DC Fiscal Policy Institute

February 5, 2010

NOWHERE TO GO:
As DC Housing Costs Rise, Residents Are Left With Fewer Affordable Housing Options

Summary

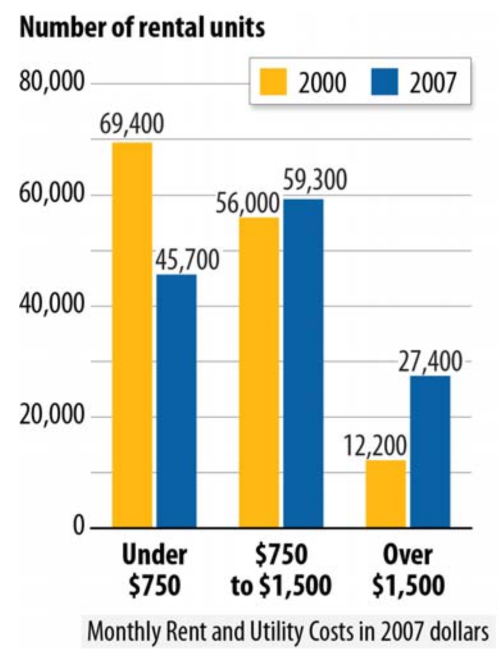
The District of Columbia's housing market boom over the past decade played an important part in the city's economic revitalization, but it also contributed to a growing affordable housing crisis for low- and moderate-income households. Since 2000, rents have grown faster in the District than in most major cities — and have outpaced the incomes of most DC households. Combined with sharply rising home values and the conversion of many rental units to condominiums, a growing number of DC residents are faced with housing affordability problems. The problems are especially acute for DC's lowest-income households, most of whom now spend half or more of their income on housing. Although housing prices have moderated over the past year as the housing market cooled, rents and home prices remain far higher than a decade ago.

A review of Census Bureau data on housing conditions in the District reveals the following trends.

- **DC's low-cost rental stock has shrunk by more than one-third since 2000.** The number of rental units with rent and utility costs of $750 or less fell from 69,000 in 2000 to 45,000 in 2007. (In this report, all figures are adjusted for inflation to equal 2007 dollars.) Meanwhile the number of rental housing units with costs of at least $1,500 a month more than doubled, from 12,000 in 2000 to 27,000 in 2007.

- **Low-cost homeownership options also shriveled:** The number of DC homes valued at $250,000 or less fell from 58,000 to 15,000 between 2000 and 2007. Homes valued at this level represented more than half of owner-occupied units in 2000 but just one-sixth in 2007. While home values have fallen in DC since 2007, home prices remain much higher than a decade ago. Median home sales prices at the end of 2008 were roughly double the median sales price from the late 1990s.city.

FIGURE 1:
DC's Low-Cost Rental Housing Supply is Declining



Source: DCFPI analysis of American Community Survey data

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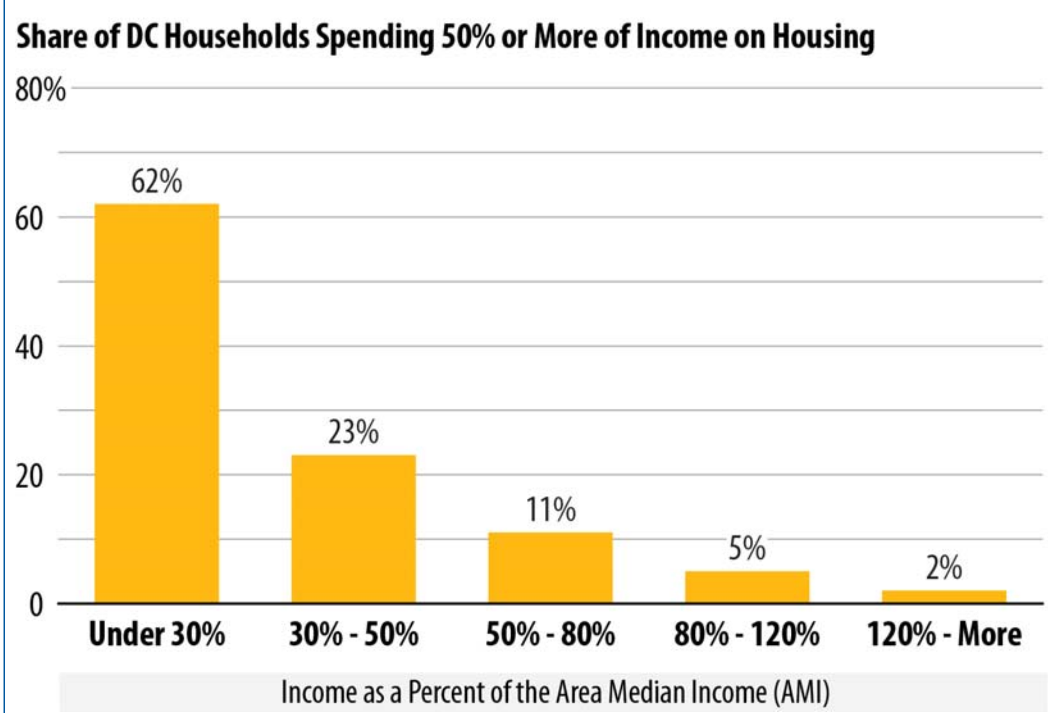
FIGURE 2:
Three of Five Low-Income Households Have Severe Housing Affordability Problems



Source: DCFPI analysis of American Community Survey data

A growing number of DC households have housing affordability problems: Nearly 100,000 DC households — or two of five — spent more than 30 percent of income on housing in 2007, exceeding the federal housing affordability standard. The number of DC households with housing affordability problems is 20,000 higher today than in 2000.

Nearly 50,000 DC households — one in five — have *severe* housing affordability problems, meaning they spend half or more of income on housing. In 2000, some 36,000 DC households faced this situation.

While rising housing costs have affected a wide range of DC families, low-income residents have been hardest hit.

- **Nearly all low-income DC households have unaffordable housing costs.** Four of five DC households with incomes below 30 percent of the Area Median Income spent more than the federal housing affordability standard. (30 percent of AMI equals about $28,000 for a family four.) Some 62 percent of households with incomes this low spent half or more of their income on housing in 2007 — up from 50 percent who had housing costs this high in 2000.

