



WORST CASE HOUSING NEEDS 2009

REPORT TO CONGRESS



SUMMARY

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The U.S. Department of Housing and Urban Development (HUD) finds dramatic increases in worst case housing needs (known as “worst case needs”) that cut across demographic groups, household types, and regions.¹ This rise in hardship is due to shrinking incomes and upward pressure on rents caused by growing competition for already-scarce affordable units. Worst case needs rose more sharply between the 2007 American Housing Survey (AHS) and 2009 AHS,² both in absolute and percentage terms, than in any previous 2-year period since at least 1985. During this 2007-to-2009 period, the number of renters experiencing worst case needs jumped by more than 20 percent, from 5.91 to 7.10 million.

Given the severely challenged economic conditions that the United States has confronted during the past several years, particularly surrounding the housing market, it is not surprising that the need for housing assistance continues to outpace the ability of federal, state, and local governments to supply it. HUD’s *Worst Case Housing Needs 2009: Report to Congress* examines the causes of and trends in worst case needs for affordable rental housing.

Sharp Increase in Worst Case Needs

Although the incidence of worst case needs has fluctuated during the past decade, the overall upward trend is disturbing: since 2001, the number of cases has increased by almost 42 percent, now representing more than 6 percent of all households. Because of these dramatic increases, 41 percent of the 17.12 million very low-income American renters had worst case needs in 2009. Most of these renters had severe rent burdens, paying more than one-half of their income for rent, with inadequate housing alone accounting for only 3 percent of cases.

¹ The term “worst case needs” is defined as very low-income renters with incomes below 50 percent of the Area Median Income who do not receive government housing assistance and who either paid more than one-half of their income for rent or lived in severely inadequate conditions, or who faced both of these challenges. HUD’s estimates of worst case needs are based primarily on data from the AHS.

² The AHS is conducted between May and September in odd-numbered years.

Worst Case Needs Affect All Demographic Groups and Household Types

No racial or ethnic group is immune to the rise in worst case needs, but Hispanic renters experienced the largest increase in incidence: in 2009, 45 percent of all very low-income Hispanic renters faced this hardship, an 8-percentage-point jump from their 2007 rate. Little evidence indicates that immigration has had a large effect on this increase in worst case needs among the Hispanic population. Overall, of renters burdened with worst case needs, non-Hispanic White renters represent about 48 percent and non-Hispanic Black and Hispanic renters each represent around 23 percent.

Likewise, all types of households are affected by the increase in worst case needs. Families with children represent the highest proportion, about 39 percent; the number of these families with worst case needs grew by 550,000 from the 2007 level, outpacing the increase of very low-income households in this category. The next most common household type experiencing this hardship, at 33 percent of all cases, was “other nonfamily” households, which comprise nonelderly individuals and unrelated people who share a housing unit. Very low-income renters of this household type had a higher incidence, at 54 percent, than any other household type. Further, the addition of 580,000 other nonfamily households during 2007–2009 increased this category’s share from 30 to 31 percent of very low-income renters. Although this category’s share of worst case needs did not increase in the same way, this shift between household types could signal that individuals are doubling up as a way to cope with shrinking incomes and increasing rents.³ Elderly households without children and other family households (without children or with adult children) also experienced significant increases in worst case needs, particularly in percentage terms; however, these groups combined only account for slightly more than one-fourth of cases.

Worst Case Needs Among Households Including People With Disabilities

In 2009, more than 38 percent of very low-income households including nonelderly people with disabilities had worst case needs, amounting to 990,000 households. The share of worst case needs reached as high as 41 percent among families with children including people with disabilities and 36 percent among other nonfamily households including people with disabilities. Evidence from other data sources indicates that this estimate is likely an undercount. The estimate is based on new direct questions on disabilities included in the 2009 AHS. Alternative data from the American Community Survey, however,

indicate that the share of very low-income renters with disabilities is 30 to 60 percent higher than the AHS estimate. HUD will issue a more in-depth supplemental report soon after the release of the core *Worst Case Housing Needs 2009* report to discuss the demographic and geographic characteristics of households including people with disabilities with worst case needs and to examine differences in disability estimates using various measures and sources of data.

