

Insights on Today's Affordable Housing Crisis

NACo Housing Task Force Kickoff Convening

Chris Herbert

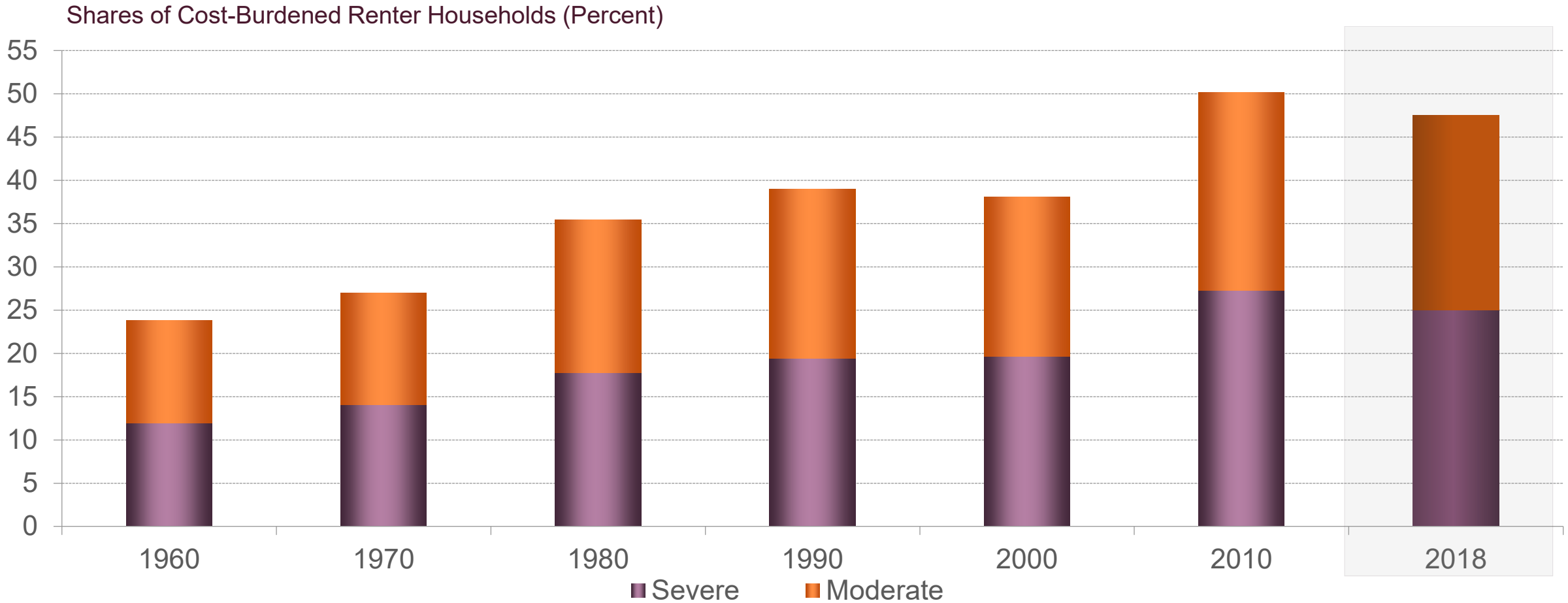
November 17, 2022

Overview of Key Points

- Housing affordability has been worsening for decades as the wedge between incomes and housing costs has widened
- Housing cost increases reflect increases in quality, limited productivity gains, and rising land costs
- Rental affordability has worsened during the pandemic, with growing pressure on moderate income renters particularly in high-cost markets
- Homeownership provides a buffer against rising housing costs and is important source of wealth but is much harder to attain in wake of interest rate hikes



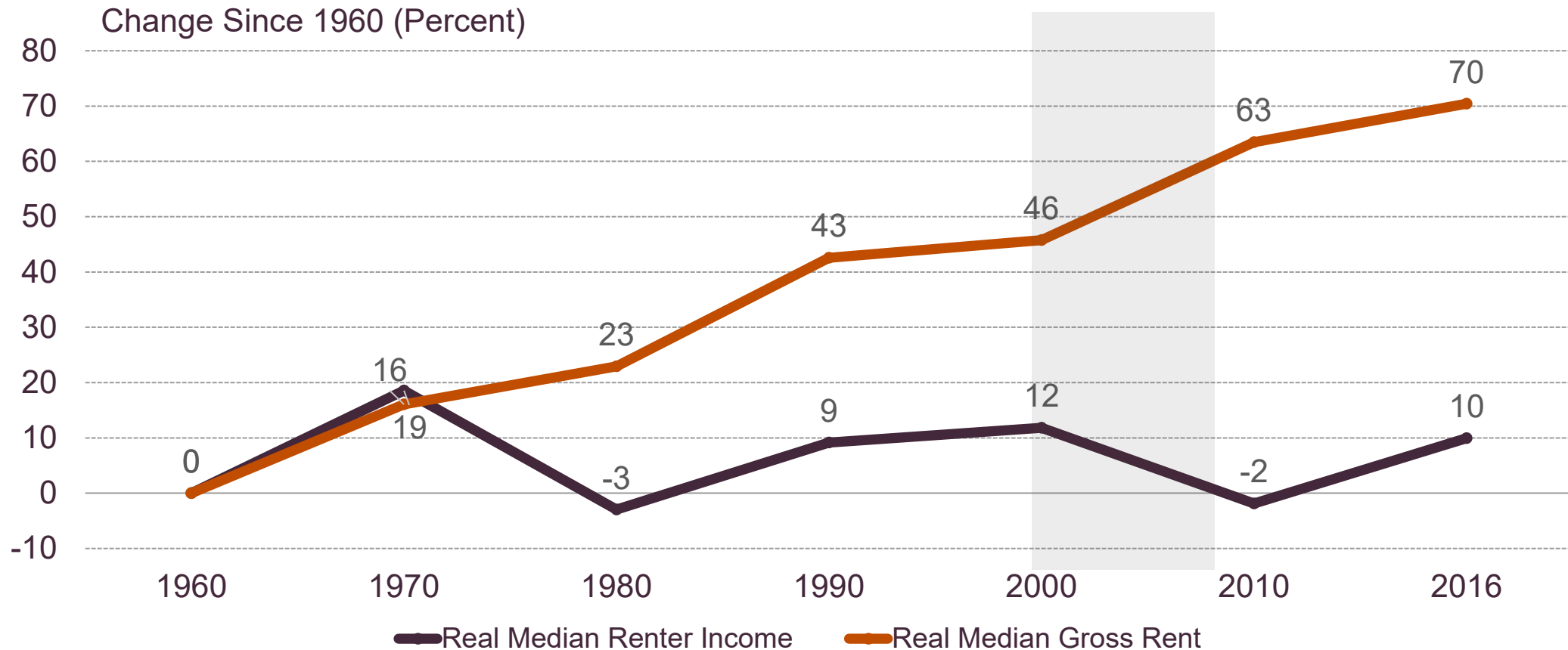
Rental Housing Affordability Has Been Deteriorating for Decades, But Got Much Worse 2000-2010 With Little Improvement Since



Notes: Moderate (severe) burdens are defined as housing costs of 30-50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened.

Sources: JCHS tabulations of US Census Bureau, Decennial Census and American Community Surveys.

