

Weathering the Storm: The Current State of Low-Income Renters by Mark McArdle

The headlines are filled with stories of subprime mortgages and foreclosed homes during this economic crisis, but often overlooked is the effect this crisis is having on the 35 million households—almost 33 percent of all households—who rent.¹ The most direct impact has been on renters that are evicted as the homes they rented are foreclosed on, and if commercial loans to apartment buildings begin to fail, the number of displaced renters could continue to grow. In any case, as foreclosures rise and mortgage lending criteria tighten, the population of renters is likely to increase as former homeowners and others forced to forgo homeownership for financial reasons enter the rental market—a market that has become increasingly unaffordable in recent years.

Minorities, as a population more likely to rent, more likely to pay higher percentages of their income for housing and more likely to have a subprime loan (and therefore at higher risk of foreclosure), have been and will continue to be greatly impacted by the lack of affordable rental housing. In fact, low-income people, minorities and people living in central cities are all more likely to rent than the national average. In 2007, while 32.7 percent of all households rented, 53.5 percent of African-American households and 50.1 percent of Latino households rented their place of residence² (Figure 1).

Housing affordability, usually measured by the percent of one's income spent on housing, has declined for much of the decade. Rents have increased while the median renter income fell. As a result, nearly half of all renters paid more than 30 percent of their income for housing in 2006, and nearly 25 percent spent more than half of their income on housing.³ Housing affordability also disproportionately affects minority communities. Thirty percent of black renters and 27 percent of Latino renters have a severe housing cost burden, which according to HUD is defined as spending more than 50 percent of their income on housing. This compares to 21 percent of white renters.⁴

This paper focuses on those 35 million households that rent, examining current trends in affordability as well as examining some of the current programs operated by the Department of Housing and Urban Development (HUD) that are available to help people afford their rent and increase the supply of rental housing for low-income renters.

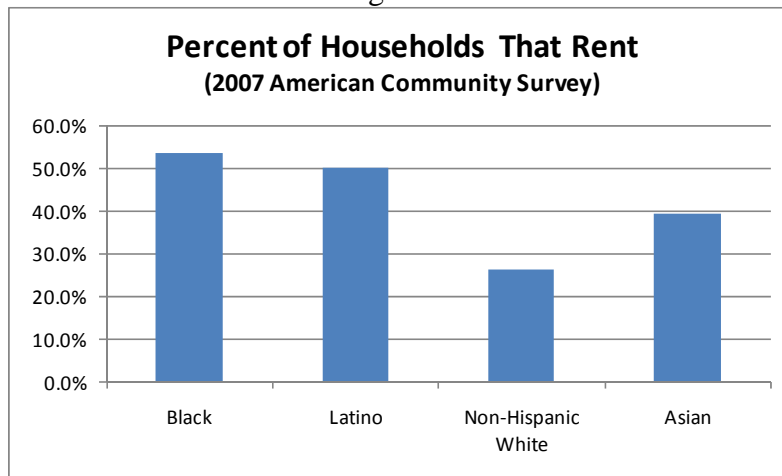
¹ U.S. Census Bureau, 2007 American Community Survey data

² U.S. Census Bureau, 2007 American Community Survey data

³ Joint Center for Housing Studies (JCHS). *America's Rental Housing: The Key to a Balanced National Policy*. Harvard University, 2009.

⁴ Joint Center for Housing Studies, *ibid.*

Figure 1:



Renters in the Housing Crisis

In 2004, the homeownership rate peaked at 69 percent. Since then, due in part to the housing crisis, the homeownership rate has fallen back to 67.3 percent (as of the first quarter of 2009), about where it was in 2000.⁵ The recent wave of foreclosures and the decline in the homeownership rate has affected renters and the rental market in at least two major ways. First, some renters were directly impacted when the home or condo they were renting was foreclosed on. According to the National Low Income Housing Coalition (NLIHC), a fifth of the properties in foreclosure are rentals and as many as 40 percent of the families that face eviction due to foreclosure are renters.⁶ Renters have limited rights in a foreclosure. So, the short-term impact from this crisis may be severe.⁷ So far, large rental buildings have avoided large scale foreclosures, but there is worry that this could change as problems in the commercial lending market come into focus. The second major effect of widespread foreclosures on the rental market is the likely increase in the number of renters over the next couple of years. After averaging just 0.7 percent annual growth from 2003 to 2006, the number of renter households jumped by 2.8 percent in 2007, which was still before the bulk of foreclosures began to occur.⁸

