



# HOUSING CHALLENGES

The nation's housing challenges are escalating. Affordability is worsening, inadequate conditions persist, and crowding is more common. Today, more than 37 million households face at least one of these housing problems. Given how chronic and widespread these issues have become, conditions are unlikely to improve without a dramatic increase in government housing and income supports.

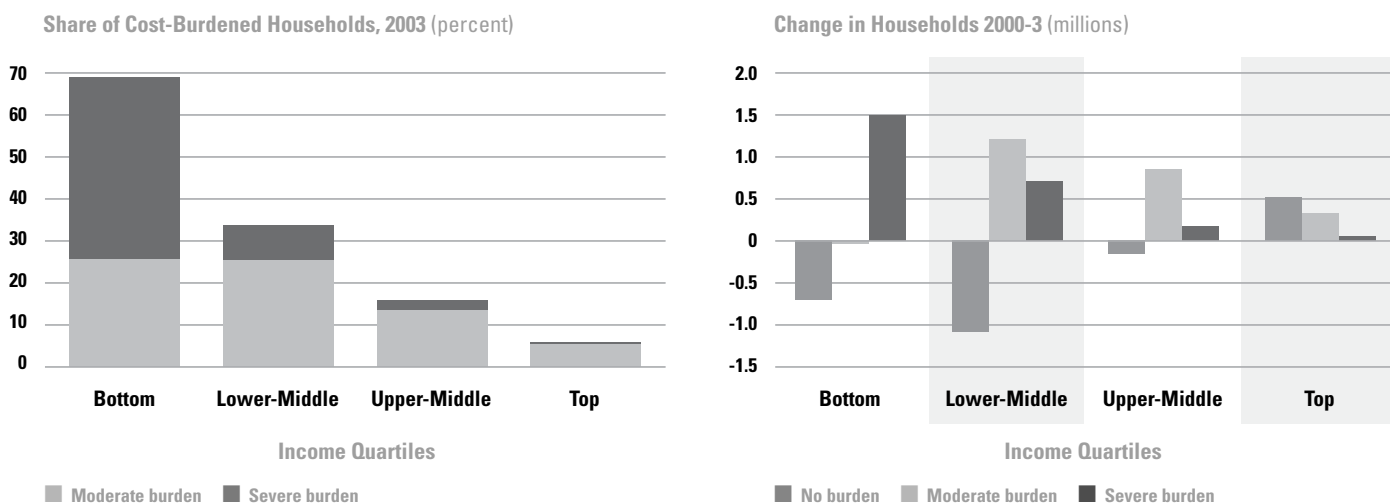
The growing lack of affordability is particularly remarkable given that rents have fallen in many markets and many homeowners have lowered their housing costs by refinancing their mortgages. At the source of the affordability problem is the structural mismatch between the large number of low-wage jobs that the economy is generating and the high costs of supplying housing. Solutions are therefore hard to come by, requiring the close cooperation of government, businesses, and nonprofit providers alike.

## SPREADING COST BURDENS

Between 2000 and 2003, the number of households with at least moderate housing cost burdens jumped by nearly 5 million (Fig. 29). While the numbers of cost-burdened households of all incomes have risen, the increase has been most dramatic among the lowest-income households paying more than half their income for housing.

Housing affordability problems are particularly widespread among low-wage workers, elderly and disabled households, and others in the bottom income quartile. As of 2003, nearly 70 percent of

