ISSUE BRIEF

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Young Adults and the Affordable Housing Crisis

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The affordable housing crisis in California disproportionately impacts young people

The scarcity and high cost of housing in California stems from multiple factors and originates as early as 1970 (Taylor 2015). Although increasing housing costs relative to the rest of the country may be in part due to accelerated economic growth and desirability of the locale, the consequences of this trend for residents of California are glaring. In 2020, more than 150,000 Californians experienced homelessness, and the state had one of the highest rates of cost-burdened households in the country (National Alliance to End Homelessness 2020). In a March 2021 survey, 61% of adults in California indicated that they believe that housing affordability is a "big problem" in their part of the state (PPIC Statewide Survey 2021).

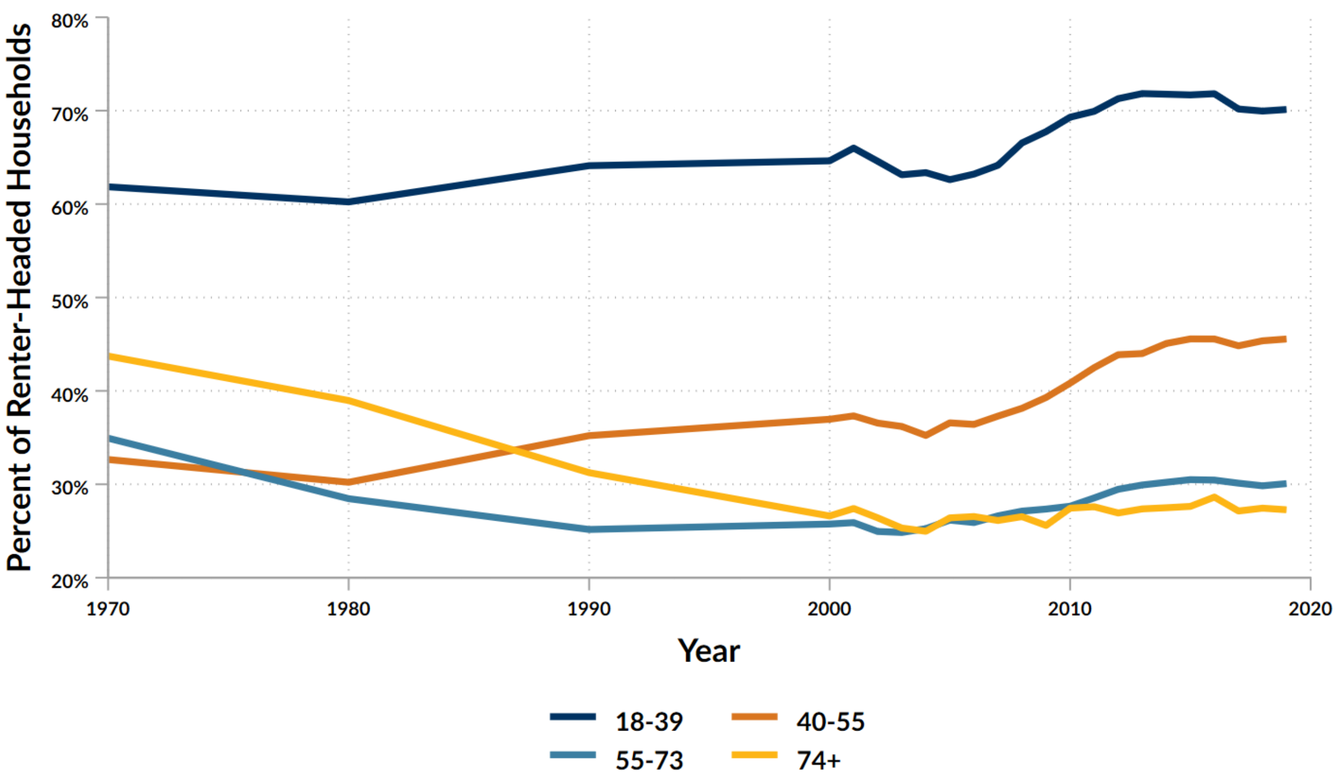
The impacts of rising housing costs are particularly salient among young people in California. Young adults, especially Millennials, are more likely to rent and less likely to own a home than older generations. They have also experienced the largest percent increase in rent costs among generations since 2002, and have been disproportionately impacted by the COVID-19 pandemic (Segal 2020; Heys, Swanbeck, and Hawkins 2020). This issue brief focuses on the challenges facing young people in balancing the increasing cost of housing in California with stagnating wages and economic hardship. It also discusses policy efforts at the state and federal levels to support renters during the pandemic.

