

Missing Middle Housing Study

HOUSING MARKET PRESSURES

Bulletin

2



**HOUSING
ARLINGTON**

HOUSING MARKET PRESSURES

This bulletin provides an introduction to the Arlington housing market. This document examines the regional shortfall in housing supply and takes a look at Arlington's existing housing inventory, the housing that has been produced in the last decade, recent home sales data, teardown and substantial rehabilitation data, and demographics data related to Arlington's housing market.

INTRODUCTION

The Joint Center for Housing Studies at Harvard University's assessment of the current state of housing for the nation provides a succinct description of the challenges we face in Arlington today.

With the economy on sound footing and incomes ticking up, household growth has finally returned to a more normal pace. Housing production, however, has not. The shortfall in new homes is keeping the pressure on house prices and rents, eroding affordability—particularly for modest-income households in high-cost markets. While demographic trends should support a vibrant housing market over the coming decade, realizing this potential depends heavily on whether the market can provide a broader and more affordable range of housing options for tomorrow's households.¹

There are many factors that affect housing production including capital markets, federal monetary policy, federal regulations related to lending, the financial sector's underwriting standards, the availability of labor, and local land use regulations and processes. While there is little that Arlington can do to influence the macro-economic factors at play in the housing market, local government can make significant contributions by establishing land use regulations that support the types of housing that will meet the community's growing needs.

¹ Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing" 2019. https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2019.pdf

SHORTFALL IN HOUSING SUPPLY

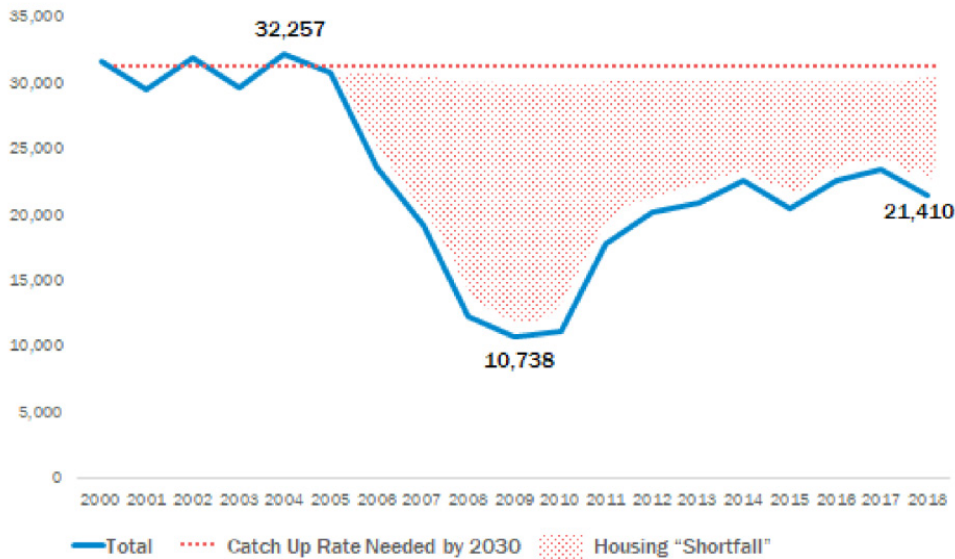
Last year the Metropolitan Washington Council of Governments (COG) issued a [report](#) that highlighted the underproduction of housing in the Washington, D.C. region and the need for all jurisdictions to take actions to increase housing production. The shortfall in housing has led to more than 325,000 workers commuting to jobs from outside the region, leading to strains on the transportation system, environmental impacts, and effects on the quality of life.

As a result of this research the COG Board adopted a target to add at least 320,000 housing units in the region between 2020 and 2030, with 75% of these units in Activity Centers (e.g., urban centers, growth areas, towns, transit hubs, etc.) or near high-capacity transit, and at least 75% affordable to low- and middle-income households.

320,000
HOUSING
UNITS

*Target number of new housing units
for the Washington, D.C. region
between 2020 and 2030*

