March 16, 2018

# Solving the Affordable Housing Crisis: The Key to Unleashing America's Potential

J. Ronald Terwilliger

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As someone who has worked in the homebuilding industry for more than forty-five years, I have never seen the housing situation more desperate. The combination of rising rents and unsustainable housing costs is wreaking havoc on families across America.

Inexplicably, the affordable housing crisis is generally an afterthought in our public discourse. Health care, tax reform, infrastructure, and the latest political scandals dominate the attention of lawmakers in Washington. Yet the affordable housing crisis has a very real impact on millions of our fellow citizens and responding resolutely to it is profoundly important for our nation's economy and future prosperity.

In 2016, nearly twenty-one million families paid rents considered unaffordable under federal standards, up from 14.8 million in 2001. Approximately eleven million of these households were "severely" cost-burdened, spending *in excess of fifty percent* of their incomes on housing alone.[1] Rent increases continue to outpace inflation in most local housing markets.

While rental cost burdens hit lower-income families the hardest—in 2016, more than 83 percent of renter households with annual incomes under $15,000 were cost burdened—they also are impacting moderate income households in communities throughout the country. Make no mistake: This problem is national in scope and not reserved exclusively to the big cities along America's two coasts.

Unfortunately, many older Americans are suffering. According to Enterprise Community Partners, 1.8 million seniors devote more than one out of every two dollars in income to rent.[2] Most rely exclusively on

Social Security, and some are forced to scrimp on essentials like nutritious food and medical care just to make ends meet. Cities as different as Louisville, New Orleans, and Hartford have registered some of the largest gains in the proportion of cost-burdened senior renters over the past decade.[3]

The major engine driving today's soaring rents is the acute shortage of affordable rental homes. The U.S. Department of Housing and Urban Development reports that, in 2015, there were only 62 affordable and available rental homes for every 100 "very low-income" households and just 38 for every 100 families with "extremely low-incomes."[4] This supply-demand imbalance has grown worse over the past decade.

Soaring rents are having a major spillover effect in the homeownership market, making it even more difficult for young families to accumulate funds for a mortgage down payment. This fact has conspired with years of stagnating incomes; tighter-than-normal underwriting standards; record levels of student loan debt; and the continuing fallout from the subprime debacle to weigh heavily on the national homeownership rate, which has plummeted more than five percentage points since reaching a high of 69.2 percent in 2004. The homeownership rate for minority families has fallen dramatically over the past several years, while the rate for those aged thirty-five to forty-four has dropped to 1960s levels.[5] The result is millions of households who are shut out of the wealth-building opportunities that homeownership can provide.

## Rental Demand Is Poised to Intensify

These twin problems—soaring rents and diminished access to homeownership—are likely to worsen in the coming years absent a comprehensive and sustained public policy response. Why? One word: Demographics.

America is growing increasingly diverse. Minorities will be responsible for the lion's share of new household formation over the next fifteen years. The Urban Institute projects that minorities will account for seventy-seven percent of overall household growth from 2010 to 2020 and a staggering eighty-eight percent from 2020 to 2030.[6] Unfortunately, the median incomes of African American and Hispanic families continue to lag significantly behind those of whites and Asian Americans, a circumstance that will complicate the ability of many to become homeowners.

At the same time, our nation also is growing older. The number of Americans aged sixty-five and above is projected to exceed seventy-four million by 2030, nearly a doubling of the number in 2010.[7] By 2030, more than one in five Americans will be a senior citizen.[8] As they grow older, many seniors will seek to downsize into smaller homes, with millions expected to move out of homeownership into rental housing.

These demographic changes—the increasing diversity of the U.S. population along with a steep increase in the number of seniors—mean that the already strong demand for rental housing will intensify even more in the coming years. A drop in the national homeownership rate to sixty percent or even lower is not a far-fetched notion.

Is America prepared for this onslaught of new rental demand? Not at all. It's as if we are in a slow-motion movie, knowing what's coming next but failing to take the steps necessary to avoid the impending calamity.

It's true that supply-demand forces are at work and that the production of new multifamily rental homes has dramatically increased in recent years. But most of this new production is at the higher end of the rental market. As Harvard's Joint Center for Housing Studies points out, "the total number of units renting for less than $800 declined by over 260,000 from 2005 to 2015, a time when the overall rental stock increased by over 6.7 million units. The shift in the rental stock toward the high end is also clear from the 32 percent rise in real median asking rents since 2000."[9]

Building new rental housing that is affordable to those at the bottom of the income ladder remains an extremely difficult task, absent substantial government subsidies. In far too many communities, land-use, permitting, and other regulatory requirements unnecessarily raise the cost of developing new affordable rental homes, often acting as an insurmountable barrier to their production.[10] Yet, the continuing scarcity of affordable rental homes will put upward pressure on rents, contributing to housing instability for millions of families.