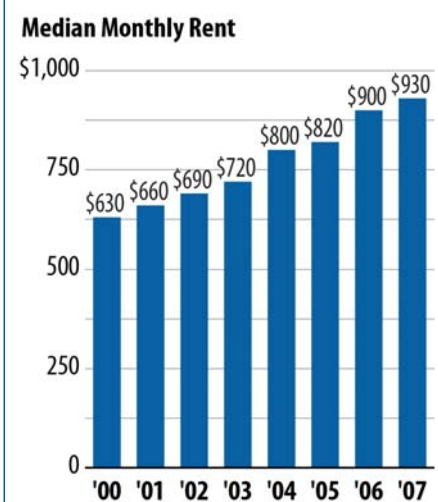
- **Low-income households represent the vast majority of residents in need of affordable housing.** While a growing number of moderate-income households also face housing affordability problems, most of the families facing such challenges are low-income. Of the 98,000 households that spend more than 30 percent of income on housing, two-thirds have income below half of the area median income. Of the 48,000 households that spend at least half their income on housing, 85 percent have incomes this low.

Because the private market in the District produces very little housing that is affordable to low-income families, public investment is extremely important to the housing status of DC's low-income families. Local funding for core affordable housing programs rose substantially starting in 2002 — from $7 million in 2000 to $123 million in 2008. (Both figures are adjusted for inflation to equal 2010 dollars.) This supported the construction or rehabilitation of 6,700 affordable homes — with another 1,600 underway — and the creation of 2,200 rental subsidies for the city's lowest income residents. It also supported an expansion of first-time homebuyer assistance. The major funding increases occurred in the city's Housing Production Trust Fund, the Local Rent Supplement Program, and the Home Purchase Assistance Program.

Most of these units were completed before 2007, the year that the housing affordability data in this report were collected. This means that DC's affordable crisis grew between 2000 and 2007 despite a large local investment in affordable housing, but it also means that the city's support prevented housing problems from getting even worse.

Funding for all of DC's major housing programs has been cut in recent years, however, which means that the city is unlikely to have made much progress on the affordable housing problems highlighted in this report. The budget for core housing programs in FY 2010 is $64 million, a nearly 50 percent cut from 2008 and the lowest level since 2004. The Housing Production Trust Fund will receive $18 million in 2010, compared with $62 million in 2008. In addition, the District has not been able to expand the rent subsidy program since 2008, despite a housing waiting list of 25,000 households. Funding for first-time homebuyer assistance has been cut since 2008, forcing the city to reduce the amount of assistance it provides to each household seeking aid.[1]

FIGURE 3:
Rents Have Risen Sharply in the District



Source: American Community Survey

Rising Rents Have Led to a Significant Decline in Low-cost Rental Housing in the District

Rental housing prices have risen faster in the District since 2000 than in nearly every other large city in the nation. Rising rents contributed to a rapid decline in the supply of rental housing that is affordable to low-income households. Meanwhile, the number of higher-cost apartments skyrocketed.

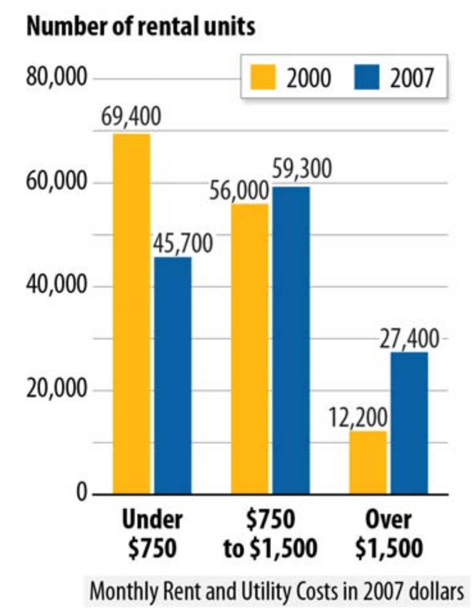
[1] As discussed in more detail below, this refers to the Home Purchase Assistance Program. It does not refer to the federal first-time homebuyer tax credit.

The median monthly rent for a DC apartment rose from $630 in 2000 to $930 in 2007. Even after adjusting for inflation, this represents an increase of 23 percent.[2] The growth in DC rents since 2000 was 5th highest among the nation's 50 largest cities and exceeded rent increases in Boston, Chicago, Los Angeles, New York, and Atlanta. (See Appendix Table)

DC rents also rose faster than the incomes of DC households during this period. Median household income rose 10 percent during this period, after adjusting for inflation, from $49,300 to $54,300.

Rising rents mean that many apartments that had once been affordable to lower-income households no longer are. The supply of low-cost rental housing has gotten much smaller in DC, as the rental stock shifted to higher-cost units. In this analysis, low-cost rentals are defined as those with rent and utility costs below $750 a month[3]; these would be affordable to households with annual incomes below $30,000, using the HUD standards that housing should equal no more than 30 percent of household income. (Roughly one of four DC households has income this low.) Higher-cost apartments are defined here as those with rents of $1,500 or more per month.

FIGURE 4:
Low-Cost Rental Housing is Declining in the District



Source: DCFPI analysis of American Community Survey data

- **DC's low-cost rental housing stock has shrunk by one-third since 2000.** The number of apartments with monthly rent and utility costs below $750 — including both private-market housing and government subsidized housing — fell from 69,400 in 2000 to 45,700 in 2007, a drop of more than one-third.[4]

- **High-cost rental units more than doubled in number since 2000.** Some 27,400 DC apartments had rent and utility costs of $1,500 or more in 2007, up from 12,200 in 2000.

- **The supply of mid-priced housing has remained relatively stable.** The number of rental units in DC with monthly costs between $750 and $1,500 rose from 56,000 in 2000 to 59,300 in 2007, a modest increase.

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[2] Median rent refers to the mid-point of rents in the city, with half of all rentals having costs below this and half having costs above the median.