HOUSING CONSTRUCTION PERMITS BY YEAR IN METROPOLITAN WASHINGTON



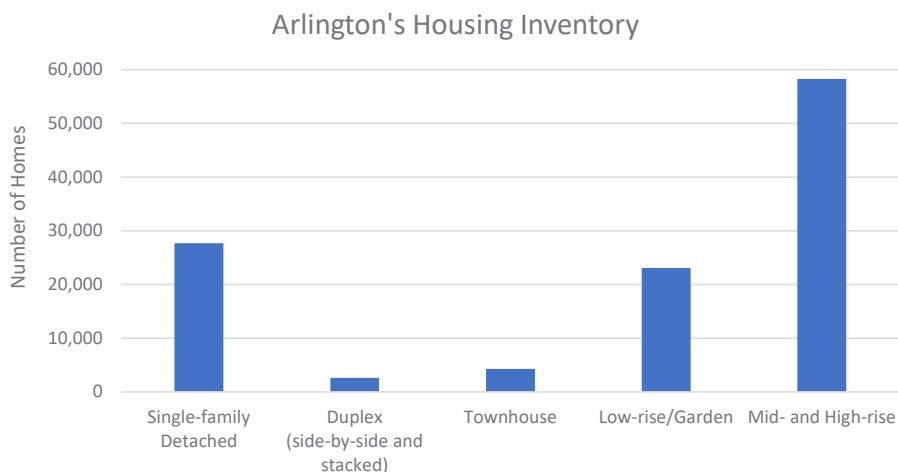
HOUSING CONSTRUCTION IN THE WASHINGTON, D.C. REGION

Source: COG Analysis of U.S. Census Bureau C-40 Residential Permit Data

(from *The Future of Housing in Greater Washington*, COG, September 2019)

The chart above illustrates the pace of housing construction since 2000 in the region. In the early 2000s, annual housing production (using permits as a proxy) was above 30,000 units a year; this fell off dramatically with the onset of the Great Recession and has picked up in recent years. The dashed red line indicates the level of housing production that would be needed to eliminate the housing shortfall. This is based on achieving a jobs-to-housing ratio of 1.54 (that is one housing unit for every 1.54 jobs in the region) recommended by a Capital Region Transportation Planning Board task force to “optimize economic competitiveness and improve future transportation system performance.”

HOUSING INVENTORY



Source: Arlington County, Department of Community Planning, Housing and Development (CPHD), Director's Office, Master Housing Unit Database, July 2019, Arlington County Real Estate Assessment records, and CoStar

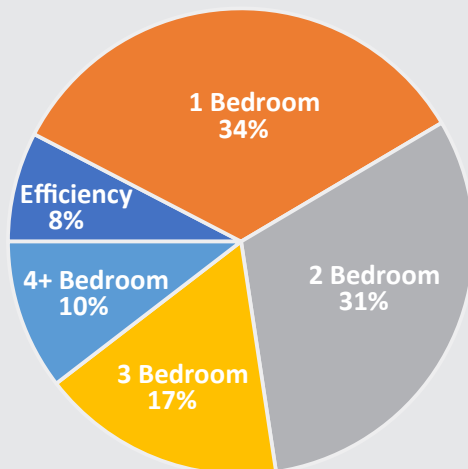
Arlington has an existing housing stock of 116,000 housing units, as of 2019. This inventory consists of single-family detached, duplex, townhouse, low-rise/garden-style multifamily, and mid- and high-rise multifamily homes. About 24% of this housing is single family detached and 70% is multifamily – including both condos and apartments. Only 6% of the housing stock is in duplexes and townhouses combined.

LOOKING AHEAD

What are the consequences of Arlington's housing shortfall? How should Arlington respond?

HOUSING INVENTORY (CONTINUED)

Housing Inventory Distribution by Number of Bedrooms



Source: Arlington County, Department of Real Estate Assessment records, and CoStar

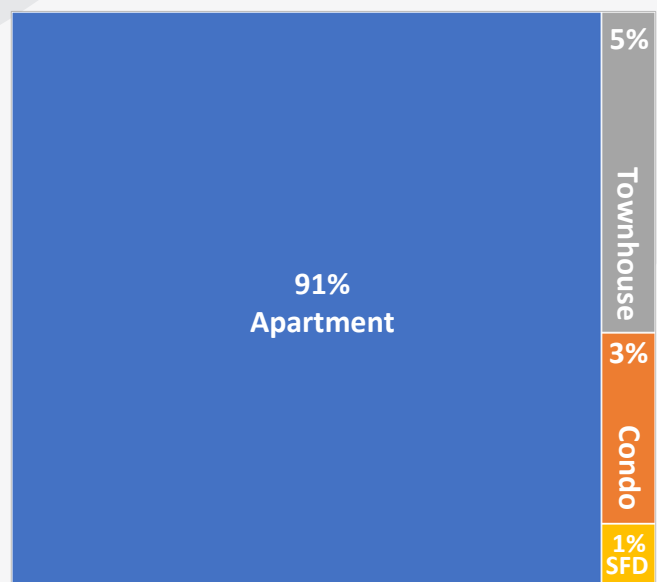
Most of the housing in the County is two-bedroom or smaller, accounting for 73% of the housing inventory. While 17% of Arlington's overall housing stock is in three-bedroom housing units, only 5% of Arlington's apartment inventory is three-bedroom apartments. This limits opportunities for growing families to continue renting in Arlington. At the same time, only 7% of the condominium stock – which provides a somewhat affordable entry point into the homebuyer market – is made up of three-bedroom condominiums.

