HOUSING CHALLENGES

Six years after the official end of the recession, the number of renters living in housing they cannot afford continues to set new records. Federal assistance efforts have struggled to keep up with need, while funding cuts limit new construction of affordable housing as well as preservation of existing subsidized units. Aside from affordability, the nation also faces the challenge of revitalizing the many distressed neighborhoods where the housing recovery has failed to take hold. Reducing energy costs and the large carbon footprint of the residential sector are also important priorities.

PERVASIVE COST BURDENS

According to the most recent American Community Survey, the overall number of households paying more than 30 percent of income for housing declined for the third consecutive year, receding from 40.9 million in 2012 to 39.6 million in 2013. The share of cost-burdened households also fell from 35.3 percent to 34.1 percent.

Almost all of this improvement came on the homeowner side, where income gains and interest-rate-driven reductions in mortgage costs—along with foreclosures among some of the most distressed—pushed the shares of both moderately and severely burdened owners to the lowest levels in a decade. Even so, more than one in four homeowners still paid over 30 percent of income for housing and about one in ten paid over 50 percent.

The number of cost-burdened renters, in contrast, set a new high in 2013 of 20.8 million, totaling just under half of all renter households. Although the number of severely burdened renters edged down slightly, the number of moderately burdened renters climbed by a larger amount.

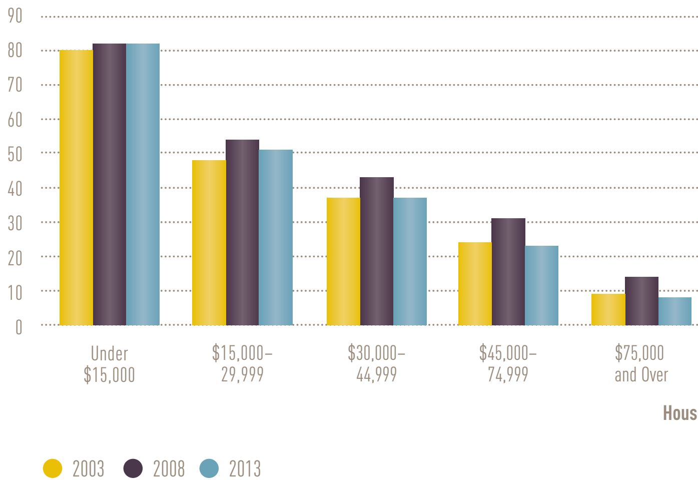
Regardless of tenure, over 80 percent of households with incomes under $15,000 (equivalent to full-time pay at the federal minimum wage) were cost burdened in 2013 **(Figure 35).** Just over half of homeowners and three-quarters of renters with incomes between $15,000 and $29,999 were also housing cost burdened. Even those earning $30,000–44,999 commonly face cost burdens, including 37 percent of owners and 45 percent of renters.

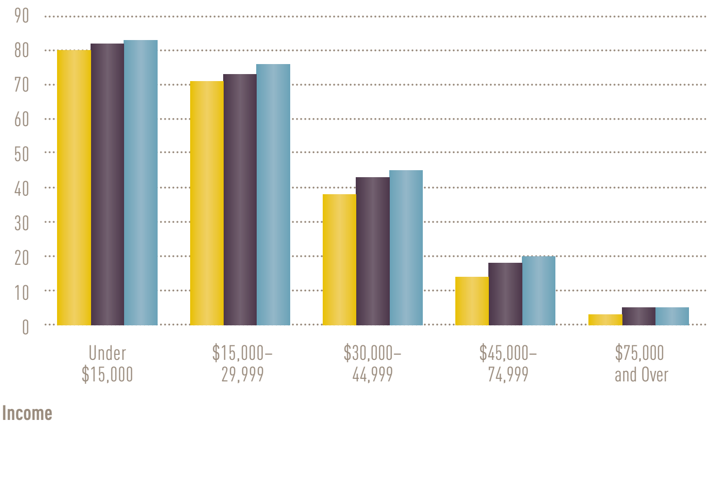
Minorities and certain types of households are especially likely to have severe housing cost burdens. Indeed, 26 percent of black households, 23 percent of Hispanic households, and 20 percent of Asian and other minority households were severely burdened in 2013, compared with just 14 percent of white households. Nearly a third of single-parent families also had severe burdens, compared with a tenth of married couples with children. Finally, more than half of households headed by an unemployed individual in 2013 were severely housing cost burdened.

