EQUITABLE HOUSING INSTITUTE

Promoting housing affordability by removing regulatory barriers

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Despite rising wages, housing costs remain daunting in 2018 for high percentage of low- and moderate-income Americans

Pattern of low rental cost increases continues in EHI's local emphasis area (Washington, DC, region)

There was good news on wage growth for low- and moderate-income Americans this Fall, but housing costs continued to rise at a higher rate than wage gains. Wages rose an average of 2.9 percent from September 2017 to September 2018, according to the Labor Department's Employment Cost Index for civilian workers. That increase was the largest since 2016. [1]

However, when adjusted for inflation—notably in gas prices and rent—workers' wages grew only 0.6 percent over the year.[2] The average cost of renting one's primary residence rose about 3.6 percent during that period—continuing a long pattern of increasing at a faster rate than overall inflation and wages.[3] (Rental housing costs are 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.[4])

In the Washington, DC, area (where EHI has concentrated its local advocacy), a strong housing construction sector has kept rental cost increases well below national averages.

[1] Heather Long, *U. S. workers see fastest wage growth in a decade, but inflation takes a toll*, Wash. Post, October 31, 2018 (Long). "Unemployment is at a 49-year low and . . . consumer confidence is at the highest level since 2000, largely because people think job opportunities are plentiful," according to the Conference Board's Consumer Confidence Survey released October 30.

[2] Long.

[3] U.S. Bureau of Labor Statistics (BLS), *Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category, September 2018*.

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

For example, rent increases in that area were under the 2.2 percent rate of general inflation, year-over-year as of the first quarter of 2018 (along with many other major apartment markets tracked by RealPage).[5]

With the exception of the DC area, only secondary and smaller housing markets (such as fast-growing Austin, Boise, Charlotte, Des Moines, and Raleigh/Durham) have seen stable or rising population growth since 2015.[6] Also, job growth generally has been greater in secondary and tertiary urban markets than in the nation's largest metropolitan areas ("Gateway Cities") since the beginning of 2017.[7] The 2017 federal tax reform statute appears likely to accelerate those patterns.[8]

The prevalence of exclusionary housing practices (a/k/a regulatory barriers to housing affordability) in the nation's largest and most productive metros certainly have been a major cause of population and job growth shifting to smaller urban areas. Recent economic studies have shown that exclusionary zoning and other housing-related, exclusionary policies in the nation's largest metros have been stunting Americans' migration to them—and the nation's economic growth.[9] For more, please click on INTERSTATE EFFECTS OF REG. BARRIERS (2015).

The national picture

Cost burdens

At last measure (in 2016), about 38.1 million households spent more than 30 percent of their incomes on housing (which is the standard definition of "cost burdened")."[10] There has been progress recently in reducing the number of cost-burdened American

[5] Joint Center for Housing Studies, Harvard Univ., *The State of the Nation's Housing 2018 ("SONH 2018")*, p. 28.

[6] Yardi Matrix, *2018 Multi-family Market Update* (Nov. 8, 2018) (webinar presentation, p. 50). Yardi Matrix is a major commercial apartment information service which monitors the nation's largest (50+ unit) apartment buildings.

[7] Yardi Matrix, *2018 Multi-family Market Update* (Nov. 8, 2018) (webinar presentation, p. 49).

[8] Yardi Matrix, *2018 Multi-family Market Update* (Nov. 8, 2018) (webinar presentation, p. 51).

[9] *See, e.g.,* Peter Ganong and Daniel Shoag, *Why Has Regional Income Convergence in the U.S. Declined?* NBER Working Paper 23609 (July 2017), posted at: http://www.nber.org/papers/w23609; Chang-Tai Hsieh and EnricoMoretti, *Housing Constraints and Spatial Misallocation*, NBER (May 18, 2017).

