

PUBP 710
Housing/Community
Development Policy

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How “housers” talk about income

- AMI = Area median income.
- ELI = Extremely Low Income = 0 -30% of AMI.
- VLI = Very Low Income = 31-50% of AMI.
- LI = Low Income = 51-80% of AMI.
- MI = Moderate Income = 81%-120% of AMI.

STATE: DISTRICT OF COLUMBIA

-----I N C O M E L I M I T S-----

PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON
Washington-Arlington-Alexandria, DC-VA-MD-NV MSA								
Washington-Arlington-Alexandria, DC-VA-MD HMFA								
FY 2009 MFI: 102700	21550	24650	27700	30800	33250	35750	38200	40650
30% OF MEDIAN	21550	24650	27700	30800	33250	35750	38200	40650
VERY LOW INCOME	15950	41100	46200	51350	55450	59550	63650	67800
LOW-INCOME	44800	51200	57600	64000	69100	74250	79350	84500

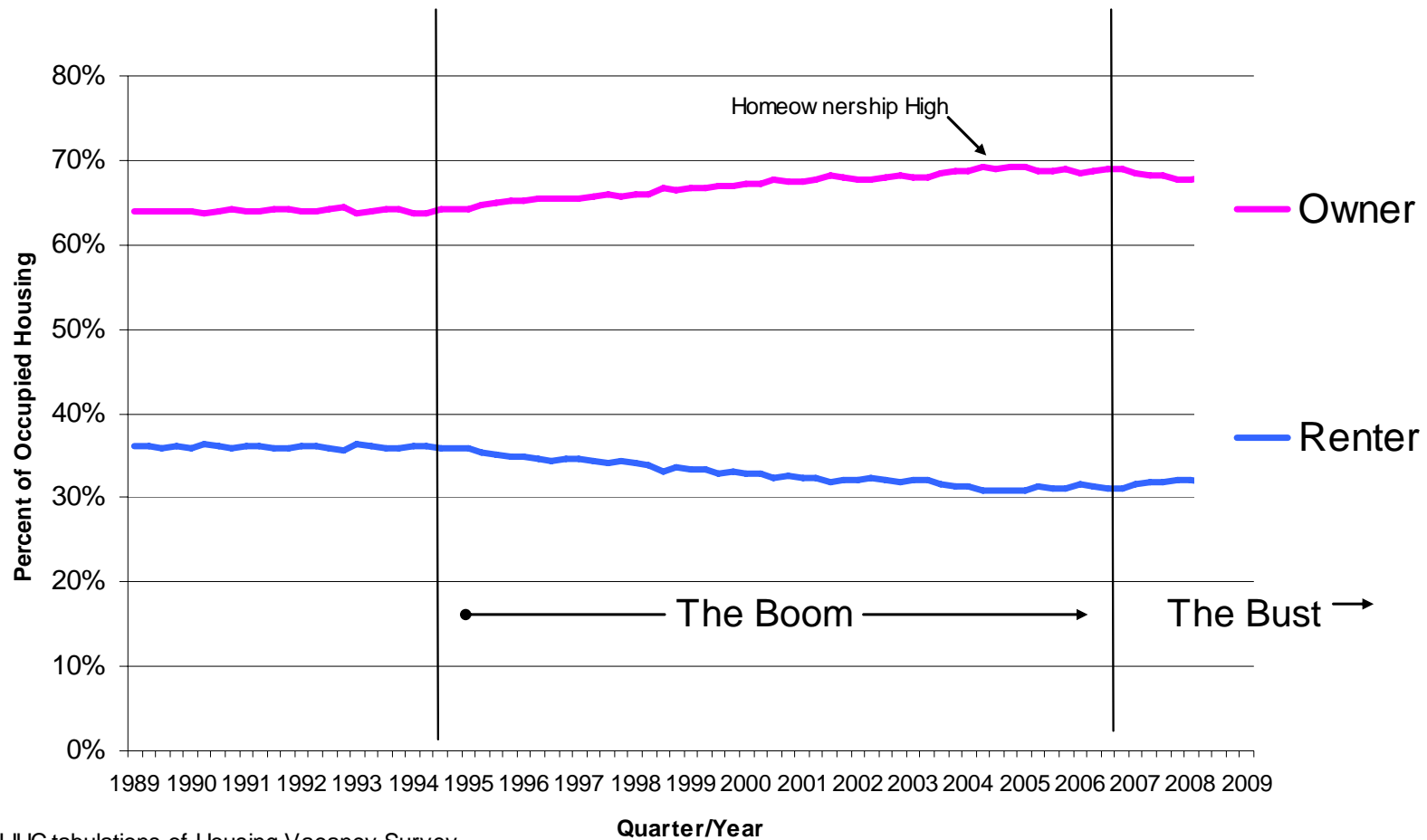
Income Limits and Poverty Thresholds for Washington, DC, HMFA

