



# Affordable Housing Overview



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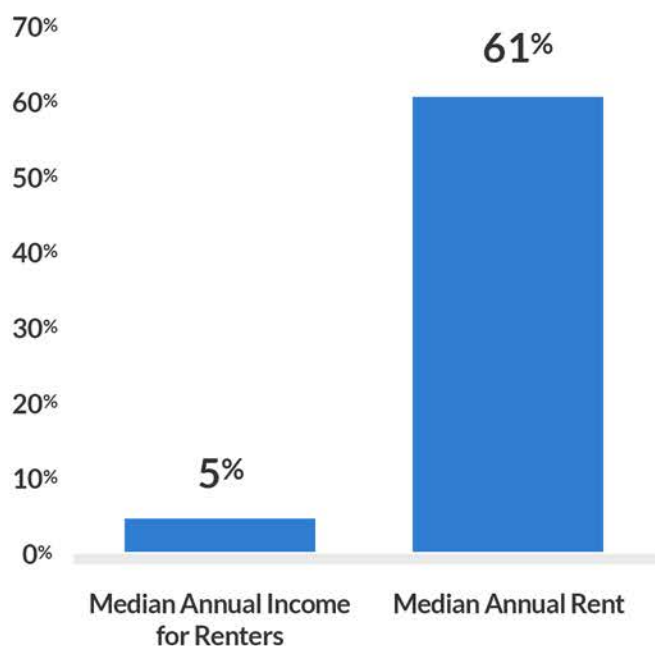
# Affordable Housing Overview

Access to safe and affordable housing is a foundational component of any society. Each and every day, thousands of families are on the search for a suitable place to live. It may be a small urban apartment, a mid-sized suburban tract home, or a rural 'McMansion', but every searcher is looking for a place to call home and to find rest from the stresses of everyday life without becoming burdened with cost.

## The Problem

In America, however, this search has been and will continue to be challenging for a large percentage of the population due to a lack of housing that is affordable. Over the last nearly 60 years the median annual rent paid in the United States has increased by more than 61% on an inflation-adjusted basis. In stark comparison, the median income for renters has increased by a mere 5%. As a result of this dynamic as well as a myriad of others, nearly 50% of all renters in the United States are deemed to be 'cost-burdened', having spent more than 30% of their income on housing (renters account for ~40% of all US households). Compare this to just 24% of renters who fell into this category in the 1960s, and it's clear that the situation is progressively worsening.<sup>[1]</sup> Perhaps even more striking, 11 million American households – approximately 1 in 10 – spend more than 50% of their income on rent, which means little cash left to spend on other essentials like food, clothing, education, and healthcare.<sup>[2]</sup>

Change in Annual Income and Rent Since 1960



[1] Joint Center for Housing Studies of Harvard University. (2018). The State of the Nation's Housing 2018. Retrieved from [www.jchs.harvard.edu/sites/default/files/Harvard\\_JCHS\\_State\\_of\\_the\\_Nations\\_Housing\\_2018.pdf](http://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2018.pdf) Page 5

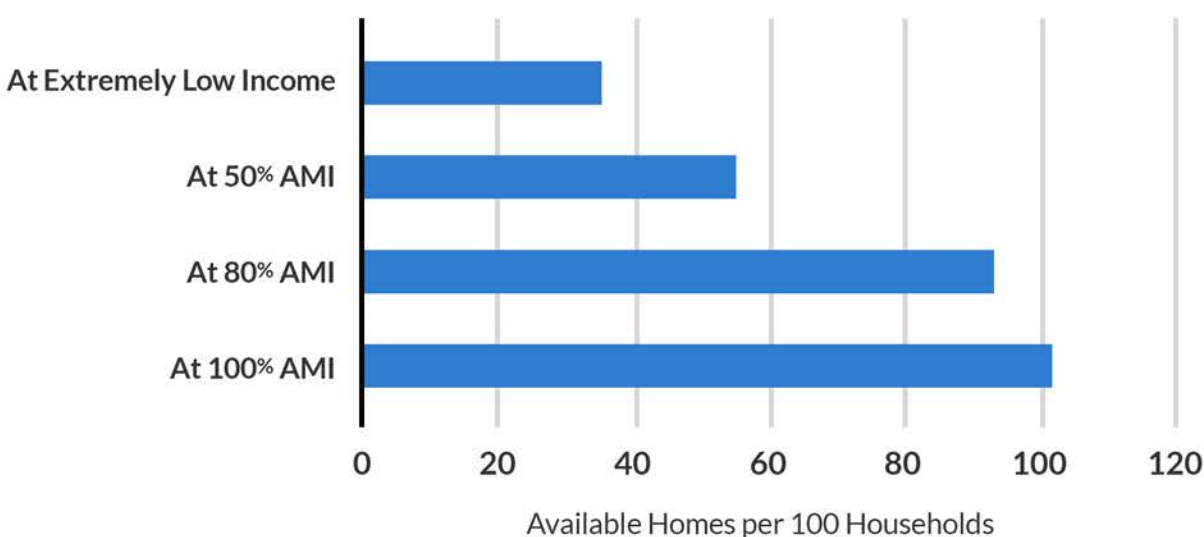
[2] The State of the Nation's Housing 2018. Page 30

