Rental Housing 2011

The State of Rental Housing in the City of Los Angeles

Economic Roundtable
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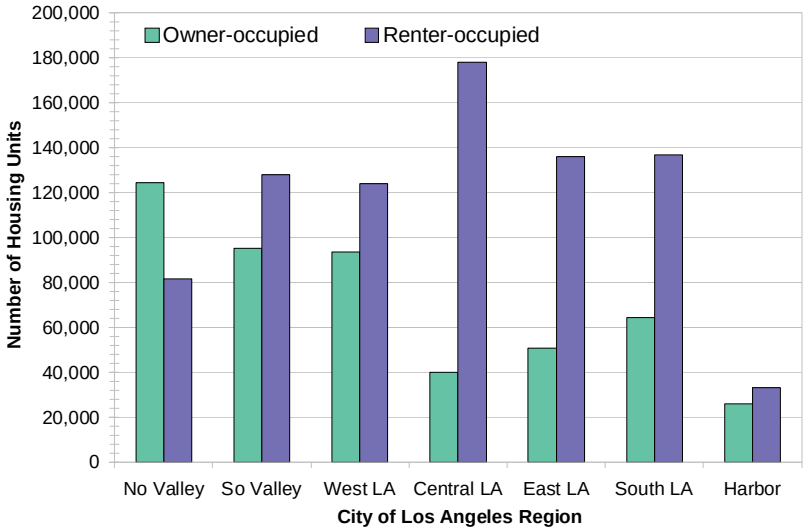
The State of Rental Housing in the City of Los Angeles

Overview

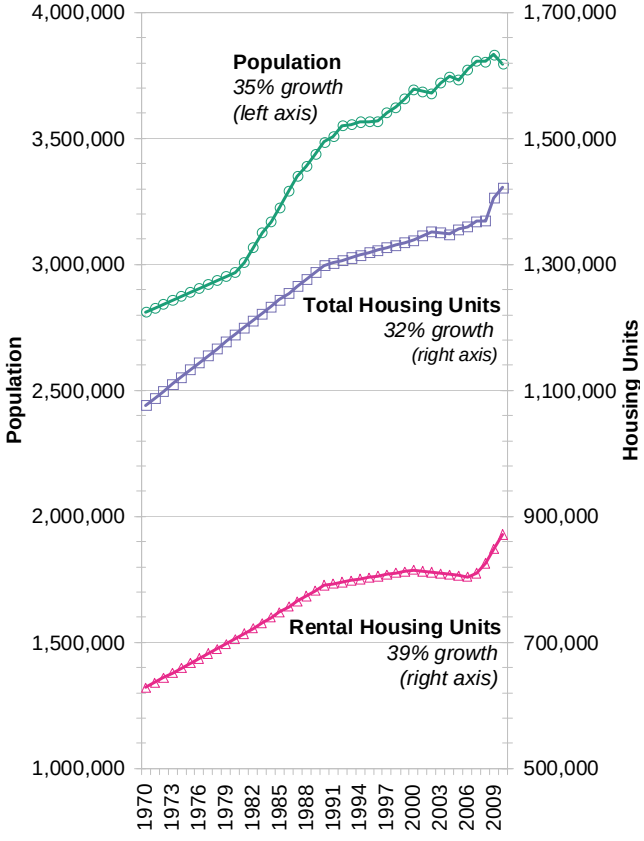
Los Angeles residents rent their homes at about double the national rate; 62% are renters, a rate that is comparable to other cities such as Chicago and New York that make up the urban center of major metropolitan areas. Rental housing is most concentrated in the oldest areas of the city. In Central Los Angeles, 82% of units are rented, whereas in the North San Fernando Valley, 40% are rented (Figure 1).

