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THE AFFORDABLE HOUSING MARKET AND WHY IT MATTERS

Authors: John Marron, AICP; Timothy Gondola; Kirstin Oaldon

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The Polis Center

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Executive Summary

Indianapolis is routinely recognized as one of the more affordable regional housing markets among major metropolitan areas throughout the nation. *Forbes* ranks the city high for home affordability for young professionals and Millennials. The cost of housing in the Indianapolis metropolitan area ranks 33rd among the 100 largest metropolitan areas. When housing costs are considered relative to household incomes, Central Indiana fares even better, ranking 23rd. It is this combination of affordable housing and relatively high wages that led Trulia, a national real estate research site, to name Indianapolis as the 'dream city' for Millennials.[1]

At the same time, this relative affordability lies within the eye of the beholder. While Indianapolis measures among the more affordable of major metro areas, it fares relatively poorly in income inequality, ranking 64th among the 100 largest metros. In a study of upward intergenerational mobility, examining the likelihood of one's children achieving wealth from an impoverished childhood, Indianapolis ranked 47th out of the 50 largest regions in the US.[2] To many low- and moderate-income households, the housing of their choice may be out reach.

The regional housing market is embedded within the broader regional economy. While the growth of Central Indiana's economy is generating additional opportunities, new wealth, and increasing incomes, it can also result in increased demand for housing units and limit housing opportunities for low- and moderate-income families. As demand increases in the home-buying and rental markets, new units (increased supply) take time to come into service and prices increase in the interim. These challenges are realized in both the home-buyer and the rental markets located in the core city and in the suburbs.
Low- and moderate-income families with credit issues may find their access to suitable housing opportunities even further limited. Low- and moderate-income families may face the dual challenge of having trouble finding an adequate home while paying more for a home that does not fully meet their needs.

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[1]See coverage from *Forbes* (http://www.forbes.com/sites/erincarlyle/2016/03/28/americas-20-best-cities-for-young-professionals-in-2016/#7190c5497f2b), *Bloomberg (http://www.bloomberg.com/news/articles/2015-06-08/these-are-the-13-cities-where-millennials-can-t-afford-a-home)*, and coverage of the Trulia report (http://www.nbcnews.com/business/consumer/millennials-meet-indianapolis-your-new-dream-city-n623021)
[2]Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States. (http://www.equality-of-opportunity.org/images/mobility_geo.pdf)

Housing cost-burden—paying more than 30 percent of one's income on housing-related costs—disproportionately impacts lower income families. In turn, these families have considerably fewer resources available to invest in their futures, save for retirement, spend on their children's educations, start a business, etc. In that way, housing affordability can contribute to keeping families in poverty and, over the long term, contribute to intergenerational poverty.

Because housing affordability is measured by the cost of housing relative to income, solutions to make housing more affordable should include solutions oriented toward promoting the development of affordable housing as well as increasing the earning potential of low- and moderate-income families. Making housing cheaper allows households to afford housing; raising incomes allows households to better afford everything.

Targeting available housing subsidies to complement other investments can result in an impact greater than an investment in housing alone. Reducing regulatory restrictions on multifamily housing development, streamlining processes to bring new units online, and developing deeper pools of capital to support housing development can help match increased supply with increased demand, keeping rent prices more affordable. Directing resources for neighborhood revitalization (and abating vacant housing) also provides new home owning and renting opportunities, which helps to meet the demand for more units.

Accessing responsible conventional mortgages, improving financial literacy, and rehabilitating credit can help individual families and households access homeownership when they otherwise might not be able to. Coordinating housing efforts with broader strategies that equip individuals with relevant and marketable skills and higher earnings is a comprehensive approach to community service and community development. Setting a course for growing Central Indiana's economy—and positioning housing strategies alongside those goals—is likely to have a greater impact on families than examining housing strategies on their own.

Introduction

Housing is a central component of most people's lives. It is one of the largest expenses for most families, contributing to—or detracting from—one's financial health, and in some cases, mental health. Over time, housing can serve as a vehicle for building wealth; however, if not properly planned and budgeted, it can create challenges and diminish future opportunities for wealth-building.

When housing for families is stable, it can promote positive educational outcomes among youth; when a family experiences serial moves, especially those that stem from foreclosure or other distresses, it can negatively impact educational outcomes among youth.

Homes that contain lead paint may have that paint contained and pose no issue to the inhabitants; however, if left uncontained or disturbed, it can have a debilitating effect on inhabitants of the home, especially youth. In short, housing is more than just a place where we sleep or the primary land use of our neighborhood; it is a foundation around which we build our lives.

Numerous studies discuss housing and how positive or negative living situations can impact social, economic, academic, and health-related outcomes.[3] These studies informed national policies that have led to requirements stating that housing be safe, decent, and affordable. This is the standard set within programs administered by the US Department of Housing and Urban Development (HUD), and it is the standard that many affordable housing developers and advocates promote as the threshold for their efforts.

When placed alongside safety and decency, affordability generally does not attract a great deal of attention. However, removed from that context, *affordable housing* often assumes connotations far beyond that limited definition, conjuring images of large-scale public housing projects such as Pruitt-Igoe in St. Louis, Cabrini Green and Robert Taylor homes in Chicago, or even smaller projects like the Phoenix Apartments in Indianapolis.

Part of this reaction is the blurring of definitions between *affordable housing* and *subsidized housing*. Beyond that, negative responses may further be based on an outmoded perception of subsidized housing.

In this report, we will define both terms and explore the drivers and interrelatedness of each. We also will look at general policy challenges in creating adequate affordable housing and the reason why it is a relevant policy goal, especially for low-income families.

In addition, we will provide a brief examination of policy options for local governments and civic leaders who have an interest in local and regional housing policy. All of this discussion will be placed

[3] See bibliography in http://www.indyhabitat.org/images/uploads/Impact_Study_Final.pdf

alongside relevant data for Central Indiana, Marion County, and Indianapolis; these data often will be drawn from the SAVI community information system, developed and maintained by the Polis Center at IUPUI.

Affordable Housing and Subsidized Housing

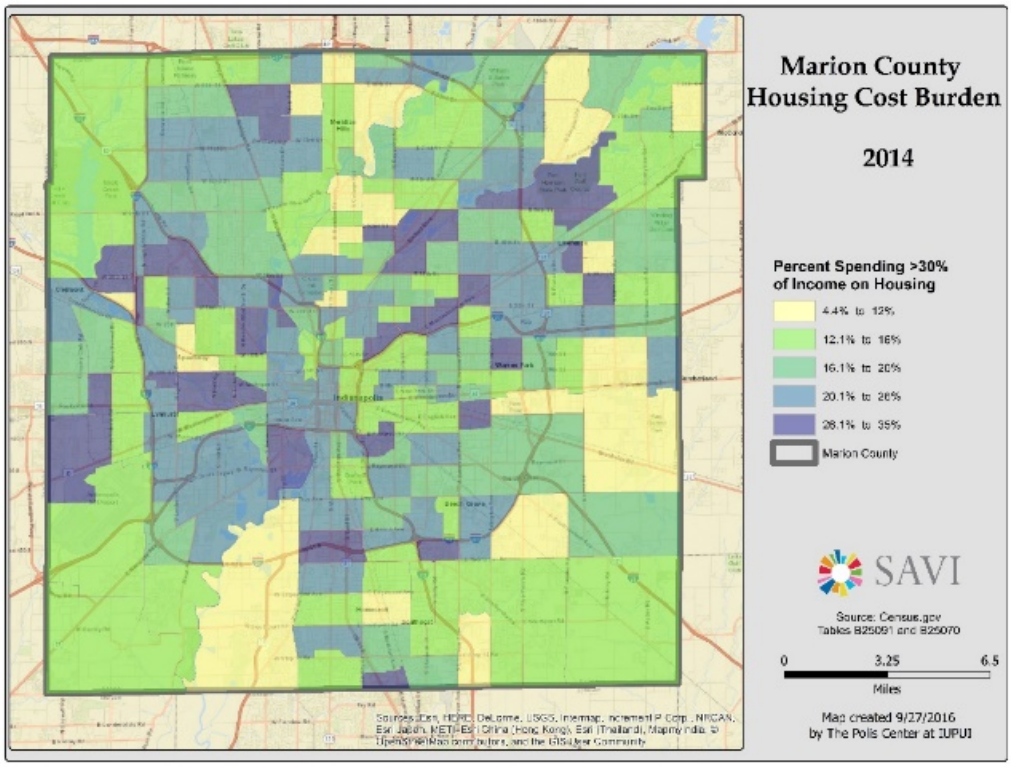
Definitions

Affordable housing is defined as housing that is within the means of the householder and his or her family; by definition, what is affordable varies from individual to individual and family to family. There are differing opinions on the threshold at which housing becomes affordable. Prior to the 2007-09 recession, purchasing a home three times a household's gross annual salary was often cited, perhaps misguidedly, as a reasonable assumption.

More nuanced approaches sought to examine debt-income ratios, with one common measure being the 28/36 rule, which states that you can spend up to 28 percent of your gross income on total housing expenses and should spend no more than 36 percent on total debt service. For the purposes of reporting by the US Census Bureau, *cost-burdened* families are defined as those spending more than 30 percent of household income on housing related expenses; households spending more than 50 percent are considered to be *severely cost-burdened*.

