

Housing Market Fundamentals

COMPASS Education Series

February 21, 2024



- Introduction
- Housing market functions
- Underproduction & housing mismatch
- Consequences of housing underproduction
- COMPASS Regional Housing Coordination Plan



ECONorthwest

IMPACT THROUGH INSIGHT

- Largest private economics consulting firm in PNW
- Multidisciplinary expertise
- Deep bench of 70+ staff
- Extensive experience in land use, planning, housing development & transportation

Education &
Social Policy

Planning &
Development

Environment
& Natural
Resources

Business
Analytics

Economic
Litigation

My research areas include:

- ◆ Housing supply and underproduction
- ◆ Housing production scenario evaluations
- ◆ Transit-oriented development
- ◆ Real estate feasibility
- ◆ Affordable housing financing policies
- ◆ Housing insecurity
- ◆ Housing market factors influencing homelessness

Housing Market Fundamentals

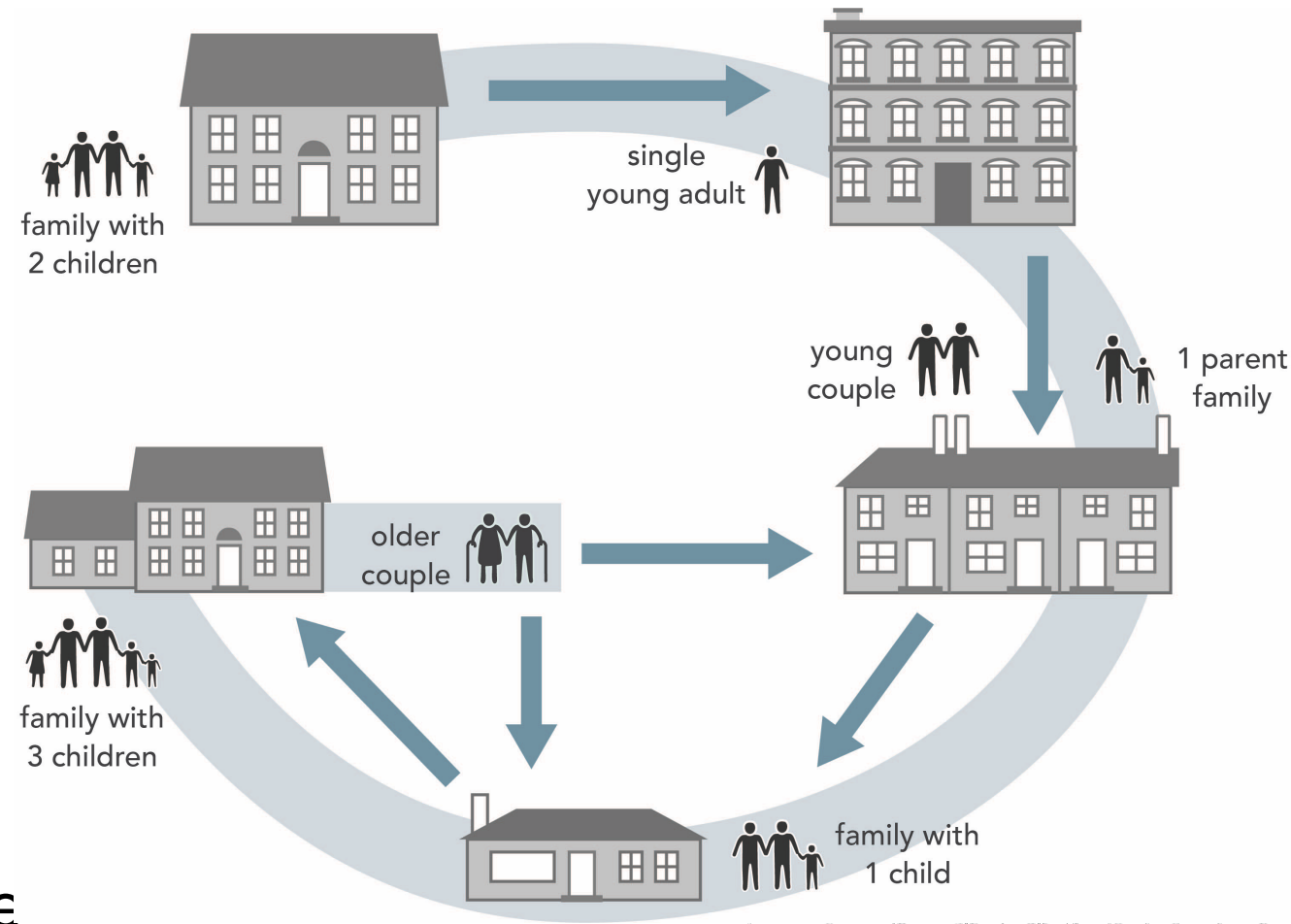
How Housing Markets Function

- Housing markets are subject to the laws of supply and demand, though they are greatly influenced by government interventions
- Demand reflects people seeking housing of different types and locations
- Supply reflects the quantity of new and existing units available for occupancy

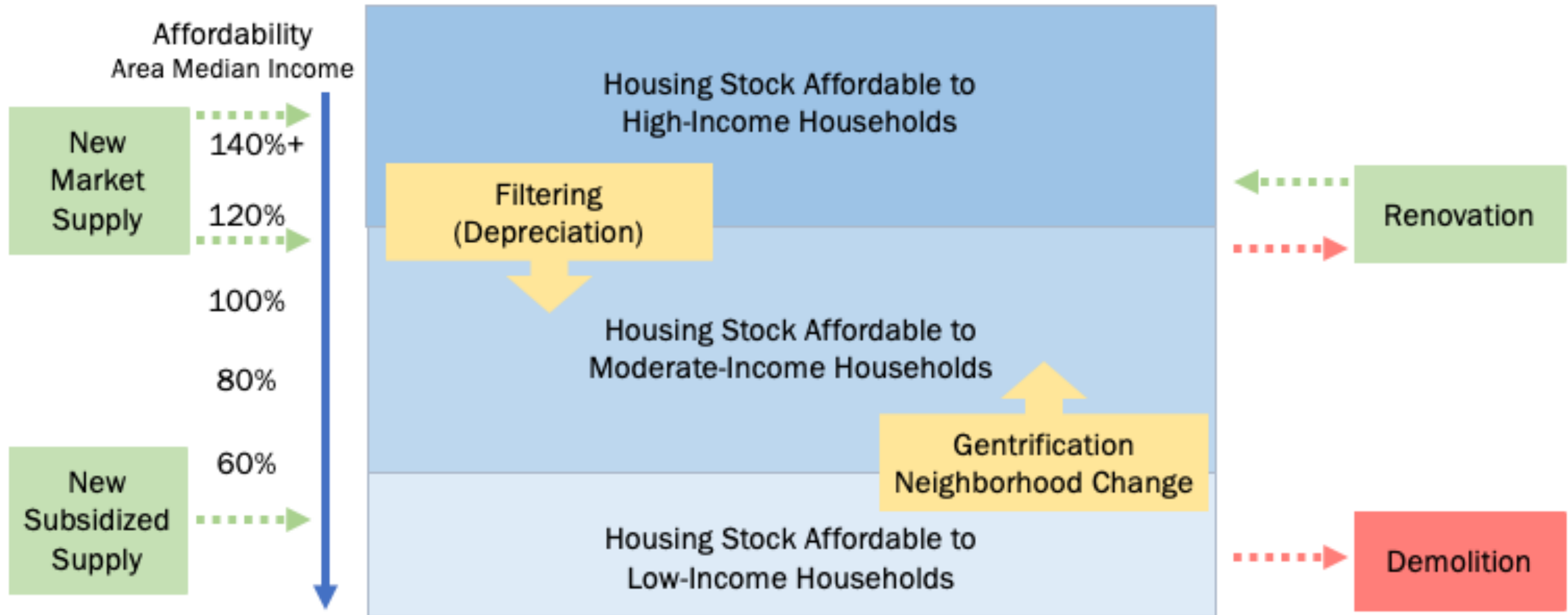


How Housing Markets Function

- Housing markets need a range of housing types to meet the diversity of housing needs
- Different households have preferences and needs for different housing types
- Cost, location, size, and amenities greatly influence housing preferences
- New units cannot directly replace old units; they join the stock of housing from which consumers choose



