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
(Website) https://www.equitablehousing.org

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Despite low unemployment and rising wages, 299,000 more American renter households were cost-burdened in 2018

Housing production unlikely to catch up to household formation in the foreseeable future

According to ApartmentList, a nationwide, rental apartment information service:

- The share of American renter households that are cost-burdened increased from 49.5 percent in 2017 to 49.7 percent in 2018—the first increase in that rate since 2014. (There are approximately 44 million renter households in the United States—more than 35 percent of all American households.)[1]
- The number of cost-burdened renter households jumped by 299,000 from 2017 to 2018, and is now 2.8 million higher than it was in 2008. Although the cost burden rate has fallen meaningfully from its 2011 peak, most of that improvement has been driven by an influx of high-income households to the rental market. [2]
- The median rent grew faster than the median renter income for the first time since 2011. [3]

"In addition, renters make up 10.8 million of the 18.2 million severely burdened households that pay more than half their incomes for housing."[4] Rental housing costs are

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[1] *See, e.g.*, U.S. Census Bureau, *Quarterly Residential Vacancies and Homeownership, Third Quarter 2019*, Table 4 (there were an estimated 43,243 occupied rental housing units—35.2% of total occupied housing units (122,735)).

[2] Even after adjusting for inflation, "the number of renters earning at least $75,000 increased for eight consecutive years, rising by 311,000 households in 2017–2018 alone and by some 4.6 million households since 2010." Joint Center for Housing Studies, Harvard Univ., *The State of the Nation's Housing 2019 ("SONH 2019")*, p. 4.

[3] ApartmentList.com, *2019 Cost Burden Report: Half of Renter Households Struggle With Affordability* (October 9, 2019); posted at: https://www.apartmentlist.com/rentonomics/cost-burden-2019/.

[4] *SONH 2019*, p. 4.

a major concern of low- and moderate-income Americans, because most of them are renters, and housing costs generally consume much more of their incomes.[5]

By contrast to rising cost burden rates for renters, the cost-burden rate for American homeowners declined by nearly 8.0 percentage points between 2010 and 2017, to 22.5 percent. That was its lowest level this century.[6]

According to Harvard University's Joint Center for Housing Studies: "Just as the recent housing downturn was longer and deeper than any other since the Great Depression, the residential construction rebound has been slower."[7] As of 2018:

> the national housing supply remained constrained by more than 10 years of historically low production levels. The tight supply of homes for sale is keeping the pressure on prices in much of the country, while high land prices, labor shortages, and restrictive land use policies limit development of moderate-cost housing. [8]

High land prices actually are among the many problems created by unduly restrictive land use policies (exclusionary zoning restrictions and other regulatory barriers to housing affordability).[9] Meanwhile, the nation has been losing low-income housing units rapidly.

> Public concern about a rental affordability crisis has increased in many areas of the country as cost burdens have moved up the income scale. Households with incomes under $15,000 continue to have the highest burden rates, with 83 percent paying more than 30 percent of income for housing, including 72 percent paying more than 50 percent. These shares were largely unchanged between 2011 and 2017, while cost-burden rates climbed 4.6 percentage points among households earning $30,000–44,999 and nearly 2.9 points among those earning $45,000–74,999.

Id.

[5] *See* Joint Center for Housing Studies, Harvard Univ., *The State of the Nation's Housing 2017 ("SONH 2017")*, p. 28.

[6] *SONH 2019,* p. 4.

[7] Joint Center for Housing Studies, Harvard Univ., *The State of the Nation's Housing 2019 ("SONH 2019")*, p. 1.

[8] *SONH 2019*, p. 7.

[9] "Land costs rise when demand is strong and land use regulations limit the number of new units that can be built and/or impose significant costs on developers through fees and protracted approvals." *Id.,* p. 8. "According to Joint Center analyses of the Federal Housing Finance Agency (FHFA) data, the median price per acre of residential land used for existing single-family homes nationwide jumped [27%,] from $159,800 in 2012 to $203,200 in 2017. Residential land values climbed in 80 percent of counties across the country, with the largest increases concentrated in the West." *Id.,* pp. 8-9.