Young people in California have become increasingly likely to rent since 1970

Today, Millennials are much less likely to own homes compared to older generations, and are also less likely to be homeowners than young people in the past. Millennials and Gen-Z possess unique characteristics that play a role in their relatively low homeownership rates compared to Baby Boomers and Gen-X. They are more likely to delay marriage

Figure 1: Renters in California

Share of each group led by renters, by age of household



Source: Authors' analysis using the American Community Survey (ACS).
Notes: Excludes those living in group quarters. Data available for 1970, 1980, 1990, and annually from 2000 to 2019.

and childbearing and are drawn to high-cost urban areas for employment opportunities. They also tend to experience bleaker socioeconomic conditions than their older counterparts.

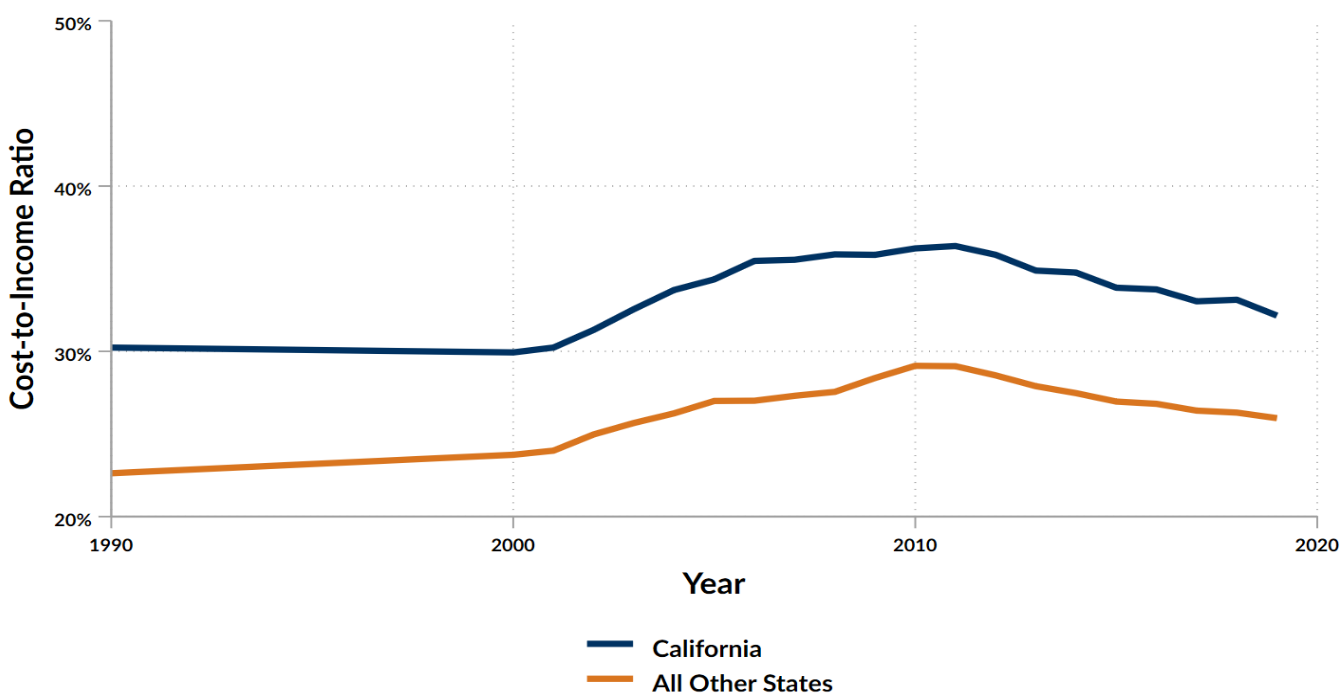
These factors are intertwined with economic barriers to homeownership that are especially pronounced among young people. Figure 1 shows that in 2019, 70% of households in California headed by people 18-39 rented their homes, compared to 46% of 40-55 households, 30% of 55-73 households, and 27% of 74+ households in California, as well as 59% of young households nationwide.

