARGED-OFF TRADES FROM 12/19–4/20
Affordable/tax credit	**3.3%**
Market/conventional	**2.6%**
Section 8	**3.5%**
Single family	**7.8%**
Student	**17.5%**

Source: Internal TransUnion analysis for this study

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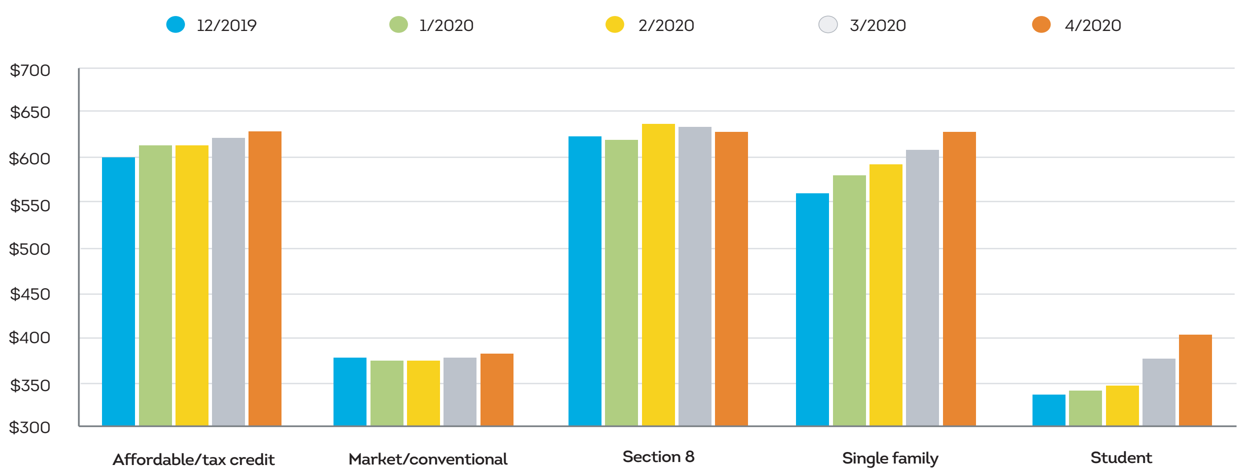
Past-due amount

If charge-offs are indicative of an increase in the number of tradeline delinquencies, past-due amounts are typically indicative of consumers allowing greater amounts of credit obligations to go unpaid for each account. Simply put, increases in past-due amounts tend to indicate that renters are allowing more of their debt to go unpaid, and can be an early indicator of greater financial strain.

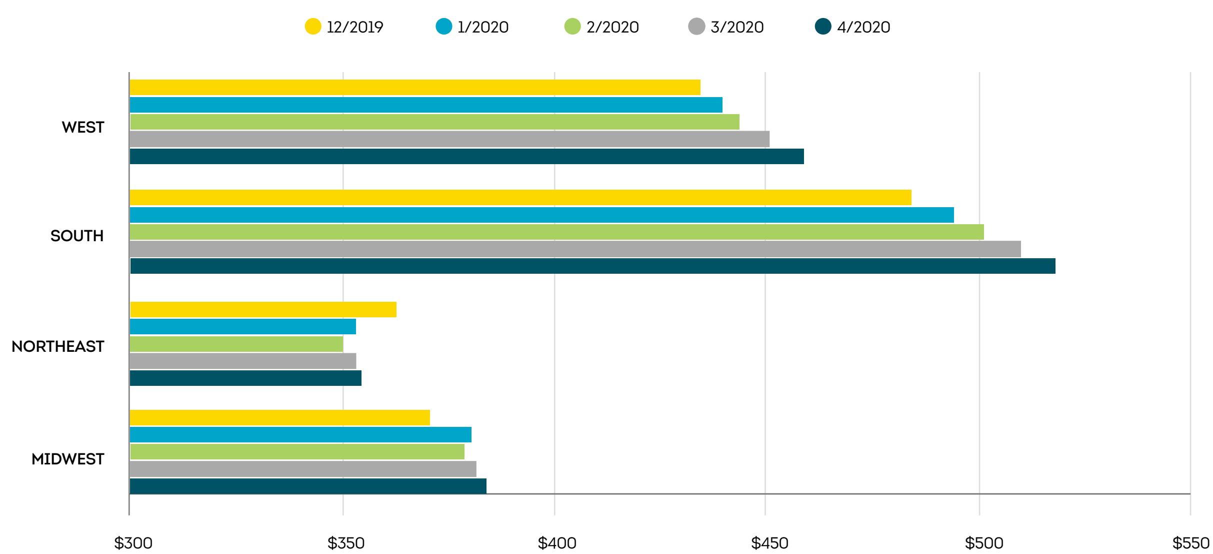
The market/conventional and Section 8 property types are exhibiting neutral activity, with basically the same average past-due amounts for each month in 2020. Other property types – affordable, single family and student – are all showing an increasing monthly trend in past-due amounts. Geographically, the Northeast has remained relatively stable and is actually showing a decrease in past-due amount since the beginning of the year. Other geographical regions are all exhibiting an increase in past-due amount, with the West and South showing the greatest increases.

