A Report on Worst Case Housing Needs in 1999: New Opportunity Amid Continuing Challenges

Executive Summary

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

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TO THE CONGRESS OF THE UNITED STATES:

I am pleased to transmit to you a copy of *A Report on Worst Case Housing Needs in 1999: New Opportunity Amid Continuing Challenges,* the Department of Housing and Urban Development's latest report on the nation's rental housing needs. This report documents a significant decrease – of at least 440,000, or 8 percent – in the number of renter households with worst case housing needs between 1997 and 1999. This welcome reversal of a ten-year trend of increasing worst case needs provides strong evidence of the effectiveness of the nation's economic and housing policies in helping the very lowest income households.

Despite the welcome evidence of the increased capacity of very-low-income renters to pay for housing, there continue to be nearly five million renter households with worst case housing needs – a critical problem that requires continued attention and funding. Moreover, the recent progress is highly vulnerable to an economic downturn which would slow or reverse the income growth among very-low-income households. Due to the fact that rents adjust slowly and that some increases reflect capital improvements, rents would not drop as quickly as incomes in the event of a slowdown.

Our concern about the sustainability of the recent progress in reducing worst case needs is heightened by the evidence that substantial shortages of affordable housing continue, and are in some respects worsening. The number of units affordable to extremely-low-income renters dropped between 1997 and 1999 at an accelerated rate, and shortages of housing both affordable and available to these renters actually worsened. With rents continuing to rise faster than inflation, basic pressures for above-average rent increases at the bottom end of the rental stock are further eroding the supply of rental units that are affordable without government subsidies.

This report's findings on the accelerated reduction in the number of affordable rental units show that the private market is not producing enough affordable rental housing to meet existing demand. Effective government housing policies are thus essential to any further progress in reducing worst case needs. A central component of an effective housing strategy must be the continued expansion in the number of Section 8 vouchers, which are a cost-efficient means of reducing worst case needs. It is also vital to continue and expand policies to promote economic growth, to raise incomes among low-income households, and to produce more affordable rental housing.

Sincerely,

Susan M. Wachter

A REPORT ON WORST CASE HOUSING NEEDS IN 1999:

NEW OPPORTUNITY AMID CONTINUING CHALLENGES

Executive Summary

Reversing a ten-year trend of increases, the number of renter households with worst case housing needs fell significantly between 1997 and 1999. The reduction in worst case needs resulted principally from increases in income among very-low-income renters, rather than an expansion in the number of rental housing units affordable to them. Indeed, the long-term trend of reductions in the number of rental units affordable to extremely-low-income and very-low-income households actually accelerated between 1997 and 1999.

The overall picture is thus mixed. The reduction in worst case needs reflects the strong success of the economic and housing policies of the Clinton Administration and shows that further progress in reducing worst case needs is clearly possible. Yet 4.9 million households still have worst case needs for rental assistance – a critical problem that requires continued attention and funding. Moreover, the continuing decline in the number of rental housing units that are affordable without governmental subsidies – a factor attributable primarily to ongoing rent increases – implies that the current progress could be highly vulnerable to an economic downturn. Due to the fact that rents adjust slowly and that some increases reflect capital improvements, it is unlikely that rents would drop as quickly as incomes in the event of a slowdown.

The key findings of this report may be summarized as follows:

- Reversing a 10-year trend of rising need, between 1997 and 1999 the number of very-low-income renters with worst case needs for housing assistance fell significantly, dropping by at least 440,000, or eight percent. This welcome drop in severe housing problems occurred because the income earned by very-low-income renters rose more quickly than did the gross rents they paid – evidence that the economic expansion during the Clinton Administration improved the housing conditions of households with very low incomes.

- Despite this welcome evidence of the increased capacity of very-low-income renters to pay for housing, substantial shortages of affordable rental housing continue, and are in some respects worsening. The number of units affordable to extremely-low-income renters dropped between 1997 and 1999 at an accelerated rate, and shortages of housing both affordable and available to these renters actually worsened. With rents rising faster than inflation, basic pressures for above-average rent increases at the bottom end of the rental stock continue, while above-average income growth among very-low-income renters could well be reversed in the event of an economic slow-down.

