

Stegman, M.A., Quercia, R. & McCarthy, George. (Fall 2000). *Facing the New Suburban Housing Crunch*. Blueprint: Ideas for a New Century, vol. 8, pp. 54-57.

Facing the New Suburban Housing Crunch

The quest for affordable housing has become a middle class crisis - and it has moved into the suburbs.

by Michael A. Stegman, Roberto G. Quercia, and George McCarthy

Among the top quality of life issues facing Americans across the income spectrum today is the increasing difficulty of finding affordable housing. What's new and important is that the issue is no longer a crunch felt primarily at the bottom of the income scale. Instead, it has moved with surprising rapidity and reach well into the middle class. It has also reached well into the suburbs, following the pattern of the nation's population and job growth. For the first time, in fact, the number of working families with critical housing needs is higher in the suburbs than in the central cities. (We deemed families to have critical housing needs if they spent more than half their income for housing or live in substandard homes or apartments - or both.)

These are the key findings of a comprehensive survey of the nation's housing needs that we recently completed. While the poor have by far the highest incidence of housing needs, an exclusive focus on very low-income families overlooks the fact that more than 3 million moderate-income families face a critical housing need despite working the equivalent of a full-time job. Of these, 1.3 million live in the suburbs, 1.2 million in the central cities, and the remaining 513,000 working families live in rural areas.

Our study focused on working families with incomes from minimum wage (\$10,700 annually) all the way up to 120 percent of the local median income (nationally about \$44,000). In a striking finding, more than half (51 percent) of families with critical housing needs are homeowners. Because our measure of homeowner costs - payments for mortgage principal, interest, property taxes, and homeowner's insurance - does not include utility or maintenance costs, our study probably understates the extent of many homeowners' financial strain. And because most low- and moderate-income homeowners do not itemize deductions, the mortgage interest deduction had little impact on their housing costs.

We started with the simple proposition that families that work hard and play by the rules should have a decent place to live at an affordable price. But for most of the last 20 years, because federal housing policy has implicitly or explicitly linked housing problems to poverty and welfare dependency, we have failed to recognize that this core American value is under serious threat.

The affordable housing problem is growing rapidly. The number of working families with critical housing needs rose by about 17 percent (440,000 families) just in the two years from 1995 to 1997. Seventeen percent more working families also lived in severely or moderately deteriorated housing in 1997 than did two years earlier, and the rise among renters in this category was an astounding 29 percent. Consider some salient examples:

- In Los Angeles and Orange counties, for example, 278,000 jobs have been created since 1984, but only 78,000 new homes have been built.
- Amid a booming, diversified economy, the number of existing single-family homes in Houston listed for sale for less than \$150,000 dropped by 50 percent from June 1995 to June 1999.
- A recent survey by the New York state controller found that 86 percent of businesses cited housing costs as a serious deterrent to attracting firms to New York. Surveys in Lake County, a Chicago suburb, and Livingston County, in suburban Detroit, have found similar results.
- In Silicon Valley, the shortage of affordable housing has grown so acute that, of the homeless population in Santa Clara County in 1999 (about 20,000 people), 34 percent had full-time jobs, up from 25 percent in 1995.

The problem is especially acute among public service workers and blue-collar employees. About 220,000 teachers, police, and other public safety officers across the country spend more than half their income for housing - more than double the number in 1993. More than 730,000 working families with one or more blue-collar workers also spend more than half their incomes for housing, as do more than 550,000 service workers and a similar number of retail sales workers.

While excessive housing costs account for three-quarters of critical housing needs, 650,000 working families across the country occupy seriously substandard housing and more than three times as many live in moderately inadequate homes and apartments. The problem of housing deterioration is substantially higher than average in New York, San Francisco, and Houston.

Finally, even as we focus on the new middle class housing crunch, we should not lose sight of the fact that workers at the bottom rungs of the economic ladder have the highest incidence of critical housing needs. While about 10 percent of all working families spend more than half their income for housing, this is true for 45 percent of those earning up to the full-time equivalent of the minimum wage - more than 500,000 families.

