

Bloomberg

Demolitions Dire for Poor Amid Affordable-Rent Gap: Economy

By Jeanna Smialek and Carlos Torres - Jan 13, 2014

Hector Pineda spends 60 percent of his income renting a \$1,500-a-month apartment for his family in Alexandria, Virginia. With housing around him slated to be torn down and replaced by pricier units, the 33-year-old cook worries his rent will go up or his building too will be demolished.

In the neighborhood where Pineda lives with his wife and their two sons, redevelopment will claim many of the area's 2,500 affordable housing units, starting as early as this year, said Derek Hyra, an associate professor of Urban Affairs and Planning at [Virginia Tech](#) and a member of the Alexandria Planning Commission.

While the city and developers have [pledged](#) to provide 800 affordable apartments, Pineda says he expects many of his neighbors will have to move to find lower rents.

"This project is for people with money," said Pineda. "I, working to clean homes, in a restaurant, can pay \$2,000 to \$3,000 for an apartment? Never."

The cheapest housing units across the nation are the most likely to be demolished, and new construction typically commands higher rents, according to an analysis by the Harvard Joint Center for Housing Studies. Meanwhile, [foreclosures](#) that soared after the housing bubble burst in 2007 turned thousands of former homeowners into renters, heating up competition for affordable units.

Increasing Demand

"It's an ongoing problem that is made more important against the backdrop of increasing demand for those units," said Chris Herbert, research director at the Harvard Joint Center. "At a time when we have a growing number of low-income renters struggling to find units they can afford, the fact that these low-cost units are the ones most likely to be lost from the stock is a concern."

An estimated 11.3 million Americans were spending more than half their income on rent in 2011, according to the Harvard analysis based on latest available Census data. That number represented a 28 percent increase from 2007.

Stagnant incomes and increased demand for cheap apartments spurred the rise. Between 2007 and 2012, real median renter incomes fell by 7.6 percent, based on Census data compiled by the Joint Center. The number of renters climbed 11 percent between 2007 and 2011, U.S. Department of Housing and Urban Development data show.

A Census report released this month found that 31.6 percent of Americans lived in poverty for at least two months between 2009 and 2011, an increase from 27.1 percent over the 2005 to 2007 period.

Diverging Trends

“It really has to do with two dynamics: the income of the people renting housing, and the price or the cost of renting housing,” said Erika Poethig, director of urban policy initiatives at the [Urban Institute](#) in [Washington](#) and former acting assistant secretary for policy development and research at HUD in the Obama administration. “These trends have grown further and further apart.”

Tear-downs are contributing to the tight supply of affordable housing. About 12.8 percent of units costing less than \$400 per month were demolished between 2001 and 2011, according to the Harvard Joint Center analysis published in December. That’s more than double the 5.6 percent demolition rate among all 34.8 million U.S. rental units existing in 2001.

While new construction can help push down overall rents by expanding supply, in many markets builders can’t make money constructing new units and renting them at rates affordable to low-income tenants.

Market Response

“The private market doesn’t build housing that low-income people can afford anymore,” said Sheila Crowley, chief executive officer of the National Low Income Housing Coalition. “If there were a market answer to this problem, there would be massive investment going on, because the demand is extreme.”

To be “affordable” to a person making the average renter wage, a unit needs to rent for no more than 30 percent of income -- [less than \\$745](#) per month in 2013, based on a National Low Income Housing Coalition analysis of wage data. The average rent for a two-bedroom unit is \$977, the data show.

For the lowest-income renters, it’s impractical to construct affordable housing without government subsidies, said [David Flanagan](#), president of Elm Street Development, based in McLean, Virginia. His company specializes in mixed-use and apartment communities in the Washington and Baltimore areas.

“The costs have continued to rise, just in terms of building products,” he said. “The cost of governmental extractions continues to rise -- our permit fees, school fees, traffic fees are huge, that’s a barrier to affordable housing. It’s not easy.”

Government Standards

Flanagan said about 5 percent of his company’s apartments meet government affordability standards for low-income renters, and those are usually required by ordinances.

That means “the biggest resource of affordable housing is going to be existing stock,” Flanagan said.

The Harvard [report](#) makes a similar point: “Rehabilitation of older buildings would provide the kind of modest but secure housing that is difficult to add through new construction.”

Getting financing for small and inexpensive fixer-uppers has become more difficult, said William Apgar, a former assistant secretary of housing at the U.S. Department of Housing and Urban Development, who is now at the Joint Center.

“We risk, for lack of upkeep and repair, not providing good quality housing or at worst, it falling into disrepair and dropping out the bottom,” Apgar said.

In Disrepair

The number of renter-occupied units in “severe” disrepair climbed 12 percent to 1.2 million units between 2007 and 2011, according to [data](#) from the U.S. Census American Housing Survey.

As the gap between demand for affordable housing and the available stock widens, government programs haven’t picked up the slack.

The number of households who were potentially eligible for housing assistance ballooned to 19.3 million in 2011 from 15.9 million in 2007. Meanwhile, the number of very low-income renters receiving support barely climbed, to 4.6 million from 4.4 million, the Joint Center analysis found.

Programs including the Section 8 housing choice voucher program didn’t expand in line with rising demand during the recession. The vouchers are the federal government’s main program for helping very low-income families, seniors and the disabled afford private housing and are administered by local agencies. By subsidizing rents, they can reduce payments to 30 percent of earned income.

Government Program

The main government program to help developers construct and maintain affordable housing, the Low Income Housing Tax Credit, helped to preserve 749,000 homes and construct 1.2 million

new units between its inception in 1986 and 2011, according to Joint Center tabulations of HUD data.

While the program is crucial, it's a "drop in the bucket" compared with the number of affordable rentals still needed, Herbert said.

That demand is forecast to increase amid still-tight supplies. Apartment vacancies are near a 12-year low, data from real estate research group Reis Inc. show, even as 41,700 apartments were completed in the fourth quarter, the most since late 2003.

The number of renter households will increase by between 4 million and 4.7 million over the next decade, based on Joint Center projections. As baby boomers age into retirement the number of renting seniors will increase by 2.2 million, and that increase in fixed-income renters will drive up demand for assisted units.

Leaving Markets

Without a clear fix, people and businesses may leave the most expensive rental markets -- such as [San Francisco](#), where rent appreciated 10.6 percent year-on-year in December 2013, according to [data](#) from real estate researcher Trulia Inc., based in San Francisco. They may move to places where workers can afford to live, said Mark Calabria, director of financial regulation studies at the Washington-based [Cato Institute](#).

That's what could happen for the people surrounding Pineda in Alexandria, he said. An apartment complex that neighbors his building is slated to be torn down at the end of this year or early in 2015 to make way for a new development, he said.

"This project isn't for our families," he said. "We either eat, or we pay rent."

To contact the reporters on this story: Jeanna Smialek in Washington at jsmialek1@bloomberg.net; [Carlos Torres](#) in Washington at ctorres2@bloomberg.net

To contact the editor responsible for this story: Chris Wellisz at cwellisz@bloomberg.net