NATIONAL MULTIFAMILY HOUSING COUNCIL

National Trends

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

National Trends

The combination of a **shortage in rental housing, rising development costs, and stagnant incomes** are driving the growing housing affordability crisis affecting U.S. cities.

SHORTAGE IN RENTAL HOUSING

Growing rental demand, limited new construction, and rising development costs have caused rents to rise.

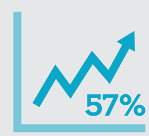
The supply of rental housing units affordable to households earning less than $75,000 did not keep up with demand from 2000 to 2016.

6.3M	New renter households earning under $75K
– 3.2M	Change in rental housing units affordable to them
3.1M	Shortage of rental housing units

RISING DEVELOPMENT COSTS

Development costs are rising, and rents must rise to cover the increased costs.

The cost to develop a new apartment building has risen more than twice as fast as inflation since 2000, increasing the rent that must be charged to support new development.



Real hard costs (materials and labor) increased by 57%.

Land costs increased 100%.

STAGNANT INCOMES

At the same time, renter incomes have stagnated.

The real median renter income declined by 5.5% from 2000 to 2016, leaving the median renter with $175 less per month.

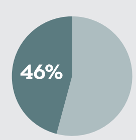
Renter income declined by 5.5% from 2000 to 2016.

The median renter household income was $175 less per month.

AFFORDABILITY CHALLENGES SPREAD

Stagnant incomes paired with rising rents have led to growing affordability challenges.

20.2 million renter households – 46% of all renters – struggled to afford rent in 2016. Middle-income renters experienced the largest increase in cost-burdened households* since 2000.



46% of all renters struggled to afford rent.

129% increase of middle-income burdened renters.

*Those paying more than 30 percent of their income in housing costs.
Source: Craftsman Cost Data, ACS, U.S. Census, HR&A analysis

Shortage in Rental Housing

Rental demand is outpacing supply, leading to growing affordability challenges that are spreading beyond low-income households.

The U.S. needs to produce 4.6 million new apartments by 2030 to keep up with demand. This equates to 328,000 new apartment homes every year. We have only hit that number three times in the past 30 years.

THE PLIGHT OF LOW- AND MIDDLE-INCOME RENTERS BETWEEN 2000 AND 2016

Between 2000 and 2016...

6.3 MILLION

additional low- and middle-income households entered the rental market

3.2 MILLION

additional units affordable to them were added.

3.1 MILLION

This left a shortage of 1.2 million new units for these renters, resulting in competition for existing units that drives up rents.

> **"Housing [affordability] issues are a product of economic growth in the city bumping against strict zoning constraints. That's what leads to the unaffordability problem."**
>
> – David Shulman, Senior Economist at UCLA's Anderson School of Management, 2016

Between 2000 and 2016, 6.3 million net new low- and middle-income households (those earning less than $75,000) entered the rental market. But only 3.2 million rental units affordable to them were added.

The shortage in new supply against the backdrop of historically high rental demand has led to rising rents. Increased development for middle-income renters can reduce pressure on existing rental properties.

> **"More private development [is] associated with less displacement. More supply places downward pressure on prices and rents."**
>
> – California Legislative Analyst's Office, 2016

