

FEDERAL RESERVE BANK *of* KANSAS CITY

*Preserving Affordable Rental Housing:
A Look at Tools and Policies*



FEDERAL RESERVE BANK *of* KANSAS CITY

Denver Branch
December 8, 2016



FEDERAL RESERVE BANK *of* KANSAS CITY

The Affordability of Rental Housing

Preserving Affordable Rental Housing:

A Look at Tools and Policies

December 8, 2016

Denver, CO

Kelly D. Edmiston

Senior Economist

Federal Reserve Bank of Kansas City

The views in this presentation are those of the speaker and do not necessarily represent the views of the Federal Reserve Bank of Kansas or the Federal Reserve System.

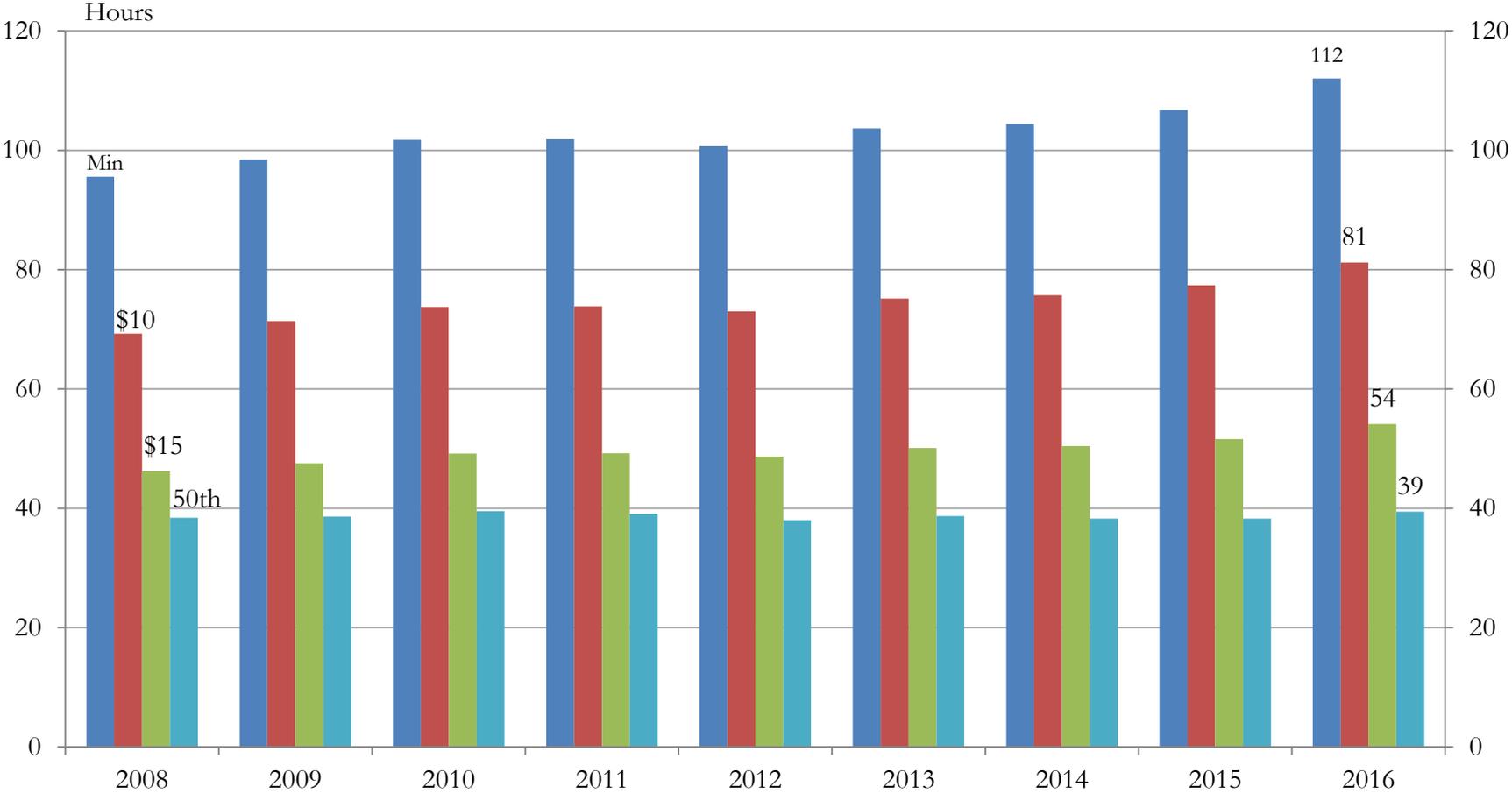
Why Do We Care About Rental Housing Affordability?

