



EXECUTIVE SUMMARY

The Community Affairs Department of the Federal Reserve Bank of Philadelphia undertook this study, *Affordability and Availability of Rental Housing in Pennsylvania*, to assess the housing needs of Pennsylvania's lower-income renter households and to better understand how their needs vary across the state. Our study looks at the incidence of housing problems among this group at both the beginning and the middle of the previous decade. It also considers the extent to which there were shortages in the number of rental units that were both affordable and available to lower-income renters at these two points in time. Our findings strongly suggest that conditions faced by the lowest income renters in Pennsylvania deteriorated from the beginning to the middle of the decade.

We used two primary data sources for our analysis: special tabulations from the 2000 census called comprehensive housing affordability strategy (CHAS) data and similar tabulations from the 2005 and the 2006 American Community Survey (ACS). We discuss renters in three lower-income ranges: extremely low income (ELI, less than or equal to 30 percent of HUD-adjusted area median family income, or HAMFI); very low income (VLI, 30.1 percent to 50 percent of HAMFI); and low income (LI, 50.1 percent to 80 percent of HAMFI).

In addition to the main text, the full report contains a glossary of terms and seven appendices

that take a closer look at some of the data and methodologies used.

Background

In Pennsylvania, 11.8 million people live in 4.8 million households. Of the 4.8 million households statewide, 1.4 million, or approximately 29 percent, are renter households. The renter households include 2.9 million people, or 24 percent of the state's total population residing in housing units. (Note: Data in this section are from the 2000 decennial census, unless otherwise noted.)

Pennsylvania's renter households are heavily concentrated in urban areas, reflecting both the larger populations in urban areas and the higher propensity to rent in these areas. Nearly half of Pennsylvania's renter households live in just six counties: Philadelphia, Allegheny, Montgomery, Bucks, Delaware, and Lancaster.

There is a significant disparity in income between owners and renters throughout the country. The data indicate that Pennsylvania follows the nation in this respect. Nationwide, owner households earn nearly twice as much as renter households; in Pennsylvania, the same is true at both the county and the state level.

One of Pennsylvania's key rental housing challenges is the age of its rental housing stock. Pennsylvania has the second oldest renter-occupied

housing stock in the immediate region, following New York. Over two-fifths of rental housing units in Pennsylvania were built before 1950, compared with 24 percent in the nation as a whole. Older rental housing is found throughout the state in both rural and urban areas.

In addition to this aging rental housing stock, Pennsylvania also has a population that is older than the national average and also older than that of its neighboring states. Therefore, it is not surprising that Pennsylvania renters are older than renters in both the nation and all of its neighboring states. Overall, one-fifth of renter households in Pennsylvania have a head of household who is 65 years or older. This fact suggests that any upward pressure on rents might have particularly severe effects on housing affordability in Pennsylvania because many elderly renters are likely to have fixed incomes.

In Pennsylvania, over 60 percent of renter-occupied housing units are in structures with only one to four units. Indeed, nearly half of Pennsylvania's renter-occupied housing units (48 percent) are in one- or two-unit structures, compared with only 39 percent for the nation as a whole.

When compared with the national average and also with that in neighboring states, population growth in Pennsylvania between 1990 and 2006 was quite low (only 4 percent). Yet at the county level, there was great variation in population change during this period. Counties on the northeastern border of the state (most notably Pike and Monroe) experienced the greatest population growth. Other counties throughout the state experienced substantial population declines, including Cambria, Cameron, Philadelphia, Warren, and Allegheny. The population is clearly declining in Pennsylvania's two largest cities, Philadelphia and Pittsburgh (Allegheny County).

Within Pennsylvania, the number of rental housing units grew at approximately the same rate as the population between 1990 and 2005-07. But nearly all of the growth in both rental housing and population actually occurred between 1990 and 2000.

Rental Housing in 2000

CHAS data show that in 2000, nearly two-thirds of renter households in Pennsylvania had incomes below 80 percent of area median income (AMI) and were thus categorized as low income (LI), very low income (VLI), or extremely low income (ELI). Notably, nearly one-quarter of renter households in Pennsylvania were ELI.

Over 70 percent of ELI renter households in Pennsylvania faced some type of housing problem: either a cost burden (paying more than 30 percent of household income on rent and utilities) or a housing unit problem (a lack of complete plumbing or kitchen facilities or overcrowding). Predictably, those with higher household income had fewer housing problems.

In Pennsylvania, 69 percent of the ELI renter households had cost burdens and 53 percent had severe cost burdens (paying more than 50 percent of household income for housing). As has generally been found in national studies, severe cost burdens were substantially less common among VLI and LI renter households.

While severe cost burdens afflicted over half of ELI renters in 2000, housing unit problems were far less common. ELI renter households in Pennsylvania also faced severe shortages of housing units that were both affordable and available for their occupancy, as is also the case nationally. There were only 49 affordable and available housing units per 100 ELI renter households in Pennsylvania in 2000, that is, only one unit for every two renter households.

Although shortages of affordable and available rental housing units were less severe for Pennsylvania than in the nation and in many of its neighboring states, Pennsylvania is larger than many of its neighbors in terms of geographic size, renter population, and number of rental housing units. In absolute numbers, Pennsylvania's shortage of 170,000 units affordable and available to ELI renter households was second in this region only to New York's shortage of 560,000 units.

Rental housing conditions in 2000 at the county level were consistent with state-level trends: ELI renter households were much more likely to have severe housing problems and severe shortages of affordable housing than other households.

