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Addressing the Affordable Housing Crisis Requires Expanding Rental Assistance and Adding Housing Units

By Peggy Bailey

Rents have increased over the last two years at a historic rate. Between December 2017 and September 2022, the median rent for newly leased units rose nearly 32 percent, with nearly all of that increase occurring in 2021 and 2022.¹ (See Figure 1.) These higher rents are especially hard for families with the lowest incomes to absorb. Closing the housing affordability gap will require a comprehensive housing strategy, including developing new units, preserving existing affordable housing, and expanding rental assistance. Expanding the Housing Choice Voucher program, as the 2023 House-passed Transportation-Housing and Urban Development (HUD) funding bill calls for, would most immediately help renters absorb cost increases. Such an expansion would help reach renters with the lowest incomes.

Over the long term, lawmakers should enact major additional rental assistance expansions, with the goal of making assistance available to everyone who is eligible. Rental assistance provided directly to tenants gives people more choice of where to live and the opportunity to reduce segregation of people with low incomes, can also be project-based to support new affordable housing units.

Policymakers at the federal, state, and local levels can further address the crisis in housing affordability by making additional capital investments in housing and taking related actions, including:

- Reducing the shortage of deeply affordable rental housing, implementing a housing developer-focused renters' tax credit, and reversing restrictive local zoning practices;
- Preventing the loss of existing affordable housing;

¹ <https://www.apartmentlist.com/research/national-rent-data>

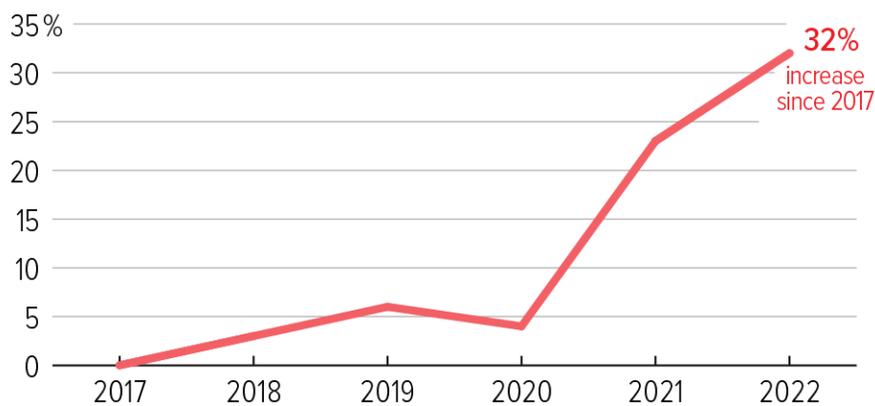
We chose Apartment List data over other private rent estimates for our analysis due to several factors: public availability of its data; commitment to methodological transparency and accessibility; and usage of Census Bureau American Community Survey data to produce rent estimates that are more representative of the entire rental market.

- Improving the Low-Income Housing Tax Credit program;
- Investing in tribal communities' housing needs;
- Removing barriers to homeownership; and
- Reforming project-based housing programs to encourage higher-quality housing.

FIGURE 1

Rents Still Rising Swiftly in 2022 After Surging in 2021

Percent change in Apartment List Rent Estimates since 2017



Note: Percent change in Apartment List Rent Estimates for 2018 to 2021 is calculated using the percent change between the median rent estimate for rental units of all bedroom sizes for December of each year from December 2017. Percent change for 2022 is calculated using the percent change between the median rent estimate for September 2022 from December 2017. Median rent estimates are not adjusted for inflation. For more details on the Apartment List Rent Estimates methodology, see: <https://www.apartmentlist.com/research/rent-estimate-methodology>

Source: Apartment List Rent Estimates

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Rent Burden Among Families With the Lowest Incomes Is a Long-Standing Issue

While rising rent costs are currently headline news, the housing affordability crisis has existed for years, primarily due to the gap between families' incomes and their rent costs.² (See Figure 2.) This, coupled with the fact that federal rental assistance only reaches about 1 in 4 likely eligible households, means that millions of families have long struggled to afford housing and meet other basic needs such as food, clothing, and transportation.

