

New Market-Rate Housing and Housing Affordability

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What does “housing affordability” mean?

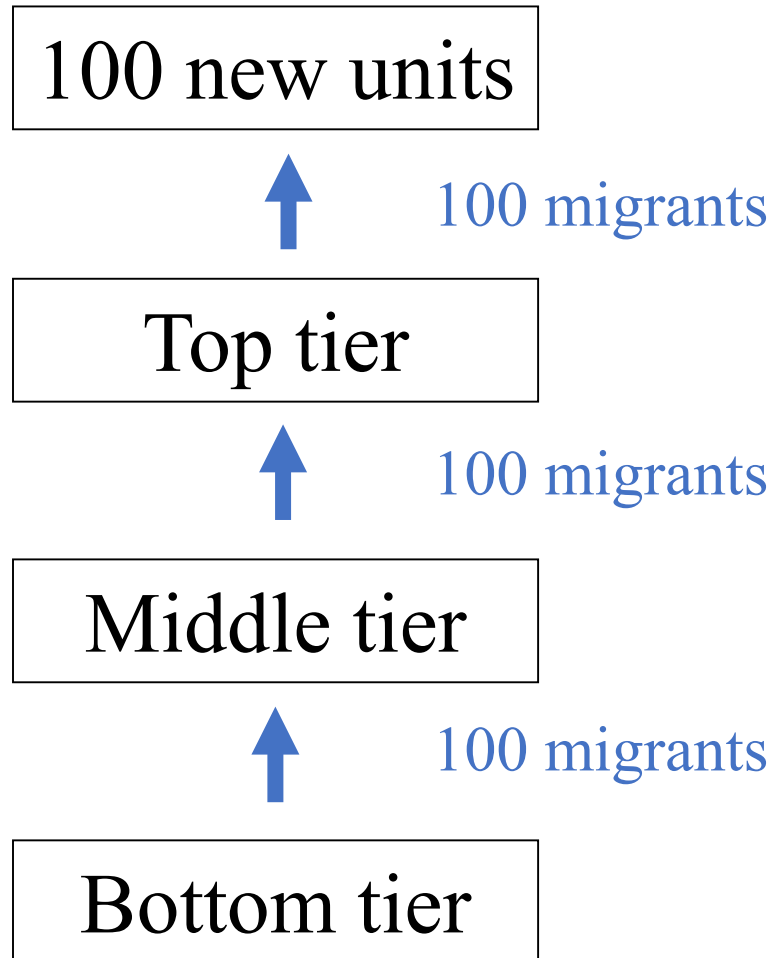
1. Can middle- and working-class comfortably afford housing?
 - a. Usually buy/rent housing on private market without subsidies
 2. Can households with very low incomes comfortably afford housing?
 - a. Cannot afford minimum rent that private market will provide
- New housing may not help with #2 because it will not change minimum rent
 - But even expensive new units can lower costs on private market, helping with #1
 - Discuss my research on this today

How does expensive new housing affect affordability?

1. **Depreciation (long run):** New units slowly become cheaper (“filtering”)
2. **Migration (shorter run):** Migration chain could lower prices in other areas
 - a. Households in new building leave some other units vacant
 - b. Another set of households move into the units the first round vacated...

