POLICY BRIEF

Who Can Afford to Rent in California's Many Regions?

October 2019

The California Housing Partnership has regularly documented the severity of the housing affordability crisis that affects every county in the State. As the crisis has deepened in recent years, more and more families have been affected, leading some State leaders—particularly those from higher-cost coastal areas—to consider investing scarce resources to help the "missing middle" afford housing.

As planning for a new budget and legislative cycle kick off this month, the California Housing Partnership presents new data on the income required to afford modest rents in each county across the State.

The purpose of this analysis is to provide insights into whether State housing resources are being appropriately targeted, and whether it actually makes sense for these resources to be used to provide assistance to "missing middle" households, and if so where.

California Housing Partnership
California's Experts on Affordable Housing Finance, Advocacy & Policy

METHODOLOGY

To answer the question of how the State should direct its scarce resources for maximum impact, the California Housing Partnership compared the median asking rent data on Craigslist for two-bedroom apartments with regionally adjusted 2019 area median incomes (AMI) for three-person households.[1,2] It is important to acknowledge that recent increases in California AMIs dictated by peculiarities in the methodology established by the U.S. Department of Housing and Urban Development (HUD) and further modified by the California Tax Credit Allocation Committee (TCAC) mean that a large number of households in high cost areas who are now classified as low-income were in many cases categorized as moderate-income just a few years ago. The importance

FIGURE 1
Percent of AMI Needed to Afford Modest Rents in Each County

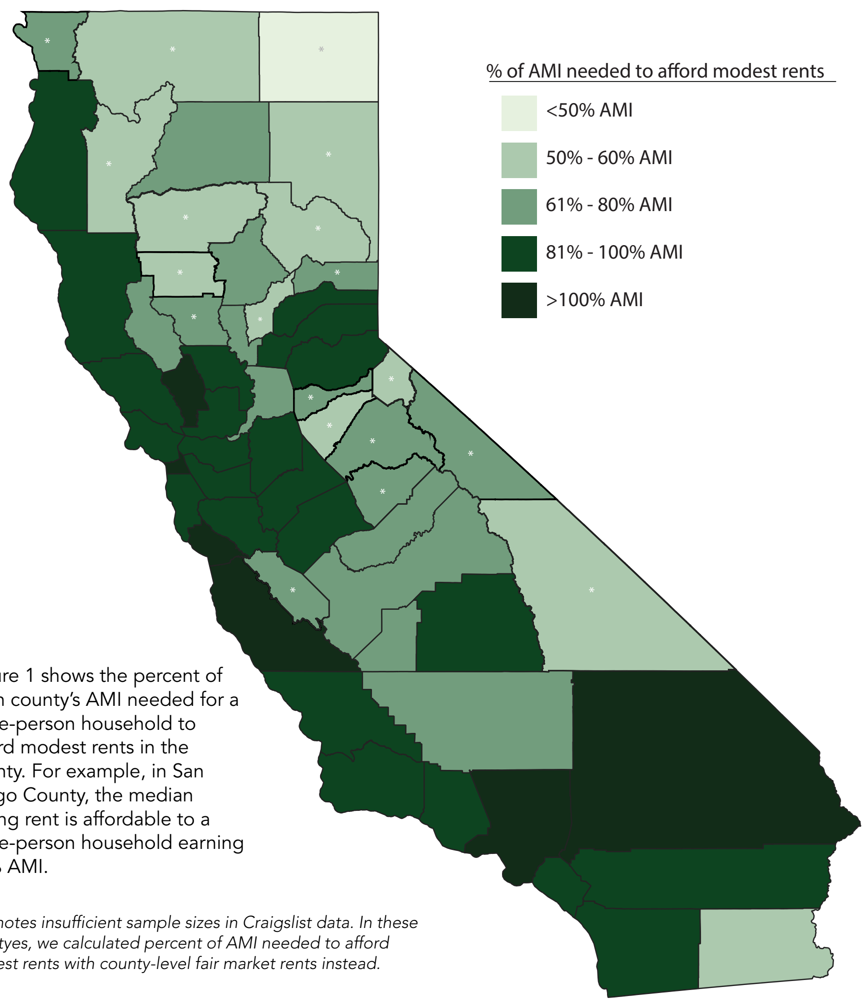


Figure 1 shows the percent of each county's AMI needed for a three-person household to afford modest rents in the county. For example, in San Diego County, the median asking rent is affordable to a three-person household earning 83% AMI.