> The number of units renting for under $800 fell by 1.0 million in 2017 alone, bringing the total drop in 2011–2017 to 4.0 million. . . . Half of all metros posted declines of more than 10 percent over this period. The falloff was largely concentrated in the West, where the majority of metros lost over 20 percent of their low-rent units.[10]

"As a result, the national vacancy rate for both owner-occupied and rental units fell again in 2018, to 4.4 percent, its lowest point since 1994." [11] Furthermore, U.S. housing production is unlikely to catch up to household formation in the foreseeable future, according to Yardi Matrix, a real estate consulting company that monitors the nation's largest (50+ unit) apartment buildings. [12]

One reason for that lag is the cumulative deficit in housing production from 2010-2018 of almost 2.5 million units.[13] The result is upward pressure on rents, occupancy rates and political efforts for rent control.

In fact, Oregon enacted the nation's first statewide rent control law in February 2019, out of widespread frustration with escalating rents.[14] California enacted the second such statewide law in September 2019.[15] All told:

> Moves to expand rent control through ballot initiatives or legislation have arisen since 2017 in about a dozen states, including Washington, Colorado and Nevada, according to the National Multifamily Housing Council, an apartment-industry trade group. Measures were recently introduced in Massachusetts and Florida to allow rent regulation in cities with a housing crunch — like Boston, Miami and Orlando.[16]

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[10] *SONH 2019*, p. 4.

[11] *SONH 2019*, p. 1. "even if homeownership rates continue to increase, low vacancy rates and shifts in the existing stock are likely to prevent a significant softening of rental markets." *Id.*, p. 4. "CoStar reports that the vacancy rate for lower-quality rentals was only 4.8 percent at the beginning of 2019, down from 6.7 percent at the end of 2011." *SONH 2019*, p. 4. (CoStar is a leading provider of information, analytics and online marketplaces to the commercial real estate industry.)

[12] Yardi, *2019 Multi-family Market Update*, p. 3 of 71 (Nov. 6, 2019) (webinar presentation).

[13] Yardi, *2019 Multi-family Market Update*, p. 19 of 71 (Nov. 6, 2019) (webinar presentation).

[14] *See, e.g.*, Timothy Williams, *Is Your Rent Through the Roof? Oregon Wants to Fix That*, New York Times, Feb. 25, 2019.

[15] *See, e.g.*, Conor Dougherty and Luis Ferré-Sadurní, *California Approves Statewide Rent Control to Ease Housing Crisis*, New York Times, Sept. 11, 2019. "In an indication of how dire housing problems have become, [that law] also garnered the support of the California Business Roundtable, representing leading employers, and was unopposed by the state's biggest landlords' group." *Id.*

[16] *See, e.g.*, Dougherty and Ferré-Sadurní, Sept. 11, 2019.

In addition, "New York, with Democrats newly in control of the State Legislature, strengthened rent regulations governing almost one million apartments in New York City."[17]

Economists caution that rent control is problematic for the housing market because, for example, it tends to discourage the production of needed, new rental housing.[18]

Homelessness

"There have been notable reductions in homelessness over the past decade."[19] Despite that progress, however, "the unsheltered population is on the increase—particularly in certain high-cost Western states."[20] Overall, homelessness edged up 0.3 percent in 2018, to 552,830, from 550,996 in 2017, based on the U.S. Dep't of Housing and Urban Development's (HUD's) Point-in-Time (one-day) survey. "While the number of people in shelters (65 percent of the homeless population) dropped slightly, the number of unsheltered homeless people rose by 2.3 percent."[21]

The rapid loss of low-rent housing aggravates the challenge of homelessness in America.

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[17] *See, e.g.*, Dougherty and Ferré-Sadurní, Sept. 11, 2019.