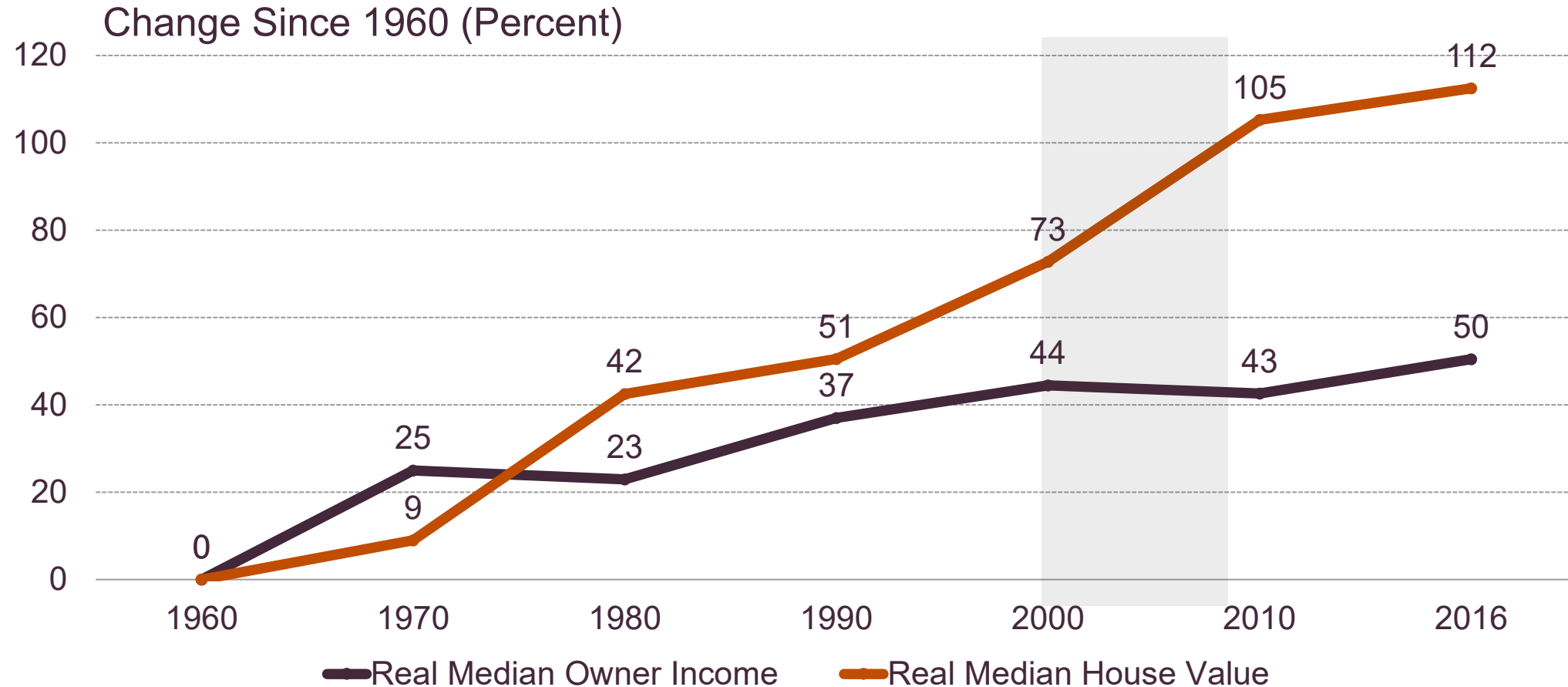
Worsening Affordability Reflects Both Rising Real Housing Costs and Weak Income Growth Among Renters



Note: Underlying values are adjusted for inflation using the CPI-U for all items.

Source: JCHS tabulations of the US Census Bureau, Decennial Census and American Community Surveys via IPUMS USA.

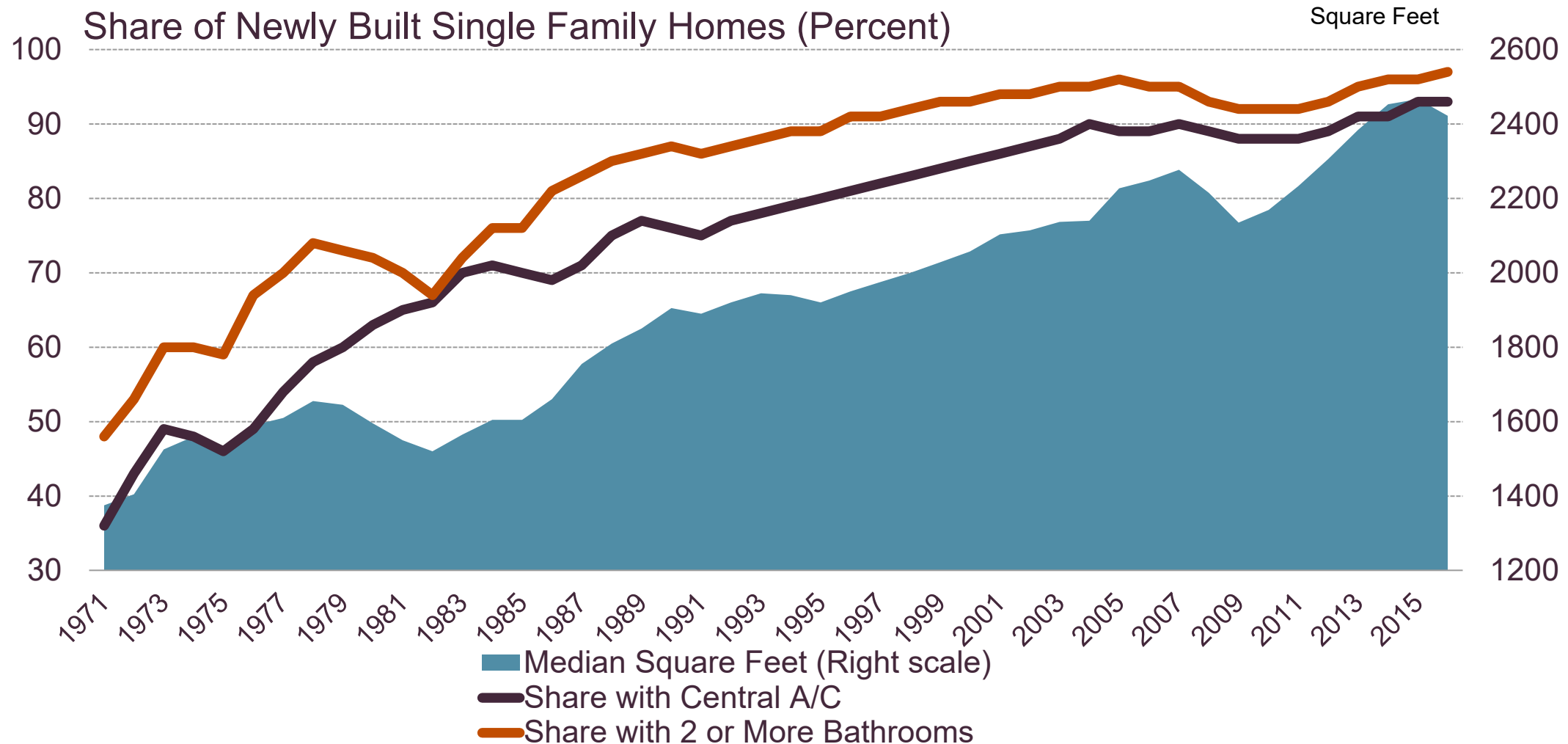
Homeowner Incomes Have Increased More, But Have Still Lagged Home Values



Note: Underlying values are adjusted for inflation using the CPI-U for all items.

Source: JCHS tabulations of the US Census Bureau, Decennial Census and American Community Surveys via IPUMS USA.

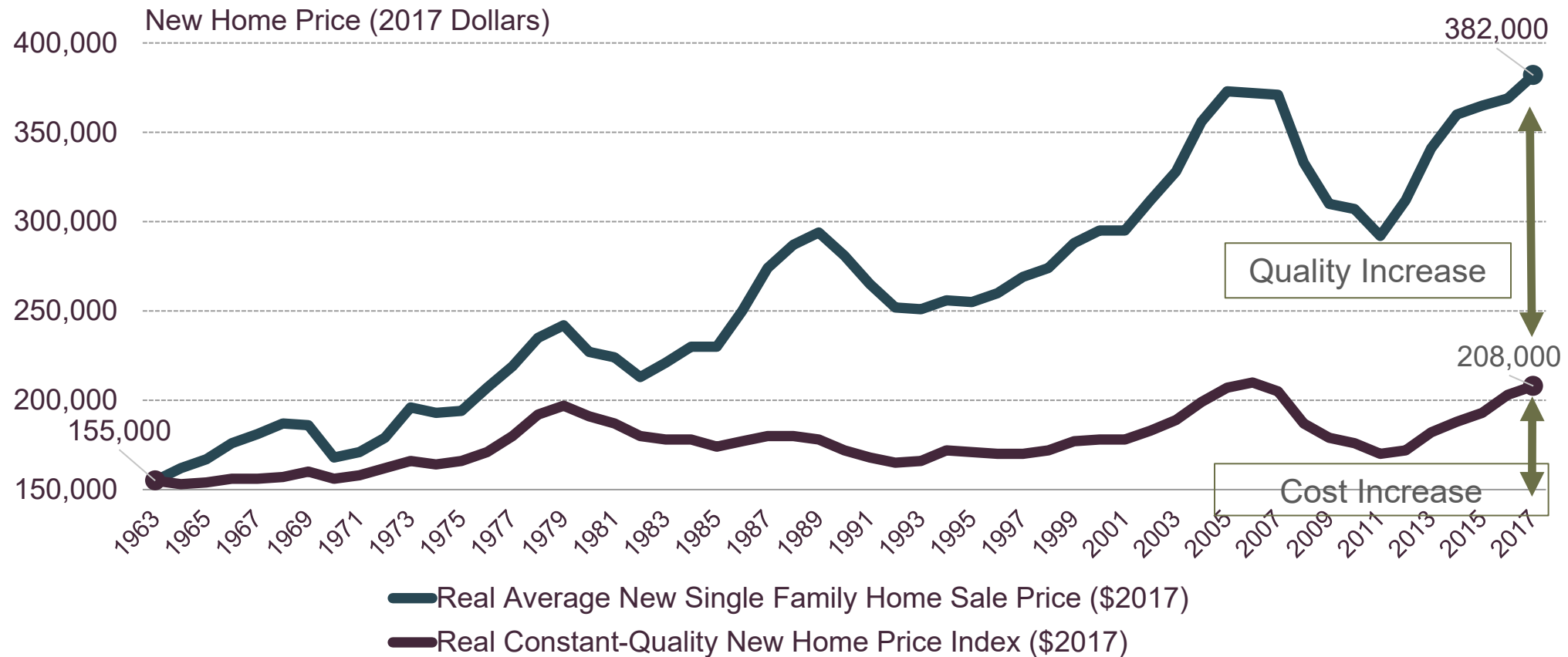
One Reason for the Higher Cost of Housing is That New Homes Have Gotten Larger and Have More Amenities



Note: Single family homes only.

