Affordability Toolkit Redux

In previous Research Notes, we examined the increasing affordability challenges, particularly related to rental housing for those with modest incomes. In this follow-up, we provide an update on the situation as of 2021.

The Pandemic Has Affected Lower-Income Households More

Affordability problems persist in the rental market with particular impacts on lower-income households. Our research and that of others shows how the economic downturn impacted those who were already struggling the most, continuing to make it difficult for those at the lower end of the income spectrum to find an affordable unit. Additional questions in the Household Pulse Survey indicated that government assistance such as stimulus checks made a difference in renters’ ability to pay for basic needs.

Further, the U.S. Census Bureau’s Household Pulse Survey gives some indications of which households were most affected. Figure 4 shows the percentage of respondents in each survey round compared to no respondents in the fourth round (conducted July 6 to July 16, 2020) (Figure 4). For example, Figure 4 shows that more respondents in the third round (conducted May 17 to June 1) that they have experienced deals repriced five percent or more, compared to no respondents in the fourth round (conducted July 6 to July 16, 2020)

Vacancy rates show that there is still a supply/demand imbalance, and the COVID-related downturn financially harmed those that were already struggling the most, continuing to make it difficult for them to find affordable units. Figure 1 shows that multifamily construction activity continued during the pandemic in 2020, increasing as well compared to 2019. Additional research in 2018 by NMHC and the National Association of Home Builders showed that multifamily construction increased as well from 2000 to 2016. Additional research in 2018 by NMHC and the National Association of Home Builders showed that multifamily construction increased as well from 2000 to 2016.

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The Demand-Supply Imbalance Remains, Particularly in More Affordability-Friendly Markets

The demand/supply imbalance, particularly in more affordability-friendly markets, remains. This is true for Class C multifamily properties as well, with the vacancy rate for Class C rising slightly in 1Q 2021 from the prior quarter, but remaining unchanged from the year prior, as shown in Figure 2. While the number of new multifamily units completed in 2020 was less than 350,000, this is still higher than in previous years.

The construction development timeline from permitting to starts, and materials scarcity has resulted in further delays and price increases. The timeline from grounding to completion remains longer than historically normal, leading to higher development costs. Development costs have risen, including the cost of construction materials and labor, which had risen 57 percent from 2000 to 2016. Additional research in 2018 by NMHC and the National Association of Home Builders showed that multifamily construction increased as well from 2000 to 2016.

As mentioned earlier, the toolkit highlighted that an increase in development costs was the final factor for rising housing costs. The study found that a variety of costs in the development process had risen, including the cost of construction materials and labor, which had risen 57 percent from 2000 to 2016. Additional research in 2018 by NMHC and the National Association of Home Builders showed that multifamily construction increased as well from 2000 to 2016.

Utilities or telecom bills; and 55 percent cited rent payments. These are significant as stimulus checks made a difference in renters’ ability to pay for basic needs—for the survey period, a majority of respondents who received stimulus checks put lower-income apartment residents particularly at risk.

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