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WASHINGTON'S CONTINUING FICTION: A NATIONAL HOUSING SHORTAGE

INTRODUCTION

For most Americans, housing quality has been climbing for decades. This is obvious by looking at almost any measure. From 1960 to 1987, for example, dwellings lacking complete plumbing facilities fell from 13.2 to 2.4 percent. Those with central air conditioning rose from 1.9 to 35.8 percent. More important, perhaps, the fears that the nation would not be able to provide housing for the huge baby boom generation were unfounded. By now, the baby boom population almost entirely has found and moved into their own housing. Not only is this good news for the baby boomers, it also means that America need not build as much housing in the next decade as it has in the past. The projected growth in new households during the 1990s will be almost one-tenth slower than during the 1980s.

Yet despite these cheerful indicators, there are cries on Capitol Hill that America confronts a menacing housing crisis. Within the past two months, the House and the Senate have passed housing bills which rest, to a great extent, on such an assumption. The House bill (H.R. 1180) would spend \$28.7 billion and the Senate Bill (S. 566) \$27.9 billion for fiscal 1991. Both far exceed the \$23.7 billion requested by the Bush Administration.

Shifting the Focus. Championing the congressional measures, predictably, are the beneficiaries of big federal housing outlays: builders and realtors, "professional advocates" for the homeless, and state and local officials. Even their arguments, however, reveal how much the American housing situation has improved. No longer do they denounce, as they used to, the quality of housing. Instead they have shifted their focus to affordability, charging that the private sector produces many houses and apartments that few can afford. They claim, incorrectly, that millions of young adults face the prospect of never being able to buy their first home. As evidence, they cite the slight decline in the ratio of owner-occupied dwellings during the first half of the Eighties (which has since been reversed), the "high"

rent burdens on low-income households, and the prospect of federally-subsidized owners of low-income housing projects preferring not to renew their government contracts.

Federal Construction No Answer. To be sure, there are housing problems in America. But they are not the sort addressed by the recently-passed House and Senate bills and certainly not the sort that can be solved by enormous new sums of federal construction money. This is especially true for poor renters. What they need is greater purchasing power for housing, jobs near where they live, and a reduction in crime and other factors that make their neighborhoods unlivable. This is much more essential than constructing tens of thousands more publicly-subsidized units that lock the less fortunate into the same apartment indefinitely, and at high taxpayer cost.

For homeowners and first-time homeseekers, the problem is not getting more government-built housing, but reducing regulation and other barriers that discourage private investment. Rent control, unreasonable building codes, and exclusionary zoning all restrict the housing choices of homebuyers.

In the present housing situation, several realities cannot be ignored: The supply and condition of America's housing stock is adequate; demand over the next decade for new housing will lessen; and the current national housing market is not "tight" with respect either to availability or cost.

AMERICA'S HOUSING SITUATION: THE SUPPLY

Abundant Housing Stock

During the past two decades, America has created more housing than households. In 1987, the U.S. had an inventory of 102.7 million dwellings, a 49.5 percent increase over the 68.7 million in 1970.¹

In fact, over one-third of America's current standing housing stock has been built during the past two decades (assuming new additions since 1987), the very period when pronouncements of a housing shortage were becoming commonplace.

During this same 1970-1987 period, the number of households grew by about 26 million, and the total population by about 39 million.² For each net additional household, America produced 1.3 dwellings, and for each net additional person, America produced almost 0.9 dwellings — and these figures already allow for demolitions and other inventory losses. The supply of housing thus has kept pace with need.

1 U.S. Bureau of the Census, *Current Housing Reports*, Series H-150-87, "American Housing Survey"; biannually. All figures from the American Housing Survey are taken from the 1987 survey unless otherwise noted. Results from the 1989 survey will be published in late 1991.

2 "American Housing Survey."

Table 1
Deficiencies in Occupied Housing, 1987
(percentages)

Problem	Total Units	Owner- Occupied	Renter- Occupied
No Electrical Wiring	0.0	0.0	0.0
Holes in Floors	1.3	0.7	2.4
Exposed Wiring	2.1	1.5	3.0
Rooms Without Electrical Outlet	2.5	1.9	3.5
Broken Plaster or Peeling Paint	4.7	3.0	7.6
Open Cracks or Holes Anywhere	5.7	3.5	9.6
Water Leakage	29.7	28.7	31.5

Note: The total number of owner- and renter-occupied dwellings in 1987 were 58,164,000 and 32,724,000, respectively. A negligible number of units had no electrical wiring.

Source: U.S. Bureau of the Census, *Current Housing Reports*, "American Housing Survey:1987," Series H-150-87.

