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**A SELECTIVE AGENDA FOR
AFFORDABLE AND SPECIAL NEEDS HOUSING POLICY**

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Over the last year, Americans began noticing housing. The collapse of financial institutions because they were too heavily invested in “creative” mortgages and the federal government’s decision to place Fannie Mae and Freddie Mac into conservatorship reminded Americans that housing plays a critical role in the economy. But the tidal wave of foreclosures put a human face on what for many was an abstract financial crisis. Seeing thousands of families lose their homes also reminded Americans that housing is a basic element of a family’s well-being.¹ With 1 in 466 homes estimated to be at some stage of foreclosure (RealtyTrac 2009), this crisis has reached up the income distribution into the middle class (Kroszner 2009). As a result, millions of non-poor homeowners are now experiencing the key housing problem of those with low incomes: affordability. This could produce increased support for public policies that assist those with the most serious housing affordability problems.

In this paper, I offer a wide range of ideas about housing policies to address the needs of affordable and special needs housing, the two main categories of housing that are my focus. Some of these ideas respond to known or predicted effects of the current economic crisis, but others pre-date the crisis by years if not decades. As important as it is to resolve immediate problems, addressing longstanding issues may be even more significant because of their potential for rationalizing housing policy for the poor and for persons with special needs. I view these as some of the “great debates” or “big think” issues in affordable and special needs housing policy that merit careful attention and, ultimately, resolution. But as in any paper of this kind, only a

¹The current housing crisis calls to mind Mayer and Jencks’ finding nearly 20 years ago that family income or even broader measures of family economic resources are only “loosely” connected to material hardship, including housing need (Mayer & Jencks 1989). They call for more research on specific hardships, such as housing needs, and suggest that policies targeting these hardships directly may be more successful than policies that focus solely on income.

subset of issues can be discussed and many others that also merit attention end up on the cutting room floor.

I begin by setting the context for the discussion of affordable housing by looking separately at affordability for homeowners and for renters. This analysis demonstrates that the greatest problem is concentrated among low-income households, and has been increasing over time. The next three sections of the paper are devoted to a discussion of policy issues pertaining to affordable homeownership, affordable rental housing, and housing for two special needs populations, the frail elderly and persons with severe mental illness. Under affordable rental housing, I pay particular attention to the ongoing debate about supply subsidies, the largely ignored topic of small multifamily properties, and the need to seriously commit to evidence-based policy. I discuss key themes and their implications in the last section.

Setting the Context of Affordable Housing

Affordable Homeownership

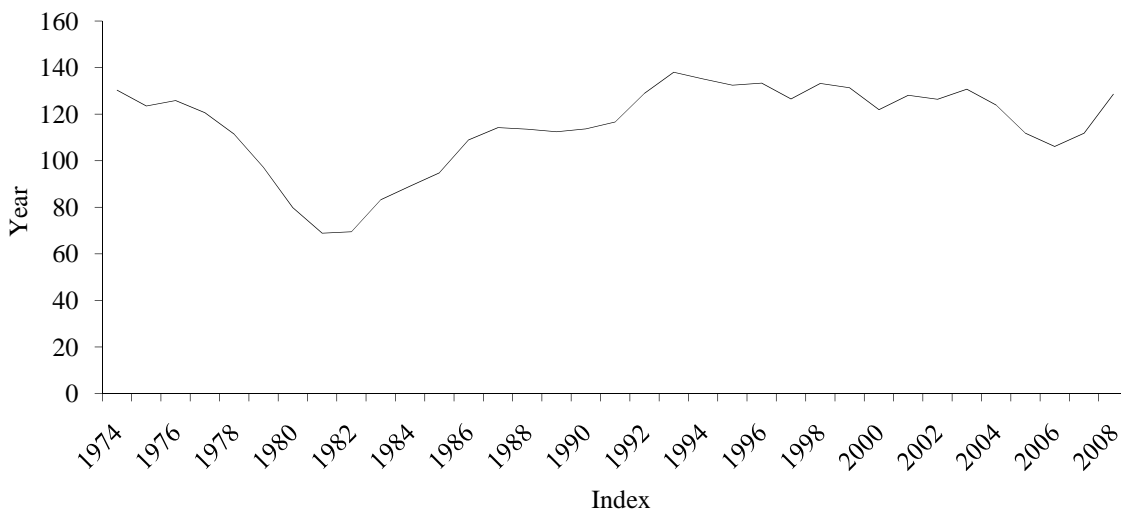
Quigley and Raphael (2004) provide an excellent synopsis of the state of housing affordability through 2001, which I extend here, where possible. For owner-occupied housing, although median prices increased considerably through 2006 in nearly all of the largest metropolitan areas, there is little evidence that housing became less affordable for the large majority of homeowners. While there are geographic variations, only a few locations have extremely high housing prices (Glaeser & Gyourko 2008).²

For most homeowners, affordability is defined by the terms under which the home is purchased (e.g., interest rate, term). Figure 1 shows HUD's index of homeownership

² Using National Association of Realtors data, Glaeser and Gyourko isolate the highest priced housing in the country to the California coast, the Washington, D.C.-Boston metro areas, and south Florida (p. 35).

affordability--the ratio of median family income to the income required to qualify for a conventional mortgage for the median value home--since 1970. While housing became less affordable during the early years of the current decade, it returned to its previous level of affordability by 2008. Thus, Quigley and Raphael's conclusion, based on data through 2001, still applies when the index is extended through 2008: "(O)wner-occupied housing is as affordable now, on average, as in the early 1970s" (p. 194).

Figure 1: Housing Affordability Index, 1974-2008



Sources: National Association of Realtors (2009). Monthly Housing Affordability Index. Obtained from <http://www.realtor.org/research/research/housinginx> on February 9, 2009; US Department of Housing and Urban Development (2008a). US Housing Market Conditions, 3rd Quarter 2008, obtained from www.huduser.org/periodicals/ushmc/fall08/hist_data.pdf on February 9, 2008.

Note:

A higher index number means more affordable.

The overall affordability of homeownership, however, hides very significant subgroup differences. As shown in Table 1, the majority of owners in the lowest income quintile devote more than 30 percent of their incomes to ownership costs and the fraction of low-income owners

in this situation has increased over time. For those with poverty incomes, this fraction has increased from 71 percent to 80 percent between 1990 and 2007.

Table 1: Percentage of Owners Devoting More than 30 Percent of Income to Housing

	1990	2007
All owners	19%	28%
Income quintile		
First	56	65
Second	26	40
Third	17	29
Fourth	11	18
Fifth	6	9
Poor owners	71	80

Sources:

1990: 1990 U.S. Census Public Use Microdata, revised and re-released in 1993.

2007: American Community Survey 1% sample.

Notes:

All data obtained from the IPUMUSA web site, operated by the University of Minnesota's Minnesota Population Center. Owner costs based on reported monthly payments for mortgages, deeds of trust, home equity loans, real estate taxes, fire, hazard and flood insurance, and utilities (electricity, gas, water and sewer). Also includes condominium or mobile home costs where appropriate. Income based on household income. Computed owner costs not available for the 2000 ACS. Quintiles are based on the household income distribution for both renters and homeowners. Includes renters with zero or negative income and those with no cash rent. "Poor" owners defined as owners with family income at or below the federal poverty line.

Affordable Rental Housing

The concentration of affordability problems among the poorest households is repeated for renters. Quigley and Raphael find that, through 2000, the proportion of income devoted to rent increased modestly for most renters, but dramatically for lower-income renters. As a result, by 2000, more than three-quarters of renters in the poorest income quintile spent more than 30 percent of income on rent compared to 12 percent or fewer renters in the middle and upper income quintiles (Table 3B, p. 198). Table 2 updates these figures to 2007.

