

RENT

Within Reach



*Safe, Affordable
Housing Becoming
More Difficult
to Find*

More people in low- to moderate-income brackets are finding it difficult to locate affordable rental housing. The problem is a growing public policy concern, but there are programs that can help address the problem.

By Jennifer Burnett

In 1949, the Housing Act—passed during the Truman Administration—called for “a decent home and a suitable living environment for every American family.”

Fifty-seven years later, many Americans are struggling to cover the overwhelming cost of putting a roof over their heads. Renters with low- to mid-range levels of income are finding it increasingly difficult to obtain safe, decent housing within their financial reach. With the future of the housing market unclear, the lack of affordable rental housing is a growing concern for policymakers and citizens alike.

The 2006 National Housing Opportunity Pulse by the National Association of Realtors indicates that affordable housing is on many Americans’ minds. More than 42 percent of the 1,000 respondents to June 2006 survey about various housing topics cited the lack of affordable housing in their communities as one

of their top three concerns. More than 68 percent said having enough money to pay rent every month was difficult for families in their community, an increase of 7 percent over last year.

The survey results suggest that solving the crisis in affordable housing is an important public policy priority. Eighty percent of the survey respondents said they would be willing to support more affordable homes being made available for people in their community, and 68 percent said they would be more likely to vote for a candidate who worked to make housing more affordable in their area.

A Hot Housing Market

Recent and long-running economic trends have had a significant impact on the availability of affordable rental housing. When the effective interest rate on a conventional 30-year fixed rate mortgage dipped below 5.5 percent in mid 2003, the housing industry experienced revitalization. The low rates pulled millions of consumers into the market, and homeownership levels reached record highs.

This whirlwind of activity also helped launch real estate prices into the stratosphere, particularly in the West and Northeast. For example, the national median sales price (in 2005 dollars) of existing single-family homes increased by 18.3 percent—from \$185,100 in 2003 to \$219,000 in 2005. During this same time period, the price increase in the Western region was a staggering 32.2 percent, raising the median to \$340,300.

The Fed reacted to rising inflation by increasing interest rates 17 consecutive times since June 2004. This resulted in a relative cool down of the housing market in nearly every region of the country. The housing bubble that grew due in part to low interest rates appears to be coming to an end.

The National Association of Realtors reports that in July 2006, sales of previously owned homes fell to the lowest level in more than two years, with price appreciation flattening. Sellers are waiting longer for buyers as the supply of unsold houses on the market reaches new peaks. The initial effect of higher interest rates may be fewer people buying homes and thereby pushing down real estate prices. However, there may be unintended consequences for rental housing.

Evolving Needs

As people exit homeownership because of increasing interest rates and join the rental market, rental rates are likely to rise due to the increased demand. So, although the housing market may cool off, rental prices may continue to climb even higher. Affordability in the rental market has been eroding for a while, and the current housing movement is only exacerbating an already troubling trend.

According to America's Rental Housing: Homes for a Diverse Nation, issued by Harvard University's Joint Center for Housing Studies, gross monthly rents increased from \$611 in 1996 to \$711 in 2004—a 16.4 percent hike. Over the same time period, monthly renter income (in 2005 dollars) effectively fell by 1.1 percent.

This trend indicates that although rents are increasing at a relatively steady speed, income is not keeping pace.

Those at the lower end of the wage scale deal with an even more difficult problem. Market-driven, unsubsidized affordable housing has essentially disappeared. A full-time minimum wage earner can no longer afford a basic two-bedroom apartment at fair market value—anywhere. Low-income elderly and disabled individuals also are profoundly affected by these broad upswings in rental rates.

As rent prices escalate, affordability problems are also moving up the income distribution ladder. In high-cost metropolitan areas such as Boston, Washington, D.C. and San Francisco, school-teachers, nurses and other middle-income professionals can't afford modest rental housing. Figure 1 illustrates this trend.