Few Housing Deficiencies

Standards as to what constitutes "good housing" typically rise with improving technologies and rising real incomes. Early in this century, for instance, a three-room cold-water flat was regarded as adequate housing for a young middle-class family – at least as starter housing; it would be unacceptable today even for a few months.

Write George Sternlieb and James Hughes of Rutgers University's Center for Urban Policy Research: "When we were rich we threw away housing; when we were of modest circumstances we found it charming. The very elevation of America's housing standards and the real estate boom that characterized the era [the Seventies] joined together in an enormous level of demolition and non-residential use."³ The authors point out that the U.S. produced housing during 1970-1987 at a rate high enough to raze many older, rundown dwellings without diminishing the supply.

Good Housing Overall. The American Housing Survey data in Table 1 highlight the overall good condition of the U.S. housing stock. Among the major categories of housing deficiencies, only water (primarily faucet) leakage occurred to any significant extent. Less than 5 percent of housing units had either holes in floors, open cracks or holes, broken plaster, or exposed wiring. Less than 0.1 percent had no electrical wiring.

3 George Sternlieb and James Hughes, "Private Market Provision of Low-Income Housing: Historical Perspective and Future Prospects," in *Preserving Low-Income Housing Opportunities: Principles for a 1990s Housing Preservation Strategy*, Fannie Mae Annual Housing Conference (Washington, D.C.: Federal National Mortgage Association, 1990), p. 7.

Characteristic	Poverty Households Having This
Refrigerator	99.1%
Hot and Cold Running Water	98.4%
Stove and Oven	98.4%
One or More Flush Toilets	98.2%
Sink	98.1%
One or More Baths	97.3%
Complete Kitchen	96.8%
No More Than One Person Per Room	92.5%
Air Conditioning	49.0%
Median Number of Rooms	4.5

Source: U.S. Bureau of the Census, "American Housing Survey: 1987, Public Use Sample"

Year	Median Square Footage	Central Air Conditioning	One or More Fireplaces	2.5 or More Bathrooms
1970	1385	34%	35%	16%
1980	1595	63%	56%	25%
1982	1520	66%	54%	22%
1984	1605	71%	59%	28%
1986	1660	69%	63%	33%
1987	1755	71%	62%	38%
1988	1810	75%	65%	42%
%increase 1970-1988	30.7%	120.6%	85.7%	162.5%

Source: U.S. Bureau of the Census, *Construction Reports*, Series C-25, annually.

Table 2 demonstrates, using traditional measures of housing quality, how far the nation has come in eliminating substandard housing. These figures are for housing conditions of below-poverty-level households only.⁴ Over 95 percent of all poverty-level households in 1987 had complete bathroom facilities, complete kitchen facilities, sink, refrigerator, and stove/oven. Almost 50 percent had air conditioning.

4 The Census Bureau defines poverty level status according to a family of four's cash income.

New Homes and Homebuyer Expectations

During 1970-1988, the median price of a new single-family home in constant (1988) dollars rose from \$71,783 to \$112,500, an increase of 56.7 percent.⁵ While a good share of this may be plain housing-cost inflation, a large part of the cost increase pays for increased quality, as is clear from Table 3. Median interior square footage increased by over 30.7 percent, and the percentage of dwellings with central air conditioning, one or more fireplaces, and more than 2.5 bathrooms all increased by at least 85 percent. The boost in home prices, therefore, largely reflects features which are increasingly viewed as minimum amenities by American homebuyers.

To assess potential homebuyers' higher expectations, a survey last year of present homeowners by the National Association of Home Builders asked: "If you cannot afford to buy the type of home you want, what would you give up to make it more affordable?"⁶ Some 36 percent chose a house with unfinished rooms, and 35 percent would live farther from work or shopping. Only 18 percent would accept a smaller house, and only 11 percent would accept fewer amenities.

AMERICA'S HOUSING SITUATION: THE DEMAND

Slower Population Growth

During America's baby boom from 1946 through 1964, the annual birth rate averaged nearly 25 births per 1,000 population. From 1965-1975, the rate declined to just under 15.0, climbing only slightly to between 15.5 and 16.0 in the 1980s.⁷ The Census Bureau projects that from 1985 to 2010, the total U.S. population will rise 29.0 million.⁸ Those in the 35-54 age bracket — mainly today's baby boomers — make up over 90 percent of the increase. These are overwhelmingly people who by the close of the 1980s had established their own households; they are not seeking housing for the first time. By contrast, the number of people aged 18-34 will decline by about 8.6 million.

