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Chart Book: Federal Housing Spending Is Poorly Matched to Need

Tilt Toward Well-Off Homeowners Leaves Struggling Low-Income Renters Without Help

By Will Fischer and Barbara Sard

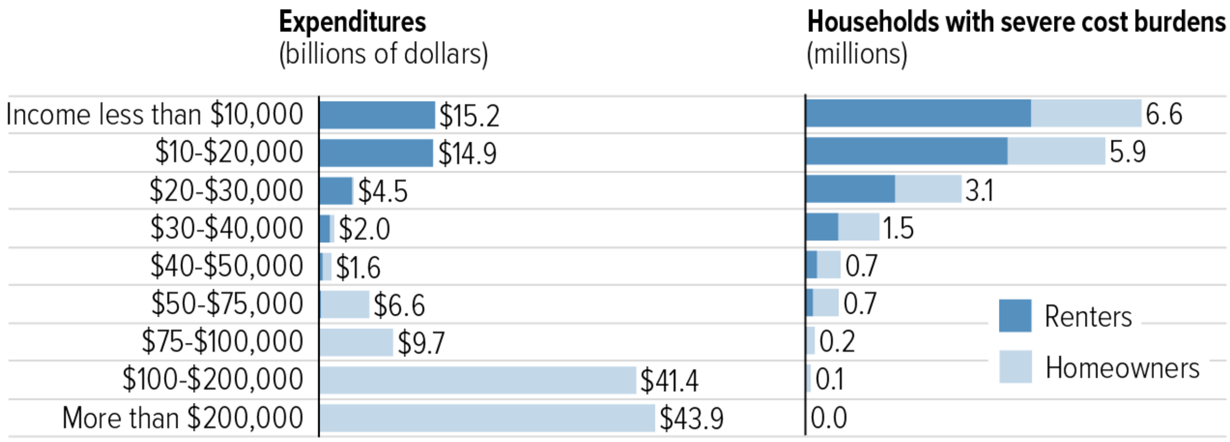
The federal government spent $190 billion in 2015 to help Americans buy or rent homes, but little of that spending went to the families who struggle the most to afford housing. As the charts below show, federal housing expenditures are unbalanced in two respects: they target a disproportionate share of subsidies on higher-income households and they favor homeownership over renting. Lower-income renters are far likelier than homeowners or higher-income renters to pay very high shares of their income for housing and to experience problems such as homelessness, housing instability, and overcrowding. Federal rental assistance is highly effective at helping these vulnerable families, but rental assistance programs are deeply underfunded and as a result reach only about one in four eligible households.

Part I: Federal Housing Spending Disproportionately Targets Higher-Income Households

Federal housing expenditures favor higher-income households. Most homeownership expenditures go to the top fifth of households by income. More than four-fifths of the value of the mortgage interest and property tax deductions goes to households with incomes of more than $100,000, and more than two-fifths goes to families with incomes above $200,000, according to estimates by the congressional Joint Committee on Taxation.

Overall, about 60 percent of federal housing spending for which income data are available (counting both tax expenditures and program spending) benefits households with incomes above $100,000. The 7 million households with incomes of $200,000 or more receive a larger share of such spending than the more than 50 million households with incomes of $50,000 or less, even though lower-income families are far more likely to struggle to afford housing.

Federal Housing Expenditures Poorly Matched to Need



Notes: Data are for 2015. Homeowner expenditures include the mortgage interest and property tax deductions; income figures are for tax filing units. Rental expenditures include total outlays for the Housing Choice Voucher, Section 8 Project-Based, Public Housing, Housing for the Elderly (Section 202), and Housing for People with Disabilities (Section 811) programs; income figures are for households. Data on the income of beneficiaries of various housing expenditures are available only for these programs, which represent about three-fourths of homeownership and rental spending. HUD defines households with severe cost burdens as those paying more than half their income for housing.