[18] *See generally, e.g.*, WILLIAM A. FISCHEL, *ZONING RULES! THE ECONOMIC OF LAND USE REGULATION* 367 (LINCOLN INST. OF LAND POLICY, 2015).

[19] *SONH 2019*, p. 5.

> According to HUD's [the U.S. Dep't of Housing and Urban Development's] annual point-in-time counts, the number of people experiencing homelessness fell by 87,000 from 2008 to 2018 and by some 38,000 in the last five of those years. This progress reflects an expansion of permanent supportive housing and the widespread adoption of the "housing first" model that provides housing without preconditions for changes in behavior. The improvements have been most evident among populations that have received targeted efforts and resources—veterans, families, and the chronically homeless.

Id.

[20] *SONH 2019*, p. 5.

> The problem is most acute in California, where the number of unsheltered homeless grew by 25 percent in 2014–2018, to 89,500. Other states with sharp increases in their unsheltered homeless populations are Washington (up 80 percent over this period, to 10,600), Colorado (up more than 100 percent, to 4,300, and Oregon (up nearly 50 percent, to 8,900). *Id.*

[21] *SONH 2019*, p. 5.

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> In 2016–2017 alone, the stock of units renting for less than $800 fell by 1 million or 4.9 percent. Moreover, the number of units in this rent range decreased every year since 2011, bringing the total net decline to four million (17 percent).[22]

The people at greatest risk of homelessness generally are renter households with incomes at or below the poverty line or 30% of the area median income (AMI), whichever is greater ("extremely low-income" households).

> Extremely low-income renter households in the U.S. face a shortage of seven million affordable and available rental homes. Only 37 affordable and available homes exist for every 100 extremely low-income renter households."[23]

There is a "powerful connection between homelessness and access to housing people can afford," according to the U.S. Inter-Agency Council on Homelessness.

> When housing costs are more affordable and housing opportunities are more readily available, there is a lower likelihood of households becoming homeless, and households who do become homeless can exit homelessness more quickly and with greater likelihood of sustaining that housing long-term.[24]

Housing costs in EHI's local emphasis area---Metropolitan Washington, DC

According to Yardi Matrix, metro DC rents were up 3.5 percent year-over-year through June 2019—20 basis points above the U.S. average—although metro metro had the second-largest multifamily pipeline in the country (after Dallas, TX). That was the first time since late 2011 that the metro's year-over-year rent growth rate exceeded the national average. [25]

However, the news was a little better for working-class renters in metro DC. Their average rent increase was only up 3.2 percent, compared to 3.8 percent for high-end apartments in the area. It was the first time since 2010 that year-over-year rent growth in upscale assets last managed to outperform those in the working-class segment. Yardi

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[22] *SONH 2019*, p. 29.

[23] NLIHC, *The Gap: A Shortage of Affordable Homes*, p. 1 (March 2019).

[24] U.S. Inter-Agency Council on Homelessness (USICH), *The Importance of Housing Affordability and Stability for Preventing and Ending Homelessness*, p. 1 (May 2019).

[25] Yardi Matrix, *Washington, D.C. Multifamily Market Analysis, Summer 201*9, pp. 1-2.

concludes: “Considering job growth deceleration and the city’s solid pipeline, we expect the average rate in metro D.C. to advance 2.6% in 2019.”[26]

The home-buying frenzy near Amazon’s new HQ2 in suburban Arlington and Alexandria seems responsible for some of the overall increase in rents in the DC area. Recent reports indicate that one year after its November 2018 announcement of plans for a second headquarters in Northern Virginia, housing prices near that headquarters have shot up as much as 33 percent. For more on the Amazon effect, please click on EHI’s website article: ONE YEAR AFTER AMAZON’S HQ2 ANNOUNCEMENT, HOUSING PRICES CONTINUE TO SOAR.

[26] Yardi Matrix, *Washington, D.C. Multifamily Market Analysis, Summer 201*9, p. 3. In 2018, the cost to own one’s home in the DC metro increased to near parity with the cost to rent (as a percentage of income), for the first time since 2010. *Id.*, p. 5.