As a result of these population shifts, the demand for quality housing (especially owner-occupied) will increase, but the demand for new housing units (especially renter-occupied) will be lower than during the 1980s. In every five-year interval during 1985-2010, the number of people aged 35-54 will increase. Among persons

5 U.S. Bureau of the Census, *Construction Reports*, Series C-25, "New One-Family Houses Sold and For Sale," annually.

6 National Association of Home Builders, *What Home Buyers Want: Executive Summary* (Washington, D.C.: National Association of Home Builders, 1989).

7 U.S. National Center for Health Statistics, *Vital Statistics*, annually.

8 U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 1018, "Projections of the Population of the United States by Age, Sex, and Race, 1988 to 2080," Washington D.C.: U.S. Government Printing Office, 1989.

aged 18-34 and 55-64, the cumulative population will decrease over the whole period.

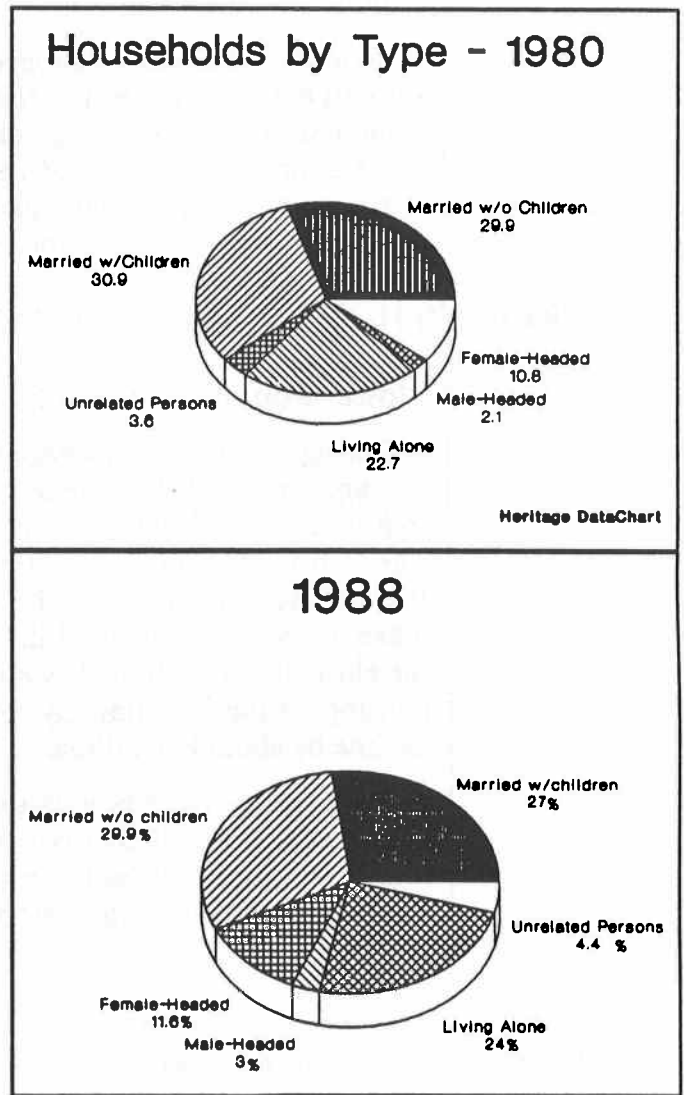
Also noteworthy, during 1985-1990, the gain will be over 11 million people; during 1990-1995, it will be less than 10 million; and during 1995-2000, barely over 8 million. Therefore, because population will be increasing at a steadily slower rate, future housing demand, other things held equal, will be lower than at present.

Slower Growth in Number of Households

The Census Bureau projects that the number of households will increase by 11.7 million between 1990 and 2000 (1.17 million per year), with those aged 35-54 accounting for 11.2 million of the increase.⁹ Households headed by persons 34 and under will decrease by 1.0 million. By contrast, the number of households increased by 1.25 million per year between 1980 and 1988 (a total of 11.3 million). Total households will grow by 6.1 million during 1990-1995, and 5.6 million during 1995-2000. Because of this smaller growth in the number of households, America will need less new housing in the 1990s than in the past two decades. New housing will have to focus more on single-family needs than before.