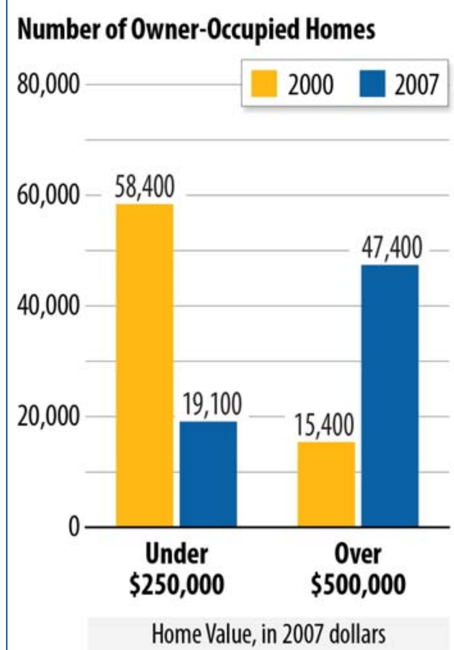
[3] These figures are based on "gross monthly rent," defined by the U.S. Census Bureau as the amount of the contract rent plus the estimated average monthly cost of utilities (electricity, gas, and water and sewer) and fuels (oil, coal, kerosene, wood, etc.) if these are paid for by the renter (or paid for the renter by someone else).

[4] Gross monthly rent was adjusted for inflation to equal 2007 dollars.

As a result of these trends, low-cost housing represents a shrinking share of DC's rental stock. In 2000, nearly half of all of DC's rental units had monthly costs below $750. By 2007, only one-third of rental housing in the city — including subsidized housing — had costs this low. This means that low-income households are far more likely to have rents that are beyond their reach, and that low-income families looking for affordable housing face far greater challenges.

Rising Home Values Have Virtually Eliminated Low-Cost Homes in DC

FIGURE 5:
Low-Value Homes Are Declining in the District, While High-Value Homes Are Increasing



Source: DCFPI analysis of American Community Survey data

Like rents, DC home values and sales prices also rose sharply this decade. While rising home values have benefited their owners through increased home equity, this also has resulted in a substantial decline in the number of owner-occupied homes that are affordable to low and moderate-income households. This report defines low-value homes as those worth $250,000 or less, and high value homes as those worth $500,000 or more. A home selling for $250,000 is close to the amount that would be affordable to a family of four with income at 50 percent of the DC Area Median Income.[5]

- **The number of low-value DC homes has fallen by two-thirds since 2000:** Some 58,400 DC homes had a value of $250,000 or less in 2000 — when adjusted for inflation to equal 2007 dollars — which represented more than half of all DC homes that year. By 2007, only 19,100 homes had a value this low, a decline of nearly 40,000 or two-thirds. Low-cost homes now represent just one-sixth of DC's owner occupied homes.

- **High-value homes have tripled since 2000:** The number of DC homes valued over $500,000 rose from 15,400 in 2000 to 47,400 in 2007. These high-cost homes now equal 43 percent of all DC owner-occupied homes, up from 16 percent in 2000.

The impact of rising home values, while beneficial to existing homeowners, has made it far harder for DC households to become homeowners, particularly lower-income households.

While home prices have fallen in the District in recent years, they remain far higher than a decade ago. The median single-family home sales price in the fourth quarter of 2008 — $414,000 — was more than double the median sales price from 1998 to 2002 — $206,000 — after adjusting for inflation.[6] (See Figure 6.)

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[5] The affordable home purchase price for a given family is affected by a number of factors, including mortgage interest rates, the homebuyer's other debts, and the amount the homebuyer can contribute towards a downpayment and other closing costs.

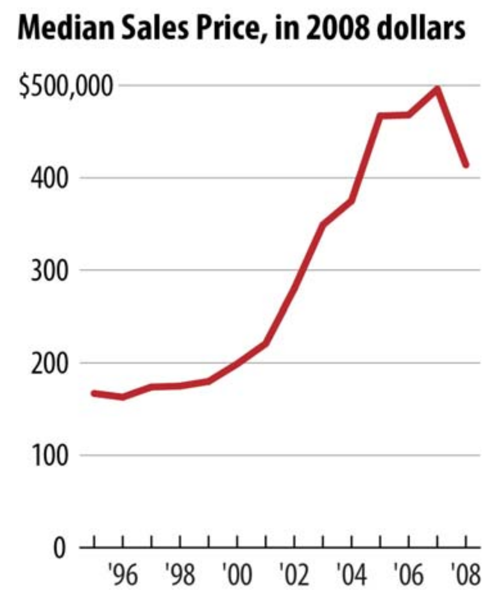
[6] See "District of Columbia Housing Monitor, Spring 2009."

Affordable Housing Problems Have Worsened for Many Residents Since 2000

The sharp increases in rents and home values in the District since 2000 have resulted in a rapidly growing number of DC households experiencing unmanageable housing costs. The problem is particularly acute for renters — nearly half of whom now pay more for housing than what is considered affordable. Nearly all low-income households have unaffordable housing costs.

Housing is considered unaffordable if it consumes more than 30 percent of a household's income, according the U.S. Department of Housing and Urban Development's (HUD) standards. If a household pays more than 50 percent of its income for housing, it is considered to have "severe" housing cost burden. By these standards, a vast number of DC households face housing affordability problems.

FIGURE 6:
Home Sales Prices Remain Far Higher Than in Late-1990s



Source: NeighborhoodInfo DC

- **Nearly 100,000 DC households DC face unaffordable housing expenses.** Some 98,000 of DC's 244,000 households — or two in five — paid more than 30 percent of their income for housing in 2007. This represents an increase of more than 20,000 households with unaffordable housing cost since 2000, when 78,000 households had housing costs this high.

- **Renters are far more likely than homeowners to experience housing cost burdens.** Almost half — 48 percent — of renters experienced unmanageable housing costs, compared with 31 percent of homeowners.

