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Housing Challenges

Affordability problems remain the nation's fastest-growing and most pervasive housing challenge. Although middle-income households increasingly feel the pinch, it is the nation's low-wage service workers, part-time workers, the disabled, and retirees that bear the heaviest burdens. Moreover, 2.1 million households live in severely inadequate housing while about three-quarters of a million people are homeless on any given night.

HEAVIER COST BURDENS

The number of American households spending more than half their incomes on housing is rising rapidly (**Figure 29**). In 2005, the number of such severely cost-burdened households jumped by 1.2 million to a total of 17 million. This brings the increase since 2001 to an astonishing 3.2 million households. Today, one in seven US households is severely housing cost-burdened (**Table A-6**).

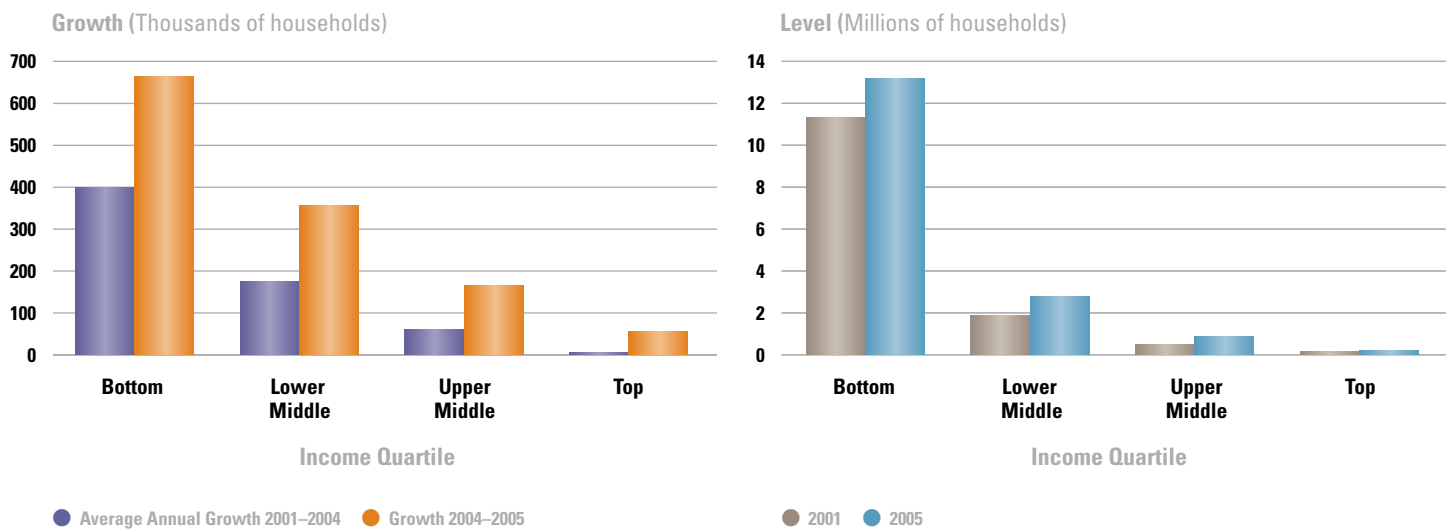
In 2005, households in the bottom quarter of the income distribution (earning \$23,000 or less) accounted for 78 percent of the severely housing cost-burdened. Indeed, nearly half of low-income households—a total of 8.2 million renters and 5.0 million homeowners—have severe burdens. One out of eight of these households works at least full-time, a fifth are elderly, and an additional fifth are non-elderly but disabled. And their numbers are climbing, with 1.9 million low-income households added to the ranks of the severely cost-burdened in 2001–2005 alone.

Middle-income households increasingly face housing cost pressures as well. A hefty 42 percent of the 2005 increase in severe cost burdens occurred among households in the middle two income quartiles. Among lower middle-income households (earning \$23,000 to \$45,000), fully 12 percent of owners and 6 percent of renters were severely cost-burdened. Even households with above-median incomes are feeling the pinch of high housing costs. Indeed, the number of these households with severe cost burdens increased more in 2004–2005 than over the entire 2001–2004 period.