To reach the nearly five million renter households with worst case problems, it is critical that the nation continue the economic and housing policies that have improved the capacity of very-low-income households to afford housing. These include policies to promote income growth among low-income households, to increase the number of housing vouchers so that extremely-low-income renters with worst case problems can afford existing housing, and to supply more affordable housing.

ENCOURAGING NEWS: MANY TYPES OF HOUSEHOLDS BENEFIT AS WORST CASE NEEDS DROP SIGNIFICANTLY

1. **In 1999, 4.86 million unassisted renter households had worst case needs for rental assistance, compared to 5.38 million in 1997. Worst case needs now trouble 14.3 percent of renters, and only 4.7 percent of all U.S. households, the lowest share ever observed. The significant drop in severe housing problems occurred because income growth exceeded rent increases among very-low-income renters.**

- The 4.9 million households with worst case needs in 1999 include 10.9 million people, among them 3.6 million children, 1.4 million elderly, and some 1.3 million disabled adults. Households with worst case needs are defined as unassisted renters with incomes below 50 percent of the local area median income (AMI) (those with "very low" incomes) who pay more than half of their income for housing or live in severely substandard housing. [Although substandard housing by definition should include those who are homeless or in shelters, these estimates do not include the homeless population as they cannot be counted by the American Housing Survey (AHS).]

- Three components underlie the difference between the 1997 and 1999 worst case estimates. Most important, within constant-dollar income limits, the number of worst case renters fell by at least 440,000 households, a highly significant decrease of at least eight percent. A second component of the decrease, which could account for a decline of up to 220,000 in the number of households with worst case needs, results from a procedural change in the American Housing Survey that led respondents to more accurately report rents and incomes. A third component, adding 140,000 households, results from adjusting the very-low-income limits to account for real income growth (i.e., income increases greater than inflation).[1]

- The significant decline of at least eight percent was the first drop observed after 10 years during which the number of households with worst case needs had risen from

[1] The components break down as follows: In 1997, there were 5.38 million households with worst case needs. When very-low-income renters are defined using 1995 income limits, adjusted only for inflation (to ensure comparability across time), the number of worst case needs in 1999 represents a real decline of at least 440,000 and a procedural decline of at most 220,000 since 1997. Using the *1999* income limits to reflect real growth in income, however, raises the number of households with worst case needs by 140,000. To summarize, 5.38 million minus 440,000 minus 220,000 plus 140,000 = 4.86 million worst case needs in 1999. Appendices documenting the procedures used and data tables will be included in the forthcoming printed report.

4.5 million in 1987 to a record high of 5.4 million in 1997. In 1999, the 4.9 million worst case households represented only 4.7 percent of U.S. households, the lowest share of the U.S. population observed in the 21 years for which comparable worst case data are available. As a share of U.S. households, worst case needs had been highest in 1983, at 6.1 percent of households; the previous low had been 5.0 percent in 1987.

- Worst case needs fell significantly between 1997 and 1999 because income growth among very-low-income renters exceeded increases in the rents they paid. (In contrast, rents rose faster than incomes in the period from 1989 to 1997.) Among very-low-income renters, median rents rose by six percent, but median income rose by 14 percent. This income increase among very-low-income renters was substantially greater than the increase in the median incomes of all renters (8.5%), who also experienced increases in median rents of six percent. Such above-average income growth among very-low-income renters reflects the declining poverty and reduced income inequality recently achieved during this economic expansion.

- By definition, unassisted very-low-income renters are considered to have worst case needs if they spend more than half of their gross income on housing costs (rent plus utilities) or live in severely inadequate housing. The real 1997-99 drop in worst case needs resulted solely from a decline in the number of very-low-income renters paying more than half of their income for rent and utilities, as the number of households living in severely inadequate units remained constant. In 1999, 94 percent of worst case renters paid more than half of their income for rent, while 11 percent lived in severely inadequate housing. Over three-fourths of worst case renters (77 percent) had a severe rent burden as their only housing problem, since they lived in adequate, uncrowded housing.

