Appendix: The Affordable Housing Primer

The world of affordable housing policy is laden with its own specialized technical jargon, rules, and funding streams, and it can be quite complicated to navigate. To help readers understand basic terms and concepts related to affordable housing, we address three key basic questions:

- What is "affordable housing" and who needs it?
- What are the different types of affordable housing?
- How is affordable housing funded?

Summary of Key Points

- In housing policy circles, the term "affordable housing" often refers to housing that uses some form of public assistance to support individuals or families who lack the means to pay for the market-rate (or the going price) of housing in their community. However, much of the housing stock affordable to low-income families is privately owned without a housing subsidy. So the term "affordable housing" can also be used to describe the broader universe of housing affordable to low- and moderate-income households, including housing with and without government subsidies.

- The general rule of thumb is that housing is considered affordable if a household pays 30 percent or less of its income toward housing costs.[92] (This definition has some limitations that we discuss below.)

- Everyone needs housing they can afford. Communities should focus on ensuring they provide a full range of housing options, including an adequate supply of housing at all price points.

- Rather than focusing first on what can be done within each of the federal funding streams for housing, we recommend that communities take a step back and work to develop a cross-cutting housing strategy that takes advantage of the full array of available policy levers and funding streams.

What Is "Affordable Housing" and Who Needs It?

These are important questions that each community will need to consider in order to develop an effective local housing strategy. Unfortunately, these questions can be difficult to answer and even contentious as they often arise in the context of a political debate about how to spend scarce public resources. To navigate these questions successfully, we suggest bearing in mind several basic principles:

- *Everyone* needs housing they can afford, and a well-functioning housing market ought to be able to provide appropriate options for people of all income levels. Unfortunately, the private market on its own does a much better job of providing affordable options for higher-income households than for low- and moderate-income households. The inability of the market to supply safe and affordable housing options for lower-income households due to the high costs of constructing and operating housing is the reason why government involvement is needed.

- Housing costs and conditions vary substantially from community to community and often from neighborhood to neighborhood. To ensure that households of all incomes can afford to live in a particular neighborhood of interest, communities should focus on understanding the dynamics of housing costs in that neighborhood and develop customized solutions that fit the neighborhoods' needs.

- In spending federal and state resources, local communities will need to follow federal and state regulations regarding who is eligible for housing assistance and who has priority for assistance. However, localities have greater flexibility to use local government resources to meet the housing needs of other households also experiencing challenges affording their housing costs.

The discussion below provides background on our recommended approach for defining affordable housing and determining who needs it.

In most metropolitan areas, the costs of constructing and operating housing makes it difficult or impossible for the private market to supply safe, decent, and affordable housing for people at the very lowest income levels. But housing markets, from one community to the next, differ greatly in whether they can supply quality housing affordable to households with somewhat higher incomes. In some markets, a household with an income of 50 percent of the area median income* (AMI) can find a rental unit of decent quality at an affordable rent. In other markets, however, that household would need a publicly funded subsidy to afford their housing costs. In the highest-cost markets, even households with incomes at or even somewhat above the median may struggle to afford housing at a reasonable level. This may reduce households' ability to pay for other basic necessities, such as food, education, and health care.

* "Area median income" is a construct that Congress created as a guideline for determining eligibility and targeting levels for different federal housing programs. Unlike the federal poverty standard, area median income has the benefit of being adjusted to reflect differences in incomes between metro areas, which often correlate with variations in housing costs. For more information see the section *Classifying Households by Income in HUD Housing Programs*, below.

There are a number of methods for determining whether a household can afford its housing costs. From an analytical perspective, one of the stronger approaches is the "shelter poverty" approach.[93] Under this approach, you first determine how much money the household needs to meet basic expenses for food, health care, childcare, etc. — everything but housing and utilities.* After subtracting this amount from the household's after-tax income (which includes tax benefits such as the Earned Income Tax Credit), you are left with the amount the household has available to pay for its housing costs. If this amount is lower than the household's actual housing costs, the household is considered "shelter poor," or in more current parlance, to have a "housing cost burden."

However, this approach has not generally caught on in policy circles due to the difficulties involved in determining households' expenses for basic needs, which vary by household size, location, the age of one's children, etc., as well as challenges associated with estimating after-tax income.** In its place, Congress, HUD, and many public agencies focus on the share of income that a household spends on rent and utilities. Under this approach, housing is considered affordable if it consumes no more than 30 percent of a household's pre-tax income. Households that spend between 30 and 50 percent of their pre-tax income for housing are considered to have a "moderate" housing cost burden. Households that spend more than half their pre-tax income on housing are considered to have a "severe" housing cost burden.

