Growing Housing Needs Amid the Shortage Crisis in California Regions

Research Questions

How much added housing is really needed in California?

- Explanations offered by existing publications
- Housing shortage viewed in context of the total stock

How is a broader estimation of housing needs yielded by working with the whole population?

- Why is estimating shortage from existing households inadequate?
- How does the housing–demographic approach help measure the full extent of shortage?
How Much Added Housing is Really Needed in California?

A Wide Range of Housing Needs Estimated for California

California’s Total Existing and Future Housing Needs Compared Under Alternative Methods, 2005/6 to 2025

- Existing Only
  - CA HPC (2019)
  - CA LAO (2016)
  - Up For Growth (2016)
  - NEXT 10 (2018)

- Future Only
  - UCLA Lewis (2019)
  - Expected Permits to 2025
  - CA HCD (2018)

- Combined
  - USC (2019)
  - McKinsey (2016)

Future Needs Projected to 2025
Existing Backlog as of estimation

- Future Needs Projected to 2025
  - 1.5 Million Units
- Existing Backlog as of estimation
  - 1.6 Million Units
- Expected Permits to 2025 at current high rate
  - 2.0 Million Units

Million Units
Housing Shortage in Context of the Total Stock

When Growing Rental Demand Meets Limited Housing Supply

Conceptual Diagram for Explaining the Rental Housing Shortage

DEMAND
- Depressed Homeownership
- Millennial Arrival in Adulthood
- Other Population Growth
- Increased Rental Demand

SUPPLY
- Depressed Construction
- Restricted Supply of Workers
- Financing & Land Constraints
- Political Resistance

Rental Housing Shortage
Levels of Housing Access

• **Enough or dislodged?** Are there enough units available for households to occupy; or how many must be dislodged? → **Focus of this research**

• **Affordable?** How many units are low-income* affordable with rent burden <30% of income?

* Low-income treated as under 50% of area median income

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**Slowdown** in New Construction in California

*Expanding new construction since 2009, but still below average 160K permits per year for the last 59 years*
Households **CANNOT Exceed** Available Units, 2017, California

**Total Occupied Housing Stock**

- 13.0 M

**Expected HHs**

- 14.2 M

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**If shortage, what happens?**

- **Most squeezed HHs** give up household formation and get **dislodged** out of the market
- **Highest payer** gets first choice
- **Existing tenants** hang on
- **Newcomers** have last choice—Including **new migrants** plus **Millennials** coming of age

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**Who is Squeezed Out by Under Supply?**
Declining Household Formation and Renter Rate

Proportional Changes since 2000 in Housing Occupancy by Age, California, 2000, 2006, 2011, and 2017


A Broader Estimation of Housing Needs Based on the Whole Population
**McKinsey’s Method** is simple and easy, but can be *very wrong*

**Pros**
1. *So simple*
   - Just total count of pop.
   - Current backlog *plus* future needs

**Cons**
1. *Sharply declining headships* neglected
2. *Dislodged needs* omitted
3. Based on *houses-to-people ratio* in...


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**USC Headship/Dislodgement (HD) Method**
Based on Housing Behaviors of *California’s “Local” Residents*

\[
\text{Housing Needs} = \text{Current (or Existing) Backlog} + \text{Future Needs}
\]

- *Headship*
  - by Age and Race
- *Dislodgements*
  - due to shortage since 2000 or 2006
- *Headship*
  - by Age and Race
- *Pop. Projection*
  - by CA DOF (2019.3 Vintage)
Estimating Existing Backlog

Dislodgments as a Measure of Existing Backlog

1. Households = Occupied Housing Units

2. Households **CANNOT EXCEED** the units available for occupancy
   --- A shortage of units **caps** the number of **households that can be surveyed**, thereby **undercounting** true housing needs

3. Someone is going to be bumped, made to **disappear from the housing market, i.e. “dislodged,” not just spatially displaced**
   --- **How many?** Hundreds of thousands of potential renters
   --- **Who?** Youngest/newest Millennials and lowest incomes
**Cascade** of Diverted and Growing Households

California, Changes 2000 to 2017, Actual Population, but Assuming 2000 Patterns of Housing Occupancy

- Would-be homeowners were diverted into rentals \( 1.0 \text{ M} \)
- Joining the expected growth of renters from Millennials & others \( 1.1 \text{ M} \)
- Creating Total POTENTIAL growth in renters \( 2.1 \text{ M} \)

Sources: 2000 Decennial Census IPUMS and 2017 ACS 1-year Estimates IPUMS files.

