



## POLICY CHALLENGES

With growing numbers of renter households facing cost burdens, funding for housing assistance is falling even further behind need. As a result, production of new affordable units and preservation of the aging assisted stock are becoming increasingly urgent. To make the most of limited government dollars, it is also essential to develop new strategies to link housing assistance with supportive services for the nation's most vulnerable populations.

### GAPS BETWEEN ASSISTANCE AND NEED

While substandard housing conditions were the initial rationale for public intervention in housing markets, affordability issues have largely replaced quality problems as the primary focus of rental housing policy. And in a decade where housing costs have risen faster than incomes, questions of housing displacement and economic inclusion in America's communities are becoming even more pressing.

While rising housing costs have affected households of all incomes, the consequences are most severe for those at the low end of the economic ladder. These households face the difficult choice of paying larger shares of their limited incomes for housing, crowding into smaller or lower-quality units, or moving to less expensive areas. For very low-income households (earning up to 50 percent of the area median income or AMI), federal rental assistance programs are the primary source of relief from high housing costs.

But housing assistance is currently not an entitlement. Indeed, just over one in four (26 percent) eligible households received assistance in 2013. To receive assistance, households must apply to individual programs and wait for a unit or housing choice voucher to become available. In 2013, the average wait time for a public housing unit was 13 months and the average wait time for a voucher was 23 months. Since public housing authorities often close waiting lists when demand greatly exceeds availability, wait times in high-cost locations can be significantly longer.

Despite an 18 percent jump in the number of very low-income households from 15.9 million in 2007 to 18.5 million in 2013, real funding for the largest HUD programs remains below 2008 levels. Although the number of vouchers increased from under 2.1 million in 2004 to about 2.2 million in 2014, this increase was more than offset by the loss of 105,700 public housing units and 145,600 units with project-based rental assistance.

As of 2014, 1.1 million households lived in public housing units owned and operated by local housing authorities (**Figure 27**). Another 1.2 million lived in units with project-based rental assistance, and 2.2 million households received vouchers that pay a portion of private market rents. The US Department of Agriculture subsidized another 405,000 rental units.

The US Treasury Department's Low Income Housing Tax Credit program remains the primary source for additions to the affordable rental stock. The LIHTC program provides 9 percent tax credits, which are allocated annually based on population to state housing finance agencies, and 4 percent credits, which are used to support developments with tax-exempt bond financing. Housing developers sell the tax credits to private investors to subsidize the construction or preservation of units affordable to low-income households.

Because LIHTC credits are a tax expenditure, the program does not require annual appropriations from Congress. Real tax expenditures for the program have thus risen modestly since 2008, reaching close to an estimated \$8 billion in 2015. With these credits, an average of 76,200 new affordable rental units were placed in service each year from 2009 to 2013. Assuming that the trend continued in 2014, the LIHTC program will have helped add or preserve a total of more than 2.2 million subsidized units since its inception in 1986.

Given that maximum rents for most LIHTC units must be affordable to households with incomes at 60 percent of AMI, renters with lower incomes must either pay more than 30 percent of their incomes for housing or receive an additional form of subsidy. Indeed, based on data in 10 states, a study by New York University's Furman Center and the University of Massachusetts Boston found that about half of LIHTC-eligible units received additional rental assistance. In 2009–2010, 78 percent of LIHTC renters that received additional subsidies had incomes at or below 30 percent of AMI.

President Obama's proposed FY2016 budget includes revised requirements that would provide more flexibility for developers, raising the maximum income of LIHTC tenants to 80 percent of AMI and requiring that the average income of households in affordable units not exceed 60 percent of AMI. This income-averaging strategy would not only provide deeper subsidies for households with extremely low incomes, but also encourage development of properties serving renters with a broader mix of incomes.

Some states and localities have programs for rental assistance and affordable housing production and preservation that supplement federal support. Inclusionary zoning, housing trust funds, and other local approaches provide promising models for cities facing rental affordability issues. But like federal programs, these efforts have not reached a scale sufficient to close the gap between assistance and need.

