EQUITABLE HOUSING INSTITUTE

Promoting housing affordability by removing regulatory barriers P.O. Box 1402 Vienna, VA 22183 (O) (703) 938-2930 (E-mail) info@equitablehousing.org

(E-mail) <u>info@equitablehousing.org</u> (Website) <u>http://www.equitablehousing.org</u>

November 2016

BOARD OF DIRECTORS
THOMAS A. LOFTUS, ESC., CHAIRMAN
COL. JOHN M. RECTOR (USA, RET.),
VICE-CHAIRMAN
MICHAEL J. CLARK, ESC., TREASURER

Rent increases continue lower in EHI's local emphasis area—the Washington, DC, region—than other major metropolitan areas

ADVISORY COMMITTEE
PROF. PHILIP M. CAUGHRAN
PROF. WILLIAM A. FISCHEL
SCOTT LINDLAW, ESQ.
THOMAS B. RESTON, ESQ.

Rent increases ("growth") for housing in the Washington, DC, metropolitan area continued well below the national average, for the year ending in October 2016, according to Yardi Matrix—even though rent growth nationwide was decelerating mildly. During that period, DC-area rent growth was:

- about half the national averages of 5.7% overall and 6% for "renters-bynecessity" (which includes Americans who lack the wealth to buy homes, such as low- and moderate-income people), and
- the lowest of all but one of the nation's 30 largest metros.²

The DC-area trend toward lower rent growth, now in its fourth year, is gratifying to EHI, because the DC region is where EHI has concentrated its local advocacy. Lower rent growth is especially helpful to low- and moderate-income people, because most of them rent, and housing costs generally consume much more of their incomes. For background on recent rental cost trends in DC and nationwide, and on EHI's role, please click on EHI HELPS ITS HOME REGION TO MUCH-IMPROVED RENTAL HOUSING COST RECORD.

It also bears noting that the DC region is bucking the national trend toward less affordable home purchase prices. Most Americans still own their homes (63.7 percent of households in 2015), even though some 36 percent of American households were renters instead, that year.³ Home purchase prices became less affordable in 63% of

¹ Yardi Matrix, *Monthly Rent Survey: October 2016* ("Yardi October 2016") p. 1 (survey of 123 metropolitan housing markets nationwide (trailing 12-month measurements)). Yardi Matrix is a major, commercial real estate research and data platform focused on the apartment market industry.

² Yardi October 2016, *supra*, pp. 3, 5.

³ Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2016*, pp. 3, 19.

counties nationwide, for the year ended in September 2016—according to RealtyTrac.⁴ But the situation was much better in the DC area.

While the District saw a 4 percent decline in affordability, Montgomery County and Arlington County each saw a 5 percent improvement in affordability from third quarter 2015 to third quarter 2016. Fairfax County saw a 2 percent improvement, and Alexandria saw a 1 percent improvement.⁵

Fundamentals for rental investment still strong in DC and most United States markets

Yardi's observations about the recent deceleration nationwide appear fully applicable to the DC area:

The deceleration is far from being a sign that the sector is overheated. Fundamentals in most markets continue to be strong. Occupancies of stabilized properties are not far from cyclical highs, while the growing population coupled with strong job numbers is producing above-trend household formation that leads to demand for apartments. Some 26 of our top 30 metros are above the 2.3% long-term average for rent growth, and we expect that to continue in most markets.⁶

The latest information available (for September 2016) indicates that the region's rental occupancy rate was 96.2%—tighter than the nationwide average of 95.8%. The region

Despite the increased costs of renting, the number of people choosing to lease rather than buy is growing. The homeownership rate nationwide has dwindled since the Great Recession. It has sunk to 62.9 percent, its lowest level since 1965. In the D.C. area, homeownership has fallen from 69.2 percent in 2007 to 63.7 percent in 2016.

Orton (Sept. 1, 2016).

⁴ RealtyTrac, 24 Percent of U.S. County Housing Markets Less Affordable Than Their Historic Norms in Q3 2016 (Sep 27, 2016).

⁵ Michele Lerner, *Despite sticker shock, new study says D.C.-area homes are becoming more affordable. Yes, really*, Wash. Post (October 18, 2016). The improvement in that area is fortunate, because a "recent study by Apartment List found that the gap between what a renter pays and what a homeowner pays for housing in the D.C. region is growing wider by the year. The disparity between the two is among the greatest in the nation." Kathy Orton, *Homeowners are paying less, renters are paying more to live in Washington*, Wash. Post (Sept. 1, 2016), citing Andrew Woo and Dylan Grosz, *Homeowners and renters – a widening gap*, Apartment List (Aug. 11, 2016).

⁶ Yardi October 2016, *supra*, p. 1.

⁷ Yardi October 2016, *supra*, p. 5.

