Communities thrive when people have safe and stable housing near their jobs and schools. A lack of housing options for people of all incomes contributes to worsening traffic and quality of life and threatens our region’s economic vitality.

What is affordable housing?

According to the U.S. Department of Housing and Urban Development (HUD), housing is “affordable” when a household pays no more than 30% of its total income for housing costs (rent or mortgage payment, insurance, taxes, and utilities). Households spending more than 30% of their income on housing costs are said to be “housing burdened.”

In the Greater Washington region, the annual median family income is $107,300. HUD measures income levels based on multi-year estimates of the annual median family income for households of varying sizes. Annual median family income represents the median for a typical 4-person household.

What is affordable in our region and for whom?

In the Greater Washington region, Fair Market Rent (FMR) for a two-bedroom apartment is $1,412. In order to afford this level of rent plus utilities – without paying more than 30% of income on housing – a household must earn $4,707 monthly or $56,480 annually. Assuming a 40-hour work week, 52 weeks per year, the wage needed to afford the rent for a two-bedroom apartment is $27.15 per hour (also known as the “housing wage”).

In the Greater Washington region, the annual median family income is $107,300, which means that many households can comfortably afford the region’s high housing costs. Their willingness and ability to pay, however, drives the price of housing up and out of reach of many low- and moderate income families.

A minimum wage worker earns an hourly wage of $8.25. So in order to afford the rent for a two-bedroom apartment, a minimum wage earner must work 132 hours per week, 52 weeks per year. Or a household must include 3.3 minimum wage earners working 40 hours per week in order to make the two-bedroom apartment affordable.

Over the past 40 years, median home values and rents in the Greater Washington region have increased much faster than household incomes. While the median household income increased by only 46% since 1970, rents rose by 69% and home values increased by 144%.

Source: Out of Reach 2013, National Low Income Housing Coalition
Subsidies

A range of policies and programs at the federal, state, and local levels target assistance to households with income typically under 80% of annual median family income to help them afford the region’s high housing costs. For example, Low Income Housing Tax Credits drive down the cost of developing units so that the eventual rents can be cheaper. Rental subsidies (like HUD’s Housing Choice Voucher – Section 8) help households rent units in the private market by bridging the gap between what they can pay and what the unit costs. Federal Housing Administration and other home purchase assistance programs help reduce the cost of buying a home so that households with moderate but stable incomes can move into homeownership. These resources are in short supply and can result in long waiting lists for assistance.

How do transportation costs affect housing affordability?

(see graphic on page 3)

Again, housing is “affordable” when a household pays no more than 30% of total income on housing costs. This 30% calculation ignores transportation costs which are typically a household’s second largest expenditure.

Region-wide, households spend a yearly average of nearly $23,000 on housing and $13,000 on transportation. Together, these costs represent almost 47% of the median household income. Because transportation costs are not often explicit (like rent) and can be variable (like gas prices), it is difficult for households to account for these costs when determining where to live. For this reason, households may make housing decisions (either by choice or by necessity) that place them far away from employment, social networks, and amenities, without adequately accounting for added transportation costs.

In the Greater Washington region, transportation cost increases begin to exceed housing savings when families are located approximately 15 to 17 miles from their employment centers. For example, on average, a family in Fauquier County spends $23,500 on housing annually compared to the $27,300 spent in Fairfax County, but those in Fauquier spend $18,000 on transportation rather than the $14,000 spent on transportation by Fairfax County residents. The cost savings of housing in Fauquier County is cancelled out by the increase in transportation expense.

According to the 2012 Annual Urban Mobility Report, the Greater Washington region has the worst traffic in the nation. Regional automobile commuters experience the greatest congestion delays in the country – 74 hours per year, which burns 37 gallons of fuel; and costs the average driver $1,495 in additional expenses both at the pump and in lost wages.

Source: Texas A&M Transportation Institute

Many people believe they can afford a larger home if they drive further from employment centers, also known as “driving till you qualify.” However, this is a myth. Transportation cost increases begin to exceed housing savings approximately 15-17 miles from employment centers.

Source: Beltway Burden, ULI, 2009

“A great city needs a mix of housing types because, by definition, it has a mix of workers and employment levels. If there is an imbalance of where people work and where they live, it gets very difficult for the employees.”

