

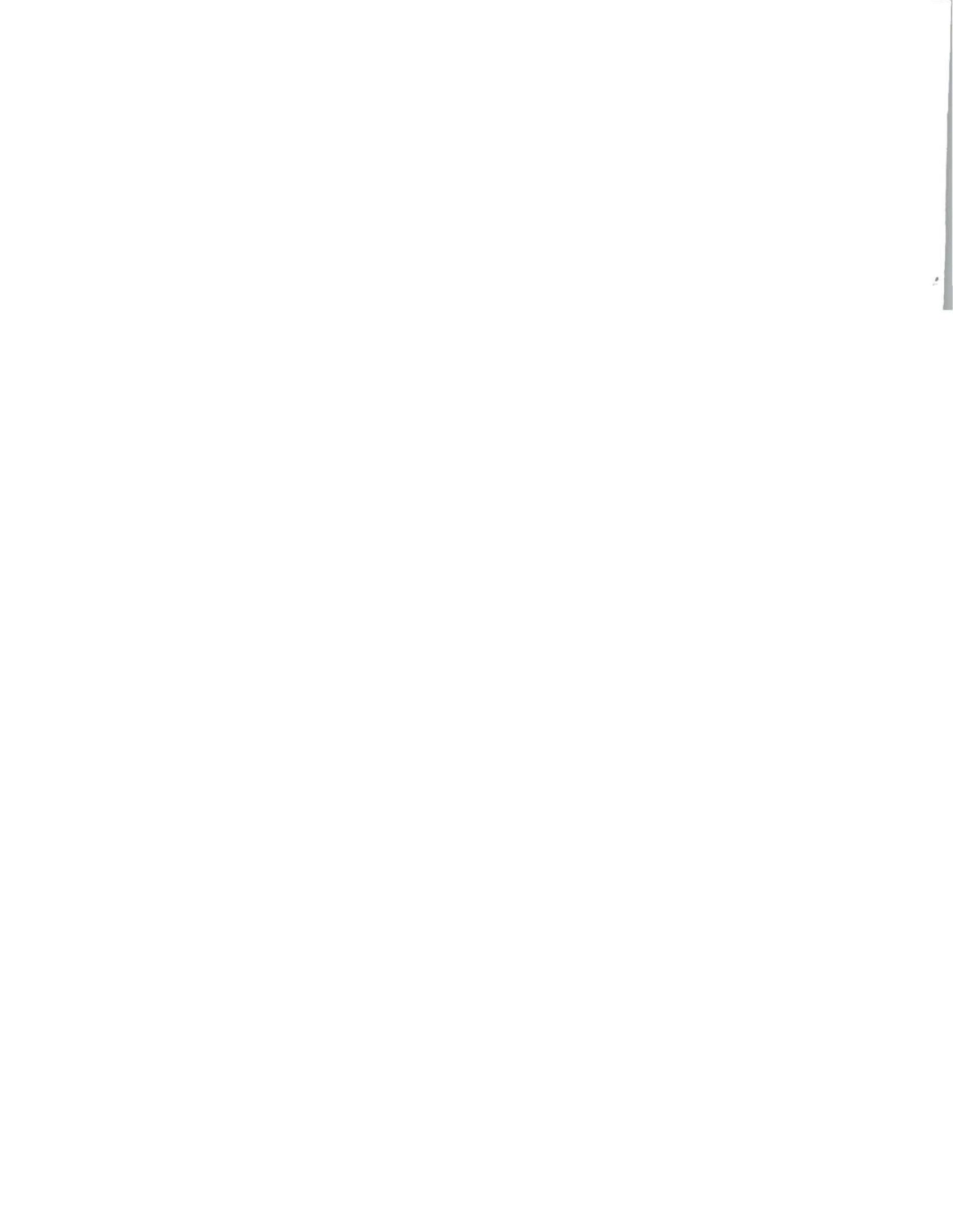
WAITING IN VAIN:

an update on
AMERICA'S rental housing crisis

March 1999



U.S. Department of Housing and Urban Development



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Executive Summary

Building on last year's U.S. Department of Housing and Urban Development (HUD) Report to Congress on Worst Case Housing Needs, *Rental Housing Assistance: The Crisis Continues*, this update documents the ongoing shortage of affordable housing in America. After reviewing the major findings of last year's study, the most important of which was the all-time high of 5.3 million households—12.5 million people—facing worst case housing needs, this study looks at new data from 1996 through 1998 and finds sobering news.

Despite 6 years of unprecedented economic growth, millions of families still struggle to secure decent affordable housing. Ironically, the strong economy is a key factor pushing rent levels to new record highs. Rather than benefiting from the surging economy, low-income renters are left to compete for the dwindling supply of affordable rental housing available on the private market. Many of the most vulnerable low-income renters spend years waiting in vain to obtain needed rental housing assistance in the form of housing vouchers or public housing units.

The key findings of this report are:

1. **Time on waiting lists is growing.** A review of admissions to the public housing and Section 8 housing voucher programs in selected cities around the country

indicates that lengthy waiting times have increased substantially from 1996 to 1998.

- *Increased waiting times for public housing.* Nationally, the average waiting time to be placed in a public housing unit rose from 10 months to 11 months between 1996 and 1998. For the largest public housing authorities (PHAs), however, the average wait went from 22 to 33 months—a 50 percent jump in just 2 years. Waits for public housing are now a staggering 8 years in New York; 6 years in Oakland; and 5 years in Washington, D.C., and Cleveland, for example.
- *Increased waiting times for Section 8 housing vouchers.* Nationally, the average waiting time for a housing voucher rose from 26 to 28 months between 1996 and 1998. Here, too, the larger PHAs have experienced the greatest growth in waiting times—more than 50 percent. The wait for voucher assistance is now 10 years in Los Angeles and Newark, 8 years in New York, 7 years in Houston, and 5 years in Memphis and Chicago.