- Basic human requirement
 - The issue of housing insecurity
 - Implications of housing insecurity
- Substantial share of household budgets

How Can We Measure Rental Housing Affordability?

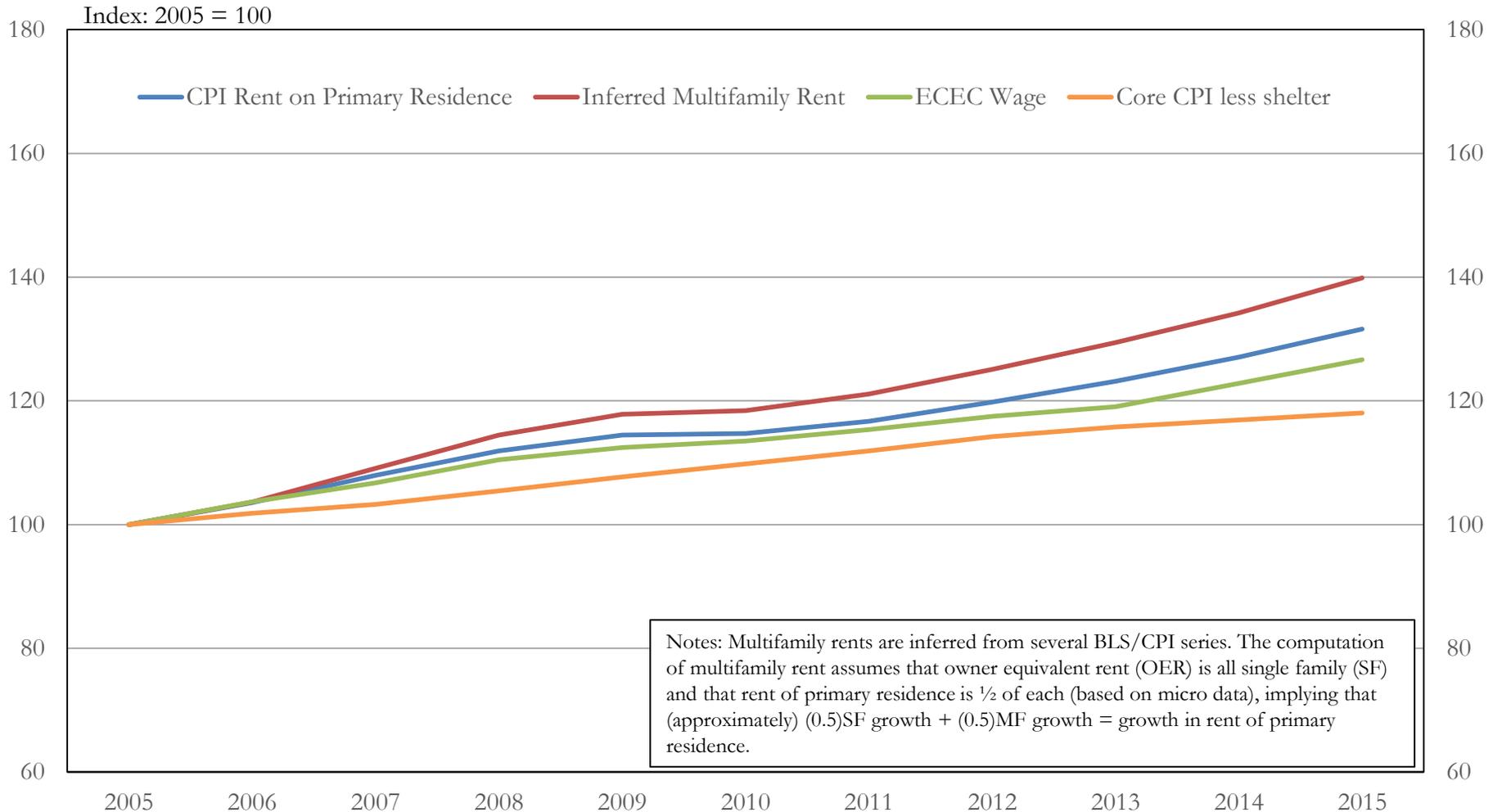
- Cost burden
 - Genesis of the approach / Brooke amendment
 - Housing wage
- Residual Income
- Affordability Index