Persons in family	Extremely Low Income	Poverty guideline
1	\$ 21550	\$10,830
2	24650	14,570
3	27700	18,310
4	30800	22,050
5	33250	25,790
6	35750	29,530
7	38200	33,270
8	40650	37,010

Note: The rural MS ELI income limit for a family of four is \$12,550.

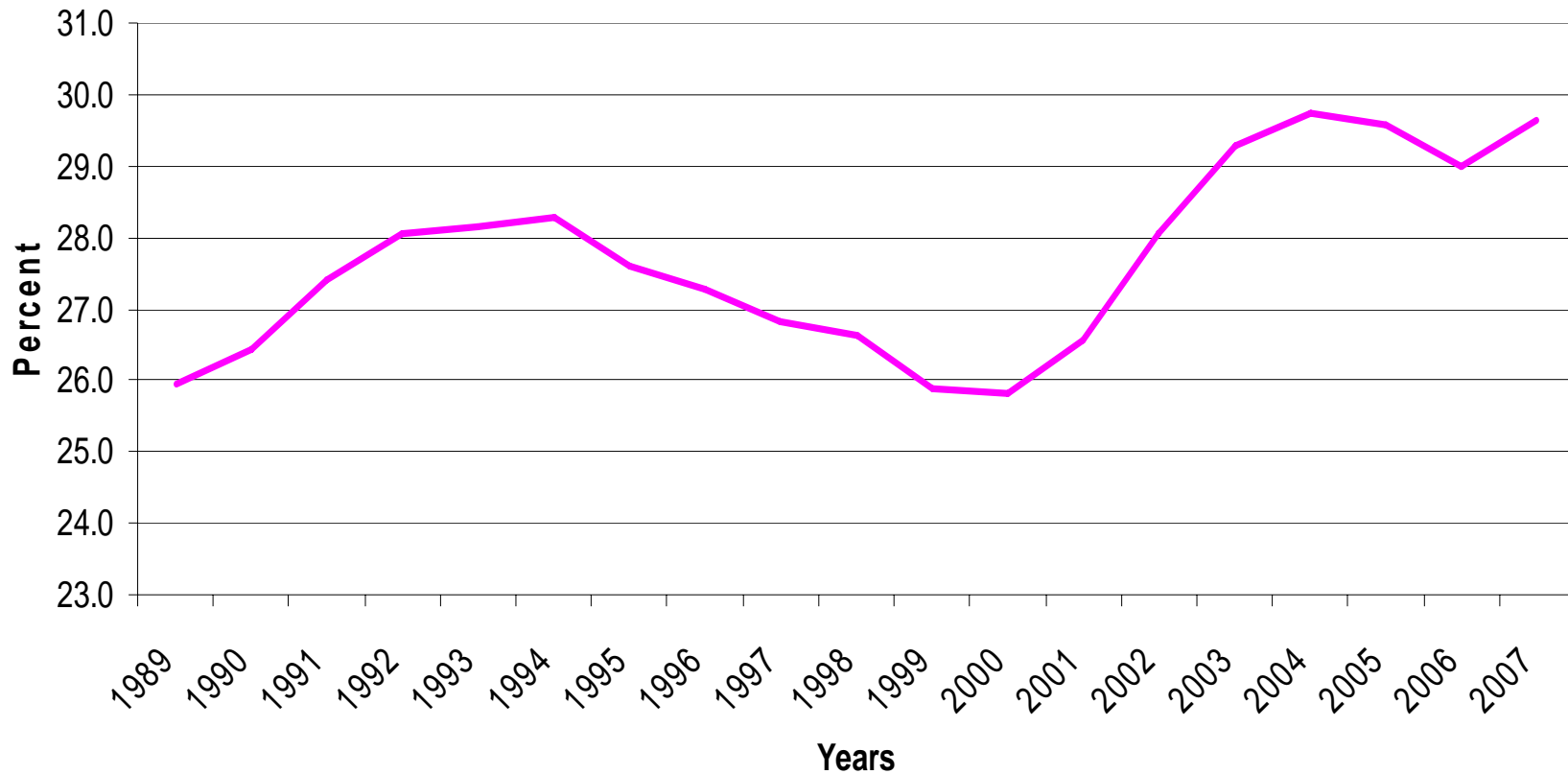
Two decades of renting and owning (Quarterly)

