Affordable Rental Housing — A Lesson in Supply and Demand

On July 15, 1949, the Housing Act of 1949 was signed into law which set forth the ambitious goal of a “decent home and a suitable living environment for every American.” Despite this lofty goal, America is facing a housing affordability crisis today. Millions of families, senior citizens, and veterans struggle to keep a roof over their head because they cannot afford their rent. Yet in communities across the nation, rents continue to rise while incomes of many renters remain stagnate. Perhaps the most visible symptom of this affordability crisis is homelessness, which has become a growing problem in communities across the nation.

The federal government has tried its hand at addressing this housing crises, including through programs such as the Low-Income Housing Tax Credit (LIHTC), HUD Section 8 Rental Assistance and housing choice vouchers which have provided much needed incentives to develop, own and operate rental housing that is affordable. However, funding levels for these programs have remained well below that needed to adequately address the challenge.

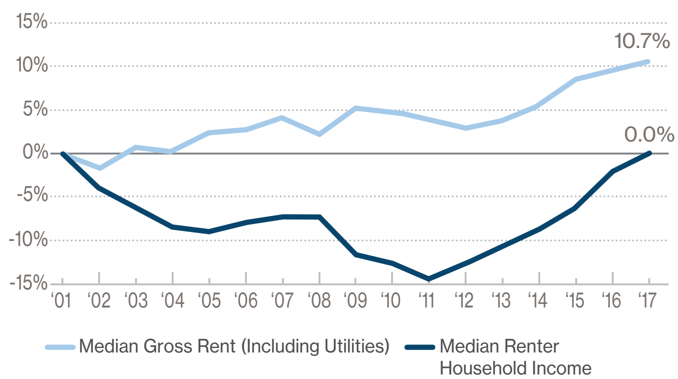
GROWING DEMAND

Renter households make up a large percentage of American society. More Americans – a total of 43.3 million households – are renting now than any time in the last 50 years.[1] These include our nation’s senior citizens, working families, professionals, veterans and students.

Exhibit 1

Renters’ Incomes Haven’t Caught Up with Housing Costs

Percent Change Since 2001, Adjusted for Inflation



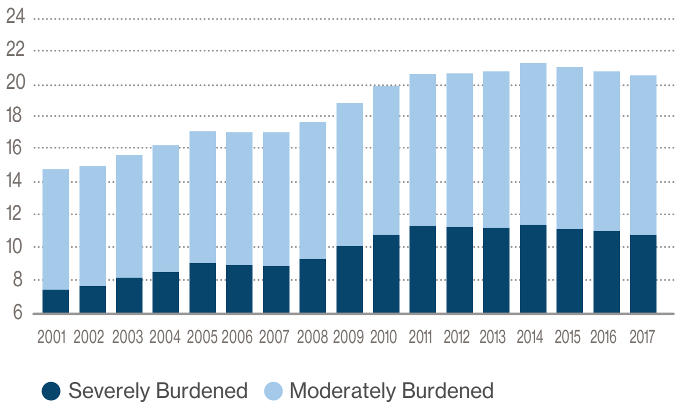
Source: CBPP tabulations of the Census Bureau’s American Community Survey.

Adapted from The Center on Budget and Policy Priorities, retrieved from http://www.bibme.org/citation-guide/apa/website/

Exhibit 2

. . .The Number of Cost-Burdened Renters Remains Close to Peak Levels

Renters with Cost Burdens (Millions)



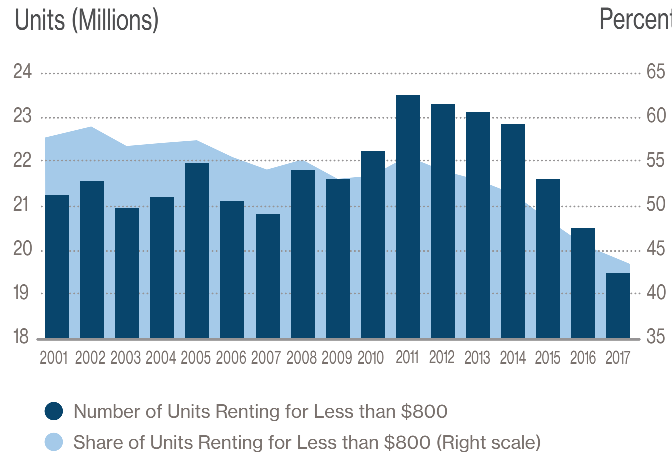
Notes: Cost-burdened (severely cost-burdened) households pay more than 30% (more than 50%) of income for housing. Households with zero or negative income are assumed to have burdens, while households paying no cash rent are assumed to be without burdens.

Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

Adapted from *The State of the Nation's Housing 2019*, Joint Center for Housing Studies of Harvard University, 2019, Figure 32, p. 32.

Exhibit 3

The Low-Rent Stock Has Shrunk by Four Million Units Since 2011



Notes: Contract rents are adjusted to 2017 dollars using the CPI-U for All Items Less Shelter.

Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

Adapted from *The State of the Nation's Housing 2019*, Joint Center for Housing Studies of Harvard University, 2019, Figure 3, p. 4.

The median household income of all renters is $38,944, or roughly 65% of the median income of all households in the United States. As shown in Exhibit 1 on the previous page, when compared to rental housing costs, which have risen more than 10% between 2001 and 2017, renters' incomes have continued to lag. While renters' incomes on the whole have risen since the Great Recession, they have only gained back what they lost since 2001 after adjusting for inflation.[2]

The lower a resident is on the income scale, the greater the risk that resident is going to struggle with the cost of housing. With stagnate incomes and housing costs on the rise, more and more Americans are considered cost burdened and struggling to keep up with the rising cost of housing.

Cost-burdened renters are those households that are spending more than 30% of their income on housing costs. In the United States, the number of cost-burdened renter households stood at 20.5 million in 2018 (see Exhibit 2). This represents 47.4% of all renters and is 5.7 million (27.8%) more than the number of cost-burdened households in 2001.[3]

Also shown in Exhibit 2, these cost burdened renters make up a large section of the workforce and include medical assistants, teacher assistants, office and accounting clerks, customer service reps, retail service managers and a host of other participants in the workplace.[4] A total of 10.7 million of these renter households are severely housing cost burdened, which means they are paying more than 50% of their incomes in rent.

To emphasize this point, a family with one full-time worker earning the minimum wage cannot afford the local fair-market rent for a two-bedroom apartment anywhere in the United States.[5]

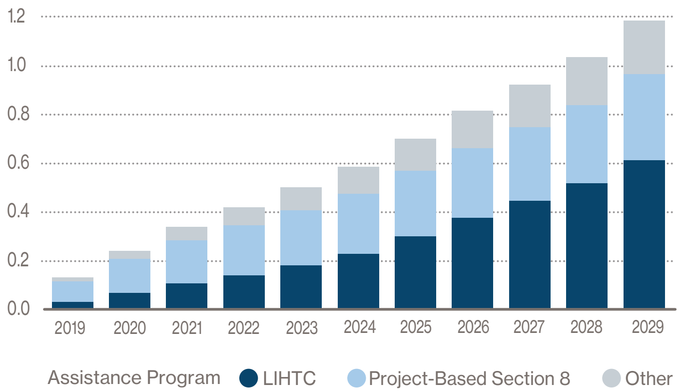
SHRINKING SUPPLY

While demand for affordable rental homes is on the rise, the supply of this basic necessity continues to shrink. According to the *2019 State of the Nation's Housing* by the Joint Center for Housing Studies of Harvard University (JCHS), the supply of affordable units (units renting for less than $800 and affordable to those making $32,000 or less) has fallen every year since

Exhibit 4

Affordability Restrictions on Nearly 1.2 Million Rental Units Are Set to Expire by 2029

Cumulative Units with Expiring Affordability Period (Millions)



Notes: Data include properties with active subsidies as of January 1, 2019. Other includes units funded by HOME Rental Assistance, FHA Insurance, Section 236 Insurance, Section 202 Direct Loans, USDA Section 515 Rural Rental Housing Loans, and units in properties with more than one subsidy type expiring on the same day. Estimates for properties with multiple subsidies with different expiration dates are conservative. The NHPD does not account for state incentives to extend affordability restrictions or for potential early departures from the programs.

Source: JCHS tabulations of Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, National Housing Preservation Database.

Adapted from *The State of the Nation's Housing 2019*, Joint Center for Housing Studies of Harvard University, 2019, Figure 35, p. 34.

2011. As shown on Exhibit 3, a total of 4 million units, or 17% of total affordable rental housing stock, were removed from the nation's housing inventory during this time.

