Introduction to Affordable Rental Housing

Affordable housing is a broad and complex subject intertwined with many disciplines: finance, economics, politics, and social services, to name a few. In spite of the complexity, advocates can come to an understanding of the essential workings of affordable housing and in doing so be prepared to advocate effectively for the programs and policies that can ensure access to decent, affordable housing for the people in need in their communities.

This article provides a broad, though not exhaustive, overview of the history of affordable rental housing programs in the United States and attempts to paint a picture of how those programs work together to meet the housing needs of low income people.

A BRIEF HISTORY OF FEDERAL INTERVENTION IN HOUSING

As with any federal program, federal housing programs grew and changed based on the economic, social, cultural, and political circumstances of the times. The programs and agencies that led to the federal department now known as HUD began in the early 1930s with construction and finance programs meant to alleviate some of the housing hardships caused by the Great Depression. An act of Congress in 1934 created the Federal Housing Administration, which made home ownership affordable for a broader segment of the public with the establishment of mortgage insurance programs. These programs made possible the low down payments and long-term mortgages that are commonplace today but were almost unheard of at that time.

In 1937, the U.S. Housing Act sought to address the housing needs of low income people through public housing. The nation's housing stock at this time was of very poor quality in many parts of the country, with inadequate housing conditions such as the lack of hot running water or dilapidation considered "worst case needs" today being commonplace for poor families. Public housing was a significant improvement for those who had access to it. At the same time, the post-World War II migration from urban areas to the suburbs meant declining cities, spurring federal programs were developed to improve urban infrastructure and to clear "blight." This often meant wholesale destruction of neighborhoods and housing, albeit often low-quality housing, lived in by immigrants and people of color.

In 1965 Congress elevated housing to a cabinet-level agency of the federal government, creating HUD, which succeeded it predecessors, the Housing and Home Finance Agency (HHFA), and before that, the National Housing Agency.

HUD is not the only federal agency to have begun housing programs in response to the problems of the Great Depression. The USDA sought to address the poor housing conditions of farmers and other rural people through the 1935 creation of the Resettlement Administration, predecessor to USDA's Rural Development. USDA's rural rental and homeownership programs improved both housing access and housing quality for the rural poor.

The cost of operating public housing soon eclipsed the revenue brought in from resident rents, a reality endemic to any program that seeks to provide housing or other goods or services to people whose incomes are not great enough to afford the prices offered in the marketplace. In the 1960s, HUD began providing subsidies to public housing agencies (PHAs) that would help make up the difference between revenue from rents and the cost of adequately maintaining the housing. In 1969, Congress passed the "Brooke Amendment," codifying a limitation on the percentage of income a public housing resident could be expected to pay for rent. The original figure was 25% of income, and was later raised to the 30% standard that exists today. Advocates often refer to these as "Brooke rents," for Senator Edward W. Brooke, III, for whom the amendment is named.

Beginning in the late 1950s and continuing into the 1960s, Congress created a number of programs that leveraged private investment to create new affordable rental housing. In general, these programs provided low interest rates or other subsidies to private owners who would purchase or rehabilitate housing to be rented at affordable rates. The growth in these private ownership programs resulted in a boom in affordable housing construction through the 1970s, but once the contracts forged by HUD and private owners expired, or once owners decided to pay their subsidized mortgages early, those affordable units could be lost from the stock.

The Civil Rights Acts of 1964 and 1968 included housing provisions that were intended to prevent discrimination against members of protected classes in private or public housing. Different presidential administrations have prioritized these fair housing provisions to varying extents, but their existence has provided leverage to advocates seeking to expand access to affordable, decent housing, particularly for people of color.

In January 1973, President Richard Nixon created a moratorium on the construction of new rental and homeownership housing by the major HUD programs. The following year, the Housing and Community Development Act of 1974 made significant changes to housing programs, marked by a focus on block grants and an increase in the authority granted to local jurisdictions (often referred to as "devolution of authority"). This act was the origin of the tenant-based and project-based Section 8 rental assistance programs, and it created the Community Development Block Grant (CDBG) from seven existing housing and infrastructure programs.