The cost-burdened share of households is particularly high in expensive coastal markets, including Los Angeles, New York,

FIGURE 35

While Homeowners Have Had Some Relief, More and More Renters Are Cost Burdened





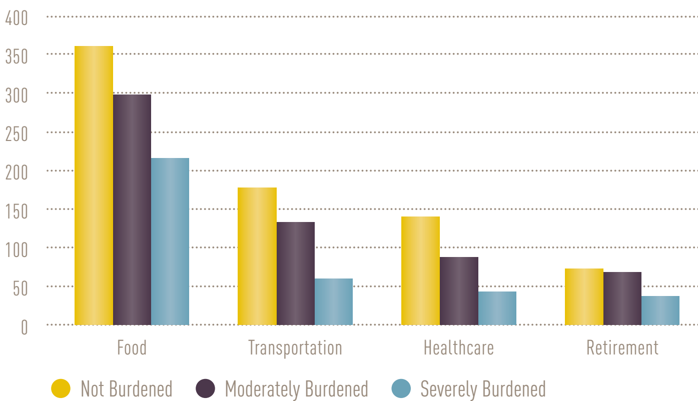
Household Income

2003 2008 2013

Notes: Cost burdens are defined as housing costs of more than 30% of household income. Incomes are adjusted to 2013 dollars using the CPI-U for All Items.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

FIGURE 36

When Low-Income Households Have to Dedicate Most of Their Income to Housing, They Cut Back on Other Vital Needs



Not Burdened Moderately Burdened Severely Burdened

Notes: Low-income households are in the bottom quartile of all households ranked by total spending. Moderate (severe) burdens are defined as housing costs of 30–50% (more than 50%) of household incomes.
Source: JCHS tabulations of US Bureau of Labor Statistics, 2013 Consumer Expenditure Survey.

and Honolulu. In 2013, 41 percent of households living in the 10 highest-cost major metros had cost burdens, far exceeding the 34 percent in the nation as a whole. Nevertheless, even in lower-cost metros like Miami, Las Vegas, and Orlando, 40 percent or more of households had cost burdens. Moreover, affordability pressures in the 10 most expensive markets reach further up the income scale. In fact, nearly half (48 percent) of households with incomes of $45,000–74,999 were housing cost burdened in these metros—more than twice the share (22 percent) nationally. As a result, the nearly 20 million households living in the 10 highest-cost metros must earn well above the national median income of $51,900 to live in housing they can afford.

Meanwhile, the affordable options for lower-income households are extremely limited in all market areas. In 98 of the 100 largest metros, more than three-quarters of households with incomes below $15,000, and more than half of those with incomes between $15,000 and $29,999, were housing cost burdened in 2013.

CONSEQUENCES OF HIGH-COST HOUSING

On average, severely cost-burdened households in the bottom expenditure quartile (a proxy for low income) spent almost three times as much on housing in 2013 as those living in affordable housing. When paying for housing takes at least half of household income, families have little left over for other vital needs. For example, severely cost-burdened households in the bottom expenditure quartile spent 70 percent less on healthcare and 40 percent less on food than their counterparts with housing they could afford **(Figure 36)**. In addition to diminished quality of life for a particular household, such significant cutbacks reduce spending in the economy as a whole.

Where households make the biggest spending cuts depends on their stage in life, with both short- and long-term implications for health and well-being. Severely cost-burdened households under age 65 in the bottom expenditure quartile contributed 52 percent less to their retirement savings than those in affordable housing. Same-aged households in the next highest expenditure quartile contributed 41 percent less. In contrast, severely cost-burdened households aged 65 and over in the lowest expenditure quartile spent 60 percent less on healthcare and 41 percent less on food than otherwise similar households with affordable housing.

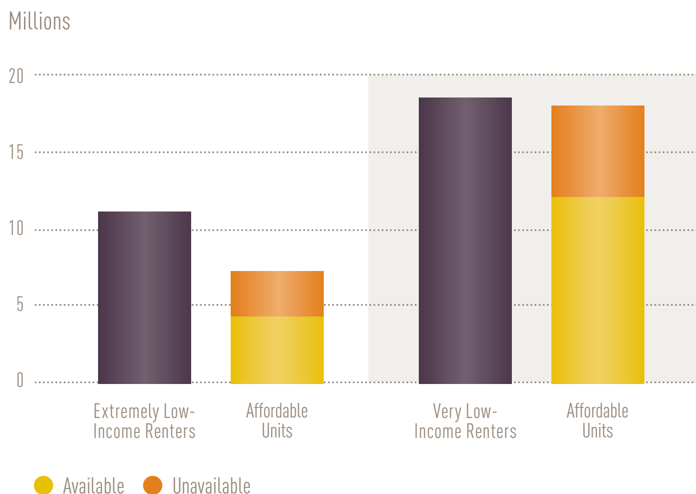
Paying large shares of income for housing does not guarantee the units will be adequate or safe. Housing deficiencies related to plumbing, electrical, and heating systems or to structural integrity affect a much larger share of renters (9 percent) than owners (3 percent). Moreover, the incidence of such problems among owners declined over the past 20 years, but remained unchanged among renters. The share of households earning less than $15,000 that live in inadequate housing is especially high at 10 percent.