Young Californian renters are extremely housing cost-burdened compared to those in other states

Young renters in California spend a greater share of their income on housing than young renters in other states, a trend that has remained consistent over the past few decades. Figure 2 shows the average rent-to-income ratio for households headed by adults aged 18-39 over time. Figure 3 shows the percent of rent-burdened households headed by adults aged 18-39 across all states in 2019.

Figure 2: Cost-to-Income Ratio for Young Adult Households

Average household rent-cost-to-income-ratio, by age of household head

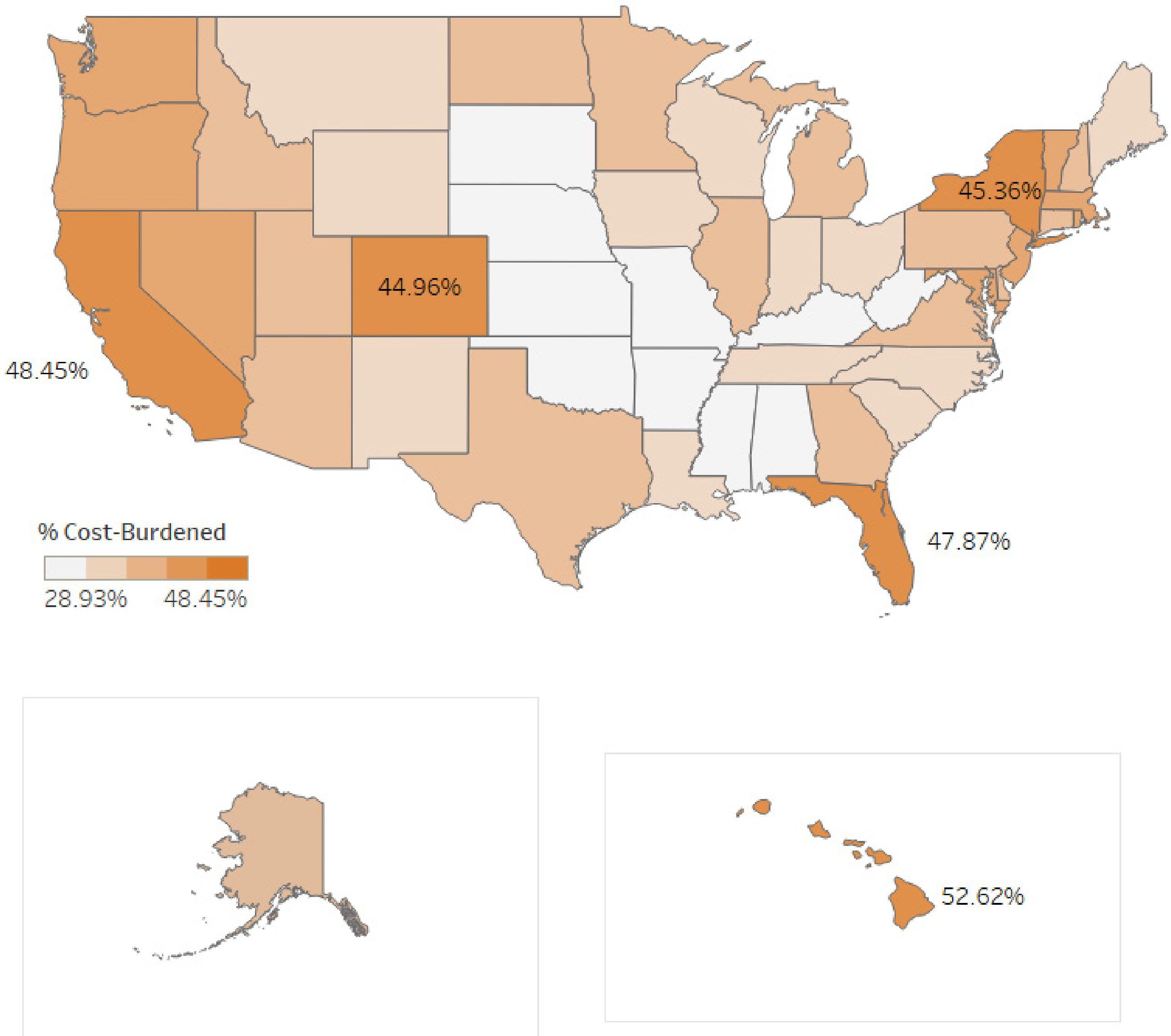


Source: Authors' analysis using the American Community Survey (ACS).
Notes: Excludes those living in group quarters. Includes only households headed by adults 18-39. ACS 1970 and 1980 samples are of rent cost. Data available for 1990, and annually from 2000 to 2019.