## Unsustainable Housing Costs Are Challenging Fundamental Assumptions

The impact of unsustainable housing costs can be pernicious, impacting not only a person's pocketbook but his psyche as well. With so many Americans suffering under these burdens, a foundational premise of our society is now under assault—the idea that every American, despite his or her initial station in life, has the opportunity to advance through hard work and forge a better future. Rising levels of income inequality only serve to exacerbate these concerns.

Take the case of thirty-four-year-old Nicole. She is a single mother with two children, an eleven-year-old son and a nine-year-old daughter. Nicole was raised by her grandmother and grew up in an inner-city public housing development. Encouraged by her grandmother, she managed to graduate from high school, receiving good grades, but never quite had the financial wherewithal to attend college. She desperately seeks a better life for her children, hoping they will have opportunities she never had.

Those who know Nicole are not surprised by her strong work ethic. For the past eight years, she has been employed as a clerk in the payroll department of a large corporation headquartered in the downtown area of a major U.S. city. Nicole makes $48,000 annually and is proud of what she has been able to achieve. She is well liked by her colleagues and considered an exemplary employee.

Housing has been a constant source of stress in Nicole's life. As a child, she developed asthma triggered by the dust and mold in her public housing unit. Today, cobbling together the funds to pay for her modest two-bedroom apartment is the one concern that keeps her up at night.

Rent is Nicole's biggest expense, consuming more than forty percent of her monthly income. As a result, she is unable to contribute to the 401(k) plan offered by her employer. Every precious dollar is devoted to paying her household costs, which also include groceries, transportation, clothing, and speech therapy for her son. Saving money for a mortgage down payment to buy a home of her own is a dream that Nicole long ago discarded. Getting an associate's degree to improve her career prospects is financially impractical.

These obstacles have not stopped Nicole from trying to control her own destiny. During the past five years, she has moved three times to find a less expensive apartment. However, these repeated moves, each time pushing her further away from her place of employment and into less desirable neighborhoods, are taking a toll on her two children, who have been forced to switch public schools with each move. Her son's grades have been progressively declining, and he seems more and more disinterested in his studies. Her daughter has grown increasingly withdrawn, no doubt upset that the close friendships she has formed are constantly being interrupted.

Over the years, Nicole has received modest annual pay raises, a fact for which she is thankful. But, unfortunately, she has learned that her rent will be increasing by ten percent in two months' time—the demand for apartments is so great that the market will easily absorb this price increase. Nicole feels trapped, never quite able to lift herself out of the pile of expenses that are smothering her. She is contemplating another move, this time to a less-expensive one-bedroom apartment where she intends to sleep on the living room couch. But the apartment is in a tough neighborhood with public schools that rank among the worst in the city. *A new fear begins to overtake Nicole—the fear that she is failing her children.*

While this story is a fictional one, it is a composite of the real-life experiences of millions of hard-working families who are struggling just to get by in the America of 2017.

# Needed: Greater Investment in Affordable Rental Housing

To remedy this unacceptable situation, our nation must undertake a major and sustained investment in the production of new affordable rental housing. To this end, a significant expansion of the highly successful Low-Income Housing Tax Credit program is essential. Senate Finance Committee Chairman Orrin Hatch (R-UT) and Senator Maria Cantwell (D-WA) have recently introduced bipartisan legislation (S. 548, the Affordable Housing Credit Improvement Act) that would increase federal support for the Housing Credit by fifty percent. Enactment of this bill would represent an important first step in closing the affordable supply gap.

HUD Secretary Ben Carson also has spoken of the need to "take a more business-like approach on how the public sector can reduce the regulatory barriers so the private market can produce more housing for more families." Secretary Carson is right to call attention to the regulatory-barrier problem. The challenge will be identifying how the federal government can most effectively encourage local communities to examine their regulatory policies to ensure they promote, not discourage, the production and preservation of affordable rental homes. Using the bully pulpit of HUD will be critical, not only to cajole but also to commend those communities that take affordable housing seriously. New "carrot-and-stick" approaches that condition access to federal funds on the adoption of regulatory policies that favor affordable housing also should be explored.

Beyond these supply-side steps, additional resources are necessary to support demand-side measures—for example, higher levels of funding for Section 8 vouchers—that can ease the rental cost burdens borne by so many families. Unfortunately, federal rental assistance programs help only one out of five eligible households.[11] Proposals to create a new Renters' Tax Credit should also be front-and-center on the Congressional agenda.[12]

During its recent consideration of comprehensive tax reform, Congress missed a critical opportunity to rebalance federal housing spending to support those households with the greatest needs. Under existing law, the federal government spends approximately $200 billion annually to support housing.[13] Nearly seventy percent of this amount is used to fund three specific "tax expenditures"—the mortgage interest deduction, the deduction for local property taxes, and the exclusion of capital gains on sales of principal residences—that overwhelmingly benefit higher-income homeowners. Only thirty percent of federal housing dollars currently support rental housing, although renter households have annual median incomes that are about half that of homeowners.