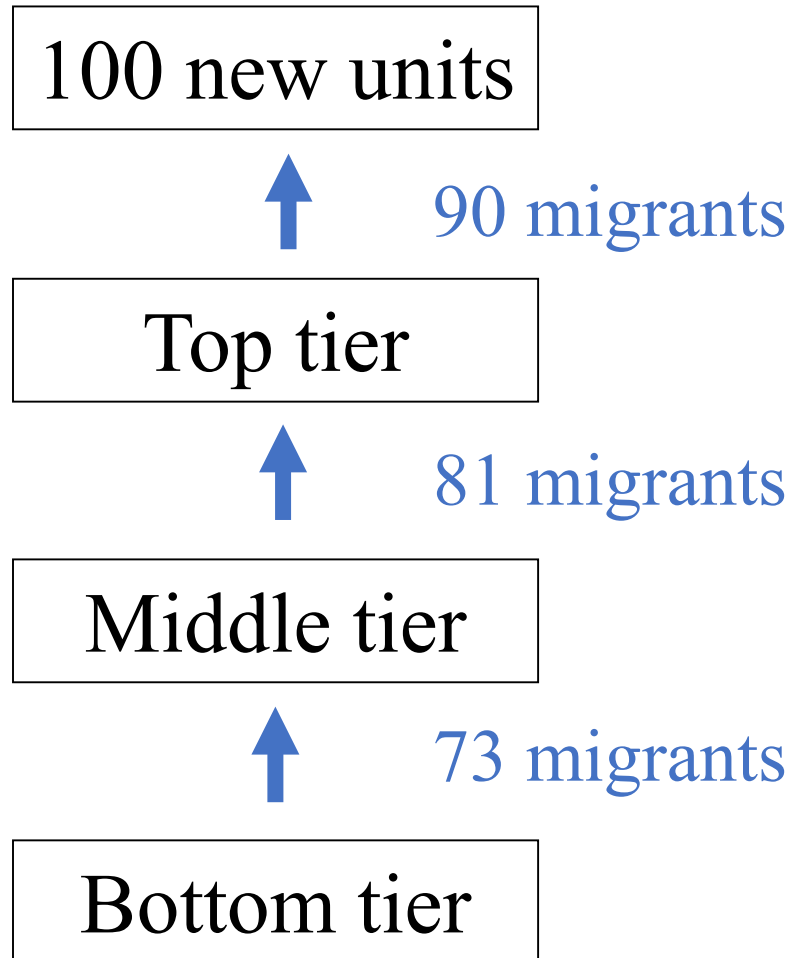
Study migration mechanism in recent paper

Simplest example of migration chain



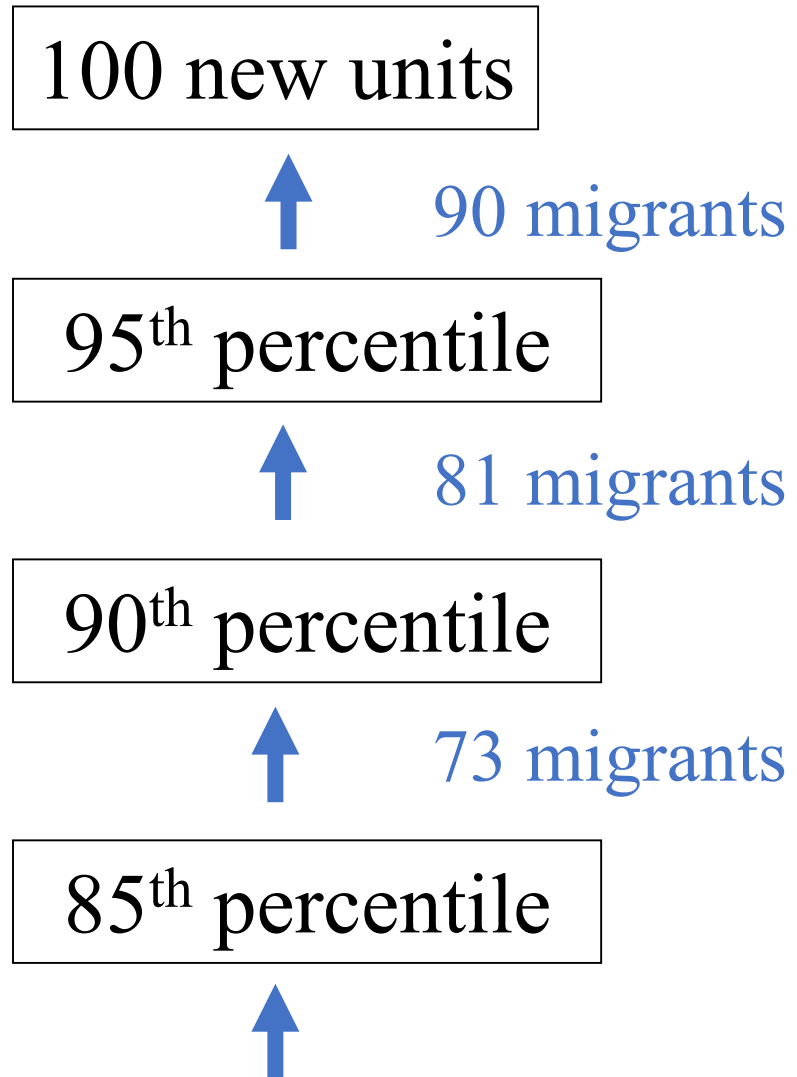
- Migration chain leads 100 people in each tier to move up
- Should lower rent in every tier by reducing demand
- Ignores real-world complications

Some chains should end in each round



- Chains could end because:
 - A new household forms
 - Unit is a second home
 - Migration from another city

There may be a lot of tiers of the housing market



- How big of a step does the chain take in each round?

