

Memorandum

To: Horizon 2020 Update Commission

From: Kirk McClure

Date: September 17, 2014

Re: **Housing Issues in Lawrence**

This memorandum is designed to provide a few basic statistics to help you frame the housing issues, especially the housing affordability issues, in Lawrence and Douglas County, Kansas. All of the data are taken from the U.S. Bureau of the Census.

Any comprehensive plan is guided by how well the private housing market handles growth and change. If the market is doing a good job, then the plan can be less specific. If the market is failing to do a good job, the plan needs to be more detailed and the level of planning intervention more focused. The pace of housing production and the problems of housing affordability are all part of this concern.

*Question: How has the population of Douglas County grown?
How has the housing market responded?*

Standard: The pace of housing growth should closely correspond to the pace of household growth.

Table 1: Growth of household and housing units

	2012	2007	2000
Households	43,422	43,967	38,486
Change in households	-545	5,481	
Growth rate of households	-0.2%	1.9%	
Housing units	46,746	46,494	40,250
Change in housing units	252	6,244	
Growth rate of units	0.1%	2.1%	
Surplus (Units - (1.03*Households))	813	599	

In general, the market has adjusted relatively well, but it has created an unnecessary surplus. During the housing bubble years of 2000 to 2007, Douglas County added 5,481 households. In a well-functioning market, the housing supply would increase by about 103 percent of that figure. The extra 3 percent would maintain the inventory of vacant units. Had the market shown this level of discipline, the supply should have grown by 5,645 units. However, home builders added 6,244 units. The supply grew by 114 percent of the amount of new households for a surplus of about 600 units. To give scale to this figure, in Douglas County the surplus translates into about 3 apartment buildings (at 50 units each) more than we needed and about three single-family subdivisions (at 50 units each) more than we needed. This level of overbuilding is harmful to older, existing neighborhoods because, without enough households to fill all of the housing, the newer units will fill first and older units will empty creating a loss of both public and private investment.

There is one positive note. While this is a large surplus for a community as small as Douglas County, the rate of overbuilding here is smaller than was true for the rest of the nation during this bubble period.

During the recovery years of 2007 to 2012, the housing market responded in the correct direction, but the scale of the response was poor. The number of households actually fell over the five-year period, but the housing industry did not stop production. Rather, it slowed the pace of overbuilding. There was a net gain of about 250 units. These 250 units were not needed in the market, adding to the surplus that we built during the bubble years.

Conclusion: The private market is doing a fair job of pacing the supply of housing growth, but it needs help to prevent it from adding to the surplus which harms older neighborhoods.

Question: *What is the vacancy rate of the housing stock?*

Standard: A healthy rental market should have a vacancy rate of 5 percent and a healthy market of owner-occupied housing should have a vacancy rate of about 1.75 to 2.0 percent.

Table 2: Housing market vacancy rates

	2012	2007	2000
Homeowner vacancy rate	3.2%	1.5%	1.7%
Rental vacancy rate	5.7%	6.1%	3.8%

The housing market in the Lawrence metropolitan area is soft. Vacancy rates are a higher than is optimal. The housing market was about normal in 2000. The rental market became soft by 2007 with the overbuilding during the bubble years. By 2012, the rental market improved, but it is poised to worsen with all the proposed rental developments approved by the Planning Commission. The ownership market is very soft with a vacancy rate that is much higher than the healthy 2 percent level.

It is important to note that these are the vacancy rates provided by the Census. The Census does not include units taken off the market. If a unit is vacant but not actively listed as for rent or for sale, it is not included in the counts. Thus, these empty units are not included in the vacancy calculations biasing the vacancy rates to lower numbers than is actually the case.

Conclusion: The private market is soft, and the development industry is failing to respond fully to market signals, delaying further production until the market returns to a healthier condition.

Question: *Do we have a shortage of affordable housing in Lawrence?*

Standard: Households should be able to find housing costing no more than 30 percent of income. The housing stock should be adequate to provide affordable housing to all but the poorest households.

Table 3: Housing Affordability

	<i>Douglas County</i>	<i>Kansas</i>	<i>United States</i>
Owner households	22,287	746,325	75,484,661
Owner households paying 30%+	5,357	156,160	22,332,180
Percent pay 30%+	24%	21%	30%
Renter households	20,094	360,635	39,742,141
Renter households paying 30%+	10,553	151,692	19,122,981
Percent pay 30%+	53%	42%	48%

Housing affordability issues differ in Douglas County between owners and renters.

For owners, a lower percentage of households suffer from high housing costs than is true nationally, but this percentage is higher than is true for Kansas. It is worth noting that one-half of the counties in Kansas have suffered stagnant or declining populations, which leads to low housing costs. Douglas County is lucky to be one of the few counties in Kansas that is growing.

