EQUITABLE HOUSING INSTITUTE

Promoting housing affordability by removing regulatory barriers

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EHI's efforts contribute to lower rental housing cost increases in its local emphasis area—the Washington, DC, region

Recent data confirms the trend of the last several years in the Washington, DC, area, of lower rent increases than in most comparable housing markets nationwide. That trend is especially helpful to low- and moderate-income people because (for example) most of them are renters rather than homeowners, and their housing costs tend to consume much more of their incomes.

Major increases in the area's supply of newly completed, and planned, multifamily housing units seem to be an important factor in the trend. A recent dip in the area's economy is another factor, but it no longer seems to be major. Other important factors include the area's sizeable nonprofit housing development sector; its rich array of large national and local nonprofit organizations concerned about low-income housing; and the presence of many federal housing-related agencies and major universities.

We believe EHI is an important factor too. The DC area is EHI's home base and its local emphasis area. Although still relatively new and small, EHI has engaged in vigorous education and advocacy there since its founding in 2008, to loosen unwarranted restrictive zoning and other exclusionary housing policies of local governments. Those restrictions have seriously limited the supply of housing affordable to low- and moderate-income people.

The recent improvement in the DC area's rental housing market has coincided with the emergence of EHI as a force locally. Much more remains to be done to make the pricey DC area affordable to low- and moderate-income renters, however. We discuss the issues in more detail below.

THE TREND

In the year ending this May, the average rent in large, non-luxury rental properties (of 50+ units) in the DC area rose only about 2.3%, compared with the national average increase of

6.5%. [1] The *median* rent increased only 1% in the Washington area in the year ended April 2016, by Zillow's estimate. [2] Overall, home prices in the DC area had the weakest price appreciation of those in any of the 20 major metros from October 2015 through March 2016, according to one study.[3]
The relatively flat rental costs recently are a substantial change. Between 2000 and 2013, median rents in the Washington DC region nearly doubled. [4] From 2006 to 2013, the Washington metro area had the highest percentage change in real median gross rent of the 11 largest metros in America. [5]

But from 2013 to 2014, the area was tied for the lowest among those metros (1%, with Miami).[6] That trend has continued. By June 2015, rent growth among the DC's area's large multi-family properties (50+ units) climbed to 2.7% annually, but that still was about 2.6% less than the national average.[7] And as mentioned, during the past year the area's rent growth was much less than the national average.

Looking ahead, Yardi's latest monthly rent survey (May 2016) forecasts rent growth of 1.2% through year's end in the Washington metro, making the DC area 29th out of the 30 major markets listed in that survey.[8]

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[1] Yardi *Monthly Matrix,* May 2016, p. 3 (graph (trailing 12-month measurements)), and p. 4 (table).

[2] Zillow, *Washington DC Home Prices & Home Values* (http://www.zillow.com/washington-dc/home-values/, "Washington Rentals"). The Zillow Rent Index is the median "Rent Zestimate" valuation for a given geographic area on a given day. That Zestimate (rhymes with "Guesstimate") "is pulled from public property data and similar local properties listed for rent; there may be special features, location, and market conditions our algorithms have not taken into account." (http://www.zillow.com/wikipages/What-is-a-Rent-Zestimate/ (accessed June 17, 2016)).

[3] Kathy Orton, *D.C.-area home prices are unlikely to budge anytime soon, data suggests*, Wash. Post, April 16, 2016, p. EZ 28.

[4] Lisa A. Sturtevant, PhD, *The Year Ahead: A Summary of the Housing Market in the Washington DC Region* (Jan. 14, 2015). "[I]n 2013, the median monthly rent for the region was $1,481. Median rents remain much higher in close-in suburban jurisdictions, particularly Arlington County ($1,820 per month), Fairfax County ($1,764 per month), and the city of Alexandria ($1,592)." *Id.*

[5] NYU Furman Center, *Renting In America's Largest Metropolitan Areas ("Furman Center")*, p. 20 & Fig. 14 (March 2016).

[6] NYU Furman Center, *Renting In America's Largest Metropolitan Areas ("Furman Center")*, p. 20 & Fig. 14 (March 2016). Average rent growth for 3-star apartments (medium quality apartments) dropped from nearly 5% in late 2012 to zero two years later.-Yardi Matrix, *Washington DC Multifamily Summer Report 2015* ("*Yardi Washington 2015*"), p. 3 (graph, sequential 3 month, year-over-year measurements). Rent in the DC area stayed steady as a percentage of the average income during 2011-2014 (at about 32%). *Yardi Washington 2015*, p. 5 (graph).

