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Housing: Critical for Working Families and Communities

Soaring housing costs in the United States are putting increasing pressure on the budgets of low- and moderate-income families. The Joint Center for Housing Studies reports that, in 2005, 17 million households spent more than 50 percent of their income on housing, considerably more than the recommended 30 percent.[1] Although the lowest-income households bear a greater portion of the severe housing burden, the problem exists across the entire distribution of household incomes. Experts point to several factors contributing to this widening affordability gap: erosion of the housing stock, high housing prices, a drop in real wages, a decline in middle-wage jobs, the expansion of low-wage jobs, increases in transportation costs, expensive development requirements, regulatory constraints, and insufficient housing assistance funds to meet the need.

Communities are increasingly concerned about the severe housing burden faced by many working families, because the quality of a community's workforce affects the health of its economy.

The Center for Housing Policy (CHP) has used American Housing Survey (AHS) data for its report, *The Housing Landscape for America's Working Families*.[2] In its analysis, CHP found that, out of 40 million working families in 2005, 5.2 million had critical housing needs, meaning that they were paying more than half of their income for shelter and/or living in severely inadequate housing. These low- and moderate-income families were earning anywhere from an annual minimum wage of $10,712 to no more than 120 percent of area median income

1. Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2007* (www.jchs.harvard.edu/).

2. Available at www.nhc.org/index/chp-research-publications.

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(AMI). Although both owners and renters with critical housing needs bore similar housing cost burdens, renters were twice as likely to live in severely inadequate units and overcrowded housing.

CHP's analysis of AHS data found that the total number of working families with critical housing needs increased by 73 percent between 1997 and 2005. During that time, severe housing cost burdens became a greater problem. The number of working families with critical housing needs who fell into the lowest income quintile—below 30 percent of AMI—rose from 14 to 22 percent; those earning between 80 and 120 percent of AMI increased slightly from 14.8 to 16.3 percent, thereby widening the spread across the income distribution range.

Communities across the country are increasingly concerned about the severe housing burdens many working families face, particularly because the quality of a community's workforce affects its economic health. Workers who staff the service sector, teach, provide medical care, fight fires, and enforce our laws are among those who are overburdened by housing costs and cannot afford a median-priced home. When the Brookings Institution analyzed the distribution of jobs and workers in the largest 150 U.S. metropolitan areas, analysts found that about 65 percent of the population and 60 percent of jobs are now in the suburbs, but a spatial mismatch exists between where people work and live. During the 1990s, lower-income suburbs experienced slow job growth but sharp population increases. At the same time, higher-income suburbs saw strong job growth and a need for both skilled and service workers. As a result, residents of lower-income suburbs and central cities increasingly commute to jobs located in higher-income areas. Access to jobs often depends on the distance between home and work, car ownership, commuting costs, and the layout of roads, highways, and transit lines.[3]

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In 2005, 17 million American households spent more than 50 percent of their income on housing.

The further away from their jobs workers must live to afford housing, the harsher the toll on families, businesses, and communities. Commuters are unable to participate in the activities that make schools and communities strong, and businesses find that undesirable commutes undermine productivity, workforce retention, and recruitment of skilled workers. Communities find it harder to attract new employers and jobs.

What Are the Solutions?

Many employers assist their employees with housing. Homeownership education, counseling, and financial assistance are often part of employee benefit packages, as are transportation subsidies. Employers may also invest in new construction or renovation projects dedicated to the workforce. State and local governments exercise a number of options to help increase the amount of land available for homes, generate capital and align resources for affordable development, reduce regulatory barriers to affordable housing, and help working families buy and maintain their homes.

3. Harry J. Holzer and Michael A. Stoll, "Where Workers Go, Do Jobs Follow?" December 2007, Brookings Institution (**www.brookings.edu/reports/2007/1231_cities_holzer.aspx**).

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The winners of the 2007 HUD Secretary's Best in American Living Award, sponsored by *Professional Builder* magazine and the National Association of Home Builders, were announced in February 2008. Three developments were honored for design excellence and innovation in affordable housing: Falcon Crest in California, the Roanoke and Lee Street Housing Project in Virginia, and Nevada Court in Texas.