How New Supply Enters the Market

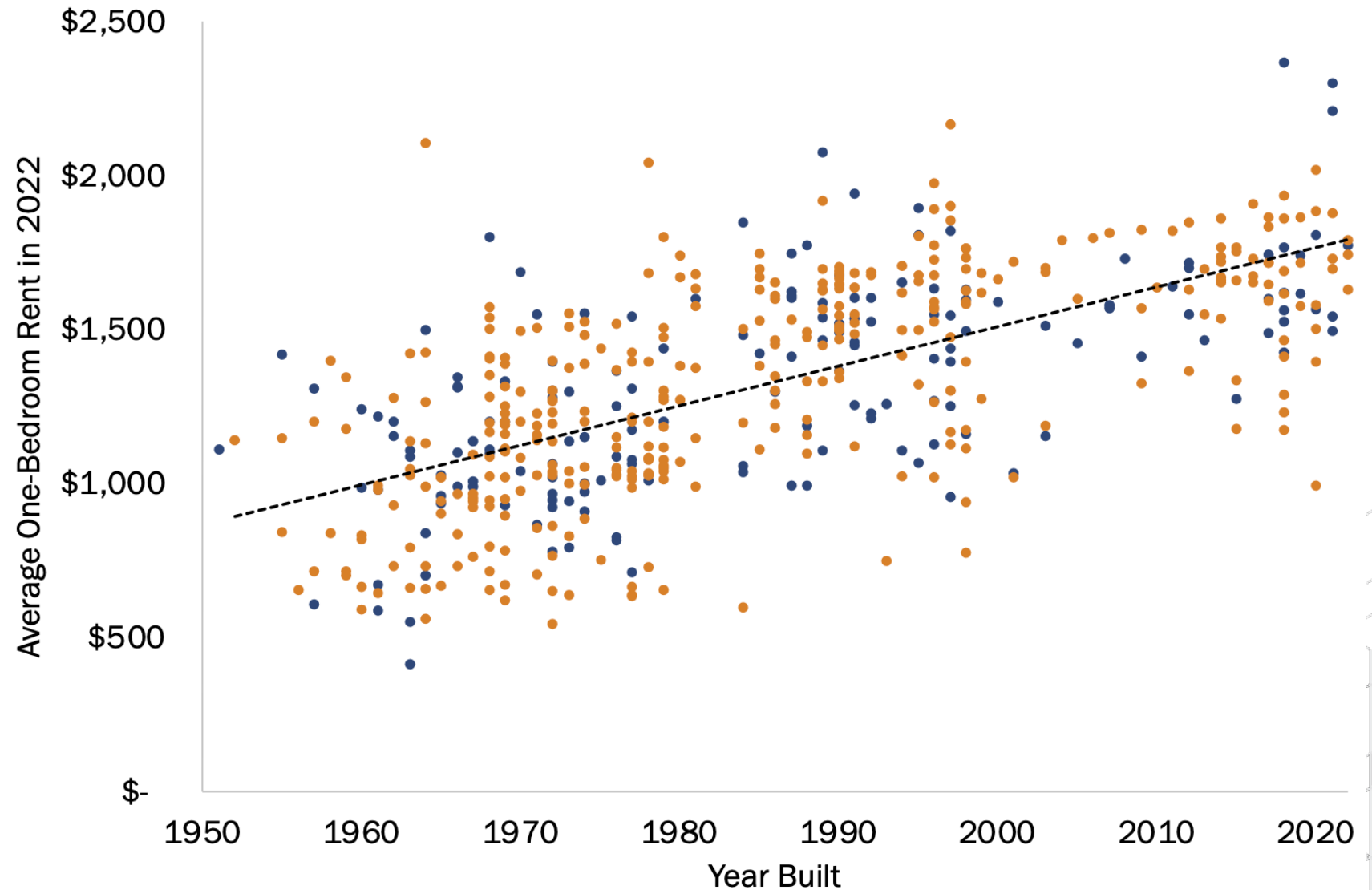


Properties Become Cheaper as They Age

Average Multifamily 1-Bedroom Monthly Rents by Year Built Since 1951

Each decade of building age correlates to \$125 lower monthly rent

Source: ECONorthwest Analysis of CoStar Data



Housing Development Fundamentals

Why Focus on Housing Supply?

- Government can't / wouldn't want to reduce demand for housing
- Only way to affect prices, availability, livability, is through influencing housing supply
- Government can influence development by type, design, location, and affordability level
- Filtering and self sorting requires new supply
- Let's step through some of the basics about housing development



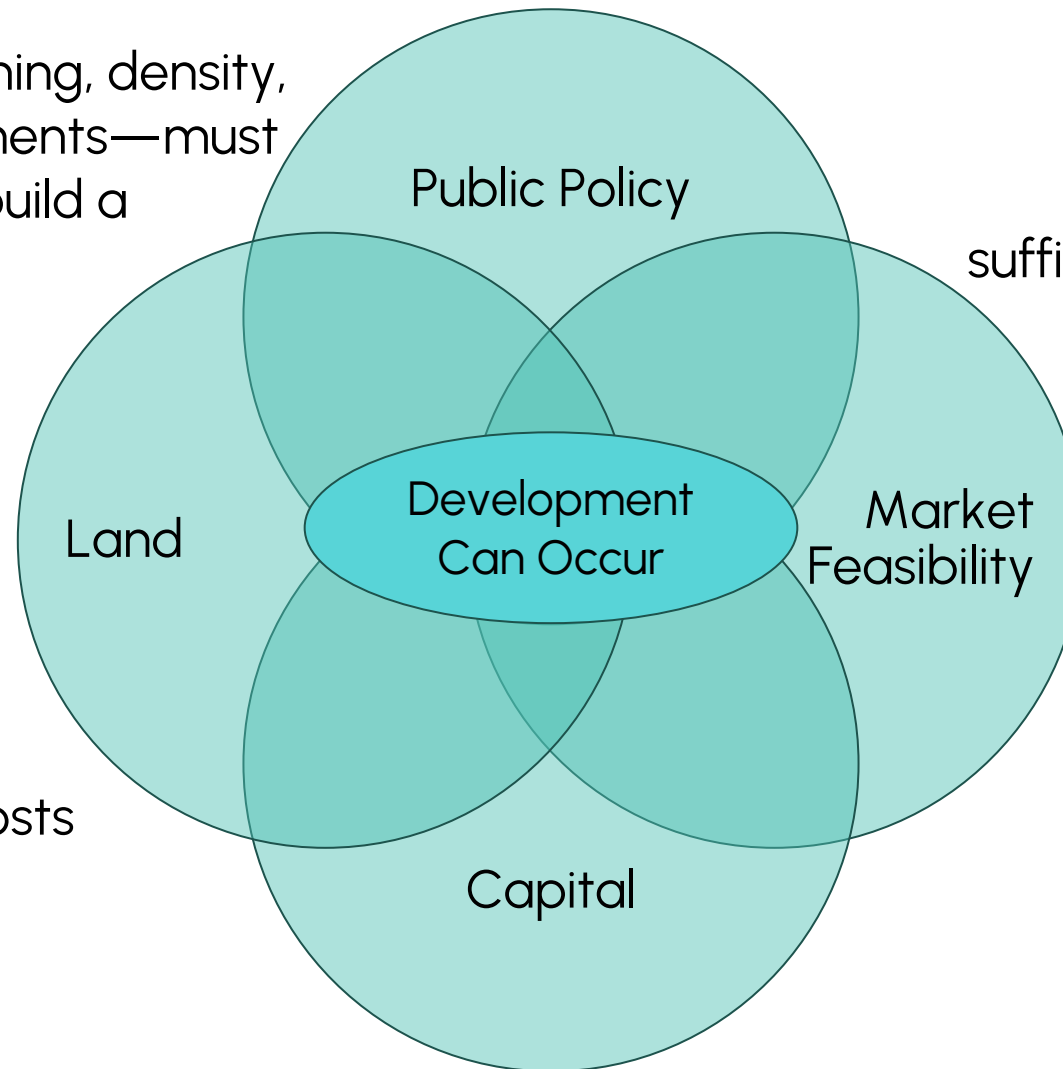
- Housing development is a multi-stage, multi-year process without a certain outcome
- Most housing is built with debt
 - ◆ Makes it inherently risky when there are delays, opposition, or cost increases
- Most housing is produced by for-profit private developers
 - ◆ Like any profit-seeking industry, requires a return on investment
 - ◆ If can't meet return expectations, investors may seek other industries
- For development to occur, several factors must align

Several Interrelated Factors Must Align

Policy—including zoning, density, and design requirements—must allow developer to build a profitable project

Developer needs sufficient rents and sales prices to support a profitable project

Land must be available, and the builder must control the site with reasonable purchase costs