#### PREVENTING LOSSES FROM THE ASSISTED STOCK

With the cost of private-market rentals out of reach for so many households, preserving the existing stock of affordable housing is critical. At risk are nearly 2.2 million privately owned and federally assisted units whose affordable-use periods will end between 2015 and 2025. At that point, property owners can convert their units to market rents.

Nearly 60 percent of the rentals with expiring subsidies are LIHTC units. In many cases, these units can be successfully retained in the affordable inventory if the property receives other subsidies with affordability restrictions, the owner obtains a new allocation of tax credits to fund capital improvements, or the property continues to operate as affordable housing without substantial new public subsidies. However, a 2010 Ernst & Young report estimates that about 5 percent of LIHTC units converted to market rate at the end of their initial 15-year affordable-use periods.

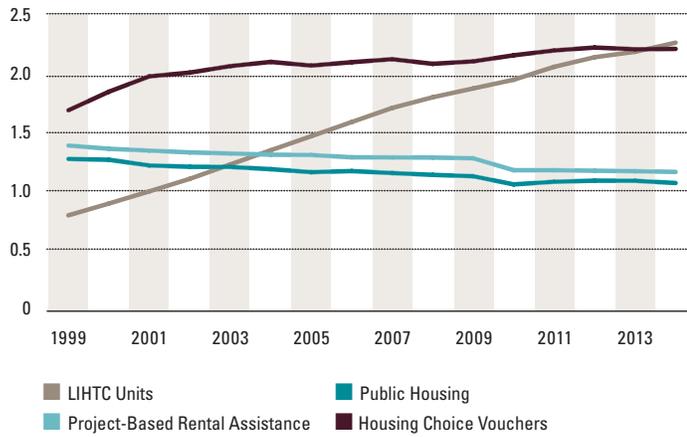
Meanwhile, units subsidized through HUD's project-based rental assistance program account for over a quarter of the subsidized housing stock that is approaching the end of its affordable-use period. According to a 2015 HUD report, about 6 percent of subsidized units of this type in 2005 were no longer in the affordable housing stock in 2014. The highest opt-out rates are among properties that include units occupied by families, have for-profit ownership, or charge below-market rents. Given that more than half (53 percent) of the subsidized units of this type cost less than the fair market rent, a significant share of this stock is at risk of loss (**Figure 28**).

The aging of the nation's public housing stock is also a concern, with more than half of the units built before 1970. In 2010, HUD estimated that the total repair and replacement needs for these aging units was about \$26 billion, or \$23,400 per unit. Annual upkeep would require another \$3.4 billion, or an average of \$3,200 per unit. Meanwhile, appropriations for capital repairs to public housing fell in real terms from about \$2.8 billion in FY2010 to just under \$1.9 billion in FY2015, no doubt exacerbating the maintenance backlog.

FIGURE 27

### Over Time, Tax Credits Have Joined Vouchers as the Largest Forms of Rental Assistance

Assisted Rental Units (Millions)



Notes: Units can be assisted through more than one program. The count of LIHTC units is cumulative and the 2014 estimate is the annual average number of units placed in service in 2009–13. Project-based rental assistance refers to units subsidized through project-based Section 8, Rent Supplement Program, Rental Assistance Payments, and Project Rental Assistance Contracts for Section 202 and Section 811 programs.  
Sources: US Department of Housing and Urban Development, FY1999–2014 Annual Performance Reports and LIHTC Database.

To help preserve and improve these properties, Congress authorized the Rental Assistance Demonstration (RAD) in FY2012. Under the first phase of the program, public housing agencies and private owners of subsidized properties could convert to long-term contracts and leverage public and private sources to fund capital needs, including tax equity through the LIHTC program. As of January 2015, public housing agencies and their partners had raised over \$485 million in private capital to make improvements, equivalent to \$37,000 per unit in participating properties. HUD received approval in FY2015 to expand the first component of RAD, limited to the public housing and moderate rehabilitation programs, from 60,000 units to 185,000 units. The second component of the program will help preserve the long-term affordability of about 38,000 rental units subsidized through other legacy HUD programs.

