



## Housing Challenges

In the aftermath of the Great Recession, growing numbers of owners and renters alike cannot afford housing. Federal efforts to limit the fallout have managed to hold the line on homelessness but have done little to expand assistance to the rising ranks of lower-income households or to the many neighborhoods blighted by foreclosures. With stimulus programs now coming to an end, budget pressures threaten to reduce already inadequate federal and state funding for rental housing assistance.

### **COST BURDENS ON THE RISE**

According to the latest American Community Survey, 42 million households (37 percent) pay more than 30 percent of income for housing (moderate burden), while 20.2 million (18 percent) pay more than half (severe burden). Between 2001 and 2010, the number of severely cost-burdened households climbed by a staggering 6.4 million.

The economic downturn has been especially hard on low-income households (**Figure 31**). The number of households earning under \$15,000 a year and paying more than half their incomes for housing jumped by 1.5 million in 2007–10, or nearly double the increase in 2001–7. In part, this increase reflects widening income inequality. After adjusting for inflation, lowest-income families made up just 13 percent of households in 2001, but accounted for 25 percent of household growth in 2001–10 (**Figure 32**). If the income distribution had held at 2001 levels, there would have been 1.0 million fewer households earning less than \$15,000 in 2010, and 1.4 million fewer earning \$15,000–29,999.

But even within these groups, affordability problems have become more widespread. The share of severely cost-burdened households in the lowest-income group rose from 64.3 percent to 68.0 percent in just the three years from 2007 to 2010. Over this same period, the number of severely cost-burdened households earning \$15,000–29,999 shot up even more rapidly (19 percent), lifting the share above 30 percent.

### **CHARACTERISTICS OF COST-BURDENED HOUSEHOLDS**

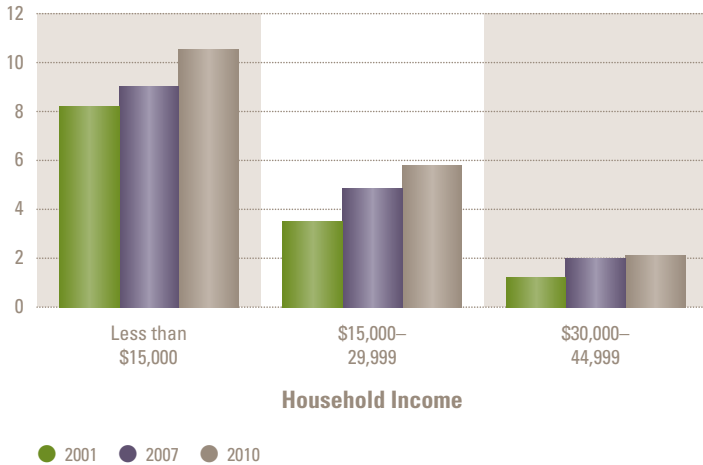
Renters account for more than half of severely cost-burdened households, outnumbering owners 10.7 million to 9.5 million. Fully 27 percent of renters are severely burdened, more than twice the share of homeowners. Nevertheless, aside from those in the lowest income group, larger shares of homeowners with mortgages face severe housing cost burdens than renters with comparable incomes (**Table A-4**).

Most severely cost-burdened householders are white (11.8 million), and the increase in their numbers in the 2000s (3.3 million) exceeded that for all minorities combined. While the incidence

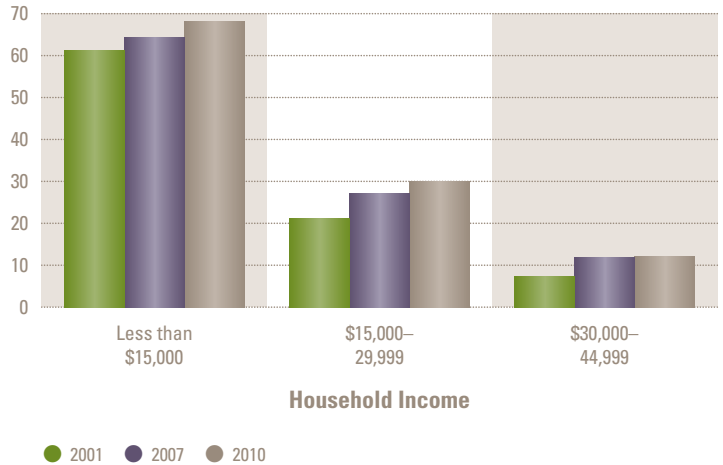
FIGURE 31

### The Great Recession Brought Housing Cost Burdens to Many More Lower-Income Households

Households with Severe Cost Burdens (Millions)



