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## Housing Challenges



So far, the economic recovery has done nothing to curb the persistent rise in both the number and share of cost-burdened households. Employment growth has been slow to revive, leaving many households with lower incomes amid rising housing costs. Whole communities are still reeling from high foreclosure rates, widespread vacancies, depressed home values, and disinvestment. And at the same time that low-income households far outnumber the rentals they can afford, housing assistance programs are at risk of cutbacks.

### SPREADING COST BURDENS

The housing recovery has pushed up rents and house prices even as high unemployment has pushed down real incomes for a broad spectrum of households. These two trends have added millions of households to the ranks of Americans struggling to afford housing (**Figure 28**). According to the most recent American Community Survey, 42.3 million households (37 percent) paid more than 30 percent of pre-tax income for housing in 2011, while 20.6 million households paid more than half.

The number of severely burdened renter households increased by 530,000 in 2011, to 27.6 percent. The share of owners with similar housing cost burdens was unchanged at 12.6 percent. In fact, the number of severely burdened owners actually fell by 183,000 in 2011 because some formerly burdened households were able to lower their mortgage payments by refinancing. But other owners lost their homes to foreclosure, which may have alleviated their severe cost burdens but likely resulted in a substantial loss of wealth.

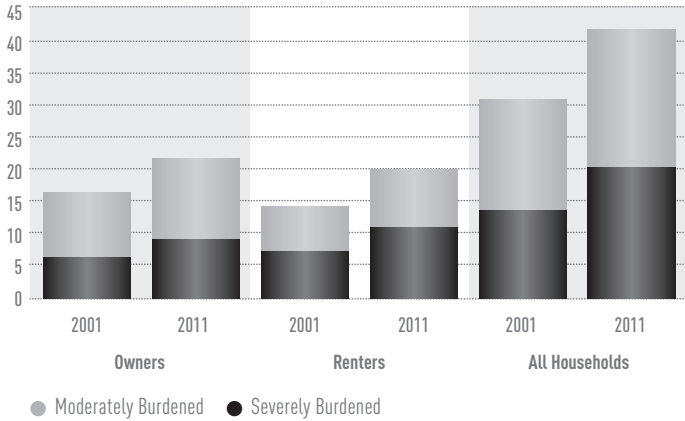
The latest increases in the incidence of severe housing cost burdens mark a decade-long rise. The total number of households paying more than half their incomes for housing soared by 6.7 million from 2001 to 2011, a jump of 49 percent. Among homeowners, 94 percent of the increase in severe housing cost burdens occurred during the boom years from 2001 to 2007 housing when buyers stretched to afford rapidly rising home prices. Among renters, the number of severely burdened households climbed steadily in 2001–07 but then accelerated in 2007–11 amid the Great Recession.

Widening income inequality has been an important factor in the spread of housing cost burdens, with growing numbers of very low-income households unable to afford housing. Over the decade from 2001 to 2011, households earning less than \$15,000 accounted for fully 40 percent of overall household growth and households earning \$15,000–29,999 contributed another 34 percent. The swelling ranks of low-income households helped push up the number of cost-burdened households, and a rise in the incidence of housing burdens compounded that trend. The share of households earning less than \$15,000 with severe cost burdens rose from 62.6 percent in 2001 to 68.7 percent in 2011, while the

FIGURE 28

### The Number of Households with Housing Cost Burdens Has Hit Record Highs

Households (Millions)



Note: Moderately (severely) burdened households pay 30–50% (more than 50%) of income for housing.  
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

share earning \$15,000–29,999 with severe cost burdens rose from 23.1 percent to 30.9 percent.