Source: CoStar, ACS, U.S. Census, HR&A analysis

Shortage in Rental Housing: The Changing Renter

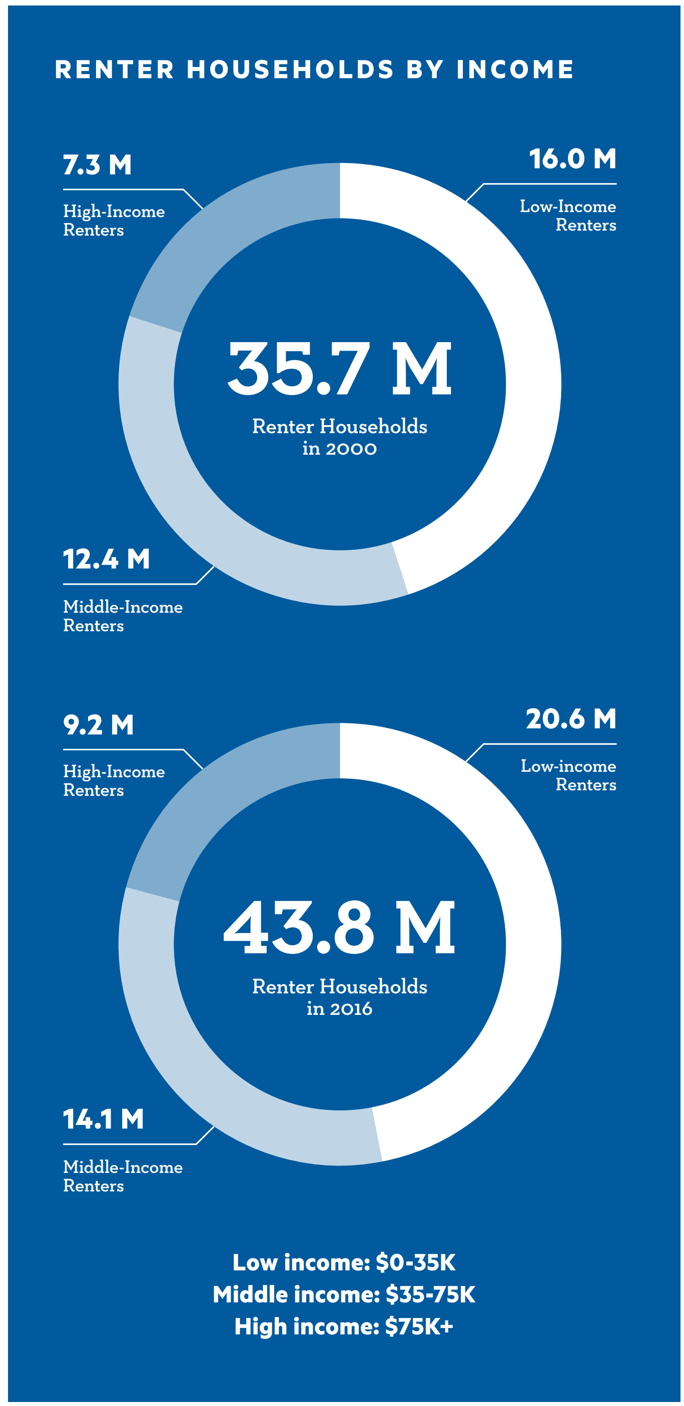
Renting has become an increasingly popular lifestyle choice. With more middle- and high-income households choosing to rent, there is more competition for the existing supply of rental housing.

Rental demand is at an unprecedented level. Since 2000, the number of renter households grew by more than **8 million.** The number of middle- and high-income renters has increased by 13% and 27%, respectively, since 2000.

> **"After a decade of broad-based growth, renter households are increasingly likely to have higher incomes, be older, and have children."**
>
> – America's Rental Housing, Harvard Joint Center for Housing Studies, 2017

This increased demand has contributed to an increase in the real median rent. These new "renters by choice" compete with existing renters if new supply is not added to the market. If new construction is sufficient, potential displacement as a result of this competition can be mitigated.

> **"If new construction targets rich people, then that leaves older dwellings free to be occupied by the middle class. If nothing new is built, the rich will outbid the middle class of existing structures and renovate them."**
>
> – Vox Co-Founder Matthew Yglesias, 2018



Source: CoStar, ACS, U.S. Census, HR&A analysis

Rising Development Costs

Development costs are rising, which means rents must rise to cover those increased costs.

The cost of construction materials and labor grew 57% from 2000 to 2016. Land costs, meanwhile, have almost doubled since 2000.

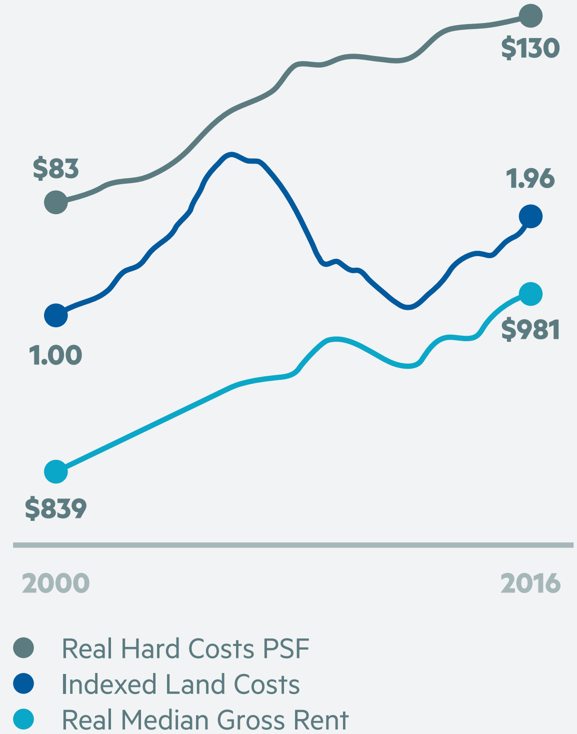
The cost to develop rental housing is rising due to increased development costs. These cost increases mean rents have to rise to make development viable.