**Figure 29** Although Their Incidence Declines with Income, Housing Cost Burdens Are Becoming More Widespread



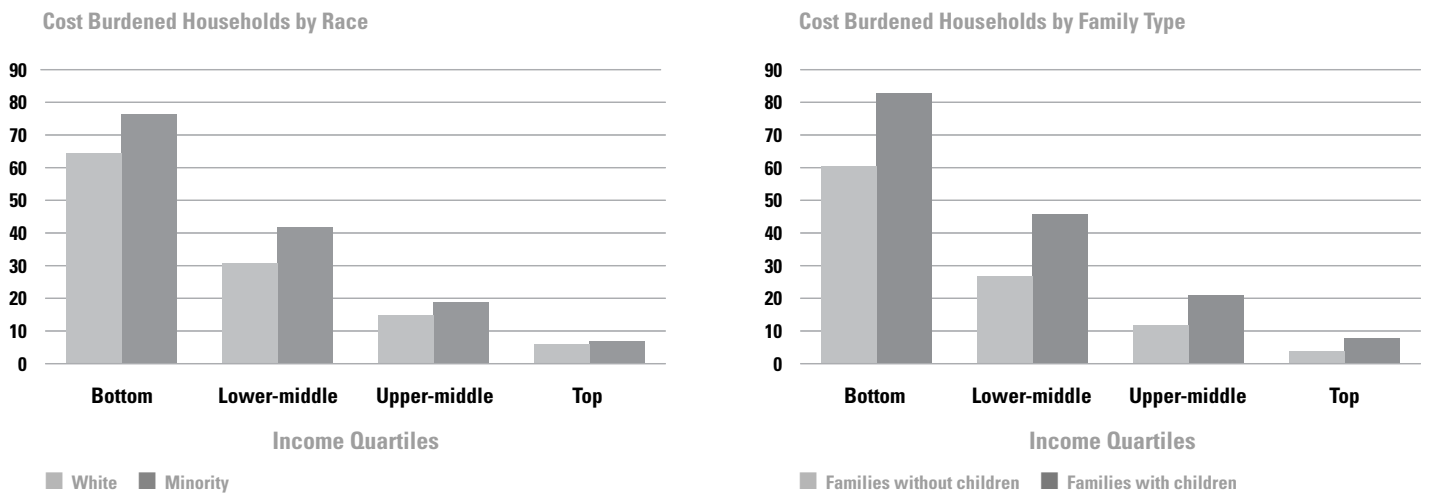
Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. Severe burden defined as housing costs of more than 50% of pre-tax income. Moderate burden defined as housing costs of 30-50% of pre-tax income.

Sources: JCHS tabulations of the 2000 Census Supplemental Survey and the 2003 American Community Survey.

**Figure 30**

**Regardless of Income, Minorities and Families with Children Face Greater Affordability Problems**

Percent



Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. White households are non-Hispanic. Sources: JCHS tabulations of the 2003 American Community Survey.

households in this income group were cost-burdened. Meanwhile, the number of severely cost-burdened households in the bottom income quartile increased by 1.5 million in 2000-3, raising the share with such steep burdens to 44 percent.

While some of these lowest-income households are on welfare or otherwise depend on assistance, a majority of the non-elderly have low-wage or part-time jobs that do not pay enough to cover the cost of decent housing. Indeed, 53 percent of non-elderly households with severe housing cost burdens include at least one worker earning at least half of the household income.

But even among households with incomes in the lower-middle income quartile, fully one-third are cost-burdened and about 1 in 12 is severely burdened. In 2000-3, the number of severely cost-burdened households in this quartile surged by about 730,000. Although smaller than the absolute increase among bottom-quartile households, the rise was still a hefty 49 percent.

Regardless of income, the incidence of burdens is higher among minorities than whites and among families with children than other households (Fig. 30). For minority families with children, the shares are even greater. Even in the lower-middle income quartile, nearly half of these types of households are at least moderately cost-burdened. Since families with children generally have higher non-housing expenses than other households, they feel the effects of disproportionately high housing outlays even more strongly.

When housing costs consume a disproportionate share of income, families have little left over for other basic needs. Among house-

holds in the lowest expenditure quartile, for example, those devoting more than 50 percent of their outlays to housing paid an average of only \$175 for food and \$35 for healthcare per month in 2003. By comparison, households with housing outlays under 30 percent of their monthly budgets had \$248 to spend on food and \$109 to spend on healthcare (Table A-12).

