# 6 Housing Challenges

The number of cost-burdened households remains near a record high despite a modest retreat last year. Millions of homeowners, particularly in minority and high-poverty neighborhoods, are still underwater on their mortgages, while millions more renters have been forced to live in housing they cannot afford or is structurally inadequate. And with the ongoing growth in low-income households, housing assistance reaches a shrinking share of those in need.

## UNABATED COST BURDENS

Ending a long string of increases, the number of cost-burdened households (paying more than 30 percent of income for housing) receded slightly in 2012, falling by 1.7 million from the preceding year. But the improvement rolled back only a fraction of the growth over the previous decade. In all, 40.9 million households—or more than a third of US families and individuals—paid excessive shares of income for housing in 2012, an increase of more than 9 million from 2002 **(Figure 29).** What is particularly alarming is that 5.8 million of this gain was among severely burdened households (paying more than 50 percent of income for housing).

Virtually all of the improvement in conditions came on the homeowner side, with their cost-burdened numbers falling from 22.0 million in 2011 to 20.3 million in 2012. But even with this decline, more than a quarter of homeowners (27 percent) still had cost burdens, including more than one in ten with severe burdens.

The picture for renters is even less encouraging. In fact, the number of cost-burdened renters rose slightly to 20.6 million in 2012, marking the sixth straight year of increases. And although the cost-burdened share edged down, it still remained close to 50 percent. Moreover, more than one in four renters (27 percent) were severely housing cost burdened.

Cost burdens are the norm among lowest-income households. More than four out of five households with incomes below $15,000—about equivalent to full-time work at the federal minimum wage—paid more than 30 percent of those incomes for housing in 2012, with more than two-thirds paying over 50 percent. Within this lowest-income group, the cost-burdened shares differ little between owners and renters. In the next-lowest income group (earning $15,000–29,999), three-quarters of renters were cost burdened compared with 52 percent of owners. Even so, the severely cost-burdened shares for both owners and renters in this income group were similar (27 percent vs. 34 percent).

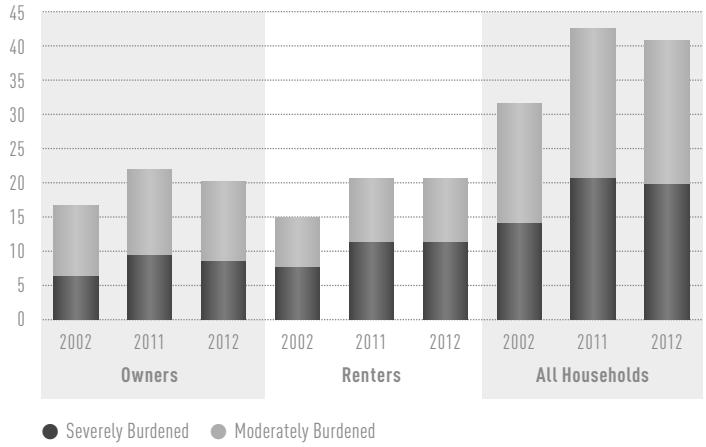
The incidence of severe cost burdens remains particularly high among minority households. In 2012, 27 percent of black households were severely burdened, along with 24 percent of Hispanic households and 21 percent of Asian households.

In contrast, only 14 percent of white households paid more than half their incomes for housing in that year. The severely cost-burdened shares of black and Hispanic households also climbed by more than 5 percentage points between 2002 and 2012, compared with increases of about 3 percentage points for white and Asian households.

FIGURE 29

### The Dip in 2012 Did Little to Reduce the Large Number of Cost-Burdened Households

Households (Millions)




Notes: Moderately (severely) cost burdened is defined as paying 30–50% (more than 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 Surveys.

#### DRIVERS OF AFFORDABILITY TRENDS

While cost burdens have spread among both owners and renters, the causes of these increases differ. For homeowners, most of the changes in cost-burdened shares reflect the ups and downs in housing costs. According to the American Community Survey, the median incomes of owners rose by a little over 3 percent between 2001 and 2007 while their median monthly housing costs jumped by 15 percent **(Figure 30).** Homeowner costs peaked in 2007 and then began a steep decline as interest rates hit historic lows and home prices plunged. By 2012, median housing costs for owners were nearly back to decade-earlier levels. But incomes also fell after 2007, offsetting some of the cost decline.

