PERVASIVE COST BURDENS

According to the most recent American Community Survey, the overall number of households paying more than 30 percent of income for housing declined for the third consecutive year, receding from 40.9 million in 2012 to 39.6 million in 2013. The share of cost-burdened households also fell from 35.3 percent to 34.1 percent.

Almost all of this improvement came on the homeowner side, where income gains and interest-rate-driven reductions in mortgage costs—along with foreclosures among some of the most distressed—pushed the shares of both moderately and severely burdened owners to the lowest levels in a decade. Even so, more than one in four homeowners still paid over 30 percent of income for housing and about one in ten paid over 50 percent.

The number of cost-burdened renters, in contrast, set a new high in 2013 of 20.8 million, totaling just under half of all renter households. Although the number of severely burdened renters edged down slightly, the number of moderately burdened renters climbed by a larger amount.

Regardless of tenure, over 80 percent of households with incomes under $15,000 (equivalent to full-time pay at the federal minimum wage) were cost burdened in 2013 (Figure 35). Just over half of homeowners and three-quarters of renters with incomes between $15,000 and $29,999 were also housing cost burdened. Even those earning $30,000–44,999 commonly face cost burdens, including 37 percent of owners and 45 percent of renters.

Minorities and certain types of households are especially likely to have severe housing cost burdens. Indeed, 26 percent of black households, 23 percent of Hispanic households, and 20 percent of Asian and other minority households were severely burdened in 2013, compared with just 14 percent of white households. Nearly a third of single-parent families also had severe burdens, compared with a tenth of married couples with children. Finally, more than half of households headed by an unemployed individual in 2013 were severely housing cost burdened.

The cost-burdened share of households is particularly high in expensive coastal markets, including Los Angeles, New York,
and Honolulu. In 2013, 41 percent of households living in the 10 highest-cost major metros had cost burdens, far exceeding the 34 percent in the nation as a whole. Nevertheless, even in lower-cost metros like Miami, Las Vegas, and Orlando, 40 percent or more of households had cost burdens. Moreover, affordability pressures in the 10 most expensive markets reach further up the income scale. In fact, nearly half (48 percent) of households with incomes of $45,000–74,999 were housing cost burdened in these metros—more than twice the share (22 percent) nation-wide. As a result, the nearly 20 million households living in the 10 highest-cost metros must earn well above the national median income of $51,900 to live in housing they can afford.

Meanwhile, the affordable options for lower-income households are extremely limited in all market areas. In 98 of the 100 largest metros, more than three-quarters of households with incomes below $15,000, and more than half of those with incomes between $15,000 and $29,999, were housing cost burdened in 2013.

**CONSEQUENCES OF HIGH-COST HOUSING**

On average, severely cost-burdened households in the bottom expenditure quartile (a proxy for low income) spent almost three times as much on housing in 2013 as those living in affordable housing. When paying for housing takes at least half of household income, families have little left over for other vital needs. For example, severely cost-burdened households in the bottom expenditure quartile spent 70 percent less on healthcare and 40 percent less on food than their counterparts with housing they could afford (Figure 36). In addition to diminished quality of life for a particular household, such significant cutbacks reduce spending in the economy as a whole.
Where households make the biggest spending cuts depends on their stage in life, with both short- and long-term implications for health and well-being. Severely cost-burdened households under age 65 in the bottom expenditure quartile contributed 52 percent less to their retirement savings than those in affordable housing. Same-aged households in the next highest expenditure quartile contributed 41 percent less. In contrast, severely cost-burdened households aged 65 and over in the lowest expenditure quartile spent 60 percent less on healthcare and 41 percent less on food than otherwise similar households with affordable housing.

Paying large shares of income for housing does not guarantee the units will be adequate or safe. Housing deficiencies related to plumbing, electrical, and heating systems or to structural integrity affect a much larger share of renters (9 percent) than owners (3 percent). Moreover, the incidence of such problems among owners declined over the past 20 years, but remained unchanged among renters. The share of households earning less than $15,000 that live in inadequate housing is especially high at 10 percent.

Inadequate housing is found primarily in urban areas, accounting for 7.5 percent of central city units. But inadequacy is also a significant concern in many rural areas, where 5.3 percent of units are inadequate. These problems are particularly evident in Native American lands in the Southwest, colonias along the Mexican border, and locations throughout Appalachia. According to an analysis by the Housing Assistance Council, the share of housing units that lack complete plumbing is only 0.5 percent nationwide, but 5.3 percent on Native American lands, 1.1 percent along the Mexican border, and 0.8 percent in rural areas of central Appalachia.