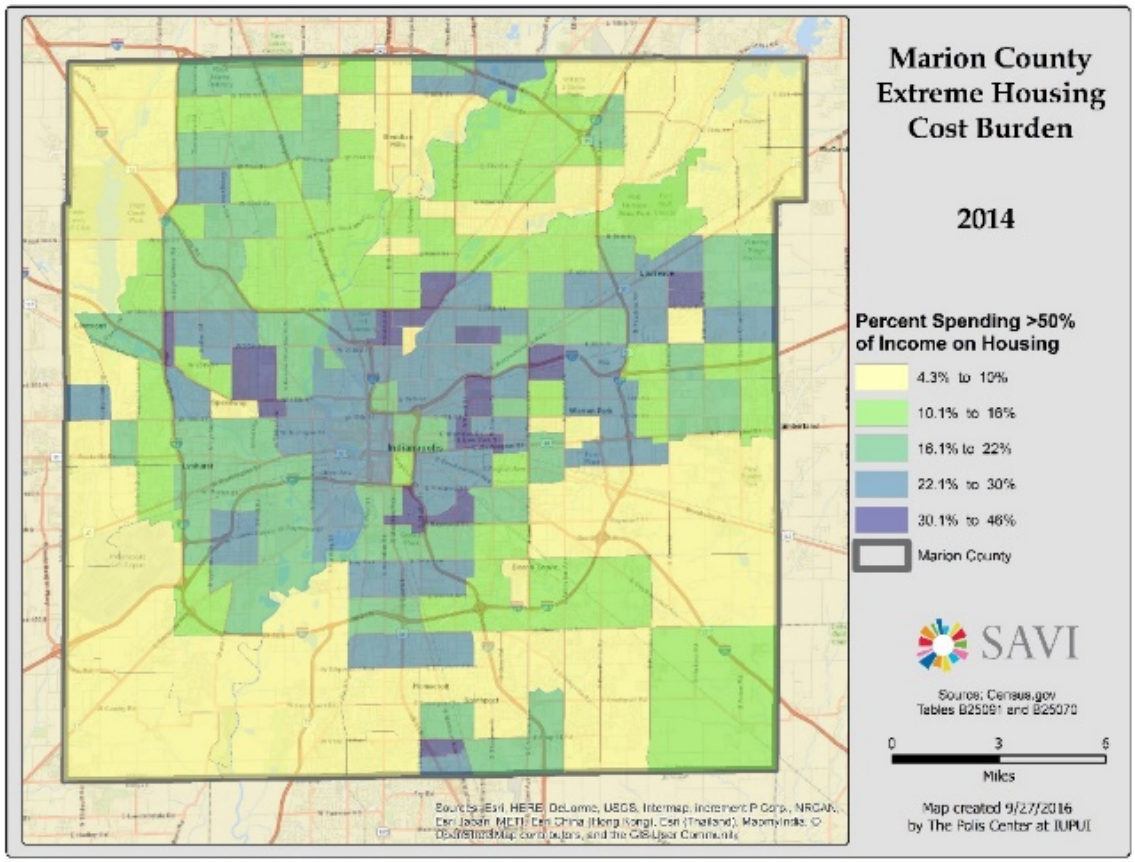
Figure 1 and Figure 2 examine the percent of households in Marion County experiencing a housing cost-burden and a severe cost-burden, respectively.

Figure 1. Housing Cost Burden (2014)



Source: Census.gov

Figure 2. Extreme Cost Burden (2014)



Source: Census.gov

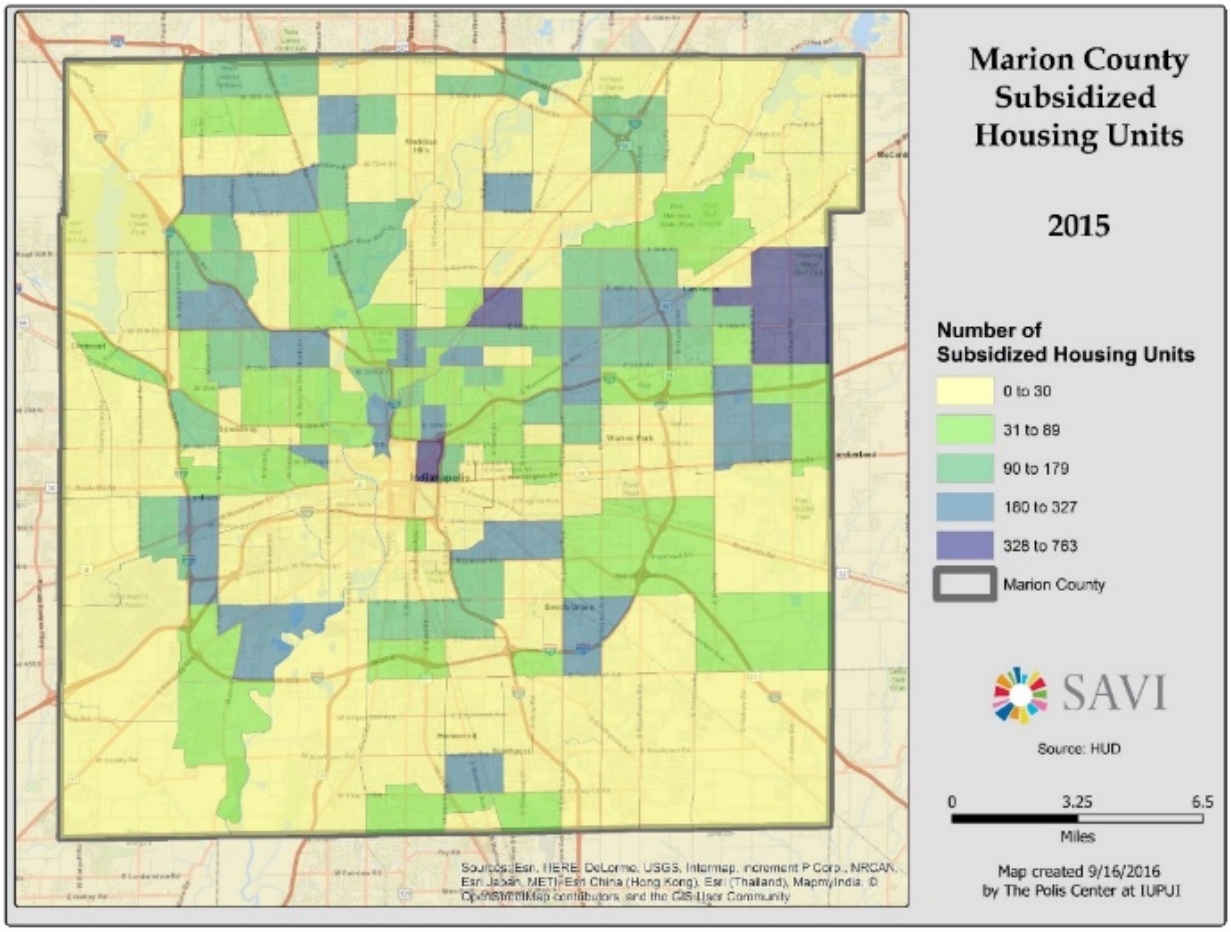
Cost-burden is a reality that many families face throughout Indianapolis and Marion County. It is not limited to the old city limits, Center Township, or other areas in which the city has traditionally directed its housing subsidies (see Figure 3, page 7). To some degree, this is a reflection of a national trend toward a geographic dispersion of poverty and housing concerns to areas where there are fewer institutions to provide needed support and services[4]

Subsidized housing refers to any home that has a government subsidy benefiting the developer, owner, tenant, or other party with financial interest in the housing unit.[4] These subsidies are generally derived from federal resources provided to state and local governments, public housing authorities, and other entities to support the development and availability of affordable housing for low- and moderate-income families.

Low- and *moderate-income families* are defined as those earning less than 80 percent and 120 percent of area median income ($53,360 and $80,400, respectively, for the Indianapolis-Carmel MSA in FY2016).

[4]There is a wide recognition in the housing and economics literature that the mortgage interest deduction is a form of subsidy from which homeowners benefit. Because it is a subsidy administered through the tax code rather than a subsidy administered through state and local government, the mortgage interest deduction is not included in the discussion of housing subsidies throughout this report.

Figure 3. Subsidized Housing (2015)



Source: HUD

Housing subsidies in Indianapolis may take several forms. They may be provided to a nonprofit or private housing developer to offset the market gap in the development of an affordable rental property. They may provide resources to a community-based development organization or community development corporation to rehabilitate properties to provide rental or affordable homeownership opportunities. They may be layered in with other forms of financing to create mixed-use developments.

In any case, when these subsidies are utilized, the subsidies trigger *affordability limits*, which require the owner of a rental unit or a homeowner receiving assistance agrees to certain restrictions in order to ensure the continued affordability of those units for a predetermined time period.

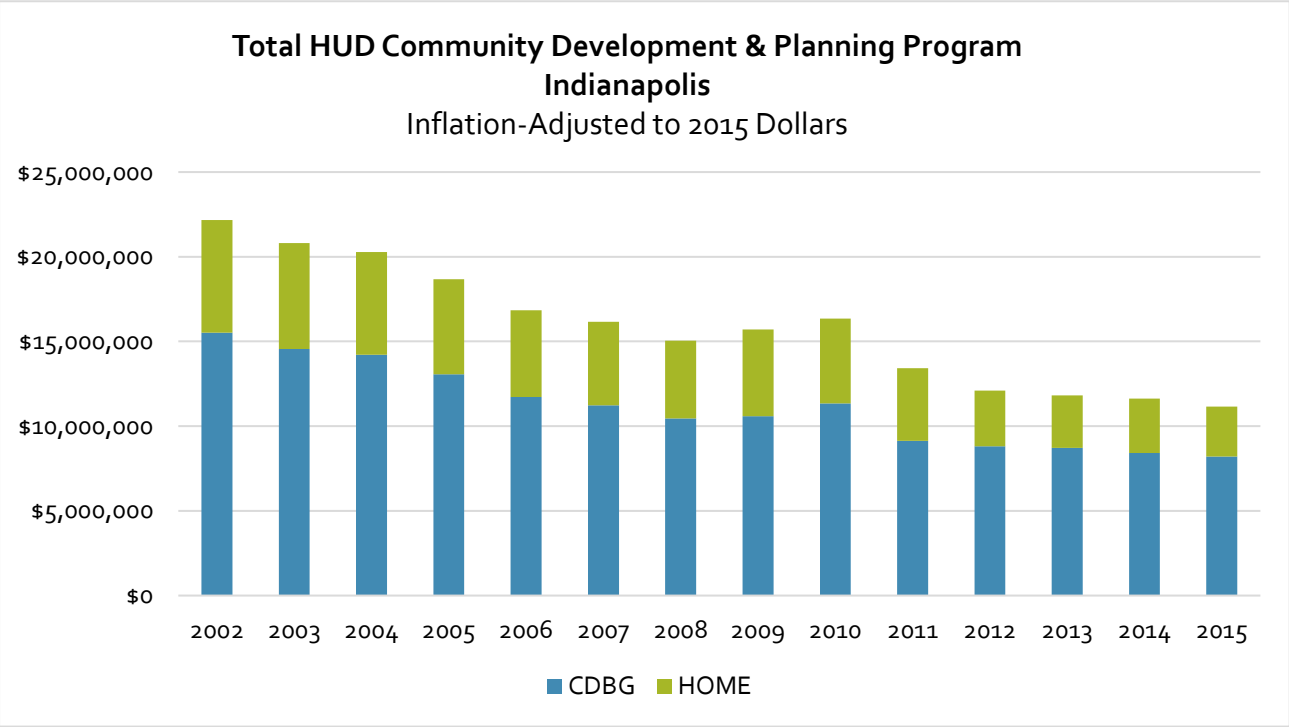
In Indianapolis, as in many other cities, community development corporations have often been a key source of the development or preservation of subsidized housing.

Funding Sources of Subsidized Housing

HUD provides resources through its Community Planning and Development Program (CPD) to state and local governments through the Community Development Block Grant Program (CDBG), the HOME Investments Partnerships Program (HOME), and other programs.

