COVID-19 and the Impact of Recession on the Economy and Housing in Nevada

Introduction

This policy brief examines the impact of recessions on the economy, broadly speaking, and on housing more specifically. By looking at metrics for Nevada following 9/11 and the 2007-2009 recession, or the Great Recession, we hope to provide insight into the potential effects of the COVID-19 pandemic in the state.

We emphasize two key points in advance of our evaluation of economic and housing market trends in Nevada. First, recession effects often are not as pronounced in the short term as they may be in the long term — this is what is known as a lagged effect. For example, the Great Recession hit in December 2007, but median household income reached its low in 2012. Second, gains from recovery are not distributed evenly. Some people benefited significantly, but others did not see an improvement in their financial circumstances or were left worse-off.

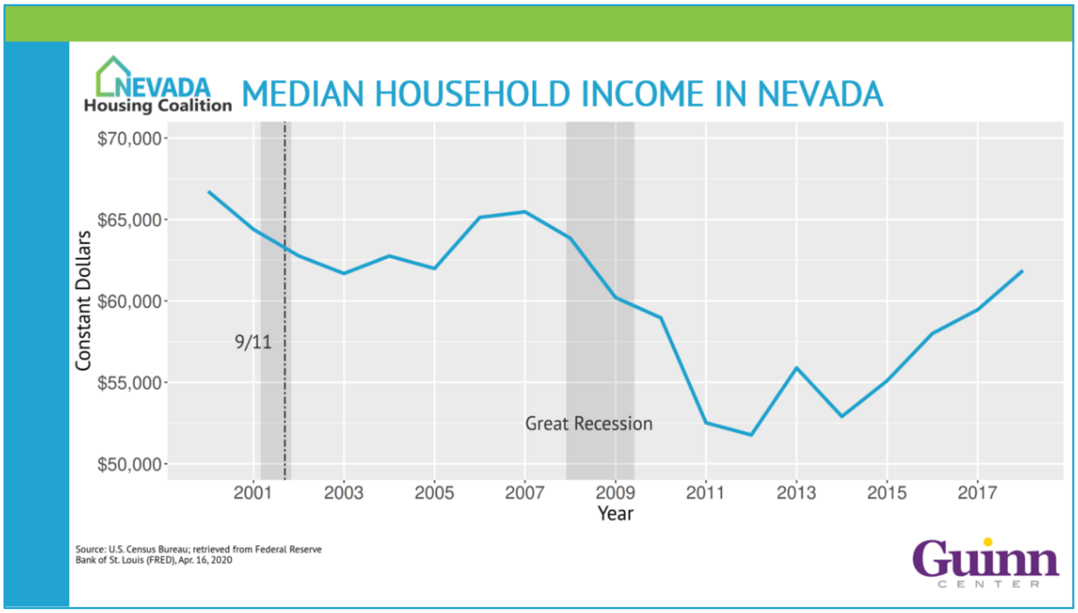
It should also be noted that the events included in the comparison – 9/11 and the 2007-2009 recession – differed substantially from each other and from the present circumstances. The country was already in a (small) recession when 9/11 occurred, and the military escalation following 9/11 may have actually ended the recession sooner than it would have ended otherwise. The 2007-2009 recession lasted for several years before recovery, and the recovery from the recession took place over the course of many years. Additionally, the 2007-2009 recession was specifically related to housing insofar as the bursting of the housing bubble in 2005-2006 was a significant factor leading to the recession itself. The COVID-19 pandemic had a much more rapid onset than the 2007-2009 recession, and the background economic conditions prior to the pandemic bore little resemblance to those prior to 9/11.

While the specific circumstances around these events are quite different from the present circumstances, meaning the data should not be understood as predictive, they may still help us to anticipate potential challenges related to housing stability in the coming months and years.