- The average cost-to-income ratio peaked during the Great Recession and has slightly decreased in recent years
- Young Californians have consistently spent a larger share of their income on housing compared to those in other states since 1990.
- In 2019, households led by young people in California spent 37% of their income on housing, compared to 33% of young households in all other states.
- Compared to all other states, renters in California had the second-highest percent of rent-burdened households headed by young people (48%).

Figure 3: Young Californians are Among the Most Cost-Burdened

Percent of households headed by young people that are housing cost-burdened, by state



Source: Author's analysis using the American Community Survey (ACS).

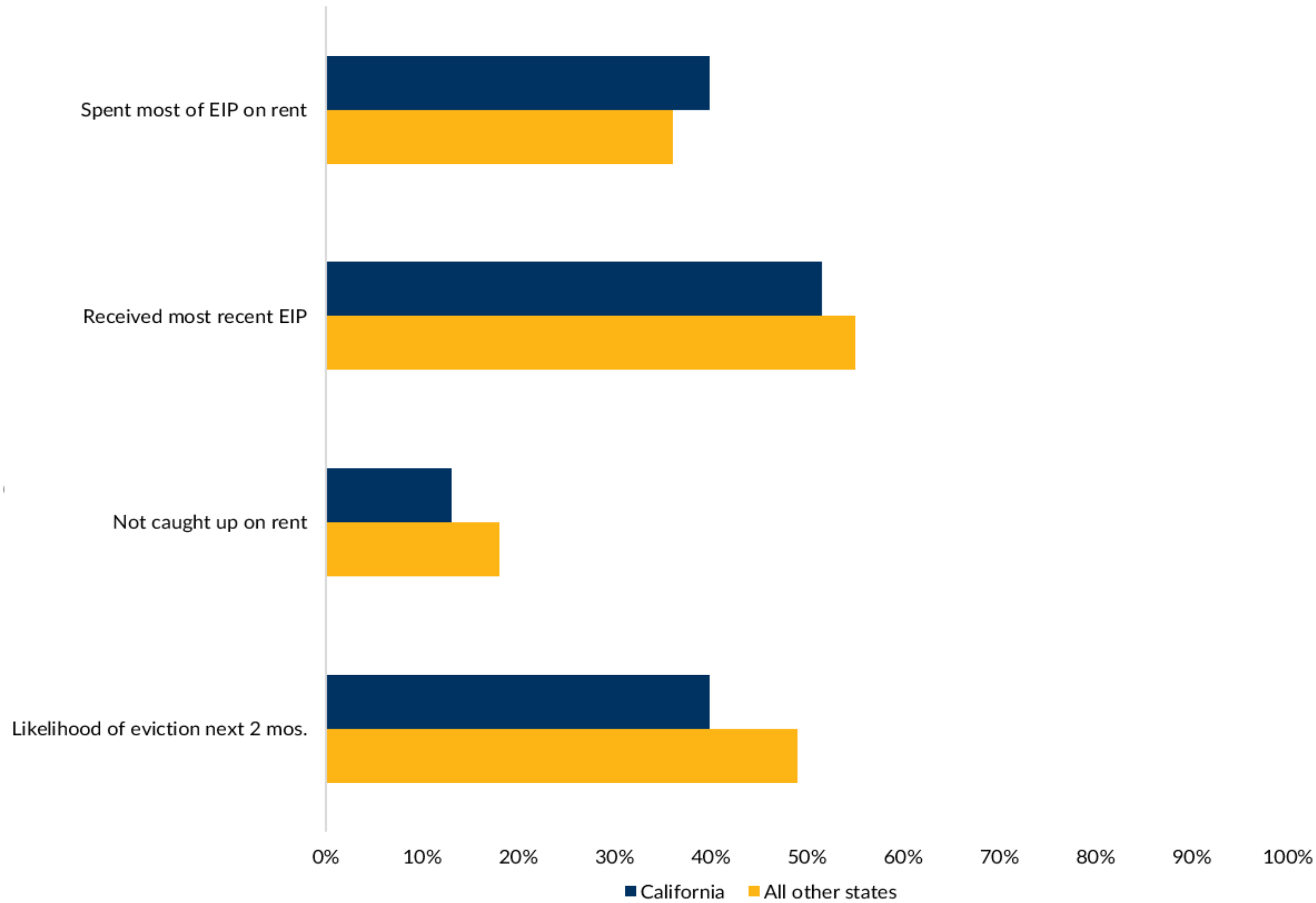
Notes: A household is defined as cost-burdened if the ratio between total household income and total rent cost is above 30%. The five states with the highest percent of cost-burdened households are labeled.