STATE AND LOCAL AFFORDABILITY TRENDS

The hardships created by high housing costs are becoming more and more widespread. From 2001 to 2005, the share of low-income households with severe cost burdens was up in 47 states, with increases of over five percentage points reported in 24 states.

FIGURE 29 Growth in Severely Cost-Burdened Households Has Accelerated Across Income Groups



Notes: Severely cost-burdened is defined as spending more than 50% of household income on housing costs. Income quartiles are equal fourths of all households sorted by pre-tax income. Source: JCHS tabulations of the 2001, 2004, and 2005 American Community Surveys.

In 2001, over half of low-income households in four states (New Jersey, New York, California, and Hawaii) had severe housing cost burdens. By 2005, this condition had spread to 13 states (Figure 30). Joining the list are four New England states, plus several high-growth states such as Florida, Colorado, and Nevada (Table W-7). Even middle-income homeowners are not immune to the high housing prices in these locations. For example, one in four homeowners earning \$23,000–45,000 and living in California, Nevada, New Jersey, and Massachusetts spends more than half of income on housing.

At the metro level, severe housing cost burdens are especially concentrated in a mix of high-cost coastal areas, rapidly growing Southern metros, and high-poverty Midwestern cities. In San Diego, San Francisco, and Boston, where median rents exceed \$1,000, over one-quarter of renter households were severely burdened in 2005.

Even in more “affordable” areas such as Memphis, Cleveland, and Detroit, where median rents are under \$720, some 30 percent of renter households also face severe cost burdens. Cost burdens in these lower-priced markets reflect lower incomes as well as high poverty rates. Still, even in metros where both housing costs and poverty rates are low, it is common for more than one in five renter households to have severe housing cost burdens (Table W-8).

WORKING FAMILY WOES

Five years of stagnating or declining incomes have added to housing affordability problems. Despite meager gains in 2005, the median real income for all households fell 2.7 percent between 2000 and 2005. The lower the income group, the greater the drop was in real wages. Indeed, the incomes of households in the bottom decile fell some 10.4 percent over this period. Fortunately, the weakness

in 2000–2005 was not enough to wipe out the strong income gains in 1995–2000 for most households.

In part, these income trends reflect the fact that the economy is producing fewer middle-wage and more low-wage jobs. As a result, a growing number of America’s working families—including those employed full time or with more than one earner—has severe housing cost burdens. For example, 16 percent of low-income households are headed by a full-time worker, but a dispiriting 39 percent of these households are severely cost burdened.

Among those saddled with high housing costs and low wages are some of the nation’s most critical workers—the people who take care of our children, care for the sick and infirm, and sell everyday necessities. Although higher-paid service professionals such as teachers, police, and firefighters have more than the \$62,000 median household income for full-time workers, many service workers receive far less. Indeed, childcare workers, home health aides, and retail cashiers have median annual household incomes between \$32,000 and \$36,000. For entry-level employees, household income may be as low as \$13,000 to \$17,000.

As a result, the incidence of severe housing cost burdens among full-time workers in these fast-growing but low-wage occupations is more than twice the average (Figure 31). Worse, nearly half of the workers earning the entry-level equivalent salary head households with severe cost burdens. This is especially noteworthy because many people starting out in these occupations have other earners contributing to household income.

The problems compound for those unable to work full time. Part-timers account for half of household heads employed in retail and

childcare. Many part-time workers are seniors or disabled, or want to work more but are unable to do so because of scheduling conflicts. As a result, 38 percent of the households headed by part-time retail workers—and nearly 34 percent headed by part-time childcare workers and home health aides—are severely housing cost-burdened.

SPENDING TRADE-OFFS

Household expenditures are rising. In combination with slow income growth, higher housing outlays make it more and more difficult for households to pay for other necessities, educate their children, and save for the future.

