

# Affordable Housing Policy

## Smart Growth Recommendations from New Jersey Future

Issue 8 • October 2004

### The Need for an Effective Affordable Housing Policy

Some half-million low- and moderate-income households in New Jersey are in need of housing they can afford. What's more, the affordable housing that does exist is overwhelmingly concentrated in a small handful of municipalities, most of which are losing jobs. (See Figure 2, "Concentrating Poverty," on page 3.) This concentration of lower-income households perpetuates poverty by excluding poor children and workers from the better education and job opportunities available in non-poverty communities – education and jobs necessary to break the cycle of poverty.

Meanwhile, affordable housing is virtually absent from many newer suburban areas, which often means that people who work in service-sector jobs in these places cannot afford to live there. The shortage of affordable housing in most new job-center municipalities leaves many workers with no choice but to live elsewhere and commute long distances, adding to traffic congestion throughout the state.

An effective affordable housing policy for New Jersey should aim to provide an adequate supply of affordable homes in places where there is an undersupply. It should, therefore, attempt an accurate and thorough measurement of how much affordable housing is needed – and *where* it is needed. And it should address social justice issues, by embracing mechanisms that reverse the concentration of poverty and create affordable housing in places where exclusionary zoning has thus far prevented it.

### Measuring the Need Correctly

When discussing the need for affordable housing, we must first be precise about *whose* need we are measuring. While households of many income levels have difficulty covering their housing costs, the Mount Laurel Supreme Court decisions specifically addressed the needs of low- and moderate-income households. A "low-income" household is one whose gross income is 50 percent or less of the median gross income over all households of the

same size in the region. A "moderate-income" household is one whose income is between 50 and 80 percent of the regional median. Together, the two groups are referred to as "lower-income" households. According to the Council on Affordable Housing (COAH), lower-income households account for about 40 percent of the households in the state.

### Housing Burden

What is meant by "affordable?" A standard used by many housing analysts is that a household should have to spend no more than 35 percent of its gross income on housing costs. (Housing costs include mortgage payments or rent, utilities, hazard insurance, and real estate taxes.)<sup>1</sup> Any household spending more than the threshold is said to be carrying a "housing burden." At this level, spending money on housing costs often means forgoing other basic necessities.

*...continued on page 2*

<sup>1</sup> Some housing programs and advocates use a threshold of 30 percent, but because this threshold is also often used by mortgage lenders in qualifying borrowers for loans, using it to quantify housing burden is likely to include some households, like first-time home-buyers, that willingly enter into a burdened situation with the knowledge that it is temporary. A much less ambiguous indicator of housing burden is 35 percent.

## Recommendations in Brief

New Jersey Future calls on state leaders to adopt an affordable housing policy that will:

1. Measure the affordable housing need accurately.
2. Determine municipal housing obligations in an equitable and "fair" way that acknowledges each municipality's existing share of housing and jobs with credit for existing lower-income households.
3. Ensure affordable housing is provided in both growing and built-out communities.
4. Create adequate affordable housing near jobs and good schools to break up the concentration of poverty.
5. Link the provision of affordable housing to State Plan policies and benefits.

*For details, see page 4.*

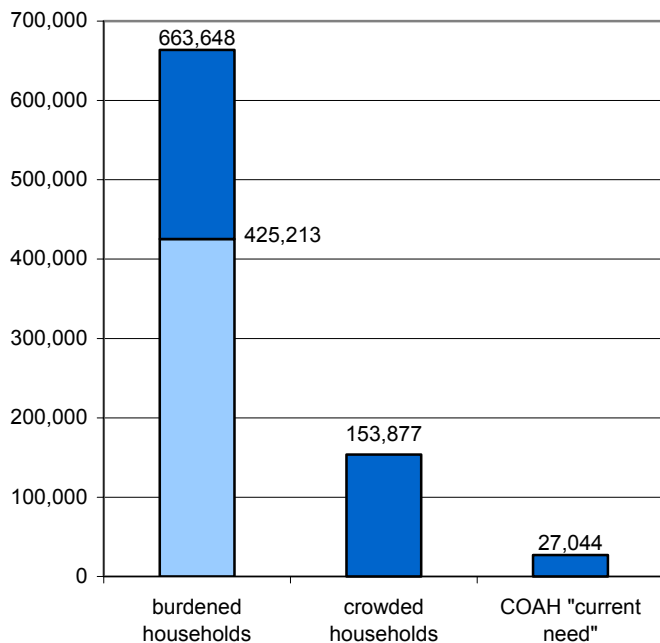
## Crowding

Housing burden is not necessarily the only indicator that a household is in need of a more affordable residence. Sometimes, households will double up and share living quarters in order to save on housing costs, resulting in crowded conditions (defined as more than one person per room).<sup>2</sup> Such households may not even meet the definition of low- or moderate-income, because they are now pooling their resources, but crowded households of all income levels should nonetheless be counted as needing an affordable unit, since they would presumably prefer to split into multiple households, or at least occupy a larger unit, if costs allowed.