Use address history data to directly study chain

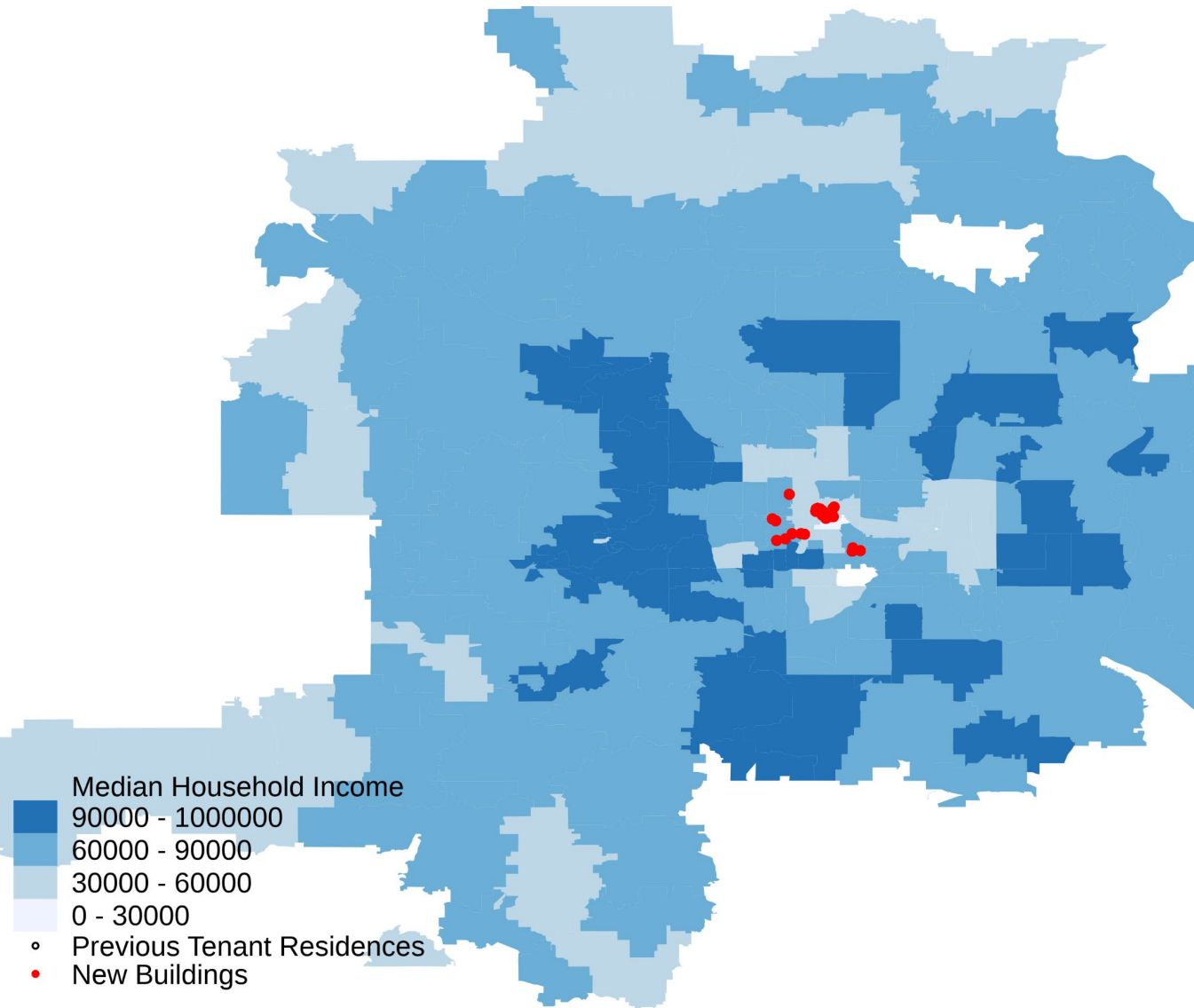
Directly observe chain in data:

1. Identify people living in new buildings
2. Use data to find their previous address
3. Identify people living in those previous addresses
4. Use data to find their previous address...

