

**HOUSING SUPPLY & DEMAND**

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**"One Third of a Nation:  
An African-American Perspective"**

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Over the past half century, the quality of American housing has improved tremendously, and we are arguably the best-housed nation in the world. The improvement in housing since the end of World War II has benefitted virtually all types of households.

Despite the favorable overall state of U.S. housing, our housing wealth, like our national income, is unequally distributed. Many low income people find housing unaffordable or unavailable, and there is continuing evidence of racial discrimination in housing markets. The most visible and tragic example of our failure to adequately house all our people is the large and growing homeless population, at a time when the real value of new construction put in place is at near-record levels.

### The Housing Stock

As of 1985, the U.S. had about 97 million housing units, with more than two rooms, including one bedroom, for every person in the country. About 10% of the units were not regularly occupied. Of the approximately 10 million vacant units, about half were second homes held for seasonal or occasional use. Nearly two-thirds of the occupied units were owned by their occupants. Table 1 shows various measures of the housing stock over the past 50 years.

There are three dimensions along which the adequacy of housing is typically measured: physical quality, crowding, and affordability. Physical quality is measured in terms of the presence and serviceability of basic features such as plumbing and electricity, and the absence of defects such as leaky roofs or holes in the walls. Crowding is measured in terms of the number of people per room or per bedroom. Affordability is typically measured by the relationship between housing costs and incomes.

A fourth dimension of the adequacy of the housing supply -- availability -- has recently become an increasing concern. That concept is more difficult to define and measure, but policies that remove substandard housing and control rents, without increasing supply, can make housing decent and affordable, but not available.

The growth in homelessness is partly attributable to availability problems. The homeless don't get counted at all in the standard measures of quality, crowding, and affordability, because they are not part of the household population. The more common manifestation of the availability problem is the fact that the households seeking homes are unable to obtain housing of the same quality or at the same price as those already established in their homes. That is reflected in long waiting lists or lotteries for available units, the inability of many households chosen as vouchers recipients to find qualified housing (see below), or the need for households to live far from where they work.

Traditionally, the key objective measure of physical adequacy has been the presence of private indoor plumbing. In 1940, nearly

Table 1

Characteristics of the Housing Inventory

	1940	1950	1960	1970	1980	1985
	Millions					
Resident Population	132	151	179	203	227	239
Year-round Housing Units	37	46	58	68	85	97
Rooms	180	217	285	342	454	523
Lacking Complete Plumbing	45%	35%	16%	7%	3%	1%
Owner-occupied	45%	55%	62%	63%	66%	63%

Sources: Decennial Census of Housing and American Housing Survey

half of the houses in the nation did not include hot and cold piped water, a flush toilet, and a bathtub or shower, for the exclusive use of the household. The share of houses without these basic plumbing facilities is now less than one percent.

As the quality of the housing stock has improved, measures of adequate physical quality have become more stringent and more sophisticated. In Census Bureau and HUD analyses, a unit is considered to be "severely inadequate" if it has any one of the following:

1. Lacking complete plumbing.
2. Heating system broke down at least three times in preceding winter.
3. No electricity; or suffering from a combination of exposed wiring, rooms without outlets, and frequently blown fuses.
4. Having a combination of these conditions: water leaks, holes in floors and walls, peeling paint or broken plaster, and rats or mice.
5. Having, in hallways, a combination of no lights, loose or missing steps and railings, and no elevator.

Units are classified as "moderately inadequate" if they have any of a list of less severe deficiencies such as toilets that have broken down repeatedly or the lack of an oven. (AH585-App 14 - 15). Based on those criteria, 1.8% of the occupied units in 1985 were classified as having severe physical problems, while 6.5% had moderate physical problems (AHS85, p16).

These "objective" judgements of physical adequacy often are not shared by the residents. When asked to rate their home as a place to live on a scale of 1 to 10, 29% of the occupants in severely inadequate units and 46% of the occupants in moderately inadequate units gave a rating of 8 or higher (AH585, p22).

