

# The conundrum affordable housing poses for the nation

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The nation is in the grip of an affordable housing crisis. A severe shortage of homes for working-class and low-income families is pushing up house prices and rents across the country, putting homeownership increasingly out of reach for many Americans and making rents so high that it is all but impossible for renters to save. With the presidential election fast-approaching, the candidates should explain what they plan to do about it.

Half of families who rent and nearly one-fourth of home owners pay more than 30 percent of their monthly income toward their housing costs, a level widely considered unsustainable.

After purchasing essentials, including food, clothing and utilities, the families have little left to cover the cost of health care, bridge the gap during a change in jobs or bear an unforeseen bill of any amount. And forget about saving for retirement or a child's education.

The entirety of this shortfall is for low- and middle-priced housing. The cost of constructing houses has risen significantly since the financial crisis and builders have struggled to make the economics work to construct housing that most Americans can afford.

## **The causes**

Soaring construction costs have been driven in part by a rise in local government fees and stiffer local zoning restrictions. During the real estate bust a decade ago, real estate prices and property tax revenues evaporated, forcing many local governments to jack up permitting fees to make up the difference.

Add to that often-tight local constraints on where and what one can build, and many of the communities that most desperately need affordable housing have rules in place making that housing almost impossible to provide.

The Trump administration's immigration policies aren't helping, as builders can't find the immigrant workers they need, driving up labor costs in the construction trades, particularly in the South and West, where demand for affordable houses is especially strong. Labor shortages in the transportation, distribution and manufacturing industries are also making home building more costly. And the cost of home building materials has risen sharply, driven in significant part by the trade war and higher tariffs on imported steel, aluminum and other building materials.

To cover these costs, builders have been focused on putting up houses in the top end of the market where they can still make a profit. The country now has a glut of luxury apartments, high-end condos and large residences, and a dearth of workforce and affordable housing.

As a result, in recent years prices for the lowest-priced houses have grown consistently twice as fast as prices for the highest-priced houses and now exceed what many families of modest means can pay.

This wouldn't be such a problem if wages kept up. But they haven't. Recent census data show that while the median cost of rent and utilities is up 13 percent over the past nearly 20 years, median income is up less than 1 percent (both inflation-adjusted).

The widening gap between the growth of wages and the cost of housing has put homeownership out of reach for more and more families, particularly families of color. The homeownership rate for African Americans has fallen to a half-century low. This in turn is exacerbating the growing wealth gap. In generations past, the primary way lower- and middle-income households were able to build wealth was by owning a home.

More than investing in the stock market, more even than investing in their 401(k) and other retirement accounts, the middle class built wealth through the simple act of paying their monthly mortgage. But with fewer families able to buy a house, and more renters spending so much of their income just to keep a roof over their heads, housing is increasingly more of a drain than a source of wealth building.

The affordability crisis is also undermining labor mobility, another pillar of the American economy. Unlike in much of the rest of the world, Americans have historically been willing and able to move where there is economic opportunity. In today's economy, the best job opportunities are often in the nation's big urban areas, but this is also where housing is least affordable.

Many are thus faced with the Hobson's choice of long commutes, unaffordable housing or forgoing good jobs altogether. Paralyzed by this, Americans aren't moving as much, and our economy is diminished as a result.

And then it isn't hard to connect the dots between the affordability crisis and the mounting problem of homelessness. Homelessness is a complex problem with many

causes, but it isn't surprising that the big cities in California and the Northeast have among the least-affordable housing markets and the largest number of homeless. What can be done

An increasing number of communities, including ones in California, Oregon and New York, are responding to the affordability crisis by imposing rent controls. At best this is a short-term financial salve for struggling renters. At worst it may exacerbate the problem, by limiting the returns to builders and their incentive to construct more dwellings.

What is needed instead are policies that reduce the cost of building houses more Americans can afford. Most obvious is beefing up the tried-and-true programs dedicated to reducing the cost of development, including the Low-Income Housing Tax Credit and the New Market Tax Credit. These tax breaks have proven effective in addressing precisely the supply problem at issue. But instead of expanding them, last year's tax cut reduced their value to developers.

The new Opportunity Zone tax credit, which provides tax incentives for investments in distressed neighborhoods, could also have a meaningful impact on the construction of affordable housing. But officials at all levels of government must do more to ensure that private investors target the neighborhoods that truly need the help.

Tax incentives alone won't be enough, however. The Housing Trust Fund and Capital Magnet Fund, which were established in the midst of the financial crisis to finance more affordable housing, should be scaled up. The Housing Trust Fund provides money to state housing authorities for the development of affordable rental units.

Housing authorities have flexibility in allocating these funds, because they are often in the position to assess how best to address their state's affordability challenges. The Capital Magnet Fund provides financial support to Community Development Financial Institutions and other nonprofit developers for increasing the supply of affordable housing.

Both of these programs have the infrastructure and flexibility necessary to scale up and get affordable housing where it's most needed.

Finally, communities should be given strong incentives to ease overly restrictive zoning and lower high fees for building new houses. Critical federal funds for roads and other infrastructure should be tied to how well communities are addressing their needs for workforce and affordable housing. Community development block grants could also be tied to such metrics.

However, policies to increase the supply of housing will take time to reap benefits. In the meantime, we need to ease the financial pressure on those hit hardest by the affordability crisis.

This means fully funding the nation's primary federal housing voucher program, as currently, three in four families eligible for such rental vouchers can't receive them. It would also make sense to increase the value of the vouchers to provide low-income families the chance to move to low-poverty, higher-opportunity neighborhoods. Doing so has been shown to boost lifetime earnings and open a window to escape poverty. More than a decade after the housing market took down the economy, the nation finds itself in the throes of a different kind of housing crisis. Its effects are subtler, and perhaps for this reason it has gone largely ignored.

But the nation must address this housing crisis in earnest, lest an entire generation of families whose parents found in housing a critical path to building wealth, find it now blocking the way.

Some of the presidential candidates have put forth plans to address the affordable housing crisis. Indeed, virtually every candidate putting forward a plan has taken on the supply side with admirable muscle. But none have put housing policy at the top of their political agendas.

Given the depth of the affordable housing crisis and the existence of good, practical ideas to address it, it is time for the candidates to give it the attention it deserves.

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[https://www.washingtonpost.com/realestate/the-conundrum-affordable-housing-poses-for-the-nation/2020/01/01/a5b360da-1b5f-11ea-8d58-5ac3600967a1\\_story.html](https://www.washingtonpost.com/realestate/the-conundrum-affordable-housing-poses-for-the-nation/2020/01/01/a5b360da-1b5f-11ea-8d58-5ac3600967a1_story.html)