2. **The number of families on waiting lists is increasing.** Not only have waiting times increased, but the number of families waiting has increased as well. Where waiting lists have not been closed due to their overwhelming size, the typical

increase is 10–25 percent from 1998 to 1999. The 40 waiting lists examined for this study now include almost 1 million families, with an average of almost 25,000 households on each list.

3. **The lowest income families and seniors have limited options.** Too many families and seniors wait for years to receive HUD rental assistance because they have nowhere else to turn. The average household that ultimately receives HUD assistance would need to spend more than 75 percent of its already low income to rent a typical *unsubsidized* unit.

To explain these findings, the report identifies four key factors:

- **Rents are outpacing income for poor Americans.** According to the Bureau of Labor Statistics, between 1995 and 1997 rents increased faster than income for the 20 percent of American households with the lowest incomes. The Consumer Price Index for Residential Rent rose 6.2 percent between 1996 and 1998—significantly higher than the 3.9 percent rate of inflation for the same period.
- **The dramatic loss of affordable housing continues.** The consistent decline of affordable housing stock during the two decades prior to 1995 has continued in

- recent years. The number of units with rents below \$300 declined by 13 percent from 1996 to 1998, a stunning drop of almost 900,000 units.
- **Federal support for affordable housing has been cut.** From 1977 to 1994, the number of HUD-assisted households grew by 2.6 million—an average of 204,000 additional households each year from 1977 through 1983, and an additional 107,000 households per year from 1984 to 1994. However, 1995 saw a historic reversal of Federal housing policy—a freeze on new housing vouchers. Not surprisingly, this unprecedented freeze was devastating to low-income families and senior citizens. The past four decades of housing policy have shown that with rising rents and deterioration of units, *the Nation must continuously add new units or vouchers just to stay even with the need.* Without this support, the number of HUD-assisted households dropped by a total of 65,000 in the period from 1994 to 1998.
- **The expiration of project-based subsidies compounds the crisis.** Private owners who opt out of their HUD-assisted subsidy contracts threaten to worsen an already dire rental crisis and counteract efforts to reduce the isolation of low-income families in high poverty neighborhoods. During 1998 alone, almost 13,000 units were lost through opt-outs as owners quit the project-based Section 8 program in search of higher, market-rate rents.

At a time of unprecedented prosperity for so many, islands of despair remain. The very strength of our economy is forcing the poorest renters to compete for a shrinking pool of affordable units. With nowhere else to turn, millions of families with worst case housing needs join lists for HUD-assisted housing and are left waiting in vain.

I. Worst Case Needs at Record Levels

Since the early 1990s, HUD has reported to Congress on the need for rental housing assistance among the lowest income American families and individuals. The most recent of these worst case needs reports demonstrated that economic prosperity has not solved the housing problems of poor and working class Americans. In its 1998 report, *Rental Housing Assistance: The Crisis Continues*, which covered the period from 1991 through 1995, HUD reported that worst case needs—very-low-income renter households living in severely substandard housing or paying more than one-half of their income for rent—remained at an all-time high in 1995: 5.3 million households with 12.5 million people. This and other core findings of the report have stark implications for communities throughout the country:

- Of the 12.5 million persons in households with worst case needs based on 1995 data, almost 1.5 million are elderly and 4.5 million are children. The number of adults with disabilities in worst case needs households is between 1.1 and 1.4 million.
- The stock of rental housing affordable to the lowest income families is shrinking, and Congress eliminated funding for new rental assistance in 1995. Between 1993 and 1995, a loss of 900,000 rental units affordable to very-low-income families,

a reduction of 9 percent, occurred. There was an even greater reduction—16 percent—in the number of units affordable to extremely-low-income renters.

- The faster growth in worst case needs in the 1990s was among working families. Although full-time work should pay, having a low-paying job was found to be increasingly unlikely to lift a family out of poverty or resolve worst case housing needs. Between 1991 and 1995, worst case needs rose by 24 percent for households with at least one full-time minimum wage worker.
- The first half of the 1990s saw a growth in worst case needs beyond the urban core; one of every three households with worst case needs now lives in the suburbs. Although the greatest numbers of worst case needs are in central cities, a large and fast-growing number live in the suburbs.

In the face of record need for affordable housing in 1995, the Congress reversed the decades-long course of Federal housing policy and worsened an already difficult predicament for the Nation's poor. Starting in 1937, the Federal Government helped increase the stock of affordable housing directly through the construction of government-owned public housing. In 1974 the introduction of the Section 8 rental assistance programs shifted the direction of Federal housing policy by subsidizing privately owned housing as well. The Section 8 voucher and certificate programs assist low-income renters

