Workforce Housing Trends and Solutions: An Economic Development Perspective

DRAFT RESEARCH SUMMARY – October 12, 2022

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Current Environment

A robust inventory of housing stock is essential for long-term economic growth and market vitality for the city of Albuquerque and the region. When increases in rental rates occur, such as they have recently as a result of the pandemic, often the topic of rent control is explored as a mechanism to help mitigate rental affordability and make it easier for lower-income individuals and families to find housing they can afford. Considering the limited supply of rental units available and the increasing amount of demand in the region, imposing limits on rents might seem a logical tactic to keep housing costs low.

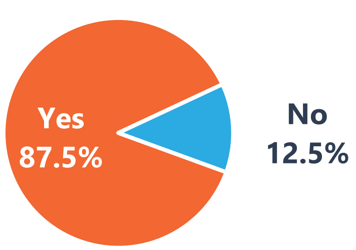
However, in exploring a number of national trends and case studies, it has been demonstrated that rent control tactics imposed by local jurisdictions can have long lasting negative externalities for the broader economic environment. The National Multifamily Housing Council broadly reported negative externalities which include diminished new construction activity, a deterioration of existing housing stock, reduced property tax revenues, substantial administrative costs, and reduced consumer mobility.

It is estimated that the greater Albuquerque region needs **4,200 new apartment units constructed by 2035.** Compounded by an aging inventory of renter occupied units, **84% of rental units in the city were built pre-2000**.

Considering the maintenance requirements on these properties, as well as the need for additional new units, **facilitating an environment which supports new housing construction is key for economic and household growth.**

However, reported in a recent joint report from the National Association of Homebuilders and the National Multifamily Housing Council, **nearly 90%** of multifamily builders indicate they typically avoid jurisdictions with rent control.

Do Multifamily Developers Avoid Building in Jurisdictions with Certain Policies?



Q. Do you typically avoid building in a jurisdiction that has rent control?

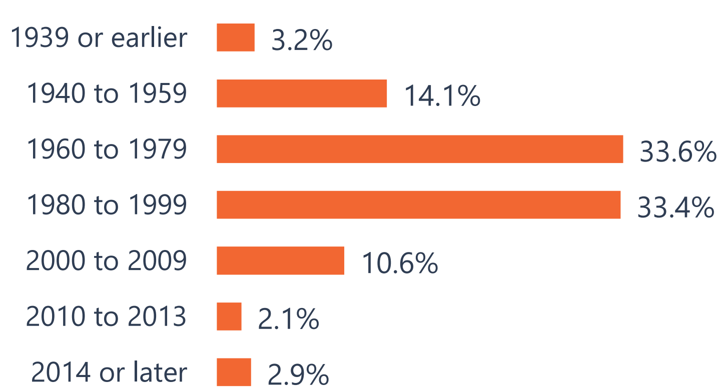
Source: National Association of Homebuilders and National Multifamily Housing Council, June 2022

4,200 estimated apartment units needed by 2035 in Albuquerque

Source: National Multifamily Housing Council

Renter Occupied Units by Year Built

Shown in the chart below, in the most recent 5-year estimate of physical housing characteristics via the US Census Bureau, the City of Albuquerque is home to over 91,000 renter occupied units. Of these, 84% of structures were built before the year 2000. Indicating an aging renter occupied housing stock, regulations to support faster speed to market for rental housing units is a key requirement to offset potential negative externalities displayed right.



Source: ACS 5-Year Estimate 2016-2020, US Census Bureau

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Pandemic Impacts on Real Estate and Economic Developers' Responses

Housing

In 2022, the Economic Development Research Partners, the research arm for the International Economic Development Council, sought to identify the pandemic impact on real estate and gauge the economic developers' response to changing market conditions. Through survey analysis, results for residential housing are presented below.

Within the report, survey respondents reported the highest level of absorption and prices in single family and multifamily housing, and the lowest level of inventory than any other sector inquired about in the survey. **60 percent of respondents reported that their EDO was working to increase residential inventory.**

Skyrocketing prices for both rentals and purchases, and record-low inventories – mentioned in nearly all survey comments – have exacerbated the workforce shortages that many communities were experiencing prior to the pandemic. Supply is challenged at all price points, and prices have risen far faster than incomes. (The national median home listing price was $375,000, up 10 percent compared to January 2021, and up 25 percent compared to January 2020.) As a result, many EDOs are getting involved in the production of attainably priced homes as part of their workforce

Despite significant demand for housing – the national inventory of active housing listings was down 64 percent in January 2022 compared to January 2020 – production faces multiple obstacles. In addition to high prices and backlogs for materials, the construction industry is undergoing a worker shortage, like many other industries. Many construction companies folded, and workers left the industry following the Great Recession. Other challenges include planning, zoning, and regulatory obstacles.

