

Squeezed Out: The Worsening Shortage of Affordable Housing for Low-Income DC Households

By Angie Rodgers

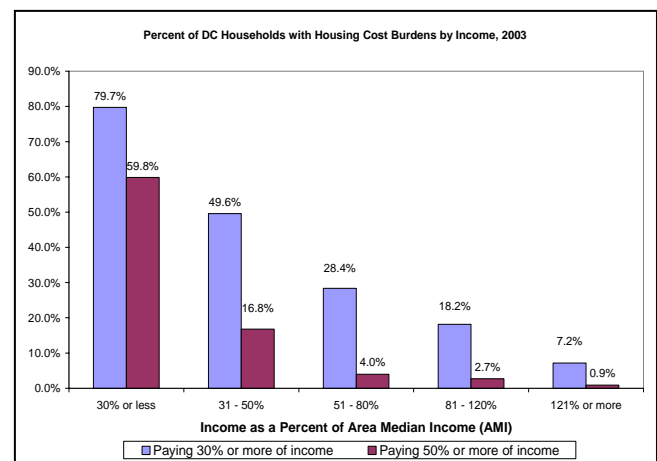
Summary

The District's housing market has undergone dramatic changes in recent years, with sharp rises in both rents and home values throughout the city. As the District moves toward constructing a comprehensive housing strategy — an effort led by a special housing task force established in 2004 — there are tremendous challenges to establishing policies that will make the District a livable city for people of all income levels. Yet achieving this goal is critical to the city's future because access to affordable and decent housing is a cornerstone of a healthy city.

This analysis uses data from the American Community Survey (U.S. Census) and the decennial census to highlight the impact of high and rising housing costs on the ability of District residents to afford their homes. It finds that, while housing cost burdens have increased for many residents and affordability problems are found at all income levels, the most severe problems are faced by DC's lowest-income residents. Most low-income households pay far more for housing than what is considered affordable, with most paying more than half of their limited income on shelter. These findings suggest that aiding the District's lowest-income residents should be a priority in a comprehensive housing strategy.

- The share of District households with unaffordable housing burdens — meaning they pay 30 percent or more of their income on housing — grew from 30 percent in 1990 to 37 percent in 2003. District households with *severe* housing cost burdens — meaning they pay 50 percent or more of their income for housing costs — also increased sharply, from 13 percent of households in 1990 to 19 percent in 2003.
- Housing affordability problems are concentrated among the District's lowest-income households. Four out of five households with income below 30 percent of area median income (AMI) — which is \$25,440 for a four-person household—have unaffordable housing cost burdens. Half of the households with income between 30 percent and 50 percent of AMI — \$25,440 to \$42,400 for families of four — devote 30 percent or more of their

Figure 1



income to housing costs. This contrasts with households that have income above 50 percent of AMI, where only one in six households has a housing cost burden.

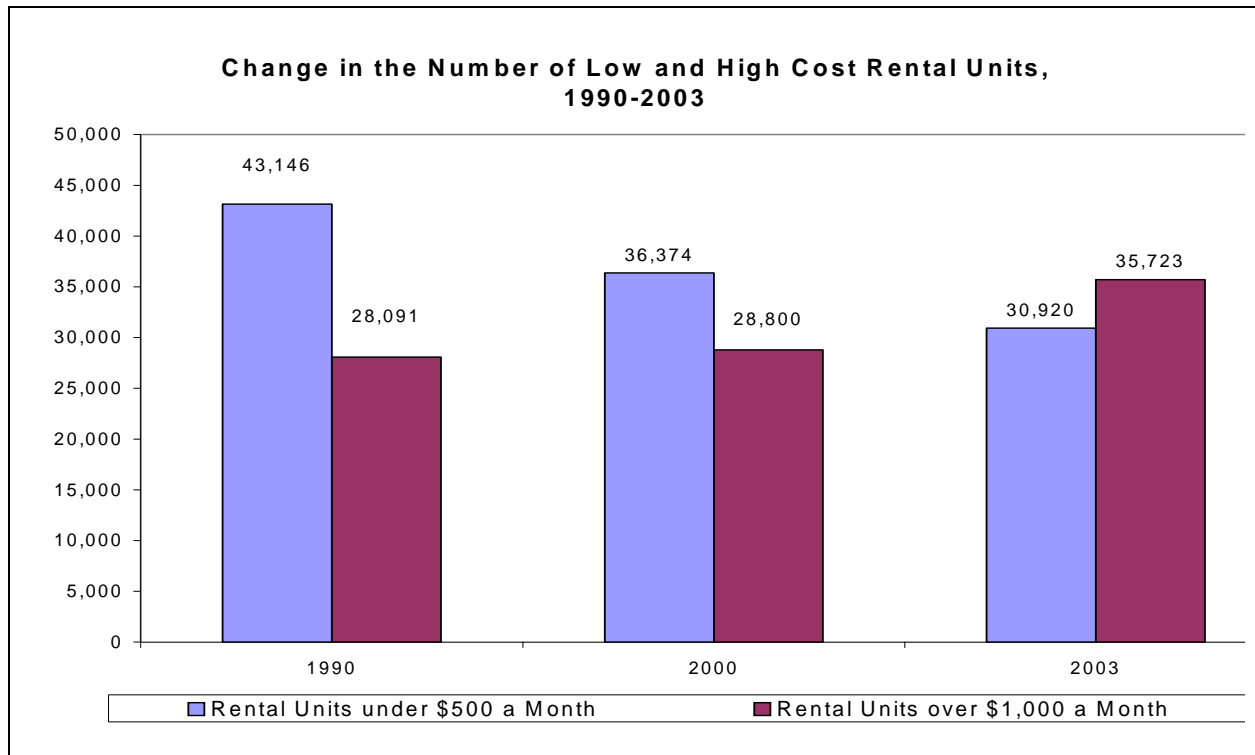
- Severe housing affordability problems—needing to spend at least 50 percent of income on housing—are limited almost exclusively to low-income residents. Some 60 percent of the households with income below 30 percent of AMI have severe housing cost burdens. By contrast, no more than 17 percent of households with income over 30 percent of AMI have severe housing cost burdens.
- The District households most likely to face severe housing affordability problems — those with incomes below 30 percent AMI — are a diverse group, but they all have limited abilities to find affordable housing and absorb rising housing costs. One third of the households are elderly or disabled. Among the non-elderly, the majority are working but in low-wage jobs such as child care. Some extremely low income households with children rely on public assistance benefits that make it virtually impossible to find affordable housing.

Income trends in the District appear to have contributed to its affordable housing squeeze. A July, 2004 DCFPI analysis of income inequality found that the gap between low-income and high-income District households was as wide or wider than in any major city.¹ This gap, the result of steeply rising incomes for the top earners and stagnating incomes for the lowest income households, seems to have had an impact on the District's housing market. Housing costs have escalated in the District, particularly since the late 1990s, and a number of low-income neighborhoods have experienced gentrification. The supply of low-cost housing has diminished greatly and the gap between the supply and demand for affordable housing has widened while the number of high-cost apartments and homes has risen dramatically.

- The District lost 5,000 — or 15 percent — of its apartments with rents under \$500 per month in just the three years between 2000 and 2003. During the same period, the number of higher-rent units — defined in this analysis as those with gross rent of more than \$1,000 per month — increased by almost 7,000, or 25 percent.

¹ *Income Inequality in the District of Columbia is Wider than in Any Major U.S. City*, DC Fiscal Policy Institute, July 2004.

Figure 2



- At the same time, the number of low-income households is increasing. The number of households earning less than \$20,000 increased by almost 5,000 between 2000 and 2003.
- As a result, the gap between the number of renter households with income below \$20,000 and the number of apartments rented that would be affordable to them (\$500 per month) has grown. In 2000, the gap was 13,600. By 2003, that gap grew to 23,900.
- A similar trend is reflected in owner-occupied units. The number of low-value homes in the District — defined in this analysis as homes with values below \$150,000 — dropped from 46,000 to 25,000 between 2000 and 2003. By contrast, the number of high-value homes — defined here as homes with values above \$500,000 — has grown from 10,800 in 2000 to 23,000 in 2003.

