Growing Housing Needs Amid the Shortage Crisis in California Regions

Research supported by the John Randolph Haynes and Dora Haynes Foundation

Research Questions

How much added housing is really needed in California?

— Explanations offered by existing publications
— Housing shortage viewed in context of the total stock

How is a broader estimation of housing needs yielded by working with the whole population?

— Why is estimating shortage from existing households inadequate?
— How does the housing–demographic approach help measure the full extent of shortage?
How Much Added Housing is Really Needed in California?

A Wide Range of Housing Needs Estimated for California

California's Total Existing and Future Housing Needs Compared Under Alternative Methods, 2005/6 to 2025

- **Existing Only**
  - CA HPC (2019): 1.4
  - CA LAO (2016): 1.7
  - Up For Growth (2018): 2.0
  - NEXT 10 (2018): 2.3

- **Future Only**
  - UCLA Lewis (2019): 0.7
  - Expected Permits to 2025: 1.0
  - CA HCD (2018): 1.8

- **Combined**
  - Expected Permits Projected to 2025 at current high rate: 1.5
  - Existing Backlog as of estimation: 2.0

Future Needs Projected to 2025

CA HPC (2019)
CA LAO (2016)
Up For Growth (2018)
NEXT 10 (2018)
UCLA Lewis (2019)
Expected Permits to 2025
CA HCD (2018)
USC (2019)
McKinsey (2016)
Housing Shortage in Context of the Total Stock

When Growing Rental Demand Meets Limited Housing Supply

Conceptual Diagram for Explaining the Rental Housing Shortage

**Demand**
- Depressed Homeownership
- Millennial Arrival In Adulthood
- Other Population Growth
- Increased Rental Demand

**Supply**
- Depressed Construction
- Restricted Supply of Workers
- Financing & Land Constraints
- Political Resistance

Rental Housing Shortage
Levels of Housing Access

• **Enough or dislodged?** Are there enough units available for households to occupy; or how many must be dislodged? → *Focus of this research*

• **Affordable?** How many units are low-income* affordable with rent burden <30% of income?

*Low-income treated as under 50% of area median income*

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**Slowdown** in New Construction in California

*Annual Building Permits by Structure Type, California, 1960 to 2018*

- Expanding new construction since 2009, but still below average 160K permits per year for the last 59 years

**Source:** U.S. Census Bureau, 1960-2018, Building Permits Survey.
Households *CANNOT Exceed* Available Units, 2017, California

**If shortage, what happens?**

- *Most squeezed HHs* give up household formation and get *dislodged* out of the market
- *Highest payer* gets first choice
- *Existing tenants* hang on
- *Newcomers* have last choice – Including *new migrants* plus *Millennials* coming of age

Who is *Squeezed Out* by Under Supply?
Declining Household Formation and Renter Rate

Proportional Changes since 2000 in Housing Occupancy by Age, California, 2000, 2006, 2011, and 2017


A Broader Estimation of Housing Needs Based on the Whole Population
**McKinsey’s Method** is simple and easy, but can be *very wrong*

**Pros**

1. *So simple*
   - Just total count of pop.
   - Current backlog *plus* future needs

**Cons**

1. *Sharply declining headships* neglected
2. *Dislodged needs* omitted
3. Based on *houses-to-people ratio* in...


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**USC Headship/Dislodgement (HD) Method**

*Based on Housing Behaviors of California’s “Local” Residents*

\[
\text{Housing Needs} = \text{Current (or Existing) Backlog} + \text{Future Needs}
\]

- *Headship* by Age and Race
- *Dislodgements* due to shortage since 2000 or 2006
- *Headship* by Age and Race
- *Pop. Projection* by CA DOF (2019.3 Vintage)
Estimating Existing Backlog

Dislodgments as a Measure of Existing Backlog

1. Households = Occupied Housing Units

2. Households **CANNOT EXCEED** the units available for occupancy
   --- A shortage of units **caps** the number of **households that can be surveyed**, thereby **undercounting** true housing needs

3. Someone is going to be bumped, made to **disappear from the housing market, i.e. “dislodged,” not just spatially displaced**
   --- **How many?** Hundreds of thousands of potential renters
   --- **Who?** Youngest/newest Millennials and lowest incomes
**Cascade** of Diverted and Growing Households

California, Changes 2000 to 2017, Actual Population, but Assuming 2000 Patterns of Housing Occupancy

Would-be *homeowners* were diverted into rentals .................. 1.0 M

Joining the expected growth of *renters* from Millennials & others ............................. 1.1 M

Creating Total POTENTIAL growth in *renters* .......................................................... 2.1 M

How well was this rental demand met by supply?