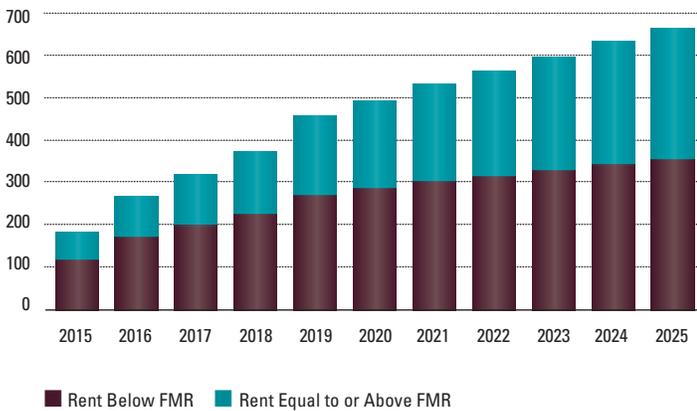
### GEOGRAPHIC CONCENTRATION OF ASSISTED HOUSING

With income inequality on the increase in the United States, creating access to opportunity must be a housing policy priority. As a 2015 analysis of HUD’s Moving to Opportunity demonstration shows, the impacts of neighborhood quality on children’s future economic prospects are profound. Indeed, each year spent in a lower-poverty community improves the chances that a child would attend college and have higher earnings as an adult.

FIGURE 28

### More than Half of Affordable Units with Expiring Subsidies Charge Below-Market Rents

Cumulative Project-Based Assistance Units with Expiring Affordability (Thousands)



Notes: FMR (fair market rent) includes rent plus tenant-paid utility costs. Project-based rental assistance refers to units subsidized through project-based Section 8, Rent Supplement Program, Rental Assistance Payments, and Project Rental Assistance Contracts for Section 202 and Section 811 programs.  
Source: JCHS tabulations of National Housing Preservation Database.

But starting with the large public housing developments built in the 1940s and 1950s, assisted rental units were often clustered in disadvantaged neighborhoods. Because many of the assisted units built decades ago are still in service, the segregation of very low-income households persists today, particularly among tenants of public housing. In 2013, some 27 percent of public housing units were located in census tracts with poverty rates of at least 40 percent, compared with just 6 percent of all rental units. Only 12 percent of these units were in neighborhoods with poverty rates under 10 percent, compared with 42 percent of all rentals. Furthermore, four out of ten public housing units were in tracts where at least three-quarters of residents were black or Hispanic, compared with just one out of six rentals overall.

While also disproportionately located in high-poverty, high-minority neighborhoods, rentals subsidized under the housing choice voucher and LIHTC programs are found in a broader range of communities (Figure 29). Indeed, just 10–12 percent of these affordable units are located in census tracts with poverty rates of at least 40 percent, and a quarter are located in tracts with poverty rates under 10 percent. In addi-

tion, only 27–30 percent of voucher and LIHTC units are in neighborhoods where at least three-quarters of residents are black or Hispanic.

In an effort to clarify and strengthen the regulatory landscape for fair housing, HUD recently ruled that all local and state governments that receive HUD funds—as well as all public housing agencies—must conduct an Assessment of Fair Housing that identifies patterns of segregation and then, based on local input, set priorities for addressing disparities in housing needs and access to opportunity. While this process will spur greater local attention to fair housing issues, the impacts of the rule will depend on the goals established by the grantees, the criteria for HUD review and acceptance, and the extent to which the findings are used in planning processes.

The Supreme Court’s recent ruling in *Texas Department of Housing and Community Affairs vs. Inclusive Communities Project* may similarly alter the future location of LIHTC properties. In June 2015, the court affirmed that discrimination claims under the Fair Housing Act can be supported by evidence of disparate impact, allowing challenges to practices that adversely affect minorities without direct racial discrimination. With this decision, the Inclusive Communities Project’s challenge to the allocation of LIHTC tax credits in the Dallas

metropolitan area can proceed, clearing the way for similar challenges in other cities. Again, however, the full implications of this ruling will be known only as these cases are decided in the coming years.