[10] *SONH 2018,* p.5.

homeowners. However, the lion's share of that reduction has been for homeowners with annual incomes of $45,000 or more.[11]

Among homeowners earning less than $30,000, 63 percent are cost-burdened, and 42 percent are "severely cost-burdened" (they pay 50 percent or more of their income for their housing). "Among low-income owners with mortgages, a staggering 93 percent are cost burdened."[12]

As to renters, the share that was cost-burdened decreased from a peak of 51 percent in 2011 to 47 percent in 2016. That reduction (500,000 households) was dwarfed, however, by the overall increase of 6.5 million such households between 2001 and 2014.[13] "In addition, the number of severely burdened renters rose by 3.6 million between 2001 and 2016."[14] The renter share of U.S. households stands near its 50-year high of 37 percent.[15]

> The cost-burdened share of renters doubled from 23.8 percent in the 1960s to 47.5 percent in 2016 as housing costs and household incomes steadily diverged, with the largest increases occurring in the 2000s. Adjusting for inflation, the median rent payment rose 61 percent between 1960 and 2016 while the median renter income grew only 5 percent. The pattern for homeowners is similar, with the median home value increasing 112 percent and the median owner income rising only 50 percent.[16]

"Cost-burdened shares continue much higher among black (45 percent) and Hispanic households (43 percent) than among Asian and other minority households (36 percent) or white households (27 percent)." [17]

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[11] *SONH 2018*, p. 30 ("the overall number of cost-burdened households fell by 4.6 million between 2010 and 2016. Much of this improvement, however, reflects a 3.8 million decline in the number of cost-burdened owners with incomes above $45,000."

[12] *SONH 2018,* p. 30.

[13] The national rental vacancy rate rose in 2017 for the first time since 2009--from 6.9 percent to 7.2 percent—according to the Census Bureau. Most of the easing was among high-end (Class A) rentals, however. *SONH 2018,* p.5.

[14] *SONH 2018,* p.5.

[15] *See SONH 2017,* p. 25.

[16] *SONH 2018,* p.5. "[S]ince 2001, the fastest growth in cost burden shares has been among moderate-income renters. For example, the share of cost-burdened renters making $30,000-$45,000 (in constant dollars) rose from 37 percent in 2001 to 50 percent in 2016. During the same time frame, the share of cost-burdened renters making $45,000-$75,000 nearly doubled from 12 percent to 23 percent." Harvard JCHS, *Housing Perspectives Blog*, July 5, 2018.

[17] *SONH 2018,* p. 31.

> Even among households within the same income groups, larger shares of minorities than whites are cost burdened. The cost-burdened rates for black and Hispanic households have also increased more rapidly in recent years than for other groups, rising 3 percentage points in 2001–2016 compared with 1 percentage point for white households and an even smaller uptick for Asian and other minority households." [18]

Continued loss of lowest-cost units, despite multi-family construction surge

Multi-family construction increased rapidly after the 2008-09 mortgage meltdown, as rental demand surged.

> From a low of 109,000 units in 2009, construction of multifamily units peaked at 397,000 starts in 2015 and accounted for more than half the gains in housing starts over that period. However, the multifamily construction wave is now moderating, with starts down 1 percent in 2016 and 10 percent in 2017.[19]

However, the recent surge in rental construction has not stemmed the continuing loss of lowest-cost units, indicating "that older rental units have not filtered down to more affordable levels in many parts of the country."[20]

> Between 2006 and 2016, the total number of occupied rentals was up by 21 percent, but the number renting for under $650 *in real terms* fell by 5 percent. Over this same period, the lowest-cost rental stock shrank by more than 10 percent in 153 of the nation's 381 metros and by more than 20 percent in 89 metros.[21]

Serious tradeoffs for low-income households with housing cost burdens

According to Harvard's JCHS:

> Households in the bottom income quartile saw their housing costs rise and their incomes fall between 2001 and 2016. As a result, the amount they

[18] *SONH 2018*, p. 31.

[19] *SONH 2018*, p.4.

[20] *SONH 2018*, p.5.