Table 2: Percentage of Renters Devoting More than 30 Percent of Income to Rent

	1990	2000	2007
All renters	38%	37%	46%
Income quintile			
First	76	75	79
Second	43	38	48
Third	14	11	17
Fourth	5	3	6
Fifth	<1	1	2
Poor renters	77	76	79

Sources:

1990: 1990 U.S. Census Public Use Microdata, revised and re-released in 1993.

2000 and 2007: American Community Survey 1 samples.

Notes:

All data obtained from the IPUMUSA web site, operated by the University of Minnesota's Minnesota Population Center. Rent based on reported monthly gross rent. Income based on household income. Quintiles are based on the household income distribution for both renters and homeowners. Includes renters with zero or negative income and those with no cash rent. "Poor" renters defined as renters with family income at or below the federal poverty line. This analysis yields similar, but not identical, estimates to those provided in Table 3B of Quigley and Raphael (2004). Results using the 2007 AHS are also very similar.

Between 2000 and 2007, there was about a 5 percent increase in the fraction of renters in the lowest quintile (roughly the poverty line) paying more than 30 percent of income for rent. According to the State of the Nation's Housing: 2008 report, the rate of increase was more dramatic for poor renters with severe housing cost burdens (>50 percent), increasing by nearly 15 percent (JCHS 2008, p. 40).³

A vivid picture of the affordability problem of low-income renter households comes from HUD's report on affordable housing needs based on 2005 American Housing Survey data (HUD 2007a).⁴ Again using the 30 percent of income for housing costs rule-of-thumb to define

³JCHS figures refer to the lowest quartile, not the bottom quintile.

⁴Households receiving government housing assistance are excluded from this analysis.

affordability, the report finds that although at least one affordable rental unit existed for every renter household with an income above 45 percent of the area median, most of these units were occupied by households with incomes exceeding 80 percent of the area median--the income limit for many housing assistance programs. Once these affordable but unavailable units are excluded, the remaining stock was affordable and available to households with incomes of at least 70 percent of area median. Despite the widespread physical adequacy of the housing stock, some portion of these units were physically inadequate. Applying the additional requirement that available units also be physically adequate results in a rental housing stock that is affordable, available and adequate for households with incomes of at least 125 percent of area median.⁵ These statistics represent a decline in the affordable, available and adequate rental stock since the 2003 AHS data analyzed by HUD in its prior report.

Not surprisingly, the supply of rental units varies substantially by income. There were 96 affordable, available and adequate rental units for every 100 renter households with incomes up to 80 percent of area median, HUD's "low income" category, 68 units for every 100 renter households with incomes up to 50 percent of median (HUD's "very low-income" group), but only 35 such units for every 100 renter households with incomes at or below 30 percent of area median, designated as "extremely low income" households by HUD.⁶ The Joint Center for Housing Studies conducted a similar analysis using the 2006 American Community Survey

⁵The report indicates that the AHS rates housing units as adequate, moderately inadequate and severely inadequate (p. 35, footnote 31), but it does not indicate whether units excluded as "inadequate" included both the moderate and severe categories or the latter only.

⁶Regional differences also exist, with the western region having the largest mismatches for all three HUD low-income cutoffs--low income, very low income, and extremely low income--in contrast to the midwest, which had the smallest mismatches. In fact, for low-income households (incomes #80 percent of median, there is a small surplus of affordable, available and adequate units.

(JCHS 2008). JCHS estimates that there were roughly 6 million rental units affordable to the nearly 9 million households with incomes below 30 percent of their region's median. Since nearly half of these affordable units were unavailable because they were occupied by higher-income households or vacant, these 9 million poor households were competing for just 3 million affordable and available units.⁷

The problem of housing affordability, therefore, is most heavily concentrated among the poorest renter households. Seeing a similar pattern in the data they analyze, Quigley and Raphael conclude that there is "...a substantial under-supply of rental dwellings available for low-income households" (p. 200). The most recent State of the Nation's Housing described the problem from another angle, noting that the supply of affordable rental units at the bottom of the income distribution declined by 17 percent between 1995 and 2005 for household's earning less than \$16,000 (2005\$) (JCHS 2008, p. 5).⁸

Affordable Homeownership Policy Issues

Responses to the Crisis

If house prices were falling, as they have been for months, while all else remained equal, the opportunities to increase affordable homeownership should be growing. But all else has not remained equal. While foreclosures are lowering prices and increasing supply, increasing unemployment rates and employment growth primarily in low-wage and part-time work are lowering incomes and reducing demand. Thus, the most recent State of the Nation's Housing

⁷The 3 million is likely to be slightly over-estimated because it does not exclude physically inadequate units. Unlike the AHS, the ACS does not collect data on physical housing adequacy.

⁸This amount is roughly equivalent to families with incomes below 30 percent of median (HUD's "extremely low-income" group) (Quigley 2008). Note that the JCHS includes low-rent vacant units as unavailable because this stock is typically of poor quality and stands vacant for a long period (Belsky 2009).

report (JCHS 2008) notes no appreciable improvement in the affordability of the median-priced single-family home purchased in 2007 with a 10 percent downpayment on a 30-year fixed-rate mortgage compared to one bought in 2006. The advent of the recession in 2008 has not improved this picture, with the unemployment rate rising from 4.9 percent in the first quarter of 2008 to 6.9 percent in the fourth quarter (Bureau of Labor Statistics 2009).⁹ Projections through 2009 are even more bleak, with some projecting an 8.7 percent unemployment rate by the fourth quarter of 2009 (Freddie Mac 2009).¹⁰ Nonetheless, the subgroup of first-time homebuyers with secure, decent paying jobs should be able to take advantage of the improved affordability created by lower house prices.¹¹ This is particularly the case for purchasers who plan to remain in place for several years (Herbert 2009).

Moving beyond individual home purchases, the Neighborhood Stabilization Program established by the Dodd-Frank Bill should increase the supply of affordable housing, though not necessarily affordable *homeownership*. As of this writing, 305 jurisdictions have received nearly \$4 billion and plan to use a range of strategies to address foreclosed and abandoned properties (HUD 2008b).¹² For example, Chicago plans to use \$55 million to preserve or demolish foreclosed and vacant properties (HDR 2009). The effort will concentrate on neighborhoods considered most “at risk”--those with the highest rates of foreclosures and sub-prime mortgages.

The mortgage market crisis, and particularly subprime and predatory loans, whose prey are often low-income households (Shlay 2006, p. 523), is generating discussion of policy reforms focused on the suppliers of mortgage credit, on the one hand, and on homebuyers, on the other.

⁹Seasonally adjusted rates cited.

¹⁰ Since this paper was presented in February 2009, the unemployment rate has risen fairly steadily and reached 10.2 percent in October 2009.

¹¹Current homeowners face discounted prices on both the homes they sell and buy (JCHS 2008).

¹² Since presentation of this paper, another \$1.93 billion has been authorized.

On the supply side, discussion is centering on regulatory reforms to increase oversight, tighten underwriting standards for residential mortgage loans, and eliminate predatory lending and deceptive practices (JCHS 2007; Barr & Blank 2009; Bostic et al. 2008). Of major concern are lenders who failed in their fiduciary responsibility to approve only those loans that matched homeowners with homes they could reasonably afford (and home purchasers who didn't understand the risky mortgage products they signed up for), and securitized non-agency loans.¹³ While there is broad consensus that such reform is needed, some are concerned that it will swing too far toward overly tight restrictions on the banking sector, possibly backfiring if it limits distressed homeowners from refinancing their mortgages under better terms (Altman 2009; JCHS 2007).

For home purchasers, a major focus of policy discussions is the need to improve and expand the reach of financial literacy education, homeownership education and housing counseling (e.g., AECF 2005; Bostic & Lee 2009).¹⁴ These supports are designed to teach prospective homebuyers about the mainstream financial system and financial products, how to determine whether they can afford to buy a home, and to connect buyers to appropriate mortgage products (AECF 2005).