Figure 1
Owner- and Renter-Occupied Housing Units in 2010



Source: 2010 American Community Survey, Public Use Microdata Sample

Figure 2
City of Los Angeles Housing and Population 1970–2010



Source: U.S. Census Bureau, American Community Survey

The rental housing market is a key benchmark of well-being in Los Angeles because renters typically have lower family incomes than owners (median incomes of $33,600 vs. $81,600 in 2010) and typically pay a larger share of their income for housing costs (median of 36% for renters vs. 30% for owners in 2010).

Inadequate housing takes different forms, all of which are detrimental to the well-being of families and individuals. The most prevalent problem is housing that costs more than households can afford to pay. The causes include a housing inventory that has grown slightly less than the population and renter incomes that have increased much less than the cost of housing.

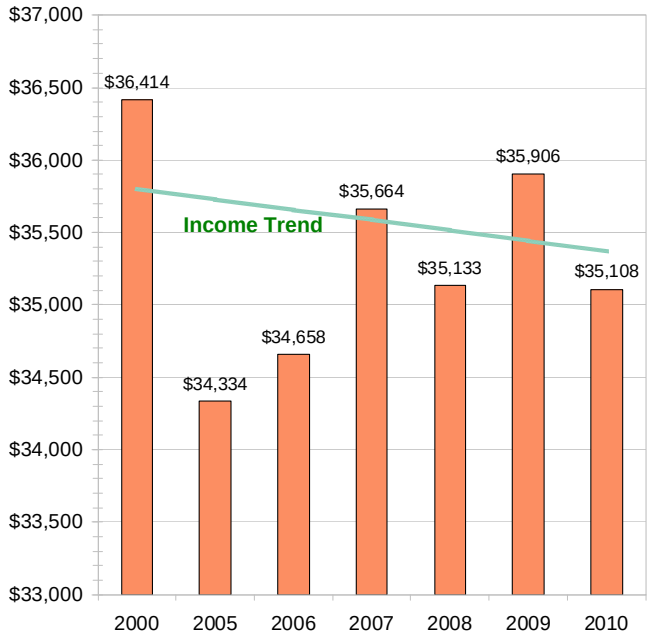
When households pay more than they can afford for the shelter they occupy, they must skimp on other necessities, including health care, transportation, food, and clothing. Their hold on housing is tenuous. Difficulty paying rent may result in eviction or in moving to a smaller, less expensive unit that is not large enough to

accommodate the household, creating overcrowding.

Over the past 40 years, the population of the City of Los Angeles has grown 35%, the total housing inventory has grown 32%, slightly lagging the population, and the inventory of rental housing has grown 39%, exceeding overall population growth (Figure 3).

The city's rental housing inventory has grown 8% since 2007, largely because owner-occupied property that has been foreclosed and unsold since the start of the 2008 recession has been converted to rental use until the for-sale housing market recovers. In the near term, *this increase in the size of the rental inventory is good news for renters*. It increases housing choices and diminishes rent increases.

Figure 3
Median Renter Household Income
City of Los Angeles, Rent Adjusted to 2010 Dollars