Source: JCHS tabulations of the US Census Bureau, New Residential Construction.

But Increase in Housing Costs Also Reflect Rising Cost of Production—Unlike in Other Segments of the Economy



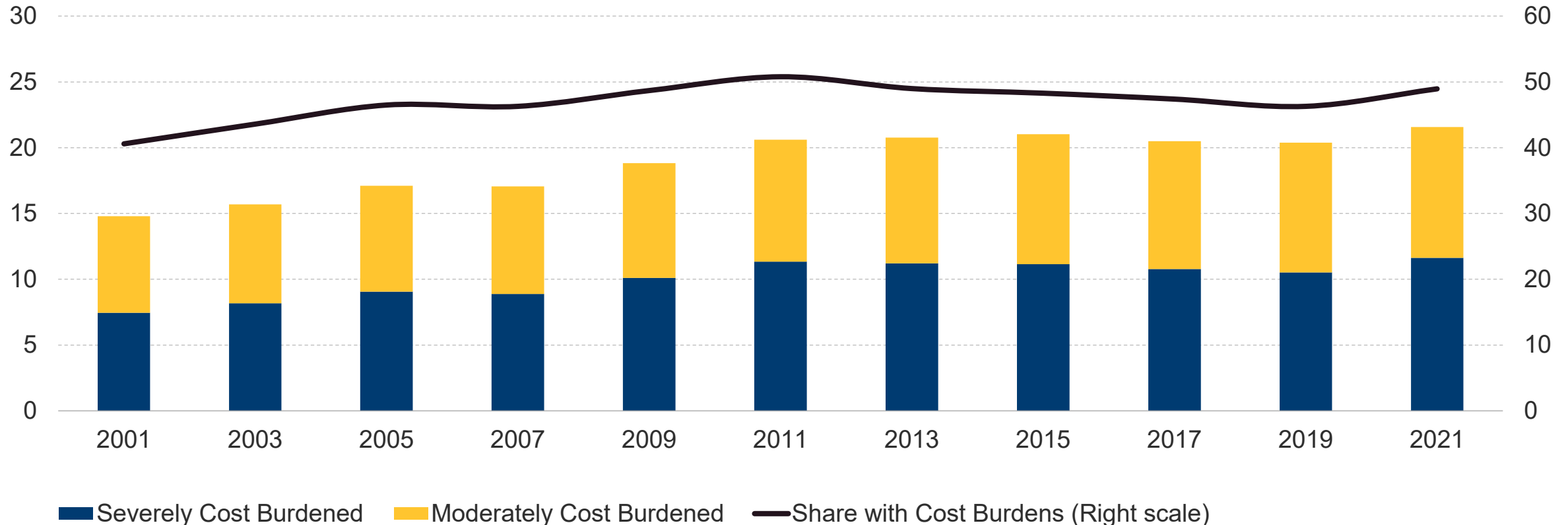
Note: Dollars are adjusted for inflation using the CPI-U for All Items.

Source: JCHS tabulations of the US Census Bureau Survey of Construction and National Price Indexes for Single-Family Homes Sold.

The Number of Cost-Burdened Renter Households Reached a Record High in 2021 Reversing Recent Modest Improvement

Number of Renter Households (Millions)

Share with Cost Burdens (Percent)

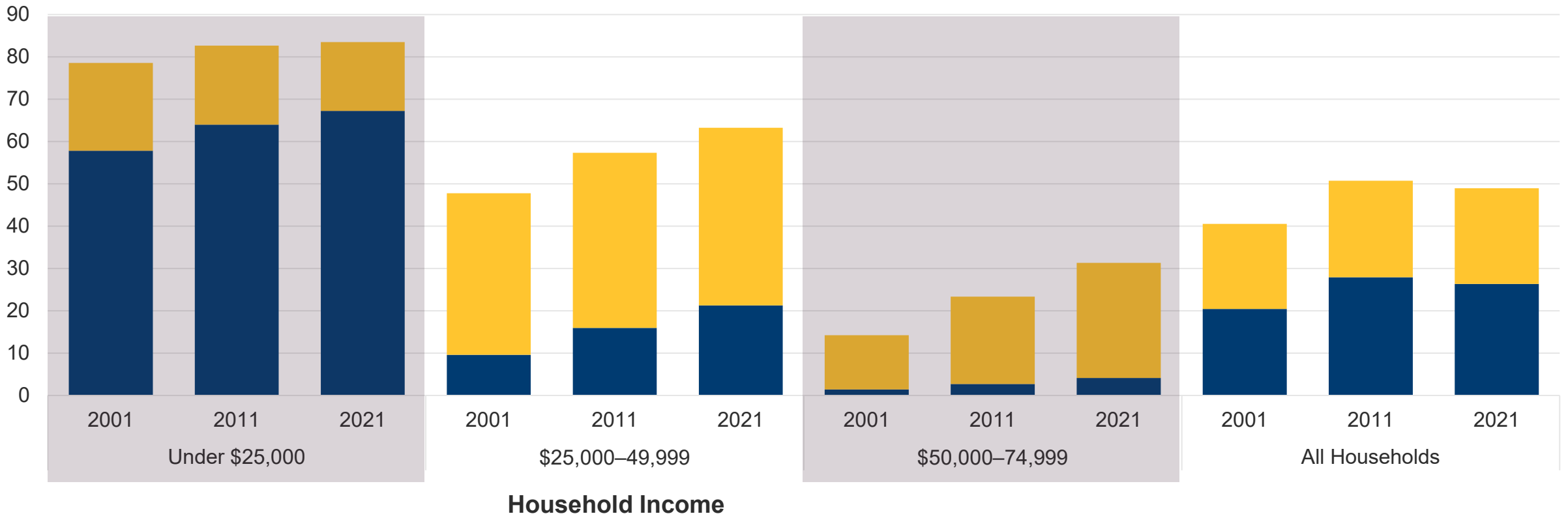


Notes: Moderately (severely) cost-burdened households pay more than 30% (more than 50%) of income for housing. Households with zero or negative income are assumed to have burdens, while households paying no cash rent are assumed to be without burdens.

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

Renter Cost Burden Rates Were Already High and Moving Up the Income Scale

Share of Renter Households with Cost Burdens (Percent)



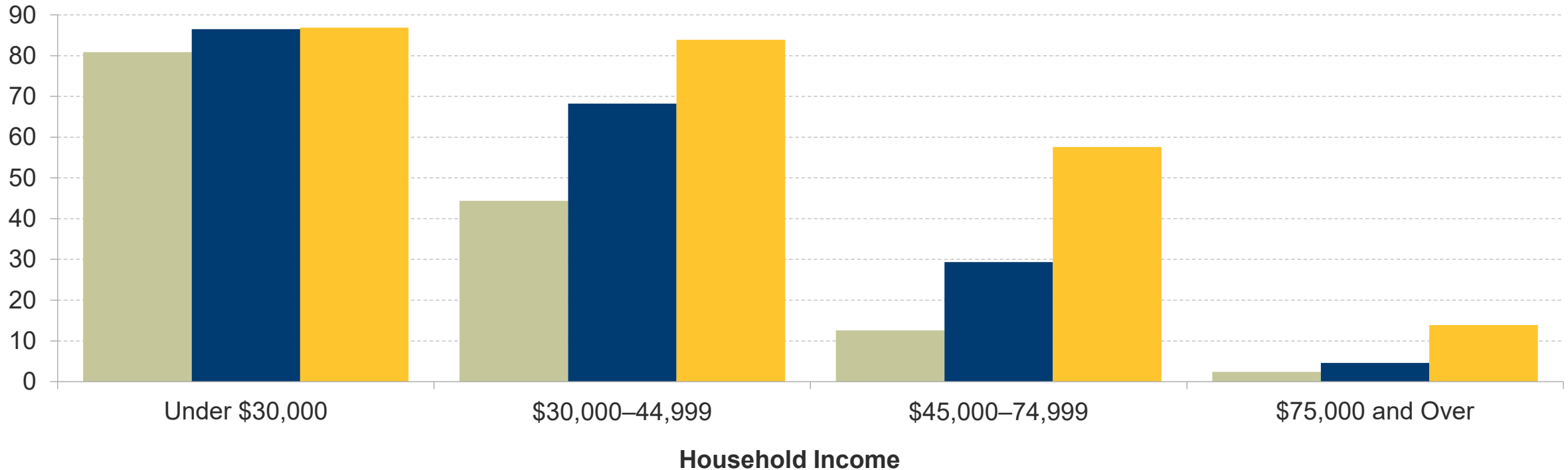
■ Severely Burdened ■ Moderately Burdened

Notes: Incomes are adjusted for inflation using the CPI-U for All Items. Moderately (severely) cost-burdened households pay 31–49% (50% or more) of income for housing. Households with zero or negative income are assumed to have severe 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.