** Denotes insufficient sample sizes in Craigslist data. In these countyes, we calculated percent of AMI needed to afford modest rents with county-level fair market rents instead.*

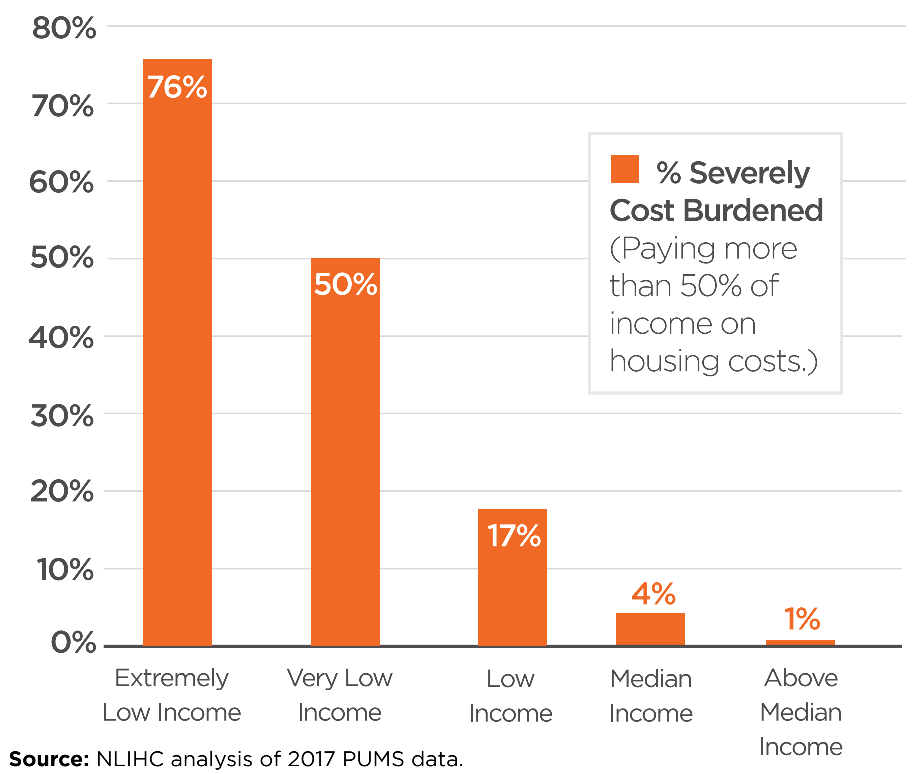
of this rapid increase in AMIs for policy making is to understand that programs previously targeting low-income households are effectively now serving many missing middle households even without changes to State laws or regulations. Please see Appendix B for more information on AMI trends.

WHAT WE FOUND

The following results are illustrated in Figure 1:

- The 1.3 million extremely low-income (ELI) renter households in California—those earning 30% or less of AMI—cannot afford modest rents in any California county.[3]
- Very low-income (VLI) households earning 50% or less of AMI can afford modest rents in only one California county.
- Lower Income households—defined by State funding programs as those earning 60% or less of AMI—can afford modest rents in eleven California counties.
- Households earning 80% of AMI and defined as Low-Income for Federal Section 8 programs can afford modest rents in 29 California counties.
- In contrast, median income households—defined as those earning 100% of AMI—can afford modest rents in all but six California counties, primarily in the State's high cost, coastal regions.[4]
- We also examined fair market rents at the zip code level (SAFMRs) to test if these county-level findings were consistent at smaller geographies. We found that households earning 100% AMI can afford fair market rents in 90% of all zip codes in California.[5] However, the 10% of zip codes unaffordable to median income households span 26 counties in the State, not only high cost coastal counties, which has important policy implications.

FIGURE 2
California's Lowest Income Households Experience Higher Rates of Severe Cost Burden



Source: NLIHC analysis of 2017 PUMS data.

