DEFINING HOUSING AFFORDABILITY.

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DEFINING HOUSING AFFORDABILITY.

Housing programs in the United States have long measured housing affordability in terms of percentage of income. In the 1940s, the maximum affordable rent for federally subsidized housing was set at 20 percent of income, which rose to 25 percent of income in 1969 and 30 percent of income in 1981.

Over time, the 30 percent threshold became the standard for owner-occupied housing, and it remains the indicator of affordability for housing in the United States. Keeping housing costs below 30 percent of income is intended to ensure that households have enough money to pay for other non-discretionary costs; therefore, policymakers consider households that spend more than 30 percent of income on housing costs to be housing cost burdened.

A panel at the Conference on Housing Affordability, presented by the American Enterprise Institute, Bank of Israel, Board of Governors of the Federal Reserve System, Tel Aviv University, and the University of California at Los Angeles, focused on this measure of housing affordability. The panel, chaired by Susan Wachter, professor of real estate and finance at the University of Pennsylvania.

Housing costs reflect the price of housing units, neighborhood school quality, public safety, and access to jobs and amenities.

The panel explored the causes and consequences of high housing cost burdens and the challenges associated with the 30 percent of income affordability threshold [with] an alternative method of measuring housing affordability.

HIGH HOUSING COST BURDENS.

Housing cost burdens have greatly increased for low- and moderate-income renter households since the 1960s. Gary Painter, professor and director of social policy at the University of Southern California, pointed out that approximately 80 percent of renter households in the lowest income quintile and 60 percent of households in the lower-middle income quintile were cost burdened in 2014, paying more than 30 percent of household income for rent.

These high housing cost burdens can reflect distinct economic issues. Raphael Bostic, professor and chair for the Department of

Governance, Management and the Policy Process at the University of Southern California, highlighted how housing supply constraints and lags, declining or stagnating household incomes, or a combination of those conditions can result in housing costs that are high relative to income.

Painter noted that in some areas, high housing cost burdens may result from stable housing costs coupled with declining household incomes, whereas in other areas, high housing cost burdens may be driven by housing costs increasing more quickly than household incomes; not to mention taxes and insurance.

When the costs of available housing options in an area are high relative to household income, households may need to make tradeoffs, says Painter. In an effort to curb high costs, households may choose housing that is far from employment centers and would require long commutes or share housing with other households, which could lead to overcrowding. Alternatively, households might reduce spending in other areas, such as transportation, health care, food, and education, to offset high housing expenditures.

PERCENT OF INCOME STANDARD FOR HOUSING AFFORDABILITY.

Accurately understanding housing cost burdens is essential to determining the scope of housing needs and ensuring that families can afford other nondiscretionary costs, but defining affordability in terms of a percentage of household income creates challenges.

According to Painter, housing costs reflect more than just the price of housing units alone; these costs also account for neighborhood school quality, public safety, and access to jobs and amenities. The percentage of income standard for housing affordability may not fully consider the effects of housing and neighborhood quality. Housing that may appear affordable based on cost alone, for example, might be far from employment centers, increasing the percentage of income a household dedicates to transportation.

A household may also choose a low-quality housing unit or a low-opportunity neighborhood to reduce housing costs. As a result, the conventional measure of affordable housing may underestimate the number of households who are burdened by combined housing and transportation costs as well as the number of households in need of quality affordable housing.

Before introducing an alternative way to measure housing affordability, Danny Ben-Shahar, senior lecturer at Tel Aviv University, also noted that the percentage of income measure, as well as the housing price-to-income ratio that is used to determine the affordability of homes for purchase, may not provide insight into households’ preferences and housing consumption relative to their peer groups.

For example, households with higher incomes may voluntarily choose more expensive housing, which makes their housing costs appear less affordable, whereas households with lower incomes may do the opposite, choosing housing that is smaller, further away from employment centers, or less well maintained, which makes their housing costs appear more affordable.

Thus, the conventional measure of housing affordability may overestimate housing affordability issues for higher-income households and underestimate these issues for lower-income households.

AN ALTERNATIVE WAY TO MEASURE HOUSING AFFORDABILITY.

Ben-Shahar presented an alternative to the traditional housing price-to-income approach that accounts for variations in household incomes and preferences.
Ben-Shahar and his colleagues used location and demographic data to create median housing "consumption bundles" for groups that represent a specific set of demographic characteristics for a particular location.
Each household was then matched with the median consumption bundle for its group to calculate a standardized price-to-income ratio.

Using this method across a sample of major and tertiary metropolitan statistical areas (MSAs) in the United States, Ben-Shahar and his colleagues found substantially lower levels of housing affordability than those detected by the traditional measure of affordability.

Ben-Shahar and his colleagues also examined inequality in affordability or differences in housing affordability across individuals and groups, using the conventional and standardized measures of affordability.

They found that the standardized measure revealed higher affordability inequality between households with and without college-educated heads of households, between black and white households, and between renter and owner households in the studied MSAs.

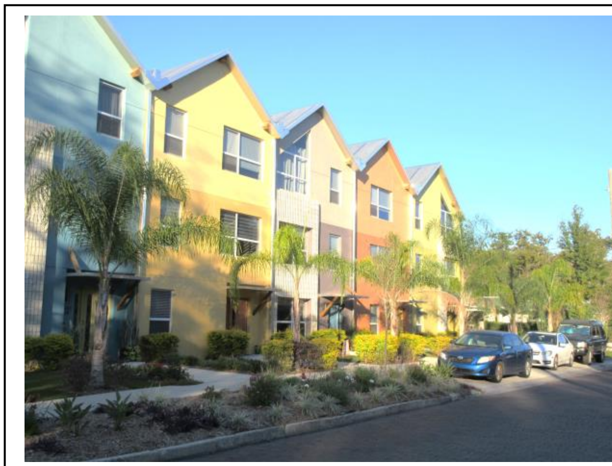
ENSURING AFFORDABILITY.

In addition to meeting the basic need for shelter, housing can also be a component of efforts to promote positive life outcomes for low- and moderate-income families. Research shows that affordable housing has the capacity to help improve residents' health, access to education, and employment prospects.

Conversely, high housing cost burdens are associated with negative life outcomes such as declines in mental health, reduced parental enrichment spending and cognitive achievement for low- and moderate-income children, and reduced educational attainment among children.

Ensuring that policymakers define housing affordability in a way that allows families to obtain quality housing and comfortably pay other nondiscretionary costs is important to helping those families thrive.

LINK: https://www.huduser.gov/portal/pdredge/pdr-edge-featd-article-081417.html



Small complexes of apartments or condos fit nicely on collector streets and corner lots of traditional neighborhoods.