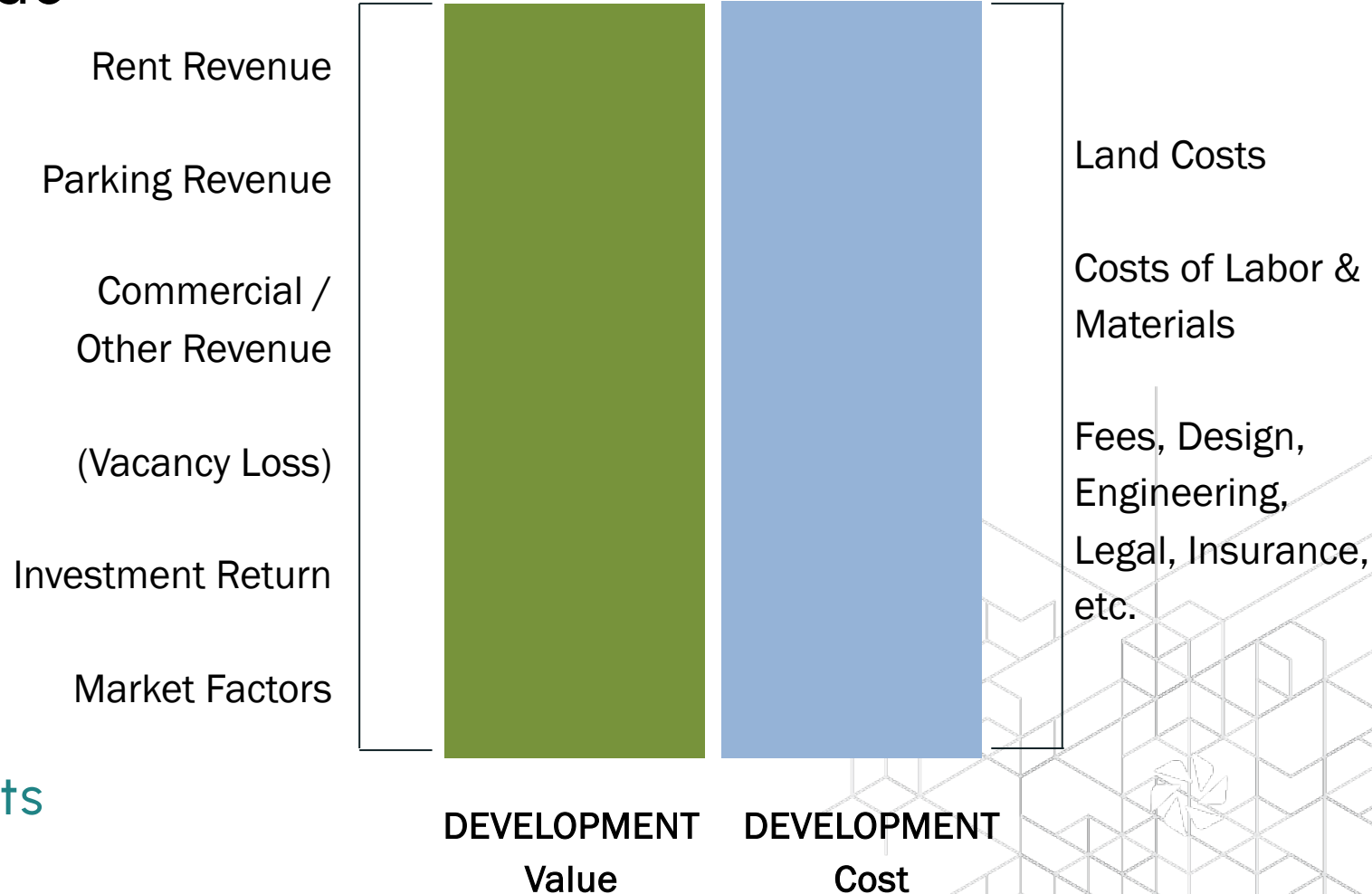


Developer must be able to access resources for investment (e.g., equity investment, bank loans)

Development Fundamentals

- Many factors are outside the builder's control:

- ◆ Availability of land, labor, materials
- ◆ Cost of land, labor, materials
- ◆ Fees
- ◆ Market rents
- ◆ Vacancy
- ◆ Market factors
- ◆ Investment requirements

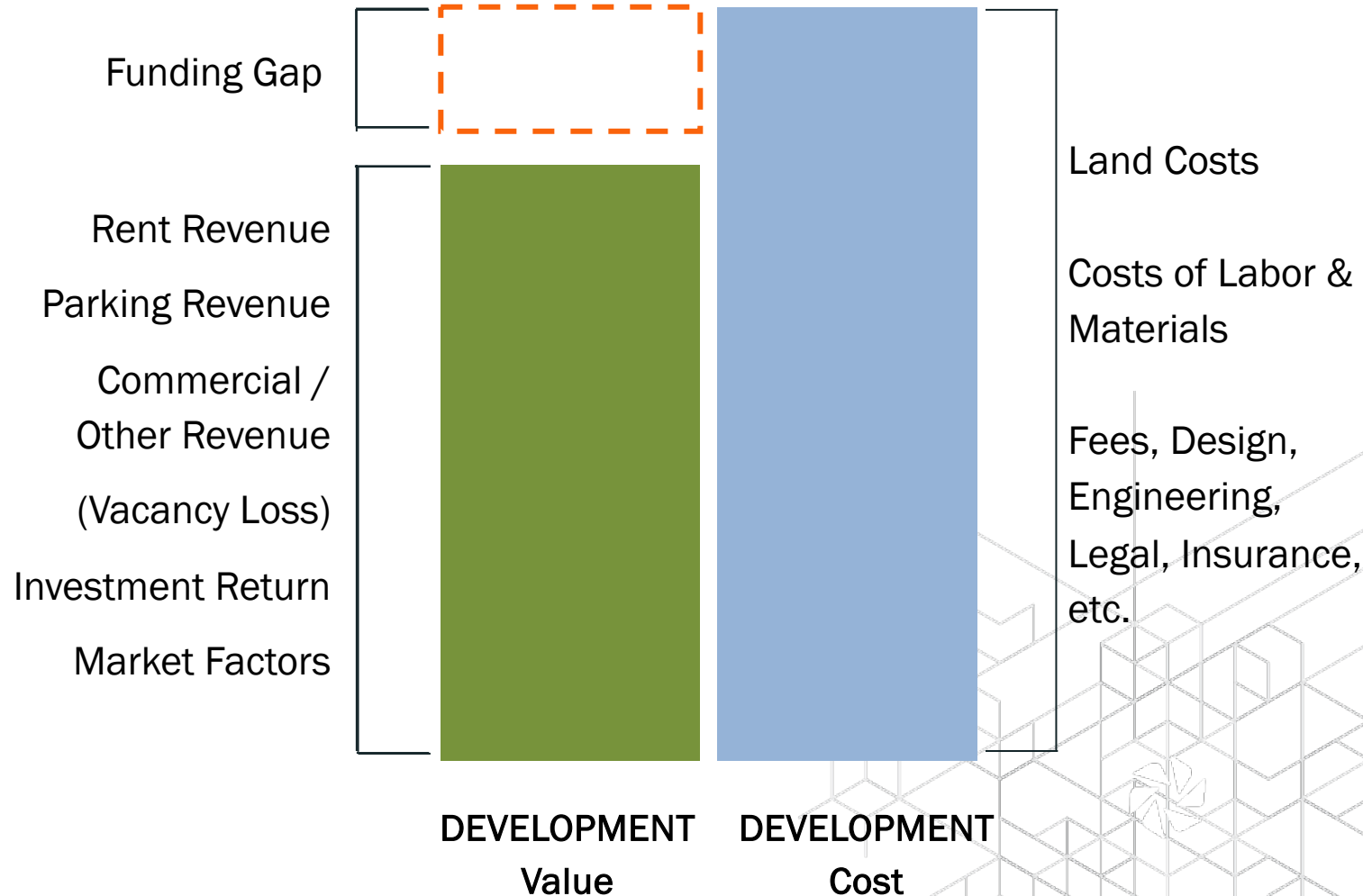


*Why can't we build more affordable housing?
Why is new housing so expensive?*

- There is a minimum rent or price needed to cover the basics of owning and operating a property
- Some households cannot afford to pay that rent/price
- "Affordable housing" is restricted so that lower-income households can afford the rent
 - ◆ "Can afford" means spending 30% of income on housing