Figure 15. Total past due amount for all credit cards by home type



Source: Internal TransUnion analysis for this study

Figure 16. Total past due amount for all credit cards



Source: Internal TransUnion analysis for this study

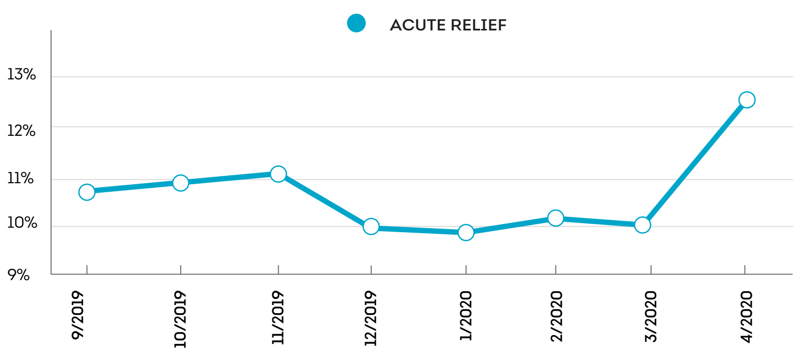
Future risk

Acute relief

Throughout the analysis in this study, we have focused on attributes and credit behaviors that are indicative of immediate changes in payment risk. TransUnion has developed a specific set of metrics that provide additional perspective, focusing on potential long-term changes in risk. We define these metrics as "Acute Relief," and include any tradeline in a status of deferment or forbearance, or noted as impacted by natural disaster. At present, these tradeline statuses are useful tools that should enable consumers to maintain good financial standing while allowing payments to be suspended until they attain more financial stability. However, these valuable tools for consumers can be indicative of future financial hardship, especially if their financial conditions do not become favorable over time.

Traditionally, 10% of all tradelines fall under the category of Acute Relief. In April of this year, this number increased 24.5%, representing 12.5% of all tradelines. We have seen this increase across all property types and geographical locations.

Figure 17. Percent of trades in acute relief excluding mortgage

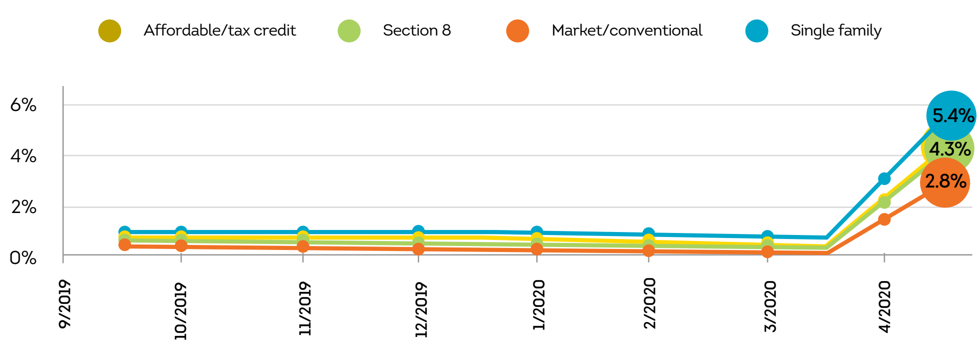


Source: Internal TransUnion analysis for this study

PROPERTY TYPE	% CHANGE IN ACUTE RELIEF FROM 12/19–4/20
Affordable/tax credit	**38.7%**
Market/ conventional	**27.0%**
Section 8	**29.2%**
Single family	**27.2%**
Total	**26.1%**

