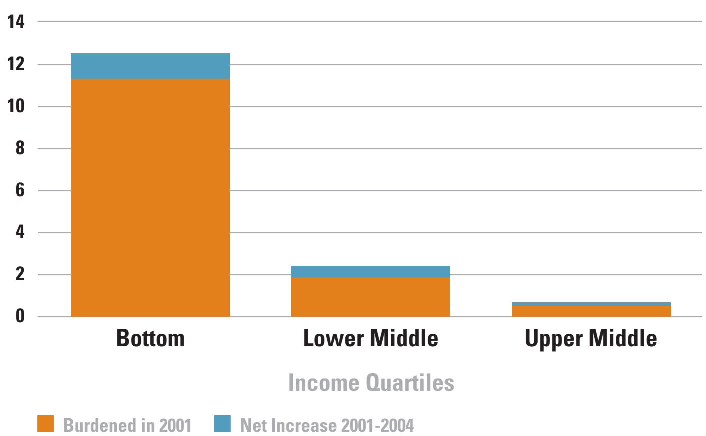
HOUSING CHALLENGES

Affordability problems are spreading rapidly. Fully one in three American households now spends more than 30 percent of income on housing, and one in seven spends more than 50 percent. The growing shortage of affordable units forces millions of families to make difficult choices to pay for housing—sacrifice other basic needs, make long commutes, and/or live in crowded or inadequate conditions.

Figure 34 **Affordability Problems Are Widespread And Growing**

Severely Cost-Burdened Households (Millions)



Notes: Severely cost-burdened households pay over 50% of income for housing. Income quartiles are equal fourths of all households sorted by pre-tax income.
Source: JCHS tabulations of the 2001 and 2004 American Community Surveys.

GROWING AFFORDABILITY PRESSURES

In just the three years from 2001 to 2004, the number of households with severe cost burdens (paying more than half their income for housing) increased by nearly 2 million to a record 15.8 million (Figure 34). The total count of households with at least moderate cost burdens (paying more than 30 percent of income on housing) also rose from 31.3 million to 35.0 million over this period. Although the incidence is higher among renters, affordability problems afflict a large proportion of homeowners as well (Table A-6).

Nearly two-thirds of the increase in severe cost burdens fell on households with incomes below $22,540. The share of households in this bottom income quartile that pay more than half their incomes for housing set a new record of 46 percent in 2004. Affordability pressures are also moving up the income scale, raising the number of middle-income households (earning $22,540 to $75,700) with severe housing cost burdens by 707,000 between 2001 and 2004, to a total of 3.1 million.

While explanations vary, evidence is mounting that the two principal forces behind housing affordability problems are restrictions on residential development and the growth in low-wage and part-time employment. Local land use regulations that limit lot size and density have helped to drive up housing prices and rents relative to incomes. As a result, affordability problems are most acute in housing markets with the strictest land use regulations. The high housing prices in these metropolitan areas hit working families with low and moderate incomes especially hard.

On the demand side, a large and growing share of jobs pay low wages. Of the 133 million workers earning at least the federal minimum wage equivalent in 2004, fully 27 percent earned merely $5.15–10.30 an hour (one to two times the minimum wage), while another 24 percent earned $10.30–15.45 an hour (two to three times the minimum wage). Making matters worse for families struggling to scrape by on these wages, almost half of workers in the first group and fully one-quarter of the second group are employed part time.

The concentration of jobs at the low end of the wage distribution is unlikely to change. In fact, growth in the number of jobs paying wages in the middle range has lagged for a long time. A recent National Bureau of Economic Research study confirms this U-shaped distribution, with rapid growth over the 1990s in the share of jobs paying either below the 20th percentile or above the 65th percentile of wages, and declines in the middle.

PLIGHT OF WORKING FAMILIES

The forces at work on both the supply and demand sides of the housing market have made conditions especially difficult for working families with children. Clearly, having a job no longer guarantees the ability to pay for housing and other necessities, to save for the future, and to provide for children's needs.

Among the nation's working families with children (with household members employed 35 weeks or more a year, or 26 weeks if looking for work), 10 million are poor or near poor. Nearly half of the poor (income below $19,307 for a family of four) are severely housing cost-burdened and three-quarters are at least moderately cost-burdened. Among the near-poor (income one to two times the poverty threshold adjusted for family size), the incidence of severe burdens is a still-considerable 17 percent, and the incidence of at least moderate burdens is 52 percent.