Affordable Housing Fundamentals

- Affordable housing has more complex math
- Affordable rents / prices create a funding gap
- Requires free or low-cost funding provided through federal, state, or local sources
- More time spent on applications for funding, legal, financial oversight
- More neighborhood opposition and delay
- Slows development and increases costs



Affordable Housing Fundamentals

- 2023 HUD median income in the Treasure Valley was \$98,300 for a family of four

AMI Level	Income Limit	Max Monthly Housing Costs
100% of AMI	\$98,300	\$2,460
80%	\$71,300	\$1,780
50%	\$44,550	\$1,115
30%	\$30,000	\$750

Affordable Housing Fundamentals

- Non-profit, religious, or mission-driven investors often build affordable housing
- Need to do the same math, compete for the same land opportunities, as profit-seeking builders
- "Gap funding" can come from government, non-profits, churches, philanthropy, or other sources
- Banks also invest in public-private-partnerships to build these housing developments
- Either as grants or loans, funders take below-market financial returns for the public benefit

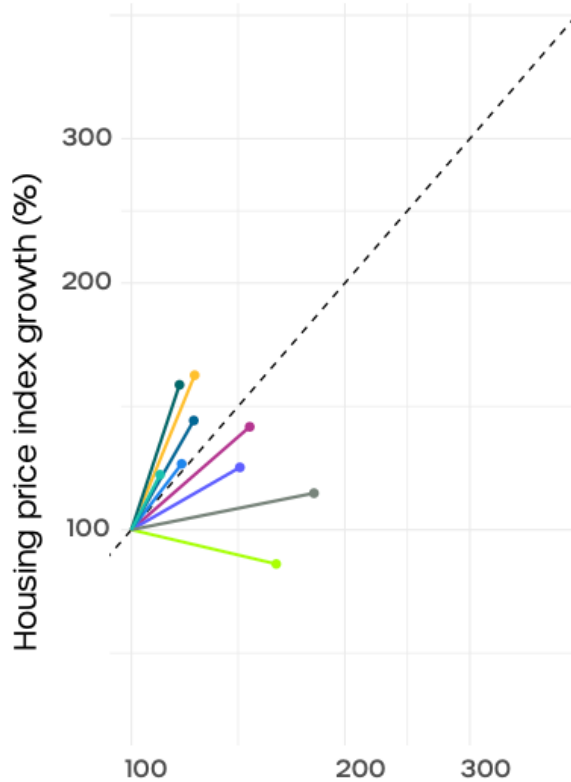
Housing Supply Grows one Project at a Time

- Building housing is challenging, risky, and not guaranteed
- What happens when there is too little supply?
- What does it mean to 'underproduce' housing?
- What happens when there are not enough low-cost units?

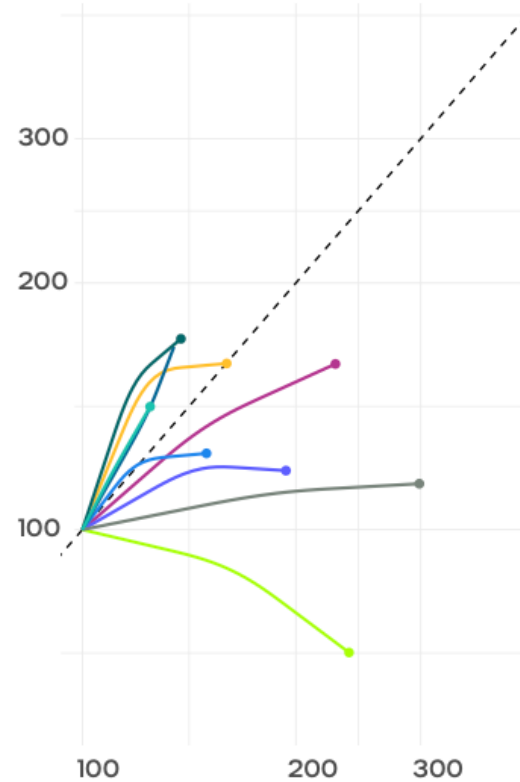
Underproduction & Housing Mismatch

Expensive or Expansive? Or Both?

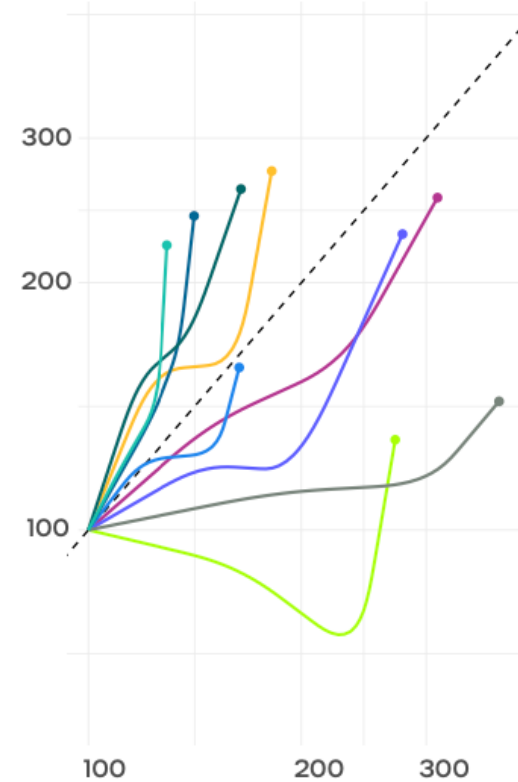
2000



2010



2020



Developed residential area growth (%)

1:1 ratio

● Salt Lake City, UT

● Denver/Aurora/Lakewood, CO

● Seattle/Bellevue/Kent, WA

● Portland/Vancouver/Hillsboro, OR/WA

● Minneapolis/St. Paul/Bloomington, MN

● Austin/Round Rock/Georgetown, TX

● Boise City, ID

● Raleigh-Cary, NC

● Las Vegas/Henderson/Paradise, NV

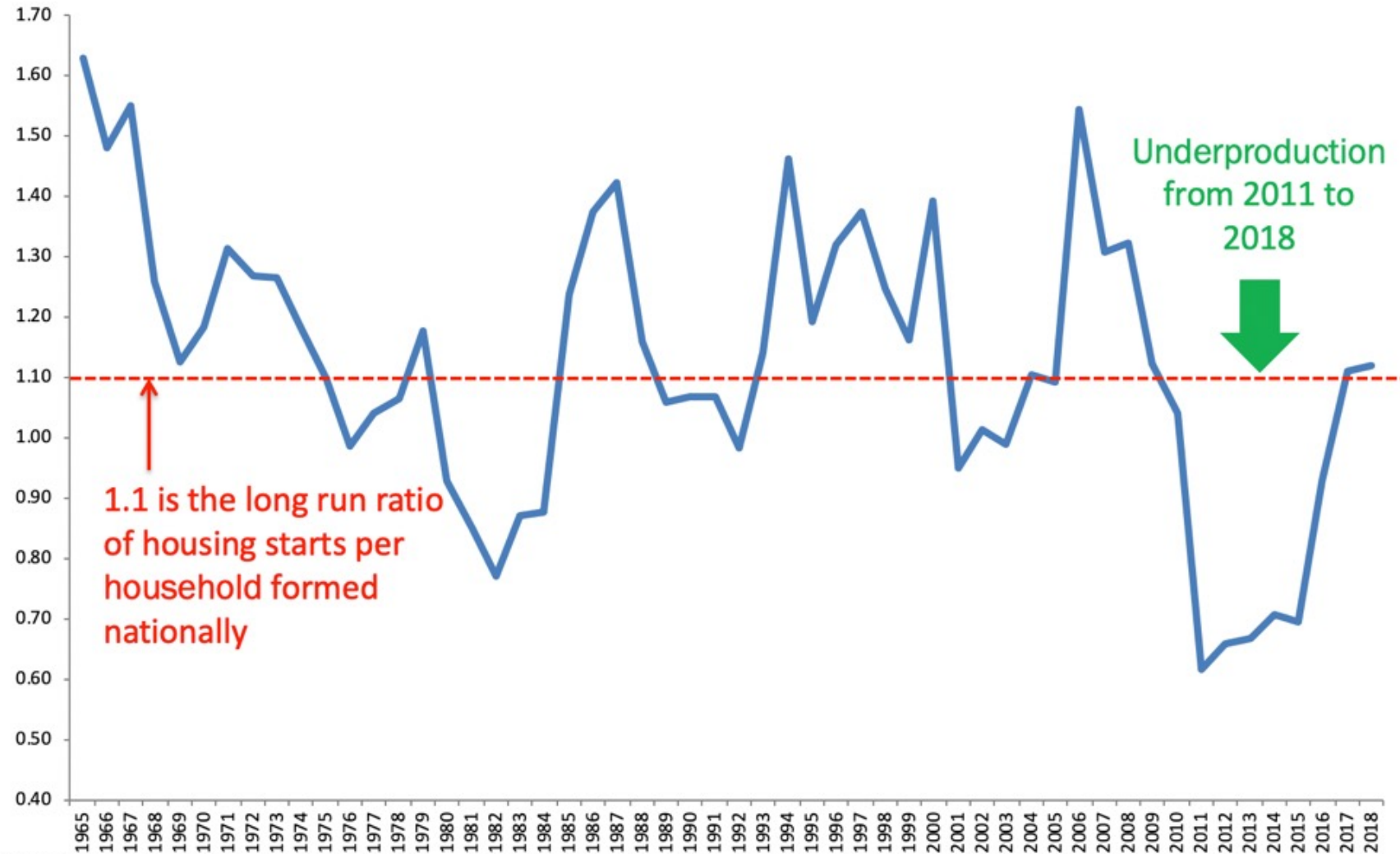
Some cities, including Boise, Austin, Las Vegas, were able to grow geographically to maintain affordability in the face of population growth from 1990 - 2010.