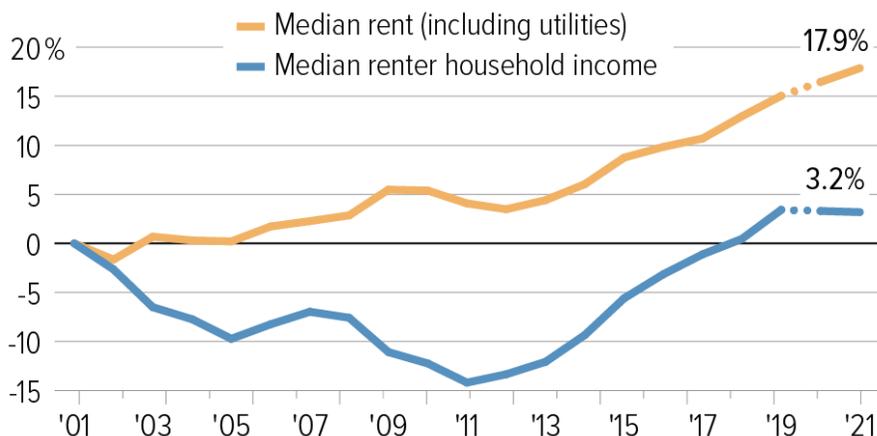
² Erik Gartland, "2019 Income-Rent Gap Underscores Need for Rental Assistance, Census Data Show," CBPP, September 18, 2020, <https://www.cbpp.org/blog/2019-income-rent-gap-underscores-need-for-rental-assistance-census-data-show>.

In 2019, about 9.4 million households without rental assistance paid more than 50 percent of their income on rent or lived in severely inadequate housing. Of these renters, 7.8 million were very low income, defined by HUD as at or below the federal poverty line or 50 percent of area median income, whichever is higher.³ These counts don't include the almost 600,000 people who experience homelessness on any given night,⁴ or the millions of people who are living doubled up⁵ or are unnecessarily institutionalized due in part to an inability to afford a place to live on their own.⁶

FIGURE 2

Housing Costs Climbed During Pandemic While Renters' Incomes Stagnated

Percent change since 2001, adjusted for inflation



Note: Dashed line indicates missing 2020 1-year ACS data due to pandemic-related data collection issues.

Source: CBPP tabulations of the Census Bureau's American Community Survey

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Vouchers Are Essential to Fixing the Affordable Housing Crisis

The federal government began investing in public housing developments to make housing affordable to people with low and moderate incomes. Initially, in the aftermath of World War II, primarily white people lived in public housing due to housing segregation and a federal focus on the

³ Harvard Joint Center for Housing Studies, "America's Rental Housing 2022," 2022, https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2022.pdf.

⁴ National Alliance to End Homelessness, "State of Homelessness: 2022 Edition," <https://endhomelessness.org/homelessness-in-america/homelessness-statistics/state-of-homelessness/>.

⁵ Erik Gartland, "Hidden Housing Instability: 37 Million People Live in Doubled-Up Households," CBPP, September 6, 2022, <https://www.cbpp.org/blog/hidden-housing-instability-37-million-people-live-in-doubled-up-households>.

⁶ Gina Schaak *et al.*, "Priced Out: The Housing Crisis for People With Disabilities," Technical Assistance Collaborative, 2017, <https://www.tacinc.org/wp-content/uploads/2020/04/priced-out-in-2016.pdf>.

housing needs of returning white war veterans. Public housing developments helped residents quickly stabilize their housing and move on to unassisted housing and homeownership.⁷

But over time — and not coincidentally — as people of color increasingly moved into public housing units, the government failed to provide enough funding to make up the growing gap between what people could pay in rent and what it cost to maintain developments in good condition, which caused public housing properties to deteriorate and surrounding communities to suffer.⁸ It's estimated that over \$70 billion is currently needed to revitalize public housing; that amount doesn't include addressing the lack of adequate ongoing maintenance costs.⁹

As a result, families with the lowest incomes have limited access to public housing, nor can they find housing that is affordable given their incomes in the private rental market. Even if landlords charged only what they'd need to cover their costs of ongoing operations, general maintenance, and debt payments owed on the development, the rents would exceed many people's ability to afford their rent.

For example, in 2019, the average income for a household designated as “extremely low income,” defined as 30 percent of area market income or below, was \$11,318 per year. That same year, the average monthly operating cost for a rental unit — the cost for a landlord or property owner to break even, not including any profit — was about \$520 per month, or a little more including utilities. HUD generally considers a unit affordable if rent and utilities do not exceed 30 percent of income. In this scenario, 30 percent of \$11,318 is \$283 per month, about half of the landlord's minimum costs — and most housing costs more than this minimum calculation. The gap between the cost of housing and what households can afford must be closed either by households using more of their income on rent — further straining their ability to pay for their basic needs — or with housing subsidies.

To address these challenges, the federal government has turned to tenant-based rental assistance, typically in the form of federal Housing Choice Vouchers, which subsidize housing costs in private rental housing. Compared to public housing, tenant-based rental assistance:

- Gives people more choice of where to live;
- Provides the opportunity to reduce segregation of people with low incomes, who are disproportionately people of color, in neighborhoods that have historically been and continue to be disinvested in;
- Can be used where people live now so a new unit isn't necessarily needed and the family feels immediate relief; and

⁷ Richard Rothstein, *The Color of Law: A Forgotten History of How Government Segregated America*, Liveright, 2017.

