



Housing Challenges

Even before the economy began to shed jobs early this year, growing numbers of households were feeling the affordability pinch. In 2006, 17.7 million households were paying more than half their incomes for housing, with the numbers and shares in nearly all age groups and family types—and at all levels of work—on the increase. Meanwhile, the homeless population is up to 744,000 on any given night, and is estimated to be between 2.3 million and 3.5 million over the course of a year.

While falling home prices in many areas may have brought some relief from affordability challenges in 2007, mortgage interest-rate resets and rising energy costs have saddled even more households with high housing costs. On top of the longstanding challenge of affordability, more and more households are losing their homes to foreclosure, putting even more pressure on already stressed housing markets.

To bring affordability back to its level in 2000 would take some combination of large price declines, interest-rate reductions, rent deflation, and unprecedented real income growth. But even at the start of the decade, housing costs were well out of reach for many of the nation's most vulnerable households, including low-wage workers and families with children. Distressingly, veterans are among the types of households with high housing cost burdens and, worse, a high incidence of homelessness.

Eroding Affordability

Affordability problems are edging up the income scale (**Figure 28**). While low-income renters make up the largest share of severely burdened households, a rising number of middle-income homeowners also face cost pressures. Between 2001 and 2006, the number of severely burdened renters in the bottom income quartile increased by 1.2 million, while the number of severely burdened homeowners in the two middle-income quartiles ballooned by 1.4 million (**Table A-7**). By 2006, middle-income homeowners were twice as likely as middle-income renters to pay more than half their incomes for housing.

Owners who recently moved are especially likely to be severely cost burdened. While this in part reflects their younger average age, the share of recent movers with severe burdens has climbed sharply since 2001, due in part to the run-up in house prices, the increase in interest rates after 2004, and the interest-rate resets on many adjustable loans originated in 2004 and 2005.

Tapping home equity through second mortgages has apparently led to higher housing cost burdens as well. In 2006, approximately 20 percent of all middle-income homeowners with second mortgages paid more than half their incomes for housing. This is nearly twice

the share among those with only a first mortgage. Among low-income homeowners, 90 percent of those with second mortgages are severely cost burdened compared with 70 percent of those with just a first mortgage.

For homeowners earning more than the median income, the likelihood of being housing cost burdened nearly doubled between 2001 and 2006. Some of this increase reflects the substitution of mortgage debt for unsecured consumer debt through either cash-out refinances or second mortgages. In the short run, this allows borrowers to reduce their monthly carrying costs on the same amount of debt. But consumer debt can be discharged in bank-

ruptcy without the lender's consent, while mortgage debt cannot. As a result, debt substitution exposes homeowners to even greater foreclosure risk.

Escalating energy costs have made matters worse. How these increases affect consumer spending depends on the specific circumstances of individual households, including their home heating and cooling needs, the energy efficiency of their homes, and the type of energy they use. But comparing recent growth in total outlays with spending on home energy, utilities, and gasoline conveys a general sense of this impact. Among households in the bottom income quintile, average spending on home energy and utilities rose twice as fast as total spending in 2004–2006, while spending on gasoline increased more than four times as fast. This is equivalent to a one-percentage point shift in spending from other uses to energy. The surge in energy prices since 2006 has no doubt diverted even more income to home utility and travel costs.

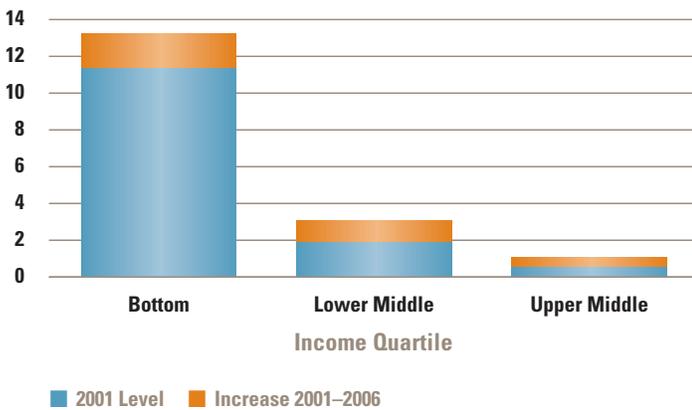
Local land use regulations are also contributing to the increase in housing cost burdens by skewing development toward more expensive homes and restricting the types and density of housing that can be built. One study concluded that land use restrictions slow building activity and inflate housing prices both during boom times and over the long term. House price appreciation in 2002–2005 averaged 45 percent in the most restrictive areas, compared with 24 percent in the least restrictive (Figure 29).