### SUPPLY AND DEMAND FOR AFFORDABLE UNITS

Extremely low-income households (earning up to 30 percent of area median) have increasingly few housing choices. In 2013, 11.2 million renters with incomes this low competed for 7.3 million affordable units, leaving a shortfall of 3.9 million (Figure 37). Excluding units that were structurally inadequate or occupied by higher-income households, there were only 34 affordable units for every 100 extremely low-income renters. Despite a slight improvement in recent years, the gap between the number of extremely low-income renters and the supply of units they can afford nearly doubled from 2003 to 2013.

When considering all very low-income households (earning up to 50 percent of area median), the absolute shortage of affordable units is smaller, but a large share of these households still have to live in units they cannot afford. Overall, 18.5 million very low-income renters competed for 18.0 million affordable units in 2013. But given that a third of those units were occupied by higher-income households and another 7 percent were inadequate, only 58 affordable units were left to serve every 100 very low-income renters.

### URGENT NEED FOR HOUSING ASSISTANCE

Since the private sector cannot profitably supply very low-cost units, the government must play a critical role in ensuring that the nation’s most disadvantaged families and individuals have good-quality, affordable housing. Very low-income households qualify for a variety of federal rental assistance programs supported primarily by the US Department of Housing and Urban Development. As of 2013, HUD programs accounted for 4.8 million assisted renters, with just under half supported through housing choice vouchers, 1.1 million in public housing developments, and 1.6 million in privately owned developments. US Department of Agriculture (USDA) programs subsidize an additional 406,000 rentals.

The Low Income Housing Tax Credit (LIHTC) program—administered by state agencies, often with financing from mortgage revenue bonds—provides the primary support for construction and preservation of affordable rentals. Since its inception in 1986, the program has financed construction or rehabilitation of 2.1 million units affordable to lower-income households (Figure 38). While LIHTC subsidies alone cannot bring rents within reach for extremely low-income households, affordable housing developers often combine the tax credits with assistance from the housing voucher and project-based programs to serve these renters.

Federal housing assistance supports the nation’s most vulnerable families and individuals. As of 2013, the average annual income of a HUD-assisted household was about $12,900, while that of a USDA-assisted household was $12,000. These pro-
grams also serve large shares of older adults, especially those with disabilities. Indeed, a third of HUD-assisted households in 2013 were headed by an adult aged 62 and over, while another third were working-age households that included a person with disabilities. More than 60 percent of USDA-assisted renters were seniors or people with disabilities.

The growing need for housing aid continues to overwhelm the capacity of federal, state, and local governments. According to HUD estimates, the number of very low-income renters qualifying for subsidies increased by 18 percent between 2003 and 2013, from 15.7 million to 18.5 million. At last measure in 2013, however, just over a quarter (26 percent) of eligible very low-income households received rental assistance.

Unmet need has continued to grow despite real increases in federal appropriations for two of HUD’s largest programs—housing choice vouchers and project-based rental assistance—between FY2005 and FY2015. But instead of serving more households, most of the increased funding was offset by the higher costs of assistance due to rising market rents.

Meanwhile, appropriations for programs subsidizing construction of affordable housing have fallen well below levels a decade ago. For example, funding for USDA’s Section 515 program was down 77 percent in real terms between FY2005 and FY2015. After adding 533,500 rental units to the affordable rural stock between 1963 and 2011, the program has supported no new construction since. Appropriations for HUD’s Section 202 program, which over its lifetime funded production of 400,000 supportive housing units for older adults, were also cut 55 percent over this period, and included no funds for new construction in recent years.

Federal budget cuts due to limits on non-defense discretionary spending established by the 2011 Budget Control Act have also taken a toll on other key supports for affordable housing. Funding for the HOME program, an important source of gap financing for affordable housing developments as well as other housing programs, dropped 62 percent between FY2005 and FY2015. In addition, funding for the CDBG program, which provides funds for a wide range of local community development activities, also fell by half over this period.

PRESERVING THE AFFORDABLE STOCK

Amid declining subsidies and rising development costs, preservation of the existing stock of affordable housing has taken on new urgency. As it is, nearly 2.2 million assisted units are at risk of removal over the coming decade (Figure 39).

More than 1.2 million of these at-risk rental units are in LIHTC developments whose compliance periods are set to end. At that point, developers may find it difficult to keep the units affordable if they lack the funds to make necessary upgrades. Their options are to refinance their loans, apply for another round of tax credits, or sell their stake in the property or partnership.
Of the remaining at-risk units, 530,000 are in privately owned developments with rents subsidized under federal contracts. Once those contracts expire, property owners can opt out of the program and raise their rents. Owners with properties in high-rent neighborhoods earning below-market rents for their assisted units have the most incentive to opt out. Half of the stock with expiring project-based subsidy contracts are in this category.

In other cases, affordability is tied to the mortgage backing the property. These units may be lost from the affordable stock when the mortgage comes to term, the property owner prepay the loan, or if refinancing is not paired with additional project-based subsidies to protect tenants against large rent increases. These conditions affect more than 200,000 affordable units financed through HUD’s Section 202 program, USDA’s Section 515 program, and FHA mortgage insurance programs.