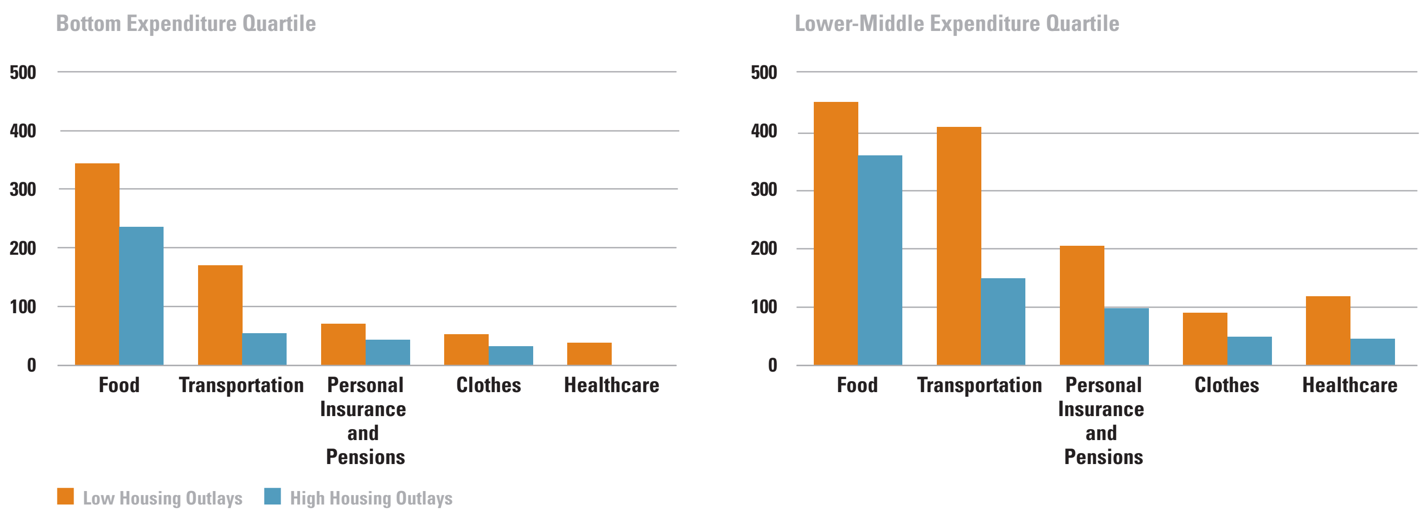
The median income of working poor families with children is just $12,000 and of near-poor families with children only $27,000. To supplement their meager resources, about 1.5 million of these households have unrelated individuals living in their homes. Even with this additional but tenuous income, however, the incidence of severe housing cost burdens among these households is still 22 percent. Furthermore, the presence of unrelated earners in their households means that crowding is a growing problem that now affects 20 percent of these poor and near-poor working families.

Both the number and share of low-income families with housing cost burdens are on the rise. From 2001 to 2004, about 400,000 additional poor and near-poor families paid more than half their incomes for housing. With these increases, the share of these families with severe cost burdens rose from 24 percent to 27 percent. The increases were largest in the Northeast and West, where the incidence of severe housing cost burdens was already high.

Families with children must skimp on other necessities when devoting half or more of their budgets to housing (Table A-7). Those families in the bottom expenditure quartile with high housing outlays have less than $400 a month on average left for all other items, and spend only two-thirds as much on food, half as much on clothing, and nothing on healthcare compared with other low-income families with affordable housing (Figure 35). They do, however, spend only about a third as much on transportation because their high housing outlays buy them better access to jobs and shopping. Similarly, families in the lower-middle expenditure quartile with high housing outlays spend less on other basic needs than those with low housing outlays, and devote less than half as much to pensions and insurance.

Figure 35 **High Housing Outlays Leave Families with Children with Much Less to Spend on Other Items**

Monthly Non-Housing Expenditures of Families with Children (Dollars)



Notes: Expenditure quartiles are equal fourths of all households by average monthly spending. High (low) housing outlays are defined as more than 50% (less than 30%) of total monthly expenditures.
Source: JCHS tabulations of the 2003 Consumer Expenditure Survey.

To live in housing they can afford, more working poor and near-poor families are choosing to take long commutes. This decision usually means relying on a car for transportation. Over the 2001–2004 period, the share of working poor families commuting by automobile increased by 2.7 percentage points and the share of near-poor families by 1.2 percentage points. In comparison, auto commuting increased by only 0.5 percentage point among moderate-income working families and was unchanged among higher-income families. Average commute times also increased significantly more for working poor and near-poor homeowners (4.6 percent and 3.9 percent) than for their moderate- and higher-income counterparts (2.6 percent and 1.4 percent).

