



POLICY CHALLENGES

Despite appropriating more than \$40 billion a year to housing and community development assistance and forgoing about \$10 billion in tax revenues, the federal response to the rental affordability problem is modest relative to the scale of the challenges. Only about one in four eligible renters receives housing assistance, losses of affordable units are alarmingly high, three in five lowest-income renters are severely cost burdened, and many poor neighborhoods suffer from disinvestment in the rental housing stock.

Moreover, even as the number of cost-burdened renters has soared, the growth in federally assisted renters has slowed. The only increase since 2000 has come through the Low Income Housing Tax Credit program. Meanwhile, the supply of public housing and privately owned assisted units continues to dwindle, with one in five lost since 1995. While the most effective solutions are open to debate, achieving meaningful progress in addressing the persistent problems facing low-income renters and their communities clearly demands greater public efforts.

ESCALATING NEED

While eligibility criteria and income levels vary, many government housing programs target very low-income households (with incomes up to half of area medians, adjusted for family size). In some cases, programs give preference to extremely low-income households (with incomes below 30 percent of area medians), but even in these cases not all participants have to meet this income threshold. Despite modest growth in renter households overall, the number of renter households with incomes at these levels has risen almost steadily since 1989, climbing from 13.3 million to 18 million in 2009 (**Figure 30**). In 2007–9 alone, the recession boosted the number of very low-income renters by 1.2 million.

For renters lucky enough to obtain it, government housing assistance can make an important difference in well-being. In 2009, the median annual income for extremely low-income renters was just \$8,640, while that for very low-income renters was \$14,200. For such households, rental assistance can free up a substantial share of their modest incomes to help pay for food, clothing, healthcare, transportation, and other necessities.

Unlike programs like Medicare and Medicaid, however, rental assistance is not an entitlement and serves only a fraction of those eligible. Indeed, only 27.4 percent of very low-income renters received assistance in 2007 and that share dropped

to 25.0 percent in 2009 despite growing need. Even among extremely low-income renters, only a third received assistance in 2009.

Without this help, most of these households would be housing cost burdened. Three-quarters of extremely low-income renters without assistance pay more than 50 percent of income for housing, as do more than half of unassisted very low-income renters. While a surprising share of assisted renters face housing cost burdens, unassisted very low-income renters are much more likely to devote such large shares of their income to housing. Moreover, many above the income threshold are also burdened. For example, 39.8 percent of renters with incomes that are 50–80 percent of area medians have at least moderate housing cost burdens.

Meanwhile, net additions to the assisted housing stock have declined continuously since the late-1970s peak of roughly 300,000 units a year. Growth in the number of assisted units fell to about 150,000 per year by the mid-1990s, and then to about 75,000 annually over the last five years, consisting almost entirely of LIHTC units. The number of renters eligible for rental assistance is likely to continue to rise rapidly as both demographic and economic forces boost the growth in low-income households. As fiscal pressures escalate, the federal commitment could dwindle further and leave increasing numbers of low-income renters to fend for themselves in the unsubsidized market.

SHIFTING FEDERAL APPROACHES

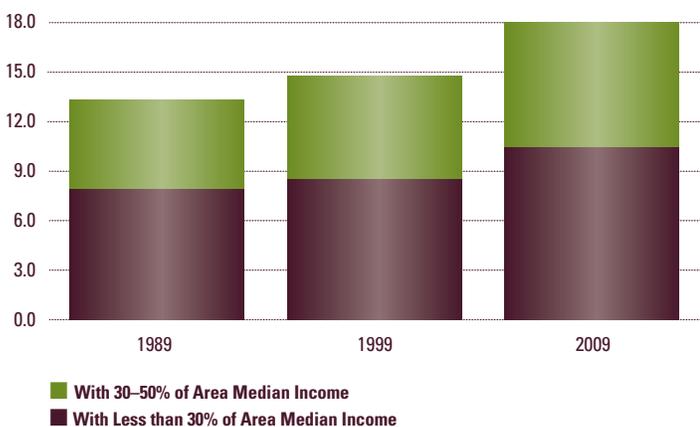
Approaches to rental assistance have evolved over time, creating a patchwork of programs with varying funding mechanisms, affordability criteria, and tenant populations. These shifts in part reflect attempts to meet a variety of challenges: the high cost of existing housing, a lack (or loss) of affordable units, neighborhood disinvestment, and concentration of the poor in distressed areas. These conditions are still entrenched, and the various programs face a range of problems related to containing the cost of assistance and to maintaining the affordability and quality of the housing they provide.