**LESS THAN A THIRD OF
ARLINGTON'S HOUSING STOCK HAS
AT LEAST THREE BEDROOMS.**

HOUSING PRODUCTION

From 2010 through the end of 2019, Arlington produced approximately 11,370 housing units (net of demolitions), or an average of 1,137 housing units a year. The overwhelming majority of these homes have been mid- to high-rise apartments, accounting for 91% of the net housing production (net of demolitions). This apartment growth would primarily be located in Arlington's three planning corridors – the Rosslyn-Ballston and Richmond Highway Metrorail Corridors, and the Columbia Pike Corridor – pursuant to existing sector and area plans. Only 9% of the net increase in housing supply was ownership stock, of this increase 5% were townhouses; 3% were condominiums; and 1% was single-family detached. The net increase in single-family detached housing was only 106 units for the decade: 1,554 single-family detached houses were built during this period but were offset by 1,448 single-family detached demolitions (for more information on this trend, see the Teardowns and Substantial Renovations section later in Bulletin 2).

Net Production of Residential Units 2010-2019

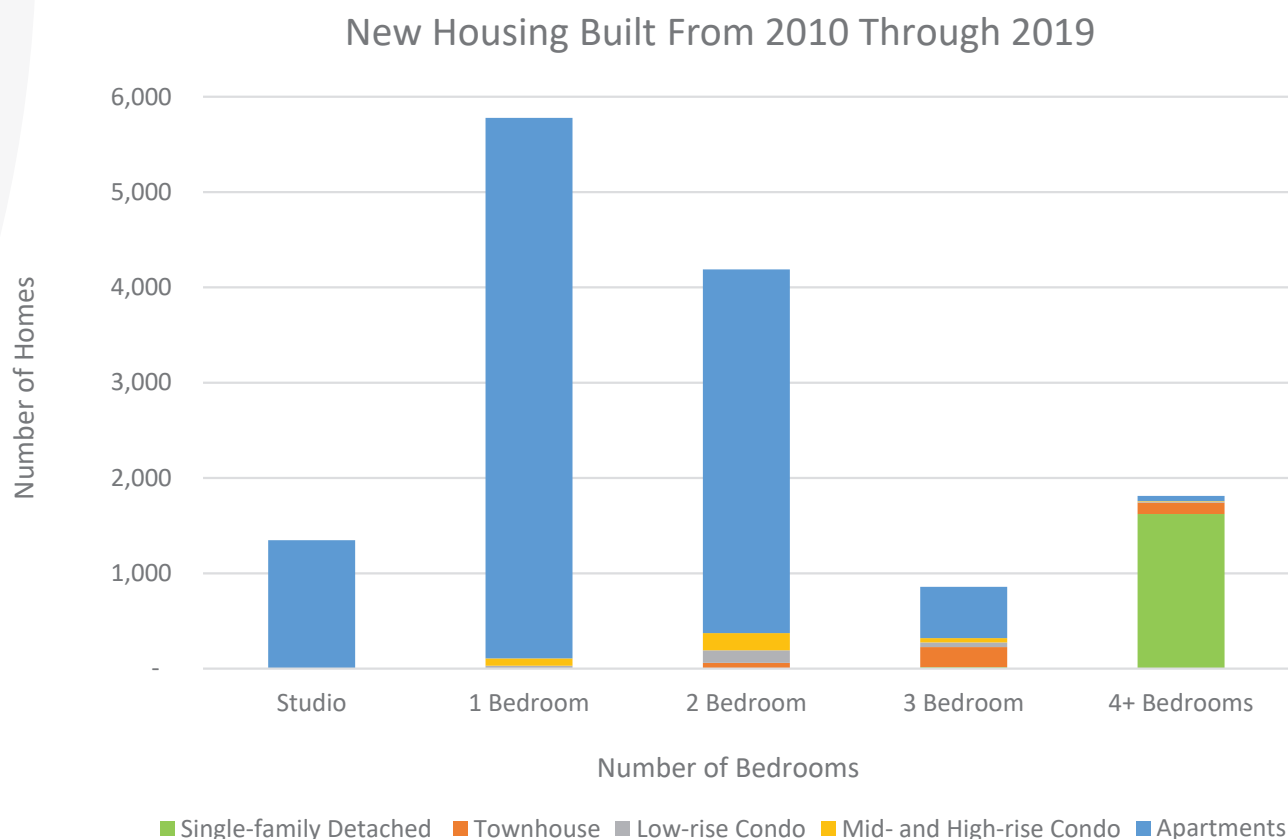


Source: Arlington County, CPHD, Director's Office, Development Tracking Database 2009-2019

HOUSING PRODUCTION (CONTINUED)

When looking at all new housing built from 2010 to 2019, a significant amount of one- and two-bedroom housing was produced. During this same period, however, there was significantly less three-bedroom housing constructed, regardless of rental or ownership status. Aside from apartment development (which consists primarily of mid- and high-rise apartments), townhouse development has provided the most three-bedroom houses over the last decade. While production of housing with four or more bedrooms was stronger than that of three-bedroom housing, most of these new housing units result from the redevelopment and replacement of existing older housing, most of which were formerly three-bedroom housing units.