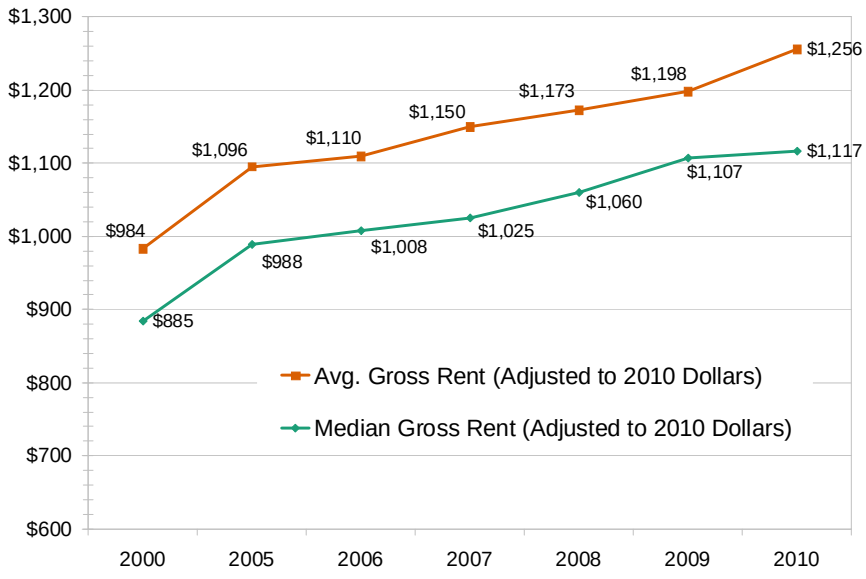


Source: U.S. Census Bureau, American Community Survey

The bad news is that the incomes of renter households have been declining since 1990. The median income of renter households over the past decade, adjusted to 2010 dollars, is shown in Figure 3. There is year-to-year fluctuation in the median income of renters, but the overall trend is downward; about a fifth of a percent a year since 2000.

Rents continue to rise despite the limited budgets of renter households. In large part, this is because it is expensive to buy land and build housing in Los Angeles.

Figure 4
Gross Rent in the City of Los Angeles – 2010 Dollars



Source: U.S. Census Bureau, American Community Survey

The average gross rent (rent plus utilities), adjusted to constant dollars, increased 28% from 2000 to 2010, and the median gross rent increased 26%, as shown in Figure 4.

When incomes are overlaid on rent levels, we see that over the past decade, median rent as a share of median income of renter households has increased from 29% to

36%, as shown in Figure 5.

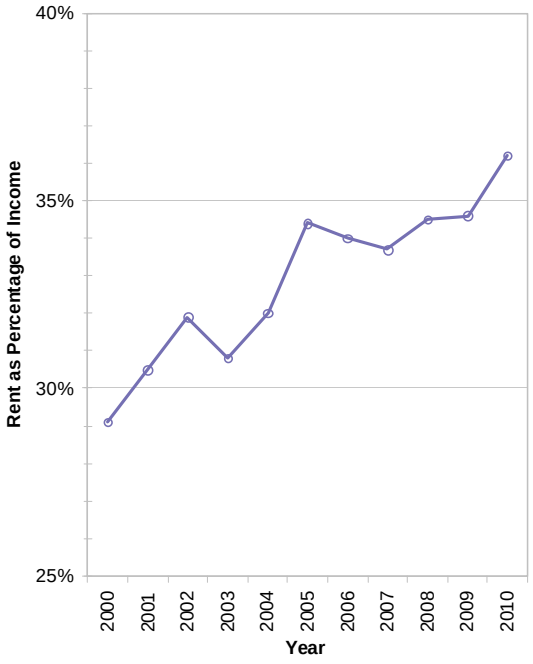
Over the past decade, rent as a share of income has shifted from being barely affordable to predominantly unaffordable for renters. The benchmark for affordability is 30% of income.

Rent Burden

The majority of renters living in the City of Los Angeles are rent burdened, paying over 30% of their income for rent, and roughly a third are severely rent burdened, paying half or more of their income for rent. This dynamic between the price renters pay for their housing and their household income has worsened following the recession that began in 2008 (Figure 6).

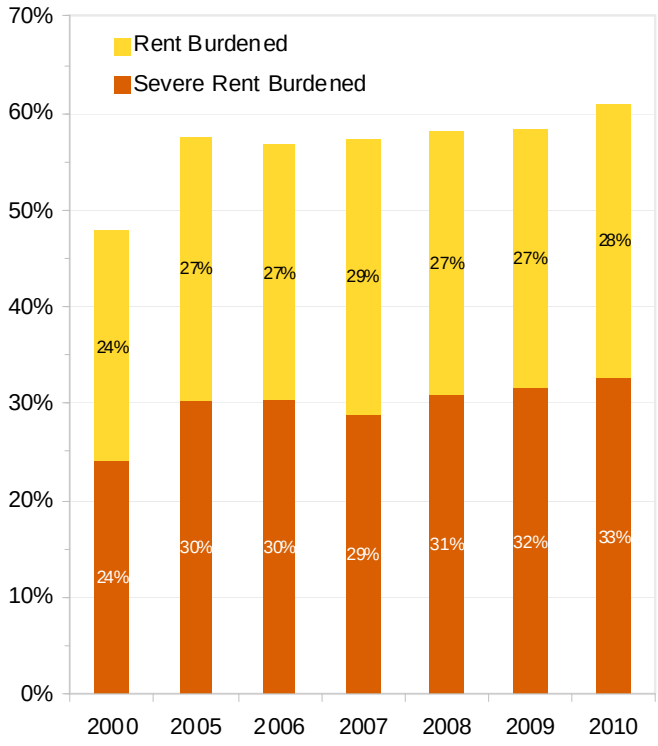
The third of renter households paying over half of their income for rent are forced to make radical economies in other areas of their lives. This may include foregoing needed medical treatment and eating lower-cost food with low nutritional value.