### GROWING NEED FOR INTEGRATED SERVICES

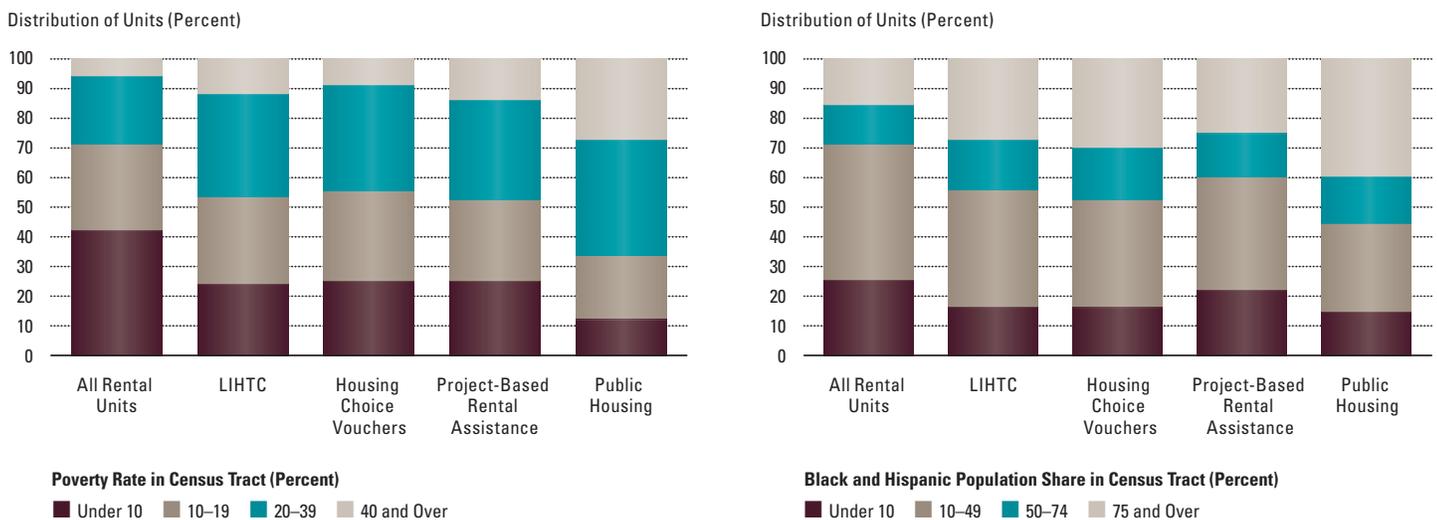
Rental subsidies alone may not address the underlying causes of housing instability among very low-income households, particularly older adults with chronic health conditions or disabilities; working-age adults that lack living-wage jobs, skills training, and/or access to affordable childcare; and formerly homeless individuals with a history of domestic violence, substance abuse, or mental illness. For these households, rental assistance programs offer an effective platform for delivering supportive services.

Households headed by elderly adults (aged 62 and over) and adults with disabilities make up a sizable share of those receiving rental assistance (Figure 30). Limited mobility is a common age-related disability. Indeed, the 2011 American Housing Survey indicates that 46 percent of assisted renters in this age group have serious difficulty walking or climbing stairs.

HUD’s Section 202 program is currently the only federal program focused on providing affordable housing with sup-

FIGURE 29

## Compared with Public Housing, LIHTC and Voucher Units Are Less Concentrated in High-Poverty, High-Minority Areas



Note: Poverty rate refers to share of families in census tract with incomes below the federal poverty level in 2013.

Source: JCHS tabulations of US Census Bureau, 2009–13 Five-Year American Community Surveys and US Department of Housing and Urban Development, 2013 Picture of Subsidized Households and LIHTC database.

portive services to older renters with very low incomes. But after producing nearly 400,000 units since its inception in 1959, the program has not included funding for new construction since FY2011. The focus of the Section 202 program has shifted toward health-centered, cost-saving initiatives designed to help older very low-income renters avoid institutional care. HUD is currently working with the Department of Health and Human Services on several other efforts to integrate healthcare services for seniors in assisted housing and to increase access to affordable housing for older adults with disabilities who want to leave institutional care.