There is some evidence that the housing crisis coupled with the lack of affordable rental housing has already led to an increase in homelessness, especially in high-cost areas. NLIHC reports a 33 percent increase in the number of families living in shelters in the past year in Massachusetts; New York City has reported a 31 percent increase in applications for housing assistance from families; and Fairfax County, VA has reported 1,200 homeless students in their schools—a 24 percent increase from last year.⁹ Although this crisis will eventually pass and foreclosures will decline, unless deliberate actions are taken, the long-term affordability crisis will remain.

⁶ Crowley, Sheila, Danielo Pelletiere, Maria Foscarinis, *Renters in Crisis*. National Low Income Housing Coalition. February 20, 2009.

⁷ P.L. 111-22, *The Helping Families Save Our Homes Act of 2009*, signed May 20th of 2009 will provide legal tenants 90 days notice prior to eviction or to the end of their lease if there is no purchaser for the property.

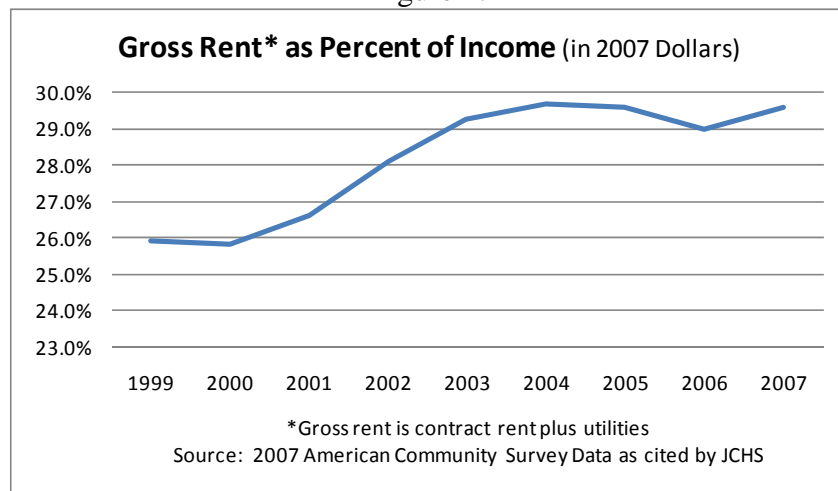
⁸ Joint Center for Housing Studies. *ibid.*

⁹ Crowley et al, *ibid.*

The Long-Term Affordability Crisis

The best data on affordability is from the U.S. Census, which asks American households how much of their income they spend on housing. In 2007, the latest data available, 16.4 million renter households faced unaffordable housing costs (spending more than 30 percent of their income on rent and basic utilities) (Figure 2); over 8 million households spent more than half of their income on rent and utilities. The number of households paying over 50 percent of their income for housing increased by 2 million households (or almost 32 percent) between 2000 and 2007.¹⁰ It is uncertain how the recession will ultimately affect housing affordability. On the one hand, many households have lower (or no) income due to lost jobs. On the other hand, there is evidence that rental vacancies remain high—perhaps due to vacant or converted condominiums—which may lead to lower or at least stable rents.¹¹ The National Low Income Housing Coalition’s annual *Out of Reach* report found a “national housing wage” (the annualized hourly wage required to afford a two-bedroom apartment at the average fair market rent) of \$17.84 in 2009, slightly up from \$17.32.¹² One explanation for the rise in rents is a contraction in the supply of rental units. From a peak of 500,000 units in 1986, completions for new multifamily units for rent were down to 169,000 units in 2007 (and this was before the current recession).¹³ Also, many affordable units have been lost to conversions. Between 2005 and 2007, the overall net rental housing stock grew by over 3 percent, but in the most affordable categories (affordable to those making less than 50 percent of the area median income) there was a decline of almost 7 percent.¹⁴

Figure 2:



The root of the problem is that there is a fundamental disconnect between what many low-income people make and what rental housing costs. The national minimum wage is now \$7.25 an hour, more than \$10 short of the “national housing wage” as calculated by NLIHC.

¹⁰ Douglas Rice and Barbara Sard, *Decade of Neglect has Weakened Federal Low-Income Housing Programs*. Center for Budget and Policy Priorities (February 24, 2009), page 10.

