Housing Affordability: Challenge and Context

Cushing N. Dolbeare

The most critical aspect of the housing affordability problem is that it is out of the mainstream of public discussion and consciousness. While few, if any, would argue that housing is less essential than education, employment, or health care, the extent and urgency of housing needs have been ignored not just by policymakers, but—all too often—by housers—those in the housing industry—themselves. So, the major challenge is building a constituency to address housing needs. This constituency must both include housers and reach far beyond them.

The root of the current housing affordability problem is the lack of low-income housing programs—both urban and rural—at the scale necessary to make significant progress in addressing our housing needs. Since 1937, the Federal Government has had programs to provide housing for low-income people. Bit by bit over most of the following years, we added to the stock of federally assisted low-income housing through a variety of programs and approaches. Nevertheless, the number of assisted households peaked at 5 million in the mid-1990s and has been dropping ever since.

Fifty-one years ago, Congress adopted the national goal of "a decent home and suitable living environment for every American family," in the Housing Act of 1949. Thirty-two years ago, Congress authorized construction or rehabilitation of 6 million low-income units—600,000 a year for 10 years. If the United States had produced this volume of housing and had continued to provide housing assistance at that level, 20 million families would now live in federally subsidized housing, and the Nation would have been gaining on the problem, not falling behind.

In 1977, the outgoing Ford administration submitted a budget to Congress that would have provided 506,000 additional low-income housing units (400,000 Section 8, 6,000 Indian housing, and 100,000 homeownership units). The Housing Act of 1968 had set a goal of 600,000 additional units annually for 10 years—presumably sufficient to solve the housing problem—and the Ad Hoc Low Income Housing Coalition (now the National Low Income Housing Coalition) urged Congress to increase that goal to 750,000 to 1 million units annually. If we had assisted 500,000 low-income families every year since 1976, we would now have approximately 14 million families living in federally assisted low-income housing. Instead, households with worst-case needs now outnumber those that are being helped by Federal low-income programs.

Perceptions of Housing Programs

Several years ago, the National Low Income Housing Coalition (NLIHC) sponsored a series of focus groups and a poll to see how housing programs and needs were perceived by the public and what might make a difference in these perceptions. The results were sobering but also offered grounds for hope:

- More than 70 percent of Americans had no positive images of affordable housing.
- People did not believe that Washington-based solutions addressed the problems.
- Current images reinforced negative belief systems; there was a need to create new images that reinforced positive belief systems.
- Lamenting the bad reinforced the bad.
- Graphic problem statements or studies and statistics needed to be hooked to solutions.
- Descriptions of specific successful efforts, especially those in which residents were partners, were the most effective arguments for supporting greater investment in low-income housing
- Local examples excited people.
- Two-thirds of those polled said they would support affordable housing if it were locally based.
- Successful examples needed to be linked to people and improvements in their lives, jobs, childcare, education, and so forth.
- Good, affordable housing leads to stable neighborhoods. There was strong support for stable neighborhoods.
- Faith and nonprofit motivations were positive images.
- People liked examples they could relate to, including those that would save them money or demonstrate responsibility.
- Successful presentations of low-income housing involved images of customers and involved customers in selling the housing projects.

Much is being done, although still on far too small a scale, to expand the supply of decent, affordable housing in ways that are consistent with the findings of the NLIHC study, and which, therefore, should generate support. Discussions of the voucher program, however, tend to be negative. Unless the NLIHC findings are badly off base, it is unlikely that they will generate the scale of support that is needed to make a meaningful dent in the housing affordability problem.

I have long believed that false perceptions of subsidized housing are a major reason for lack of broader support for housing programs. For example, the image of public housing is primarily of high-rise, problem projects, although these are not the majority of public housing units. In general, if a development is run-down or perceived to be a problem and is in a low-income neighborhood, it is perceived as subsidized housing, whether accurately or not. If it is attractive and well maintained, the assumption is that it is unsubsidized. The voucher program has also been tarred with this perception: many neighbors who object to the program assume that the “problem” families (that is, those to which the neighbors object) are voucher holders, although the assumption is often incorrect.

Finding effective ways to combat these misperceptions is critical. Although these considerations often are not addressed in discussions of housing policy, they should be.