## Quantifying the Need

A comprehensive measure of the need for affordable housing would include all low- and moderate-income households that are paying at least 35 percent of their gross income on housing costs, and would also include all crowded households, regardless of income.<sup>3</sup> The number of households in each of these groups can be quantified using the Census Public-Use Microdata Sample file (PUMS), precisely the same data source used to compute affordable housing need under the state's current methodology, and with no more difficulty than the current methodology entails.<sup>4</sup>

**Figure 1: Measuring the Need for Affordable Housing**



Statewide, there are 663,648 households experiencing housing burden, most – but not all – of which are also low- or moderate-income, so this number represents an upper bound on the number of burdened lower-income households. The 425,213 figure represents a lower bound, estimated by NJ Future using available tabular data and the most conservative assumptions. The exact number could be determined using the PUMS file. Some, but not all, crowded households are also experiencing housing burden, so the overlap would have to be removed in any calculation of total affordable housing need. Again, this would be possible using the PUMS data. COAH's narrowly defined official estimate of the need for affordable housing is shown for comparison.

*Data sources:  
2000 Census; Council on Affordable Housing*

## Ensuring Affordable Housing is Built Where Most Needed

### The "Fair Share"

Just as important as measuring the need for affordable housing is determining *where* it is most needed. The New Jersey Supreme Court, in its "Mount Laurel" decisions, declared that each municipality is responsible for providing its "fair share" of regional housing needs. The Court did not specifically indicate what a "fair" distribution of affordable housing should look like, but a simple interpretation would indicate that a municipality's share of the region's supply of affordable housing should parallel its share of the region's total households.

A large concentration of jobs should also trigger higher affordable housing requirements, given the importance of employment in breaking the cycle of poverty. A municipality's obligation should probably also reflect the number of lower-income households already living in the municipality, as well as the number of housing units in the municipality that are affordable to lower-income households (whether through government programs or through market forces), so as to avoid assigning disproportionately large obligations to municipalities that already

<sup>2</sup> For Census purposes, a "household" is defined simply as the set of all persons occupying a single housing unit. Thus when two or more groups of people decide to share living quarters, they now constitute a single household, even if they may see themselves as separate family units.

<sup>3</sup> A thorough assessment of the need should probably also include a third component – an undetermined subset of people living in group quarters, which for Census purposes also includes the homeless, who are enumerated as "living" at the nearest homeless shelter. Further research would be needed to uniquely identify that portion of the group-quarters population that would prefer to be living independently.

<sup>4</sup> Chapter 94 of the COAH rules, on p.5 of Appendix A, says of the PUMS file, "This information is infinitely malleable and any sort of cross tabulation for any reported characteristic can be derived."

provide a significant supply of affordable housing. This would require a more comprehensive inventory of existing affordable units than currently exists.

Given that affordable housing is unlikely to materialize on its own, the state should institute mechanisms designed to result in the actual creation of affordable units where they are most needed. This includes not only places that are rapidly growing but also places that have already experienced their growth spurts but which remain underserved with affordable housing.

### Growth Share

A concept newly introduced into the state’s latest rule proposal is growth share, an excellent means by which to generate affordable housing in new developments. The concept is simple – in any new residential development, a given percentage is required to be affordable to lower-income households.<sup>5</sup> Affordable housing will thus automatically appear wherever growth in general is going, ensuring that lower-income households have access to the same opportunities that are drawing other residents to newly developing areas. Growth share can also be linked to employment growth, with a requirement that an additional affordable housing unit be built for every given number of new jobs generated by non-residential developments.

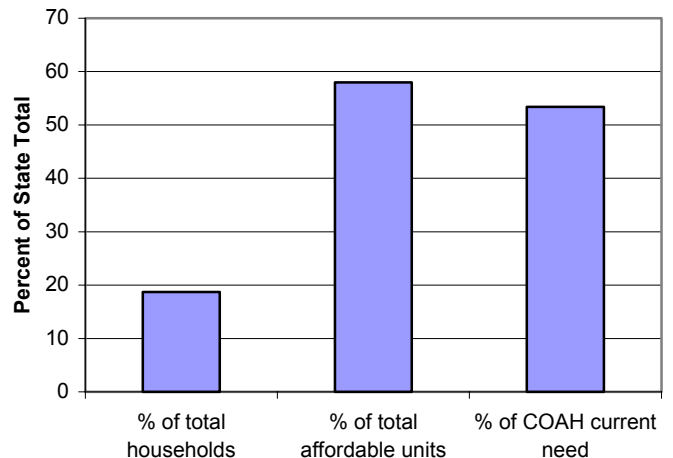
In the interest of fostering a more equitable distribution of affordable housing, growth share percentages could be increased in municipalities that currently provide far less than their proportional share, in order to bring them up to speed faster. Those with little remaining buildable land might even be required to create affordable units outside of the growth share process, that is, even in the absence of any new market-rate housing. At the other end of the spectrum, the growth share percentages could be reduced, or even waived in the near term, for municipalities that already host a disproportionate share of the region’s affordable housing.