Inadequate housing is found primarily in urban areas, accounting for 7.5 percent of central city units. But inadequacy is also a significant concern in many rural areas, where 5.3 percent of units are inadequate. These problems are particularly evident in Native American lands in the Southwest, *colonias* along the Mexican border, and locations throughout Appalachia. According to an analysis by the Housing Assistance Council, the share of housing units that lack complete plumbing is only 0.5 percent nationwide, but 5.3 percent on Native American lands, 1.1 percent along the Mexican border, and 0.8 percent in rural areas of central Appalachia.

FIGURE 37

Low-Income Renters Far Outnumber the Supply of Available Units They Can Afford

Millions



Notes: Extremely (very) low-income households earn no more than 30% (50%) of area median income. Affordable is defined as housing costs of no more than 30% of household income on a unit size-adjusted basis.
Source: JCHS tabulations of HUD, *Worst Case Housing Needs: 2015 Report to Congress*.

SUPPLY AND DEMAND FOR AFFORDABLE UNITS

Extremely low-income households (earning up to 30 percent of area median) have increasingly few housing choices. In 2013, 11.2 million renters with incomes this low competed for 7.3 million affordable units, leaving a shortfall of 3.9 million **(Figure 37).** Excluding units that were structurally inadequate or occupied by higher-income households, there were only 34 affordable units for every 100 extremely low-income renters. Despite a slight improvement in recent years, the gap between the number of extremely low-income renters and the supply of units they can afford nearly doubled from 2003 to 2013.

When considering all very low-income households (earning up to 50 percent of area median), the absolute shortage of affordable units is smaller, but a large share of these households still have to live in units they cannot afford. Overall, 18.5 million very low-income renters competed for 18.0 million affordable units in 2013. But given that a third of those units were occupied by higher-income households and another 7 percent were inadequate, only 58 affordable units were left to serve every 100 very low-income renters.

URGENT NEED FOR HOUSING ASSISTANCE

Since the private sector cannot profitably supply very low-cost units, the government must play a critical role in ensuring that the nation's most disadvantaged families and individuals have good-quality, affordable housing. Very low-income households qualify for a variety of federal rental assistance programs supported primarily by the US Department of Housing and Urban Development. As of 2013, HUD programs accounted for 4.8 million assisted renters, with just under half supported through housing choice vouchers, 1.1 million in public housing developments, and 1.6 million in privately owned developments. US Department of Agriculture (USDA) programs subsidize an additional 406,000 rentals.

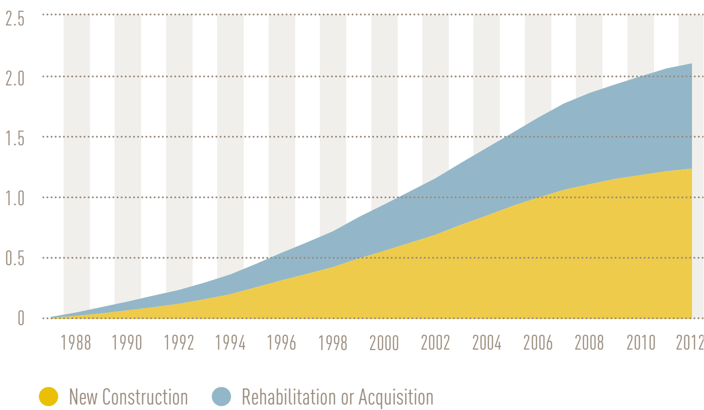
The Low Income Housing Tax Credit (LIHTC) program—administered by state agencies, often with financing from mortgage revenue bonds—provides the primary support for construction and preservation of affordable rentals. Since its inception in 1986, the program has financed construction or rehabilitation of 2.1 million units affordable to lower-income households **(Figure 38).** While LIHTC subsidies alone cannot bring rents within reach for extremely low-income households, affordable housing developers often combine the tax credits with assistance from the housing voucher and project-based programs to serve these renters.