The imbalance of housing production toward apartments with fewer bedrooms adds to overall demand for ownership housing products as some renters eventually look to become homeowners.



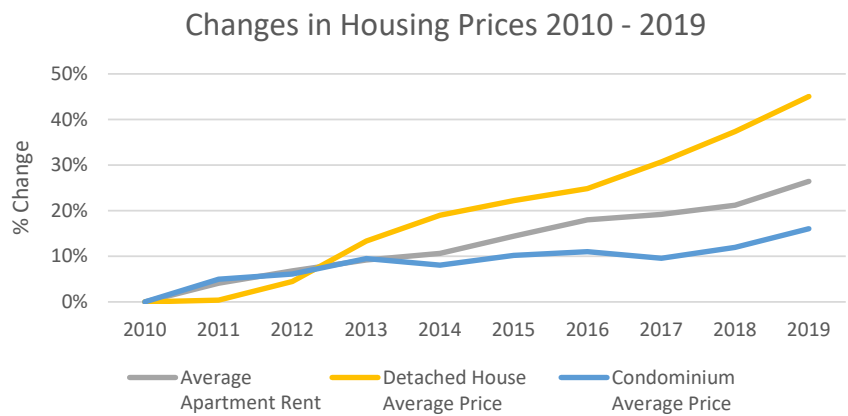
Source: Arlington County, Department of Real Estate Assessments, and CoStar (Note: These data sets differ from CPHD's Development Tracking Database, resulting in differences in housing unit count)

LOOKING AHEAD

Over the past decade, most of the housing produced in Arlington has been one- and two-bedroom mid- and high-rise multifamily housing. The single-family detached housing produced over the same period has been on the larger side, with most houses having four or more bedrooms. What housing needs are unmet by the current housing production trends?

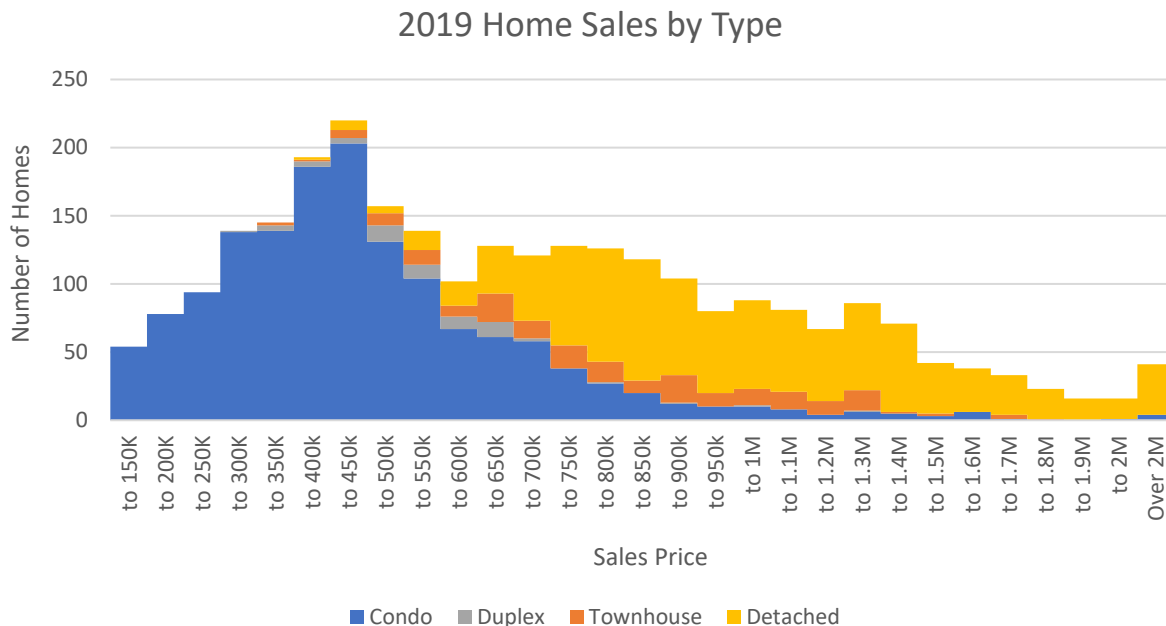
RIISING HOUSING PRICES

Housing prices in Arlington have continued to rise over the last decade both for rental and ownership housing. From 2010 to 2019, the average monthly rent for an apartment rose by 26% (from \$1,789 to \$2,262). Single-family detached houses had the highest increase with the average sales price rising by 45% (from \$744,484 to \$1,079,910). The average sales price of a condominium rose by 16% (from \$384,085 to \$445,734).



