Housing Affordability, Poverty, and Evidence: What should we do?

UC Center Sacramento
April 8, 2020
“It’s a disgrace that the richest state in the richest nation, succeeding across so many sectors, is falling so far behind to properly house, heal and humanely treat so many of its own people.”

— Gov. Gavin Newsom, 2020

"California is 49th out of 50 in the United States in per capita housing units. Only Utah can lay claim to being lowest in per capita production."

— Gov. Gavin Newsom, 2018
Severely Rent-Burdened Households
United States, California, & LA County
2000-2017

Sources:
Social Explorer; Census 2000;
American Community Survey 5-year Estimates (2010 & 2017)
CA has huge affordability problems, but there’s more

- Homelessness
- Segregation
- Gentrification and displacement
- COVID-19 is obviously going to make all of this unfathomably worse
“America has more than half a million homeless people, and nearly 1 in 4 live in California”
EXHIBIT 6.3: Estimates of Chronically Homeless Individuals
By State, 2018

Trends in segregation

- Small but steady declines in segregation by race in the last 40 years, particularly if we are talking about black/white segregation.

- Segregation by income is increasing over time. Since 1970, high-income households have increasingly segregated themselves into richer and richer enclaves, and concentrated poverty is rising as well.

- One way this manifests itself in CA is in continued decline of Black population from high-cost areas.

  - San Francisco’s Black population down to 5 percent (from 13 percent in 1970). LA County lost over 120,000 Black residents from 1980 to 2014.
Gentrification: MUCH bigger problem in California

- Most low-income people in US live in areas where the low-income population is concentrating, not being pushed out.

- But LA is a big exception: it is the only region where more residents live in areas that have experienced low-income displacement than low-income concentration.

- Cities where more than 10 percent of the population lives in areas that have undergone strong low-income displacement: Atlanta, Austin, Baltimore, Boston, Denver, Hartford, Houston, Long Beach, Los Angeles, New Orleans, New York City, Norfolk, Oakland, Philadelphia, Portland, Providence, Saint Louis, San Diego, San Francisco, Santa Ana, Seattle, Virginia Beach, and Washington, D.C.

- Best solution: build more housing in higher income neighborhoods.
So what do we do?
There are roughly three things we can do about housing affordability:

● Build more (supply)

● Give people money (subsidies)

● Price controls and other renter protections
Supply
California Since 1990 (1990 = 100)

- **Price (all transaction home price index)**
- **Population**
- **Jobs**
- **Building Permits**

Annual Production of Housing Units 1955-2015

Source: Construction Industry Research Board/ California Homebuilding Research Reports 2005, 2013, 2015; Graphic by HCD

But building more housing just benefits the rich!
Increase housing supply

● Research is unequivocal (Glaeser and Gyourko 2008; Hilber and Vermeulen 2010; Saiz 2010) that regional housing supply is necessary to stabilize prices.

○ Lens and Monkkonen (2016): metros with zoning regimes to limit housing supply and density are more segregated by income.

● Research is less certain about what happens in neighborhoods that receive new housing supply.

○ We definitely see more new housing where there is more demand. And sometimes we forget which came first.

○ Further, it seems more risky to not build where demand is rising. Then higher income people are likely to outbid incumbent households and/or influence landlords to raise rents.

● Best policy option: build more housing in higher income neighborhoods!
Evidence mounting that building housing has good localized effects too.

● Research by Yonah Freemark in Chicago found that upzoning did not increase housing supply but increased condo sales prices.

● Asquith, Mast, and Reed show new market-rate buildings lower nearby rents 5 to 7 percent and cause more people from lower-income neighborhoods to move in.