Sources: CBPP analysis of HUD program data, Census data on number of households and cost burdens in each income group, Joint Committee on Taxation tax expenditure estimates, and the Office of Management and Budget public budget database

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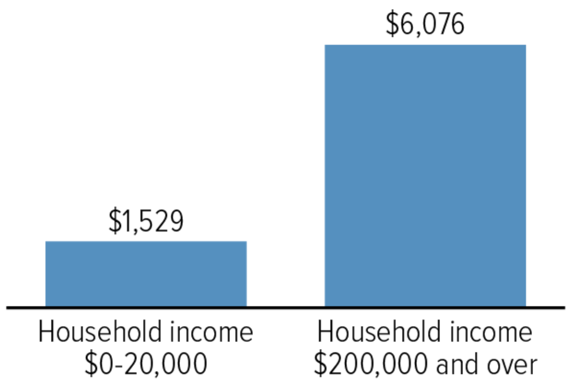
In 2015, the most recent year for which complete data are available, households with incomes of $200,000 or more received an average housing benefit of $6,076 — about four times the average benefit of $1,529 received by households with incomes below $20,000. It is difficult to see the policy purpose served by providing such large benefits to higher-income households, who in most cases could afford to purchase a home without subsidies.

High-Income Households Get Four Times More Housing Benefits Than Low-Income Households

Annual federal housing spending per household



Note: Data are for 2015. Data available for mortgage interest and property tax deductions and Housing Choice Voucher, Section 8 Project-Based, Public Housing, Housing for the Elderly (Section 202), and Housing for People with Disabilities (Section 811) programs. These represent about three-fourths of homeowner and rental spending.

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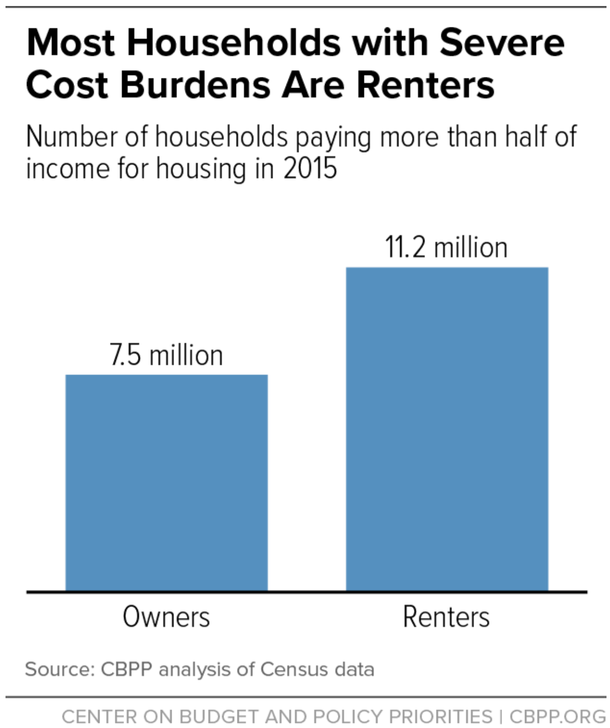
Part II: Federal Housing Policy Favors Owning Over Renting