Federal housing assistance supports the nation's most vulnerable families and individuals. As of 2013, the average annual income of a HUD-assisted household was about $12,900, while that of a USDA-assisted household was $12,000. These pro-

FIGURE 38

The LIHTC Program Remains the Primary Source of Financing for Both the Construction and Preservation of Affordable Housing

Cumulative Low-Income Units Placed in Service (Millions)

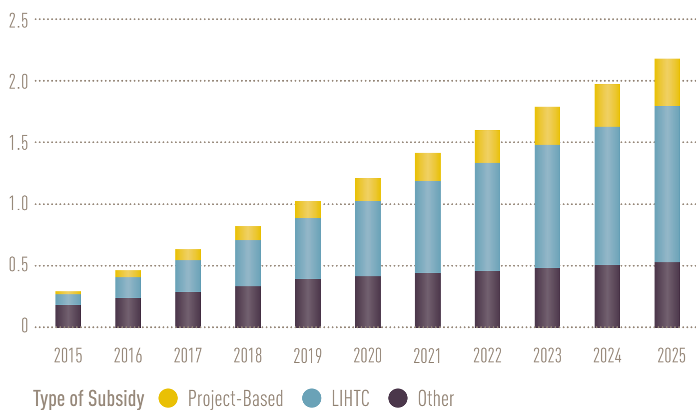


Note: Data include only units financed with 9% and 4% credits by year placed in service.
Source: JCHS tabulations of HUD, Low Income Housing Tax Credit Database.

FIGURE 39

Millions of Units Subsidized with Project-Based Rental Assistance or Tax Credits Are at Risk of Loss

Cumulative Number of Units with Expiring Affordability Periods (Millions)



Notes: Data include properties with active subsidies as of February 20, 2015. Other units are funded by HOME Rental Assistance, FHA insurance, Section 202 Direct Loans, and USDA Section 515 Rural Rental Housing Loans.
Source: JCHS tabulations of National Housing Preservation Database.

grams also serve large shares of older adults, especially those with disabilities. Indeed, a third of HUD-assisted households in 2013 were headed by an adult aged 62 and over, while another third were working-age households that included a person with disabilities. More than 60 percent of USDA-assisted renters were seniors or people with disabilities.

The growing need for housing aid continues to overwhelm the capacity of federal, state, and local governments. According to HUD estimates, the number of very low-income renters qualifying for subsidies increased by 18 percent between 2003 and 2013, from 15.7 million to 18.5 million. At last measure in 2013, however, just over a quarter (26 percent) of eligible very low-income households received rental assistance.

Unmet need has continued to grow despite real increases in federal appropriations for two of HUD's largest programs—housing choice vouchers and project-based rental assistance—between FY2005 and FY2015. But instead of serving more households, most of the increased funding was offset by the higher costs of assistance due to rising market rents.

Meanwhile, appropriations for programs subsidizing construction of affordable housing have fallen well below levels a decade ago. For example, funding for USDA's Section 515 program was down 77 percent in real terms between FY2005 and FY2015. After adding 533,500 rental units to the affordable rural stock between 1963 and 2011, the program has supported no new construction since. Appropriations for HUD's Section 202 program, which over its lifetime funded production of 400,000 supportive housing units for older adults, were also cut 55 percent over this period, and included no funds for new construction in recent years.

Federal budget cuts due to limits on non-defense discretionary spending established by the 2011 Budget Control Act have also taken a toll on other key supports for affordable housing. Funding for the HOME program, an important source of gap financing for affordable housing developments as well as other housing programs, dropped 62 percent between FY2005 and FY2015. In addition, funding for the CDBG program, which provides funds for a wide range of local community development activities, also fell by half over this period.

PRESERVING THE AFFORDABLE STOCK

Amid declining subsidies and rising development costs, preservation of the existing stock of affordable housing has taken on new urgency. As it is, nearly 2.2 million assisted units are at risk of removal over the coming decade **(Figure 39).**

More than 1.2 million of these at-risk rental units are in LIHTC developments whose compliance periods are set to end. At that point, developers may find it difficult to keep the units affordable if they lack the funds to make necessary upgrades. Their options are to refinance their loans, apply for another round of tax credits, or sell their stake in the property or partnership.