For households with somewhat higher incomes, severe housing cost burdens limit their expenditures on discretionary items that are important to financial security. For instance, severely cost-burdened households in the lower-middle expenditure quartile spent \$93 less on average per month on pensions and insurance than those with no housing expenditure burden.

**OWNER AND RENTER PRESSURES**

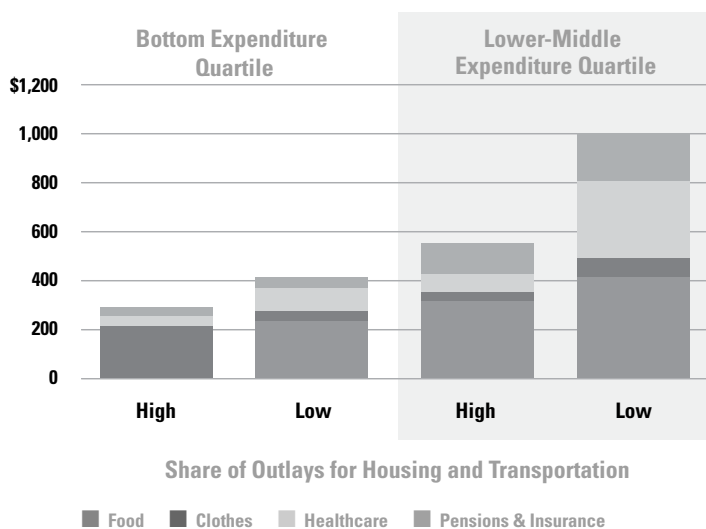
Housing affordability problems afflict both owners and renters. In the bottom income quartiles, about half of renters and a third of owners have severe cost burdens. Among certain groups, though, more owners face severe cost burdens than renters. This is especially true for households in the lower-middle income quartile, where the incidence of severe cost burdens among owners is nearly double that among renters.

Indeed, the cost pressures on owners are mounting. Between 2000 and 2003, the number of severely cost-burdened homeowners in the bottom two income quartiles was up over one million (Table A-11). With the recent surge in home values, higher property taxes are no doubt to blame for at least part of this increase. Homeowners have also had to bear the brunt of rising utility costs while many tenants have not yet seen these increases.

Figure 31

## Low-Income Households Devoting Half Their Outlays to Housing Plus Transportation Have Little to Spend on Other Necessities

Average Monthly Expenditures



Note: Expenditure quartiles are equal fourths of all households sorted by average monthly spending. High housing and transportation outlays defined as more than 50% of total monthly expenditures. Low housing and transportation outlays defined as 30% or less of total monthly expenditures. Source: JCHS tabulations of the 2003 Consumer Expenditure Survey.

## FISCAL 2005 MARKS THE FIRST TIME THE FEDERAL GOVERNMENT HAS NOT FUNDED ALL HOUSING VOUCHERS IN USE.

Moderate-income renters, however, are no less exempt from the burden of higher housing costs. The incidence of severe housing cost burdens was up by 69 percent among renters in the lower-middle income quartile in 2000-3, compared with only 43 percent among owners with comparable incomes.

With incomes and housing costs varying widely both within and across metropolitan areas, it is no surprise that the incidence of affordability problems differs markedly from one location to the next. For example, while more than 37 percent of central city households are cost-burdened, only 30 percent of households living in suburbs and 24 percent of households living in non-metro areas have affordability problems. Across all metropolitan areas, affordability problems are most prevalent in Los Angeles, Miami, and New York, where the share of severely cost-burdened households is nearly one-fifth. At the other end of the spectrum, the incidence in smaller metro areas such as Decatur, AL and Johnstown, PA is just 1 in 20 households.

## THE HOUSING-TRANSPORTATION COST TRADEOFF

As troubling as they are, the statistics on housing cost-burdened households may understate the true magnitude of the affordability problem. Traditional measures do not capture the growing numbers of households that are now paying 30 percent or less of their incomes for housing, but must also pay proportionately more for transportation.