On the renter side, income declines have played a leading role in the rising incidence of cost burdens. From 2001 to 2007, median monthly rental costs rose 4 percent while renter incomes fell by 8 percent. The slide in renter incomes continued through 2011 with another 8 percent decline. Although conditions improved somewhat in 2011–12, the changes were not nearly enough to make up for lost ground. As a result, median renter incomes were 13 percent lower in 2012 than in 2001, falling from $36,000 to only $31,500. Meanwhile, the median rent paid, at $880, was up about 4 percent over this period.

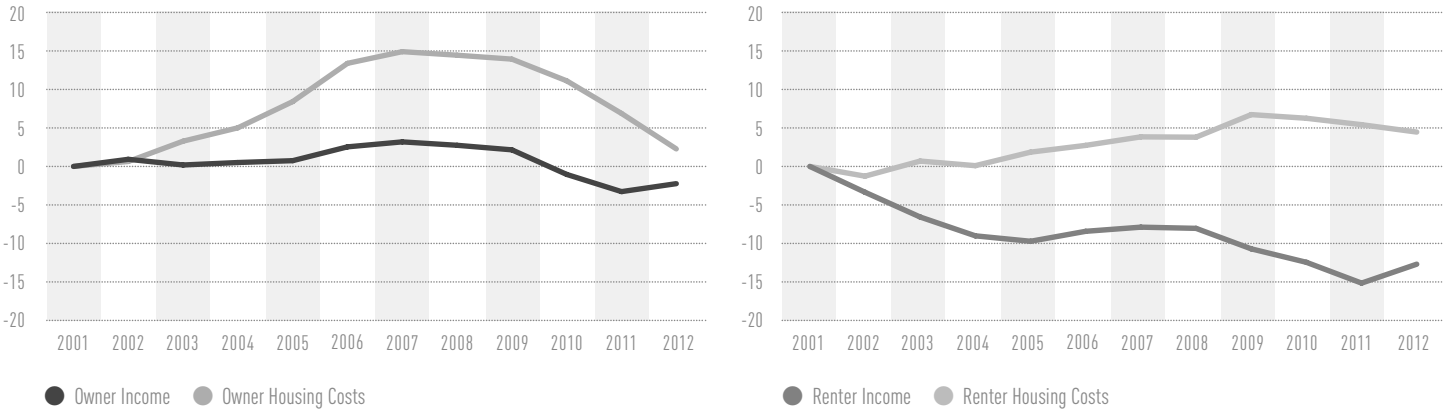
#### IMPACTS OF HIGH-COST HOUSING

Low-income families and individuals unable to secure decent, affordable, and suitable housing face difficult choices. Many have to settle for units that cost more than they can afford and then must severely limit what they spend on food and other critical necessities. For those who find housing that is within their budgets, the units may be of poor quality and/or located

