

Vacancies Amid an Apartment Shortage

You've heard about the housing crisis in California; now see it from your car.

Spied while driving in L.A.: A new apartment complex, plastic banners waving in the breeze, offering a month's free rent and a microwave oven if you'll sign a year's lease on a one-bedroom unit at \$1,150 a month, plus security deposit. Twelve of the 30 units are empty.

Also spied while driving in L.A.: Six children playing on the fire escape of a 65-year-old apartment building where large families live in 16 one-bedroom units at \$600 a month, utilities included. There is a waiting list to get in and a homeless man sleeping in the doorway.

How is it possible that so many new apartment complexes, especially in Southern California, are begging for tenants while so many Californians are forced to double up to find a place to live?

It has to do with the widening gap between haves and have-nots. It also has to do with the much harder economic facts of life for the state's housing developers. And it spells trouble ahead for an already-sputtering state economy.

First, you may have to disabuse yourself of some false notions about how we live in California. People here are not more likely to own a house than people elsewhere. A higher proportion of Californians (45%) rent their dwellings than do Americans generally (36%). And, although the state population has risen sharply and spread out in recent years, housing in California is still heavily concentrated geographically. About 60% of the state's 11-million housing units is in the heavily developed, very expensive Los Angeles or San Francisco Bay areas.

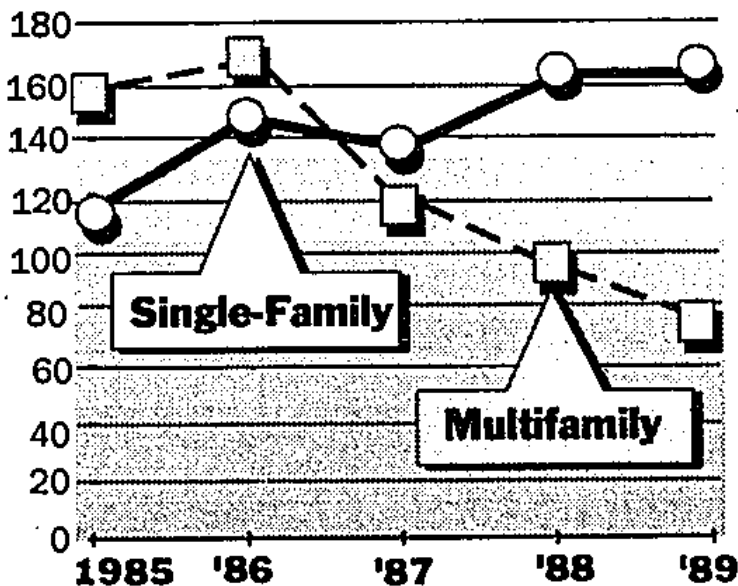
Second, you have to understand that

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THE HOUSING GAP

Despite demand, developers are building fewer apartments and concentrating instead on more profitable single-family homes.

Permits for new housing in California, in thousands



Source: Construction Industry Research Board

Los Angeles Times

SHORTAGE

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housing developers follow their market research and build only what they think will make a profit. In recent years, that has been single-family homes, predominantly in Southern California. Permits for 721,717 new homes were issued in the state in the past five years, the number increasing almost every year from 1985 through 1989. The size of the average new home in California grew to 1,820 square feet in 1989 from 1,495 in 1984, with the median price rising to \$178,000 from \$118,000.

Meantime, permits for 611,646 units of new multifamily housing—mostly apartments—were issued, the number having declined almost every year.

What that suggests is that developers believe that they have a better chance of making money by catering to Californians who want larger homes near major population centers. It also suggests that they think building new apartments isn't a smart bet.

Much has been said about the shrinking proportion of Californians who can afford to buy a home. The California Assn. of Realtors figures that the percentage dropped below 20% last year while the figure nationally was about 45%.

Less has been heard about the declining number of people who are able to afford the rent on an apartment. The Department of Housing and Urban Development said the median fair-market monthly rent on a one-bedroom apartment in Los Angeles last year was \$615. It was \$701 in Orange County, \$568 in San Diego, \$448 in Sacramento and a whopping \$748 in San Francisco.