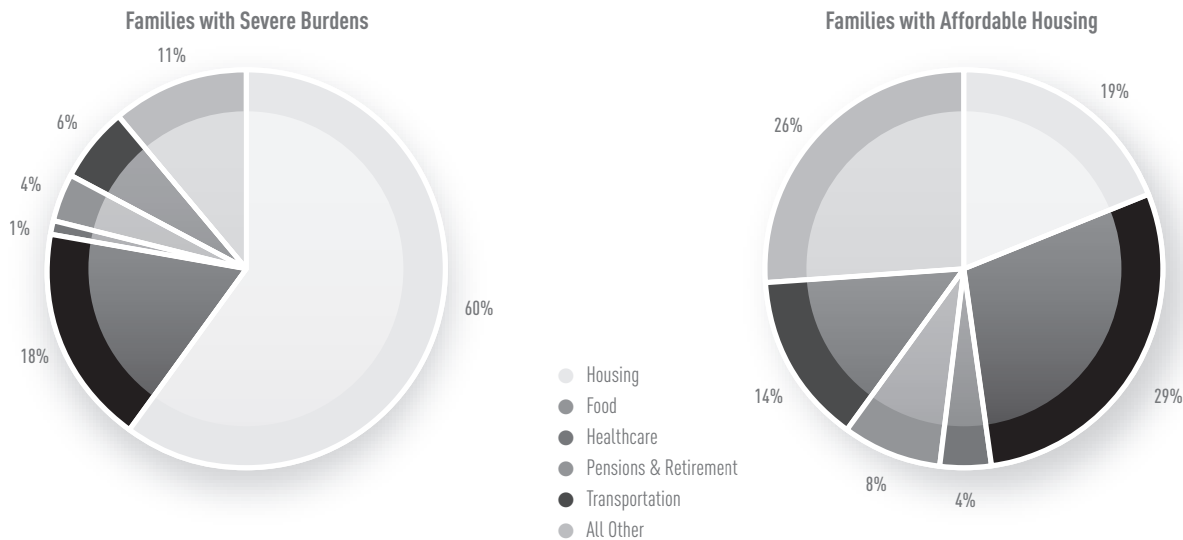
Although rising unemployment and underemployment exacerbated the problem, even working full time does not guarantee that households can afford to pay for housing. From 2007 to 2011, the share of low-income households with full-time jobs that were severely cost burdened increased from 38.6 percent to 42.4 percent. During this period, the total number of working poor households rose by 1.1 million, while the number of such households with severe housing cost burdens was up by 800,000.

Severe housing cost burdens are geographically widespread, with 17.9 percent of all US households devoting more than half their incomes to housing. The shares in 40 states are at least 14 percent. Many states with the largest shares of cost-burdened households also have relatively high home values and rents. California, New York, and New Jersey top the list, with more than 22 percent of households having severe housing cost burdens. But several low-cost states also have large shares of such households. These include Florida and Nevada, where median home values and rents are low but median incomes are low as well. At the other extreme are four states—North Dakota, South Dakota, Iowa, and Wyoming—where less than 12 percent of households are severely burdened. These states are largely rural and have low housing costs relative to incomes.

FIGURE 29

### Low-Income Families with Severe Cost Burdens Have Much Less to Spend on Other Necessities than Those with Affordable Housing

Share of Average Monthly Expenditures for Bottom-Quartile Families with Children



Notes: Expenditure quartiles are equal fourths of all households ranked by total spending. Families with affordable housing (severe burdens) devote less than 30% (more than 50%) of monthly expenditures to housing.  
Source: JCHS tabulations of US Bureau of Labor Statistics, 2011 Consumer Expenditure Survey.

### DIFFICULT SPENDING TRADEOFFS

With housing taking up so much of their funds, low-income households who are severely cost burdened have much less to spend on other necessities (Figure 29). According to the 2011 Consumer Expenditure Survey, families with children in the bottom expenditure quartile (a proxy for low income) spend a total of about \$1,400 per month. After paying more than half of this amount for housing, the average severely burdened low-income family with children has about \$565 left for savings and all other monthly expenses—half the amount unburdened households have. Compared with low-income households living in homes they can afford, those with severe cost burdens spend two-thirds as much on food, half as much on clothes, and half as much on pensions and retirement.

