

KLC *On Point*

RESEARCH AND TRENDS OF KEY KENTUCKY ISSUES

MY OLD KENTUCKY (UNAFFORDABLE) HOME:

Affordable housing needs and quality of life

INTRODUCTION The purpose of this report is to offer insight into the status of affordable housing throughout the commonwealth. While this issue crosses jurisdictional lines, city officials can play a unique role in improving the availability of affordable housing. This report compares household income to home values, identifies those living in unaffordable housing and identifies future trends, obstacles to improvement and policy options.

SUMMARY Adequate and affordable housing is the foundation for good quality of life. Currently, one in four Kentucky residents lives in unaffordable housing, according to the United States Census Bureau. The lack of affordable housing often means that families cannot meet other essential needs such as food, healthcare and clothing.

From 2000 to 2004, the median house value in Kentucky increased by 14 percent. During the same time, median household income rose only five percent. The strong housing market has led to rapid increases in home values, but incomes have not grown at a similar pace. This has caused a widening gap between housing costs and ability to pay for them, and left around one million Kentucky residents living in unaffordable housing.

To improve the housing situation in Kentucky, city officials and community leaders must fully understand the current state of affordable housing in Kentucky, the obstacles that must be overcome to end housing problems and the policy options and programs that are available to cities. Affordable housing is not entirely dependent on the housing market, and city officials have many programs and policy options available to help increase affordable housing opportunities in their communities. Many forward thinking communities are already undertaking creative and progressive projects to improve affordable housing. Collaboration and partnership among all key players will be an essential element of developing successful affordable housing programs in Kentucky.



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WHAT IS CONSIDERED AFFORDABLE HOUSING?

According to the U.S. Department of Housing and Urban Development (HUD), housing is considered affordable if it costs no more than 30 percent of a household's income. HUD reports that more than 5 million American households have what are considered "worst case" housing needs. "Worst case" housing needs are defined by HUD as those who earn less than half the median income of their area, don't receive assistance with housing and pay more than half of their income to rent or live in substandard areas. Since 1990, the number of families who have "worst case" housing needs has increased by 12 percent - 600,000 more American families that cannot afford a safe and adequate home.

Affordable housing is usually defined as housing that takes up no more than 30 percent of the annual income of a household.

WHERE ARE WE NOW?

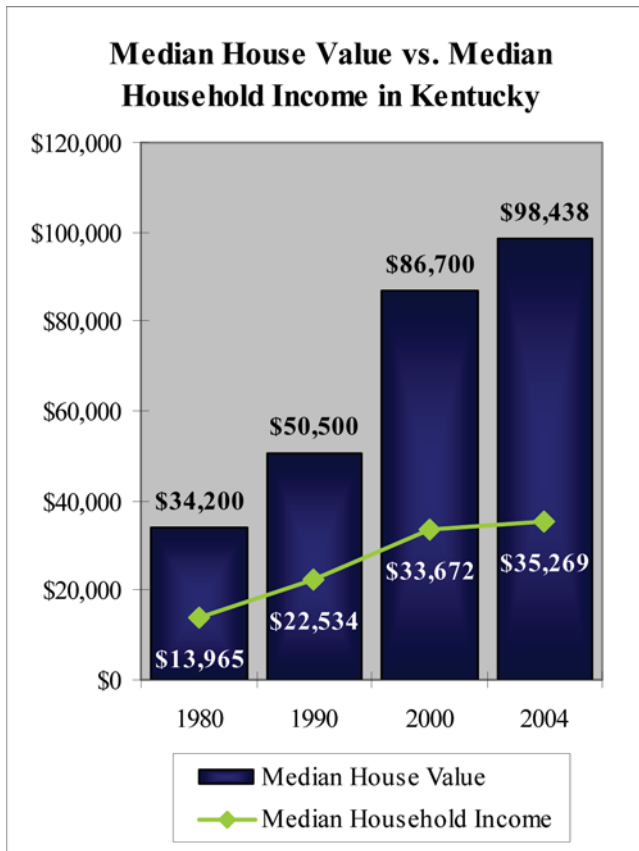
Housing is interconnected with many aspects of a community's well-being, including economic development, child care, education, transportation, land use and the overall health and safety of families. Without appropriate and affordable housing, it is difficult for citizens to be active members of society and for cities to thrive.