This creates a barbell effect, where the market only produces high-end, high-rent apartments and low-rent units subsidized by the government. Units targeted to middle-income renters are not financially feasible because it costs more to build those units than middle-income renters can afford to pay.

In addition to rising land, labor and construction costs, state, local and neighborhood barriers add further to the cost of development and, therefore, lead to rising rents.

State and local governments have substantial control over development costs. Zoning policies, land use regulations and other state and local policies can add additional costs to new development. Alternatively, they can be reformed and streamlined to help reduce development costs.

Multifamily Development Cost and Rent Trends



> **"Over the past three decades, local barriers to housing development have intensified, particularly in the high-growth metropolitan areas increasingly fueling the national economy. The accumulation of such barriers – including zoning, other land use regulations, and lengthy development approval processes – has reduced the ability of many housing markets to respond to growing demand."**
>
> – Obama White House Housing Development Toolkit, 2016

Source: Craftsman Cost Data, Lincoln Institute, ACS, U.S. Census, HR&A analysis

Stagnant Incomes

Stagnant incomes for middle-income households are contributing to growing affordability challenges.

Incomes are falling for low-income households and are stagnant for middle-income households, causing rapid growth in affordability challenges. Since 2000, real household incomes have fallen for the bottom 40% of American households, while the middle 20% experienced almost no real household income growth.

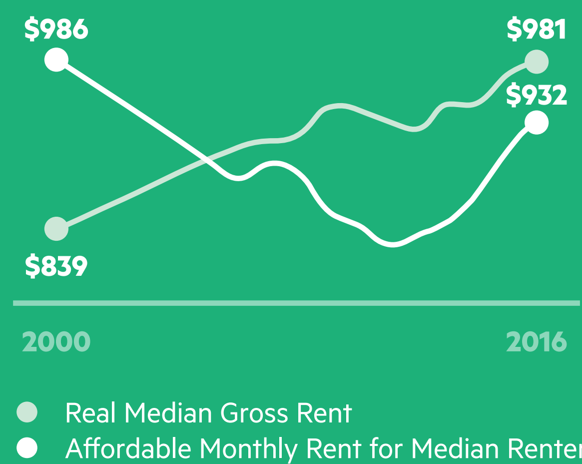
Real renter incomes have declined since 2000. In 2000, the median renter earned $39,400, falling to $37,300 in 2016. This leaves the median renter with about $2,000 less to spend on necessities, including rent.

There was a reduction of median renter household income between 2000 and 2016 by

-5.5%

When incomes do not keep up with rents, the affordability of housing declines. In 2000, the median renter household could afford to pay the median gross rent with $147 left over per month. By 2016, they were $49 short of being able to afford the median gross rent. For this reason, we see more middle-income households struggling to afford housing than we have in the past.

Real Median Gross Rent and Affordable Monthly Rent for the Median Renter



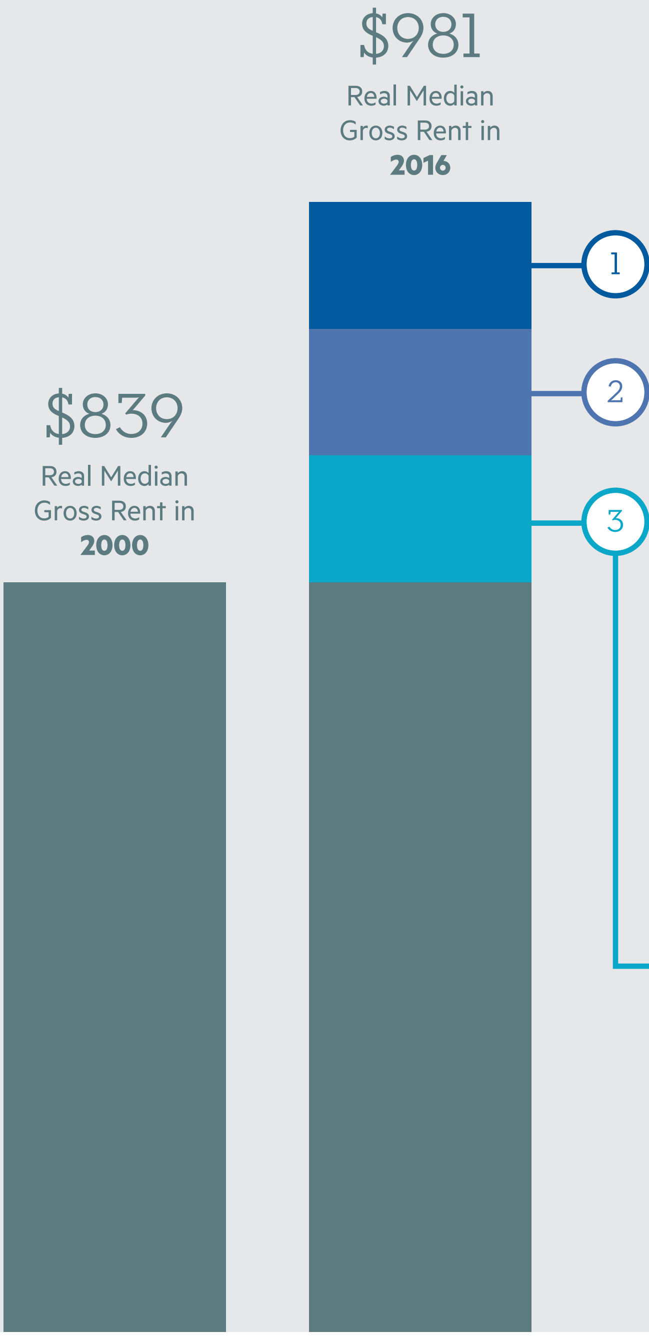
The percent of income the median renter would need to pay to afford median rent is