While these findings suggest that the District's housing resources should be targeted significantly on households with low incomes facing the most severe housing burdens, it does not mean that moderate-income households face no housing challenges. Some moderate-income families may be able to find affordable rents only by living in crowded conditions, in substandard housing, or in high-poverty neighborhoods with limited access to city services, employment, or other amenities. Moreover, many moderate-income renters face serious barriers to becoming homeowners.

For the lowest income households, however, very high housing cost burdens create serious problems that affect their ability to find and keep employment and that affect the health, education, and safety of their children. High housing costs often limit job opportunities available to low-income families because they are forced to live far away from job centers to seek affordable housing. Moreover, high housing costs often force families to move frequently. This instability interferes with the ability of adults to secure and maintain stable employment. Additionally, high housing costs squeeze already limited budgets, forcing families to sacrifice other necessities that allow them to work like child care, work clothes, and money for transportation.²

High housing costs also have a number of negative effects on children. Frequent moves prompted by high housing costs result in poor school performance, especially since it leads to poor attendance.³ High housing costs force some families to sacrifice money for adequate food. Children in these families are much more likely to suffer a litany of problems associated with inadequate nutrition, such as stunted growth.⁴ Additionally, because limited affordable housing often leads families to live in substandard housing or in high-poverty neighborhoods, the children are more likely to experience serious asthma attacks or be the victim of violent crimes.⁵

The District's current housing market, while a sign of the city's economic progress, appears to be putting pressure on those least able to absorb rising costs. The stated goal of attracting 100,000 new residents to the District over the next decade is likely to exacerbate the shortage of affordable housing for the District's poorest residents. The findings of this analysis suggest that identifying resources and policies to assist the District's lowest income households should be addressed as part of policies to attract more residents to the District.

Definitions of "Low-Income" May Result in Housing Relief that Bypasses the Most Burdened Households

This analysis examines the housing burdens of all District households, as well as comparing housing cost burdens between low, moderate, and high-income groups. According to HUD standards, households have unaffordable housing cost burdens if they spend 30 percent or more of their household income in housing-related costs. They have severe housing cost burdens if they spend 50 percent or more of their income on these costs. This analysis uses data from the American Community Survey (U.S. Census) and the decennial census to measure total housing-related costs, including rent/mortgage and utilities.

² *The Increasing Use of TANF and State Matching Funds to Provide Housing Assistance to Families Moving from Welfare to Work*, Center on Budget and Policy Priorities, February, 2000.

³ See, e.g., "A Report from the Kids Mobility Project," March 1998, available from the Hennepin County Office of Planning and Development, Government Center A-2308, 300 S. Sixth St., Minneapolis, MN 55487-0238, (612) 348-4466.

⁴ Allan R. Meyers et al., "Housing Subsidies and Pediatric Undernutrition," *Archives of Pediatric Adolescent Medicine* (1995), 149:1079-1084.

⁵ Lawrence F. Katz, Jeffrey R. Kling, Jeffrey B. Liebman, *Moving to Opportunity in Boston: Early Impacts of a Housing Mobility Program*, Unpublished Preliminary Draft, 1999.

Housing programs operated both by the U.S. Department of Housing and Urban Development (HUD) and the District typically set income eligibility levels using the area median income (AMI). Median indicates that half of the households in the area have incomes above the threshold and half have incomes below. HUD defines households with income below 80 percent of AMI as “low-income”; households below 50 percent of AMI are defined as “very low-income”; and households below 30 percent of AMI are “extremely low-income.”

While these categories would appear to reflect relatively low-income populations, they are misleading in their representation of the income of District households. HUD’s area median income figures for the Washington metro area include not only the District but also the surrounding Maryland and Virginia suburbs. The Washington metropolitan area includes some of the wealthiest suburban counties in the nation. As a result, area median income — \$84,800 for a family of four in 2003 — is one of the highest in the nation and much higher than median income in the District alone. The median income for a four-person household in the District was \$55,700 in 2003 — 66 percent of the metropolitan AMI. This means that most District households have income well below the area median income and thus could be considered “low-income.” For example, as shown in Table 1, more than two-thirds of the District’s households — 69 percent — were classified as “low-income” using the 80 percent of AMI standard as a threshold in 2003.

Table 1
2003 Area Median Income Thresholds for Four-Person Households
in the Washington Metropolitan Area

Low-Income Status	Percent of AMI	Threshold*	Percent of DC Households Under Threshold
Low-Income	80	\$67,840	69%
Very Low-Income	50	\$42,400	59%
Extremely Low-Income	30	\$25,440	33%
*These reflect income thresholds used in the District’s housing programs, such as the Housing Production Trust Fund. The HUD rules for setting these levels result in somewhat different income thresholds.			

Consequently, programs that target “low-income” households using HUD standards actually cover nearly 70 percent of the District’s households. This is significant for the allocation of limited housing assistance resources for two reasons. First, as discussed in the remainder of this analysis, housing affordability problems in the District are concentrated among households with income far below the area median. The greatest affordability problems are experienced by households below 30 percent of AMI. In fact, District households with income close to the “low-income” threshold generally do not have housing affordability problems.

Second, rents and sale price for homes developed under many housing programs, such as the District’s Housing Production Trust Fund, often are set to be affordable to families with incomes close to the eligibility limit and not necessarily to those with income far below the limit. For example, the Low-Income Housing Tax Credit is targeted on households below 60 percent of AMI, and most units developed under the program are affordable to households with income

close to 60 percent of AMI. Private developers, who produce most of the units, often prioritize families with higher incomes because the higher rent payments that can be made by these families make the housing projects easier to finance. Families with lower incomes, however, cannot afford the units. This means that housing programs targeted on “low-income” households using HUD standards may result in little assistance going to the District households most in need of aid.

This suggests that limited housing resources should be targeted on the neediest households. The findings of this research suggest that matching resources to needs would mean focusing on households with incomes below half of the area median income, with a substantial share of those funds used to assist families below 30 percent of AMI.

Affordable Housing Problems Have Worsened Since 1990

The District has seen increases in rent and home prices that have outpaced the growth in income of many District residents. As a result, many more households are paying too large a share of their income in housing costs and much more than they were paying 15 years ago.

- Some 37 percent of District households — 88,000 out of 236,000 households — had housing cost burdens in 2003 — meaning that they paid 30 percent or more of their household income in housing costs.⁶
- This represents a significant increase from 1990 when 30 percent of the District’s households — 73,400 out of 248,000 — had unaffordable housing burdens.
- Renters are almost twice as likely to experience unaffordable housing burdens as homeowners. Almost half—46 percent—of renters (over 61,000 out of 133,000 renting households) have housing burdens. This compares to 26 percent of homeowners — over 26,000 out of 103,000 owner households — that have housing burdens. (*See Figure 3.*)