FIGURE 30

### Since the Recession, Affordability Has Improved for Homeowners But Not for Renters

Percent Change in Median Value Since 2001

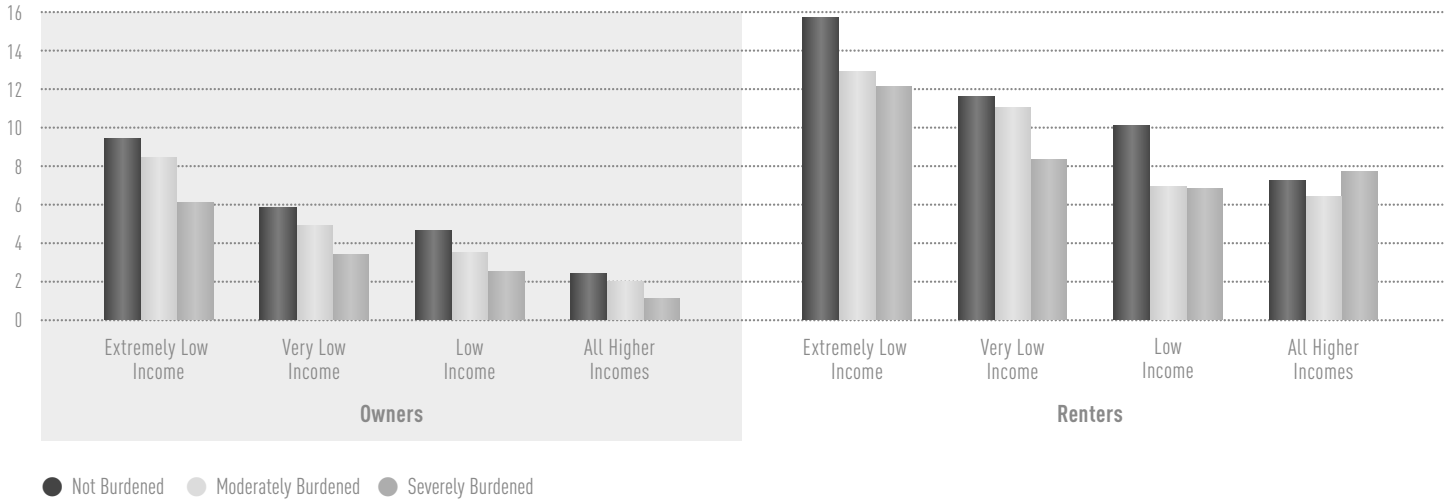



Notes: Dollar values are adjusted for inflation using the CPI-U for All Items. Median renter housing costs exclude renters paying no cash rent.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

FIGURE 31

**Whether Owning or Renting, Low-Income Households Often Sacrifice Housing Quality for Affordability**

Share Living in Inadequate Units (Percent)




Notes: Low (very low/extremely low) income is defined as 50–80% (30–50%/less than 30%) of area median. Moderately (severely) cost burdened is defined as paying 30–50% (more than 50%) of household 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. Inadequate units lack complete bathrooms, running water, electricity, or have other indicators of major disrepair. For a complete definition, see HUD Codebook for the American Housing Survey, Public Use File.

Source: JCHS tabulations of HUD, 2011 American Housing Survey.

in neighborhoods beset by crime and blight. The increased risk of physical harm in such locations imposes severe psychological stress on residents, and concerns about safety may prevent them from participating in outdoor activities. All of these pressures not only have significant health consequences that undermine the fundamental well-being of families and individuals, but also impair their ability to escape poverty.

In 2012, severely cost-burdened households in the bottom expenditure quartile (a proxy for income) spent on average 39 percent less on food and 65 percent less on healthcare compared with otherwise similar households living in affordable housing. The extent of these cutbacks is similar across a broad range of household types, although families with children spent significantly less on healthcare. Households that are severely cost burdened and living in rural areas also make particularly steep cuts in both nutrition and healthcare expenditures.

For households trading off quality for affordability, inadequate housing can also jeopardize health by exposing residents to allergens, toxins, and unsafe conditions. For example, poorly maintained homes are more likely to have mold, dust, insects, and rodents, increasing the risk of asthma and other ailments. Older homes may contain hazardous materials such as lead, asbestos, and radon.

According to the 2011 American Housing Survey, extremely low-income households (earning less than 30 percent of the area median) were more than three times more likely to live in inadequate housing than households earning 80 percent or more of area median income. Reflecting the tradeoff between cost and quality, all low-income households that were not housing cost burdened were more likely to live in inadequate housing **(Figure 31).**

Moreover, extremely low-income renters are more likely to live in poorer quality neighborhoods. In 2009, some 25 percent lived in areas where a serious crime had occurred within the preceding year, and 13 percent lived within a half-block of at least one abandoned or vandalized building. The comparable shares for renters with higher incomes are 21 percent and 5 percent.