When families are forced to pay too much of their income toward housing, they have less money for essentials such as healthcare, transportation, food and other goods and services, which can severely impact the local economy. Improving affordable housing makes communities more livable and attractive to businesses because local housing conditions are a key factor to attracting a workforce. Many businesses and companies look at it as a primary factor when deciding to locate in a region. A lack of affordable housing near major employers often translates to long commutes from more rural areas. This can lead to increased traffic problems, less time for family, less connection to the community and a lower quality of life.

There are numerous social benefits of improving affordable housing in a community. The stability that housing provides for a family may reduce the high demand on cities for some social services, police, emergency and medical care. A 2004 report from the Kentucky Housing Corporation revealed that between 36,000 and 52,500 people experience homelessness in Kentucky at some point during the year. Those people are far more likely to require social services than those with a roof over their head.

WHY IS HOUSING UNAFFORDABLE?

Although the causes underlying unaffordable housing are complex, the measurement of affordability is basic: the price of homes compared to residents' ability to pay. Some economists argue that this comparison is too simple because it ignores interest rates, quality of housing available and other important guidelines, but this comparison is practical in a sense that it gives a good indication of the affordability in an area.



A comparison of median household income to median house values in Kentucky indicates that the gap has grown by 13 percent from 1990 to 2000, and an additional eight percent from 2000 to 2004. In those four years, the median house value increased by 14 percent - from \$86,700 to \$98,438 - while median household income rose only five percent - from \$33,672 to \$35,269.

Despite the gap between income and housing costs, Kentucky is still considered one of the more affordable states in the nation. Kentucky is ranked 7th nationally in affordability for renters, according to the National Low Income Housing Coalition. Many states, especially on the West coast and in the South, have had large population influxes in recent years. This has increased demand for homes and driven up home prices.

From 2000 to 2004, the median house value in Kentucky increased by 14 percent, or almost \$12,000.

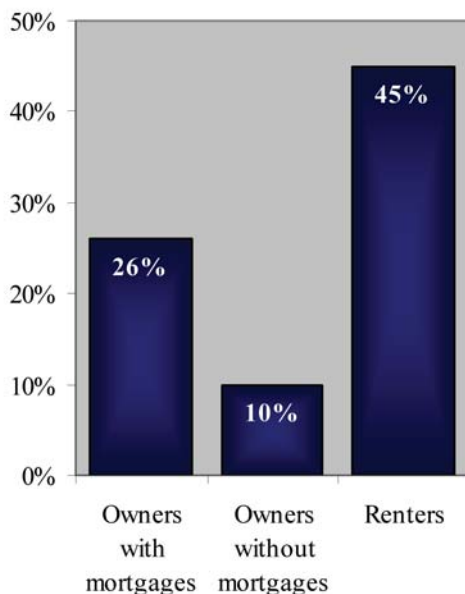
During the same time, median household income rose only five percent, or almost \$1,600.

WHO IS LIVING IN UNAFFORDABLE HOUSING?

Unaffordable housing is a problem that affects homebuyers, renters and even some homeowners. Data from the 2000 U.S. Census survey indicates that in Kentucky cities, 21 percent of homebuyers and 34 percent of renters live in housing that is considered unaffordable. Statewide, 14 percent of homeowners with mortgages live in unaffordable housing, while 32 percent of renters live in housing that is unaffordable during this same time. By 2004, the percent of Kentucky renters living in unaffordable housing had increased by more than a third, and the percent of homeowners living in unaffordable housing had almost doubled.

According to the 2004 Kentucky Housing Needs Assessment report released by the Kentucky Housing Corporation, homeownership for low-income residents went up 20 percent in the 1990s, but during that same period the number of low-income households with unaffordable cost burdens increased by 45 percent. This data indicates that although more people are able to buy homes, they are so expensive that money for adequate food and medicine may not be available.

Kentucky residents paying 30% or more of income for housing costs, 2004



The Federal Deposit Insurance Corporation (FDIC) reports that mortgage foreclosures are higher in Kentucky than the national average. In 2005, approximately 2.4 percent of residential mortgage loans were subject to the foreclosure process, compared to 1.6 percent for the nation. Predatory lending practices, high mortgage debt-to-value ratios, expanding consumer credit and dips in the economy are considered underlying reasons for this foreclosure trend.