Household Type

The types of households accounting for the growth are as important as the increase in the number of households. Chart 1 indicates that there was a smaller ratio of households of married couples with children in 1988 than in 1980. In 1980, some 60.8 percent of all



9 U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 986, "Projections of the Number of Households and Families: 1986 to 2000" (Washington, D.C.: U.S. Government Printing Office, 1986).

households consisted of married couples, of which slightly over half had at least one child under 18. In 1988, this figure declined to 56.9 percent, of which slightly under half had at least one child under 18. Single-parent families accounted for a larger share of all households in 1988; collectively, single-parent families with children increased from 12.9 to 14.6 percent of the total.¹⁰

Over the past decade, the portion of non-family households increased, and close to one-fourth of all households now consist of one person. A number of factors account for this increase in single-person households. Because the median age of first marriage has steadily gone up for men and women since 1970, more single young adults have their own households before marriage. A more important factor is the decline in the remarriage rate by about 20 percent during the 1980s among both divorced men and women.¹¹

Incorrect Interpretation. Some critics complain that the growth in the proportion of non-family households signals an increase in the number of those who are among the least well-off, and therefore an increase in those in need of government assistance. These critics incorrectly interpret the statistics. Non-family and other non-traditional households have emerged partly because they can meet their housing costs. The median household income of single-person households in 1987 was \$12,544 while per capita household income for married couple households (with a national median of 3.27 persons per household) was only slightly over \$10,000. Among female-headed families with children, with 3.13 persons per household, the per capita income was \$4,926, the lowest for any category. Having no husband present reduces the family's median income by over half. And while it is true that the availability of subsidies helps the family afford housing, it is likewise true that the incentive of the mother to marry or remarry may be reduced in the process.¹²

According to Martha Riche, editor of *American Demographics*, most people will get married, but will remain so for a shorter period of their adult lives. This is especially true for women. As a result, "the very definition of a house — a single-family dwelling — is going to change because at any given time a greater share of adults with money in the bank and a desire for a house will not be in families."¹³ If her argument is valid, then if anything, the changing household composition would indicate a lessened need for subsidies.

10 U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 432, "Households, Families, Marital Status, and Living Arrangements: March 1988," (Washington, D.C.: U.S. Government Printing Office, 1989).

11 The median age of first marriage was 22.5 and 20.6 for men and women, respectively, in 1970; it rose to 25.1 and 23.3 in 1986. *Vital Statistics*.

12 See Charles Murray, *Losing Ground: American Social Policy, 1950-80* (New York: Basic Books, 1984), pp. 154-166.

13 Quoted in H. Jane Lehman, "Future Shock: Society Redefining the Home Buyer," *Washington Post*, May 12, 1990.

AMERICA'S HOUSING SITUATION: THE MARKET

Fewer Persons Per Dwelling

Very little housing overcrowding remains. In 1960, the average household size was 3.33 persons; in 1980, it fell to 2.75; and in 1988, to 2.62.¹⁴ The current housing stock affords individual privacy for more people than ever before. Even among the poor, fewer than 8 percent live in dwellings where there is more than one person per room.¹⁵

Increasing Vacancy Rates

One of the effects of the high level of construction during the past two decades has been a substantial increase in the vacancy rate for rental units. This has been especially noticeable in the past few years. In 1983, the total rental vacancy rate stood at 5.7 percent; in 1988, it was 7.7 percent.

Advocates for the homeless who press for expanded federally-subsidized new construction ignore the fact that there are almost 9 million vacant housing units for rent or sale year-round. This is about fifteen dwellings for each homeless person, based on last year's Urban Institute estimate of close to 600,000 homeless persons nationwide.¹⁶ These vacant units are not "tenements" or "slums." They contain a median of 4.3 rooms; 95 percent have at least one complete bathroom; and close to half are single-family homes.¹⁷

The Myth of Declining Owner-Occupancy

Possibly the most enduring illusion about housing in the 1980s is that Americans, particularly first-time home buyers, can no longer afford to buy a home. Those who lobby for publicly-financed new construction use one statistic to particularly great effect: In 1980, some 64.4 percent of all occupied units were owner-occupied; in 1985, the figure fell to 63.5.¹⁸ From this modest decline in homeownership, federal program advocates conclude that young Americans no longer can afford to own their homes and thus that America's first-time buyers need massive new federal assistance.

This shift is misleading. For one thing, from 1985 to 1987, the decline in homeownership rate reversed, increasing to 64.0. For another, even had the rate not risen, the homeownership rate depends upon demographic trends that are ignored in the critics' analysis. Typical of this failure is the 1988 report by the Joint

14 U.S. Bureau of the Census, *Current Population Reports*, P-25, (Washington, D.C.: U.S. Government Printing Office) annually.

15 "American Housing Survey," Public Use Sample.

16 Martha R. Burt and Barbara Cohen, *America's Homeless: Numbers, Characteristics, and Programs That Serve Them* (Washington, D.C.: Urban Institute, 1989).

17 "American Housing Survey."

18 "American Housing Survey: 1985."

Center for Housing Studies of Harvard University.¹⁹ It claims that if the homeownership rate since 1973 had held steady for under age 35 households, 2 million additional households would now be homeowners. This proves, says the study, that homeownership is becoming more elusive for young households. This study is cited extensively by the real estate lobby in pushing for federally-subsidized new construction such as those contained in the Senate legislation.