US Households: Percent Owner and Percent Renter
Quarterly 1989-2009 (Q1)



Nearly half of all renters now pay over 30% of income for housing

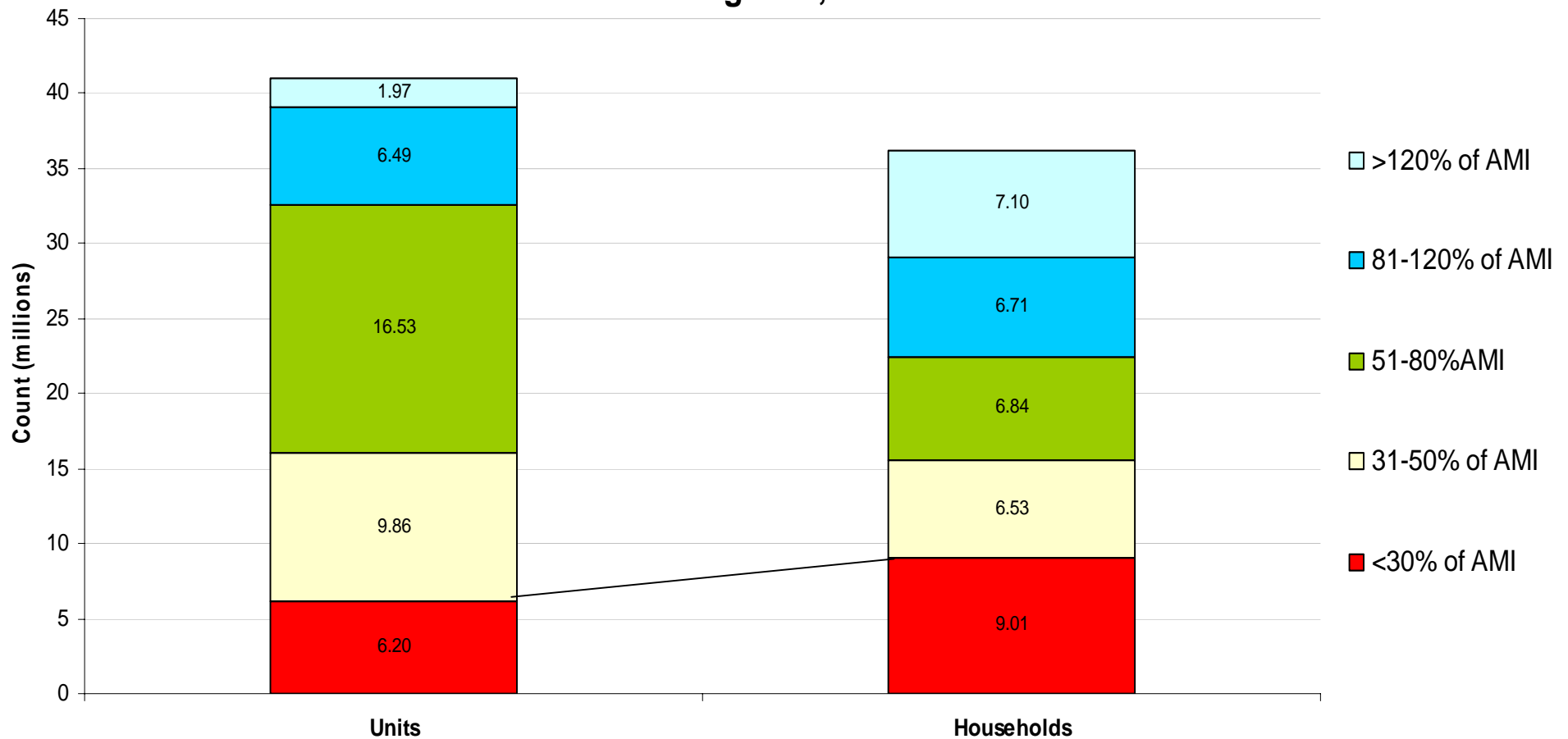
Median renter cost burden (1989-2007)
Gross rent as a percent of income