One in four Kentucky residents lives in unaffordable housing.

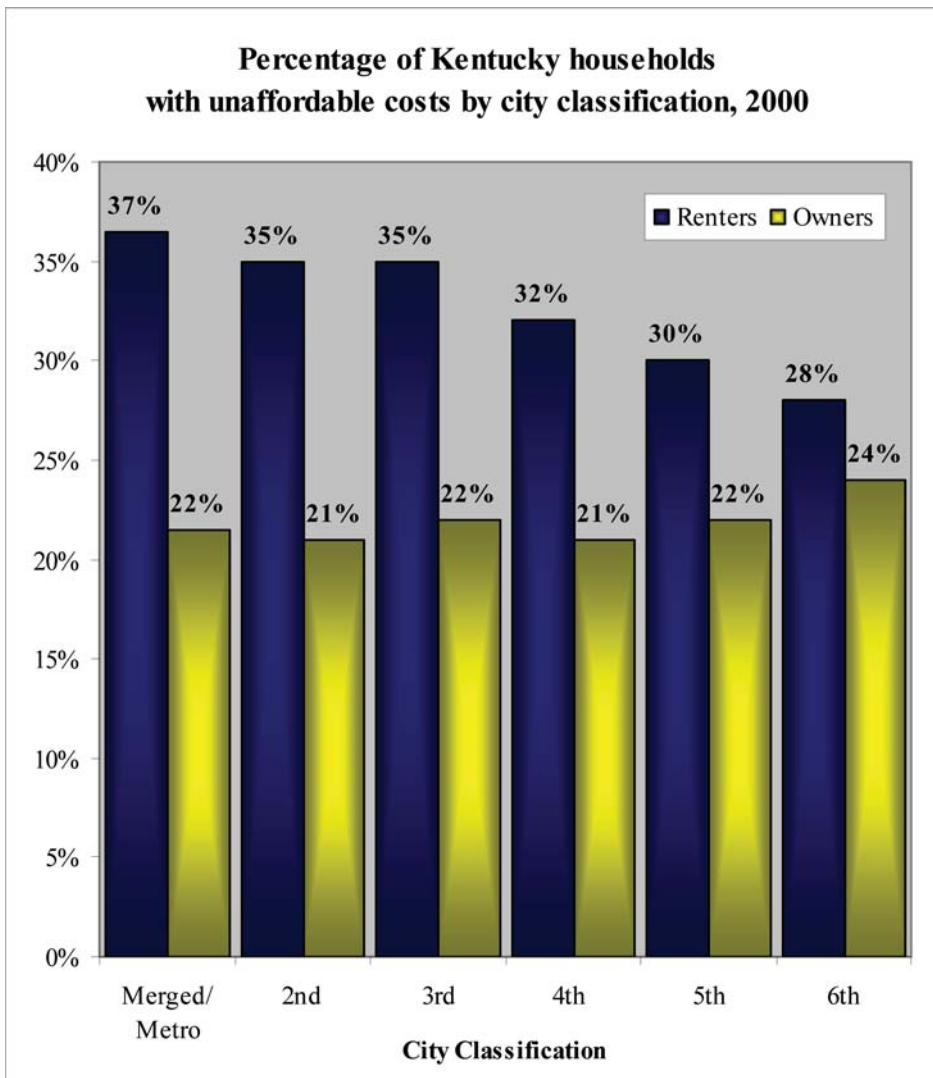
The number of overburdened homeowners in Kentucky nearly matches the number of overburdened renters.

Unaffordable housing affects the poor the most. In fact, the National Low Income Housing Coalition reports that full-time minimum wage earners cannot afford the rent and utilities on a one- or two-bedroom apartment anywhere in the nation. A worker would have to earn \$15.37 per hour - almost three times the federal minimum wage - in order to earn enough to pay for the average two-bedroom apartment.

Full-time minimum wage earners cannot afford a one- or two-bedroom apartment anywhere in the nation.

WHAT AREAS ARE AFFECTED MOST?

Approximately 35 percent of renters in Kentucky's larger cities (merged/metro, 2nd and 3rd classes) are living in unaffordable housing. In smaller cities, 30 percent of renters pay more than what is considered affordable. While more renters in larger cities face affordability problems than renters in smaller cities, the percent of homeowners that face unaffordable burdens remains roughly the same regardless of city size.



