



RENTAL HOUSING ASSISTANCE

Rental housing assistance is vital to the well-being of many of the country's most vulnerable families and individuals. But even before the recession, only a fraction of those eligible were able to secure this support, and that share continues to shrink as funding pressures mount. Given the scale and importance of today's rental affordability challenges, policymakers must ensure that reform and expansion of housing assistance efforts are not lost in the federal budget debate.

THE RISING NEED FOR ASSISTED HOUSING

While eligibility criteria vary, many programs target rental housing assistance to very low-income households, or those earning no more than 50 percent of area median income. But because assistance is not an entitlement, qualified renters increasingly outnumber assisted units. In the aftermath of the Great Recession, the number of potentially eligible households mushroomed from 15.9 million in 2007 to 19.3 million in 2011 while the number of very low-income renters benefiting from some form of support only edged up from 4.4 million to 4.6 million. This trend stands in stark contrast to entitlements, like the Supplemental Nutrition Assistance Program, that scaled up to meet growing need among unemployed workers.

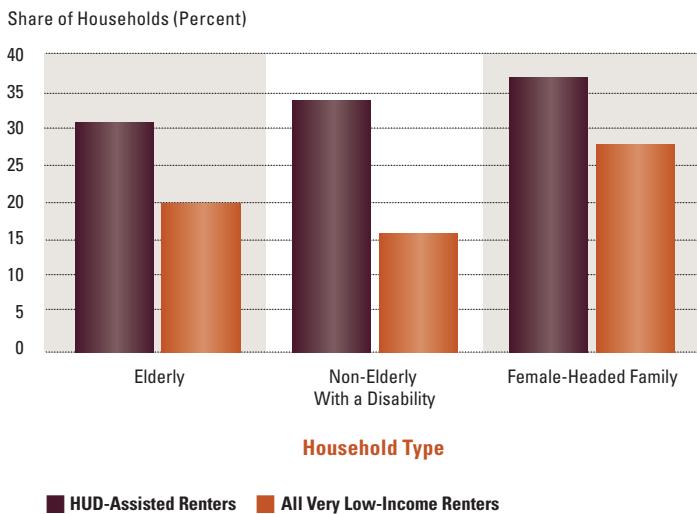
HUD estimates indicate that less than a quarter (23.8 percent) of very low-income renter households received housing assistance in 2011, a drop from 27.4 percent in 2007. Not only is the share without assistance rising, but so, too, is the share of these renters with severe cost burdens or living in severely inadequate housing (referred to as worst case housing needs). Among very low-income renters without assistance, the share with worst-case needs climbed steadily from 46 percent in 2003 to 50 percent in 2007 and to 58 percent in 2011.

Federal rental assistance programs support the nation's most vulnerable families and individuals. Among residents of assisted housing in 2012, 31 percent were age 62 or older, 34 percent were under age 62 but disabled, and 36 percent were female-headed families (**Figure 31**). The incomes of these assisted households are meager, with 47 percent having annual incomes under \$10,000 and another 37 percent having incomes between \$10,000 and \$20,000. While more than half of recipients are elderly or disabled, a substantial share (23 percent) receives most of their income from wages.

For those able to secure housing assistance, the aid plays a critical role in relieving cost burdens. The 2011 American

FIGURE 31

Assisted Housing Serves the Nation's Most Vulnerable Households



■ HUD-Assisted Renters ■ All Very Low-Income Renters

Notes: Elderly households have a householder or spouse aged 62 and over, and disabled households have a householder or spouse with a disability. Female-headed families have minor children living in the home. Very low-income renters have household incomes that are less than half of HUD-adjusted area median incomes.

Sources: US Department of Housing and Urban Development, 2012 Picture of Subsidized Households and 2011 Worst Case Needs Report to Congress.

Housing Survey reports that very low-income households without housing assistance faced average monthly housing costs of \$745, while those with assistance paid an average of just \$311 per month. Such significant savings go a long way toward helping these households pay for the other necessities of life.