Source: MRIS and CoStar data

While focusing on the average price of homes can be useful in understanding the performance of the housing market over time, it tends to narrow the focus of a complex market to one number. Delving deeper into the home sales market reveals a range of housing at various price points. The lower end of the housing market is made up primarily of condominiums. Looking at only the housing sold for \$700,000 or less, 84% of homes sold were condominiums, and only 13% of the homes sold had three or more bedrooms. While condominiums provide the greatest affordability and an entry level into the market, there are additional costs (HOA fees) associated with condominium ownership that are not reflected in the sale price.



Source: MRIS (Note: Condominiums include both multifamily and townhouse condominiums)

RISING HOUSING PRICES (CONTINUED)

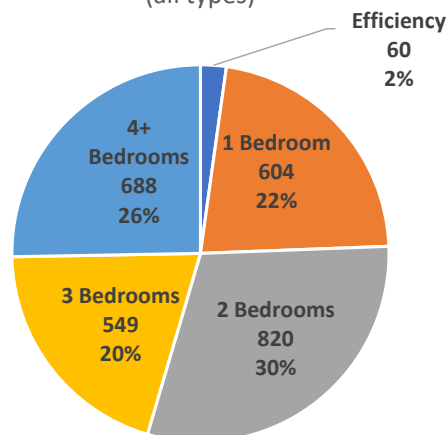
Of all home sales in 2019 (including single-family detached, duplex, townhouse and condominium) slightly more than half were smaller one- or two-bedroom homes, and only 20% were three-bedroom homes.

LOOKING AHEAD

What has been most impactful to you about rising housing prices? Examples could include:

- You or a relative or friend can't find an affordable place to live
- You are a renter and you can't afford to purchase a home

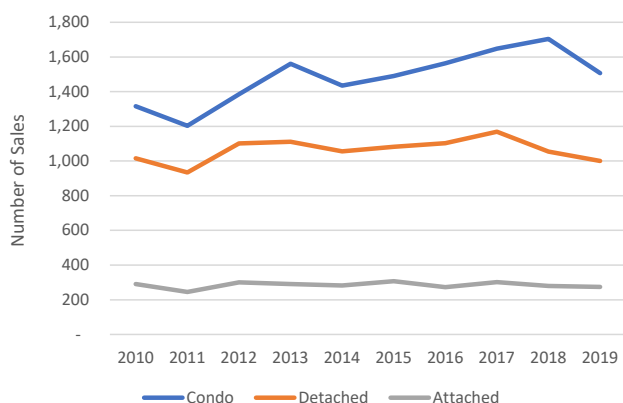
2019 Home Sales by Number of Bedrooms (all types)



Source: Arlington County, Department of Real Estate Assessments

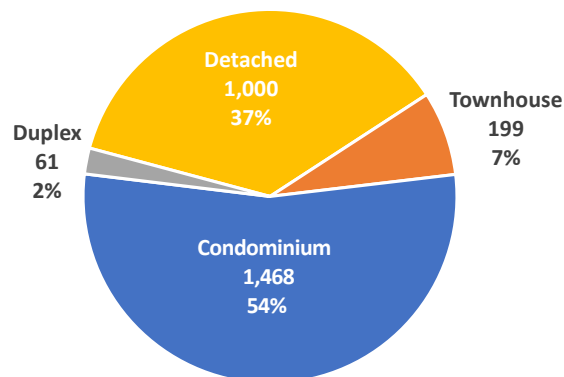
For the last two years, inventory of homes for sale has been declining, creating an upward pressure on prices. Consistent with previous trends, condominium sales made up the largest share of the market in 2019, with 1,468 sales. There is greater turnover in condominium properties than in detached properties; for example, in 2019, 5.6% of the condominium supply changed hands, compared to 3.6% of the detached supply.