Supply is the problem

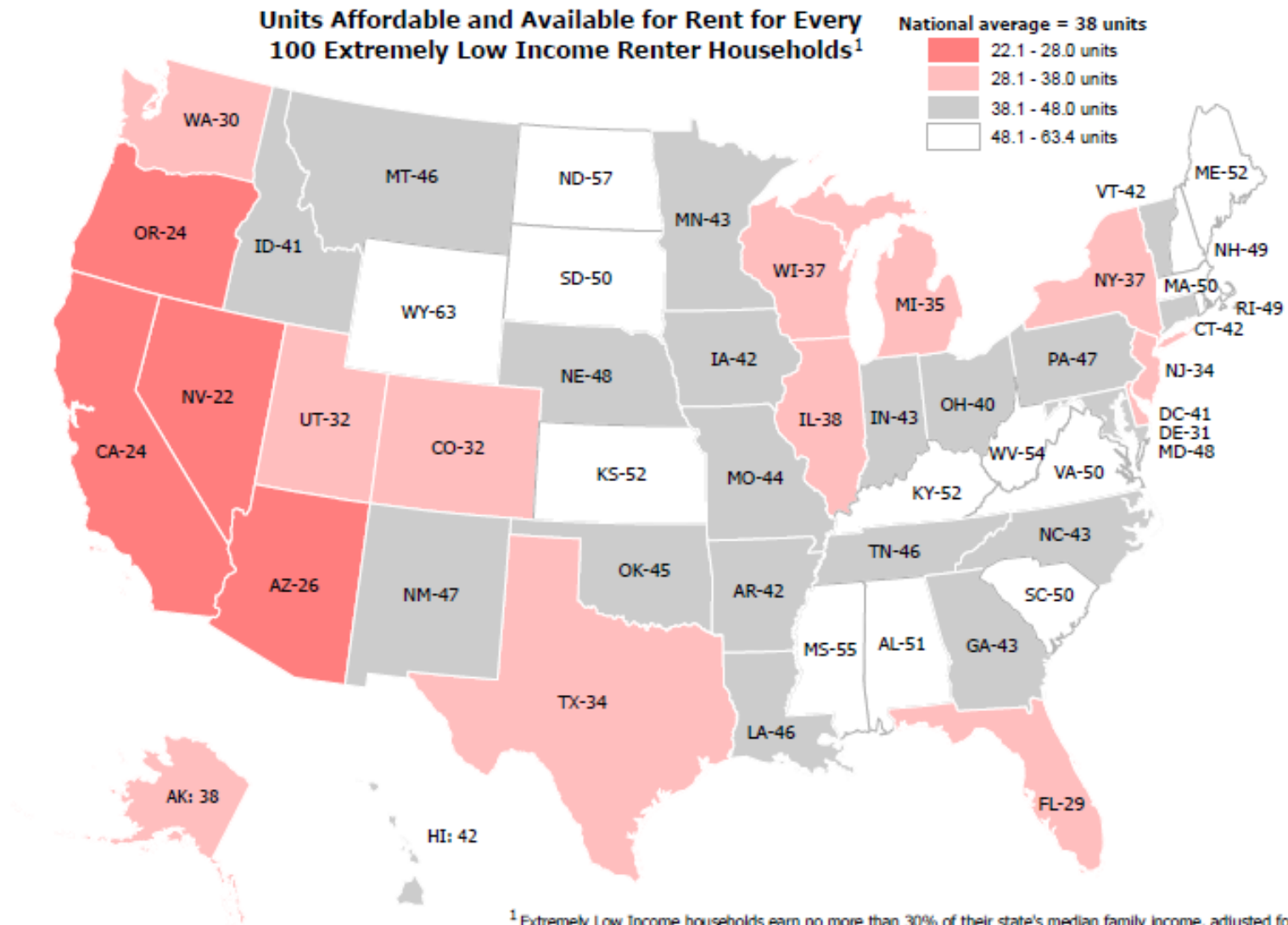
There is a 2.8 million absolute deficit of ELI rentals

