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HOUSING CHALLENGES

While easing among homeowners, housing cost burdens are a fact of life for a growing number of renters. These burdens put households at risk of housing instability and homelessness, particularly in the nation's high-cost cities. Meanwhile, growing income inequality and the concentration of poverty have fueled an increase in residential segregation. With dwindling federal subsidies, state and local governments are struggling to preserve and expand the supply of good-quality affordable housing in all neighborhoods. Reducing carbon emissions from the residential sector is not only a national challenge but a global imperative.

PREVALENCE OF COST BURDENS

After three consecutive years of declines, the total number of housing cost-burdened households (paying more than 30 percent of income for housing) ticked up to 39.8 million in 2014. More than a third of US households faced cost burdens, including 16.5 percent with severe burdens (paying more than 50 percent of income for housing).

Driving this increase is the growing number of cost-burdened renters, which jumped from 20.8 million in 2013 to a record 21.3 million in 2014 (**Figure 32**). Worse still, more than half of these renters—11.4 million households—were severely burdened. These affordability pressures reflect the divergence between renter housing costs and renter incomes since 2001, with real median rental costs climbing 7 percent and real median renter incomes falling 9 percent.

Meanwhile, the number of cost-burdened homeowners declined for the fourth straight year in 2014, down 2 percent. This brought the share of cost-burdened homeowners to 25 percent, its lowest point in over a decade. Unlike renter housing costs, owner housing costs fell 13 percent between 2010 and 2014, thanks in part to low interest rates but also to the fact that foreclosures forced many cost-burdened owners out of their homes.

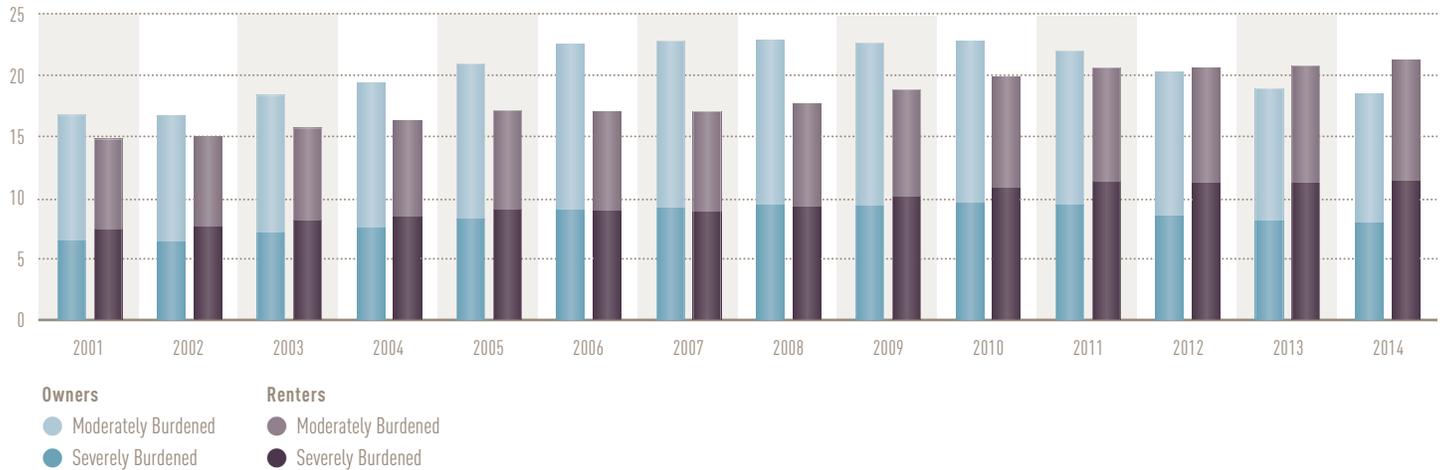
Cost burdens remain nearly universal among lowest-income households (earning under \$15,000), with 83 percent paying more than 30 percent of their incomes for housing in 2014. Most of these households were severely burdened, including 72 percent of renters and 66 percent of owners.

But households with moderate incomes are also burdened by high housing costs. Indeed, the cost-burdened rate among renters earning \$30,000–44,999 edged up from 47 percent in 2010 to 48 percent in 2014, while the cost-burdened rate among renters earning \$45,000–74,999 held at the 2010 peak of 21 percent. Moreover, in the 10 metros with the highest median housing costs, three-quarters of renter households earning \$30,000–44,999 and half of those earning \$45,000–74,999 were cost burdened in 2014.