The winning projects all:

- Have ENERGY STAR® appliances and home ratings;
- Target first-time homebuyers with low or moderate incomes;
- Offer assistance with financing; and
- Have homes that sell for less than the median home price in their respective metropolitan statistical areas.

Falcon Crest

Falcon Crest in Palm Desert, California has 93 affordable and sustainable single-family homes, each with 3 or 4 bedrooms. By incorporating green technologies, these homes exceed California's energy-efficiency standards by nearly 20 percent. Sustainable features include photovoltaic panels that cannot be viewed from the street, xeriscaping, panelized framing, and low-impact development site drainage.

The Spanish Revival-style homes in Falcon Crest feature recessed windows, brick and tile entry surrounds, decorative awnings, and wood-grained garage doors. The homes also incorporate universal design features to accommodate elderly or disabled family members, allowing residents to age in place.

Credit: ROBB MILLER PHOTOGRAPHY 2007

These Falcon Crest homes exceed California's energy-efficiency standards by almost 20 percent.

To make the homes more affordable, up to $50,000 in deferred payments from the local government, $30,000 in grants for downpayment assistance from California's Department of Housing and Community Development, and below-market interest rates from the California Housing Finance Agency are available to qualified homebuyers. Resale restrictions ensure that these homes will remain affordable for 45 years.

The Roanoke and Lee Street Housing Project

The Roanoke and Lee Street Housing Project in Blacksburg, Virginia—described in the July/August 2007 issue of Research*Works*—is an infill project of 14 duplexes within walking distance of downtown civic and retail amenities. The development incorporates green, sustainable materials and systems, such as cellulose insulation made from recycled paper (which reduces air infiltration, heat transfer, and sound transmission), double-paned vinyl windows with low-E glass, high-efficiency heat pumps, and HVAC systems that are up to 30 percent more efficient than those in the average new home. To blend in with the neighborhood, the homes feature front porches with metal roofs.

To make the Roanoke and Lee Street Housing Project affordable, a small cities community development block grant (CDBG) from Virginia's Department of Housing and Community Development, as well as HUD CDBG funds resulting from the town's designation as an entitlement community, subsidized construction costs. These resources, along with sweat equity and below-market permanent mortgages, help keep the homes within reach for low- to moderate-income homebuyers.

Nevada Court

Energy-efficient technologies and durable materials were also part of the plan to build affordable green homes in Nevada Court in Denton, Texas. Features incorporated in this project's 14 homes include water-conserving faucets, showerheads, and dual-flush toilets. Installing ductwork in air-conditioned spaces and meticulously sealing the building envelope enabled the developer to guarantee low utility costs, anticipated to be no more than $50 per month. The homes have no products containing formaldehyde or

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Affordable *and* Green?

"Green" affordable housing is housing that both costs no more than 30 percent of low- and moderate-income family earnings and has features that offer health, economic, and environmental benefits. According to the National Association of Home Builders, the benefits of building green are reduced operating costs, improved comfort, healthier indoor air, greater durability, and less maintenance. The green features implemented in a particular affordable home will vary, says the American Institute of Architects, depending on the climate, the materials and systems available, and the builder and homebuyer striking a balance between initial costs and long-term savings.

Does Building Green Really Cost More?

To test the common assumption that green building techniques are too expensive to be practical in affordable housing, New Ecology, Inc. (NEI) and the Tellus Institute surveyed green affordable housing projects from across the United States. The resulting report, *The Costs & Benefits of Green Affordable Housing* (see **www.newecology.org**), describes some projects that have achieved a sound affordable-environmental balance. One case study is of Columbia Terrace in Cambridge, Massachusetts, a renovation of 42 affordable apartments. Kitchens and bathrooms were redone, common areas upgraded, and improvements made in lighting, security, and stormwater management. The developer, a nonprofit community development corporation, used energy-efficient appliances and lighting, did some low-water-use landscaping, and recycled nearly 90 percent of the construction and demolition material generated by the project. The estimated additional cost of the green elements in this $9.58 million project was $58,955—almost entirely offset by $58,024 in ENERGY STAR® rebates.