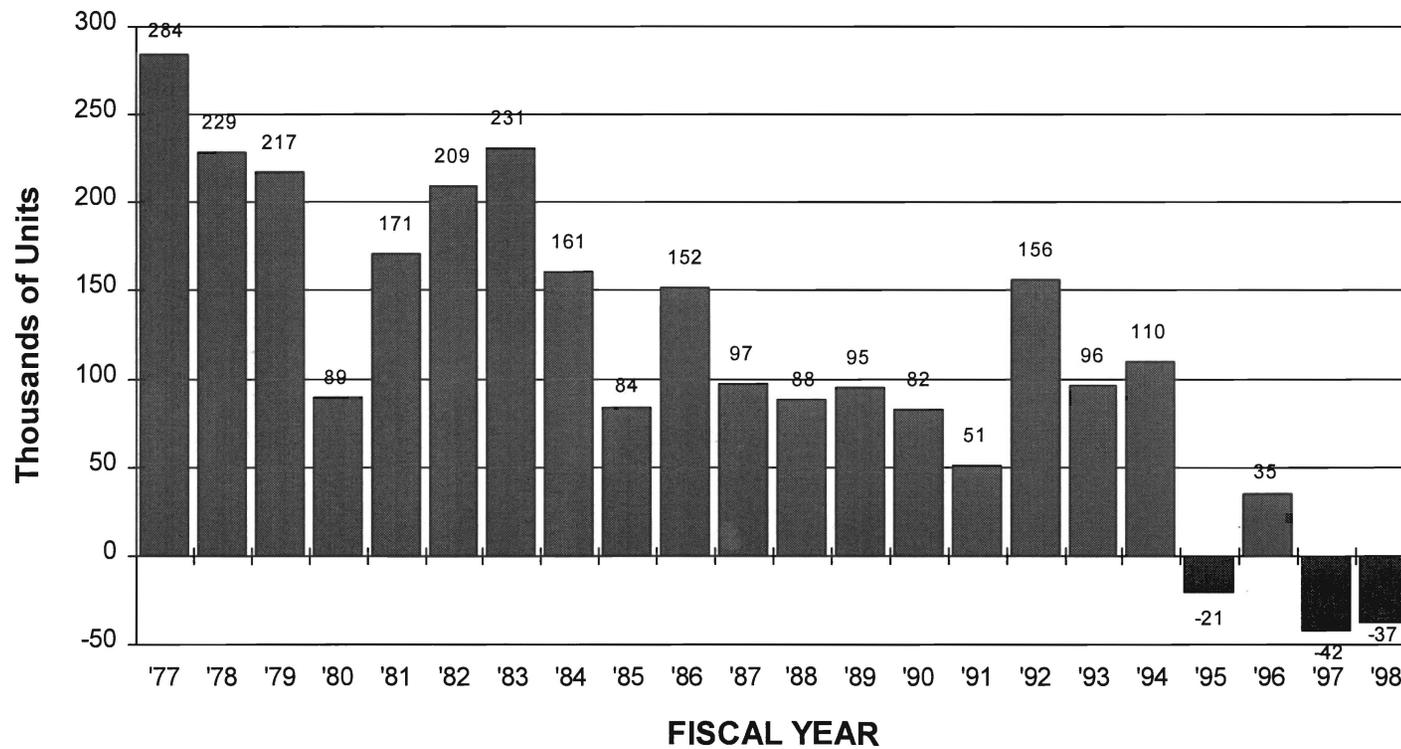
by helping them rent units in otherwise unsubsidized properties, while the project-based program provides subsidies tied to specific privately owned properties. Together, the public housing and Section 8 programs now account for 4.3 million subsidized units, the vast majority of HUD-assisted housing: 1.3 million in public housing, 1.5 million in vouchers and certificates, and 1.5 million in project-based properties.

These programs assist such a large number of needy families because, as stated in the 1998 worst case needs report, from “the Great Depression until 1995—under both Democratic and Republican Administrations and in periods of economic boom and recession—Congress always expanded the availability of rental assistance.” Between 1977 and 1994 the government increased the number of units of HUD-assisted housing by 2.6 million. From 1977 through 1983, an average of 204,000 additional HUD-assisted units were provided each year. This dropped to approximately 107,000 per year from 1984 to 1994 (see figure 1a).

The last four decades of housing policy have shown that with rising rents and deterioration of units, the Nation must continuously add new units or vouchers just to keep even. However, 1995 saw a historic reversal of Federal housing policy. For the first time ever in 1995, no new housing vouchers were provided and the number of assisted units actually fell. As a direct result of this reversal, from 1994 to 1998, the number of HUD-assisted units dropped by 65,000. Only last year did Congress recommit itself to helping more Americans find affordable housing. Based in part on the findings in the worst case needs

Figure 1a

**Annual Change in Units Receiving
HUD Rental Subsidy, 1977-98**



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Source: Congressional Budget Office based on HUD budget justifications for units eligible for assisted housing payments.