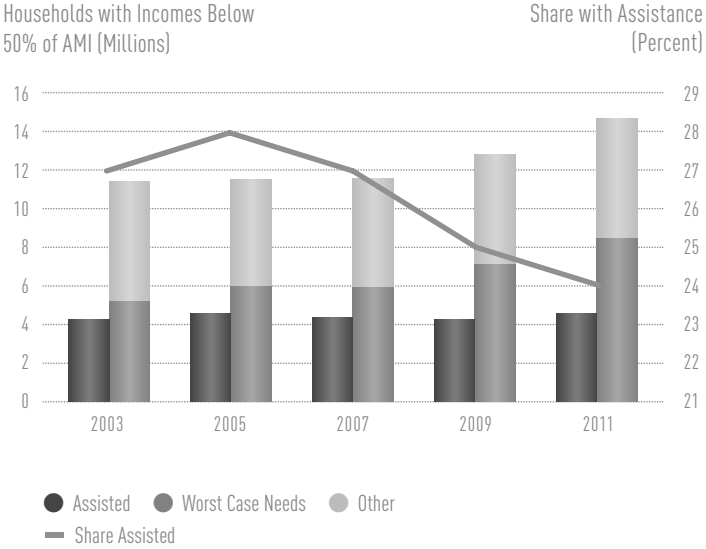
The struggle to meet high housing costs forces lowest-income families to move often, disrupting daily routines and social networks. Indeed, mobility rates are higher for lowest-income households. Among extremely low-income families with children in 2011, 43 percent had moved into their current homes within the previous two years. Mobility rates decline steadily as income rises, falling to just 19 percent for households making more than 80 percent of the area median.

### THE GROWING SUPPLY GAP

The rising tide of households unable to secure affordable housing reflects both substantial growth in the number of extremely low-income households and the fact that the private sector struggles to provide housing at a cost that is

FIGURE 32

**With the Number of Very Low-Income Renters on the Rise, the Likelihood of Assistance Continues to Fall**

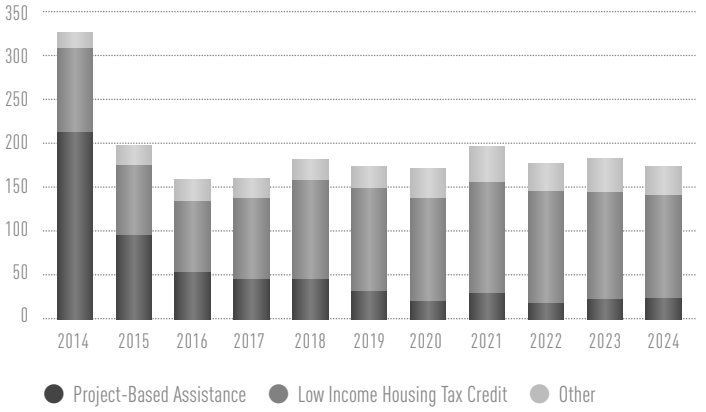



Notes: Worst case needs refer to unassisted renters with incomes below 50% of the area median that pay more than half of their incomes for rent or live in severely inadequate units, or both. Other includes households with similar incomes that do not receive assistance, are not burdened, and do not live in inadequate units.

Source: HUD, Worst Case Housing Needs Reports to Congress.

FIGURE 33

**More than Two Million Assisted Rentals Are at Risk of Loss from the Affordable Stock**




Notes: Other units include those funded by HOME Rental Assistance, FHA insurance, Section 202 Direct Loans, USDA Section 515 Rural Rental Housing Loans, USDA Section 538 Guaranteed Rural Rental Housing Program, and State Housing Finance Agency Funded Section 236. Data include properties with active subsidies as of May 16, 2014.

Source: JCHS tabulations of the National Housing Preservation Database.

within reach of these households. An Urban Institute analysis found that in 2000, 8.2 million extremely low-income households competed for 2.9 million rental units that were affordable and available. By 2012, the number of extremely low-income households had swelled to 11.5 million while the number of affordable and available housing units had increased to only 3.3 million.