Start by just considering Minneapolis (focus on large central-city buildings)

Round 1: New multifamily buildings in Minneapolis

- Red dots are new buildings
- Polygons are zip codes colored by median household income



Median Household Income

90000 - 1000000

60000 - 90000

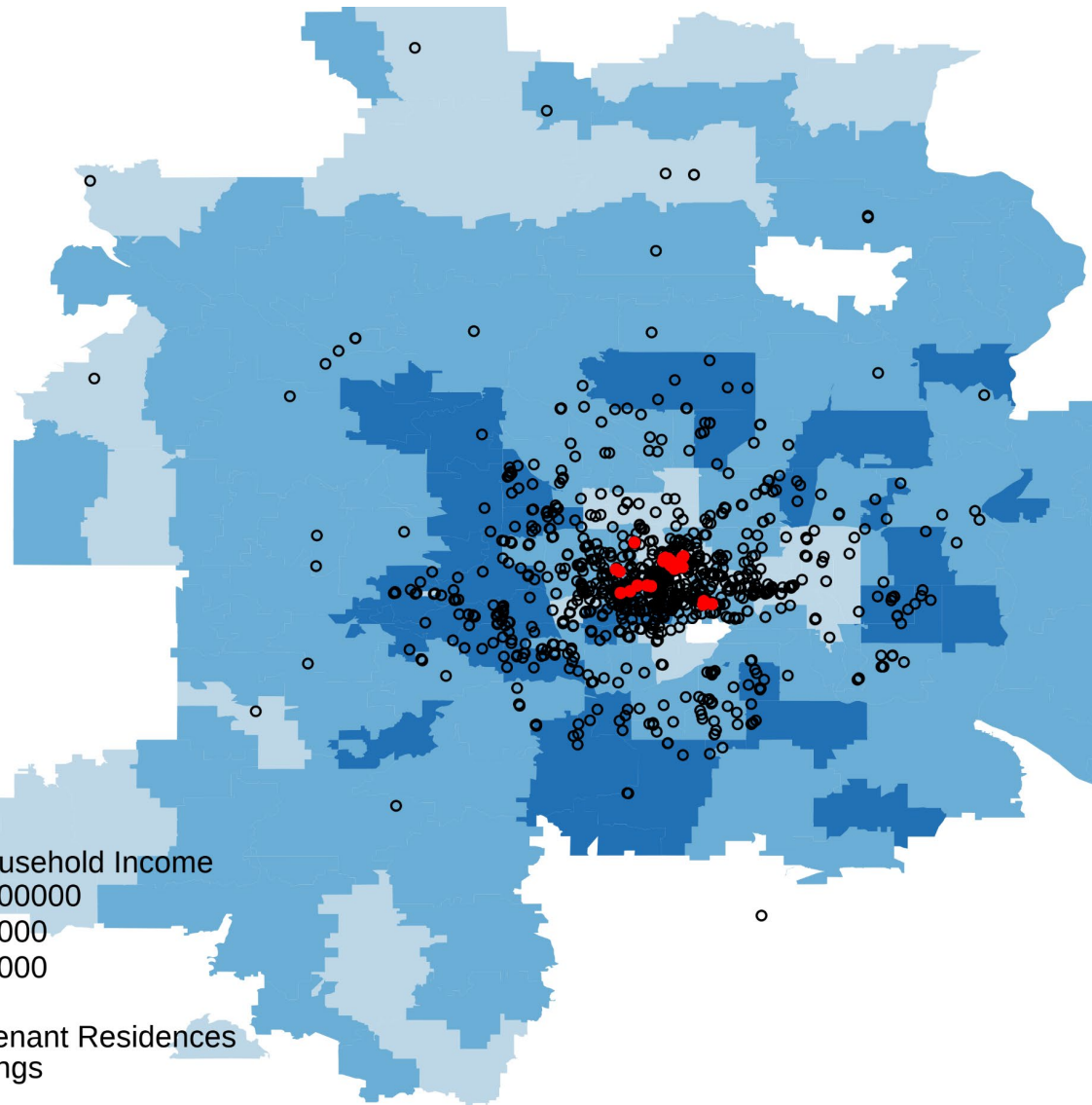
30000 - 60000