THE CONCENTRATION OF POVERTY

Despite progress at the national level, the geographic concentration of poverty remains a significant challenge. In addition to deteriorating and/or abandoned housing, high-poverty neighborhoods are plagued by a number of social and economic problems, including high rates of unemployment, school dropouts, and teen pregnancies.

During the 1990s, the number of high-poverty census tracts (over 40 percent poor) declined by 25 percent and the number of people living in these distressed neighborhoods fell by 2.3 million (Table W-6). The reduction in high-poverty tracts in rural areas was especially dramatic, down 48 percent. But these improvements were centered entirely in the Midwest and South, with the Northeast registering no change and the West posting a 27 percent increase in people living in high-poverty areas (Figure 36).

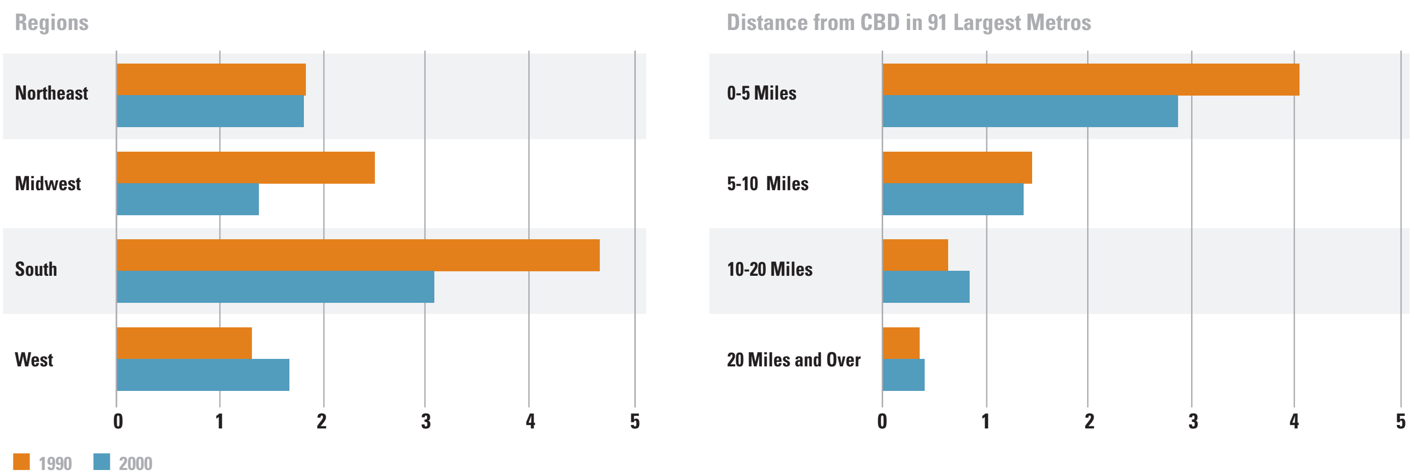
It is unclear how much change in the geographic concentration of poverty is a result of gentrification that simply displaces the poor into other areas, which may then become new pockets of poverty. Moreover, high-poverty zones are still a fact of life. In 2000, these neighborhoods were home to 10 percent of the nation's 34 million poor—including 19 percent of black poor, 14 percent of Hispanic poor, and five percent of rural poor. Indeed, the population living in high-poverty areas rose in 94 of 331 metros during the 1990s. While modest in most cases, the increases reached the tens of thousands in about a dozen metropolitan areas.

Like everything else, poverty has begun to move away from the nation's center cities. In the 91 largest metropolitan regions, the number of people living in high-poverty census tracts declined on average within five miles of the CBD, held more or less steady in the five- to ten-mile inner ring, and increased in more distant neighborhoods.

Even in high-poverty areas, though, the cost of housing is still out of reach for poor families. Despite living in some of the nation's most undesirable housing, 30 percent of households in these neighborhoods had severe cost burdens in 2000. The rents they can pay are so low that they do not cover proper maintenance, leading owners to disinvest in their properties. As the buildings deteriorate, the neighborhood begins a downward spiral that is difficult to reverse.

Figure 36 During the 1990s, the Population in High-Poverty Areas Decreased in the South and Midwest, And in the Inner Ring of Metro Areas

Population in High-Poverty Tracts (Millions)



Source: JCHS tabulations of the 1990 and 2000 Census tract-level data.

ACCESSIBLE HOUSING

According to the 2000 Census, nearly 50 million Americans suffer some type of chronic condition or disability, making access to decent, safe, and affordable housing of critical concern. Seniors are the most likely group to have disabilities, which affect some 42 percent of people age 65 and older, compared with 19 percent of non-elderly adults.