FIGURE 32

While the Number of Cost-Burdened Owners Has Fallen, the Number of Cost-Burdened Renters Has Reached a New High

Households (Millions)



Notes: Moderately/severely cost-burdened households pay more than 31–50% of income for housing. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be without burdens.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

CONSEQUENCES OF HIGH HOUSING COSTS

After paying large shares of their incomes for housing, cost-burdened households cut back spending on other vital needs. According to the 2014 Consumer Expenditure Survey, severely burdened households in the bottom expenditure quartile (a proxy for low income) had just \$500 left over to cover all other monthly expenses, while otherwise similar households living in affordable housing had more than twice that amount to spend. As a result, severely cost-burdened households spent 41 percent less on food and 74 percent less on healthcare than their counterparts living in housing they could afford.

To avoid cost burdens, low-income households often trade off location for affordability. In consequence, low-income households living in housing they can afford spend nearly three times more on transportation than households with severe burdens. Low-income households without cost burdens are also more likely to live in inadequate units (Figure 33).

Very low-income renters (earning up to 50 percent of area median) with severe burdens are at high risk of housing instability. In 2013, 11 percent of these households reported they had missed at least one rent payment within the previous three months, and 18 percent had either received a shutoff notice or had their utilities shut off for nonpayment. Furthermore, 9 percent stated that they were likely to be evicted within the next two months. Very low-income owners with severe burdens also faced these hardships, with 11 percent missing at least one mortgage pay-

ment within the previous three months and 10 percent having received a shutoff notice or had their utilities shut off.

One possible outcome for these vulnerable households is homelessness, particularly if they live in the nation’s high-cost coastal cities. Although overall homelessness fell 11 percent between 2010 and 2015, to about 565,000 people, the problem in some cities has reached crisis proportions. Indeed, more than one in five homeless people live in New York City or Los Angeles. In 2014–2015 alone, the homeless population in New York City increased by 11 percent and in Los Angeles by 20 percent.

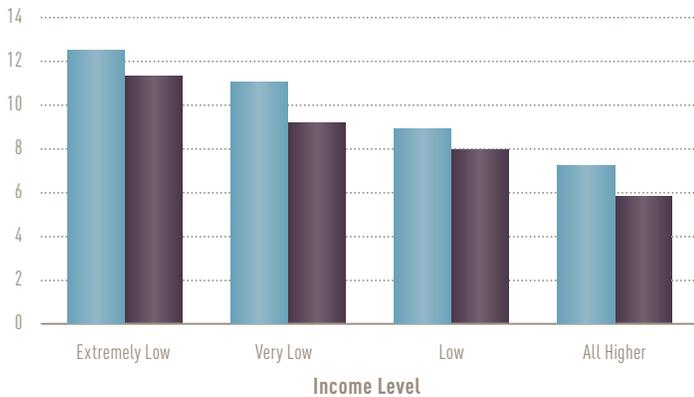
Progress in eliminating homelessness varies widely across vulnerable populations. Thanks to targeted federal funding, homelessness among veterans fell by 36 percent between 2010 and 2015, and several cities—including Houston, New Orleans, and Philadelphia—have even declared an end to homelessness among this group. Chronic homelessness also fell 22 percent in 2010–2015, due largely to the expansion of permanent supportive housing, which offers services to address the mental health and substance abuse issues common to this population. The reduction in homelessness among people in families with children, however, has been much smaller (Figure 34).

One possible solution to family homelessness is to improve access to permanent housing subsidies. As HUD’s Family Options study has demonstrated, families leaving homeless shelters with housing vouchers are more than twice as likely as

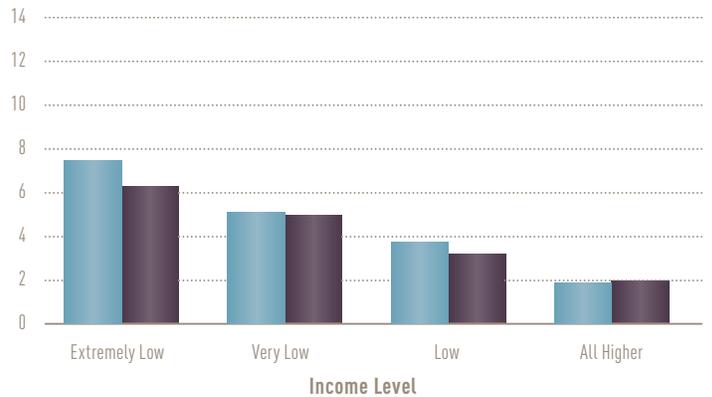
FIGURE 33

Many Low-Income Households Sacrifice Housing Quality for Affordability

Share of Renters Living in Inadequate Units (Percent)