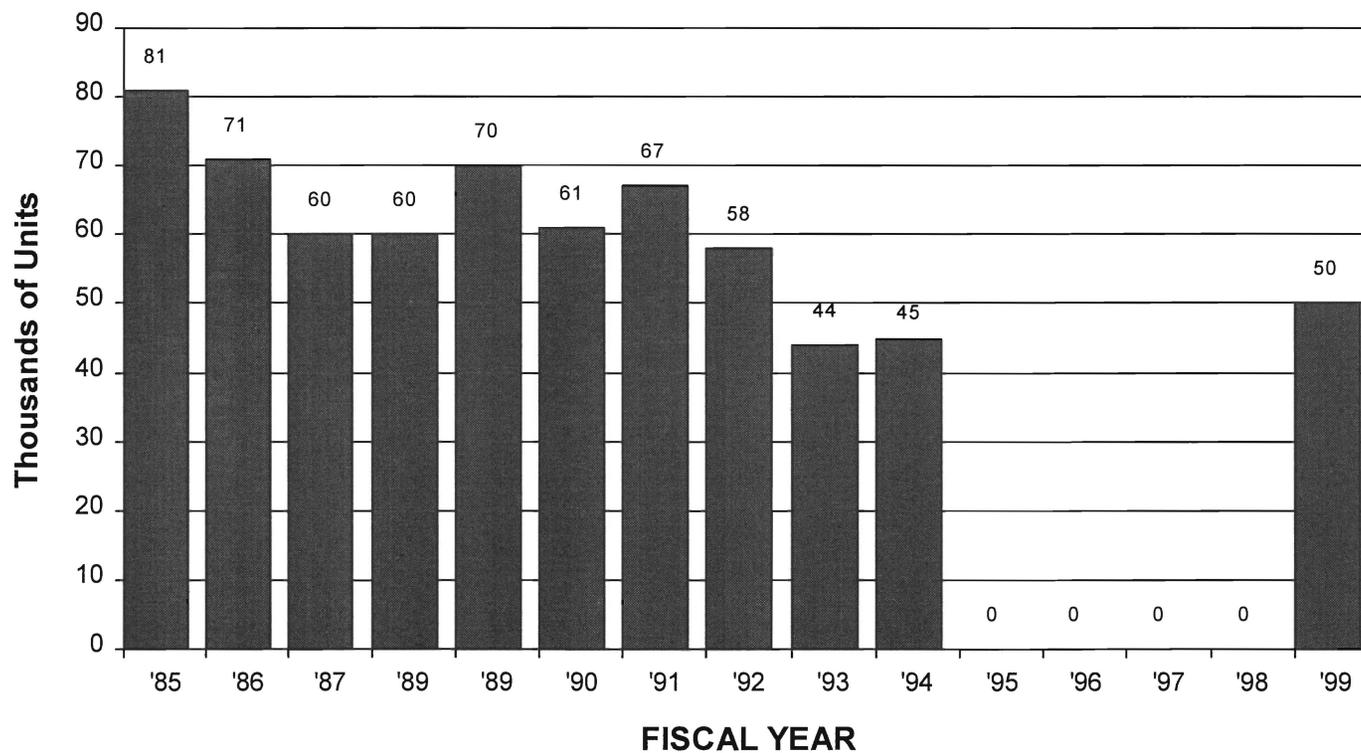
Programs include Public Housing, Section 8, Section 236 and rent supplements.

report, Congress provided HUD with 50,000 new vouchers for 1999, the first new rental assistance since 1995 (see figure 1b).

HUD will not present its next formal report to Congress on worst case housing needs until later this year. Worst case needs are estimated from the American Housing Survey (AHS), which every 2 years interviews a large and statistically representative sample of households about the character, condition, and costs of their housing units and about the households' incomes and family compositions. New data collection methods, started in 1997, will make it possible to report AHS results more quickly in future years. Analysis of 1997 data is underway now. Even before that analysis is complete, however, initial indications are that worst case needs remain at or near the all time high of 5.3 million households in 1995, despite 2 more years of vibrant economic growth. When the final figures are in, we believe they will demonstrate that low-income households continue to pay a steep price for Congress' unprecedented reversal in funding of affordable housing.

Figure 1b

New Units of Section 8 and Public Housing
Rental Subsidy, 1985-99



Source: HUD Budget Office based on appropriated funds

II. America's Housing Crunch: 1996–98

As documented in last year's worst case needs report, an increasing number of the lowest income households now compete for a dwindling supply of affordable housing units.

Finding affordable housing has become an ominous game of musical chairs—only the lucky get seats. Those left standing usually end up on a waiting list for rental assistance, such as public housing or Section 8 vouchers. New figures reveal that the time waiting to receive assistance has increased dramatically during the past 2 years, 1996 through 1998, and support the claim that worst case needs continue at record levels. Ironically, the strong economy actually fuels the affordability crisis as it drives up unsubsidized market rents beyond the reach of the lowest income families. Updating the existing data with the most recent information from 1996 through 1998 reveals:

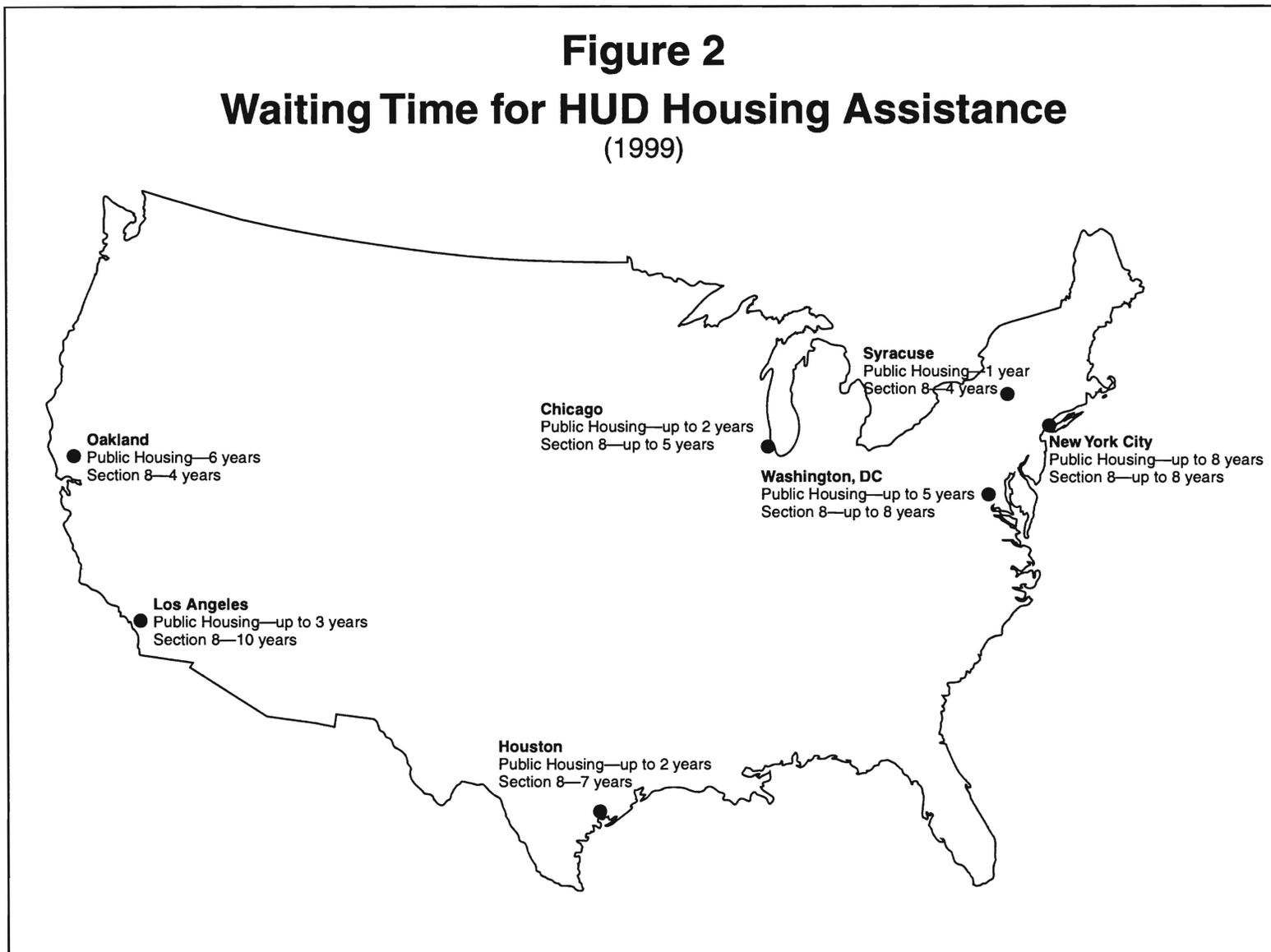
1. Time on waiting lists is long and growing longer. The length of time a household is on a waiting list before it is placed in a public housing unit or given a Section 8 rental assistance voucher is painfully long—and appears to be growing longer still.

- *Many waiting lists are years long.* In many areas, especially larger cities, waiting lists for public housing and vouchers have grown to extreme proportions. For example, in New York, both the Section 8 and public

housing waiting times are up to 8 years. Other waiting lists for public housing include 6 years in Oakland, and up to 5 years in Washington, D.C. and Cleveland. Section 8 waiting lists include 5 years in Memphis, up to 5 years in Chicago, 7 years in Houston, up to 10 years in Newark, and 10 years in Los Angeles (see figure 2).

- *Increased waiting times in public housing.* Nationally, the average waiting time to be placed in a public housing unit has risen from 10 to 11 months between 1996 and 1998. The waiting time in large public housing authorities (PHAs) is particularly striking, growing by up to 50 percent during this time. For larger PHAs (those with 10,000 to 29,999 units), the average waiting time has increased from 12 to 15 months. For the largest PHAs (those over 30,000 units), it went from 22 to 33 months.
- *Increased waiting times in Section 8.* Nationally, the average Section 8 waiting time has risen from 26 to 28 months between 1996 and 1998. Again, the larger PHAs have experienced the greatest growth—more than 50 percent. For PHAs serving 10,000 to 29,999 Section 8 recipients, the average waiting time has increased from 25 to 42 months.

Figure 2
Waiting Time for HUD Housing Assistance
(1999)



2. The number of families on waiting lists is increasing. Using recent evidence from a sampling of cities across the country, there also appears to be a dramatic rise in the number of families waiting for HUD assistance. Although no reliable national data on waiting lists exist from 1996 to 1998, more recent data are striking. For example, between 1998 and 1999, the number of families waiting for Section 8 in 18 sample cities grew from just under 500,000 to more than 660,000, an increase of 34 percent. Precise interpretation of this figure is difficult because many housing authorities have been forced to close their waiting lists due to the overwhelming size of the lists. Clearly, where PHAs have closed their waiting lists, the number of families on the lists does not reflect the total demand. Where other PHAs have recently reopened their lists, increased numbers have resulted from pent-up demand. Where the lists have remained open, however, the increases from 1998 to 1999 have been sharp:

- For Section 8, examples include an expansion of 26 percent in Los Angeles County and 29 percent in Washington, D.C.
- For public housing, examples include an increase of 11 percent in New York; 17 percent in Boston; 24 percent in Washington, D.C.; 17 percent in San Francisco; and 24 percent in Los Angeles County.

In total, the 40 waiting lists examined for this study now include almost 1 million families, an average of almost 25,000 on each list (see figure 3).

- 3. The lowest income families and seniors have limited options.** Too many families and seniors wait for years to receive HUD rental assistance because they have nowhere else to turn. In 1998 the average household income in public housing was \$9,100 and the average household income of Section 8 recipients was \$9,600. Based on this data, the average public housing family, if they were not receiving government housing assistance, would have had to spend 78 percent of their gross income to afford a modest two-bedroom apartment or house at HUD Fair Market Rent (FMR); the average Section 8 family would have had to spend 74 percent. This sobering reality holds nationwide and is particularly startling in high-cost areas. Figure 4 shows the same rent-to-income ratio calculation for areas served by 20 PHAs. The lowest ratio is 76 percent and, in 6 of these areas, the typical family served by HUD could not rent a unit at FMR even if they spent all of their income on rent.