Non-Family Households Growing. The problem with the Harvard report is that it fails to take into account the proportional growth of non-family households. Irving Welfeld, policy analyst at the U.S. Department of Housing and Urban Development, points out that the homeownership rate for both married and single households under 35 increased during 1980-1987. The rate for married households increased from 74.7 percent to 78.8 percent, and for singles households from 45.0 percent to 46.9 percent. Welfeld concludes, "The modest decline in the overall homeownership rate reflects the strong shift in the 1980s toward more single-person households with a lower propensity to own."²⁰ The changing household composition rather than prohibitive housing costs explains the apparent decline in the homeownership rate in the 1980s.

Exaggerated Cost Burdens: Homeowners

On balance, the evidence from a number of sources indicates that with the exception of a few metropolitan markets on the East and West coasts, a home was one of the economic bargains of the past decade. The 1987 American Housing Survey reveals that the median monthly housing cost for homes with a mortgage was \$621; the monthly cost for homes owned free and clear was \$203. The respective inflation-adjusted figures for 1980 were \$504 and \$176.²¹

Data from Chicago Title and Trust Company's annual home buyer's survey reveal that the monthly mortgage payment for home buyers increased from \$599 to \$1,054 during 1980-1989,²² but the ratio of monthly cost-to-gross income decreased from 32.4 percent to 31.8 percent. Even more revealing, the portion of home buyers who were buying for the first time increased from 32.9 percent to 40.2 percent, with one-third of the increase occurring during 1988-1989. The median purchase price for first-time buyers increased from \$61,450 to \$105,200 (71.2 percent) over 1980-1989, but during the same period the median income of the first-time buyer increased from \$27,430 to \$50,700 (84.8 percent).

19 William C. Apgar and H. James Brown, *The State of the Nation's Housing* (Cambridge, MA: Joint Center for Housing Studies of Harvard University, 1988).

20 Irving Welfeld, *Where We Live: The American Home and the Social, Political, and Economic Landscape, from Slums to Suburbs* (New York: Simon & Schuster, 1988), p. 223.

21 "American Housing Survey."

22 *Who's Buying Houses in America: Chicago Title's 14th Annual Survey of Recent Home Buyers* (Chicago: Chicago Title and Trust Company, 1990); also see 1981 edition.

Declining Home Prices. Also noteworthy are figures from the National Association of Realtors' monthly, *Home Sales* (formerly *Existing Home Sales*), which focuses on the cost of existing homes rather than new construction. The median price of an existing single-family home in 1980 was \$93,600, and in 1989 it declined to \$93,100 in constant (1989) dollars. Many housing experts, in fact, predict that home prices in the 1990s will rise more slowly than in the 1980s because of the plentiful supply.²³

Recent data in the *Home Sales* Housing Affordability Index also contradict the notion of "unaffordable" homes. In 1984, a median income family had 89.1 percent of the income necessary to qualify for a conventional 80 percent mortgage loan; in 1989, this same family had 106.1 percent of the necessary income.²⁴ Incomes relative to home prices therefore increased by nearly 20 percent.

For first-time buyers, the Index increased from 64.9 to 74.2. This means that the typical renter family in the 25-44 age bracket in 1984 had 64.9 percent of the income required to qualify for a mortgage on a typically priced starter home, assuming a 10 percent downpayment; by 1989, this typical renter had 74.2 percent of the requisite income. Viewed from the standpoint of either all home buyers or first-time buyers, a home has become less expensive over the past decade due to increases in family income.

Exaggerated Cost Burdens: Renters

Renters are less well-off financially than homeowners. As such, low-income renters face higher housing costs than individuals who are able to buy a home. Yet there is little evidence that there is a critical shortage of low-cost rental units.

The 1987 American Housing Survey indicates that renters had paid a median monthly gross rent of \$399. In 1980, this median rent, when adjusted for inflation, had been \$335. The increase was 19.1 percent in real dollars. This, however, was largely offset by increases in income. According to the Census Bureau, after adjusting for inflation, the median income for all households rose from \$25,426 to \$27,139 during the 1980-1987 period, or 6.7 percent, excluding the rapid growth in nontaxable fringe benefits such as medical insurance. This offsets the 19.1 percent real increase in rents by over a third. The median rent-to-income ratio, meanwhile, rose only from 27 percent to 29 percent.²⁵

