



Housing Challenges

The recession exacerbated longstanding affordability challenges. High unemployment has driven up the share of households with severe cost burdens, while the ongoing foreclosure crisis has displaced families and blighted whole communities. Meanwhile, federal housing assistance programs face cuts as the nation struggles to address long-term fiscal imbalances. With energy costs rising, the pressures are increasing to pursue more energy-efficient housing construction and more sustainable patterns of development.

CONTINUING AFFORDABILITY PRESSURES

Even though nominal rents flattened temporarily and house prices tumbled as the housing boom ended, the share of households struggling to afford housing rose over the past decade. At last measure in 2009, well over one-third of US households paid more than 30 percent of their incomes for housing, which is a traditional standard of affordability. At the same time, 17.1 percent of American households—an unprecedented 19.4 million—spent more than half their incomes on housing. In 2009 alone, the number of these severely cost-burdened households climbed by 725,000, a larger-than-average jump in a decade marked by sizable increases.

Some 9.3 million owners and 10.1 million renters face severe housing cost burdens (**Table A-4**). With their generally lower incomes, renters are more than twice as likely as owners to pay more than half their incomes for housing, but shares of both groups rose substantially between 2001 and 2009. The share of severely burdened owners climbed from 9.3 percent to 12.4 percent over the decade, while the share of severely burdened renters increased from 20.7 percent to 26.1 percent.

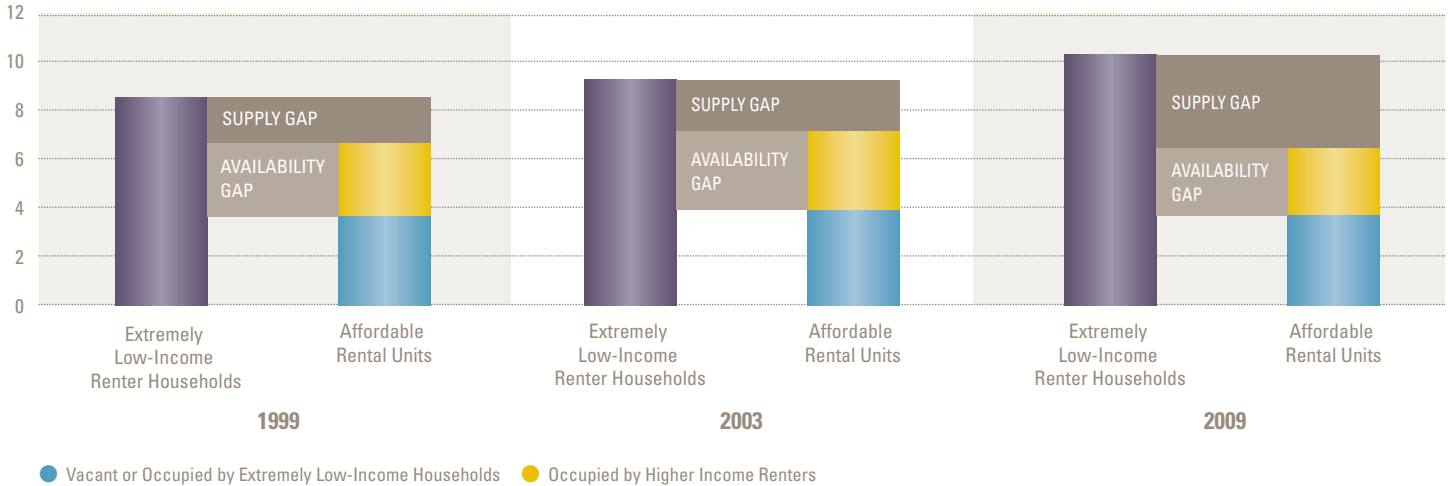
Today's affordability problems reflect the long-term rise in housing costs and the ongoing weakness in income growth in the bottom half of the distribution. This trend grew more pronounced in 2000–9 when real median income for households in the bottom income quartile fell 7.1 percent while real rents increased 8.9 percent. As a result, the gap between the supply of and demand for affordable homes widened. In 1999, 8.5 million extremely low-income renter households (with income less than 30 percent of area medians) competed for 3.6 million units that were affordable at that income cutoff and that were not occupied by higher-income renters. By 2009, the mismatch had grown to 10.4 million extremely low-income renter households and just 3.7 million affordable and available units (**Figure 26**).