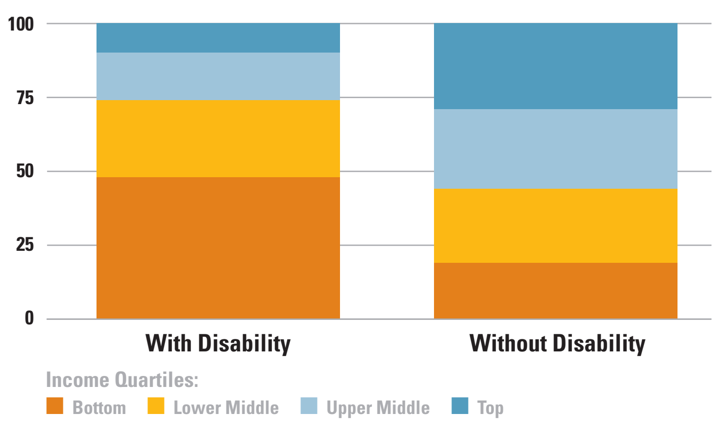
Poverty is a common condition of the disabled, with nearly half in the bottom income quartile (Figure 37). The Technical Assistance Collaborative reports that, on average, the disabled living on Supplemental Security Income (SSI) pay more for rent on a one-bedroom apartment than they receive in support. Still, these meager income supplements, along with preferential treatment under federal housing programs, have helped to reduce the incidence of severe cost burdens among disabled households.

While the vast majority of disabled elders would prefer to live independently, many lack the financial resources to make the structural modifications to their homes that would ensure their safety. Younger disabled households face their own challenges. In 2004, 5.0 million households in the bottom income quartile were headed by a non-elderly disabled person, and 2.6 million of these had severe cost burdens or lived in crowded conditions.

Only 41 percent of eligible very low-income renter households with a disabled member under age 65 receive direct housing assistance. These households, often prevented by "elderly-only" policies from living in federally subsidized project-based housing, are faced with finding units on the private market that have the services and/or accessibility they require. The government response to this growing need has been to cut funding for housing from its already modest level, especially from HUD's Section 811—the only program producing affordable and accessible housing specifically for the non-elderly disabled.

Figure 37 **Large Shares of Householders with Disabilities Have Low Incomes**

Distribution of Households by Income Quartile (Percent)



Notes: Households with disability are those whose household head has reported any physical or mental difficulty. Income quartiles are equal fourths of all households sorted by pre-tax income.
Source: JCHS tabulations of the 2004 American Community Survey.

KATRINA'S WAKE

On top of the chronic housing challenges the nation faces, Hurricane Katrina's devastation revealed another hole in the social safety net. This disaster pointed out the lack of a system for matching hundreds of thousands of displaced families to vacant rentals. While multifamily trade associations are now advocating for federal solutions, apartment associations in Houston, Dallas, and elsewhere are working at the local level to find rental housing for the displaced.

Katrina's aftermath also highlighted the absence of a system for covering the mortgage payments of homeowners left jobless by natural disasters. Mortgage delinquencies in the region soared after temporary debt forgiveness by many lenders expired. This relief came at considerable cost to lenders, in terms of both lost revenue and outlays for missed payments to investors in the secondary mortgage market. While the Federal Housing Administration has extended its forgiveness deadline twice, even FHA must foreclose on the delinquent mortgage loans at some point.

As for loss claims, the Mortgage Bankers Association estimates that at least 29,000 of the 95,000 homes that suffered serious flood damage were not insured against the risk. While flood insurance is required only in special high-risk areas, historically 25 percent of claims have been for properties in low- and moderate-risk areas. Uninsured losses from Katrina for single-family structures alone are expected to reach the $3–6 billion range.

Rebuilding is only in its earliest stages. In New Orleans, losses are estimated at over $100 billion, more than 50,000 homes have suffered severe damage, and hundreds of thousands of residents are still waiting to return. Estimates produced by the Federal Emergency Management Agency place the number of homes damaged by Hurricanes Katrina, Rita, and Wilma combined at 1.2 million, of which 126,000 were severely compromised or destroyed. With the enormous political and logistical obstacles to rebuilding that now exist, it will be years before the Gulf region of the country works through the disruption to human lives and the destruction to the built environment that these natural disasters caused.

MEETING CHRONIC CHALLENGES

Housing affordability problems are intensifying. The only recent sign of progress is a reduction in the overall number of high-poverty areas, but even in this case, there has been little success in preserving a supply of affordable units in gentrifying neighborhoods or relieving the cost burdens of the poor.