ONGOING FUNDING PRESSURES

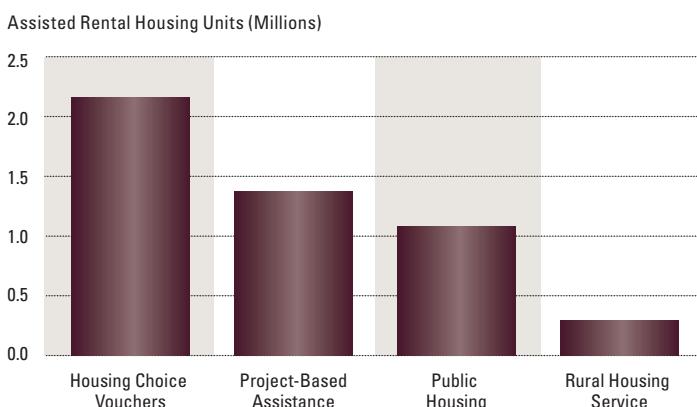
Rental housing assistance is delivered through a medley of programs, reflecting shifts in policy priorities and changing views about the most efficient means of providing affordable housing. In 2012, 2.2 million households lived in rentals found on the open market and subsidized by housing choice vouchers (**Figure 32**). Another 1.3 million renters lived in privately owned developments with subsidies tied to the housing units through programs that were primarily active from the late 1960s into the 1980s. A further 1.1 million families and individuals lived in public housing, owned and operated by local housing authorities. These units represent the oldest form of housing assistance, with most built in the two decades following World War II. Finally, slightly more than 270,000 renters received subsidies through the US Department of Agriculture, Office of Rural Development, with most residing in properties also benefiting from below market-rate financing that restricts the residences to lower-income tenants.

Each program has come under significant funding pressures in recent years. Since the early 1990s, the housing voucher program has been the main vehicle for expanding assistance. Between 1997 and 2004, increases in funding and improvements in program management helped to lift the number of vouchers by some 649,000. But despite a 12 percent increase in outlays for the program from 2007 to 2012, higher market rents and utility costs—along with income losses primarily resulting from recession-induced unemployment—raised the per tenant cost of vouchers, thus leaving the number of assisted renters almost unchanged.

Since vouchers provide the largest share of rental assistance, the program will bear the brunt of federal budget cuts under sequestration. With across-the-board reductions of 5 percent, HUD estimates that 125,000 families will lose their vouchers in 2013, with additional cuts ahead if the next stage of sequestration is implemented in 2014. The voucher program is also affected by cutbacks in funding for administrative functions at the public housing authorities (PHAs) that manage the program. To achieve the mandated spending cuts for the fiscal year, PHAs had to reduce

FIGURE 32

Federal Rental Assistance Is Provided Through a Broad Range of Programs



Notes: Project-based assistance includes Section 8 New Construction and Substantial Rehabilitation, Section 236, and other HUD programs where subsidy is linked to a specific housing unit. Rural Housing Service includes only units with Section 521 rental assistance.

Sources: US Department of Housing and Urban Development, 2012 Picture of Subsidized Households; Rural Housing Service from 2012 Multi-Family Housing Annual Fair Housing Occupancy Report.

administrative funds by about a third. According to a May 2013 survey, half of the 300 PHA respondents had already stopped issuing vouchers, and more than a quarter had been forced to cut staffing. PHAs have also reported other stopgap measures, such as reducing the amount of subsidy they provide—adding to the financial burden that tenants must bear and limiting the incentive for landlords to participate in the program.

Project-based and public housing assistance have been subject to sequestration cuts as well, forcing property managers to make difficult choices about absorbing losses while tenant contributions toward rent remain capped at 30 percent of income. Although they may make up for some of the shortfall by reducing administrative expenses or tapping reserves, landlords will still need to take additional steps—particularly if the cuts continue. The fear is that they will find ways to pass some additional costs on to tenants and thus raise rent burdens, or scrimp on property maintenance and security to the detriment of the health and safety of residents as well as the longer-term viability of the properties.

Budget cuts have also hastened the physical deterioration of public housing projects. Despite a HUD-sponsored study in 2010 estimating the need for \$26 billion in capital repairs, outlays for these investments fell 18 percent between 2008 and 2012. Sequestration will bring further funding cuts. Federal efforts are under way to address the capital needs backlog through the Rental Assistance Demonstration (RAD) program with PHAs, which are testing whether pri-

vate capital can be leveraged to fund needed improvements in a cost-effective way while still maintaining long-term affordability. But the current political climate threatens the viability of these programs as well. If the impasse continues, many public units will be subject to further undermaintenance, making it even more costly to attend to cumulative problems.