¹¹ U.S. Department of Housing and Urban Development. *U.S. Housing Market Conditions, 1st Quarter 2009* (May, 2009). Notes that “conditions in the rental housing market have softened . . . and the vacancy rate remains high”.

¹² National Low Income Housing Coalition. *Out of Reach 2009*.

¹³ Joint Center for Housing Studies, *ibid*.

¹⁴ Department of Housing and Urban Development, *Rental Market Dynamics: 2005-2007*. June 2009; calculations based on combination of CINCH and AHS weights.

Traditionally, government has attempted to fill this gap, but the amount that it offers has traditionally been and continues to be far short of the amount needed. Since 1994, federal spending on low-income housing assistance has fallen by over 20 percent, both as a share of all non-defense discretionary spending and as a share of the Gross Domestic Product (GDP).¹⁵ This trend accelerated at the end of the Bush Administration’s second term. In 2008, total funding for all low-income housing programs was \$2 billion (or 5 percent) below the 2004 level, adjusted for inflation (Figure 3). Nevertheless, these programs provide a crucial support for those families that receive assistance. The Center for Budget and Policy Priorities estimates that rental assistance helped 4 million people, including 1.6 million children, out of poverty.¹⁶ In the Fiscal Year 2009 budget, passed in March, there was a small uptick in funding for several major housing programs (Figure 4).

Figure 3:

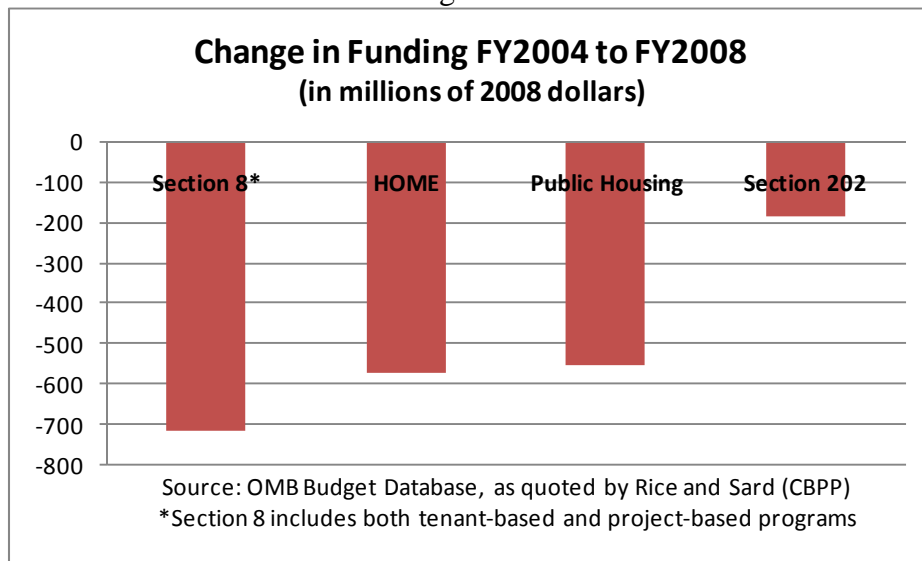
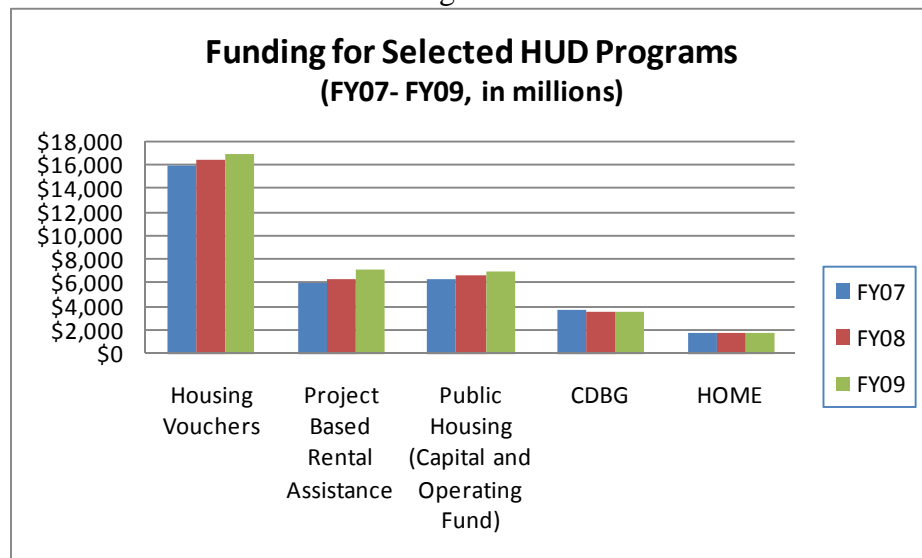