Common Actions amongst EDO's to positively influence the housing environment

1. Commissioning housing demand studies to make the case for action to both developers and local officials.
2. Working to attract housing developers and providing financing and other incentives.
3. Hiring staff specifically to focus on facilitating housing production.
4. Facilitating the conversion of office buildings to residential uses.
5. Working with local governments to ease planning and regulatory hurdles.

> **"Multifamily rental housing is our greatest economic development need. Lack of availability is creating hiring challenges for our employers that need to relocate employees to the community."**

Quote from Survey Respondent
Pandemic Impacts on Real Estate and Economic Developers' Responses

Case Studies: Description and Examples of Negative Externalities [1]

1 Inhibition of New Construction

By forcing rents below the market price, rent control reduces the profitability of rental housing, directing investment capital out of the rental market and into other more profitable markets. Construction declines and existing rental housing is converted to other uses.

Studies have shown, for example, that the total number of rental units in Cambridge and Brookline, Massachusetts, fell by 8 percent and 12 percent respectively in the 1980s, following imposition of stringent rent controls. Rental inventories in most nearby communities rose during that period.[2]

Similarly, in California the total supply of rental units dropped 14 percent in Berkeley and 8 percent in Santa Monica between 1978 and 1990, even though the rental supply rose in most nearby cities.[3]

More recently, in St. Paul, Minnesota**, new multifamily building permits fell 80% year-over-year in the months after the local jurisdiction passed rent control**, while neighboring communities new multifamily permits increased 60%.

2 Deterioration of Existing Rental Housing

By reducing the return on investments in rental housing, rent control also can lead to a drop in the quality and quantity of existing rental stock. This may take the form of condominium and cooperative conversions or, in some cases, abandonment of unprofitable property. It can also lead to a deterioration of the quality of housing stock as providers faced with declining revenues may be forced to substantially reduce maintenance and repair of existing housing.

A study by the Rand Corporation of Los Angeles' rent control law found that **63 percent of the benefit to consumers of lowered rents was offset by a loss in available housing due to deterioration and other forms of disinvestment.**[5] Studies of rent control in New York and Boston similarly found marked differences between rent-controlled and other units in housing quality and the level of expenditures on maintenance and repair.[6]

3 Reduced Property Tax Revenues

Rent control also reduces the market value of controlled rental property, both in absolute terms and relative to the increase in property values in unregulated markets. The tax implications of this reduction can be significant, as taxable assessed rental property values decline relative to unregulated property. A study of rent control in New York City calculated the loss in taxable assessed property values attributable to rent control at approximately $4 billion in the late 1980s.[7] These distorted assessments cost the city an estimated $370 million annually in property tax revenues. The city of Berkeley, California, also estimates a significant loss in its tax revenue because of rent control.[8]

Case Studies: Description and Examples of Negative Externalities[1]

4 Substantial Administrative Costs

The administrative costs of rent control can be substantial, often outweighing any short-term benefits of rent regulation. Rent controls require the creation of elaborate bureaucratic systems. Rental property must be registered; detailed information on the rental property must be collected; and elaborate systems for determining rents and hearing complaints and appeals must be established. The associated costs in dollars and time fall not only on providers, but also on consumers and municipal authorities. **For example, in Santa Monica, the Rent Control Board in 1996 had a budget of more than $4 million a year to control rents on only 28,000 apartments.**[9]

5 Reduced Consumer Mobility

The primary beneficiaries of rent control are those consumers lucky enough to find themselves in a rent-controlled unit. But even these consumers pay a price. **Consumer "mobility" is substantially reduced by the reluctance of many consumers to part with the rent control subsidy.** A recent study in New York City found that rent control tripled the expected duration of residence.[10]

Consumers who would otherwise move to smaller or larger homes or closer to their jobs do not do so because they do not want to lose the subsidy. This loss of mobility can be particularly costly to families whose job opportunities are geographically or otherwise limited and who may have to travel long distances to reach those jobs available to them. And for the community at large -- including nearby communities that have not themselves imposed rent control -- reduced consumer mobility can mean increased traffic congestion and demand for city services, among other costs.

Sources for Examples of Negative Externalities[(1)]

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