32%

Source: ACS, U.S. Census, HR&A analysis

Upward Pressure on Rents

There are three major causes behind the nationwide increases in rents.



DRIVERS OF NEW COSTS

1 Demand & Supply

Demand has outpaced supply, causing rents to rise through increased competition and consumer willingness to pay.

2 The Changing Renter

The growth of "renters by choice" means more demand for higher-quality units, which rent for more, causing average rents to rise. This also causes rents for less-high-quality units to rise when these new renters compete with existing renters, due to inadequate supply.

3 Development Costs

Rising land, labor and construction costs, as well as outdated local regulatory policies, increase the cost of new development and the rents needed to pay for it.

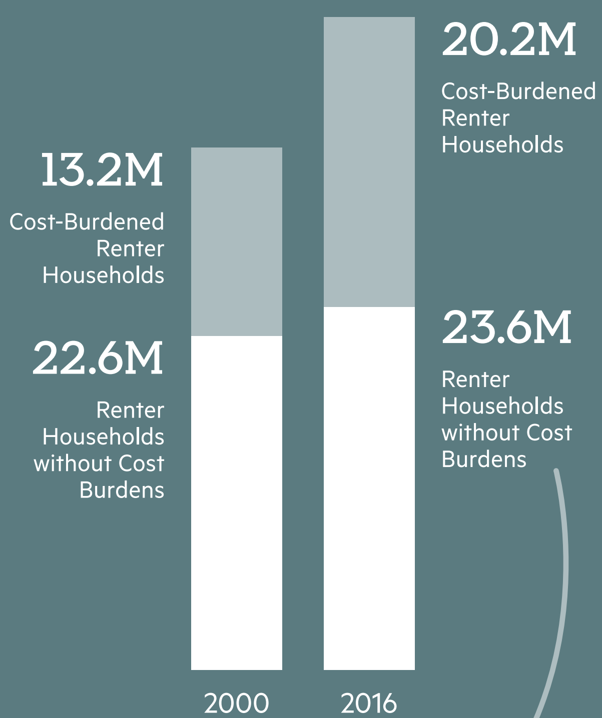
Source: ACS, U.S. Census, HR&A analysis

Affordability Challenges Spread

Housing affordability challenges have spread to middle-income households and beyond the high-cost coastal cities.

Today, more than 20 million renter households – 46% of all renters – struggle to afford rent. This number has increased by more than 50% since 2000.

REAL MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN RENTER



7MILLION
more cost-burdened households than in 2000

While housing affordability challenges continue to inordinately impact low-income households, the share of middle-income renters, earning between $35,000 and $75,000, who are rent-burdened increased dramatically between 2000 and 2016.

32%
of middle-income households were rent-burdened in 2016, up from 16% in 2000.

Housing affordability is now a major challenge throughout the country. In the past, high housing costs were confined to major coastal cities. This is no longer the case, as smaller cities and inland cities now struggle with real housing affordability issues.

> **“Over half of the mayors interviewed cited housing costs as one of the main reasons their constituents move, outpacing other key issues like schools, public safety, and jobs."**
>
> – 2017 Menino Survey of Mayors

Source: ACS, U.S. Census, HR&A analysis