[7] *Yardi Washington 2015*, p. 3.

[8] Yardi *Monthly Matrix*, May 2016, p. 4 (table).

CONTRIBUTING FACTORS

I. New housing supply

> In 2015, DC permitted more new housing units—4,956, to be exact—than in any year since the Census started keeping track in 1980. This pace of housing growth compares favorably to other cities, and there's reason to believe it's helping to slow rent increases.

John Ricco, *DC added record housing in 2015*, Greater Greater Washington ("*GGW*") (Feb. 4, 2016).[9] In the preceding two years, an "unprecedented number of new apartment units (about 24,000) have arrived in the [Washington] area . . . , increasing the total apartment inventory by roughly 5 percent." *CoStar: Increased supply of apartments pushing rents down across all building classes*, Wash. Post, January 4, 2015.

As a result, *CoStar* concluded, "average apartment rents are taking a smaller bite out of bank accounts these days" in the DC area—at least compared to similar major metropolitan areas. "In recent years, real estate analysts have noted that DC's higher pace of building has led to rents that are slowing in growth, or even declining. This effect is especially seen at the higher end of the market, since most new construction is luxury." [10] *GGW.*

> The cities that had the smallest rent gains in 2015 were Richmond, Va.; Washington, D.C.; and Baltimore. Echoing other reports, Yardi says Washington's rent gains have been held back because of the large amount of new supply in its market, while Baltimore still lacks job growth. These cities can expect to see similar results in 2016, Yardi says.[11]

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[9] DC-area housing unit completions exceeded the national average each year from 2010-2014 and equaled it as of June 2015 (at 4% of stock). *Yardi Washington 2015*, p. 6 (graph). Since then, completions in the area have fallen to 2.7%, which is close to average among the 30 major metros Yardi tracks. *Yardi Monthly Matrix, May 2016,* p. 4 (table).

> Development is soaring in Washington, with more than 18,000 units expected to be completed in 2015. The deliveries will add 4% to stock, in line with the national average. The pipeline represents the highest volume of development since before the last recession.

Yardi Washington 2015, p. 6.

[10] Effective rents for luxury apartments (4- and 5-star units) actually decreased during those two years. *CoStar: Increased supply of apartments pushing rents down across all building classes*, Wash. Post, January 4, 2015.

[11] Multifamily Executive Magazine, *Yardi Matrix Reports 6.4% Rent Growth in 2015*, Jan. 2016.

Some building owners of high-end apartments in the DC area "are aggressively discounting rent by 10 percent or more or giving a month or two free up front, not to mention gimmicks such as putting a communal English bulldog in the lobby."[12] Looking ahead:

> Supply is likely to remain strong for several years, as 110 projects with more than 31,000 units are under construction and 214 projects with 72,000 units in the planning stages. Another 147 prospective projects could add more than 63,000 new units over time. This influx of new supply will likely continue to weigh down rent growth.[13]

II. Recent dip in DC-area economy

Federal budget cuts since 2010 (including the sequestration crunch in 2013) have impacted the DC area economy more than other metro areas generally, with some predictable softening of housing demand.[14] (For example, the area lost close to 24,000 federal jobs between 2010 and Oct. 2015.) [15]

However, the federal reductions seem to have had limited economic effects on the area, and its economy appears to be stabilizing. The DC area continues to be a thriving, major metropolitan economy that can attract much more rental housing investment. Various key measures of the area's capacity to absorb more privately-financed housing are quite positive.

> **Job growth:** in the first nine months of 2015, Washington had the nation's sixth largest gross regional product (GRP) and ranked 8th in job growth (a 2.1% annual rate), average

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[12] Jonathan O'Connell, *For high-end apartments in the Washington area, signs of a renters market*, Wash. Post, March 15, 2015.

[13] *Yardi Washington 2015*, p. 6.

[14] Lisa Sturtevant, PhD, *The Impact of Sequestration on the Washington DC Area Housing Market* (April 2015).

[15] Stephen S. Fuller, Ph.D., *The Roadmap for the Washington Region's Future Economy* ("*Roadmap*"), pp. 7-8 and Table 2 (Dec. 2015).

> Federal job losses coincided closely with the enactment of the Budget Control Act of 2011 and continued through the end of 2014. This downward trend appears to have stabilized in 2015 (Figure 4). However, HIS Economics forecasts an additional loss of 18,000 federal jobs over the 2015-2020 period.