NEI's systematic analysis of the costs and benefits of 16 of these projects found that the additional upfront cost of building green ranged from -18 percent to +9 percent and averaged 2.42 percent of total development costs, which were largely attributable to construction outlays. Over a projected 30-year life cycle, the benefits of building green were greater than the costs in all but two of the projects; the positive difference averaged over $15,000 per unit, due largely to reduced energy, water, and replacement costs. Most of these benefits will accrue to residents and owners over time. As a rule, developers did not realize a proportionate share of these benefits, although grants and rebates helped defray the extra expense of greening affordable projects. The study found few options other than long-term ownership through which developers could realize the fiscal benefits of green projects.

At the same time, social and market pressures to build green are gaining momentum. Leadership in Energy and Environmental Design (LEED) rating standards for building green homes have been released by the U.S. Green Building Council, and similar guidelines for green affordable housing are available from groups such as the American Institute of Architects, Green Communities, and Earthcraft House™. Guidelines such as those listed in the requirements of contractor bid packages submitted to the Housing and Redevelopment Division (HRD) of Santa Monica, California are further encouraging green building practices. Designed to let developers know they will be held accountable for making green affordable housing a priority, HRD's bid packages instruct bidders about the costs of recommended green practices as follows:

> Some ... involve no additional costs. Others may involve marginally or significantly higher initial costs. Please do not dismiss some items just because they may cost more, as the city may be willing to fund the increased cost in the interest of promoting a healthy environment.

LIHTCs Can Boost Greening

Federal low-income housing tax credits (LIHTCs) are also valuable tools for promoting the greening of affordable housing. The LIHTC program provides incentives to developers and investors in affordable rental housing. Each year, the IRS allocates housing tax credits to designated state agencies—usually state housing finance agencies—that award credits to developers of qualified projects through a competitive process. The state agency develops a plan to allocate the credits, giving priority to developments that will serve the lowest income families and remain affordable for the longest period. Developers may claim housing tax credits directly, but most sell them to raise capital for their projects. The buyer is either an investor or a syndicator who becomes part of the property ownership entity.

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Communities are also turning to regional approaches to address the shortage of housing for working families. This is evident in Florida, for example, where the median home price of $230,600 exceeds the national median of $185,200 and 36 percent of owners and 52 percent of renters pay at least 30 percent of household income for housing.[4] The housing needs of the labor force are a priority for the state's 12 Regional Planning Councils, as well as for the Florida Regional Stewardship Alliance (FRSA), organized by the Florida Chamber of Commerce Foundation to help design and implement regional growth strategies. FRSA's Southwest Alliance has projected workforce housing needs through 2025 for seven counties and has drafted a strategic plan that specifies roles for the private, public, and civic sectors, and recommends action at the state, regional, and local levels (available at **www.swfrsa.org/images/Workforce%20Housing.pdf**). Affordable housing as a regional planning priority is the subject of a recent analysis prepared by the American Planning Association for HUD's Office of Policy Development and Research and the Fannie Mae Foundation. Regional approaches that combine local, state, federal, and private resources in a comprehensive, collaborative effort to make housing affordable can be a successful strategy to help working families and local economies. The report, *Regional Approaches to Affordable Housing* (**http://www.huduser.org/publications/affhsg/reg_aff_hsg.html**), which describes initiatives around the country, can be downloaded at no cost by those seeking to address their affordable housing challenges.

4. American Community Survey, 2006 (**available at http://factfinder.census.gov**).

Rewarding Design and Innovation *continued from page 3*

other off-gassing chemicals, resulting in improved indoor air quality. Outside, each home is xeriscaped with drought-resistant native plants and is equipped with rainwater harvesting technologies.

Credit: Jane Provo, Denton Affordable Housing Corporation

The Nevada Court homes are affordable and green, thanks to improved indoor air quality, water-conserving fixtures, and a sealed building envelope.

Funding from the Federal Home Loan Bank of Dallas and HOME funds from the city of Denton provided low- to moderate-income homebuyers with assistance for downpayments and closing costs. Several building material and systems manufacturers provided reduced-cost supplies in exchange for public relations exposure, which helped offset development costs and made the homes more affordable.

The 2007 BALA award recipients all feature affordable homes that are innovatively designed and energy efficient. Details on the BALA award, as well as other HUD Secretary Award programs, are available at **www.huduser.org/research/secaward.html**.

The July/August 2007 issue of Research*Works* (volume 4, number 7) is available from HUD USER free of charge by calling 800.245.2691, option 1, or by visiting **www.huduser.org/periodicals/ResearchWorks/ResearchWorks.html**.