2. The reduction in the number of households with worst case needs for rental assistance all occurred among renters with extremely low incomes (below 30 percent of area median income) as income growth reduced the number of such households. Nonetheless, as previously found, extremely-low-income renters were much more likely to have worst case housing problems than those with higher incomes.

- Measured against constant 1995 income limits (adjusted only for inflation to assess change over time consistently), the number of very-low-income renter households fell by 1.2 million between 1997 and 1999, from 14.8 to 13.6 million, with all of this decrease occurring among extremely-low-income renters. The number of extremely-low-income renters fell by 14 percent, to 7.7 million. The total number of renters with incomes between 31and 50 percent of median rose slightly, from 5.8 to 5.9 million.

- Under the conservative assumption that procedural changes accounted for a full 220,000 of the decline, the number with worst case needs fell only among extremely-low-income renters, dropping by at least 620,000, or 15 percent, to 3.5 million. The number of renters with incomes between 31 and 50 percent of median who had worst case needs rose slightly.

- When renters are grouped by their income in relation to the 1999 income limits (in order to provide the best possible estimate of those who *currently* qualify as having very low incomes), the total number of renters with incomes below 50 percent of area median is the same in 1999 as that previously observed for 1997: 14.8 million. Even within the higher 1999 income limits, however, there were fewer extremely-low-income renters in 1999 than there had been in 1997 (8.6 million rather than 9 million) and more renters with incomes between 31 and 50 percent of area median (6.2 rather than 5.8 million). Similarly, there were also fewer extremely low-income households with worst case needs: 3.8 million in 1999 vs. 4.2 million in 1997.

- Although fewer renters had extremely low incomes in 1999, the probability of having worst case needs remained very high for this income group. In 1999, 68 percent of unassisted extremely-low-income renters had worst case problems. By contrast, only 22 percent of unassisted renters with incomes between 31 and 50 percent of AMI had worst case problems in 1999. Taken together, over three-fourths (77 percent) of the 1999 total with worst case problems had extremely low incomes.

- Renters with the lowest incomes remain much more likely to have severe housing problems than those with higher incomes. Over three-fourths (76 percent) of unassisted renters with incomes below 20 percent of AMI had the severe housing problems that qualify as worst case problems in 1999, compared to 28 percent of unassisted renters with incomes between 31 and 40 percent of AMI and only eight percent among unassisted renters with incomes between 51 and 60 percent of AMI. Although the incidence of worst case problems did not drop for incomes below 20 percent of AMI between 1997 and 1999, the overall drop in worst case needs reflects marked reductions in the probability of having worst case needs at incomes between 21 and 40 percent of AMI as well as net movement by renters into higher income categories.

3. Needs fell most rapidly among the elderly, families with children, and "other" families. The drop in worst case needs between 1997 and 1999 was greatest among "other families" (nonelderly households with related family members but no children). Above-average declines also occurred among the elderly and families with children, two groups often helped by rental assistance.

- Needs among elderly fell by 140,000 (an above-average significant drop of -12 percent) to 1.0 million, and needs among families with children fell by 210,000 (or -10 percent) to 1.8 million. Indeed, among these household types, the declines between 1997 and 1999 *more than offset* the decade's earlier slow growth in worst case needs. By 1999, the numbers of households with worst case problems were lower than they had been in 1991 for both elderly households and families with children. Despite this improvement, in

1999 some 51 percent of unassisted elderly very-low-income renters, and 42 percent of unassisted very-low-income families with children, had unmet worst case problems.

- The fall in worst case needs was fastest among “other” families, who are nonelderly households with related family members but no children. The significant drop of 31 percent between 1997 and 1999 offset the increases in needs recorded earlier in the decade; by 1999, unmet needs for this group were back to 230,000, the 1991 level. This was the household type least likely to have worst case problems: only 36 percent of unassisted nonelderly families without children had worst case needs for assistance.