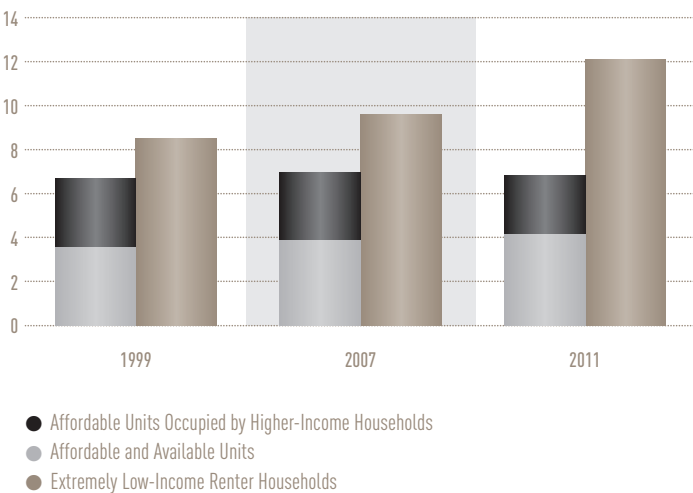
Severe housing cost burdens also lead to noteworthy differences in healthcare outlays. Severely burdened families with children spend only about one-fifth as much on healthcare as those without burdens. Seniors with severe cost burdens also spend \$150 less per month, or \$1,800 less per year, on healthcare than their unburdened counterparts.

Commuting costs add to the financial pressures on low-income households. Even low-income families who live in affordable housing but at some distance from work must pay a significant share of income for housing and transportation combined.

FIGURE 30

### The Gap Between the Number of Extremely Low-Income Renters and the Supply of Affordable and Available Units Continues to Widen

(Millions)



Note: Extremely low-income households earn less than 30% of area median income.  
Sources: JCHS tabulations of HUD, American Housing Surveys; and HUD, Worst Case Housing Needs 2009.

On average, low-income families without housing cost burdens spend two-and-a-half times more on transportation each month than those with severe burdens. In rural areas, households in the bottom expenditure quartile but without housing cost burdens spend more than three times as much on transportation as their housing cost-burdened counterparts.

### INVESTING IN ENERGY-EFFICIENT IMPROVEMENTS

Improving the energy efficiency of homes would clearly slow the spread of housing cost burdens. For low-income households in particular, utilities account for a substantial share of overall housing costs. In 2011, utility costs were nearly a fifth (18 percent) of housing costs for the median renter earning less than \$15,000 annually. Even for those earning \$15,000–29,999, utility costs typically made up 16 percent of housing costs. Energy-efficient improvements would also go a long way toward reducing the residential sector’s large carbon footprint. According to the Energy Information Administration’s 2012 estimates, residential demand accounted for 21 percent of energy consumption in the United States and 20 percent of carbon emissions.

The energy efficiency of the housing stock has in fact improved substantially over the last few decades. New home-building techniques have taken advantage of technological advances to greatly reduce energy use, while retrofits of existing homes have also helped to cut demand. Still, with more than two-thirds of the US housing inventory built before 1990, there is ample opportunity to make much greater improvements in energy efficiency. In fact, nearly a quarter of owners that undertook remodeling projects in 2010–11 did so to improve the efficiency of their homes. Of this group, more than 40 percent used energy tax credits to reduce project costs, indicating the potential for these incentives to spur property owners to action.

A recent Fannie Mae study points to the large potential savings that energy-efficient investments in rental properties could achieve. The report found that multifamily rental housing had 34 percent fewer energy-efficient features on average than other housing units. If these units were brought up to the standards of the rest of the housing stock, utility costs per unit could decline by \$400–600 per year. To achieve these savings, however, public policies would have to include incentives for property owners to invest in retrofits as well as incentives for tenants to conserve energy.

### THE SHRINKING AFFORDABLE HOUSING SUPPLY

The struggle to find affordable rental housing stems from the simple fact that low-income renters far outnumber the supply of low-cost units. The shortage, or affordability gap, is most acute among extremely low-income renters (earning up to 30 percent of area median income or AMI). Since 2007, the gap has more than doubled, with the number of extremely low-income renters up by 2.5 million and the number of units they could afford down

by 135,000 (Figure 30). In 2011, there were 12.1 million extremely low-income renters and just 6.8 million units with rents they could afford at 30 percent of income, bringing the shortage to 5.3 million units.

Both competition from higher-income renters and poor housing quality further limit the supply of low-cost rental housing. Of the 6.8 million units that would be affordable to extremely low-income renters, more than a third were occupied by households with higher incomes. In addition, 560,000 of the affordable units where extremely low-income households reside are structurally inadequate. As a result, for every 100 extremely low-income renters, there are only 30 affordable, available, and adequate housing units. For every 100 renters with incomes below 50 percent of AMI, there are 57 such units.