Figure 5
Median Rent as a Percentage of Median Income
Renter Households in Los Angeles City, 2000–2010



Source: U.S. Census Bureau, American Community Survey

Figure 6
Share of Renter Households That Are Rent Burdened
City of Los Angeles 2000–2010



Source: Census 2000 Summary File 3 Detailed Tables; 2005, 2006, 2007, 2008, 2009 and 2010 American Community Survey 1-Year Estimates Detailed Tables

Sixty-one percent of renter households are either rent burdened or severely rent burdened. This is in large measure the result of long-term income stagnation for a large share of these households, compounded by increased unemployment and underemployment since the onset of the 2008 recession.

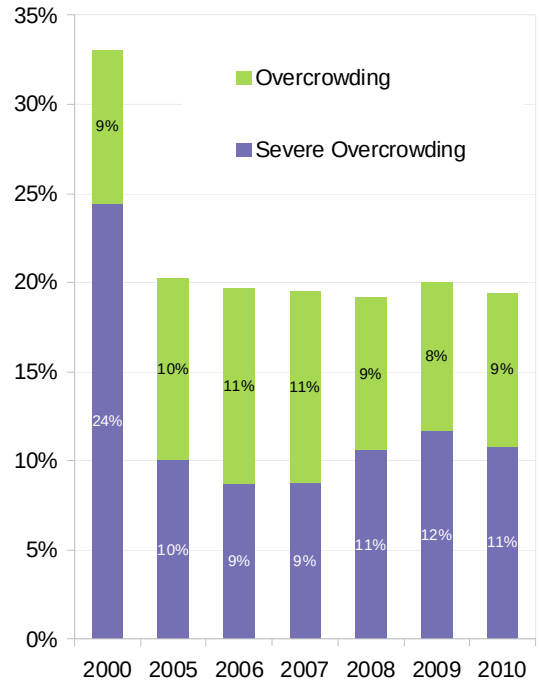
Long-term economic growth that increases productivity and wages in the Los Angeles region is needed to reverse this trend. There is also an urgent need to build more affordable housing and to preserve the existing inventory of affordable housing.

Overcrowding

In 2010, 20% of renter-occupied units in the City of Los Angeles were overcrowded (Figure 7). Overcrowded housing is an ongoing concern in Los Angeles, where a fifth of renter households currently live in overcrowded conditions with more than one occupant per room and a tenth live in severely overcrowded conditions with more than 1.5 occupants per room.[1]

The good news is that a dramatic decline in overcrowding has occurred during the past decade. *There has been a 56% decrease in severe overcrowding.* This is in large measure a result of smaller, older rental units being replaced by newer bigger units. The construction of a substantial number of new units during the past decade has also helped.