To find housing they can afford, many households live at great distances from their jobs. As a result, the share of their spending that goes to travel costs has increased. The combined cost of housing and transportation thus cuts into the amount of money they have available for other necessities. For example, households in the bottom expenditure quartile that devote more than half their outlays to housing and transportation combined had less than \$300 left over each month for other necessities (Fig. 31).

Low-income households have joined in the search for affordable housing in outlying areas. Between 1993 and 2003, the number of households in the bottom income quartile living in the suburbs increased by 2.1 million and in non-metro areas by 930,000. The share of low-income households living in the suburbs is also up in all four regions of the country (Fig. 32). Often without access to public transit, most of these households must depend on cars that are in poor condition to travel to work. Because of their unreliable transportation, they are at greater risk of being late or missing work altogether.

Among households in the lowest expenditure quartile, those with low housing outlays spend on average \$100 more a month on transportation than those with high housing outlays (Fig. 33). With total average spending of only \$1,000 a month, this \$100 difference is equivalent to a hefty 10 percent of their monthly budgets. Among households in the lower-middle expenditure quartile, those with low housing outlays spend \$234 more a month on transportation than those with high housing outlays—a difference of nearly 11.5 percent of their monthly budgets.

## THE ROLE OF GOVERNMENT

Federal, state, and local programs have so far been unable to stem the spread of housing problems. In recent legislation, however, Congress increased tax credits and tax-exempt bond caps for affordable housing production and preservation, indexing them to inflation. In response to this and to the shrinking supply of low-cost rentals, state housing finance agencies have also stepped up use of tax incentives for preservation purposes. According to National Housing Trust estimates, housing bonds and tax credits were used to preserve more than 45,000 rentals in 2004, compared with just 20,000 in 2000.

But these mainstays of state and federal policy, which incrementally assist about 160,000 housing units each year, have proven too modest to avert losses from the affordable rental stock. And

if recent tax reform proposals gain traction, they could put even these vital measures in jeopardy. Loss of these incentives would severely limit the ability of state and local governments to stimulate and guide the production and preservation of low-cost rental housing in their communities.

Furthermore, rent vouchers—the other principal strategy for relieving housing cost burdens—are in short supply. Waiting lists are years long, with no guarantee that eligible households will ever receive this assistance. Proposed changes to voucher funding and allocations threaten to limit availability even further by

imposing limits on the duration of assistance and removing many program restrictions that may result in reducing the depth of targeting. Indeed, the National Low Income Housing Coalition estimates that as many as one in eight current voucher holders could lose their housing assistance.

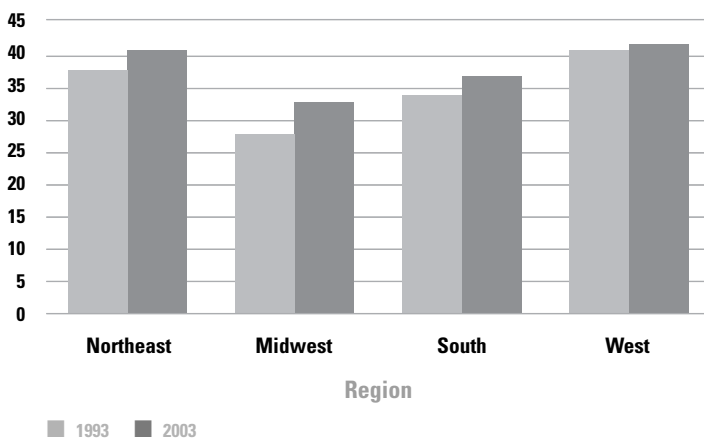
State and local governments primarily administer federal housing subsidies and tax incentives rather than contribute their own funds to programs intended to relieve affordability problems. But the number of states and localities with housing trust funds or some other form of dedicated housing assistance is growing. This is not only a response to the slow growth in federal assistance, but also a positive sign that states are beginning to add directly to the resources available for affordable housing.