Structural changes in the American economy, deinstitutionalization of persons with mental illness, and a decline in housing and other support for low income people resulted in the dramatic increase in homelessness in the 1980s. The shock of visible homelessness spurred Congressional action, and the McKinney Act of 1987 (later renamed the McKinney-Vento Act) created new housing and social service programs within HUD specially designed to address homelessness.

Waves of private affordable housing owners deciding to "opt out" of the project-based Section 8 program occurred in the 1980s and 1990s. Housing advocates – including PHAs, nonprofit affordable housing developers, local government officials, nonprofit advocacy organizations and low income renters – organized to preserve this disappearing stock of affordable housing using whatever funding and financing was available to them.

The Department of the Treasury's Internal Revenue Service was given a role in affordable housing development in the Tax Reform Act of 1986 with the creation of the Low Income Housing Tax Credit (LIHTC), which provides tax credits to those investing in the development of affordable rental housing. That same act codified the use of private activity bonds for housing finance, authorizing the use of such bonds for the development of housing for homeownership, as well as the development of multifamily rental housing.

The Cranston-Gonzales National Affordable Housing Act of 1990 (NAHA) created the Comprehensive Affordable Housing Strategy (CHAS) obligation of jurisdictions to identify priority housing needs for determining how to allocate the various block grants (such as CDBG) that they receive. CHAS is the statutory underpinning of the current Consolidated Plan obligation. Cranston-Gonzales also created the HOME program, which provides block grants to state and local governments for housing. In addition, NAHA created the Section 811 program, which has provided production and operating subsidies to nonprofits for housing persons with disabilities.

Beyond changes to the structure of many federal housing programs, no significant investment in new housing affordable to the lowest income people has been made in more than 30 years, and there still exists a great shortage of housing affordable to that population. Since the creation of the Section 8 programs in the early 1970s, no new federal program has the deep income targeting necessary to meet the needs of people with the greatest housing affordability burdens. As studies from NLIHC show, the federal investment in housing has not increased at pace with the overall increase in the federal budget, and expenditures on housing go overwhelmingly to homeownership, not to rental housing for people with the greatest need.

Housing advocates have worked for over a decade for the establishment and funding of the National Housing Trust Fund, which will, once funded, build, preserve, rehabilitate, and operate housing affordable to extremely low income people. The National Housing Trust Fund was signed into law by President George W. Bush in 2008 as a part of the Housing and Economic Recovery Act, but the original source of funding was suspended and the program is not yet in operation.

STATE AND LOCAL HOUSING PROGRAMS

State and local governments play a role in meeting the housing needs of their residents. The devolution of authority to local governments that began in the 1970s meant that local jurisdictions had greater responsibility for planning and carrying out housing programs. Some communities have faced the decrease in federal housing resources through the creation of emergency and ongoing rental assistance programs, as well as housing production programs. These programs have been important to low income residents in the communities where they are available, but state and local efforts have not been enough to make up for the federal disinvestment in affordable housing.

Cities, counties, and states across the country have begun creating their own rental assistance programs as well as housing development programs, often called housing trust funds, to meet local housing needs and help fill in the gap left by the decline in federal housing production and rental assistance. Local funding sources may be targeted to specific income groups, or may be created to meet the needs of a certain population, such as veterans, seniors, or families transitioning out of homelessness. Funding sources include local levy or bond measures and real estate transaction or document recording fees, among others.

Federal decision-making has had a direct impact on states' response to the shortage of housing affordable to extremely low income people. In 1999, the U.S. Supreme Court found in *Olmstead v L.C.* that continued institutionalization of people with disabilities who were able to return to the community constituted discrimination under the Americans with Disabilities Act. This decision means that states are now developing and providing community-based permanent supportive housing for people with disabilities in response to *Olmstead* litigation or in order to avoid future litigation.