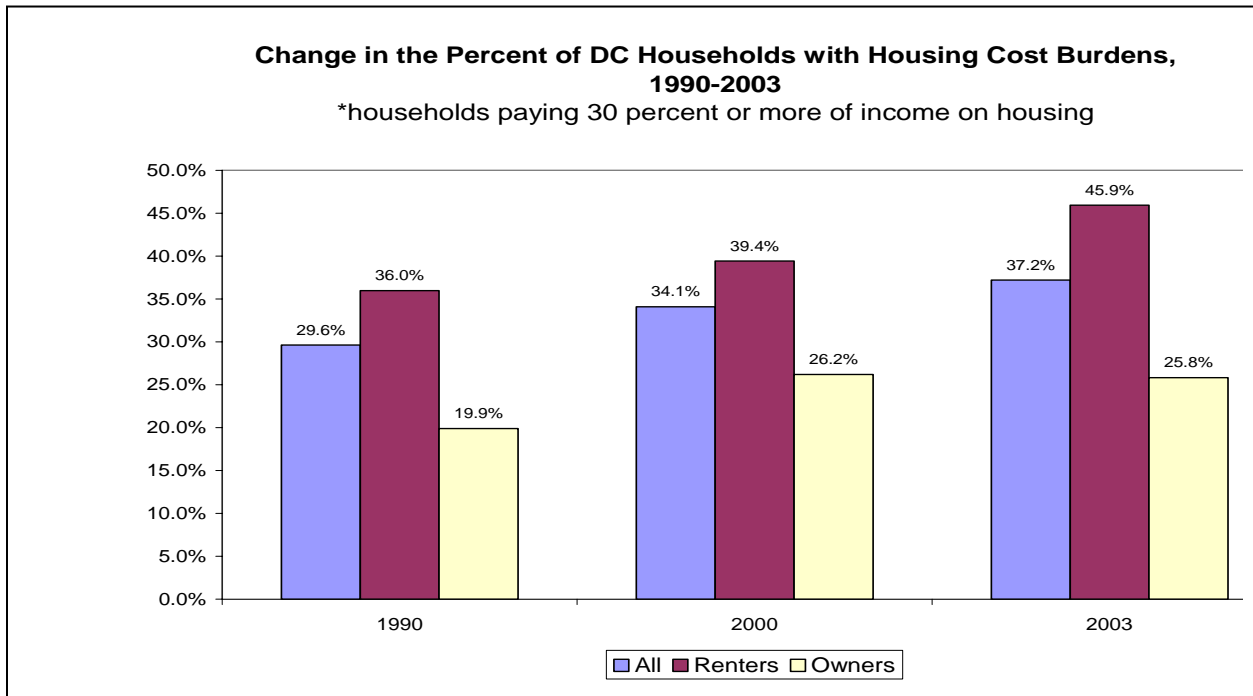
Severe Housing Burdens Have Also Increased

Almost one in every five District households — some 44,000 — has severe housing burdens, meaning they spend 50 percent or more of their income on housing. This is a substantial increase since 1990, when 13 percent of households — some 32,000 — had severe housing burdens.

- Some 25 percent of renter households have severe housing burdens compared with 10 percent of homeowners.
- The majority of the District households with severe housing burdens are renters. Of the 44,000 households, some 34,000 are renters. (*See Figure 4.*)

⁶ Note that the approximately 11,000 households reporting “no cash rent” were not included. Because they report no gross rent or selected monthly owner costs, their housing burden could not be calculated.

Figure 3



Housing Burdens Disproportionately Affect Low-Income Households

Although unaffordable housing cost burdens are experienced by households at a variety of income levels in the District, low-income households are significantly more likely to face housing affordability problems.

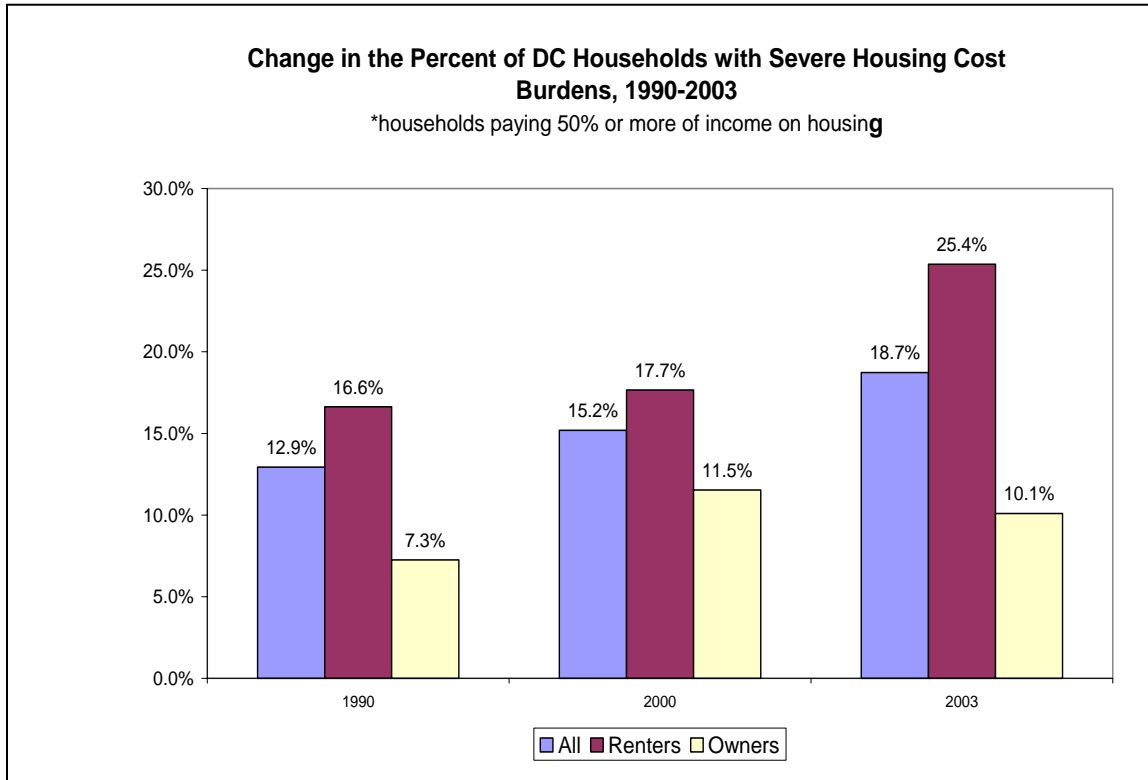
- Some 80 percent of District households with income below 30 percent of AMI have unaffordable housing burdens. (See Figure 5.)
- Half of District households with income between 31 and 50 percent of AMI have housing burdens.

The percentage of burdened households decreases significantly at higher income levels. Some 28 percent of households with incomes between 51 and 80 percent of AMI and 18 percent of those between 81 and 120 percent of AMI have unaffordable housing burdens. Only a small fraction of households with income above 120 percent of AMI — seven percent — face such problems.

Severe housing burdens are almost exclusively a problem for households with income below 30 percent of AMI.

- Some 60 percent of all District households with incomes below 30 percent of AMI — three out of five — have severe housing burdens. (See Figure 6.)