The two major types of housing programs are property-based (subsidies or tax incentives directed to properties that are reserved for eligible low-income tenants) and tenant-based (vouchers that renters can use for any unit that meets program quality standards and accepts vouchers as a form of rent payment). Much of the property-based assistance was delivered under older programs that are no longer expanding, including public housing and privately owned but publicly assisted housing under long-term subsidy contracts. At their peak in the mid-1990s, these two types of programs provided 3.8 million affordable rentals (Figure 31). Since then the supply has shrunk as new funding ended and units were lost to under-maintenance and expiring subsidy contracts (and, in the case of the HOPE VI program, redevelopment of public housing with less than one-for-one replacement). As of 2009, there were just 1.1 million public housing units and 2.0 million privately owned subsidized units, an overall loss of 700,000 units from peak levels.

FIGURE 30

The Ranks of Very Low-Income Renters Are Growing

Renter Households (Millions)



Note: Household income categories are based on HUD-adjusted area median family income.
Sources: Sources: US Department of Housing and Urban Development, Affordable Housing Needs 2003; Table A-10.

At present, the primary support for new construction and preservation of assisted housing is through the Low-Income Housing Tax Credit program, created as part of the Tax Reform Act of 1986. The HOME program also funds the development of rental housing, but is generally used in conjunction with tax credits or other forms of assistance. Unlike previous private production programs, the LIHTC program delivers its subsidies in the form of equity raised by selling tax credits that investors can claim over 10 years. With fairly consistent additions of 100,000 units per year, an estimated 1.9 million LIHTC units were in service as of 2009. At this rate, this program will become the single largest source of assisted housing within the next few years.

With older project-based programs ebbing in the late 1990s, tenant-based assistance became a critical source of additions to the assisted housing inventory. But the growth in

vouchers stalled by the middle of the 2000s. As of 2009, 2.1 million housing vouchers were in use, supporting nearly 3 in 10 assisted renter households.

TARGETING AND SPECIAL USES OF RENTAL ASSISTANCE

Rental assistance attempts to reach the most vulnerable households—the elderly, the disabled, and single-parent families. In 2008, one-fifth of HUD-assisted rentals were occupied by non-disabled elderly residents, a third by persons with disabilities, and nearly two-fifths by female headed households with children (Figure 32). These three types of households make up four-fifths of renters who reported receiving any kind of assistance in 2009, but only three-fifths of all very low-income households. Despite this targeting, the incidence of severe cost burdens for these groups is still high. Among very low-income assisted households, 48.5 percent of renters age 62 and over and 52 percent of renters with a disabled householder or spouse paid more than half their incomes for housing in 2009.

A large majority of residents of assisted housing have very low incomes. Across all HUD programs, roughly half of renters had annual incomes under \$10,000 in 2008, and nearly three-quarters had incomes under \$15,000. While incomes vary little across the major categories of HUD assistance, renters with higher incomes are somewhat more likely to

use vouchers while those with lower incomes are somewhat more likely to live in public housing.

