

What do we know about shortages of affordable rental housing?

Kathryn P. Nelson
Office of Policy Development and Research
U.S. Department of Housing and Urban Development

Testimony before the House Committee on Financial Services
Subcommittee of Housing and Community Opportunity
May 3, 2001

Are supplies of housing affordable to low-income renters dwindling and shortages worsening? To answer this question, we must first define terms. Since 1981, when expected tenant contributions toward rent were raised from 25% to 30% of income, housing has been considered “affordable” if housing costs (rent plus utilities) equal 30% or less of gross income.

“Low” income is often loosely used as equivalent to incomes below poverty. But it and other income categories are precisely defined for HUD’s renter programs as percentages of local area median incomes, and these are the definitions relevant for federal housing policy:

Moderate income -	at or below area median income (100% AMI)
Low income -	at or below 80% of AMI
Very low income -	at or below 50% of AMI
Extremely low income -	at or below 30% of AMI

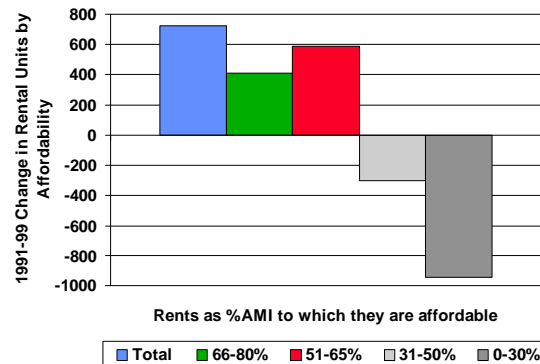
For the Low Income Housing Tax Credit (LIHTC), “low” income is alternatively defined as incomes at or below 60% of area median income. In using these program definitions, I want to emphasize that poverty cutoffs are approximately equivalent to 30% of AMI on average, or *extremely* low incomes. Thus the 80% of area median income cutoff defined as “low” for most rental programs is far above the poverty level, and the effective LIHTC definition of low income is approximately twice the poverty cutoff.

To summarize my main conclusions, data from the American Housing Survey and the 1990 Census tell us that:

- Supplies of housing affordable to *low*-income renters actually increased during 1990s, but numbers of units affordable to “extremely-low-income” (ELI) renters fell sharply.
- Similarly, the worst shortages -- and technically, in most locations, the *only* shortages -- are of housing affordable to extremely-low-income renters. Extremely-low-income renters and owners are also the income group most likely to have severe housing problems.
- Shortages of affordable housing vary greatly by location across and within states. In 1990, California had the worst shortage, with only 43 affordable units for every 100 extremely-low-income renters. At the other extreme, in North Dakota there were 152 units/100 renters.

Units affordable to low-income renters grew during the 1990s. The first figure summarizes trends during the 1990s in housing affordable to renters in different income ranges. Between 1991 and 1999, the total rental stock grew by 725,000 units, and between 1987 and 1999, it grew by 1.1 million. Throughout this period almost *all* of the rental stock was affordable to those with “low” incomes: in 1999, 31.2 million units, or 85% of all rental units, had rents affordable to incomes below 80% of area median income (AMI).¹ Between 1987 and 1999, the total number of these “low-income” units also grew, from 30.6 to 31.2 million.

Looking more specifically at changes during the 1990s in units affordable to different income ranges, the number of units affordable to renters with incomes 51-80% of AMI did not decline but rather *rose*: these units increased in number by a million, from 14.9 to 15.9 million, for a gain of 7% in 8 years. The increase was especially large (from 8.9 to 9.5 million) among units with rents affordable to incomes 51-65% of AMI, which is the rent range most often supplied by HOME and the Low Income Housing Tax Credit (LIHTC). Between 1986 and 1999, HUD estimates that more than 700,000 units were produced with the LIHTC. And from 1992-1999, 203,000 rental units were supported with HOME dollars.



The number of units with rents affordable to incomes between 65% and 80% of AMI also grew, expanding from 6 to 6.4 million.

But declines in numbers of units affordable to extremely-low-income renters accelerated. In contrast to this growth in units affordable to *low*-income renters, units with rents affordable to *very*-low-income renters declined in number during the 1990s. Between 1991 and 1999, the number of units affordable to incomes below 50% AMI dropped by 1.3 million, from 16.6 to 15.3 million, for a loss of 8%.