⁸ *Ibid.*

⁹ Will Fischer *et al.*, “An Agenda for the Future of Public Housing,” CBPP, March 11, 2021, <https://www.cbpp.org/research/housing/an-agenda-for-the-future-of-public-housing>.

- Can be project-based, up to a certain amount, to support new affordable housing units and to restructure long-term financing for redeveloped public housing properties, which helps stabilize funding for ongoing operating costs.¹⁰

Vouchers Support Affordable Housing Development

Vouchers can also support new rental housing development. This is done when housing agencies tie vouchers to a specific unit (known as “project-based vouchers”) to guarantee that developments include units affordable for families with low and extremely low incomes.¹¹ The value of these vouchers is promised in advance and included as part of the financing structure for the development. This structure ensures that at least some of the operating costs will be covered, which also lowers the risk to lenders. For example, many buildings with units dedicated as permanent supportive housing for people experiencing homelessness who also have disabilities use project-based vouchers to make units affordable for this population.

One of the benefits for tenants of project-based vouchers over other federal project-based assistance programs (like public housing) is that if the tenant wants to move after the first year, they are guaranteed the next available tenant-based voucher, which allows them to live wherever will accept the voucher. The housing property with the project-based voucher keeps that subsidy for the next tenant.

Expand Vouchers to Make Immediate Impact on Affordability

The House-passed Transportation-Housing and Urban Development bill’s funding level of \$1.1 billion would be enough to help about 100,000 to 140,000 additional families afford safe, stable homes. Most immediately, in 2023 appropriations legislation, Congress should provide as much of that \$1.1 billion for new vouchers as possible, in addition to providing enough funds to cover the cost of existing vouchers. Some argue that increases to the voucher program would push up rents by increasing demand for rental units and contribute to inflation; however, research on previous voucher expansions has found that vouchers have little overall impact on housing demand or market rents.¹² Hence, they should have little direct effect on inflation. It is also important to understand that many new voucher holders are current renters who, if their current unit meets inspection standards and their landlord will accept a housing voucher, can use assistance to help pay their current housing costs.

Also, the voucher program’s payment rules include elements that constrain housing costs. The program’s payment standards cap subsidies based on moderate rents in local markets, and housing agencies must certify that rents are reasonable compared to rents charged for similar, unassisted units in the community.

¹⁰ U.S. Department of Housing and Urban Development, “Rental Assistance Demonstration (RAD),” Accessed August 29, 2022, <https://www.hud.gov/RAD>.

¹¹ CBPP, “Policy Basics: Project-Based Vouchers,” updated January 7, 2022, <https://www.cbpp.org/research/housing/project-based-vouchers>.

¹² Will Fischer, “Vouchers Can Help Families Afford Homes, With Little Impact on Market Rents,” CBPP, December 7, 2021, <https://www.cbpp.org/research/housing/vouchers-can-help-families-afford-homes-with-little-impact-on-market-rents>.

Without rental subsidies, families are at risk of the negative outcomes caused by housing instability such as eviction, homelessness, and frequent moves.¹³ The overwhelming research on the voucher program shows that the gains for families far outweigh concerns about impact on the housing market.

Over the long term, lawmakers should enact major additional rental assistance expansions, with the goal of making help available to everyone who is eligible. Currently, only 1 in 4 households who are likely eligible for federal rental assistance receive it. This has real-world negative consequences on people and communities, with research showing the negative impacts on health, childhood well-being, employment, and housing stability that result from families struggling to afford their rent.¹⁴ President Biden's 2023 budget and the House-passed version of the Build Back Better Act included significant voucher expansions to move toward this goal.¹⁵

Additional Investments Needed to Address Long-Term Affordability Gap

Closing the housing affordability gap will require a comprehensive housing strategy that includes both the expansion of rental assistance and development of new units. Essential housing capital investment and other related actions include:

- **Reducing the shortage of deeply affordable rental housing.** HUD's "Our Way Home" initiative recommends expanding the capacity of the Low-Income Housing Tax Credit (LIHTC), which is a tax credit to developers to build multifamily housing for families with incomes of about 60 percent (on average) of area median income; increasing funding for flexible HUD programs that can support affordable housing development like HOME, the Community Development Block Grant, and the Housing Trust Fund; and directing more resources for manufactured housing. These actions would increase the available housing stock and meet more of the demand for rental housing.¹⁶ Additionally, implementing a renters' tax credit¹⁷ and reversing restrictive local zoning practices to allow for more multifamily development would also increase affordable housing creation.

