

Why is there still an affordability problem?

According to the [latest data](#) from Harvard's Joint Center for Housing Studies, between 2001 and 2007 the number of households paying more than half of their income for housing, considered a severe housing burden, increased by 30 percent to 17.9 million households. Importantly, both the absolute number of severely-burdened households and the percentage of the market they represent increased every year during this period.

While some assume that recent home price deflation means that we no longer have a housing affordability problem, the data does not support this assumption. In the unlikely event that home prices should continue to decline until 2015 and eventually reach 2000 levels, projections from the Joint Center indicate that there would still be 16.2 million households severely burdened by housing costs. And these statistics do not even capture the fact that many working families can only afford to live far from their places of work, forcing them to endure long commutes and spend much of their housing cost savings on transportation.

So why do housing affordability problems persist in many communities? There are a variety of reasons, including that housing affordability is determined by the relationship between a variety of factors including income, rent or mortgage payments, and energy costs.

Working families have seen only modest wage increases in recent years. In fact, after accounting for inflation, many families' incomes either remained flat or dropped while home values in many cities increased to unprecedented levels, even doubling in some metropolitan areas. Although prices have recently begun to decline, they haven't declined enough to be affordable to many working families.

With stagnant wages, the only housing option for many working families has been rental housing. And the Center for Housing Policy has demonstrated through their [Paycheck to Paycheck](#) research that in most markets, even rental housing is out of reach for families that depend upon workers in low-paying jobs. These families require ongoing subsidies such as those provided by the federal government through its various rental assistance programs. Unfortunately, available subsidies serve only about one-quarter of those in need – a strong argument for continued and expanded federal funding for these programs.

While home prices have declined in many markets, rents have not seen comparable declines. One reason for this is the limited production of rental housing. In the first five years of this decade, barely 200,000 units of rental housing were produced – not enough to replace units lost to conversion or demolition much less meet rising demand, especially in some of the country's strongest markets. And the economic downturn has worsened the outlook for rental housing production as sources of capital have become more difficult to secure, which is especially true for funding from Low Income Housing Tax Credits, one of the most important funding sources for developers of affordable rental properties. At the same time, in many communities families affected by the foreclosure crisis may be seeking out rental housing, placing additional pressure on this segment of the market and causing rent levels to increase.

For working families who own a home, dropping home values have meant that many now owe more than their homes are worth, making it difficult to refinance their mortgages to lower their monthly housing expenses. Although some government efforts are attempting to address this problem, for existing homeowners the loss in home value can mean lost wealth and an increased risk of foreclosure, rather than any increased affordability. Some of these homeowners will lose their homes; in fact, initial findings are



Photo courtesy of Potterhill Homes

showing that even those who refinance may eventually lose their homes.

Energy costs, including utility payments and transportation costs, represent the final component of housing affordability. These costs have become increasingly volatile with the growing instability of our energy supplies and will likely remain unpredictable for the foreseeable future. Transportation costs have also increased with gas price volatility, a fact that is too often overlooked when determining housing affordability. The combined cost burden of housing, utility and transportation costs has only recently been documented through [research conducted by the Center](#).

The new realities of our housing market will require new and creative policy solutions at the federal, state and local levels. State and local policies that make it difficult or expensive to build new affordable homes and apartments or rehabilitate existing units often serve to exacerbate affordability by preventing the market from supplying enough high-quality housing to meet the demand and pushing development further from job centers. Low-density zoning, excessive and duplicative permitting procedures, and policies that limit the availability of multifamily rental homes are examples of policies that may drive up the price of housing by restricting the supply of affordable homes.