After rising rapidly from the 1970s into the 1990s, the number of families helped through rural housing assistance programs plateaued and began to decline as few new units were added. Other federal programs that support assisted housing have undergone outright cuts. In particular, appropriations for the HOME program in fiscal 2012 were down 45 percent from two years earlier, while those for the Community Development Block Grant program were off by 26 percent. These deep cuts undermine state and local capacity to stave off losses of affordable rental housing and improve conditions in distressed communities.

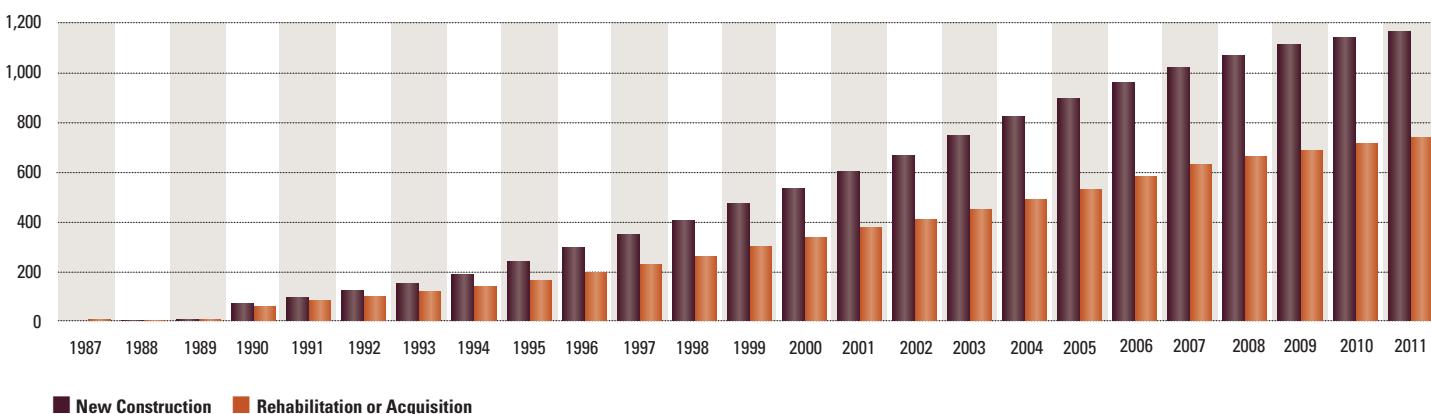
THE CRITICAL ROLE OF THE LIHTC PROGRAM

The Low Income Housing Tax Credit (LIHTC) program has been the primary source of funding for both development of new low-income housing and preservation of existing subsidized properties since 1986. Over the quarter-century from 1987 through 2011, the LIHTC program supported construction of roughly 1.2 million new units and rehabilitation of another 749,000 homes (Figure 33). Compared with earlier generations of supply-side programs, LIHTC projects have a very low failure rate, with only 1–2 percent of properties undergoing foreclo-

FIGURE 33

The LIHTC Program Has Supported Development and Preservation of More than Two Million Affordable Rentals

Cumulative LIHTC Units Placed in Service (Thousands)



Source: JCHS tabulations of US Department of Housing and Urban Development, LIHTC database.

sure. An important factor in this success is that private investors, rather than the federal government, provide the equity up front and bear the financial risk for the projects.

Rather than providing direct subsidies that reduce tenants' monthly contributions to rent, the LIHTC program reduces the effective cost of developing rental housing by generating capital through the sale of tax credits. In exchange for the credits, developers must set aside a minimum of either 20 percent of the units for renters with incomes that do not exceed 50 percent of area median income, or 40 percent of units for those with incomes up to 60 percent of area median income. In practice, nearly nine out of 10 rental units in developments supported by the tax credits have been set aside for low-income renters.