The affordability gap widens each year in part because low-cost units are removed from the housing stock. From 2001 to 2011, 650,000 units renting for under \$400 (affordable to persons earning a full-time minimum wage) were permanently lost. As a result, some 12.8 percent of the 2001 low-cost rental inventory disappeared within the decade.

#### HOUSING ASSISTANCE AT RISK

Federal rental assistance plays a critical role in relieving the housing cost burdens of some of the nation’s most vulnerable families and individuals. Among residents of assisted housing, 35 percent have a disability, 31 percent are age 62 or older, and 38 percent are single-parent families. The incomes of these assisted households are extremely low, with 44 percent having annual incomes of less than \$10,000 and another 37 percent having incomes between \$10,000 and \$20,000. The benefits

of housing assistance for those who receive it are substantial. Among programs administered by the US Department of Housing and Urban Development (HUD), the average tenant contribution in 2009 was just \$297 out of a monthly rent of \$911.

Federal subsidies reach only about a quarter of eligible households, and higher subsidy costs have strained the government’s ability to maintain even that limited level of assistance. Between 2008 and 2012, the Housing Choice Voucher Program, which provides subsidies to tenants to obtain housing in the private market, received a 15 percent nominal increase. At the same time, however, rising market rents and utility costs—along with losses in household income resulting from recession-induced unemployment—raised the per-household cost of vouchers. As a result, the increase in program funding did nothing to expand the number of families assisted. For similar reasons, the number of units with project-based rental assistance also remained largely unchanged despite an increase in funding.

Other federal programs that support assisted housing have undergone outright cuts. Funding for public housing fell 12 percent between 2008 and 2012. Compared with two years earlier, appropriations for the HOME program in fiscal 2012 were down by 45 percent while those for the Community Development Block Grant program were down by 26 percent. Budgets for the US Department of Agriculture’s Section 515 Rural Rental Housing Program were also slashed. At its height in 1979, Section 515 helped to construct 38,700 rural rental units; in 2012, the program only supported preservation of existing units.

The supply of subsidized rental housing will continue to erode. Each year on average over the next decade, contracts on approximately 3,400 federally assisted properties, including 200,000 units, come up for renewal (Figure 31). The supply of public housing is also shrinking at a rate of 10,000 units per year, largely for lack of funds to make necessary repairs. Within the voucher program, the Center on Budget and Policy Priorities estimates that if rental assistance costs continue to rise at the current pace over the next decade, funding would have to increase by \$4.5 billion to prevent more than 500,000 low-income families from losing their assistance.

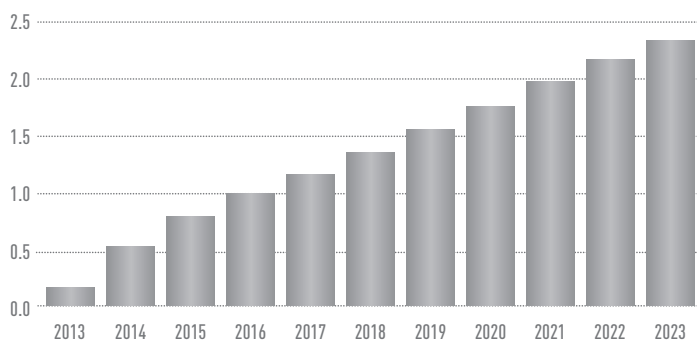
The nation’s primary program for producing and preserving low-cost rentals, the Low Income Housing Tax Credit (LIHTC), has successfully constructed or rehabilitated more than 2.2 million units since 1987. The program was designed to make rents affordable to households with incomes at or below 60 percent of area medians, but with the use of additional subsidies, the rents are often affordable to households with even lower incomes. Only 1–2 percent of LIHTC projects have experienced a foreclosure, largely because private investors, not the federal government, bear the financial risk.