Rental assistance programs also provide opportunities to integrate services that help working-age households improve their earnings potential. For example, HUD's Family Self Sufficiency (FSS) program, administered by public housing agencies in collaboration with local partners, provides employment and other social services to households living in public housing or holding vouchers. When assisted households increase their incomes, the difference in rent above the share they would normally pay (usually 30 percent) is placed in escrow and rebated upon successful completion of the program. As of FY2014, more than 72,000 households had participated in FSS, and over half (56 percent) of those participating for at least one year increased their incomes. Building on the FSS program, HUD plans to roll out the Bridge to Family Self-

Sufficiency, a demonstration program that replaces the rent-based escrow accounts with mentoring to build participants' goal-setting and decision-making skills.

Permanent supportive housing, which has been a critical element in efforts to eliminate homelessness, is another example of how rental assistance can be used as a platform for providing coordinated services. A 2014 study by the University of Pennsylvania and the US Department of Veterans Affairs found that the addition of one unit of permanent supportive housing for every 10,000 individuals leads to a 1.0 percent reduction in chronic homelessness.

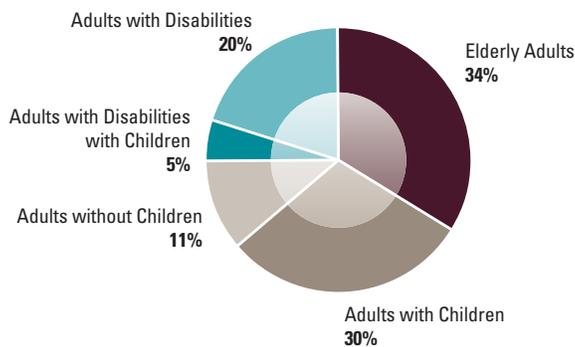
Combining supportive services with affordable housing has also reduced public expenditures on homeless adults, who are frequent, high-cost users of the healthcare and criminal justice systems. Indeed, a 2010 report by the Virginia Coalition to End Homelessness indicates that the daily cost of a permanent supportive bed in Virginia was just \$49, compared with \$70 for a bed in a local jail and \$598 for a bed in an adult psychiatric state hospital.

At the same time, though, operating expenses for permanent supportive housing developments are higher than for affordable housing developments. To address this cost issue, the innovative pay-for-success (or pay-for-performance) model is gaining ground as an alternative funding strategy. Under this approach, private investors provide upfront capital for social services, while government or philanthropic funders agree to repay the capital with profit if specified outcomes are achieved. In this way, service providers can tap new funding sources, shifting risk from the government to private investors.

FIGURE 30

### Rental Assistance Predominantly Serves Adults Who Are Elderly, Have Disabilities, or Care for Children

Share of Assisted Households



Notes: Elderly adults are aged 62 and over, the cutoff for age-restricted units. Adults with disabilities are under age 62. Household counts include those assisted by Housing Choice Vouchers, Public Housing, Project-Based Section 8, Section 202, Section 811, Rent Supplement, Rental Assistance Program, McKinney-Vento Permanent Supportive Housing, Housing for Persons with AIDS, and USDA Section 521.

Source: Center on Budget and Policy Priorities, Federal Rental Assistance Factsheet.

### IMPROVING THE ENERGY EFFICIENCY OF THE RENTAL STOCK

The residential housing sector has a large carbon footprint, accounting for about 22 percent of national energy consumption and a similar share of domestic CO<sub>2</sub> emissions. According to the most recent Residential Energy Consumption Survey (RECS), renters were responsible for nearly a quarter of all residential energy use in 2009. On a per-household basis, renters living in single-family homes consumed 19 percent less energy than owner-occupants, while renters living in multifamily units consumed 29 percent less energy than owner-occupants. Lower energy use among renters reflects in part the smaller average size of rentals relative to owned units. While the 2015 RECS is not yet available, survey results will no doubt show higher energy use in the rental sector because of increases in both the rentership rate and the share of single-family rentals.