Rents for set-aside units are capped at levels affordable at the specified income limit and are not tied to the tenants' income. But since many qualifying renters have significantly lower incomes, developers often have to apply other forms of subsidy to make the homes affordable. This layering of subsidies has enabled the LIHTC program to serve extremely low-income tenants. Indeed, a 2012 New York University study found that 43 percent of LIHTC occupants had incomes at or below 30 percent of AMI and that nearly 70 percent of these extremely low-income residents received additional forms of rental assistance. With the benefit of this support, only 31 percent of renters in this income group were severely housing cost burdened—significantly less than the 63 percent share of extremely low-income renters overall. In addition, these extremely low-income residents benefit from newly built or renovated housing that is of higher quality and often offers better access to supportive services than housing they would otherwise be able to secure.

To date, federal fiscal pressures have not yet directly reached this off-budget program. In fact, to help spur housing development after the recession, Congress boosted the value of the tax credit through the end of 2013. But cuts to the HOME program have sharply diminished the pool of funds available to close gaps between what the tax credit can deliver and what is needed to bring rents down to more affordable levels. In addition, deficit-reduction efforts may yet lead to meaningful tax reform, and many proposals call for substantial elimination of tax expenditures (indirect means of funding such as deductions, credits, and other measures that reduce taxes owed).

The LIHTC program could no doubt be improved to make housing more affordable for lowest-income renters and

to work more efficiently with other subsidy programs. But eliminating or significantly curtailing this program would create a substantial void in affordable housing production and preservation—and at the expense of one of the most successful efforts on record in terms of sound financial performance and delivery of good-quality rentals.

HOUSING AS A PLATFORM FOR OPPORTUNITY

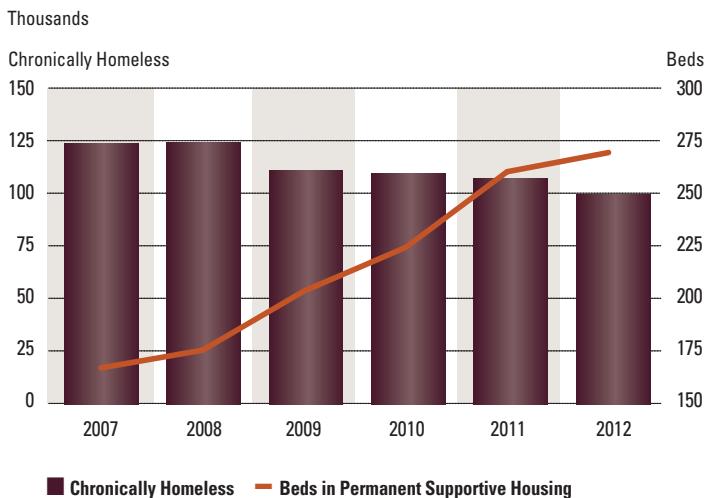
Linking supportive services and housing assistance can provide residents a springboard to economic self-sufficiency by addressing the underlying causes of poverty. A landmark effort in this vein is the Jobs-Plus demonstration, run from 1998 to 2003 in six public housing developments across the country and funded by HUD and a consortium of foundations and private funders. The program used a three-pronged approach to improve employment and earnings among working-age, non-disabled residents: on-site job centers where participants could get job search help and referrals to vocational training and support services; modified rent rules so that they could increase their earnings without worrying that their rents would also rise; and neighbor-to-neighbor outreach to circulate news of job opportunities and encourage community support for engaging in work. A rigorous evaluation of the program found a modest but long-lasting increase in earnings for participants at sites where the program was fully implemented. On the basis of these promising outcomes, HUD has requested funding for a Jobs-Plus pilot for FY2014.

Another such initiative is the Family Self-Sufficiency (FSS) Program, first authorized in 1990, which targets housing voucher holders as well as public housing residents. Under this program, housing authorities take a case management approach to connect residents with employment assistance, job training, child care, financial literacy classes, and other supportive services in the community. Participating tenants enter into a contract that lays out specific goals for achieving economic independence over a five-year period. The housing authority creates escrow accounts on behalf of residents and deposits any increments in rent that they pay as their incomes rise. If program participants fulfill their contracts, they are awarded the amount accrued in the escrow account plus interest.