Share of Owners Living in Inadequate Units (Percent)



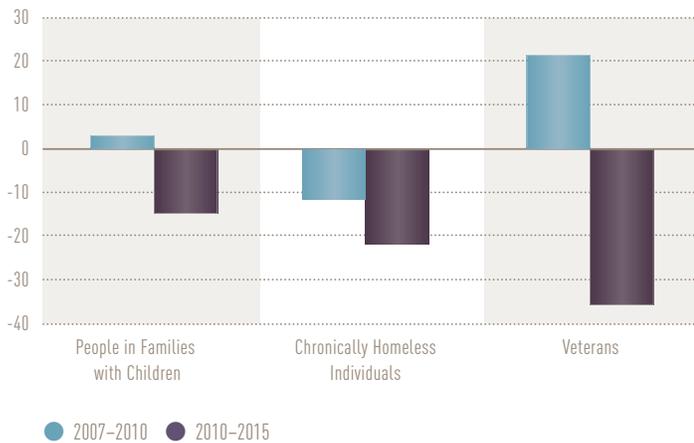
● Not Burdened ● Cost Burdened

Notes: Extremely low/very low/low income is defined as up to 30%/31–50%/51–80% of area medians. Cost-burdened households pay more than 30% of income for housing costs. Inadequate units lack complete bathrooms, running water, electricity, or have other serious deficiencies. Source: JCHS tabulations of HUD, 2013 American Housing Survey.

FIGURE 34

Progress in Reducing Family Homelessness Has Been Comparatively Modest

Change in Homeless Population (Percent)



● 2007–2010 ● 2010–2015

Note: The chronically homeless have been without a place to live for at least a year or have had repeated episodes of homelessness over the past few years. Source: JCHS tabulations of HUD, 2015 Annual Homeless Assessment Report to Congress.

those without vouchers to remain stably housed. Accordingly, President Obama has proposed \$11 billion in mandatory funding in his FY2017 budget for a new 10-year initiative to end homelessness among families with children, significantly expanding housing choice vouchers and rapid rehousing assistance.

SHORTFALLS IN THE AFFORDABLE SUPPLY

Between 1993 and 2013, the number of very low-income households eligible for federal rental housing assistance soared by 3.8 million, bringing the total to 18.5 million. Over this same period, however, the number of assisted renters rose by just 532,000 (Figure 35). As a result, the share of income-qualified renters that received assistance dropped from 29 percent to 26 percent.

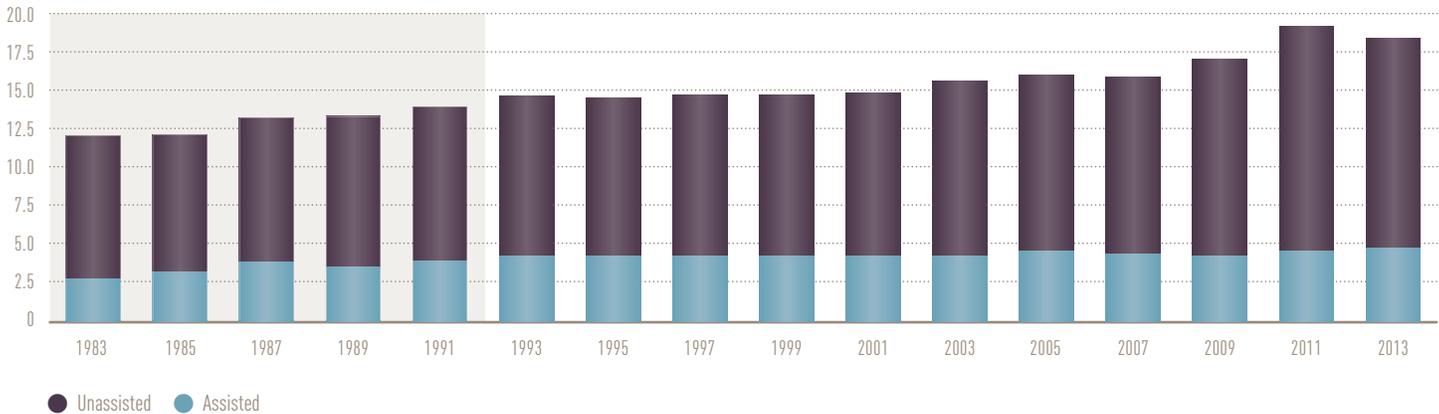
With demand far outstripping supply, competition for housing assistance is intense. The waiting lists for housing vouchers managed by local public housing authorities (PHAs) are years long or even closed. According to HUD’s Picture of Subsidized Households, a renter household that used a voucher in 2015 had waited more than two years on average to move into a unit, with the wait time in the San Diego metro area as long as seven years.

