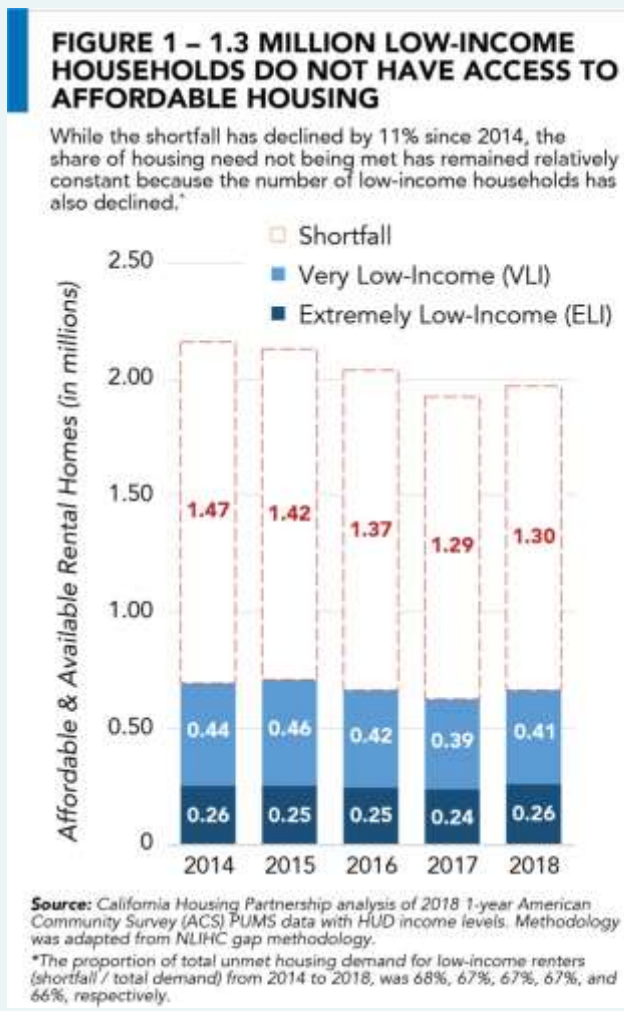
Tuesday, April 7, 2020

Demystifying California's Affordable Homes Shortfall

Much of my work at the [California Housing Partnership] focuses on analyzing the state of affordable rental housing in California and its impacts on individual residents and families, taxpayers, and local economies. Last month, these efforts culminated in our release of the [2020 California Affordable Housing Needs Report]. One of the major data findings from this year's report is the number of low-income renter households in California who cannot find an affordable home in the rental market.

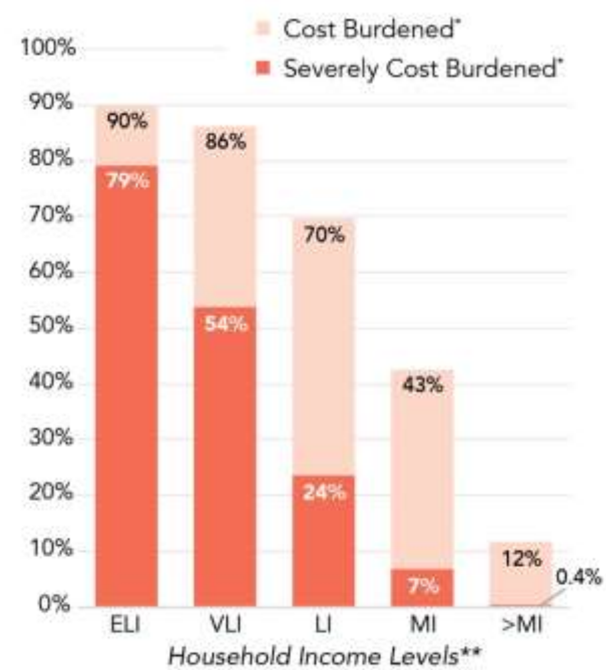


Of the 5.89 million renter households living in California, 1.97 million (or one in three of these households) come from the two lowest income groups-extremely low-income (ELI) and very low-income (VLI).[i] Meanwhile, only 668,000 rental homes are affordable and available to households at these income levels, resulting in a shortfall of 1.30 million affordable rental homes (see Figure 1). In other words, 1.30 million-nearly two-thirds-of California's lowest income households do not have access to affordable housing.

In our reports, a rental home is considered "affordable" if a household spends no more than 30 percent of their income on rent and utilities, and the home is considered "available" if it is either vacant or occupied by a household at or below the identified income threshold.[ii] The sum of occupied and vacant homes represents the total stock of rental homes.

