A Housing Crisis that FAILS to Match Housing to Jobs and People

Dowell Myers

Drawing on research supported by the Haynes Foundation, the National Multifamily Housing Council, Randall W. Lewis, and Southern California Council of Governments
Themes Addressed

1. Where did the *housing crisis* come from? So many interconnections and misperceptions

2. Are we building *too many apartments*? See the facts

3. Learning from *housing demography* – details of how people connect to housing over time

4. How does *housing shortage* exert its effects? Reversed *filtering* process, gentrification, and cannibalized low-income housing
Where did the Housing crisis come from?
When Growing Rental Demand Meets Limited Housing Supply

Great Recession & Aftermath

**DEMAND**
- Depressed Homeownership
- Millennial Arrival In Adulthood
- Other Population Growth

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

Increased Rental Demand

Depressed Construction

Rental Housing Shortage

More details at: USC PopDynamics/housing

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Are we building too many apartments?
California Building Trends

so what’s the right perspective — just today? Or the last 10 years......

or back to the good old days in the 1960s,

full of white-picket-fence, single-family development?

How many apartments are really normal
to be building?
California Statewide

Permits for New Construction (U.S. Census Bureau)

**Whoa!**

Too much building!
Too many apartments!
Unprecedented!

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Percent Multifamily of Permits for New Construction is *Normally Nearly 50%* in California Each Decade

Shortfall of Apartments: 1990s and 2000s vs. Other Decades

Whoa!

Unprecedented!

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Strong Relations Between **New Construction** and Job Growth

*Disrupted in the* Recovery Decade Compared to Earlier

Notes: New construction per year (%) = Summed annual bldg. permits (2-year lagged) / start year households x 100 / length of years; Job growth per year (%) = (end year jobs – start year jobs) / start year jobs x 100 / length of years

Sources: U.S. Census Bureau’s Building Permits Survey; Bureau of Economic Analysis (BEA)’s Employment Data; Decennial Census and American Community Survey IPUMS Microdata Files.

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Growth by Age in California: Then and Now

Sources: Dowell Myers, Census Bureau decennial census of 1990 and 2010, and CA DOF 2017 vintage projections

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How does housing shortage exert its effects?

(OR How does the shortage get resolved?)
Definition of Filtering and its Importance

HUD declares filtering is the traditional means of creating *Naturally Occurring Affordable Housing (NOAH)* for lower-income families in the United States (HUD 2016).

Over time properties obsolesce and are made less competitive, commanding lower rents, and provided housing for lower-income renters. Filtering of apartments is vital to meeting the nation’s low-income housing needs, but its *effectiveness may vary decade to decade.*

*Filtering requires a surplus supply* if this favorable sorting is going to work. Without enough supply to support job growth and aging retirees, *housing cannibals are set loose*, leading to *gentrification* and a *reversal of filtering.*

We can test that hypothesis by *tracking the growth of low-income occupancy* in each decade, using a sample of the 100 largest metro areas over four decades.

(Details: search NMHC Filtering Study 2020)
### Shortage Breeds

**Downward Raiding and Cannibalization**

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost Symbol</th>
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</thead>
<tbody>
<tr>
<td>Luxury New Rentals</td>
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<tr>
<td>Older Luxury Rentals</td>
<td>$$</td>
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<td>Middle Class Rentals</td>
<td>$$</td>
</tr>
<tr>
<td>Working Class Rentals</td>
<td>$</td>
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</tbody>
</table>

**1.2 M Dislodged**

- Would-be **homeowners** diverted into rentals
- **Higher-income renters** taking medium-cost rentals
- **Millennials** coming of age and forming households

**thinning the ranks of lower income residents who are forced to double-up or worse**

20.3% of 2017 actual renters; 9.2% of 2017 actual HHs

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Tracking the *Rising Share Low-Income* in Apartments

Percent (%) Low-income Tenants in Apartments of Each Vintage, As Time Passes

Filtering in Apartments with *Positive Gains* in 1980s, 1990s, and 2000s, but *Widespread Reversal* in Recovery Decade

**Annualized Percentage Point Change in Low-income (<50% AMI) Share of Apartment Units, New Units Not Included, U.S. and CA Metros**

- **1980s**
- **1990s**
- **Boom (2000–06)**

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Persistent or Growing *Racial Disparities* in SCAG Region


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Conclusion

- Current peak construction is barely the low point of previous construction cycles -- truly unprecedented is the LOST apartment construction in the 1990s and 2000s, which haunts today’s renters.

- LONG TERM: Need to use filtering to grow future opportunities for low-income households by producing more middle-income housing today, curbing excess rent burden for everybody.

- SHORT TERM:
  -- Need to stop gentrification from raiding low-income housing.
  -- Need to get the diverted homeowners OUT of rental competition.
  -- Urgent needs of very low-income require subsidies for construction.
  -- Priority is to get housing construction back to normal.
Thank you

Visit USC PopDynamics

https://sites.usc.edu/popdynamics/housing/

Dowell Myers

USC Price
Sol Price School of Public Policy