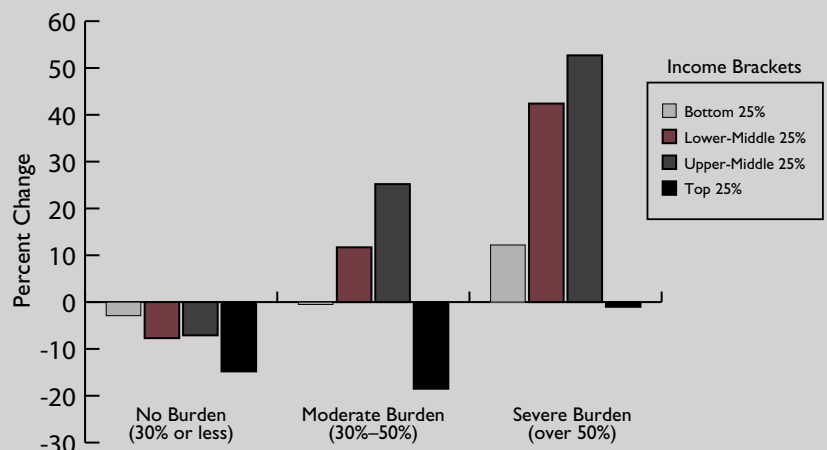
The number of rental households that are cost-burdened, with 30 to 50 percent of income devoted to housing, and severely cost-burdened, those with more than 50 percent of income devoted to housing, has increased in the bottom and two middle income quartiles from 2001–2004. Even the top income quartile experienced a decline in those with no burden, spending 30 percent or less on housing.

As spending on housing costs consumes a greater percentage of household income, less money remains to cover other basic expenses. Harvard's rental study concludes that, after paying more than half of their incomes on rent, households in the lowest expenditure quartile have only \$384 a month left over to meet food, transportation, health care and other basic needs. By contrast, the average American household spends more than \$450 a month on food alone.

Rental housing is becoming increasingly difficult to obtain given the financial reality of many people. The number of affordable rental housing units is decreasing while the numbers of people who need them continues to grow. The reasons behind the loss of affordable rental housing are complicated, numerous and sometimes controversial. There are a few developments, however, that clearly affect the availability of affordable rental units for people with low- to mid-range income levels. These include:

- Basic economic trends including increasing prices in the general housing market and the accompanying disparate growth of income;

Figure 1:
Income Spent on Rent (Percent Change 2001–2004)



Data Source: Joint Center of Housing Studies of Harvard's tabulations of the 2001 and 2004 American Community Surveys.

- The renovation and gentrification of previously affordable units; and
- The expiration of federal subsidies and contracts.

The dramatic swell in the value of existing land and real estate generated compelling incentives for owners to take advantage of emerging, higher priced markets. Previously affordable units have been converted to higher priced rental units or into condos.

“Low end rental units were being renovated and gentrified in a really big way...suddenly the land became more valuable and it wasn’t worth their (landlords’) while to rent at a very low rate when they could upscale it,” said Dean Baker, co-director of the Center for Economic and Policy Research. “They could then rent it at a much higher rate or more typically, sell it as a condo and make a very big profit.”

As the real estate market cools, the practice of renovating lower cost units and reselling them for a very high return should slow down. Many areas, however, have already lost large numbers of affordable units, and replacing them will be difficult.

Government Assistance in Affordable Housing

While the loss of affordable housing through renovation and resale is certainly a serious concern, it is most likely cyclical and difficult to address through public policy. Policy decisions can, however, affect the regulation of subsidies and contracts.

A number of federal subsidies and contracts that help regulate the cost of housing for lower income people will be expiring in the near future. For example, contracts governing more than 1 million federally insured apartments with project-based Section 8 assistance have expired in the past several years or will expire soon. When these and other contracts on HUD-assisted affordable housing expire, the owners of such properties have the opportunity to leave the government sponsored programs, and they increasingly are choosing to do.

Many affordable housing experts believe that zoning restrictions—often described as exclusionary zoning—are also to blame for a deficit in affordable rental housing.

“The practice of zoning out high density housing is one of the primary reasons for the shortage in affordable rental stock,” said Richard M. Haughey, director of Multifamily Development for The Urban Land Institute.