WHERE ARE WE GOING?

As cities work to create more affordable housing opportunities, evidence is mounting that the housing bubble has reached its peak, giving many policy analysts and economists hope that the median household incomes and median house values will return to a smaller ratio. The gap between median household income and median house value may decrease since the National Association of Realtors (NAR) recently released data that indicated that national sales of homes were down 11 percent from the summer 2005 to summer 2006. If this trend continues, the housing market decline could allow incomes to catch up to home prices.

In the face of declining median incomes, some state and federal legislators have been championing minimum wage increases. Minimum wage workers have not had a raise in nine years, and recent reports indicate that the federal minimum wage's purchasing power is at a 51-year low. In response to this situation, federal legislation was proposed in 2006 that would increase the minimum wage, but it stalled in August. Several state legislators have backed a proposal that would gradually increase the minimum wage in Kentucky to \$7.25 by July 2009. State legislators in Texas, Colorado, Idaho and Illinois are also debating similar proposals. Discussion and proposed legislation regarding minimum wage could be a positive indication that state and federal leaders are aware that wages are not keeping up with the cost of living, including housing prices.

Data shows that every region in Kentucky and cities of all sizes struggle with affordable housing issues, but the problem has not gone unnoticed by local, state and federal officials. Recognizing the importance of affordable housing, many communities across Kentucky have been working diligently toward increasing low-cost residential opportunities in their areas. Several programs and nonprofit organizations have made progress in increasing affordable housing opportunities in their regions.

The Kentucky Affordable Housing Trust Fund (AHTF) has become a powerful tool for cities that want to provide assistance for families needing affordable housing. Created by the Kentucky legislature in 1992, AHTF is designed to increase affordable housing opportunities for low- to moderate-income families by providing funding in the form of block grants to states, cities and housing officials. It serves Kentuckians at or below 60 percent of the area median income.

Funding for AHTF comes from unclaimed lottery funds, the Cabinet for Family and Health Services and the Kentucky Housing Corporation. In the 2006 legislative session, a bill passed to provide a source of dedicated funding for the Affordable Housing Trust Fund. HB 537 increases the fee schedule of county clerks for recording deeds, liens and other documents to \$12; half of that fee (\$6) goes directly to AHTF. Collection of the new fee, which will go into effect

Housing sales figures indicate a cool-down in housing prices, which could alleviate the gap between incomes and home values.

HB 537 (2006 session) is estimated to generate \$4.3 million per year for the Kentucky Affordable Housing Trust Fund.

January 1, 2007, is estimated to generate approximately \$4.3 million per year and provide long-term, stable funding for AHTF. While this bill will provide a permanent boost for affordable housing in Kentucky, the AHTF reports that almost \$19 million in requests have gone unfunded since 1994.

**Communities in Action:
Louisville Metro's Comprehensive Housing Strategy**

The Metropolitan Housing Corporation (MHC) was formed in the late 1980s by the City of Louisville, the Jefferson County Housing Authority, United Way of Kentucky and several other religious, private and nonprofit organizations. The organization was established to develop collaborative strategies and to combine resources to assist local affordable housing programs and policies.

Louisville Metro Mayor Jerry Abramson recently assembled a task force to assist low-income Louisville families who are buying homes or looking for property to rent that is affordable. The 20-member task force - made up of representatives from faith-based groups, nonprofit housing developers, and banks - will oversee the creation of a local affordable housing trust fund that will supplement other state and federal funds used for affordable housing.

MHC reports that approximately 44 percent of Louisville renters were paying more than 30 percent of their income in rent and utilities in 2004. In 2000, it was only 36 percent. There are more than 13,000 people on a waiting list for housing assistance in Louisville. Mayor Abramson's task force plans to use the local supplemental fund to reduce the backlog of those waiting for assistance.

A committee began meeting in July 2006 to begin the creation, funding and establishment of a local government housing fund in Louisville, which will be Kentucky's first city-operated housing trust fund. The trust fund is part of Mayor Abramson's Comprehensive Housing Strategy for Louisville Metro.

For more information about Louisville Metro's Housing and Community Development programs, visit www.louisvilleky.gov/housing.