Economic Indicators

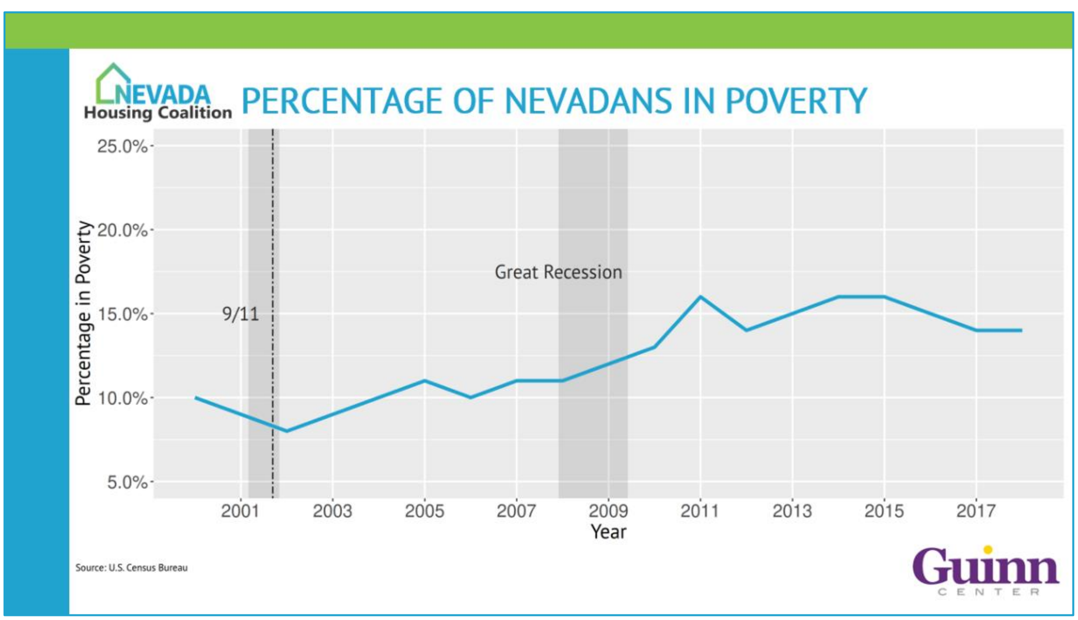
In 2007, Nevada's real median household income was $65,468, and in 2018, it was $61,864. (Figure 1) Half of all Nevada households are earning at least 5.5 percent (or $3,604) less in 2018 than what they earned in 2007 in real dollars. Median household income thus exemplifies the lagged effects of the 2007-2009 recession. Median household incomes did not reach their low point until 2012. As of 2018, almost a decade after the end of the Great Recession, median household income in Nevada still has not returned to the pre-recession level after adjusting for inflation.

Figure 1. Median Household Income in Nevada



In 2018, the poverty rate in Nevada was 13.7 percent (Figure 2). While the poverty rate has declined since its peak in 2011 at 15.9 percent, it still remains higher than it was pre-recession in 2007 (10.8 percent). The lagged effect is in evidence, as the highest rate of poverty was several years after the recession hit (2011). That not everyone benefited equally from recovery is demonstrated by the fact that the 2018 poverty rate exceeded the 2007 poverty rate.

Figure 2. Percentage of Nevadans in Poverty



Housing Indicators

The House Price Index (HPI) is a broad measure of the movement of single-family house prices (Figure 3). As with the previous indicators, recovery has been a lengthy process. Single-family house prices only began to increase in 2013 and returned to pre-recession levels in 2019. Based on the all-transactions HPI, it is possible that Nevada is in a situation similar to that just before the Great Recession (following several years of sharply increasing house prices). But, as Figure 4 shows, the home vacancy rate now is a lot lower than it was in the build-up to the recession.