A recent evaluation of the program found that among a small sample of participants tracked over a four-year period, roughly 24 percent had completed their contracts, 39 percent were still engaged in the program, and slightly more than a third had dropped out. Those who completed the program had accrued an average of \$5,300 and saw their

FIGURE 34

Recent Additions to Permanent Supportive Housing Have Helped Those Most at Risk of Homelessness



Sources: US Department of Housing and Urban Development, Homelessness Resource Exchange and 2012 Annual Homelessness Assessment Report.

incomes increase by more than two-thirds. Despite the positive results, participation in the program remains relatively limited, with only 57,000 tenants enrolled as of 2012.

Yet another example of HUD partnerships with PHAs to foster self-sufficiency among assisted renters is expansion of the Moving to Work (MTW) demonstration program in FY2014. This program exempts high-performing state and local PHAs from certain public housing and voucher rules, allowing them more flexibility to use federal funds to design and test locally driven policies related to helping tenants find employment.

One dramatic success in using housing as a platform for opportunity has been in assisting the formerly homeless. Homeless individuals and families often struggle with substance abuse, mental illness, or domestic violence. In growing recognition of these root causes, efforts to end homelessness have shifted from emergency shelter-based services toward a model that links supportive services with housing. Since passage of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act in 2009, the availability of permanent supportive housing has increased by 55,000 beds (Figure 34). As a testament to the success of this strategy, the number of chronically homeless individuals fell by 10 percent during this period despite the severity of the recession.

There is growing evidence that supportive housing can also reap significant savings for federal, state, and local governments compared with emergency shelters and institutionalized care for the homeless. For example, a 2013 report from the Economic Roundtable found that placing high-cost hospital patients in Los Angeles into permanent supportive housing resulted in a net public cost avoidance of nearly \$32,000 per individual in the first year, even including the costs for housing subsidies and housing placement.

ASSISTING ELDERLY RENTERS

With the leading edge of the baby-boom generation crossing the age 65 threshold, 2010 ushered in an era of significant growth in the senior renter population. The Joint Center estimates that if current homeownership rates hold, the number of renters age 65 and older will increase by 2.2 million, or some 40 percent, in the decade ending in 2023. With substantial shares of these households living on fixed incomes, both the need and eligibility for rental assistance will soar.

In 2012, 1.5 million residents of HUD-assisted units were 62 or older, which is the eligibility standard used for housing reserved for "elderly" residents. To just keep pace with the 40 percent projected growth in these older renters, the number of assisted units dedicated to this segment of the population would have to increase by some 600,000 (Figure 35). And this figure does not account for the 2.5 million very low-income elderly renters that lacked housing assistance in 2011, fully 1.5 million of which had worst case needs.

Among the population of older renters assisted through federal programs, a large share reside in housing developments reserved for the elderly. The Government Accountability Office estimated that there were 943,000 units specifically designated for older households in 2004. In keeping with this estimate, HUD administrative data indicate that, as of 2012, 1.0 million elderly renters lived in either public housing or privately owned developments with unit-based assistance. Another 435,000 seniors, or 30 percent of all assisted older renters, relied on housing choice vouchers—a significantly lower share than the 47 percent among all assisted households.

Since the design of elderly housing should include accessibility features, project-based assistance may be better suited for older households than vouchers. Indeed, few rentals in the private market offer such features and landlords that accept vouchers have little incentive to add them. Many states in fact use some degree of targeting in their LIHTC

programs to increase the supply of elderly housing. Over its history, the tax credits have supported roughly 311,000 units for older renters. Given its current scale, however, the LIHTC program has made only a marginal contribution toward meeting escalating demand, with only about 13 percent of tax credit properties so far dedicated to senior housing.

The population over age 75 is also increasing rapidly, and the pace of growth will accelerate in 2020 as the oldest baby boomers reach this age. At that time of life, renters are more likely to require additional assistance with activities of daily living. HUD's Section 202 program, established in 1959, has long been the primary means of expanding housing with supportive services for the elderly, but only an estimated 263,000 units were still in operation as of 2006. In its current form, the program provides an upfront capital grant to reduce development costs, as well as ongoing funding to close the gap between the cost of providing housing and what tenants can afford to pay.

The Section 202 program faces a number of significant challenges. Many developments are quite old and in need of reinvestment. In addition, the subsidy contracts on an estimated 65,000 units—about a quarter of the total—will expire by 2023, requiring action to preserve this housing as affordable. Development of new units has also slowed because

the capital grants alone cannot support the costs, requiring the layering of additional subsidies including the LIHTC. The Obama Administration has proposed halting the capital grants to allow redesign of the program, and legislation was passed in 2010 to improve provision of operating funding and prevent developments from opting out of the program. Given the future need for this type of housing, revitalization of this production program is critical.