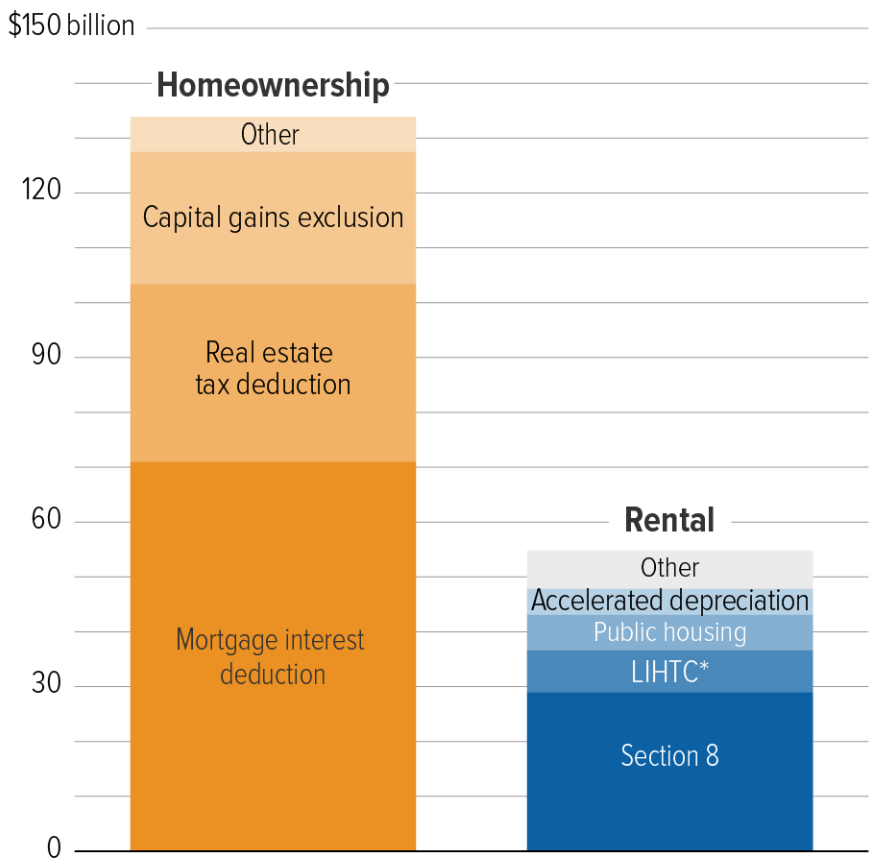
In addition, federal housing expenditures are heavily targeted on homeowners, even though many Americans — and the majority of those with severe housing needs — rent their homes. Renters account for 36 percent of the nation's households and 60 percent of those paying more than half of their income for housing, not including doubled up and homeless families and individuals, who in most cases would rent but lack the means to do so.



Less than 30 percent of federal housing spending in 2015 went to renters, however. Owners received more than 70 percent of federal housing subsidies, despite making up less than two-thirds of all households and just 40 percent of those with severe housing cost burdens.

Most Federal Housing Expenditures Benefit Homeowners

Federal housing expenditures in billions, 2015



*Low-Income Housing Tax Credit

Notes: These numbers do not include approximately $840 million of housing-related spending through the Community Development Block Grant program, of which the majority is for homeownership assistance or rehabilitation of single-family homes. Figures are outlays and tax expenditures for fiscal year 2015. Tax expenditure estimates do not account for interaction effects, such as, for instance, how the use of one tax expenditure affects the use of others.

Sources: Office of Management and Budget public budget database; Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2015-2019.

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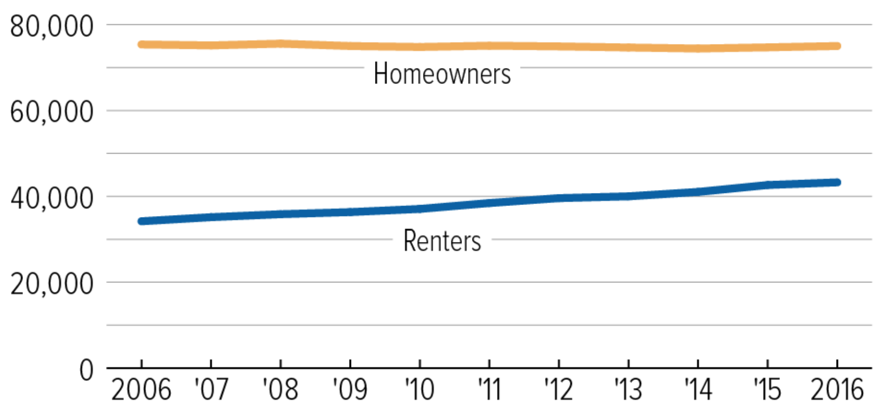
Part III: Housing Needs Among Renters Are Growing

This imbalance has grown in recent years as the number and share of renters who have difficulty affording housing have risen. Since 2006, the number of renter households has grown by nearly 9 million, while the number of homeowner households has remained almost unchanged. As a result, the percentage of households that rent has grown by six percentage points, the most rapid such surge in more than 50 years. Demographic and economic trends make a reversal of this trend in the next several decades unlikely, and there is a good chance the renter share of the population will continue to grow.