Oftentimes, residents oppose building affordable rental housing in their communities—usually with concerns over aesthetics, property devaluation and crime. Those concerns sometimes lead local zoning officials to segregate affordable housing from the rest of the community. However, as Haughey said, “...The product (multifamily units) is becoming a lot more sophisticated. It is being delivered as mixed-use



Beyond the Numbers

Housing as an Economic Stimulus, a report published by Oregon Housing and Community Services cites several benefits to affordable, quality housing—beyond the direct and most visible impacts—including the following:

- ✓ Greater availability of money to spend on food and other household necessities
- ✓ Increased housing stability and reduced risk of homelessness
- ✓ Safer neighborhoods and less crowded living quarters for people with low incomes
- ✓ Better school performance and reduced dropout rates
- ✓ Better behavior and increased motivation among children
- ✓ Improved health status including lower incidence of obesity
- ✓ Increased coverage in health insurance

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—Bruce Katz
Director, Center on Urban and Metropolitan Policy

and mixed-income development that is more congruent with the existing housing.”

There are many programs and organizations whose primary purpose is to address the affordable housing crisis. These range from the federal level to the local nonprofit, from broad rental assistance programs to neighborhood level inclusionary zoning regulations. Their funding, popularity and effectiveness is just as varied.

Federal rental assistance programs provide three different services: public housing, project-based assisted housing and tenant-based housing assistance. There are also other federal housing programs that promote affordable housing, such as the Low Income Housing Tax Credit and the HOME Investment Partnership (HOME).

In recent years, federal funding levels for these programs has been inconsistent and on a downward trend. At a recent Fannie Mae Housing Conference, Bruce Katz, director of the Center on Urban and Metropolitan Policy, made clear the declining importance of affordable housing funding and initiatives at the federal level.

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While the federal government’s support has diminished, state and local government support for affordable housing is expanding.

Several programs are available to state and local governments, including housing trust funds and inclusionary zoning practices. Both programs have produced encouraging results across the United States. Housing trust funds seek to encourage affordable housing through finance, while inclusionary programs allow governments and communities to plan for affordable housing by “zoning” it in. These are two separate approaches that seek to alleviate the same problem.

Housing trust funds are used in a wide range of programs that support affordable housing for both homeowners and renters. They have a dedicated source of public funding committed to affordable housing.

At the state level, according to Mary Brooks, director of the Housing Trust Fund Project at the Center for Community Change, legislation is passed that dedicates public revenues to support affordable housing in ongoing programs.

“About half of the funds are administered by state housing finance agencies and are usually distributed by a proposal process so that eligible applicants can apply for available dollars,” she said.

There are more than 400 housing trust funds in 38 states.

For instance, the housing trust fund known as A Regional Coalition of Housing (ARCH) is a partnership of suburban East King County in Washington and is funded by the member cities and the county. ARCH works with its member jurisdictions to assist them in expanding affordable housing.

“We support the growth and preservation of affordable housing through assisting cities in their planning efforts, helping cities coordinate the allocation of their resources, and helping the cities administer those programs over time,” said ARCH Program Manager Arthur Sullivan.

Jurisdictions in which trust funds operate have reported numerous economic benefits, but Sullivan believes that ARCH’s first success is “that these cities have voluntarily created this organization, acknowledged that affordable housing is an issue in their community and they need to address it.”

Because exclusionary zoning can discourage the production and preservation of affordable housing, inclusionary housing programs provide another option for state and local governments to address this issue. Inclusionary housing is any program that aims to increase affordable housing by requiring or encouraging private developers to make a certain percentage of their housing affordable to low- or moderate-income households. These programs can be either mandatory or voluntary, but emerging research suggests that mandatory restrictions are more likely to produce the desired result.

There are several long-standing inclusionary zoning programs, including ones in California, Maryland and Virginia. Massachusetts enacted a statewide inclusionary zoning statute in 1969 known as Chapter 40B, but these programs are often administered and conceived at the local level. Montgomery County, Md., is often considered a pioneer in passing such policies and its program has produced more than 10,000 units since 1973.

As affordability problems move up the income scale and a broader range of people are affected, more state and local governments will be looking to programs such as these to address the problem.

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