Especially hard hit are families with children. Among those in the bottom expenditure quartile in 2005, families with children and high housing outlays (more than 50 percent of spending) had only \$536 per month left on average to cover other expenses (Figure 32). This represents about half the amount that their counterparts with low housing outlays (less than 30 percent of expenditures) had available to spend. As a result, bottom-quartile families with children that had high housing outlays spent 30 percent less for food, 50 percent less for clothes, and nearly 70 percent less for healthcare.

Even for households that make long commutes to reduce their housing costs, the spending constraints are significant. Indeed, bottom-quartile families with low housing outlays spent almost four times more on transportation (\$206) than those with high housing outlays (\$58). But even deducting transportation expenses, the families with

low housing outlays had substantially more to spend on other essentials each month than families with high housing outlays.

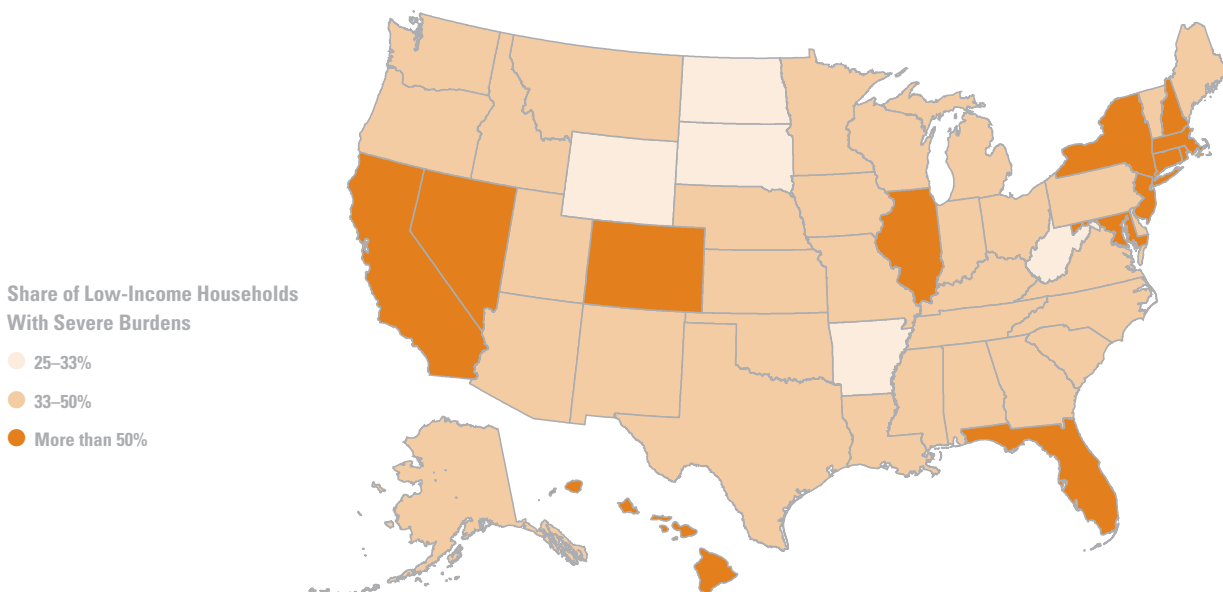
Making matters worse, families in the bottom expenditure quartile with high housing outlays saw their real housing costs increase much faster than those of families with low housing outlays, up by an average of \$76 versus \$27 per month from 1999 to 2005. Those with low housing outlays, however, had larger increases in transportation and other expenditures over that period.

OVERCROWDING AND HOUSING COSTS

To cope with the high costs of housing, some households resort to living in small quarters or sharing space with others. While only three percent of households live in such conditions, overcrowding often occurs in large metros that lack affordable housing. Of the nation's 50 largest metro markets, the ten least affordable have a combined overcrowding rate above six percent. Los Angeles ranks as both the least affordable and the most crowded, with overcrowding affecting 12 percent of households. Other less affordable areas such as San Diego, San Jose, and New York have overcrowding rates above five percent. In contrast, overcrowding rates in more affordable metros such as Buffalo, Indianapolis, and Pittsburgh are one percent or less.