# Insufficient Supply

In the face of this staggering challenge, federal, state, and local governments have attempted to address the issue primarily through the use of subsidies – either through the direct subsidization of rents via vouchers and other rent programs (e.g. Section 8 housing vouchers) or through providing subsidies (typically tax credits) to affordable housing developers to spur increases in the low-cost housing supply. Despite their best efforts, challenges remain and the subsidies are an insufficient solution for the issue at large. Approximately 4.6 million households currently receive some amount of federal rent support, which, while impressive, falls well short of the need.<sup>[1]</sup> By some estimates, there is a 7.7 million unit shortage of affordable units for ‘very low-income’ renters alone (those that earn less than 50% of median income in a local area).<sup>[2]</sup> This statistic does not take into account the millions of average earners who struggle to keep housing spend to less than 30% of their income. The chart below illustrates the shortage of affordable and available homes at various income levels. For example, fewer than 60 homes are affordable and available for every 100 households with income at 50% of the area median income (the "AMI").

**1.1 MILLION**  
affordable units will  
lose their affordability  
restrictions in the next  
10 years.<sup>[3]</sup>

**Insufficient Housing Supply for Low-Income Renters<sup>[4]</sup>**



[1] The State of the Nation's Housing 2018, Page 32




[2] The State of the Nation's Housing 2018, Page 33

[3] The State of the Nation's Housing 2018, Page 34

[4] NLIHC tabulations of 2015 ACS PUMS data



# Types of Affordable Housing

	Affordable Housing		Naturally Occurring
	 Rent Subsidies	 Tax Credits	 Workforce
<b>What:</b>	Direct subsidies (vouchers, etc.) from the local / state / federal government to renters.	Credits provided by state and federal governments to finance construction of affordable units.	Traditional units that - due to location, amenities, etc. - are naturally affordable for the local population.
<b>Who is Paying:</b>	The government makes payments to landlords.	Institutions pay cash to acquire tax credits.	Not Applicable.
<b>Who is Paid:</b>	Landlords receive payments from the government in lieu of all or a portion of rent.	Cash paid to acquire tax credits is contributed as equity to affordable unit development.	Not Applicable.

The term Affordable Housing is widely used, but largely misunderstood due to the variety of overlapping concepts that colloquially fit under the heading. In its most technical sense, affordable housing is any unit that is developed with subsidized financing in some form – typically via tax credits, the most common of which are known as Low Income Housing Tax Credits, or LIHTC. The government ensures that these subsidized units are occupied by the target population via the imposition of a Land Use Restriction Agreement, or LURA, which stipulates the income levels of tenants allowed in the units as well as the maximum allowable rents.

For example, a particular LIHTC development may be restricted to tenants that make no more than 60% of the AMI and the maximum rent may be capped at an amount that is equivalent to 25% of that 60% figure. These stipulations can vary depending upon the local context and the types of subsidies, but the common thread is that restrictions are ultimately placed on the management of the property in order to maintain affordability for the relevant local populations.

Another important category is known as Naturally Occurring Affordable Housing, or Workforce Housing, which targets tenants earning between

**Types of Affordable Housing (cont'd...)**

80% and 120% of AMI. Without the government subsidies or government-mandated LURA attached to these units as is typical in the case of LIHTC units, managers and owners of these types of units generally look to price their rents at approximately 30% of their target tenants' income. Tenants of these developments tend to be average working-class earners and might include law enforcement, nurses, teachers, etc.

**Only 31%**

of renters could afford the \$1,550 median asking rent for a new unit in 2017. <sup>[1]</sup>

## Potential Solutions

The housing problems facing American society may seem overwhelming, but some encouraging developments are creating opportunities for both society and investors. The Opportunity Zone Program, codified under the 2017 Tax Reform bill, has created a set of powerful incentives to, among other things, develop and rehabilitate multifamily housing units in approximately 8,700 generally lower-income census tracts across the US. There is a growing expectation that this program will help to make a dent in the massive shortfall in affordable housing supply. Additionally, investors are increasingly recognizing the financial and societal benefits of investing in both workforce housing as well as affordable units with a LURA. Despite these developments, much more must be done at both the local and national levels to combat the crisis of affordability experienced by millions of our fellow Americans.

"It is hard to argue that housing is not a fundamental human need. Decent, affordable housing should be a basic right for everybody in this country. The reason is simple: without stable shelter, everything else falls apart."

*Evicted: Poverty and Profit in the American City* by Matthew Desmond

[1] The State of the Nation's Housing 2018. Page 28. Assumes affordability at 30% of potential renter's income.