[21] *SONH 2018*, p.5. (emphasis added)

> had left over each month to pay for other basic needs declined from $730 to just $590 in real terms over this period.[22]

Households with children in the bottom income quartile had an average of just $490 to spend monthly, after paying for housing. “By the Economic Policy Institute’s measure, families with children that live in even the most affordable metros need at least $2,700 per month to cover essential non-housing expenses.”[23]

Further: “Severely burdened older households in the bottom expenditure quartile spent 70 percent less each month on healthcare costs than otherwise similar households without burdens.”[24] Those households also spent about 65 percent less on food.[25]

Increasing shortfall in housing assistance

> In the three decades since the first State of the Nation’s Housing report appeared, the number of very low-income families has soared by 6 million, to more than 19 million. At the same time, federally subsidized rental housing has increased by only 950,000 units while the low-cost stock (with rents under $800 in real terms) has shrunk by some 2.5 million units.[26]

Wait times for HUD subsidies averaged 27 months in 2017, ranging from about 18 months for public housing to 32 months for vouchers. Many cities have closed their waiting lists for both of these types of assistance.[27] If and when a HUD voucher becomes available, the recipient has only 60–120 days to find eligible housing in the private market. “Even when given extensions, . . . voucher holders may have difficulty renting appropriate housing because landlords in many cities can refuse to accept vouchers.”[28]

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[22] *SONH 2018*, p. 31. “In sharp contrast, households in the highest quartile saw their incomes climb significantly in 2001–2016 while their monthly housing costs increased only $20, leaving $10,600 each month for all other expenses.” *Id.*

[23] *SONH 2018*, p. 31.

[24] *SONH 2018*, p. 31.

[25] *SONH 2018*, p. 32, Figure 34.

[26] *SONH 2018*, p. 36.

[27] *SONH 2018*, p. 33.

[28] *SONH 2018*, p. 33.

Progress, and signs of plateauing, on homelessness

The January 2017 Point-in-Time (PIT) count, the most recent national estimate of homelessness in the United States, identified 553,742 people experiencing homelessness on the January night when the count was conducted.[29] That total represented the lowest rate since PIT data collection began in 2007. However, the overall *number* of people experiencing homelessness during the 2017 PIT count actually increased nationally by 0.7 percent over 2016.[30]

Since 2007, homelessness has decreased nationally across every category measured. During the period:

> Overall homelessness decreased 14.4 percent. The most dramatic decreases have been among veterans (34.3 percent), individuals experiencing chronic homelessness (27.4 percent), and people living in unsheltered locations (24.6 percent).[31]

Those decreases were brought about in part by successes in reducing the number of homeless veterans (who receive veterans' benefits that can be applied to housing costs), and in rapid re-housing for chronically homeless and unsheltered homeless people (a "Housing First" approach).[32]

However, those dramatic reductions may be plateauing. In the 2017 PIT count, the number of homeless veterans increased 2 percent, individuals experiencing chronic homelessness increased by 12 percent, and people experiencing homelessness in unsheltered locations increased 9 percent, over 2016.

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[29] U.S. Dep't of Housing and Urban Development, *2017 Annual Homeless Assessment Report (AHAR) to Congress*, p. 1 (Dec. 2017) ("*HUD AHAR 2017*").

[30] National Alliance to End Homelessness (NAEC), *Homelessness in America,* https://endhomelessness.org/homelessness-in-america/homelessness-statistics/state-of-homelessness-report/ (last accessed November 28, 2018).

[31] NAEC.

[32] NAEC.

> Over the last decade, a shift has occurred in homeless assistance, placing a greater emphasis on permanent housing solutions (such as permanent supportive housing and rapid re-housing) and less emphasis on transitional housing programs. Permanent housing interventions account for about half of the beds in the U.S. overall (52.8 percent). *Id.*

Washington, DC, area market

Rents in the Washington, DC, region rose 1.9% year-over-year through August 2018, trailing the 3.1% figure for the nation as a whole. Working-class rents ("Renter-by-Necessity" rents by Yardi's classification) were up 2.1% during that period, to $1,548.[33]

The average rent increase in the DC area was down to approximately the same rate as overall inflation for that one-year period.[34] "With roughly 10,700 apartments expected to come online for the year and factoring in job growth, demand and supply are likely to keep rent growth tepid in the foreseeable future. We expect rents to advance 1.4% in 2018."[35] However, at $1,792, the average rent remains well above the $1,412 level for the nation as a whole.[36]

For background information on reasons for the DC region's much lower average rent increases since 2013, please click on EHI HELPS ITS HOME REGION TO MUCH-IMPROVED RENTAL HOUSING COST RECORD, and HOUSING MARKET PERFORMANCE 2017.