These programs generally support project-based investments that are tied to a particular property rather than to individuals (although there are some exceptions). CDBG – the larger of the two CPD programs – may also be utilized for many other applications beyond housing. The local governments of historically larger communities, such as Indianapolis and Anderson, receive direct allocations from HUD for both programs, while the state (Indiana Housing and Community Development Authority) receives an allocation from HUD for which smaller communities must compete. These allocations from HUD directly to state and local governments have eroded considerably over time (Figure 4).

Figure 4. HUD CPD Funds: Indianapolis (2002-Present)



Source: US Department of Housing and Urban Development (2016)

HUD also provides resources to local public housing authorities, such as the Indianapolis Housing Authority, through programs that provide project-based and tenant-based assistance. These resources may be used to support the development or redevelopment of individual housing projects, or they may be used by individual families to make up the difference between 30 percent of their income and a HUD-established fair market rent with participating landlords.

The US Treasury also serves as a major source of federal subsidy to support the development of high-quality affordable housing for low-income households through the Low Income Housing Tax Credit program. This program allows investors in low-income housing projects to offset their income tax burden through a qualified investment in the development of low-income housing; the owner/investor agrees to keep rents affordable for a thirty-year period, thereby creating and preserving affordable housing. The Indiana Housing and Community Development Authority administers this program throughout the State of Indiana.

Drivers of Affordable Housing

Supply: Housing affordability is greatly shaped by larger economic forces in a metropolitan area. Put simply, there's a reason New York, San Francisco, and Boston are incredibly expensive places to live, whereas places like Flint (MI), Youngstown (OH), and Scranton (PA) have much lower housing costs. The broader economy attracts capital (human and monetary) from outside the region and increases demand for quality housing, which pushes up prices.

A tight housing market is often a sign of a robust economy. Over the long term it may be better to be house-poor in an economically strong region than slightly more house-secure in a weak region because there is more opportunity to progress in the stronger economic region;

New York, San Francisco, and Boston are incredibly expensive places to live because their economies attract human and financial capital from outside the region and increase demand for quality housing, thereby pushing up prices. A tight housing market is often a sign of a robust economy.

in other words, a barista in San Francisco is likely to have more future opportunities than one in an underperforming economy.[5]

Prices can be further pushed up by zoning and other building restrictions when they artificially keep supply from reaching equilibrium with demand. (e.g., Washington, DC's building height restriction which prohibits any buildings taller than the US Capitol as well as other restrictions on height). While it may be argued that this regulation has merit for any number of reasons, from an economics standpoint it limits supply thereby increasing prices for the housing units that do exist. Minimum lot sizes and restrictions on multifamily housing, duplexes, and accessory dwelling units (e.g., an apartment above a garage) have the same effect of restricting supply.[6]

Demand: From a demand perspective, a home-seeker's poor credit and/or the inability to consolidate enough capital to make a down payment on a mortgage or a security deposit on an apartment can be a barrier entering the market. Further, demand among those of greater means can result in reduced supply of affordable units and higher prices, diminishing the ability of those of lesser means to participate in the housing market at a price that would represent an optimal outcome for them. This reality may result in home-seekers being forced into trade-offs related to housing quality, location, school quality, neighborhood safety, commute times, proximity to amenities, and other considerations.

Drivers of Subsidized Housing

The drivers of subsidized housing are mostly political in nature. As a policy tool, the US Congress decides funding levels for these subsidies, which are then distributed to states and local governments through an established formula. The amount available for subsidies is driven by national politics and national macro-economic issues.

At the state and local level, these resources are administered and distributed by departments within these governmental entities and can be used to serve many purposes. Generally, these resources must be used to support a low- or moderate-income areas, low- and moderate-income individuals, or places that have formally been designated as blighted. The HOME program must be used to support low-income housing, but it may serve several ends. In a rapidly-accelerating neighborhood market, it may preserve affordability; whereas in a market with little activity, it may seek to ignite the market. In declining neighborhoods, it may be used to help stabilize the area.

[5] See Enrico Moretti, *The New Geography of Jobs* (published 2012)

[6] See *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Healthier, and Happier* by Edward Glaeser (2011)

It may also go to replacing critical systems in existing low-income housing. It can even go to tenant-based rental assistance or down payment assistance, in which individual low-income families use it to offset the cost of their rent or down payment on a home.

Interdependence Between Affordable and Subsidized Housing

Subsidized housing is meant to correct for market inefficiencies in the housing market. For individuals, it helps address the gap between their income and a fair market rent; for neighborhoods, it can counter the effects of disinvestment to revive a functioning market. Nevertheless, subsidized housing has shortcomings as a policy tool. The goals of individual assistance and neighborhood revitalization can work at cross-purposes.

If the goal is to provide families with safe, decent, and affordable housing, at best those resources will be focused on where individual families choose to live and have little concentrated impact on any given neighborhood.

At the same time, resources invested in creating a robust housing market could result in the displacement of other families if rents accelerate past an individual family's ability to pay (a process commonly referred to as *gentrification*).[7]

Because these tools are tied to national politics and the national economy, they can be subject to cuts by Congress, often at a time when they may be most needed. During recessions, when people are most likely in need of housing assistance and local governments are most likely in need of financial support, Congress may be motivated to reduce spending on these programs to reduce its deficit.

From the perspective of generally addressing affordability issues within regions, housing subsidies are simply inadequate to widely impacting the regional housing market. There is not, and is unlikely to ever be, enough housing subsidy to make meaningful amounts of affordable housing available to all low- and moderate-income families.

Even if there were enough subsidies to achieve that goal, there may be powerful reasons not to do so. A considerable amount of wealth in a region is reflected in real estate. Reducing the value of residential real estate throughout the area would substantially reduce its wealth (as households' most valuable assets erode), and a majority of homeowners would have mortgages for homes that were suddenly worth less than the amount they owed.

While housing subsidies are not a useful tool for broadly addressing supply or demand issues in a way that impacts a region's affordability, subsidies may make a

[7] In existing research, there is no commonly recognized definition or threshold for gentrification, and there is disagreement about how acute of an issue gentrification is.

meaningful difference in an individual family's ability to become self-sufficient. Exercised in concert with the market and other programs, it can help those families at the same time it leverages private reinvestment in a disadvantaged neighborhood without imperiling the livelihood of existing families.

Affordability: Nuts and Bolts

Indianapolis is recognized as having relatively affordable housing costs, ranking 33rd out of the 100 largest metropolitan areas. When those housing costs are considered relative to incomes, the Indianapolis metropolitan area fares even better, ranking 23rd among the 100 largest metros (Figures 5 and 6)

While Indianapolis compares favorably to other regions, these regional averages miss some nuance relating to the experience of low- and moderate-income families. Indianapolis does not fare as well on measures of income inequality, ranking 64th among the 100 largest metropolitan areas.[8]

Figures 5 and 6. Weighted Monthly Housing Costs and Weighted Costs* as a Percentage of Median Household Income by Metro Area

Rank	Metro Area	Monthly Costs
1	McAllen, TX	$673
2	Youngstown, OH	$710
3	El Paso, TX	$785
4	Winston-Salem, NC	$787
5	Greenville, SC	$795
33	**Indianapolis**	**$934**
96	Oxnard-Ventura, CA	$1,778
97	Washington, DC	$1,782
98	San Francisco, CA	$1,905
99	Bridgeport, CT	$1,950
100	San Jose, CA	$2,108

Rank	Metro Area	Percent of Income
1	Ogden, UT	19.2%
2	Grand Rapids, MI	19.2%
3	Pittsburgh, PA	19.4%
4	Des Moines, IA	19.5%
5	Baton Rouge, LA	19.6%
23	**Indianapolis**	**20.6%**
96	Riverside, CA	27.6%
97	San Diego, CA	28.9%
98	Miami,FL	29.2%
99	New York, NY	29.5%
100	Los Angeles, CA	30.5%

Source: US Census: American Community Survey 2015, 1-year estimates
*Median housing costs, weighted by tenure

[8] GINI coefficients of income inequality US Census: ACS 2015, 1-year estimates

Families and households with high incomes may have flexibility in determining whether they prefer to buy or rent their homes, where they want to live, what amenities they want to live near, choice between sources of financing, and the ability to save through purchasing less housing than they can afford. On the other hand, low-income families have little of that flexibility and may have their choices further limited by the consumption patterns of those with higher incomes.

The decision of a particular family to rent or purchase their housing relates to the broader market and their individual situation but is also tied to the economy beyond the housing market.

To Buy or Rent?

The decision of a particular family to rent or purchase their housing relies on many factors that relate to the broader market and their individual situations. These wide-ranging market-based factors are tied to the economy (beyond the housing market) as well as macro-drivers of housing supply and demand, which includes current interest rates and lending practices.

Individual factors include a family's current savings, current and projected earnings, the length of time the family plans to stay in one place, and costs beyond the mortgage or monthly rent (e.g., property taxes and homeowners association dues for homeowners, and security deposits or maintenance fees for renters), as well as other factors.

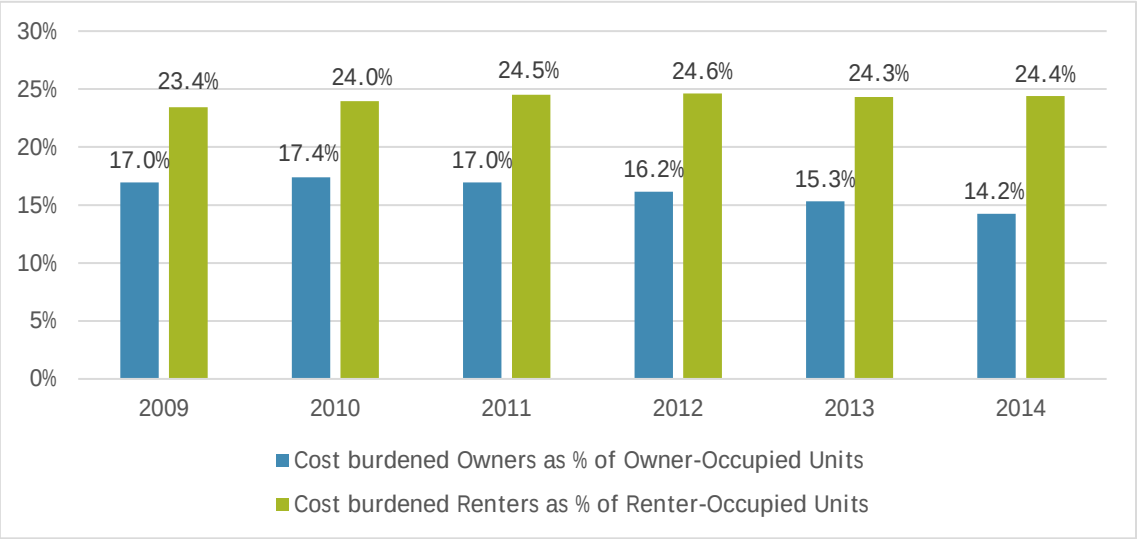
Economic data and realities can offer guidance at the regional level on whether a family is better off buying or renting. Trulia, a subsidiary of Zillow that provides local and regional data related to housing decisions, conducted a comparative analysis of major metropolitan areas that compared whether any individual region is better for buying or renting relative to other regions throughout the nation.