● Evan Mast, using data from 12 U.S. cities: New construction makes homes more affordable—even for those who can't afford the new units. Building 100 new market-rate units opens up the equivalent of 70 units in neighborhoods earning below the area’s median income. In the poorest neighborhoods, it opens up the equivalent of 40 units.
Expensive New Housing is a Consequence, not a Cause, of the Housing Crisis

- Most new housing is expensive (or a lot is)
- Most expensive housing isn’t new
- The hallmark of a housing crisis is the rapidly increasing price of older housing
- Housing that was once affordable becoming expensive

650 SQ FT, BUILT 1937 - $2,500 per month
Strong local incentives act against increasing housing supply
Local incentives

● Natural aversion to change, amplified by growing financial interest in housing values

● Multifamily housing seen as likely to attract low-income residents, Non-White people

● Developers are very unpopular

● Cities face *some* pressure to build, but A LOT of pressure not to

● Cities compromise: allow new housing, but only in some places, and with lots of conditions
A lot of multifamily housing, new and old, is not technically supposed to be there.
One Result: Development Slows, but Development *Intensity* Rises
Towers Rise, “Missing Middle” Fades

<table>
<thead>
<tr>
<th>Prevalence of 2-4 Unit Housing Structures, Major California Metro Areas, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Share of All Housing Units</td>
</tr>
<tr>
<td>Share Built Since 2000</td>
</tr>
<tr>
<td>Share Built Before 1940</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prevalence of 50-plus Unit Housing Structures, Major California Metro Areas, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Share of All Housing Units</td>
</tr>
<tr>
<td>Share of those Built Since 2000</td>
</tr>
<tr>
<td>Share of All Housing Built Since 2000</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
### Housing Prices and Rents, and Age of the Housing Stock, Large California Metro Areas

<table>
<thead>
<tr>
<th>MSA</th>
<th>Los Angeles</th>
<th>San Diego</th>
<th>San Francisco</th>
<th>San Jose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owner Occupied Homes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Valued Over $1 Million</td>
<td>15%</td>
<td>10%</td>
<td>32%</td>
<td>42%</td>
</tr>
<tr>
<td>Share Built Since 2010</td>
<td>2%</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Renter-Occupied Homes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share $2,000/month or more</td>
<td>20%</td>
<td>24%</td>
<td>39%</td>
<td>52%</td>
</tr>
<tr>
<td>Share Built Since 2010</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Share Built Since 2013</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
</tr>
</tbody>
</table>

ACS 2016, Summary File Data. Age data reflects year structure was built.
Getting out of this mess

- Legalize midsized multifamily housing in more places, especially in single-family home neighborhoods, in cities and suburbs
Zoning reform

- Research with Mike Manville and Paavo Monkkonen finds that zoning matters more in high demand cities.

- However, zoning reform is a necessary but insufficient part of a progressive housing policy.

- But it is highly complementary to progressive polices:
  - Subsidy dollars go farther – both for vouchers and new construction of below market-rate units.
  - Renter protections need to be stronger when engaging in upzoning – but support for tenant protections should not be a reason not to upzone.
“Build baby build” is very much inadequate on its own
Subsidies

● Three pillars of US housing subsidy policy:
  ○ Housing Choice Voucher Program
  ○ Low-Income Housing Tax Credit Program
  ○ Public housing (what is left)

● Main action is in housing voucher and LIHTC programs

● Spending and subsidy availability woefully inadequate (in my view)
  ○ Enormous waitlists in some metropolitan areas. Not even close to serving all who qualify.
Strengths and limitations of subsidies

- Federal government not increasing funds

- Housing vouchers are more difficult to use in tighter housing markets
  - Landlords eat up voucher subsidies – particularly when housing markets are tight.

- If we pumped a ton of money into the voucher program and did not build more new housing, landlords likely to raise rents and eat some (more) of the subsidy.
State and local governments have limits

● LA Mayor Garcetti on backing tenant rents during COVID crisis: “we wouldn't have the cash flow to pay for even two weeks of everyone's rent and in about three months the city government would have no money and be bankrupt.”

● In LA, housing voucher waiting list was last opened in October 2017. City got 188,000 applications in 10 days for 20,000 spots.