"Unaffordable" units are generally defined as those that generate rents (excluding utilities) exceeding 30 percent of household income. According to Table 4, some 50 percent of the rental stock is readily affordable. Housing advocates read into this that the other 50 percent is "unaffordable." This is not true, at least with respect to the housing. It may be true with respect to the income of the poor. This distinction is extremely important. It determines whether improving the housing

23 Gary Blonston, "Era of Big Profits on Sales May Be Over," *Washington Post*, May 12, 1990.

24 National Association of Realtors, *Home Sales*, Vol. 4, No. 4 (April 1990), p.12.

25 U.S. Bureau of the Census, *Current Population Reports*, Series P-60, annually; "American Housing Survey."

Table 4
Monthly Rent as a Share of Income, 1987

Cost-Income Ratio	Total Households	Households Below Poverty Line
Less than 5%	195,000	16,000
5 to 9%	928,000	25,000
10 to 14%	2,634,000	60,000
15 to 19%	3,891,000	110,000
20 to 24%	4,107,000	288,000
25 to 29%	3,878,000	461,000
30 to 34%	2,958,000	365,000
35 to 39%	1,979,000	313,000
40 to 49%	2,738,000	625,000
50 to 59%	1,752,000	623,000
60 to 69%	1,202,000	580,000
70% or more	4,037,000	2,980,000
Zero or negative income	360,000	312,000
No cash rent	2,065,000	604,000
Median % (excl. last 2 lines)	29	66
Total occupied units	32,724,000	7,361,000

Source: U.S. Bureau of the Census, *Current Housing Reports*, Series H-150-87.

The figures in this table frequently are used by advocates of government housing programs to justify a huge boost in federal rental subsidies. They claim that these figures prove that about half of all renters cannot afford their dwellings, since no household should have to pay more than 30 percent of its income for rent. This interpretation is wrong because the statistics are faulty. The statistics ignore completely an enormous amount of non-cash income such as Medicaid, food stamps, and housing subsidies (see pp. 10 and 12). If these non-cash payments were included, rent burdens would be substantially less.



situation of low-income renters requires building more housing or increasing the income that the poor can spend on housing.

Underreporting Income. The professional housing lobby, moreover, significantly underestimates the income which poor families have available to pay rental costs. Housing interest groups frequently note that according to U.S. Census data, over half the poor pay more than 50 percent of their incomes for rent. Yet federal data also show that the total annual expenditures on all items by low-income households equals 225 percent of the alleged income of those households. Obviously, there is a problem with the statistics. The problem is not that poor households lack income to pay for rent, food, and other necessities. The problem is that the Census Bureau dramatically underreports their income.²⁵

A key factor in the Census Bureau's miscalculation of the income of the poor and near-poor households is that the Bureau excludes non-cash incomes. This enormously distorts the poor's income because 73 percent of all government assistance to the poor now is in such noncash forms as Medicaid, food stamps, and housing subsidies. In 1988, federal, state, and local governments provided over \$173 billion in welfare assistance to low-income households.²⁶

Of this total, only about \$27 billion is counted as "income" by the Census Bureau. Cash and non-cash welfare assistance, which the Census Bureau and housing lobbyists fail to include in calculating the income of American families, equals about \$10,000 for each poor household in the U.S.²⁷

Generous Subsidies. Housing aid is a significant part of support for the poor and thus must be part of any assessment of whether the poor can afford rents. According to a national study by the Urban Institute, roughly half of all poverty renter households receive government assistance in the form of housing subsidies, welfare payments or both.²⁸ Indeed, roughly 20 percent of the 7 million low-income renter households receive both. In the mid-1980s, the period of the study, these transfer payments amounted to about \$20 billion annually, or almost \$6,000 per subsidized poor renter household.²⁹

25 U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditure Survey: Integrated Survey Data, 1984-1987* (Washington, D.C.: U.S. Government Printing Office, 1989). "Low-income" here means the lowest 20 percent income bracket.

26 Vee Burke, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1986-88* (Washington, D.C.: Library of Congress, Congressional Research Service, October 24, 1989), p.6.

27 Robert Rector and Kate Walsh O'Beirne, "Dispelling the Myth of Income Inequality," Heritage Foundation *Backgrounder* No. 710, June 6, 1988.

28 Sandra J. Newman and Anne B. Schnare, *Subsidizing Shelter: The Relationship between Welfare and Housing Assistance* (Washington, D.C.: Urban Institute, 1988).

29 Newman & Schnare, *Subsidizing Shelter*, pp. ix, 2.

Evidence from the latest study by Harvard's Joint Center for Housing Studies reveals a similar pattern. In 1987, some 54.4 percent of all poverty-level renters were receiving a subsidy, and 19.0 percent received both housing and income subsidies.³¹ Subsidized low-income renters paid \$188 in monthly rent in 1987 (1989 dollars); unsubsidized low-income renters paid \$360.³² This housing assistance is ignored by housing advocates who press for new construction subsidies.