Weekly Work Hours Required to Afford a Typical Rental Housing Unit without Being Cost-Burdened



Source: Author's calculations; National Low-Income Housing Coalition

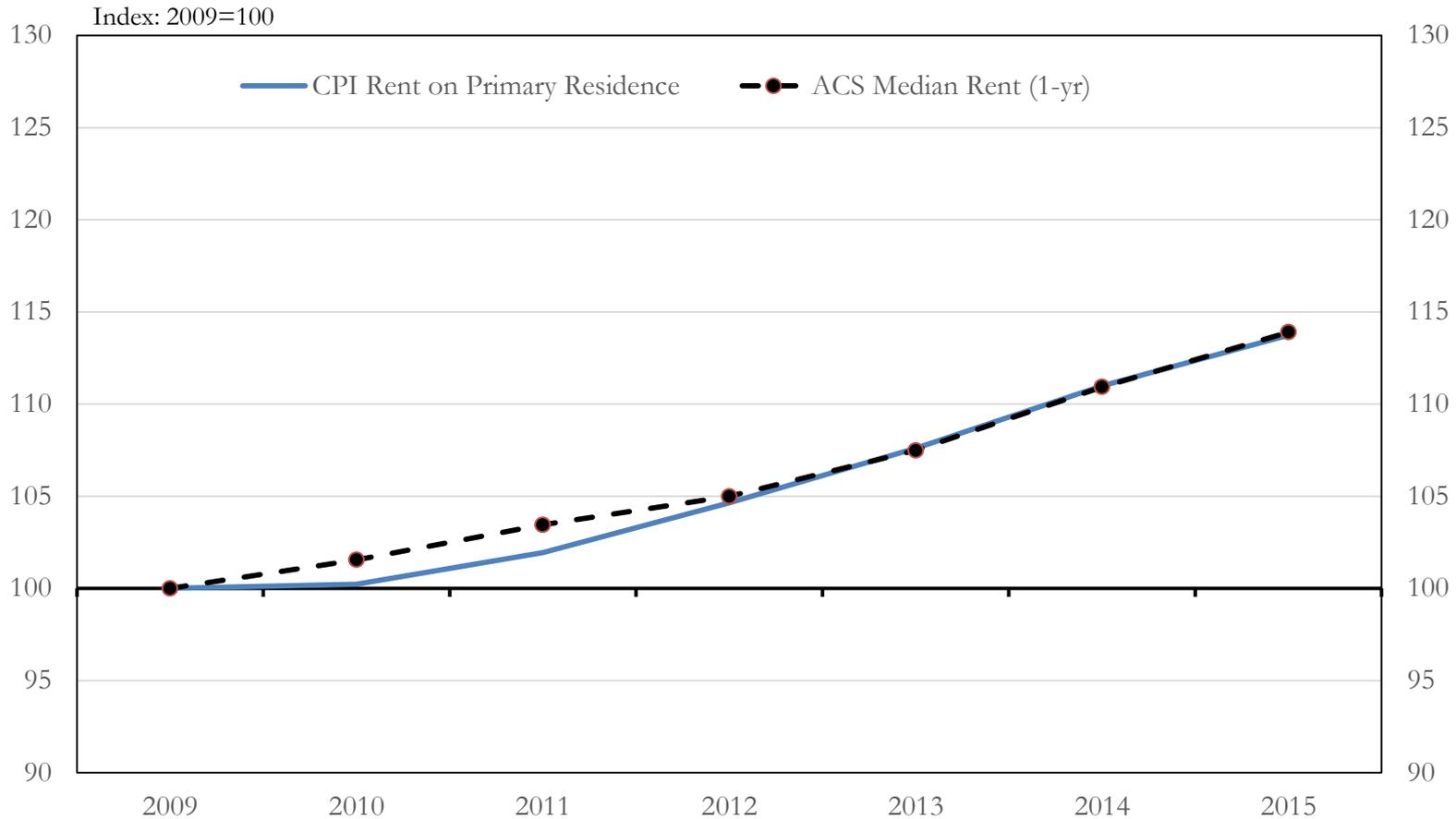
Rent Affordability in the U.S.