Preventing further losses of low-cost housing is imperative. Unfortunately, funding is in short supply, with only piecemeal preservation efforts that target the housing of the two-thirds of low-income renters living in subsidized units. Even the units occupied by the third of renters that are in some way subsidized are vulnerable to loss. Indeed, after removing some of the nation's most distressed pubic housing, the federal government has not replaced the units one for one.

Prospects for a turnaround are bleak. After nearly 20 years of increases, growth in federal housing assistance ground to a halt in the second half of the 1990s (Figure 38). The federal government, which has historically provided the lion's share of subsidies, now faces a massive budget deficit and is looking for ways to fund the rising costs of international and domestic security.

HUD estimates that over four million renter households with incomes less than half of area medians now receive housing assistance, but this number represents only about a quarter of renters with incomes that low. The low-income housing tax credit has helped to meet some of this shortfall by stimulating the production or rehabilitation of about 1.8 million affordable rentals since 1987. But even the scale of this program has not been enough to keep the affordable rental inventory from shrinking.

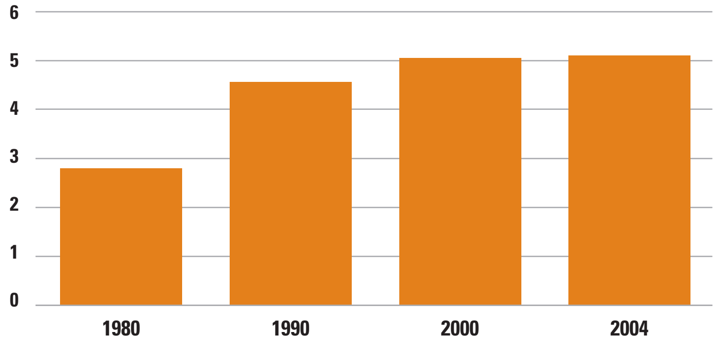
Meanwhile, voters in most communities have shown strong antipathy toward residential development in general and high-density development of smaller homes in particular. Examples of innovative regulatory policies that encourage affordable housing are few and far between, although some jurisdictions now either mandate or provide incentives for developers to set aside a share of new units for income-qualifying households. Even in these rare instances, though, the homes are seldom affordable to those with the greatest need without additional subsidy.

State and local governments do, however, have it within their power to align land use policy in favor of affordable housing. Among the measures they could enact are easing constraints on land available for residential development, authorizing higher-density development by right rather than through a negotiated process, spreading infrastructure improvements costs across all taxpayers rather than imposing impact fees just on newcomers, and improving the speed and reliability of their entitlement and permitting processes. But all of these changes would still not preclude the need for subsidies to overcome the mismatch between the high costs of supplying modest housing units and the ability of lowest-income families to pay for decent housing.

In today's environment, perhaps the biggest housing challenge of all is to create the political will to make a more concerted assault on the nation's affordability problems. The fact that local business communities are beginning to make workforce housing a priority is a positive sign that this commitment may be developing. In addition, as the impacts of high housing costs and metropolitan sprawl increasingly affect the day-to-day lives of middle- and upper-income households, the voices calling for housing policy reform may become louder.

Figure 38 **Housing Assistance Has Failed To Keep Pace with…**

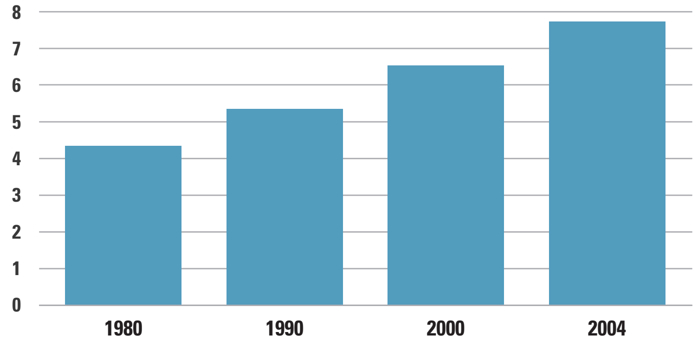
Assisted Renter Households (Millions)



Sources: U.S. House of Representatives, Committee on Ways and Means,Total Renter Households Receiving Direct Housing Assistance by HUD, Greenbook 2000, Table 15-30; U.S. Dept of Housing and Community Development, FY2005 Performance and Accountability Report.

…Persistent Growth in Low-Income Renters with Severe Cost Burdens

Severely Cost-Burdened Renters in the Bottom Income Quartile (Millions)



Note: Income quartiles are equal fourths of all households sorted by pre-tax income. Severe cost burdens are defined as housing costs of more than 50% of pre-tax income.
Source: JCHS tabulations of the 1980, 1990, and 2000 Decennial Census Public Use Microdata and the 2004 American Housing Survey.