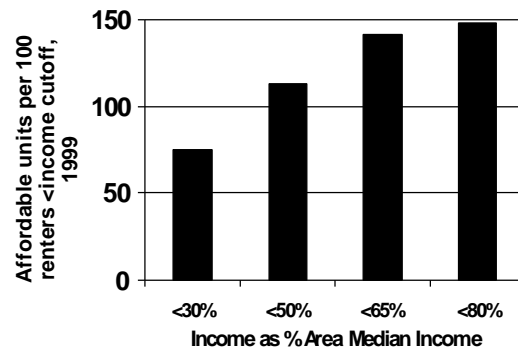
As the figure suggests, most of these losses during the 1990s occurred among units affordable to extremely-low-income renters, those with incomes below 30% of AMI. Between 1991 and 1999, the number of such units dropped by 940,000 to 5.9 million, a loss of 14%.

Moreover, rates of loss in these most affordable units were faster recently than earlier in the 1990s. Between 1997 and 1999 the number of units with rents affordable to incomes below 50% AMI dropped by 1.1 million, a loss of 7% in only two years. Among units with rents affordable to incomes at 30% of AMI, there was a loss of 13% (-750,000) from 1997 to 1999. This 2-year loss in units affordable to extremely-low-income renters was more than double the previous 2-year record loss of 5% (360,000 units) that was observed between 1993 and 1995.

¹ In 1999, 94% of units had rents affordable below median income, down from 97% in 1991.

Shortages of affordable housing? To this point, I have focused on the shrinking supply of units affordable to renters with extremely low incomes. But between 1997 and 1999, the number of renters reporting extremely low incomes also dropped, because of above-average income growth, and the number with worst case needs fell for the first time in 10 years, to 4.9 million.² To examine *shortages* in supply compared to demand, analysts traditionally determine whether the number of units affordable below an income cutoff falls short of the number of renters with those incomes.

Looking at the number of units per 100 renters below different income cutoffs in 1999, shortages of affordable units compared to renters needing them were worst for renters with extremely low incomes. Indeed, on average, shortages were found in the U.S. *only* for this income group. In 1999, for every 100 renters with incomes below 30% AMI, there were only 75 units with affordable rents, that is, only 3 units for every 4 renters. This comparison underestimates actual shortages for a number of reasons, most notably because many units technically affordable to extremely-low-income renters are in fact unavailable to them because they are occupied by persons with higher incomes.³



At higher incomes, by contrast, there were *not* shortages of affordable units on average across the U.S. As the figure shows, below incomes of 50% of AMI there were more affordable units than renters: 113 units for every 100 renters. And below the low income cutoffs of 65% and 80% of area median income there were marked surpluses. For incomes below 65% AMI, there were 142 units/100 renters, and below 80% AMI, there were 148 units/100 renters, 3 units for every 2 renters.

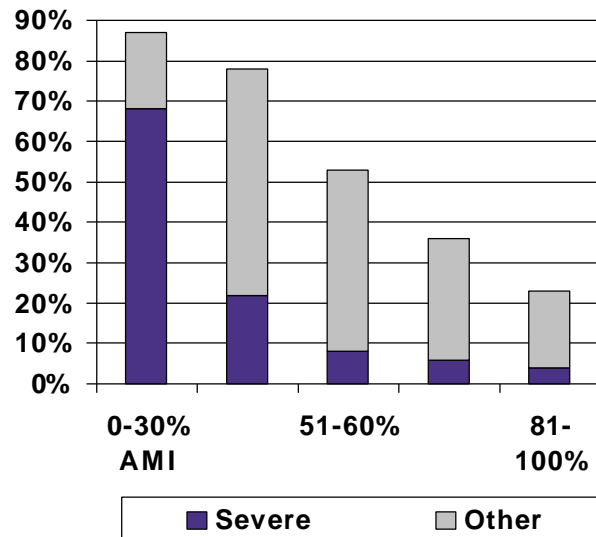
Extremely-low-income renters are the income group most likely to have severe housing problems. Because of the shortage of housing affordable to them, renters with incomes below 30% of AMI are much more likely to have severe problems than higher income renters. Severe problems are defined as paying more than half of income for rent and utilities (a severe rent burden) or living in severely inadequate housing.

² U.S. Department of Housing and Urban Development, 2001, *A Report on Worst Case Housing Needs in 1999: New Opportunity amid Continuing Challenges*. Estimates are based on the biennial American Housing Survey, conducted for HUD by the U.S. Bureau of the Census. Because many respondents understate their incomes in this surveys, estimates of housing needs are overstated to an unknown degree.

³ Thus, even fewer units are both affordable to extremely-low-income renters and either actually or potentially available to them (i.e. occupied by renters with incomes below 30% of AMI or vacant and for rent). In 1999, there were only 39 such units for every 100 extremely-low-income renters.