One-Fifth of DC Households Face "Severe" Housing Cost Burdens

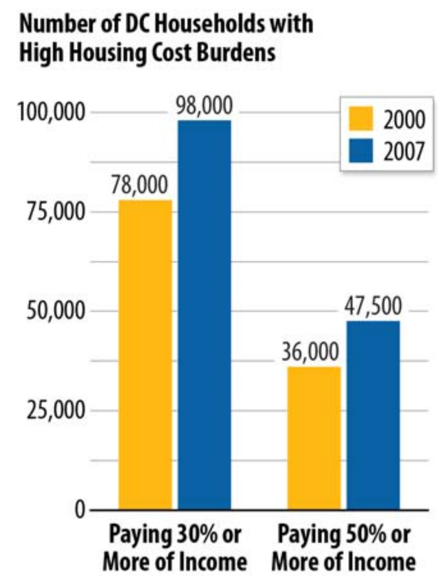
The number of households in DC paying half or more of their income for housing also has increased since 2000. The vast majority of households with severe housing cost burdens are renters.

- **Nearly 50,000 DC households have severe housing cost problems:** Almost one in five DC households— 47,500 out of 244,000 — had severe housing cost burdens in 2007. The number of households experiencing such high housing costs has increased by one-third since 2000, when 36,000 DC households spent more than half their income on housing.

- **Renters represent the vast majority of households with severe housing cost burdens.** Of the 47,500 households with housing costs this high, 33,000 (two-thirds) were renters. Overall, one of four DC renters spent half or more of their income on housing in 2007, compared with one of eight homeowners.

Housing Affordability Problems Fall Most Heavily on DC's Low-Income Households

FIGURE 7:
A Growing Number of DC Households Face Housing Affordability Problems



Source: DCFPI analysis of American Community Survey data

Rising housing costs have affected virtually all DC households, but the increases in rents and home prices have been most troublesome for the city's lowest-income households. Nearly all of DC's low income households spend more than 30 percent of their incomes for housing, and more than half spend at least 50 percent. As a result, low-income households represent the large majority of DC residents with housing affordability problems.

This analysis divides DC households into different income groups by examining income relative to the Area Median Income (AMI) for the Washington metro area. This is the standard used in DC housing programs as well as in federal housing programs. Households with income below 30 percent of AMI are considered "extremely low-income;" households below 50 percent of AMI are defined as "very low-income;" and households below 80 percent of AMI are "extremely low-income."

The median household income for the Washington metro area in 2007 was $94,500 for a family of four. This means that the "extremely low-income" threshold in DC is roughly $28,000 for a family of four. The "very low-income" threshold is $47,000 and the "low-income" threshold is $76,500.[7] (see Table 1)

These income thresholds are somewhat misleading for DC because the median income in the Washington metro area is very high. The "low-income threshold", for example, equals more than 300 percent of the poverty threshold and is higher than median household income in the District. For that reason, this analysis focuses on households with incomes below 50 percent of the area median income, (See box on page 12 for a further discussion.)

TABLE 1
Income Thresholds for DC Housing Programs, 2007

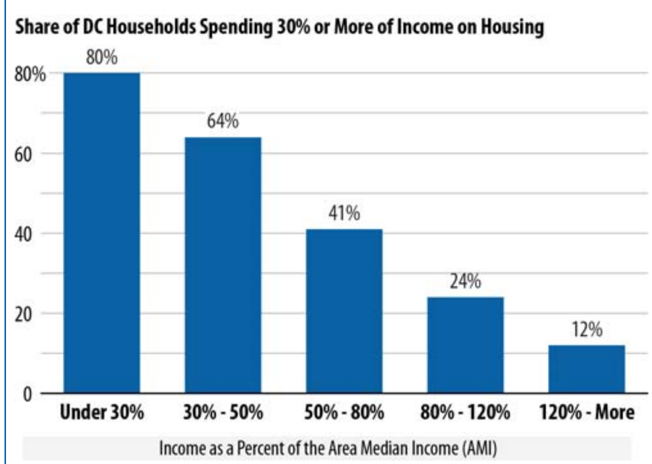
Income as % of Area Median	1-person household	2-person household	3-person household	4-person household
30%	$19,800	$22,700	$25,500	$28,400
50%	$33,100	$37,800	$22,500	$47,300
80%	$52,900	$60,500	$68,000	$75,600
100%	$66,200	$75,600	$85,100	$94,500

Using these standards, housing affordability is a problem for an overwhelming share of DC's poorest households. At the same time, rising housing costs have resulted in notable increases in housing affordability problems among more moderate-income households since 2000.

[7] 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.

- **Housing is unaffordable for nearly all lower-income DC households.** Four of five DC households with incomes below 30 percent of the area median income (less than $28,400 for a family of four) spent more than 30 percent of their income for housing. Some two-thirds of households with incomes between 30 percent and 50 percent of AMI (between $28,400 and $47,300 for a family of four) had housing costs this high.

FIGURE 8:
Most Low-Income Households Have Unaffordable Housing Costs



Source: DCFPI analysis of American Community Survey data

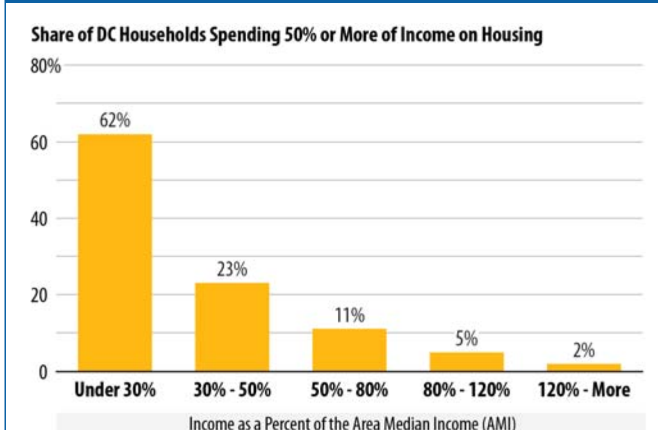
- **Many moderate income households also face unaffordable housing costs.** Two-fifths of DC households with incomes between 50 percent and 80 percent of AMI (between $47,300 and $76,500 for a family of four) spent more than 30 percent of income for housing in 2007. The frequency of housing affordability problems has nearly doubled since 2000 for this group, when 21 percent had housing costs above 30 percent of income

  One-fourth (24 percent) of households with incomes between 80 percent and 120 percent of AMI also faced unaffordable housing costs. In 2000, just nine percent of DC households at this income level had housing costs this high.