Figure 3. All-Transactions House Price Index (HPI) for Nevada

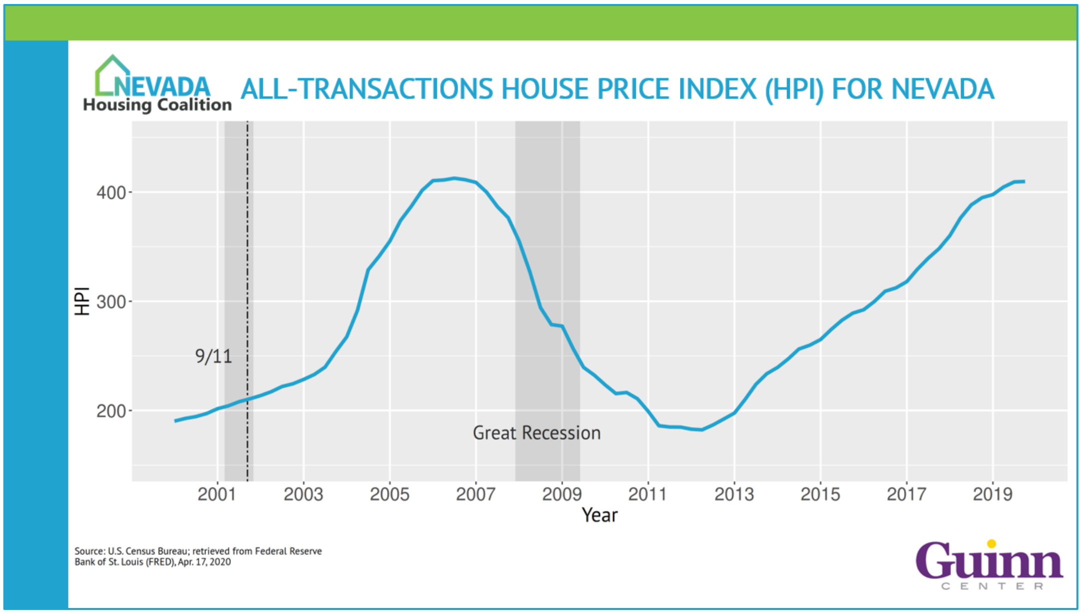
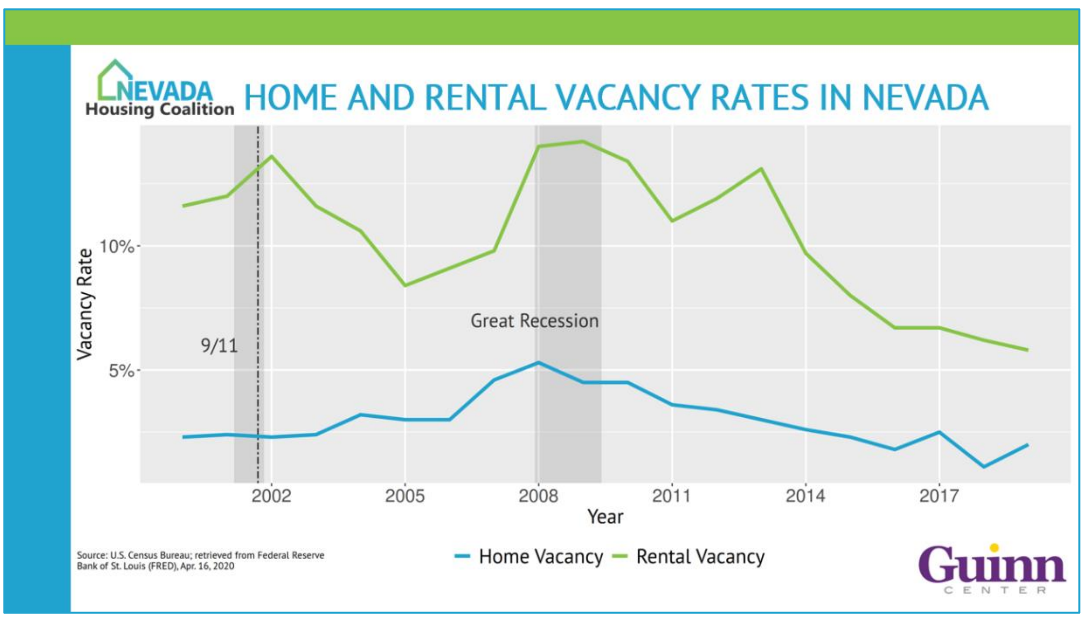


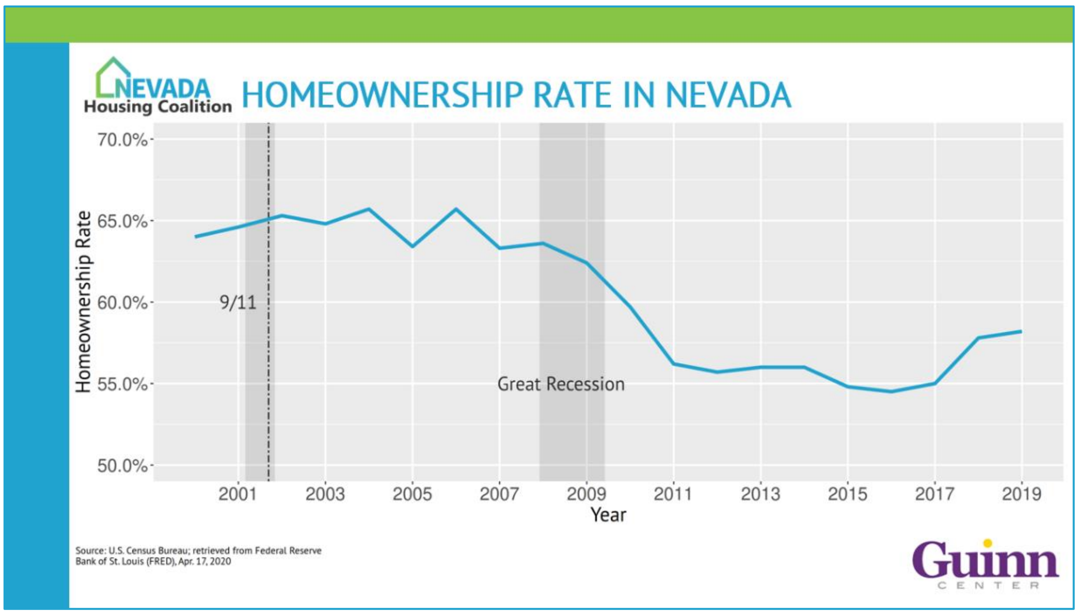
Figure 4. Home and Rental Vacancy Rates in Nevada