Immigration is perhaps the prime factor in overcrowding. Immigrants are more likely than native-born Americans to double up or occupy smaller housing units. As a result, foreign-born households are more than seven times as likely to live in overcrowded conditions.

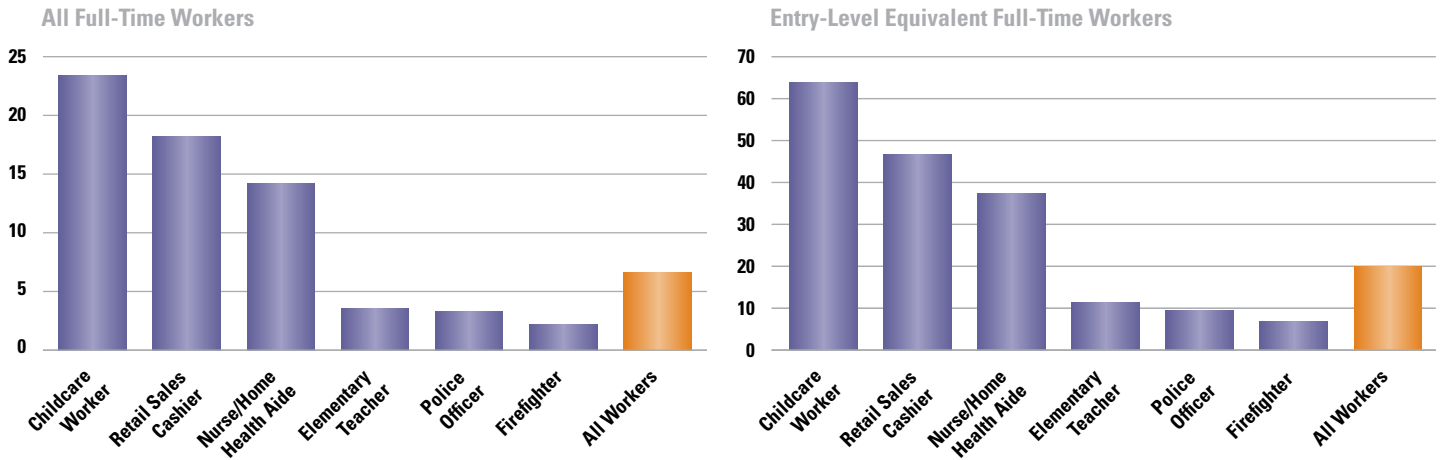
FIGURE 30 More than Half of Low-Income Households in Thirteen States Are Severely Housing Cost-Burdened



Notes: Low-income households are in the bottom quartile of all households sorted by pre-tax income. Severely housing cost-burdened is defined as spending more than 50% of income on housing costs. Source: JCHS tabulations of the 2005 American Community Survey.

FIGURE 31 Households Headed by Lower-Paid Essential Workers Face Daunting Affordability Problems

Share with Severe Housing Cost Burdens (Percent)



Note: Entry-level equivalent workers are in the bottom quartile of income for their occupation. Severe housing cost burden is defined as spending more than 50% of household income on housing costs. Source: JCHS tabulations of the 2005 American Community Survey.

In fact, the prevalence of foreign-born households seems to drive nearly all the difference in crowding rates between more and less affordable large metro areas (Figure 33). More than one-quarter of the population in the less affordable large metros is foreign born, compared with only one-eighth in the more affordable areas. While overall crowding has eased since 2001, it is possible that current rates understate the problem because they may not account for the large numbers of illegal immigrants living in this country.

FEDERAL PRIORITIES

Despite about \$38 billion in annual appropriations for housing and community development, the federal government has been unable to assist more than a quarter of eligible renters. And even with another \$4.7 billion in annual expenditures from federal tax credits to build and rehabilitate affordable housing, the government has made little progress in stopping the loss of low-cost rentals from the nation’s housing stock.