Severe Housing Problems Are Limited Almost Entirely to Very Low-Income Households

While housing affordability problems affect both low-income and moderate-income DC families,
the families experiencing the most serious housing affordability challenges— spending more than half their income for housing — are almost entirely low-income.

FIGURE 9:
Three of Five Low-Income Households Have Severe Housing Affordability Problems



Source: DCFPI analysis of American Community Survey data

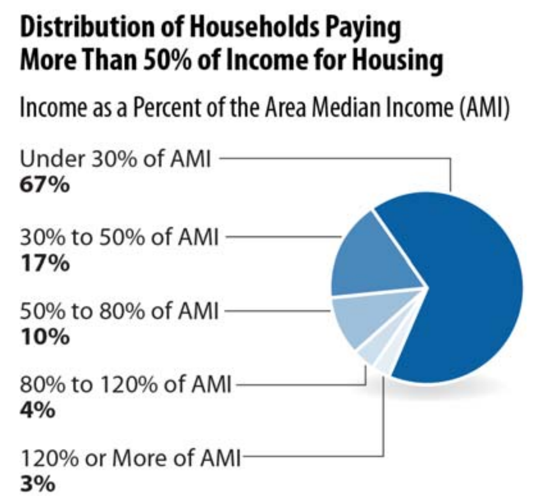
- **More than half of DC's poorest households have severe housing cost burdens.** Some 62 percent of households with incomes below 30 percent of the DC area median income spent half or more of their income on housing. This is an increase since 2000, when 50 percent of extremely low-income households had severe housing cost problems.

Among households with income between 30 percent and 50 percent of AMI, 23 percent spent half or more of their income on housing, compared with just 10 percent of these households in 2000.

In 2000, some 33,000 households with incomes below 50 percent of area median income had severe housing cost burdens. By 2007, this figure had risen to 41,000.

- **Higher income households typically do not have severe housing affordability problems.** Among families with incomes between 50 percent and 80 percent of area median income, 11 percent spend more than half of their income on housing. At income levels above 80 percent of AMI, fewer than one in 20 households have this problem.

FIGURE 10: Most Households With Affordability Problems Are Low-Income



Source: DCFPI analysis of American Community Survey data

Most of the Households with Affordability Problems Are Low-Income

Because lower income households are much more likely than higher income households to have high housing problems, they represent the vast majority of DC households with unaffordable housing.

- **Two-thirds of DC households with unaffordable housing costs are low-income.** Of the 98,000 DC households that spend more than 30 percent of income on housing, 63,000 —or 65 percent — have incomes below half of the area median income.

- **DC households with severe housing affordability problems are overwhelmingly very low-income.** Of 48,000 DC households that spend at least half their income for housing, 32,000 have incomes below 30 percent of area median income, and 41,000 have incomes below 50 percent of AMI. This means that 85 percent of the DC households with severe housing cost problems have incomes below 50 percent of AMI.

Signs of Gentrification in the District

The rapid increases in DC's housing costs appear to have contributed to gentrification of the District. While DC's total population and the total number of households has not changed much since 2000, the city experienced a notable decline in the number of low-income households and an increase in the number of higher-income households. In addition, the total number of rental housing units (at all rent levels) has fallen, while the number of homeowner households has increased.

- **Distribution of incomes in DC households is shifting toward higher-income households.** The number of DC households with incomes below 80 percent of the Area Median Income — or less than $76,000 for a family of four — has fallen substantially, from 148,000 in 2000 to 126,000 in 2007. Meanwhile, the number of households with incomes above this level increased during this period, from 89,000 to 117,000. The largest increase occurred among those with incomes above 120 percent of AMI — or more than $113,000 for a family of four. This group expanded from 57,000 households in 2007 to 81,000 in 2007, an increase of 24,000 higher-income households. While the falling number of low-to-moderate income households could partly reflect increases in the incomes of these households, it is likely to reflect movement of households out of the District.

- **Rental housing stock is declining as owner-occupied housing has expanded.** Between 2000 and 2007, the number of rental units in the District fell from 140,600 to 132,700, a decline of nearly 8,000. Meanwhile the number of owner-occupied housing units rose from 95,000 to 111,000. The decline in rental housing stock likely occurred at least in part as rental units were converted to condominiums. The increase in DC's owner-occupied units was greater than the decline in the rental housing stock, which suggests that a substantial amount of new owner-occupied housing also was developed during this period.

These trends do not conclusively prove that gentrification has occurred, but they suggest that the District is increasingly attractive to higher-income households, that this has resulted in conversion of rental housing to condominiums or other types of owner-occupied housing, and that lower-income households are finding it increasingly hard to live in the District.

Local Affordable Housing Programs Expanded in the 2000s, But New Development of Affordable Housing Has Stalled in Recent Years

Publicly subsidized housing — housing that is built or operated with financial support from the federal or the District government — is the primary source of affordable housing in DC, particularly for the city's lowest income residents. Nearly all of the very-low income families that do not receive housing assistance spend at least 30 percent of their income for housing, and a majority spend half or more of their income on housing. This means that efforts to expand investments in affordable housing are critical to addressing the housing needs of low-income residents.

The supply of affordable housing in the District expanded notably over the past decade — mainly due to an expansion of DC-funded housing programs. In recent years, however, funding for local housing programs has fallen sharply, which suggests that the city has made little progress on the problems identified in this report.

What Has Happened Since 2007?

The data highlighted in this report cover housing trends through 2007. Because housing and economic conditions in the District have changed dramatically since then, it is reasonable to ask how those changes would affect the results reported here. The following are some of the changes that have occurred since 2007.

- **Increase in subsidized housing:** As discussed in more detail below, local funding for affordable housing started to increase after 2002, and some of the new affordable housing units have been completed since 2007. Some 1,700 rental subsidies, provided through the Local Rent Supplement Program, have been placed in use in 2007 or will be in place in the near future. Roughly 2,600 units of housing supported by the Housing Production Trust Fund were completed after 2007 or are in the pipeline. These 2,700 new affordable housing could have helped reduce the number of DC households with housing problems, but the impact is relatively small compared with the 41,000 extremely low income households that faced severe housing affordability problems in 2007.