0 - 30000

◦ Previous Tenant Residences

• New Buildings

Round 2: Old home of new building residents

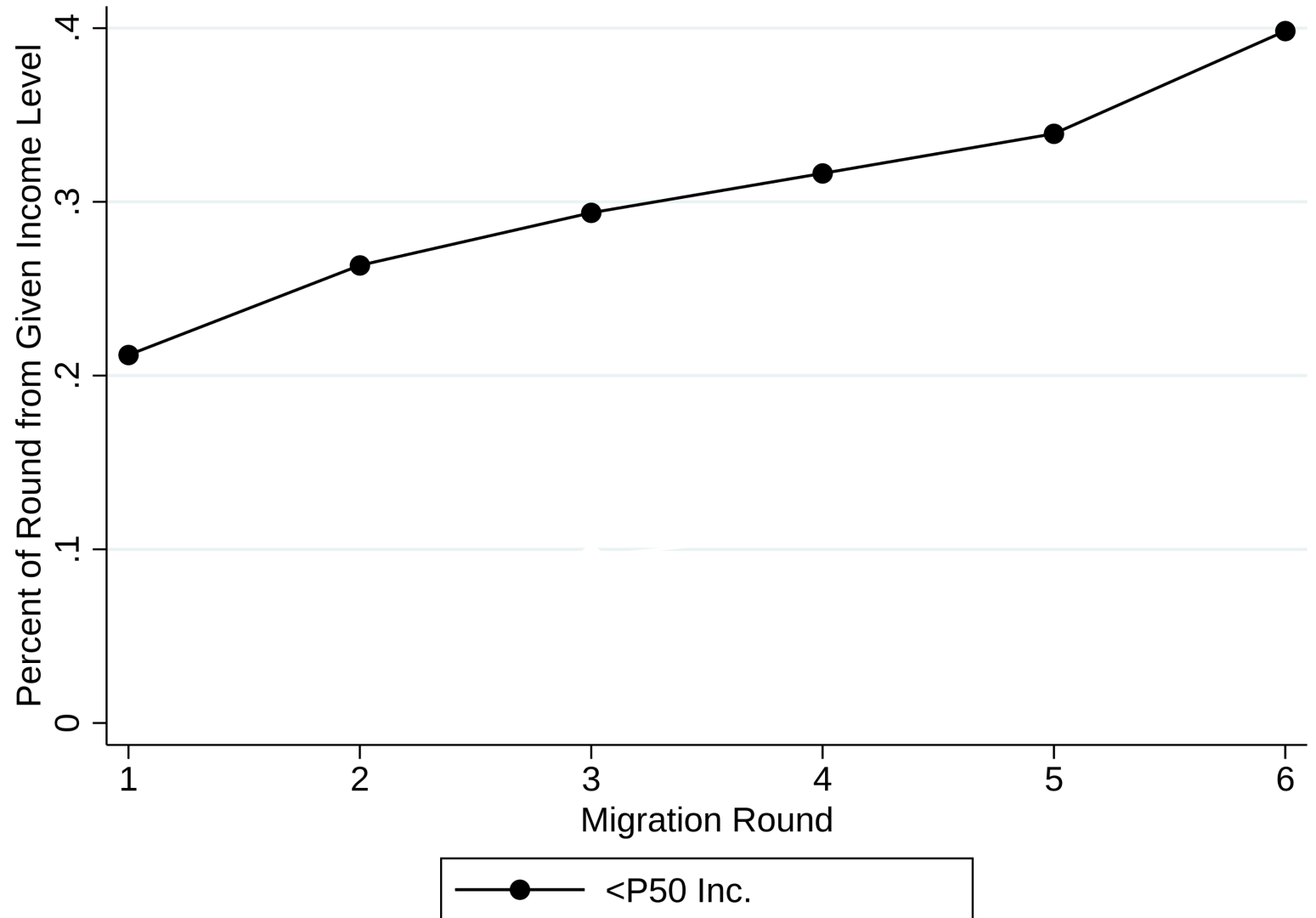


- Red dots are new buildings
- Polygons are zip codes colored by median household income
- Black circles are origin addresses of current tenants of new buildings

Repeat for five more rounds...