A unit is generally considered to be crowded if there are more people than rooms. Where there are more than 1.5 people per room, it is considered severely crowded. In 1985, 2.8% of all occupied units had more than 1.0 persons per room and 0.6% of occupied units had more than 1.5 persons per room. The proportion of housing units that are crowded has shown continuing declines, due mainly to declines in the size of households and partly to increases in the sizes of housing units. (AHS85, p14)

While there have been continuing improvements in housing conditions as measured by physical quality and crowding, housing affordability has deteriorated. The median ratio of gross rent to income among renters increased from 20% in 1970 to 27% in 1985.

The dramatic increase in rent burdens has not been solely because of increases in real rents for units of standard quality. Over the period from 1970 to 1985, real gross rents for units of equivalent quality increased by 9.2% (JCHS88, p20) so that factor alone would only have increased the median rent/income ratio from 20% to about 22%.

Over the 1970 to 1985 period, the median income of all households grew by 2.6%, but the median real income of renter households fell by 4.9%. (Census series p60) The decline in the relative income of renter households reflects three factors. First, there have been demographic changes, including rapid growth in the number of single person and single parent households. Those types of households tend to be renters and tend to have lower incomes than married-couple households. Second, there has been a shift in patterns of home ownership, with a larger share of higher income households becoming home owners. By leaving the renter population, high income households lowered the average income among renters. While it has always been true that higher income groups have had higher ownership rates than lower income groups, the correlation between income and ownership has increased in recent years (NAHB86, p23). Thirdly, the distribution of income has become more unequal over the past 15 years (MSC, Dec. 88).

In addition to changes in the incomes of renters, the increase in rent/income ratios is attributable to improvements in housing quality. While real quality-adjusted gross rents increased by 9.2%, real median gross rents increased 28.2%. That's just another aspect of the changes in physical quality and crowding described above. Whether by choice or not, renters no longer live in the low-cost substandard housing that was much more common in the past.

The affordability of owner-occupied housing is harder to define than rental affordability. It depends on the ability of homeowners to come up with the cash for down payments or for regular mortgage payments, taxes, insurance, maintenance and other expenses; but the ultimate cost of ownership also includes foregone interest on the equity investment and offsetting amounts in the form of tax savings and resale proceeds.

By any standard, home ownership is more expensive today than in 1970, but in terms of cash outlays, housing affordability is greater now than in the early part of the current decade.

### Housing Supply

Housing is a very durable asset, and the flow of new supply in a year from construction and manufacturing is equivalent to less than 2% of the stock. Thus, in the short run most housing demands are met from the pre-existing supply.

The new construction that does occur is generally provided to higher-income households willing and able to pay a premium for

housing that is more up-to-date and in better repair. Low income housing is generally supplied from the older stock through a trickle-down or "filtering" process as higher income households trade up and move out. These generalizations are not strictly true in all cases, but new construction for low and moderate-income households rarely occurs in the absence of subsidies or incentives provided by government.

In the past few years, new production has become much more heavily concentrated on luxury housing. That reflects demographic change (baby boomers reaching trade-up age), greater income inequality, changes in tax law, restrictive local regulations, and cutbacks in Federal programs.

In the 1980's, government subsidies and incentives for production of low income housing have been much more limited than in the 1970's. That is one factor that has created problems of affordability and availability of housing for lower income households.

Changes in tax law are also a factor in determining what kind of housing is built. Since the passage of the Tax Reform Act of 1986, new production of rental housing has been cut by more than 40%, with most of the decline occurring among lower rent units. A new tax incentive for construction of low-income housing -- the Low Income Housing Credit -- is now beginning to have some positive impact, but it is much more limited than past subsidies and incentives.

At the same time that the flow of new subsidized or tax-advantaged construction was cut back, changes in the existing housing market were disrupting the filtering process. The net movement of population out of metropolitan areas reversed, so that fewer homes were being left behind by outmigrants. The changes in population flows, together with other demographic changes, changes in the relative cost of new and existing housing, and improvements (or lack of obsolescence) in the older stock contributed to gentrification, which is basically reverse filtering -- from low-income residents to higher-income residents. Condo conversions also played a role in this process. In localities with rent control, higher income households tended to hoard rental units rather than allow them to trickle down.