Home vacancy rates climbed quite a bit while rental vacancy rates dropped in the years following 9/11 (Figure 4). However, both of these metrics peaked during the recession and dropped in the years following. Both are currently very low.

As Figure 5 shows, 9/11 did not seem to have much of an impact on the homeownership rate. On the other hand, the rate of homeownership increased (though very marginally) in the first year after recession (2008; 63.6 percent) then began to decline, reaching its lowest point in 2016. The 2019 homeownership rate of 58.2 percent shows that homeownership has not fully recovered. Our two main effects are pronounced in this graph: the homeownership rate does not really show much evidence of recovery until 2018, or about a decade after the Great Recession (and then, not in full), and homeownership, which can be a marker for wealth, has not been possible for many Nevadans.

Figure 5. Homeownership Rate in Nevada



Gross rent is the contract rent plus the estimated average monthly cost of utilities (Figure 6). Adjusted for inflation, it peaked in 2007, and dropped in each subsequent year through 2016, before increasing in2017 and 2018. Median gross rent thus behaves in expected ways: as both supply and demand shifted in the aftermath of the recession, the price decreased. From the perspective of property managers, rental income has not recovered to pre-recession levels. While this should have been to the benefit of renters, as we will see a bit later, that is not necessarily the case.

Figure 6. Median Gross Rent in Nevada

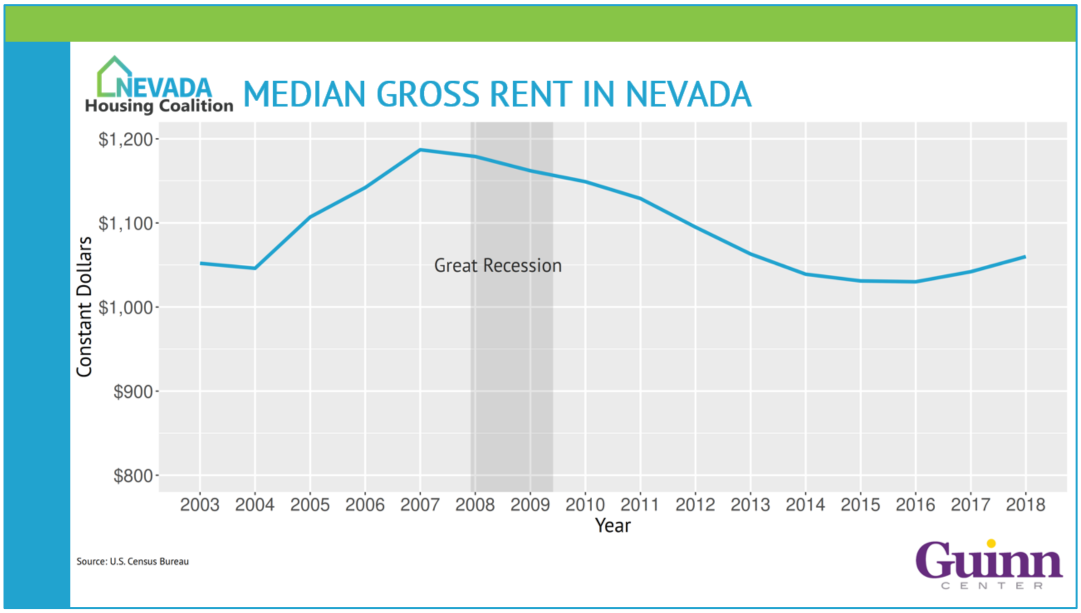
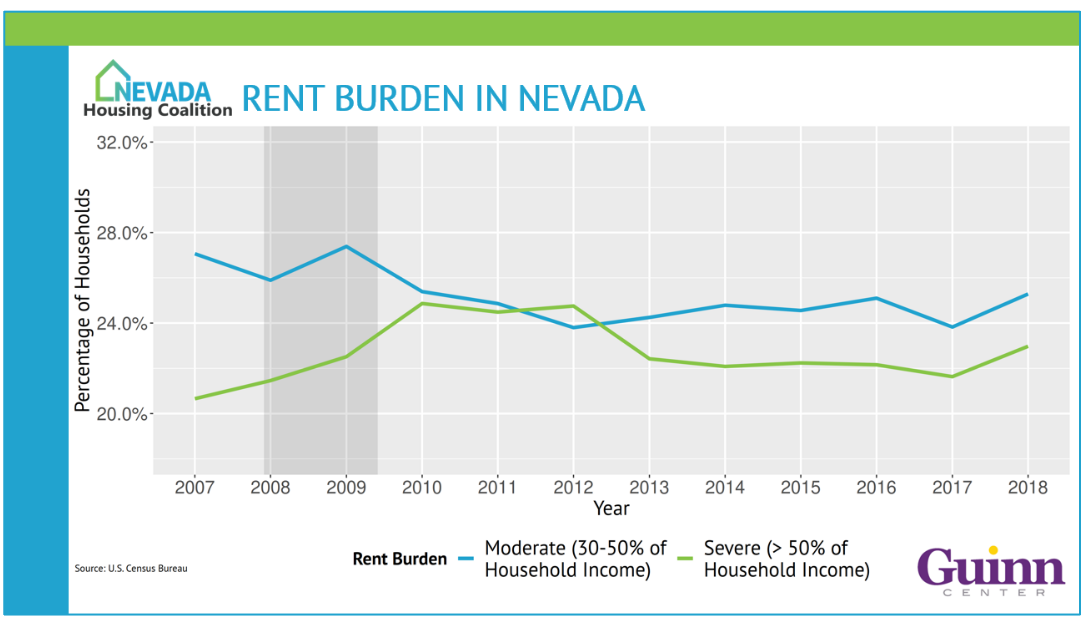