In addition, despite having higher average incomes as well as higher housing costs, the most restrictive metros have a greater incidence of severe housing cost burdens. In 2006, the aggregate share of severely cost-burdened renters was about three percentage points higher in these areas than in the least restrictive metros. The reason the gap is not larger is that severe burdens are concentrated among low-income households that have to stretch to afford housing even in the least restrictive metro areas.

Figure 28

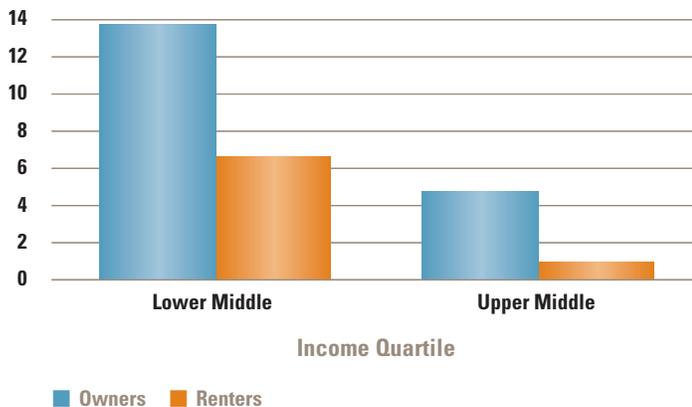
Severe Cost Burdens Affect Growing Numbers of Households ...

Households with Severe Cost Burdens (Millions)



... And Are Now More Common Among Middle-Income Owners than Middle-Income Renters

Share of Households with Severe Cost Burdens in 2006 (Percent)



Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. Severe cost burdens are housing costs exceeding 50% of total household income.

Sources: JCHS tabulations of the 2001 and 2006 American Community Surveys.

The Burden on Children

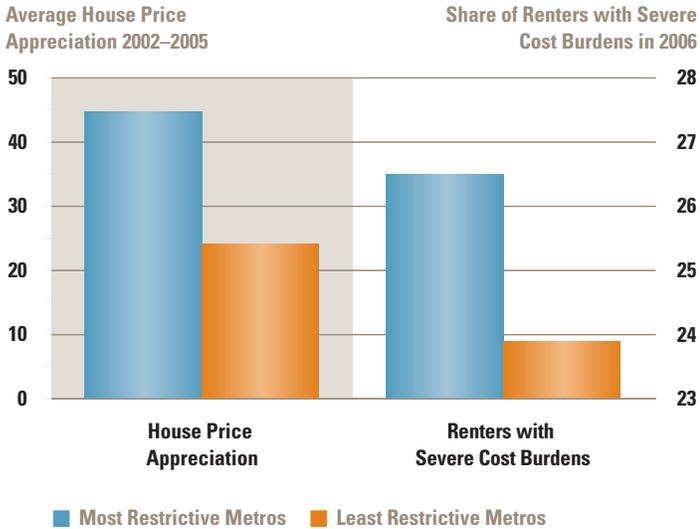
Sadly, 12.7 million children—more than one out of six—in the United States live in households paying more than half their incomes for housing. The 13.8 million children in low-income households—and particularly those headed by minorities and single parents—are especially likely to live in these circumstances (Figure 30).

For many of these vulnerable families, high housing outlays mean cutting other spending to the bone. In 2006, severely housing cost-burdened households with children in the bottom expenditure quartile had only \$548 per month on average for all other needs. As a result, these families spent 32 percent less on food, 56 percent less on clothes, and 79 percent less on healthcare than families with low housing outlays. Low-expenditure families with affordable housing, however, spent more than three times as much for transportation, suggesting that high housing outlays buy closer proximity to stores and employment. Still, the \$140 difference in transportation spending is only a fraction of the \$560 disparity in housing outlays between the two groups.

Figure 29

Restrictive Development Regulations Contribute to Renter Cost Burdens as Well as to Higher Home Prices

Percent



Notes: Most (least) restrictive metros are the top (bottom) third of metros ranked by the Wharton Residential Land Use Regulatory Index. Severe cost burdens are the aggregate shares of renters across metros spending 50% or more of income on housing.
Sources: Freddie Mac, Conventional Mortgage Home Price Index; 2006 American Community Survey.

As if this were not enough, households with children are more likely to face crowded or inadequate living conditions. Nearly one in five low-income families—and nearly one in four low-income minority families—reported living in structurally inadequate housing in 2005. What is more, this poor-quality housing is not necessarily affordable. Indeed, these families have a slightly higher incidence of severe cost burdens than otherwise similar families living in adequate units.