While research evidence on the effectiveness of counseling programs is incomplete, it appears that classroom education and face-to-face counseling (as opposed to telephone counseling) can reduce default rates (Hirad and Zorn 2002, as cited in AECF 2005). Some evidence also supports the cost-effectiveness of foreclosure prevention counseling (Quercia,

¹³That is, loans not handled by Fannie Mae, Freddie Mac or Ginnie Mae. These loans are typically handled by trustees or servicers representing the investors in a mortgage pool (Furman 2008).

¹⁴ The immediate emergency of growing numbers of foreclosures is being addressed by a new Treasury Department Making Home Affordable Program, with a \$75 billion Home Affordable Modification Plan to lower mortgage payments for at risk borrowers (Barr 2009).

Cowan and Moreno 2004; Moreno 1998, as cited in AECF 2005). At present, HUD and the Neighborhood Reinvestment Corporation are the two government funders of pre-purchase counseling programs; although there are no numbers of individuals served, the most recent estimates cited by secondary sources range from 300,000-400,000 per year (Herbert et al. 2008; AECF 2005).¹⁵ Ultimately, the goal is to provide effective financial and housing education and counseling to all who need these services. But we don't yet have reliable evidence on what constitutes effective education and counseling, nor the best way to fund, design and implement a policy that ensures all who need these services receive them.

The financial crisis may also re-energize longstanding discussions of policies to encourage alternative approaches to becoming a homeowner, on the one hand, and alternative forms of homeownership, on the other. Lease-purchase is the prime alternative method to becoming a homeowner. The individual begins by renting the dwelling, with a premium added to the rent and accumulated toward a downpayment for eventual purchase. Advocates of this option argue that it works best when combined with intensive homeownership counseling. Since prospective buyers could achieve the same outcome by renting a different unit and saving for a downpayment, lease-purchase seems to make sense only in special circumstances.¹⁶ Lease-purchase might also invite exploitation by unscrupulous owners who are attracted by the higher rent but do little to assist the tenant achieve homeownership and may even select tenants who are unlikely to reach this goal. Here, again, there is no hard evidence by which to judge the merits of the lease-purchase option.

¹⁵No estimates exist for the number of persons receiving similar counseling by the financial sector or other privately-funded efforts.

¹⁶For example, the prospective purchaser needs the discipline of the required premium payment, or the lease purchase is being used to retain lower-income households in gentrifying neighborhoods (e.g., AECF 2008).

Alternative forms of homeownership receiving increased attention include community land trusts, shared-equity and limited-equity mortgages. Under community land trusts, the low- or moderate-income buyer purchases only the dwelling unit, not the land on which it sits, which is retained by the nonprofit entity directing the trust. Since the purchaser is buying the dwelling only, its price is more affordable. But this affordability comes at the considerable cost of limiting wealth accumulation, which, as discussed below, may be the main benefit of homeownership among lower-income households. Shared and limited equity forms of homeownership are typically applied to multifamily housing. In concept, affordability is achieved, in part, because economies of scale reduce the ongoing costs of housing that are spread across all owners and, in part, because the transfer of cooperative shares is not considered a real estate transaction in most states, thereby reducing closing costs (AECF 2005, p. 35). The economies of scale benefit may be more theoretical than real, however, if, for example, vacancy rates rise above those projected in the business plan. This would leave remaining shareholders with much higher monthly bills and possibly special assessments, as operating costs for the building are spread among a smaller group of residents.

Longstanding Issues and Debates

Revisiting Low-Income Homeownership. The current crisis may also reinvigorate discussion of more fundamental housing policy questions. A top candidate is the avid promotion of low-income and minority homeownership by federal policy starting in the 1990s.¹⁷ In 1993, for example, the U.S. homeownership rate was 63 percent compared with 42 percent for blacks,

¹⁷A sizable literature has developed over the last several years sounding a strong cautionary note about low-income homeownership with such titles as “Low-income Homeownership: American Dream or Delusion?” (Shlay 2006), “Who’s Dreaming? Homeownership Among Low-Income Families,” (Baker 2005), and Low-Income Homeownership: Examining the Unexamined Goal (Retsinas & Belsky 2002).

39 percent for Hispanics, and 44 percent for households with incomes below 50 percent of the area median (Herbert 2009). Although the gap has narrowed somewhat since then, it is still large. Newspaper articles and op-eds with claims and counter-claims about the role of the Community Reinvestment Act in causing or exacerbating the foreclosure crisis makes clear that discussion of low-income homeownership will be politically charged. In the interest of good policy, politics will need to be tempered with hard evidence on low-income homeownership.

Paired-testing research suggests that some fraction of the gap between white and minority homeownership rates is caused by discrimination (Turner et al. 2002, in Herbert 2009). One reasonable response is to re-examine fair housing laws and perhaps increase enforcement effectiveness. But most of the gap in homeownership rates for racial and ethnic minorities is explained primarily by financial factors, namely, lower incomes, wealth and credit scores (Herbert et al. 2005). The remaining 5-10 percent that is unexplained by discrimination and financial factors is assumed to be associated with unmeasured characteristics that are also relevant to the buy vs. rent decision such as expected mobility, income variability, and what Bostic and Lee call “consumer sophistication;” that is, understanding the homebuying and financing process (Herbert et al 2005; Bostic & Lee 2009). Some of these unmeasured characteristics could be legitimate targets of housing policy such as financial education and housing counseling, as previously noted. Others, such as low income, fall under the purview of other public policies including those focused on building human capital. Factors pertaining to individual preferences and lifestyle choices are not appropriate targets of public policy.

Beyond concerns about disparities in homeownership rates, policies to increase low-income and minority homeownership have also, explicitly or implicitly, been based on the

presumed wide-ranging benefits associated with this housing tenure. Setting aside for the moment the ineluctable values of homeownership as achieving the “American dream,” establishing social status (Conley 2001) and being a source of pride (Herbert 2009), the two more concrete, measurable goals used to justify expanded homeownership are wealth accumulation and a broad set of salutary effects on the values and behavior of owners and their children.¹⁸ The most recent empirical evidence on homeownership as an asset building tool for low-income households suggests that homeownership is, in fact, the *only* means of wealth accumulation by lower-income households--that is, housing wealth is equivalent to total wealth (Boehm & Schlottmann 2008). But house price appreciation rates play a particularly critical role in whether homeownership will serve as a conduit to asset building for lower-income households (Bostic & Lee 2009; Baker 2005). When appreciation rates are low or non-existent, low-income homeownership is not a winning wealth accumulation strategy for these households.¹⁹ Thus, while falling house prices may make homeownership more affordable on the front end, they also may eliminate or reduce the asset building benefits of low-income homeownership.

Unfortunately, the lack of success with other strategies to increase savings by low-income households is sobering, as demonstrated by recent research on the American Dream Demonstration Program. Under this program, 14 sites offered Individual Development Accounts (IDAs) to eligible low-income households. IDAs are savings accounts that provide low-income households with matching payments to savings accounts when the savings are withdrawn for

¹⁸For example, homeowners have a financial stake in their communities, which encourages them to become active citizens. Homeownership is also associated with greater residential stability, which can be beneficial to children by not disrupting their schooling and relationships with neighborhood and school friends.

¹⁹Baker (2005) finds that even when home prices rise with inflation, buying a home is a poor financial choice for a lower-income household. In part, this occurs because lower-income households do not remain in place long enough to amortize the transaction costs associated with buying a home.

particular purposes such as buying a home, starting a business or enrolling in educational programs. In their study of the Tulsa, OK site, the one site to adopt an experimental design for its IDA demonstration, Mills et al. (2008) found no significant effects on overall wealth.²⁰ Some have suggested revamping the IDA approach so it covers not only homeownership but also other expenditures that would help to sustain homeownership, and using the federal tax code to create incentives for saving by low-income households, such as tax free savings accounts (Herbert 2009).