For the Indianapolis metro area, the report found that it was 40 percent cheaper for the average person to buy a home than it would be to rent; among the 100 largest metro areas, Indianapolis ranked 15th in the nation for the distance between buying versus renting (meaning homeownership, relative to renting, provides more benefit to the owner in Indianapolis than it does in 84 of the 100 largest cities).[9]

While the actual benefits and costs will vary from person to person and family to family, homeownership in Central Indiana is likely to be a better value than homeownership in many other metropolitan areas.

In Indianapolis, and throughout the country, renters tend to be more cost-burdened than homeowners (Figure 7). This does not imply a causal relationship between the two, and these figures are sensitive to income more than tenure (whether you rent or own). Nevertheless, there may be advantages to owning relative to renting over the long term.

Figure 7. Housing Cost Burden by Tenure



Source: SAVI Community Information System, www.savi.org

[9] The analysis skews toward favoring homeownership; also, the analysis is based on regional averages, which, as discussed is likely to vary widely from family to family. The analysis is more illustrative in placing the Indianapolis Metropolitan Statistical Area (MSA) within the broader national context.

The Value of Tenure over Time

Considering the value of homeownership relative to renting, the longer a family plans to stay in one place, the more the value of homeownership is realized. If a family is only planning on staying in one place a short time, transaction fees associated with buying and selling are likely to outweigh the value of owning (the break-even point will vary due to several factors).

If one is planning to remain in one place over the long term, the marginal costs of those transactions will become diminished as values are realized. One of the primary ways in which these values are realized is through the constancy of housing costs secured by a mortgage relative to the annual market-based adjustment of housing costs in the rental market. For a person in Marion County who purchased a home in 2005 with a conventional mortgage, their mortgage costs are much the same today as they were in that first year (a median of $1,079 for mortgage and additional housing costs, per the American Community Survey); for someone who rented at the median rent each year during that same time, their monthly housing costs would have increased 23.8 percent over that same period of time (Figure 8).[10]

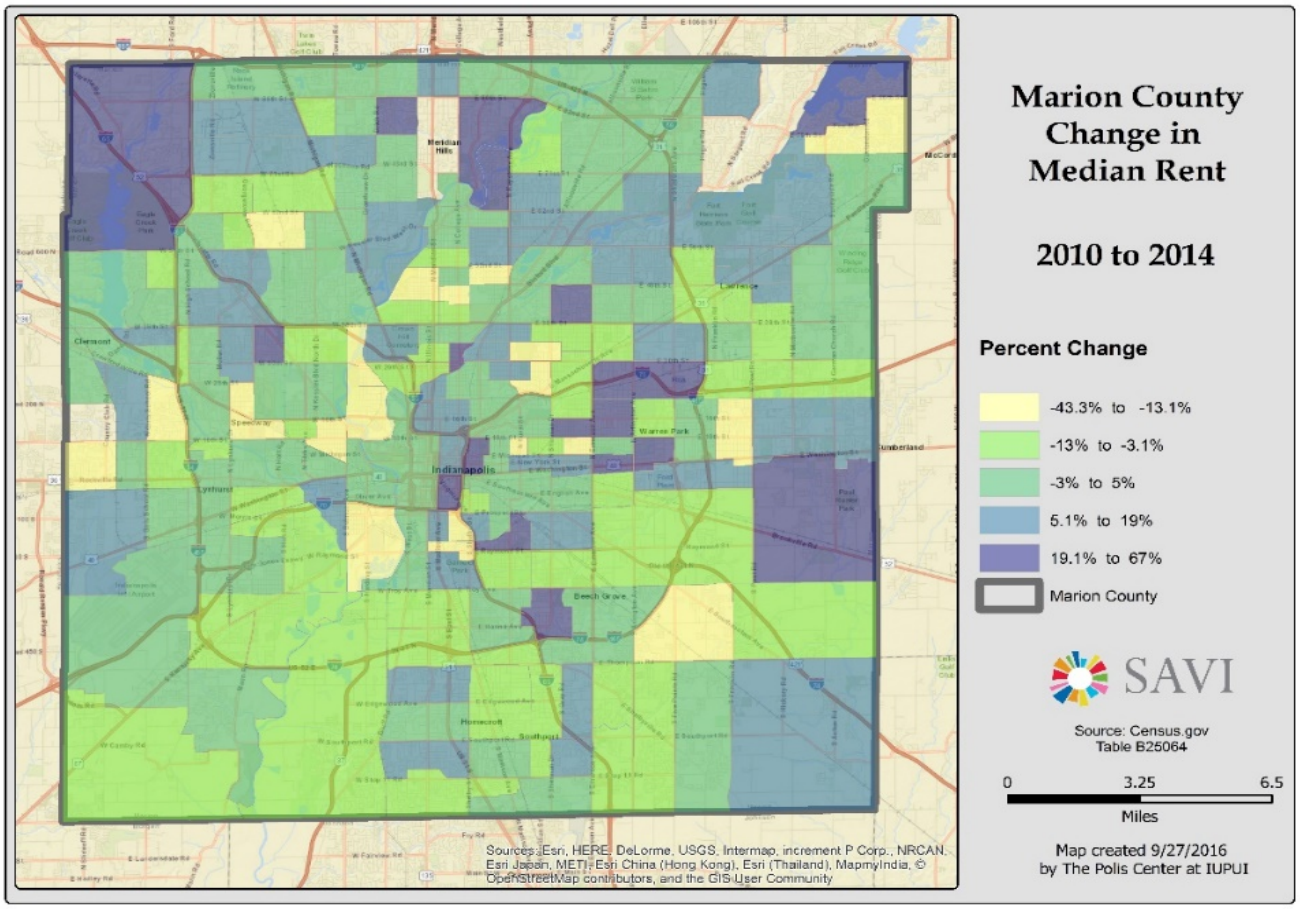
Figure 8. Percent Change in Monthly Owner and Renter Costs, Relative to 2005; Marion County

Source: American Community Survey, 1 year estimates (table DP04)

[10]Available from the National Low Income Housing Coalition; Indiana data are available at http://nlihc.org/oor/indiana.

For many families, incomes increase as they age. The constancy of the cost of homeownership means that a family that experienced increased wages over the period would progressively spend less of their household earnings on housing-related costs. In several areas of Marion County, rents have accelerated even more quickly than the average rent increase, making an investment in homeownership in these areas even better relative to renting (Figure 9).

FIGURE 9. Marion County Rent Increases 2010-2014



Source: Census.gov

Value Maximization

A second important consideration that becomes reflected in diminished supply of affordable housing is the concept of value maximization. Potential homebuyers value a bundle of aspects and amenities that are reflected in the home they choose to purchase (e.g., location, proximity to work/school/entertainment, neighborhood safety, school systems, proximity to transit or transportation, likelihood of appreciation, square footage, number of bedrooms, number of bathrooms, size of a garage, and several other factors). Individuals may value these things differently relative to other individuals, and

even the same individuals may value these things differently over time.

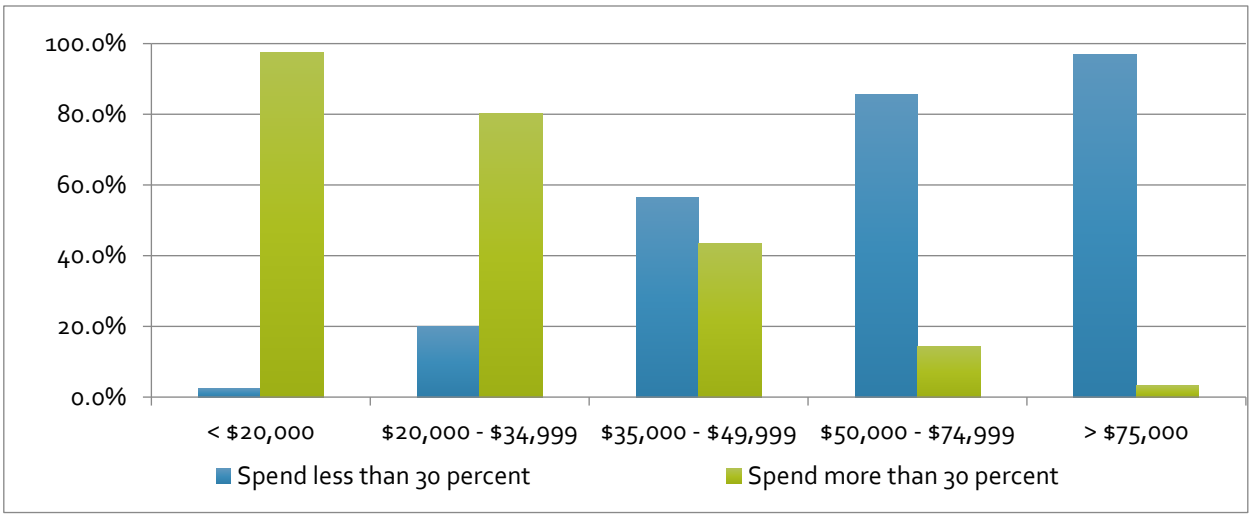
Prospective homebuyers weigh this bundle against the cost of housing; and when there are multiple locations that meet their preferences for their bundle equally, they will generally purchase the most affordable property that meets their needs. As a result, people of greater means may purchase housing that meets their needs but that costs less than 30 percent of their income.

Many homebuyers naturally seek to maximize the value of their housing through purchasing the most affordable housing that meets their needs. The impact of this rational choice on lower-income buyers when applied to the overall housing market, however, can be profound. Every higher income household that purchases a home meeting their needs for less than 30 percent of their annual income prevents a household of lesser means from accessing that house, which would otherwise be affordable to them.

As an example, a household earning $75,000 annually—applying the 30 percent rule of thumb—could afford a home that costs $1,875 in monthly costs (30 percent of $75,000, divided by 12). If they can meet their needs for $1,250 per month and decide to purchase a home at that price, they have effectively denied that unit from every other family to whom it would have also been affordable (anyone earning more than roughly $50,000). Households to whom that unit has been denied will also make choices to maximize value and likewise deny units to those of lesser means than themselves. This results in a crunch at the bottom of the income stratification in which not enough housing units are available to those individuals because a number of families of means are "under-consuming" housing.