The Context

For years, rental assistance programs have carried the major burden of providing housing assistance to very low-income households, or enabling other programs to reach that income level. During the Reagan administration, the Senate Appropriations Committee mandated that HUD report on “worst-case” housing needs—those of unsubsidized, very low-income renter households who paid more than half their incomes for housing, lived in seriously substandard housing (or were homeless), or both. At the time, the Veterans Administration HUD subcommittee staff director was seeking an estimate of the scale of the problem on which to base appropriations that would be adequate to address these critical needs.

The worst-case housing reports HUD has issued since then have been valuable analyses, but, unfortunately, they have not led to any significant increase in the number of very low-income families receiving Federal housing assistance. Even worse, the focus on the 5.4 million households with worst-case needs obscures the scale of existing housing problems. All too often, the worst-case number is cited as the measure of the need for low-income housing, instead of as a fraction of the most critical needs. The arbitrary limitation of worst-case problems to unsubsidized very low-income renter households means that the definition excludes more than half of all households with these critical problems. It is time to put worst-case needs in a broader context: the affordability and other problems of all households.

Income by Tenure

Each year, HUD estimates median incomes for each metropolitan area and each nonmetropolitan county in the country and uses these income levels as a basis for determining eligibility for housing assistance and, increasingly, for analyzing housing needs. However, there are wide variations in these median incomes from place to place. For example, in 1999, HUD's estimated area median family incomes ranged from a low of $15,500 in Starr County, Texas, to a high of $94,300 in the Stamford-Norwalk, Connecticut, metropolitan area. As a result of these differences, there is no exact correlation between percent of area median income categories and the poverty level. Ninety-one percent of poor renter households (those with incomes below the poverty level) also have incomes below 30 percent of median, but 9 percent have incomes between 30 and 50 percent of median. Similarly, 11 percent of near-poor renter households (those with incomes between 100 and 200 percent of the poverty level) have incomes below 30 percent of median, 57 percent between 30 and 50 percent of median, 30 percent between 50 and 80 percent of median, and 2 percent above 80 percent of median.[1] However, housing costs tend to be higher in areas with higher median incomes. The point here is simply that there can be poor or near-poor households, who may well have housing problems, with incomes above 50 percent of median level.

A total of 13.4 million renter households and 12.1 million owner households had incomes below 50 percent of median. There were slightly more renter households (40 percent) with incomes below 50 percent of median than there were with incomes above 80 percent of median (39 percent). In contrast, while there are almost as many low-income owners as renters, there were almost four times as many (44.9 million) owner households with incomes above 80 percent of median as there were owner households below 50 percent.

Incidence of Housing Problems

In 1999, one-third (more than 33 million) of the Nation's households—almost half (48 percent) of all renter households and one-quarter (25 percent) of owners—had a moderate or severe housing problem. Fifty-four percent of the 12.2 million households with severe housing problems had incomes under 30 percent of median. In contrast, 84 percent of the 21.4 million households with moderate problems had incomes above 30 percent of median.

The housing problems addressed here are those of cost burden, quality, and crowding. Severe housing problems are comparable to worst-case problems, except they are not constrained by income or tenure. Moderate housing problems are cost burdens between 30 and 50 percent of income, moderately inadequate units, and overcrowding.

Almost three-quarters (74 percent) of all households with incomes below 30 percent of median had a housing problem, as did 64 percent of households with incomes in the 30–50 percent range. While the incidence of problems dropped rapidly above that income level, 9 percent of all households with incomes above 120 percent of median reported housing problems.

Significantly, 48 percent of extremely low-income households (below 30 percent of median) had severe housing problems, and another 26 percent had moderate problems. The converse was true of very low-income households (30–50 percent of median), 42 percent of which had moderate problems, and 22 percent of which had severe problems. Among renters, these figures were somewhat higher.

The higher cost of providing affordable housing for extremely low-income families in a situation of massive need and minimal resources creates a strong incentive to focus housing activities on serving people with incomes above 30 percent of median, particularly through block grant programs such as the HOME Program and Community Development Block Grant (CDBG) program, in which the funds available to State and local jurisdictions are fixed. Thus, while these programs can be and have been used for deep subsidies, they tend to rely on vouchers or other subsidies to enable them to reach extremely low-income households. Vouchers, public housing, homeless programs, and some of the far smaller rural housing programs of the U.S. Department of Agriculture are the only housing programs currently providing resources to assist income groups at this level without subsidies from other sources.