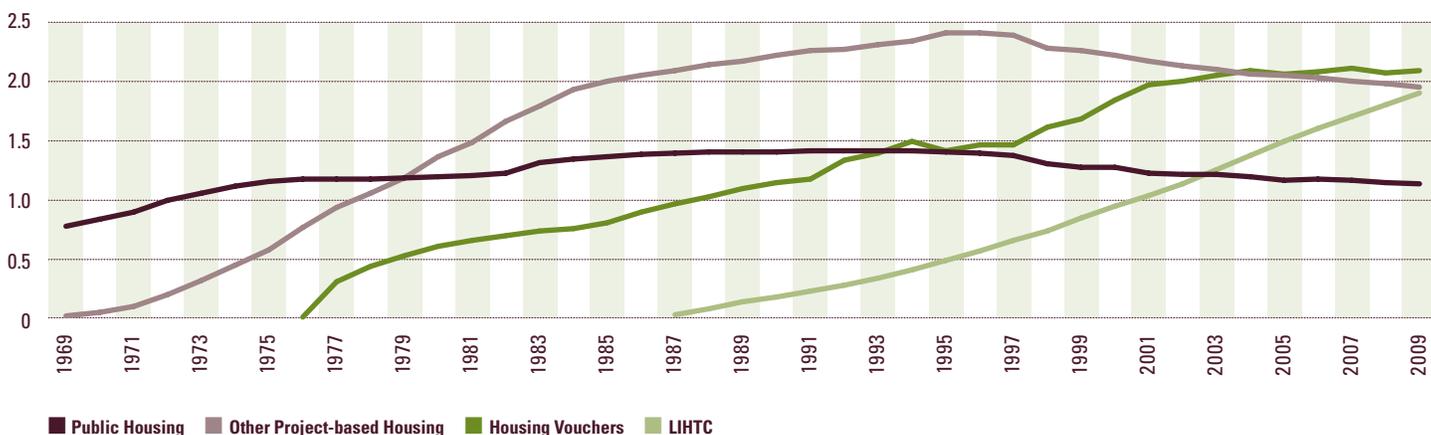
To some extent, rental assistance programs also attempt to meet the special needs of the homeless. Efforts have shifted away from providing emergency shelters and toward moving people directly into permanent housing with supportive services. In addition, rental assistance is also being used to aid households at risk of homelessness. Under its Continuum of Care programs, HUD funds a variety of initiatives offering a range of housing options—including apartments, single-room occupancy buildings, and group quarters—with such services. These programs, too, fall well short of need. While efforts to reduce chronic homelessness have made strides, the number of families and individuals that spent time in homeless shelters in 2008 and 2009 held nearly steady at an estimated 1.6 million.

Rental assistance can also serve as a platform for broader antipoverty goals that include job training, social services, and asset building. For example, the HOPE VI program often integrates supportive services with rental assistance to help residents move up the economic ladder. On the asset-building front, the Family Self Sufficiency (FSS) program, run in conjunction with both vouchers and public housing, provides a range of social services for tenants. The program also establishes escrow accounts where tenants save increases in rent payments due to increases in earned income. If tenants

FIGURE 31

The Number of Tax Credit Units Has Climbed Steadily Even as Other Types of Rental Assistance Have Stagnated or Declined

Federally Subsidized Rental Units (Millions)



Notes: Units receiving more than one form of subsidy may be counted more than once. Other project-based housing includes Section 8 New Construction/Substantial Rehabilitation, USDA Section 515, and Rent Supplement units. LIHTC estimates for 2008 and 2009 assume that 100,000 units were placed in service annually. Sources: Ingrid Gould Ellen, presentation at the Next Generation Housing Policy Convening on Rental Policy, 2010; JCHS estimates.

FIGURE 32

Assisted Housing Targets the Most Vulnerable Americans

Share of Households (Percent)



Notes: Elderly households have a householder or spouse aged 62 or over, and disabled households have a householder or spouse with a disability. Female-headed families have minor children living at home. Very low-income renters have household incomes that are less than half of HUD-adjusted area median family incomes. HUD-assisted renters are based on HUD administrative data, while very low-income renters are based on AHS data.
Sources: US Department of Housing and Urban Development, 2008 Picture of Subsidized Households; JCHS tabulations of US Department of Housing and Urban Development, 2009 American Housing Survey.

succeed in becoming independent of welfare and maintain employment over a five-year period, they receive the amount accrued in this account. A demonstration project in public housing taking a similar approach found that these efforts can improve work outcomes. The scale of the FSS program is small, however, reaching only 75,000 households out of more than 3 million assisted renters in 2004.