In Expensive Rental Markets, Even Middle-Income Households Face Elevated Cost Burdens

Share of Cost-Burdened Renters (Percent)



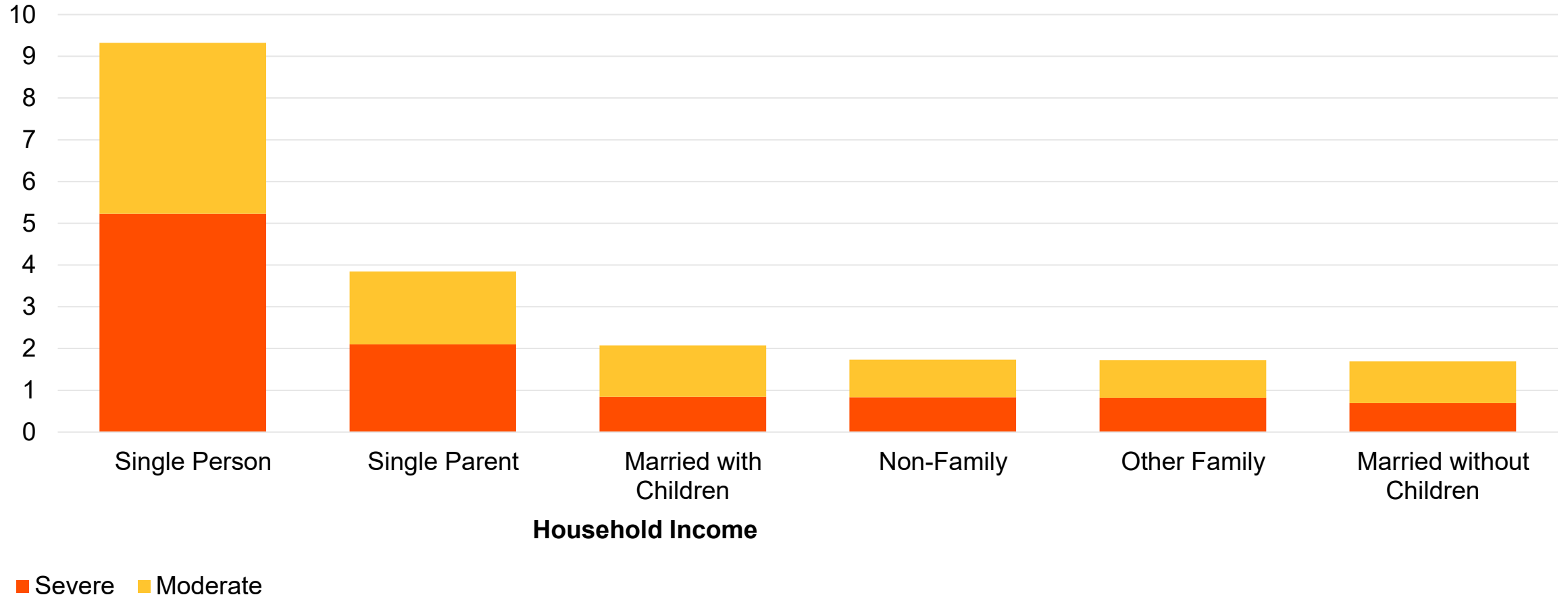
■ 25 Lowest-Cost Metros ■ Middle 50 Metros ■ 25 Highest-Cost Metros

Notes: Cost-burdened households pay more than 30% of their income on housing. Households with zero or negative income are assumed to have burdens, while households paying no cash rent are assumed to be without burdens. Only the 100 largest metro areas by the number of households are shown, categorized by the median gross rent.

Source: JCHS tabulations of US Census Bureau, 2021 American Community Survey 1-Year Estimates and Missouri Census Data Center.

Single Persons Account for Nearly Half of All Cost Burdened Renters With Single Parents Comprising Next Largest Group

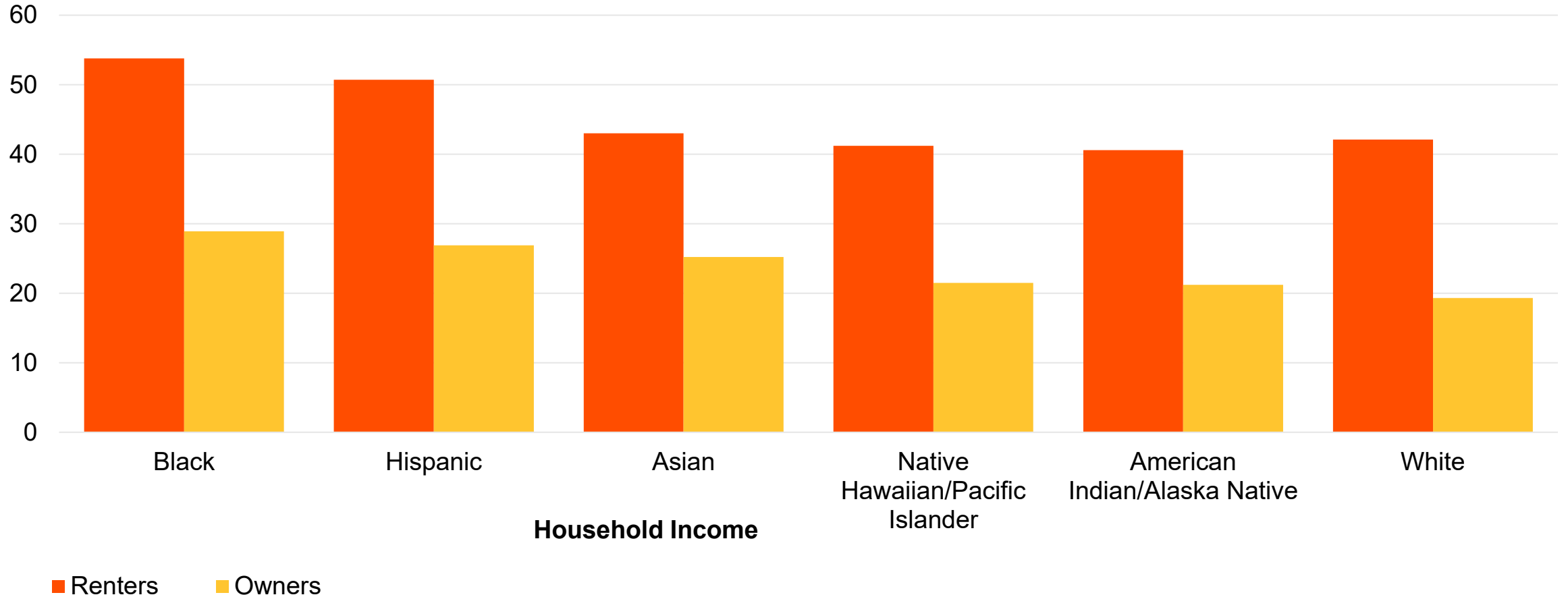
Number of Renter Households with Cost Burdens (Millions)



Notes: Incomes are adjusted for inflation using the CPI-U for All Items. Cost-burdened households pay more than 30% of income for housing.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates using experimental weights.