For five groups with income below median, the figure shows the share having severe problems and the share having “other” less serious problems, i.e. rent burden 31-50% of income, crowded housing, or housing with moderate physical problems.

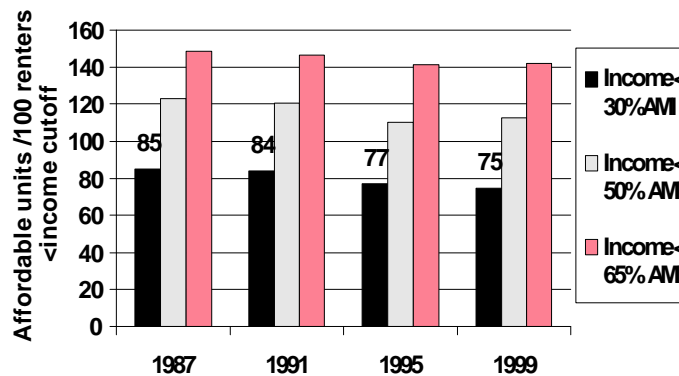
In 1999, over two-thirds (68%) of unassisted ELI renters had severe problems compared to one-fifth (22%) of those with income 31-50% of AMI. These extremely-low- and very-low-income renters with severe problems make up the 4.9 million renter households with worst case needs for rental assistance. Over three-fourths (77%) of those with worst case needs have incomes below 30% of AMI.



Renters with incomes above 50% AMI are highly unlikely to have severe problems. In the income range from 51-60% of AMI, fewer than 1 in 10 (8%) have severe problems; among incomes 61-80% of AMI, only 6% have severe problems. Problems for renters with incomes 81-100% of AMI are shown in the figure only to emphasize how few there are. In this income group, only 4% of renters have severe problems, and fewer than one of four have any problem (which is usually only paying 31-50% of income for rent).

The shortage of housing affordable to extremely-low-income renters worsened during the 1990s. Earlier research has shown that the shortage of housing affordable to extremely-low-income renters worsened between 1979 and 1989.⁴ During the 1990s, shortages worsened further.

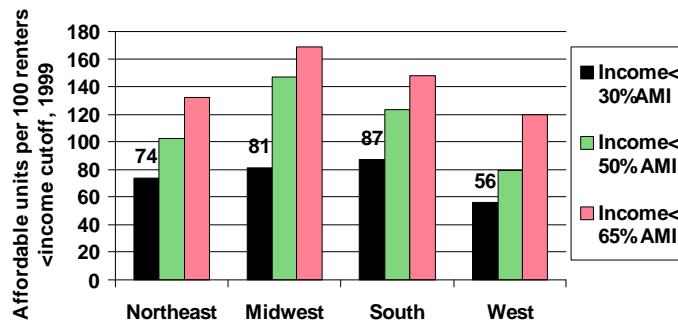
As the figure shows, in 1991 there were 84 affordable units for every 100 renters with incomes below 30% of AMI; 8 years later there were only 75 units per 100 renters. Ratios of units to renters below 50% of AMI and 65% of AMI also declined over the decade, although below these income cutoffs there were consistently surpluses, i.e. more affordable units than renters.



⁴ Whose Shortage of Affordable Housing? Kathryn P. Nelson, *Housing Policy Debate*, Vol.5 Issue 4 (1994): 401-439.

Regionally, shortages were worst in the West and Northeast. In 1999, shortages of housing affordable to extremely-low-income renters were worst in the West and Northeast. Every region of the country had fewer units affordable to households with income below 30 percent of AMI than renter households with these incomes.

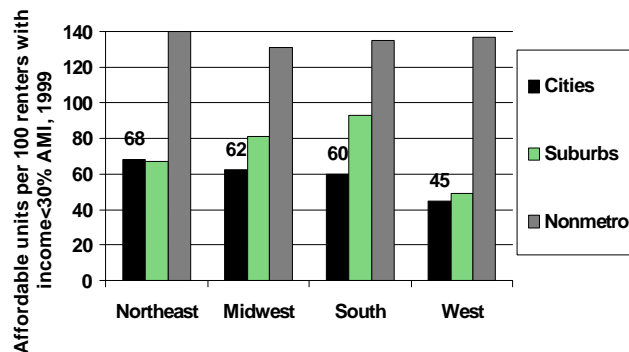
In the West there were only 56 affordable units/100 extremely-low-income renters, while in the Northeast there were 74 units/100 renters. Shortages were least severe in the South (87 units/100 renters) and Midwest (81 units/100 renters).