Share of Households Renting Their Homes Has Grown Over Past Decade

Number of homeowners and renters, 2006 -2016



Source: Current Population Survey/Housing Vacancy Survey

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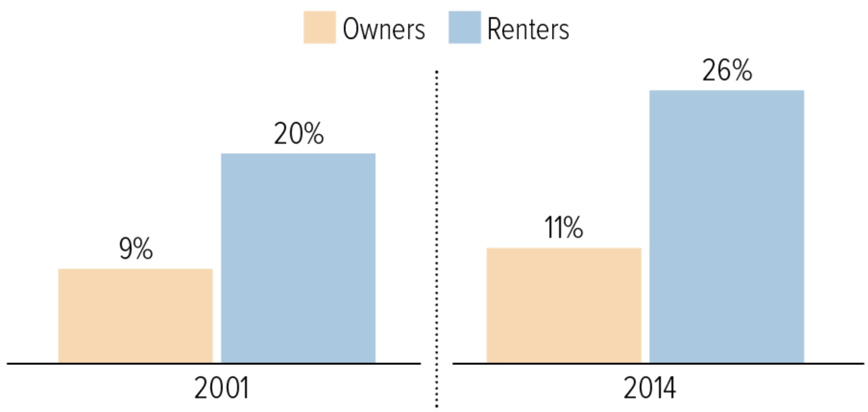
The share of families struggling to afford housing has grown in recent years among both owners and renters, but the increase among renters has been much larger. In 2001, renters were already more than twice as likely as owners to pay more than half their income for housing. By 2014, this gap had widened considerably. Among lower-income households, renters are more likely than homeowners to have very high cost burdens, and this gap has grown over time.

Severe Affordability Problems Have Grown More Rapidly Among Renters than Among Owners

Percent of households with severe housing cost burdens



Note: Households are severely cost burdened if they pay more than half their income for housing.

Source: Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing," June 2016, Table A-2

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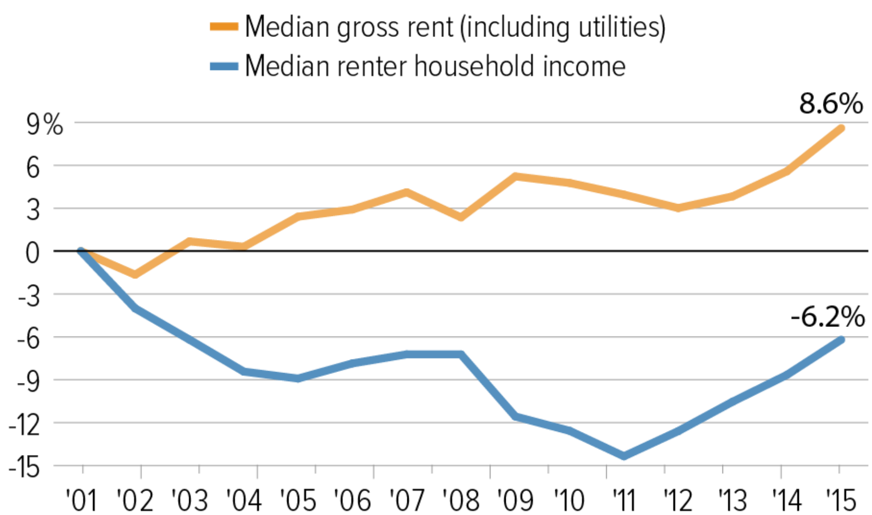
The growth in rental affordability problems reflects a rising gap between rents and incomes. Median renter household income fell sharply during the 2001 and 2007-2009 recessions and has only partly recovered. Rents, on the other hand, stagnated briefly during the downturns but are now growing substantially faster than overall inflation.

Renters' Incomes Haven't Kept Pace With Housing Costs

Percent change since 2001, adjusted for inflation



Note: Includes households with zero rent who pay utilities.
Source: CBPP analysis of the Census Bureau's American Community Survey PUMS data.

