

IMPLICATIONS FOR POLICYMAKERS  
AND SUGGESTED RESEARCH

### Next Steps

This study assesses the housing needs of Pennsylvania's lower-income renter households to help readers better understand how their needs vary across the state. Looking at the incidence of housing problems in this group in 2000 and again in 2005-06, we also explore the extent of shortages in rental housing that is both affordable and available to lower-income renters in those two periods. We found that housing problems, and especially the difficult problem of households paying more than half of their income for housing, were most common among ELI renters, the lowest income group. Rental housing shortages were also most severe for this income group. Between 2000 and 2005-06, the state's total shortage of affordable and available housing for ELI renters rose from approximately 170,000 to 220,000.

While this study was not intended to provide strategy recommendations, it offers a valuable methodology for quantifying rental housing needs.<sup>58</sup> State and local policymakers can use the tools provided in this study to help develop local rental

housing strategies. A key finding of this study — that rental housing markets within Pennsylvania differ markedly in the extent of the shortage of units affordable and available to ELI and VLI renters, as well as in vacancy rates and population growth trends — reinforces the importance of choosing strategies that are sensitive to local housing market conditions.<sup>59</sup>

In particular, a shortage of affordable and available units does not necessarily mean that more rental housing units are needed. In some parts of Pennsylvania, the population is declining or stagnant, and vacancy rates are high. In these areas, housing prices may be quite low by statewide or regional standards; incomes, however, may be even lower, strongly suggesting that problems here may be more a function of a lack of income than of a lack of housing. The use of vouchers, if enough are available, may be sufficient to address most affordable rental housing needs. Vouchers are generally acknowledged to be the most cost-effective housing strategy in situations in which excessive cost burden is the primary housing problem and a sufficient number of units are

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<sup>58</sup> Many other studies have analyzed strategies and provided recommendations on how to meet lower-income rental housing needs. In summarizing the past 50 years of federal housing programs, Charles Orlebeke (2000) concluded that a “three-pronged strategy of [housing] vouchers, block grants, and tax credits has achieved reasonably good results and attracted an unusual degree of political consensus.” Strategies have also been analyzed at the state and local levels for Pennsylvania, most recently by John Kromer in his 2009 report.

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<sup>59</sup> Bogdon, Silver, and Turner (1993) discuss more completely how local variations in household growth, housing conditions, household composition, shortages of affordable housing, and available resources should be evaluated to develop priorities for investing in housing resources.

available at moderate rents. The effectiveness of vouchers in reducing or eliminating cost burdens in any community will depend on whether an adequate stock of units of adequate quality is available at the local FMRs established by HUD.<sup>60</sup>

In other areas of Pennsylvania, where there are more severe affordable and available rental housing shortages, a growing population, and low vacancy rates, different rental housing strategies may be needed, which may involve expanding the affordable rental housing supply. The two largest federal supply-side programs, the low income housing tax credit (LIHTC) and HOME programs, do not target funding to ELI renters, the group that consistently faces the most severe affordable housing shortages. As noted in the most recent HUD Worst Case Needs report, “While these units are often more affordable than market-rate units, without additional rent subsidies (such as vouchers), ELI families would often have to pay well over 30 percent of their incomes for units in these programs.”<sup>61</sup> A local housing strategy might attempt to coordinate use of vouchers in conjunction with supply-side programs to increase the likelihood that an increased supply of units will decrease cost burden among ELI renters. The National Housing Trust Fund, authorized by Congress in 2008, if funded, may become another supply-side program to help fill this gap, since its resources are to be targeted to housing affordable to ELI households.

This study, and the general observations made above, should be seen as a starting point for the more focused, detailed investigations that should be conducted when developing affordable rental

housing strategies in a particular community. Some specific questions that should be pursued in such an investigation include:

- ❑ ***To what extent do units determined to be affordable and available actually meet the needs of the local lower-income renters in need of affordable housing?*** While the study looks at aggregate households and rental units, the particular characteristics of the lower-income renter population should be considered in both assessing housing needs and developing effective strategies. In particular, state and local policymakers need to know more about the make-up of the ELI renter population. This population is highly diverse and is segmented by household size, number of children, age, and disability. Some segments are likely to be better housed than others, a pattern that may vary from area to area. One area may have a surplus of small units but too few units for large families;<sup>62</sup> other areas may have shortages of housing that meets the needs of seniors or individuals with disabilities.
  