THE IMPORTANCE OF CONSIDERING RELATIVE COST BURDENS

It would be a mistake to consider affordability of housing without also considering the relative cost burdens that fall on each income group. As shown in Figure 2, households with the lowest incomes have the highest rates of severe cost burden.[6] When low-income households experience severe cost burden and spend an outsized share of income on housing, they have to cut back on other essentials like food, health care, child enrichment, and transportation. According to national data, severely cost burdened low-income households spend 53% less on these essential living costs than their low-income counterparts who live in housing that is affordable to them.[7] Severely cost burdened low-income households are most vulnerable to being displaced and becoming unsheltered. They are one bad break away from being forced to move much further from work and essential services or even being forced to live in their vehicles or on the streets.[8]

POLICY IMPLICATIONS

Setting Priorities for Who Needs Help Most

Prioritizing assistance to households with the lowest incomes does not mean that there are not moderate-income households in specific neighborhoods who still need help, particularly in the six, higher cost coastal counties shown in Figure 1 and the 248 zip codes identified in the SAFMR analysis. However, when considering relative affordability in combination with the frequency of severe cost burden among different income groups, the California Housing Partnership concludes that the State must prioritize its scarce funding resources for Californians at the lowest income levels first or risk continued increases in the numbers of households living in poverty and homelessness. Assistance for households earning more than 80% AMI should generally be limited to areas of the State where median income households cannot afford modest rents and where government intervention is most needed to avoid displacement that might occur among these households due to high housing costs.[9]

Setting Priorities for Type of Assistance

The discussion above speaks to who should be eligible for assistance in State housing programs, which begs the question of what kind of assistance should be prioritized in future budgets and legislative bills. State housing assistance can take various forms, including capital subsidies to create and preserve affordable homes and rent or operating subsidies to ensure that existing homes are affordable. Keeping in mind that federal rental assistance reaches one fifth of eligible households nationally, providing State rental subsidies to augment federal programs can be cost effective but generally only in states or regions where vacancy rates are high and housing is readily available.[10] Providing rental assistance at scale in tight rental markets simply increases demand, which leads to higher rents and subsidy needs.[11] In addition, in states like California where the average annual cost of a housing voucher is now $13,400 per household, rental assistance can be extremely expensive over the long term unless it has a dedicated funding source that will grow with the cost of housing.[12]

Further, it is difficult for governments politically to take away this type of assistance once it has been given to specific households due to the resulting highly visible and personal impacts. The fact that three quarters of the federal housing budget is now spent on renewing various forms of rental assistance, at the cost of support for new production, is a cautionary example of what can happen when governments initiate this form of investment. This is not to say that California should not pursue more rental subsidies—given their proven effectiveness at raising households out of poverty, we absolutely need more. But to avoid conflicting with the State's commitment to funding public education, we recommend that the primary strategy for increasing these subsidies should be advocacy at a federal level where the renewal costs are a tiny percentage of the overall budget, rather than committing much scarcer State discretionary funds and risking undermining the State's ability to provide capital funds for producing new affordable homes. Or pursuing a dedicated source of revenue that will grow over time and shield the General Fund and its promise to fund public education from erosion.

In states such as California, where vacancy rates are on average very low, the most cost-effective approach for State intervention is to provide capital subsidies to create new housing and preserve existing housing.[13] For example, the State's Multifamily Housing Program produced more than 25,000 affordable rental homes from 2003 to 2016 at a cost of less than $70,000 per home when combined with federal Low Income Housing Tax Credits and local funding.[14] Each new two-bedroom MHP-funded home will conservatively serve an average of eleven households or 33 people over the 55-year affordability period. That works out to $424 per person per year, which is a bargain any way you look at it.[15]

While MHP, in combination with Tax Credits and local funding, can be enough to produce new housing affordable to households earning between 30 and 80% AMI, making housing affordable to extremely low-income households who cannot afford to pay enough rent even to cover basic property operating expenses requires combining property-based rent or operating subsidies with capital subsidies. No Place Like Home (and previously the Mental Health Services Act Housing Program) and the Veterans Housing and Homeless Prevention programs successfully employ this financing model.

Proponents of using more State resources to support moderate-income housing assistance argue that the per-unit subsidy is smaller for moderate-income housing, allowing for production of more units. However, the State and local subsidy per unit to create this type of housing is generally much greater because it is not eligible for funding from Low Income Housing Tax Credits (LIHTCs), which means the loss of an average of $140,000 per unit (assuming a 4% LIHTC structure).[16]

CONCLUSION

The above analysis of modest rents and severe cost burden in California shows that while there are moderate-income households who struggle to afford modest rents in some higher cost, coastal counties, the needs of these households pale in comparison with the affordability challenges facing the lowest income households in every part of the State. Because the need for housing assistance outstrips State resources and the lowest income households are more likely to fall into poverty and homelessness without assistance, State leaders should continue to prioritize these most vulnerable households first. The logic of this position is strengthened by the fact that providing assistance to moderate-income households generally costs more than providing assistance to low-income households due to the ineligibility of the former for LIHTCs.