- Needs did *not* fall among households with disabled members, who also receive priority for rental assistance. Although an improved AHS proxy for the nonelderly disabled suggests that almost half of this group receive rental assistance, three-fifths (60 percent) of the unassisted disabled have worst case problems, a higher rate than that of any other household type. The proxy shows no decline in needs between 1997 and 1999, which suggests that the number of disabled households with unmet worst case needs remained in the range of 1.1 to 1.4 million. Moreover, new research with Supplemental Security Income program data suggests that needs among the disabled may have increased slightly between 1997 and 1999.

- Worst case needs did not change between 1997 and 1999 among the residual group of single adults less than 62 years old who live alone or with other unrelated singles, and remained at 1.4 million in 1999. Although this is the only household type for which needs rose markedly during the 1990s, several indicators suggest that many may be experiencing only a temporary phase of high rent burdens in 1999: 83 percent are high school graduates, 29 percent have two years or more of post-high-school education, and 52 percent are younger than 30. Over one-fifth (22 percent) report receiving outside help with household expenses.

4. Work effort among those with worst case problems continued to increase. Although the number of worst case households with workers fell slightly because of the large decline in the total number with worst case needs, the share of nonelderly, nondisabled worst case households who had earnings as their primary income source rose further, from 74 to 80 percent. This change continues the rise in work effort observed since 1991, when 66 percent of these worst case renters had earnings as their main source of income.

- Among very-low-income worst case families with children, the number with earnings as their primary source of income remained at 1.2 million even though the total number of worst case needs fell. Among all very-low-income renters with children, the share relying on earnings rose from 70 percent to 74 percent between 1997 and 1999, both substantially above the rate of 59 percent observed in 1991.

- Among extremely-low-income worst case families with children, the share relying on earnings rose from 54 percent to 64 percent between 1997 and 1999, while the share reporting any welfare income dropped from 36 percent to 31 percent.

5. Drops in worst case problems were fastest among Hispanics (-16 percent) and among non-Hispanic whites (-14 percent). Among non-Hispanic blacks, by contrast, worst case needs continued to rise between 1997 and 1999.

- Between 1991 and 1997, Hispanics had experienced the fastest growth in worst case problems; the substantial 1997 to 1999 drop of 160,000 (16 percent), however, offset half of the decade's earlier rise. On net, worst case needs increased by 16 percent for Hispanics between 1991 and 1999, well below the 45 percent growth in households. In 1999, Hispanics had a lower rate of severe problems among unassisted very-low-income renters (41 percent) than other racial/ethnic groups; they were also the racial/ethnic group least likely to receive assistance (25 percent).

- Among non-Hispanic whites, worst case needs fell by 14 percent, or 400,000, between 1997 and 1999. In 1999, they stood at a record low over the 1978 to 1999 period of 2.5 million, significantly *below* the 1991 level of 2.9 million. Still, 47 percent of unassisted white very-low-income renters had worst case problems in 1999.

- Non-Hispanic blacks, with needs at 1.2 million in 1999, were the only racial/ethnic group with growth in worst case problems between 1997 and 1999, mainly among single adults.[2] African-Americans also had the highest rate of severe needs among unassisted renters, 49 percent, and were the racial/ethnic group most likely to receive assistance (37 percent). Between 1991 and 1999, worst case needs grew by a significant 23 percent among very-low-income black renters, exceeding their 19 percent growth in households.

6. Regionally, decreases in worst case problems were greatest in the Northeast, where needs fell by a significant 18 percent, to 1.04 million. By 1999, worst case needs in each region had returned to levels near those observed in 1991.