There is a large body of empirical research on the broader array of social benefits of homeownership, which overwhelmingly finds salubrious effects on children and parents. Yet, a number of weaknesses in this work makes it impossible to confidently assert whether homeownership does, or does not, convey these broader benefits to children and parents. In fact, the most recent scholarship on this topic concludes that past research reporting beneficial outcomes may have mistaken selection differences in who becomes a homeowner with the effect of homeownership itself (Aaronson 2000; Barker and Miller 2009; Galster et al. 2007; Holupka and Newman 2008). If this newer research proves accurate, the beneficial outcomes for children and parents may no longer be an argument for promoting low-income homeownership. As things now stand, then, falling house prices are undermining the wealth accumulation benefits of low-income homeownership and recent research raises questions about its social benefits.

Two other longstanding and important housing policy debates are the effects of restrictive

²⁰Homeownership rates among unsubsidized renters at baseline increased by a statistically significant 11 percentage points after four years. The analysts caution, however, that it is unclear if this reflects the acceleration of purchases that would have been made anyway or a permanent change in homeownership rates (Mills et al. 2008, p. 1510). It should also be noted that savings effects would have been difficult to detect in this sample because the variation in net worth across the sample was huge compared with the size of IDA contributions (p. 1511).

land-use regulations on affordable housing supply, and the deductibility of mortgage interest payments and property taxes by homeowners. Restrictions on housing supply cause house prices to rise and, in some cases, to become unaffordable not only to lower-income households, but to the middle-class as well. The problem is particularly acute on the east and west coasts. Proposals range from subsidizing new supply directly (Bostic & Lee 2009) to having the federal government “lean against” local governments so they don’t block new development (Glaeser & Gyourko 2008). I return to this issue in my discussion of affordable rental housing, the target of many of these supply barriers.

The tax advantages of homeownership have been debated and re-debated for decades. One key issue is that lower-income households don’t benefit at all, or at least not as much as higher-income households, from these tax benefits because they either don’t have sufficient income to itemize their deductions or because their marginal tax rates substantially reduce the financial benefits of deductibility (Herbert 2009; Herbert & Belsky 2006). As Glaeser and Gyourko (2008) note, “(t)he home mortgage interest deduction is something of a political sacred cow...” and it is unclear that the current crisis has made it any less sacred. Perhaps a more significant question is whether there will be any debate about the imbalance between rental versus homeownership policy and the need to increase attention on rental assistance. The financial imbalance is very large: the estimated fiscal cost of the homeownership tax benefits are three times greater than the spending on housing assistance, primarily rental assistance, for the poor (Carasso et al. 2005, in Glaeser & Gyourko 2008).

Affordable Rental Housing Policy Issues

Responses to the Crisis

The aspect of the current crisis that has probably garnered the most immediate attention for affordable rental housing, at least within the admittedly narrow confines of the affordable housing world, is the effect of the credit crisis on supply. The two major financial conduits to developing affordable rental housing are the Low-Income Housing Tax Credit (LIHTC) and tax exempt bonds. The most recent estimate suggests that since its inception, the LIHTC has produced nearly 2 million affordable rental units, and housing bonds alone financed nearly an additional 1 million units (NCSHA 2008).²¹

The market for these financial instruments has declined dramatically, along with the willingness of banks to lend to multifamily construction and rehabilitation. Part of the decline in the bond and tax credit markets has occurred because Fannie Mae and Freddie Mac, two major players in both markets, are no longer participating in either (Belsky 2008a; 2008b; Pelletiere 2008; Bodaken 2008; NCSHA 2008; Handelman et al. 2008).²² Recent estimates suggest that the decline in demand for tax credits has dropped their price by 25 percent or more (Bodaken 2008; Belsky 2008a). Investment in tax credits is estimated to have declined by roughly 44 percent between 2007 and 2008 (from \$9 billion to \$4 billion, respectively), with further declines anticipated in 2009 (Affordable Housing Tax Credit Coalition 2008, cited in Rubenzahl 2008). For tax credit advocates, these declines are particularly frustrating since, in early 2008, Congress and the Bush Administration had increased housing bond authority by \$11 billion for 2008-2010

²¹NCSHA (2008) estimates that 1 million of the total LIHTC units also received housing bond financing.

²²Handelman et al. (2008) estimate that Fannie Mae and Freddie Mac had accounted for roughly 40 percent of the LIHTC market.

and had increased housing credit authority by 10 percent for 2008-2009 (NCSHA 2008).²³

Tax credit supporters have proposed a number of steps to assist housing bond and LIHTC programs to remain viable through this crisis. These range from giving state LIHTC allocating agencies the ability to exchange up to half of their available credits for cash, which they would then convert to grants or loans to housing development projects (Rubenzahl 2008), to requiring the Treasury to use Troubled Asset Relief Program (TARP) or other funds to purchase long-term fixed rate housing bonds, thereby helping state allocating agencies cover their equity shortfalls in 2008 and, if projections hold true, for 2009 (NCSHA 2008).²⁴

The Great Debate: Do We Need Supply Assistance?

Specific design and implementation features of the LIHTC have been the subject of considerable analysis, debate and recommended modifications (e.g., Khadduri & Wilkins 2008; Deng 2005; DiPasquale et al. 2003) and the current crisis, combined with the new administration, may well move some of these ideas forward. But in keeping with the focus of this paper, the most fundamental housing policy debate surrounding the LIHTC--and all other housing supply subsidies, for that matter--is whether affordable housing policy should include any supply-side subsidy at all.²⁵ By contrast, there has been essentially uniform support for an entitlement housing voucher for at least two decades,²⁶ though there is plenty of disagreement

²³The new bond authority is for both affordable single- and multifamily mortgages. NCSHA (2008) estimates the 10 percent increase in credit authority was equivalent to an additional \$60 million in 2008.

²⁴Since presentation of this paper, Congress passed both a gap financing program using HOME funds, and a tax credit exchange program. The latter allows HFAs to exchange unused tax credits from 2007-2009 for cash at 85 cents on the dollar (National Housing Law Project 2009).

²⁵There is seemingly more agreement about the need to re-examine land-use and other regulations that are barriers to increasing supply whether for higher- or lower-income households.

²⁶Possibly the first public display of consensus occurred at the inaugural Fannie Mae Foundation housing research conference in 1989, when Stuart Butler, Director of Domestic Policy Studies at the

about the precise form it should take (e.g., Olsen 2008; Quigley 2008; Glaeser & Gyourko 2008; Grisby & Bourassa 2004; Sard 2004). Because of the general support for the voucher approach, the nub of the debate is whether--even in a world with an entitlement voucher--supply subsidies would be needed. From the perspective of moving affordable rental housing policy forward, resolving the debate about the role of supply-side assistance would represent a significant breakthrough.

What do we know, and what do we need to know, to resolve this debate? Three main arguments have been levelled against supply-side subsidies. The first is that it is much more expensive to provide decent housing to low-income households by subsidizing new construction or substantial rehabilitation than by providing a rent voucher to be used in the existing housing stock (e.g., Olsen 2008; Glaeser & Gyourko 2008; Quigley 2008). An important policy implication of this argument is that a larger number of low-income households could be served if the dollars directed toward supply were re-directed toward vouchers. This cost-effectiveness argument is supported by multiple studies over the last three decades.²⁷

A second argument is that supply-side subsidies constrain choice. Because these subsidies are tied to a particular housing development, low-income recipients benefit from the subsidy only when they live in that particular development. By contrast, a voucher allows choice because it is tied to the low-income household, not the unit.²⁸

A third key concern is that a large share of units developed with supply-side subsidies are

Heritage Foundation, a conservative think tank, and Barry Zigas, then President of the National Low-Income Housing Coalition, a liberal advocacy group, announced their support for a housing entitlement voucher program, and sealed this agreement with a hand-shake.