Source: Internal TransUnion analysis for this study

Figure 18. Percent of renters with open trades in Acute Relief status (excluding mortgage and student loans)



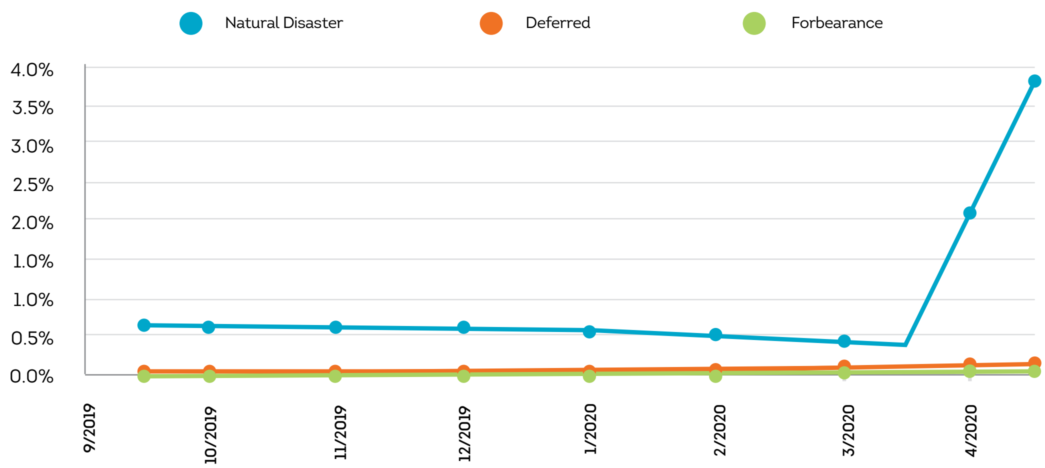
Source: Internal TransUnion analysis for this study

Perhaps more importantly, the percentage of renters with a tradeline in Acute Relief, excluding student loans, jumped dramatically. Traditionally, the percentage of renters in this category hovers around 0.4%. From March to April the number of renters with at least one non-student loan trade in Acute Relief jumped 1,112%, representing 3.8% of renters.

NON-STUDENT LOANS IN ACUTE RELIEF GREW
1,106%
IN APRIL

Additionally, we noticed a significant shift in the makeup of trades in the Acute Relief category. Prior to April, almost all trades (99.6%) in this category were student loans, most likely due to the programs already in place to make deferments in this category easily available. However, in April, other types of loans comprised 4% of all trades in this category, and grew at a rapid pace of 1,106.8%. If other types of debt continue to see faster increases, it could be a sign of additional financial hardship among renters.

Figure 19. Percent of non-student loan acute relief tradelines



Source: Internal TransUnion analysis for this study

Methodology

The sample of renters included in this analysis were applicants screened through the TransUnion ResidentScreening platform who received an approved status. The analysis comprised 2,431,220 distinct individuals and 9,433 properties from January 1, 2018, to April 30, 2020. Due to data archive storage procedures, year-over-year metrics for the month of April compare March 31, 2019, to April 30, 2020.

How to get more information

If you would like more information about this report, please contact your TransUnion representative

If you, like many others, are concerned about your ability to pay your bills and loans in the coming weeks, you may access our newly created COVID-19 support center at transunion.com/covid-19, which can help you learn how to manage your credit during this time.

If you are a member of the media and would like to learn more, please contact:

Dave Blumberg

312-972-6646

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