Assessing GSE Performance

The government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, play an integral role in promoting affordable homeownership in the United States. These institutions are charged with making credit accessible to low- and moderate-income families purchasing a home.

Alternative Assessments of GSE Performance, Influence, and Impact 1993 – 2003, published by HUD's Office of Policy Development and Research, analyzes the GSEs' market leadership by examining GSE purchases of mortgage loans made to five types of underserved families: very-low-income, low-income in low- to moderate-income areas, African American, Hispanic, and living in targeted (central city, rural, and other underserved) areas. In addition, the study attempts to determine the sources of GSE performance gains and the extent of the GSEs' influence on primary mortgage lenders to lend to the underserved.

Making Progress

Using Home Mortgage Disclosure Act and GSE Public Use databases for the years 1993 to 2003, the report finds that, although the GSEs have never led the mortgage finance industry in supplying capital to underserved markets, they are making progress in buying loans made to the underserved.

The GSEs consistently lag behind traditional lenders in making loans to the underserved, but from 2001 to 2003, they improved in all underserved categories except among Hispanics. In 2003, GSE purchases exceeded traditional lender originations to very low-income homebuyers for the first time. The Hispanic market fared less well; GSE loan purchases there increased by only 2.3 percentage points between 1993 and 1996 (4.97 percent) and between 2001 and 2003 (7.27 percent), with traditional lenders originating loans to Hispanics at a faster pace.

The author notes that limiting the comparison of GSE performance against traditional mortgage lenders minimizes the gains underserved families have made over the years in accessing capital from all lending sources, including subprime and manufactured housing lenders — two sources with which the GSEs have had traditionally limited interaction. For example, when all traditional and conventional lenders are included, lending to African Americans improved from 3.64 percent in 1993 to 6.46 percent in 2003. By comparison, traditional lending to this group showed

More flexible and accurate underwriting, as well as programs aimed at underserved market borrowers, may have helped improve the GSEs' performance between 1993 and 2003.

a smaller gain, from 3.57 percent in 1993 to 5.01 percent in 2003. When evaluated using the more inclusive lender definition, the GSEs' underserved mortgage purchases still increase, but the gap in progress between lenders and the GSEs becomes much wider.

Another way to assess GSE performance is to compare the GSEs' underserved loan purchases against those of other secondary mortgage market buyers. The data show the GSEs trailing other secondary market competitors in holding underserved loans. However, just as with traditional lenders, GSEs' purchases increased between 1993 and 2003, closing the gap in all markets except among Hispanics. Moreover, in the years 2001 to 2003, the GSEs led secondary mortgage buyers in purchases of very low-income loans. When comparing Freddie Mac and Fannie Mae, Fannie Mae generally purchases a higher percentage of underserved loans than Freddie Mac.

Another measure of the GSEs' market leadership comes from analyzing underserved loan activity by traditional lenders. Theoretically, the more loans sold to GSEs by a primary lender, the more activity that lender shows in underserved markets. However, the data show the opposite; during the early years, primary lenders conducting the most business with GSEs were less likely to make loans to underserved markets. This trend is changing, however, and now lenders selling loans to GSEs are more likely to make loans to very-low-income borrowers.

Sources of Progress

The study attributes GSE performance gains to three possible sources. First, the purchase of seasoned loans

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Affordable *and* Green? *continued from page 4*

Two recent studies have sought to determine the extent to which LIHTCs are used to boost the greening of affordable housing. In 2005, Global Green USA released a study showing how states encouraged the use of green practices in affordable housing programs through the criteria they used to allocate LIHTCs.[1] The researchers identified tax credit policies that rewarded four sets of green building practices: smart growth, energy efficiency, resource conservation, and health protection. The researchers found that only 17 states had established some criteria in each of the four categories, and concluded that significant potential exists in states' green building requirements.

Enterprise Community Partners (ECP) has also studied states' green affordable housing policies, as reflected in their plans for allocating LIHTCs.[2] ECP's research focuses on five categories of greening practices: energy efficiency, sustainable site selection, resource conservation, enhanced indoor air quality, and other sustainable development practices. This review also goes beyond the formal allocation plans for LIHTCs, recognizing green elements in other relevant state regulations and policies. ECP concludes that all states address sustainable development in some way and that most states encourage affordable green building. After repeating this study in each of the past three years, ECP observes a trend in which green elements continue to gain a stronger position in state housing credit allocation plans.