Cost Burden Rates Are Much Lower For Homeowners of All Racial Groups

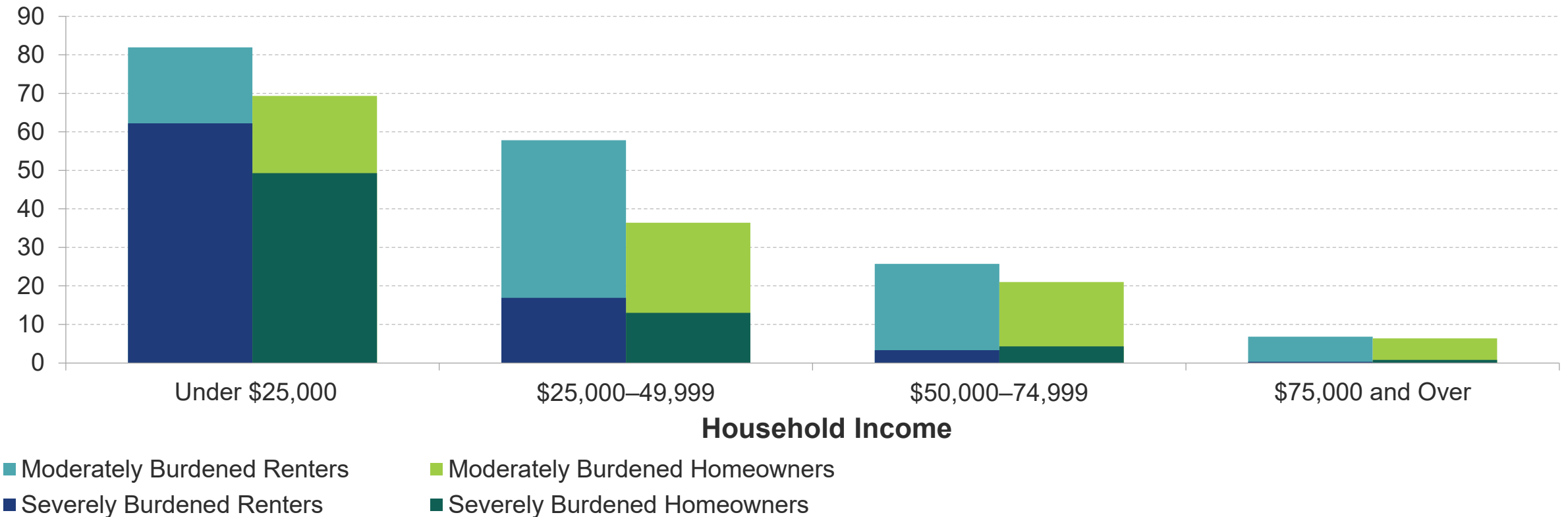
Share of Households with Cost Burdens (Percent)



Notes: Incomes are adjusted for inflation using the CPI-U for All Items. Cost-burdened households pay more than 30% of income for housing.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates using experimental weights.

Accounting for Income Explains Much of the Difference in Cost Burden Rates by Tenure—But Not All of It

Share of Households (Percent)

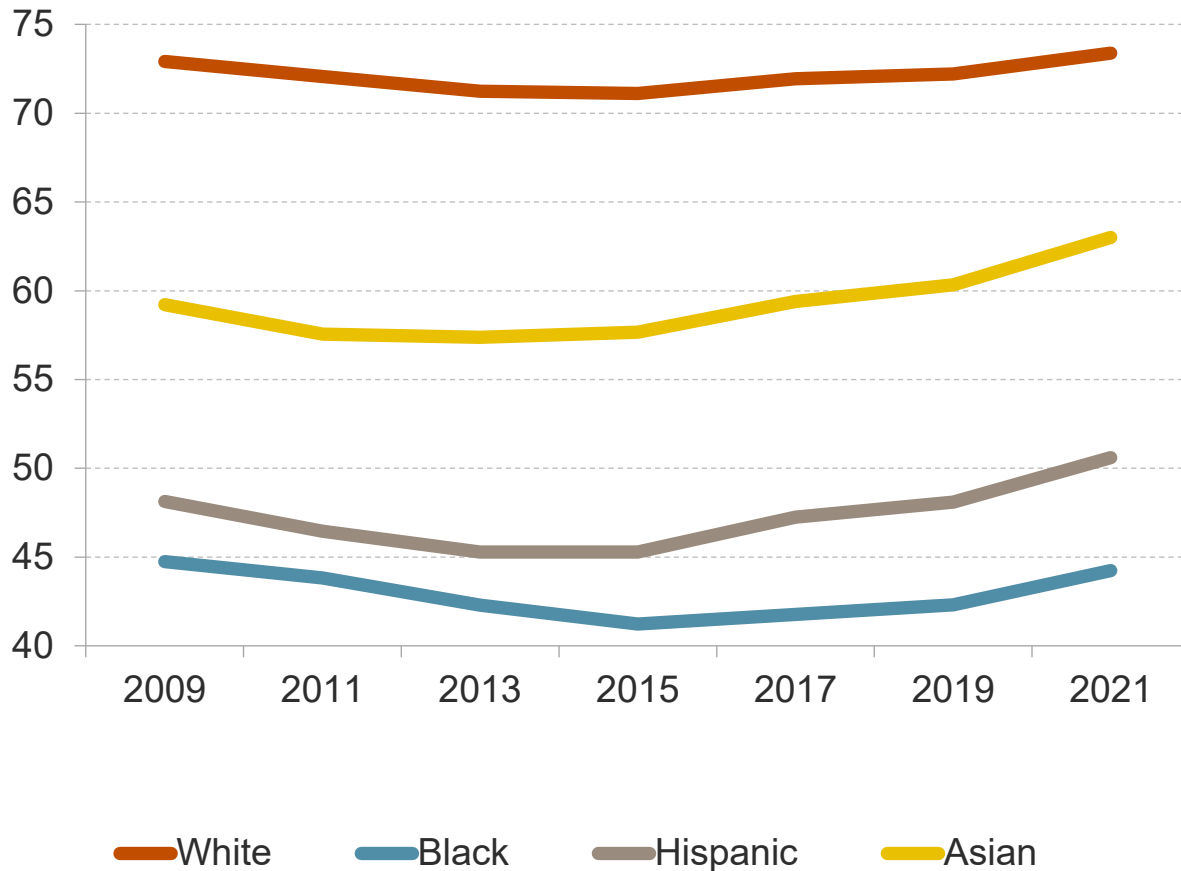


Notes: Cost-burdened (severely cost-burdened) households pay more than 30% (more than 50%) of income for housing. Households with zero or negative income are assumed to have burdens, while households paying no cash rent are assumed to be without burdens.

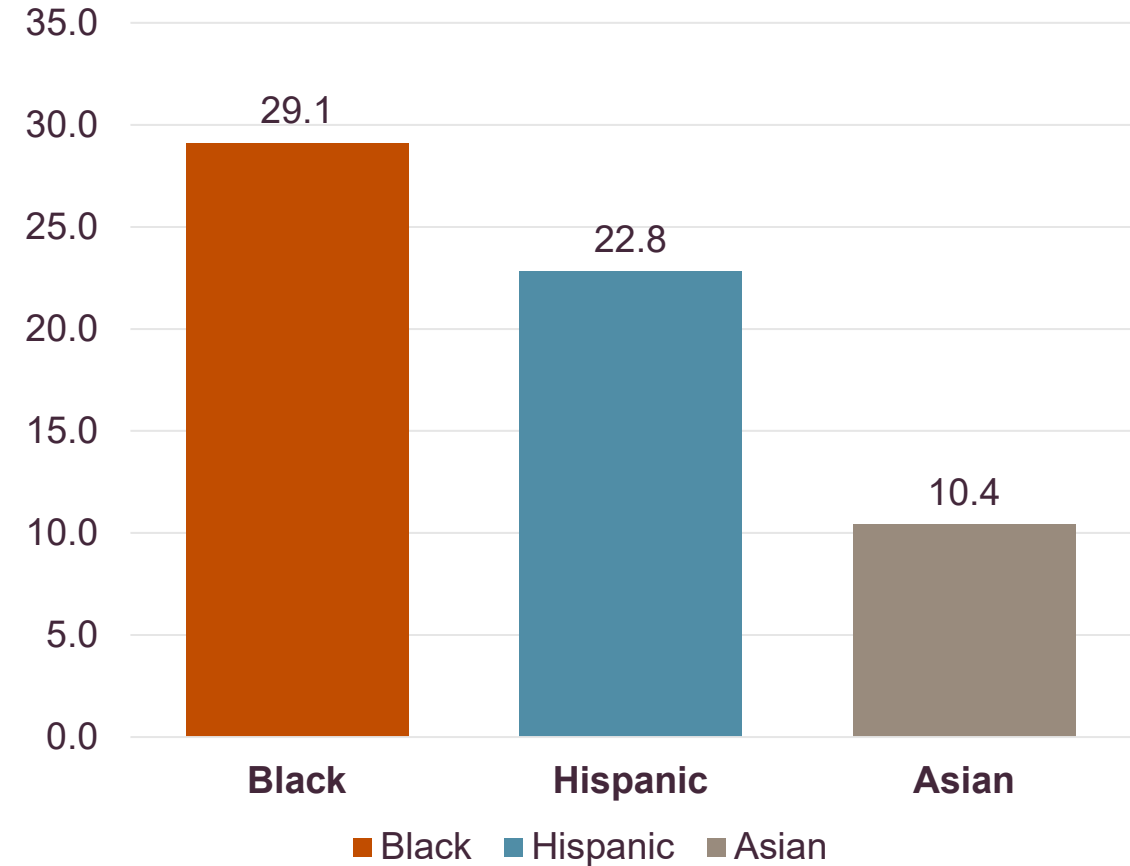
Source: JCHS tabulations of US Census Bureau, 2019 American Community Survey 1-Year Estimates.