²⁷This is distinct from the cost analysis of vouchering out public housing, for example, which has been shown to be more expensive than rehabbing and maintaining public housing in its current locations and bedroom size configurations (Sard & Fischer 2008).

²⁸Hence, the current voucher program is titled the Housing Choice Voucher Program.

located in neighborhoods characterized by some level of distress. For example, it is estimated that 58 percent of LIHTC units developed in metropolitan areas during the 1990s are located in inner-city neighborhoods, and one in seven LIHTC projects in central cities are reported to be located in neighborhoods with poverty rates above 40 percent (Katz & Turner 2008). An earlier analysis of the full range of project-based assistance found that a range of characteristics of neighborhoods surrounding these developments were roughly comparable to the neighborhoods of welfare recipients who did not receive housing assistance (Newman & Schnare 1997). Here, again, vouchers outperform supply programs.

It seems fair to conclude that most, if not all, of these advantages of demand-side subsidies over supply-side subsidies--cost-effectiveness, consumer choice, and neighborhood quality--are not subject to much, if any, debate.²⁹ Instead, the main debate about affordable rental housing policy is whether supply subsidies are justified even in tight markets. The most relevant recent research on this issue compares the cost-effectiveness of vouchers and newly-developed housing using the LIHTC, the main supply-side affordable rental housing program. This recent research concurs with the weight of the evidence that vouchers are cheaper than development subsidies--specifically the LIHTC. But it also demonstrates the powerful effect of local housing market conditions on the cost-effectiveness of the LIHTC (Deng 2005). Deng analyzed a sample of six metropolitan areas between 1990 and 2000 that reflected a range of housing market conditions. In the San Jose metropolitan area, for example, the LIHTC was as

²⁹While there is little disagreement that supply subsidies limit choice, the choice advantage of vouchers may be more theoretical than real. Research suggests that the neighborhood locations of voucher households with children are very similar to their pre-voucher neighborhoods across a range of attributes including the poverty rate and the high school dropout rate (e.g., Feins & Patterson 2005). Glaeser & Gyourko (2008) note the practical problems with moving across metropolitan areas with vouchers (p. 118).

cost-efficient as housing vouchers because the area's housing shortage led to high and rapidly inflating rents and increased voucher costs. In the Miami area, even though the housing market, on average, was not nearly as tight as San Jose's, the LIHTC compared favorably with the voucher in low-income submarkets with a shortage of low-income housing. These results are roughly similar to those of an earlier study examining a different sample of seven metropolitan areas and a wider range of production programs (DiPasquale et al. 2003).

If the goal is evidence-based policy, then this evidence would appear to support supply subsidies in tight markets and submarkets. But if the underlying reason for the lack of affordable housing are the exclusionary and restrictive land-use controls in some jurisdictions that are imposed explicitly to exclude lower-income households, then, some analysts argue implicitly, if not explicitly, that the ideal policies should target these supply constraints directly (e.g., Acs & Turner 2005; Glaeser & Gyourko 2008). The challenge is to identify the policy levers the federal government can wield to persuade localities and states to remove these barriers. Providing incentives to jurisdictions with such restrictions to remove them is obviously problematic since it would reward restrictive jurisdictions and offer nothing to localities without restrictions (Weicher 2008). Therefore, attention is now being given to federal disincentives to erect or retain barriers (e.g., Glaeser & Gyourko 2008).³⁰ Others acknowledge that demand subsidies are less effective when supply is constrained, but in the absence of mechanisms to remove these constraints, demand subsidies are better than nothing (e.g., Quigley & Raphael 2004).³¹

³⁰ Recent empirical evidence suggests that a sizable share of jurisdictions with land-use regulations have topographic constraints on development, such as steep slopes (Saiz 2008).

³¹ Appendix Table 1 shows that renters' housing cost burdens have increased dramatically over time while the fraction of renters receiving housing assistance has stagnated.

Admittedly, I have aimed for the forest in describing this supply assistance debate and acknowledge that the trees will matter in resolving it. But this 30,000 foot approach has the advantage of demonstrating the broad agreement that an entitlement voucher program ought to be the centerpiece of the nation's affordable rental housing policy, and that the main area of disagreement is the role, if any, of supply assistance and, if so, what form this supply assistance should take. In light of the economic crisis, this may seem to be an odd time to focus on supply assistance of the sorts discussed above. Nonetheless, this issue is at the heart of the affordable rental housing debate, and resolving it could go a long way toward rationalizing and simplifying affordable rental housing policy.

Small Multifamily Rental Housing³²

While the “big idea” of an entitlement voucher emerged from careful research and much discussion over the last three decades, another topic of potentially great significance to affordable rental housing--small multifamily rental properties--has generated much less attention. Four vivid statistics demonstrate why this stock is so significant for affordable rental housing policy:

- roughly half of the nation's rental stock is located in 1-4 unit structures (~18 million units) (Mallach 2006);
- more than two-thirds of very low-income renters without housing assistance live in small multifamily units (Mallach 2006);
- more than 80 percent of the 1-4 family inventory is owned by an individual or couple and the large majority own only one property (Mallach 2006; Apgar & Narasimhan 2008),³³

³²This section draws on Newman (2005).

³³The 80 percent estimate is based on Mallach's analysis of the 1995 Property Owners and Managers Survey. The “large majority” estimate is based on Apgar and Narasimhan's analysis of the 2001 Residential Finance Survey, which did not provide a breakdown of number of units owned by units per property. This estimate is consistent with my recent investigation of the low-end rental market in

- between 1994 and 2004, more than 1.1 million units in 1-4 family buildings were removed from the inventory (Apgar & Narasimhan 2008).

Small multifamily rental properties, therefore, constitute the lion's share of private market affordable housing offerings, provide housing to most very low-income renters, and are at great risk for being lost to the housing stock. The preponderance of small holdings is significant for what it implies about property management and, ultimately, the integrity of the rental stock. A small scale of operations is typically associated with less expertise in property management and greater likelihood that real estate management and investment is a part-time avocation. The few units per structure is itself an obstacle to operational efficiency. Small-scale owners are further disadvantaged by being, by definition, excluded from economies of scale in tenant and property management. And small scale operations are less well capitalized than large ones, with small if any reserves for unanticipated expenses. In fact, small properties have average total costs that are lower than rent receipts (Emrath 1997; Apgar & Narasimhan 2008), and fewer than 40 percent of small property owners responding to the 1995 Property Owners and Managers Survey reported making any profit in the prior year (Mallach 2006). These attributes suggest a correlation between small-scale ownership, poorly maintained, physically deteriorated properties, and abandonment.³⁴

A variety of strategies has been proposed for addressing one or more specific problem, such as bringing physically inadequate units up to code and reforming small-scale rental property

Baltimore where an estimated 88 percent of rental property owners registered with the city's housing department, as required, reported ownership of fewer than five dwellings (Newman 2005).

³⁴Stegman (1972) found this correlation in his survey-based study of disinvestment in Baltimore in the early 1970s. Using administrative, census, and expert interview data, I found similar, if not, worsened individual features of the low-end rental market in Baltimore in roughly 2000 but I did not run correlations.

management (e.g., Newman 2005; Mallach 2006). But the “big debate” is whether to transform the ownership of small multifamily properties. Real estate lenders typically have little interest in financing small affordable rental properties, and view rehab loans to these properties as “putting perfume on a pig.”³⁵ The goal is to deal with the multiple risks that small-scale, low-income rental properties pose to lenders, including individual and unsophisticated owners, fragile properties, and inner-city locations.