APPENDIX A: METHODOLOGY

Craigslist Analysis
We used median asking rent data from Craigslist for two-bedroom apartments in the fourth quarter of 2018 to understand market rents across California. By annualizing median asking rent for each County and dividing by the affordability rate of 30%, we were able to determine the income needed to afford such rent. We then determined the percent of AMI needed to afford the median asking rent by comparing this income needed value with the 100% AMI level for each county. Due to insufficient sample sizes, we did not leverage Craigslist data for 19 of the State's smaller counties
For example, a three-person household in San Diego County earning 83% of the AMI can afford the median rent in the county.

Fair Market Rent FMR Analysis
We then turned to Fair Market Rents as the next best proxy for market rents in the 19 smaller counties without robust Craigslist data. Fair Market Rents are established by HUD to estimate what a family can expect to pay for a modest rental home. They are typically the 40th percentile of rents and are used to determine the payment standards for Housing Choice Vouchers, Project Based Section 8 Contracts, and other housing subsidies.
By annualizing FMRs at each county and dividing by the affordability rate of 30%, we were able to determine the income needed to afford each county's FMR. For example, a three-person household in Modoc County earning 48% of the AMI can afford the Fair Market Rent.

Small Area Fair Market Rent (SAFMR) Analysis
We also analyzed Small Area Fair Market Rents (SAFMRs) to understand if our county-level findings were consistent at smaller geographies. SAFMRs are established by HUD to estimate what a family can expect to pay for a modest rental home. They are typically the 40th percentile of rents and are used to determine the payment standards for Housing Choice Vouchers, Project Based Section 8 Contracts, and other housing subsidies. SAFMRs are calculated at the zip code level within metropolitan areas. Our results show that by comparing SAFMRs for two-bedroom units with 2019 AMI for a three-person household, California households earning 60% of county AMI can afford SAFMR rent levels in 6% of zip codes, households earning 80% of county AMI can afford SAFMR rent levels in 63% of zip codes, and household earning 100% AMI can afford SAFMR rents levels in 90% of all zip codes in California.

