



Opportunities And Challenges In The U.S. Multifamily Market

CHAPTER 8:

ASSESSING THE SUPPLY OF AFFORDABLE HOUSING: A COMPREHENSIVE ANALYSIS

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In the intricate tapestry of urban development and social equity, few threads are as crucial as affordable housing. As cities across the globe grapple with rising costs of living and widening income disparities, the question of affordable housing supply has moved from the periphery of policy discussions to center stage. For real estate professionals, investors, policymakers, and community advocates, understanding the nuances of assessing affordable housing supply is not just an academic exercise—it's a vital skill that can shape the future of our communities.

The Affordability Conundrum: More Than Just Numbers

At first glance, the concept of affordable housing seems straightforward: housing that people can afford. But dig a little deeper, and the complexities begin to emerge. The U.S. Department of Housing and Urban Development (HUD) has long used the 30% rule—housing is considered affordable if it costs no more than 30% of a household's gross income. This definition, while useful as a general guideline, barely scratches the surface of what affordability truly means in diverse urban and rural contexts.

Consider, for instance, a family living in a high-cost coastal city. They might be spending exactly 30% of their income on rent, yet still struggle to make ends meet due to the high costs of transportation, food, and other necessities in their area. Conversely, a household in a small Midwestern town might spend

more than 30% on housing but find their overall cost of living manageable due to lower expenses in other areas.

This variability underscores the need for a more nuanced approach to defining and assessing affordability. Some researchers and policymakers have begun advocating for a "residual income" approach, which considers what households have left after paying for housing to cover other essential needs. Others argue for incorporating transportation costs into affordability calculations, recognizing that cheaper housing in car-dependent suburbs may not truly be more affordable when factoring in commuting expenses.

As we delve into the assessment of affordable housing supply, it's crucial to keep this complexity in mind. A truly comprehensive assessment must go beyond simple ratios and consider the broader economic and social context in which housing exists.

The Anatomy of a Housing Needs Assessment

At the heart of any effort to assess affordable housing supply lies the housing needs assessment. This comprehensive study serves as a roadmap for understanding current housing conditions, projecting future needs, and identifying gaps in the market. But, what does this process actually entail?

A typical housing needs assessment begins with a deep dive into demographic data. This includes not just

population numbers, but a granular look at household composition, age distribution, income levels, and employment patterns. In many cities, this analysis reveals stark disparities. For example, a 2022 study in Seattle found that while the city's overall population had grown wealthier, low-income households were being increasingly priced out of the market, creating a pressing need for more affordable units.

Next comes an inventory of the existing housing stock. This isn't just a matter of counting units—it involves categorizing housing by type (single-family, multifamily, etc.), assessing its condition, and determining its affordability at various income levels. In many older cities, this inventory often reveals a significant stock of naturally occurring affordable housing (NOAH)—older units that are affordable not due to subsidies, but because of their age and condition. Preserving this NOAH stock has become a key concern in many affordability strategies.

The assessment then turns to market conditions. This includes analyzing vacancy rates, rent trends, and sales prices. Low vacancy rates, rapidly rising rents, and skyrocketing home prices are often red flags indicating a shortage of affordable options. For instance, a 2023 assessment in Austin, Texas, found vacancy rates below 3% and year-over-year rent increases of over 20% in some neighborhoods, signaling a severe affordability crisis.

But perhaps the most crucial—and challenging—part of a housing needs assessment is projecting future demand. This requires not just extrapolating current trends, but anticipating shifts in demographics, employment patterns, and housing preferences. The COVID-19 pandemic has added another layer of complexity to these projections, as remote work and changing lifestyle preferences have reshuffled housing markets across the country.

Metrics That Matter: Quantifying the Affordable Housing Supply

While a comprehensive housing needs assessment provides the big picture, specific metrics help quantify the supply of affordable housing more precisely. These metrics serve as vital tools for policymakers, developers, and advocates in making the case for affordable housing initiatives.

One key metric is the housing wage—the hourly wage a full-time worker must earn to afford a modest rental home without spending more than 30% of their income on housing costs. The National Low Income Housing Coalition's annual "Out of Reach" report calculates this figure for every state and metropolitan area in the U.S. The 2023 report found that in no state can a person working full-time at the minimum wage afford a two-bedroom apartment at the fair market rent. This stark statistic underscores the depth of the affordability crisis in many areas.

Another crucial metric is the affordable housing gap—the difference between the number of affordable units needed and the number available. This gap is often most severe for extremely low-income households (those earning 30% or less of the area median income). A 2023 report by the National Low Income Housing Coalition found a shortage of 7.3 million affordable and available rental homes for extremely low-income renters nationwide.