While lowest-income households are most likely to have severe housing cost burdens, the problem has moved up the income scale. Among households with real incomes under \$15,000, 66.4 percent were severely burdened in 2009—an increase of 4.8 percentage points from 2001. But shares among households with incomes in the \$15,000–30,000 range were also up 6.6 percentage points over the decade, to 27.7 percent. Households with

FIGURE 26

The Gap Between the Number of Extremely Low-Income Renters And the Supply of Available Units They Can Afford Continues to Widen

Millions



Notes: Extremely low-income households have incomes at or below 30 percent of HUD-adjusted area median family incomes. Affordable rental units have housing costs no more than 30 percent of monthly household income at the extremely low-income threshold.

Sources: US Department of Housing and Urban Development, Worst Case Housing Needs 2009; JCHS tabulations of US Census Bureau, 2003 and 2009 American Housing Surveys, using JCHS-adjusted weights.

incomes of \$30,000–45,000 saw a 4.2 percentage point increase, bringing the severely cost-burdened share to 11.5 percent. Moreover, the share of households with incomes of \$45,000–60,000 (roughly three to four times the full-time minimum wage equivalent) nearly doubled to 6.4 percent.

Households with multiple earners are less likely to be cost burdened and more able to weather spells of unemployment than households with just a single worker (Figure 27). In 2008–9, however, the recession not only reduced the number of working-age households with two or more earners by nearly 2.0 million, but also lifted the number of households with one or no employed workers by the same amount.

HOUSING BURDENS OF FAMILIES WITH CHILDREN

Household characteristics also affect the likelihood of having severe housing cost burdens. Low-income families with children have an especially difficult time finding affordable units, with nearly two-thirds paying more than half their incomes for housing in 2009 (Table A-5). The number of children living in such households stood at 9.2 million that year, up 12.2 percent from before the financial crisis in 2007 and fully 35.1 percent from 2001. With so many families struggling to make ends meet, it is no surprise that the number of families using homeless shelters is also on the rise. Although the incidence of chronic homelessness fell, the number of families with children that used home-

less shelters at least once increased by about 30 percent from 2007 to 2009, to more than 170,000.

Families with severe housing cost burdens have little to spend on other necessities. After devoting more than half their monthly outlays to rent, families with children in the bottom expenditure quartile on average had only \$593 left to cover all other expenses. Compared with similar families living in affordable housing, these households spent \$160 less on food each month, \$28 less on healthcare, \$152 less on transportation, and \$51 less on retirement savings. In 2010, their total monthly expenditures included just \$290 for food, \$15 for healthcare, \$71 for transportation, and \$59 for retirement savings.

HELPING HOUSEHOLDS AT RISK

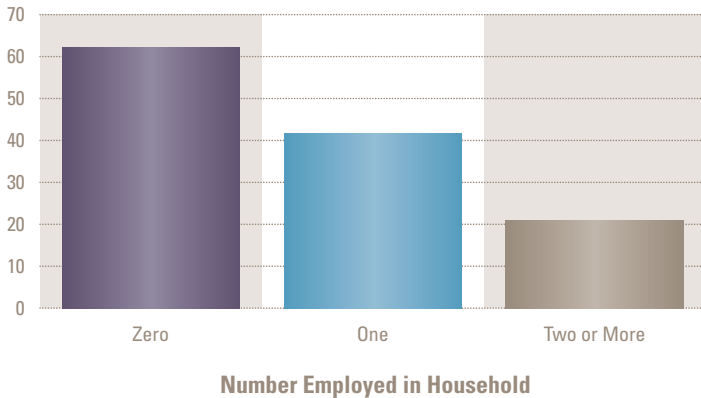
Federal housing assistance programs provide critical support to millions of America's poorest and most vulnerable households. At roughly \$7,000 per year, the average HUD rent subsidy is a significant benefit for some 5 million households. Other federal assistance programs help up to 2 million more struggling households. The Center for Budget and Policy Priorities estimates that counting housing assistance as income would have lifted 1.5 million persons above the poverty level in 2009.