- **Stagnant/Falling Housing Prices.** The decline in DC's economy since 2008 has stopped the increase in rents and home sales prices. While this may have slowed the growth in high-cost housing, it is unlikely to have resulted in a significant change in housing affordable to very low-income families. As noted, the median home sales price at the end of 2008 was more than double the median sales price from 1998 to 2002, after adjusting for inflation.

- **Increase in Number of Low-Income Families:** Unemployment in the District rose from 5.5 percent in 2007 to 11.8 percent in November 2009, as the number of jobless residents grew by nearly 20,000. Food Stamp caseloads rose to the highest level in 20 years — growing from 87,000 residents in 2007 to 107,000 in July 2009. Because nearly all low-income families face housing affordability problems, the decline in employment and income for thousands of DC residents is likely to have made housing affordability problems worse.

It is not possible to assess the net effect of these trends, though they suggest that the increase in the supply of subsidized housing has been offset by the growth in the number of households needing housing aid.

Federal Housing Assistance Programs

Federal housing aid is the largest source of affordable housing in the District. About 30,000 DC households — nearly one in eight — receive assistance from the federal government through programs that provide "deep subsidies," or assistance that is sufficient to make housing affordable to extremely low-income households. These programs are Public Housing and the Housing Choice Voucher program, which provides vouchers that recipients use to help pay the rent for privately owned housing. Both programs are administered by the DC Housing Authority. A third federal program is the Project-based Section 8 program. Under this program, the U.S. Department of Housing and Urban Development contracts with owners of apartment buildings to make some or all of the units affordable.

Over the past decade, the number of federally subsidized housing units in the District of Columbia has remained roughly the same — at roughly 30,000 — although there have been significant changes in the types of subsidized units. The number of public housing units has

HUD Definition of "Low-Income" Is Somewhat Misleading for DC

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."

However, these categories are somewhat misleading in the case of the District of Columbia. HUD's area median income reflects 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, and the area median income — $94,500 for a family of four in 2007 — was one of the highest in the nation. This means that 80 percent of AMI — the "low-income" standard — equals $75,600 for a family of four, or more than three times the poverty line.*

The area median income also is not an accurate reflection of the income of DC households. The median income for a four-person household in the District was $67,000 in 2007 — about two-thirds of the metropolitan area's median income. This means that most DC households have income well below the area median income and thus could be considered "low-income" under the HUD standard. Table 1 shows that more than half of the District's households were classified as "low-income" using the 80 percent of AMI standard as a threshold in 2007.

2007 Area Median Income Thresholds for Four-Person Households in the Washington Metropolitan Area

Low-Income Status	Percent of Area Median	Threshold, 4-Person Family*	Percent of DC Households Under Threshold
Low-Income	80%	$76,500	52%
Very Low-Income	50%	$47,300	39%
Extremely Low-Income	30%	$28,400	21%

This is significant for the allocation of limited housing assistance resources. As discussed in this report, housing affordability problems in the District are concentrated among households with income far below the area median, particularly those below 30 percent of AMI. It suggests that housing resources should be focused on the very lowest income households, rather than targeting all households considered "low income" under DC housing program standards.

*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.

declined, as has the number of Section 8 project-based units, while the number of households with housing choice vouchers has grown.[8]

[8] The three federal housing programs providing deep subsidies assisted about 30,000 households in both 2000 and 2007. The number of public housing units fell from about 10,600 in 2000 to 7,900 in 2007. The number of Section 8 project-based units fell by about 2,000, from roughly 14,000 to roughly 12,000. The number of housing choice vouchers in the District increased from 5,200 to 9,800.

DC's Local Housing Programs:
Funding Rose Significantly After 2002, But It Has Fallen in Recent Years

In addition to federal programs, affordable housing in the District is produced and supported through several local programs. The District's key affordable housing programs are the Housing Production Trust Fund, which provides grants and loans to support new construction and rehabilitation of affordable housing; local funding for rental subsidies operated by the DC Housing Authority, including the Local Rent Supplement program; the Home Purchase Assistance Program for first-time homebuyers; and local support for housing construction and renovation through the DC Department of Housing and Community Development.[9]

FIGURE 11:
Local Funding for Affordable Housing

Source: DC Fiscal Policy Institute. See Footnote 10.

Starting in the early 2000s, local funding for affordable housing rose substantially, as a new dedicated funding source was established for DC's Housing Production Trust Fund and as the city created a rent subsidy program to support housing for very low-income residents. The trend of increasing support for local housing has been reversed in recent years, however, as funding has fallen since 2008. This means that the District's ability to address the affordable crisis highlighted in this report has been greatly curtailed.

- **Local investment in affordable housing blossomed in the mid-2000s.** DC spending on the affordable housing programs described above rose from $7 million in Fiscal Year 2000 to $123 million in Fiscal Year 2008. (All dollar figures are adjusted for inflation to equal 2010 dollars.)[10]

  These programmatic and funding expansions supported the development of more than 8,900 units of affordable housing since 2000, including 6,700 homes funded under the Housing Production Trust Fund and 2,200 rental subsidies provided under the Local Rent Supplement Program. Another 1,600 units are in the development pipeline under HPTF.[11]

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[9] DC also provides affordable housing through two other smaller programs. The Bridge Subsidy program at the Department of Mental Health is designed to help individuals 'bridge' from temporary housing into long-term stable housing by providing them transitional housing and services to help them move towards independent living. In FY 2010, the Bridge Subsidy Program will receive $5.5 million. The Permanent Supportive Housing Program, know as Housing First, was created in FY 2009 to place chronically homeless individuals and families into permanent supportive housing with case management services.

[10] These figures include funding for the Housing Production Trust Fund, the Local Rent Supplement Program, and local funding for the Department of Housing and Community Development.

[11] Many of these units were completed before 2007, the year that the housing affordability data in this report were collected. This means that DC's affordable housing crisis grew between 2000 and 2007 even though local support for

- **Affordable housing funding has fallen sharply since 2008:** The local housing budget in FY 2010 — $64 million — represents a funding cut of nearly half since FY 2008. This is the lowest funding level for affordable housing since 2003. This reflects a large drop in funding for the Housing Production Trust Fund, but also cuts to the Local Rent Supplement Program and the Home Purchase Assistance Program.