Rental homes and renters in the US, matched by affordability and income categories, 2007



The gap exists nationwide

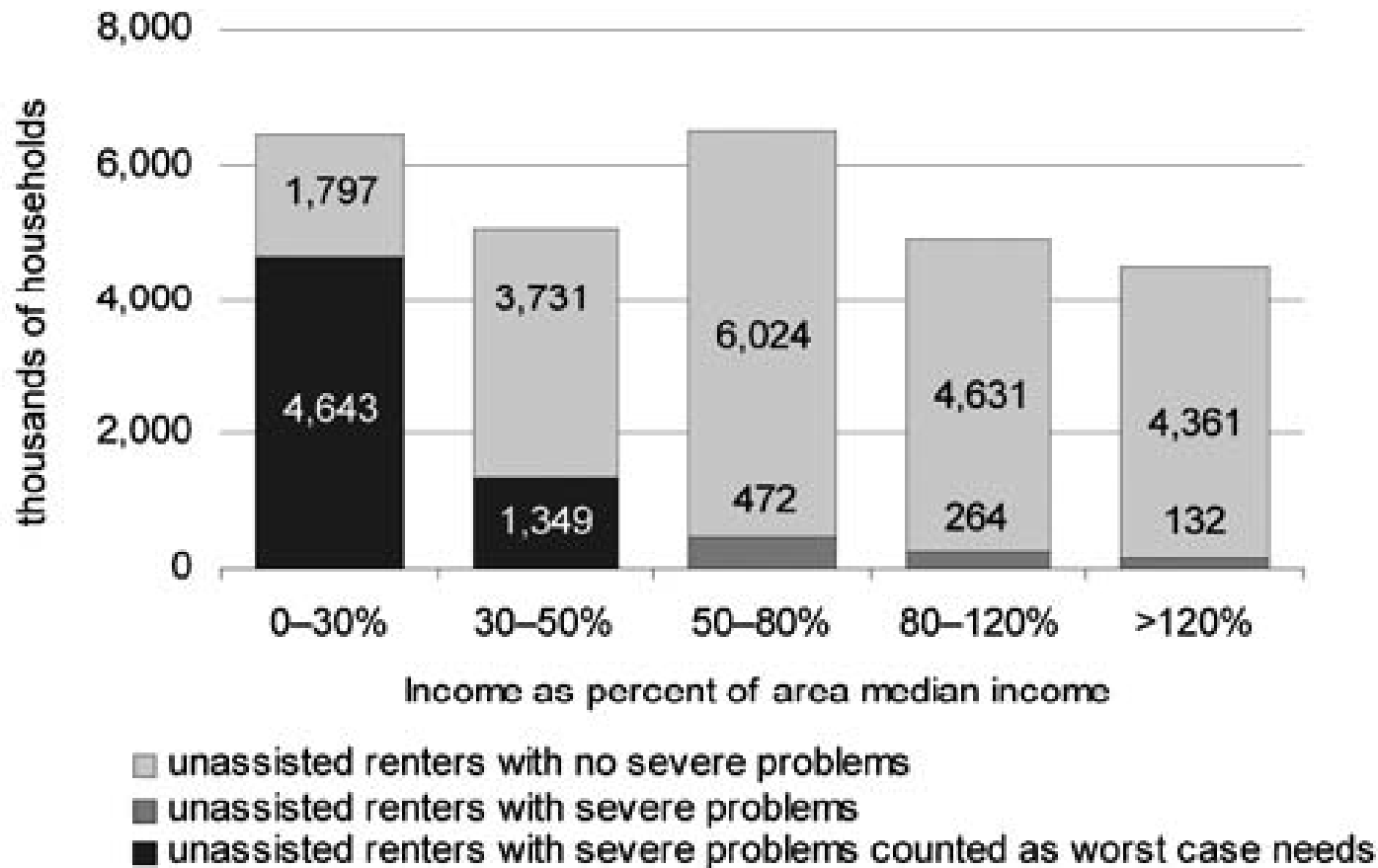
No state has more than 63 affordable homes for every 100 ELI renters