But rent subsidies are not an entitlement and they reach only about one in four of the households that are eligible. And as the

FIGURE 27

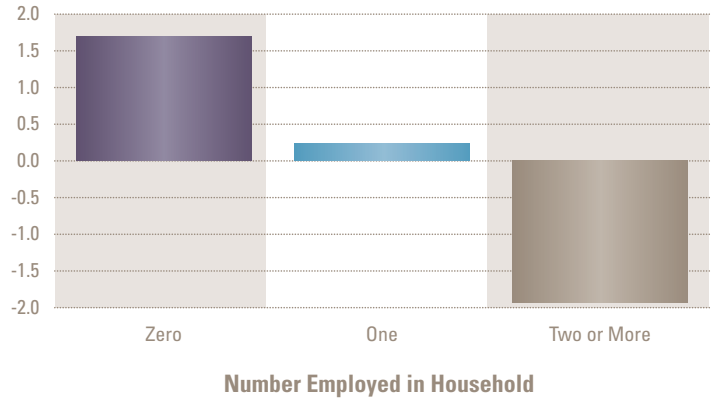
Households with Multiple Earners Are Less Likely to Be Cost Burdened...

Share of Cost-Burdened Households, 2009 (Percent)



...But High Unemployment Has Reduced the Number of Such Households

Change in Number of Households, 2008-9 (Millions)



Notes: Estimates include only households with heads aged 25–64. Cost-burdened households spend more than 30 percent of pre-tax income on housing.
Source: JCHS tabulations of US Census Bureau, 2008 and 2009 American Community Surveys.

number of low-income renters has grown over the past decade, federal support for assisted housing has failed to keep pace. Indeed, the number of assisted renters increased by 228,000 a year on average during the 1970s, but additions slowed to 121,000 annually in the 1990s and then to just 74,000 per year in the 2000s.

Prospects for expanding rental assistance programs are dim. With rents on the rise, the costs of serving the 2.1 million households that hold housing vouchers (which make up the difference between 30 percent of incomes and fair market rents) are climbing. At the same time, the Low Income Housing Tax Credit program, the nation’s principal program for building new and preserving existing affordable rentals, added fewer units after the financial crisis because of weakened demand for the credits. Public housing units are also being lost both to disrepair and to redevelopment with less than one-for-one replacement rates. Making matters worse, the stock of privately owned subsidized units is shrinking. Between owners opting out of the program and losses due to physical deterioration, the public and private HUD-assisted stock has dwindled by more than 700,000 units since the mid-1990s.

In an effort to do more with less, the Obama Administration has proposed restructuring the funding mechanism for public housing to allow local housing agencies to leverage their equity and tap private debt markets. It has also proposed a new Choice Neighborhoods program intended to spark redevelopment of public housing as well as the distressed areas surrounding the properties.

THE CONTINUING FORECLOSURE CRISIS

The number of homeowners that have already lost their homes to foreclosures or short sales is staggering. At least 7.8 million foreclosure proceedings have been started since the crisis took hold in 2007. Of these, CoreLogic estimates that 3.5 million foreclosures were completed between 2008 and 2010 alone. With more than 2.2 million loans currently in the process, foreclosures are likely to remain near record levels in 2011.

Foreclosures have been concentrated in relatively few areas. Indeed, nearly half of foreclosure auctions in 2010 were located in just 10 percent of the nation’s 65,000 census tracts. Not surprisingly, the majority of highly distressed neighborhoods, where at least one in ten loans were foreclosed, are in the states at the epicenter of the crisis, including California, Florida, Arizona, Michigan, Georgia, and Nevada. However, the other 40 percent are located in states that have received less attention. For example, Texas, Ohio, and Indiana together contained nearly 600 highly distressed neighborhoods last year. Much of the damage has been in low-income and minority neighborhoods (Figure 28). Even after controlling for income, foreclosure rates in minority tracts are significantly higher than in white tracts.