Share of Households with Severe Cost Burdens (Percent)

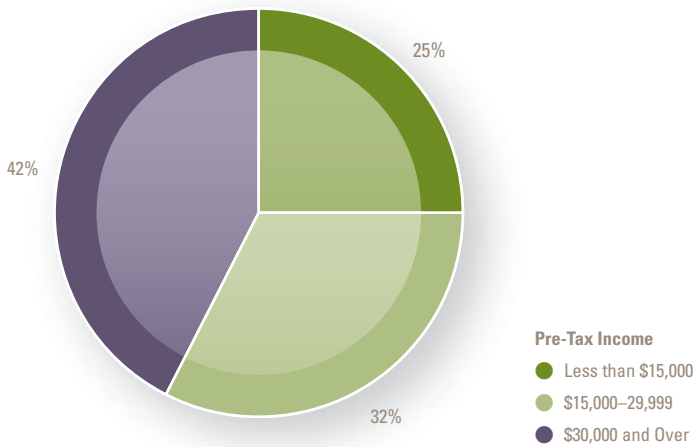


Notes: Households with severe cost burdens spend more than 50 percent of pre-tax income on housing costs. Incomes are in constant 2010 dollars, adjusted for inflation by the CPI-U for All Items. Source: JCHS tabulations of US Census Bureau, American Community Surveys.

FIGURE 32

### Lower-Income Households Made Up the Majority of Household Growth in the 2000s

Share of Household Growth in 2001–10



Notes: Lower income is defined as less than \$30,000 per year. Household income is in constant 2010 dollars, adjusted for inflation by the CPI-U for All Items. Shares do not add to 100 due to rounding. Households earning less than \$15,000 accounted for 12.6% of all US households in 2001; those earning \$15,000–29,999 accounted for 15.7%; and those earning \$30,000 and over accounted for 71.7%. Source: JCHS tabulations of US Census Bureau, American Community Surveys.

of severe cost burdens is still highest among blacks (27 percent), both Hispanic and black householders saw a sharp rise in share over the decade, up 6.3 and 5.8 percentage points compared with just 3.8 points among whites.

Education level increasingly determines the likelihood of having housing cost burdens. Household heads without a high school diploma had the highest rates and the largest increases in cost-burdened share, up from 21 percent in 2001 to 28 percent in 2010. The share among those with just a high school diploma was slightly lower. In contrast, the share of householders with at least a bachelor’s degree increased from 8 percent to 11 percent.

Older age groups are also vulnerable. Shares of severely burdened householders aged 55–64 rose from 12 percent to 16 percent over the decade, while the shares of those aged 65 and over edged up from 15 percent to 16 percent. But because the senior population is growing rapidly, the number of older households with severe housing cost burdens jumped from 3.1 million in 2001 to 4.1 million in 2010. As the baby boomers age, the number of cost-burdened seniors will likely rise sharply over the next 20 years, escalating the need for assisted housing and supportive services for the elderly.

The majority of cost-burdened households live in metropolitan areas. In fact, the largest 100 metropolitan areas are home to 63 percent of all households, but 68 percent of households with cost burdens. The shares are highest in the core cities, where 50 percent of renters and 36 percent of homeowners were at least moderately burdened in 2010. But the number of cost-burdened

FIGURE 33

## While Core City Renters Represent the Largest Share of Cost-Burdened Households, Suburban Homeowners Account for the Largest Number

Household Cost-Burden Rates in 2010 (Percent)



Distribution of Cost-Burdened Households in 2010 (Percent)



Notes: Cost-burdened households spend more than 30 percent of pre-tax income on housing costs. Data include the 100 largest metro areas, ranked by population in 2010. Cores are cities with populations over 100,000. Suburbs are all urbanized areas outside of cores. Exurbs are the remainder of the metro area. Census data do not include post-enumeration adjustments. Source: JCHS tabulations of US Census Bureau, Decennial Census and 2010 Five-Year American Community Survey.

homeowners in suburbs is actually higher than the number of cost-burdened renters in core cities because of the larger suburban population (**Figure 33**). At the same time, many households living in rural areas are also burdened by high housing costs. In 2010, 1.7 million paid more than 30 percent of income for housing while nearly 1.0 million paid more than 50 percent.