Figure 3
Waiting Lists in Selected Large Cities
(number of families, 1999)

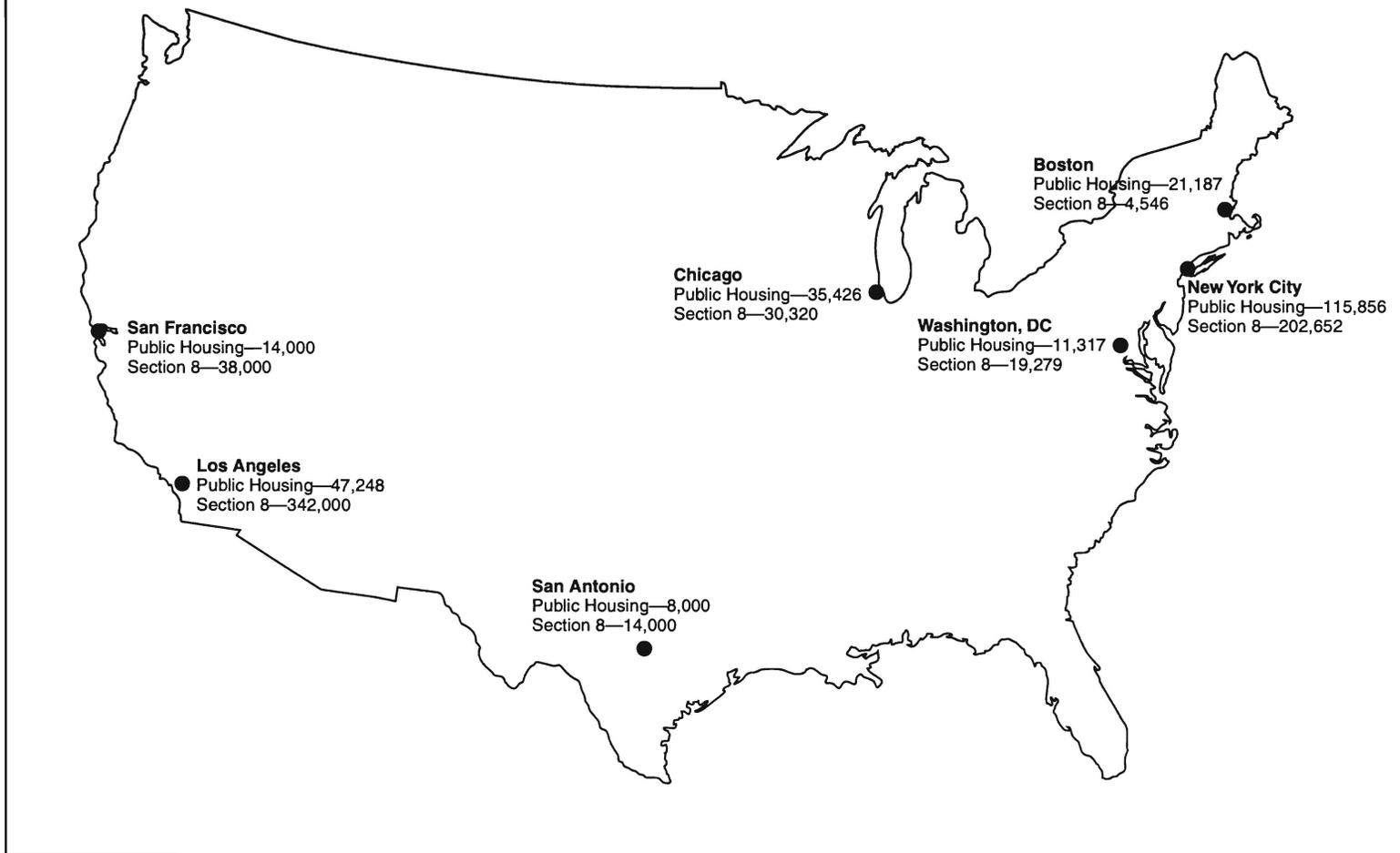
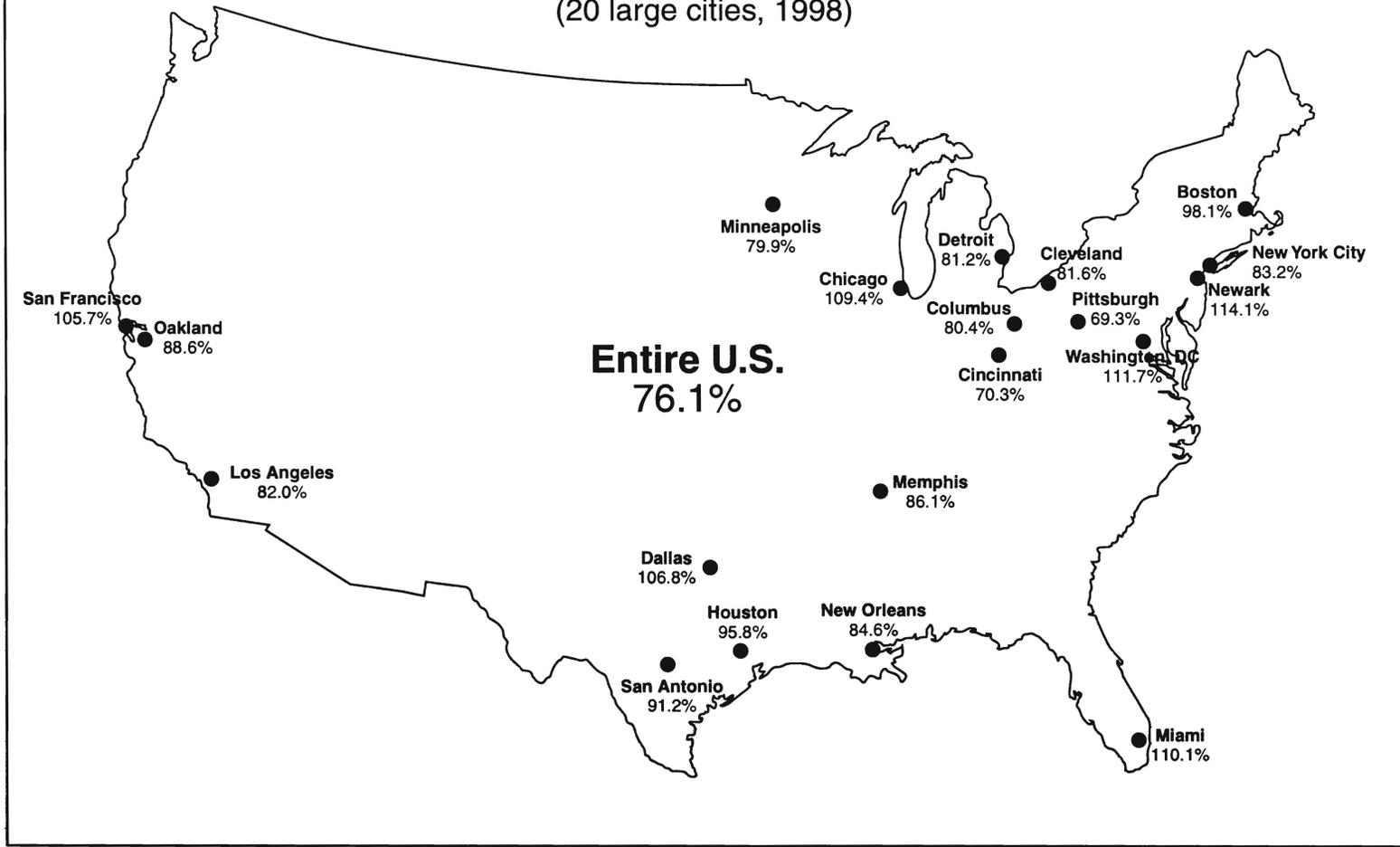