Roadmap, p. 9. The net effect of federal job reductions from 2010 through October 2015 was minus $4.4 billion to the area's the gross regional product (GRP), while increases in state and local government employment during the same period added a net $1.3 billion to that GRP, for an overall change of minus $3.1 billion. *Roadmap*, p. 7. By contrast, the region's growth between 1980 and 2010 "was driven by steadily increasing federal procurement outlays in the local economy (increasing from $4.2 billion in 1980 to $82.4 billion in 2010)[.]" *Roadmap*, p. 5.

among the nation's biggest 15 metros. [16] Area employment growth dipped only about 1% below the national average (of about 2%) between mid-2012 and mid-2015.[17]

Population growth: The DC-area population grew at about the national average (slightly over 1%) during 2012-2014. *Yardi Washington 2015*, p. 5 (table).

Occupancy rates: The DC area's high overall rental occupancy rate (96.2%) is comparable to those in metros with much greater rent increases.[18] Occupancy rates of 95% or higher are associated with rising rents.[19] As mentioned, Yardi's latest survey finds that the average rent in large rental properties (of 50+ units) in the DC area rose only about 2%, compared with the average increase of 6.3% in 30 major metros tracked.[20]

Housing price levels: According to Yardi:

> Washington's status as one of the top handful of primary markets in the U.S. and its long-term strong performance continues to pique the interest of a wide range of investors, including local and regional players, institutions, REITs and sovereign wealth funds.[21]

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[16] *Roadmap*, p. 10, Table 3.

[17] *Yardi Washington 2015*, p. 4 (graph).

[18]Yardi, *US Multi-Family Strategy & 2016 Outlook*, p. 29 (graphic). Yardi calculated that large multifamily properties (of 50+ units) in 29 of the 30 metros it tracked had occupancy rates of at least 95% in April 2016. *Yardi Monthly Matrix*, May 2016, p. 4 (table). (The other metro, Houston, whose economy has been affected by low petroleum prices recently, had a slightly lower occupancy rate—94.7%.)

[19] *See, e.g.,* Joint Center for Housing Studies of Harvard University, *America's Rental Housing (ARH),* p. 5 (Dec. 2015):

> With vacancy rates now at their lowest point since 1985, rents are rising 3.5 percent annually in real terms—the fastest pace in nearly 30 years. . . . MPF Research reports that the *rental vacancy rate for professionally managed apartments in the third quarter of 2015 was below 5 percent in nearly three-quarters of the nation's 50 largest markets* and above 7 percent in only one. *Rent increases are similarly widespread,* with 21 of the 50 largest metros posting real gains of 5 percent or more, and 38 of these metros posting gains of at least 3 percent.

Id. (emphasis added). "At the high end, rents in San Francisco, Portland, and Denver were up 10 percent or more. At the low end, rent increases in Baltimore, Virginia Beach, Pittsburgh, and Washington, DC, were under 2 percent." *Id.*

[20] Yardi *Monthly Matrix,* May 2016, p. 3 (graph (trailing 12-month measurements)), and p. 4 (table).

[21] *Yardi Washington 2015*, p. 7. "The average price per unit in Washington rose to $241,000 in the first half of 2015 as sales were concentrated in the luxury segment, where the average price was nearly $450,000 per unit. Prices in the metro have been consistently above the national average, and the gap rose in the first half of 2015." *Id.*

> From mid-2008 to mid-2015, Washington area prices for multi-family unit sales were roughly twice the national average, and that differential increased during the first half of 2015.[22] Also, median rent in the DC area is among the highest in the nation, as are renter incomes—thus providing potentially high returns for apartment owners and landlords. [23] Nationally, multi-family investments (NCREIF Apts.) continue to outperform the stock market (S&P 500), even though cumulative total returns from S&P investments have more than doubled since early 2009.[24]
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> **Capitalization rates:[25]** Yardi forecasts a 5.38% cap rate for Class B [non-luxury but upscale] multi-family sales in the Washington area in 2016—below average among the 21 metros in its forecast, but competitive with them.[26]

So, the DC area remains a thriving, major metropolitan economy that can absorb much more rental housing investment.

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[22] *Id.* (graph).

[23] NYU Furman Center, *Renting In America's Largest Metropolitan Areas* ("*Furman Center*"), p. 52 (March 2016) (emphasis added).

> In 2014, among the 11 largest metro areas, the Washington, DC metro area, together with the San Francisco metro area, had the highest median gross rent, 57 percent higher than the median gross rent in metro areas nationwide. The Washington, DC metro area also had the highest median income among renter households, more than 60 percent (or over $22,000) higher than the median income for renters in metro areas nationwide.

