AVAILABILITY OF AFFORDABLE RENTAL HOUSING FOR LOWER INCOME VERMONTERS

Summary

- Between 2009 and 2014, the number of households renting homes in Vermont is expected to increase by 1,100 to 74,401.

- Most Vermont renter households have incomes well below the state median of $51,000. About 44,000 renter households have incomes less than $41,000 (80% of the median) and 16,000 of these have extremely low incomes of less than $15,000 (30% of the median).

- An estimated 17,500 lower income households live in housing with rents made affordable through public project-based or tenant-based assistance. However, Vermont's assisted housing stock is at risk of losing thousands of apartments, due to expiring contracts between private landlords and the housing agencies that provided initial development subsidies.

- An estimated 62% of lower income Vermont renter households (27,000 households) lack housing they can afford without spending more than 30% of their income for rent and utilities. About 13,000 of these households pay an extremely challenging 50% or more of their income for rent and utilities, leaving few resources for other essential goods and services.

- Sixty percent of Vermont's rental housing stock is priced in the $500 to $1,000 per month range. Some higher income households pay less than 30% of their income for rent and live in more "affordable" units, further constricting the supply of affordable apartments for lower income households.

- Aside from the lack of affordable housing suffered by existing cost-burdened Vermont renters, an additional 5,000 rental units will likely be needed by 2014, if the latest projections of renter household growth and vacancy rates hold through this unstable economic time. Producing these new units will require at least doubling the pace of construction that took place in Vermont in the past five years.

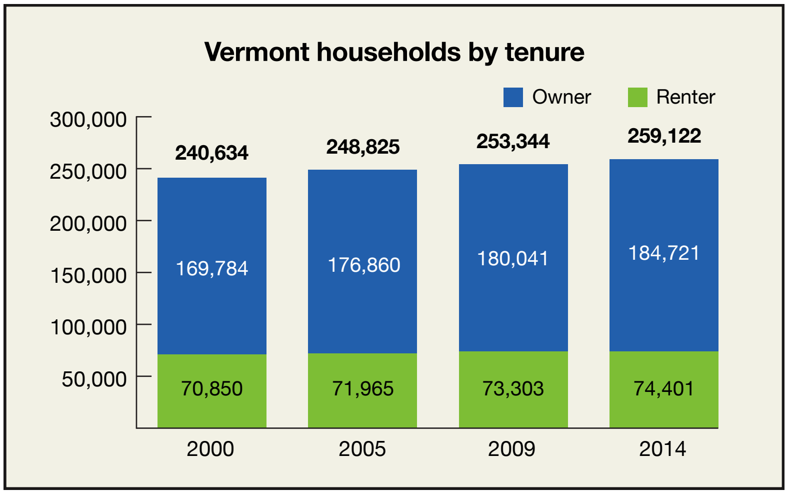
A variety of factors limit the supply of affordable housing in Vermont. Vermont's vacancy rate, although higher in 2009, is consistently well below the national average which means less downward market pressure on rents than in areas with more vacancies. In addition, housing quality, location, transportation costs, and neighborhood considerations often propel lower income households into units with unaffordable rents.

Number of renters continues to grow in Vermont

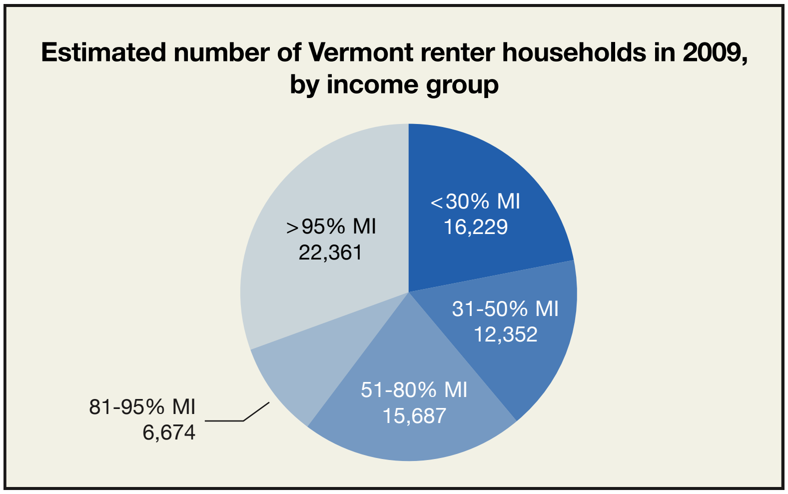
An estimated 29 percent of all Vermont households (73,303 households) rent their homes. An additional 1,098 renter households are expected to live in Vermont by 2014.

Sixty percent of Vermont renter households (about 44,000 households) have lower incomes, less than 80% of the state median.

