Livingston Legislature:

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Issue: Declining Homeownership in NJ

Given restrictions on new single-family home development, the uptick in housing prices threatens both prospective owners and renters, forcing people, who would otherwise buy, into the rental market. Ownership levels continue to drop, most notably for minorities, particularly African-Americans. Last year, according to the Harvard study, the number of renters in the U.S. rose by a million, accompanied by a net loss of 161,000 homeowners.[5] However, earlier this spring, the National Low-Income Housing Coalition stated, in their annual Out of Reach Report, the a two bedroom apartment is unaffordable to 59% of renters in the state.

Necessary Background:
Fair-market rent for a two-bedroom unit in New Jersey is about $1,300,per month, making it the fifth most expensive state in the nation, behind Hawaii, D.C., California, and New York. To be able to make these payments, a renter's household must earn at least $25 an hour; however, almost a third of the state's 1.1 million renters only make $17 an hour.Things are much worse for minimum-wage earners. Although voters approved an increase in the minimum wage to $8.38 an hour, it takes three full-time minimum-wage salaries to afford a market-rate two-bedroom apartment in New Jersey.[1]

Evidence of Problem Existing:
Rental Rates for apartments have risen nationally for 23 straight quarters. As of the third quarter of 2014, rents were 15.2% higher than at the tail end of the Recession in 2009. Rising rents are an outcome of increased demand for rental housing. One recent study of 11 major cities found double-digit growth in the number of renters in nine of the 11 cities between 2006 and 2013.[4] In the fourth quarter of 2014, the homeownership rate dropped to its lowest rate in twenty years and the rental vacancy rate fell to 7%[3] as more households sought rental units. The downward pressure on vacancy rates directly impacts the rental housing market, making landlords less willing to offer concessions and more likely to increase rents. A key example: One in four of the 42 million American families who rent their homes pay more than half their income on rent and utilities, leaving little to no money left over for essentials like food, childcare and medicine.
The rental squeeze has been getting worse for the middle class[4]. From 2003 through 2013, the number of middle-income renters who pay more than half of their income toward rent grew by about 70 percent, according to research published this summer by Harvard's Joint Center for Housing Studies.

Impact:
Because of the acute affordable housing shortage, many ELI (Extremely Low Income) renter households must pay more than they can afford for their homes. In 2013, 88% of ELI renter households, 78% of VLI (Very Low Income) renter households, and 48% of low-income renter households experienced housing cost burden, which is paying more than 30% of income toward rent and utilities. In comparison, just 10% of renter households with income above 80% of AMI (Area Median Income) had housing cost burdens. More troubling is the number of lower income renters experiencing a severe housing cost burden, spending more than half of their income on rent and utilities. Approximately 11.2 million renters had severe housing Cost Burden Severe Spotlight — March 2015 cost burden in 2013, of which 69% were ELI households and 23% were VLI households[3]. Three-quarters of the 10.3 million ELI renter households experienced severe housing cost

burden. A recent survey found that three out of four housing cost-burdened renters made sacrifices, such as cutting back on health care, to afford rent. ELI renters facing a housing burden may cut back on groceries, health care prescriptions or vehicle maintenance to pay the rent. Renters are also 57% more likely than homeowners to turn to pay-day lenders when finances get tight[1], often further complicating their financial situation. Finally, cost burdened households can rarely afford to build up savings for education, retirement, or other long-term needs. Low-income renters not facing a housing cost burden face other housing challenges. Many households cope with the shortage of affordable units by doubling up with family or friends, often leading to overcrowded conditions. Other households rent affordable yet substandard housing, facing pest infestation, leaky roofs, outdated electrical systems, rusty pipes, and gas leaks. Living in substandard housing can be a predictor of poor social and emotional development for children~~.9~~ These conditions exist because the supply of decent quality affordable housing remains inadequate. An investment in expanding the supply of affordable housing would reduce the number of American households forced to face overcrowded and poor housing conditions.

Possible Solutions:

Counties and cities in New Jersey need to get ahead of the demand by preparing master plans and sector or neighborhood plans that allow mixed uses, higher densities, and transit infrastructure in certain areas where jobs and housing will concentrate. Once the right plans are in place, it is much easier for developers to tailor their development plans in the desired direction and also easier (in terms of time and money) to get plans approved.

Local governments also need to review and revise their zoning ordinances to provide more flexibility, allow mixed uses where they were previously prohibited, and encourage the development of more affordable housing. Hunterdon and Somerset are currently reviewing their zoning ordinances, and it is likely that these two jurisdictions will be able to make the right types of adjustments to support more appropriate levels of housing development which will encourage housing affordability.

Developers recognize that their projects need to pay for some public infrastructure and community amenities. Done right, these contributions enhance their projects' chances for market success. The problem has been the complexity of development approval processes, and their lack of transparency and predictability. Developers would prefer to know up front what they need to contribute (whether it is a fixed dollar amount per unit or per square foot) rather than to think they have reached agreement only to find a new reviewing agency has additional requests.

When plans, zoning, and development applications align, it reduces costs and timeframes for development. This provides some margin to reduce housing prices.

Sources:

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