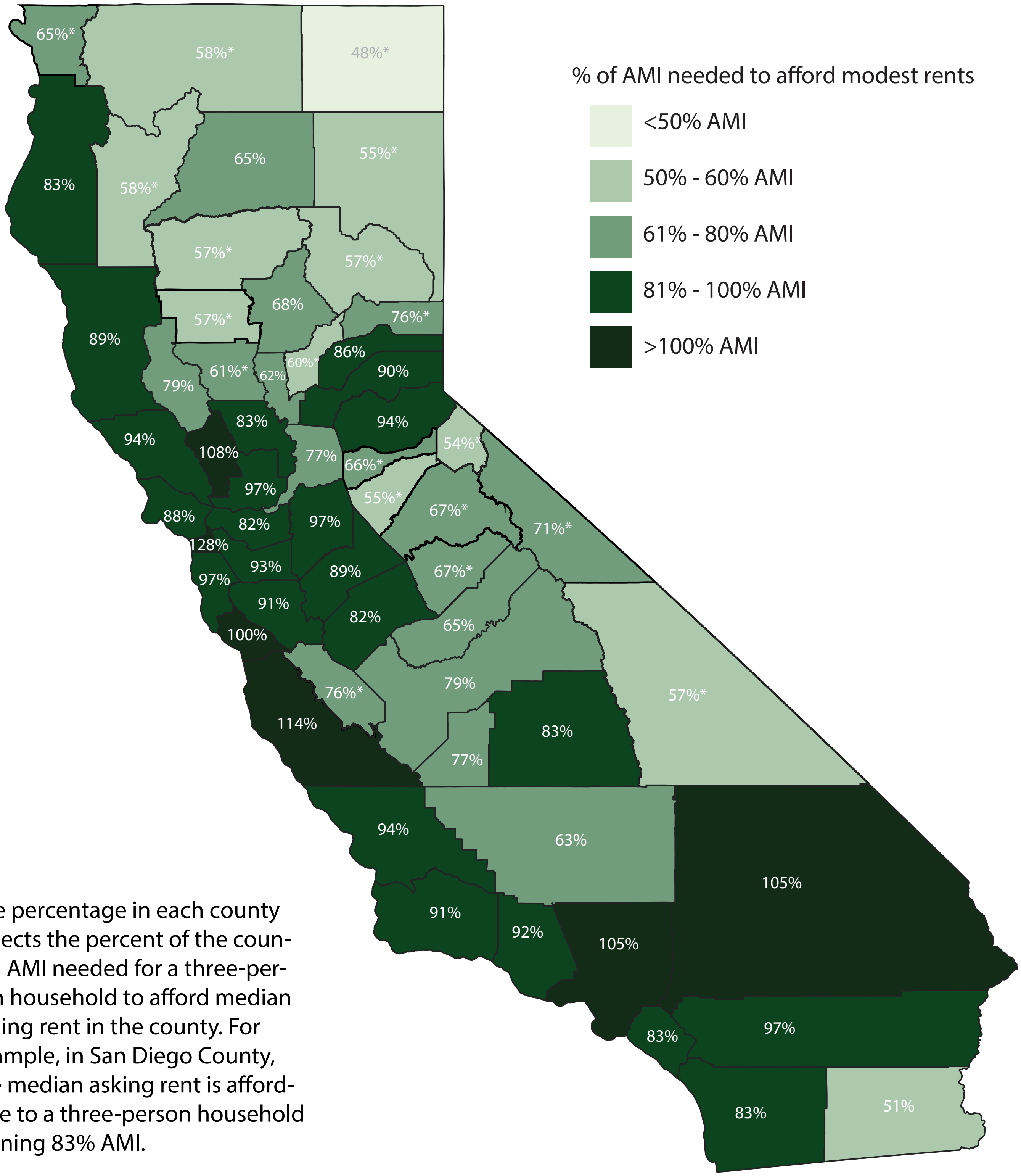
APPENDIX B: ANALYSIS OF CHANGES IN AREA MEDIAN INCOME BY COUNTY

COUNTY	% of AMI Needed to Afford Modest Rent (2 bdrm)	AMI for a 3-Person Household	% Change in TCAC's 3-Person 100% Income Level Limit (2017-2019)
Alameda	93%	$111,600	18.8%
Alpine	54%*	$72,100	2.7%
Amador	66%*	$65,700	2.8%
Butte	68%	$59,900	6.2%
Calaveras	55%*	$67,800	8.8%
Colusa	61%*	$58,400	8.1%
Contra Costa	82%	$111,600	18.8%
Del Norte	65%*	$58,400	8.1%
El Dorado	94%	$75,300	12.7%
Fresno	79%	$58,400	8.1%
Glenn	57%*	$58,400	8.1%
Humboldt	83%	$58,400	8.1%
Imperial	51%	$58,400	8.1%

COUNTY	% of AMI Needed to Afford Modest Rent (2 bdrm)	AMI for a 3-Person Household	% Change in TCAC's 3-Person 100% Income Level Limit (2017-2019)
Inyo	57%*	$65,500	2.2%
Kern	63%	$58,400	8.1%
Kings	77%	$58,400	8.1%
Lake	79%	$58,400	8.1%
Lassen	55%*	$61,500	-0.8%
Los Angeles	105%	$94,000	15.9%
Madera	65%	$58,400	8.1%
Marin	88%	$145,100	22.4%
Mariposa	67%*	$58,400	-1.0%
Mendocino	89%	$58,400	7.9%
Merced	82%	$58,400	8.1%
Modoc	48%*	$58,400	8.1%
Mono	71%*	$70,200	2.8%
Monterey	114%	$80,900	10.4%
Napa	108%	$90,400	7.9%
Nevada	86%	$71,800	4.5%
Orange	83%	$106,900	13.8%
Placer	90%	$75,300	12.7%
Plumas	57%*	$62,700	11.2%
Riverside	97%	$64,700	11.4%
Sacramento	77%	$75,300	12.7%
San Benito	76%*	$91,800	21.9%
San Bernardino	105%	$64,700	11.4%
San Diego	83%	$96,300	17.6%
San Francisco	128%	$145,100	22.4%
San Joaquin	97%	$63,000	14.5%
San Luis Obispo	94%	$81,000	10.1%
San Mateo	97%	$145,100	22.4%
Santa Barbara	91%	$99,300	22.6%
Santa Clara	91%	$131,700	22.5%
Santa Cruz	100%	$110,500	22.5%
Shasta	65%	$58,400	4.8%
Sierra	76%*	$67,900	12.4%
Siskiyou	58%*	$58,400	8.1%
Solano	97%	$77,200	6.6%
Sonoma	94%	$97,200	22.6%
Stanislaus	89%	$58,400	8.1%
Sutter	62%	$59,900	8.1%
Tehama	57%*	$58,400	8.1%
Trinity	58%*	$58,400	8.1%
Tulare	83%	$58,400	8.1%
Tuolumne	67%*	$59,200	9.2%
Ventura	92%	$94,200	4.7%
Yolo	83%	$79,200	17.7%
Yuba	60%*	$58,400	8.1%

Note: *Due to insufficient sample sizes, we did not leverage Craigslist data for the State's smaller counties. Instead, we calculate percent of AMI needed to afford modest rents with county-level fair market rents (FMR).