Notes: Multifamily rents are inferred from several BLS/CPI series. The computation of multifamily rent assumes that owner equivalent rent (OER) is all single family (SF) and that rent of primary residence is 1/2 of each (based on micro data), implying that (approximately) $(0.5)SF \text{ growth} + (0.5)MF \text{ growth} = \text{growth in rent of primary residence}$.

Sources: U.S. Bureau of Labor Statistics, Author's calculations

Growth in Rent (CPI Rent and ACS Rent)



Sources: Author's calculations; U.S. Census Bureau, American Community Survey; U.S. Bureau of Labor Statistics

Rental Affordability Calculations

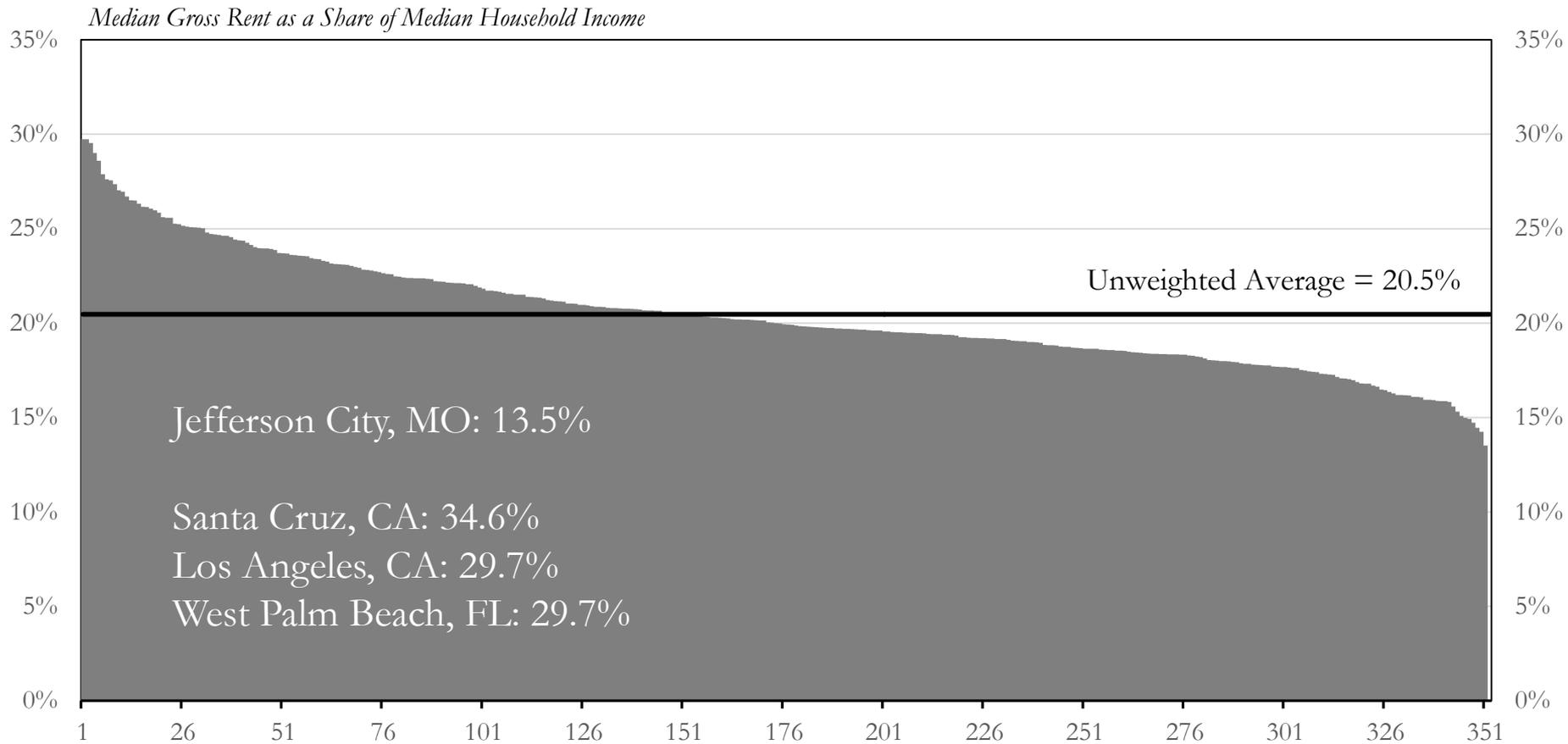
No More Formulas After This!!

