

The Housing Supply Situation Just Gets Worse and Worse

In the fall of 2002 the Center for Regional Analysis at George Mason University conducted an analysis of future housing supply and demand in the Greater Washington area. Conclusions of that research were that the collective land use and development policies of local governments in the region have resulted in an existing deficit of 43,200 units and that the deficit would grow to 218,100 housing units by 2025.

It has been almost two years since the release and distribution of that research, with numerous presentations to elected officials and other leaders throughout the region. In the interim, the nation has endured a lasting though shallow recession, housing assessments in the region have increased in the double digits percentage-wise in most jurisdictions, and the local governments adopted new forecasts of housing and employment last fall reflecting updates to their policies regarding growth.

What do the new forecasts show regarding the region's housing deficit? Have the collective policies of the region's governments started to turn to answer this long-term problem? Has the economic slowdown affected the potential demand for new housing?

The answer is that the Washington economy has just kept chugging along with growth in spite of the national recession, that population and housing growth since 2000 have accelerated and especially in the outer areas of the region, and that the new forecasts would result in an increase of the housing deficit in 2025 from 218,100 units to 256,500.

A look at each of the factors impacting on the question of what's happening to the housing supply picture:

Regional Economic Conditions

Since 2000, the Washington metropolitan area has been at the top of the heap in job growth among the largest ten metropolitan areas in the country. In 2002 and 2003, Washington was the only one of the ten largest to have an increase in jobs – all others lost jobs in those two years. And from February of 2003 to February of 2004, Washington's job growth was 54,900 – approximately the same as its average annual growth over the past 24 years.

So while the nation has endured a recession with large job losses, the Washington economy has chugged along, with some slowdown, but has now returned to its long term sustained rate of economic expansion. Concurrent with the region's economic performance over the last three years, the metro area has experienced some of the highest increases in population and increases in average housing prices.

Housing prices – measured as existing houses sold and financed with conforming mortgages -- in the metropolitan area remained essentially flat from 1989 to 1996. However, since 1997 the price index has jumped 75% and has experienced double-digit increases in each of the last four years.

Population Growth

The population growth pattern as seen in recently released figures by the Census Bureau is one of stagnant conditions in the regional center, modest increases in the areas inside and outside the beltway, and increasingly rapid growth in the region's outer counties. The metro area added 309,300 people (+ 6.3%) from 2000 to 2003, an average of over 100,000 people per year. This is a higher rate absolute growth than the 70,000 growth per year average of the 1990s.

Of this growth since 2000, the Maryland suburbs have added 123,200 and the northern Virginia suburbs have added 181,400. The growth in the Maryland suburbs was 58% of total population change in the state of Maryland and the Northern Virginia growth was 59% of total growth in Virginia.

Of relevance to the current issues of growth and its impacts in current public policy concerns, growth in the past three years has accelerated in the outer jurisdictions. The central jurisdictions have remained relatively stable, and the Beltway jurisdictions have essentially maintained their growth rate in the last three years compared to the 90s with slightly higher average absolute annual change and the same growth rate on a percent per year basis.

The outer counties, however, while in the 1990s grew at slightly higher than the Beltway jurisdictions in absolute change and more than twice the rate percent per year, in the last three years have accelerated in growth rate. They have almost doubled their absolute growth rate (from 35,460 in the 1990s to 68,300 per year since 2000) and are now growing more than three times the percent per year rate of the Beltway jurisdictions. The increase in absolute growth rate in the metropolitan area from 70,000 to 103,000 is entirely accounted for by growth in the outer jurisdictions. This growth has been led by Loudoun County (+30.7% and highest rate of growth of all counties in the U.S.), Stafford County (+20.1% and 17th in the U.S.), Spotsylvania (+19.2% and 19th rank) and Prince William County (15.8% and 42nd rank).

COG's Round 6.3 Forecasts

Last fall the Council of Governments adopted a new set of forecasts of population, households and employment. The earlier forecasts, known as Round 6.2, provided the basis for GMU's research in 2002 of the supply and demand for housing.

The new forecasts very slightly reduce the growth in housing units from 769,400 from 2000-2025 to a growth of 766,800 – a reduction of 2,600 units over the 25-year period. Conversely, the forecasts of employment show an expectation of higher growth in the period: 1,568,200 new jobs rather than 1,510,000 new jobs in the earlier forecast. The net result of reducing expected housing supply by 2,600 while increasing expected employment growth by 58,200 is that the housing deficit in the region will grow to 256,500 units by 2025. And this is very conservative. If the number of workers produced by each household is 1.44 as it was from 1990-2000, rather than the assumed 1.6 (1970-2000) used in the research, the deficit could be 365,400 housing units.

It is clear that the trends in the region – continued (moderate) economic growth and constraining land use and development policies by local governments – will result in an inadequate housing supply for the region, increasing population growth in the outer counties, and increasing pressure on housing prices and affordability.