Shekar Narasimhan has proposed a transfer from individual to institutional ownership through a small multifamily real-estate investment trust, or S-REIT (Narasimhan 2001; Apgar & Narasimhan 2008). The S-REIT would be congressionally chartered and would work with both public and private-sector funds to sustain this stock as sound, affordable rental housing. It would do so by correcting the core problems bedeviling this segment of the market--small scale, unsophisticated management, lack of capital, and poor physical condition. Forming an S-REIT would increase the scale of operations to make professional management viable, attract capital, upgrade the stock, and sustain its affordability over time. A second proposal is to sell this housing stock to qualified nonprofits (e.g., a community development corporation), thereby creating a form of “social housing” (Mallach 2006). A third proposal is to find ways to preserve this stock under its current dispersed private ownership form. This would require developing (and, where necessary, funding) a set of incentives and disincentives for addressing such specific problems as code violations, management expertise, speculation and flipping (Mallach 2006).

These ideas have not received much attention because, as noted at the outset, the entire topic of small multifamily affordable rental housing has been flying below the radar. But given

³⁵It should be noted that, prior to the economic crisis, depository institutions, the primary source of financing for small properties, had expanded their lending to this market segment and several commercial banks and Fannie Mae had also launched small loan programs.

the essential role this stock plays in housing very low-income households, it makes sense to devote much more attention to it. Since the financial crisis puts these properties in even greater jeopardy, this topic needs to move higher on the affordable rental housing agenda.

Evidence-Based Housing Policy³⁶

Assisted housing programs constitute the core response of the federal government to the need of low-income households for affordable rental housing. These non-entitlement programs provide decent, affordable housing to an estimated 5 million income-eligible households. Although housing assistance has attracted much less attention from reformers compared to welfare, the housing assistance system, broadly defined, represents a larger component of the federal budget than welfare payments to poor children and their families. Little recognized is that the budget for housing assistance was larger than that for welfare assistance even in Fiscal Year 1996 before the implementation of the dramatic welfare reform law.³⁷

While there is a continuing stream of proposals to fix housing programs to better serve the needs of low-income households, I've already addressed the most significant proposal, namely, entitlement vouchers. An entitlement voucher program is the housing field's "welfare reform" or "health care reform."

Presumably part of the reason for the consensus on an entitlement voucher is the substantial body of research on housing vouchers that has built up over time, providing a

³⁶This section draws on Newman (1999).

³⁷ In FY96, housing assistance was a \$28 billion component of the federal budget. This estimate includes subsidies for rental housing (\$25 billion) plus the revenue loss associated with the low-income housing tax credit (\$2.6 billion) (US House of Representatives 1998; Budget of the US Government FY1998, 1997; Pedone 1998). This compares to \$20 billion for Aid to Families with Dependent Children program, the main welfare program operational at the time. The \$20 billion reflects the federal and state share of benefit outlays (administrative costs are excluded). (Numbers expressed in 1996 dollars.)

convincing evidence base. But most of the rest of affordable rental housing policy is not nearly as well-researched or understood. While the urgency of the financial crisis puts the highest premium on launching programs--not doing research--one could argue that gaps in our understanding of the workings of housing programs and recipients' behavioral responses probably make us less prepared to respond to the crisis.³⁸ What seems non-controversial is that research on housing assistance programs is too rare, and rigorous research is rarer still (National Academy of Sciences 2008).

Perhaps the most dramatic example of such a missed opportunity is the absence of a rigorous evaluation requirement in the Moving-to-Work Demonstration (MTW). Under MTW, launched by HUD in 1996, 29 competitively selected public housing authorities (PHAs) can combine their different streams of HUD subsidies and use them in any way they think will encourage tenants to enter the workforce, free of many of the rules and regulations of typical housing programs. The variations in rent rules include delaying rent increases as income increases, reducing the rent-to-income ratio for a period of time, escrowing increases in income, and setting flat rents or ceiling rents so that rents do not continue to increase with income, and excluding work-related expenses, including child care, from income calculations. Beyond income and rent policies, which encompass the PHA's typical purview, MTW demonstration sites also include strategies for assessing tenants; needs; obtaining education, training, health, and other skills acquisition and supportive assistance that is required; peer group support and counseling; job retention activities; and co-locating case managers and employment counselors

³⁸Examples of such gaps are the effectiveness of housing counseling, escrow accounts for downpayments, and Family Self-Sufficiency initiatives.

in or near assisted housing developments. More recently, some PHAs have implemented time limits on receipt of housing assistance (Abravanel 2006).³⁹

MTW reflects essentially every bright idea about how to reduce or eliminate the disincentive effects of housing assistance, and how to make this assistance a springboard into the economic mainstream, that has been discussed since housing programs began. MTW, then, presented the greatest opportunity to address many of the fundamental policy questions about the role of housing assistance in achieving economic-self-sufficiency that have been vexing researchers and practitioners alike for years. To achieve its potential for knowledge development, however, rigorous evaluation should have been a quid pro quo for receipt of waiver authority, akin to the quid pro quo for welfare waivers by HHS during the golden era of welfare-to-work evaluations in the 1980s and 1990s. Had rigorous evaluation been considered, sites would have been required to design and implement their interventions so that they were suitable for research. Unfortunately, this was not done. As such, questions about impacts of the MTW interventions on work behavior, for example, remain unanswered.⁴⁰

The story of MTW is disturbing to anyone interested in improving the effectiveness of housing policy. Had MTW been designed with knowledge development as an important goal, we would arguably be in a much better position today, 13 years after its authorization, to answer fundamental questions about housing assistance and housing-related supports that could be playing a role in the resolution of the mortgage and foreclosure crisis.

³⁹Some key rules remain in place such as income eligibility of families and housing quality standards for dwelling units. MTW provides no additional funds, but PHAs can keep any savings their strategies generate.

⁴⁰Although the Welfare-to-Work Voucher experiment has contributed substantially to our understanding of the disincentive effects of housing assistance, its findings pertain to the voucher program and to welfare recipients--not the full array of housing programs and recipients.

The importance of rigorous housing evaluations, in general, and of MTW, specifically, has recently received some attention. The National Academy of Sciences (2008) recently published a report strongly advocating increased resources for rigorous evaluations of housing initiatives.⁴¹ Of special interest is the report's proposal that all major housing programs (and, by extension, proposals to make major changes in programs or initiate new programs) be rigorously evaluated, with the funding for this research coming from a required small set-aside of housing program funds. Further, calls for systematic research on MTW began to be heard, again, in 2007 with the proposed reauthorization of the program as part of the Section 8 Voucher Reform Act (e.g., Miller et al. 2007; Lubell & Baron 2007; Fischer & Sard 2008). The question is whether the immediacy and severity of the crisis will overwhelm arguments for more and better research, and particularly impact studies. New HUD Secretary Shaun Donovan's commitment to "make HUD a model of evidence-driven government" is a hopeful sign that the goal of evidence-based research will not be lost (Donovan 2009).

Affordable Special Needs Housing

The Elderly

Demographics and Housing. In 1989, Mankiw and Weil, two prominent economists, predicted that housing prices would decline by 47 percent during the 1990s because of declining demand from the aging of the baby boom generation (Mankiw & Weil 1989). In fact, just about the opposite happened: strong growth in baby boomer housing demand and a doubling of housing prices. Karl Case quipped that Mankiw and Weil's analysis was "one of the worst

⁴¹ In the interests of full disclosure, I was a co-author of this report.

forecasts in the history of mankind” (Carmichael 2007, p. 2).⁴²

The legendary Mankiw and Weil forecast notwithstanding, demographics loom large in any consideration of the elderly and housing. The elderly population is expected to double between 2000 and 2030, and the number who are 85 and older will double by 2020 (Seniors Commission Report 2008; Libson 2005-2006).

One fundamental, long-run concern regarding housing and the elderly are the effects on housing markets of the growing age imbalance between the very large cohort of baby boomers and the much smaller baby bust generation that followed it (Myers & Ryu 2008). Once a significant share of the baby boom cohort begins to sell its owned homes, these sales may dominate local housing markets simply because the baby boom age group is so large. If demand falls short of supply, some theorize that property values would decline, local jurisdictions would experience fiscal stress possibly leading to cutbacks in necessary local services, properties might be under-maintained and neighborhoods might deteriorate. An important consideration for urban policy is that because most boomers live in the suburbs, these cascading “sell-off” effects, if they arise, would result in suburban, not urban, decline.