Reflecting patterns of racial/ethnic and income segregation, center-city neighborhoods have also suffered high foreclosure rates (Table A-6). Yet in the states with the most foreclosures, rates in suburban areas rival those in center cities, and rates in predominantly white neighborhoods differ little by income.

The flood of foreclosures has overwhelmed both the market’s ability to absorb the homes and lenders’ ability to manage the

properties. The number of abandoned homes has thus soared across the country. In 2009, 7.2 million households reported at least one abandoned or vandalized home within 300 feet of their residences—an increase of 1.5 million households from 2007 and 2.0 million from 2005. Nearly half (45.0 percent) of housing units with abandoned properties nearby are in center cities, 30.4 percent are in suburbs, and 24.0 percent are in non-metropolitan areas.

Many communities will suffer the ill effects of the foreclosure crisis for years to come. The Neighborhood Stabilization Program (NSP) was intended to provide resources to local governments to acquire foreclosed properties to mitigate the blight caused by widespread abandonment and disinvestment. But with only \$7 billion in funding, the scale of the program pales in comparison with the challenges. CoreLogic data show that the foreclosure rate in roughly 2,500 neighborhoods exceeded 10 percent in 2010, totaling 176,000 homes. Given the program’s focus on acquiring and rehabilitating foreclosed properties, its level of funding cannot support many transactions even in the worst-affected neighborhoods.

HOUSING, ENERGY, AND SUSTAINABILITY

Residential energy use generates about 18 percent of human-made greenhouse gas emissions in the United States, and automotive travel contributes another 18 percent. Making both housing units and residential development patterns more

energy efficient could therefore produce substantial reductions of pollution, in addition to huge savings of time, energy, and money for householders into the future.

New housing already has a much lower carbon footprint than older units, and technological advances in building materials, insulation, heating and cooling systems, and local electricity generation should reduce the footprint even further. The federal government estimates that energy-efficient retrofits to existing homes could lower energy use by up to 40 percent per unit, cutting annual greenhouse gas emissions by as much as 160 million metric tons by 2020. And even if pre-2000 homes are just brought up to the same efficiency level per square foot as post-2000 homes in their regions, overall residential energy consumption would fall by 22.5 percent.

Improved energy efficiency would also help blunt the impact of rising energy costs on housing affordability. Among low-income households in particular, utilities account for a significant share of overall housing outlays. Indeed, utility costs for renter households in the bottom income quintile (earning up to \$19,300) amount to more than a quarter of total housing costs and nearly a fifth of household income (Figure 29).

Even though energy prices are headed up, homeowners and landlords alike have been slow to implement efficiency measures because of high upfront costs and long, uncertain paybacks. The fact that the social costs of greenhouse gas emis-

FIGURE 28

Low-Income and Minority Communities Have Suffered the Highest Foreclosure Rates

Foreclosure Rate, 2010 (Percent)

