



Why We Should Invest Now in the Bay Area's Affordable Rental Housing Market: Meeting Need and Creating Opportunity

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Summary

Despite the recent housing crisis in the United States, and the depressed housing markets it created across the country, the San Francisco Bay Area remains one of the most expensive regions for housing in the nation. Based on the average rent of a two-bedroom apartment, California has the second most expensive housing stock of all the states, and four of the five most expensive counties in the country are in Northern California: Marin, San Francisco, San Mateo, and Santa Clara. Greater San Francisco is the country's most expensive metropolitan area, and San Jose ranks fifth¹.

Yet even while the Bay Area maintained its relatively strong housing market in recent years, several trends have emerged. An increasing number of residents across the nine-county area now choose to rent rather than own their homes. Many lower- and moderate-income residents in the region cannot find affordable homes, and must pay housing costs far beyond their means, especially with unemployment growing since the beginning of the current recession. New residential construction in the Bay Area and throughout California declined significantly since 2005, reducing construction and housing-related employment and revenue, widening the gap between rents and residents' ability to pay, and contributing to a lack of affordable units to meet growing demand.

All of these trends illustrate that now is an opportune time for public and private funders to invest in the affordable, multifamily rental market in the Bay Area, but not just to meet the needs of its residents. Increased demand also provides a notable growth opportunity for industries related to the production and maintenance of affordable homes, along with the jobs and revenue these industries generate.

The Bay Area's Lowest Income Residents Cannot Find Affordable Rental Homes

Demand for rental units in the Bay Area grew among residents at all income levels between 2005 and 2010. The region's overall population increased by 7%, but while the number of renter-occupied units rose in every county by as much as 18% during this time, owner-occupied units declined in all but one county.

A significant number of current renter households in this growing sector, however, earn the lowest incomes in the area. Across the Bay Area's nine counties, between 33% and 42% of all renter households in 2010 earned less than \$35,000 per year. At the same time, supply has not caught up with the growing needs of lower-income residents, forcing them to pay well beyond their means for rental homes in every county. In eight of nine counties, at least 75% and as many as 88% of renter households

¹ National Low Income Housing Coalition, 2011. *Out of Reach*. Washington, DC.

earning less than \$35,000 per year spent more than the affordable standard of 30% of their incomes on rent.²

A Lack of Existing Affordable Units and the Ongoing Residential Construction Slump in California Exacerbate the Problem

There are far too few affordable units available to meet Bay Area renters' demand overall, and this is especially true for the lowest income renters. In eight of nine counties, more than half of renters at or below 30% of their county's area median income (AMI) could not find housing at an affordable rent. Comparing supply and demand, there is an alarming total shortfall of 203,381 units affordable to these extremely low-income renters.

Table: Housing Unit Shortfall for Extremely Low Income Renter Households, 2010

County	Number of Renter Households at/below 30% AMI	Number of Units at/below Affordable Rent	Unit Shortfall	Percent of 30% AMI Households Not Served
San Mateo	27,939	7,508	20,359	73%
Sonoma	22,612	6,436	16,176	72%
Marin	12,993	4,382	8,611	66%
Napa	6,614	2,236	4,378	66%
Santa Clara	82,242	29,965	52,277	64%
Solano	11,536	4,584	6,952	60%
Contra Costa	33,849	13,903	19,946	59%
Alameda	81,201	37,306	43,895	54%
San Francisco	79,151	48,364	30,787	39%

Sources: U.S. Department of Housing and Urban Development 2010, *Income Limits*; U.S. Census Bureau, *American Community Survey 2010, Tables B25056 and B25118*.

Despite the great need for affordable rental units, however, new construction of multifamily homes dropped considerably in the Bay Area between 2005, a peak construction year, and 2010. Total building permits issued across nine counties in 2009 totaled just 5,751 multifamily units. Marin, Napa, and Solano counties issued no multifamily permits at all in 2010.³ Across the entire state, just 35,069 building permits were issued in 2009, which is the lowest level on record since California began tracking the figure in 1954.⁴ Compared to the need for over 200,000 units for the region's lowest income earners alone, as described above, these production levels clearly fall short.

² U.S. Census Bureau, *American Community Survey 2010, Table B25074*.

³ U.S. Census Bureau, *Building Permits, 2005 and 2010 (Reported Only)*.

⁴ California Building Industry Association, 2009. *Housing Builds Jobs*.

Meeting the Demand for Affordable Rental Units to Create Jobs and Increase Output in a Leading California Industry

Housing is the leading industry in California, responsible for almost 11% of the state's economic output. Due to the housing downturn, however, California residential construction output fell by \$53,931,012 between 2005 and 2010, and related employment levels dropped by 410,064 jobs.⁵

Addressing the tremendous need for affordable homes by investing in the design, development, maintenance and operation of multifamily rental buildings would help to reenergize the residential construction sector, on which California's economy so heavily depends. New housing construction activity contributes an average of 77,000 jobs per year in California, and each job directly created in new housing construction generates 1.2 direct or induced jobs.⁶ Housing production also contributes valuable resources to state and local governments. For each new residential unit built, the state of California receives an average of \$16,000 in tax revenues, and local governments receive an average of \$3,000.⁷

Subsidized units also generate jobs and revenue, in addition to providing greatly needed affordable housing. A national study demonstrated that the construction of a 100-unit apartment building, funded in part by Low Income Housing Tax Credits, immediately results in an average of \$7.9 million in local income, \$827,000 in taxes and other revenue for local governments, and 122 jobs. The same development has an average additional impact each year of \$2.4 million in local income, \$441,000 in taxes and other revenue, and 30 jobs.⁸

Conclusion: Affordable Housing Development Supports the Bay Area's Lowest-Income Residents, Creates Jobs, and Boosts Our Regional Economy

Investment in affordable multifamily housing in the Bay Area has multiple positive effects on the region during a time of great economic strain for families, workers, and municipalities. Providing more affordable units would make it possible for Bay Area families to expend less of their incomes on rent and extend the use their financial resources. The jobs created from the development and operation of affordable properties, as well as those generated by the local economic activity of new residents, would put unemployed Californians back to work. Affordable housing production also builds valuable revenues for our cash-strapped cities, counties, and state.

⁵ Center for Strategic Economic Research, 2010, *The Economic Benefits of Housing in California*.

⁶ Ibid.

⁷ California Building Industry Association, 2009. *Housing Builds Jobs*.

⁸ National Association of Home Builders, 2010. *The Local Economic Impact of Typical Housing Tax Credit Developments*.