Historical Sales Volume by Property Type



Source: Northern Virginia Association of Realtors (NVAR), and Metropolitan Regional Information Systems (MRIS)

2019 Sales Volume by Property Type



Source: MRIS

TEARDOWNS AND SUBSTANTIAL RENOVATIONS

Most neighborhoods in Arlington have seen changes to their housing stock over the last two decades. Many single-family detached houses have been demolished to make room for new, larger single-family detached houses, and sometimes the property may be split to create two or more new single-



*Before- and after-redevelopment images of a single-family detached home property in Arlington.
Source: Google*

family detached houses if the new lots meet the minimum lot size for their zoning district. In addition to teardowns, a significant number of houses have undergone substantial renovations, resulting in much larger homes. These substantial renovations often resemble a teardown involving the partial demolition of the existing house combined with new construction. Teardowns and substantial renovations can occur by right, meaning a property owner is not required to go through a community review process or seek special zoning approval from the County Board; instead, they only need to meet current zoning and building code regulations.

In the past decade,¹ 1,245 single-family detached houses were torn down to make way for new single-family houses: that's 125 homes a year on average. In addition to these teardowns, another 1,029 homes were substantially renovated² in Arlington. Combined, a total of 2,274 houses in residential neighborhoods (or approximately 8% of the total number of single-family detached houses) have been transformed over 10 years.

The average size of houses torn down was 1,515 square feet with three bedrooms. The houses that replaced these homes averaged 4,750 square feet – more than three times the size of the original house. These houses had an average sales price of \$1.7 million.³

Builders are likely to continue to build the same type of oversized product because it maximizes the value of the property. This will likely result in the hollowing out of the housing market, leaving a gap in three-bedroom housing types that could be available for growing families whose needs are no longer served by the supply of two-bedroom apartments and condominiums and who need an option in the housing market below a \$1.7 million sales price.

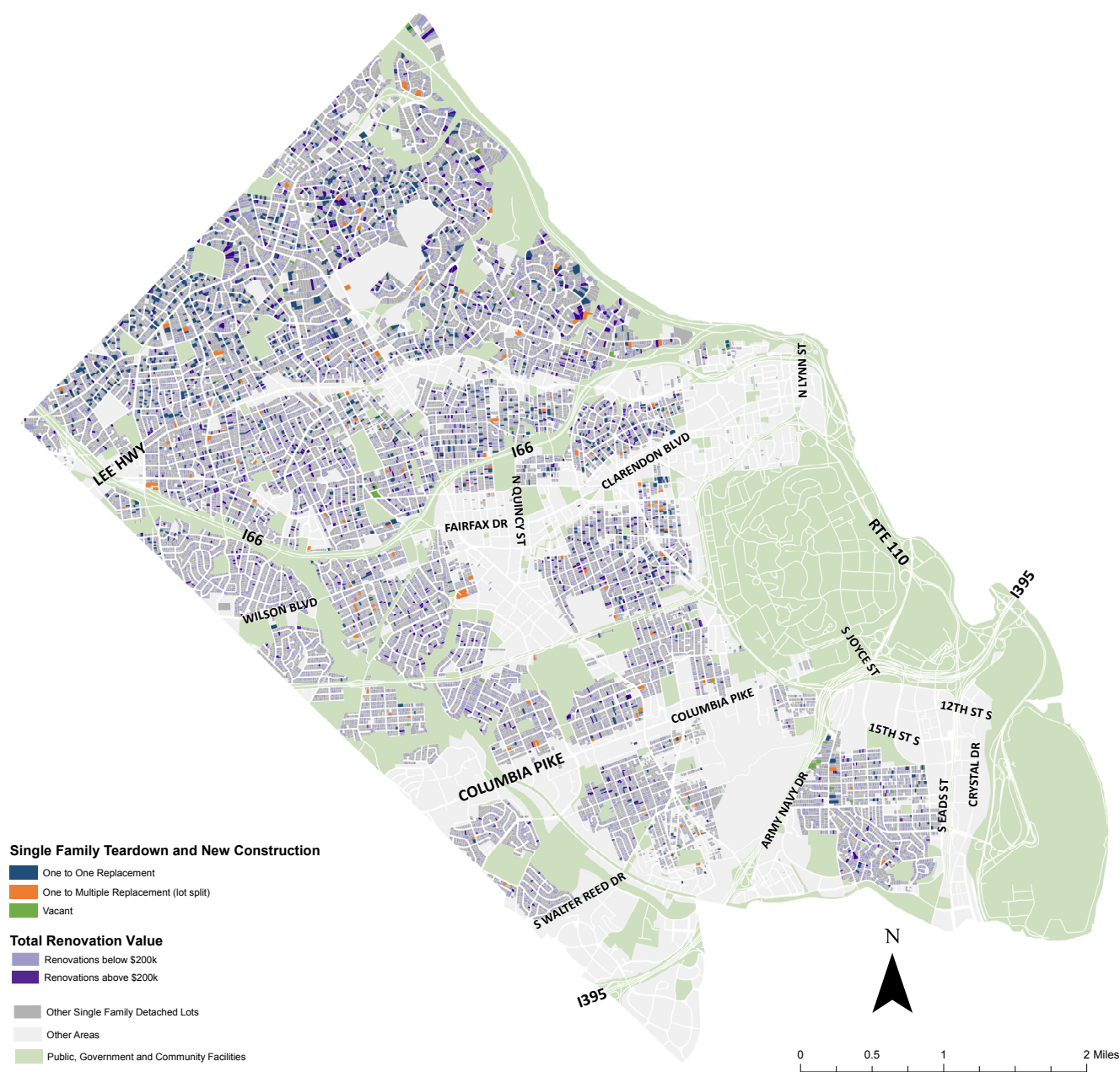
The map on the following page illustrates the distribution of teardowns and substantial renovations across Arlington.