Although not directly subsidized, homeowners get federal support in the form of mortgage interest and property tax deductions, plus capital gains exclusions. In fact, foregone revenues from these tax programs dwarf federal outlays for low-income renters and rental housing. Even so, low-income homeowners benefit little from the tax breaks because standard deductions typically exceed the small amount of mortgage interest they might report. Still, federal regulations that promote the flow of credit to low-income households and communities have helped to improve outreach to these underserved constituencies.

While encouraging homeownership both directly and indirectly, the federal government does little to ensure low-income households

can meet the costs of owning and maintaining their homes. In the absence of this support, the number of low-income homeowners with severe housing cost burdens has risen along with the number in delinquency or foreclosure, at the same time that their homeownership rates have lost ground.

Meanwhile, less and less of the federal nondefense discretionary budget—which is itself shrinking—is being devoted to housing programs (Figure 34). Housing assistance as a share of total nondefense discretionary spending dropped from 10.2 percent in 1998 to 7.7 percent in 2006. In the past year, spending on housing assistance also failed to keep up with inflation, amounting to a 2.3 percent cut in real terms.

Federal regulators are now weighing in on the subprime mortgage troubles, calling for increased oversight and stricter underwriting standards. There has been little discussion, however, about creating or extending federal programs that would help borrowers whose rising mortgage payments and falling house values place them at risk of foreclosure. In fact, increased federal regulation might even backfire on these households if new qualifying guidelines prevent them from refinancing on better terms. Nevertheless, a few state housing finance agencies—in Ohio, Colorado, and Maryland—are stepping up to the plate and offering to help homeowners refinance out of risky products.

COSTLY DEVELOPMENT REGULATIONS

State and local regulations are among the principal culprits behind the nation’s persistent affordability problems. By limiting the land available for and density of new development, as well as imposing impact fees and subdivision requirements that raise production costs, state

and local governments make it difficult to build affordable housing. While many of these regulations serve other public policy purposes, they exacerbate affordability pressures.

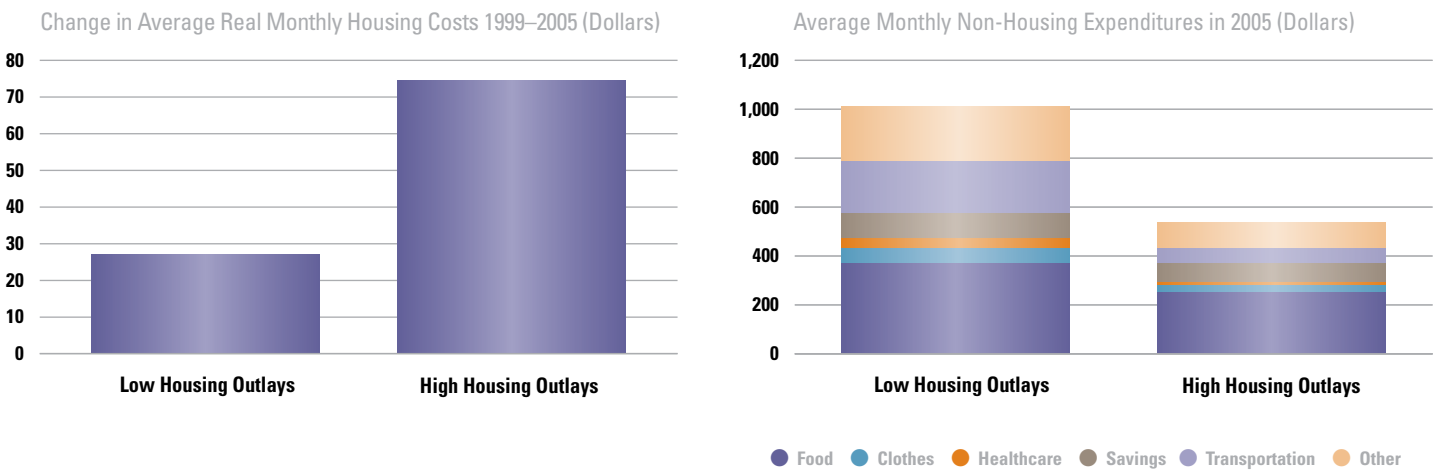
Metropolitan areas with stringent constraints on residential development see higher house price increases and lower job growth than they would otherwise. The most restrictive areas also have a higher incidence of severely cost-burdened households, especially among those in the lower-middle quartile of the rent distribution. Restrictive