ELI renter households were most likely to have severe cost burdens in three different areas of the state. In the Northeast section of the state bordering New Jersey, Monroe County faced the greatest challenge, with 68 percent of ELI renter households having severe cost burdens. Many ELI renter households in neighboring Pike and Wayne counties also had severe cost burdens. The second area was Centre County, home to Pennsylvania State University, and the third area was the Philadelphia suburban counties, particularly Chester, Delaware, and Montgomery.

These three areas also had the greatest shortages of affordable and available housing units per 100 ELI renter households. Nonetheless, in every county in 2000, there were insufficient numbers of affordable and available rental units for ELI renter households. It should be noted, however, that shortages of affordable and available housing units do not always imply that additional units must be built because, in many instances, providing rental assistance could enable renters to rent an affordable unit or to afford their current unit.

In absolute numbers, the seven counties with

the greatest shortages of affordable and available housing units for ELI renter households were Allegheny, Bucks, Delaware, Lancaster, Lehigh, Montgomery, and Philadelphia. Sixty percent of the state's overall shortage of rental housing units for ELI households was attributable to these seven counties. Indeed, 42 percent of the state's shortage came from only two counties, Allegheny and Philadelphia, home to Pennsylvania's two largest cities, Pittsburgh and Philadelphia.

In most counties, the shortage of units affordable and available to those in the wider 0-50 percent AMI income range (which includes both ELI and VLI renter households) was absolutely smaller. This difference implies that those counties had more *units* affordable to *renters* with incomes between 30 and 50 percent of AMI than renters in this income range. In only four counties (Bucks, Centre, Chester, and Montgomery) did the shortage of units affordable and available to ELI and VLI renter households slightly exceed the shortage of units affordable and available to ELI renter households, implying that some additional units affordable to households with income below the VLI threshold were also needed in these counties. These data reinforce the conclusion that the most pressing need for additional affordable rental housing in most counties was for units affordable to ELI renter households.

Almost all counties had net surpluses of affordable and available units compared with renters with incomes below 80 percent of AMI. This occurred because the surpluses of units affordable to renters with incomes between 50 and 80 percent of AMI exceeded any shortages of units affordable to incomes below 30 or 50 percent of AMI. Thus, throughout Pennsylvania, ELI renters have by far the greatest need for affordable housing.

Conditions at Mid-Decade

Because CHAS tabulations are not available after 2000, we developed equivalent data from the 2005 and the 2006 American Community Survey. The 2005-06 ACS data show that shortages of affordable rental housing worsened in the first half of the previous decade, particularly for ELI renters. 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. These data indicate that there were only 43 affordable and available units per 100 ELI renter households, down from 49 in 2000. Cost burden pressures were also higher at mid-decade than in 2000. The differences appear most dramatic for ELI renter households.

The increases in both relative and absolute shortages of affordable housing and the higher incidence of cost burdens occurred despite a modest rise in rental vacancy rates between 2000 and 2005-06, which would tend to ease the shortage, all other things being equal. Both changes are likely due in part to more ELI renters competing for a relatively fixed stock of rental housing units.

The interested reader should note that the study also provides an analysis of rental housing conditions mid-decade at two sub-state levels. The first sub-state level, the six relatively large regions used by the Pennsylvania Department of Community and Economic Development (DCED), are particularly relevant to rental housing policy because the Pennsylvania Housing Finance Agency has a regional set-aside for the allocation of low income housing tax credits (LIHTCs) based on DCED regions. LIHTCs have been a major source of affordable rental housing. The second sub-state level, aggregations of public-use micro-data areas (PUMAs), provides as much county-level detail as possible from the ACS micro-data. Because DCED

regions are larger than aggregated PUMAs, it is possible to estimate rental housing conditions at the DCED regional level more precisely. Details are available in the full report.

Policy Implications

While this study was not intended to provide recommendations for strategy, it offers a valuable methodology for quantifying rental housing needs from current data. 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.

In some parts of Pennsylvania, the use of vouchers, if enough are available, may be sufficient to address most affordable rental housing needs. In other areas of Pennsylvania, different rental housing strategies may be needed, including expanding the affordable rental housing supply. Yet the two largest federal supply-side programs, the LIHTC and HOME programs, do not target funding to ELI renters, the group that consistently faces the most severe affordable housing shortages.

This study concludes by offering questions to help state and local policymakers in the process of framing effective local housing strategies, including:

- 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?

- What is the quality of the rental housing stock that is affordable and available to lower-income households?
- 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.
- 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?

Conclusion

This study is particularly relevant now, given the current state of the housing industry nationwide. The number of renters has increased in recent years, and this increase has only added to pressures in the affordable rental housing market.

The situation is exacerbated by the mortgage

foreclosure crisis, which brings with it the likelihood that an increasing number of homeowners affected by foreclosure will need to find alternative housing arrangements. The mortgage foreclosure crisis also has implications for current renters. Despite legislation enacted in May 2009 that enables renters living in foreclosed buildings to stay in their residences for a certain period, many renter households may seek a new place of residence.

Factors of this nature have led many housing experts to predict that the need for additional affordable rental housing will continue to grow and that rental housing will become an even more important aspect of national housing policy discussions over the next few years. These challenging circumstances make it even more important for policymakers and those involved in the rental housing industry to have current and comprehensive information with which to develop rental housing strategies for their communities. The results of this study suggest that the ACS can provide valuable data for this purpose.