Cost, Quality, and Crowding

Housing costs have overshadowed the very real problems of quality and crowding. In 1999, 28 percent of all U.S. households—27.9 million households in all—had either moderate or severe cost burdens. Extremely low-income households were twice as likely to have severe rather than moderate cost burdens. Fortunately, the cost burdens of other households were more likely to be moderate than severe. Significantly, households with severe cost burdens were far less likely to have another housing problem than were households with moderate cost burdens. Indeed, 97 percent of the households with severe cost burdens reported no other major housing problem. In contrast, 15 percent of households with moderate cost burdens also had problems of quality or crowding.

While most cost-burdened households have no other major housing problem, the picture changes dramatically when the focus is on quality or crowding. Almost half (47 percent) of all overcrowded households also have a cost or quality problem. The situation is worst for renters: 54 percent of overcrowded renter households live in substandard units, pay more than 30 percent of their income for housing, or both (12 percent of overcrowded renters have all three major problems). Fortunately, however, the number of overcrowded households is relatively small—1.7 million renters and 0.9 million owners. There are more households—4.0 million renters and 2.9 million owners—in substandard housing. Of these, 36 percent had one additional problem, generally cost burden, and 3 percent had all three problems.

Targeting at least a significant amount of housing resources—including, but not limited to, vouchers—to households with quality or crowding problems would have dual benefits. It is bad enough to have either of these problems in a unit that is affordable by the 30 percent of income measure, but it is far worse to have the same problems in housing that is not affordable. Vouchers could enable members of the household to move to a better unit, or HOME and / or CDBG funds could be used to bring the unit up to standard.

Policies to Consider

This conference addresses housing policy in the new millennium. It offers an opportunity for each of us to reexamine existing housing needs and programs and to explore new approaches that will build on solid achievements at the Federal, State, and local levels that have demonstrated the capacity and ability to address housing problems effectively.

In this vein, I would like to propose some policy approaches for exploration. Quite frankly, at this point, I'm not sure whether they have real merit. So I am suggesting them for discussion and consideration rather than as a set of fully thought out proposals.

Moving Beyond HUD

Just as war is too important to be left to generals, housing may be too important to be left to housers. Given the constraints of the Federal budget process, the nature of HUD's programs, and the complexity of HUD's relationships with State and local governments and the private nonprofit and for-profit sectors, it may be easier to address the needs of the 30 million households with housing affordability problems through one or more approaches tied to mainstream programs. Because, as shown above, housing cost burdens are likely to be their only housing problem, it could make good sense to address their need for additional income to pay their housing expenses separate and apart from any direct tie to housing programs. Concerns about the quality and suitability of the housing could, and probably should, be addressed at the local or State level through such measures as housing code enforcement.

Experience thus far with welfare reform has provided some important lessons. The first is that millions of working Americans cannot, at least in the short run, expect to earn enough to enable them to obtain decent housing without sacrificing other necessities. Nowhere in the United States is the minimum wage adequate, for example, to pay the fair market rent for a two-bedroom unit. For the most part, even successful efforts to increase the minimum wage or "livable wage" campaigns will not provide enough income to cover the gap between the cost of decent housing and the incomes of lower wage workers.

There are now, however, three mainstream Federal programs that could be adapted tothe scale of the housing affordability problem. These are the earned income tax credit (EITC) for working families, Supplemental Security Income (SSI) for elderly or disabled households, and the food stamp program. None of these programs is limited only to renter households, as the current HUD voucher program is. Half of all households with severe housing problems are owners, and they are preponderantly low-income owners. Therefore, it would make sense to explore how these programs might be adapted to address at least severe housing affordability problems at their true scale. Such an approach should, in my view, be explored as a supplement to, not a replacement for, HUD's current programs, including vouchers.

Expanding the EITC

The driving concept behind the EITC is the notion that people who work full time should be able to afford the basic necessities of life for themselves and their families. Therefore, it would make sense to explore ways of adapting the EITC to cover at least a substantial portion of the gap between earnings and the "housing wage" or income needed to afford modest but adequate housing. This would require substantially increasing the cost of the credit, developing workable means of linking the amount of the credit to the local cost of housing, and making at least the housing portion of the credit payable monthly.