- The Northeast and Midwest were the regions where very-low-income renters were most likely to receive rental assistance, with 36 percent of Northeastern very-low-income renters and 31 percent of Midwestern very-low-income renters assisted. Despite the high rates of assistance in the Northeast and the large drop in needs, in 1999 needs were high there among those without assistance, as 47 percent of unassisted very-low-income renters had worst case problems. Although the decrease in needs was least in Midwest (an insignificant -2 percent), it remained the region where worst case problems were least

[2] Worst case needs among non-Hispanic black households increased by 11 percent between 1997 and 1999. Unlike the other changes discussed in this report, however, this change was only marginally statistically significant, at a 90th percentile confidence level.

likely. In the Midwest, only 30 percent of all very-low-income renters and 44 percent of unassisted very-low-income renters had severe problems.

- Needs dropped (insignificantly) at the average rate of 8 percent in the West, to 1.4 million. Nevertheless, as has been the pattern for the past decade, very-low-income renters were most likely to have severe problems there, with worst case conditions troubling 36 percent of very-low-income renters and 48 percent of unassisted very-low-income renters. Despite the high rates of unmet problems observed in the West, only 24 percent of very-low-income renters in the West received assistance, less than in any other region.

- Needs dropped insignificantly (-4 percent) in the South between 1997 and 1999, where 1.5 million very-low-income renters had worst case problems in 1999. In the South, 26 percent of very-low-income renters received housing assistance, and 45 percent of unassisted very-low-income renters had worst case problems.

7. Nationally and within all regions but the South, needs fell most swiftly between 1997 and 1999 in nonmetropolitan areas, the type of location where renters most often already received assistance. Worst case problems fell least in central cities – the type of location where unassisted very-low-income renters most often had severe problems.

- On average across the U.S., worst case needs dropped significantly, by 14 percent, in nonmetropolitan locations, plummeting by 41 percent in the Northeast and 21 percent in the Midwest. As of 1999, very-low-income renters remained least likely to have worst case needs in nonmetropolitan areas (27 percent), in part because they were most likely to receive assistance there (32 percent). This pattern was particularly pronounced in Northeastern nonmetropolitan areas, where only 17 percent of very-low-income renters had worst case problems while 44 percent received assistance, and in the Midwest, where 25 percent of very-low-income renters had worst case needs while 39 percent received assistance.

- Because of the high numbers already assisted and their relatively low incidence of needs, unassisted very-low-income renters in nonmetropolitan areas were those least likely to have worst case needs in all four regions of the country. Needs were least common in nonmetropolitan parts of the Northeast, troubling 31 percent of unassisted renters, and were also near the nonmetropolitan average of 40 percent in the South and Midwest. Unassisted nonmetropolitan renters most often had worst case problems in the West (44 percent).

- Declines in unmet needs were smallest in central cities because needs grew slightly in cities in the South and Midwest. On average across the country, unassisted very-low-income renters were most likely (48 percent) to have worst case problems in central cities. But cities in the Northeast and West, which had above-average rates of need in 1997, experienced significant drops between 1997 and 1999. In Northeastern cities, needs fell by 18 percent, reducing the share of unassisted renters with worst case problems from

59 percent in 1997 to 49 percent in 1999, still the highest regional rate. In Western cities, worst case needs dropped by 10 percent. However, since the total numbers of very-low-income renters and of assisted renters fell even more quickly there, in Western cities the share of unassisted renters with worst case problems remained high, at 48 percent.

- Led by a 15 percent drop in Southern suburbs, needs fell at average rates in the suburbs. Because 35 percent of suburban very-low-income renters had worst case problems, however, while only 27 percent were assisted, almost half (46 percent) of unassisted very-low-income renters had worst case problems there. Local differentials between need and assistance were again most striking in the West, where 38 percent of suburban very-low-income renters had worst case problems, and only 21 percent received assistance.

THE CONTINUING CHALLENGE: SEVERE AND WORSENING SHORTAGES OF RENTAL HOUSING AFFORDABLE TO EXTREMELY-LOW-INCOME RENTERS

8. Losses of affordable rental units accelerated; the drop in worst case households thus occurred *despite* a worsening shortage of affordable and available units. In the U.S., the number of units affordable to renters with extremely low incomes dropped by 750,000 (-13 percent) and the total number of units affordable to renters with very low incomes fell by 1.14 million (-7 percent) between 1997 and 1999.