Figure 4

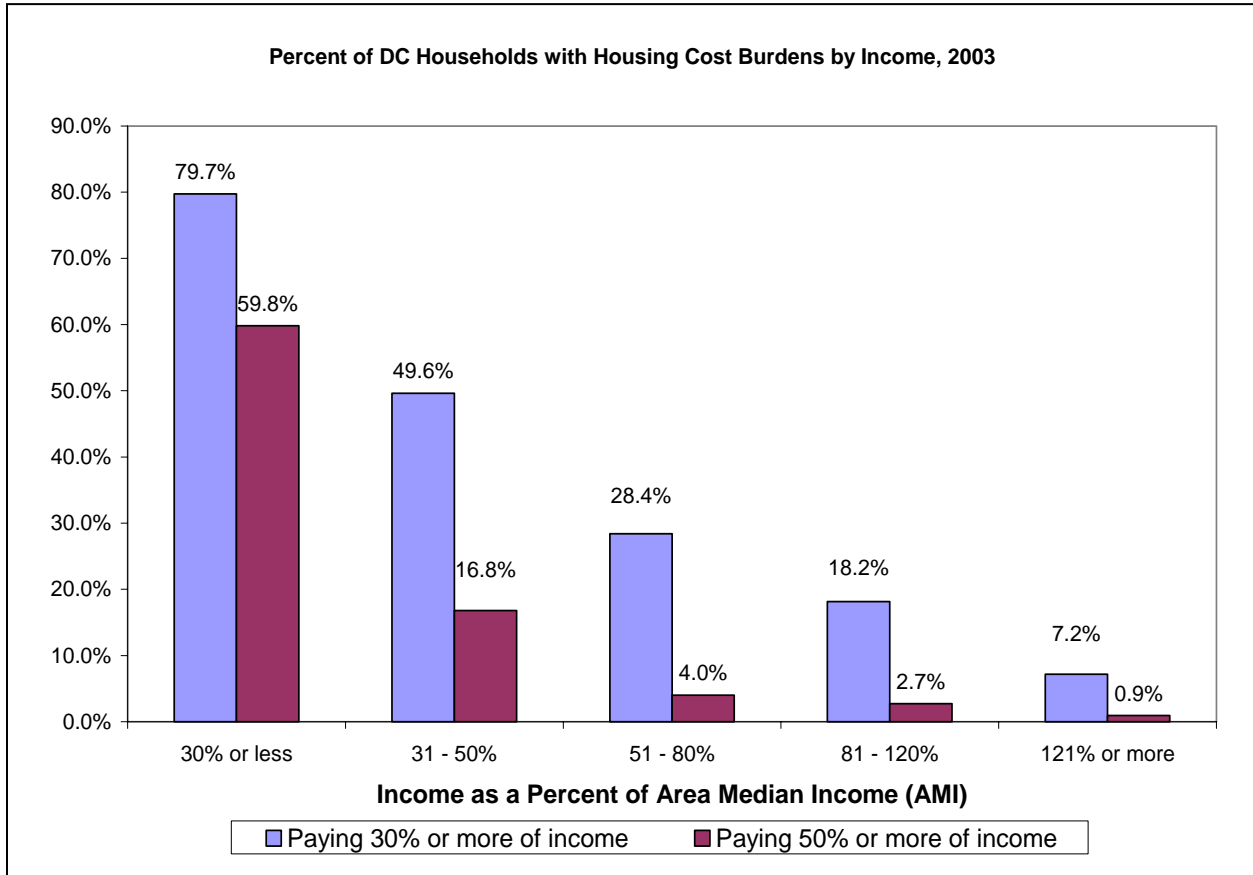


- The incidence of severe housing problems declines rapidly as income rises. Just 17 percent of households with income between 31 and 50 percent of AMI have severe housing burdens.
- Fewer than four percent of those in income groups above 50 percent of AMI — \$42,400 or more for a four-person household — have housing burdens this high.

Because lower-income households are much more likely than moderate or high-income households to have housing problems, they represent the vast majority of District households with unaffordable housing burdens. Nearly all of the District households with severe housing cost burdens have extremely low incomes.

- More than half of the 88,000 District households with housing cost burdens have income below 30 percent of AMI.
- Nearly three out of four households with housing cost burdens have income below 50 percent of AMI. (See figure 7.)

Figure 5

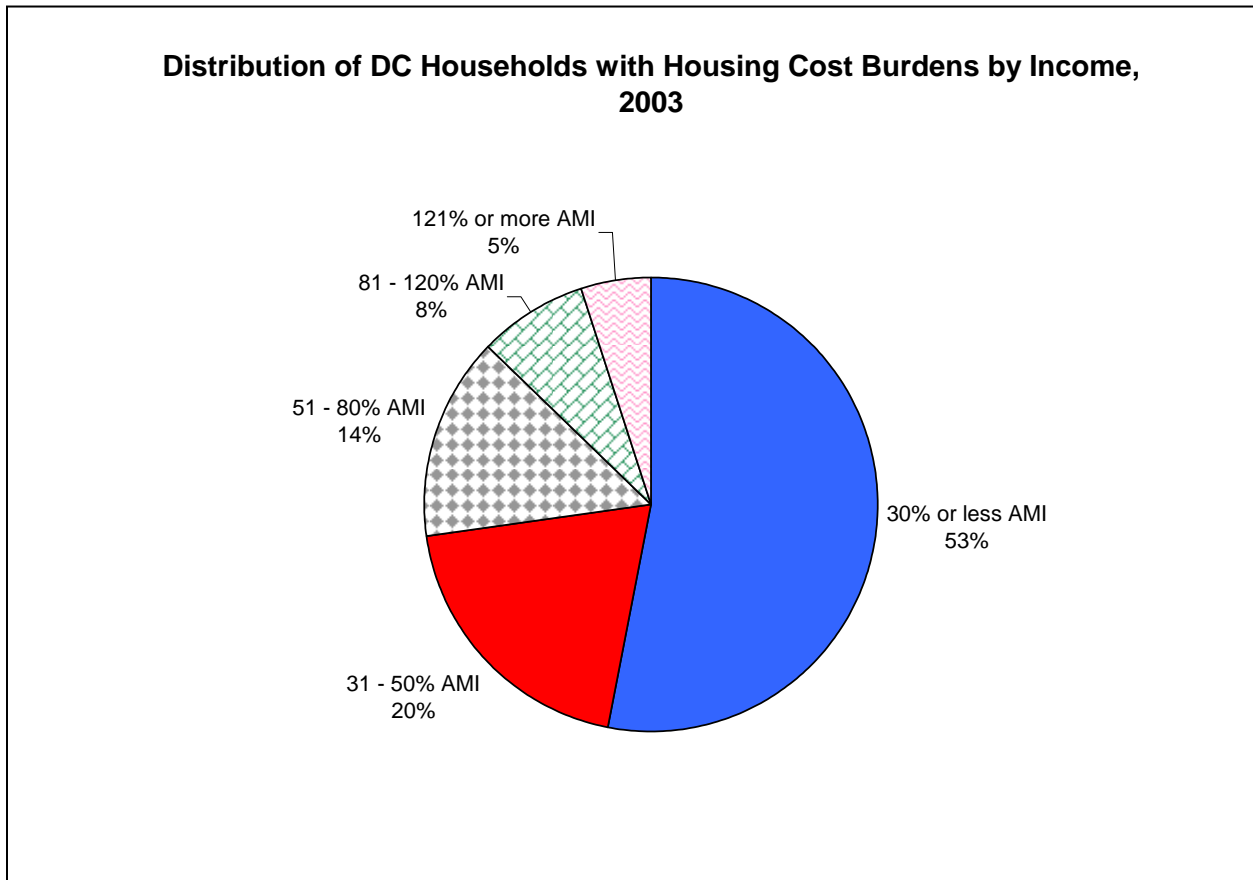


- Of the 44,000 District households with severe housing burdens, 80 percent — or 35,000 households — have income below 30 percent of AMI.
- Some 41,000 — or 93 percent — of the households with severe housing cost burdens have income below 50 percent of AMI.

Households Below 30 Percent of AMI Find Little Relief

As noted, the 66,000 extremely low-income households in the District are more likely to face housing affordability problems than any other income group. Some 80 percent of them have housing cost burdens; many of those who do not face these burdens likely receive housing assistance that helps cover their housing costs. These households are a diverse group. It includes many elderly and disabled households, many of whom rely on fixed incomes. This group also includes many who work but at low wages. Extremely low-income households also include families that face housing affordability challenges because they rely on very meager public assistance benefits. In many cases, extremely low-income households are unable to find affordable housing or keep pace with escalating rents and home prices.

Figure 6



- Almost one in four of the District households with income below 30 percent of AMI is headed by an elderly resident. (See Figure 9.)
- Another 10 percent of these households is headed by a non-elderly adult with a disability.
- Some 67 percent of the households with income below 30 percent of AMI — 45,000 households — have at least one non-elderly, able householder or spouse. Some 28 percent of the non-elderly households have children and 39 percent have no children.