These changes reduced the supply-demand ratio from 37 affordable and available rentals for every 100 lowest-income households to just 29. The substantial divide between the volume of affordable rentals the market can provide and the number of extremely low-income households underscores the essential role that subsidies must play in closing the gap.

### SHRINKING SUBSIDIES

To qualify for federal rental assistance programs, a household typically cannot earn more than 50 percent of area median income. But this aid is not an entitlement and a large majority of eligible renters do not receive assistance. According to HUD estimates, the number of households eligible for rental subsidies shot up 21 percent between 2007 and 2011, growing from 15.9 million to 19.3 million. But only 4.6 million—or just under a quarter—received assistance in 2011 **(Figure 32).** Indeed, the number of very low-income renters that benefited from any kind of housing aid increased by just 225,000 over this period. Meanwhile, the share of subsidy-eligible unassisted renters with worst case needs (either having severe housing cost burdens or living in severely inadequate housing, or both) climbed steadily from 50 percent to 58 percent.

In part, the growing inadequacy of housing assistance programs—particularly the voucher program that has accounted for much of the increase in aid in recent decades—reflects the fallout from rising rents and falling renter incomes. HUD administrative data indicate that the average rent for a voucher-assisted unit was $1,041 per month in 2012, up 13 percent from 2007. Over this period, federal spending per voucher-assisted unit rose 17 percent, from $600 to $705 per month. As the cost of administering rental assistance continues to grow, the capacity of federal programs to serve eligible households continues to diminish.

The situation has no doubt worsened since 2011, the last year for which data are available. Sequestration cut $3 billion from HUD's FY2013 budget, resulting in a 5 percent reduction in payments to landlords participating in the voucher program. Funding for program administration was also cut 4 percent. As a result, Government Accountability Office estimates indicate that 42,000 fewer households received housing vouchers in 2013 than in 2012. President Obama's FY2015 budget proposes a 5 percent increase in the program to reverse the sequestration cuts and offset the drop in vouchers. But even if enacted, this would do little to address the shortfall in assisted housing relative to escalating need.

### LOSSES OF ASSISTED HOUSING

On top of federal funding cuts to rental assistance programs, much of the existing supply of privately owned subsidized housing is at risk. The National Housing Preservation Database shows that the contracts or affordability restrictions on more than 190,000 units are set to expire each year on average over the next decade. Potential losses thus amount to more than 2.0 million units out of a total subsidized stock of 4.8 million. HUD-funded, project-based rental assistance programs, along with the Low Income Housing Tax Credit (LIHTC) program, support more than three-quarters (85 percent) of this housing **(Figure 33).** Most of the remainder are FHA-insured properties or units supported by HOME funding or the USDA Section 515 Rural Rental Housing Loan program.

Contracts on an estimated 596,000 units in properties with project-based rental assistance—more than a quarter (28 percent) of the total—will come up for renewal by 2024. These developments were built in the 1970s and 1980s and funded with long-term subsidies. When their affordability periods expire, owners have the option of converting the units to market-rate rentals. Owners of properties located in desirable areas with strong rental demand are particularly likely to opt out of the program.

But under ongoing pressures to reduce spending, President Obama's FY2015 budget cuts $171 million from project-based Section 8 assistance. In addition, to mitigate the impact of sequestration, HUD "short-funded" those types of contracts in 2013—that is, offered contracts of less than a year. Advocates fear that this will further discourage property owners from continuing to rent to low-income households.

Meanwhile, tax credits subsidize more than half (57 percent) of the units with expiring affordability restrictions in 2014–24. The LIHTC program has been the primary funding source for developing and preserving affordable housing, supporting construction of nearly 1.3 million units and rehabilitation of another 783,000 between 1987 and 2013. Between 2014 and 2024, however, nearly 1.2 million LIHTC-subsidized units will reach the end of their compliance periods. At that point, owners may apply for another round of tax credits, maintain their units as affordable without new subsidies, or convert their properties to market-rate housing.