- ❑ ***What is the quality of the rental housing stock that is affordable and available to lower-income households?*** One of the most difficult issues in framing affordable housing strategies is assessing the condition of the available and affordable housing stock. Many units, particularly in areas with high vacancy rates, that may rent for affordable prices may be in such poor condition that they are not suitable living environments, and the cost of

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<sup>60</sup> See footnote 48 for a more detailed discussion of this point. In addition, see Appendix B for a discussion of FMRs and affordable rental housing strategies, and Appendix D, Table D.1, for FMRs by county.

<sup>61</sup> See HUD (2007), p. 9.

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<sup>62</sup> Nationally there are severe shortages of units for large households. Many rental housing units with three or more bedrooms are occupied by families that don't need that many bedrooms. See Appendix B and HUD (2007), Chapter 4.

upgrading them to an adequate standard may be prohibitive. Where the quantity of housing appears to be adequate but quality is a problem, local policymakers may want to give priority to rehabilitation, focusing on that part of the affordable stock that can be rendered habitable at reasonable cost. Unfortunately, most census data, including the ACS, do not enable a user to determine the quality of a jurisdiction's housing stock. As a result, state and local policymakers may have to use other means of assessing the quality of their housing stock, including code enforcement data and field surveys.

❑ *Are the units that are currently affordable and available to lower-income renters and which meet basic quality standards likely to remain so in the future? This is a two-part issue, involving both preserving those units physically and preserving them as affordable housing.*

#### **Preserving the Older Rental Stock.**

Ensuring that the existing rental stock is maintained in good condition is particularly important. In Pennsylvania, where the majority of rental housing units are found in single-family and small multifamily structures, state and local policymakers may want to pay particular attention to these properties, increasing access to financial resources for their owners, and providing incentives along with targeted code enforcement to motivate responsible property maintenance.<sup>63</sup> Since many of these properties are likely to be older structures, programs to increase energy

efficiency and weatherize these properties are likely to be beneficial in making housing more affordable to tenants, making it more cost-effective for landlords, and prolonging the properties' useful life.

**Preserving Affordability.** Units that are affordable today may not stay that way. Privately owned subsidized rental housing developments may go to market as their lower-income occupancy restrictions expire. In addition, if demand increases in a particular area, rents may increase in private-market housing that is affordable today, to the point where it becomes too expensive for lower-income households. The extent to which affordability is at risk is a function of housing demand, which is far greater in some parts of Pennsylvania than in others. Where demand pressures are pushing up the price of private-market rental housing or motivating the owners of subsidized housing to bring their properties to market, state and local policymakers may want to work with nonprofits (local and national) and others to find ways to preserve the units as part of the affordable rental housing stock.

❑ *When a local housing strategy includes an increase in rental housing supply, is local planning capacity sufficient to take advantage of opportunities and meet challenges?* The process of developing additional rental housing, particularly if it is to be affordable to ELI households, is a complex and multifaceted one. The specialized development capacity and financial resources to acquire sites and plan new developments, while present to some degree in the state's major cities, may be much more limited in suburban or rural

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<sup>63</sup> See Mallach (2007). In this publication, Mallach includes an analysis of the distribution and characteristics of rental housing stock, characteristics of the owners of one- to four-unit rental structures, and the market factors affecting these rental properties. Mallach also addresses policy implications for one- to four-unit rental structures.

areas. Sites that meet reasonable location criteria for affordable housing may be in short supply in some areas, and where they are available, land-use regulations may be an obstacle. Finally, since, as mentioned above, the major federal supply-side programs do not target ELI households, it may be necessary to leverage multiple funding sources, combining capital funding such as LIHTC and HOME with vouchers, to meet the most severe lower-income rental housing needs. Coordination across programs and agencies will be essential to leverage funding sources and maximize the rental housing affordable and available to the lowest income households.

❑ ***How will policymakers address the rental housing needs that are resulting from the mortgage foreclosure crisis?***

The foreclosure crisis has brought to light a host of additional questions that may have to be addressed by policymakers, including:

- ❑ How is the foreclosure crisis affecting different local affordable rental housing markets in Pennsylvania?
- ❑ Is the crisis triggering a greater need for affordable rental units as homeowners losing their homes to foreclosure seek alternative housing arrangements?
- ❑ Are foreclosed owner-occupied properties being converted to rental units? If so, how is that affecting the quality and affordability of the rental housing stock?
- ❑ What is happening to renters residing in foreclosed properties?
- ❑ Have changes in demand driven by foreclosure affected rent levels in areas heavily hit by foreclosures, and if so, in what direction?