This model broke during the pandemic when population growth was too much to keep up with.

Source: Up for Growth 2022

The Country has been Underproducing Housing

U.S. Housing Starts to Household Formation
(5 year moving average)



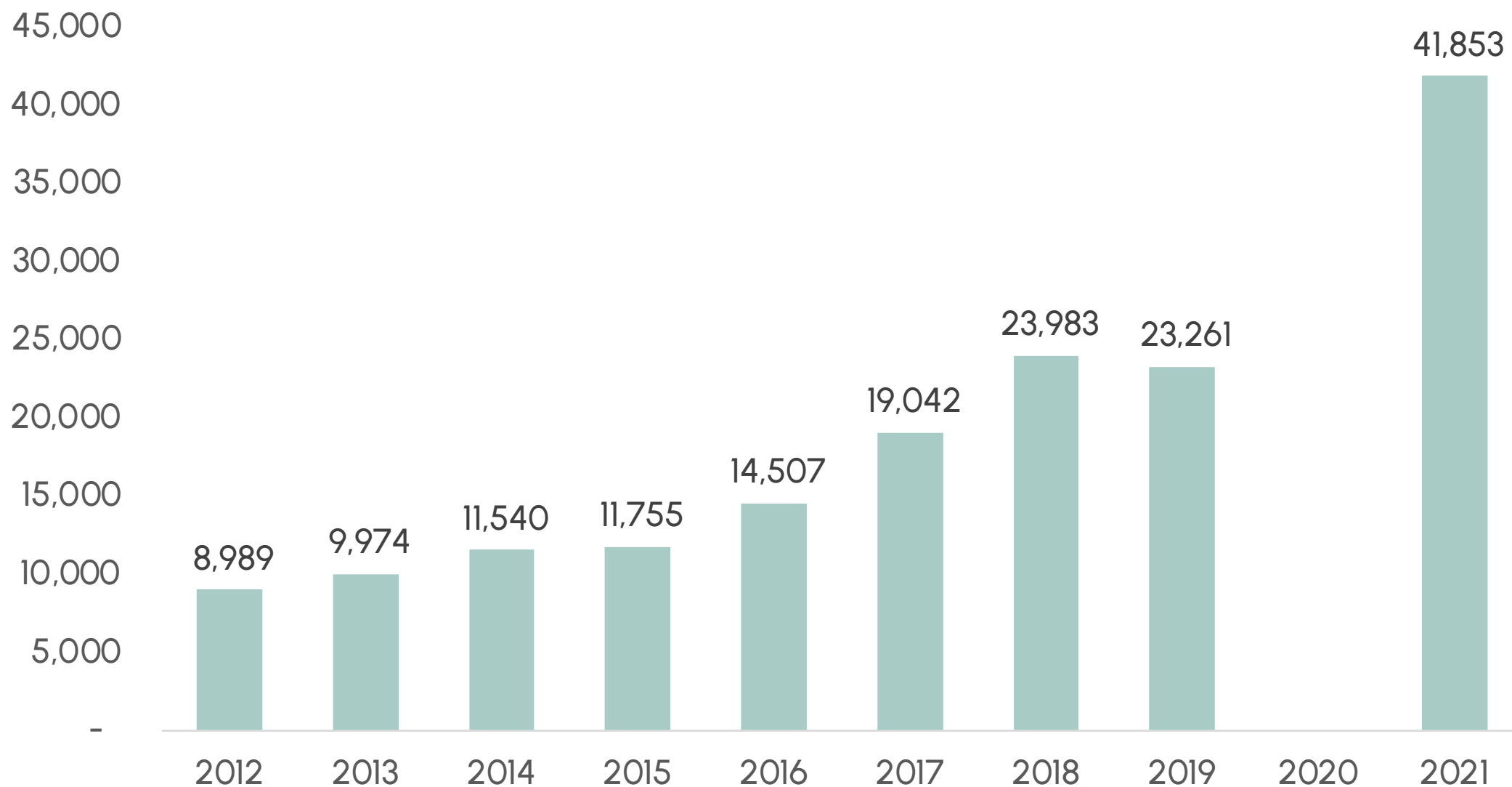
Source: U.S. Census Bureau and HUD

Underproduction =
when housing
development has
not matched
household formation

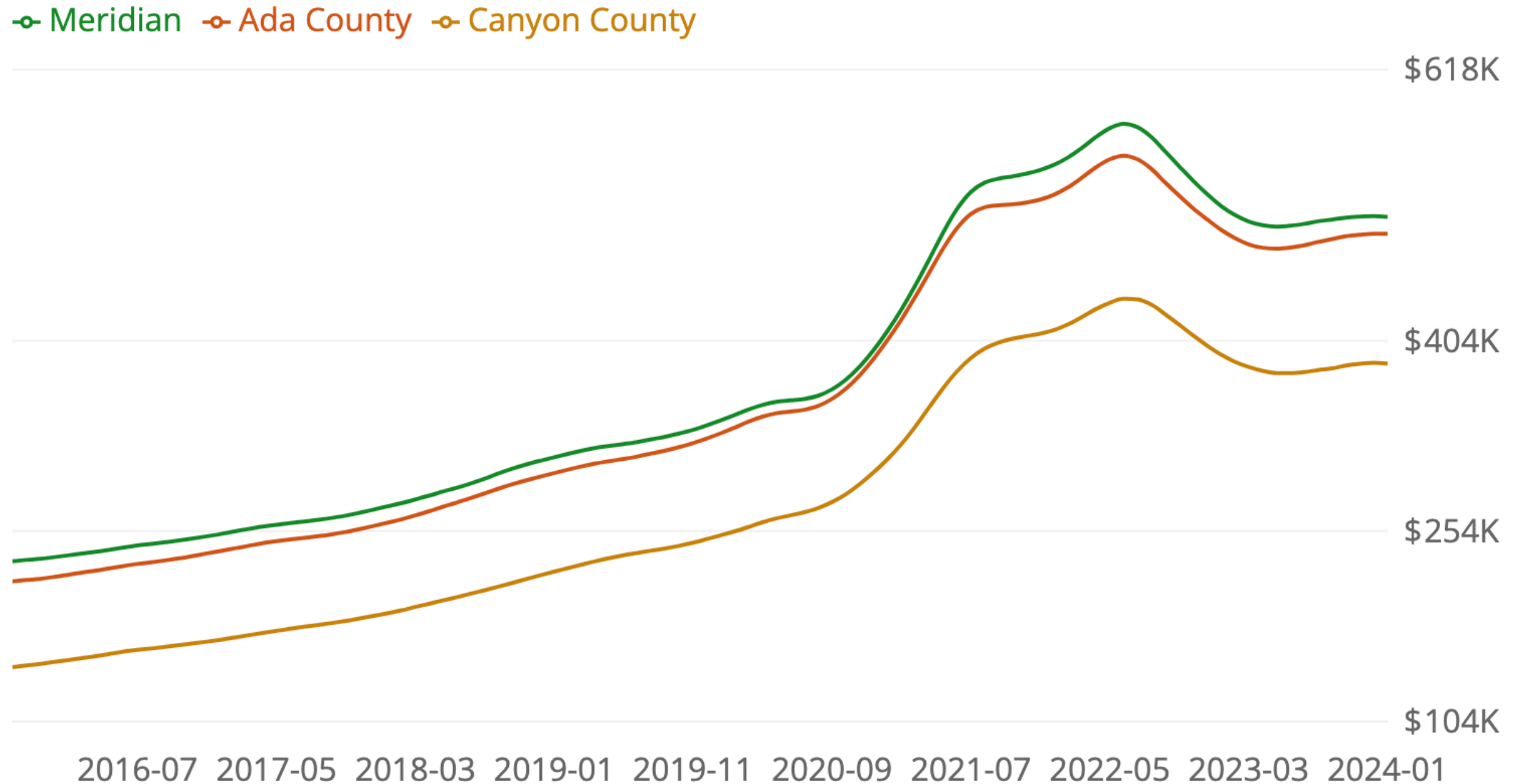
Need more than one
unit per household

Ideally have extra
production to
cushion for vacancy,
demolition, 2nd
homes, etc.