Note: States are classified by their unrounded values.

¹ Extremely Low Income households earn no more than 30% of their state's median family income, adjusted for household size. Affordable means paying no more than 30% of household income for housing. Source: NLIHC tabulations of the 2007 American Community Survey PUMS housing file. As with all surveys, margins of error are associated with all estimates derived from the American Community Survey.

Worst Case Needs Are Severe Housing Problems Experienced by Unassisted Very Low-Income Renters, 2005



Source: HUD (2007) Affordable Housing Needs 2005

Housing is a durable good

- What does it mean that housing units are durable goods?
 - Provide a flow of services over time.
 - Stocks vs. flows
 - At a basic level a unit of housing is an asset
 - if it is providing a net positive flow of services, otherwise a liability
 - What is the economic measurement of the flow of services called?
 - Rent – Rent = price x quantity
 - Price = present value of net rents (in theory)

Measuring Price

- A tenant or renter pays gross rent
 - This is a measure of his expenditure for housing by time of tenancy (contract rent + utilities)
- The price of the unit or building he lives in
 - The present value of rents minus costs
 - This is its value to a landlord/purchaser
- The price for a homeowner
 - A home owner is both landlord and tenant
 - Owner's equivalent of rent

What Determines Price?

- Supply and Demand.
- Where does supply come from?
 - Construction (destruction)
 - Conversion (conversion)
 - Filtering (filtering) – Intra-housing market gains and losses

Filtering

- Income filtering
- Price filtering
- Quality filtering
- Does the direction of filtering matter?

Additions and subtractions

- What limits supply?
 - Housing is lumpy i.e. there is some amount of money below which a unit of housing can not be provided/maintained.
 - Materials, labor, financing costs.
 - “Proximity” is a limited resource
 - Constraints of history
 - Past decisions limit current opportunities
 - The presence of a building changes future opportunities.
 - Property distribution and rights
 - People do not necessarily use to highest private use
 - (let alone highest social benefit).
 - The economists favorite bug bear – regulation
 - Raises costs of materials, labor, land.
 - Raises the minimum cost of the houses that can be built

What about demand?

- Demand is determined by changes in demographics, incomes, and preferences.
 - Demand for units is determined by “household formation.”
 - Demand for quality is determined by household income, characteristics, and preferences.
- Projecting demand is hard to do
 - Households are almost always mismatched with their housing.
 - Depends on projecting birth rates, immigration, incomes and household formation
- Economists speak of elasticity
 - Elasticity = Income Elasticity change in housing demanded for a unit change in income.
 - Empirically, elasticity for housing is less than 1, those with more income pay more but not proportionally more.

Why regulation?

- Property rights (contracts and enforcement), a sine qua non of a market economy, regulate transfers and uses.
 - Supply may be limited at a socially **sub**optimal level if income and land are poorly distributed and/or property rights are poorly defined or enforced.
- Other regulations ideally address market failure – “second best” solutions.

What are private goods?

- To understand market failure we must begin by saying markets handle private goods best.
- Rival
- Excludable
- Is housing a private or a public good?
 - External costs and benefits of community for a house
 - Schools, infrastructure, services, etc.
 - External costs and benefits of a house for community
 - Appearance, Infrastructure and service congestion, health costs, etc.
- Housing is a quasi-public good.

“Spillovers” and community

- Does better housing make better people?
- Does better housing make better communities?
- Do better communities make better houses?
- Do better communities make better people?

People versus Place.

What is our objective?