$$A_t = \frac{R_t}{I_t}$$

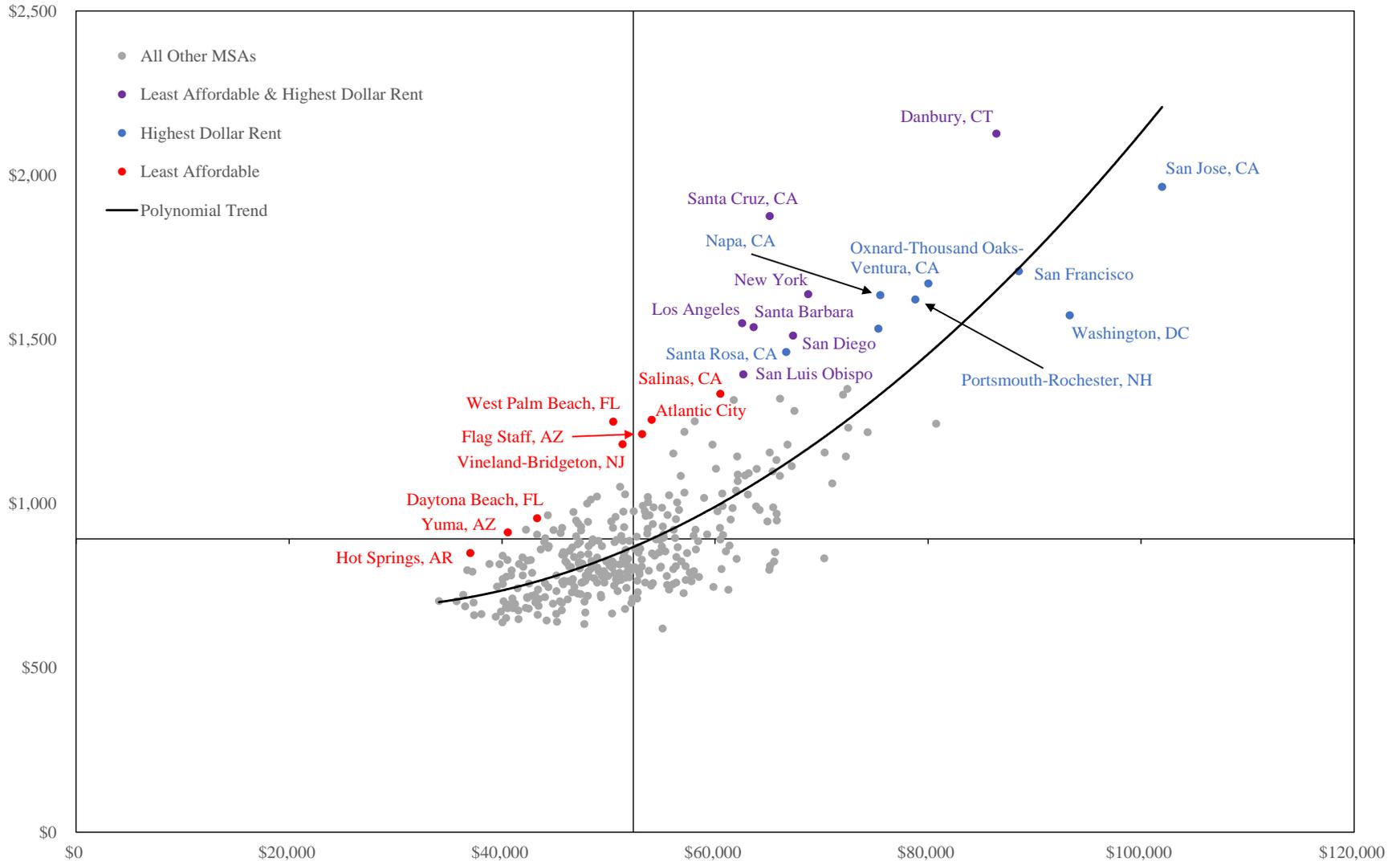
$$\Delta A = A_{14} - A_{10} = (R_{14} / Y_{14}) - (R_{10} / Y_{10})$$