According to a 2012 HUD report, most owners of LIHTC properties choose to keep their units affordable, but this generally requires renewed subsidies. The tax credit units most at risk of loss from the affordable stock are likely those with for-profit owners and located in high-cost housing markets. Another hurdle for preserving the affordability of LIHTC units nearing the end of their compliance period is that they often need new funding for maintenance and rehabilitation.

### HOMELESSNESS ON THE DECLINE

HUD's most recent count indicates that the homeless population in the United States fell from 633,782 in 2012 to 610,042 in 2013—a 4 percent decline. With the exception of a small increase in 2010, homelessness has in fact fallen steadily since 2007. All major at-risk groups have shared in this improvement, with an 11 percent drop among individuals in families, 12 percent among the chronically homeless, and 6 percent among veterans. Virtually all of the decrease in homelessness has come within the unsheltered population, while the number living in shelters has held fairly constant at just under 400,000.

Federal funding for homeless assistance increased 34 percent between FY2007 and FY2013, contributing to the addition of 95,662 beds in permanent supportive housing. This new housing has made a profound difference in reducing homelessness among such vulnerable groups as veterans and the chronically homeless. Increased funding for healthcare services that target those with complex medical, mental health, and substance abuse issues has also contributed to the overall decline in homelessness.

But not all states have made significant progress. In fact, the homeless population in 15 states and the District of Columbia increased by more than 10 percent between 2007 and 2013. Particularly worrisome are the rising numbers of individuals in homeless families in New York (up more than a third) and Massachusetts (up 80 percent). Indeed, recent cuts in rental housing subsidies under sequestration may have contributed to increases in the incidence of homelessness among families.

### PERSISTENT NEIGHBORHOOD DISTRESS

The boom and bust in home prices during the housing market crash was especially severe in lower-income and minority neighborhoods. Based on the Zillow Home Value Index, home prices dropped 26 percent between 2006 and 2013 in neighborhoods that were predominantly minority—more than three times the decline in neighborhoods that were predominantly white **(Figure 34).** Similarly, prices in high-poverty neighborhoods fell 20 percent over this period, compared with 14 percent in low-poverty neighborhoods.

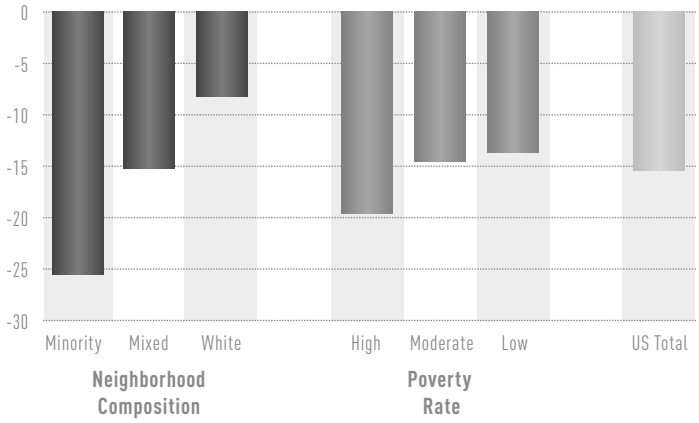
In part, the steep home price decline in minority—and, to a lesser extent, low-income—neighborhoods reflects the fact that prices in these areas had soared during the housing market bubble and a correction was in order. But the ensuing losses of housing wealth in these communities have been devastating for both those who bought homes during the runup to the crash and those who refinanced their homes at inflated values. Even with home prices on the rebound, the share of homeowners with negative equity in majority-minority and high-poverty neighborhoods remained at 27 percent in 2013, nearly double the share in white and low-poverty areas.