The US Treasury Department’s Low Income Housing Tax Credit (LIHTC) program, the primary vehicle for expanding the affordable housing supply, has supported construction and preservation of roughly 2.8 million rental units since 1986. The tax credits are allocated to states on a per capita basis, and applications

FIGURE 35

After Some Increase in the 1980s, the Number of Assisted Households Has Been Essentially Flat for Two Decades

Very Low-Income Renter Households (Millions)



Note: Very low income is defined as 50% or less of area median.
 Source: JCHS tabulations of HUD, Worst Case Housing Needs Reports to Congress.

for the credits far exceed available funding. By itself, though, the tax credit is insufficient to support development of housing affordable to the nation’s lowest-income households and is therefore often combined with other subsidies, like those under the HOME program. The 55 percent real reduction in HOME funding between FY2006 and FY2016 has thus eroded the power of the LIHTC program to add new affordable rentals.

Faced with shrinking federal resources, state and local governments are attempting to fill the financing gaps. A report by the Technical Assistance Collaborative found that 30 states offered some form of state-funded rental assistance in 2014, with annual funding ranging from about \$5 million in Delaware to \$83 million in Massachusetts. At the local level, cities have turned to a variety of alternative financing methods, such as taxes on real estate transactions, tax-increment financing, and linkage fees on commercial development.

Cities have also adopted or revised their inclusionary housing ordinances, either mandating that a share of units in new housing developments over a certain size be affordable to low- and moderate-income households or offering density bonuses in exchange for setting aside affordable units. According to a 2014 report by the Lincoln Institute of Land Policy, inclusionary housing programs exist in more than 500 local jurisdictions. These programs typically provide long-term affordability, which is important in high-cost areas and in gentrifying neighborhoods where low-income households are at risk of displacement.

But local land use regulations—such as zoning requirements, density and height restrictions, and minimum lot size and park-

ing requirements—can also inhibit construction of affordable housing in expensive metro areas. For example, a 2008 study by Harvard’s Rappaport Institute for Greater Boston found that a one-acre increase in a local town’s minimum lot size was associated with about a 40 percent drop in housing permits.

High land and wage costs also deter affordable housing development. A 2015 Urban Land Institute report estimated that in hot housing markets, land costs for a high-rise, mixed-income project with affordable units could account for as much as 25 percent of total development costs. Similarly, the Citizens Housing and Planning Council in New York City estimated that a prevailing wage requirement for affordable housing projects in 2011 could also raise development costs by roughly 25 percent. These added costs must be met with either an increase in government subsidies or a reduction in affordable units.

These conditions make preservation of the existing supply of assisted housing all the more urgent. According to the National Housing Preservation Database, the affordable-use restrictions on nearly 2 million federally assisted rental units will expire over the coming decade. A majority (64 percent) of this at-risk stock is supported through the LIHTC program, which is approaching its 30-year anniversary.

On the public housing side, the Rental Assistance Demonstration (RAD) has given PHAs new flexibility to use tax credits and private capital to rehabilitate and preserve the aging inventory. As of December 2015, HUD estimates that PHAs and their partners raised over \$1.7 billion through RAD to convert more than 26,000 public housing units to long-term contracts.

INCREASING POVERTY AND RESIDENTIAL SEGREGATION

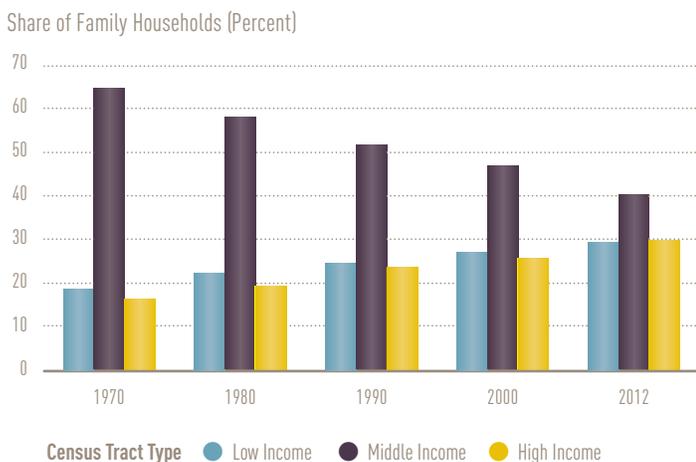
Poverty in the United States has become more concentrated. In 2014, 13.7 million people lived in neighborhoods with poverty rates of 40 percent or higher, up from 6.5 million in 2000. This jump largely reflects widespread declines in incomes since the start of the last decade as well as increasing residential segregation by income.

