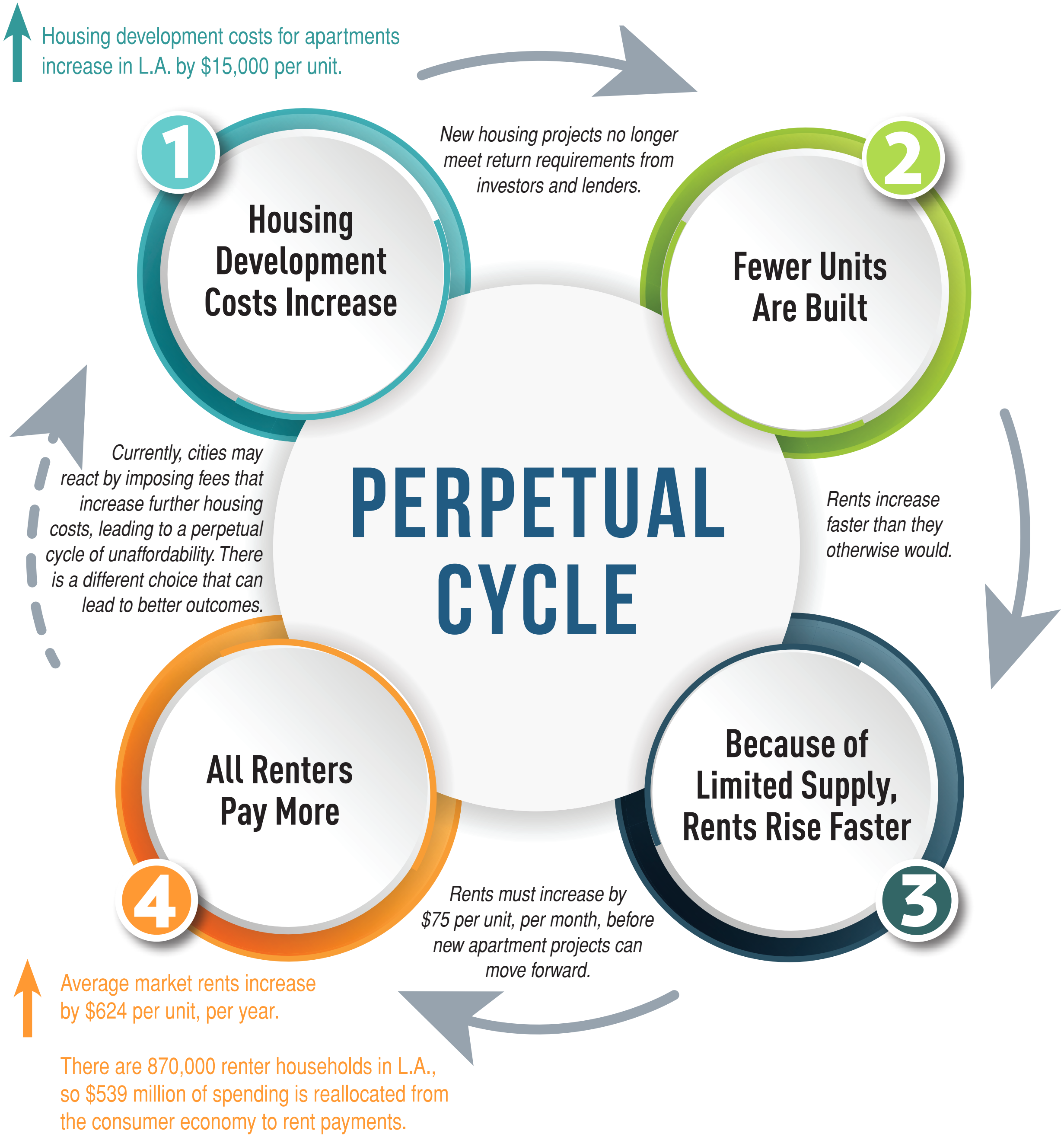
UP FOR GROWTH
– national coalition –

How increases in development cost can perpetuate the housing shortage and affordability crisis



HOUSING DEVELOPMENT COSTS INCREASE

Housing development costs increase by $15,000 per unit in Los Angeles, where multifamily projects previously cost an average of $550,000 per unit to construct.

FEWER UNITS ARE BUILT

When costs increase, production decreases – meaning less housing is being delivered to the community, despite population continuing to grow.

BECAUSE OF LIMITED SUPPLY, RENTS RISE FASTER

In places where costs rise due to construction materials, labor shortages, policies, or regulations faster than the national average, rents rise faster than the national average. In Los Angeles, California, for example, rents increased 31% from 2008 to 2018, versus the United States as a whole, where rents increased 18% over the same time period.

The reason rents accelerate is the lack of new housing supply being built. Demand outstrips supply, rents skyrocket, until new housing can be built that delivers a sufficient return on the increased costs. Holding all else equal, a $15,000 increase in cost in this example requires that market rents increase by $75 per unit per month, or $900 per unit per year.

ALL RENTERS PAY MORE

New projects, which are directly subject to increased costs, require $75 additional rent per unit, per month before they can attract investors at the same investment returns available prior to the local policies being implemented. Since global investors with many investment options generally do not adjust their investment expectations due to local policies, developers must wait for rents to rise before they can develop more housing. In the case of Los Angeles, developers would wait until rents in new buildings rose 2.3%. In that case, if rents in the overall rental market, including older buildings, also rise 2.3%, then average rents in Los Angeles might rise $52 per unit, per month. In that case, Angelino renter households could be paying $539 million more per year in rent, and not in the consumer economy, before developers could begin to build new housing units again.

IMPOSE REGULATION AND FEES TO ADDRESS AFFORDABILITY?

Because rents are higher and units are fewer, localities too often enact policies that increase housing development costs, which perpetuates the cycle of unaffordability. Instead, Up for Growth encourages consideration of policies that reduce the cost of housing delivery, such as land banking, public-private partnerships, tax abatement, and value capture.