With such a large share of underwater homeowners, these neighborhoods are at heightened risk of widespread defaults. Homeowners in this bind have little opportunity to refinance

FIGURE 34a

## Home Prices in Minority and Low-Income Neighborhoods Remain Depressed...

Average Change in Home Prices, 2006–13 (Percent)



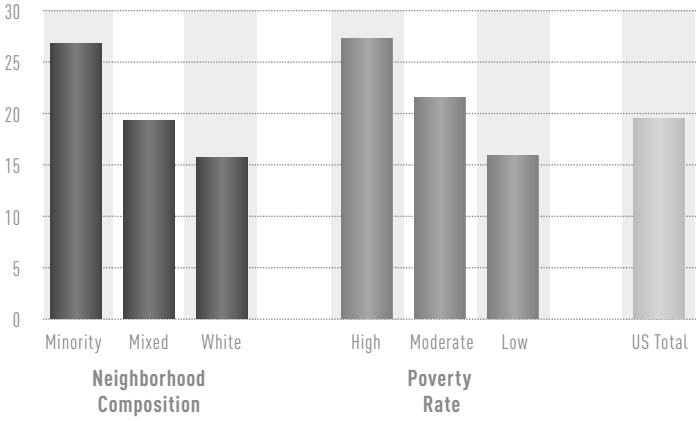

Notes: Neighborhoods are defined by zip codes and include 11,572 areas with at least 500 residents and with data available from 2000 to 2013. Minority (mixed/white) neighborhoods were more than 50% (10–50%/less than 10%) minority in 2012. High- (moderate-/low-) poverty neighborhoods had poverty rates of more than 20% (10–20%/ less than 10%) in 2012. Home price changes are averaged across neighborhoods.

Source: JCHS tabulations of Zillow Real Estate Research data and US Census Bureau, 2012 American Community Survey 5-Year data.

FIGURE 34b

## ...Leaving Disproportionately Large Shares of Homeowners with Negative Equity

Share of Mortgaged Homes with Negative Equity, 2013:4 (Percent)




Notes: Negative equity homes have mortgage balances that exceed current home values. Negative equity shares are averaged across neighborhoods. Neighborhoods are defined by zip codes and include 11,572 areas with at least 500 residents and with data available from 2000 to 2013. Minority (mixed/white) neighborhoods were more than 50% (10–50%/less than 10%) minority in 2012. High- (moderate-/low-) poverty neighborhoods had poverty rates of more than 20% (10–20%/ less than 10%) in 2012.

Source: JCHS tabulations of Zillow Real Estate Research data and US Census Bureau, 2012 American Community Survey 5-Year data.

their mortgages or to sell without paying out of pocket. Their inability to sell, in turn, reduces the already limited inventory of homes available to the next generation of lower-income buyers. As policymakers consider ending support for loan modification and refinancing programs for underwater owners, they must bear in mind the deep distress that still afflicts many struggling communities across the country.

### THE OUTLOOK

Despite the recent weakness in a variety of indicators, the housing recovery is likely to continue at a modest pace, in line with growth in the broader economy. But even as the overall market shows signs of renewed health, significant challenges remain. Chief among them is that tens of millions of Americans devote an excessive amount of their incomes to housing but are still unable to live in good-quality units in stable communities. Nearly a quarter of all renter households earn less than $15,000 a year, which means that housing they could afford would rent for under $400 a month. These households must therefore compete for the extremely limited and dwindling supply of housing with such low rents. And given the cost of land, building materials, financing, and operations, the private sector is simply unable to provide additional low-cost housing without subsidies.

For lowest-income renters, government assistance is the only means to secure housing that does not require compromising on quality or cutting back on other critical expenses. But rapid growth in the number of income-eligible households, rising costs of subsidies, and overall cutbacks in government spending have strained the capacity of federal programs to respond to growing need. With the federal balance sheet improving, though, now is a good time to reconsider the extent and nature of support for these disadvantaged households.

Among homeowners, the concentration of underwater households in minority and high-poverty neighborhoods is an ongoing concern. A different but related challenge is the stalled reform of the government's role in the mortgage market, with its twin goals of reducing the risk of another housing market meltdown while also enabling qualified lower-income households to obtain affordable mortgages. Indeed, a significant factor in the sluggish homebuying market is the relatively weak financial position of many younger Americans—many of which are minorities with less wealth and less of a family tradition of homeowning. Ensuring that these young adults have opportunities to secure the financing they need to buy homes underpins the future growth of the owner-occupied housing market.