The reality of value maximization can be explored through looking at cost-burden by income cohort (Figure 10). Households in Marion County earning more than $50,000 are substantially less likely to be cost-burdened than those

Figure 10. Cost-burden for Households with a Mortgage, by Income Cohort



Source: American Community Survey, 5-year estimates (2009-2014), Table B25101

that are earning less than $35,000. These data would suggest that the housing choices of those making more than $50,000 are limiting supply to those in lower income cohorts.

This not only has a profound impact on families in their housing; it also has an impact on the degree to which those families are able to expend resources in other facets of their life.

Families that spend less than 30 percent of their income have residual income leftover to invest in themselves, their education and the education of their children, their retirement, or even a vacation. Those at the other end—those spending more than 30 percent of their income—may be forced into difficult choices about spending money on basic needs, utilities, or medical bills.

In considering the costs of transportation alongside the costs of housing, we find that much of Central Indiana is indeed unaffordable.

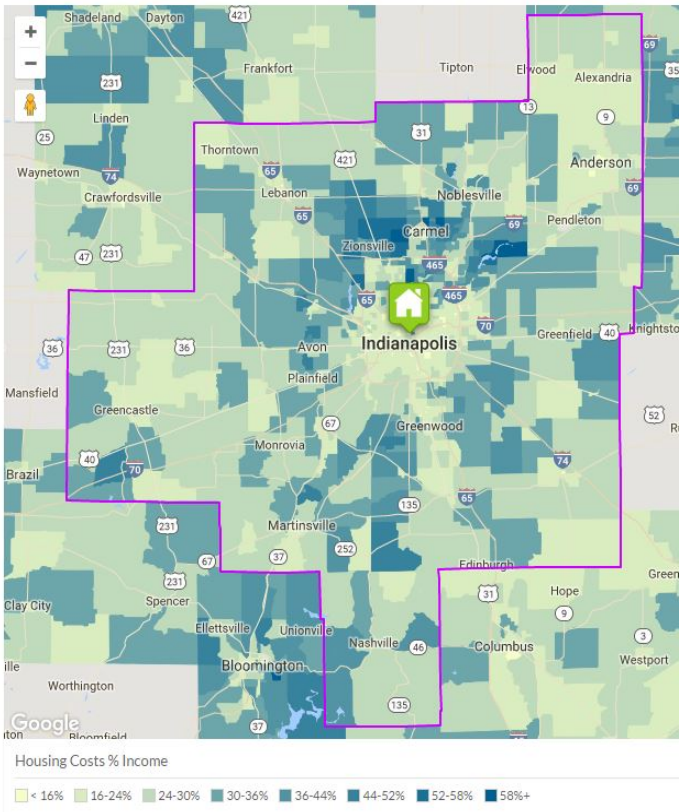
Transportation, the Hidden Cost of "Affordable" Homeownership

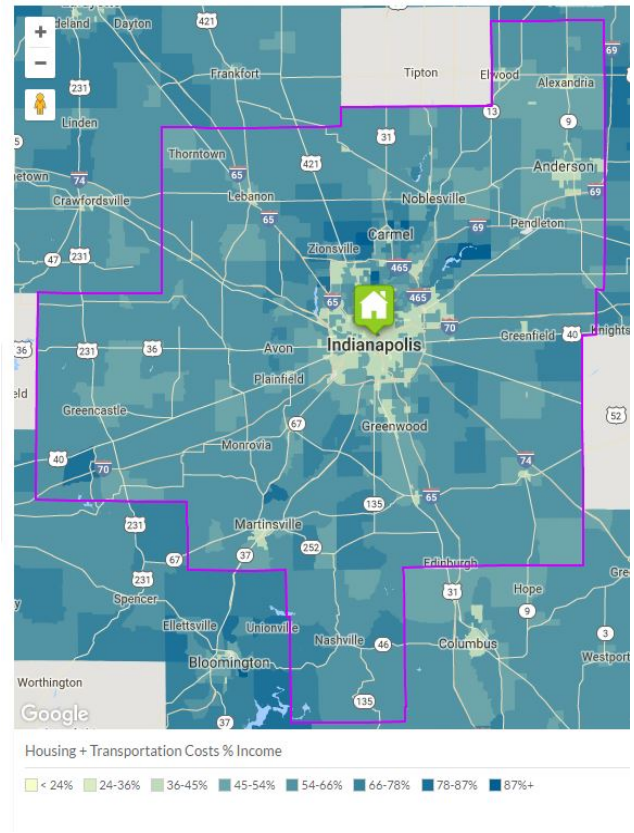
If lower-income households only have access to housing options that were left by those with higher incomes, low-income households that desire to be homeowners may be forced to "drive until you qualify," seeking out affordable housing in new greenfield developments at the outer edges of the metropolitan area (accepting the ongoing and variable costs of transportation in the process).

The Center for Neighborhood Technology maintains the *Housing and Transportation (H+T) Affordability Index*, which factors in the cost of transportation and resets the affordability threshold to housing + transportation costs at 45 percent of household income. Figure 11, page 9, compares affordability in Central Indiana based only on housing (the 30 percent threshold, left map) and based on housing + transportation (45 percent threshold, right map).

Considering the costs of transportation alongside the costs of housing, we find that much of Central Indiana is indeed unaffordable. These costs are hidden from the traditional data sources in the sense that the US Census does not report transportation costs alongside housing costs (they do provide insights on how far workers commute and by what means).

Figure 11. Comparison of Affordability With and Without Transportation Considered





Source: H + T Index, Center for Neighborhood Technology (2016)

Financing

It should be noted that the discussion of affordable homeownership has been examined mostly through the lens of income rather than access to financing.

For some prospective homeowners, the barrier to entering the housing market is not necessarily the cost of housing and/or the supply of affordable units, but rather access to financing (or at least access to credible and responsible lenders). One impact of the 2007-09 recession on prospective homebuyers has been the tightening access to credit and mortgage financing.

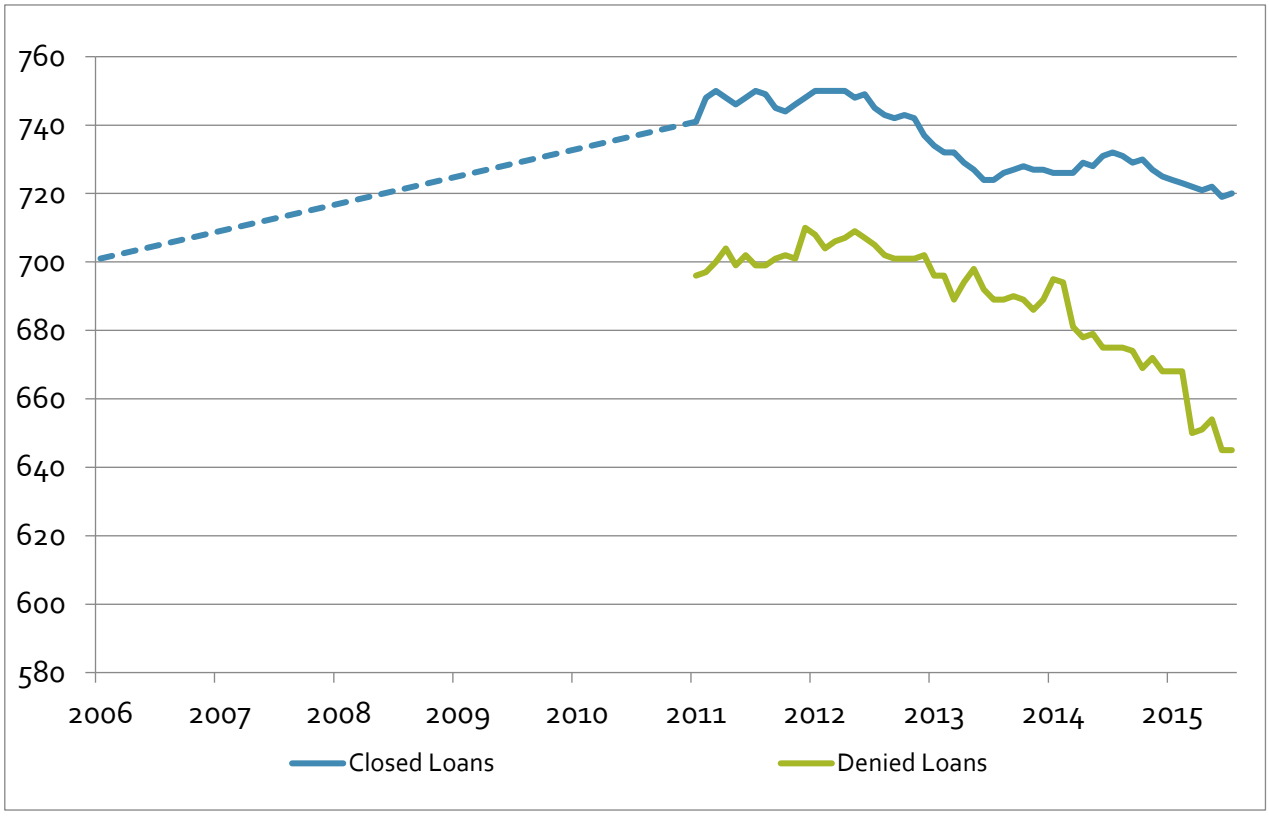
This change is attributable to stricter regulations of the mortgage and lending industry and tightened lending and underwriting standards for families with less than excellent credit. For several years, the average credit score of a denied loan was similar to the average credit score of a

closed loan prior to the recession (Figure 12). More recently, the average credit score for a denied loan has dropped considerably, but the average score for a closed loan has remained relatively constant.

This result suggests families with poor credit have either been able to rehabilitate their credit and are closing on mortgages or that they are less likely to attempt to pursue mortgage financing at all. To the degree that it is the latter, these families will continue to place increased demand on available rental units. In these situations, prospective homeowners may be able to obtain financing by participating in programs that will help rehabilitate their credit and/or work with responsible private or nonprofit lenders to secure conventional financing.

These programs may also provide homeownership counseling and financial education courses that help prospective homeowners save resources to put toward a down payment on a home of their choice. Overcoming credit issues and providing a framework to help secure resources for a down payment can position some prospective homeowners, who otherwise would not be able to enter homeownership, purchase their own home.

Figure 12. Average Credit Scores for Closed and Denied Loan



Source: Ellie Mae, Origination Insight Report (2016); HMDA

Renting

In looking at housing affordability, it does not make sense to only look at the homeownership market; more than 45 percent of the dwellers in Marion County's occupied housing units are households who are renting.