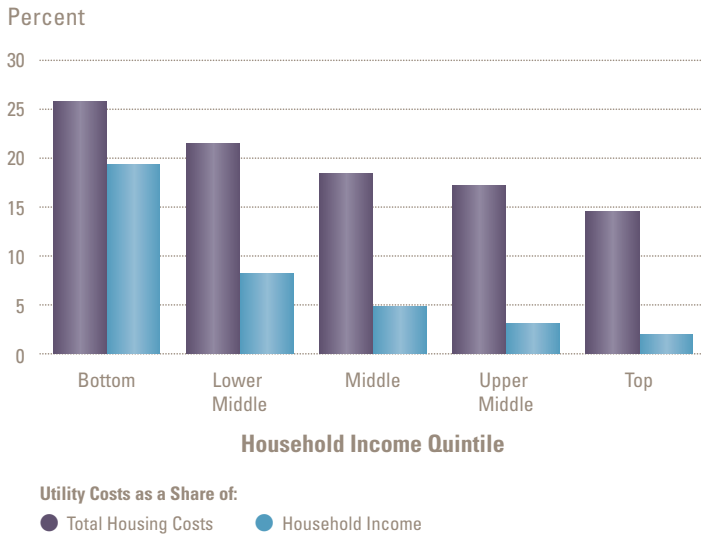


Notes: Foreclosure rates are completed 2010 foreclosure auctions as a share of December 2009 first-lien mortgages, using a measure of mortgages that covers approximately 85% of all loans, and are averages of tract rates for each neighborhood type. High-foreclosure states are the six states—Nevada, Arizona, Michigan, Georgia, Florida, and California—with the highest cumulative foreclosures in 2008–10 as a share of December 2008 mortgages. White/mixed/minority neighborhoods are census tracts with less than 10%/10–50%/more than 50% minority population share. Low-/middle-/high-income neighborhoods are census tracts with median household incomes less than 80%/80–120%/more than 120% of metro area or balance of state median income. Zip code loan and foreclosure data are allocated to census tracts using housing-unit weights.

Sources: JCHS tabulations of CoreLogic, Market Trends and LoanPerformance Servicing data; US Census Bureau, 2005–9 American Community Survey; US Department of Housing and Urban Development, USPS Zip Code Crosswalk Files; and Missouri Census Data Center, MABLE/Geocor2K Geographic Correspondence Engine.

FIGURE 29

Utilities Account for a Disproportionately Large Share of Income and Housing Costs for Low-Income Renters



Notes: Income quintiles are equal fifths of all households sorted by pre-tax income. Total housing costs include contract rent and tenant-paid utilities. Shares shown are the median ratios for each quintile. Analysis includes only households that pay for utilities separately from rent. Sources: JCHS tabulations of US Census Bureau, 2009 American Housing Survey.

sions are much higher than the individual costs suggests that federal policy changes may be necessary to stimulate energy-efficient investments. Tax credits have in fact proven quite effective in this respect. At last measure in 2007, some 4.3 million households took advantage of the federal residential energy efficiency tax credit. The American Reinvestment and Recovery Act expanded and extended the program in 2009 and 2010, but the Obama Administration then reduced the credits back to their original size for 2011.

Changes in residential development patterns could also cut energy consumption sharply. A National Research Council (NRC) study found that doubling the density of three-quarters of new and replacement housing starting in 2000 would gradually reduce greenhouse gas emissions by as much as 11 percent by 2050 compared with current trends. The Urban

Land Institute projected savings of up to 16 percent over the same period.

Achieving aggressive improvements in residential density depends on a balance of forces. On the one hand, rising energy prices and public policy changes such as carbon taxes and stronger state or regional growth management could shift more construction to infill development. On the other hand, land use policies of jurisdictions at the urban fringe, where most residential construction occurs, continue to favor single-family homes on large lots. Consumer preferences for low-density living appear to be another important factor. But preferences are not immutable and could well evolve in response to higher energy prices and to changes in the range of housing options available. Proposed elimination of the mortgage interest deduction and of government guarantees in the mortgage market may also reduce the financial incentives to buy larger homes in lower-density areas.

THE OUTLOOK

With job growth picking up fairly steadily since the summer of 2010, the economic recovery may finally be taking hold. Putting people back to work is a key step in restoring household incomes and slowing the spread of housing cost burdens. Nevertheless, income gains have lagged housing costs for decades for an increasing share of renter households, and affordability pressures are making their way up the income scale. Rising demand is already pushing rents higher while stubbornly high unemployment is keeping the lid on wage increases. If these trends continue, affordability problems will worsen as the economy recovers.

Despite the growing need for rental assistance, the current budgetary climate makes increased federal support unlikely. In fact, the opening rounds of the debate over the federal deficit make it clear that domestic programs will undergo significant cuts.

While still under the shadow of the foreclosure crisis, the housing market may be starting—however slowly—to turn the corner. The number and share of loans more than 90 days delinquent but not in foreclosure are finally falling. The impact of the crisis will nonetheless linger as millions of loans work their way through the protracted foreclosure process. This will not only blunt the housing recovery, but also reinforce the downward spiral of communities where foreclosures are concentrated.