THE GEOGRAPHIC CONCENTRATION OF ASSISTED HOUSING

A key criticism of project-based rental assistance is that the housing is disproportionately located in poor urban environments, increasing the concentration of poverty to the detriment of both occupants and the surrounding neighborhoods. High-poverty areas tend to have higher rates of violent crime and offer only limited educational and employment opportunities for residents. More affordable housing thus comes at the cost of living in dangerous neighborhoods that provide tenants little chance for advancement.

Across all HUD-assisted housing (including units rented by voucher holders), the neighborhood poverty rate in 2000 averaged 21 percent—significantly above the national rate of 11 percent. Public housing tends to be located in particularly distressed communities, with an average poverty rate of 29

percent. The average poverty rate in neighborhoods where vouchers are used was 18 percent, only slightly lower than the rate for LIHTC properties (19 percent) and other project-based housing (21 percent). This pattern likely reflects the fact that efforts to help voucher holders move to lower-poverty neighborhoods are limited and, even when initially successful, some recipients return to higher-poverty areas.

Assisted housing is also much more likely to be located in minority communities. With minorities accounting for 59 percent of HUD-assisted renters, the geographic concentration of this housing reinforces racial and ethnic isolation. In 2000, the average minority share of the neighborhood population where HUD-assisted properties were located was 47 percent, compared with 31 percent in the nation as a whole. Public housing is especially likely to be in areas with high minority shares compared with other types of assisted units.

Moreover, assisted housing is concentrated in a relatively small number of neighborhoods. In 2008, 27 percent of assisted renters were clustered in neighborhoods where at least 20 percent of occupied housing units were assisted (**Figure 33**). These 2,770 neighborhoods include just 3 percent of all households. Another quarter of assisted renters lived in census tracts where 10–20 percent of housing is subsidized, accounting for just 7 percent of households. Overall, more than half of assisted renters lived in neighborhoods where at least 10 percent of the housing is subsidized.

The substantial federal commitment in these communities represents an opportunity to leverage government influence in support of policy priorities. Among the 808 census tracts with the heaviest concentrations of subsidized housing (40 percent or more), the average number of subsidized renter households was about 600. With monthly federal expenditures averaging \$589 per HUD-assisted unit in 2008, this amounts to \$4.2 million directed to each of these neighborhoods every year. In the 2,770 tracts where at least 20 percent of households are subsidized, the average annual federal expenditure is \$2.9 million.

RENTAL POLICY DEBATES

Decades of experience with different types of assistance, evaluations of various programs, and evolving policy objectives have sparked calls for reforms. One longstanding difference of opinion is whether rental assistance should come entirely in the form of vouchers or whether it should still include project-based assistance to create incentives for new construction and preservation.

The argument for vouchers is that they may be a more cost-effective means of providing rental assistance. The voucher program is also hailed as enabling tenants to move to neighborhoods offering a better quality of life and more economic opportunities. The challenge, however, is that voucher holders must be able to find landlords willing to participate in the program as well as units that meet quality standards at a price they can afford. According to a HUD study in 2000, only 69 percent of voucher recipients succeeded in finding such apartments and using the subsidy. A more recent HUD study also found that the voucher success rate related to whether local laws prohibited landlords from discriminating against tenants based on the source of income they relied on to make rental payments. Perhaps as a result of these challenges, the neighborhoods where vouchers are used have an economic profile similar to that of other areas with assisted housing.