Critics of Reagan Administration housing policies often forget that during Ronald Reagan's two terms, the number of low-income households receiving housing assistance climbed from about 3.1 million to 4.3 million.³³ Moreover, in 1987, about 5 million households, or over 70 percent of the poor renters, paid less than the median monthly rent of \$399. Of this total, about 2 million paid less than \$200. This figure does not include any of the 600,000 poverty households who paid no cash rent at all.³⁴

The truth is that low-income rentals are, as a whole and by any conventional definition, "affordable." Plenty of rental housing is available. If there is shortage of anything, it is not of rental units but of sufficient rental income to allow landlords to realize a reasonable return on their investment and thus give them an incentive to keep their property in good condition. Anthony Downs of the Brookings Institution in his 1983 book, *Rental Housing in the 1980s*, points out that in the inner city, rents often do not even cover carrying costs.³⁵ This is as true today as it was then. This problem can be addressed only by giving the poor ways to increase their incomes — through greater opportunities for full-time work, through incentives to maintain nuclear families, and through vouchers to be used as part payment of rent.

Rental Market Absorption

How soon would newly-constructed rental housing be occupied if it were completed today? The evidence indicates here as before that the U.S. needs fewer new rentals now than a decade ago. In 1980, some 75 percent of all new apartments (five or more units per building) had been rented within three months of completion. In 1988, this figure had fallen to 66 percent, a decline occurring in all regions of the country.³⁶

31 William C. Apgar, Jr., Denise DiPasquale, Jean Cummings, and Nancy McArdle, *The State of the Nation's Housing, 1990* (Cambridge, MA: Joint Center for Housing Studies of Harvard University, 1990), p. 35.

32 Apgar, et al., p. 21.

33 Scott A. Hodge, *The Myth of America's Housing Crisis*, Washington, D.C.: Heritage Foundation, 1990, p. 6.

34 "American Housing Survey."

35 Anthony Downs, *Rental Housing in the 1980s* (Washington, D.C.: Brookings Institution, 1983), p. 114.

36 U.S. Bureau of the Census, *Current Housing Reports*, Series H-130, Washington, D.C., U.S. Government Printing Office, annually.

SOURCES OF ALLEGATIONS

The insistence in the face of all the evidence to the contrary that America faces a critical housing shortage – and thus needs massive federal subsidies for housing construction – comes from three distinct special interests.

1) **The real estate lobby.** Realtors, builders, and lenders benefit most from new production and below market interest rate housing subsidy programs. Predictably, therefore, the National Association of Realtors in 1988 called for the annual construction of 2.1 million dwellings, and the rehabilitation of 313,000 additional units from 1988 through 2002, at a cost of \$112 billion annually in private and public investment.³⁷ This, among other things, would build close to 500,000 more units than the average annual production during the high construction period of 1983 to 1987. The National Association of Home Builders in 1987 advocated a similar high-production program.³⁸

2) **Federal housing program advocates.** Repeatedly, they claim that housing is prohibitively costly and that this causes homelessness. Typical of such lobbies is the National Coalition for the Homeless. A 1987 report issued by the organization, still reflecting the way it thinks today, states, “By far the most significant cause of widespread homelessness is the increasing scarcity of affordable housing. Over the past few years, large numbers of low-rent units in both the public and private housing markets have been eliminated. As a result, poorer Americans are now being squeezed out of their homes and onto the streets.”³⁹ The Institute for Policy Studies argues similarly in a 1989 monograph, “Most simply stated, today for more and more Americans, the dream of an adequate, affordable home is no longer attainable. On the contrary, the dream is fading rapidly. In terms of choices, security, neighborhood conditions, and especially costs, the housing available to Americans is getting worse.”⁴⁰ This monograph is the basis for H.R. 1122, introduced in February 1989 by Representative Ronald Dellums, the California Democrat, that seeks eventual nationalization of the entire housing stock.

37 Raymond J. Struyk and Christopher Walker, *America's Housing Needs to the 21st Century* (Washington, D.C.: National Association of Realtors, 1988).

38 National Association of Home Builders, *A Blueprint for National Housing Policy* (Washington, D.C.: National Association of Home Builders, 1987).

39 National Coalition for the Homeless, *Homelessness in the United States: Background and Federal Response* (Washington, D.C.: National Coalition for the Homeless, May 1987), pp. 5-6.

40 Institute for Policy Studies, Working Group on Housing, *The Right to Housing: A Blueprint for Housing the Nation* (Oakland, CA: Community Economics, Inc., 1989), p. 2.