Even After Recent Gains There Are Substantial Gaps in Homeownership Rates by Race/Ethnicity

Homeownership Rate by Race/Ethnicity (Percent)



Shortfall in Homeownership in 2021 Relative to White Rate (ppt)



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

Recent Interest Rate Hikes Have Greatly Eroded Affordability and Will Slow Gains in Homeownership

	Sept/Oct 2021	Sept/Oct 2022
Interest Rate (Percent)	3.14	7.08
Median Home Price (Dollars)	355,100	384,800
Downpayment & Closing Costs	23,100	25,000
Monthly Mortgage Payment	1,500	2,500
Total Monthly Owner Costs	2,200	3,200
Annual Income Needed	\$83,600	\$125,000

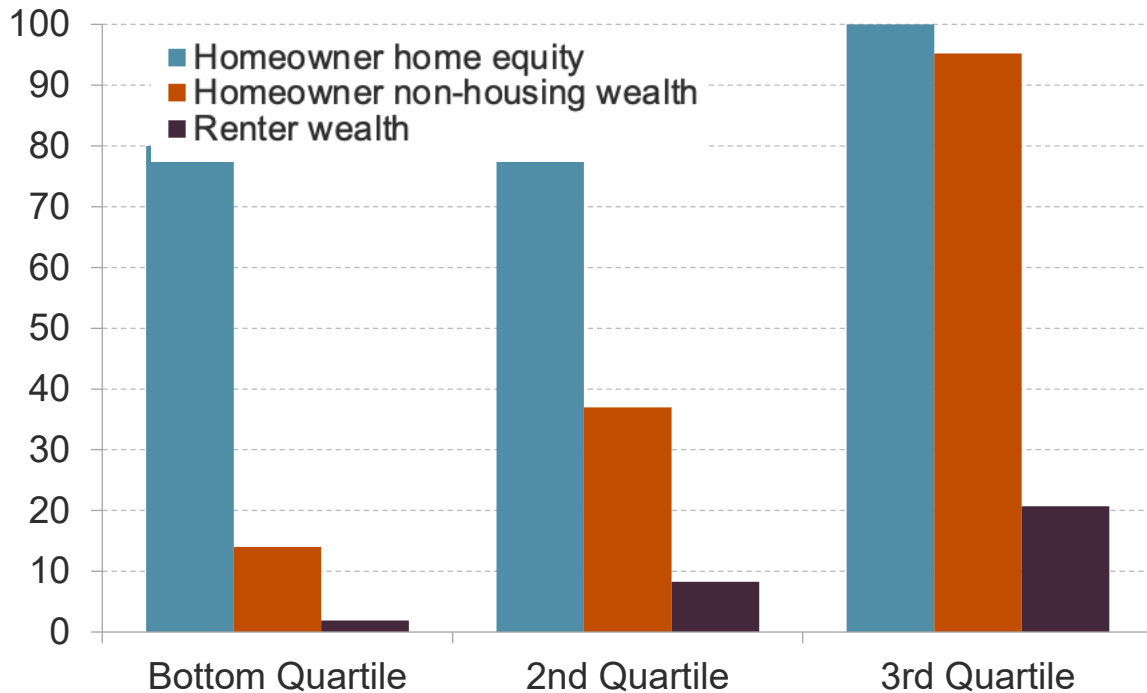
Note: Estimates assume 3.5% downpayment on a 30-year fixed rate loan with zero points, 0.85% mortgage insurance, 0.35% property insurance, 1.15% property taxes, 3% closing costs, and a maximum 31% debt to income ratio. NAR prices are from September, PMMS interest rates are from the week of 10/27.

Source: JCHS tabulations of Freddie Mac, Primary Mortgage Market Surveys; NAR, Existing Home Sales.

Housing is the Primary Form of Wealth for Low Income Households and People of Color

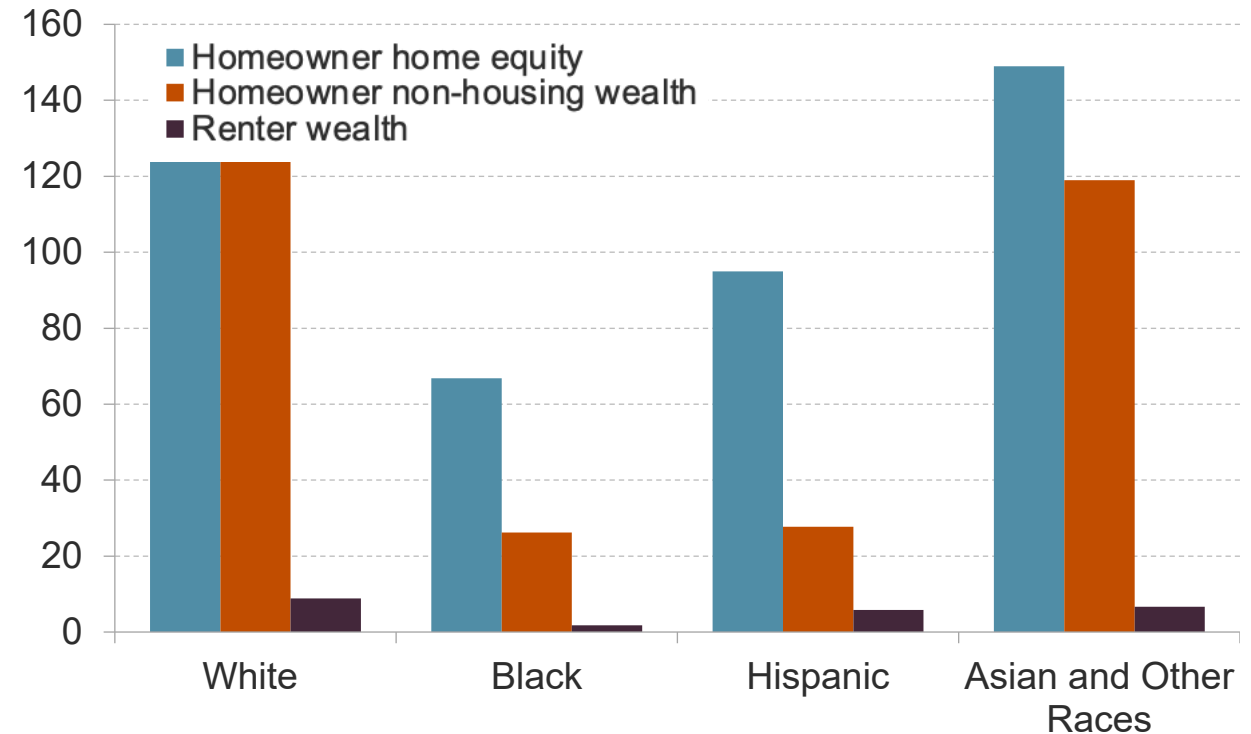
Households by Income

Median Wealth (Thousands of 2019 Dollars)



Households Headed by Race/Ethnicity

Median Wealth (Thousands of 2019 Dollars)



Note: Medians are calculated separately and therefore do not sum to net wealth.

Source: JCHS tabulations of Federal Reserve, Surveys of Consumer Finances, 2019.

What Will it Take to Address these Affordability Challenges?