By 2014, an additional 900 renter households with incomes at or below 80% of median are expected to live in Vermont.



SOURCES: VHFA ANALYSIS OF INFORMATION FROM THE U.S. CENSUS BUREAU CENSUS 2000, AMERICAN COMMUNITY SURVEY 2005 TABLE 25003, AND NIELSEN CLARITAS.



SOURCE: VHFA ANALYSIS OF ESTIMATES PROVIDED BY NIELSEN CLARITAS.

Note: "MI" refers to "median income."

IDENTIFYING HOUSEHOLDS WITH LOWER INCOMES

Many renters in Vermont have low incomes. One way to identify lower income households is by comparing a household's income to the median income of all households in an area. Many housing programs restrict eligibility to households with total incomes of no more than 80% of the median income in the area.[1] Other programs target households with even lower incomes by limiting eligibility to households with total incomes of no more than 50% or 30% of the area median. For 2009, the median income of Vermont households is $51,000, according to estimates provided by Nielsen Claritas.

The term "lower income household" used throughout this report refers to all households with income less than 80% of the median. Unlike the income groups listed here which are based on the overall median income among all Vermont households, eligibility for HUD and USDA Rural Development (RD) programs is computed using median income estimates that reflect the size of the household and the county in which the household is located. For this reason, the income ranges shown above do not directly mirror HUD / RD program eligibility dollar limits.

Median income	$51,000
<=30% of median	$0-15,000
31-50% of median	$15,001-25,000
51-80% of median	$25,001-41,000
81-95% of median	$41,001-48,000
>95% of median	$48,001+

What is counted as "household income" in this report?

COUNTED as income	NOT COUNTED as income
Amounts reported separately for wage or salary income	Capital gains
Net self-employment income	Money received from the sale of property (unless the recipient was engaged in the business of selling such property)
Interest, dividends, or net rental or royalty income or income from estates and trusts	The value of income "in kind" from food stamps, public housing subsidies, medical care, employer contributions for individuals, etc.
Social Security or railroad retirement income	Withdrawal of bank deposits
Supplemental Security Income (SSI)	Money borrowed
Public assistance or welfare payments	Tax refunds
Retirement, survivor, or disability pensions	Exchange of money between relatives living in the same household
All other income	Gifts and lump-sum inheritances Insurance payments

SOURCE: U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2007 SUBJECT DEFINITIONS.

Housing assistance helps some lower income households

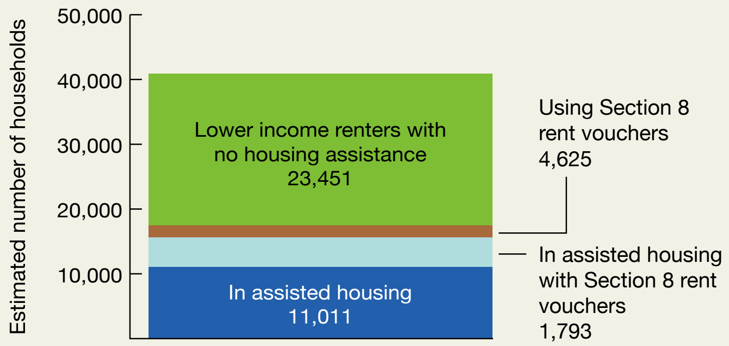
Federal, state, and local housing programs use two approaches for making rental units more affordable to eligible tenants:

1. ***Project-based assistance***
   This approach subsidizes the creation of the units (either newly built or rehabilitated units). In this model, public subsidies reduce the cost of developing the property, enabling rents charged to be lower than the conventional marketplace. However, rents in project-based affordable housing may not be "affordable" to every resident since an individual household's income is not taken into account when determining the amount of rent paid.

2. ***Tenant-based assistance***
   This approach subsidizes the actual rent paid by a tenant, based on the household's income. In this model, households only pay 30 percent of their income towards their rent. If this is not enough to cover the full rent amount, a rental subsidy for the remainder is paid directly to the landlord.

Approximately 17,500 households with incomes less than 80% of the median live in housing with rents made affordable through project based or tenant based public subsidies. About 12,800 units are in housing projects that received project-based federal or state funding. Although a small portion of these are "market rate" units with no income restrictions, eligibility for most of these

Less than half of Vermont's lower income households receive housing assistance, 2009



SOURCE: VHFA ANALYSIS OF ESTIMATES PROVIDED BY NIELSEN CLARITAS, THE VERMONT DIRECTORY OF AFFORDABLE RENTAL HOUSING, THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, AND THE VERMONT STATE HOUSING AUTHORITY.