While much easier to operationalize, this approach has the drawback of suggesting that someone making $5,000 per year and someone making $200,000 per year can each afford to spend the same percentage of income on housing — an assumption of questionable validity. Nevertheless, it is the approach most widely used for estimating housing cost burdens. The 30 percent threshold is based on the federal standard used to set rents for low-income households receiving federal rental assistance through such programs as public housing and the housing choice voucher program. Households in those programs are generally expected to contribute 30 percent of their adjusted income to rent and utilities.***

Given that households of all incomes ultimately need housing they can afford, the wide variation in housing affordability levels from one community to the next, and the lack of precision inherent in standard housing affordability guidelines, we recommend that communities avoid a narrow focus on producing housing at one specific rent level and instead focus on ensuring the availability of quality housing at a wide range of price points to meet the full continuum of a community's needs. Communities will want to consider what housing costs the market is able to address on its own without public subsidy (often through older housing that has filtered down in cost) and then develop a series of public policies to ensure lower-cost housing of decent quality is available at a range of rent and home price levels.

* In housing policy discussions, rent and utilities are generally treated together as "housing costs" because some rents include utilities and so it is often impossible to isolate the respective costs of each component of the households' housing costs.

** Much of the information needed to operationalize a shelter poverty approach has now been compiled by Wider Opportunities for Women through their economic security project. Their research provides estimates of the basic costs of living in different communities.

*** "Adjusted income" is a construct developed by Congress for adjusting household income in HUD rental assistance programs to reflect certain deductions or adjustments, such as for medical expenses, childcare expenses, etc.

In developing a local housing strategy, it will be important for communities to be aware that different federal and state housing programs have different rules for determining who is eligible and who has priority for limited resources. Communities will need to adhere to these rules in spending federal and state resources, but they should be aware that they generally have greater flexibility to utilize local government resources to meet their housing needs. Some communities use local resources to serve households whose incomes may be somewhat above the eligibility or income-targeting threshold of a particular federal program but nevertheless have difficulty affording housing without assistance. Other communities choose to focus local resources on the lowest-income households that have the most severe housing needs. This is a policy decision that local communities can make based on local circumstances.

What Are the Different Types of Affordable Housing?

Affordable housing can take a number of different forms. In some cases, specific housing units are made affordable to low-income households through a government subsidy. For example:

- **Public housing** units are built with government subsidies and owned and operated by local public housing agencies under the federally funded public housing program. Some states also have state-funded public housing programs.

- **Subsidized housing** units are owned and operated by a private owner who receives a subsidy in exchange for renting to low- or moderate-income people. There are two main forms of subsidies: *capital subsidies* that fund the initial construction or major renovation of a multifamily rental development and *operating subsidies* that fund ongoing operations. The most common capital subsidy is provided through the Low-Income Housing Tax Credit (LIHTC) program. The most common operating subsidy is provided through the Project-Based Section 8 program. In some cases, both types of subsidies are combined in a single development, while in other cases, a development may have only one or the other.

  Other terms for subsidized housing include rent-restricted housing, assisted housing, income-restricted housing, or simply affordable housing. These terms may have slight variations in meaning, depending on local usage.

In addition to providing subsidies to make specific housing units affordable, the federal government provides "housing choice vouchers" that help program participants afford the rent of privately owned units that participants locate in the private market:

- **Housing choice vouchers** (also known as Section 8 vouchers or tenant-based rental assistance since the subsidy travels with tenant) are operating subsidies administered by local and state public housing agencies. Program administrators have the option of attaching (or "project-basing") up to 20 percent of their housing vouchers to specific units.*

* The reference to the federal poverty line is new. It was adopted by HUD on June 25, 2014, based on direction from Congress.

Another form of affordable housing does not involve explicit government housing subsidies at all:

- **Privately owned unsubsidized units** make up most of the nation's affordable rental housing stock — generally older units whose rents have remained flat or even decreased over time as newer units with more amenities have come online.[30] These units, sometimes known as market-rate affordable units, are an important part of the supply of housing in many metropolitan areas. However, in neighborhoods experiencing high demand for housing — the types of neighborhoods this guide addresses — the affordability of these unsubsidized units is often at risk. Without binding legal covenants to ensure the unit is affordable to low-income renters, owners are often free to raise rents, which they can and will do if there is sufficient demand for their housing.

