Nationwide Rent Increase Impacts Student Loan Balance

The Nationwide surge in rent prices has made it increasingly difficult for Americans to pay back their student loans.

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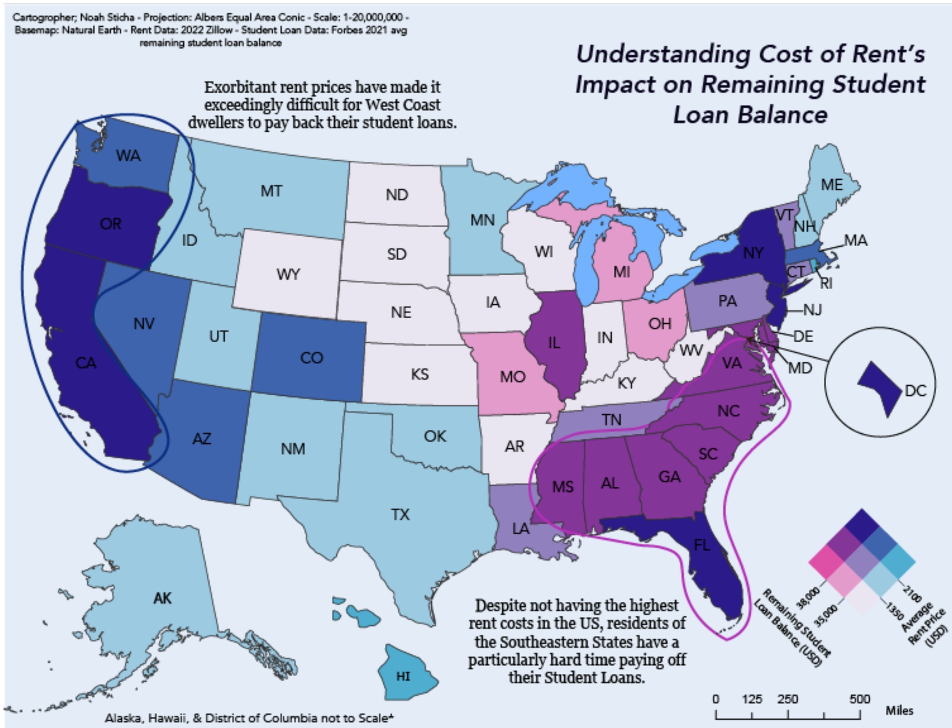
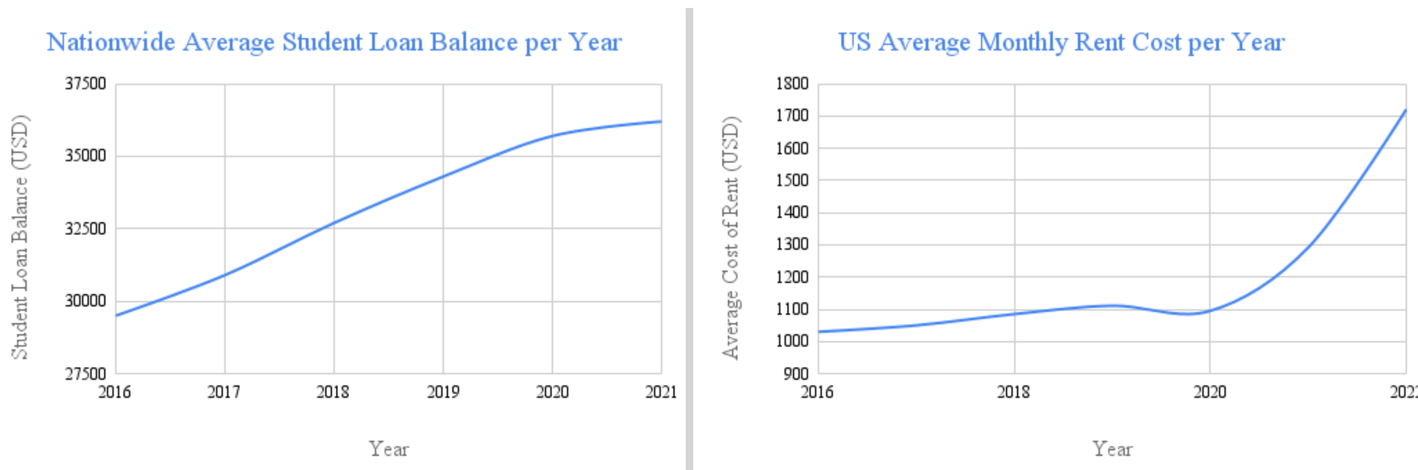
With inflation in the United States hitting a 40-year high, rent prices across the country have been skyrocketing, increasing nearly 21 % since 2020. While student loan payments have been paused during the pandemic, they are set to resume come 2023, leaving many young Americans in a difficult spot. The map below shows where in the US young college graduates are having the hardest time repaying their loans.