There are several reasons why renting a place may make more sense for an individual or family than owning home (e.g., lower monthly costs, the time a householder plans to remain in that housing unit relative to transaction costs, and/or the willingness and ability of the householder to be responsible for maintenance of the unit).

The idea of value maximization and the reduction of affordable units in the supply of available units spills into the rental market as well. If those who would prefer to be homeowners cannot access homeownership for any of a variety of reasons, additional pressure is placed upon the available stock of rental units, which reduces supply and drives up prices.

The dramatic national and local shift from homeownership to rentals in the wake of the 2007-09 recession has added additional pressure to the rental market. In Marion County, the share of all households renting increased 23 percent between 2005 and 2013 (38.1 and 47.1 percent of all households, respectively) before data showed a shift back toward homeownership in 2014.

This pressure in the rental market mirrors the value maximization concept of homeownership. Those of greater means often have access to pay the premium for the better located, higher amenity rental units (even if they could afford to pay more), and thereby reduce the number of units available to other renting families.

Challenges around assembling land and capital, the cost of construction in time and resources, and overcoming regulatory obstacles limit supply-side market responses and make it challenging to bring new units online to meet increased demand. Additionally, owners of rental units can adjust rents annually to adapt to changing market conditions, while it can take considerable time for the supply of units to be meaningfully increased.

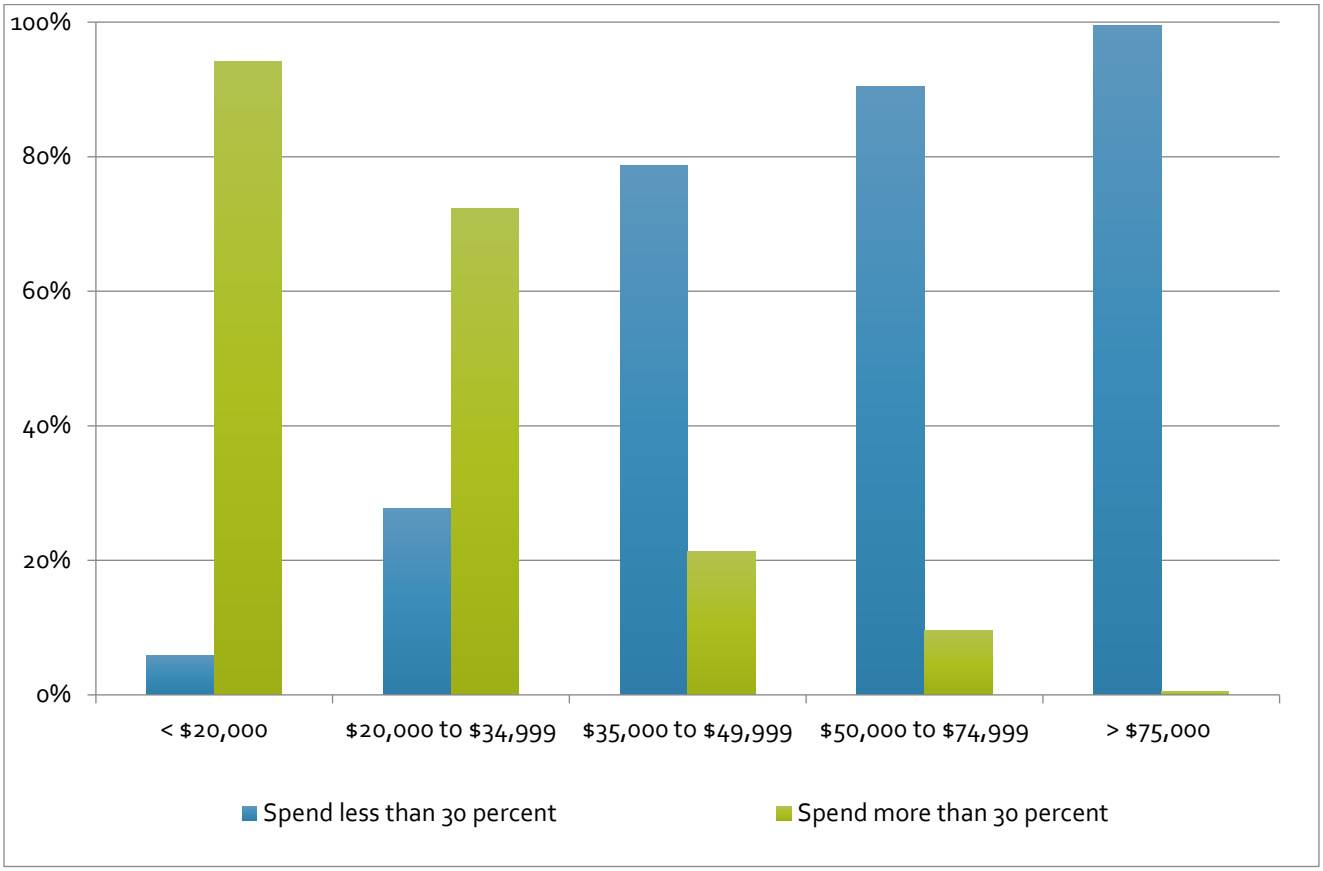
In some areas, the rents that may be expected from a project may not be enough to satisfy debt service on the project without a subsidy, thereby making those projects infeasible. Even when new units are brought online, they are generally not affordable; other units that are older, in less desirable locations, or with fewer amenities become affordable through the loss of their competitiveness relative to the new units (a process known as *filtering*).

As a result, households in the rental market may find their rents increasing and/or find themselves making trade-offs with regard to location, housing quality, proximity to employment centers, and access to amenities. This is especially true of the lowest of the low-income households that may no longer be able to find any rental properties that are affordable. Many lower-income families in Marion County end up facing the

prospect of increased housing-related cost-burden (Figure 13); the most vulnerable of these families may experience homelessness.

The National Low Income Housing Coalition tracks housing affordability trends for low- and very-low-income populations annually in its *Out of Reach* report,[11] which calculates the affordability gap between the fair market value of renting a housing unit and what low wage workers are earning. For Marion County, the wage needed to afford a two-bedroom housing unit is $32,360 or $15.56 per hour (which is, unsurprisingly, close to the threshold where cost-burden becomes less of an issue as shown in Figure 11, page 19).

Figure 13. Cost Burden for Renting Households, by Income Cohort (Marion County)



Source: American Community Survey, 5-year estimates (2009-2014), Table B25101

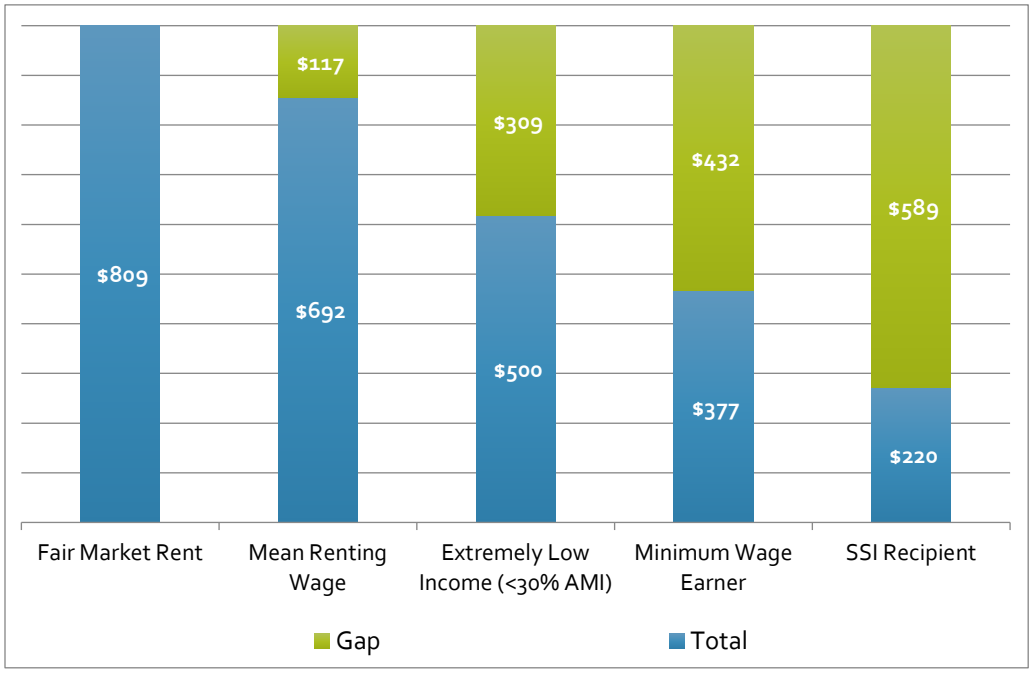
[11] Available from the National Low Income Housing Coalition; Indiana data are available at http://nlihc.org/oor/indiana.

Figure 14, below, is drawn from the National Low Income Housing Coalition's 2016 *Out of Reach* report, which compares the gap between wages and rent for various income groups in Marion County, including extremely low-income households (<30 percent area median income), a minimum wage earner (23 percent area median income), and a social security insurance recipient with no other source of income. The gap between what families in these situations earn and fair market rents, almost assures that a number of these families will experience a housing cost-burden. According to the report, a Marion County minimum wage earner would need to work 86 hours per week to afford a two-bedroom apartment at fair market rent.

The places accessible to low-income and very-low-income families throughout the county are limited.