What we have learned from assessing the availability and affordability of rental homes over a period of several years is, not surprisingly, that households with the lowest incomes have been hardest hit by California's unaffordable rental market. Only 23 rental homes are affordable and available for every 100 ELI renter households-that is, affordable and not occupied already by a higher income group. VLI renter households fare only slightly better with 34 affordable and available rental homes for every 100 households. For low-income (LI) renter households, this number increases to 76 affordable and available rental homes for every 100 households. As one would expect, when we move up the income scale, the numbers improve. Ninety-two rental homes are affordable and available for every 100 moderate-income (MI) renter households. But what is surprising to learn is that above moderate-income households-those earning more than 120% of the area median income ("AMI")-actually have a small surplus statewide, at 105 homes affordable and available per 100 renter households.[iii] In other words, the available supply of affordable rental homes is greater for households with higher incomes.

FIGURE 2 – 79% OF CALIFORNIA'S ELI HOUSEHOLDS ARE SEVERLY COST BURDENED COMPARED TO 7% OF MODERATE-INCOME HOUSEHOLDS



Source: *California Housing Partnership analysis of 2018 1-year American Community Survey (ACS) PUMS data with HUD income levels. Methodology was adapted from NLIHC gap methodology.*

**Cost burdened households spend 30% or more of their income towards housing costs. Severely cost burdened households spend more than 50%.*

***ELI: Extremely Low-Income, VLI: Very Low-Income, LI: Low-Income, MI: Moderate-Income, >MI: Above Moderate-Income*

Why do so many low-income renter households struggle to find an affordable home in California?

Because incomes have not kept pace with rising rents and housing production is far below need, millions of Californians are forced to spend an outsized share of their household's income on housing.[iv] Figure 2 shows that California households with the lowest incomes not surprisingly have the highest rates of cost burden and severe cost burden: a staggering 79% of ELI renter households spend more than half of their income on housing costs alone.[v]

This means that low-income renters across California are having to make impossible choices between putting food on the table, paying for lifesaving medical care, affording childcare or education, and making rent.[vi] Unfortunately, the COVID-19 pandemic will only compound these economic pressures.

A second seemingly obvious but often overlooked reason is that higher-income households occupy a large number of rental homes that would otherwise be affordable to lower-income renters, thereby reducing the number of affordable homes actually available to lower-income households. This market mismatch means that more than 205,000 homes whose rents are affordable to the lowest income households (ELI) (44%) are actually occupied by renters in higher income groups who could afford to pay more-48,000 of these homes are occupied by above moderate-income households earning more than 120% of AMI. Similarly, more than 182,000 homes with rents affordable to VLI households are occupied by renters in higher income groups, including 44,000 occupied by above moderate-income households.

In other words, higher-income households have more ready access to the supply of both lower- and higher-rent homes in California's tight rental markets, increasing instability and displacement risk for households with low incomes. Only 982,000 rental homes in California are affordable to the state's 1.97 million ELI and VLI renter households-and one in three of these homes is currently being occupied by a higher-income household. Combined, these findings help reveal why too few low-income renter households in California can find an affordable home in the rental market.

The large and persistent shortage of affordable and available homes for low-income renter households has been well documented by the California Housing Partnership as well as by our fellow housing researchers and policy practitioners throughout the years (see the National Low Income Housing Coalition's report "The Gap" and Urban Institute's report "The Housing Affordability Gap"). While the Partnership's 2020 California Affordable Housing Needs Report shows that some progress has been made in increasing funding and housing production in recent years, we are still far from creating a California with stable and affordable housing for households of all incomes.

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[i] To quantify affordable housing need by income group, the 2020 California Affordable Housing Needs Report uses HUD income limits, which are used to determine eligibility for federal and state housing programs based on the median income and housing costs in a metropolitan area. Households earning at or below 30% of area median income (AMI) are

considered extremely low-income (ELI) and households earning between ELI and 50% of AMI are very low-income (VLI). To best account for California's high-cost housing markets, HUD upwardly adjusts income limits across the state, which results in a higher proportion of California's households falling into the lower income groups. For households at the lower end of each income range, rents set at the maximum allowable price for the adjusted income levels may be high in relation to their income.

[ii] This analysis is adapted from the National Low Income Housing Coalition's gap methodology. To learn more, visit NLIHC's website at https://nlihc.org/gap.

[iii] This analysis looks across the entire state and does not represent variation in local or regional supply trends.

[iv] California Housing Partnership. 2020. "2020 California Affordable Housing Needs Report." Website: https://chpc.net/resources/2020-statewide-housing-needs-report/

[v] A household is cost burdened if it spends 30% or more of their income towards housing costs and severely cost burdened if it spends more than 50%.

[vi] See, for example: Joint Center for Housing Studies of Harvard University. The State of the Nation's Housing 2017. Harvard Joint Center, State of the Nation's Housing; S.J. Newman and C. S. Holupka. 2014. "Housing Affordability and Investments in Children," Journal of Housing Economics, vol. 24. Website: http://dx.doi.org/10.1016/j.jhe.2013.11.006