

Unaffordable Housing: A Root Cause of Social Inequality

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Premise

Social inequality is the new philanthropic buzz phrase that covers a wide-range of hard-to-resolve societal problems. For example: racial bias; right-to-vote issues; inferior schools; low paying job opportunities, homelessness and limited access to quality nutrition and health care.



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In our view, rundown apartment units located in desperately poor neighborhoods are a root cause of many quality of life issues. And these issues will only become more widespread, intractable and irreversible as the crisis of unaffordable housing continues to spread from poor, underclass households to those earning average median incomes and above.

According to a study by the NYU Furman Center and Capital One, from 2006 to 2013 the percentage of low and moderate income renters facing severe rent burdens increased substantially in many large metro areas across the country. The number of U.S. households that spend at least half their income on rent could increase 25% to 14.8 million over the next decade according to a report by the Joint Center for Housing Studies of Harvard University (“JCHS”) and Enterprise Community Partners.

According to the report significant numbers of households in higher income brackets—80% to 120% of area median income—also struggle to find affordable rental units in all 50 states. This lack of “workforce housing” results in their inability to live in or near the places where they work. In high-cost metro areas, two-thirds of renters earning between \$30,000 to \$45,000 and half of those earning \$45,000 to \$75,000 have disproportionately high housing costs. This is at a time when average median incomes in America’s largest metro areas range from around \$50,000 to just over \$63,000, according to the U.S. Census Bureau.

The need for affordable housing subsidies is already overwhelming the resources of federal, state and local governments, leaving them unable to provide adequate assistance. And regrettably, the philanthropic community has basically abandoned funding services that improve the lives of the residents—after school programs, summer camps, health & wellness and financial literacy, to name a few. Government must increase its commitment to affordable housing. It is clear, if we are to tackle social inequality in this country, housing and related services must become a top priority of these funders.

Where We Have Been . . .

Fifty years ago, President Lyndon B. Johnson launched his Great Society, a set of domestic programs to eliminate poverty and racial injustice in America. According to some estimates, we've spent upwards of \$22 *trillion* taxpayer dollars in hopes of creating such a society. Yet fundamentally little in the way of poverty and racial injustice has changed. Today, 46.5 million Americans live in poverty, 16.1 million of whom are children. Millions live on the edge, one job loss or one illness away from an impoverished existence.

Why has this monumental—and costly—social endeavor failed? While there are a number of reasons, a key component of social inequality is our housing policies, which for decades have simply created islands of poor and low income families who, for all intents and purposes, have been ignored and cut off from mainstream society.

Our housing policies have forced entire generations of Americans into neighborhoods—whether labeled public housing, low income housing, or under capitalized affordable housing—offering little supportive educational or social services. The result has been unemployment, ever increasing crime rates, drugs, gangs, domestic violence, child abuse, high rates of incarceration and premature deaths.

Consequences of Ignoring the Crisis

Where and how people live either provides or deprives them of opportunities to engage in healthy and prosperous lives. However, the fact is that it's not only those who live in unhealthy homes and environments who are affected. All of society suffers when people are denied decent, safe, affordable housing.

When people are forced to spend as much as 50% of their income on housing the following are often the result:

- They live in substandard housing. For many, however, the infrastructure of their neighborhoods is important to them—churches, relatives and friends nearby, public transportation, social services, etc. Moving new affordable housing to the suburbs is not the panacea some believe. Much needs to be done to preserve deteriorating housing and improving neighborhoods in the urban cores.
- Those who seek nicer housing at affordable rent farther from urban areas find themselves pushed further distances from their work. This not only places a strain on them and their families with respect to commuting times and costs, but also on their employers who often experience higher absenteeism and worker turnover rates, greatly adding to the cost of doing business.
- They are often forced to rely on fast food establishments for their caloric intake. A family can buy a lot more calories for \$10 at McDonald's than at the fresh fruit and vegetable section in a grocery store (if they have access to a grocery store) plus there's no preparation required after a long workday and commute. According to the Centers for Disease Control and Prevention, the estimated annual medical cost of obesity in the U.S. was a staggering \$147 billion in 2008 U.S. dollars.

- They cannot afford to, or have the opportunity to, educate themselves or their children in order to achieve higher-paying jobs and work opportunities that would help them break their cycle of financial struggle and poverty. Substandard urban schools are the norm and job training is inadequate at best. This places a greater burden on our already costly social and entitlement programs.
- The above lead to higher degrees of stress, frustration and hopelessness, creating a downward spiral of human suffering and an increase in public costs. Clean safe affordable housing can stabilize neighborhoods and be a springboard for greater opportunity.

Income & Housing

Anyone who works a 40-hour week in the United States of America, the world's richest nation, should be able to afford life's basic necessities, especially decent, safe housing. Yet, according to the National Low Income Housing Coalition, a family with one full-time worker earning the minimum wage cannot afford the fair-market rent for a two-bedroom apartment anywhere in the United States.