Of the remaining at-risk units, 530,000 are in privately owned developments with rents subsidized under federal contracts. Once those contracts expire, property owners can opt out of the program and raise their rents. Owners with properties in high-rent neighborhoods earning below-market rents for their assisted units have the most incentive to opt out. Half of the stock with expiring project-based subsidy contracts are in this category.

In other cases, affordability is tied to the mortgage backing the property. These units may be lost from the affordable stock when the mortgage comes to term, the property owner prepays the loan, or if refinancing is not paired with additional project-based subsidies to protect tenants against large rent increases. These conditions affect more than 200,000 affordable units financed through HUD's Section 202 program, USDA's Section 515 program, and FHA mortgage insurance programs.

A number of preservation initiatives are under way. In 2010, HUD received authorization to provide rental assistance contracts for Section 202-financed senior housing projects that are refinanced or recapitalized, thus preventing displacement of income-eligible tenants. In 2012, HUD implemented a pilot program that expedites approvals for the purchase or refinance of LIHTC properties through FHA's Section 223 program.

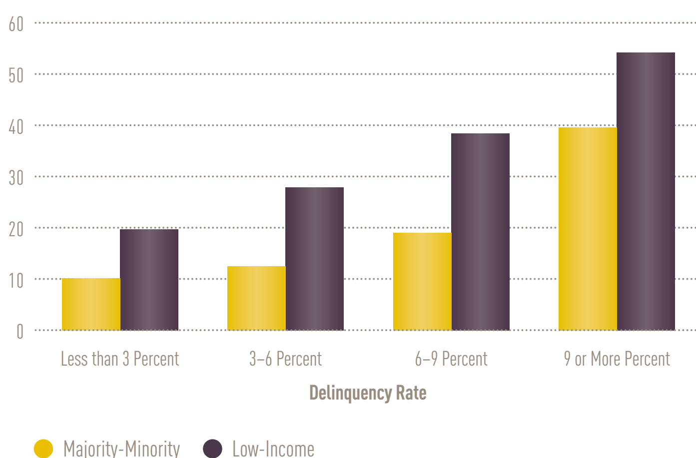
In addition, Congress recently approved expansion of HUD's Rental Assistance Demonstration (RAD) program from 60,000 units to 185,000 units. The RAD program, which converts existing financial support of HUD-assisted properties into long-term contracts for rent subsidies to expand access to private financing, primarily aims to foster reinvestment in the public housing stock, but is also open to three legacy programs for privately owned subsidized housing. Meanwhile, USDA's Multifamily Housing Preservation and Revitalization demonstration program offers a variety of assistance to owners or buyers of Section 515 properties, although the scale of these efforts is small relative to need.

In almost all of these cases, however, the LIHTC program is a critical source of investment capital that will be necessary to keep the units affordable. These competing demands—for new construction as well as for preservation—have put the tax credit program under extreme pressure and raised the question of whether it ought to be expanded.

FIGURE 40

Neighborhoods with the Highest Loan Delinquencies Are Typically Minority and Low Income

Share of Zip Codes (Percent)



Notes: Data include only zip codes with populations of at least 500. Low-income zip codes have median incomes of less than 80% of the state median. Delinquent loans are 90 or more days past due.
Sources: JCHS tabulations of CoreLogic delinquency data; US Census Bureau, 2009–13 Five-Year American Community Survey.

PROGRESS IN REDUCING HOMELESSNESS

The lack of affordable housing in the United States continues to leave nearly 600,000 people homeless. More than a third are people in families, including 130,000 children under the age of 18. By comparison, chronically homeless individuals (those who have been without a place to live for at least a year or have had repeated episodes of homelessness over the past few years) account for a much smaller share (15 percent) of the homeless population.

Recent increases in federal funding have aided progress in reducing both homelessness overall and among the most vulnerable groups. Indeed, the number of beds in permanent supportive housing expanded 60 percent between 2007 and 2014, to over 300,000. Beds for the chronically homeless accounted for just over half of this increase. As a result, total homelessness fell 11 percent in 2007–14, the number of homeless veterans dropped 19 percent, and the number of chronically homeless individuals was down by 30 percent. At the same time, however, the number of homeless people in families declined by only 8 percent.

But the national reduction in homelessness is not apparent in all markets. Rising rents and a dwindling supply of affordable rentals continue to put people at risk, especially in high-cost locations. Indeed, total homelessness jumped by 29 percent in New York and 40 percent in Massachusetts between 2007 and 2014. The increase in the District of Columbia was even larger, at 46 percent. Family homelessness is particularly acute in major cities, which were home to 45 percent of this population in 2014. New York City headed the list with 41,600 homeless people in families, or nearly 20 percent of the national total.