The location of assisted housing in low-income communities has contributed to this pattern. Public housing is most likely to be located in high-poverty neighborhoods, a legacy of developments built in the 1940s and 1950s in economically and racially segregated neighborhoods. Decades later, 35 percent of public housing units are in census tracts with at least a 40 percent poverty rate, and another 42 percent are in tracts with 20–39 percent rates. By comparison, just 15–18 percent of rentals subsidized through the housing voucher and LIHTC programs are located in high-poverty census tracts.

The Supreme Court’s ruling on disparate-impact claims in 2015 may help to limit further concentration of affordable housing in high-poverty areas. In addition, HUD issued a final rule on Affirmatively Furthering Fair Housing requiring state and local recipients of HUD funds, as well as all PHAs, to identify patterns of segregation and develop concrete steps to foster greater integration. Even before last year, however, several states—including Massachusetts, New Jersey, and Pennsylvania—had made progress in lifting the share of LIHTC units built in low-poverty communities by giving higher priority to projects in these locations in their tax credit allocations.

FIGURE 36

Income Segregation Has Steadily Increased Over the Last Four Decades



Notes: Low-/middle-/high-income census tracts have median incomes under 80%/80–125%/more than 125% of metro area medians. Data include 117 metro areas with populations of 500,000 or more in 2007. Source: K. Bischoff and S. Reardon, *The Continuing Increase in Income Segregation, 2007–2012*, Stanford Center for Education Policy Analysis, 2016.

These efforts, however, must be viewed within the context of increasing residential segregation by income. Research from the Stanford Center for Education Policy Analysis shows that, from 1970 to 2012, the share of families living in middle-income neighborhoods plummeted by 24 percentage points while the shares living in low- and high-income neighborhoods increased by 11 and 13 percentage points, respectively (Figure 36). Growing socioeconomic segregation has significant negative consequences for the families left in neighborhoods with limited public services and unsafe living conditions.

Exclusionary zoning in the form of density restrictions and complex municipal review processes help to reinforce the isolation of low-income households. While states and localities have enacted legislation to eliminate exclusionary zoning practices and encourage inclusionary development, the scale of these efforts falls far short of the millions of affordable units produced through the LIHTC and HOME programs. Indeed, the Lincoln Institute of Land Policy estimates that inclusionary housing programs had produced just 129,000–150,000 affordable units nationwide as of 2010.

HOUSING NEEDS IN RURAL AREAS AND NATIVE LANDS

Households living outside metropolitan areas have their own set of housing challenges. Poverty is widespread, affecting 18 percent of the non-metro population and 29 percent of people living in tribal areas. Indeed, poverty rates across all age and racial/ethnic groups are higher in non-metro than metro areas. In 2013, 41 percent of very low-income homeowners in non-metro areas were severely housing cost burdened, along with 48 percent of very low-income renters.

Substandard housing is a particular problem in these areas. Compared with the typical US unit, housing in non-metro areas is two times more likely to have incomplete plumbing, while housing in tribal tracts is five times more likely to lack this basic function (Figure 37). While manufactured homes can be an important source of affordable housing in non-metro areas, 29 percent of the occupied stock in 2013 was built before HUD set federal design and construction standards in 1976. Of these older homes, 8 percent are categorized as inadequate.

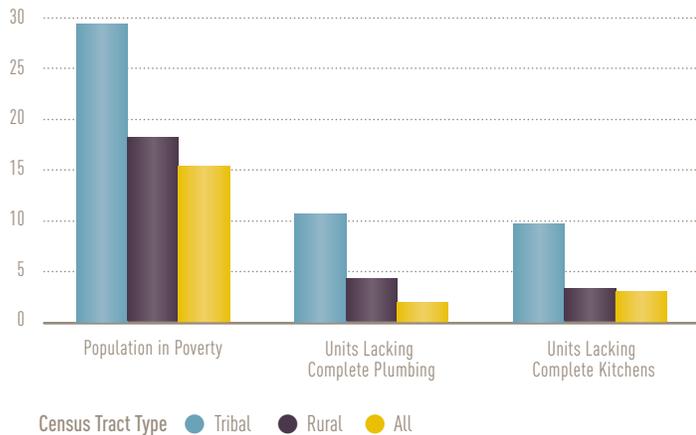
Yet another housing challenge in rural areas is the high concentration of older adults, with 17 percent of the non-metro population age 65 and over compared with 13 percent of the metro population. The supply of accessible housing in these areas is limited, with just under a third having both no-step entries and single-floor living.