Sources: 2000 Decennial Census IPUMS and 2017 ACS 1-year Estimates IPUMS files.

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**When *Growing* Rental Demand Meets *Limited* Housing Supply**

California, Changes 2000 to 2017

Total EXPECTED growth in *renters* ....................... 2.1 M

Less the

ACTUAL increase in renter-occupied units ................................. 0.9 M

LEAVES dislodged renters ............................................. 1.2 M

(*20.3% of 2017 actual renters; 9.2% of 2017 actual HHs*)

Sources: 2000 Decennial Census IPUMS and 2017 ACS 1-year Estimates IPUMS files.
Estimating Future Needs

*Future Needs Based on the Projected Whole Population*

1. **Future needs** between 2017 and 2025
   \[= \text{2025 Expected HHs less 2017 actual HHs}\]

2. **2025 Expected HHs** based on projected population growth (DOF’s Projection in March 2019) and 2000/17 headship rates

3. **15.5 million HHs** are expected in 2025 in California (2000 rates)
   \[\text{--- 2.5 million additions to the 2017 actual}\]

4. An additional number of units is required for **normal vacancies (5%)** and also for **annual replacements (0.15% per year)**
Combined Estimate of Housing Needs in California and CA Regions

**Choices for Counting Annual Housing Needs** in California, 2017 to 2025

Existing Backlog and Future Needs, Including 5% Vacancies and 0.15% Annual Replacements, Thousands per Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Standard</th>
<th>Counting Method</th>
<th>Annual Housing Needs 2017 to 2025 (Thousand Units per Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2017</td>
<td>Only count future needs</td>
<td>187</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exclude current unmet needs</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>Standard</td>
<td>Only count future needs</td>
<td>198</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Include unmet since 2006</td>
<td>314</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Include unmet since 2000</td>
<td>354</td>
</tr>
</tbody>
</table>

Avg. actual permits in 2017 & 2018

0 50 100 150 200 250 300 350 400
**Choices for SCAG Region**: 86 to 176 Thousand New Housing per Year

**Existing Backlog and Future Needs**, Including 5% Vacancies and 0.15% Annual Replacements, Thousands per Year

<table>
<thead>
<tr>
<th>2017 Standard</th>
<th>Only count future needs</th>
<th>Exclude current unmet needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 Standard</td>
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</tr>
<tr>
<td></td>
<td>Include unmet since 2000</td>
<td></td>
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</table>

**Recent Progress** in Meeting Total Housing Needs, California and CA Regions, 2017 to 2018

Average Annual Permits in the Last Two Years (2017 and 2018) Divided by Future and Unmet Annual Housing Needs Based on USC 2000 Standard × 100

<table>
<thead>
<tr>
<th>Percentage</th>
<th>California</th>
<th>SANDAG</th>
<th>ABAG</th>
<th>FCOG</th>
<th>SCAG</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>32.6</td>
<td>43.1</td>
<td>38.7</td>
<td>33.8</td>
<td>27.5</td>
</tr>
</tbody>
</table>
Discussion

• McKinsey’s estimate is dramatic but unreliable – the **USC headship & dislodgement estimate** is one million lower but still **2.5 million**, the 2nd highest California estimate of existing and future housing needs

• **1.2 million** California HHs **lost headship** since 2000, our measure of **existing need** – **More than half** (54.6%, **655K**) are **concentrated in SCAG region**

• Importantly, **dislodgements are hidden by shortages** because households **disappear** when there is no housing unit for them to occupy

• **Don’t be deceived** measuring housing needs just based on the household **survivors** – use the **entire “local” population** as a **broader base of estimation**

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**Haynes Supported Housing Research Briefs (HRBs), 2018–2019**


→ See updated and expanded study in HUD's *Cityscape*: [https://www.huduser.gov/portal/periodicals/cityscape/vol21num1/article7.html](https://www.huduser.gov/portal/periodicals/cityscape/vol21num1/article7.html)


Key References


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Thank you

Visit USC PopDynamics
[https://sites.usc.edu/popdynamics/housing/](https://sites.usc.edu/popdynamics/housing/)

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