The pandemic has accelerated the housing crisis, but renters in California are faring better than those in other states

The economic and health impacts of COVID-19 have accelerated the housing crisis along multiple dimensions. On the supply side, the statewide shelter-in-place order delayed the construction of housing in general, though Governor Newsom signed a number of bills aimed at promoting the construction of affordable housing in the state (Office of Governor Gavin Newsom 2020). On the consumer side, the pandemic has hit young people especially hard, disproportionately pushing them into unemployment and further hampering their ability to meet the rising costs of housing in the state.

Figure 4: Young Renters' Financial Status and Receipt and Use of Economic Impact Payment

Recent survey responses regarding use of EIP and status of rent payments



Source: Household Pulse Survey Week 25, administered February 17 - March 1 2021.
Note: Percentages are derived from weighted estimates of survey responses from adults 18-39 that rent their homes.

Figure 4 shows the financial status of renters when it comes to housing, as well as whether they received the third Economic Impact Payment (EIP) and how they chose to spend their stimulus funds.

- Compared to 19% of all renters in the United States, 15% of renters in California reported that they were not caught up on rent. Only 13% of young renters in California reported that they were behind on rent, compared to 17% of young people as a whole.
- At the time of the survey, about two-fifths of young renters (age 18-39) in California believed that they were “somewhat” or “very” likely to be evicted in the next two months, similar to the share of all Californians who believed they were likely to be evicted. That ratio is lower than the share of renters who fear eviction in the country as a whole, where 48% of young people as well as 48% of all renters believed they were likely to be evicted in the next two months.

- All Americans and Californians were equally likely to have reported receipt of the third Economic Impact Payment, with just over half of both groups reporting receipt. This ratio is similar to young people in general and young Californians.
- Californians were more likely to have used their stimulus payment on rent, with 37% of renters in the state reporting that they spent most of their EIP on rent compared to a third of all renters in the country. Young renters were more likely to use most of their EIP on rent (40% of young Californian renters and 37% of young renters in general).

Young people need short and long-term solutions to the state's housing crisis

Millennials are increasingly likely to live with their parents or rent, a well documented trend that speaks to both their diminished economic opportunities and the rapid increase of rent and home prices in the state and beyond (Choi et al. 2018). As much as renters possess a degree of mobility and liquidity not available to homeowners, there are many reasons why homeownership may be financially more desirable than renting, such as increased monetary stability and security and the fact that California's tax code overwhelmingly favors homeowners (Segal 2020). Lowering the barriers to housing stability, whether through increasing housing production or improving people's economic conditions, is necessary to alleviate the consequences of the housing crisis for young people.

- In the short-term, fiscal policies could serve as solutions to address financial burdens that disproportionately impact young people. Based on other analyses of rent payments during the pandemic, renters in California seem to be in a better financial situation than expected when it comes to paying rent (Kneebone, Underriner, and Reid 2021). This could be attributed to federal interventions such as the nationwide evictions moratorium and the waves of stimulus payments — responses from the Household Pulse Survey suggest that paying rent was a priority for Californians following receipt of their stimulus payments. State-level interventions such as the COVID-19 Rent Relief Program could be a factor in improved financial conditions for renters in California. Since the program's inception in February 2021 to July 27th, 2021, over 16,000 households have received an average of $12,799 in rent relief, with almost half of all applications (48.13%) coming from adults 21-40. (California Department of Housing and Community Development 2021). Furthermore, in recent years, policies such as student debt cancellation and universal basic income have gained some traction; these policies could potentially improve young adults' economic conditions and allow them to more easily pay rent or build the equity and credit necessary to purchase a home.
- Fiscal policies could be paired with long-term initiatives that address the state's longstanding housing shortage. Recent budget negotiations between Governor Newsom and the California State Legislature suggest their intent to channel the state's higher-than-expected financial resources into solutions to the affordable housing crisis, such as the state's plan to spend $12 billion over the next two years on homelessness and affordable housing. The budget proposal also includes $1.75 billion to complete backlogged affordable housing projects and $300 million to preserve existing affordable housing (Rosenhall, Kamal, and Tobias 2021).

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