REVITALIZING DISTRESSED NEIGHBORHOODS

By many measures, the US housing market has made a substantial recovery from the crash. According to Zillow, national home prices rebounded in 2014 to within 10.4 percent of their previous peak, reducing the share of owners with mortgages that have negative equity from 31.4 percent in early 2012 to

16.9 percent. Meanwhile, CoreLogic reports that the share of seriously delinquent loans fell to 3.9 percent in early 2015, the lowest level since 2008.

But the degree of recovery varies widely across locations. Indeed, housing market distress remains extremely high in certain communities, particularly those where risky lending was rampant during the housing boom. Among the more than 10,000 zip codes for which data are available, house prices in the bottom tenth of neighborhoods were still 34 percent below their 2006 levels in 2014 and the share of underwater homeowners remained at 26 percent. Although accounting for less than one in five zip codes, majority-minority communities make up half of the neighborhoods where house prices and home equity remain furthest behind.

The pattern is similar when looking at loan delinquencies. According to CoreLogic data on more than 25,000 zip codes, 3.7 percent of loans in the median community were 90 or more days past due or in foreclosure last year. But the share of troubled loans was at least 9 percent in about a tenth of these neighborhoods. Again, four out of ten neighborhoods were majority-minority and more than half had household incomes below 80 percent of the statewide median **(Figure 40).**

The extent of persistent housing market distress makes it clear that public efforts to remediate the effects of the housing crash must continue. The Treasury Department's recent decision to extend its homeowner relief programs through 2016 is a step in the right direction. But the country's most highly stressed communities face a host of economic and social challenges that no single strategy can address. Indeed, reducing blight and enhancing economic opportunity in these areas require comprehensive, integrated efforts to engage residents and link resources. To this end, HUD is working to improve collaboration with other federal agencies and to encourage local partnerships through such initiatives as the Choice Neighborhoods program.

FOSTERING GREENER HOUSING

Improving the efficiency of the residential stock would help to make housing more affordable for lower-income households. As it is, the typical household earning less than $15,000 spent 18 percent of that income on residential energy needs in 2013—more than twice the 8 percent share among households earning $15,000–29,999 and more than three times the 5 percent share among those earning $30,000–44,999.

With residential buildings generating about 20 percent of US carbon emissions, efficiency improvements would also go a long way to reducing greenhouse gases. Retrofits of older homes have in fact yielded steady efficiency gains over the past several decades, with the typical pre-1970 house using nearly 30 percent less energy per square foot in 2009 than a similar-aged home in 1980. Newer homes are also more efficient thanks to improvements in space heating, air conditioning, insulation, and major appliances. Indeed, homes built in the 2000s consume almost 18 percent less energy per square foot than those built previously.

Encouragingly, Harvard's Center for Green Buildings and Cities finds that support for green building is gaining traction at the local level. Based on information from the US Green Building Council, the American Institute of Architects, and the websites of local governments, 185 of the 715 US cities with populations above 50,000 have green building programs. Of this group, 124 cities have programs specifically for residential construction. Most green building programs take the form of ordinances that set standards for newly constructed or renovated structures, although some include incentives, zoning codes, tax abatements, or action plans to encourage high-performance building practices.

Most of the cities that have adopted green policies for residential buildings are on the coasts. California leads with 45 programs, while Florida has 22. Given that these two states are home to much of the nation's population and account for a large share of new residential construction, their adoption of green standards may help pave the way for broader implementation by other states and by the homebuilding industry.

THE OUTLOOK

While the past year brought some relief, fallout from the housing crash and Great Recession lingers on. Large shares of low-income households—and renters in particular—continue to spend unreasonable shares of their income on housing. With income growth failing to keep pace with rents, affordability pressures are unlikely to ease noticeably in the near future.

And with such large shares of households struggling with housing cost burdens, fewer are able to save adequately for emergencies, retirement, or to buy homes, thereby limiting their wealth-building potential as well as shrinking the first-time homebuyer market. Meanwhile, the number of affordable units for lowest-income households falls far short of need, and preserving the stock that does exist must take priority.

The long-delayed capitalization of the National Housing Trust Fund would be an important step in addressing these intractable housing challenges. Indeed, this trust fund would support the first production program to target extremely low-income households since the launch of the Section 8 program in 1974. And unlike current rental assistance programs, the trust fund would not be subject to annual appropriations but instead have a predictable stream of funding.