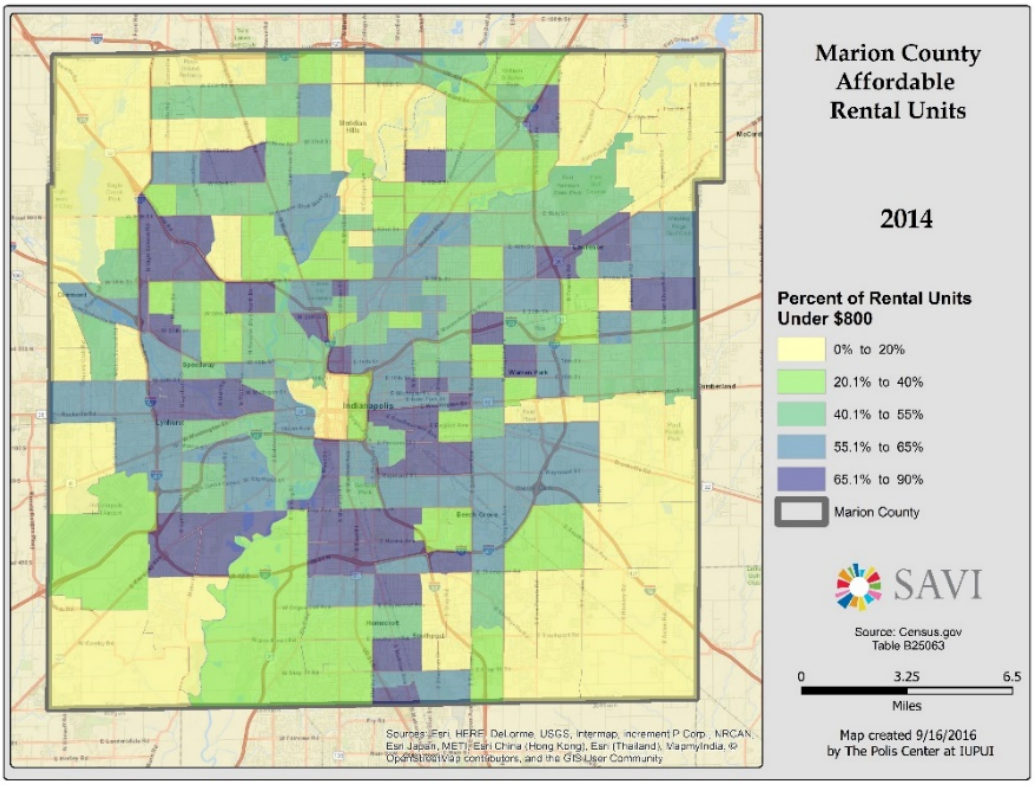
Comparing the affordability gap at various income levels with the map of median gross rent and the map of the percent of total units that are affordable (see Figures 15 and 16, next page), it is readily evident that the places accessible to low-income and very low-income families throughout the county are limited. Some families are indeed able to find quality, affordable housing in these locations. Others may be able to qualify and secure subsidized housing or otherwise access higher cost housing through HUD-provided tenant-based rental assistance. Overall, however, there are not enough of these units or programs to serve everyone's needs, and the alternative for many families is to incur a cost-burden in their housing tenure.

Figure 14. Gap between Fair Market Rent and Selected Income Levels (Marion County)



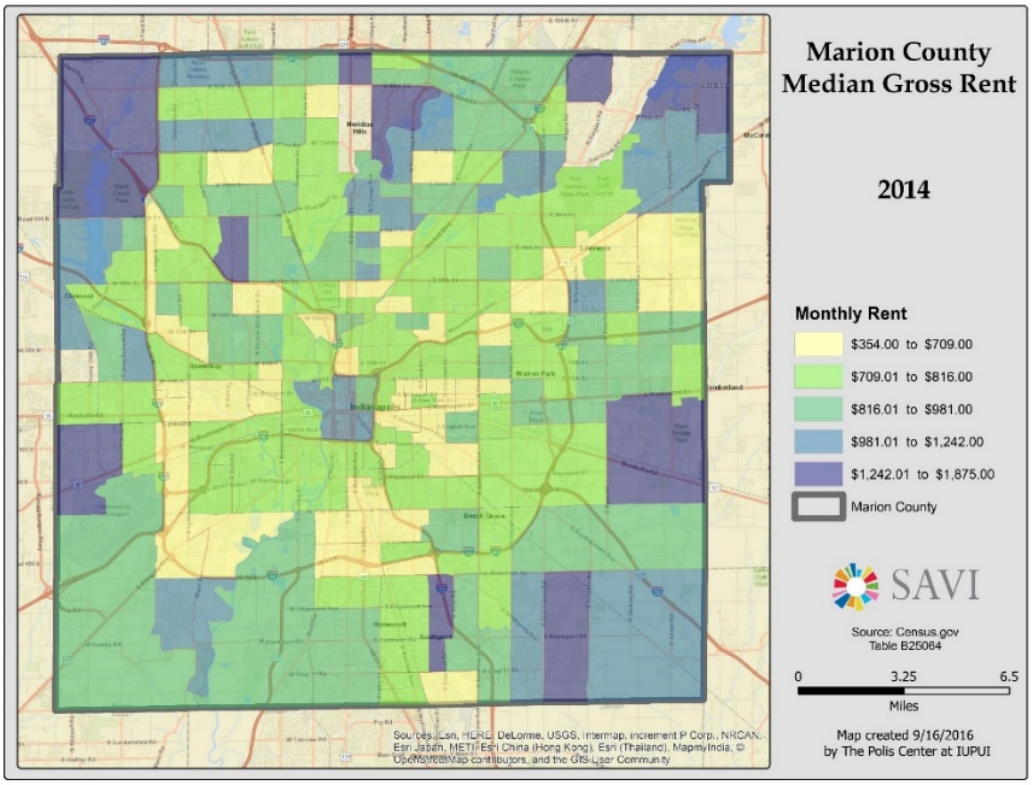
Source: National Low Income Housing Coalition: Out of Reach Report (2016)

Figure 15. Median Rents (2014)



Source: Census.gov

Figure 16.Affordable Rental Units as a Percent of All Rental Units (2014)



Source: Census.gov

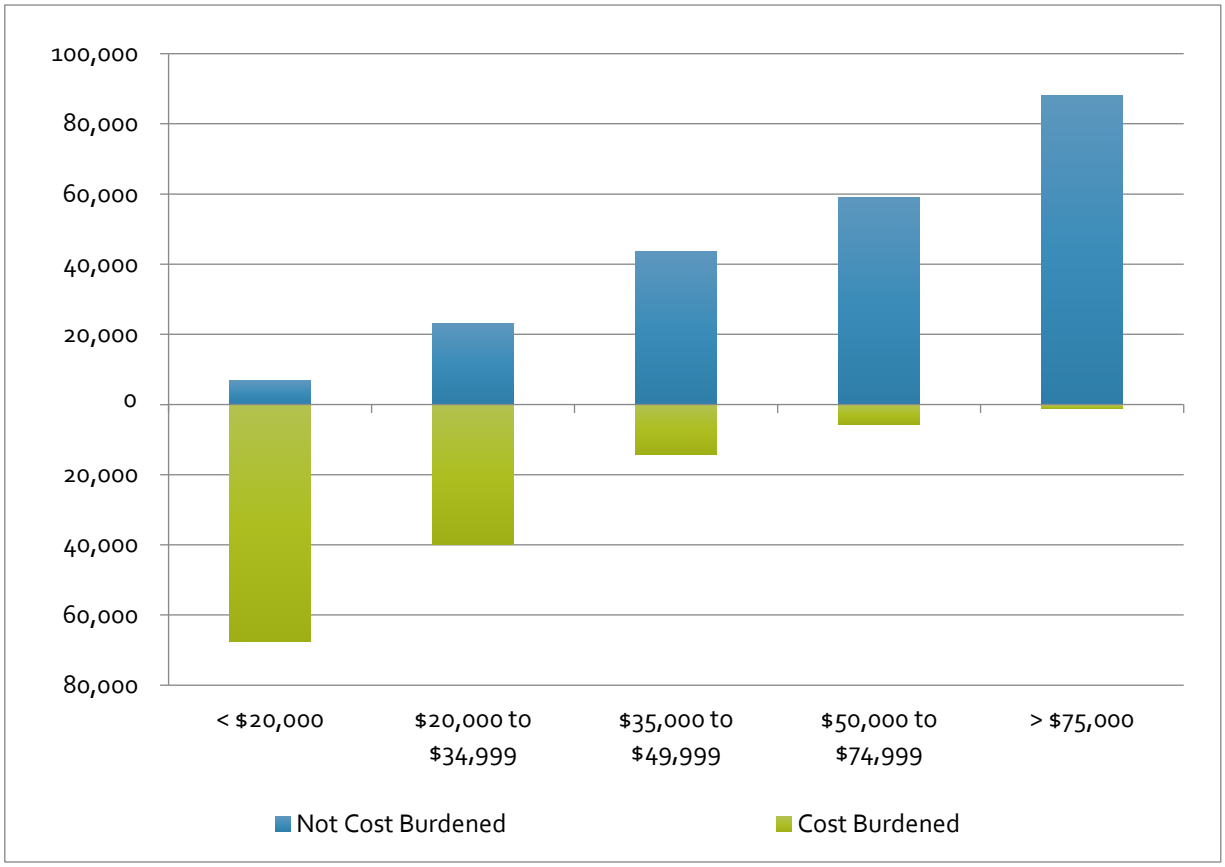
Housing Affordability and Family Self-Sufficiency

Connecting housing affordability and cost-burden in Marion County, a pattern reveals larger challenges (Figure 17). The households that are not cost-burdened have additional resources to spend on their education, save toward retirement, engage in enriching activities, or otherwise accumulate resources.

Those that are cost-burdened may have trouble meeting basic needs or determining which bills to pay. Furthermore, these families may end up spending additional resources if they are living in housing of lesser quality (e.g., whereas a housing secure family may replace an inefficient HVAC system or insulate their home, the cost-burdened family—without resources to upgrade housing systems—may spend additional money in heating costs each month).

The benefits of not being cost-burdened can lead to a virtuous cycle in which a family can increase future opportunities; being cost-burdened can result in a vicious cycle in which those activities become more and more out of reach.

Figure 17. Cost-Burden by Income Cohort, Marion County



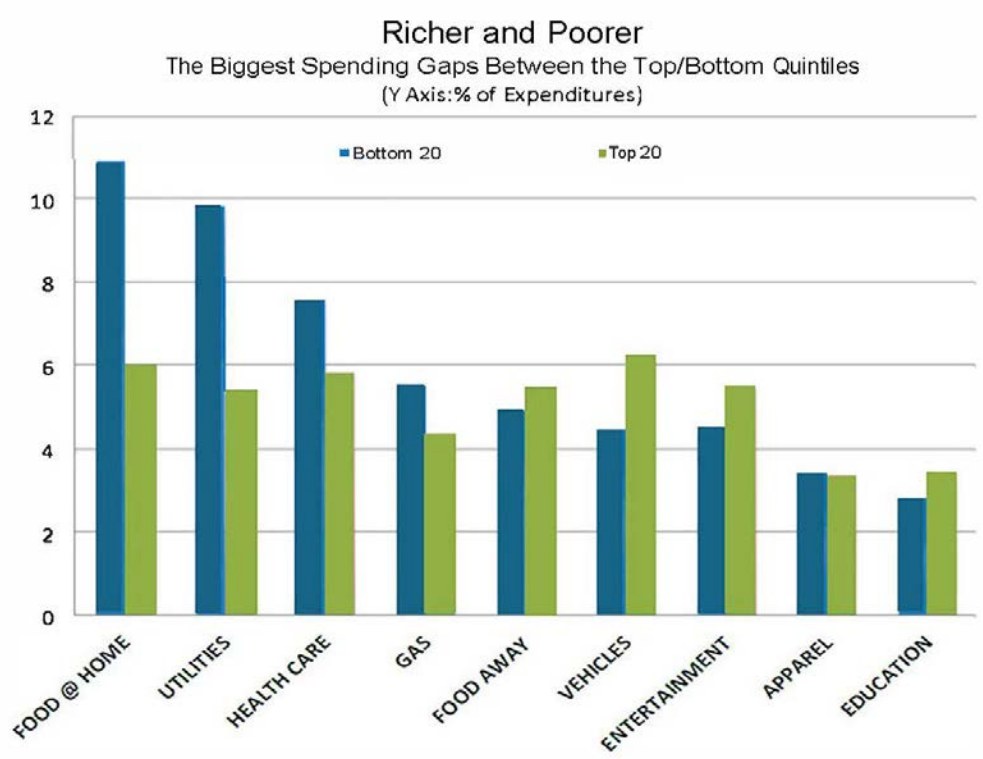
Source: American Community Survey, 5-year estimates (2009-2014), Table B25106

The affordability gap in housing helps to reinforce generational wealth and generational poverty. Families with greater means are able to provide enriching experiences and spend more on education than families with lesser means.