Local community development corporations (CDCs) and other mission-driven not-for-profit housing groups must compete with well capitalized, market-rate private developers in an already tight housing market. Research tells us that without support for affordable housing, affordable housing developers are unable to supply new rental units at rents that are low enough for low income households. With rental restrictions expiring for roughly 30% of the 1.34 million units of affordable housing created by a HUD program known as Section 8 project-based rental assistance (400,000 affordable units), housing advocates fear that these properties will be converted to market rate properties by developers seeking to cash in on gentrifying neighborhoods, typically displacing the existing tenants.

The Low Income Housing Tax Credit Program ("LIHTC") has been an extremely effective tool to create and preserve affordable housing; it is a prototypical public/private program. According to the National Council of State Housing Agencies, the LIHTC program has provided the financing for the development or preservation of nearly 2.8 million units. But the number of tax credits allocated to the states annually doesn't come close to meeting the needs of communities nationwide. Typically there are applications submitted for two to three times the number of housing credits the state agencies have to allocate. The need for quality affordable housing has never been more critical. In 2012, there were 11.5 extremely low income renters and only 3.3 million affordable apartments available to them—a gap of 8.2 million units. Without the Housing Credit, it is uneconomic to develop apartments for low income families. According to Harvard's JCHS, in order to develop new apartments affordable to people working full time earning the minimum wage, without subsidy construction costs would have to be reduced by 72% of the current construction cost average.

Since the 1980s, wages have failed to keep up with the cost of housing, whether one rented or owned. During the late 1990s and early 2000s, housing prices were rising 10 percent to 20 percent or more per year, depending on where in the country one lived. Yet, according to the Economic Policy Institute, wages have grown only six percent since 1979, after accounting for inflation. In more recent years, real income for the median household has been level or declining each year since the recession that began in 2008, according to the U.S. Census Bureau. In 2014 that number remained 6.5 percent *lower* than it was in 2007. More than 55 percent of American adults—approximately 138 million people—are struggling financially, reports the Stewards of Affordable Housing for the Future (SAHF). Unless wages begin to rise or affordable rents become more available, there will be no housing relief in the foreseeable future for millions of families.

Lingering Impact of the Great Recession

To add insult to injury, the last recession served to exert enormous pressure on an American middleclass struggling for decades to purchase housing they could comfortably afford. From the early- to late-2000's, the only way many first-time buyers were able to get into the housing market was through highly leveraged mortgage products. After they purchased their homes, which they thought would continue to increase in value, these families believed that they had arrived, that they were now living the American Dream—only to be rudely disappointed when the downturn came.

As of June 15, 2015, as a result of the 2008 housing collapse, 5.1 million households owed more on their mortgages than the current value of their homes, according to Corelogic. Worse yet, since 2004, more than 7 million families have already lost their homes to foreclosure (with an additional 1.4 million still in the foreclosure pipeline) and are now forced to rent—or in the worst-case scenario, are homeless! From 2004 to the second quarter of 2015, homeownership rates have fallen from a record high of 69.2 percent to 63.4 percent, the lowest level of homeownership since 1967, according to a study by Harvard's JCHS and Enterprise. Consequently, there are more renters now than at any other time in U.S. history, which places greater stress on an already short supply of affordable rental units. This does not paint an encouraging picture for a middleclass that's continually being hollowed out by low-paying jobs, stagnant wages and high housing costs.

Conclusion

It is our strong belief that social inequality cannot be resolved without fixing our housing crisis. The question is: *How do we resolve this affordable housing crisis?*

- Build support among public and private sector leaders for increased funding. Because the private sector is focused more on profits than affordability, and governments at all levels are cutting back their funding for affordable housing assistance programs, a new financial commitment must be made by both the federal government and not-for-profit donors to solve the critical housing needs of people of low to moderate income.
- Re-engage the philanthropic community. Not-for-profit affordable housing developers also provide services that improve the quality of tenants' lives. However, this critical activity which directly attacks social inequality has become a herculean financial struggle because funders have abandoned resident service providers in recent years. It is an important enhancement of housing that requires a renewed focus and financial commitment from an enlightened philanthropic community.
- Everyone needs to see this housing crisis for what it is—i.e., a root cause of social inequality. If we don't, we will continue to see the supply of affordable housing erode, even for the middleclass, dampening the cherished American dream of upward mobility.

As a nation, we need to recognize these facts and politically commit to larger dollar allocations through a more rational and targeted housing policy. Affordable housing for all should be a national priority. Congress and philanthropic institutions must become aware that without providing additional financial and program support, the unaffordable housing crisis, a root cause of social inequality, will only go from bad to worse.

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