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Rentals Everywhere, but No Place to Live

Government rules drive developers to build luxury apartments.

Newly built apartments are advertised for rent in downtown Miami, Feb. 2, 2016. **PHOTO:** LYNNE SLADKY/ASSOCIATED PRESS

Good news: More new apartments will come on the market this year in the U.S. than in decades. Keep reading for the bad news.

Builders are expected to complete some 371,000 new apartments in 2020, compared to 247,000 in 2019 and 119,000 in 2010, according to the real-estate analytics firm RealPage. The problem is that many of the new apartments will be too expensive for lower- and middle-class families. RealPage data show that in many metropolitan areas between 60% and 89% of the apartments under construction are in neighborhoods known for higher-than-average rents.

Bernie Sanders blames this on “corrupt real estate developers” who are “gentrifying neighborhoods” and replacing affordable homes with “fancy condominiums and hotels that only the very rich can afford.” Elizabeth Warren says “developers can usually turn bigger profits by building fancier new units targeted at higher-income families rather than units targeted at lower-income families.”

Their solution is more government control of the rental market. But what if that is already the main problem?

In a December 2019 working paper, Harvard and University of Pennsylvania researchers measured land-use rules, zoning and permitting regulations and how many government entities must sign off on new construction, among other restrictions. Though outliers exist, the mismatch between expensive supply and affordable demand was significantly more acute in the places with the most severe regulations.

Meanwhile, the National Low Income Housing Coalition estimated last year that there were 30 or fewer affordable apartments available for every 100 extremely low-income renters in Washington, Oregon, California, Florida and Arizona. These states are home to seven of the 10 most restrictive metropolitan areas in the Harvard-Penn study.

RealPage and Harvard-Penn draw the borders of metropolitan areas slightly differently. But Fort Lauderdale, the Seattle-Bellevue area, Phoenix and Portland—all in the top 10 most restrictive regions—are also where 84.9% or more of new apartments are in neighborhoods with rent generally above the metro-area average. The restrictive cities of Miami, Washington, D.C., and its suburbs and Los Angeles are also in regions where only 18.7% to 35.8% of this year’s new rentals are being built in neighborhoods that low- and middle-income families can afford.

Last year, highly restrictive cities built ultra-luxury apartments at a higher rate than less restrictive ones, according to data from the real-estate market-intelligence firm Yardi Matrix. The most high-end classes of rentals accounted for 4.8% of the overall new supply in Manhattan, 3.8% in Phoenix, about 3% in D.C. and its suburbs, and 2.4% in Los Angeles.

But premium rentals are merely 0.3% of new supply in St. Louis, 0.1% in Cincinnati, Grand Rapids and Cleveland, and an even smaller share in Detroit and Rochester—all among the least restrictive building areas examined by the Harvard and Penn researchers.

The progressive solution to the lack of affordable housing—more government rules and controls—is damaging the very people they say they want to help.