Given how important decent housing is to American aspirations - and the possibility that the scarcity of affordable housing could put a brake on economic growth and displace long-term residents in communities across the country - the housing needs of working families clearly justify a higher place on the policy agenda. Just as New Democrats strive to create new policies for the New Economy, we must also forge new policies and

coalitions to address the critical housing needs that these economic forces are creating for working families.

Policy Implications

With more suburban than urban working families experiencing critical housing needs, and with more than 80 percent of all new

metropolitan housing construction taking place in the suburbs, new affordable housing policies must appeal to suburban voters as much as to the Democrats' traditional big-city constituencies. Here are four elements of a new approach:

- Create an individual development account (IDA) savings incentive program for working families. Although the national homeownership rate rose to a record high of 67.1 percent in the first quarter of 2000, minority homeownership rates are still more than 25 percentage points below the white rate. Helping working families save for a down payment - the biggest hurdle to buying a home - makes good policy and political sense. Home equity accounts for more than half of all assets and alone far exceeds the present value of retirement accounts held by African-Americans and Hispanics. The best way to help families save for houses is by creating a national IDA program such as the one proposed in the bipartisan Savings for Working Families Act of 2000 (S. 2023), jointly introduced in the Senate on Feb. 2, 2000, by Sens. Joseph Lieberman (D-Conn.) and Rick Santorum (R-Pa.). S. 2023 would give financial institutions federal tax credits to match the deposits of working families, encouraging the families to save for a down payment on a first home or for other limited purposes. IDAs are included in the fiscal 2000 congressional budget resolution, were embraced by President Clinton in his 2000 State of the Union address, and were endorsed by the presumed Republican presidential nominee in an April 11, 2000 speech in Cleveland.
- Leverage the powerful tool of homeownership vouchers to encourage homeownership. Though the provision has received much less attention than it deserves, current law allows Section 8 tenant-based rental assistance (i.e., housing vouchers) to be used to help a family buy a home. In partnership with community-based organizations and the housing industry, we should create a major voucher initiative to help low-income working families buy a home. Under one Section 8 homeownership pilot now under way, a first mortgage is underwritten using the borrower's current income from employment, and a 10-year homeownership voucher is used to fully amortize a second mortgage that covers the difference between the home price and the sum of the down payment and first mortgage.
- Increase and broaden demand-side assistance. We also need more demand-side assistance, but not just more tenant-based rental assistance. About 60 percent of all working families with severe housing cost burdens own their homes, which means that there is an important role for homeownership vouchers and other forms of assistance. Expanding the federal Earned Income Tax Credit (EITC) for

the working poor, especially for large families, and adopting supplemental state EITC programs in high housing cost areas would also help relieve the housing stress of working families. Similarly, states should use a portion of their surplus welfare block grant to fund rental assistance programs for families making the transition from welfare to work.

- Capitalize housing trust funds. Housing trust funds have played more important roles in the affordable housing arena than their modest budgets might suggest, largely because they allow for local control and flexibility and make projects work by filling financing gaps. They are the proverbial straw that stirs the drink. We should use federal tax incentives to help capitalize state and local housing trusts to encourage more entrepreneurial behavior at the local level and reward communities that build affordable housing considerations into their smart growth and urban sprawl containment policies.

By embracing this agenda, we are not suggesting that government acting alone can solve the affordable housing problems of working families. This is not only a broadly popular issue, but one on which organized labor and the Chamber of Commerce should see eye-to-eye. As syndicated urban journalist Neil Pierce so aptly put it: "Critical clout has to come from the business community, too. Unless it's out there fighting for housing opportunities for its workers, even those at the bottom of the pay scales, it can't count on a work force. Business should be lobbying, locally and regionally, for a sharply expanded affordable housing stock."

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