Nevertheless, funding remains modest relative to the \$35 billion federal housing budget and the nearly \$120 billion given out in federal tax incentives to housing. As the Center for Community Change last estimated in 2002, the 34 states that had housing trust funds received over \$437 million in annual revenues, with 10 states receiving more than \$10 million each. Furthermore, more than 200 county and municipal trust funds raised at least another \$162 million (Fig. 34).

Most appealing to housing advocates, many of these state and local funds are capitalized by dedicated revenue streams such as real estate transfer taxes, interest from real estate escrow accounts, and a portion of state income taxes. The success of these funds has led to calls for a national housing trust fund modeled along these lines but supported by surplus revenue from the Federal Housing Administration and Ginnie Mae—thus removing the fund from annual appropriations debates. The hope is to establish a steadier

**Figure 32** Large and Growing Shares of Low-Income Households Live Outside Central Cities

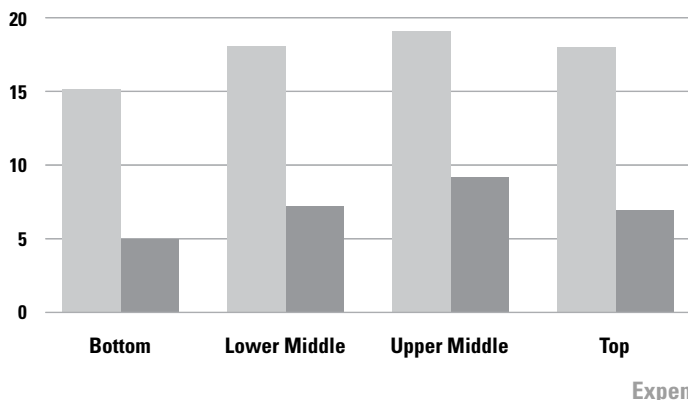
Share of Bottom-Income Quartile Households Living in Suburbs (percent)



Note: Income quartiles are equal fourths of all households sorted by pre-tax income.  
Source: JCHS tabulations of the 1993 and 2003 American Housing Surveys, using adjusted weights for 2003.

**Figure 33** Spending Less on Housing Generally Means Spending More on Transportation

Average Share of Expenditures for Transportation (percent)



■ Low housing expenditures ■ High housing expenditures

Notes: Expenditure quartiles are equal fourths of all households sorted by total monthly expenditures. Low housing expenditures are defined as 30% or less of total, and high housing expenditures are defined as more than 50%.  
Source: JCHS tabulations of the 2003 Consumer Expenditure Survey.

Average Dollar Difference in Monthly Transportation Spending Between Households with Low and High Housing Expenditures