These families may also be able to afford for their children to take on unpaid internships (an important pathway to making connections and securing employment in one's chosen profession), pursue graduate school education, and engage in other experiences that lead to higher educations and lifetime earnings.

In 2014, the *Atlantic* studied how the richest and poorest 20 percent of Americans spent their incomes after controlling for housing and transportation. The results reinforce this notion of how resources are spent, with the wealthy having the opportunity to invest in entertainment and education, while the lowest 20 percent seek to meet basic needs (Figure 18).

Figure 18: The Biggest Spending Gaps Between the Top/Bottom Quintiles



Source: The Atlantic: How Rich and Poor Spend Money Today – and 30 Years Ago; April 3, 2014. [12]
NOTE: This chart displays percentage of incomes; while both cohorts spend roughly three percent on education, that three percent equals roughly $350 for the lowest quintile, while it represents more than $5,820 for the highest quintile.

[12] http://www.theatlantic.com/business/archive/2014/04/how-the-rich-and-poor-spend-money-today-and-30-years-ago/360103/

Overcoming intergenerational poverty, which has barriers well beyond housing affordability, is difficult anywhere in the United States, but recent research suggests that it may be even more challenging to overcome these barriers in Indianapolis relative to other large cities.

Housing affordability is embedded within the broader economy.

Harvard University's *Equality of Opportunity Project* released a study that examined the likelihood of someone raised in the bottom 20 percent of an area's income distribution moving to the top 20 percent within their lifetime. Indianapolis ranked 46th among the 50 largest cities in that measure, where only 4.9 percent of residents could expect to make that move (relative to 12.9 percent in San Jose, CA).[13]

While this reality points to challenges well beyond housing, it is worth recognizing that housing affordability plays a role in an individual's likelihood of experiencing upward mobility within their lifetime.

Policy Options

The federal government does not currently have a broad, goal-oriented policy for housing and neighborhood development. Federal programs that are meant to improve opportunities for individuals and families may work at cross purposes with those intended to support the physical revitalization of neighborhoods; in some cases, these conflicts arise within the same federal program.

While the lack of federal focus on cities generally and housing and community development specifically can cause challenges, it provides relatively wide latitude for local communities to develop and pursue locally defined policy goals. This is especially true in places that receive their own federal allocation of community development resources.

Housing affordability is embedded within the broader economy. We often look at the cost side of the homeownership equation without paying as much attention to the resources side.

If 30 percent of a household's income is the threshold at which housing becomes affordable, housing can be made affordable by reducing the cost of housing or through raising people's income, and the latter approach is too often ignored in the context of housing affordability.

[13]Summary and other research available at http://www.equality-of-opportunity.org/index.php/component/content/article?id=82

If affordability is achieved through a reduction in the cost of housing, housing is more affordable; however, if affordability is achieved through an increase in household income, everything becomes more affordable.[14]

Equipping people with marketable skills and abilities—through education and training, for example—can go a long way to increasing access to housing options for more families over the long term. This perspective often gets lost in the discussion around gentrification—that one way of increasing access to housing is raising incomes.

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Balancing place-based and people-oriented strategies are important so that low-income households are able to participate in increasing opportunities within their communities.

Strategies that coordinate housing assistance and improving the fiscal situation of families (through education, training, employment services, financial literacy, credit rehabilitation, and increased savings) are likely to have a greater impact than any single approach alone.

Combining approaches, strategies, and tools service a more holistic goal, whether based on improving people's lives or the places in which they live. It is not only important to understand the interrelatedness across disciplines (e.g., housing, development, social work, education and training), it is critical to craft forward thinking strategies, recognize trends, and orient to the future rather than present.

In Central Indiana, identifying strategies that complement other efforts such as *Plan 2020*, the Greater Indy Chamber's *Comprehensive Economic Development Strategy*, the Community Development 2.0 policy discussions, and other concerted, coordinated, concurrent efforts is vital.

One way of increasing access to affordable housing is raising incomes. When household income is increased, everything becomes more affordable.

[14]Derived from several presentations made by Jim Capraro, principal of Capraro Consulting and longtime executive director of the Greater Southwest Development Corporation in Chicago.

Improving access to high-quality education and equipping people with marketable skills goes a long way in increasing opportunities for housing options and other goods and services.

Place-Based Housing Strategies

There are opportunities to take advantage of complementary investments and location efficiencies. For example, cities have sought to ensure that they maintain affordable units proximate to public transit as a way of to control the total burden that housing and transportation represents for low-income families.

Likewise, many projects that were funded under the Low Income Housing Tax Credit have affordability periods that are expiring, which means that the rent protections built into those properties no longer apply or will no longer apply in the near future. Many of these projects are in efficient locations, proximate to transit, employment centers, and other social services.

Preserving affordability for those locations that efficiently serve the needs of low-income residents is another potential priority area, especially if that strategy can be paired with additional neighborhood investments, or if those units are in neighborhoods already experiencing market-based appreciation.

Reducing regulatory restrictions on supply could help bring additional units online to meet some of the additional demand and provide for a variety of housing types and ownership structures.

A zoning ordinance that allows for a mix of housing (single-family, duplexes, small-scale multifamily, larger scale multifamily)

and accessory dwelling units could provide a market response resulting in more units in desirable locations.

Reducing or eliminating caps on density (dwelling units per acre) or mandatory minimums on parking can increase the potential revenue of a project to the point of becoming feasible and attractive to real estate developers. While loosening restrictions on increasing supply may not entirely solve issues of affordability, it could create additional capacity—especially in neighborhoods where economic opportunity is more readily accessible.

Some communities have gone one step farther with zoning ordinances, by requiring a certain portion of any new development be priced in such a way that is affordable to individuals of varying income levels (generally set at 80 percent of area median income or some such level). This practice is known as inclusionary zoning. While this tool ensures the provision of affordable housing in new developments, it can make new development less likely if the potential project revenue is reduced.

To counter this challenge, some communities have provided density bonuses, which allows developers to build additional units beyond what the zoning ordinance allows in exchange for including affordable units within a project. This regulatory approach to affordable housing development incentivizes the development of affordable housing rather than requiring it. While inclusionary zoning and/or density bonuses are not likely in the near term in Central Indiana, these tools are being utilized in other states as a way to guide the market toward providing more affordable housing.

Setting a course for growing Central Indiana's economy—and positioning housing strategies alongside those goals—could have a greater impact on families than examining housing strategies on their own (or economic strategies solely), coordinating efforts provides a real opportunity to achieve greater impact.

People-Oriented Housing Approaches

While tenant-based assistance through Housing Choice Vouchers or other subsidies is one way that some families are able to reduce the cost of their housing to a manageable amount, universally reducing the cost of housing in this way is infeasible and impractical.

Nevertheless, much can be done to provide people opportunities to access housing or otherwise strengthen their financial position to participate more fully in the housing market. Improving people's access to high-quality education and development of marketable skills has the potential to raise income, making housing and all other goods and services more accessible.

To the degree that credit—rather than, or in addition to, income—is the barrier to entering the housing market, assistance in credit rehabilitation can help people access more optimal housing opportunities. Providing resources for low-income individuals—and really all individuals—to become more financially literate is beneficial in several facets of life, well beyond housing. Budgeting, saving, and paying off debts may help individuals avoid credit issues that would prevent them from becoming homeowners or accessing the rental units of their choice.

For those families who have already experienced credit issues, providing opportunities to rehabilitate their credit can make better housing more accessible. Individual Development Accounts[15] and/or down payment assistance[16] can help families secure the resources to purchase their own home. While the primary focus of these types of programs is to help individuals and families, they have positive spillover effects for communities as well.

Subsidies and Affordable Housing, Revisited

How should the limited resources available for community development be spent? Considerations include providing a limited number of families access to affordable housing, supporting neighborhood revitalization in a limited number of neighborhoods, spreading funds through several neighborhoods with diminishing impact, or implementing a combination of these approaches. These are challenging choices with very real trade-offs.

What do we collectively desire as it relates to housing affordability? If we become a region where the cost of all housing is substantially reduced, it probably means our economy has taken a poor turn. Yet, would we be willing to accept San Francisco's housing costs if we were able to enjoy the robustness of their regional economy?

While these are larger regional questions, some of the same dynamics—to a lesser extent—play out between neighborhoods and communities in any region. Setting a course for growing Central Indiana's economy—and positioning housing strategies alongside those goals—could have a greater impact on families than examining housing strategies on their own (or economic strategies solely). Coordinating efforts provides a real opportunity to achieve greater impact.

[15] A matched savings account offered in the State of Indiana through the Indiana Housing and Community Development Authority in partnership with local nonprofits.

[16] An eligible activity under the federal HOME and CDBG program, as well as periodically provided by public or philanthropic entities, often in partnership with private lenders.

Housing subsidies—or other programs that make safe, decent, and affordable housing more accessible—can have a tremendous impact on the families that benefit from them; but, providing direct subsidies (those coming directly from public sources) to families is certain to leave other similar families unsupported.

On the other hand, these resources can also support neighborhood development, which in turn can create additional local tax revenue to support public safety, education, infrastructure, and other investments. These benefits have the potential to help all households in the region, as well as support broader community development, economic development, and reinvestment goals.

Grappling with these questions and trade-offs can be challenging; they do not often lend themselves to easy answers. A greater opportunity for success—however success is defined—may be realized through the development of a common agenda through supporting collaboration across nonprofit sectors with a stake in the outcomes of low-income families, aligning with long-term trends, leveraging resources, and coordinating people-oriented and place-based strategies.

The outlook for Indianapolis, in this respect, is positive, as the community has a reputation for being able to come together and coordinate activities as well as anywhere.

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