Meanwhile, federal housing assistance for non-metro households remains modest. As of 2012, USDA halted new construction of affordable rental housing through Section 515, leaving only the Section 514/516 Farmworker Housing program to finance new units in rural areas. In addition, using the LIHTC

FIGURE 37

Residents of Rural Areas and Tribal Lands Are Especially Likely to Live in Poverty and Have Substandard Housing

Share of Population and Housing Units (Percent)



Notes: Tribal census tracts are as defined by the US Census Bureau for 2010. Rural census tracts are in non-metro areas. Source: JCHS tabulations of US Census Bureau, 2010–2014 American Community Survey 5-Year Estimates.

program to expand the supply of affordable rental housing in these areas can be difficult, given that states generally give priority to projects located near public transit and services. Federal assistance for rural homeowners is also increasingly limited, with funding for USDA’s Section 502 direct loan program falling from \$34 million in FY2005 to about \$28 million in FY2015.

RESIDENTIAL CARBON EMISSIONS AND ENERGY USE

With the signing of the Paris Climate Agreement in December 2015, President Obama committed to reducing US greenhouse gas emissions to 2005 levels by 2025. To meet this goal, policymakers must prioritize large cutbacks in the residential sector, which accounts for over a fifth of national carbon emissions.

The largest reductions in energy use can be achieved by retrofitting the existing stock. While the upfront investment required may be an obstacle for some property owners, tax credit and rebate programs can promote upgrades. Indeed, 63 percent of respondents to the 2015 Demand Institute Consumer Housing Survey stated that incentives were important to their likelihood of making energy-efficient improvements.

To encourage rental property owners to retrofit their units, FHA recently reduced its insurance rates on mortgages for multifamily properties meeting federal green building and energy performance standards. In addition, a number of state housing finance agencies currently provide loans for efficiency upgrades to both single-family and multifamily housing.

These efficiency improvements can yield important savings for low-income households, who pay much larger portions of their incomes for utilities than high-income households. For example, renter households earning under \$15,000 a year in 2014 devoted 17 percent of their incomes to utility payments, and owner households with similar incomes paid 22 percent. By comparison, utility costs for both owners and renters earning at least \$75,000 a year amounted to just 2 percent of income.

Meanwhile, development patterns play a large role in transportation emissions, which are responsible for 34 percent of total emissions. According to a 2014 University of California Berkeley study, suburban households have a larger carbon footprint than urban or rural households not only because of their larger homes but also because of their higher rates of vehicle ownership. Similarly, a 2015 Boston University analysis found that lower-density metros like Denver and Salt Lake City have higher carbon emissions per capita than older, higher-density cities.

State and local efforts may be instructive to federal policymakers. Changes in the International Energy Conservation Code have already led to tighter state and local standards for new construction and remodeling. For its part, California has taken a leading role in reducing greenhouse gases by adopting the Clean Energy and Pollution Reduction Act of 2015, requiring a 50 percent increase in the energy efficiency of existing buildings by 2030.

THE OUTLOOK

In 2016, after an eight-year delay, HUD allocated nearly \$174 million to states through the National Housing Trust Fund—the first new program to expand the supply of affordable housing for extremely low-income renters in a generation. While these funds will give a much-needed boost to state and local programs, the growing gap between the rents for new units and the amounts lowest-income households can afford to pay for housing underscores the difficulty of increasing the affordable supply through new construction alone. Current proposals to expand the LIHTC program, as well as to reform the public housing and other rental assistance programs, may help broaden access to affordable housing for the nation’s most vulnerable households. But preserving and maintaining the private supply of low-cost housing—where the majority of low-income renters live—is also crucial.

Reducing residential segregation by income will involve a concerted effort by federal, state, and local governments to foster more equitable access to opportunity for people of all races and incomes. While reducing the growing isolation of the poor is key, addressing the self-segregation of the wealthy is also essential. At the same time, however, new investments in low-income communities—including job training, school quality, and healthcare facilities and other services—are no less critical to the well-being of millions of families.