Inadequate housing conditions expose children to health and safety risks. In particular, homes built before 1970 may contain lead paint, while those built before 1940 may not meet current building codes. Some 46 percent of children in low-income households live in pre-1970 homes, and 16 percent live in pre-1940 units. By comparison, only 32 percent of children in high-income households live in pre-1970 housing and just 10 percent live in pre-1940 housing.

For some families, the cost of even poor-quality housing in distressed neighborhoods is simply too much. With nowhere to turn, many of these families end up in shelters or on the streets. Homelessness affects more than 600,000 families and more than 1.35 million children every year. It is estimated that families make up about half of the homeless population over the course of a year, and more than a third of the homeless are children.

Challenges of Disabled Veterans

Veterans with disabilities make up 29 percent of the 16.4 million veteran households, but 42 percent of the more than 1.5 million veterans with severe housing cost burdens. Low incomes are a key factor, with fully one in three working-age veteran householders with disabilities in the bottom income quartile, compared with just one in ten without disabilities. Even after controlling for income, however, the incidence of severe housing cost burdens is still slightly higher among younger veterans with disabilities than those without. This is in stark contrast to the experience of older disabled veterans and the disabled low-income population in general, who normally have lower cost burdens because they receive priority in the allocation of rental assistance.

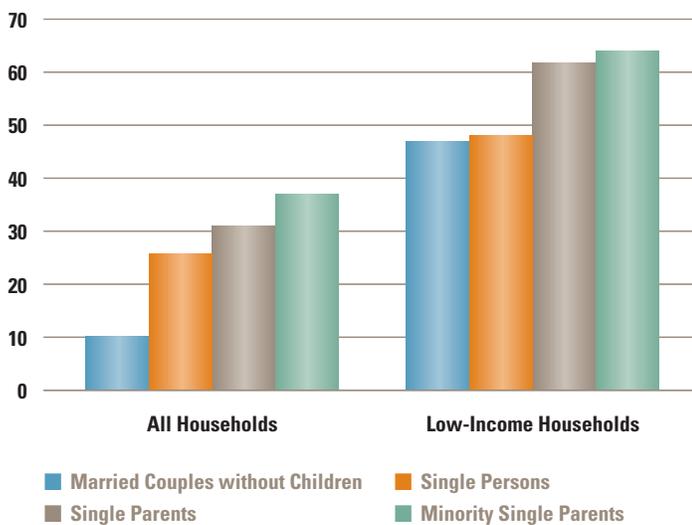
Veterans are also overrepresented among the homeless. While accounting for only 10 percent of all adults, veterans make up between 23 percent and 40 percent of homeless adults. A recent report by the US Department of Veterans Affairs estimates that about 194,000 veterans are homeless on any given night, and nearly 300,000 are homeless at some time in a given year. More than 95 percent of homeless veterans are male, and just under half are age 45 or older.

While homeless veterans are more likely than non-veterans to suffer from post-traumatic stress disorder, the National Alliance to End Homelessness (NAEH) and the National Survey of Homeless Assistance Providers and Clients attribute their homelessness to many of the same causes: lack of a support system and high rates of mental or physical illness and/or drug addiction. Nearly half of homeless veterans reported having a mental illness and about 10 percent