As the figure shows, at higher income cutoffs, the regional differences were similar, with the West consistently having the fewest units per renter. The West, moreover, also had an absolute shortages of affordable housing units for renters with incomes below 50% of area median (79 units/100 renters). In the Northeast, there were slightly more units affordable at this level than very-low-income renters: 103 units/100 renters. The Midwest, by contrast, had many more units affordable below 50% of AMI than renters: 147 units/100 renters.

Within regions, shortages of affordable housing were worse in cities and suburbs. Cities had the worst shortages of housing affordable to extremely-low-income renters in all regions other than Northeast (where shortages were essentially the same, 67 or 68 units/100 renters, in both suburbs and central cities). Shortages were again worst in the West, with 45 units/100 renters in the cities and 49 units/100 renters in the suburbs. In the South and Midwest, unlike the West and Northeast, shortages were *less* pressing in the suburbs than in the central cities. Southern cities had a shortage (60 units/100 renters) second only to Western cities, but Southern suburbs had less of a shortage (93 units/100 renters) than any of the other suburban portions of regions.

In all four regions, nonmetropolitan locations did not, on average, have shortages at all. Instead, there were many *more* units affordable below 30% of AMI than renters needing them. In all four regions, the ratios of affordable units/100 renters fell between 130 and 140.

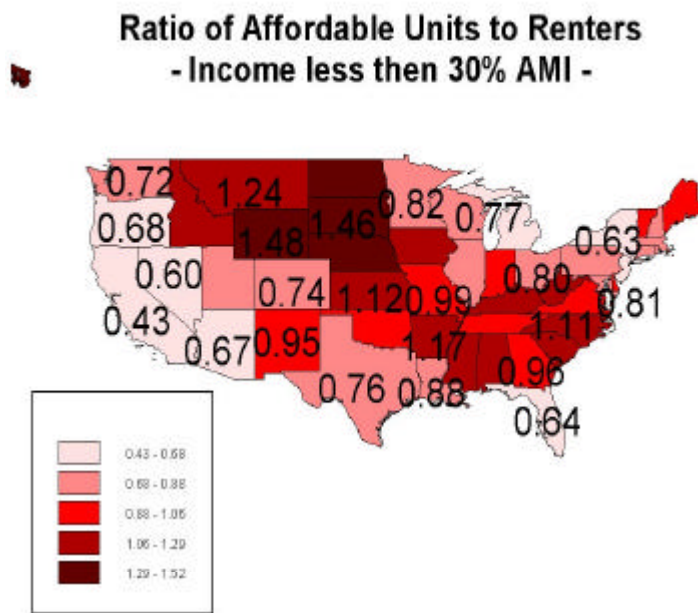


Such high surpluses in nonmetropolitan areas of housing affordable to extremely-low-income renters are consistent with the markedly lower (and declining) rate of worst case needs observed there. In 1999, only one-fourth of the very-low-income renters in nonmetropolitan locations had worst case problems, compared to over one-third of those living in suburbs.

Shortages of affordable housing vary even more by state. With regard to state-level variations in shortages of housing affordable to extremely-low-income renters, the most recent data now available still come from the 1990 Census. As shown by the AHS in both the 1980s and the 1990s,

in 1990 shortages were worst and most common for rents affordable to incomes below 30% of AMI.

As the map below and the Appendix table show, over three-fifths of the states had shortages, i.e. *fewer* units affordable to an income of 30% AMI than renters in 0-30% AMI income range. But 19 states had *more* affordable units than extremely-low-income renters. As the table suggests, shortages of units affordable to extremely-low-income renters were closely correlated ($r = -.84$) with the share of very-low-income renters paying more than half of their income for rent: the worse the shortage, the higher the share of renters with severe rent burdens.



In 1990, the most severe shortages of units affordable to extremely-low-income renters occurred in California (43 units/100 renters), Nevada (60), New York (63), Michigan (63), and Florida (64). Shortages ranged between 68 and 88 units/ 100 renters in Washington, Texas, the lower New England states and large Midwestern

states. At the other extreme, the Dakotas, Nebraska and Wyoming had the most units/renter - as many as 150 units/100 extremely-low-income renters.

As found nationally and regionally, most states did not have shortages of housing affordable to very-low-income renters. As the table details, in only three states were there fewer affordable units than renters: California (62 units/100 renters), Nevada (82) and Florida (86).