#### Low-Income Housing

The problems of physical inadequacy, crowding, or excessive cost burden are not randomly distributed among U.S. households. Although all three problems exist across most of the income spectrum, the frequency of each of the three problems is greatest among low income households. Table 2 shows the incidence of certain housing conditions and problems by family income. Lower income households clearly tend to have lower homeownership rates,

Table 2

Housing Characteristics by Income  
All Households - 1985

	All Incomes	Under \$5,000	\$5,000- \$9,999	\$10,000- \$14,999	\$15,000- \$19,999	\$20,000- \$29,999	\$30,000- \$39,999	\$40,000- \$59,999	\$60,000- \$79,999
Total Units	88,425	8,570	11,519	10,661	9,572	17,149	11,916	11,495	4,148
Homeownership Rate	63.5%	36.6%	46.7%	52.0%	55.0%	65.3%	75.6%	85.4%	89.7%
Median Age of Unit	23	31	30	27	25	23	21	19	17
Built in Previous 4 years	6.5%	3.7%	3.2%	5.6%	5.3%	7.3%	9.0%	7.8%	9.0%
Physical Problems:									
Moderate	6.6%	13.7%	10.8%	8.5%	7.4%	5.1%	3.8%	2.8%	1.9%
Severe	1.8%	5.8%	2.9%	2.1%	1.5%	1.1%	0.8%	0.4%	0.3%
Public or Subsidized Rental Housing:									
As a share of Household	5.3%	21.5%	13.7%	5.7%	3.1%	1.6%	0.7%	0.3%	0.2%
As a share of Renters	14.6%	33.9%	25.7%	11.8%	6.9%	4.5%	2.9%	2.2%	1.9%
Median Housing Cost/Income:									
All Households	21%	69%	37%	27%	22%	19%	17%	14%	12%
Owners	18%	57%	30%	22%	19%	17%	16%	14%	12%
Renters	27%	>70%	45%	31%	25%	20%	17%	14%	11%
2 or more bathrooms	28.2%	8.6%	9.9%	14.0%	18.5%	27.1%	37.6%	49.3%	62.3%
Median Rooms	5.3	4.2	4.5	4.8	5.0	5.3	5.8	6.3	6.9
Median Persons	2.3	1.5	1.7	2.0	2.2	2.4	2.8	3.1	3.2

Source: U.S. Bureau of the Census, American Housing Survey - 1985

Incomes are for Families or Primary Individuals in Household

Public or Subsidized Units based on Respondents' Reports--may be subject to error

older homes, and more problem with the physical quality of their homes, although there are clearly individual exceptions.

The substantial number of homeowners among the lower income groups reflects the inadequacy of income in one year as a measure of financial wherewithal. Many households with low current income are retired. Their ownership reflects their higher income while working and accumulated wealth that is high relative to their current income. Other households with low current income may be temporarily unemployed, with both a past history and a future expectation of higher income.

Among low- and middle-income households the housing cost to income ratio is generally much lower for owners than for renters. Housing cost for owners, as measured in the American Housing Survey, includes mortgage payments, real estate taxes, insurance and utilities. For renters, it consists mainly of rent and utilities. The lower cost for owners reflects the fact that many owners, especially older households, have already paid off their mortgages or have mortgage payments that are based on prices and interest rates many years earlier. Also, maintenance and repairs performed or paid for by owners is excluded, while the cost of maintenance and repairs is built into the rent paid by renters.