3

added a net 76,100 jobs during the year ending in September 2016—fourth-highest among the nation's 15 largest job markets. The DC region's job growth in 2016 has been its best in about ten years, and *much better* than its 10-year average. The region's unemployment rate stood at about 3.9%--fourth-lowest among the nation's 15 largest job markets. (The nation's average unemployment rate was 5%.)¹⁰

There has been relatively slow economic growth of the DC region compared to other major metropolitan areas. In 2015, the region's rate of Gross Domestic Product (GDP) growth was 1.3%—a good bit better than the previous three years, but well below the 2.5% average of the nation's 382 metropolitan areas, according to the U.S. Bureau of Economic Analysis (BEA).¹¹

However, the DC region's GDP is forecast to increase at a faster rate than the national average for the next several years, according to a major, new analysis. ¹² Even with the current GDP growth, the DC area is recording rent growth above the rate of inflation and a good bit more than the 2.2% long-term national average. ¹³

Other economic conditions in the DC region remain favorable to new, private-sector commercial investment in new rental residential development. Housing prices in the DC region remain among the nation's highest, and rates of return to rental investors are

However, BEA's other summary table (Table 1) seems to paint a somewhat rosier picture for the DC region for 2015. Table 1 indicates that in *current* dollars, the Washington metro's GDP actually increased more, from 2014 to 2015 (+3.5%), than GDP in the Dallas (+1.5%) and Houston (-3.6%) metros. Those two Texas metros ranked in size just above and below the DC metro (which had the nation's 5th largest total GDP).

⁸ George Mason University Center for Regional Analysis ("GMU"), Washington Area Economy: Performance and Outlook ("GMU Outlook, Nov. 2016"), p. 33 (Nov. 7, 2016).

⁹ GMU, *Job Change, Washington MSA* (Nov. 2016). It bears noting, though, that most new jobs were being created in sectors like leisure, hospitality, retail and healthcare—industries that often have lower wages. Recent job growth in the region, has been underwhelming in professional and business services, the category that includes federal contractors, technology and legal professionals. *See generally, e.g.,* Aaron Gregg, *Led by growth in the suburbs, the D.C. area is adding jobs faster than the rest of the country,* Wash. Post (July 22, 2016).

¹⁰ GMU Outlook, Nov. 2016, *supra*, p. 51.

¹¹ U.S. Bureau of Economic Analysis (BEA), *Gross Domestic Product by Metropolitan Area, 2015* (Sept. 20, 2016). Those figures are based on constant dollars (see Table 2). (The DC region's GDP growth for 2012, 2013 and 2014 was 0.2%, -0.5%, and 1.0% respectively, according to BEA's Table 2.)

¹² GMU Nov. 2016, *supra*, p. 76 (forecasting annual growth rates between 2% and 3% for 2016-2019).

¹³ Yardi Matrix, U.S. Multifamily Outlook: Fall 2016 ("Yardi Fall 2016"), p. 5.

predicted to remain competitive. Again, Yardi's observations about conditions nationwide seem applicable to the DC region:

Performance of commercial properties—and multifamily in particular—continues to be robust, with a favorable outlook. The sector provides investors with high income compared to bonds, and the U.S. is considered a safe haven compared to Asia, Europe or emerging markets. . . . Demand for housing is likely to remain high and new household formation will continue to grow, which should drive housing construction for the foreseeable future. ¹⁴

New studies show dramatic difference in DC-area rent growth since 2013

Nowhere in the nation did rents rise faster, between 1980 and 2014, than the D.C. region—according to a major new analysis by Apartment List. During that period, D.C. area rents grew by 86 percent (adjusted for inflation), while renters' incomes rose by only 33 percent (adjusted for inflation). Those figures are all the more remarkable because 2013 marked the start of the trend toward much lower rent growth in the DC area than the nationwide average. 16

According to Andrew Woo, author of the Apartment List study, there are two basic reasons why rents have been rising faster than inflation in recent decades—increase in demand and scarcity of units.¹⁷ The DC area's relatively rapid pace of new residential construction has helped keep its rent growth lower since 2013.¹⁸

¹⁵ Kathy Orton, *D.C. rents aren't just expensive. They've risen faster than anywhere else*, Wash. Post (July 20, 2016) (citing Andrew Woo, *How Have Rents Changed Since 1960?*, Apartment List (June 14, 2016)).

Nationwide, inflation-adjusted rents rose an average of 64% between 1960 and 2014, while household incomes only increased by an inflation-adjusted 18%. Apartment List, *supra* (June 14, 2016))The situation was particularly challenging from 2000 – 2010: Household incomes actually fell by 7%, while rents rose by 12%. *Id.* ("cost-burdened" renters are those in households that pay more than 30% of household income on rent). "If rents had only risen at the rate of inflation, the average renter would be paying \$366 less in rent each month, which would allow many to more than double their down payment savings." *Id.*

¹⁴ Yardi Fall 2016, *supra*, p. 9.

¹⁶ See, e.g., EHI HELPS ITS HOME REGION TO MUCH-IMPROVED RENTAL HOUSING COST RECORD, p. 2.

¹⁷ Orton (July 20, 2016). The percentage of renters nationwide who were cost-burdened *more than doubled*, from 24% in 1960 to 49% in 2014, according to the June 2016 Apartment List study.

¹⁸ See, e.g., EHI HELPS ITS HOME REGION TO MUCH-IMPROVED RENTAL HOUSING COST RECORD, pp. 3-4.

Much remains to be done

Despite the DC area's recent progress in moderating rental cost increases, there is much more work to be done to enable all the area's residents to have suitable housing opportunities. For example, the area's housing costs still are among the nation's highest, even after the severe recession of 2007-09 and massive federal spending reductions.

Thus, new housing development and preservation in the DC area will remain a crucial priority for the foreseeable future. Again, for more background information, please click on EHI HELPS ITS HOME REGION TO MUCH-IMPROVED RENTAL HOUSING COST RECORD.