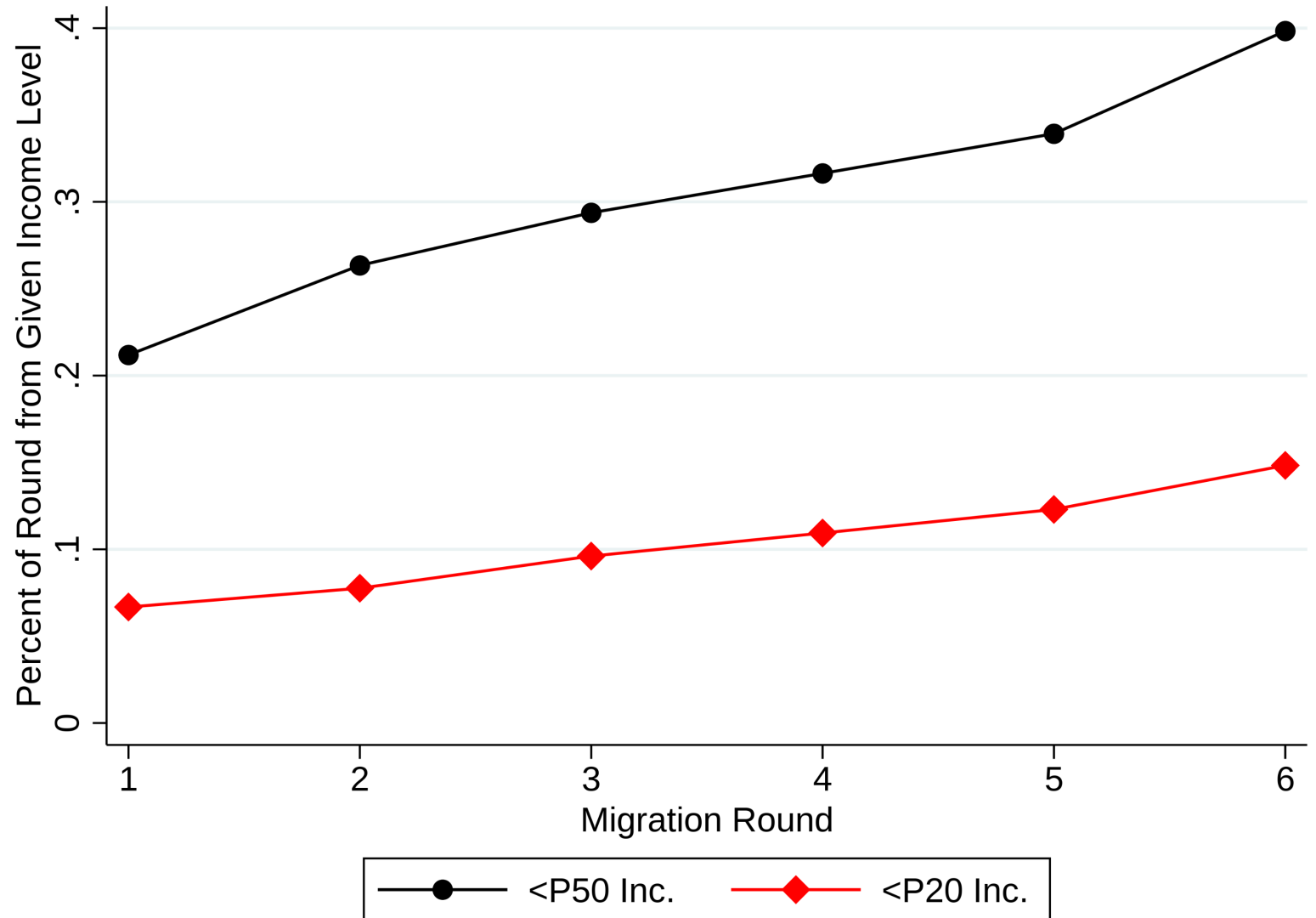
Origin locations gradually become more diverse

- More and more below-median income neighborhoods are included in each round
- (This graph includes 12 major cities, not just Minneapolis)



Origin locations gradually become more diverse

- Similar story for lowest 20% income neighborhoods
- (This graph includes 12 major cities, not just Minneapolis)



Use a simulation model to quantify effects

1. 100 new market-rate units lead about 45-70 people to move out of below-median income areas, loosening housing market in such areas
 - a. About 17-39 from bottom 20% income