Figure 7
Overcrowded Rental Units
City of Los Angeles 2000 to 2010

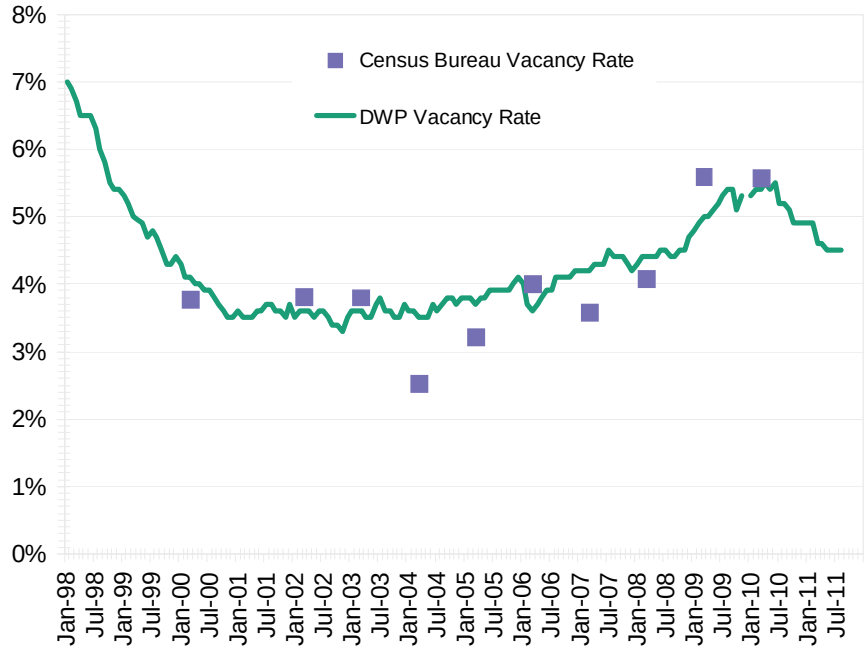


Source: U. S. Census Bureau, American Community Survey

Vacancy Rates

From April 1999 through March 2009, the rental vacancy rate in the City of Los Angeles was under 5%, indicating a tight housing market for renters (Figure 8).

Figure 8
Vacancy Rate for Rental Housing, City of Los Angeles



Sources: Department of Water and Power, U.S. Census Bureau, and American Community Surveys

From March 2009 through September 2010, the vacancy rate rose above 5%, indicating that renters had more viable opportunities for finding housing.

From October 2010 through August 2011 (the most recent data), vacancy rates have again dropped below 5%, ending at 4.5% in August 2011.

Over the past decade, 84% of the time the vacancy rate has

been below 5%, indicating a scarcity of available housing for renters over most of the decade.

Recommendations

New funding and development strategies are needed to provide affordable housing units for Los Angeles renters who cannot afford market rate housing. High land and development costs, coupled with low vacancy rates, place upward pressure on housing costs, leaving a large share of residents overburdened by rent and living in overcrowded conditions. Given the difficulty of financing affordable units and a bleak economic climate, public initiatives must drive the production of needed affordable units. The following recommendations are put forward for increasing the production of affordable housing:

1. Streamline entitlement processes to reduce carrying costs for affordable housing projects.
2. Identify “nontraditional” land that has the capacity to be developed into housing.
3. Focus development interest by providing information about parcels that the City is most interested in seeing developed.
4. Streamline the condemnation and eminent domain processes for blighted properties to provide incentives for current landowners to either sell their property or clean and redevelop the property in a timely fashion.
5. Use public funds to purchase affordable units with covenants on the brink of expiration and to incentivize owners of these units to continue providing their units at affordable rent levels.
6. Develop an affordable housing land bank.
7. Promote mixed-income and mixed-use projects in which internal cash flows create subsidies.
8. Establish development fees for residential, commercial, and industrial construction projects that increase the demand for affordable housing.

NOTE

[1] Housing is overcrowded when there is more than one occupant per room. It is severely overcrowded when there is more than 1.5 occupants per room. An example of calculating overcrowding is a one-bedroom unit, which has three rooms: a bedroom, a living room, and a kitchen. If four people live in this unit, it is considered overcrowded (4 people / 3 rooms = 1.33 per room). If five people live in this unit, it is considered severely overcrowded (5 people / 3 rooms = 1.66 people per room).