EQUITABLE HOUSING INSTITUTE

Promoting housing affordability by removing regulatory barriers

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American housing market is regaining strength, but housing costs are unaffordable for high proportion of low- and moderate-income Americans

The United States housing market is finally returning to what had been typical for decades before the onset of the severe recession of 2007-2009, which was precipitated by housing sector dysfunction. [1] But that "typical" condition includes a widespread lack of affordability, especially for low- and moderate-income Americans. [2] We provide some specifics below.

In addition to the national market, the Equitable Housing Institute (EHI) monitors the local housing market in its home area, the Washington, DC region, where EHI has concentrated its local advocacy. We are gratified that the multi-family construction market in that region has been one of the most vigorous in the nation recently. As a result, rents overall rose only 1.1%, year-over-year, as of July 2017—compared to the 2.6% national rate of rent growth during that period.

However, there is little new housing supply for middle- and low-income renters in the DC region—even though investments in lower-end multi-family construction offer attractive returns on investment. Thus, DC region trends continue to push up rents substantially for low- and middle-income residents—even though the region is one of the most expensive housing markets in the nation. Some details on those DC region trends are given below.

[1] Joint Center for Housing Studies, Harvard Univ., *The State of the Nation's Housing 2017 ("SONH 2017"),* p. 1 ("A decade after the onset of the Great Recession, the national housing market is finally returning to normal" by many measures; housing demand, home prices, and construction volumes are all on the rise, and the number of distressed homeowners has fallen sharply).

[2] *SONH 2017*, p. 1 (high demand and tight supply are pushing up housing costs and adding to concerns about affordability).

National market

In 2016, the nominal, average price of a home for sale in the United States finally exceeded the level reached nearly a decade earlier. When adjusted for inflation, however, national home prices remained nearly 15 percent below their previous high. [3]

On the rental side, strong consumer demand "has been pushing rents up well ahead of overall inflation, for more moderately priced units as well as higher-priced units."[4] The supply of rental housing is a particular focus of EHI, because most low- and moderate-income Americans rent their housing, and housing costs generally consume much more of their incomes.[5] Some 43.3 million households currently rent their housing, and the renter share of US households now stands at a 50-year high of 37 percent. [6]

Despite the relatively strong activity in multifamily construction during the past several years, rental markets remain extremely tight. For example, the nation's overall rental vacancy rate fell for the seventh straight year in 2016, to its lowest level in more than three decades.[7]

For professionally managed apartments, the rate reportedly was just 4.4 percent. [8] Also, "vacancy rates in the lowest-quality segment (Class C) fell nationwide for the seventh

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[3] *SONH 2017*, p. 1.

[4] *SONH 2017*, p. 2.

> The US Consumer Price Index for rent of primary residence rose at a 3.8 percent annual rate through April 2017, far exceeding the 0.9 percent inflation rate for non-housing-related goods. According to MPF Research data, rents for units in professionally managed properties were up by 3.7 percent nationwide in early 2017, with increases in 91 of the 100 markets tracked.

Id., p. 28.

[5] "[T]he typical renter household had an annual income of just $37,900 in 2015—only about half the $70,800 annual income of the typical homeowner household. In addition, 16 million renter households had annual incomes of less than $25,000, including 11 million with incomes below the federal poverty threshold." *SONH 2017*, p. 28.

[6] *SONH 2017*, p. 25. *Id.* Surprisingly, "older households aged 55 and over accounted for fully 44 percent of renter household growth between 2005 and 2016." *Id.* Also, "the share of high-income households (earning at least $100,000) that rented their homes increased from 12 percent to 18 percent from 2005 to 2016. . . . accounting for nearly half (47 percent) of the growth in renters between 2013 and 2016." *Id.,* p. 28.

[7] *SONH 2017*, p. 2 (citing federal Housing Vacancy Survey figure of average 6.9% rental vacancy rate nationally).

[8] *SONH 2017*, p. 2 (citing MPF Research). (citing federal Housing Vacancy Survey).

straight year, to just 3.8 percent." [9] Vacancy rates of 5% or lower are associated with rising rents.[10]

Projections by the Harvard Univ. Joint Center for Housing Studies (JCHS) suggest that "demand for owner-occupied housing could rebound sharply even as demand for rentals remains strong."[11] JCHS believes that "with inventories of both for-sale and for-rent homes extremely tight, the need for additional housing supply should be an important stimulus for economic growth."[12]

Key challenges

A particular problem of America's housing markets now—both the rental and for-sale markets—is the sluggish rate of new housing construction. "[H]ousing completions in the past 10 years totaled just 9.0 million units—more than 4.0 million units [44 percent] less than in the next-worst 10-year period going back to the late 1970s. [13]

> Between 2004 and 2015, completions of smaller single-family homes (under 1,800 square feet) fell from nearly 500,000 units to only 136,000. Similarly, the number of townhouses started in 2016 (98,000) was less than half the number started in 2005.[14]

Major constraints on homebuilding today include:

- Shortages of construction labor;[15]

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[9] *Id.,*p. 29.