Id. The median-income DC-area renter could afford 38 percent of recently available units there, making the area the third most affordable rental market *for current residents* in the Furman Center study. *Id.* at 52. However, because the median rent level in the DC area is the nation's highest, it is the *least affordable* for the median-income metro renter *nationwide. Id.* at 4, 18.

[24] Yardi, *US Multi-Family Strategy & 2016 Outlook*, p. 34 (Spring 2016).

[25] Investopedia defines "capitalization rate"(cap rate) as:

> the rate of return on a real estate investment property based on the income that the property is expected to generate. . . . The capitalization rate of an investment may be calculated by dividing the investment's net operating income (NOI) by the current market value of the property, where NOI is the annual return on the property minus all operating costs."

(http://www.investopedia.com/terms/c/capitalizationrate.asp?layout=infini&v=5A&adtest=5A&ato=3000) (accessed June 28, 2016).

[26] The range among those 21 metros is from 4.63% (San Diego) to 6.63% (Indianapolis). Washington's cap rate forecast is higher than, or equal to, those for Atlanta, Boston, Nashville, Portland, San Diego, and Seattle—all of which are experiencing much greater rent increases. Yardi, *US Multi-Family Strategy & 2016 Outlook*, pp. 40, 50-52.

III. Large, active nonprofit housing sector

Other factors contributing to the trend are the DC area's rich mix of housing-related nonprofit organizations.

- **Nonprofit housing developers**: The DC area has its share of home-grown ones, as well as many regional and national developers (both nonprofit and concerned, for-profit developers), who are willing to build units or buildings for low- and moderate-income area residents. Among the many home-grown examples is nonprofit Enterprise Community Partners, which has invested more than $18 billion and helped create nearly 340,000 affordable homes (not all in the DC area) since its founding in 1982.[27]

- **Nonprofit membership organizations:** The DC area has large associations of concerned organizations, such as the Housing Association of Nonprofit Developers (HAND), which has 337 members. HAND includes many nonprofit and for-profit developers, financing entities, government agencies, housing advocates, and other entities and individuals working in the field. [28]

- **Large, national housing organizations with local presence:** As the Nation's Capital, the area has the benefit of the local presence of a vast number of private, housing-related policy and advocacy organizations with national ties. (A few examples are the National Housing Conference and its Center for Housing Policy; the National Low-Income Housing Coalition; the National Law Center on Homelessness & Poverty, the Lawyers Committee for Civil Rights Under Law (fair housing); and Urban Land Institute.)

- **Federal housing-related agencies:** All of them, from HUD to Fannie and Freddie, to the Federal Housing Finance Agency, etc., etc., have their headquarters, or at least a significant local presence, in the Washington area.

- **Major universities:** The DC area has access to the resources of the many major universities. For example, George Mason University and its Center for Regional Analysis (the main campus is in Fairfax, Virginia), have issued comprehensive reports on housing supply and needs throughout the DC region.

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[27]Enterprise Community Partners, *2014 Annual Report* (http://www.enterprisecommunityannualreport2014.org/) and History (http://www.enterprisecommunity.com/about/history) (accessed June 20, 2016). Among the area's many other nonprofit housing developers are Arlington Housing Corp., and Community Preservation and Development Corporation (CPDC).

[28] Coalition for Nonprofit Housing and Economic Development (CNHED) in Washington, DC (137 members); Maryland Affordable Housing Coalition (MAHC) (166 members); Northern Virginia Affordable Housing Alliance (NVAHA) (32 members)

- **Equitable Housing Institute (EHI):** We think one more organization deserves mention here—our own! Although small and relatively new, unlike the organizations mentioned above, EHI has been part of the solution. The recent improvement in the DC area's rental housing market coincides with the emergence of EHI as a force locally.

  Headquartered in Northern Virginia and founded in 2008, EHI is the only national organization whose primary focus is the major problem of unwarranted governmental restrictions on the production and preservation of housing that would benefit low- and moderate-income people.

  Those restrictions consist of exclusionary zoning and other regulatory barriers to housing opportunity—most of them created by local governments. They are "among the principal culprits behind the nation's persistent [housing] affordability problems."[29]

  Locally, EHI is an important catalyst toward ending such restrictions. For example, EHI changed the dynamics of Fairfax County's planning for redevelopment around several new Metrorail (commuter rail) stations in Reston and the western edge of the County.

  More than 15,000 more housing units were added to those plans, after EHI became involved, following the initially proposed residential development levels. Those additional units amount to more than half the total number of new housing units planned in the four transit station areas involved (Reston East/Wiehle Ave; Reston Town Center; Reston West/Herndon (South side); and Innovation Station (Rt. 28)).