- Continuing and accentuating the trend of the previous 12 years, reductions in the number of affordable units accelerated sharply between 1997 and 1999. There was a fall of 13 percent (a highly significant -750,000) in the number of units with rents affordable to incomes at 30 percent of AMI between 1997 and 1999, more than double the previous two-year record loss of five percent (360,000 units) in the 1993 to 1995 period. By 1999, there were 940,000 fewer units with rents affordable to households with incomes below 30 percent of AMI than there had been in 1991. Past research has shown that most such drops in these most affordable units result from rent increases, rather than demolition or other physical changes to a housing unit.

- The number of units affordable to households with incomes between 31 and 50 percent of AMI also declined sharply between 1997 and 1999, falling by 400,000, or four percent. Taken together, between 1997 and 1999, the number of units with rents affordable to households with incomes below 50 percent of AMI dropped by 1.1 million, a loss of seven percent.

- Because the 1997 to 1999 drop in the number of extremely-low-income renters (1.3 million) was greater than the fall of 750,000 in units affordable to them, the relative shortage of affordable units narrowed, on average. The “mismatch” ratio of affordable units per 100 extremely-low-income renters improved slightly, rising nationally from 77 units/100 renters in 1997 to 79 units/100 renters in 1999.

- But the number of units both affordable to extremely-low-income renters *and available to them* (i.e. either vacant for rent or already occupied by extremely-low-income renters) continued to fall. By 1999, for every 100 renter households with incomes below 30 percent of AMI, there were only 40 units both affordable to and available for rent by them, well below the 47 units per 100 households observed in 1991.

- The number of units both affordable and available to *very*-low-income renters also fell. By 1999, for every 100 renter households with incomes below 50 percent of AMI, there were only 70 units both affordable to and available for rent by them, well below the 76 units per 100 households observed in 1991.

- These continuing and worsening shortages of units affordable without rental assistance to the income groups most likely to have worst case problems imply that the welcome reduction in worst case needs observed between 1997 and 1999 could prove temporary. In view of the worsening shortages of units affordable to and available to extremely-low-income renters, rents at the lower end of the rental distribution could again rise at above-average rates of growth, as they did earlier in the 1990s. If so, any slowing of income growth among very-low-income renters, as in an economic downturn, could easily cause worst case needs to rise again.

9. As was the case nationally, in every region rental housing affordable to extremely-low-income renters was in shorter supply than housing affordable to other income groups.

- In every region of the country there were fewer units affordable to households with income below 30 percent of AMI then there were renter households with these incomes. At all rent levels, however, shortages were worst in the West and Northeast. In the West there were only 59 affordable units for every 100 extremely-low-income renters, while in the Northeast there were 77 affordable units for every 100 renters. Only in the West, however, were there absolute shortages of affordable housing units compared to renters with incomes below 50 percent of area median (82 units for every 100 renters).

- Shortages of affordable units were least pressing in the Midwest and South. Both regions had fewer affordable units than renters with incomes below 30 percent of median (84 units and 92 units, respectively, per 100 extremely-low-income renters). Both the Midwest and the South have *more* affordable units than renters with incomes below 50 percent of AMI, however: 150 units per every 100 very-low-income renters in the Midwest and 128 units per every 100 very low-income renters in the South.

- Although shortages remained most pressing in the West and Northeast, in 1999 all regions had shortages of rental units both affordable *and available* to extremely-low-income renters, as well as to very-low-income renters. In the West, for every 100 renter households with incomes below 30 percent of AMI, there were only 27 units both affordable to and available for rent by them, well below the national average of 40 units. And for every 100 renter households with incomes below 50 percent of AMI in the West, there were only 51 units both affordable to and available for rent by them. By this measure, shortages were least severe in the Midwest, with 46 affordable and available units for every 100 renter households with incomes below 30 percent of AMI, and 88 units for every 100 renter households with incomes below 50 percent of AMI.