The percentage of homes built in the preceding 4 years is much greater for higher income groups than for lower-income groups, but there were still a significant number of new units occupied by low-income households in 1985. The 1985 AHS shows 450,000 rental units occupied by households with less than \$10,000 income and built in the preceding four years. The number of public and assisted rental units shown as less than four years old was 370,000. Most of those units were authorized in the 1970s. Although not all of the new public and assisted units were occupied by households with incomes under \$10,000, these data confirm that public and assisted construction was responsible for much of the newer housing occupied by low-income households. Public and assisted new construction has been all but eliminated in recent years.

The Federal government has had a number of programs to provide decent housing to low-income households at affordable rents. The programs provided subsidies to developers and/or low income households such that assisted households only had to pay 30% of their incomes for rent for units that met certain quality standards.

Unlike most government programs for poor households, housing assistance is not an "entitlement" program. That means that not all eligible households who properly apply for assistance receive it. In fact, only about one fourth of the very-low-income households that meet the eligibility requirements receive assistance.

In the 1960s and 1970s, most Federal housing assistance was used to subsidize construction of low-income housing. This consisted either of public housing or privately-owned housing that was reserved for low-income households and subject to rent limits. Beginning in the 1970s, but particularly during the Reagan and Bush administrations, there has been a shift toward tenant-based assistance, wherein a poor household receives a certificate or voucher that provides that the government will pay the difference between 30% of the household's income and the market rent on existing housing. In order to receive their subsidy, the household must live in housing that meets certain quality standards.

Some households that are offered certificates or vouchers already live in housing that qualifies. For those who don't, however, they must either get their home brought up to standard or move to another unit that meets the standard.

Remarkably, about half of all households who are chosen to receive such tenant-based assistance and who do not already live in housing that qualifies are unable to find qualified housing and must forego assistance. That's remarkable because those households often waited years to receive the offer of assistance, and the subsidies are quite generous. That suggests that there is a need for additional supply.

The failure of households offered tenant-based assistance to find qualified housing is concentrated in certain localities and among certain types of households. Generally, cities with low vacancy rates -- especially those with rent control -- have high failure rates. Also, minority households have higher failure rates, while elderly households have relatively low failure rates. (Kennedy)

The supply problem may get worse. Many of the units whose production was subsidized and whose owners in turn made commitments to reserve the units for low-income households will soon be eligible for conversion to non-reserved market rentals or condominiums. In other cases, where the government has subsidized tenants, the government's commitment to do so is about to expire. If these units are no longer set aside for low-income occupancy, the pressure on the low-income housing market could become more severe.

Table 3

Selected Housing Conditions of Minorities  
1985

	All Households	Black	Hispanic
Homeownership Rate	63.5%	43.5%	39.6%
Median Age of Structure	23 yrs	28 yrs	27 yrs
Physical Problems:			
Moderate	6.6%	16.8%	13.6%
Severe	1.8%	5.4%	4.1%
More than 1.5 persons/room	0.6%	1.2%	4.1%
Median Sq. Ft./Person*	633	487	385
Single Family Detached	62.3%	47.2%	47.0%
Mobile Home	5.3%	2.9%	3.2%
Lacking Complete Kitchen	1.5%	3.0%	2.8%
Central Air Conditioning	33.3%	22.6%	23.8%
Toilet broke in last 3 mos.	5.9%	10.6%	8.6%
Signs of rats in last 3 mos	5.1%	18.5%	14.7%
Abandoned Bldg Nearby	3.6%	14.1%	8.6%
Median persons in Household	2.3	2.5	3.1
Median Household Income	\$22,628	\$13,666	\$17,055
Median Housing Cost/Income:			
All Households	21%	27%	26%
Renters	27%	31%	30%
Region:			
Northeast	21.2%	18.8%	21.0%
Midwest	25.0%	19.8%	7.2%
South	34.0%	52.1%	32.0%
West	19.8%	9.2%	39.8%
Live in Central Cities	33.5%	60.4%	54.6%
Live Outside Metro Areas	22.4%	15.0%	9.2%

Source: U.S. Bureau of the Census, American Housing Survey 1985  
\* Single Family detached and Mobile Homes

## Housing of Minorities

Because the average incomes of African Americans, Hispanics, and some other minorities is lower than the overall national average, it is not surprising that, on average, they occupy older, lower quality housing, have lower home ownership rates, and pay larger shares of their incomes for housing. This is shown in table 3.