3) **State and local government officials**, like the Council of State Governments, the National League of Cities, and the U.S. Conference of Mayors. Scarcely a month passed during the Eighties without some mayor or governor blaming Congress and the Reagan Administration for creating a nationwide housing crisis. At last October's "Housing Now!" rally in Washington, D.C., for example, Ohio Governor Richard Celeste, a Democrat,³⁸ said that a 75 percent "cutback" in HUD's budget is the reason for homelessness.³⁸ In reality, HUD's annual budget was not cut at all; it increased from \$14.9 billion to **\$19.7 billion** between the years 1981 and 1989. In a speech last year to the National League of Cities, Phoenix's Democratic Mayor Terry Goddard, blamed the same alleged budget reduction for the current housing "shortage."³⁹ The National Association of Housing and Redevelopment Officials argues that the U.S. will need an additional 8 million new low-income units by 2000.⁴⁰ These groups understandably insist that the assistance must come from Washington, as few state and local officials want to raise taxes themselves to pay for the housing.

These special interests all seek to discredit vouchers and other consumer-oriented approaches for improving housing. Instead, they want to return housing policy to the days of the costly Federal Housing Administration (FHA)-insured, project-oriented commitments for new construction and rehabilitation. While this has produced good housing, it has helped only a handful of eligible low-income beneficiaries, and at a high taxpayer cost. The FHA programs do nothing for the vast majority of low-income Americans. The government could have subsidized far more units through vouchers – and with much less waste and influence-peddling.

CONCLUSION

By every reasonable set of indicators – demand, supply, and market – America is not suffering a national housing shortage, neither in quantity, quality, or in cost. To be sure, serious cost problems exist, especially on the East and West coasts. Finding a good single-family home at an affordable price in the Boston or Los Angeles areas is far more difficult than finding one of equal quality and space in the Cincinnati or Atlanta areas. Yet problems of affordability, in whatever region or metropolis, are more linked to barriers to supply, like overly strict building codes and exclusionary zoning ordinances that inhibit the housing industry and households from adapting to the market, than to an inherent failure of the market.

The temptation for Congress to devise solutions to a trumpeted but putative housing "crisis" eventually may help create a real one. Proposals in the Senate bill,

38 Quoted in Chris Spolar and Al Kamen, "Thousands March on Mall in Mass Appeal for Affordable Housing," *Washington Post*, October 8, 1989.

39 Quoted in Karen Diegmüller, "Middle America: Priced Out of House and Home," *Washington Times*, March 15, 1989.

40 *Ibid.*

for instance, would increase the federal government's liability for property foreclosures, high as it is already. This may threaten stable growth not only in the housing industry, but in the entire economy.⁴⁴

Only if housing problems are placed in historical and economic perspectives can solutions to them be devised. The task for policy makers is to enact a housing agenda that eliminates the factors that inhibit the market from providing quality affordable housing for all Americans.

On the supply side, localities should discard exclusionary zoning ordinances which prevent new housing from being built; anachronistic building codes that inhibit the adoption of new cost-cutting technologies; and rent control. Even more important, the federal government should adopt fiscal and monetary policies designed to keep taxes and interest rates low. In a recession, housing is one of the industries to suffer most heavily. If housing is seen as an unprofitable investment, then with or without a web of government enforcement or subsidies, potential investment will eventually move elsewhere.

On the demand side, low-income individuals should be given government assistance that gives them the freedom to live in housing of their own choice. To achieve this, housing vouchers (which help the poor) should replace housing projects (which help wealthy builders). Jobs within reasonable commuting distance of the poor's housing must be made as plentiful as possible. The Enterprise Zone approach, for instance, has created many jobs in Maryland, Michigan, and other states, and would be more effective if instituted at the federal level. Conditions in inner-city neighborhoods must be made hospitable to residents for housing investment to be attractive. No neighborhood can flourish when fear of crime is paramount. Hunter College Professor of Urban Affairs Peter Salins, a veteran observer of New York City housing issues, wrote in 1986, "The heart of the contemporary housing problem is that many of the poor live in fairly decent dwellings in rotten neighborhoods, and they have little money left over after they pay their rent."⁴⁵ His comment is as valid today as it was then. Housing policies, therefore, ought to be geared toward enabling the poor to have more money left over after paying rent, and to live in safe neighborhoods of their choice.

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44 Ronald Utt, "Cranston-D'Amato's S.565: Neglecting America's Poor," Heritage Foundation, *Issue Bulletin* No. 152, September 22, 1989, p. 10.

45 Peter D. Salins, "Toward a Permanent Housing Problem," *The Public Interest*, No. 85 (Fall 1986), p. 29.