- Regulatory reform related to land use to free up more development of modest-priced market rate housing to address the increasing challenges in the middle of the market
- But the market by itself cannot address affordability needs for lowest-income renters so absolute need to expand availability of housing subsidies
- Information on types of households facing different affordability challenges can be important to help tailor the response
- For moderate income households, providing a boost into homeownership can help control housing costs in longer term and may not require as much subsidy
- Also a need for concerted effort to close racial homeownership gaps addressing need for better preparation, access to credit, financial assistance and support for improved housing supply in communities of color

Thank You

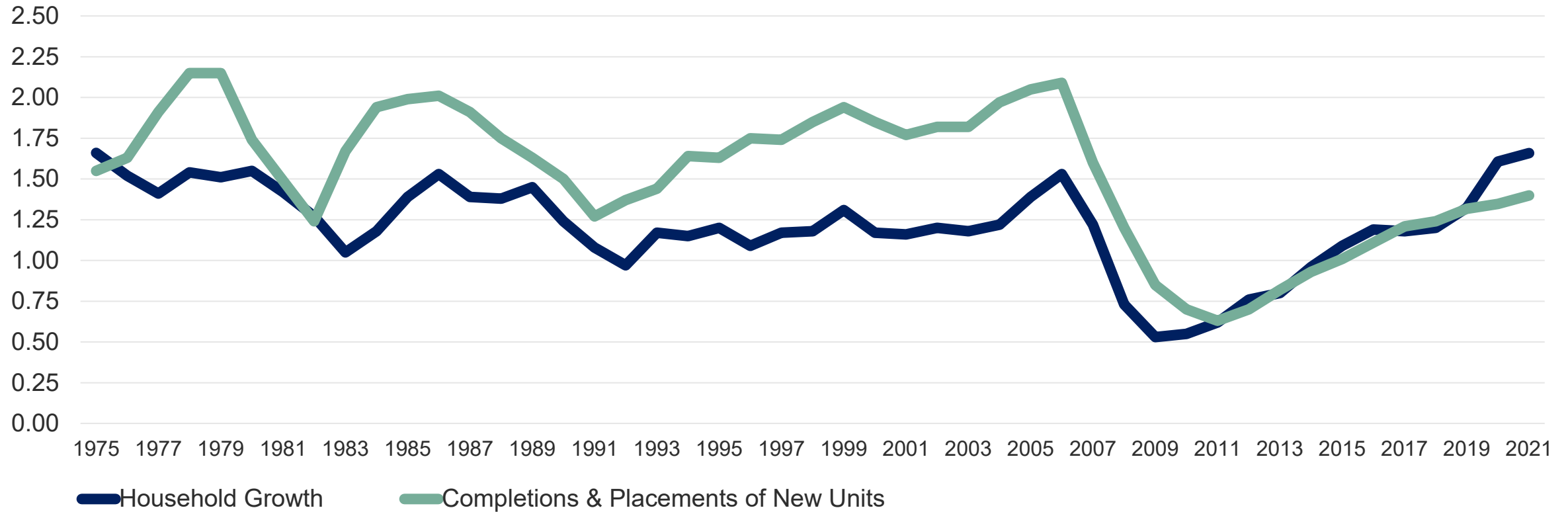




Appendix: Current Trends in the Market

Housing Construction Has Struggled to Keep Pace with Household Growth for a Decade

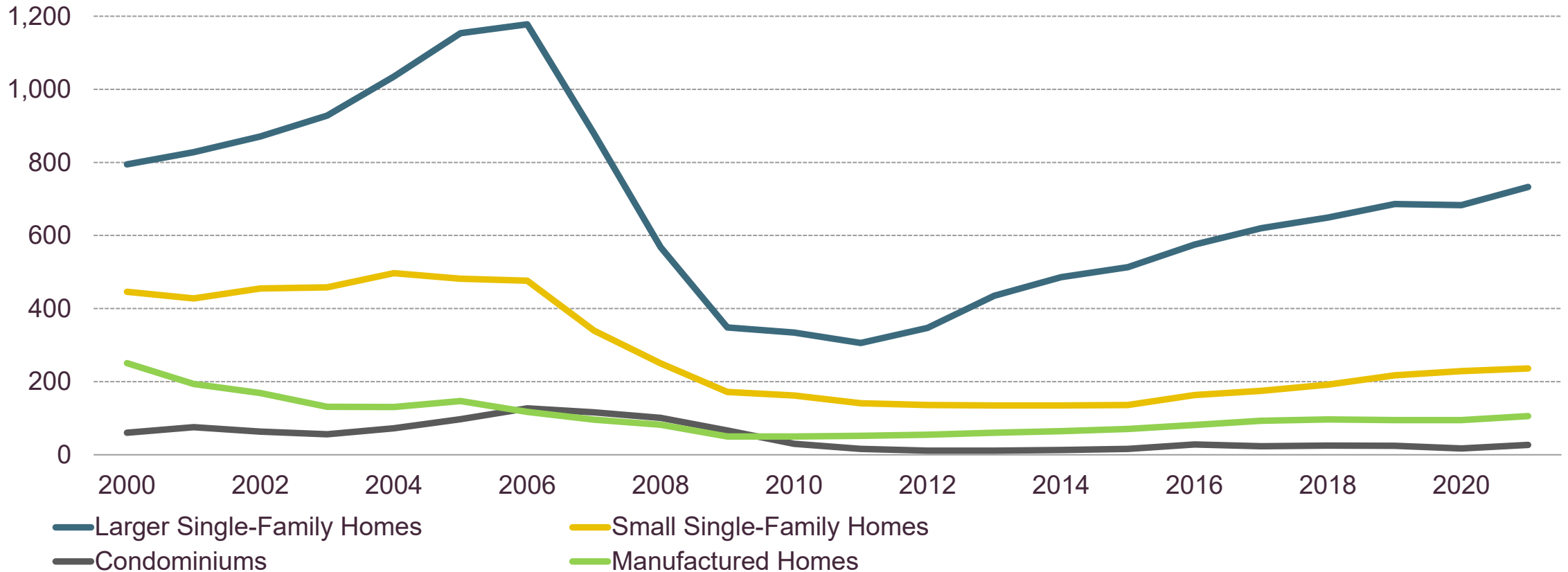
Units (Millions)



Notes: Household growth data are three-year trailing averages. Placements refers to newly built mobile homes placed for residential use.
Source: JCHS tabulations of US Census Bureau Housing Vacancy Survey, New Residential Construction data.

With Construction of Modest-Sized Housing Particularly Constrained

Units Added (Thousands)

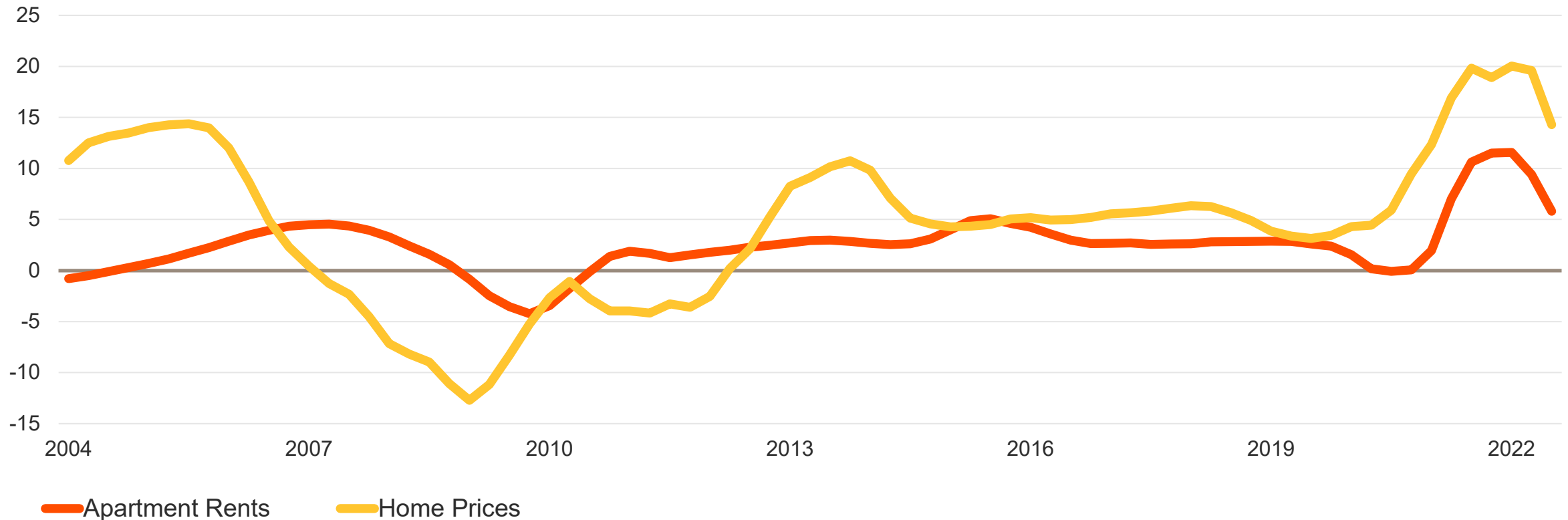


Notes: Small single-family homes are under 1,800 sq. ft., and larger single-family homes are 1,800 sq. ft. and over. Condominiums are multifamily units built for sale. Manufactured homes are manufactured housing shipments. Single-family completions by home size for 2017 were unavailable at time of publication.

Source: JCHS tabulations of US Census Bureau, New Residential Construction and Manufactured Housing Surveys.