### Regional Contribution Agreements

Progress toward the goal of a more “fair” distribution should not be undermined by loopholes that allow some

municipalities to displace part of their obligation onto others. Regional Contribution Agreements (RCAs) allow wealthier towns to buy their way out of up to half of their fair share obligation and thus represent a retreat from the goal of an equitable distribution of affordable housing. And because RCA “receivers” (the municipalities that agree to build the affordable housing with the payoff from their wealthier neighbors) tend to be poorer places that are already oversupplied with affordable housing, RCAs have the effect of further concentrating poverty. Today’s concentrations of poverty can never be dissipated if the net result of the state’s affordable housing policy is that affordable housing continues to be built predominantly in those places where it is already in oversupply. If already strapped communities want to continue to build affordable housing for their existing lower-income populations, state money should be forthcoming to assist them, but not at the cost of allowing communities elsewhere to shirk their responsibilities.

**Figure 2: Concentrating Poverty**



**Shares of State Totals Accounted for by 20 Municipalities with the Greatest Number of Affordable Units**

COAH’s determination of “current need” calls for the bulk of new affordable housing to be directed into places where it is already overrepresented. The 20 municipalities containing the greatest number of affordable units host a disproportionate share of the state’s supply of such units – 58 percent, as compared to comprising only 19 percent of the state’s total households. Yet these same municipalities are assigned more than half of the “current need” under the new COAH methodology.

*Data sources: 2000 Census; New Jersey Department of Community Affairs “Guide to Affordable Housing in New Jersey;” Council on Affordable Housing*

<sup>5</sup> Given that the state’s analysis of 2000 Census housing and income data found that about 40 percent of the state’s households qualify as low- or moderate-income, this would seem a logical starting point for setting a growth share percentage: if 40 percent of current households are lower-income, it is reasonable to anticipate that 40 percent of future households will likewise qualify. However, the current COAH rule proposal calls for one unit of affordable housing for every 25 new jobs and one unit for every eight market-rate units (this translates to a residential growth share percentage of only 11.1 percent – one of every 9 units must be affordable).

## The Council on Affordable Housing (COAH)

The Council on Affordable Housing (COAH) represents the state's official approach to providing affordable housing. COAH was created by the Fair Housing Act in response to the New Jersey Supreme Court's two "Mount Laurel" decisions, which outlawed exclusionary housing practices. COAH has been widely criticized for its failure to accurately measure the need for affordable housing, its failure to address the inequitable distribution of affordable housing, and for its inadequacy in actually producing affordable units on the ground.

COAH's assessment of the need for affordable housing is based on two narrowly defined components, neither of which, strictly speaking, measures affordability. To be eligible for affordable housing under COAH rules, households must be:

- low- and moderate-income households living in physically deficient housing units, where a "deficient" housing unit is defined as a unit having incomplete kitchen or plumbing facilities; or
- crowded households that qualify as lower-income and also occupy a housing unit built before 1940. Crowded households occupying a home built after 1940 do not qualify, nor do those whose pooled resources enable them to exceed 80 percent of the regional median household income.

### Abandoning Fair Share

In its most recent rule proposal, COAH has abandoned the practice of redistributing regional affordable housing need among all municipalities in a region, saying that "the *Fair Housing Act* does not specifically call for this component of affordable housing need" (Chapter 94, on p.7 of Appendix A). The result is that the largest affordable housing obligations are generally assigned to the same municipalities that already provide far more than their proportional share of the region's affordable housing needs, thus reinforcing the concentration of poverty. (See *Figure 2, page 3*)

## Recommendations for An Effective Affordable Housing Policy

New Jersey Future calls on state leaders to adopt an affordable housing policy that will:

1. **Measure the need for affordable housing accurately.** These measurements must use data on housing burden and crowding and incorporate a comprehensive assessment of the state's existing supply of affordable housing (both government-subsidized and market-rate).
2. **Determine municipal housing obligations in an equitable and "fair" way.** Determination of municipal housing obligations should reflect a municipality's existing share of the region's housing and jobs while crediting its existing supply of affordable housing and its existing population of lower-income households.
3. **Ensure affordable housing is provided in both growing and built-out communities.** This can be done by varying the state's "growth share" percentage, based on a municipality's present shortfall relative to its fair share obligation and its remaining supply of buildable land. Processes also need to be instituted for producing affordable units in communities that have already reached build-out with little to no affordable housing.
4. **Create adequate affordable housing near jobs and good schools to break up the concentration of poverty.** In particular, municipalities should not be permitted to buy their way out of any part of their obligation, as currently allowed under the Regional Contribution Agreement (RCA) program.
5. **Link the provision of affordable housing to State Plan policies and benefits.** This can be achieved by requiring municipalities to plan for their fair share of affordable housing as a condition for State Plan endorsement and related funding and benefits.

**Issue Coordinator: Tim Evans, Research Director**

timevans@njfuture.org ▪ (609) 393-0008 ext. 103 ▪ 137 West Hanover Street ▪ Trenton, NJ 08618