Along with incentives to plan and build affordable green housing, developers have other ways of keeping the extra upfront costs low. The Partnership for Advancing Technology in Housing (PATH), a public-private partnership spearheaded by HUD and aimed at advancing housing technology, has explored the resources available for financing affordable green construction. Noting that developers can save in both the short and long term, PATH points to green building options that cost less right from the start of a project, such as using recycled materials and resource-efficient design and construction practices. A list of resources and web links to assist developers in all aspects of greening affordable housing, compiled by PATH, includes information on financing, tax credits, tax incentives, energy rebates, and discounts. To learn more, visit "Affordably Green" at **www.pathnet.org/sp.asp?id=24008** where you will find this compendium.

1. The report *Making Affordable Housing Truly Affordable: Advancing Tax Credit Incentives for Green Building and Healthier Communities* is available at **www.globalgreen.org/media/greenbuilding/qap_report_2006.pdf**.

2. The report *Greener Policies, Smarter Plans* is available at **www.practitionerresources.org/showdoc.html?id=65431**.

Assessing GSE Performance *continued from page 6*

established with a record of steady payment is credited with a small but positive impact on GSE performance in the underserved market since 1995. Second, GSE loan purchases are more likely than in earlier periods to be from the most underserved groups. In fact, these purchases became more likely to involve more than one underserved characteristic. Third, more flexible and accurate underwriting, as well as programs aimed at underserved market borrowers, may have helped improve GSE performance. Finally, the author suggests that the new affordable housing goals set by HUD in 2000 have helped the GSEs remain goal-oriented and motivated over time.

Paths for Further Improvement

Despite these performance gains, the study suggests that the GSEs must further demonstrate their leadership and improve access to affordable mortgages for low- and moderate-income families. Possible ways for the GSEs to better serve underserved markets include exerting greater influence on their primary mortgage lending partners, expanding efforts in the subprime and manufactured housing arenas, and improving outreach to Hispanics.

Alternative Assessments of GSE Performance, Influence, and Impact 1993–2003 can be downloaded at no cost at **www.huduser.org/publications/polleg/altassessment_gse.html**. Two recent working papers show that GSE performance has continued to improve since this analysis was completed. These manuscripts, Working Paper No. HF-017, "Goal Performance and Characteristics of Mortgages Purchased by Fannie Mae and Freddie Mac, 2001–2005" and Working Paper No. HF-018, "The GSEs' Funding of Affordable Loans: A 2004–05 Update," are available online at **www.huduser.org/publications/hsgfin/workpapr.html**. To learn more about HUD's affordable housing goals for GSEs, go to **www.hud.gov/offices/hsg/gse/gse.cfm**.

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In the Next Issue of... research*works*

- Representatives from historically black colleges and universities (HBCUs) recently gathered in the nation's capital to share accomplishments made possible by HUD's HBCU Community Development Grant program. The ensuing roundtable discussion reflected a wide range of activities through which HBCUs both enrich their educational programs and help to make their local communities stronger. R*W* will visit the program's objectives and the successes highlighted during this meeting hosted by HUD's Office of University Partnerships.
- The new issue of *Cityscape* features a symposium stemming from research on households receiving HUD housing assistance. We'll look at results of investigations into how participants in the Housing Choice Voucher program exercise their choice of neighborhoods in which to live and what helps shape their decisions. We'll also see what researchers are learning about the effect of housing assistance on the concentration of poverty, the effect of the age mix of children in voucher families on program longevity, and perceptions of neighborhoods.
- Fannie Mae Foundation's Maxwell Awards of Excellence program examines outstanding work by nonprofits in developing and maintaining affordable housing. In 2007, the awards went to creative and innovative developments designed to provide supportive housing to homeless youth, families, veterans, and chronically homeless individuals. R*W* examines the latest and most effective ideas in housing solutions for these populations as showcased by these awards.
- The Low-Income Housing Tax Credit (LIHTC) Database is now updated through 2005. R*W* will highlight contents of the database, characteristics of LIHTC projects, and how this large subsidy program for the construction and rehabilitation of low-income rental housing has stimulated rental housing production.

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