



# Meeting the Challenges of the Growing Affordable Housing Crisis

Expanding and Improving the Housing Tax Credit

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# AN AFFORDABLE HOUSING AND HOMELESSNESS CRISIS

America is facing an affordable housing crisis that grows deeper every day. According to a new report issued last week by the National Low Income Housing Coalition, we face a nationwide shortage of 7.4 million affordable rental homes available to the most vulnerable, extremely low-income citizens.

**This is a 60 percent increase from 2000, when the gap was 4.6 million.**



From 2000 to 2013, the total number of Americans facing extreme housing unaffordability has exploded, from 7 million to 11.2 million, a nearly 60 percent increase. In Washington state, nearly 400,000 households are paying half their monthly income in rent. There is no state in the U.S. where a minimum-wage worker working full time can afford a one-bedroom apartment at the fair market rent.

This crisis demands action by our leaders. If we do not act, the number of Americans driven into poverty by crushing rents will continue to rise. Research from the Harvard Joint Center for Housing Studies and Enterprise Community Partners shows that with no action **by 2025, nearly 15 million Americans could be spending half of their monthly income on rent - an increase of 25 percent.**

Increasing the Low Income Housing Tax Credit by 50 percent, as envisioned by the bipartisan Affordable Housing Credit Improvement Act introduced by Senators Maria Cantwell and Orrin Hatch, would provide for the creation of at least 400,000 additional affordable units over the next decade - the first step in ending this crisis across our country.

# U.S. Housing Trends in the 21st Century

## Why has this affordability crisis exploded seemingly beyond our control?

### Increased Demand:

The lingering impacts of the economic crisis that began in 2008 have played a big role. Over seven million Americans lost their homes in the economic crisis to foreclosure. As a result, homeownership rates have fallen from a high of 69.2 percent in the second quarter of 2004 to 63.4 percent in the second quarter of 2015 - the lowest level since 1967. By mid-2015, 43 million families and individuals were renters, an increase of nearly 9 million from 2005 - the largest gain in the number of renters in any 10-year period on record.

### Constrained Supply:

Despite this skyrocketing demand for rental housing, between 2001 and 2013, the United States lost nearly 13 percent of its existing affordable rental housing stock, including many that were converted to market-rate units. Between 2005 and the end of 2014, only 2.2 million new units intended as rentals were completed—the lowest 10-year production rate on record since 1974. Between 2003 and 2013, the number of low-cost units rose only 11.2 percent, far below the growing number of low-income renters for which these low-cost units would be affordable.

This constrained supply, coupled with a demand for rental housing that is higher than any point since the 1960s, has caused rents to rise across the country at an **average annual rate of 3.5%, the highest rate in thirty years.**

At the same time, since 2001, the median income of renters has decreased by 10 percent in real terms, while rents have risen by five percent, a 15 percent increase in unaffordability.

### In Summary:

In summation, while Americans are struggling to make ends meet, competition in the rental market is at an all-time high, incomes have been flat or down, and affordable housing development has simply not kept pace, leading to exploding unaffordability.

# Washington State

- According to the Washington State Department of Commerce’s January 2015 Housing Needs Assessment, more than 36% of the state’s 2.5 million households – 936,260 – pay more than one-third of their income on rent and more than 390,000 households pay more than half of their income on rent, including over 70 percent of extremely low income Washingtonians.
- There is a shortage of nearly 164,000 affordable homes for the most vulnerable, extremely-low income Washingtonians, an increase of 53,000 from 2000. Compared to the rest of the country there are 16 percent fewer rental homes available in Washington state for our most vulnerable citizens.
- Since 2000, incomes in Washington state have declined by 2.4% while median rents rose by 7.6%, nearly 2.5 percentage points higher than the rest of the country . In July, 2016, the Seattle Times reported that rents in Seattle grew at a higher rate than any other city in the entire country . According to January 2017 data from Zillow, rents in Washington state have risen nearly 4.5 times higher than the national average.

**According to the Department of Commerce’s study, if we do nothing, it will take 30 years for Washington state to close its affordable housing gap**



# The Crisis Will Only Get Worse

**Demographics** - Demographic trends have made their own contribution to the growing strain on our rental market and lack of affordable housing. The millennial generation, which is coming of age, is renting at rates much higher than previous generations. In fact, the share of homes purchased by first-time homebuyers has hit a 27-year low. Millennials, burdened with student loan debt, lower earning power as a result of graduating into depressed job markets, and facing higher rents, are increasingly unable to save for a mortgage down payment, and staying in the rental market for longer. The pressure on the rental market would be even greater if not for the fact that many millennials continue to live with their parents.