While programs supporting new construction and preservation of rental housing may be more expensive, there are circumstances where this approach may be worth the additional costs. For example, new construction programs may be necessary in fast-growing areas because the private market cannot supply affordable housing without subsidy. Furthermore, new construction and preservation programs can help to stabilize distressed neighborhoods at risk of further disinvestment and decline. Indeed, investments in

assisted housing developments are often the keystone of neighborhood revitalization, sometimes lifting property values in the surrounding community. These positive impacts have been found to increase over time. And in tight rental markets, new construction may help prevent rent inflation in the low-cost stock, a benefit for all renters.

Preservation of existing assisted units is another key issue. Many privately owned subsidized housing developments are now nearing the end of the period that they are contractually obligated to remain affordable—generally 20 years, although the agreements usually range from 5 to 30 years. When the contracts expire, property owners can opt out of the program and convert their apartments to market-rate rentals. For owners of properties in strong rental markets, opting out may have great appeal and put these affordable units at risk of loss from the assisted stock. But even in weak markets, affordable units may also be lost if owners are unable to generate enough rent to cover adequate maintenance.

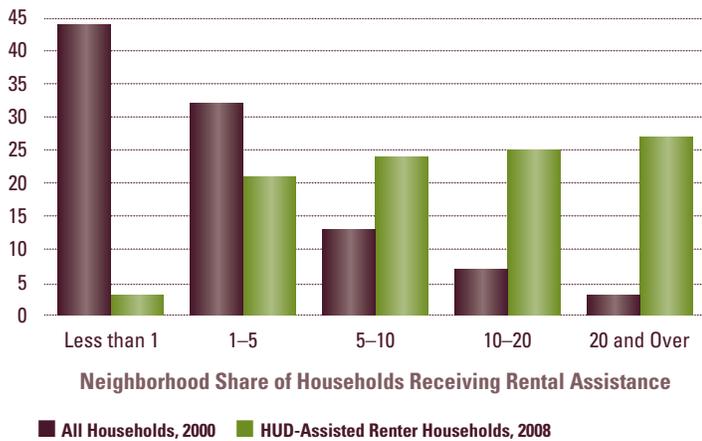
The cost of preserving affordable units is generally much lower than the cost of new construction, even if substantial upgrading is required. Over time, Congress has funded a variety of efforts to preserve project-based assisted housing, although the federal commitment to these initiatives has waxed and waned. Preserving properties in strong markets is a means of providing affordable housing in desirable locations, which is difficult and costly to do through new development. An analysis of developments with project-based assistance in 20 large markets found that five-eighths of the 400,000 assisted units were located within one-half mile of public transit. Of these units, 176,000 had subsidy contracts that would expire within five years. Having assisted housing options close to transit often reduces the financial burden on low-income households since transportation costs can account for a large share of household budgets. Transit access is particularly important for elderly and disabled individuals so that they can live independently.

The stock of publicly owned housing—the oldest of the assisted housing stock—faces its own set of challenges. Over the years, federal funding has failed not only to meet the operating costs of these properties, but also to keep up with capital needs. A 1998 HUD study estimated that bringing public housing units up to a decent and sustainable condition would cost \$22.5 billion, with another \$2 billion required for annual maintenance. While an updated assessment of modernization needs is not yet available, a substantial backlog of investment no doubt remains.

FIGURE 33

Assisted Rental Housing Is Concentrated in Relatively Few Neighborhoods

Share of Households (Percent)



Notes: Neighborhoods are census tracts as defined in the 2000 Decennial Census. Households receiving more than one form of subsidy may be counted more than once. Assisted households include only those for which census tracts are identified.

Sources: JCHS tabulations of US Department of Housing and Urban Development, 2008 Picture of Subsidized Households, and US Census Bureau, 2000 Decennial Census.

Over the past two decades, the HOPE VI program has funded redevelopment of nearly 100,000 severely distressed public housing units. The program is, however, not without its critics. On the one hand, it has successfully replaced some of the worst public housing with new units in excellent condition. In the process, the program has helped strengthen property markets in surrounding communities. On the other hand, replacement of affordable units has not been one for one, and tighter selection criteria have displaced a significant fraction of former tenants. Although these tenants receive vouchers they can use elsewhere, their inability to return to their homes has been a point of contention. Another source of complaint is that the program has in some cases intensified gentrification by incorporating market-rate units in properties in more desirable locations.