Figure 4 Fair Market Rent as a Percent of Average Income of Assisted Households

(20 large cities, 1998)



Ratio of fair market rent to average monthly income of Section 8 and public housing tenants (1998).

III. Why the Crisis Persists

What is driving the affordability crisis and dramatic increase in waiting time for HUD-assisted housing? HUD research indicates a number of factors:

- 1. Rents are outpacing income for poor Americans.** The 1990s have seen record growth in the economy, with more than 18 million new jobs created in the last 6 years. Surrounded by unprecedented prosperity, however, islands of despair remain: Not all communities and families have benefited from the surging economy. One reason is the rising price of housing. Quality-adjusted prices show an increase of 8.9 percent in the price of new homes and 6.0 percent in existing homes between 1996 and 1998. Both these figures are higher than inflation—during the same period, the Consumer Price Index (all items) grew only 3.9 percent. These higher prices to purchase a home are mirrored by higher rents. The Consumer Price Index for Residential Rent rose 6.2 percent from 1996 to 1998, again higher than the 3.9 percent for inflation during the same period. Rents have risen particularly quickly during the past year—double the rate of inflation.

Rising housing prices, however, have affected owners and renters in very different ways. For owners, historically low interest rates have helped to offset higher home prices and make homeownership more affordable. At the same time, homeowners' incomes have been rising. In fact, led by low interest rates and the booming

economy, ownership is at its most affordable level since 1973. The result is our current homeownership rate of 66.3 percent, the highest in the country's history.

Renters, who tend to have lower incomes, have not been as fortunate as owners. Even though incomes are now going up for low-income people, rising rents are more than keeping pace. According to Bureau of Labor Statistics figures, rents slightly outpaced income between 1995 and 1997 for the 20 percent of U.S. households with the lowest incomes. The result is that low-income renters continue to face an affordability crisis.

2. **The dramatic loss of affordable housing continues.** Last year's report on worst case needs showed that for more than 20 years prior to 1995, the number of affordable housing units steadily eroded. Recent housing vacancy survey data demonstrate that this trend continues. The number of units that rent for less than \$300 declined from 6.4 million in 1996 to 5.5 million in 1998, a drop of 13 percent in just 2 years. Ironically, this jarring loss of affordable stock has occurred in the midst of economic strength that has driven recent increases in multifamily production. One problem here is an affordability mismatch: The cost of constructing a new apartment requires rents beyond the means of lower income renters. In 1998 the median asking rent for new rental units was \$726. While many of these apartments will become more affordable as the

properties age, there are simply not enough to keep pace with the loss of current affordable stock through rent increases, deterioration, and abandonment.

3. **The Federal Government put a freeze on new vouchers.** One of the primary reasons for the persistent housing crisis is the retreat of Government support. As stated above, between 1977 and 1994, the Government increased the number of units of HUD-assisted housing by 2.6 million. From 1977 through 1983, an average of 204,000 additional households were provided HUD rental assistance each year; this dropped to approximately 107,000 per year from 1984 to 1994. However, 1995 saw a historic reversal of Federal housing policy—funding for new vouchers ceased, only to be resumed last year. In fact, as a direct result of this freeze, from 1994 to 1998, the number of HUD-assisted households has dropped by 65,000. The impact of such a dramatic and unprecedented freeze—combined with increased rents and the loss of affordable stock—has been to worsen an already serious shortage of affordable housing.