Figure 4:



¹⁵ Rice and Sard, *ibid.*

¹⁶ Rice and Sard, *ibid.*, page 10.

FEDERAL PROGRAMS THAT HELP ADDRESS RENTAL AFFORDABILITY

Federal assistance for low-income housing programs can basically be divided into two broad approaches: (1) programs that directly aid the tenant (such as housing vouchers), and (2) programs that assist the builder or landlord in order to create and maintain affordable housing. In many programs that help create housing, such as with project-based rental assistance or the Low-Income Tax Credit, the builder receives assistance under the stipulation that the units remain affordable to a certain segment of the population for a period of time (e.g. 25 years). Sometimes projects combine different programs (i.e. both project and tenant-based funding). Other large federal programs, such as the Community Development Block Grant (CDBG), the HOME program or the newly enacted Housing Trust Fund provide flexible funding to local jurisdictions that can use the funding for a variety of affordable housing projects.

Housing Vouchers

This is the largest federal housing assistance program. The program was started in 1974 as a way to help low-income people afford rent while maximizing flexibility. Unlike public housing or other building-based programs, this subsidy travels with the tenant. If he or she gets a new job, or the neighborhood and/or apartment becomes less desirable, they can theoretically move and take their voucher with them to another neighborhood or even another city. The program has proven to be one of the most efficient ways to aid low-income tenants. GAO found that even in tight (low-vacancy) markets, vouchers are more cost effective than most other housing programs, including new construction or rehabilitation programs.¹⁷

The housing voucher program is currently targeted to very low-income families -- 75 percent of vouchers go to those with less than 30 percent of the area median income (AMI) and the remaining 25 percent can have incomes up to 80 percent of the AMI. While recipients must be below an income limit to obtain a voucher (generally 80 percent of AMI), a household can continue to receive a voucher even if its income later rises above the limit. In the latest data available (2008-2009), 44 percent of all those receiving a voucher were black, 18 percent were Latino, 47 percent of households had children under age 18 and 55 percent had income below 30 percent of the area median. Only 17 percent had been in the program more than 10 years.¹⁸

The program is administrated by approximately 2,500 state and local housing agencies, which award vouchers to qualified families who then conduct their own housing search. The recipient can rent any apartment that can pass a basic housing inspection, give that the landlord is willing to enter into a contract with the local agency and the rent is less than the HUD designated "Fair Market Rent" for that size apartment in a region (traditionally the median rent although there are often exceptions for certain low-poverty areas and for larger families where higher rents are allowed). According to the most recent data, 2 million units were rented through Housing Choice Vouchers; 54 percent of them to families with children.¹⁹ The program receives almost \$17 billion in annual funding, but almost 150,000 families were eliminated from the program between 2004 and 2006. The recently enacted 2009 budget includes some funding for new vouchers. Estimates are that only one in four households that are eligible for vouchers receive

¹⁷ GAO, *Comparing the Characteristics and Costs of Housing Programs*, GAO-02-76, available at <http://www.gao.gov/new.items/d0276.pdf>

¹⁸ All data from HUD, Resident Characteristics Report, available at <https://pic.hud.gov/pic/RCRPublic/rcrmain.asp>

¹⁹ Ibid.

any form of housing assistance and many housing authorities have closed their waiting lists to new applicants because the lists had become too long.²⁰

Over the years there have been several ideas to improve the voucher program and several of these have been tried as pilot projects. Family Self-Sufficiency (FSS) was created in 1990 as a HUD program that helps households in public housing or receiving rental assistance to build assets and make progress towards self-sufficiency. FSS offers case management to assist families in getting access to training and services with the ultimate goal of increasing earnings. If the family's earnings rise, it also offers them the chance to forgo any rent increases they normally would pay and instead deposit the additional money into an escrow account which is given over to the family once they complete the program. The ultimate goal is for families to become self-sufficient and no longer need a housing subsidy. Another program called "Moving to Work" allows agencies flexibility to design and test approaches to vouchers that reduce costs and encourage work. These types of approaches show great promise at encouraging work and greater independence among participants. In cases where these approaches result in greater earnings, they may actually reduce the need for housing assistance in the long-term for families who achieve self-sufficiency and free up their vouchers for other families in need.²¹