In 2008, Congress authorized the creation of a National Housing Trust Fund (NHTF) to provide development and construction subsidies deep enough to bring LIHTC rents down to levels that

FIGURE 31

#### Subsidies for Millions of Federally Assisted Rental Units Are Set to End within a Decade

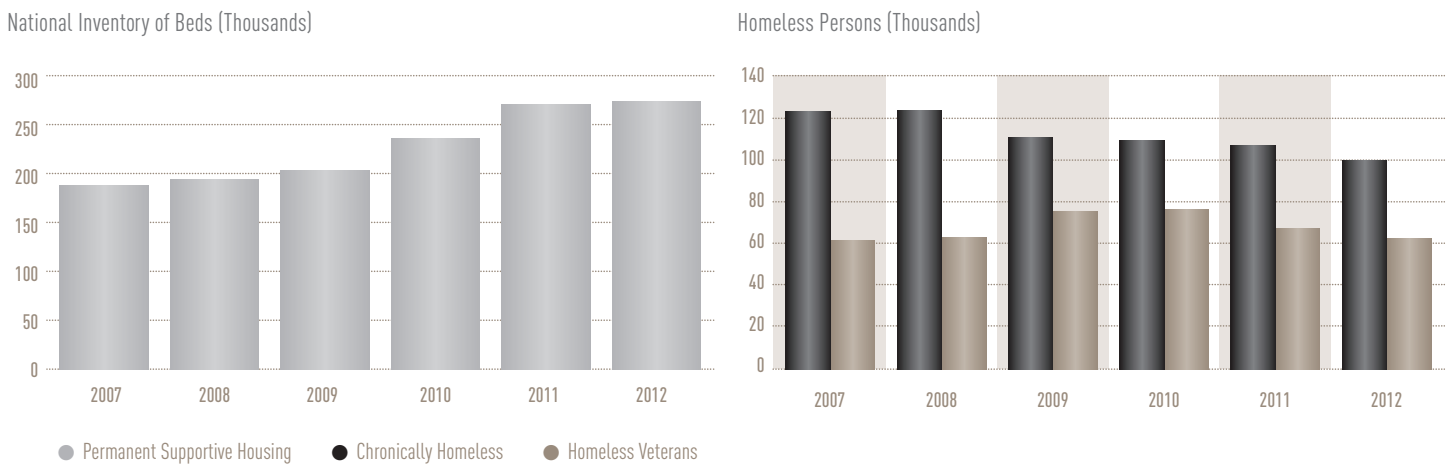
Cumulative Number of Units in Properties with Expiring Rent Subsidies (Millions)



Source: JCHS tabulations of Public and Affordable Housing Research Corporation and National Low Income Housing Coalition, National Housing Preservation Database.

FIGURE 32

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



Sources: HUD, 2012 Annual Homeless Assessment Report, Vol. 1; and HUD, Homelessness Resource Exchange.

extremely low-income renters could afford. Fannie Mae and Freddie Mac were supposed to provide funding, but their contributions were suspended when the two companies were taken into conservatorship. While the NHTF has yet to be capitalized, the LIHTC program still benefits from being written into the US tax code. Until there is tax reform, the program is therefore in less peril than those funded from appropriations. Already, though, cuts to appropriations have made it more difficult to use the tax credit to target lowest-income renters because of severe cutbacks in HOME and CDBG funding.

### ENDING HOMELESSNESS

According to HUD's annual point-in-time count, 394,000 individuals and 239,000 persons in families were homeless in January 2012. While the total was essentially unchanged from a year earlier, the number of homeless in families increased slightly by 1.4 percent. But this stability comes after several years of decline. From 2007 to 2012, and despite the severe recession, the number of homeless fell 5.7 percent overall and by 3.7 percent among those in families. The improvement for certain subgroups was even more dramatic, with the number of chronically homeless down 19.3 percent from 2007, to 99,900. The number of homeless veterans, at 62,600 in 2012, was similar to the count from 2007, but fully 17.2 percent below the 2009 level.

Several factors contributed to this progress. First, the American Recovery and Reinvestment Act added \$1.5 billion in funding for the Homelessness Prevention and Rapid Re-Housing Program (HPRP). Funding also increased for programs supported through the federal McKinney-Vento Homeless Assistance Act to address the needs of populations at risk of homelessness because of

long-term physical or mental health issues. Leveraging these federal resources, 50 out of 54 LIHTC-allocating state agencies gave preference to housing with supportive services. As a result, the number of permanent supportive housing beds increased by more than 86,000 between 2007 and 2012—essentially matching the decline in chronic homelessness (Figure 32).