What is actually happening is by no means clear and, in any event, is likely to vary from area to area, based not only on the intensity of local foreclosure activity but on the basis of underlying housing and economic conditions. As the above questions suggest, while the crisis may be intensifying rental demand, it may also, under some conditions, be expanding the rental housing stock. In either case, it is part of the reality of these times and cannot be disregarded in the process of framing effective local housing strategies.

### **Suggested Research**

Some of the questions posed in the previous section can be addressed through existing research and further analysis of available data, while other questions will require additional research and analysis of new data as they become available. Still others, particularly those dealing with the effects of the foreclosure crisis, are moving targets, with conditions changing month by month.

One useful extension of this study would be to more thoroughly analyze who the ELI and VLI renters are within Pennsylvania and, having identified their salient features, better define the characteristics of housing that best meets their needs. Much of this can be accomplished using existing data, including indicators such as the distribution of units in the rental stock by number of bedrooms, or of households by type and size (i.e., large families, seniors, individuals with disabilities, etc.). Differentiating the data by these indicators would provide not only a more thorough analysis of housing needs at state and sub-state levels but also one of more use to local housing planners and developers.

Along similar lines, another useful extension of this study would be to use existing data to analyze housing affordability needs and conditions of

Pennsylvania owners. Lower-income homeowners also have cost burdens and face shortages of affordable housing. In a recent report, the Joint Center for Housing Studies at Harvard University noted that, nationally, over 60 percent of the bottom quartile of homeowners pay more than 30 percent of their incomes for housing.<sup>64</sup>

Where policymakers determine that additional affordable rental units are needed, that decision may trigger additional issues that may call for further locally oriented research and assessment. In addition to the traditional tools of site and land-use analysis, an analysis of where new units should be located in relation to available and projected jobs can be valuable, in light of the frequent mismatch between available jobs and affordable and available housing units.<sup>65</sup>

A further important area of research is to look at how affordable housing needs and shortages, for both owners and renters, are changing as a result of the mortgage foreclosure crisis. In light of the urgency of this issue and the time lag in the availability of much national data, local planners and researchers should explore locally generated data sources, such as county-level transaction and foreclosure filing data, to develop timely local assessments of these issues. A number of models are emerging around the United States, including the NEO CANDO (Northeast Ohio Community and Neighborhood Data for Organizing) system at Case Western Reserve University in Cleveland.<sup>66</sup>

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<sup>64</sup> See Joint Center for Housing Studies (2008), p. 23.

<sup>65</sup> See Lipman (2006), p. iii. This study documents the extent and effects of the mismatch between job and housing locations, noting that “in their search for lower cost housing, working families often locate far from their place of work, dramatically increasing their transportation costs and commute times. Indeed, for many such families, their transportation costs exceed their housing costs.”

<sup>66</sup> NEO CANDO is a free social and economic data system of the Center on Urban Poverty and Community Development at Case Western. See: <http://neocando.case.edu/cando/index.jsp>.

New data sets are becoming available that will further assist state and local policymakers in developing their affordable housing strategies. In December 2008, the Census Bureau introduced the first three-year estimates of ACS data, starting with the years 2005-07. These estimates are based on a larger sample size and are more reliable than data based on one or two years when analyzing information for areas with small populations.<sup>67</sup> Later this year, the Census Bureau plans to release five-year estimates annually, beginning with 2005-09, for still greater accuracy at the small-area level. The methodology used in this study can easily be applied to the ACS multi-year data as they become available.

Moreover, in the near future it will become easier for state and local planners to apply the methodology used in this study. HUD is also funding additional ACS data mining that will include data by HAMFI thresholds, similar to CHAS data. Once these special tabulations become available, it will be much easier to identify trends in housing affordability and availability on a regular basis. This study can be a valuable model for processing ACS micro-data in the future to investigate issues such as housing needs of the disabled that are not directly addressed by the special CHAS-like tabulations.

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<sup>67</sup> For a more detailed discussion on ACS data and sample sizes, refer to: <http://www.census.gov/acs/www/UseData/mye/myechoosing.html>.