Project-Based Rental Assistance

Project-based rental assistance, also sometimes referred to as Section 8, is a program based upon agreements between the federal government and landlords to provide affordable homes for a certain period of time. The contracts provide financial assistance to the landlords in exchange for them continuing to provide affordable units. Variations of this program produced units from 1965 to the mid-1980s, but no additional units have been produced by these programs since Congress repealed authorization for building new units in 1983. The key issue now for this program is preservation of units already created. Initially, the contracts were for 20 to 40 years and after the contract expires the owner can leave the program or the agreement can be renewed on an annual basis. Many owners in recent years have left the program due to payment delays and other problems. Like the other programs discussed, most residents can have incomes of no more than 80 percent of AMI, and a percentage of new residents must have incomes below 30 percent of AMI. Seventy-five percent of the households living in these units are headed by a disabled or elderly person.²² Currently, the program provides housing to around 1.3 million households and was authorized for just over \$7 billion in fiscal year 2009.²³

Public Housing

Public housing is the third largest subsidized housing program. Currently an estimated 14,000 public housing developments run by 3,100 housing authorities provide housing to 1.2 million families.²⁴ Like housing vouchers, public housing is targeted to the neediest families—at least 40 percent of newly admitted households must have income at or below 30 percent of the area median. Unlike vouchers, all public housing residents must have income below 80 percent

²⁰ Center for Budget and Policy Priorities, *Introduction to the Housing Voucher Program*. Revised May 15, 2009.

²¹ For additional data on FSS and Moving to Opportunity, go to <http://www.hud.gov/offices/pih/programs/hcv/fss.cfm> and <http://www.hud.gov/offices/pih/programs/ph/mtw/>

²² NLIHC, *Advocates Guide*

²³ Rice and Sard, *ibid.*

²⁴ Rice and Sard, *ibid.*

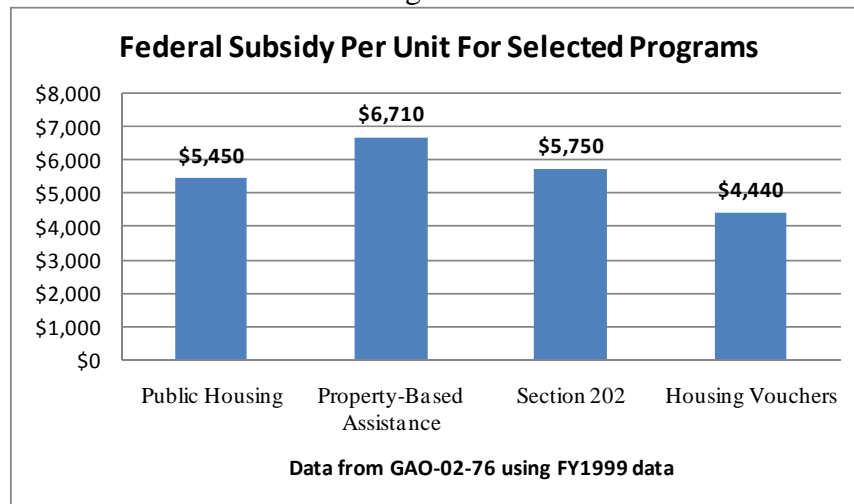
of the area median; so if a participant household’s income rises above that limit, they must leave the unit. Most families who live in public housing are required to pay 30 percent of their income for rent and utilities, but deductions are provided for children, child care and those households with elderly or disabled occupants. About 41 percent of the units are occupied by families with children, 31 percent are elderly and 32 percent are households headed by people with disabilities. In 2000, 45 percent of residents were black and 23 percent Latino; 15 percent were over age 62; 56 percent were extremely low income (below 30 percent of the area median) and another 16 percent were very low income (below 50 percent of median). In contrast to housing vouchers, almost 30 percent had been in public housing at least 10 years.²⁵