Cumulative improvements to the energy efficiency of the rental stock occur through construction of new units, loss or replacement of older units, and retrofits of existing units. For example, rentals built in the 2000s consumed 28 percent less energy on average in 2009 than those built before 1980 (Figure 31). Nonetheless, the typical unit built before 1970 used nearly 25 percent less energy in 2009 than same-age rentals in 1980, highlighting the critical importance of retrofits.

While a variety of government and private initiatives have attempted to reduce energy use in the rental housing sector, significant gains require better alignment of the incentives facing renters and property owners. Property owners generally pay the up-front costs of efficiency improvements, but tenants receive the benefit of lower energy costs because they typically pay for utilities. As a result, property owners do not capture the full return on their investments unless they charge equivalently higher rents. While several proposals related to lease structures and energy-use disclosures have attempted to alter this disincentive to invest, none have been widely adopted.

Moreover, improving the efficiency of rental housing involves complex tradeoffs related to household location decisions.

Transportation-related energy use is a major component of a rental unit's energy footprint, given that location determines tenants' travel options. Improving the efficiency of the overall rental stock therefore involves not just reducing the energy use of individual units, but also renters' transportation-related energy use. A further complication is that efforts to improve the energy efficiency of the rental supply may conflict with other critical policy objectives, including affordability if property owners pass the costs of retrofits on to tenants.

### THE OUTLOOK

The need for rental housing that low- and moderate-income households can afford is already great and growing. Although multifamily construction is booming, most new rentals are targeted to the high end of the market. And with the huge millennial population poised to enter the housing market, the pressure on rents will only increase.

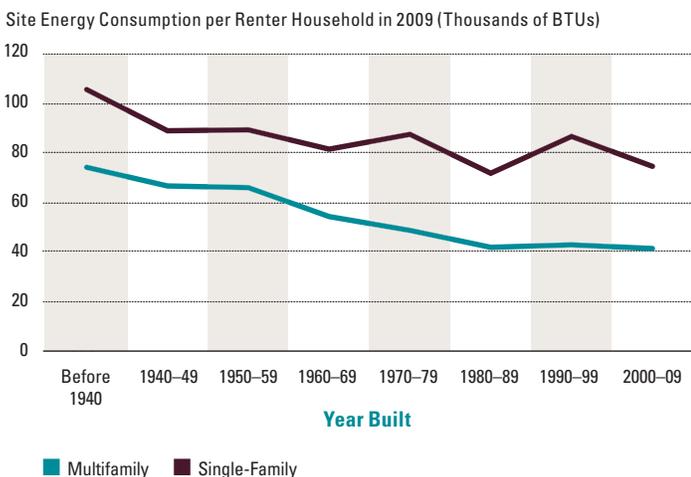
The strained political climate and caps on nondefense discretionary spending have held down appropriations for federal rental assistance programs. Recognizing these limitations, the federal government has made new efforts to integrate affordable housing, healthcare, and supportive services for the most vulnerable households, including the working poor and older adults with chronic health conditions and disabilities.

There is broad recognition that neighborhood quality directly shapes the economic opportunities available to low-income renters. Indeed, increasing the access to communities with good-quality schools, low crime rates, and proximity to employment and transit can result in better economic outcomes for both parents and children. Improvements to existing rental assistance programs would help more low-income households find homes in a broader range of neighborhoods. At the same time, however, developing new rental housing in disadvantaged communities can be an important means for fostering neighborhood revitalization.

Each of these policy issues deserves attention and debate. While specific solutions vary across markets, the ultimate goal must be to ensure that the nation's rental housing stock meets the needs of the diverse renter population and that America's communities are inclusive of all households.

FIGURE 31

### Despite Overall Improvement, Older Rentals Remain Less Energy Efficient than Newer Ones



Note: Single-family category excludes mobile homes.  
Source: JCHS tabulations of 2009 Residential Energy Consumption Survey.