This map displays where in the US citizens are having the hardest time repaying their Student Loans



The charts above show the current trends in both remaining student loan balance and per month rental prices

Recent college graduate salaries lagging behind?

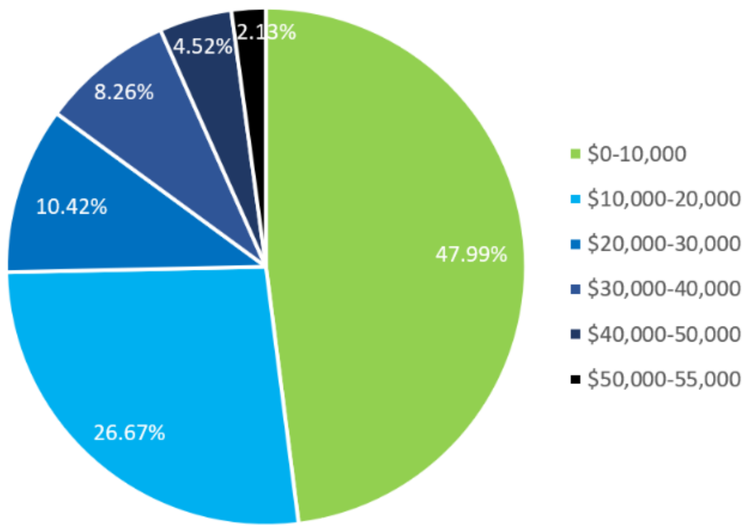
Despite the significant increases in both monthly rent costs and remaining student loan balances, 40% & 18.5% respectively, the median starting salary for college graduates has lagged behind, increasing just 14% in the same timeframe. Because of this, college graduates are spending more and more of their monthly wages on rent. It is often recommended that people spend no more than 30% of their monthly income on rent, but the young college graduates of today are spending a staggering 45% of their income on rent. In particularly expensive cities like New York or D.C, this percentage can reach upwards of 70%. This data comes from 2018 statistics as well, and if the median rent price since that time tells us anything, it does not look good for young individuals affording their rent and student loans in the future.

How do rent increases impact loan default rates?

Higher rent prices and student loan balances would typically lead one to assume that default rates are on the rise as well. This assumption would be false, however, as loan default rates reached their lowest of the 21st century during the payment pause. Biden's student loan forgiveness plan hopefully will continue this trend, although it remains to be seen how student loan forgiveness will actually affect default rates. Pre-pandemic default rates were as high as 16% in 2018.

Who's to blame?

While student loan forgiveness promises to expunge 10,000 in student loan debt per resident, it is only a bandaid over a systemically flawed system. In a society that pressures underdeveloped teenagers to tackle tens of thousands of dollars in student loan debt, universities are making billions of dollars by raising education costs to exorbitant levels. With rent prices as high as they are, it leads one to wonder how much longer attending college will be a fiscally responsible decision.



2018 data showing how much college students spend anually on their education

Universities are not solely to blame in this matter, however. Gentrification of urban areas with increased development of high-density, high-income housing coinciding with 40-year highs in inflation has led to the rent boom. Interestingly enough, the states with the highest rates of gentrification, i.e California, New York, District of Columbia, also have the highest remaining student loan balances, suggesting a link between rent affordability and outstanding student loan balance.

Where to go from here?

While student loan forgiveness was a monumental first step to relieve the tremendous financial burden young college graduates face, there is still a lot more that must be done. For starters, adopting the German model of a state-sponsored university program setting tuition caps at public universities would not only alleviate the post-graduation costs for recent graduates but also grant greater access for low-income students who may not have been able to attend college otherwise. Secondly, we must expand housing subsidies to both low-income households and recent college graduates below the median starting salary. For low income workers, and college graduates still making very little, affording even studio apartments in some of the major urban areas of the US is simply not possible without housing subsidies. Such heavy-handed government action may be unpopular to some, but in today's economic climate, college graduates have been placed in a hole they may never be able to climb out of.

Average Rent Data	Zillow median rent data for a 1 bedroom apartment.
Student Loan Data	Forbes 2021 average remaining student loan balance.
Early College Graduate Rent Proportion Data	Credit.com 2018 Millennials Spend a Large Percent of Income on Rent
Annual amount spent on college education	2018 data via www.collegecalc.org