Effects of regulatory barriers to housing affordability

Exclusionary housing policies (a/k/a regulatory barriers to housing affordability) continue to be prime culprits in the nation's stubborn housing affordability challenges for low- and moderate-income people. To recap some of the recent evidence discussed above:

- Americans are migrating increasingly to the nation's smaller cities, rather than its largest metros—where wage rates are higher, but where suitable housing opportunities are much less available and affordable.[37]

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[33] Yardi *DC* Fall 2018, p. 3.

[34] Overall inflation was somewhere between the 2.5% figure reported by BLS for the year ending in July 2018, and the 2% figure BLS reported for the year ending in September 2018 (it does not report the August figure). By contrast, the area's inflation rate for housing was close to double the overall inflation rate of 6% for 2012-2017.12%. *See* BLS Data Viewer (https://beta.bls.gov/dataViewer/view/timeseries/CUURA311SA0, (last accessed November 20, 2018); and BLS, *Consumer Price Index Historical Tables for Washington-Arlington-Alexandria, DC-MD-VA-WV, 2008-2018*.

[35] Yardi *DC* Fall 2018, p. 2. However, overall housing production

[36] Yardi *DC* Fall 2018, p. 3.

[37] The prevalence of exclusionary zoning and other exclusionary, housing-related policies in the nation's largest metros—which have not been gaining population and jobs for several years—has been shown to stunt Americans' migration to them, and thus the nation's economic growth. *See, e.g.,* Peter Ganong and Daniel Shoag, *Why Has Regional Income Convergence in the U.S. Declined?* NBER Working Paper 23609 (July 2017), posted at:

- The average cost of renting one's primary residence rose about 3.6 percent, nationwide during the year ending in September 2018—continuing a long pattern of those costs increasing at a faster rate than overall inflation and wages.
- Among homeowners with mortgages and less than $30,000 annual household income, fully 93 percent are housing cost-burdened.
- The number of severely cost-burdened renters rose by 3.6 million between 2001 and 2016, and the overall number of cost-burdened renters increased by 6 million during that period.
- The recent surge in rental construction has not stemmed the continuing loss of lowest-cost units, which indicates that older units have not filtered down to more affordable levels in many parts of the country.
- The low-cost rental housing stock (units with rents under $800, inflation-adjusted) has shrunk by some 2.5 million units in the last 30 years.

Federal programs have been of limited help. For example, while the number of households eligible for rental housing vouchers has soared by 6 million since 1987, only 950,000 additional vouchers have been funded during that period.

> For their part, state and local jurisdictions also have opportunities to reduce housing costs through regulatory reform. Allowing higher-density development and simpler housing designs, as well as streamlining approval processes, would enable and incentivize builders to supply homes affordable to a broader range of incomes.[38]

Too many state and local jurisdictions have permitted unwarranted restrictions of those kinds, and other regulatory barriers to housing affordability. And despite its limited authority over local land use, the federal government apparently could prohibit regulatory barriers to housing affordability in areas where those practices are shown to adversely affect interstate commerce (or violate fundamental rights of Americans)—including in large metropolitan areas. For more, please click on INTERSTATE EFFECTS OF REG. BARRIERS (2015).

http://www.nber.org/papers/w23609; Chang-Tai Hsieh and EnricoMoretti, *Housing Constraints and SpatialMisallocation*, NBER (May 18, 2017).

[38] *SONH 2018*, p. 36.