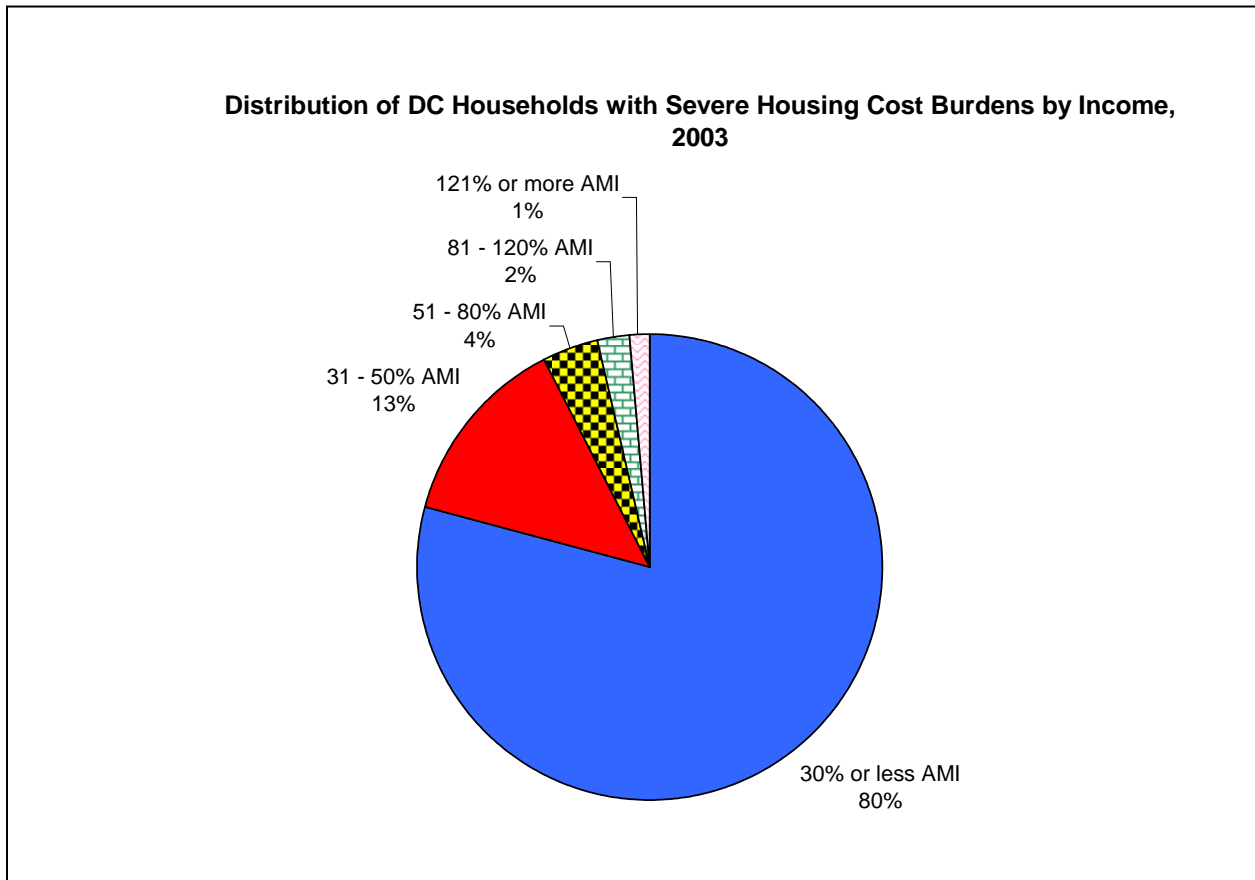
Most Low-Income Householders Work, But in Low-Wage Jobs

Most of the extremely low-income households in which adults are not disabled or elderly have at least one working adult.

Profile of a Burdened DC Household

Mary, 69, and Joe, 83, paid 66 percent of their annual income in housing costs in 2003. They received a combined \$15,700 in benefits from social security. They rented a 2 bedroom apartment for \$860 per month.
**Names have been made up, but reflect actual households reporting income and housing costs on the 2003 American Community Survey.*

Figure 7



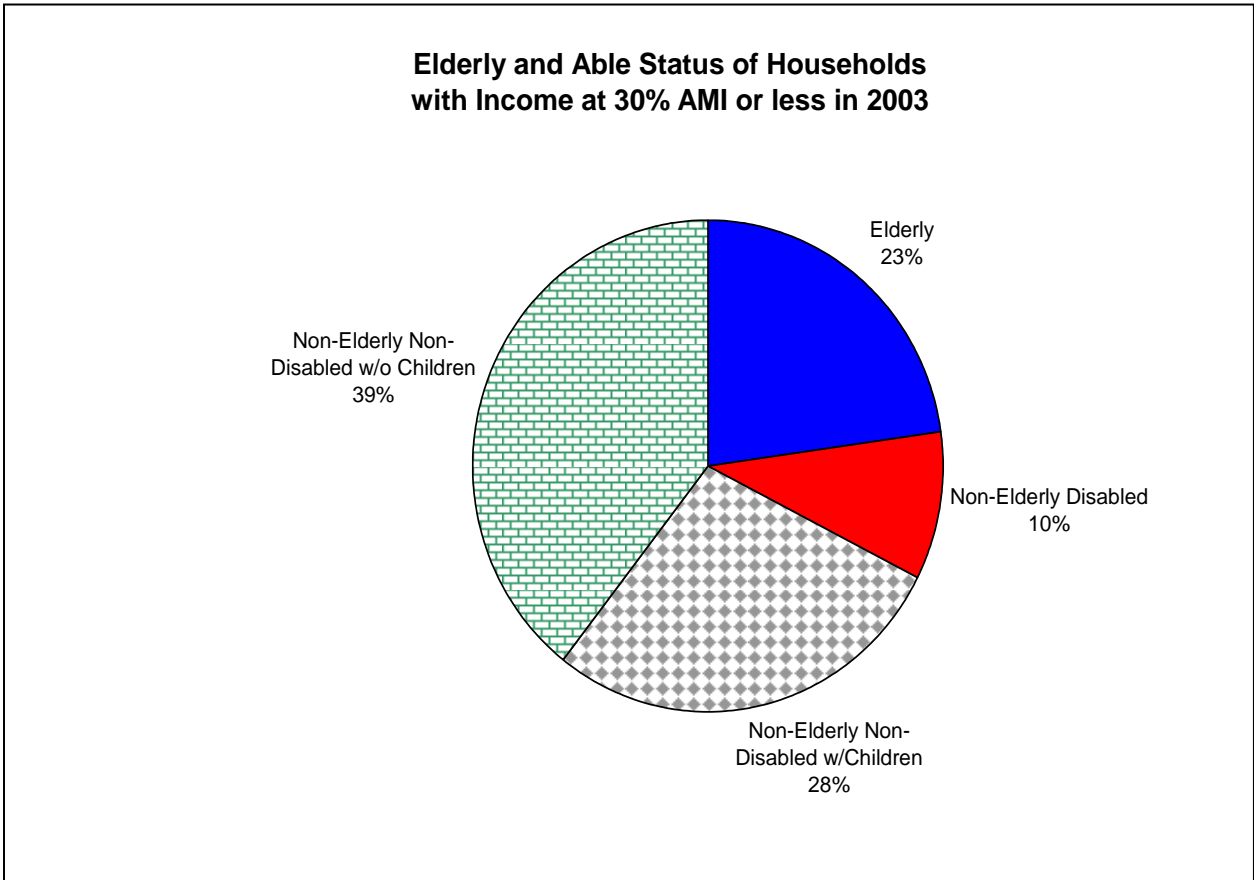
- Two-thirds of these 45,000 households had at least one householder or spouse who worked in 2003.
- Some 35 percent worked 1040 hours — the equivalent of a full year of employment at half-time — or less. An additional 31 percent worked more than half-time (1040 hours or more).

Profile of a Burdened DC Household

Jane, 44, paid 64 percent of her income in housing costs in 2003. She is disabled and received \$10,800 in benefits for the year. She rented a studio for \$580 per month.

**Name has been made up, but reflects actual households reporting income and housing costs on the 2003 American Community Survey*

