

# REGIONAL HOUSING NEEDS ALLOCATION



TO: Housing Methodology Committee

DATE: December 12, 2019

FR: Deputy Executive Director, Policy

RE: Background on HCD's Calculation of the Regional Housing Need Determination

## Overview

The State's role in the Regional Housing Needs Allocation (RHNA) process is to identify the total number of housing units each region in California must plan for to meet the housing needs of people across the full spectrum of income levels. The number of housing units allocated to each region is known as the Regional Housing Need Determination (RHND), and the California Department of Housing and Community Development (HCD) is responsible for determining this number. This memorandum describes the process used to calculate the RHND, changes to this process for the upcoming RHNA cycle (6<sup>th</sup> cycle) resulting from recent legislation, and the potential impacts of these changes on the Bay Area's RHND for the 6<sup>th</sup> RHNA cycle.

## Recent Legislation Impacting the RHND

Legislation passed since the 5<sup>th</sup> RHNA cycle has changed the process by which HCD calculates the RHND. As noted above, HCD uses several datapoints to allocate each region's RHND. The following aspects of the RHND calculation are new for this RHNA cycle, and may significantly change the number of units allocated to the region:

- Adjustment related to overcrowding.
- Adjustment related to cost burdened households.

Statutory changes also made several updates to existing components of the RHND calculation:

- In the previous cycle, HCD applied separate vacancy adjustments for owner-occupied housing and rental housing (ABAG's 5<sup>th</sup> cycle vacancy rate targets were 1.5% for owners and 5% for renters). For the 6<sup>th</sup> RHNA cycle, a 5% target vacancy rate is applied to the entire housing stock when HCD makes the RHND calculation.
- In the previous cycle, HCD applied adjustments during the RHND calculation to the figure for projected household growth. For the 6<sup>th</sup> RHNA cycle, the adjustments for vacancy, overcrowding, and replacement housing units are applied to the total number of projected households.

## The Process for Calculating the RHND

The RHND expected to be assigned to the Bay Area by HCD in April 2020 represents the additional housing units needed to accommodate projected household growth of all income levels during the RHNA period from 2022 to 2030. To calculate the RHND for each region in California, HCD consults with the state Department of Finance (DOF) as well as each region's Council of Governments (COG). This consultation process is intended to provide regions with an opportunity to supply local data that HCD may consider for incorporation into the final RHND.

### *Population Forecast*

The determination of housing needs starts with a comparison of population projections produced by DOF and population projections used in the regional transportation plan (which is Plan Bay Area 2050 for our region). If the region's population forecast is within 1.5 percent of DOF's forecast, then the region's forecast is used as the basis for the RHND. If the difference between the forecasts is greater than 1.5 percent, then ABAG and HCD consult to seek agreement on a population forecast. If agreement cannot be reached, HCD has final authority to determine the population projection to be used as the basis for the 2030 estimated household count.

### *Determining Housing Need*

ABAG and HCD then consult about the assumptions and methodology to be used by HCD to determine the region's housing needs. During the consultation process, COGs are required to provide HCD with its assumptions for the following datapoints, if available:<sup>1</sup>

- Anticipated household growth associated with projected population increases.
- Household size data and trends in household size.
- The percentage of households that are overcrowded and the overcrowding rate for a comparable housing market.<sup>2</sup>
- The rate of household formation, or headship rates, based on age, gender, ethnicity, or other established demographic measures.
- The vacancy rates in existing housing stock, and the vacancy rates for healthy housing market functioning and regional mobility, as well as housing replacement needs.<sup>3</sup>
- Other characteristics of the composition of the projected population.
- The relationship between jobs and housing, including any imbalance between jobs and housing.
- The percentage of households that are cost burdened and the rate of housing cost burden for a healthy housing market.<sup>4</sup>
- The loss of units during a state of emergency that was declared by the Governor during the previous RHNA planning period that have yet to be rebuilt or replaced at the time of the data request.

### *Steps to Calculate Housing Need*

HCD uses the data points listed above to determine the RHND allocated to the Bay Area. At a basic level, this calculation consists of the following steps:<sup>5</sup>

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<sup>1</sup> For more information, see [Government Code Section 65584.01\(b\)\(1\)](#).