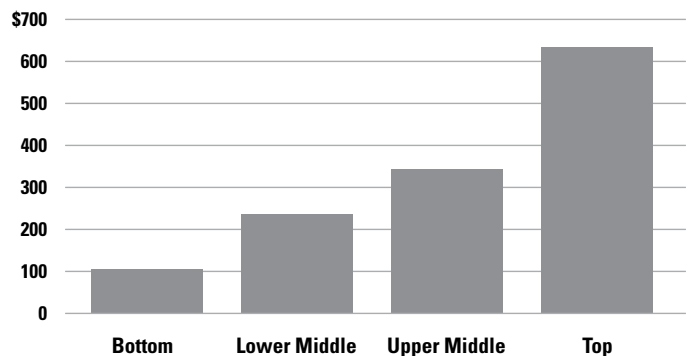
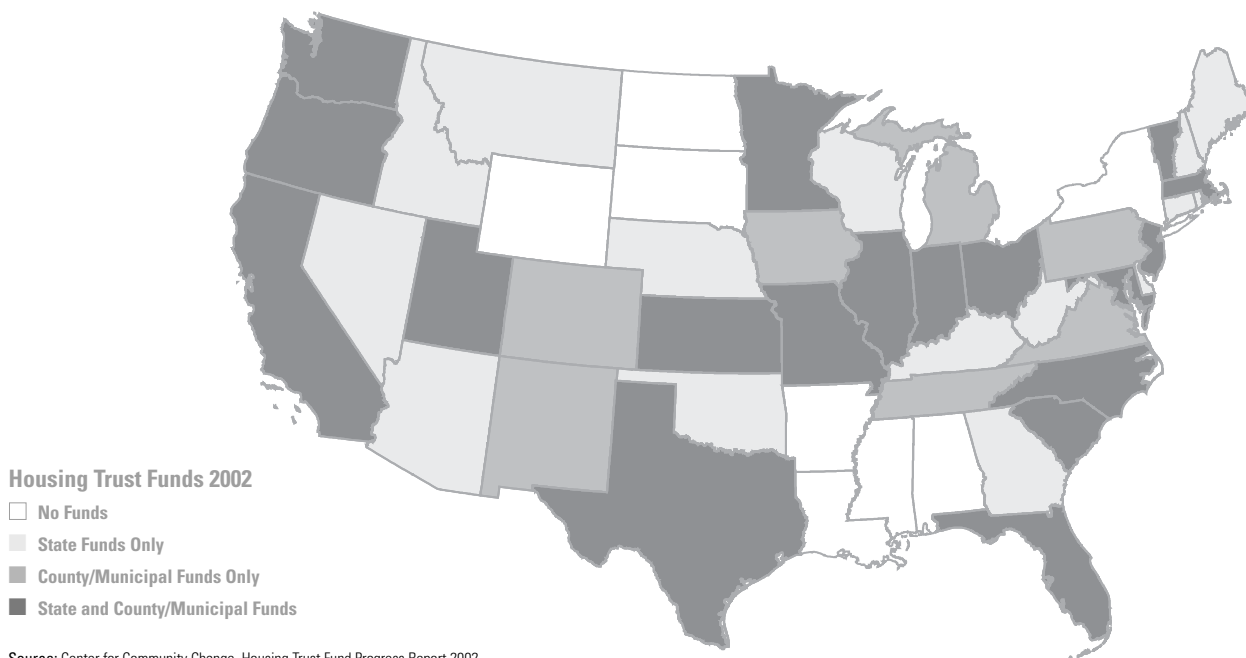


Figure 34

States and Localities Are Increasingly Committing Their Own Resources to Alleviating Affordability Problems



Source: Center for Community Change, Housing Trust Fund Progress Report 2002.

source of revenue for housing initiatives, with a goal of producing, rehabilitating, and preserving at least 1.5 million affordable units over the next decade.

Where state and local governments still fall short, however, is in relaxing the regulations that prevent the development of higher-density affordable housing. A few local governments do require set-asides for affordable units in larger market-rate developments. And a few states provide legal remedies if local governments do not have a specified amount of affordable housing or do not have a plan in place to get the units built.

But most states are not pressuring local governments about the affordable housing issue, and most local governments are not voluntarily easing constraints on development. Liberalizing the regulations that are costly to housing does mean sacrificing some of the public interests that these restrictions serve, including important environmental, health, and safety goals. In addition, communities often resist new residential development, especially of affordable rental housing, out of concern that it will place even more demands on already tight local budgets. As a result, the political will to open up communities to affordable housing is often lacking.

**THE OUTLOOK**

The nation’s housing challenges will not diminish without the involvement of all levels of government, as well as the collabora-

tion of businesses and nonprofit housing and service providers. Unfortunately, most forces are working against the expansion of housing resources. With the ballooning federal deficit, the administration is proposing deep cuts in community development and housing programs.

There are, however, glimmers of hope that the politics surrounding affordable housing are beginning to shift. Common ground on the issue does exist. In the past three years, at least two major bipartisan housing platforms have been pounded out—one by a congressional commission, and the other by two former Secretaries of the US Department of Housing and Urban Development from opposite sides of the aisle.

In addition, as the affordability problem moves up the income ladder, more and more middle-class Americans are likely to throw their support behind housing programs. And as more and more businesses discover how directly the lack of affordable housing affects workforce development and the bottom line, the pressure on political leaders to act will continue to build. ■