DEVELOPING AFFORDABLE HOUSING AT THE LOCAL LEVEL

The expense of producing and operating housing affordable to low income renters, and the multitude of funding sources available to finance it, make affordable housing development a complicated task.

Affordable housing developers, including PHAs redeveloping their housing stock, must combine multiple sources of funding in order to finance housing development or preservation. These funding sources can be of federal, state or local origin, and can also include private lending and grants or donations. Some developers include market-rate housing options within a development in order to generate revenue that will cross-subsidize units set aside for lower income tenants. Each funding source will have its own requirements for income or population targeting, as well as oversight requirements. Some funding sources require developers to meet certain environmental standards or other goals, such as historic preservation or transit-oriented development.

Accessing these many funding sources requires entry into application processes which may or may not have complementary timelines, and developers risk rejection of even the highest merit applications due to a shortage of resources. Developers incur costs before the first shovel hits the ground as they work to plan their developments around available funding sources and their associated requirements.

Developers encounter another set of requirements in the communities in which they work. They must operate according to local land use regulations, and can sometimes encounter community opposition to a planned development, which can jeopardize funder support for a project.

Once developments open, depending on the needs of the residents, services and supports may be included in the development. These can range from after-school programs to job training to physical or mental health care. This can mean working with another set of federal, state, and local programs, as well as nonprofit service providers.

In spite of these challenges, affordable housing developers succeed every day, building, rehabilitating and preserving the quality housing low income people need at rents they can afford.

THE FUTURE OF AFFORDABLE HOUSING

There are serious issues facing those who believe everyone in the U.S. has the right to safe, decent, affordable housing. The need for affordable housing continues to grow, particularly the need for housing affordable to the lowest income people. Nationwide, there are only 31 units of housing affordable and available for every 100 extremely low income Americans. Federal housing assistance only serves one quarter of those who qualify for it. And special populations, such as disabled veterans returning from combat or lower income seniors, are increasing in number and need.

At the same time, the existing stock of affordable rental housing is disappearing due to deterioration and the exit of private owners from the affordable housing market. According to the National Housing Trust, our nation loses two affordable apartments each year for every one created. Local preservation efforts have seen success, and resources like the National Housing Preservation Database are helpful, but it is a race against time.

Finally, the very funding structure of most affordable housing programs puts them at risk, at both the federal and local levels. The majority of federal housing programs are appropriated, meaning that the funding amounts can change from year to year, or disappear altogether. State and local programs can be similarly volatile, because they are often dependent on revenue from fees or other market-driven sources, and are vulnerable to being swept into non-housing uses. Ensuring funding at amounts necessary to maintain programs at their current level of service, much less grow them, is a constant battle.

THE ROLE OF ADVOCATES

Just as the Great Depression caused lawmakers to consider an expanded role for government in the provision and financing of housing, the Great Recession of 2008 and the ensuing slow recovery have inspired advocates, lawmakers, and the general public to take interest in the housing and other needs of lower income people, and to reconsider the role of government in housing, particularly in homeowner-owned housing.

Affordable housing advocates have a unique opportunity to make the case for affordable rental housing with Members of Congress as well as with local policymakers. As the articles in this *Guide* demonstrate, subsidized rental housing is more cost-effective and sustainable than the alternative, be it institutionalization, homelessness, or grinding hardship for working poor families. And after decades of a clear over-investment in homeownership, the housing market collapse, and the growth of a gaping divide between the resources and future prospects of the highest and lowest income people, it is clearly time for federal housing policy to be rebalanced in favor of addressing the greatest housing needs.

Those who wish to see an end to homelessness must be unyielding in their advocacy for rental housing that is affordable to the lowest income people. Over the eight decades of direct federal involvement in housing, we have learned much about how the government, private, and public sectors can partner with communities to create the affordable housing that will improve lives and heal whole neighborhoods. We must take this evidence, and our stories, to lawmakers to show them that this can, and must, be done.