zoning, rather than land shortages, makes homes in high-cost areas even more expensive.

Only a handful of states have enacted laws to pressure local jurisdictions to accept workforce housing development. Massachusetts has taken the lead in so-called “anti-snob” regulations, allowing developers to bypass local zoning exclusions in communities with limited affordable housing. Other states now put pressure on local governments to plan for or accept some fair share of affordable housing.

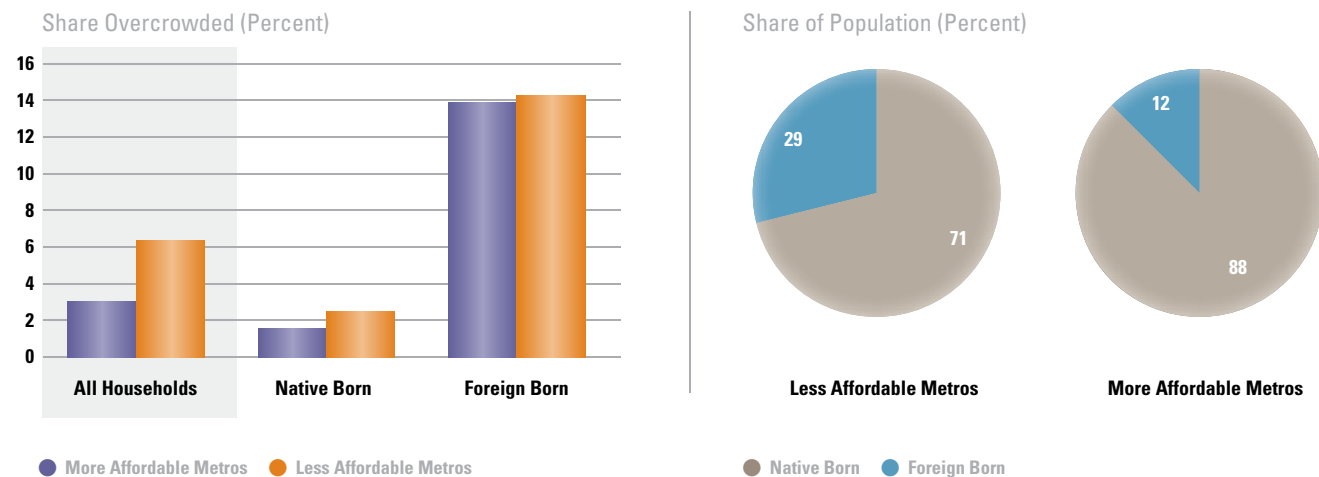
FIGURE 32 Soaring Housing Costs Leave the Most Burdened Low-Income Families With Even Less to Spend on Other Needs

Households with Children in the Bottom Expenditure Quartile



Notes: High housing outlays are more than 50% of total household expenditures, and low housing outlays are less than 30% of total household expenditures. Low-income households are those in the bottom fourth of households sorted by total monthly expenditures. Dollar values are adjusted by the CPI-UX for All Items. Source: JCHS tabulations of the 1999 and 2005 Consumer Expenditure Surveys.