Figure 30

Single-Parent Families Are More Likely to Have Severe Affordability Problems

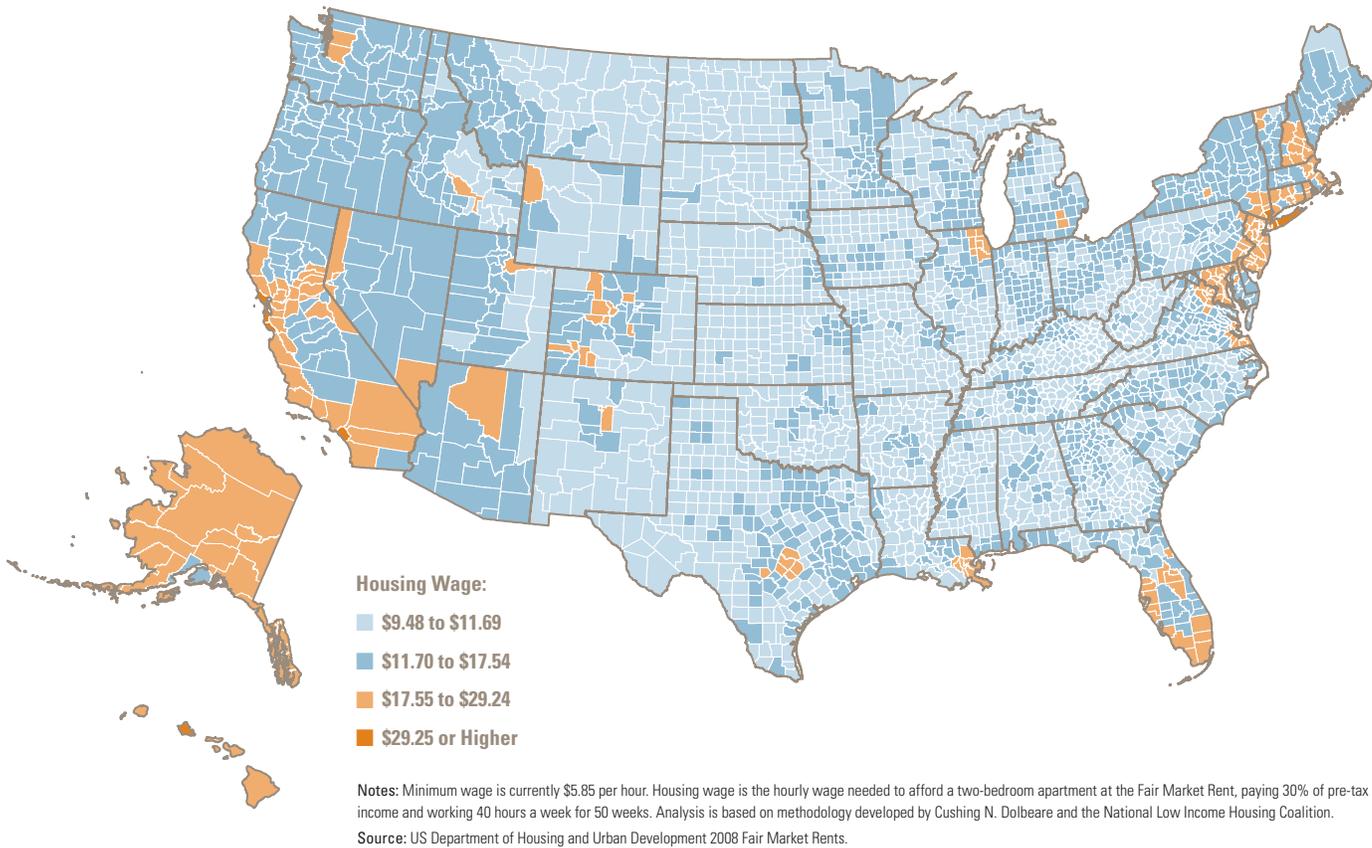
Share of Households with Severe Cost Burdens (Percent)



Notes: Low-income households are in the bottom fourth of all households sorted by pre-tax income. Minorities are all non-white householders, including Hispanics. Households with severe cost burdens spend more than 50% of income on housing.
Source: JCHS tabulations of the 2006 American Community Survey.

Figure 31

The Housing Wage Across the Country Exceeds the Federal Minimum Wage of \$5.85 per Hour



reported having a mental health problem in the past year. The shares reporting problems with drugs (40 percent) and alcohol (58 percent) are similar to those among other homeless adult males.

Tragically, veterans are a large share of the chronically homeless. According to NAEH estimates, veterans make up about 63,000 of the 170,000 Americans in this category. The chronically homeless often have complex medical conditions such as mental disability and/or an addiction, and cycle in and out of hospitals, shelters, jails and institutions. Several cities, including New York City and Portland, Oregon, have developed permanent supportive housing and prevention programs that have successfully reduced chronic homelessness while also saving public resources.

The Wage Deficit

High housing costs challenge many working Americans. More than a quarter of severely burdened households have at least one full-time worker and 64 percent at least one full- or part-time worker. Even households with two or more full-time workers are not exempt, making up fully 19 percent of the severely burdened.

The incidence of severe burdens among those earning multiples of the minimum wage is also exceedingly high. More than a third of households with incomes that are one to two times the full-time equivalent of the minimum wage have severe housing cost burdens. Even among the 15.3 million households earning two to three times the full-time minimum wage equivalent, fully 15 percent pay more than half their incomes for housing.

Nowhere in America does a full-time minimum-wage job cover the cost of a modest two-bedroom rental at 30 percent of income (**Figure 31**). In the least affordable areas of the country, the housing wage—the income necessary to afford the fair market rent on a modest apartment, working 40 hours a week for 50 weeks a year—is now five times the current federal minimum wage.