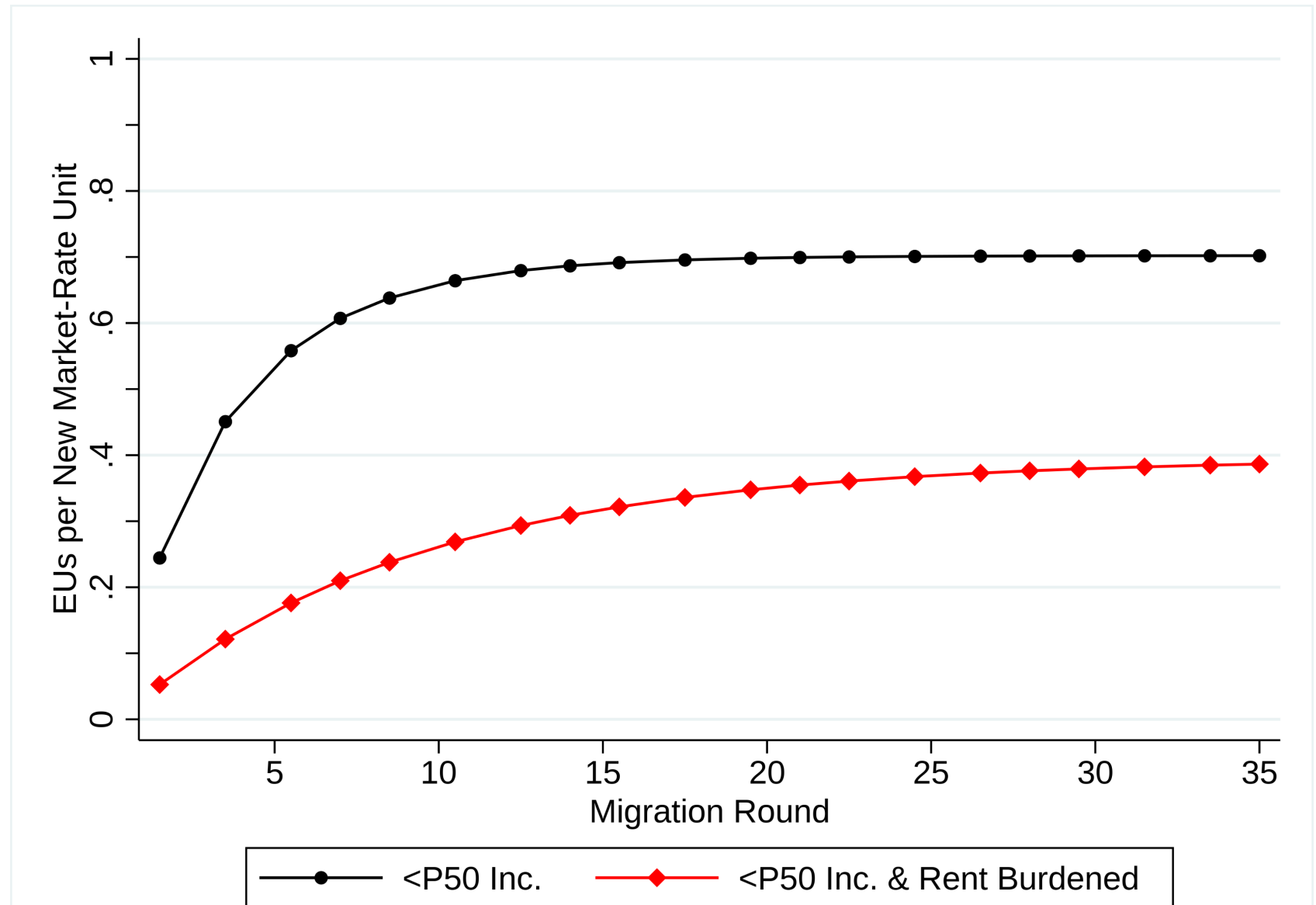
2. Effects take about 3-5 years

Summary and Discussion

- New market-rate housing loosens the market for middle- and low-income housing by getting people to move out and opening up vacancies
 - These benefits can come without cost to local government
- Questions for discussion:
 - Does there have to be tension between encouraging construction and beefing up voucher and subsidy programs?
 - Inclusionary zoning requirements tax new construction to fund affordable housing, likely reducing new construction. Can we fund IZ differently?

Use simulation to quantify effects

- Metric: how many people move out of low-income neighborhoods because of 100 new units?
- Each round should take 1 to 3 months



This number is very different across cities

- Big differences—
Minneapolis has big effects. Why?