### UNEMPLOYMENT AND HOUSING AFFORDABILITY

Trends in housing cost burdens coincide with joblessness patterns. In 2010, 22 percent of those reporting short-term unemployment and 36 percent of those facing long-term unemployment were severely housing-cost burdened, compared with just 10 percent of fully employed householders. Indeed, the number of unemployed, severely burdened householders surged from 3.8 million to 5.8 million in 2001–10.

But the sharp rise in unemployment alone does not fully explain the spread of cost pressures, given that the number of fully employed heads of households with severe cost burdens also jumped from 3.9 million to 6.2 million. Having (and keeping) a second earner in the household makes a huge difference. Just 6 percent of households with two or more employed workers were severely housing-cost burdened in 2010, compared with 18 percent of those with one worker and fully 48 percent of those with no employed worker. But the Great Recession reduced the number of multi-worker households by 2.5 million in 2008–10, and added a similar number to the ranks of jobless households.

The current economic recovery is noteworthy for the persistently high share of long-term unemployed, which has contributed to

the spread of cost burdens as well as to the duration of hardship. In 2001, 43.4 percent of households paying more than 30 percent of income for housing had been similarly burdened two years earlier. In 2009, that share had risen to 52.1 percent.

### FRAGILE FAMILY FINANCES

High housing costs force difficult spending tradeoffs, particularly for families with children. After paying for housing, severely cost-burdened families in the bottom expenditure quartile in 2010 had just \$619 per month left over on average for all other needs (**Figure 34**). As a result, they spent nearly 40 percent less on food, more than 50 percent less on clothes and healthcare, and 30 percent less on insurance and pensions than families living in affordable housing. Unburdened households did, however, spend \$110 more per month on transportation than burdened households, suggesting that some households settle for housing that they can afford but is at some distance from employment centers.

Rural households with severe cost burdens fared even worse. Among those in the bottom expenditure quartile, housing costs made up an average of 67 percent of outlays in 2010—leaving just \$390 per month for all other needs. Again, rural households in the bottom expenditure quartile living in affordable housing spent \$150 more on transportation a month than their severely cost-burdened counterparts. Even so, their combined outlays for housing and transportation were still much lower than those of severely cost-burdened families.

For many young householders, student loan payments add to the pressure of high housing costs. According to the Project on Student

FIGURE 34

## With About \$600 Left After Monthly Housing Costs, Severely Burdened Low-Income Families Sharply Curtail Spending on Other Necessities

Average Monthly Expenditures for Low-Income Families with Children in 2010 (Dollars)



Notes: Low-income families with children shown are in the bottom expenditure quartile. Severely cost-burdened households devote more than half of expenditures to housing. Unburdened households spend less than 30 percent.  
Source: JCHS tabulations of Bureau of Labor Statistics, Consumer Expenditure Survey.

Debt, about two-thirds of all college seniors have debt when they graduate. In 2010 alone, college seniors with debt owed \$25,250 on average. Given that a whopping 37 percent of householders under age 25 are severely housing-cost burdened and 59 percent earn less than \$30,000 per year, those with student debt have few resources to cover loan payments as well as other necessities.

Meanwhile, older households are carrying more mortgage debt well into their retirement years. From 1999 to 2009, the share of homeowners aged 65 and older with mortgages increased from 24 percent to 35 percent. At the same time, the real median home mortgage among senior homeowners increased from \$42,700 to \$55,900.

### HOMELESSNESS TRENDS

According to the US Department of Housing and Urban Development (HUD) Point-in-Time count, 400,000 individuals and 236,000 persons in families were homeless in 2011. About 107,000 were chronically homeless. Veterans continued to make up a disproportionate share of the homeless population (14 percent), with numbers approaching 67,500.