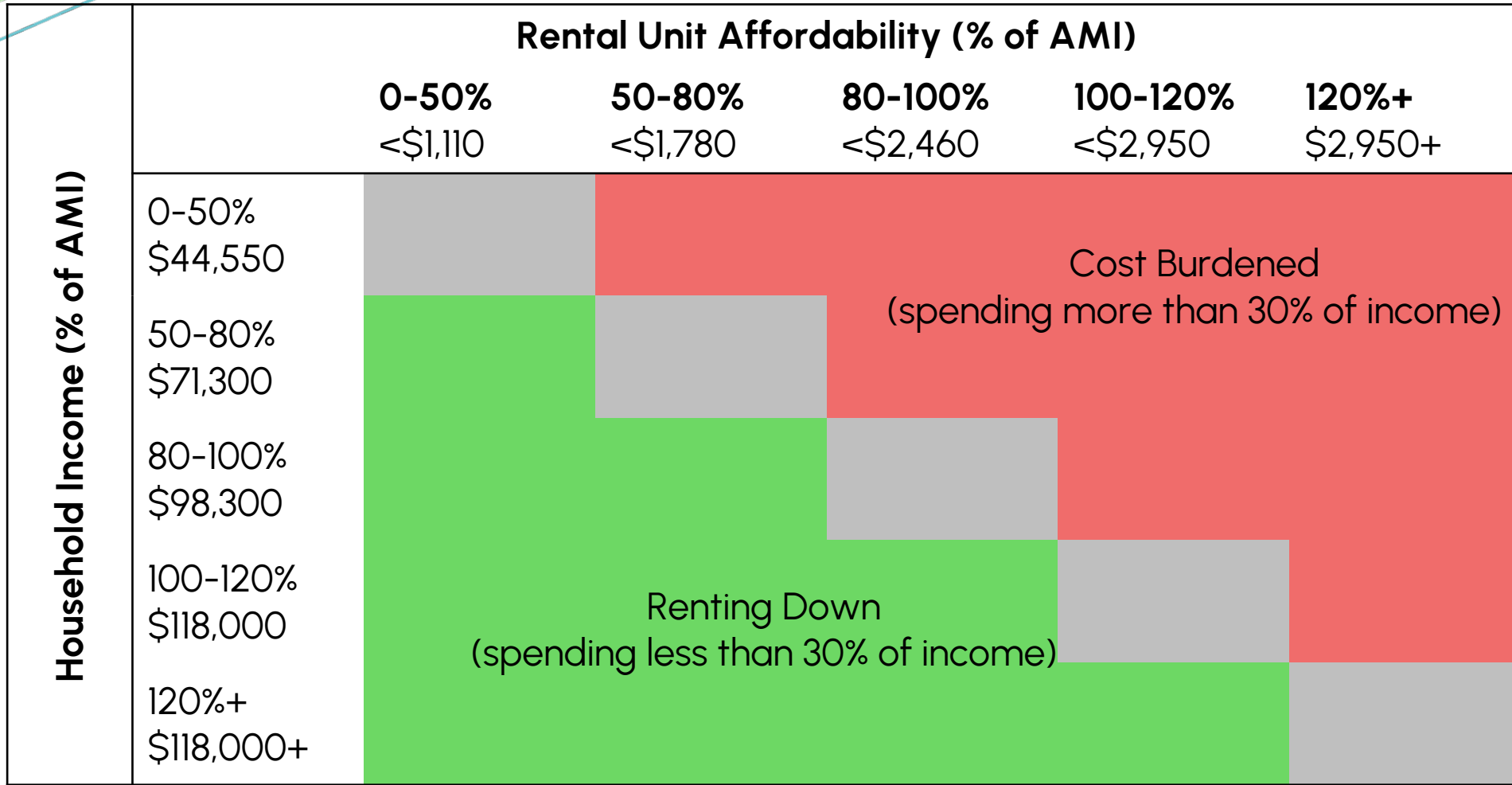
Idaho has been Underproducing Housing



Underproduction = Price Increases



Housing Underproduction = Scarcity = Mismatch



- In 2022, 52% of all renters in the MSA were cost burdened
- People renting down occupy units that would be affordable to a lower income household
- Results in intense competition for low-cost units

Underproduction = Market Failure

Without new supply, many challenges can occur:

- Low vacancy
- Steep competition for units
- Price and rent increases
- High rates of cost burdening
- Overcrowding
- Low household formation
- Traffic congestion
- Housing instability
- Homelessness
- Homeownership out of reach
- Economic and racial segregation

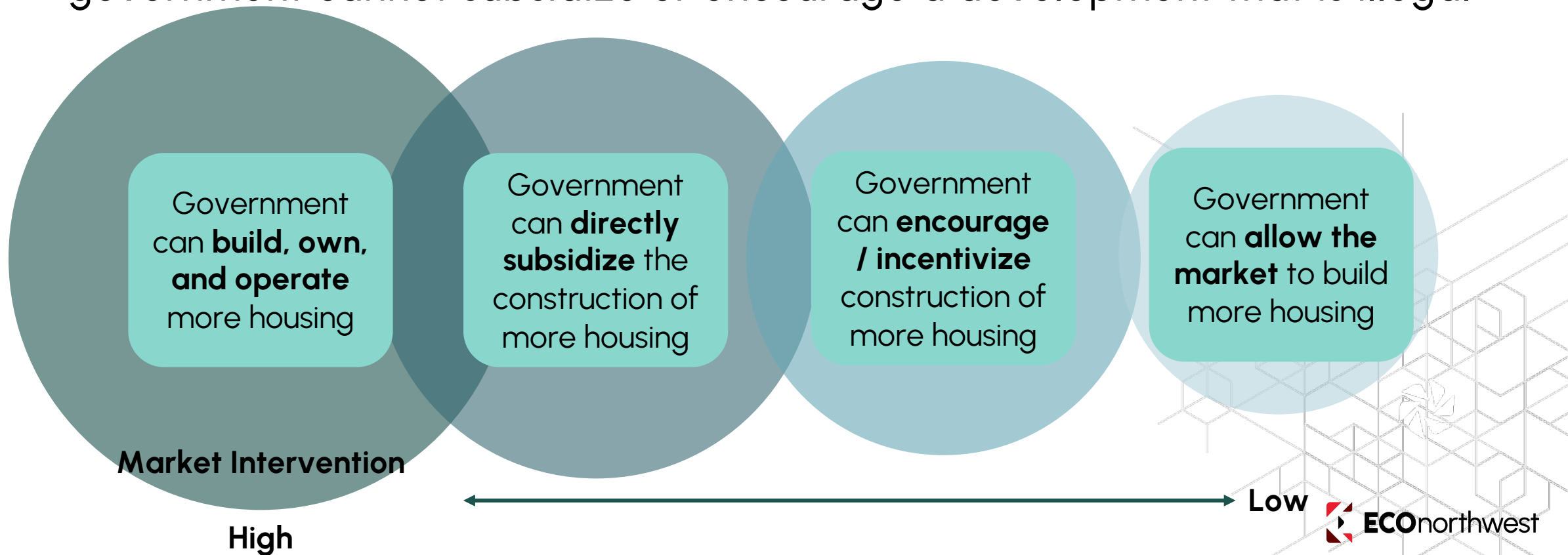


Source: Dan Bertolet. 2017. "Video: Cruel Musical Chairs (or Why is Rent so High?)" Sightline Institute. <https://www.sightline.org/2017/10/31/video-cruel-musical-chairs-why-is-rent-so-high/>