Geography of Worst Case Needs

Although the 2009 AHS does not allow for analysis at the level of individual metropolitan areas, it does distinguish between three types of locations—central cities, suburbs, and rural areas—and four geographic regions—Northeast, Midwest, South, and West. The incidence of worst case needs among the nation’s very low-income renters proves slightly greater than the national average in central cities and the suburbs. Likewise, the percentage of those experiencing this hardship is above average in the West and below average in the Northeast and Midwest. The incidence of worst case needs in the South is similar to the average; nevertheless, the South has the highest number of burdened renters by a significant margin.

Because worst case needs are defined in part by a lack of housing assistance, the comparative scarcity of housing assistance in suburban areas and in the West and South contributes to the high rates in those areas, although expensive rents in the West also play a role.

Shortage of Affordable Housing

The need to pay more than one-half of one’s income on rent is the predominant cause of worst case needs, and a lack of affordable, available, and physically adequate rental units is the main driver of these high rent burdens. Units affordable for the poorest renters have lower vacancy rates than those units affordable for higher income groups because the high demand and limited supply cause greater competition for such units. Higher income renters occupy about 42 percent of the units that are affordable to extremely low-income renters, who earn less than 30 percent of Area Median Income (AMI). Further, higher income renters occupy 36 percent of the units that are affordable to renters who have incomes at 30 to 50 percent of AMI. As a result of this competition and because a substantial proportion of available units are not in standard or adequate physical condition, only 32 units of adequate, affordable rental housing are available for every 100 extremely low-income renters. For very low-income renters, 60 adequate units are available per 100 renters. This supply is more scarce in central cities and suburbs than in rural areas and in the West than in other regions; nevertheless, the number of affordable units is far from sufficient in any region.

³ It is notable that two single people with very low incomes who begin to share housing may jointly surpass the very low-income threshold and, thereby, reduce the number of very low-income renters by two. As a result, doubling up could be even more prevalent than the increase in other nonfamily households with very low incomes suggests.

Affordable rental stock availability had been fairly stable for much of the past 25 years. Since 2003, however, vulnerable renters have faced the tightest market for affordable housing since 1985. Several major trends have combined to create these conditions.

Major Causes of the Increase in Worst Case Needs

The homeownership crisis and economic recession likely played a major role in rapidly increasing worst case needs. Although a variety of factors are at play, including changes in household formation and the renter share of households, most of the 2007–2009 increase can be linked to three factors.

- 1. Renter income losses.** An estimated 35 percent of the increase in worst case needs is attributable to shrinking incomes. During 2007–2009, the number of renters with very low incomes increased by 1.18 million, or more than 7 percent. Major causes of declines in renters' income were the rapid increase in unemployment during the recession and the persistence of this unemployment following the recession's official end.
- 2. Rental assistance gap.** Approximately 19 percent of the increase in worst case needs during 2007–2009 can be tied to a growing lack of rental assistance; no increase in housing assistance in proportion to the surge in very low-income renters occurred. Increases of unassisted very low-income renters actually exceeded increases of very low-income renters.

3. Competition for affordable rental units. As discussed previously, competition for affordable units has played the biggest role in the increase of worst case needs, estimated at about 41 percent of the increase. This competition leads to displacement, absorption of vacancies, and upward pressure on rents. Supply and demand factors caused the mean gross rent for very low-income renters to increase by more than 10 percent during 2007–2009; in addition, the number of vacant units affordable to them dropped by 370,000.

Although AHS data do not suggest that changes in the renter share of households have been a key factor, evidence from the Current Population Survey indicates that the homeownership rate for households with incomes below the AMI fell by 2.3 percent during 2007–2009. Homeownership losses by very low-income and subprime homeowners that added to the number of renters may have been offset in AHS data by home purchases by higher income renters.

Conclusion

Although the picture of growing worst case needs, in general, is bleak, there is reason to hope that worst case needs may again decline. The macroeconomic factors that created great pressures for very low-income rental housing are likely to ease as the rebound from recession accelerates. Nevertheless, when more than 6 percent of the nation's households experience this form of hardship, the need for prioritizing assisted housing in national policy deliberations has never been greater.