Since the preceding year, however, total homelessness fell 2.1 percent, the number of homeless families 2.4 percent, chronic homelessness 2.4 percent, and the number of homeless veterans 12 percent. Indeed, despite a slight uptick in 2010, home-

lessness has generally been on the decline, with a 5.3 percent reduction in the total and a 13.5 percent drop in chronic homelessness since 2007. The number of homeless families was also down 8 percent—a striking improvement given the state of the economy and of housing markets.

These trends highlight the effectiveness of increased federal funding for homeless programs in response to the housing crisis. The decline in homelessness among veterans is particularly noteworthy, reflecting the efforts of HUD and the US Department of Veterans Affairs to provide additional housing vouchers and expand supportive services. This progress, however, may not be sustainable. The Homelessness Prevention and Rapid Re-Housing Program (HPRP), one of the principal responses to the housing crisis, is set to expire. At \$1.5 billion, the HPRP is an unprecedented use of federal funds to combat homelessness, but its imminent end may leave more people living on the streets.

### NEIGHBORHOODS IN DISTRESS

Information from CoreLogic indicates that 890,000 foreclosures were completed in 2011, down from 1.1 million in 2010. But the wave of home losses is by no means over, with upwards of 2.0 million homes still in some stage of foreclosure in early 2012.

As the crisis enters its fifth year, the length of time to complete a foreclosure has become greatly protracted. According to Lender Processing Services, the timeline averaged 631 days in December 2011. During this period, owners usually defer maintenance and repairs, or even abandon their homes, bringing blight to the surrounding neighborhood. The challenges associated with foreclosures have reached into all corners of metropolitan areas. Within the 100 largest markets, some 40 percent of foreclosures completed in 2008–10 were in core cities, 36 percent in suburbs, and 24 percent in exurbs. Even so, nearly half of foreclosed properties are clustered in just 10 percent of the nation’s 65,000 census tracts.

Meanwhile, the flow of mortgage credit to these deteriorating neighborhoods has all but dried up. While lending fell 26 percent in minimally distressed neighborhoods in 2004–10, the cutback was 56 percent in moderately distressed neighborhoods and 74 percent in the most distressed neighborhoods. Although HUD’s Neighborhood Stabilization Program has provided much needed funding to help foster a recovery in the most distressed areas, this effort is winding down while the blight in these neighborhoods is likely to linger for years to come. Moreover, without access to credit, many current owners in these communities are unable to fund home improvements or refinance into more affordable mortgages, while potential buyers are locked out of ownership.

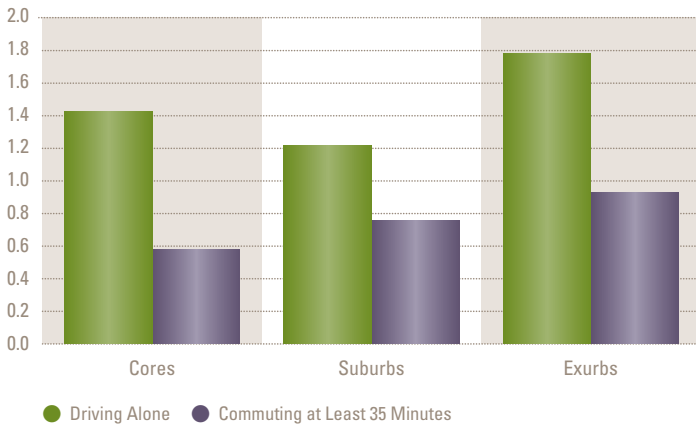
### URBAN GROWTH AND SUSTAINABILITY

With more and more households moving to the outskirts of metropolitan areas, automobile commuting has risen sharply

FIGURE 35

### With Most Household Growth Occurring at the Metropolitan Fringe, More Workers Are Driving Alone and Have Longer Commutes

Change in Commuters in 2000–10 (Millions)



Notes: Data include the 100 largest metro areas, ranked by population in 2010. Cores are cities with populations over 100,000. Suburbs are urbanized areas outside of cores. Exurbs are the remainder of the metro area. Census data do not include post-enumeration adjustments.  
Source: JCHS tabulations of US Census Bureau, Decennial Census and 2010 Five-Year American Community Survey.