Figure 8



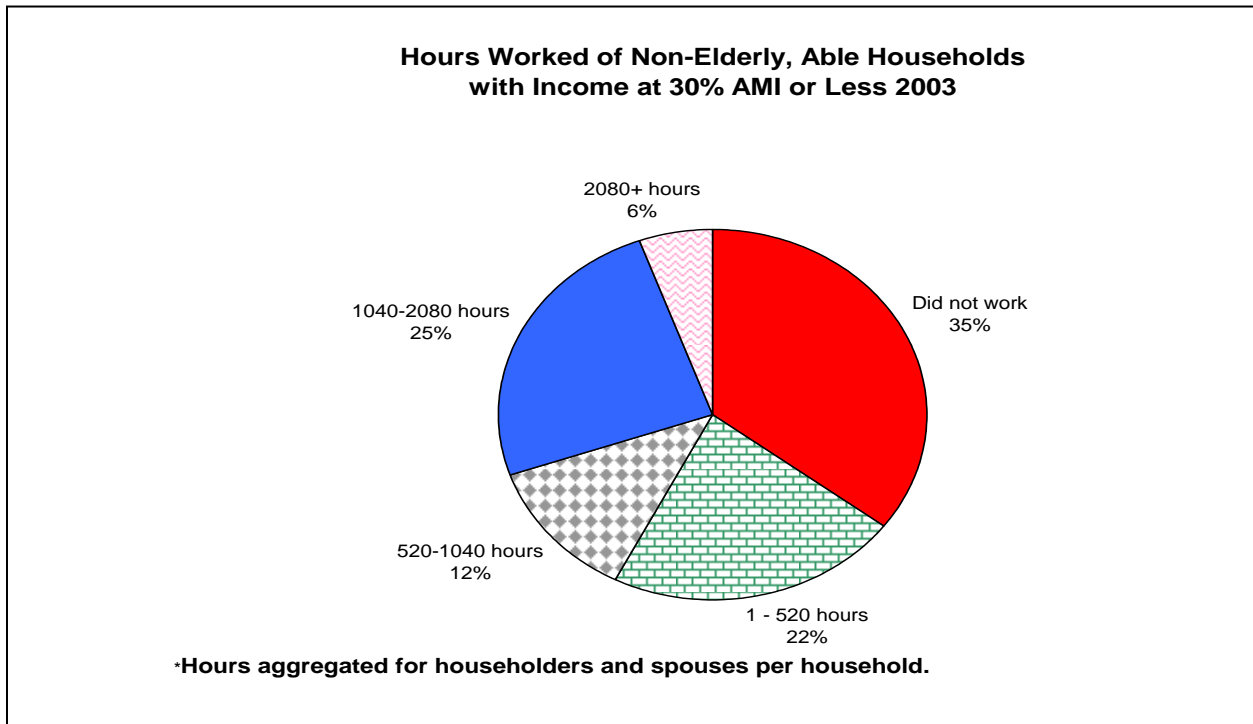
Working adults in households with income below 30 percent of AMI are employed in a variety of low-wage jobs. As shown below, they play critical roles in the local economy.

Table 2
Top Ten Occupations Among Working Households with Extremely Low Incomes

Occupation	Number Employed
Security Guards	2,555
Janitors	2,523
Cashiers	2,515
Maids	1,634
Secretaries/Admin Assistants	1,302
Receptionists	1,192
Teacher Assistants	1,025
Home Health Aides	981
Child Care Workers	970
Restaurant Wait Staff	674

Source: U.S. Census, 2003 American Community Survey

Figure 9



Despite Work and Public Assistance, Low-Income Residents Still Have Difficulty Finding Affordable Housing

While many low-income households are working, many also depend on public assistance. Too often, these families rely on very modest assistance that makes it difficult to find affordable housing. The maximum benefit for a single mother with two children is now just \$379 per month, or \$4,548 per year — 29 percent of the federal poverty level. Adding in food stamp benefits raises this family’s income to \$750 per month, or \$9,000 per year. This is still only 60 percent of the federal poverty level.⁷ Moreover public assistance benefits declined significantly over the past decade and a half. The value of the maximum welfare benefit for recipients with no other income dropped by 40 percent, after adjusting for inflation, between 1990 and 2004.

Profile of a Burdened DC Household

Tom, 32, and Michelle, 31, paid 49 percent of their income in housing costs. They have a nine year old daughter, Taylor. While Tom did not work in 2003, Michelle worked full-time as a hairstylist and earned \$28,000 in 2003. They rented a 2 bedroom apartment for \$1,140 per month.

**Names have been made up, but reflect actual households reporting income and housing costs on the 2003 American Community Survey.*

Profile of a Burdened DC Household

Martin, 31, paid 62 percent of his income in housing costs. He worked full-time as a construction laborer in 2003 and earned \$14,700. He rented a one bedroom apartment for \$754 per month.

**Name has been made up, but reflects actual households reporting income and housing costs on the 2003 American Community Survey.*

⁷ *The District Should Use Its Upcoming TANF Bonus to Increase Cash Assistance and Remove Barriers to Work*, Dc Fiscal Policy Institute, September 2004.

Sharp Increases in Rent and Home Prices Have Made Affordability Problems Worse

Increases in both rents and home prices in the District have been substantial over the past 15 years. The most dramatic changes have taken place in just the last three years, as the city's real estate market heated up sharply in an apparent response to the District's increasing popularity among middle and upper income households. Rising rents have had an especially adverse effect on the District's low-income population. As the number of higher-cost rental units has grown, the number of units affordable to low-income families has diminished rapidly. The gap between the number of low-income households who need affordable housing and the number of affordable units available to them has grown substantially, and particularly since 2000.

Average Rents Increased by over 50 Percent between 1990 and 2003

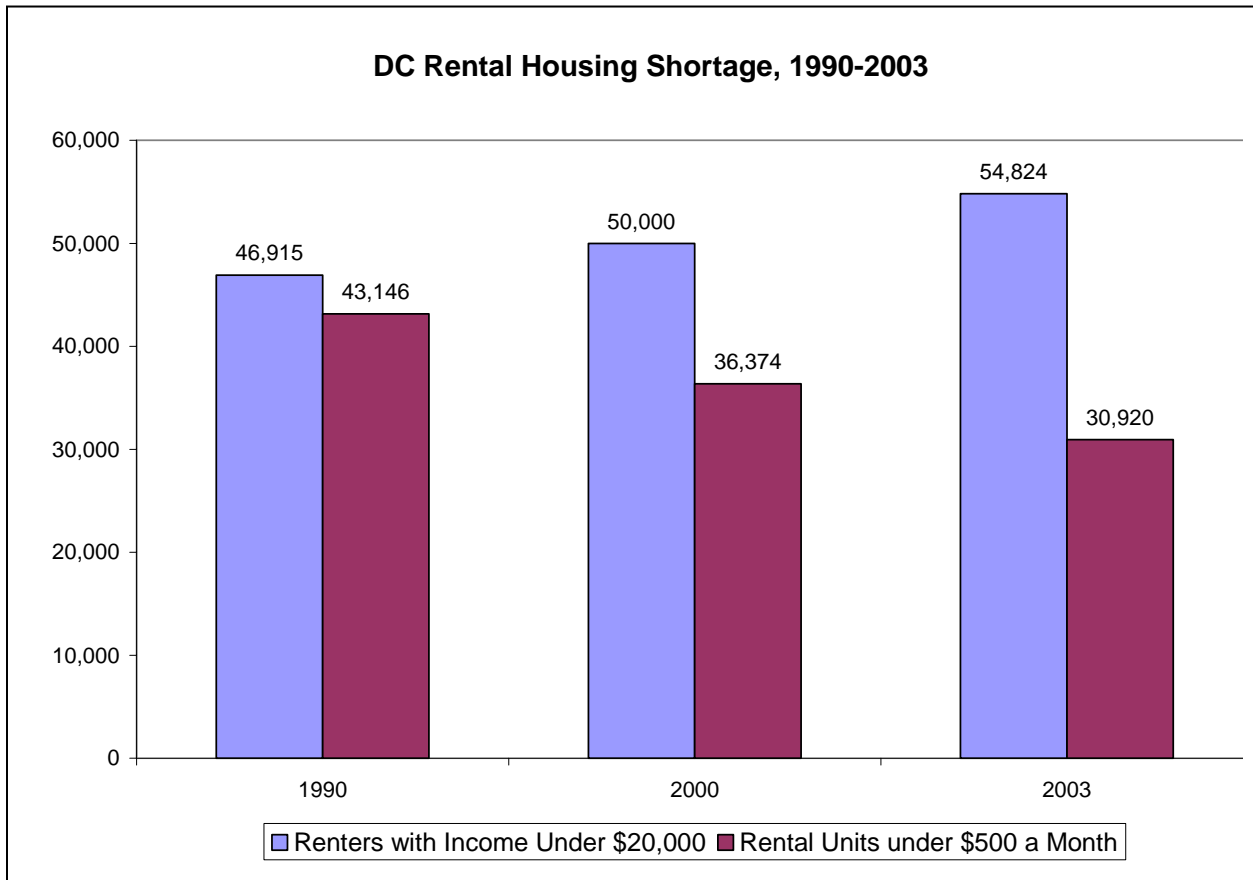
- In 1990, the average gross rent was \$440 per month.⁸ The majority of District renting households — 72 percent — could afford the average rental in 1990.
- By 2000, the average gross rent had increased by 76 percent to \$774 per month. (All figures adjusted for inflation to equal 2003 dollars.) Some 53 percent of District renter households could afford the average rental in 2000 — 19 percentage points fewer than in 1990.
- In 2003, the average gross rent was \$840 — a 8.5 percent increase since 2000 and a 91 percent increase over the 1990 average rent. Only 43 percent of the District's renter households could afford this average.