Note: The estimate of "lower income rent payers with no housing assistance" is based on the total number of households with incomes at or below 80% median who pay some cash rent. "Assisted housing" includes units in all projects that received public financing to cover costs of developing the housing. Due to data limitations, this figure includes a small number of units occupied by tenant, who are not subject to income restrictions and who pay "market rate" rents.

units is limited households with incomes of up to 80% of median depending on the types of public programs involved. About 6,300 lower income Vermont households receive tenant-based rental assistance vouchers through the federal Section 8 program to help pay their rent.[2]

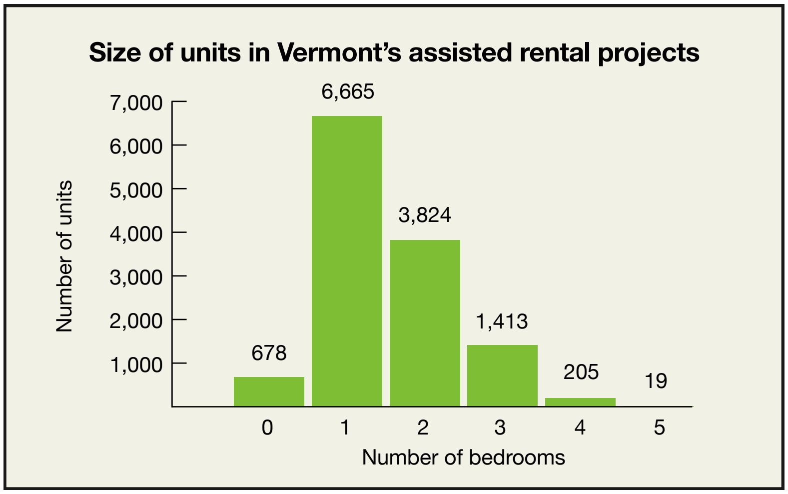
Owners of rental housing developed through project based public financing have contracts with non-profit or government housing agencies that provide them with the subsidies or below-market interest rate loans they need to provide decent, affordable housing. Typically, programs provide financing during a project's construction or rehabilitation in return for long-term commitment to maintain the building and keep rents affordable. When these commitments expire, housing that was once affordable to lower income households becomes vulnerable to rising rents and/or declining maintenance.

Approximately 7,000 affordable rental units were identified in 2008 as at risk of loss from Vermont's affordable housing stock.[3] Although preservation efforts are underway to keep at least half of these units in the state's affordable housing stock, pressures will continue to mount as additional affordability commitments expire in the future.

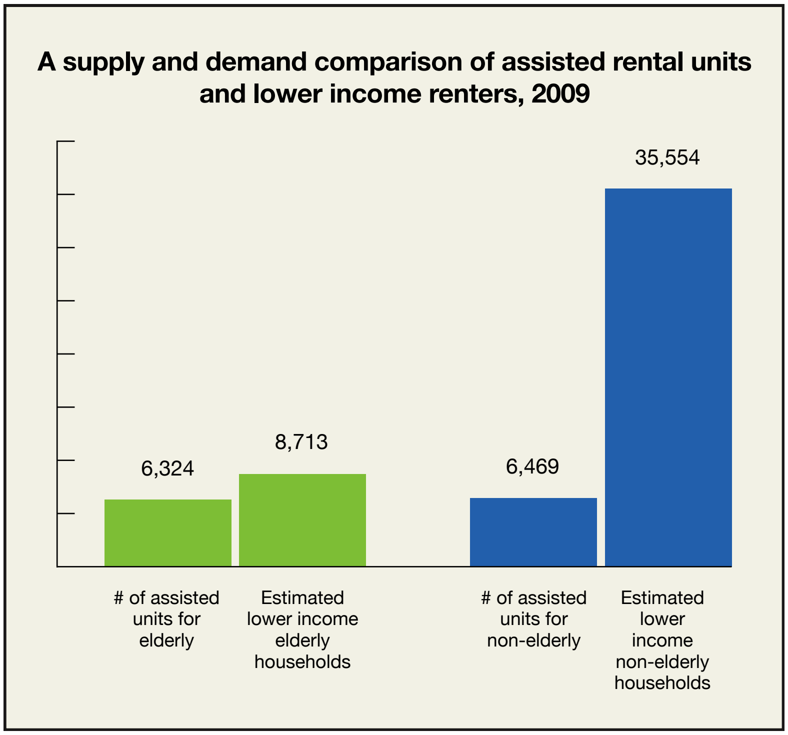
Roughly half of the units in Vermont's assisted rental stock are 1 bedroom units dedicated to serving lower income elderly occupants. Disabled renters may also occupy some of these restricted units.