● Basically all new below market rate housing is built using the LIHTC as one layer of financing. About 12K to 25K units are built annually using LIHTC.

● CA Housing Partnership estimates we need 1.3 million affordable homes in CA. LIHTC has built under 400K TOTAL since 1987.
Below market-rate housing is incredibly expensive to build

• In FY 2018-19, LA’s Proposition HHH funded about 1500 units of supportive housing to be built. The total development cost per unit was over $488,000. The HHH funds per unit was over $160,000. And with LIHTC and other sources, there were significant other public dollars spent.

○ This is not a scandal, it is what this costs. In part because developable land is so scarce.
Housing vouchers can move people to opportunity

● Low-income households repeatedly cite crime and violence as reasons why they want to move.

● Some of my research and that of others shows that households using vouchers live in relatively safe neighborhoods. But school quality and job access often not good.

● Indexing fair market rents to the zip code leads voucher recipients to live in lower poverty and safer neighborhoods – in these neighborhoods, the value of the voucher is higher.

● **Build more housing in higher income/higher opportunity neighborhoods** and/or give people big vouchers to move there.
Inclusionary housing

● Make the developers provide affordable housing!

● A bit easier to find studies that find onerous effects on housing markets and limited benefits in terms of a critical mass of new low-income housing units (Bento et al 2009; Schuetz et al 2011) than studies that find the opposite (Mukhi ja et al 2010).

● And this is really a tax on a very narrow base. As noted, there is not much new supply! Need a broader base.

● Instead of linkage fees or inclusionary zoning, use progressive real estate transfer fees – capture the gains from housing scarcity and don’t discourage housing supply
Rent control

● As late as 1991 over 10 percent of the nation’s private rental housing was subject to rent controls. Steady decline since.

● Winners and Losers:
  ○ Nonmovers are definitely winners.
  ○ Successful searchers. Also winners, assuming they didn’t spend their lives looking for housing.
  ○ Displaced households. Losers if you live in a building that is being converted to condos. When the number of units declines, people are going to be displaced.
  ○ Landlords. Announcement of rent control program decreases the market value of apartment buildings. And you have less income earning potential.
Rent control

- Empirical evidence says that households in rent controlled apartments save money and that savings decrease with income, meaning it is a progressive policy.
  - However, tends to decrease housing production and maintenance.
  - Decreases mobility, which could be good or bad.
  - Recent paper by Diamond et al (2018) in San Francisco confirms what people do and don’t like about rent control: reduced probability of moving, reduced supply of rental units, and covered tenants keep an average of $6,658 per year.
Eviction

- Matthew Desmond’s research has brought eviction front and center to the housing conversation. Evictions have become much more prevalent over time. And they are also enormously consequential to tenants’ life chances.

- Disproportionately affects women of color, families with children, victims of domestic violence, and those with prior evictions (Desmond 2012; Desmond et al. 2013).

- We do not systematically collect eviction data for research purposes, nor do we know how local housing market conditions contribute to eviction. Further, we do not know the precise role that eviction plays in homelessness spells and chronic homelessness.

- But this is another reason to support rent control.
We need the strongest possible eviction protections right now

This is what happened in Southern CA the last time we had a recession
Some well-publicized hits and misses in CA

● Lots of legislation in the last 3 years in particular

● Housing element reform (lots going on there right now), streamlined approval through SB 35 (enhanced last year through SB 330), Accessory Dwelling Unit (ADU) legalization, density bonuses for affordable housing, increased funding for affordable housing, particularly housing for the homeless.

● But the golden goose is Sen. Wiener’s zoning reform bill – most incarnation as SB 50. It’s failure has been a big mistake, in my view.
THANK YOU!

Mike Lens
mlens@ucla.edu

Associate Professor of Urban Planning and Public Policy
Associate Faculty Director
The Lewis Center for Regional Policy Studies
UCLA Luskin School of Public Affairs