What these data do not reveal, however, is whether the racial differences are simply due to income or whether there are differences that remain after adjusting for income. Table 2 shows housing for African American households by income. Comparing these data with the corresponding values for all households in table 4 indicates that for any given income level, African American households are less likely to own their homes, less likely to live in recently constructed homes, and more likely to live in homes with physical inadequacies. The relationship of housing cost to income, however, is apparently not significantly different for African-Americans compared to the total population.

When housing cost data are compared separately for owners and renters, it appears that African-Americans actually spend slightly less on housing than members of the majority population at similar income levels and tenure status. This phenomenon of "underconsumption" of housing by minority households has been repeatedly observed in previous studies, but not well understood (Yinger79).

With African-Americans spending about the same or slightly less on housing and living in older structures with substantially more severe deficiencies, it appears that they face higher prices for equivalent-quality housing, since the quality differences seem to be larger than the spending differences. Prior research suggested that when all characteristics of the housing are taken into account (including neighborhood characteristics), African-Americans do pay high prices (Smith80). That in turn suggests the presence of discrimination. The presence of discrimination has been measured directly as well (Reid85).

Comparison of tables 2 and 4 indicates also that a larger share of African-Americans receive housing assistance at each income level. That may partly reflect the fact that low income minorities are more likely to be chronically poor than low-income majority whites (see Census p-70, No.15-RD-1,p9). Also, minorities are concentrated in central cities, as are public and assisted housing units.

The low home ownership rates of African-Americans deserve special attention. As Leonard, et. al., note, the share of poverty-level non-Hispanic whites who own their homes (46%) is greater than the share of all African-American and Hispanics who are home owners.

Table 4

Housing Characteristics by Income  
Black Households - 1985

	All Incomes	Under \$5,000	\$5,000- \$9,999	\$10,000- \$14,999	\$15,000- \$19,999	\$20,000- \$29,999	\$30,000- \$39,999	\$40,000- \$59,999	\$60,000- \$79,999
Total Units	9,903	2,151	1,887	1,425	1,081	1,573	811	665	230
Homeownership Rate	43.5%	23.5%	33.0%	41.4%	41.1%	54.0%	64.7%	75.8%	87.4%
Median Age of Unit	28	35	34	28	28	24	25	23	22
Built in Previous 4 years	4.4%	2.9%	2.4%	6.3%	6.1%	4.4%	6.3%	5.1%	4.3%
Physical Problems:									
Moderate	16.8%	22.4%	22.0%	19.5%	16.4%	12.0%	10.1%	4.8%	3.5%
Severe	5.5%	9.6%	6.7%	6.2%	5.1%	2.6%	2.0%	0.9%	0.0%
Public or Subsidized Rental Housing:									
As a share of Household	15.9%	34.4%	23.7%	13.2%	7.7%	5.3%	2.5%	1.1%	0.0%
As a share of Renters	28.1%	45.0%	35.4%	22.5%	13.0%	11.6%	7.0%	4.3%	0.0%
Median Housing Cost/Income:									
All Households	27%	65%	40%	28%	24%	19%	16%	14%	12%
Owners	20%	48%	32%	22%	18%	18%	14%	13%	11%
Renters	29%	67%	43%	29%	25%	19%	15%	14%	10%
2 or more bathrooms	13.7%	3.9%	7.2%	11.0%	11.3%	17.4%	25.5%	33.7%	43.9%
Median Rooms	4.9	4.1	4.6	4.7	4.8	5.2	5.7	6.0	6.9
Median Persons	2.5	1.7	2.3	2.5	2.4	2.7	3.0	3.6	3.7

Source: U.S. Bureau of the Census, American Housing Survey - 1985

Incomes are for Families or Primary Individuals in Household

Public or Subsidized Units based on Respondents' Reports--may be subject to error