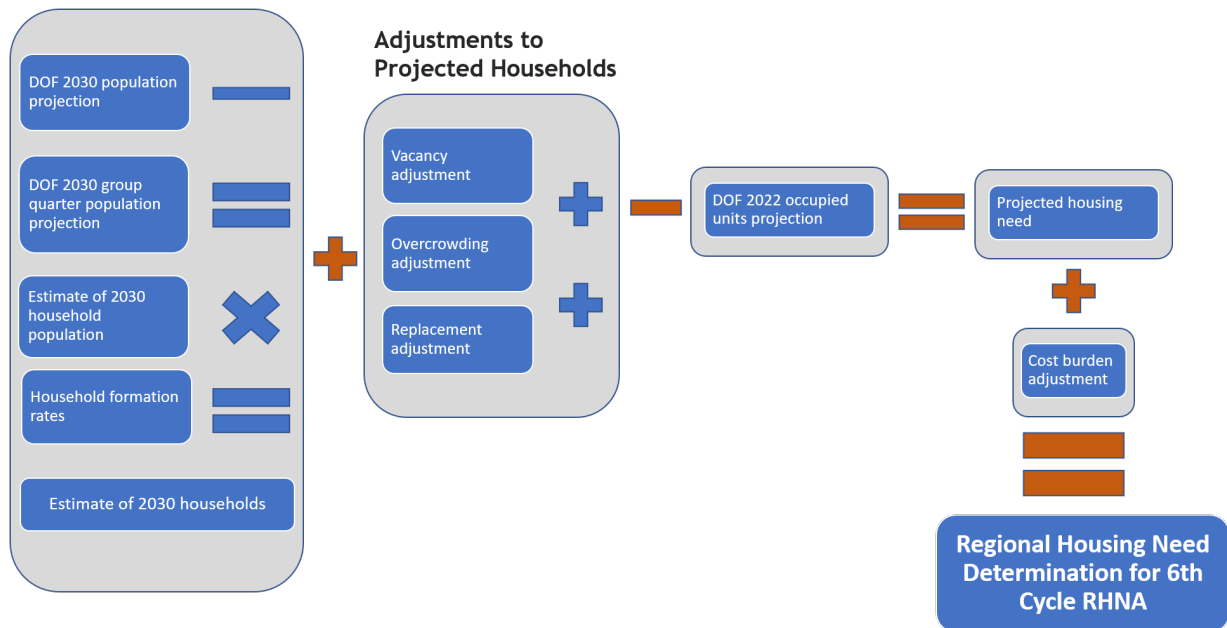
<sup>2</sup> The statute defines "overcrowded" as more than one resident per room in each room in a dwelling.

<sup>3</sup> The statute defines the vacancy rate for a "healthy rental housing market" as no less than 5%.

<sup>4</sup> The statute defines "cost-burdened" to mean households paying more than 30% of household income on housing costs. The term "rate of housing cost burden for a healthy housing market" means that the rate of households that are cost burdened is no more than the average rate of households that are cost burdened in comparable regions throughout the nation.

<sup>5</sup> The Census Bureau classifies all people not living in housing units (house, apartment, mobile home, rented rooms) as living in group quarters. Institutional group quarters include correctional facilities, nursing homes, and mental hospitals. Non-institutional group quarters include college dormitories, military barracks, group homes, missions, and shelters.

### Projected Households Estimate



### Likelihood of a Larger RHND for the 6<sup>th</sup> RHNA Cycle

The effects of the recent statutory changes discussed above make it likely the RHND assigned to the Bay Area for the 6<sup>th</sup> RHNA cycle will be larger than the RHND for the 5<sup>th</sup> RHNA cycle. First, setting the target vacancy rate of 5% is likely to result in a larger vacancy adjustment added to the RHND. Additionally, the new adjustments for overcrowding and housing cost burden are also anticipated to add to the RHND, as rates of housing cost burden and overcrowding in the Bay Area tend to be higher than national averages. Lastly, since the adjustments for vacancy, overcrowding, and replacement units are now applied to the total number of projected households rather than just projected household growth, the impacts of these adjustments will now be larger since the adjustment percentages are being applied to a larger figure. The table below shows that the Bay Area tends to be more crowded, cost burdened and with less vacant stock than the U.S. as a whole. The adjustment factors will seek to rebalance the regional housing market.

	Own		Rent		Total	
	Region	US	Region	US	Region	US
Vacancy	0.7%	1.7%	3.0%	6.1%	1.7%	3.4%
Crowding	3.0%	1.7%	10.9%	6.2%	6.5%	3.3%
Cost Burden (Low Income)	58.4%	53.7%	71.8%	66.4%	66.6%	60.8%
Cost Burden (High Income)	18.5%	10.9%	11.8%	9.0%	16.2%	10.4%

Notes:  
**Vacancy** is measured as units for rent or sale as a share of the rental or ownership universe per ACS 2017-5 B25003 and B25004.  
**Overcrowding** is measured as a household with more than one person per room per ACS 2017-5 B25014.  
**Cost Burden** refers to households paying more than 30 percent of their income. Data is here segmented into households making above and below the 80 percent of AMI threshold, using HUD CHAS 2012-2016, Table 7.

The impacts of the statutory changes to the RHND process can be seen in the RHND numbers allocated to similar regions, including the Sacramento Area Council of Governments (SACOG) and Southern California Association of Governments (SCAG):

	<b>RHNA 5</b>	<b>RHNA 6</b>	<b>Percent Increase</b>
Los Angeles region (SCAG)	409,060	1,344,740	329%
Sacramento region (SACOG)	104,970	153,512	146%

For reference, the Bay Area's RHND for the 5<sup>th</sup> Cycle of RHNA was 187,990.

### **Next Steps**

In the coming months, ABAG will complete the consultation process with HCD regarding the data being used to determine the Bay Area's RHND. ABAG currently expects that this consultation process will finish in February 2020, and ABAG anticipates receiving the Bay Area's RHND from HCD in April 2020.