Public housing has both a capital fund (funded at just below 2.5 billion in FY2009), used to repair and rehabilitate projects, and an operating fund (funded at 4.45 billion), totaling almost 7 billion for public housing. Public housing began in 1937, but since the early 1980’s few public housing units have been built and as many as 150,000 net units have been lost through HOPE VI, which provides funds to revitalize troubled public housing developments through demolition, construction and rehabilitation. Since far fewer units have been built than destroyed through this program, many of the residents displaced as a result of HOPE VI were given housing vouchers and now rent in the private market.²⁶

Section 202 Supportive Housing for the Elderly

Nearly one-fifth of the households that pay more than 50 percent of their income for housing are elderly.²⁷ Supportive Housing for the Elderly (known as Section 202) is a program designed to meet the needs of this growing population. This program provides funds to build and operate housing for seniors with very low incomes. In FY2009, the program received over \$600 million in regular funding, and another \$250 million of stimulus funding. The program began in 1959 and currently there are more than 300,000 Section 202 units serving people who are at least 62 years old and have incomes less than 50 percent of the area median. They also target some units to elderly households who have disabilities.

Figure 5:



²⁵ HUD Residents Characteristics Report, *ibid.*

²⁶ NLIHC, *ibid.*

²⁷ 2007 ACS data, as quoted by Sard and Rice.

CDBB and HOME

Another major federal funding source for low-income housing projects are flexible, formula-based grant programs that are controlled at the local level. The Community Development Block Grant (CDBG) is a program that aims to improve communities by providing housing, improving the living environment and providing economic opportunity for low-income people. Seventy percent of the funds received by a jurisdiction must be spent to benefit people with low and moderate incomes. Housing is one of the primary things jurisdictions use these funds for, including housing rehabilitation, new housing construction by nonprofits and purchasing land or buildings for low-income housing. Each jurisdiction must incorporate citizen participation into its plan to spend the funds. President Obama has proposed a 25 percent increase in this program for FY2010.²⁸

Unlike CDBG, all of the activities funded under the HOME Investment Partnerships Program must be housing related. Funds may be used to help buy, rehab or build affordable housing. It also may be used, like housing vouchers, for direct assistance to renters who then pay no more than 30 percent of their income for housing. Fifteen percent of funds must be for housing that is developed by community-based housing development organizations. When used to assist renters, at least 90 percent of the units must be occupied by households with incomes below 60 percent of the area median income. The funds are distributed, similar to CDBG, by a formula that measures population, poverty and the condition of the housing stock. Also similar to CDBG, the jurisdiction must incorporate public input into its “Consolidated Plan”, which guides the distribution of funds.²⁹

Low Income Housing Tax Credit

One of the more important programs for adding to the supply of low-income rental housing is not a spending program but a tax credit. The Low Income Housing Tax Credit has been around since 1986 and offers tax credit to investors to encourage the construction of affordable rental units that are occupied by income-eligible households (generally at or below 60 percent of area median income at the time of initial occupancy). The law requires the units to be rent-restricted and occupied by low-income households for at least 15 years, with an extended-use period of another 15 years—though some states may extract commitments for longer terms. The credits are administered by the IRS and allocated to states based on their population, who in turn (through state and local housing finance agencies) award credits to various projects that meet the agency priorities as outlined in their Qualified Allocation Plan. As of 2005, the program had created almost 1.4 million units. In 2007, almost \$800 million in credits produced 75,000 units.³⁰ The cost to the Treasury varies by year, but since the credit offsets other incomes, it is greatly affected by current economic conditions. Evidence that credit activity has dropped off during the current recession indicates the need for additional measures to bolster the supply of low-income housing.

²⁸ NLIHC Advocates Guide

²⁹ NLIHC Advocates Guide, *ibid.*

³⁰ NLIHC, Advocates Guide

The National Housing Trust Fund

The National Housing Trust Fund's purpose is to increase and preserve the supply of rental housing for low income families. It was signed into law by President George W. Bush in 2008, but the original funding mechanism (contributions from Fannie Mae and Freddie Mac) fell apart with the recent economic collapse of these entities. President Obama has proposed an initial seeding of \$1 billion to be obligated for the Trust Fund in FY2010, getting the trust fund started until regular funding mechanisms can be restored. At least 90 percent of the funds must be used for the production, preservation or operation of rental housing and all the funds must benefit low-income households—including at least 75 percent of the rental housing funds for extremely low income (less than 30 percent of area median income). The funds would be distributed by formula to the states, which will use the funds to finance the development, rehabilitation and preservation of affordable housing.³¹ The National Housing Trust Fund shows great promise, along with tax incentives like the Low Income Housing Tax Credit, to help ensure that there will be an adequate supply to meet the growing demand for low-income rental housing in the future.