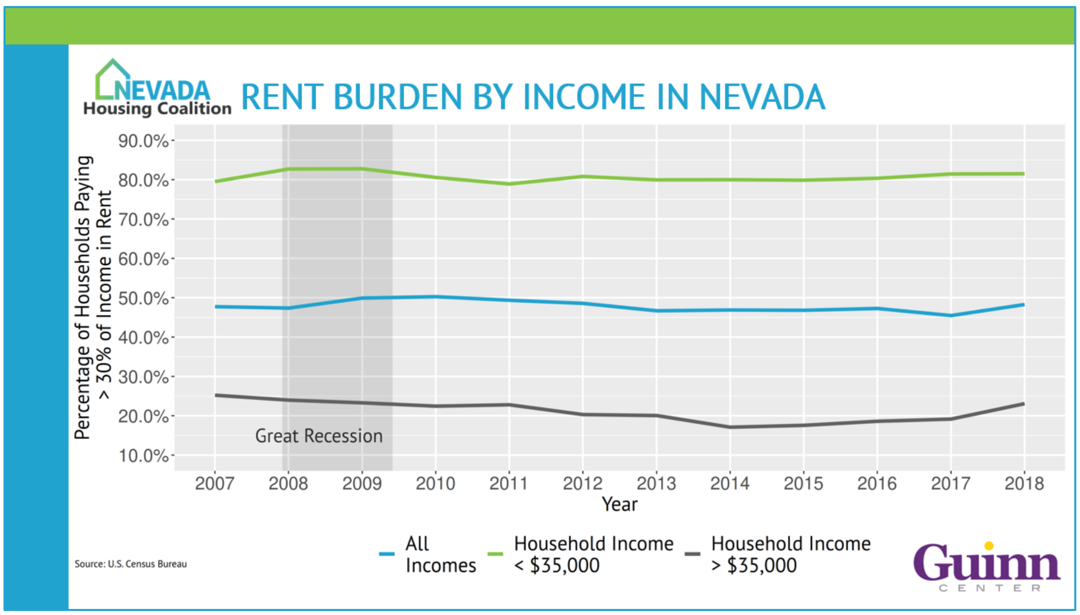
Figure 6 showed that drops in median gross rent should have been to the benefit of renters. But as Figure 7 indicates, the Great Recession appears to have pushed some people from the "moderately" to the "severely" burdened category until 2012, which is some years out from the initial recessionary hit. There is also a fairly significant increase in both moderate and severe housing burden beginning in 2017, which might raise some concerns regarding current circumstances.