Nearly 5 million assisted affordable units have been developed over the past 40 years through the LIHTC program, HUD rental assistance programs and various federal grants, mortgage insurance and interest rate subsidies. In general, these programs service tenants earning no more than 60 percent of AMI by restricting the rents or subsidizing rents the tenants pay. Most of the restrictions and subsidies have expired or are soon to expire. As shown in Exhibit 4, 1.2 million units with affordability restrictions are set to expire by 2029.

The demand-supply imbalance for low-income households is undeniable and unfortunately has no immediate relief despite the many well-intentioned policies. Growth forecasts predict new renters will exceed that of new homeowners over the next 25 years, creating additional competition for apartments which will likely further increase pressure on rents.

RISING COSTS AND REGULATORY BURDENS

A major factor contributing to the dwindling supply of affordable communities is that the existing stock is being replaced with more expensive, market-rate apartments, luxury condos and other commercial properties. This is due to a confluence of factors, including:

- Rising construction costs.
- Growing regulatory burdens.
- Challenges affordable housing developments face in local communities.

Construction costs have increased 21% between 2008 and 2016, far outpacing inflation.[6]

The growing regulatory cost to construct housing is another key contributor to the barriers of developing affordable housing. According to a 2018 study by the National Association of Home Builders (NAHB), 32.1% of the cost to build an apartment, on average, is linked to regulations imposed by local, state and federal government. In some areas such costs account for 42%. Regulatory costs can include building permit fees, utility hook-up fees, guarantee fees and impact fees.

The burden of addressing local opposition to the development of affordable housing, otherwise known as "not in my backyard" (NIMBY) groups, is an additional cost that often goes unreported. Such groups have become exceedingly vocal against new affordable housing communities and often contribute to costly delays if not outright prohibition of affordable housing developments.

Higher costs cut into and/or eliminate the smaller profit margins associated with the development of affordable housing. Multifamily developers, not surprisingly, have turned almost exclusively to building luxury apartments to afford the increased costs and regulatory burdens. In fact, 80% of new units in the largest metropolitan areas are aimed at the luxury market[7] which means that new construction has become increasingly less affordable to low-income renters.

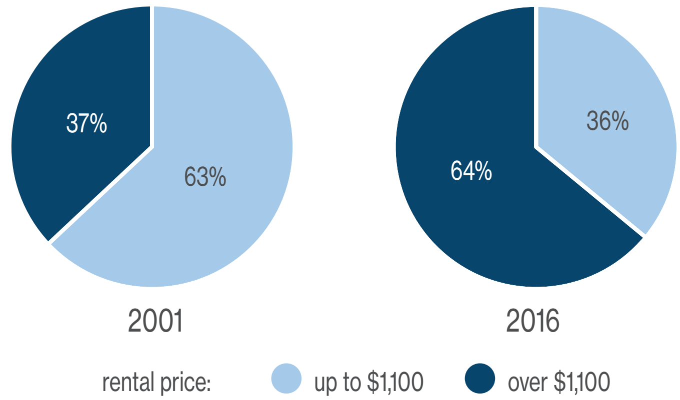
As shown in t 5:

- The share of new housing stock renting above $1,100 has increased from 37% in 2001 to 64% in 2016, while the share of new stock renting below $1,100 per month declined from 63% in 2001 to 36% in 2016.

With soaring construction costs, increased land use regulations and local opposition to affordable rental housing, new apartment supply is expected to continue targeting high rents.

Exhibit 5

Composition of New Rental Stock 2001 vs. 2016



Source: American Community Survey, 1-year estimates

REFERENCES

1 Pew Research Center, July 2017. http://pewrsr.ch/2vBv11C

2 Center on Budget and Policy Priorities – *Census: Renters' Incomes Still Lagging Behind Housing Costs,* September 13, 2018.

3 Joint Center For Housing Studies of Harvard University, *State of the Nation's Housing 2019,* pg. 31.

4 National Low Income Housing Coalition, *Out of Reach 2019: California,* https://reports.nlihc.org/oor/california

5 *Out of Reach 2019,* https://reports.nlihc.org/oor/about

6 Turner Building Cost Index, http://www.turner construction.com/cost-index

7 Williams, S., 2015. *Preserving Multifamily Workforce and Affordable Housing,* https://uli.org