10. After increasing in number earlier in the decade, the number of units with rents below the 1995 40th percentile Fair Market Rents (adjusted for inflation) dropped significantly between 1997 and 1999, providing additional evidence that the supply of units affordable to households with vouchers has tightened recently.

- Pressure on housing supply caused the number of units affordable below the 1995 40th percentile Fair Market Rent (FMR) to drop between 1997 and 1999 in both number and as shares of inventory in every region, reversing the decade's earlier experience of growth in this important sector of the rental inventory.[3] Because FMRs have risen, on average, at rates near inflation, this finding corroborates claims that, by 1999, locating units affordable with vouchers had become more difficult in some locations.[4]

- Vacancy rates for below-FMR units fell in every region except the Midwest. In every region, below-FMR vacancy rates were lowest for units with three or more bedrooms, those most often needed by families with children.

- The 1999 vacancy rates for units with rents below the 1995 40th percentile FMRs were lowest in the West (five percent) and Northeast (six percent). By contrast, in 1999 the Midwest and South had quite high vacancy rates for below-FMR units (10 percent).

- In 1999, below-FMR vacancy rates were lowest in Northeastern suburbs (4 percent) and also quite low (5 percent) in Western suburbs and cities. In every region, suburbs had the lowest below-FMR vacancy rates.

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[3] This analysis is based on 1995 40th percentile FMRs, adjusted only for inflation, which were developed from 1990 Census data and summarized to match AHS geography. Between 1995 and 1999, FMRs rose on average 9 percent, while inflation, as measured by the consumer price index, was 9.3 percent. Therefore, when adjusted for inflation, the constant-dollar 1995 FMRs should approximate actual 1999 40th percentile FMRs.

[4] To improve voucher success rates and facilitate mobility among voucher-holders, HUD announced a new Fair Market Rent policy in September 2000. Under the policy, public housing agencies experiencing difficulties using vouchers may obtain approval from HUD to set voucher payment standards based on the 50th percentile rent, rather than the 40th percentile FMR. In addition, HUD increased FMRs to the 50th percentile rent in 39 large metropolitan areas where there is both concentration of voucher-holders and evidence suggesting that this problem may be due to the distribution of affordable rental units in the area.

POLICY IMPLICATIONS

The findings in this report have important implications for policymakers at all levels of government – federal, state and local – with responsibility for shaping housing and economic development policies. The significant decline in the number of families with worst case housing needs between 1997 and 1999 confirms the effectiveness of the economic and housing policies adopted during the 1990s. But the continuing – and accelerating – reduction in the number of affordable rental housing units underscores the need for bold initiatives to meet the housing needs of very-low-income renters.

The most important policy implication is the need to continue the policies that led to the nation's economic growth and to real income gains among low-income families. The government must continue to pursue wise fiscal and budgetary policies to foster economic expansion and keep interest rates low. Other policies designed to increase incomes for low income Americans should also be strengthened, including the Earned Income Tax Credit, welfare-to-work programs, and economic development efforts to attract commercial investment and spur the creation of new jobs and businesses in underserved areas.

To continue to reduce worst case needs below the still unacceptably high level of 4.9 million families, additional steps also must be taken to address the affordable housing shortage. Promising strategies include:

I. Expand Rental Assistance

Over the past several fiscal years, Congress and the President have taken the important step of increasing Section 8 rental assistance for the nation's most vulnerable families. Despite the increase in the number of families assisted under Section 8, fewer than one out of four families eligible for all forms of federal rental assistance (including public housing and project-based assistance) actually receives it. While a massive increase in assistance on the scale necessary to completely make up this shortfall remains unlikely due to federal budgetary pressures, a significant increase in Section 8 assistance is desperately needed.