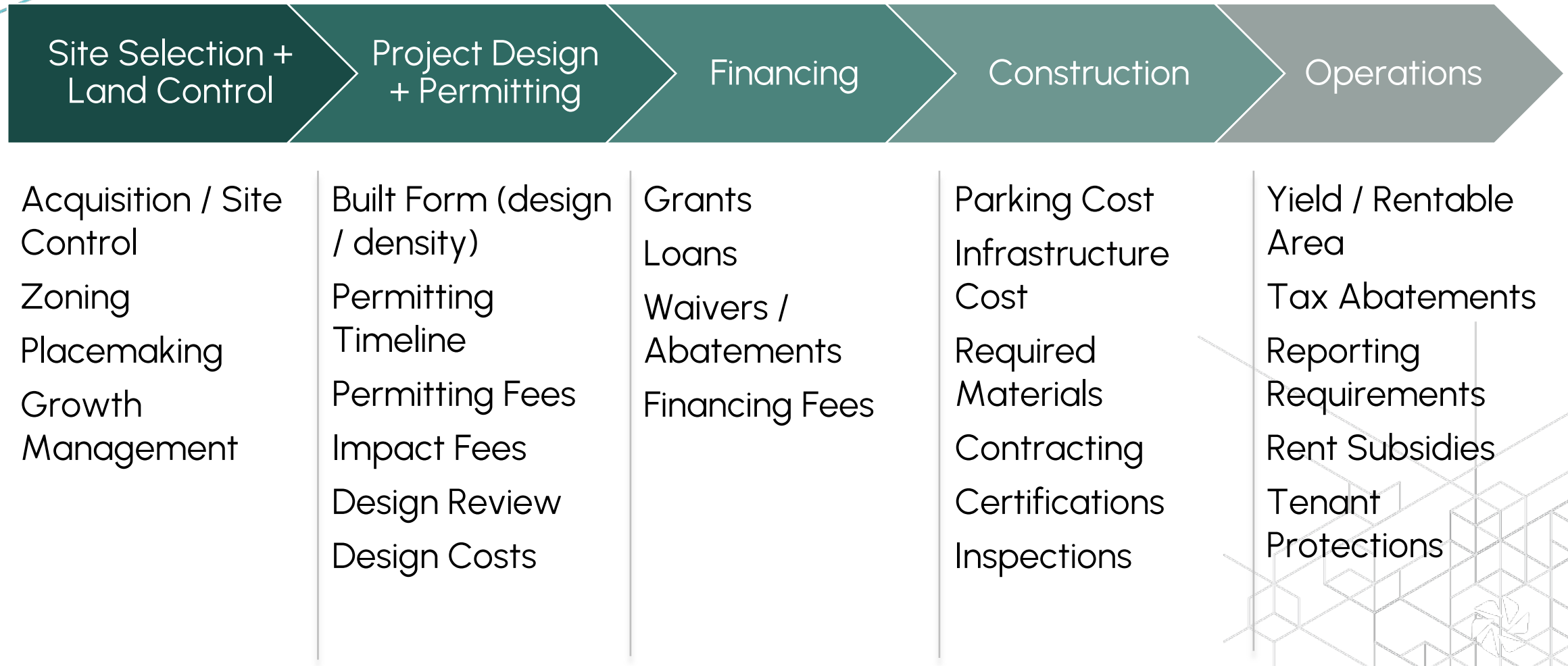
Government Support in Market Failures

How Can Governments Affect Market Failures?

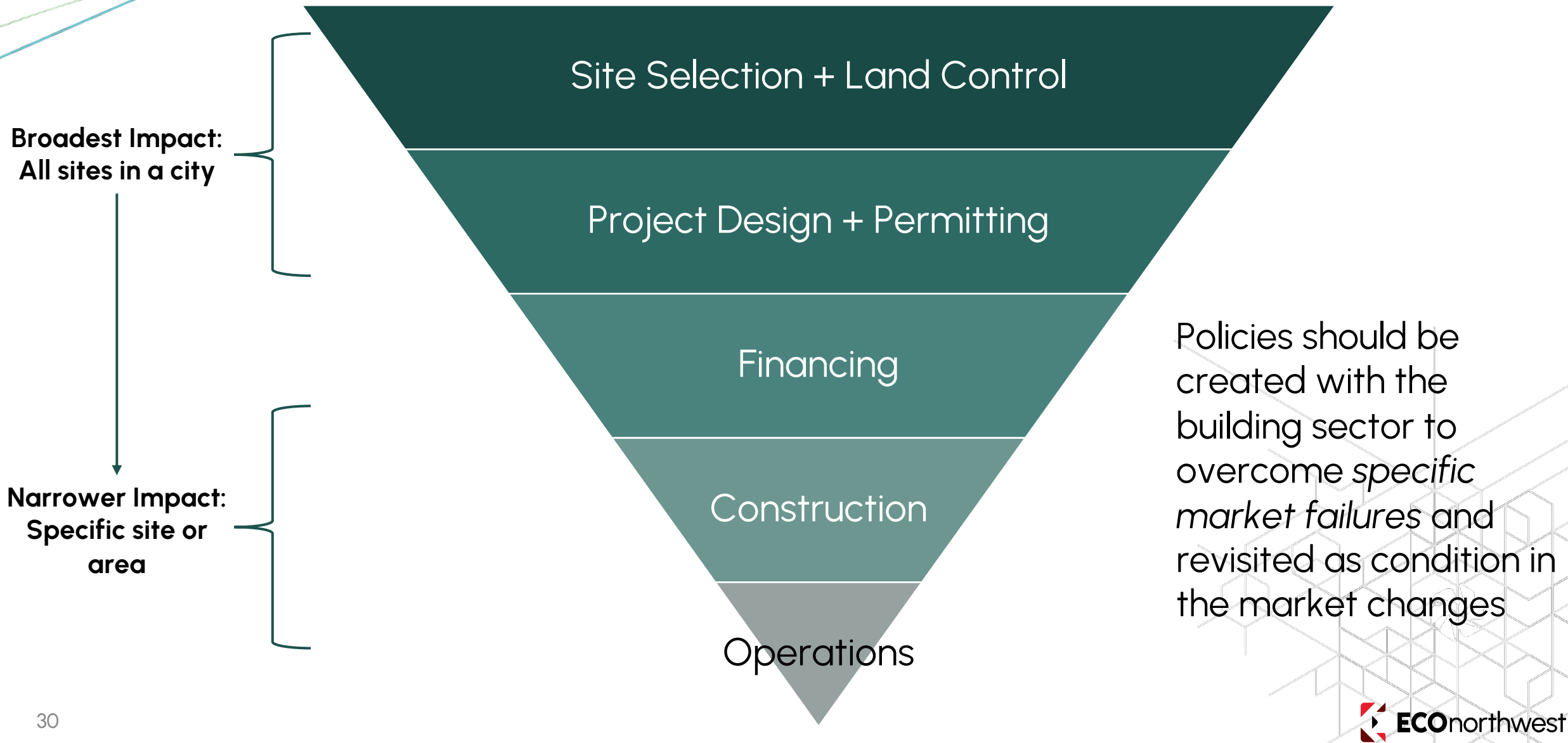
- If a region is underproducing housing and seeing negative social consequences, governments can step in to influence market failures
- It is important to note that action 4 is a prerequisite to actions 1-3; the government cannot subsidize or encourage a development that is illegal