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

[11] *SONH 2017*, p. 4. "After 12 years of decline, there are signs that the national homeownership rate may be nearing bottom. As of the first quarter of 2017, the homeownership rate stood at 63.6 percent—little changed from the first quarter two years earlier. In addition, the number of homeowner households grew by 280,000 in 2016, the strongest showing since 2006." *Id.*

> the share of households opting to rent appears to be stabilizing near 37 percent. But with the large millennial generation now moving into their 20s and 30s, Joint Center projections point to solid growth in renter households over the next 20 years. And even if demand were to slow, there is still broad need for additional supply—particularly of rental units at the lower end of the market where ultra-low vacancy rates are pushing up rents.

Id., p. 30.

[12] *SONH 2017*, p. 6.

[13] *SONH 2017*, p. 2.

[14] *Id.*

[15] *SONH 2017*, p. 3.

- Regulatory barriers such as low-density ("large lot") zoning in urbanizing areas; and
- Recent financing restrictions, including portions of the Dodd-Frank Act of 2010.

"In combination, these forces raise development costs and make it less feasible to build smaller homes for first-time buyers and rental units affordable to low- and moderate-income households."[16]

Housing cost burdens

Although there has been some improvement recently in the number of Americans who spend more than 30 percent of household income on housing costs ("housing cost burdened"), most of the progress has been on the homeowner side. As of 2015, almost half of America's rental households (48.3 percent) still were housing cost burdened—down less than 2 percent from five years earlier, when recovery from the "Great Recession" had just begun. By contrast, the share of homeowners who were cost-burdened dropped 30.4 percent to 23.9 percent between 2010 and 2015.[17]

The 1 percent reduction in rent-burdened American households during 2015 "reflects an increase in the number of higher-income renters rather than improved affordability among low- and moderate-income households."[18] The housing cost burden rate was 83 percent for renters with incomes under $15,000 and 77 percent for those with incomes between $15,000 and $29,999.[19]

Furthermore, 11.1 million rental households (26 percent of all rental households) were "severely cost burdened" in 2015, meaning that they spent *more than half* their incomes on housing costs. To make ends meet, severely cost-burdened families with

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> At last measure in 2015, the construction industry employed 7.2 million workers and managers, about 20 percent fewer than in 2007 and roughly the same number as during the worst of the housing crisis in 2012. Meanwhile, the unemployment rate in the sector dropped by half between 2012 and 2016, falling from 13.9 percent to 6.3 percent. With demand for labor high, the lack of growth in construction employment suggests that many workers lost during the downturn have left the industry, creating a labor shortage that could constrain growth in housing construction.

SONH 2017, p. 3. "The construction industry also depends increasingly on immigrant labor, with the foreign-born share of the workforce steadily rising from 21 percent in 2002, to 26 percent in 2007 and 29 percent in 2015." *Id.,* p. 12.

[16] *SONH 2017*, p. 3.

[17] *SONH 2017*, p. 5.

[18] *SONH 2017*, p. 31.

[19] *Id.*

children in the bottom expenditure quartile (generally, low income families) spend much less on other basic needs, such as food and healthcare. [20]

Widespread cost burdens are not just confined to large metropolitan housing markets. "While most common in high-cost markets, renter cost burdens are also widespread in areas with moderate rents but relatively low incomes. Augusta [Georgia] is a case in point, where the severely cost-burdened share of renters was at 30.3 percent in 2015."[21]

> rental assistance increasingly falls short of need. According to HUD's 2015 Worst Case Housing Needs report, the number of very low-income renters increased from 18.5 million in 2013 to 19.2 million in 2015, but the share receiving assistance declined from 25.7 percent to 24.9 percent. As a result, three-quarters of the nation's very low-income households had to find housing they could afford on the private market in 2015.[22]

A sign that some renters' cost burdens may be easing currently is that wage growth now appears to be exceeding rent growth in many American markets. Median weekly earnings of U.S. workers rose 4.2% during the year ending in June 2017.[23] Average hourly earnings were up about 2.5% during the year ending in November 2017.[24] By contrast: "Nationally, year-over-year rent growth has slowed to 2.5 percent through November 2017, [although] the rate of decline has stopped." [25]

[20] In 2015, those households spent:

> 53 percent less on food, healthcare, and transportation combined than households without cost burdens. Severely cost-burdened households in the lower-middle expenditure quartile also spent 47 percent less on these basic needs than their counterparts without burdens.

Id., p. 33.

[21] *SONH 2017*, pp. 5, 31.

> Nearly 12 million households living outside the top 100 metros (in less populous metros, micro areas, and non-metro areas) also pay excessive shares of income for housing. Cost-burdened households in these markets are about evenly split between renters and owners, and about half are severely burdened.

Id., p. 32.

[22] *SONH 2017*, p. 35.

[23] Yardi Matrix, *U.S. Multi-family Investment Strategy & 2018 Outlook,* p. 9 (Nov. 15, 2017).

[24] *Id.* p. 8.

[25] Yardi Matrix, *Multifamily Bulletin, November 2017*, p. 1.