Home Prices and Apartment Rents Soared to New Heights in 2021 But Have Moderated Significantly in the Third Quarter

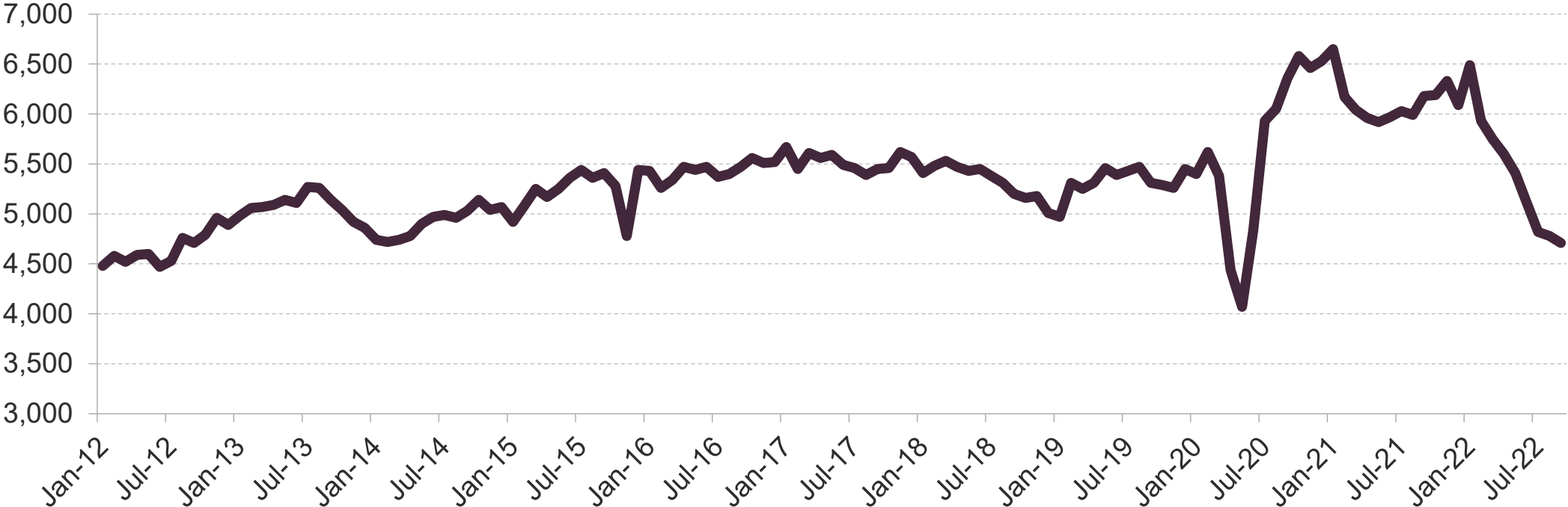
Year-over-Year Change (Percent)



Note: CoStar same-store rents are for professionally managed market-rate apartments in buildings with five or more units. Home prices for 2022:3 only include data from July and August. Apartment rents for 2022:3 are from CoStar press releases and do not account for revisions to previous data.
Source: JCHS tabulations of CoStar data; S&P CoreLogic Case-Shiller US National Home Price Index.

The Pace of Existing Home Sales Has Slowed Sharply

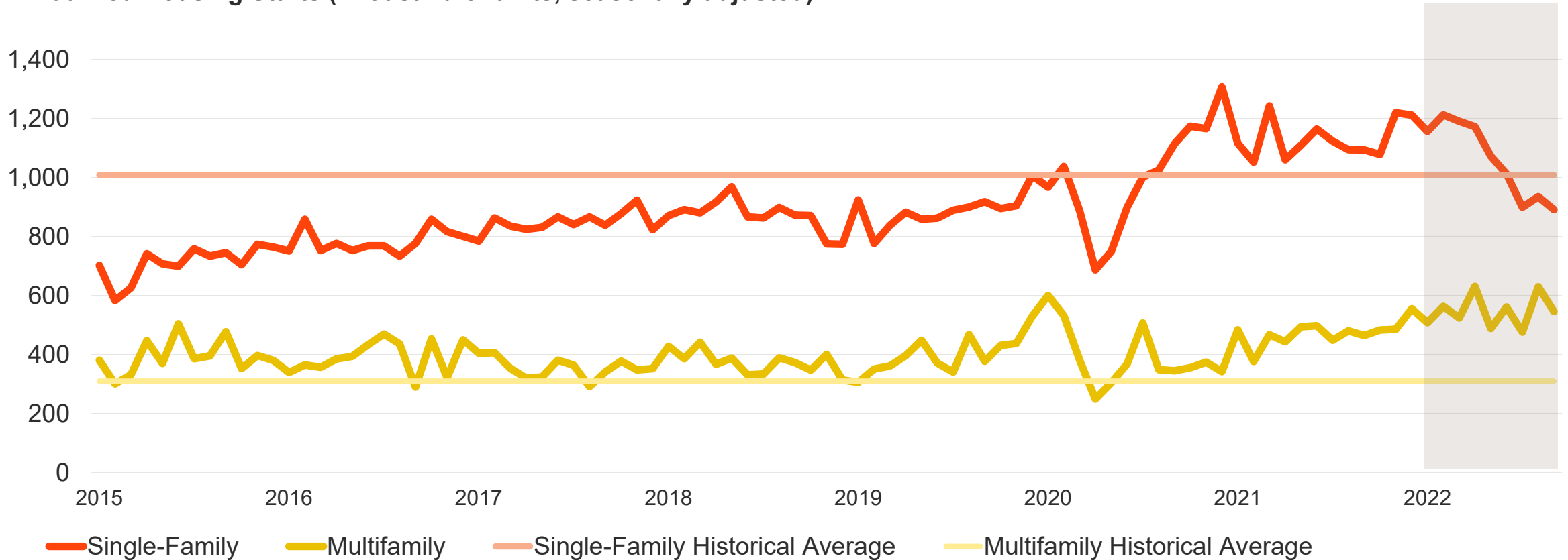
Existing Home Sales (Thousands, SAAR)



Source: JCHS tabulations of NAR data via Moody's Analytics, Economy.com

Single-Family Construction Has Turned Down Sharply But Multifamily Market So Far Continues on Upward Trajectory

Annualized Housing Starts (Thousand of units, seasonally adjusted)

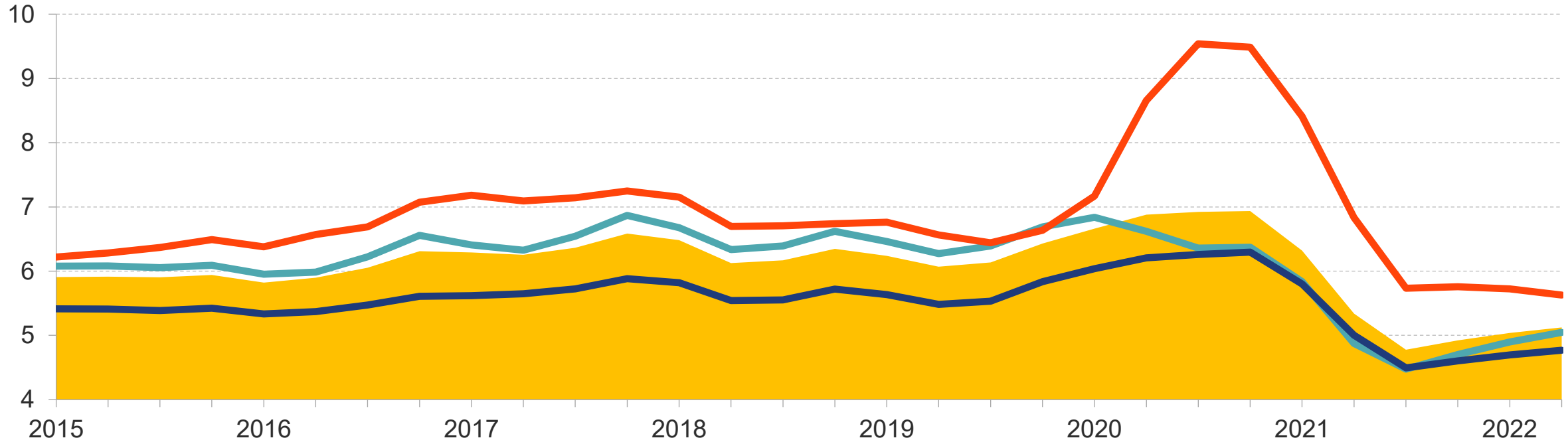


Note: Single-family and multifamily historical averages are of seasonally adjusted monthly data from January 1990 to September 2022.

Source: JCHS tabulations of US Census Bureau, New Residential Construction data.

But Vacancy Rates Remain Near Historic Lows

Apartment Vacancy Rate (Percent)



Submarket ■ All ■ All Suburban ■ Prime Urban ■ Other Urban

Notes: Urban/suburban areas are based on density in the 54 largest markets that CoStar tracks. Prime submarkets have the highest rents.
Source: JCHS tabulations of CoStar data.