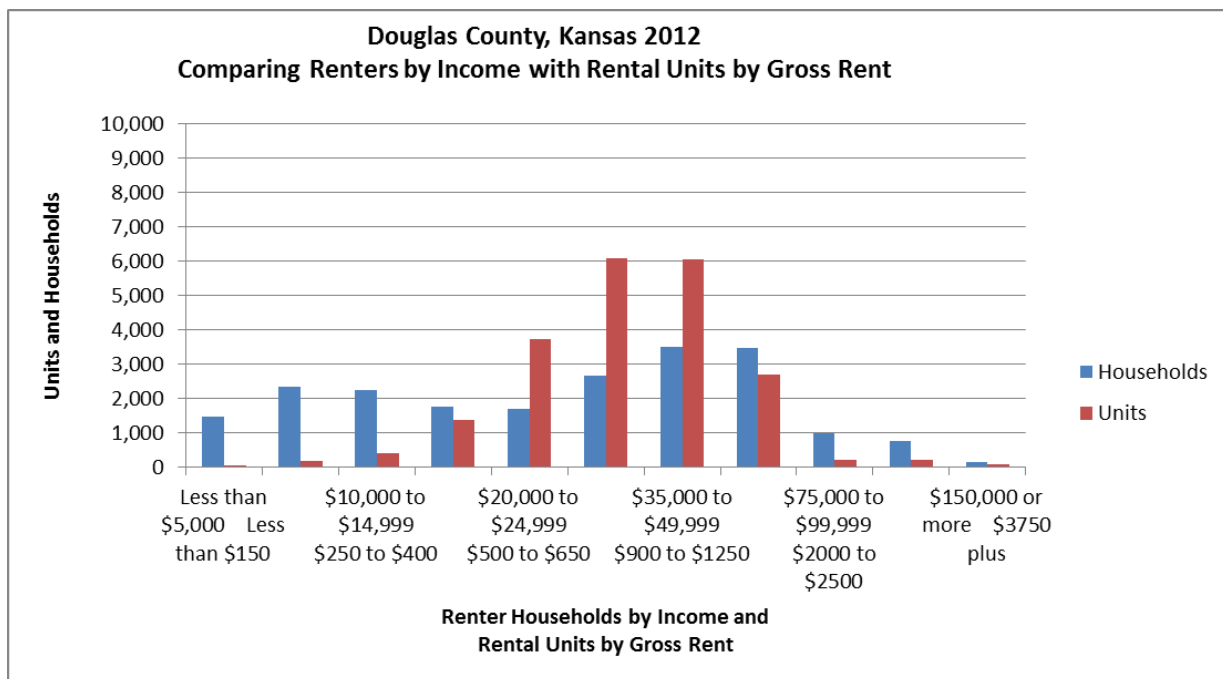
For renters, the percentage of households paying more than 30 percent of income on housing is high. This is common for college towns. With a high incidence of young renter households with low income and/or unreported financial support, it would be expected that the incidence of high housing costs would be above normal.

Conclusion: The affordability problems in Douglas County differ between owners and renters. Owners generally have below average affordability problems while renters have above average affordability problems.

Question: *Are the affordability problems the result of having too little housing in the right price range or too many households with low income?*

Standard: In a well-balanced housing market, there would close correspondence between households by income category and homes by rent or value category.

Figure 1:



The distribution of renters by income is “bimodal”, which means it has two “humps.” One part of the renter population is well positioned within the middle class with incomes from \$35,000 to \$75,000. Another part of the renter population is poor with incomes below \$20,000.

The distribution of rental units by gross rents (contract rent plus tenant-paid utilities) is normal with a single peak in the rent ranges of \$650 to \$1,250.

Comparing the distribution of renters by income and units by rents identifies two basic mismatches. First, there are more units than households in the rent categories from \$500 per month all the way up to \$1,250 per month. Clearly there is no shortage of housing in this category. Second, there is a shortage of units in the rent categories below \$400 per month. Unfortunately, it is extremely difficult for landlords to own and operate good quality rental properties with rents below \$400 per month. This