But the national numbers mask worrisome increases over the last five years in several states, including Florida (15 percent), New York (11 percent), Missouri (64 percent), Ohio (24 percent), and Massachusetts (16 percent). In addition, the most recent Hunger and Homelessness Survey released by the US Conference of Mayors indicates that the prevalence of severe mental illness and domestic violence—two key contributors to homelessness—remains high. Among the homeless adult population in the 25 cities responding to the survey, 30 percent on average had severe mental illness and 16 percent were victims of domestic violence. These figures underscore the ongoing need to enhance supportive services for the groups most vulnerable to homelessness.

### PERSISTENT NEIGHBORHOOD DISTRESS

Vacant and abandoned housing is a fundamental indicator of neighborhood distress, serving to depress local property values, encourage the spread of crime, and strain municipal budgets by imposing higher service costs while reducing property tax revenues. During the worst years of the housing downturn, 4,689 census tracts (the statistical equivalent of a neighborhood) had very high vacancy rates, with more than one in five homes unoccupied. The average vacancy rate in these distressed areas was 26.0 percent in 2007–11, more than triple the US total.

Although distressed communities exist in every state except Vermont, they are heavily concentrated in the central counties of relatively few metropolitan areas. In fact, more than half of these troubled areas are located in just 50 counties. Of these, 17 counties have more than 50 very high-vacancy neighborhoods (**Figure 33**). The worst concentrations are in Wayne County, Detroit (89,000 units) and Cook County, Chicago (65,000 units), where more than 200 neighborhoods have very high vacancy rates. Many other counties with the highest concentrations of vacant units are in metros where household growth has been modest for many years, including Cleveland, Baltimore, and Philadelphia. Even so, concentrations are also high in such fast-growth areas as Houston, Atlanta, Phoenix, and Las Vegas.

Many vacant units are not even for sale or rent. Indeed, roughly 60 percent of vacant units in the distressed neighborhoods of Detroit, Chicago, Cleveland, and Baltimore are held off the market, suggesting that they are in poor condition. For homes in the worst condition, demolition is perhaps the best course of action

to reduce the spread of blight. But with thousands of units in such a deteriorated state and demolition costs on the order of \$10,000 per unit, municipal governments would need tens of millions of dollars to carry out such a strategy.

And in cases where there may be demand for the homes, the cost of rehabilitation can easily exceed market values and thus require subsidies. But the Neighborhood Stabilization Program—which was created in response to the foreclosure crisis and provided critical funding for both rehabilitation and demolition—has now ended even though the challenges facing distressed communities are undiminished. Since the broader housing market recovery is likely to bypass these neighborhoods, some concerted federal action is necessary to improve conditions for the 12 million people residing in these distressed communities.

### THE OUTLOOK

Four years after the official end of the Great Recession, housing markets across the country finally showed signs of a true revival in 2012. There is every reason to believe that the recovery will continue as steady employment growth and low interest rates fuel demand for both rental and owner-occupied housing. With construction activity, home sales, and housing wealth rising, the housing market rebound will in turn support stronger growth of the economy.

But significant housing challenges remain. While the foreclosure crisis has clearly ebbed, millions of homeowners are behind on their mortgage payments and still face the prospect of losing their homes. Thousands of neighborhoods across the country are blighted by vacant and deteriorating housing, exposing millions of households to falling property values and rising crime rates. Indeed, the fallout from home forfeitures will keep distress high for years to come. Meanwhile, the number of US households devoting more than half their incomes to housing has climbed ever higher.

With governments at all levels under severe budgetary pressures, policymakers must make difficult choices about allotting scarce public resources to the country's many competing needs. In this environment, it makes sense to identify improvements to current programs to make the best possible use of available funding. But given the profoundly positive impact that decent and affordable housing can have on the lives of individuals, families, and entire communities, efforts to address urgent and longstanding housing challenges should be among the nation's highest priorities.

FIGURE 33

## Thousands of Vacant Housing Units Are Clustered within Distressed Neighborhoods of Select Urban Counties

Vacant Housing Units in Distressed Neighborhoods (Thousands)