The Section 8 tenant-based voucher program remains by far the most effective and cost-efficient means of eliminating worst case needs. Most telling, vouchers alone could solve the worst case housing problems for 77 percent of the current families with such needs - that is, the 3.6 million very-low income renter households whose sole housing problem is a housing cost burden of 50 percent or more of their annual income. Vouchers have the added advantage of working with the private market to provide families with real choices of where to live and allowing flexibility to move near job opportunities, thus aiding welfare-to-work efforts. Recent legislative provisions, program improvements and streamlining of regulations have increases the program's flexibility and effectiveness.

II. Produce More Affordable Housing

One of the key findings in this report is that the number of rental units that are affordable to the nation's lowest income families continues to shrink, primarily as a result of rent increases. This accelerating drain on available housing resources, combined with barriers to the production of new affordable housing, requires a comprehensive response. While the production of new multifamily housing has rebounded from the stagnant period in the late 1980's and 1990's, it has yet to achieve the record levels of the late 1970's and early 1980's. In addition, much of the new production that does occur is focused on higher cost luxury rental units.

This decline in the new production of affordable rental housing is due to a number of factors, including the overall economic climate, changes in the federal tax code, the absence of significant federal production resources (particularly cost-intensive programs such as Section 8 New Construction and the Section 236 program), and local regulatory barriers and decision-making that hinder new construction or that allocate resources to middle income homeownership rather than affordable rental production. The following programs can help to reverse the tide and produce more affordable rental housing:

- There is a continuing need for FHA Multifamily Insurance in order to facilitate the availability of private market credit for affordable housing. FHA's Multifamily Risk Sharing program is particularly effective in this effort by combining the resources of federal and state housing agencies to leverage the maximum possible amount of private loan financing. Congress' recent enactment of legislation to make the Risk Sharing Demonstration a permanent program was an important recognition of this vital need. Further progress in developing an efficient secondary market for affordable multifamily loans is an essential component of this strategy.

- Recent legislation passed by Congress and signed by the President to increase available funding under the Low Income Housing Tax Credit program, as well as for Private Activity Bonds, is another essential component of an effective affordable housing production strategy. These increases will generate critically needed resources for State and local housing development agencies. The resources available to State and local government could be further enhanced by increasing resources for and effectively targeting the HOME and CDBG block grant programs.

- The strong evidence of a worsening decline in affordable housing also argues convincingly for a new targeted federal production program. Such a program should be targeted towards areas, types of units and renters that face the worst shortages of housing; it should be based on increasing the availability of affordable housing, either through new construction or through substantial rehabilitation of existing housing; and it should be structured so as to couple incentives for development (either through grant, loans, or loan guarantees) with rental assistance, which could take the form of tenant-based assistance to provide renter families with maximum housing choice.

- Other critical efforts to increase the availability of affordable housing should include the following: increased use of Section 8 for homeownership in those areas where homeownership costs less than rental housing; retaining the emphasis within HUD's Continuum of Care program on permanent housing with services as a long-term solution to the problem of homelessness, including building on recent Congressional enactment of a dedicated funding account of $100 million for the renewal of Shelter Plus Care contracts; further reform of HUD disposition of multifamily and single family properties, including improved coordination with local governments to better utilize this specific stock as a resource for expanding affordable housing opportunities; and efforts at the State and local levels to boost production, including removal of regulatory barriers and the encouragement of States to use welfare reform funds for housing initiatives that have been found to enhance welfare to work activities in localities across the country.

III. Retain Existing Affordable Housing

Finally, both the persistence of worst case housing needs for almost 5 million families and the accelerating decline in the affordable housing stock show the critical importance of maintaining the existing stock of good quality affordable housing. These efforts should include:

- full funding for the renewal of expiring Section 8 contracts (both tenant-based and project-based);

- continued provision of operating and capital funds to maintain and modernize public housing;

- continued funding for the HOPE VI initiative to transform obsolete public housing developments;

- continuing HUD's efforts to reduce the number of owners that are opting out from the project-based Section 8 program through the mark-to-market and mark-up-to-market programs, including improved coordination with State and local housing agencies to generate additional resources for the revitalization of this housing stock; and

- providing additional federal resources and establishing local initiatives to facilitate rehabilitation of existing private affordable housing.

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