FOR MORE INFORMATION

- HUD Historical Background, http://1.usa.gov/11P11P2
- NLIHC's C*hanging Priorities: The Federal Government and Housing Assistance, 1976-2007,* http://nlihc.org/library/other/periodic/changing-priorities-1976-2007
- NLIHC's *Housing Assistance for Low Income Households: States Do Not Fill the Gap*, http://nlihc.org/library/other/periodic/housingassistance
- National Housing Trust Fund, www.nhtf.org
- United For Homes Campaign, www.unitedforhomes.org
- The Housing Trust Fund Project of the Center for Community Change, http://housingtrustfundproject.org
- National Housing Preservation Database, www.preservationdatabase.org

Income Targeting and Expenditures for Major Housing Programs

Housing Program	Income Targeting Requirements	National Annual Funding
Public Housing	At least 40% of units are for households with incomes less than 30% of AMI, with the remainder for households earning up to 80% of AMI.	$6.4 billion (FY14 HUD appropriation)
Housing Choice Vouchers	At least 75% of vouchers are for households with incomes less than 30% of AMI, with the remainder for households earning up to 80% of AMI.	$19.2 billion (FY14 HUD appropriation)
Project-Based Rental Assistance	At least 40% of units are for households with incomes less than 30% of AMI, with the remainder for households earning up to 80% of AMI.	$9.7 billion (FY14 HUD appropriation)
Section 202 and Section 811	All units are for households with incomes less than 50% of AMI.	$510 million (FY14 HUD appropriation)
HOME Investment Partnerships	If used for rental, at least 90% of units assisted throughout the jurisdiction must be for households under 60% AMI, with the remainder for households up to 80% AMI. If there are more than 5 HOME-assisted units in a building, then 20% of the HOME-assisted units must be for households under 50% AMI. All assisted homeowners must be below 80% AMI.	$1 billion (FY14 HUD appropriation)
Community Development Block Grant	At least 70% of households served must have low or moderate incomes, less than 80% AMI. Remaining funds can serve households of any income group.	$3 billion (FY14 HUD appropriation)
McKinney-Vento Homeless Assistance Grants	All assistance is for participants who meet HUD's definition of homeless (those who lack a fixed, regular, and adequate nighttime residence).	$2.1 billion (FY14 HUD appropriation)
Housing Opportunities for People with AIDS (HOPWA)	All housing is for households with incomes less than 80% of AMI.	$330 million (FY14 HUD appropriation)
Low Income Housing Tax Credit	All units are for households with incomes less than 50% or 60% of AMI (depending on how the development was financed).	$6.4 billion (FY14 estimated tax expenditure)
Federal Home Loan Banks' Affordable Housing Program	All units are for households with incomes less than 80% of AMI. For rental projects, 20% of units are for households earning less than 50% of AMI.	$296 million (2013 FHLB assessment)
Section 515 Rural Rental Housing	All units are for households with incomes less than $5,500 above 80% of AMI. Priority is first for households in substandard housing and second to households earning less than 50% of AMI.	$28 million (FY14USDA appropriation)
Section 521 Rural Rental Assistance	In new projects, 95% of units are for households with incomes less than 50% of AMI. In existing projects, 75% of units are for households earning less than 50% of AMI.	$1.1 billion (FY14 USDA appropriation)
National Housing Trust Fund	At least 90% of funds must be for rental housing, and at least 75% of rental housing funds must benefit households with incomes below 30% AMI or poverty level, whichever is greater; remaining funds can assist households with incomes below 50% AMI. Up to 10% may be for homeowner activities benefitting households with income below 50% AMI.	

Notes:
AMI: area median income
Extremely low income: income less than 30% of area median income
Very low income: income less than 50% of area median income
Low income: income less than 80% of area median income

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