The Obama Administration has announced plans to reduce the number of rental assistance programs, streamline their operations, and respond to longstanding concerns about the physical condition of assisted housing. One controversial aspect of these plans is to redesign the funding mechanism for public housing. Under the Transforming Rental Assistance initiative, public housing units would receive long-term project-based vouchers to pay housing authorities the difference between tenant rents and local fair market rents. This would allow housing authorities to meet capital needs by borrowing against their future income streams on the private market. Among the concerns is that this strategy might result in the loss of public housing units if housing authorities are unable to meet their debt service obligations.

Another key focus of the current housing policy debate relates to the LIHTC program. Plans for addressing the federal deficit have included eliminating all tax expenditures, putting the LIHTC program in jeopardy. Debates over the LIHTC program are not new. Since the program's inception in 1986, questions have been raised about how shallow a subsidy it provides, how efficient it is, and how its terms compare with competing business tax credits that have since been created. Although a series of important reforms were created in 2008 to improve the efficiency and flexibility of the program, these changes have yet to be fully implemented because of the disruptions caused by the financial crisis.

But unlike many previous project-based approaches, the Low Income Housing Tax Credit program has sound financial underpinnings and a track record of success in delivering rental housing assistance. Among its many appealing features are its allocation primarily by state, and some local, agencies (making it responsive to local market conditions);

the leveraging of private capital with strong interests in managing properties (so tax credits are not recaptured); and the placement of liability on owners rather than the federal government in the event of failure.

However, tax credit development depends on private investors purchasing equity stakes at prices anticipated, but not locked in, when properties are underwritten and receive allocations. During the recent financial market meltdown, these features created problems for two reasons. First, tax credits only have value if investors have taxable income to offset. During the crisis, the financial institutions that were the largest purchasers of tax credits reported sizable losses. Second, when tax credit prices suddenly plummeted, the amount of equity that investors expected to raise from sale of the credits was much higher than the amount they could actually raise at the time of sale. While the federal government put two stopgap measures in place to deal with these issues, the drop in investor demand greatly disrupted delivery of affordable rental housing in 2009–10 and still looms as a potential problem over the longer term.

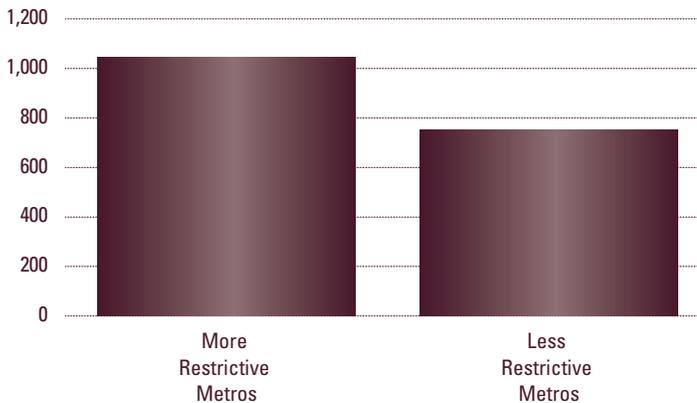
THE ROLE OF STATE AND LOCAL GOVERNMENTS

Control over key aspects of affordable housing policy has shifted from federal to state and local governments in recent years. Today, formula-based funding mechanisms for newer programs, including LIHTC and HOME, let states and localities tailor assistance to local objectives and economic conditions. In high-growth areas, states are working to expand the supply of affordable rental housing, while in lower-growth areas the emphasis is on rehabilitating the existing stock. An important benefit of the devolution of authority is the greater ability to negotiate with local stakeholders and to partner with local private for-profit and nonprofit partners.