¹ Source: Arlington County Development Tracking Database July 1, 2009 to June 30, 2019; Real Estate Assessments Data 2008 and 2019; Permits Plus Renovations Data July 1, 2019 - June 30, 2019; and Master Housing Unit Database July 2019

² Building permits with a value of construction of \$200,000 or more are considered substantial renovations.

³ Averages are from an analysis of teardowns in Arlington County between July 1, 2009 and June 30, 2019 and from MRIS home sales data for 2019 for homes built between 2010 and 2019.

SINGLE-FAMILY TEARDOWNS AND RENOVATIONS (2009-2019)



Source: Development Tracking Database July 1, 2009 to June 30, 2019; Real Estate Assessments Data 2008 and 2019; Permits Plus Renovations Data July 1, 2019 - June 30, 2019; and Master Housing Unit Database July 1, 2019
Produced by CPHD, Director's Office, Research and Strategic Initiatives Group (January 2020).

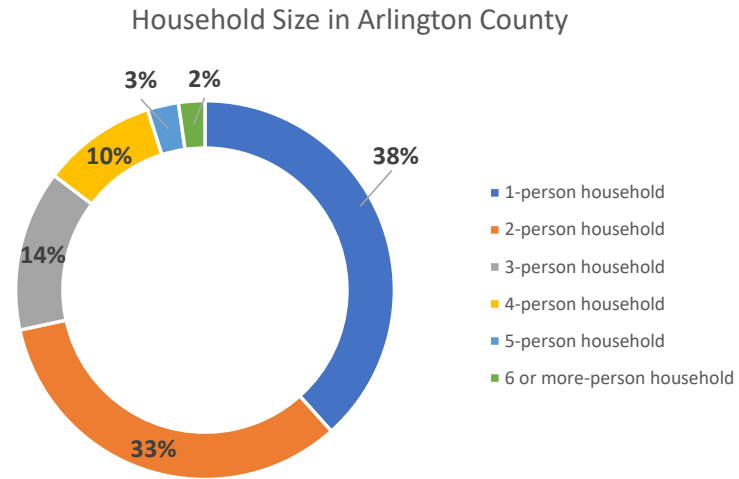
LOOKING AHEAD

How will (or has) the trend toward oversized single-family detached houses impact (or impacted) your neighborhood?

Given the change that is occurring, would it be appropriate to explore alternatives?

DEMOGRAPHICS

The housing available in any community will shape its demographics. As outlined above, recent residential construction has favored one- and two-bedroom apartments and single-family detached houses with four or more bedrooms. It should therefore be no surprise that the largest household segments are one- and two-person households. Together these make up nearly three-quarters (71%) of all households in Arlington.



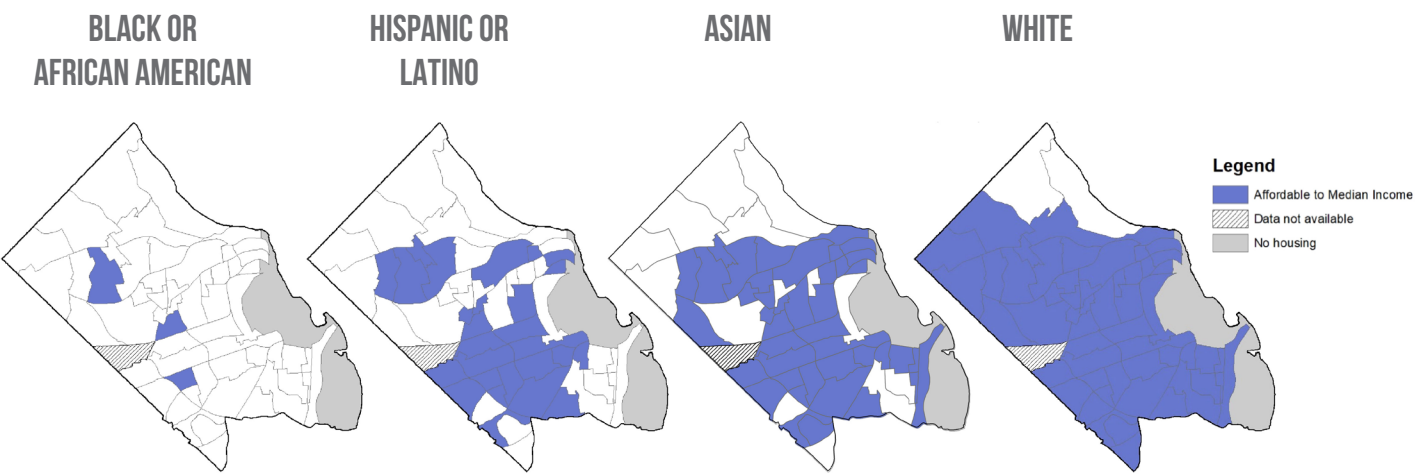
Source: U.S. Census Bureau, 2018 American Community Survey 1-Year Estimates, Table B11016