Classifying Households by Income in HUD Housing Programs

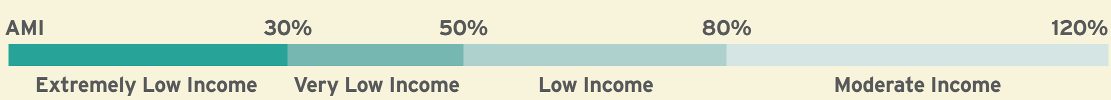
HUD uses a number of different labels to categorize households based on their income relative to the area median income (AMI). These income limits are used by HUD to determine eligibility and priority for a number of different housing programs. HUD's rental assistance programs use three different categories:

- Extremely low-income households are households that have incomes at or below the higher of: 30 percent of AMI or the federal poverty line.*
- Very low-income households have incomes at or below 50 percent of AMI
- Low-income households have incomes at or below 80 percent of AMI.

By statute, these categories are overlapping. However, it is often more useful to eliminate the overlap and create a series of discrete categories that allow for a more productive policy discussion focused on meeting the housing needs of households in each category. In some cases, an additional category of "moderate-income" is added, as shown below. In this chart, the numbers represent multiples of AMI.

One thing to keep in mind: a number of related programs use similar terminology in slightly different ways. For example, in the Community Development Block Grant program, a low-income household has an income at or below 50 percent of AMI, and a moderate-income household has an income between 50 percent and 80 percent of AMI. The Community Reinvestment Act likewise uses low-income to mean below 50 percent of AMI and moderate-income to mean between 50 and 80 percent of AMI, often referring to the entire population below 80 percent of AMI as "low and moderate income" or "LMI." Practitioners and advocates should be aware of these distinctions.

To find the income limits for your community, visit www.huduser.org and select "income limits" from the quick links box or the Data Sets menu.



* The reference to the federal poverty line is new. It was adopted by HUD on June 25, 2014, based on direction from Congress.

* Residents of units funded through project-based housing choice vouchers generally have the ability to request a tenant-based housing voucher should they decide they wish to move after being in the unit for a year or more. By contrast, residents living in a development that has an older form of project-based Section 8 subsidy do not have this right.

How Is Affordable Housing Funded?

If you work on affordable housing in your local jurisdiction, you may be familiar with the alphabet soup of federal programs used to fund the construction and maintenance of affordable units. Some of these funding sources, such as two block grants from HUD, the HOME Investments Partnerships Program, and the Community Development Block Grant (CDBG) program, are flexible enough to be used in different ways. For example, they can be used to fund the development of subsidized rental housing or to bring homeownership costs down to levels affordable to lower-income households. Most other funding sources can be used only for a specific type of housing.

The previous section introduced the four main federal funding streams dedicated to making rental housing affordable for low-income households: LIHTC, Section 8, Public Housing, and Housing Choice Vouchers. Of these, only the LIHTC provides a capital subsidy that can fund new development or substantial rehabilitation. The other three programs — Public Housing, Project-based Section 8, and Housing Choice Vouchers — provide operating subsidies that help more than 4.5 million households pay for housing costs above and beyond what the resident can afford to pay.* Additionally, several other federal housing programs may be of interest to practitioners and advocates because they serve specialized populations, such as the homeless, elderly, veterans, and people with disabilities, including the Section 202 Supportive Housing Program for the Elderly and the Section 811 Supportive Housing Program for Persons with Disabilities.**

Although it is important to be aware of these federal funding streams, it is also important not to be overly constrained by the programmatic structure the federal government has adopted to finance affordable housing. Different actors are generally responsible for each of these funding streams, so policy decisions regarding these resources often get made in silos, independent of any broader strategy. Moreover, while these federal funding streams often represent the dominant focus of many in the housing world, they are in fact only a part of the larger array of tools and resources available to local communities seeking to meet locally defined housing needs.

Rather than focusing first on what can be done within each of the federal funding streams, we recommend that communities take a step back and work to develop a cross-cutting housing strategy that takes advantage of the full array of available policy levers and funding streams. Starting with a clearly defined overarching goal — for example, to ensure that households of all incomes can afford to live in a particular neighborhood — communities should identify specific strategies for achieving this goal and then identify policies and programs that can help advance this goal. Many of these programs will inevitably draw on federal housing subsidies, but they will ultimately be more effective when linked together with other complementary policies and programs rather than adopted on a stand-alone basis.

Rather than focusing first on what can be done within each of the federal funding streams, we recommend that communities take a step back and work to develop a cross-cutting housing strategy that takes advantage of the full array of available policy levers and funding streams.

* There is a capital component to public housing funding, but it mainly goes to meet the backlog of major repair and replacement needs in existing public housing developments.

** For information on these and other federal housing programs, see the Advocates Guide published by the National Low Income Housing Coalition.