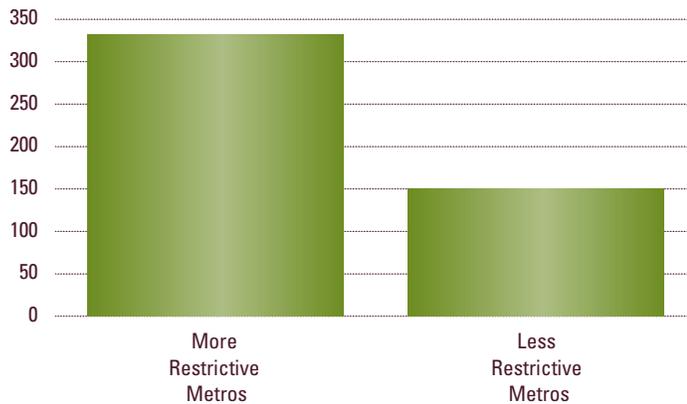
At the state and local levels, though, the most important impact of government on affordable housing development is not the channeling of federal funds, but rather control over land use and construction standards. Local governments can limit the land area in which multifamily housing can be developed, establish subdivision standards that use up developable land, set minimum unit sizes and quality, and charge impact fees that add to costs. Moreover, local officials often have discretionary authority over specific development projects. The time it takes to navigate the regulatory process and negotiate approvals also increases the cost—and reduces the likelihood—of building affordable rental housing. While many of these regulations are intended to address such important public policy concerns as environmental

FIGURE 34**Housing Costs Are Higher in Areas with Restrictive Land Use Regulations**

Average Gross Rent, 2009 (Dollars)



Average Home Value, 2009 (Thousands of dollars)



Notes: Data are the averages of metro-area medians. Gross rent includes rent and tenant-paid utilities. More (less) restrictive metros rank in the top (bottom) third of the Wharton Residential Land Use Regulatory Index, out of the 46 for which data are available. Rent and house values use US Census metro area definitions from 2009, while the Wharton Index uses definitions from 1999.
Sources: Joseph Gyourko et al., *A New Measure of the Local Regulatory Environment for Housing Markets*, *Urban Studies*, 2007; US Census Bureau, 2009 American Community Survey.

protection and public health and safety, they often lead to high rents and home prices (Figure 34).

But regulations can also be used to advance affordable housing goals. For example, a handful of states—including California, New Jersey, Massachusetts, and Connecticut—encourage affordable housing production either by limiting local authority to impose exclusionary zoning or by providing developers with zoning relief in exchange for including affordable units in rental developments. Inclusionary zoning programs, which require the integration of affordable housing in market-rate developments, have also become more

common. By one conservative estimate, these programs led to the development of up to 90,000 affordable units nationally through the early 2000s. Although demonstrating the potential of such efforts, this modest progress highlights how much further policy needs to go to meet the housing needs of millions of low-income renters.

CONCLUSION

The nation continues to grapple with the chronic challenges of rental affordability, which are now creeping up the income scale. To date, the political will to either increase the incomes of the poor or to provide housing they can afford has been absent. In addition, there is heated debate about the allocation of current resources and the most effective approach to housing assistance. How these differences in opinion are reconciled and how existing programs are reformed and funded will fundamentally shape rental housing markets moving forward.

But federal programs currently serve only a small fraction of those eligible for assistance. With government budgets under pressure, that share may even shrink. About three-quarters of the nation's 18 million low-income renters are left to compete for an ever-dwindling supply of low-cost, unassisted rentals. Policymakers at the federal, state, and local levels have a role to play in saving this critical resource by ensuring that tax and regulatory policies promote, rather than impede, private and nonprofit efforts to preserve affordable housing.

Stronger support for affordable, well-located rental housing provides an opportunity to address a number of America's most pressing problems: supplying decent homes for the growing number of low-income households, revitalizing communities hard hit by the foreclosure crisis, and reducing the nation's carbon footprint with more compact residential redevelopment. But the magnitude and complexity of the issues will require the full collaboration of the public, private, and nonprofit sectors. Making meaningful progress in meeting the nation's rental housing challenges is in everyone's best interests.