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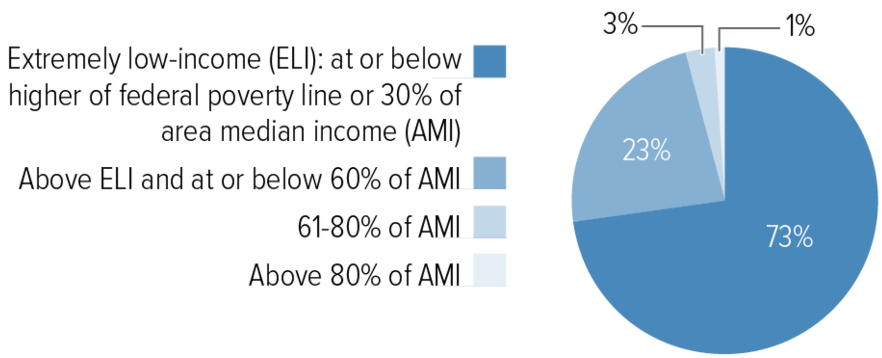
Part IV: Poor Renters Have Greatest Need for Housing Assistance

Among renters, high housing cost burdens are heavily concentrated among the lowest-income families. A large majority of renter households that pay more than half of their income for housing costs have what the federal government terms "extremely low incomes," meaning their incomes are at or below the higher of the federal poverty line or 30 percent of the local median income. Only 4 percent of renters with severe burdens have incomes above 60 percent of median. The lowest-income households are also more likely to experience other serious housing problems, including severely inadequate housing, overcrowding, homelessness, and frequent moves.

Most Severely Cost-Burdened Renters Are Extremely Low-Income

Renter households paying more than half of income for housing in 2015, by HUD income category



Note: AMI is determined by the Department of Housing and Urban Development (HUD) for families of various sizes in each metropolitan area and rural county.

Source: CBPP analysis of the 2015 American Community Survey using HUD AMI limits for fiscal year 2015

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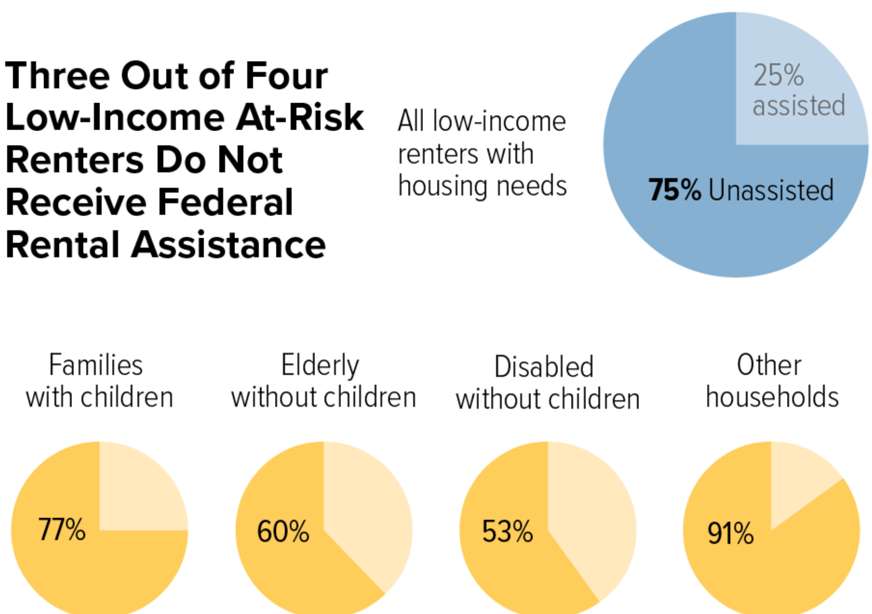
Part V: Federal Rental Assistance Helps the Lowest-Income People Afford Housing but Funding Limitations Keep It from Reaching Most Families in Need

Federal rental assistance programs such as Housing Choice Vouchers, Section 8 Project-Based Rental Assistance, and public housing help more than 5 million of the neediest low-income households afford housing. About 70 percent of these households have incomes below 30 percent of median income, and most are elderly people, people with disabilities, and working poor families with children.

Rental assistance programs are highly effective in assisting the poorest families. For example, housing vouchers have been shown to sharply reduce homelessness and housing instability among families with children. Vouchers provided to homeless families also cut foster care placements (which are often triggered by parents' inability to afford suitable housing) by more than half, greatly reduced moves from one school to another, and cut rates of alcohol dependence, psychological distress, and domestic violence victimization among the adults with whom the children lived.