Years ago, I was actively involved in the advocacy effort that led to the adoption of the low-income housing tax credit (LIHTC). This was not an easy effort, particularly because the U.S. Treasury Department and the tax-writing committees opposed the use of the Internal Revenue Code for such purposes. Specifically, they were sure that the Treasury Department lacked the capacity to administer the program and skeptical of the capacity of the States to handle the required administrative functions. Yet the LIHTC has provided hundreds of thousands of additional subsidized housing units and has generated widespread support in the Congress and the wider community.

It could well be worth exploring how a housing add-on to the EITC could be designed to eliminate severe affordability problems of working families. For example, such an add-on could cover half of housing costs in excess of 30 percent of income, at least up to the relevant fair market rent in the jurisdiction. Of course, the benefits would be limited to working families and, if only because of wide differences in housing costs, some creative thinking about how to administer such an effort at the State or local level would be required.

Housing Add-On to SSI

More than one-third of all household members with severe housing problems are over age 65, and a substantial number are owners who are therefore ineligible for housing vouchers. Their affordability problems could, in concept at least, be addressed through a housing add-on to SSI, similar to the EITC add-on suggested above.

The Food Stamp Excess Shelter Deduction

The food stamp program now contains an excess shelter deduction that is limited both in amount and household eligibility but, in concept, provides additional food stamps to cover housing costs above 50 percent of income. Yet families are going hungry or visiting food kitchens in order to pay their rent. It would make sense to examine the excess shelter deduction when the food stamp program comes up for preauthorization to enable it to play a major role in reducing severe housing costs.

Equity Between Tax and Direct Expenditures for Housing

Ironically, while budget limitations are often cited as the reason housing programs cannot be expanded to the necessary scale, homeowners with incomes high enough to itemize their tax returns have the benefit of deducting their mortgage interest, property taxes, and substantial capital gains from sale of their homes from their taxable income. A majority of owners, in fact, do not benefit from this deduction, either because their mortgages are paid off or because they do not itemize.

The Office of Management and Budget has estimated the cost of these deductions to the U.S. Treasury for fiscal year 2000 at $99.5 billion, more than three times HUD's anticipated outlays of $30.1 billion. NLIHC has estimated that, because higher income people benefit disproportionately from their tax deductions—paying more for their housing and having higher tax rates—households in the top fifth of the income distribution account for 63 percent of direct and tax expenditures for housing, compared with only 18 percent for households in the bottom fifth. Households in the middle three-fifths account for the remaining 20 percent of housing expenditures, with the bulk of it going to households at the upper end of the range. Yet, despite their relatively small share of the tax expenditures, if these homeowner deductions were repealed, some other subsidy would probably be needed to replace them, or many owners would encounter severe difficulty.

Although in the past I have advocated modifying homeowner deductions to reduce the benefits to higher income households and enhance support for improved lower income programs, this concept has had all of the buoyancy of a lead balloon. Perhaps an appeal to equity would be more effective. The United States could solve its affordability problem and, in my view, most of its housing supply problems in a relatively short time if the Federal Government were willing to spend as much on support for low-income housing as it costs the U.S. Treasury, through the tax benefits, to support homeownership.

HUD's Role

This article is not intended to diminish HUD's role in housing and community and economic development. Rather, its intention is to remove some of HUD's burden for adequately addressing the Nation's most critical housing affordability needs while leaving room for the imaginative and creative use of vouchers and other measures. Such innovative approaches will, I am sure, be addressed frequently as we attempt to tailor our housing policies to the new millennium and create a society in which no one is left behind.

The Nation's efforts in health care, education, employment, and economic development cannot succeed without secure housing in neighborhoods that offer their residents access to the opportunities that exist in our mainstream economy. Somehow, we need to frame the housing discussion so that those who recognize the importance of secure housing will not hesitate to speak out and support the range of measures needed to achieve this goal.

Endnotes

[1] These and other data used in this paper are drawn from the author's analysis of the 1999 American Housing Survey, unless otherwise indicated.