¹³ Sonya Acosta, "Investing in Housing Vouchers Critical to Protecting Children from Hardship, Building More Equitable Future," CBPP, November 16, 2021, <https://www.cbpp.org/research/housing/investing-in-housing-vouchers-critical-to-protecting-children-from-hardship>.

¹⁴ Will Fischer, Sonya Acosta, and Erik Gartland, "More Housing Vouchers: Most Important Step to Help More People Afford Stable Homes," CBPP, updated May 13, 2021, <https://www.cbpp.org/research/housing/more-housing-vouchers-most-important-step-to-help-more-people-afford-stable-homes>; Matthew Desmond and Carl Gershenson, "Housing and Employment Insecurity among the Working Poor," *Social Problems*, 2016, pp. 1-22, <https://scholar.harvard.edu/files/mdesmond/files/desmondgershenson.sp2016.pdf?m=1452638824>.

¹⁵ Will Fischer, "President's Budget Would Provide More Vouchers to Help Families with Rising Housing Costs," CBPP, April 20, 2022, <https://www.cbpp.org/blog/presidents-budget-would-provide-more-vouchers-to-help-families-with-rising-housing-costs>; Ann Oliva, "BBB Includes Major Investments in Housing Affordability," CBPP, November 4, 2021, <https://www.cbpp.org/blog/bbb-includes-major-investments-in-housing-affordability>.

¹⁶ U.S. Department of Housing and Urban Development, "Our Way Home," accessed August 29, 2022, <https://www.hud.gov/ourwayhome>.

¹⁷ A project-based renters' credit gives states credits that they would allocate to rental housing owners and developers for use in particular developments. Families living in renters' credit units would pay no more than 30 percent of their

- **Preventing the loss of existing affordable housing.** Resources are needed to preserve the existing privately owned affordable housing stock. About 6 percent of the federally assisted privately owned housing stock is set to lose affordability restrictions by 2025 due to expiring affordability agreements. Based on past data, owners are likely to allow about half of those units to charge higher rents, resulting in the near-term loss of about 176,000 affordable units.¹⁸ But the federal government can help prevent this loss by incentivizing LIHTC property owners to keep their developments affordable once their initial contract term ends.

Preservation of existing affordable units can also include redeveloping existing public housing properties through tools such as the Rental Assistance Demonstration program; investing in redevelopment resources to revitalize older LIHTC properties and other older, deteriorating properties that receive HUD assistance, such as through the Project-Based Rental Assistance program; and incentivizing landlords to rent to families with low incomes — especially families receiving Housing Choice Vouchers.

- **Improving the Low-Income Housing Tax Credit Program.** Policymakers should reform LIHTC to incentivize states and developers to make more units affordable to people with incomes below the program’s eligibility limit (although many low-paid workers and others with extremely low incomes will still need a voucher or other rental assistance to afford these units). This can include increasing the amount of tax subsidy provided for properties that dedicate units to people with the lowest incomes (known as increasing the “basis boost”), amending state LIHTC application requirements (i.e. Qualified Action Plans) to include extra points for projects that will allow people with lower incomes to afford units, and dedicating federal or state resources to reducing developers’ predevelopment costs.
- **Investing in tribal communities’ housing needs.** Tribal communities’ housing needs are unique. Native American housing programs — particularly the Indian Housing Block Grant, the Indian Community Development Block Grant, and the Native Hawaiian Housing Block Grant — need greater resources to address the high rates of housing hardship faced by American Indians and Alaska Natives living on tribal lands and Native Hawaiians living on the Hawaiian homelands.
- **Removing barriers to homeownership.** There is a shortage of affordable single-family homeownership opportunities due to a low supply of homes and challenges facing first-time buyers. If fewer people can buy homes, then more people remain in the rental market, creating a shortage of rental units and driving up costs. Down payment assistance for first-time homebuyers and other policies to make it easier for families to obtain mortgages are critical to relieving pressure on the rental market.
- **Reforming project-based housing programs to encourage higher-quality housing.** Most project-based federal assistance does not let families move and keep their housing subsidy. These programs should be reformed to allow tenants to have true choice in where

income for rent and utilities — the accepted federal standard of affordability — and the rental unit’s owner would receive a federal tax credit in return for reducing the rent to that level. For more on the renters’ tax credit, see <https://www.cbpp.org/research/topics/renters-credit>.

¹⁸ Andrew Aurand *et al.*, “2021 Picture of Preservation,” Public and Affordable Housing and Research Corporation and National Low Income Housing Coalition, October 2021, https://preservationdatabase.org/wp-content/uploads/2021/10/NHPD_2021Report.pdf.

they live. This will put pressure on landlords and owners to improve the quality of their units and will reduce neighborhood segregation of people with low incomes.