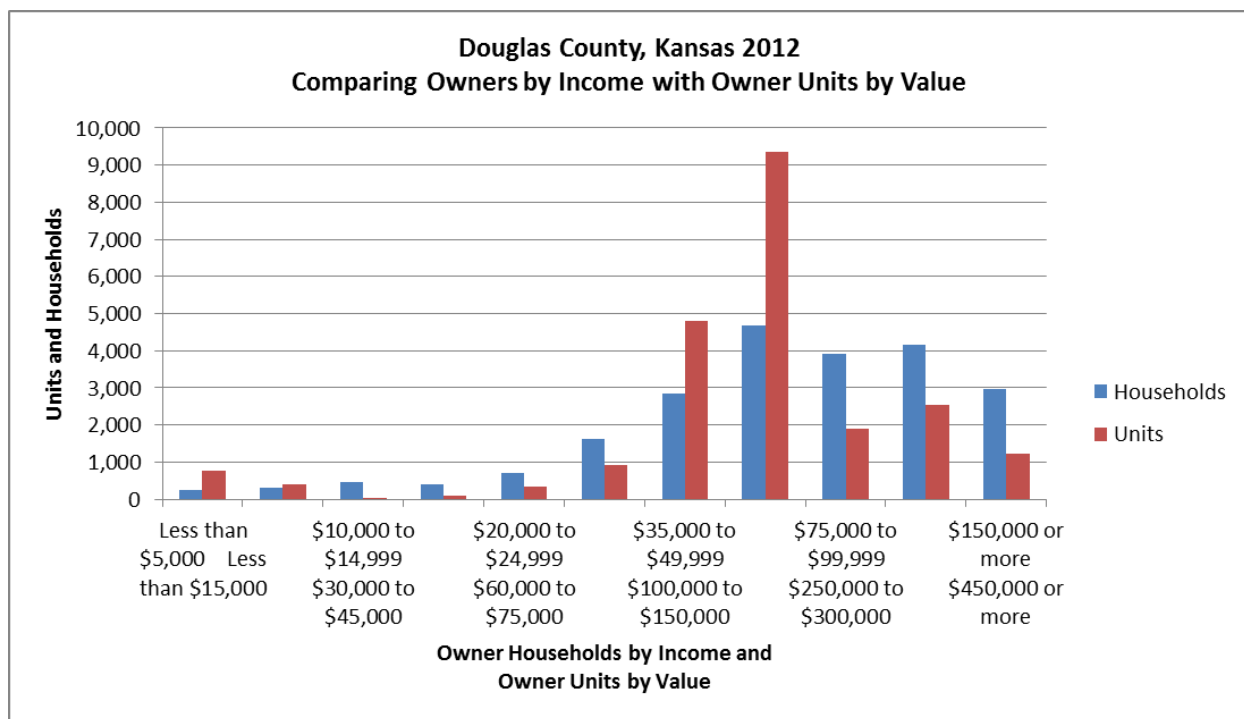
suggests that the housing affordability problems among low-income renters in Douglas County are more a function of the low incomes of poor renter households than they are of high priced rental housing.

The distribution of owner-occupants by income is a more normal distribution. Most home owners are within the middle class or higher. Very few home owners are poor.

The distribution of owner-occupied homes by value is normal, peaking at the \$150,000 to \$250,000 category.

The housing market for owner-occupants is generally well balanced.

Figure 2:



Further comparison of the costs housing to the incomes of households can be made with other geographic areas. Table 4 compares Douglas County to the State of Kansas and to the United States as a whole.

Rents are low in Douglas County compared to the nation, 5 percent lower. However, rents are higher in Lawrence than is true of the rest of Kansas. Again it is worth remembering that rents are depressed in most of Kansas because most counties suffer from declining populations.

Renter incomes are low in Douglas County with results in the ratio of annual gross rent to household income being higher than is found in the nation or in Kansas.

Home values are about 2 percent below the national level and 40 percent above the Kansas level. However, owner incomes are typically 10 percent above the national level and 15 percent above the Kansas level. This results in owner-occupied homes in Douglas County placing less of a burden on incomes than is found nationwide. Thus, by national standards, Douglas County would be considered a very affordable market of owner-occupied housing.

Table 4: Rents and Home Values 2012

	<i>Douglas County</i>	<i>Kansas</i>	<i>United States</i>
Median gross rent	826	715	869
Median renter household income	28,396	30,395	32,212
Annual rent as percent income	35%	28%	32%
Median home value	178,700	127,400	181,400
Median owner household income	73,873	64,317	67,062
Ratio of value to income	2.42	1.98	2.70

Conclusion: Housing in Douglas County is ample in supply and, by many standards, very affordable.

The strengths of the housing market are numerous:

- The cost of housing here in Douglas County is lower than comparable housing elsewhere in the nation both for renters and for owners.
- The incomes of owners are high by comparison with the nation.
- The market is soft with more than enough units in both the rental and owner markets.

The market for housing also has its weaknesses:

- The market has shown that it is prone to over building by failing to fully respond to the changes in household demand.
- Despite the affordable housing in Douglas County, many households have incomes so low that they cannot afford housing without suffering a high housing cost burden.
- The private market for rental housing in Douglas County, as is true nationwide, cannot provide sufficient good quality housing affordable to the poor.

Implications for an updated comprehensive plan:

- The housing development industry is prone to overbuilding, not for just short periods of time, but for extended periods. This suggests that the community should plan for itself the amount of housing that needs to be added to the market through growth management. If Douglas County adopted growth management, it could determine the pace of growth that would best serve the

needs of the community and could force the developers to compete for designation as the preferred developer who would be permitted to build for that need.