– Henry Cisneros, former Secretary of Housing and Urban Development, from his Brightest Minds lecture at WRAG, March 2013
Where Can the Nickelsons Afford to Live?

Meet the Nickelson Family
James: Mailman
Inez: Retail Salesperson
Lily: 3rd Grader
Anna: Kindergartener
Family Income: $58,720/year; $4,893/mo.
Affordable Rent: $1,468/mo.
Affordable Transportation: $733/mo.
Total Affordable Rent & Transportation: $2,201
(Rent is affordable at 30% of income; transportation is affordable at 15% of income.)

Frederick, MD
Median rent $1,050
Median transportation $1,300
Total: $2,350
Combined housing & transportation costs are 48% of income. The Nickelsons can afford to live here, but they are over their transportation budget. A commute to D.C. or inner suburbs by car or public transit is time-consuming and can mean less quality time at home with their children.

Manassas, VA
Median rent $1,410
Median transportation $1,300
Total $2,710
Combined housing & transportation costs are 54% of income. The Nickelsons are close to an affordable rent here, but moving further out has busted their transportation budget. Limited public transportation options may mean a more lengthy commute involving several forms of transport.

Arlington, VA
Median rent $2,710
Median transportation $880
Total: $3,590
Combined housing & transportation costs are 73% of income. Eliminating the car or taking metro more in transit-friendly Arlington would save the Nickelsons money, but housing costs are still way beyond their means.

Where can the Nickelsons afford to live? Not in this region. As you can see from the scenarios to the left, it may be less expensive for the Nickelsons to live in Frederick, but their combined housing and transportation costs if they commute to D.C. are still more than the recommended 45%. This dual-income household would need some type of housing support to make this region an affordable place to live.

Sources: Abogo and Zillow
What are the implications for the future?

Projections by the Metropolitan Washington Council of Governments suggest that without significant investment in highways and transit, congestion could stifle the region’s desire to grow. By 2030, the regional population is estimated to increase by 1.05 million newcomers (an increase of 38.2%) drawn by 874,000 new jobs. This translates to 731,457 net new housing units needed. Where will these workers live?

The Center for Regional Analysis at George Mason University states that currently in the region, 67% of housing units are single-family and 33% are multifamily homes. The employment forecast suggests that the type of housing needed for future workers should be 39% single family and 61% multifamily—the opposite of housing options that are currently available.

What Funders Can Do

While it is not the only part of the affordable housing solution, the philanthropic community needs to provide more resources (and resources in more creative and flexible ways) if the region’s affordable housing crisis is to be effectively addressed. Philanthropy can do this, specifically, by:

- Creating a financial structure that allows philanthropists to pool funds from their endowments or other resources for lending capital to development and preservation projects. These funds could be used for property acquisition and other pre-development costs for 5-7 years so that developers can acquire permanent financing for housing development or preservation around transit corridors.
- Pooling funds to act as a guarantee for debt as opposed to actually lending. The purpose of this would be to increase the amount of funding that transit-oriented projects could get from typical lending sources, since the fund would act as a guarantee for those loans. Such guarantees would leverage significant additional private investment.
- Aligning giving in targeted transit-oriented areas for residential and community services to support low-income and otherwise vulnerable households.
- Providing financial support to organizations that effectively lead public advocacy efforts since advocacy and education have a significant impact on the amount of public sector resources dedicated to affordable housing. Continued and increased financial support from the philanthropic community for even small advocacy efforts can yield millions of dollars in investment from public funding and policy changes.
- Utilizing endowments to make program-related investments (PRIs), which are loans and equity investments that foundations can make at below-market rates that have a direct charitable purpose. PRIs can provide much needed capital for housing developers, as well as a return on investment for foundations, and, in some circumstances, can be even more effective than traditional grants.

Communities on the Right Track Are

- using tools like density and public land subsidies to increase the overall number of housing units they can create.
- planning for the preservation and development of affordable housing units.
- jointly planning for housing, transportation and commercial changes.
- engaging the public, private, and nonprofit sectors in planning, funding, etc.

Local Examples Include:
- Columbia Pike Corridor
- Arlington County
- East of the River
- Washington, D.C.
- Tysons Corner
- Fairfax County