THE URGENT NEED FOR POLICY DEBATE

It is hardly hyperbole to call the growing lack of rental affordability a crisis. More than half of all renters pay more than 30 percent of income for housing, including more than one in four that pay more than 50 percent. For the nation's lowest-income families and individuals, the situation is especially dire, with more than seven out of 10 paying more than half their income for rent.

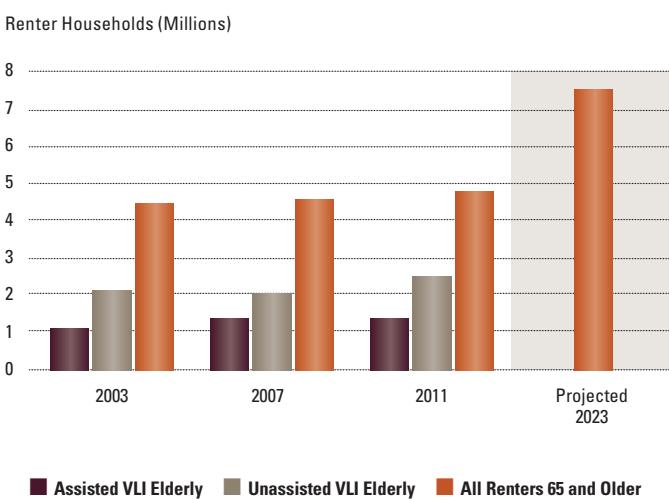
Even before the Great Recession took hold, the steady erosion of renter incomes had already led to worsening affordability. And since 2007, the number of very low-income households that are generally eligible for housing assistance has surged, unmatched by a meaningful increase in the availability of assisted units. Any increases in funding that have occurred have been eaten up by the growing shortfall caused by rising rents and declining renter incomes. As a result, the share of income-eligible households receiving rental assistance stands at its lowest point in years.

Given the costs of land, building materials, labor, and capital, market forces face a fundamental challenge in supplying housing that is within reach of the lowest-income segments of society—the elderly, the disabled, the working poor, and those underemployed and unemployed workers seeking full-time jobs. Given this sober calculus, there is a clear and compelling need for public assistance to close the gap between what these families and individuals can afford and what it costs developers to provide decent housing and a suitable living environment.

Expanding the reach of housing assistance should, of course, include efforts to make more efficient use of existing resources. And current assistance efforts should be tailored as much as possible to help address the underlying causes of economic instability, connecting recipients to communities, services, and supports that create a pathway to self-sufficiency. Housing production programs can also be better designed to improve the fabric of the neighborhoods of which they are a part. Nonetheless, greater efficiency and

FIGURE 35

Rapid Growth in Senior Renters Will Exert Pressure on Housing Assistance for the Elderly



Notes: Elderly is defined as age 62 and older. Very low income (VLI) is defined as less than 50% of area median.

Sources: US Department of Housing and Urban Development, Worst Case Housing Needs Reports to Congress; US Census Bureau, Current Population Surveys; JCHS 2013 household growth projections.

better targeting alone are not enough to bring existing assistance programs to the scale necessary to meet the country's spiraling need for affordable housing.

Despite the magnitude of the affordability crisis and the clear need for new thinking about assistance, active debate on rental housing policy has just begun. HUD's many reform proposals are a start. So, too, is a recent analysis from the Bipartisan Policy Center's Housing Commission that presents a thoughtful set of recommendations. A variety of other organizations has also identified opportunities for operational improvements in existing programs and outlined new approaches for funding affordable housing.

Hopefully, Congress will take up this lead to engage in a much-needed dialogue. While the political climate remains fractious, the work of the BPC Commission demonstrates that common ground on these issues can be found.

The country faces difficult choices as an aging population and rising health care costs strain the federal budget. It would be all too easy for rental housing concerns to get lost in the debate. But given how vital good quality, affordable housing is to the well-being of individuals and communities, the nation needs to decide that the time has come to recommit to its longstanding goal of ensuring that every American can afford a decent home in a suitable living environment.