How well was this rental demand met by supply?

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When *Growing* Rental Demand Meets *Limited* Housing Supply

California, Changes 2000 to 2017

- Total EXPECTED growth in renters \( 2.1 \text{ M} \)
- *Less the*
  - ACTUAL increase in renter-occupied units \( 0.9 \text{ M} \)
  - LEAVES dislodged renters \( 1.2 \text{ M} \)

Sources: 2000 Decennial Census IPUMS and 2017 ACS 1-year Estimates IPUMS files.

DISLODGED out of market...

(20.3% of 2017 actual renters; 9.2% of 2017 actual HHs)
Estimating Future Needs

Future Needs Based on the Projected Whole Population

1. Future needs between 2017 and 2025
   = 2025 Expected HHs less 2017 actual HHs

2. 2025 Expected HHs based on projected population growth (DOF’s Projection in March 2019) and 2000/17 headship rates

3. 15.5 million HHs are expected in 2025 in California (2000 rates)
   --- 2.5 million additions to the 2017 actual

4. An additional number of units is required for normal vacancies (5%) and also for annual replacements (0.15% per year)
Combined Estimate of Housing Needs in California and CA Regions

**Choices for Counting Annual Housing Needs in California, 2017 to 2025**

Existing Backlog and Future Needs, Including 5% Vacancies and 0.15% Annual Replacements, Thousands per Year

<table>
<thead>
<tr>
<th>2000 Standard</th>
<th>Only count future needs</th>
<th>Include unmet since 2006</th>
<th>Include unmet since 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. actual permits in 2017 &amp; 2018</td>
<td>115</td>
<td>198</td>
<td>314</td>
</tr>
</tbody>
</table>

Combined Estimate of Housing Needs in California and CA Regions
**Choices for SCAG Region:** 86 to 176 Thousand New Housing per Year

Existing Backlog and Future Needs, Including 5% Vacancies and 0.15% Annual Replacements, Thousands per Year

<table>
<thead>
<tr>
<th>Standard</th>
<th>Only count future needs</th>
<th>Exclude current unmet needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>86</td>
<td>90</td>
</tr>
<tr>
<td>2000</td>
<td>49</td>
<td>146</td>
</tr>
</tbody>
</table>

Include unmet since 2000

Average actual permits in 2017 & 2018

**Recent Progress** in Meeting Total Housing Needs, California and CA Regions, 2017 to 2018

Average Annual Permits in the Last Two Years (2017 and 2018)
Divided by Future and Unmet Annual Housing Needs Based on USC 2000 Standard × 100

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>California</td>
<td>32.6</td>
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<tr>
<td>SANDAG</td>
<td>43.1</td>
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<tr>
<td>ABAG</td>
<td>38.7</td>
</tr>
<tr>
<td>FCOG</td>
<td>33.8</td>
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<tr>
<td>SCAG</td>
<td>27.5</td>
</tr>
</tbody>
</table>
Discussion

• McKinsey’s estimate is dramatic but unreliable – the USC headship & dislodgement estimate is one million lower but still 2.5 million, the 2nd highest California estimate of existing and future housing needs

• 1.2 million California HHs lost headship since 2000, our measure of existing need – More than half (54.6%, 655K) are concentrated in SCAG region

• Importantly, dislodgements are hidden by shortages because households disappear when there is no housing unit for them to occupy

• Don’t be deceived measuring housing needs just based on the household survivors – use the entire “local” population as a broader base of estimation

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Haynes Supported Housing Research Briefs (HRBs), 2018–2019


See updated and expanded study in HUD’s Cityscape: https://www.huduser.gov/portal/periodicals/cityscape/vol21num1/article7.html


Key References


Thank you

Visit USC PopDynamics

https://sites.usc.edu/popdynamics/housing/

Dowell Myers and JungHo Park

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