$$\% \Delta A = \frac{A_{14} - A_{10}}{A_{10}} = \frac{R_{14} / R_{10}}{I_{14} / I_{10}} - 1 = \% \Delta R - \% \Delta I$$

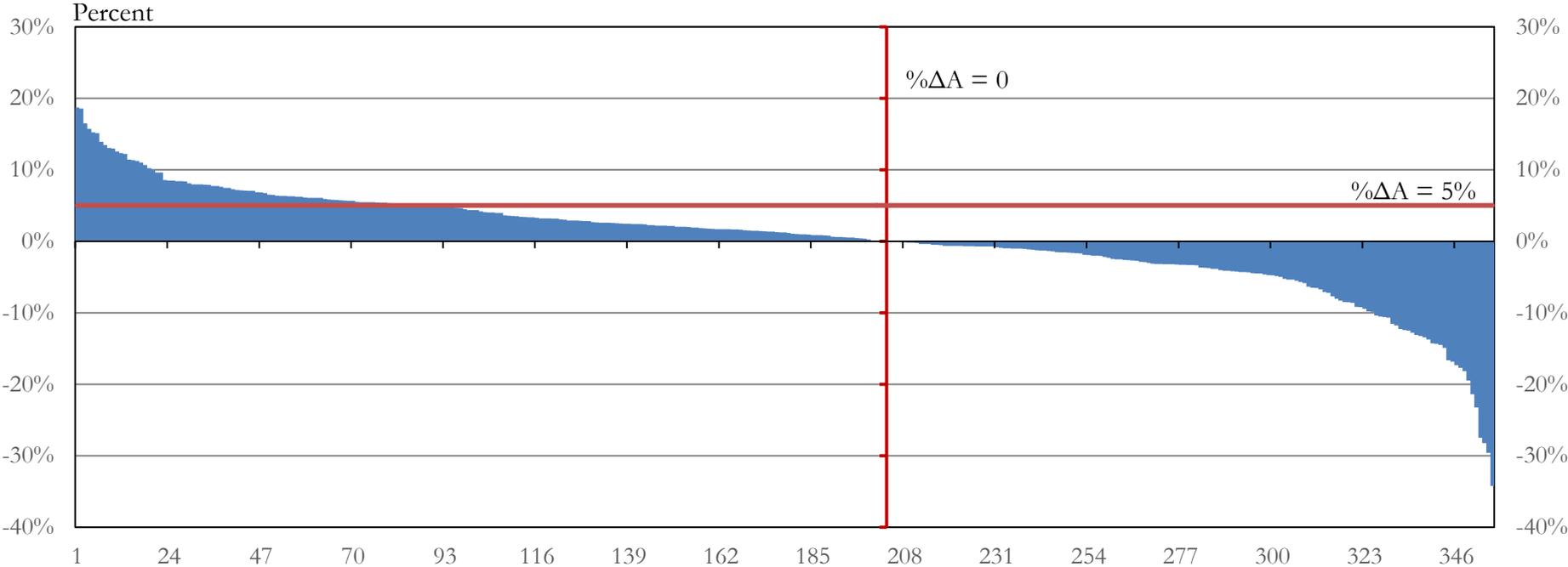
Median Gross Rent as a Share of Median Household Income (2015)