*Affordable housing trust funds
can be created locally as part of a
community's housing strategy.*

OBSTACLES

One major obstacle that slows down the progress of improving the supply of affordable housing is the challenge of navigating the fragmented service system. The complexity of the system and language barriers can be roadblocks to success for some low-income families. Many organizations report that their affordable housing assistance services are in such great demand that clients have to wait more than a year for assistance.

Richard Moloney, chief executive officer of Resources, Education and Assistance for Community Housing (REACH), a nonprofit organization that helps low-income residents living in central Kentucky with counseling and down payment assistance, said that finding properties suitable for rehabilitation and social stigmas surrounding affordable housing are the biggest challenges that his organization faces.

"Lots of people think that affordable housing hurts the value of a neighborhood. It's a common misconception. The people who go through REACH are educated on how to take care of their homes," he explained. "They take a great deal of pride in their housing."

Increases in costs for land have also affected affordability. The housing boom of the 1990s left some Kentucky cities without additional room to grow, increasing the demand on available houses in prime locations. Crescent Springs Zoning Administrator George Ripberger said that there is not much land available to build on in his city because of the home-building rush in the mid-'90s.

"Since 2002, there have been no more than 60 new houses built. It's really increased the value of the new homes since there isn't much land available for residential growth," said Ripberger.

The lack of affordable land has also made it difficult for organizations like REACH to find housing for those in need. Moloney noted that although he has many eligible clients, a lack of affordable lots has left many on a waiting list until less expensive land can be purchased.

There is no single reason that housing has become more unaffordable in Kentucky in the last 25 years, but rather the combination of these factors have amplified the problem. A fragmented service system, increased land costs and the decline in median household incomes - coupled with the dramatic increase in housing costs - has left many families unable to find affordable housing.

Obstacles to Overcome:

- ♦ *There is a misperception that adding affordable housing to a neighborhood brings down property values. However, recipients of affordable housing funds are educated on homeownership and property maintenance.*
- ♦ *Low-income families may not be able to navigate the affordable housing resources that are available to them.*
- ♦ *Because houses built prior to 1978 require many housing code updates, local organizations are limited in the type of housing they can afford to rehabilitate.*

“ There isn't much land available for residential growth. ”

- George Ripberger
Crescent Springs Zoning Administrator

OPTIONS

Affordable housing is not entirely dependent on the housing market, and city officials have many programs and policy options available to help increase affordable housing opportunities in their communities. Many forward thinking communities are undertaking creative and progressive projects to improve affordable housing.

To combat the rise in housing costs and to reduce sprawl, some states and local governments are using incentives to encourage urban infill and redevelopment. By increasing the number of smaller residences and building communities to be more conducive to public transportation, they become affordable to a larger number of potential buyers. In Florida and Arizona, legislation recently passed to allow incentives that waive permit fees or local option sales taxes, expedite permitting and lower development impact fees for projects that will increase affordable housing available to the community. Other local governments across the nation use inclusionary zoning and density benefits, which give incentives to developers to build a certain percentage of affordable homes within a subdivision.

Another option that cities can consider is creating local affordable housing trust funds to supplement state and federal monies. According to the Center for Community Change, a nonprofit organization that helps establish and develop community organizations across the country, there are now 38 state housing trust funds and more than 350 local government housing trust funds in operation. Over \$750 million has been provided by affordable housing trust funds each year to help address critical housing needs throughout the country.

A paradigm shift regarding the role of affordable housing could also help solve the affordable housing problem. Affordable housing is a necessary investment in the livelihood of a community, not simply a charitable endeavor. As federal housing assistance declines, state and local governments, nonprofit organizations and the private sector will bear more responsibility to improve the housing situation for low-income families. Policy options and programs such as local affordable housing trust funds, incentives to encourage urban infill and redevelopment, and local government revitalization efforts could enhance housing opportunities in communities across the state. Collaboration and partnership among all key players will be an essential element of developing successful affordable housing programs in Kentucky.

METHODOLOGY

Information used in this report has been adapted and simplified from federal, state and local entities, including the United States Census Bureau, United States Department of Housing and Urban Development, Kentucky Affordable Housing Trust Fund, Kentucky Housing Corporation and others. Much of the information is based on calculations using Census data, including the decennial censuses and the 2004 American Communities Survey. As of press time, the 2005 Kentucky housing data had not been released by the U.S. Census Bureau.