Analyzing the location of shortages across states, I found that they are not distributed like population for several reasons. In the first place, some states have above average numbers of very-low-income renters because of low rates of homeownership and/or high poverty rates. But as the map suggests, shortages vary even more than very-low-income renters because they tend to be worst in the most expensive housing markets. For example, California contains 12% of the U.S. population, 14% of U.S. renters, and 16% of the very-low-income renters who are paying more than half of their income for rent because of shortages of affordable housing.

Shortages in affordable housing in different metropolitan areas. The metropolitan statistical areas (MSAs) surveyed by the American Housing Survey provide a more recent look at the extent of variation by metropolitan area. In 1998, shortages of housing affordable to extremely-low-income renters were worst in Oakland (54), Rochester (59), San Francisco and Houston (62), and

Providence and Tampa-St. Petersburg (65). Shortages were least in Birmingham (98) followed by Minneapolis-St. Paul (83), Washington (82) and Newport News (81).

Among the MSAs surveyed in 1996, shortages were worst in Sacramento (56) and Seattle (65). They were least pressing in Oklahoma City 103 and Memphis 102.

Summary

Shortages are worst and worsening at rents affordable to incomes below 30% AMI, well below typical HOME and LIHTC rents. Reflecting those shortages, extremely-low-income renters are the income group that is by far most likely to have severe housing problems. Almost 3.8 million extremely-low-income renters, over two-thirds of the unassisted renters in this income range, have worst case needs for housing assistance. Nationally, there is not a shortage of housing affordable to incomes below 50% of AMI, and renters with incomes 31-50% of AMI are much less likely (22%) to have severe problems.

Shortages of rental units affordable to renters with incomes below 30% of AMI vary greatly across states and type of location. Shortages are generally least in nonmetropolitan areas, and are worst in large expensive metropolitan areas, particularly in California, New York, and Florida. Programs that seek to reduce these shortages will be most effective if they are distributed in proportion to the shortages, rather than by population.

Over three-fourths of worst case renters pay over half of their reported income for adequate, uncrowded housing. This fact suggests that vouchers, if available, could solve the only housing problem -- a severe rent burden -- of many of those with worst case needs in their current housing unit. Others, especially young better-educated single adults, report high rent burdens because of temporarily low income. Their rent burdens will be reduced when their incomes increase, either through their own efforts or with other forms of government assistance.

Appendix:**Severe rent burden of very-low-income renters and supplies
of affordable rental housing, by region and state, 1990***States ranked within region by shortage of units affordable to 30% of area median income*

Income as % of AMI:	Very-low-income	Affordable units per	
	renters paying more than 50% of <u>income for rent</u>	100 renters under income cutoff <u><30% AMI</u>	<u><50% AMI</u>
NORTHEAST			
New York	48%	63	112
New Jersey	45%	68	108
Connecticut	41%	81	115
Massachusetts	43%	82	104
Rhode Island	40%	82	113
New Hampshire	44%	84	116
Pennsylvania	42%	86	137
Vermont	44%	92	118
Maine	39%	103	122
MIDWEST			
Michigan	49%	63	123
Illinois	43%	76	141
Wisconsin	40%	77	150
Ohio	42%	80	148
Minnesota	39%	82	132
Indiana	37%	96	165
Missouri	38%	99	158
Kansas	40%	112	175
Iowa	36%	121	185
Nebraska	35%	136	190
South Dakota	31%	146	171
North Dakota	33%	152	183
SOUTH			
Florida	51%	64	86
Texas	40%	76	146
Maryland	41%	81	130
District of Columbia	35%	87	146
Louisiana	46%	88	121
Delaware	39%	96	127
Georgia	40%	96	139
Virginia	41%	96	128
Tennessee	36%	105	143
Oklahoma	40%	106	166
Kentucky	34%	111	150

	North Carolina	37%	111	159
	South Carolina	36%	114	152
	Mississippi	38%	115	134
	West Virginia	39%	115	145
	Alabama	35%	116	151
	Arkansas	38%	117	142
WEST				
	California	52%	43	62
	Nevada	49%	60	82
	Arizona	48%	67	108
	Oregon	45%	68	122
	Washington	43%	72	125
	Colorado	41%	74	153
	Utah	37%	79	168
	New Mexico	43%	95	123
	Montana	38%	124	169
	Idaho	34%	129	179
	Hawaii	38%	139	118
	Alaska	38%	145	184
	Wyoming	35%	148	210

SOURCE: HUD, Office of Policy Development and Research, 1994. *Worst Case Needs for Housing Assistance in the United States in 1990 and 1991: A Report to Congress*. Table 8