These figures refer to rents paid by all DC renters, which includes a number of households living in units with below-market rents, such as households in subsidized housing and those living in rent-controlled apartments. Other indicators of market rents suggest that the costs of *obtaining* rental housing in DC have grown even faster. For example, a recent report from the Fannie Mae Foundation found that the median rent for advertised two-bedroom apartments in DC rose 84 percent between 2001 and 2003, from \$950 per month to \$1,750 per month.⁹

⁸ All figures are adjusted for inflation to equal 2003 dollars.

⁹ *Housing in the Nation's Capital, 2004*, Fannie Mae Foundation, December 2004, p. 37.

Figure 10



The Shortage of Affordable Rental Housing Has Worsened Since 1990

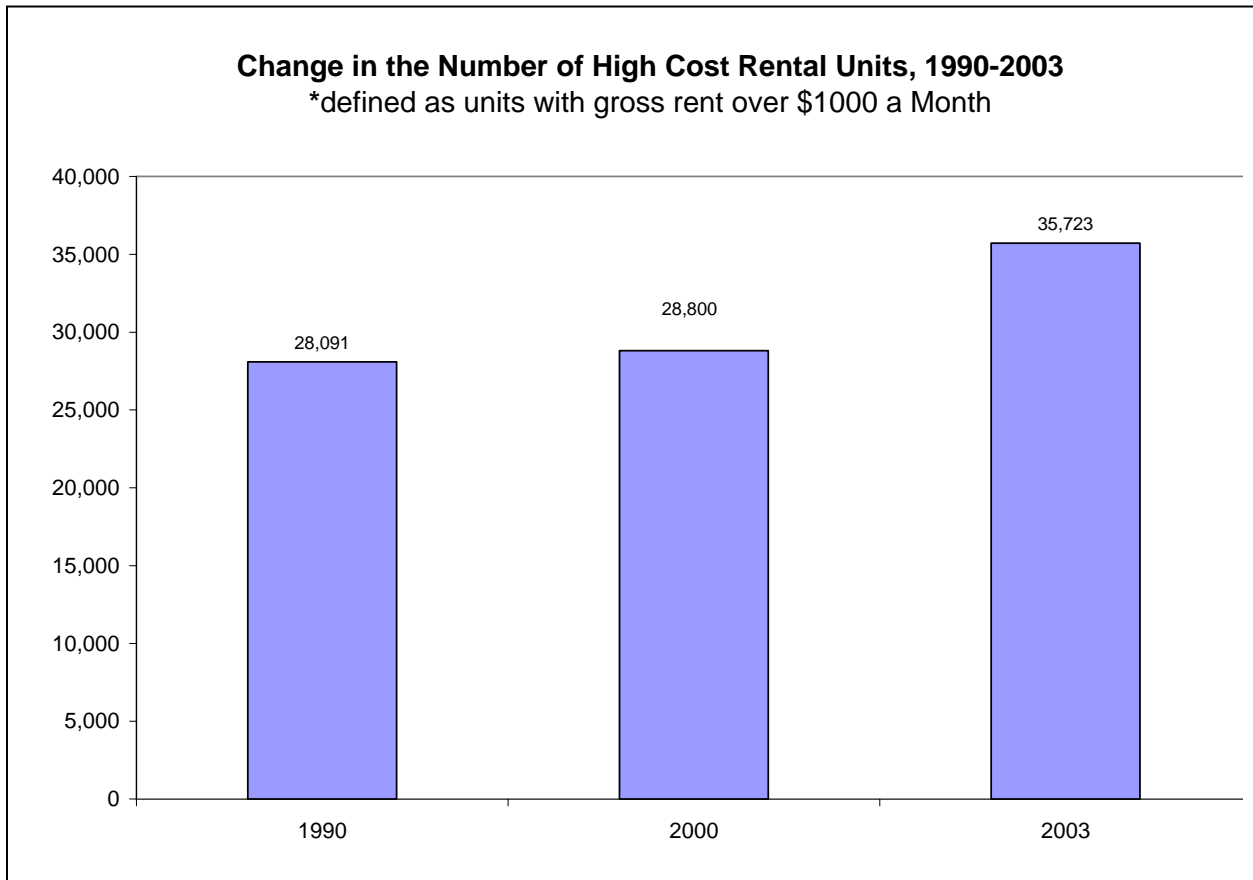
One way to assess the District's affordable housing shortage is to measure the gap between the number of low-cost housing units and the number of low-income households who need the units.

This analysis defines low-income households as those with income below \$20,000 per year — which equaled 24 percent of AMI in 2003 — and low-cost rental units as those with gross rent at less than \$500 per month — 30 percent of a \$20,000 annual income. The District's affordable housing gap has grown since 1990, both because the number of low-income households rose while the number of low cost housing units declined. The gap widened substantially in just the past three years.

- In 1990, there were 46,900 renting households with annual incomes less than \$20,000.¹⁰ There were 43,100 rental units with gross rent below \$500 — a shortage of 3,800 units.

¹⁰ All incomes were adjusted for inflation to equal 2003 dollars.

Figure 11

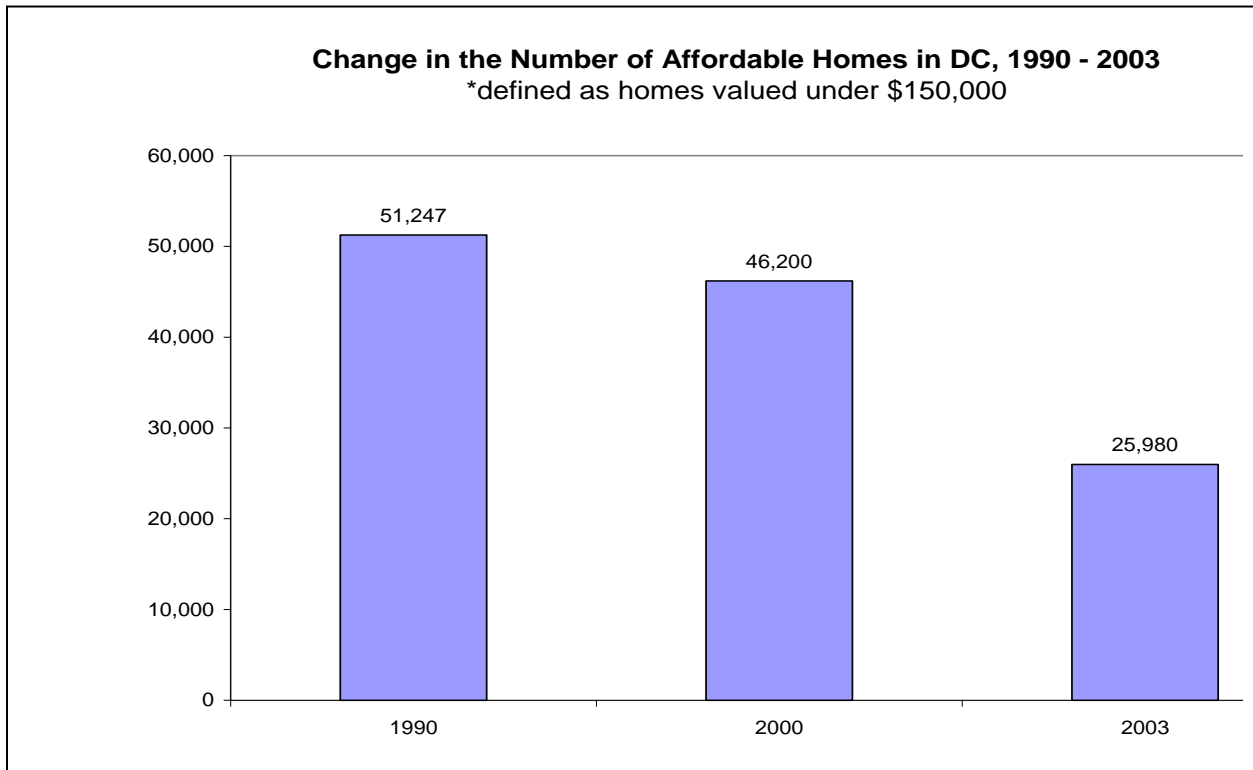


- Between 1990 and 2000, the affordable housing gap grew to 14,000 as the number of low-income households rose to 50,000 and the number of low-cost rental units fell to 36,400.
- By 2003, there were 54,800 renting households with income below \$20,000 per year and only 30,900 units with gross rent below \$500. In just three years from 2000 to 2003, the District's affordable housing shortfall grew an additional 10,000 units, from 14,000 to 24,000, as much as it had in the entire 1990s. (See Figure 10.)