While Congress slightly modified the mortgage interest deduction, the largest of the homeownership subsidies, by reducing the amount of debt eligible for the deduction from $1 million to $750,000 (for new home purchases), it failed to sweep the savings generated by this change into programs like the Low-

Income Housing Tax Credit that help families struggling at the economic margins. Congress also failed to convert the mortgage interest deduction to a credit. The overwhelming majority of households making under $100,000 in annual income do not itemize on their federal tax returns and therefore cannot claim the deduction.[14] Converting the mortgage interest deduction to a credit would have allowed millions of these families, both existing homeowners who do not itemize as well as those seeking to purchase a home for the first time, to access the subsidy.[15]

Looking ahead, Congress will have the opportunity to make significant changes to housing policy when it considers proposals to reform Fannie Mae and Freddie Mac, now in their tenth year of government conservatorship. Expanding access to affordable homes should also be a part of the conversation if and when Congress takes up an infrastructure package, a key Trump administration priority.

What we can no longer afford is the continued silence about the crisis in housing. An America with so many of its citizens living in unstable housing situations is an America that is failing to live up to her great potential. For those like Nicole and her children, we must and can do better.

# Notes

1. Harvard Joint Center for Housing Studies, *America's Rental Housing 2017,* at 26 (Dec. 2017).

2. Press Release, Enterprise Cmty. Partners, Inc., Make Room Campaign, *Number of Senior Households with Severe Rent Burdens Rising Faster Than Senior Population Overall* (Feb. 1, 2016), *available at* http://www.makeroomusa.org/news/senior-households-with-rent-burdens-rising.

3. *Id*.

4. Nicole Elsasser Watson et al., Office of Pol'y Dev. & Research, U.S. Dep't of Hous. & Urban Dev., *Worst Case Housing Needs: 2017 Report to Congress,* at xi (Aug. 2017), *available at* *https://www.huduser.gov/portal/sites/default/files/pdf/Worst-Case-Housing-Needs.pdf*. According to HUD, in 2015, 8.30 million households experienced "worst case needs," up from 7.72 million in 2013. "Worst case needs" households are defined as "very low-income renters who do not receive government housing assistance and who paid more than one-half of their income for rent, lived in severely inadequate conditions, or both."

5. Joint Ctr. for Housing Studies of Harv. Univ., *The State of the Nation's Housing 2015,* at 20 (2015), *available at* http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs-sonhr-2015-full.pdf.

6. L. Goodman, R. Pendall & J. Zhu, Urban Inst., *Headship and Homeownership: What Does the Future Hold?* 27 (June 2015), https://www.urban.org/sites/default/files/2000257-headship-and-homeownership-what-does-the-future-hold.pdf.

7. U.S. Census Bureau, *Population Projections*, tbl. 9, *Projections of the Population by Sex and Age for the United States: 2015 to 2060, available at https://www.census.gov/data/tables/2014/demo/popproj/2014-summary-tables.html*.

8. J.M. Ortman, V.A. Velkoff, & H. Hogan, *U.S. Census Bureau, Current Population Rep.* P25-1140, *An Aging Nation: The Older Population in the United States* 2–3 (May 2014), *available at* https://www.census.gov/content/dam/Census/library/publications/2014/demo/p25-1140.pdf.

9. Joint Ctr. for Housing Studies of Harv. Univ., *State of the Nation's Housing 2017,* at 28 (June 2017), *available at* http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/harvard_jchs_state_of_the_nations_housing_2017.pdf.

10. M. Schill, *Regulations and Housing Development: What We to Know*, 8 *Cityscape* 243 (2005).

11. G. Thomas Kingsley, Urban Inst., *Trends in Housing Problems and Federal Housing Assistance,* at 2–3 (Oct. 2017).

12. The Terner Center for Housing Innovation at UC-Berkeley and the Center on Budget Policies and Priorities have put forward detailed proposals for a renters' tax credit. Congressman Joseph Crowley (D-NY) also has recently introduced legislation, the Rent Relief Act (H.R. 3670), that would provide refundable tax credits to households burdened by rental costs that make under $125,000 annually.

13. J. Ronald Terwilliger Found. for Hous. America's Families, *Money Is Policy: How Federal Housing Dollars Are Spent—The Case for New Priorities* 10 (Mar. 2017), *available at* https://view.joomag.com/money-is-policy/0004526001497363290?short.

14. *See* Joint Comm. on Taxation, JCX-3-17, *Estimates of Federal Tax Expenditures for Fiscal Years 2016–2020,* tbls. 2 & 3 (Jan. 30, 2017), *available at* https://www.jct.gov/publications.html?func=startdown&id=4971.

15. About half of all homeowners receive no benefit from the mortgage interest deduction because they do not itemize. *See* United for Homes, Nat'l Low Income Hous. Coal., *Reforming the Mortgage Interest Deduction: How Tax Reform Can Help End Homelessness and Housing Poverty* 7 (Aug. 2017), *available at* http://nlihc.org/sites/default/files/MID-Report_0817.pdf.

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