Age Group	1980	1990	2000	2010	2018
Under 5	4.2%	5.5%	5.4%	5.6%	6.0%
5 to 9	3.8%	4.1%	4.6%	4.4%	5.0%
10 to 14	4.3%	3.3%	4.0%	3.5%	4.3%
15 to 19	5.4%	3.9%	4.0%	3.3%	3.6%
20 to 24	10.7%	9.9%	8.6%	8.4%	6.7%
25 to 29	12.8%	14.0%	13.4%	15.9%	13.4%
30 to 34	10.6%	11.5%	11.5%	11.5%	12.0%
35 to 39	11.8%	9.5%	9.4%	8.5%	9.2%
40 to 44	9.0%	8.4%	7.7%	7.2%	7.3%
45 to 49	5.4%	6.2%	7.0%	6.5%	6.7%
50 to 54	2.0%	4.4%	6.5%	5.8%	5.9%
55 to 59	2.9%	3.6%	4.6%	5.4%	5.3%
60 to 64	4.9%	3.3%	3.0%	4.5%	4.5%
65 to 69	3.9%	3.5%	2.3%	3.0%	3.7%
70 to 74	3.1%	3.0%	2.1%	1.9%	2.6%
75 to 79	1.8%	2.3%	2.0%	1.4%	1.5%
80 to 84	1.2%	1.5%	1.6%	1.1%	1.1%
85 and over	0.8%	1.0%	1.3%	1.3%	1.3%

The age segments of the population between 25 to 29 and 30 to 34 years of age have consistently been the largest share of the population since 1980. However, from 2010 to 2018, the fastest-growing age segments have been children aged 5 to 9 and 10 to 14, adults aged 35 to 39, and older adults aged 65 to 69 and 70 to 74.

Source: US Census Bureau 1980, 1990, 2000, 2010 Decennial Census and 2018 American Community Survey 1-Year Estimates

RENTAL HOUSING AFFORDABILITY IN ARLINGTON COUNTY



	Black or African American	Hispanic or Latino	Asian	White
Median Income	\$58,878	\$77,743	\$93,660	\$134,723
Affordability Threshold	\$1,472	\$1,944	\$2,342	\$3,368

Source: U.S. Census Bureau, 2014-2018 American Community Survey 5-Year Estimates, Tables DP04, 19013B, 19013H, and 19013I
 Note: U.S. Census Bureau did not have relevant data for one census tract in Arlington.

Household income and housing affordability have profound impacts on individuals and families. These impacts go beyond where a family resides and can impact their educational opportunities, health, and access to the natural environment. When median household income is viewed through the lens of race and ethnicity, a stark contrast is apparent: households of color in Arlington face greater housing affordability challenges than white households. The median household income for a white household is \$134,723, which allows for access to housing affordable to that income through most parts of the county. The median household incomes of Black or African American, Hispanic or Latino, and Asian households, however, are significantly lower than that of white households – \$58,878, \$77,743, and \$93,660, respectively – resulting in fewer opportunities across the county to achieve housing affordability and the benefits that it provides.

LOOKING AHEAD

The racial disparities in COVID-19's impacts and the most recent acts of violence against Black people and people of color expose the pressing need to seek out and address systemic racism that leads to a devaluation of human life and limitations on access to opportunities, safety, and security. How does the disproportionate lack of housing affordability for Black or African American households illustrate the challenges faced by Arlington (and the nation as a whole)? How should Arlington respond?



The Missing Middle Housing Study will explore how new housing types could help address Arlington's shortfall in housing supply and gaps in housing choices.



LEARN MORE.

housing.arlingtonva.us/missingmiddle



ARLINGTON
VIRGINIA