Interventions Along the Construction Timeline

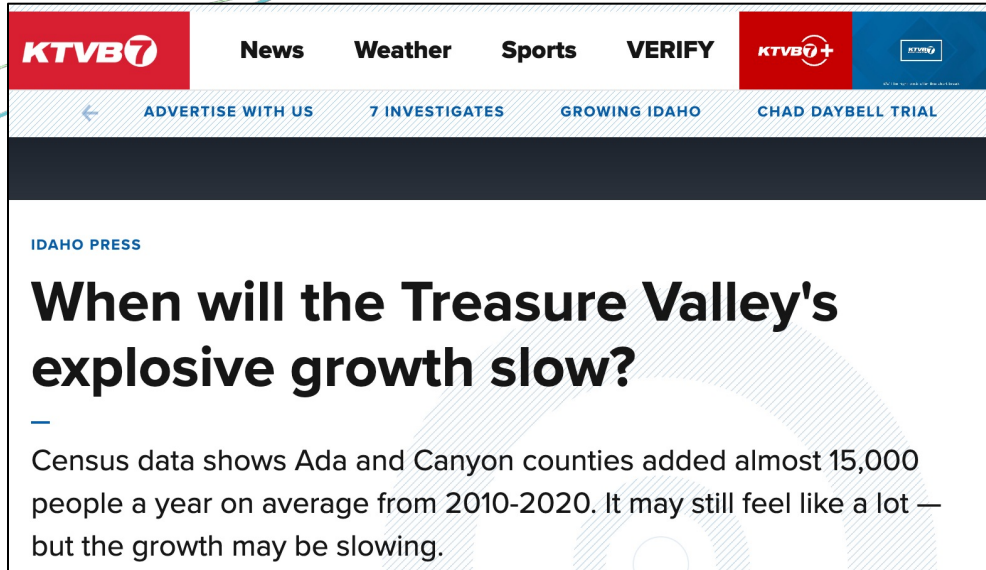


Different Policies Have Different Impacts



Regional Housing Coordination Plan

Region's Rapidly Changing Housing Landscape



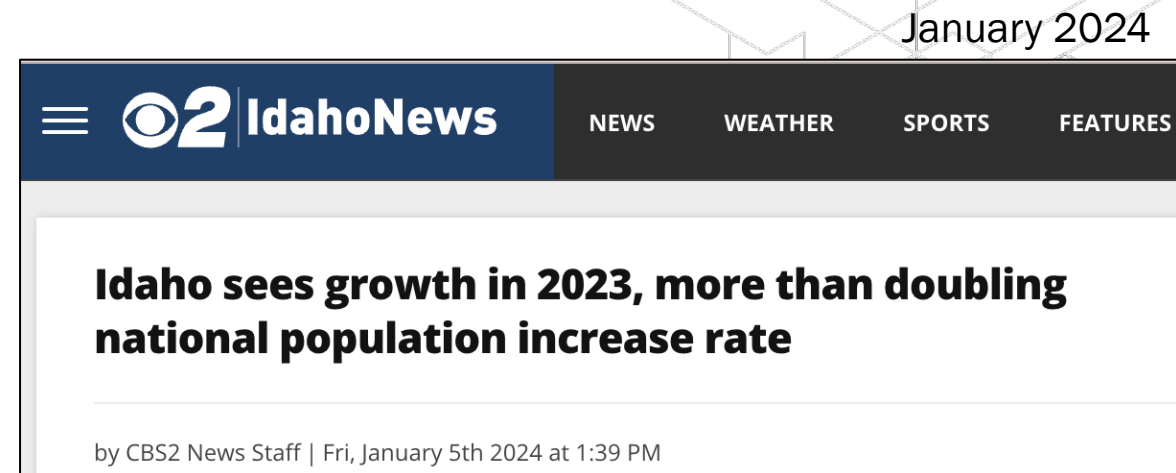
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June 2023



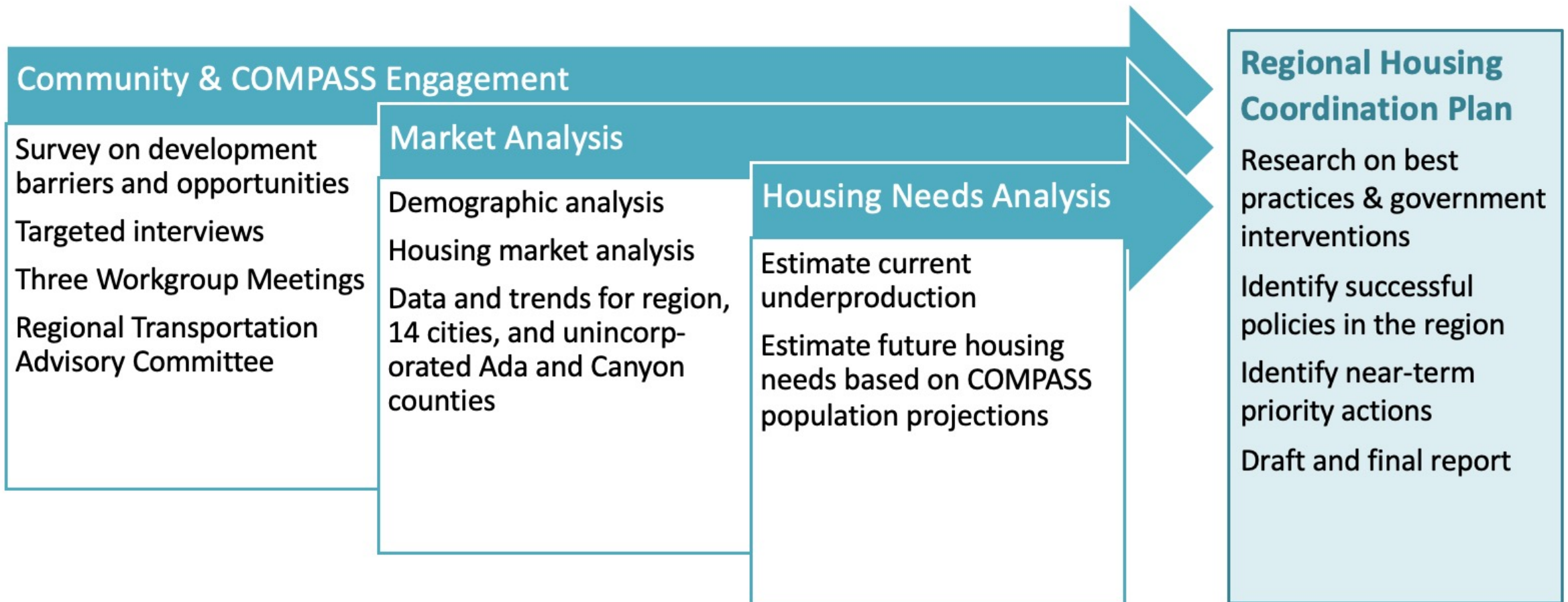
October 2023



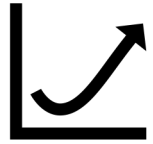
January 2024

Regional Housing Coordination Plan

- Given the volatility and change that the region has seen in its housing markets, COMPASS wanted to explore ways it could partner with local jurisdictions to improve housing outcomes



Summary of Key Findings



Supply and demand are imbalanced. Treasure Valley communities are growing FAST and in uncoordinated ways. Housing supply has not kept pace with demand.



Affordability is at risk. Every community has housing needs at every income level. Safe, healthy, and affordable housing is essential to community and household stability.



Every partner is needed. Every community has a role to play in meeting housing need at every income level.



Regional coordination is a missing piece. There are many ways to meet housing needs and regional coordination is needed.

Encouraging What's Working Well

Example Encouraging Policy

Example Areas Currently in Use

Identifying housing needs via long-range planning

Canyon County, Cities of Boise, Nampa

Rezoning efforts or overlay zones, including allowing ADUs, allowing gentle density, encouraging more housing choices, and/or reducing administrative and permitting requirements

Cities of Greenleaf, Notus, Caldwell, Kuna, Boise

Strong partnerships with non-profit developers, service providers, and housing authorities

Cities of Caldwell, Boise

Working with Urban Renewal Agencies to identify land, identify infrastructure needs, secure funding, move development along

Cities of Meridian, Boise, Garden City

Providing financial resources and incentives for development gap funding

City of Boise

Affordable housing density bonus

City of Boise

Waiving fees for affordable housing development

Cities of Meridian, Boise

Creating rental housing and mobile home park preservation programs

City of Boise

Land banking surplus publicly owned land for affordable housing

City of Boise

RCHP is Seen as the First Stage: More Work to Come

- The Regional Housing Coordination Plan is an initial phase of work that:
 - ◆ Sets the foundation and understanding of how different actors in the region can encourage coordinated housing production
 - ◆ Is focused on building relationships, framing the conversation, and developing a shared understanding of issues and solutions
 - ◆ Offers COMPASS, local governments, housing developers, service providers, and other partners time and space to establish roles, responsibilities, and a shared vision for housing in the region
- The near-term strategies are for COMPASS to set the stage
- Subsequent strategies/plans can focus on jurisdictions with more influence over housing opportunities and production

5 Near-Term Strategies for COMPASS



1) Continue convening the Workgroup



2) Identify ways to encourage growth where infrastructure exists



3) Adjust COMPASS's population forecast methods



4) Continue offering housing education and training opportunities



5) Advocate for state policy change to increase affordable housing gap funding

COMPASS Housing Coordination Plan:

<https://compassidaho.org/housing-coordination-plan/>

Housing Coordination Plan: https://compassidaho.org/wp-content/uploads/2023_COMPASS_RegionalHousingCoordinationPlan.pdf

Housing Data App:

https://econw.shinyapps.io/compass_regional_housing_app/#section-existing-housing

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