The recent increase in the affordable housing shortfall resulted in large part from a precipitous decline in the city's supply of low-cost housing. At the same time, the number of available high-cost rental units rose by a similarly dramatic amount. This suggests that the District's hot real estate market, and gentrification in many neighborhoods, is having a direct adverse effect on the city's low-income households.

- Between 2000 and 2003, the number of low-cost units fell by more than 5,000 from 36,400 to 30,900. In just three years, the District lost 15 percent of its affordable housing supply.

Figure 12

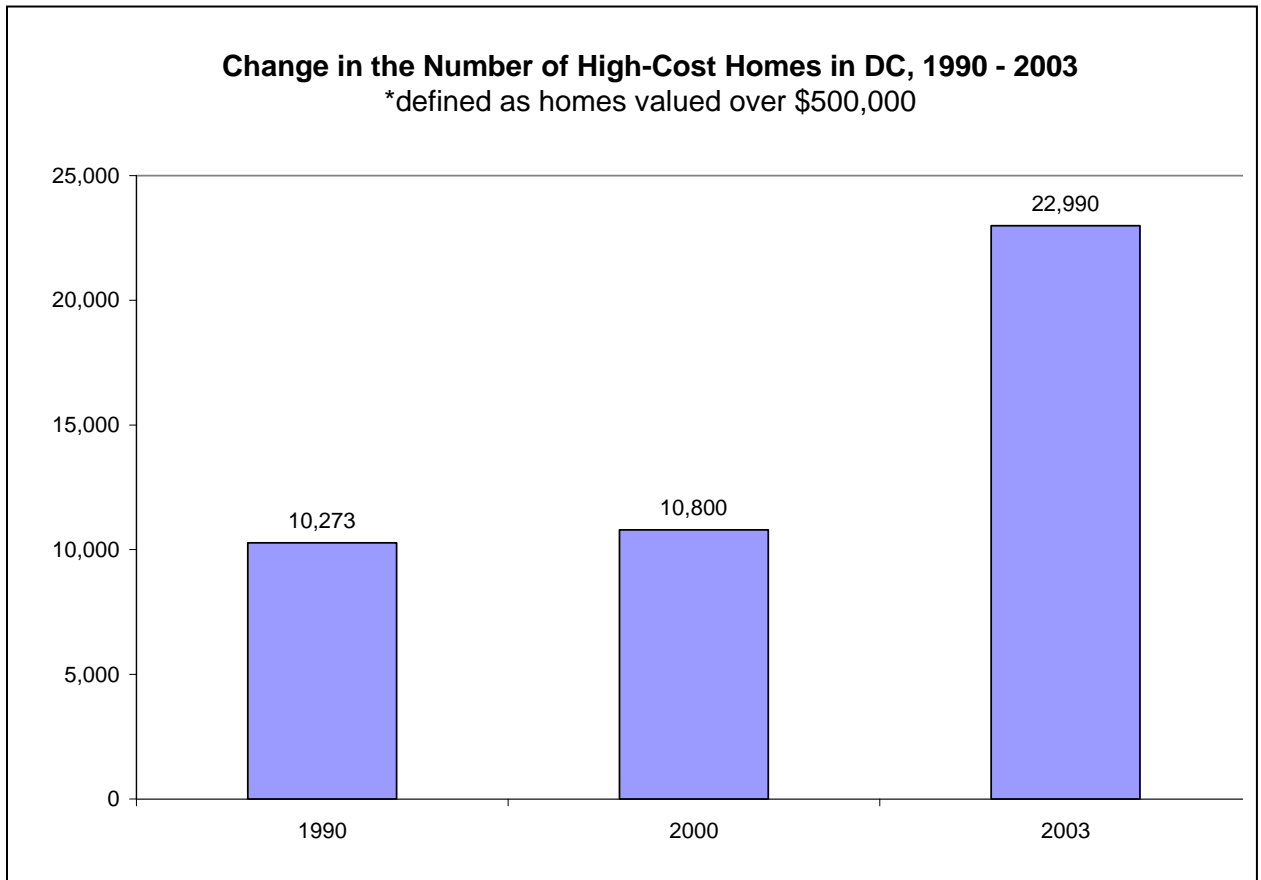


- During that same period, the number of high cost units, defined here as those with rents \$1,000 or more, grew from 28,800 to 35,700. This is an increase of nearly 7,000, or 25 percent. (See Figure 11.)

Counting the number of rental units affordable to households with annual income of \$20,000 or less per year is just one way to demonstrate the shortage of affordable housing units. Analyzing lower incomes, however, would yield an even wider gap. For example, in 2003 almost half — 47 percent — of the units with gross rent below \$500 were clustered in the \$300 to \$500 range. This means that households would need incomes of at least \$12,000 (and up to \$20,000) to afford half of the units. Two-thirds of the renters counted as having income below \$20,000 actually earn less than \$12,000. Therefore, the \$300 to \$500 units were unaffordable for these households.

Moreover, low-income households compete for the most affordable rents with households that earn more. In other words, all of the units with gross rent below \$500 per month are not necessarily rented by the households with income below \$20,000. Some of those units are occupied by households with greater income. If low-rent units are occupied by high income households, then the number of units affordable to low-income households actually is lower.

Figure 13



The District Has Lost Nearly Half of its Affordable Homes Since 2000

Just as the District has experienced a sharp decline in affordable rental housing, the supply of low-cost owner-occupied homes also has dwindled, particularly in the past three years. The number of high value homes, by contrast, has increased rapidly. This suggests that sharp rises in home prices in the District are reducing opportunities for homeownership for the city's lower-income households.

- The District has lost more than 20,000 units of its affordable homeowner properties since 2000. The number of District homes valued under \$150,000 decreased from 46,000 in 2000 to 26,000 in 2003.¹¹
- This follows a decade in which the number of low-value homes fell by 5,000. Overall, the number of homes valued at \$150,000 or less has fallen by half since 1990, from 51,000 to 26,000. (See Figure 12.)

¹¹ All values are adjusted for inflation to equal 2003 dollars.

While the number of affordable homes has drastically declined, the number of high-value homes — defined here as homes valued over \$500,000 — has increased just as dramatically.

- The number of high-value homes more than doubled — from 11,000 units in 2000 to almost 23,000 in 2003.
- This follows a 10-year period in the 1990s, when the number of high-value homes increased only modestly, from 10,000 to 10,800. (*See Figure 13.*)

Conclusion

There appear to be few areas within the District that have not been affected by the tremendous rebound in the city's real estate market. Rents and home sales prices are rising throughout the District, a strong sign of economic progress and the increasing popularity of the city as a place to live. While this is good news in many ways, housing costs are now rising far faster than incomes, especially for lower-income households.

This means that many DC residents are finding it increasingly difficult to remain in the city, including many who work and make important contributions to the local economy. As affordable housing choices dwindle, low-income families become more concentrated in the few neighborhoods that remain affordable; the resulting concentration of poverty contributes to a variety of negative outcomes, including poor school performance and high crime. Moreover, families forced to pay most of their limited incomes for housing face difficulty meeting other basic needs, such as food, and are regularly at risk of losing their home.

These findings suggest that a comprehensive housing strategy for the District should make a priority of addressing the needs of the city's lowest-income residents. Such an investment will enhance family and neighborhood stability and will promote economic growth by making the District a place to call home to a broad workforce.