



Appendix E: Affordable Housing

How is Affordable Housing Defined?

The United States Department of Housing and Urban Development (HUD) defines affordable housing as housing with monthly costs, including utilities other than telephone, that do not exceed 30% of a household's monthly income. Households that spend more than 30% of their income on housing costs are cost burdened, while those that spend more than 50% of their income are severely cost burdened. When renters are paying more than a third of their income to housing, it can make affording other necessities, like healthcare or food, challenging and can prevent households from becoming financially stable.

Who is Low Income?

According to HUD, a low-income family is defined as those families whose incomes do not exceed 80% of the median family income for the area, subject to adjustments for areas with unusually high or low incomes or housing costs.

What is the Difference Between Low Income Housing and Affordable Housing?

Two types of housing are considered government subsidized and low-income housing. These programs are Public and Section 8 housing and both programs are overseen by HUD and subject to their rules and conditions for apartment rentals. Public housing is managed by local housing authorities and is available to renters with low income that meet the criteria of the program. Section 8 housing gives low-income families a voucher that makes up the difference in what they can afford and the actual cost of the apartments for rent that are available to them. Both of these low-income housing options are income-based according to HUD standards. They will vary from county to county, and state to state.

Due to the demand for affordable housing the Low-Income Housing Tax Credit program (LIHTC), was enacted by HUD and has been available since 1997. The measure offers incentives to builders who build, revamp, and rent a percentage of their apartments to those who are eligible for low-income housing. Other programs have helped build and rehabilitate property across the country with block grants. They are dispersed differently in every state and county.

Transitional Housing

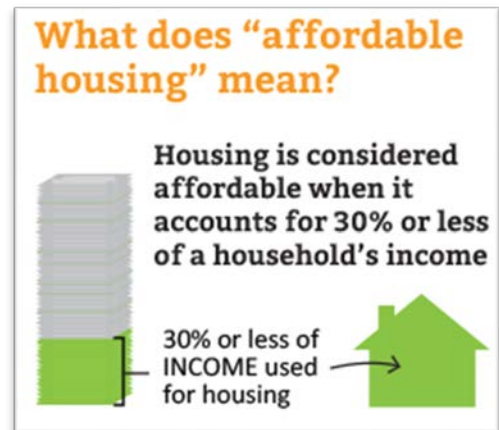
Though it takes many forms, transitional housing broadly refers to temporary housing for different segments of the homeless population or those experiencing a crisis. Certain types of transitional housing might focus on different populations, such as those experiencing domestic violence, mental health challenges, suffering from drug addiction, or experiencing temporary homelessness. Transitional housing intends to equip people with the tools, structure, and support they need to re-enter permanent housing and be successful in their futures.

Transitional housing is intended to bridge the gap from a crisis — such as abuse or homelessness — into permanent housing. Typically, transitional housing is more private than other emergency homeless shelters. Transitional housing's goal is to offer a safe space in which people can process their trauma, work on the issues that led to their homelessness, and build a supportive network that will help them in the future.

State governments, city governments, non-profit organizations, churches, and other charitable groups are common operators of transitional housing facilities.

Causes of Housing Affordability Problems

Some common causes of a lack of housing affordability are identified below.





- Rapid population growth: When the population in an area increases, competition for a limited supply can drive up prices for housing. Even when developers are rapidly building, they often can't build fast enough to meet demand, or the type of housing built does not meet the needs of the community.
- Rising construction costs: There is a high demand for construction labor and materials throughout Washington. This directly increases the costs to develop new housing.
- New housing construction that does not address local needs: Many developers try to build housing that maximizes their profits given local zoning codes and regulations. Building luxury homes may be more cost effective for home builders in an area but it will not solve the affordable housing crisis.
- Lack of living-wage jobs: When the average income of residents is far below what it costs to afford housing in the area, then an important part of the solution for affordable housing may require an economic development component.
- Short-term rentals: Websites like Airbnb or HomeAway have made renting out unoccupied homes lucrative for homeowners, especially in places that have high recreational appeal. This is shrinking the amount of available housing and increasing the cost of long-term rentals in the community.
- Gentrification and displacement: When high demand for homes in an area increases housing costs, low- or middle-income households are often forced or pressured to move to find more affordable housing, thus increasing demand and costs in areas that were once affordable. Gentrification is displacement that changes the cultural and socioeconomic characteristics of a neighborhood. Increased investment in these neighborhoods can displace lower-income residents and prevent them from benefitting from the economic growth and greater access to services. This disproportionately hurts black and Hispanic residents.

Why is Increasing Supply so Central to Affordability?

The law of supply and demand is a basic economic principle that explains the relationship between supply and demand for a good or service, and how that interaction affects the price of that good or service. When there is a high demand for a good or service, its price rises. If there is a large supply of a good or service but not enough demand for it, the price falls. The reason is that people will bid up the prices when there is relative scarcity, and there will be unsold items when there is an oversupply.

The precise values attributed to the supply and demand is not an easy thing to measure in the real estate market. This is partly because it takes a long time to construct new homes or fix up old ones to put back onto the market.

Some of the factors that will influence housing demand include lower interest rates or borrowing costs. When interest rates are low, people are generally willing to take on more debt because they can afford relatively more debt for the same monthly outlay. Put differently, they may be able to finance the purchase of a home because the amount of interest they have to pay is not as burdensome at low rates. As more buyers enter the market, the demand for housing increases in turn. And if there remains a limited supply of housing inventory, prices in a low interest rate environment may rise even more.

Meanwhile, the supply of housing is in a constant state of flux. Inventory may increase when people are moving elsewhere—some may be downsizing, others may try to make more room for an expanding family, and still others may be purchasing their very first home. Similarly, there may be an increase in development and new home construction, adding to the existing inventory.

On the other hand, housing inventory sees decreases during times of natural disasters such as floods and earthquakes, or when existing properties are demolished. Land property is also a finite resource, so the number of new developments is generally limited.

The ongoing housing shortage is large and rising, in part due to the effects of the COVID-19 pandemic. Estimates suggest that the national shortage has increased 52% from 2.5 million in 2018 to 3.8 million in 2020. And given the low mortgage interest rate environment, the high demand, and the need for more space, this shortage is expected to continue into the near future.