  At least 1,900 of those units—and perhaps upwards of 2,700—will be affordable to low- and moderate-income people, under Fairfax County's inclusionary housing requirements for large, new residential buildings. The Comprehensive Plan Amendment (CPA) adopted by Fairfax County for the three Reston stations calls for enough new housing to accommodate as many workers as are expected to join Reston's workforce under the plan (more than 30,000 workers). The jobs-housing balance achieved for the massive, future commercial buildup there is a signal achievement for Fairfax County.

  EHI's work often involves "crunching the data for municipalities and showing them that new housing, including affordable housing, is not a drag on local budgets, when all relevant taxes and other government revenues are considered." [30] To protect the rights of ordinary citizens from exclusionary housing policies by local governments, a watchdog such as EHI seems crucial in jurisdictions that engage in land use planning and zoning.

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[29] Joint Ctr. for Housing Studies, Harvard Univ., *State of the Nation's Housing 2007*, p. 28, *available at* http://www.jchs.harvard.edu/publications/markets/son2007/index.htm.

[30] Kiersten Marek, *Memo to Funders: Fight Exclusionary Zoning to Make Headway Against Inequality,* Inside Philanthropy (March 3, 2015).

> In addition to its active involvement in local planning and zoning, EHI has explained the problems and remedies to the public in letters printed on the editorial page of the *Washington Post*, and on EHI's extensive website (http://www.equitablehousing.org).
>
> Thus, according to *Inside Philanthropy* magazine, EHI "holds one of the keys" to "the goal of more integrated communities and schools."[31] "With the organization's detailed research on housing law, and its ability to help municipalities take a hard look at their assumptions and priorities, EHI has an important role to play in the fight for fair housing."[32]

IMPLICATIONS OF TREND FOR HOUSING POLICY

Although the DC area has made unusual progress in moderating rental cost increases recently, there certainly is much more work to be done to permit suitable housing opportunities to its low- and moderate-income residents.

> The Washington, DC metro area, where the median U.S. metro renter could afford only 12 percent of all rental units and only six percent of those which had recently been for rent, was the *least affordable large metro area* for the typical American renter in a metro area, followed by San Francisco, Los Angeles and the New York City metro areas.[33]

The DC area's roadmap to the economic future depends on becoming more attractive to private companies and their workers, which includes better opportunities for housing affordability and other cost and quality-of-life factors.

> Assuring the talent required to support an advancing economy is critical to competing in the world economy. . . . *Talent is attracted and retained by a*

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[31] Kiersten Marek, *Memo to Funders: Fight Exclusionary Zoning to Make Headway Against Inequality,* Inside Philanthropy (March 3, 2015).

[32] Inside Philanthropy, *supra*.

[33] *Furman Center*, p. 18.

> Within the District itself, rents rose 27 percent between 2006 and 2014—a faster rate of increase than in any of the central cities in our sample. Although rents did not grow as quickly outside the central city, the 8 percent increase between 2006 and 2014 in those areas was still a greater increase than in the suburbs of any of the other 11 largest metro areas except the Houston metro area.

Furman Center, p. 52. "On the rental side, supply to the higher end of the market has been robust in many neighborhoods, but there remains a significant shortage of housing that is affordable to households with low incomes." Lisa A. Sturtevant, Ph.D., *The Year Ahead: A Summary of the Housing Market in the Washington DC Region* (Jan. 14, 2015).

> *region's qualities-of-life and the vibrancy of its residential communities.* . . . The bundle of qualities that establish a place as competitively attractive to highly educated or high-skilled workers include: cost of living—this is *principally housing affordability* . . . .[34]

Other significant factors in attracting and retaining the desired businesses and workforce are the quality of public schools, public safety, transportation costs and options, "the qualities of residential neighborhoods and public spaces," the region's reputation for "diversity of life styles, ethnic mix, *equity in the distribution of its qualities-of-life, and response to poverty conditions*. The list goes on and *near the bottom is local tax burden and differentials across local jurisdictions*."[35]

> *One large bundle of publicly imposed costs that contribute to the high cost of living in the region include its land use regulations*, [such as] fees and other extractions on the construction of residential properties *that contribute significantly to the final cost of housing without adding permanent value to the property*.[36]

"Any effort to make our region more affordable will require a good deal more market rate housing than what we currently have." *GGW*. EHI's vigorous, data-based and legally knowledgeable education and advocacy for the needed new housing appears to be part of the solution—for the DC region and elsewhere.

[34] *Roadmap*, p. 24 (emphasis added).

[35] *Roadmap*, p. 24 (emphasis added).

[36] *Roadmap*, p. 30 (emphasis added).