Increasing segregation by income

"Between 2000 and 2015, the share of the poor population living in high-poverty neighborhoods rose from 43 percent to 54 percent. Meanwhile, the number of high-poverty neighborhoods rose from 13,400 to more than 21,300."[26]

A growing body of social science research has documented the association between living in high-poverty neighborhoods and higher rates of illness and social dysfunction.[27] Minority households are more likely to have housing cost burdens, including severe burdens, compared to whites.[28]

Homelessness

By HUD's annual point-in-time count, 549,928 people were homeless in 2016—a decline of 14 percent from 2010. Much of this progress reflects a major push at the federal and local levels, including concerted efforts by US mayors, to end homelessness among veterans. As a result, the number of homeless veterans fell 47 percent over this period to 39,000.[29]

Chronic homelessness among individuals in families dropped 44 percent from 2011 (the first year data were available) to 2016, while homelessness among individuals not in families fell 25 percent. However, most homeless persons are classified as "non-chronic," and for them, the homeless rate was down only 8 percent over this period.[30]

> These are families and individuals who, at the time of the count, had been homeless for less than a year or had experienced under four episodes of homelessness in the past three years totaling less than 12 months. This group likely lost their housing because of an increase in housing costs and/or unexpected expenses, changes in family structure, or sudden loss of income.[31]

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[26] *SONH 2017*, p. 6.

[27] *SONH 2017*, p. 6. The counter-trend of "influx of high-income households into city neighborhoods. While this revival of urban areas creates the opportunity for more economically and racially diverse communities, it also drives up housing costs for low-income and minority residents." *Id.*

[28] *SONH 2017*, p. 31.

> In 2015, the cost-burdened share was 47 percent for blacks, 44 percent for Hispanics, and 37 percent for Asians/others, compared with 28 percent for whites. . . . 25 percent of black households paid more than half their incomes for housing in 2015, nearly twice the 13 percent share of white households.

[29] *SONH 2017*, pp. 33-34. As of early 2017, 42 communities and 3 states reported that they had put an end to veteran homelessness altogether. *Id., p.* 34.

[30] *SONH 2017*, p. 34.

[31] *Id.*.

Washington, DC Region

Although it is one of the most expensive housing markets in the nation, and although it has trailed overall U.S. employment growth for the last five years, "the expansion of Washington, D.C.'s multifamily market remains one of the most vigorous in the country." Due largely to its "robust construction pipeline—third largest in the country,"[32] rents in the region were up an average of just 1.1%, year-over-year, as of July 2017 (compared to the 2.6% national rate of rent growth during that period).

However, there is little new housing supply for middle- and low-income renters, even though investments in lower-end multi-family construction in the DC region offer attractive returns on investment.[33] While the buildup of high-end multi-family housing has moderated rents in the upscale sector, "the trend continues to push up demand for working-class housing, putting pressure on low- and middle-income residents."[34]

Among the nation's largest 100 metros, The Washington, DC, region has one of the smallest shares of low-rent units. Less than 10 percent of units rented for less than $800 there in 2015.[35] More than 70 percent of renters in that region who earn $30,000–45,000 annually spent more than 30 percent of their incomes on housing costs

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> Over 50,000 PSH [permanent supportive housing] beds were added nationwide in just the past three years. While people in PSH beds are not counted as homeless, their shelter still requires significant funding from homeless services grants. Even so, New York City's Department of Health and Mental Hygiene estimated that the city's supportive housing program saved about $10,000 per person served each year. *Id.*

[32] Yardi Matrix, *Washington's Long Run: Multifamily Report Summer 2017*, p. 2.

> The metro has more than 31,000 units underway, roughly 11,500 of which are slated to come online by year-end. With developers delivering some 30,000 units since the beginning of 2015, the metro's occupancy rate in stabilized properties was 95.8% as of July, down 30 basis points year-over-year. With the large number of deliveries bound to keep growth tepid, Yardi Matrix expects rents to increase by 1.4% in 2017. *Id.*

[33] *Washington's Long Run*, p. 3. "According to CBRE, Washington, D.C., Class C value-add assets can offer acquisition yields as high as 8%, while Class A stabilized properties fall in the 4-5% range." *Id.*

[34] *Washington's Long Run*, p. 3. "The working-class Renter-by-Necessity segment continued to lead growth, with rents up 1.7%, to $1,517. At $2,095 as of July, Lifestyle rents were up only 0.5% year-over-year."*I d.*

[35] *SONH 2017*, p. 28.

(compared with 43 percent nationwide)—and about half of rental households earning $45,000–75,000 did too.[36]

Thus, the Washington region market shares the same important need as the United States as a whole, for an ongoing, robust amount of housing production—especially moderately-priced housing. Only by doing so can housing prices (including rental costs) become affordable to low- and moderate-income Americans generally.

[36] *SONH 2017*, p. 32; Lisa Sturtevant, Ph.D., *Local Real Estate Trends & Market Conditions* (Presentation Slide 10, Nov. 1, 2017).