Due to funding limitations, however, rental assistance programs reach only a fraction of needy renters. Only about one in four low-income families eligible for rental assistance receives it, and waiting lists for assistance are long in most parts of the country.

Three Out of Four Low-Income At-Risk Renters Do Not Receive Federal Rental Assistance



Note: Low-income renters are considered "at-risk" if they pay more than 30 percent of their monthly income for housing and/or live in overcrowded or substandard housing. Households are considered low-income if they earn 80 percent or less of the local median income.

Source: CBPP analysis of the 2013 American Housing Survey; 2015 HUD administrative data; FY2015 McKinney-Vento Permanent Supportive Housing bed counts; 2015-2016 Housing Opportunities for Persons with AIDS grantee performance profiles; and the USDA FY2015 Multi-Family Fair Housing Occupancy Report.

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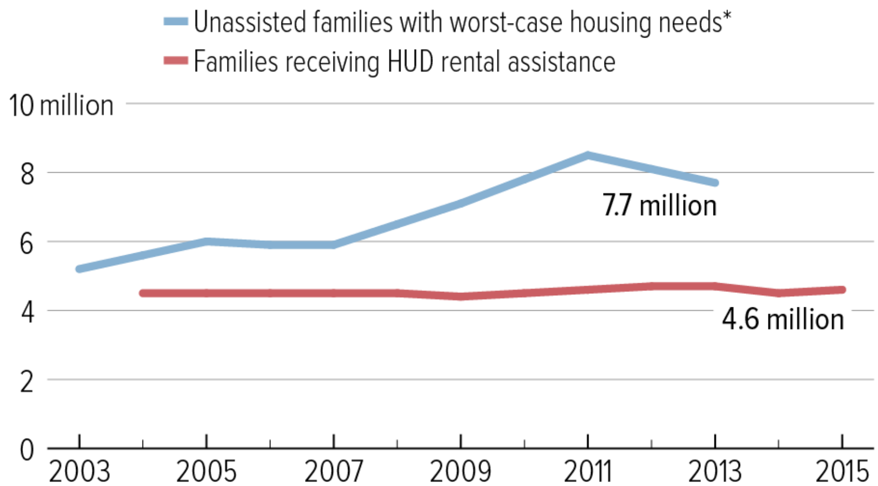
The shortfall in rental assistance has increased significantly over the last decade, as the number of families struggling to afford rental costs has grown, but the number of families receiving rental assistance has not kept pace.

Federal Rental Assistance Has Not Kept Pace with Growing Need



*HUD defines families with 'worst-case housing needs' as renters who have incomes below half of the local median, receive no housing assistance, and either pay more than half of their income for rent and utilities or live in severely substandard housing or both. Data on worst case housing needs are only available through 2013 and data on the number of assisted families are not available for 2003. Rental assistance includes all Department of Housing and Urban Development programs with subsidies whose value varies based on the tenant's income except Housing Opportunities for People with AIDS/HIV and McKinney-Vento permanent housing.

Source: HUD's Worst Case Needs 2013 report and Picture of Subsidized Households data

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That means that federal government spending makes up a sizable share of all money spent in the United States each year. So, where does all that money go?Â When the federal government spends money on mandatory and discretionary programs, the U.S. Treasury writes a check to pay the program costs. But there is another type of federal spending that operates a little differently. Lawmakers have written hundreds of tax breaks into the federal tax code - for instance, special low tax rates on capital gains, and a deduction for home mortgage interest - in order to promote certain activities they deem beneficial to society. In fact, tax breaks function as a type of government spending, and they are officially called "tax expenditures" within th 2016. "Chart Book: Federal Housing Spending is Poorly Matched to Need." Center on Budget and Policy Priorities, June 8, http://www.cbpp.org/research/ housing/chart-book-federal-housing-spending-ispoorly-matched-to-need. The Garden Suburb and the New Urbanism In From Garden City to Green City: The Legacy of Ebenezer Howard. Jan 2002.Â Families using the Housing Choice Voucher Program rarely experience large gains in neighborhood or school quality when compared with unassisted poor renters. Research on housing mobility programs has reached mixed conclusions about whether vouchers can improve neighborhood and school quality, especially in the long term.