- **If we do nothing, the number of seniors experiencing extreme housing unaffordability will increase of nearly 60 percent by 2025, a total of 2.7 million.**
- **According to the Homelessness Research Institute, if we do nothing, the number of homeless seniors will rise from 44,000 in 2010 to nearly 59,000 in 2020, an increase of 34 percent. By 2050, that number could be as high at 95,000, a 116 percent increase.**

**Senior Citizens** - Every month, more than a quarter-million Americans turn 65, and 10,000 baby boomers, born between 1946 and 1964, retire each day. The population aged 65 and over is expected to grow to 79 million from 48 million in the next 20 years. According to the Bipartisan Policy Center, “The current supply of housing that is affordable to the nation’s lowest-income seniors is woefully inadequate. As more low-income Americans enter the senior ranks, this supply shortage — currently measured in millions of units — will become even more acute.”

Nationwide, more than 2.4 million older adult renter households, aged 62 plus, 30 percent of all seniors, pay more than half of their incomes for housing, forcing them to spend less on their health care, food, and transportation needs. Our existing programs to help seniors meet their housing needs are woefully inadequate, as only one-third of older renters who are eligible for rental assistance actually receive it.

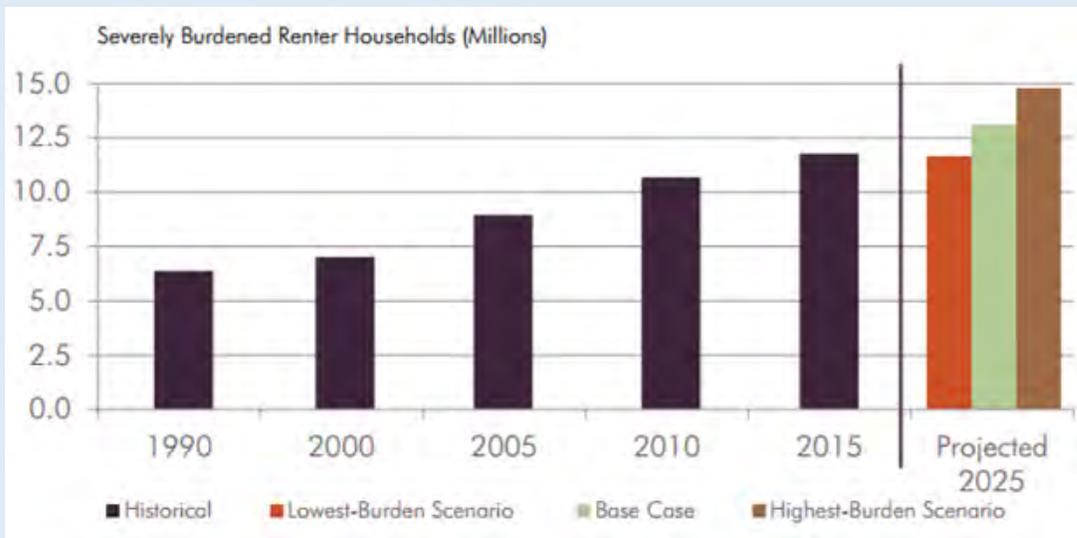
**Veterans** – According to a report from the National Housing Conference and Center for Housing Policy, nearly 2.5 million older veteran households—or 24 percent of all households headed by veterans age 55 or older—are housing cost burdened, meaning they spend 30 percent or more of their income on housing. Additionally, 62,619 veterans are homeless on any night, and more than twice as many stay in a homeless shelter or transitional housing over the course of a year. Around 1.4 million veterans live in poverty.

Veterans returning from the recent wars in Iraq and Afghanistan will be at an increased risk. There are currently 1.7 million post-9/11 veterans, and in 2012, one third of these veterans were housing cost burdened. The number of post-9/11 veterans will increase by an additional 1.6 million over the next decade, meaning an additional 530,000 are at risk of becoming housing cost burdened.

**Homelessness** – The Department of Housing and Urban Development’s 2016 One Night Count showed that on a single night in 2016, 549,928 people were experiencing homelessness in the United States. Between 2015 and 2016, the number of people experiencing homelessness declined by three percent. However, the number of homeless people living unsheltered on the street rose by three percent over the same period.

Despite the national trend, homelessness is increasing in certain parts of the country, particularly along the West Coast. In Washington state, homelessness has increased by 7.3 percent in the last year, and over 17 percent since 2013, a total increase of 3,067 individuals. Over the same period, homelessness in the Seattle area has grown by nearly 18 percent.

Finding solutions for the remaining chronically homeless individuals will continue to be a challenge. The number of permanent supportive housing beds grew by 18,930 from 2014-2015, a 6.3 percent increase, to a total of 319,212 beds. However, according to research from the Corporation for Supportive Housing, we will still need about 150,000 additional permanent supportive housing units to support homeless individuals and families.



Source: JCHS Projecting Trends in Severely Cost-Burdened Renters: 2015–2025 Report

## Building on the Success of LIHTC

Affordable housing production has quite simply not kept up with this demand. Truly tackling our affordable housing crisis head on requires us to significantly expand the supply of affordable rental units across the country.

The Low Income Housing Tax Credit is our nation’s premier incentive to encourage private investment in affordable housing development. In fact, LIHTC is responsible for 90 percent of all affordable housing developments built each year. Without this incentive, affordable rental housing simply would not exist at any meaningful level. Since its creation in the bipartisan Tax Reform Act of 1986, which was signed into law by President Reagan, the Low Income Housing Tax Credit has leveraged over \$100 billion in private sector investment to create 3 million affordable rental homes in every state in the union.