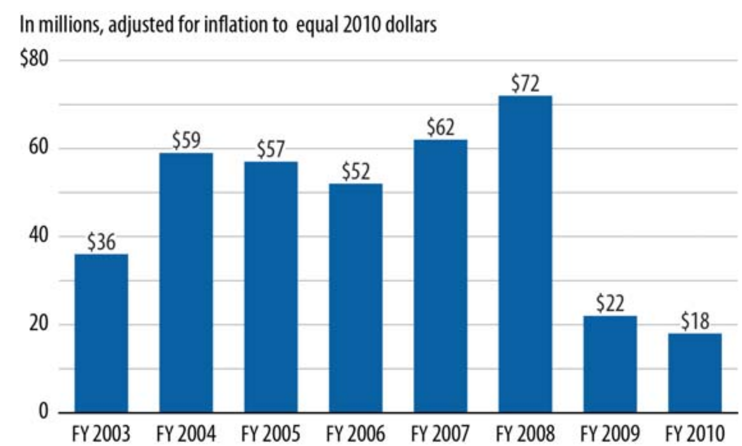
These programs and the trends in funding are described below.

Housing Production Trust Fund

Under legislation enacted in 2002, some 15 percent of deed recordation and transfer taxes are dedicated to the fund each fiscal year. This funding rose substantially after FY 2002, during the District's real estate market boom. In addition, deed tax rates were raised in FY 2007 to expand funding for HPTF and other housing programs, and the fund received a supplemental appropriation of $30 million in 2008. There were no funds devoted to the Housing Production Trust Fund in 2000, and then funding rose to $62 million in 2007 and $72 million in 2008.

DC's real estate market cooled substantially starting in 2008, however, and this resulted in a sharp decline in support for HPTF. As a result of the slowdown, it is now expected that the Housing Production Trust Fund will receive just $18 million in FY 2010). Moreover, up to $6 million of that is set aside to support development of New Communities projects. The FY 2010 funding level — is the lowest since 2003.[12]

FIGURE 12:
Funding for the Housing Production Trust Fund



Source: DC Fiscal Policy Institute

The decline in funding for the Housing Production Trust Fund means that current demands far outweigh available resources, and this means that many viable affordable housing projects will not get funded. The funding needs of approved projects outweighed available HPTF resources by at least $123 million in June 2008.[13] This means that the District cannot support all projects that have received preliminary HPTF awards.

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affordable housing expanded, but it also suggests that the local housing investment prevented affordable housing problems from getting even worse. Roughly 6,200 of the affordable units funded since 2000 were in use in 2007, and an additional 4,300 have been developed since 2007 or are now in the development pipeline. These new affordable homes could have helped reduce the number of households facing affordability problems.

[12] For Example, if the $12 million in available funds is used to subsidize housing development at a cost of $100,000 per unit — a relatively low subsidy level will support development of 120 new units.

[13] DC Fiscal Policy Institute, Coalition for Nonprofit Housing and Economic Development, *Affordable Housing in The District Depends on a Stable Housing Production Trust Fund*, October 2008.

It is likely that funding for the Housing Production Trust Fund will start to grow again over the next few years, as the city's real estate market improves, but it is unlikely to return to the levels reached in FY 2007 and FY 2008 for a number of years.

Local Rent Supplement and DC Housing Authority Subsidy

Since FY 2006, the District has appropriated local funds through the DC budget to help cover a shortfall in federal funding for the voucher program operated by the DC Housing Authority. Local funds also have been appropriated since FY 2007 to support a new Local Rent Supplement Program (LRSP), following a recommendation of the city's 2006 housing task force for nearly 15,000 new rent subsidies over 15 years.

Funding for these programs equaled $11 million in 2006 and rose to $31 million in 2008. This allowed the housing authority to support roughly 500 low-income households through the Housing Choice Voucher program, and it supported the creation of 1,700 subsidies under the Local Rent Supplement Program. Some 1,230 low-income families are in housing supported with LRSP subsidies and another 480 units of housing that are being built will receive LRSP when they are completed.

Funding for these efforts has not increased since 2008, however. In fact, the locally appropriated budget for the DC Housing Authority for FY 2010 totals $25 million, a reduction of $6 million compared with 2008, and DCHA will need to use reserve funds to maintain the housing subsidies currently in place. No additional families will be served in 2010 beyond the 1,700 commitments made through 2008. Because housing costs rise each year, DCHA actually may need to reduce the number of families served by these funds if funding continues to be flat in the future.

Home Purchase Assistance Program and Other Programs Supported by the Department of Housing and Community Development

DHCD focuses on the financing, production, and preservation of affordable housing and homeownership in the District. The locally appropriated budget for DHCD in FY 2010 is $21 million, including $12 million for first-time homebuyer assistance and $6 million for housing production.

Funding for the Home Purchase Assistance Program — which provides downpayment and closing cost assistance to first-time homebuyers — was increased significantly after 2000 but has fallen in recent years. The program's total expenditures, including both local and federal funds, rose from $6 million in 2000 to nearly $30 million in 2007.[14] (All figures are adjusted for inflation to equal 2010 dollars.) The funding increase allowed the District to assist more families — from roughly 250 per year in the early 2000s to over 500 families per year in 2007 and 2008. The funding increase also allowed the city to increase the maximum HPAP loan amount from $30,000 to $70,000, in response to rising home prices.

[14] The home purchase assistance programs also contain smaller pots of funding for the Employer Assisted Housing Program (EAHP), which provides home purchase assistance to DC government employees and home buying assistance for DC Police Officers.

HPAP funding has fallen to $20 million in FY 2010, however, which is the lowest funding level since FY 2006. The recent cuts have forced the District to scale back the assistance it provides to low-income first-time homebuyers. The District expects to serve roughly 300 families in 2010, compared with 500 in 2007 and 2008. In addition, the maximum loan amount has been reduced from $70,000 to $40,000, which means that some lower-income families that need substantial help to buy a home may not be able to become homeowners.