RECOMMENDATIONS & CONCLUSION

The current economic crisis may fundamentally alter our housing market. Millions of foreclosures and tightening credit standards may permanently swell the population of renters for years to come. What remains to be seen is how the market will respond. Evidence from the past indicates that without government help—both on the supply side by stimulating the stock of affordable housing and on the demand side by assisting low-income households—low-income households may fall even farther behind, paying a greater share of their income for rent and leaving less for food, clothing, day care, transportation, health care and educational expenses.

The good news is we have programs that have been proven to work and are reasonably cost-effective, like the housing voucher program. There has been a modest increase in the funding for this program recently, but the demand is still great. In Chicago, the 40,000-person long waiting list was reopened for the first time in 11 years.³² In Baltimore County, the average wait for a voucher is seven years.³³ With mounting job losses, even more people will need help. Increased funding for the voucher program is an important step to help low-income renters. Another problem is that voucher holders often have trouble finding landlords who will accept the vouchers. More can be done to improve the ease of use by landlords, reducing the wait for checks and inspections and reducing any administrative burden. The Section 8 Voucher Reform Act (SEVRA), currently being considered by Congress, would make many of these changes, including streamlining housing inspection rules. One other action that could greatly help is to add source of income, including vouchers, as something that is protected under fair housing laws. Twelve states have already done this.³⁴

³¹ President Obama's Fiscal 2010 Budget and NLIHC Advocates Guide.

³² Riley, Elizabeth. "CHA Reopens Voucher Waiting List after 11 Years", *Medill Reports*. April 11, 2008.

³³ Baltimore County Social Services, www.baltimorecountymd.gov

³⁴ CA, CT, DC, ME, MA, MN, NJ, ND, OK, OR, UT, VT, WI; some other local jurisdictions, such as Montgomery County MD and Seattle WA have done this as well. Source: Cynthia Watts Elder, CT Fair Housing Center for testimony given September 22, 2008 for the National Commission on Fair Housing.

Another way to get people the help they need is to free up vouchers already in use. There should be additional support for programs like Family Self-Sufficiency and Moving to Opportunity that try innovative approaches that not only house a family, but to increase the earnings of that family and maybe even eventually move that family off assistance. A voucher is a limited resource, but if used effectively, it can also be a tool to provide recipients with an opportunity to obtain the skills and resources that could eliminate their need for housing assistance. SEVRA, already mentioned, helps simplify existing work incentives by deducting 10 percent from the first \$9,000 in earnings for all working families while including deductions for child care expenses. SEVRA will also help encourage tenant mobility toward greater economic opportunities by simplifying how different jurisdictions handle families who relocate and creating more accurate “Fair Market Rents” so families can access housing in lower-poverty neighborhoods.³⁵

Finally, for demand-side programs (like vouchers) to work efficiently there must be an adequate supply of low-income units. Programs that help the market meet the demand for low-income housing are an essential part of an effective housing policy. Therefore, strong support for programs such as the Low Income Housing Tax Credit and the flexible federal-local partnership National Housing Trust Fund, both of which will help increase the supply of low-income rental units, are vital. Both tax credit programs and direct funding programs are needed so that supply is maintained even during economic downturns. Only by addressing both supply- and demand-side barriers will we make a dent in reducing the number of households with severe housing burdens; thus freeing up income for those families to spend on other necessities like food, clothing, child care and education.

Homeownership will always be an important part of the American dream, but if there is one lesson to be learned from the current crisis it’s that the goal is not just homeownership but sustainable homeownership. If we want to encourage households to pursue economic mobility, to find good-paying jobs and make educational investments in themselves and their family, ensuring the availability of affordable rental housing must be a key part of any comprehensive economic mobility strategy for our society.

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³⁵ Will Fischer, Center for Budget and Policy Priorities, *Testimony on the Section 8 Voucher Reform Act* (June 4, 2009).