(Fair-market rent is defined as non-subsidized, privately owned, clean and safe housing.)

All those rents are up at least 90% since 1980. Family incomes, meantime, haven't risen nearly as much.

That typical rent in Los Angeles represented 25% of the median family income of \$34,000 in California last year. But that same rent represented 36.5% of the median black family's income and 35.9% of the median Latino family's income.

For the very poor, the rents are truly unaffordable. The maximum welfare grant in California to a family with dependent children is \$694 a month.

Such numbers start to make the picture clearer. Rents have risen faster than incomes, especially for low- and moderate-income people. To afford the higher rates, renters have had to double up.

But the numbers don't explain why fewer apartments are being built in a period of rapid population growth, or why the units that are being built cost so much more to rent. By one industry estimate, more than 10% of the new apartment units that have come on the market in the past year are vacant.

Industry veterans are quick to explain—and complain about—the situation. Nathan Shapell, whose Shapell Industries in Beverly Hills

has built thousands of houses and apartments in California, offers some numbers.

He said that, 10 or 15 years ago, land for a new apartment building could be had for \$2 a square foot. Now it costs \$12 to \$50 a square foot, depending on location. Regulatory fees have risen from the \$3,000-to-\$5,000 range to more than \$30,000. Construction costs have jumped to \$55 to \$65 a square foot from \$30 to \$35. And interest rates on construction loans have doubled to about 12%.

Also, changes in the 1986 federal tax overhaul took away investment incentives for apartment developers.

That all adds up to substantially higher costs—which get passed along to renters. It also means that new apartments sit vacant because the rents are higher than most people can afford. Nobody dislikes

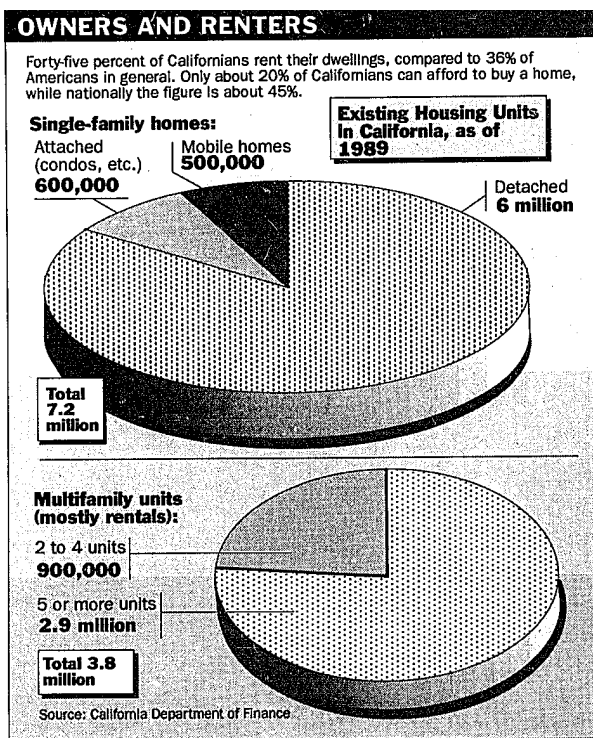
the situation more than Shapell, who wants to build more apartments—not fewer.

“There are tremendous vacancies in new apartments at the same time there is a tremendous need for affordable housing,” he said. “We end up creating more homeless, and even the people with jobs can't afford the rent.”

What's the answer? If welfare and subsidies haven't worked, what will?

Shapell makes a modest proposal that is being tested in a few locations. New single-family housing developments could include apartment units, whose construction costs would be subsidized by slightly higher prices charged for the homes. In return, developers would promise to charge lower rents for the new units.

It might even be that simple.



If you are reading this, and have ever met a developer who has kept his "promise" please email us.

The city would take a developers word for something like promising "affordable units", but makes them sign an indemnity agreement not to hold them liable for any lawsuits.

This article was written in 1990.

Today, the city still takes the developers word for it and developers DO NOT deliver.

One example is a Valley Village building whose developer also "promised" to make affordable units.

His vacancies sit posted on craigslist; studio apartments STARTING at \$1800.00 a month.

More than 75% of the building sits empty.