(Figure 35). Indeed, the number of auto commuters climbed 13 percent in exurban locations during the 2000s, compared with just 3 percent in core areas and suburbs. Moreover, the fastest-growing segments of commuters were those who drove to work alone and those who traveled for at least 35 minutes each way. In just the top 100 metros, the number of commuters driving alone increased by more than 1.8 million in the exurbs, 1.2 million in the suburbs, and 1.4 million in the core cities.

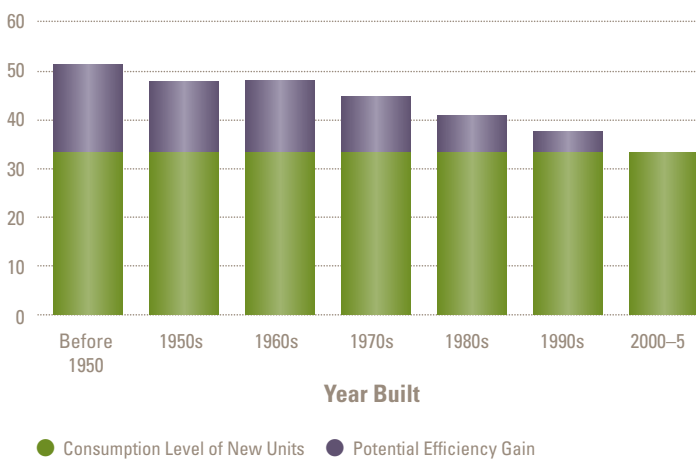
More compact growth patterns—mixed-use developments with 11–15 housing units per acre—could therefore have a big impact on vehicle miles traveled (VMT). The National Academy of Sciences estimates that if all new housing units were built at twice the current average density, VMT would drop 5–12 percent by 2050 (and possibly up to 25 percent), assuming that alternative transit options are available, employment centers are clustered, and local zoning laws are more flexible. In addition to travel time, higher-density development would reduce residential energy costs in that the average multifamily unit consumes 40 percent less energy per square foot than the average single-family detached home. Of course, achieving these targets would be no easy task, requiring not only substantial changes in local land use planning and transit spending, but also fundamental shifts in consumer preferences.

Improving the efficiency of older homes also holds promise for cutting energy consumption and costs, along with greenhouse gas emissions (Figure 36). Indeed, the Energy Information Administration estimates that, using existing tools and technology, upgrading the older stock to the efficiency of post-2000 homes would lower overall residential energy consumption by 24 percent. Given that residential use accounted for some 22.5 percent of total US energy consumption in 2010, these savings would be significant.

FIGURE 36

### Improving the Efficiency of Older Housing Could Significantly Reduce Residential Energy Consumption

Household Energy Consumption (Thousands of BTUs per square foot)



Source: JCHS tabulations of Energy Information Administration, 2005 Residential Energy Consumption Survey.

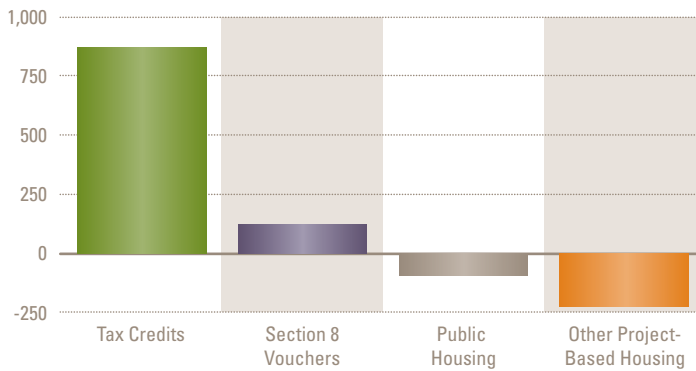
Tax credits for energy-efficient homebuilding and remodeling techniques have already prompted strong consumer demand for these investments when backed by federal incentives. According to the latest IRS data, the number of filers claiming a residential energy tax credit jumped from 162,000 in 2008 to 4.6 million in 2009—fully 10 percent of all filers that itemize their deductions. This represents a stunning increase in credits from \$166 million to \$4.3 billion in one year alone.