APPENDIX C: Full-Sized Version of Figure 1



The percentage in each county reflects the percent of the county's AMI needed for a three-person household to afford median asking rent in the county. For example, in San Diego County, the median asking rent is affordable to a three-person household earning 83% AMI.

*Denotes insufficient sample sizes in Craigslist data. We calculated percent of AMI needed to afford modest rents with county-level fair market rents (FMR) instead.
**AMI information was derived from TCAC Maximum Income Limits data.
***Craigslist median asking rent data was obtained from Paul Waddell, Urban Analytics Lab, University of California at Berkeley.

ENDNOTES

1 We used the three-person household area median income (AMI) set by the California Tax Credit Allocation Committee (TCAC) for projects Placed in Service in 2019. State funding programs assume three-person households occupy two-bedroom apartments.

2 Due to insufficient sample sizes, we did not leverage Craigslist data for 19 of the State's smaller counties. Instead, we calculate percent of AMI needed to afford modest rents with county-level Fair Market Rents (FMR). FMRs are established by HUD to estimate what a family can expect to pay for a modest rental home. They are typically the 40th percentile of rents and are used to determine the payment standards for Housing Choice Vouchers, Project Based Section 8 Contracts, and other housing subsidies.

3 For this analysis, we define "modest rents" for each county as the median asking rent for a two-bedroom apartment in the county, using Craigslist data. For the 19 smaller counties in the State with insufficient Craigslist data, we instead use county-level Fair Market Rents (FMR). "Afford" means paying no more than 30% of income on rent.

4 Median income households are at the midpoint of the "moderate-income" category, which encompasses households earning between 80% and 120% AMI.

5 Small Area Fair Market Rents (SAFMRs) are established by HUD to estimate what a family can expect to pay for a modest rental home. They are typically the 40th percentile of rents and are used to determine the payment standards for Housing Choice Vouchers, Project Based Section 8 Contracts, and other housing subsidies. SAFMRs are calculated at the zip code level.

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

7 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.

8 See, for example: Chris Glynn and Alexander Casey. "Priced Out: Homelessness Rises Faster Where Rent Exceeds a Third of Income." Website: https://www.zillow.com/research/homelessness-rent-affordability-22247/

9 Because Craigslist data is not publicly available, the State should use SAFMRs to determine which areas of the State are unaffordable to moderate-income households. Because SAFMRs are calculated at the zip code level, they are generally able to take into account submarket dynamics more accurately than Fair Market Rents, which are calculated at the county level.

10 Urban Institute. 2018. "The Case for More, Not Less: Shortfalls in Federal Housing Assistance and Gaps in Evidence for Proposed Policy Changes." Website: https://www.urban.org/sites/default/files/publication/95616/case_for_more_not_less.pdf.

11 Eriksen, Michael D., and Amanda Ross. 2015. "Housing Vouchers and the Price of Rental Housing." American Economic Journal: Economic Policy, 7 (3): 154-76

12 Center on Budget and Policy Priorities (CBPP) analysis of 2018 California voucher funding. This figure is the average cost of a leased voucher in 2018, including admin costs.

13 See, for example: CBPP. 2016. "Rental Vacancy Rates in California are at 30-year Low." Website: https://www.cbpp.org/rental-vacancy-rates-in-california-are-at-30-year-low; American FactFinder. Table S2501. U.S. Census Bureau. Website: https://factfinder.census.gov/

14 Some developments serving a high percentage of ELI households and/or special need populations also accessed other State capital and/or operating fund subsidy programs to pay for the additional costs involved in serving these populations.

15 Going forward, MHP is significantly increasing its base subsidy level to $150,000 to account for higher construction costs. Even so, the cost per person per year of the updated program is still expected to be under $1,000. More expensive, yes, but still a bargain.

16 California Housing Partnership analysis of 2018 4% Low Income Housing Tax Credit financing data, available at: https://www.treasurer.ca.gov/ctcac/2018/annualreport.asp

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