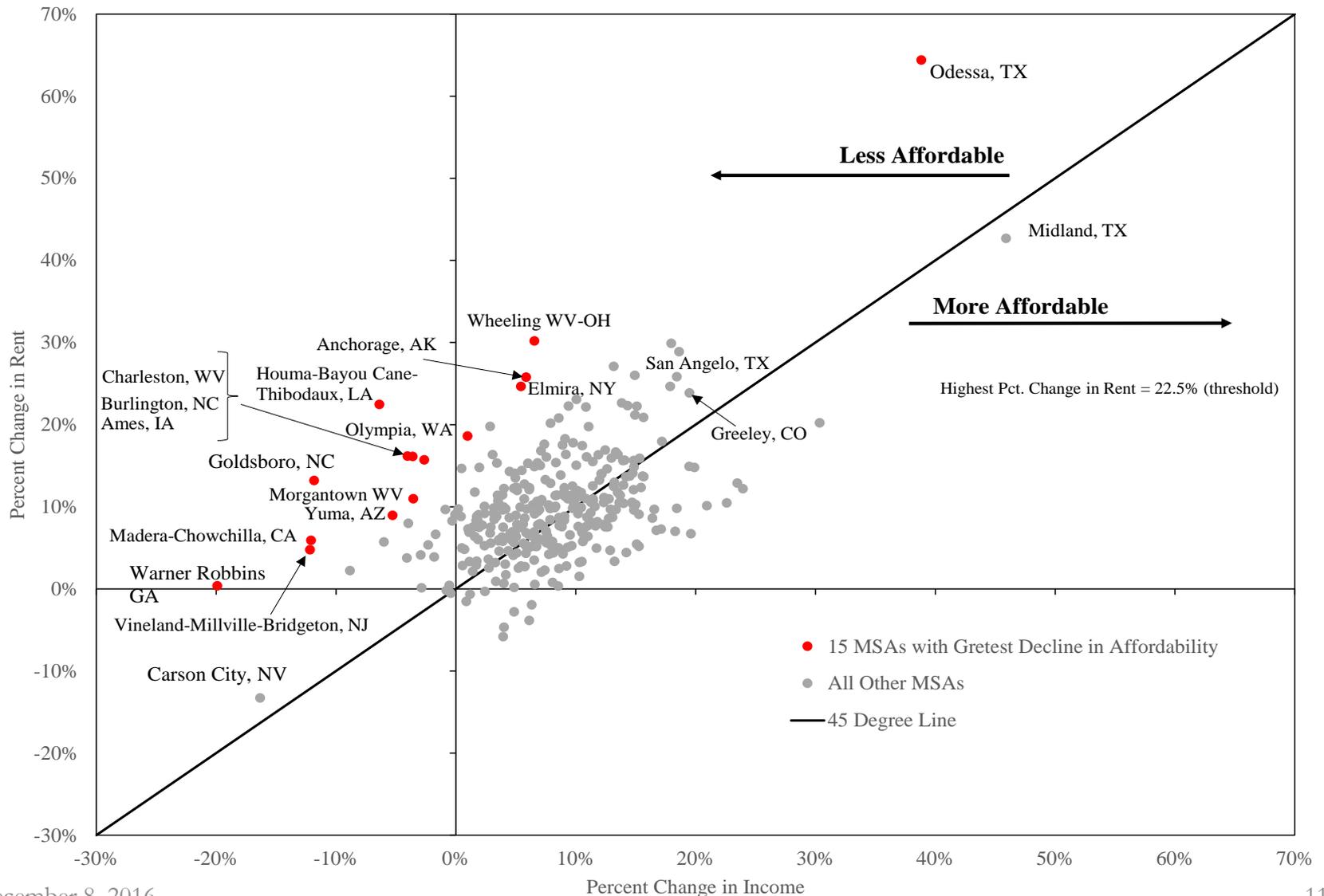
Rent, Income, and Affordability by MSA (2015)