- When developers compete for the status of designated developer, they will bring increasingly better proposals to the community in order to win the approval. This competition can exact greater public benefits in the designs (e.g.: parks, trails, etc.) and services (e.g.: contributions to schools, etc.)
- The competition also makes it possible for the community to enforce inclusionary zoning which ensures that developments serve a mix of income levels rather than just the highest income levels.
- Overbuilding harms older neighborhoods. If more houses are added to the supply than there are households to fill them, the new units tend to fill up by attracting households away from older neighborhoods. If the management of supply growth is performed carefully, the community can direct some of the growth in households back into older neighborhoods, preserving and protecting these important assets and community investments.

Bobbie Walthall

To: Diane Stoddard
Subject: RE: Please consider this information for the June 9 Study Session on Housing...thank you

From: Pat Benabe [<mailto:patb42@sbcglobal.net>]
Sent: Tuesday, May 26, 2015 12:12 PM
To: Jeremy Farmer
Cc: Mike Amyx; Leslie Soden; Stuart Boley; Matthew Herbert; Diane Stoddard
Subject: Please consider this information for the June 9 Study Session on Housing...thank you

The Housing Situation in Lawrence Pat Benabe

There is often talk about the need for “affordable” housing in our city. However, “affordable” is a coded word which does not mean that it includes the extremely low-income population. And in Lawrence there are many individuals and families who fall into this extremely low-income category.

The latest Census figures show Douglas County to have a poverty rate of 19.5 %. This translates to 20,317 people. That is a lot of people considering the total population for Douglas County is only 114,322. And according to USA City Facts the poverty rate for Lawrence itself is at 24.8%. Keep in mind that many people are not counted in the census, and the cut off for any income category is one cent, making the real numbers much higher.

The National Low-Income Housing Coalition has found that in Kansas if you are a minimum wage earner you must work 76 hours a week to be able to afford a fair market two-bedroom apartment. Yet, the Section 8 program which was created to subsidize low-wage earners only provides help for 1 in 4 people who qualify. This program is severely underfunded with more cuts on the table due in the near future.

According to a report submitted on September 15, to the United Nations, Universal Periodic Review of Housing and Homelessness in the United States, they found that: “Over half of all American renters pay more than 30% of their income for housing. For extremely low-income income (ELI) households, the percentage paying more than half of their income in rent jumps to 76%. This problem is in part caused by the lack of available, 'affordable' housing for low-income renters. Average rents increased by an estimated 4.5 percent in 2013 across the nation, and are expected to increase by at least 4% per year through 2015. On top of the existing gap in availability of affordable units, the supply of low-income cost units has declined since 2007.” And “...HUD's budget has decreased by more than 56% since its high point in 1978, leading to the loss of

approximately 10,000 units of federally-subsidized low income housing each year.”

Our Housing Authority has a combined total of 1046 public housing and subsidized units. This leaves the majority poverty wage earners, the disabled and fixed income people without any help at all.

HUD wants to get out of the public housing business and is looking to privatize what it has left. Maintenance funding has been severely cut back and new construction has been nil for decades. This does not bode well for extremely low and fixed income people forcing many into homelessness.

We can see the increase in homelessness by looking at our own shelter which has been at capacity since it opened it's doors almost 2 years ago. The numbers are not dropping. In fact, they estimate a 13% increase in people needing shelter just this year. People are turned away daily for lack of space. Enlarging the shelter should not be considered as an option as it is extremely expensive and is not an answer to the shortage of extremely low and low-income rentals. Shelters have their place but not as options to safe, adequate and most of all permanent housing.

We could do much better if we stopped accepting the stereotypes of homeless people and blaming them for their situations and focus on the root causes of homelessness and creating solutions to the housing problem. All studies from national coalitions dealing with homelessness have proven that housing people is much cheaper in the long run. For when we don't house people, it costs us so much more in terms of incarcerating people, emergency room visits, mental health problems, and broken lives.

According to the report submitted to the United Nations, “The United States is under obligation to protect the human right to adequate housing under numerous treaties and declarations, and “...to meet the needs for adequate housing at an affordable price for **all** segments of American society...” We would do a whole lot better if we honored our treaties and declaration obligations and focus on better better ways ways to address the shortage of affordable units in our city. It's time to start looking at housing as a human right and stop criminalizing and demonizing those who cannot, for whatever reason, afford a place to live.

A good start would be to pressure our elected officials to adequately fund programs such as new construction of public housing units and Section 8. In years past, the public housing program produced million of jobs too. So unless we act the problem of homelessness will continue to grow along with the costs of inaction.

"Housing Crisis, Condition: Critical

The opening of general public emergency shelters in 1983 shows a clear connection between the drop in federal funding for affordable housing and the birth of massive contemporary homelessness" For more information please read the Without Housing Report at www.wraphome.org