A second major function of DHCD is the financing of affordable housing projects, using a mixture of local and federal funds. The Affordable Housing program will receive $6.4 million in local funds in FY 2010, compared with $1.5 million in local funds in FY 2009. While this amount is a relatively small share of DC's housing budget, it represents an increase over the past decade. In the early 2000s, the District devoted less than $1 million in local funds to affordable housing development.

The Department of Housing and Community Development also supports efforts by tenants to purchase their buildings from when landlords are ready to sell, but this service also has become a victim of the city's budget problems. DHCD provides funding for legal and technical assistance, and it offers funds to rehabilitate units that often have serious deficiencies. (DHCD uses Housing Production Trust Fund and other resources for rehabilitation costs.) The FY 2010 budget includes no funding for tenant purchase efforts.

Conclusions and Recommendations

The DC economy experienced a period of tremendous economic growth over the past decade, including revitalization in a number of neighborhoods and a booming real estate market. Although this is positive in many ways, it also contributed to a dramatic loss of lower-cost housing and increasing housing affordability problems for many households — especially low-income households.

Affordable housing problems have increased for a broad array of DC residents — with nearly 100,000 now spending more than 30 percent of income for housing and 50,000 spending half or more. Yet the greatest problems are for DC's lowest income families, most of whom now spend more than half income for housing, leaving their housing status vulnerable each month to even a small disruption in income. With unemployment sharply rising in the District, many more families are likely to be pressured by high housing costs.

The changes in DC's housing market have been overwhelming, with increasing signs that the city is gentrifying. Over the past decade, the number of high-income households has grown while the number of lower-income households has declined. Homeownership has increased — but the stock of rental housing has shrunk. These suggest that low- and moderate-income families are finding it increasingly hard to stay in the District.

The District's leaders responded to the growing affordable housing crisis with substantial increases in local funding for a variety of housing programs — including programs that support building or renovating housing and those that provide rental assistance for existing housing. These investments helped create more than 10,000 units of affordable housing that has either been completed or is now under development. The change is highly notable. Yet as the data highlighted in this report show, the increases were not enough to offset the large loss of low-cost private housing as rents escalated.

Moreover, the progress made in public support for affordable housing has come largely to a halt in the last two years, as a result of a slowing economy and large budget shortfalls. Since 2008, there has been limited support for acquisition, construction, and rehabilitation of affordable housing, leaving many planned projects stalled. There has been no expansion of rental subsidies that can help residents move from homelessness to permanent housing and assist families on the very long waiting list for subsidized housing. The reduction in affordable housing funding — nearly 50 percent in two years — marks it as one of the most significant victims of the city's economic and fiscal problems, an it means that the city has a limited ability to tackle one of its most serious challenges.

Although budget conditions in the District remain precarious, these findings suggest that efforts should be made to maintain funding to help some of the stalled affordable housing developments move forward and to maintain existing rental subsidy commitments.

As the District's economy and finances start to improve over the next few years, restoring funding for housing and getting back on track with goals to expand affordable housing opportunities will be important to ensuring that the District has stable homes and neighborhoods. Without such investments, a return to rising housing costs will create even greater pressures and will make DC increasingly unaffordable for many DC residents.

Appendix Table 1 Percent Change in Median Gross Rent in the 50 Largest U.S. Cities, 2000-2007				
Geography	**2000***	**2007**	**Percent change**	**Rank**
Miami city, Florida	647	837	29%	1
San Diego city, California	977	1209	24%	2
Fresno city, California	651	806	24%	3
Virginia Beach city, Virginia	884	1077	22%	4
Washington city, District of Columbia	767	934	22%	5
Los Angeles city, California	816	986	21%	6
Philadelphia city, Pennsylvania	647	770	19%	7
Sacramento city, California	789	923	17%	8
Long Beach city, California	822	957	16%	9
Baltimore city	671	778	16%	10
Fort Worth city, Texas	660	753	14%	11
New York city, New York	873	985	13%	12
Jacksonville city, Florida	739	831	12%	13
Detroit city, Michigan	631	704	12%	14
Las Vegas city, Nevada	865	948	10%	15
Atlanta city, Georgia	760	832	10%	16
Chicago city, Illinois	762	832	9%	17
Cleveland city, Ohio	564	613	9%	18
Oakland city, California	852	926	9%	19
Minneapolis city, Minnesota	671	716	7%	20
Milwaukee city, Wisconsin	648	689	6%	21
Houston city, Texas	708	749	6%	22
San Antonio city, Texas	660	698	6%	23
Boston city, Massachusetts	1049	1107	6%	24
Honolulu CDP, Hawaii	975	1028	5%	25
Oklahoma City, Oklahoma	586	616	5%	26
Omaha city, Nebraska	655	683	4%	27
Mesa city, Arizona	816	845	4%	28
Phoenix city, Arizona	771	797	3%	29
Tucson city, Arizona	645	658	2%	30
Memphis city, Tennessee	707	719	2%	31
Dallas city, Texas	726	737	2%	32
San Francisco city, California	1176	1192	1%	33
Portland city, Oregon	759	762	0%	34
Colorado Springs city, Colorado	748	741	-1%	35
Seattle city, Washington	890	881	-1%	36
Columbus city, Ohio	712	703	-1%	37
Charlotte city, North Carolina	802	786	-2%	38
Arlington city, Texas	761	744	-2%	39
Indianapolis city (balance) , Indiana	685	668	-2%	40
El Paso city, Texas	585	564	-4%	41
Albuquerque city, New Mexico	696	666	-4%	42
Tulsa city, Oklahoma	661	625	-5%	43
Denver city, Colorado	775	726	-6%	44
Raleigh city, North Carolina	830	773	-7%	45
Nashville-Davidson metropolitan government (balance), Tennessee	766	713	-7%	46
Austin city, Texas	909	829	-9%	47
San Jose city, California	1383	1249	-10%	48
Kansas City, Kansas	N/A	659	N/A	49
Louisville/Jefferson County metro government (balance)	N/A	609	N/A	50

Source: U.S. Census Bureau's American Community Survey and Annual Population Estimates
*Adjusted for inflation to equal 2007 dollars.