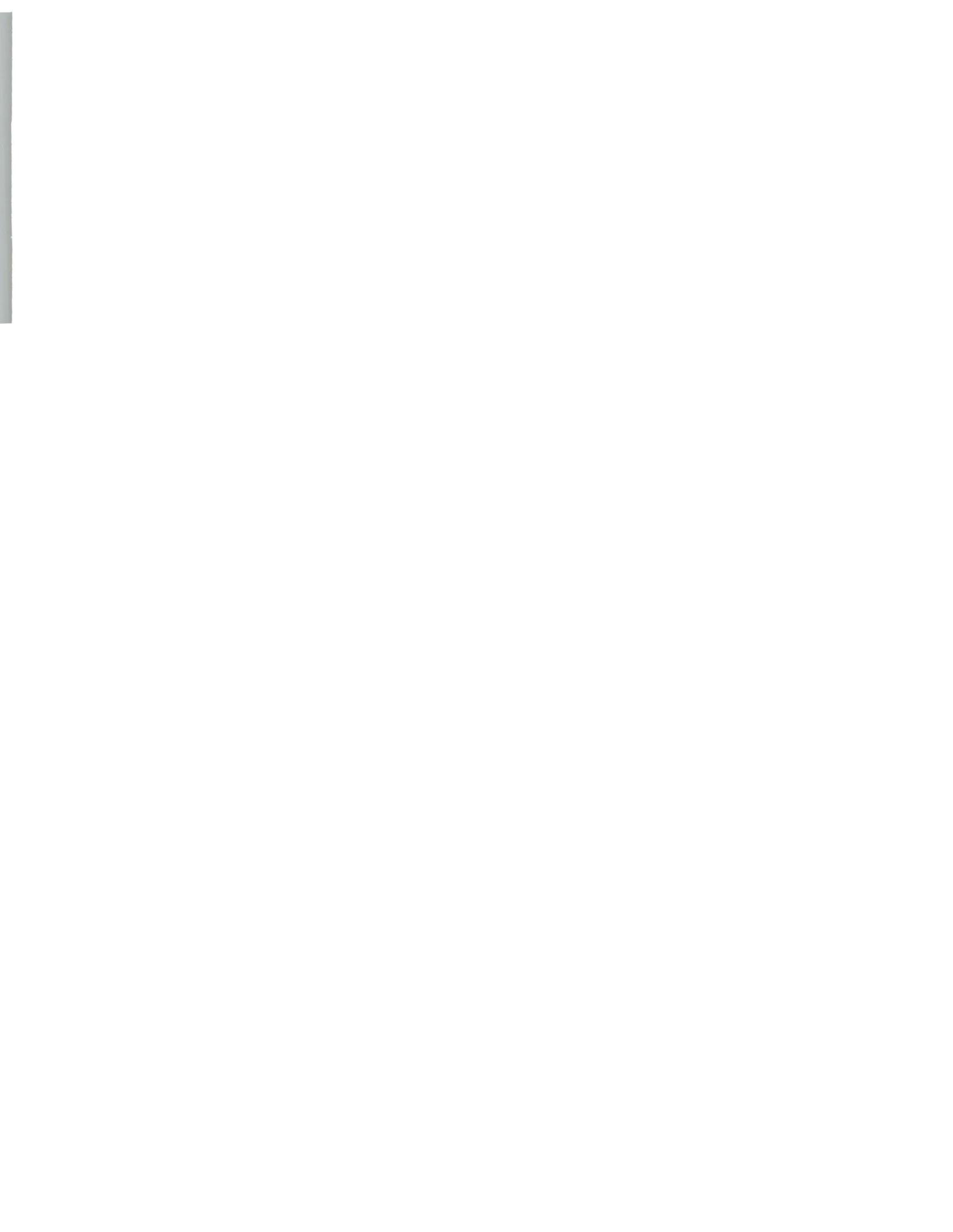
4. **The expiration of project-based subsidies compounds the crisis.** Not only is the number of subsidized housing units shrinking, but some of the best quality affordable housing is at risk of being lost or replaced with vouchers which are likely to be used in higher poverty neighborhoods. This trend threatens to worsen an already dire rental crisis and counteract efforts to reduce the isolation of low-income families in high poverty neighborhoods. Thousands of long-term subsidy

contracts with owners of Section 8 project-based properties will expire this year, and the owners will be faced with the choice of renewing these contracts or opting out of them to convert to unsubsidized housing and raise the rents to market. These properties are currently subsidized at rents below market. Because HUD does not have the resources to offer these owners competitive market rents, the owners will have a strong financial incentive to leave the project-based Section 8 program to increase their rents. During last year alone, almost 13,000 units were lost to opt-outs from the Section 8 project-based program.

Too often, opt-outs force residents to move out of their homes and their communities. Current HUD policy is to offer housing vouchers to residents of properties that opt-out. Yet in many cases, vouchers do not pay enough to allow residents to continue living where they are. This can mean moving long distances to find affordable housing or, worse still, finding none at all.

Better protection for current residents, however, is only a beginning—Congress can also protect future residents by keeping this housing affordable. HUD research shows that properties likely to opt-out are higher quality properties located in higher income neighborhoods—neighborhoods that usually provide more than good housing. Preserving this housing can offer residents access to opportunity—quality schools, more jobs, and less crime. Instead, if project-based subsidies are replaced with vouchers, residents will likely end up in higher poverty areas. The

Administration is working on a number of approaches to address this looming threat. Preserving quality project-based housing will be an important challenge for this year's Congress.



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