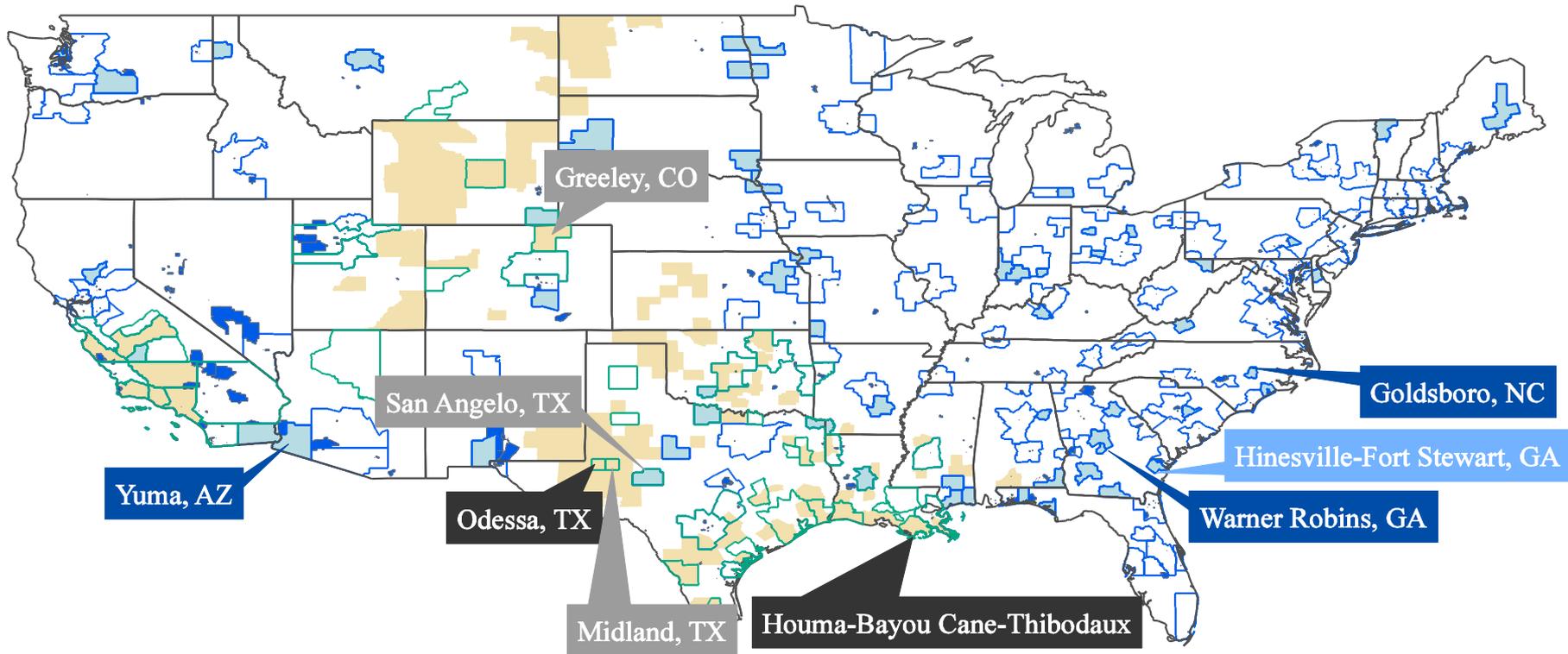
Percent Change in Affordability Ratio



Change in Housing Affordability Across MSAs, 2010 – 2014



Military and Oil Boom Towns



Legend

- "Oil MSAs"
- All "Military MSAs"
- "Military MSAs" (pop \leq 250,000)
- Military Base
- 1.5+ Million Bbls Oil

Conclusions

- Affordable rental housing is a critically important need
- Nationally, rents have increased relative to inflation and earnings
- The highest rent MSAs are not necessarily “unaffordable,” nor are low-rent MSAs necessarily “affordable”
- National measures of rent mask significant variation across MSAs (some have become more affordable)
- Military bases and energy-intensity were major drivers in rental affordability over the past few years (especially for MSAs with relatively small populations)



FEDERAL RESERVE BANK *of* KANSAS CITY

Contact Information:

Kelly D. Edmiston
Senior Economist
Community Development

1 Memorial Drive
Kansas City, MO 64198
Kelly.edmiston@kc.frb.org