In addition, the American Council for an Energy Efficient Economy reports that 10 percent of new homes in 2009 qualified for the Energy Policy Act of 2005 Homebuilder Tax Credit (a \$2,000 credit for using 50 percent less energy than required under the International Energy Conservation Code). Although this and several other credits expired in 2011, the US Department of Energy’s Weatherization Assistance Program received an additional \$5 billion in 2009 and continues to provide insulation, heating, and cooling systems for low-income households. In its 33 years of existence, the program has helped 6.4 million households reduce their annual energy bills by more than \$400 on average.

FIGURE 37

### With Public Housing and Project-Based Units Dwindling, Housing Assistance Increasingly Comes in the Form of Tax Credit Units and Vouchers

Change in Assisted Households, 2001–9 (Thousands)



Notes: Tax credits refer to units built with Low Income Housing Tax Credit funding. Other project-based housing includes Section 236 and Section 515 units.  
Sources: Ingrid Gould Ellen, presentation at the Next Generation Housing Policy Convening on Rental Policy, 2010; JCHS estimates.

#### ASSISTANCE PROGRAMS UNDER PRESSURE

In fiscal 2011, HUD’s principal rental housing programs provided assistance to an estimated 4.8 million low-income families, a 1.5 percent increase (73,000 households) over the previous two years. At the same time, however, the number of severely housing cost-burdened renter households with incomes under \$15,000 soared 6.5 percent (430,000 households).

As it is, only about one in four families with very low incomes (up to half of area median, adjusted for family size), the typical target of many government programs, benefit from federal rental assistance. Now even the limited reach of federal programs may be reduced even further. Funding for several HUD programs, particularly those supporting state and local efforts through the HOME and Community Development Block Grant programs, was substantially cut after 2010. And even programs with stable funding have diminished impact. The Housing Choice Voucher program, for example, received consistent funding and even modest increases in the past few years. But the subsidies depend on recipients’ incomes, many of which were decimated by the recession. The combination of shrinking incomes and rising rents has thus raised per-voucher costs, leaving fewer families with assistance.

Although funds for housing assistance would again decline under the Obama Administration’s FY2013 budget proposal,

alternative plans look for even larger cutbacks. Stimulus-related funding of housing programs is also drawing to an end. Meanwhile, the sizable federal deficit has stirred support for a tax code overhaul, with many proposals calling for substantial elimination of tax expenditures (indirect means of funding, such as deductions, credits, and other measures that reduce taxes owed). Among the provisions that support housing, the mortgage interest deduction has attracted the most attention because it is so large, accounting for an estimated \$78 billion in foregone revenue in fiscal 2011.

Two other housing-related tax expenditures—representing only a small fraction of the costs of the mortgage interest deduction, but nonetheless important—may also be on the chopping block. The first is the Low Income Housing Tax Credit program, the principal means of expanding the affordable rental supply over the last decade (Figure 37). This program is one of the most successful efforts to provide project-based assistance because of its sound financial performance and track record of delivering good-quality rental housing.

The second initiative, the mortgage revenue bond program, is run by state housing finance agencies and offers below market-rate financing for low-income rental and owner-occupied housing. These loans, provided to about 125,000 first-time homebuyers each year, have performed well even after the housing market crash. Curtailing this financing option would compound the formidable barriers that low-income homebuyers already face in an era of limited borrowing opportunities.

#### THE OUTLOOK

Federal and state governments alike face difficult fiscal choices, driven in the short run by lower revenues and higher spending in the wake of the Great Recession, and over the longer term by the soaring costs of healthcare for the growing senior population. The challenge for policy makers is therefore to use scarce public resources as efficiently as possible, but without undermining the nation’s ability to address the urgent needs of its citizens.

Expanding the supply of safe, decent housing that is affordable to the growing numbers of low-income Americans is one of those critical needs—not only to ensure quality of life for cost-burdened individuals and families, but also to repair the social fabric of entire communities damaged by the recession. Now is not the time to cut back on housing programs that have had demonstrated success in providing a springboard to opportunity for many of the nation’s most vulnerable households.