A number of preservation initiatives are under way. In 2010, HUD received authorization to provide rental assistance contracts for Section 202-financed senior housing projects that are refinanced or recapitalized, thus preventing displacement of income-eligible tenants. In 2012, HUD implemented a pilot program that expedites approvals for the purchase or refinance of LIHTC properties through FHA’s Section 223 program.

In addition, Congress recently approved expansion of HUD’s Rental Assistance Demonstration (RAD) program from 60,000 units to 185,000 units. The RAD program, which converts existing financial support of HUD-assisted properties into long-term contracts for rent subsidies to expand access to private financing, primarily aims to foster reinvestment in the public housing stock, but is also open to three legacy programs for privately owned subsidized housing. Meanwhile, USDA’s Multifamily Housing Preservation and Revitalization demonstration program offers a variety of assistance to owners or buyers of Section 515 properties, although the scale of these efforts is small relative to need.

In almost all of these cases, however, the LIHTC program is a critical source of investment capital that will be necessary to keep the units affordable. These competing demands—for new construction as well as for preservation—have put the tax credit program under extreme pressure and raised the question of whether it ought to be expanded.

**PROGRESS IN REDUCING HOMELESSNESS**

The lack of affordable housing in the United States continues to leave nearly 600,000 people homeless. More than a third are people in families, including 130,000 children under the age of 18. By comparison, chronically homeless individuals (those who have been without a place to live for at least a year or have had repeated episodes of homelessness over the past few years) account for a much smaller share (15 percent) of the homeless population.

Recent increases in federal funding have aided progress in reducing both homelessness overall and among the most vulnerable groups. Indeed, the number of beds in permanent supportive housing expanded 60 percent between 2007 and 2014, to over 300,000. Beds for the chronically homeless accounted for just over half of this increase. As a result, total homelessness fell 11 percent in 2007–14, the number of homeless veterans dropped 19 percent, and the number of chronically homeless individuals was down by 30 percent. At the same time, however, the number of homeless people in families declined by only 8 percent.

But the national reduction in homelessness is not apparent in all markets. Rising rents and a dwindling supply of affordable rentals continue to put people at risk, especially in high-cost locations. Indeed, total homelessness jumped by 29 percent in New York and 40 percent in Massachusetts between 2007 and 2014. The increase in the District of Columbia was even larger, at 46 percent. Family homelessness is particularly acute in major cities, which were home to 45 percent of this population in 2014. New York City headed the list with 41,600 homeless people in families, or nearly 20 percent of the national total.

**REVITALIZING DISTRESSED NEIGHBORHOODS**

By many measures, the US housing market has made a substantial recovery from the crash. According to Zillow, national home prices rebounded in 2014 to within 10.4 percent of their previous peak, reducing the share of owners with mortgages that have negative equity from 31.4 percent in early 2012 to
eral decades, with the typical pre-1970 house using nearly 30 percent less energy per square foot in 2009 than a similar-aged home in 1980. Newer homes are also more efficient thanks to improvements in space heating, air conditioning, insulation, and major appliances. Indeed, homes built in the 2000s consume almost 18 percent less energy per square foot than those built previously.

Encouragingly, Harvard’s Center for Green Buildings and Cities finds that support for green building is gaining traction at the local level. Based on information from the US Green Building Council, the American Institute of Architects, and the websites of local governments, 185 of the 715 US cities with populations above 50,000 have green building programs. Of this group, 124 cities have programs specifically for residential construction. Most green building programs take the form of ordinances that set standards for newly constructed or renovated structures, although some include incentives, zoning codes, tax abate- ments, or action plans to encourage high-performance building practices.

Most of the cities that have adopted green policies for residential buildings are on the coasts. California leads with 45 programs, while Florida has 22. Given that these two states are home to much of the nation’s population and account for a large share of new residential construction, their adoption of green standards may help pave the way for broader implementation by other states and by the homebuilding industry.

**THE OUTLOOK**

While the past year brought some relief, fallout from the housing crash and Great Recession lingers on. Large shares of low-income households—and renters in particular—continue to spend unreasonable shares of their income on housing. With income growth failing to keep pace with rents, affordability pressures are unlikely to ease noticeably in the near future.

And with such large shares of households struggling with housing cost burdens, fewer are able to save adequately for emergencies, retirement, or to buy homes, thereby limiting their wealth-building potential as well as shrinking the first-time homebuyer market. Meanwhile, the number of affordable units for lowest-income households falls far short of need, and preserving the stock that does exist must take priority.

The long-delayed capitalization of the National Housing Trust Fund would be an important step in addressing these intractable housing challenges. Indeed, this trust fund would support the first production program to target extremely low-income households since the launch of the Section 8 program in 1974. And unlike current rental assistance programs, the trust fund would not be subject to annual appropriations but instead have a predictable stream of funding.