Mankiw and Weil’s prediction, then, may ultimately come true, but for most states not for another 20 years or so. According to one analysis, 30 states won’t experience this demographically-driven imbalance between buyers and sellers until after 2025 (Myers & Ryu 2008). This provides the luxury of sufficient lead time to develop strategies to help primarily suburban communities cope with such problems as surplus single-family homes and fiscal stress. Strategies developed to cope with the current foreclosure crisis could guide the way.

⁴²This scenario is discussed in Myers and Ryu (2008).

Supportive Affordable Housing for the Elderly. The huge size of the baby boom generation also has dramatic implications for the substantial growth in demand for affordable housing for the elderly with some level of support services. Although the consensus is that a substantial shortfall in supportive housing units already exists (e.g., GAO 2005a; Seniors Commission Report 2002; Redfoot & Kochera 2004; Sard & Fisher 2008), it is surprisingly difficult to generate solid estimates of need. The best we can do is piece together several figures to arrive at ballpark estimates. As a first-cut, the target population of interest presumably includes those low-income frail elderly--individuals who need some assistance and oversight but do not need extensive support on a 24/7 basis--who are not already living in government-assisted housing that provides some level of supports.⁴³ Here is what we know:

- . One in five elderly who currently live in the community require assistance with activities of daily living (e.g., eating, bathing, dressing) and with such demands as preparing meals and taking medications (Committee on Ways and Means 1998, p. 1058). This fraction is expected to increase by 35 percent in the next two decades even after accounting for a projected decline in disability rates because of increasing proportions of the very old (Seniors Commission Report 2002).
- . The greater incidence of frailties among the low-income elderly (e.g., Redfoot & Kochera 2004) suggests that they are probably over-represented among the roughly 1.3 million very low-income elderly renter households--or 36 percent of all very low-income elderly renter households--that also have worst-case housing needs (HUD 2007).⁴⁴ This group has increased over time, and is expected to increase by 33 percent (to an estimated 435,000 very low-income renter households) by 2020 (Haley & Gray 2008).

⁴³A precise estimate should also exclude a number of groups including: (1) those who already live in a supportive housing setting, (2) those with sustainable family support to manage on their own, and (3) those served by public programs such as Medicaid. Estimates do not exist for any of these exclusions. But all are probably sufficiently small so that their exclusion should not undermine the goal of ballparking the magnitude of need. In particular, there are very few supportive housing settings that are affordable to a low-income population, and Medicaid home care covers only intermittent--not continuous--need for assistance (Scanlon 2009).

⁴⁴Defined as households with incomes that are no greater than 50 percent of the area median and who either pay 50 percent or more of their monthly income for rent or live in substandard housing.

- There are about 1.3 million elderly living in federally-assisted housing, approximately one-third of whom are frail (Seniors Commission Report 2002).⁴⁵ While no estimate apparently exists for the proportion of these residents living in buildings with supportive services, HUD estimates that about 27 percent of elderly households were served by a Service Coordinator (US DHUD 2008c). This suggests that a large number of frail elderly assisted housing residents must meet their service needs some other way.⁴⁶
- The elderly in assisted housing are aging in place. In three successive waves of a national sample survey of Section 202 housing, the average age of residents rose from 72 in 1983, to nearly 74 in 1988, and to 75 in 1999 (Redfoot & Kochera 2004). Frailty and need for supportive assistance increase substantially with age. Half of the elderly over 85, for example, are frail or disabled and, as noted, this group is expected to double between 2000 and 2020 (Libson 2005-2006).
- Only four assisted housing programs require the provision of at least some services for residents. Of these, only the Section 202 program is exclusively targeted to the very low-income elderly and is also a sizable program, having produced more than 260,000 units to date.⁴⁷ But only about 5,000 units were produced per year between 2000-2006, roughly half the number produced in the mid-1980s (Haley & Gray 2008). One estimate indicates that properties with waiting lists average 50 applicants, while 9 percent of properties have closed their lists (Kochera 2006).

Even if some of these figures are off by a considerable margin, they seem sufficient to demonstrate both current and projected unmet need. Not surprisingly, there are many proposals

⁴⁵This one-third estimate appears to be based on analysis conducted in the late 1980s by the author and others (Struyk et al. 1989). This 20-year old estimate undoubtedly needs to be updated.

⁴⁶HUD's 2008 Performance and Accountability Report estimates a larger proportion of the elderly covered by Service Coordinators compared with several secondary sources. An alternative calculation is based on the assumption that 32 percent of 263,000 Section 202 units serving the elderly have service coordinators or other on-site services (Haley & Gray 2008), that 21 percent of the estimated 154,000 LIHTC units in projects explicitly for the elderly have a service coordinator on site (Kochera 2002 as cited in Redfoot & Kochera 2004), and that 111,000 units in other assisted housing developments for the elderly have service coordinators (GAO 2005b, p. 8). Rounding the 227,180 total to 250,000 to account for possible undercounting and dividing by the estimated 1.45 million total assisted housing units for the elderly (including LIHTC) yields about 17 percent coverage, which is much smaller than the 27 percent coverage by HUD (2008). No data are available indicating what fraction of elderly residents in each type of assisted housing is frail; therefore, I assume they are distributed throughout the stock.

⁴⁷The other three programs are Assisted Living Conversion (1,891 units approved in FY2000-2003; see GAO 2005b), Section 232 Mortgage Insurance mainly used for nursing homes (1,265 properties as of April 2004; see GAO 2005b) and assisted living facilities (380 properties as of April 2004; see GAO 2005b); and USDA Section 515 Rural Rental Housing Loan Program for development of housing for the elderly or disabled (152,439 units as of April 2004, representing 37 percent of all S.515 units; see GAO 2005a).

to expand and preserve the supply of affordable housing for the elderly and to increase the availability of support service coordinators and on-site services, such as meals and oversight. But the Obama Administration's intention to make health care reform one of its highest priorities (White House 2009) provides an important opening for a more dramatic and long-lasting improvement in access to supportive housing, which is to link supportive housing to long-term care policy.

One longstanding goal of public policy pertaining to any disability group (and for which there is strong agreement) is to sustain the individual's independence including the ability to reside in the community for as long as possible. For the frail elderly, as for most other groups, this means providing access to a *combination* of housing and supports. Although housing is half of this combination, to date, housing has been an orphan issue in long-term care policy. While there is nodding acknowledgment that housing plays a role, it has received very little serious attention (except from a rarefied group of housing analysts). Yet whether disabled populations are living in decent and affordable settings, and whether their environments accommodate their functional impairments have been shown to affect a range of outcomes including the risk of institutionalization--that is, the loss of independent living in the community--just the outcome long-term care policy tries to avoid (e.g., Haley & Gray 2008; Newman 1990).

There have been multiple calls over many years, and from both the service side and the housing side, for closer collaboration between HUD and HHS on supportive housing for the elderly (e.g., Seniors Commission Report 2002; Haley & Gray 2008; Visiting Nurse Service of New York 2000; Redfoot & Kochera 2004; Golant 2003; Newman & Struyk 1990; Newman 1994). A truly serious effort will require the strong endorsement and commitment of the

secretaries of both agencies. Substantively, it will require the HUD participants to become experts on health policy and particularly the long-term care component of the health system. This is no easy task, as anyone knows who has tried to penetrate the myriad policies, programs, regulations and rules governing the U.S. healthcare system. The substantial expertise that already exists among HUD staff who work on the agency's Section 232 and Section 232/223(f) Mortgage Insurance Programs (for building and refinancing, respectively) for nursing homes and other care facilities should offer a base of knowledge to build upon.