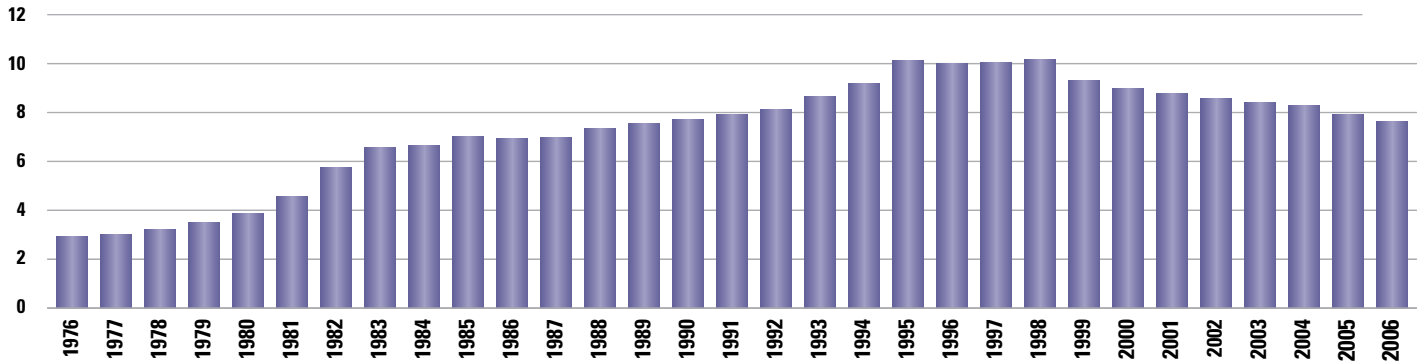
FIGURE 33 Higher Overcrowding in Less Affordable Metros Mostly Reflects Their Larger Immigrant Populations



Notes: Percent overcrowded is the share of households with more than one person per room. Nativity of household head is used to determine whether the household is native or foreign born. Less and more affordable metros are the top and bottom ten of the 50 largest metros, ranked by the ratio of median home value to median household income. Metro areas are based on US Census definitions from 2000. Source: JCHS tabulations of the 2005 American Community Survey Sample, Minnesota Population Center Integrated Public Use Microdata Series.

FIGURE 34 Housing Assistance Is Losing Out to Other Federal Spending Priorities

Housing Assistance as a Share of Nondefense Discretionary Spending (Percent)



Source: US Office of Management and Budget, Budget of the United States Government, Fiscal Year 2008, Table 8.7.

While many states are also supplementing federal resources with their own funding, these affordable housing measures are small relative to the problem.

Developing housing for extremely low-income households is even more difficult. Given the design of federal subsidy programs, it is difficult to produce housing affordable to the poor without multiple subsidies and onerously complex financing packages. According to the National Council of State Housing Agencies, 76 percent of all tax-credit projects in 2005 demanded some additional form of federal subsidy. Without this added assistance to fill the gap between what extremely low-income renters can pay and the rents needed to cover development costs, even successful programs like Low-Income Housing Tax Credits cannot adequately serve the poor. Furthermore, the combination of higher construction and operating costs, along with stagnant or even declining rents tied to household income limits, can undermine the fundamental viability of affordable housing projects.

THE OUTLOOK

With the widening gap between what low- and moderate-income households can afford and what they actually spend on housing, enormous political will and resources are required to reduce the number of severely cost-burdened households. While more states may take action to stimulate the production of at least some affordable housing, little progress has occurred in easing regulatory barriers to such development. In the meantime, the need to address housing affordability problems is intensifying as the pressures grow more acute and spread up the income scale.

Still, trailblazing states offer useful approaches for others to follow. Perhaps most encouraging is the passage of inclusionary zoning ordinances that provide incentives for developers to set aside a fraction of units for affordable housing. According to a recent report released by the Brookings Institution, nearly 23 percent of jurisdictions in the nation's 50 largest metropolitan areas have some kind of an incentive-based affordable housing program, while 15 percent have a dedicated source of funds for affordable housing. Indeed, well over half the population in the 50 largest metros lives in an area with an affordable housing program. While these measures are promising, it will nevertheless take much greater federal, state, and local efforts to address the nation's affordability problems.