Increasing the LIHTC’s 9 percent credit program by 50 percent, as called for by Senators Cantwell and Hatch, would result in the creation of 400,000 additional affordable units over the next 10 years, a significant first step towards helping solve the affordable housing crisis. If development trends remain the same, at least 100,000 of these additional units will serve senior citizens, 20,000 will serve the homeless, and 4,000 will serve veterans.

## Job Creation

- According to the National Association of Home Builders, annual LIHTC development supports approximately 95,700 jobs and \$9.1 billion in wages and business income. Enacting the Cantwell-Hatch proposal would create an additional 452,000 jobs over the next 10 years supporting the construction of additional units.

## Generates Revenue for Federal, State, and Local Governments

- Since its creation, the credit has generated \$122 billion in tax revenues for federal, state, and local governments. The Cantwell-Hatch proposal would generate an additional \$11.4 billion in additional tax revenue for the federal government over the next 10 years, far exceeding its cost to taxpayers. An additional \$5.6 billion would be added to the coffers of state and local governments.

## Economic Growth and Community Development

- A recent working paper from the National Bureau of Economic Research found that each LIHTC development in low income areas causes aggregate benefits in those neighborhoods of \$116 million, increasing surrounding home prices by 6.5 percent, and lowering crime rates.
- The lack of affordable housing ripples across our entire economy, leading to lower economic growth, and decreased opportunity. Researchers estimate that if families had increased access to affordable housing, GDP growth since the 1960s would have been 13.5% higher, meaning higher wages and living standards across the board--\$1.7 trillion in income and an average of nearly \$9,000 in additional wages.
- Research from Raj Chetty, an economics professor at Stanford University, has found that children who live in high-opportunity affordable housing have increased earnings of over 30 percent when they reach adulthood, are less likely to remain in poverty, and less likely to become single parents.

## Cost Savings

- The Center for Outcomes Research and Education (CORE), in partnership with Enterprise Community Partners and the Meyer Memorial Trust, found that moving low income people into various types of affordable housing lowers Medicaid expenditures by an average of 12 percent, ranging from a reduction of eight percent in family housing to 16 percent for housing for seniors or people with disabilities. For the 1,625 people in the study cohort, annual Medicaid savings was almost \$1 million, or more than \$600 per person per year.

# The LIHTC is a WIN-WIN-WIN

“ It’s a **WIN** for people who don’t have affordable options. It’s a **WIN** for the community because you redevelop property which helps the local economies, and it’s a **WIN** for the construction industry because it creates more jobs. ”



# The Path Forward: Expanding and Reforming LIHTC

The Low Income Housing Tax Credit (LIHTC) is the federal government's primary policy tool for leveraging private investment in affordable housing, helping finance the development of 100,000 affordable homes nationwide each year, and has leveraged over \$100 billion in private capital since its creation. However, due to increased demand, in 2013 state housing finance agencies across the country received applications for three times the number of LIHTCs they had available to allocate, leaving many worthy affordable housing projects unfunded. The bipartisan Affordable Housing Credit Improvement Act of 2017 (AHCIA), introduced by Senators Cantwell and Hatch, will expand and improve the LIHTC, including the following provisions:

## ***PROPOSAL: Expand the annual LIHTC allocation by 50 percent***

Following on the recommendations of the Bipartisan Policy Center's Housing Commission report: "Housing America's Future," AHCIA proposes an increase to the annual amount of 9 percent credits available to states by 50 percent, allowing the creation or preservation of an additional 400,000 affordable rental units over the next 10 years than under current law.

## ***PROPOSAL: Promote broader income mixing in LIHTC projects***

In the past ten years, the 9 percent credit funded over 8,500 affordable housing units in Washington state, nearly half of which were reserved for the extremely low income or homeless households. This proposal would allow Washington state to develop about 35,215 new affordable housing units using the LIHTC over the next 10 years.

The LIHTC encourages states to give preference to developments that set aside units affordable to the lowest-income populations, including the homeless. These projects are the most difficult to make financially feasible, especially in high cost markets like Seattle. AHCIA will reform the LIHTC's income limitation formulas to promote greater income mixing, allowing developments to maintain financial feasibility while providing a deeper level of affordability.

## ***PROPOSAL: Allow states more flexibility in financing projects targeting homeless individuals or extremely low income families***

Under current law, certain areas and developments are eligible to receive up to a 30 percent basis boost (resulting in more housing credit equity) if the state housing credit allocating agency determines the boost is needed to make development financially feasible. AHCIA will allow state housing credit allocating agencies to provide up to a 50 percent basis boost for properties targeting extremely-low income or homeless families and individuals, allowing these projects to achieve greater financial feasibility and eliminate the need for debt financing.

**Since its creation 30 years ago, LIHTC  
has financed nearly 3 million  
homes across the United States,  
leveraging more than \$100 billion in  
private investment**

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