Persons with Severe Mental Illness.⁴⁸ More than 3 million individuals 18 and older with severe mental illness live in the community on their own.⁴⁹ They face enormous challenges in securing safe and affordable housing. Most live at or below the poverty line, and even though many receive assistance such as food stamps, Medicaid and Social Security Disability Insurance, these benefits rarely stretch far enough to cover the cost of adequate and safe housing. Data do not exist on the number of persons with severe mental illness who live in assisted housing. Although it is estimated that roughly 13 percent of households in assisted housing contain a disabled member (US DHUD 2006), we don't know what fraction of the disabled have severe mental illness. Undoubtedly it is not large.

Homelessness among persons with severe mental illness is the most visible manifestation of the failure of public policy. Although HUD recently announced that chronic homelessness among adults fell nearly 30 percent between 2005 and 2007 (Cunningham 2009), it will be difficult to sustain this trajectory in the face of the economic crisis.

The accumulated knowledge, from both research and practice, about the serious housing

⁴⁸This section draws on Newman & Goldman (2008).

⁴⁹That is, they are not living with family members. See Newman & Goldman (2008) for sources of estimate.

problems of those with severe mental illness suggests we should pursue a three-pronged policy strategy. The first prong is to address the problem of housing. Housing cannot cure mental illness, nor can it address the myriad problems affecting homeless people--mentally ill or not. But decent, affordable housing would at least give homeless people with mental illness a place to live. Second, this population needs to have *access* to housing. This requires that they be able to negotiate the bureaucratic maze of government housing programs, and that landlords be willing to rent to them. Finally, if this population is to remain housed, supportive services should be available for those who need them. The manifestations of severe mental illness do not disappear when a mentally ill person becomes housed. Episodes of decompensation are also highly unpredictable. To increase the chances of being able to take appropriate and timely action requires, at a minimum, that services offering continuity of care be in place. The heterogeneity of this population also means that its service needs cannot be met through a “one size fits all” approach.

Although these three strategies emerge from the body of knowledge developed over roughly the last two decades, unfortunately most of what we need to know to translate these ideas into evidence-based policy and practice does not exist. Building this evidence base will require solid, rigorous research that produces generalizable information on impacts. A major step in this direction is just getting underway. HUD has funded Abt Associates to use an experimental design to study housing and service interventions for another very vulnerable group--homeless families with children. The same solid approach is well overdue for persons with severe mental illness.

Discussion

Affordable and special needs housing would appear to be far down the list of housing policy priorities in the current crisis-oriented environment. Yet, because so many middle-class Americans have now confronted the same core problem of housing affordability that characterizes the vast majority of low-income and special needs households, this could actually be an opportune time to move forward.

In this paper, I've argued that real progress on both affordable and special needs housing will require a concentrated focus on longstanding debates and fundamental questions--the opposite end of the continuum from the immediate fixes garnering daily headlines. For affordable homeownership, arguably the most salient question is the wisdom of the unyielding emphasis on low-income homeownership. For affordable rental housing, the great debate is about supply subsidies and the possibility of federal influence on jurisdictions that erect barriers to affordable housing. But we also need to begin to pay serious attention to small multifamily rental housing, which comprises roughly half of the nation's rental stock, houses more than two-thirds of very low-income renters, and is leaving the affordable stock in large numbers. For the elderly, some predict a demographic housing bubble starting in about 20 years that would glut suburban communities with an oversupply of single-family homes. How policymakers address the foreclosure crisis could offer lessons for how to handle this potential future oversupply problem. We also face a serious shortfall in supportive housing for the frail and low-income elderly, which will only get worse over time. The big--but hardly new--idea here is to link supportive housing policy to long-term care policy. The question is whether the Obama Administration's health insurance reform coattails are long and strong enough to accommodate this additional, critical issue. For persons with severe mental illness, the need for housing is

paramount, but there is also the need for continuity of care to respond quickly to the episodes of active illness that often arise for members of this population.

Some of these policies can draw on a substantial knowledge base, but many others lack a similar foundation. Therefore, I've also argued for a major reform in how we approach policy development, calling for rigorous research on proposed and actual programs so we are much smarter about their benefits and costs. A similar recommendation was forcefully made by a recent National Academy of Sciences (2008) report, and the value of evidence-based programs has been voiced by both President Obama and HUD Secretary Donovan. Of course, a strong evidence base is no guarantee that proposals for affordable and special needs policies will defy political gravity and move easily through the legislative process. But it might increase the odds.

Appendix Table 1: Housing Status of Renter Households, 1985-2007

Year	Number of renter households	Number of households in severely inadequate housing	Number of households paying 30-49% Income	Number of households paying \geq 50% Income	Number of families in poverty	Total subsidized renters
1985	31,736	1,108	6,739	6,128	7,223	3,887
1987	33,320	859	7,675	6,991	7,005	4,175
1989	33,734	1,587	6,983	5,187	6,784	4,402
1991	34,242	1,347	6,938	5,426	7,712	4,613
1993	35,184	910	7,163	5,948	8,393	4,851
1995	35,246	849	7,385	6,187	7,532	5,087
1997	35,059	1,072	7,264	7,359	7,324	5,120
1999	34,831	1,184	7,476	6,710	6,676	5,101
2001	34,417	1,178	7,411	7,092	6,813	5,061
2003	33,604	1,038	7,942	7,189	7,607	5,080
2005	33,940	1,099	8,020	8,530	7,657	4,992
2007	35,045	1,077	8,796	9,030	7,623	5,005

Sources:

Quigley, J. and S. Raphael (2004). "Is Housing Unaffordable? Why Isn't It More Affordable?" *Journal of Economic Perspectives*, Vol. 18, No. 1, pp. 191-214, for 1985-2001 estimates; U.S. Census Bureau (2008). *American Housing Survey for the United States: 2007*. Current Housing Reports, Series H150. Washington, DC: US Government Printing Office, for 2003-2007 total renters, inadequate housing, high rent burden; U.S. Census Bureau (2006). *American Housing Survey for the United States: 2005*. Current Housing Reports, Series H150. Washington, DC: US Government Printing Office, for 2003-2007 total renters, inadequate housing, high rent burden; U.S. Census Bureau (2004). *American Housing Survey for the United States: 2003*. Current Housing Reports, Series H150. Washington, DC: US Government Printing Office, for 2003-2007 total renters, inadequate housing, high rent burden; U.S. Census Bureau (2008). Historical Poverty Tables, Table 4: Poverty Status of Families, by Type of Family, Presence of Related Children, Race, and Hispanic Origin: 1959-2007, obtained from <http://www.census.gov/hhes/www/poverty/histpov/famindex.html> on January 26, 2009, for 2003-2007 poverty; U.S. Department of Housing and Urban Development (2009). FY2009 Congressional Justifications, Housing Payments Summary of Assisted Units and Outlays, obtained from <http://www.hud.gov/offices/cfo/reports/2009/cjs/hsg1.pdf> on January 26, 2009, for 2003-2007 subsidized units; U.S. Department of Housing and Urban Development (2007). FY2007 Congressional Justifications, Housing Payments Summary of Assisted Units and Outlays, obtained from <http://www.hud.gov/offices/cfo/reports/2007/cjs/part2/hsg/hsgpayment.pdf> on January 26, 2009, for 2003-2007 subsidized units; U.S. Department of Housing and Urban Development (2005). FY2005 Congressional Justifications, Housing Payments Summary of Assisted Units and Outlays, obtained from <http://www.hud.gov/about/budget/fy05/cjs/part2/housing/hsgpayment.pdf> on January 26, 2009, for 2003-2007 subsidized units.

Notes:

1. This is based on, and extends, Quigley & Raphael (2004), Table 6.
2. Total subsidized renters for 2001 is an estimate.

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