Government Assistance

Despite the alarming scope of affordability problems, housing assistance represents a small and shrinking share of the federal budget. From 1997 to 2007, housing assistance programs fell from 10 percent to 8 percent of the nation's dwindling domestic discretionary

outlays. And even though the number of households with severe burdens rose by more than 20 percent from 2001 to 2005, the share of renter households receiving assistance barely budged.

While the Low Income Housing Tax Credit program has succeeded in expanding the supply of affordable units, losses from the inventory remain exceedingly high. With the number of low-income renter households continuing to rise and the number of affordable and available units continuing to fall, the need grows ever larger. Today, there are only about 6 million rentals affordable to the nearly 9 million households with incomes below 30 percent of the median for their Census division (\$11,000 to \$18,000). But nearly half of these affordable units are either inhabited by higher-income households or stand vacant. As a result, about 9 million lowest-income households must compete for just 3 million affordable and available rental units (Figure 32).

Heavily targeted toward renter households, federal housing assistance currently does next to nothing for owners that have severe housing cost burdens and are at risk of losing their homes. While federal and state governments have intervened to blunt the impending wave of foreclosures, the relief is temporary and in many cases relies on the voluntary efforts of lenders, servicers, and investors. The largest-scale program uses federal housing

insurance to allow some homeowners to refinance their way out of trouble. As it is, however, many owners do not qualify for any of the forms of assistance being offered. Once the current storm passes, foreclosure rates may settle back down but the affordability problems of owners—and especially of former owners forced back into renting—will persist.

The Outlook

The weakness of the economy does not bode well for income growth in the short run. But even in the longer run, the housing cost pressures on working Americans are unlikely to lighten. Much of employment growth will continue to be in part-time and low-wage positions. This trend, together with the high operating costs of housing and the restrictions on building modest homes at higher densities, makes efforts to meet the nation’s affordability challenges an uphill battle.

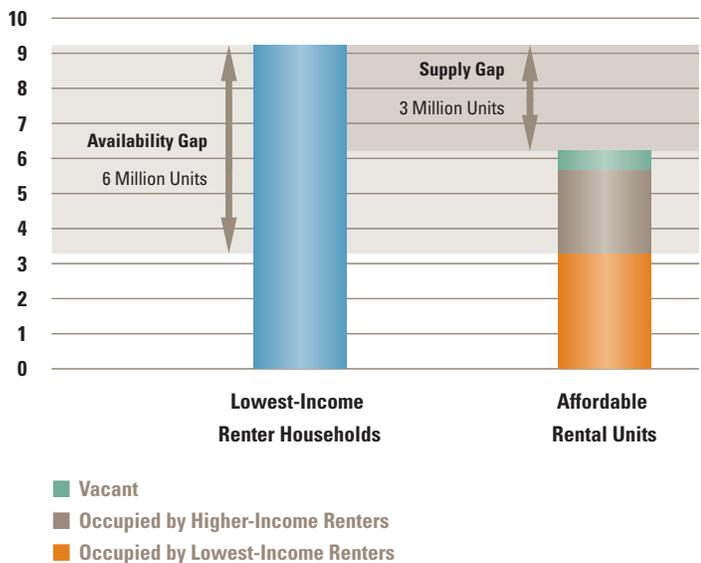
Thus far, there has been little national outcry about the fact that growing numbers of low- and middle-income families are spending half or more of their incomes on housing, and that so many children are living in unhealthy, unsafe conditions—or, worse yet, forced to make their way on the streets. The grim plight of many veterans has also failed to rally a groundswell of support to tackle these urgent issues.

Nevertheless, housing advocates continue to press for additional resources to assist more low-income households and to promote programs that add directly to—or at least stave off further losses from—the supply of affordable rentals. Joining their voices is a growing chorus of organizations intent on drawing attention to the insidious spread of affordability problems. These organizations hope to broaden the political base for housing programs and spark discussion about the need for workforce housing at the local, state, and federal levels. Another contingent, driven by concerns about the environment and the erosion of America’s economic competitiveness, is working to encourage smart growth and “green” building practices. Whether these efforts produce a coalition strong enough to attract resources or make meaningful changes to the nation’s housing programs remains to be seen.

Figure 32

Lowest-Income Renters Far Outnumber Affordable and Available Units

Millions



Notes: Lowest-income households earn less than 30% of the median household income in their Census division, unadjusted for family size. Affordable units have rents less than 30% of lowest incomes. Sources: JCHS tabulations of the 2006 American Community Survey.