The concept of housing cost burden—households paying more than 30% of their income for housing—is also a key indicator. Severely cost-burdened households, those paying more than 50% of their income for housing, are at particular risk of housing instability. In many high-cost cities, the percentage of cost-burdened households has reached alarming levels. For instance, a 2022 study in Los Angeles found that nearly 60% of renter households were cost-burdened, with over 30% severely cost-burdened.

Beyond Numbers: The Qualitative Side of Supply Assessment

While quantitative metrics provide a solid foundation for assessing affordable housing supply, they don't tell the whole story. Qualitative factors play a crucial role in understanding the true nature of affordable housing in a community.

One key qualitative factor is the location of affordable housing. Are affordable units concentrated in certain neighborhoods, potentially reinforcing patterns of segregation? Or are they distributed throughout the community, providing low-income residents with access to a range of opportunities? The concept of "opportunity mapping," which assesses neighborhoods based on factors like school quality, job access, and environmental health, has become an important tool in evaluating the qualitative aspects of affordable housing supply.

The condition of affordable housing is another critical qualitative factor. A community might have a seemingly adequate supply of affordable units on paper, but if many of these units are in poor condition or lack basic amenities, the reality on the ground may be quite different. This is particularly relevant when considering naturally occurring affordable housing, which may be affordable precisely because it has not been well-maintained.

Accessibility is yet another qualitative consideration. As the population ages, the supply of affordable housing that is accessible to people with disabilities becomes increasingly important. A 2022 study by the Harvard Joint Center for Housing Studies found that less than 4% of U.S. homes have features that make them fully accessible for people with moderate mobility difficulties.

The Role of Policy in Shaping Affordable Housing Supply

Any assessment of affordable housing supply must consider the policy environment in which that housing exists. Zoning regulations, building codes, tax incentives, and subsidy programs all play a role in shaping the affordable housing landscape.

Inclusionary zoning policies, which require or incentivize developers to include affordable units in new residential developments, have become increasingly popular in recent years. A 2023 study by the Lincoln Institute of Land Policy found that over 900 jurisdictions in the U.S. now have some form of inclusionary housing policy. While these policies have produced thousands of affordable units, their effectiveness varies widely depending on local market conditions and policy design.

Rent control and rent stabilization policies also significantly impact the affordable housing supply. While proponents argue that these policies preserve affordability for existing tenants, critics contend that they can discourage new construction and lead to deterioration of the existing housing stock. The debate over rent control remains contentious, with cities like St. Paul, Minnesota, recently implementing new rent control measures, while others have moved to prohibit such policies.

At the federal level, programs like the Low-Income Housing Tax Credit (LIHTC) play a crucial role in financing

affordable housing development. Since its inception in 1986, the LIHTC program has helped finance the development of over 3 million affordable rental units. However, many of these units are now reaching the end of their mandated affordability periods, raising concerns about long-term preservation of affordable housing stock.

The Future of Affordable Housing Supply: Challenges and Opportunities

As we look to the future, several trends are likely to shape the landscape of affordable housing supply. Climate change and natural disasters pose increasing threats to housing stability, particularly for low-income communities. Integrating resilience into affordable housing development and preservation strategies will be crucial.

Technological advances offer both challenges and opportunities. The rise of short-term rental platforms like Airbnb has raised concerns about their impact on long-term rental supply in many cities. On the other hand, innovations in construction technology, such as modular and 3D-printed housing, offer potential for reducing construction costs and increasing affordable housing supply.

Demographic shifts will also play a significant role. The aging of the baby boomer generation is creating new demands for affordable, accessible senior housing. At the same time, changing preferences among younger generations, including a greater openness to shared living arrangements, may reshape demand for different types of affordable housing.

Conclusion: Towards a More Holistic Assessment

Assessing the supply of affordable housing is far more than a simple counting exercise. It requires a nuanced understanding of local market dynamics, a careful analysis of demographic and economic trends, and

a consideration of qualitative factors that shape the lived experience of housing affordability.

For real estate professionals, investors, and policymakers, the ability to conduct and interpret these assessments is becoming increasingly crucial. As housing affordability challenges continue to grow in many parts of the world, those who can accurately assess the supply of affordable housing—and translate that assessment into effective strategies and investments—will be well-positioned to make a significant impact.

The path to ensuring an adequate supply of affordable housing is neither straight nor easy. It requires collaboration across sectors, innovative thinking, and a willingness to challenge long-held assumptions about housing and community development. But with a comprehensive, nuanced approach to assessing affordable housing supply, we can take important steps toward creating more equitable, sustainable communities for all.



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