Figure 7. Rent Burden in Nevada



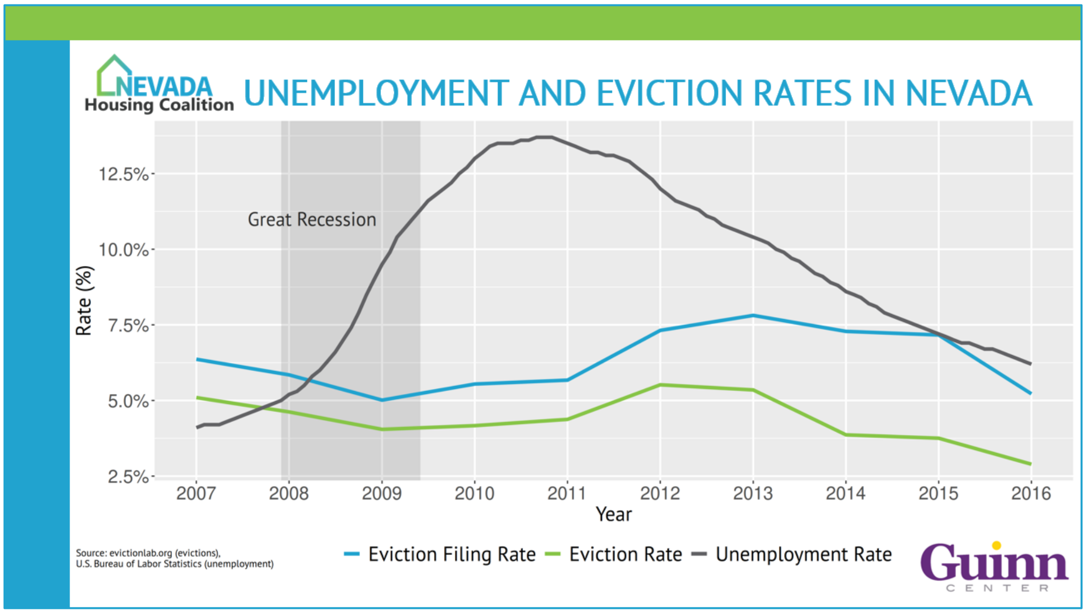
Rent burden is uneven by income level (Figure 8). The trends following the recession differ: rent burden among households earning more than $35,000 declined from 2007-2014, while, for those earning less than $35,000, it increased during the recession and remained around or above pre-recession levels even years later. In 2014, the percentage of rent-burdened households among low-income households was still above pre-recession levels, while it was about 7.5 percentage points lower than pre-recession levels for higher-income households. While this figure highlights how much more rent-burdened low-income households are regardless of the underlying economic conditions, it also suggests that diminished income has been a driver of housing affordability issues post-Recession. It should be noted, too, that many of those who have lost their jobs, or were unable to work from home because of COVID-19, are likely not to have substantial savings and are lower income.

Figure 8. Rent Burden by Income in Nevada



As Figure 9 indicates, post-Great Recession, the unemployment rate peaked at 13.7 percent in September 2010 (nearly three years after the recession first hit, a fairly significant lag). It remained fairly high into 2012, with the first signs of recovery not really felt until 2012. It continued on a sharp decline, ultimately dropping below the recession rate in August 2017 (not shown). Evictions declined leading into the recession and during the sharpest increase in unemployment, but they increased as unemployment declined and continued to increase for several years following the recession. This suggests that, even as relief checks are distributed and eviction moratoriums are enacted, it is important to think long-term.

Figure 9. Unemployment and Eviction Rates in Nevada



Conclusion

Regardless of the metric, the data seems to indicate two recurring themes. First, the effects of recession are lagged. Specifically, unemployment, rent burden, poverty, etc., reached their peaks in 2011-2012, just as median incomes hit their low points. And, as noted in the discussion of unemployment and eviction rates, this suggests that the aftershocks could be prolonged, requiring long-term housing solutions. Second, given that recent data suggests – at least in the short term – that the current crisis is concentrated in some of the most low-paying job sectors, and that in the wake of the Great Recession, recovery gains were distributed unevenly, many Nevada households could be facing a housing crisis that will require policy interventions to address.

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