Project-based public financing has created 6,324 units dedicated to Vermont's elderly (or disabled) occupants. These units house an estimated 73% of all lower income elderly rental households in the state. Non-elderly lower income households outnumber the supply of assisted units to a far greater extent. The number of units without age or disability status restrictions in these projects is only 18% of the state's estimated 35,554 lower income renter non-elderly households.

A recent study of the Vermont Child Poverty Council examined a variety of data related to the greatest problems facing the state's children. The Council noted that "without stable and safe housing, children may change schools frequently or may not be ready to learn in schools" which reduces the likelihood that children who lack adequate housing will become successful adults.[4]



SOURCE: VERMONT DIRECTORY OF AFFORDABLE HOUSING, JULY 2009.



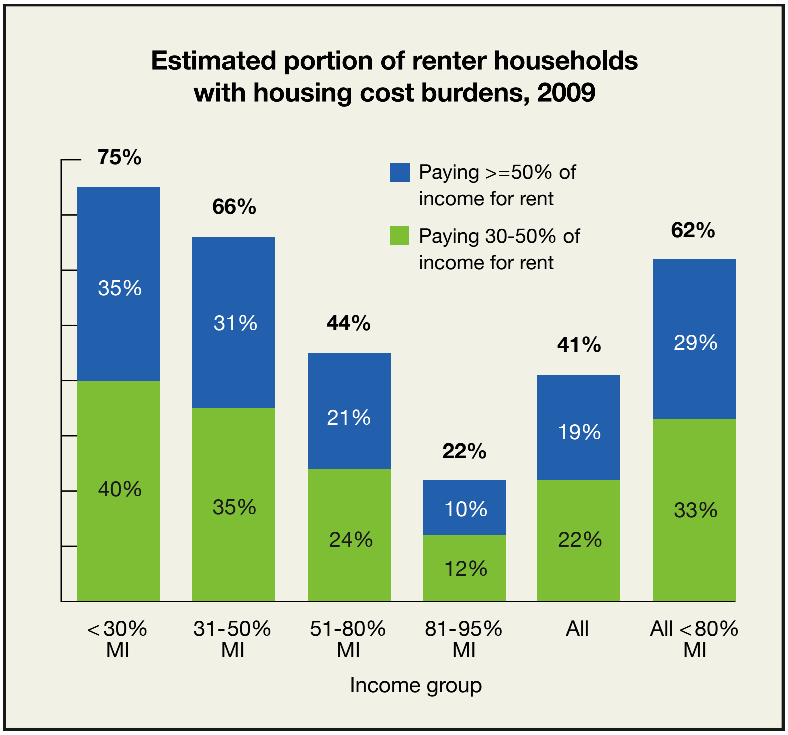
SOURCE: VHFA ANALYSIS OF INFORMATION FROM THE VERMONT DIRECTORY OF AFFORDABLE RENTAL HOUSING AND ESTIMATES PROVIDED BY NIELSEN CLARITAS.

Note: "Assisted" units include all units in Vermont projects that received public project-based financing. "Estimated lower income households" include households with incomes less $41,000 (80% of the 2009 median).

27,000 "cost burdened" households lack affordable rental housing

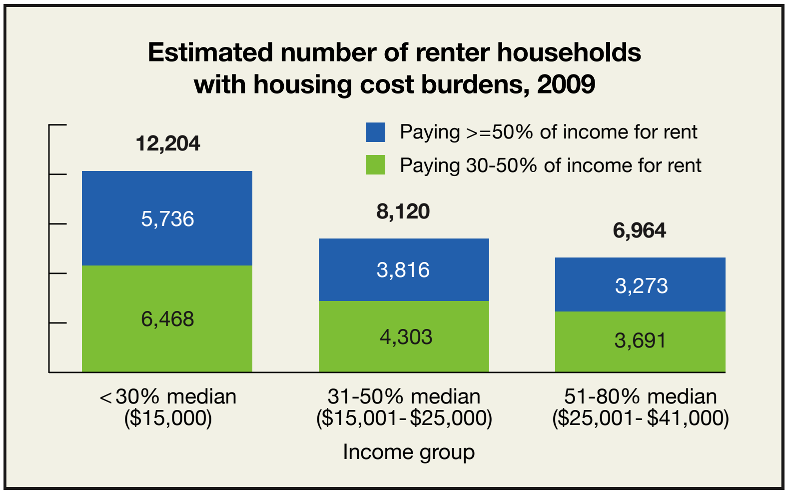
While public financing makes housing affordable for some lower income Vermont renters, the majority of renter households with incomes less than $41,000 (80% of the median) do not have housing they can afford. In 2009, approximately 62% of these households (about 27,000 households) live in housing that requires them to spend more than 30% of their incomes for rent and utilities. Reflecting a nationwide pattern, the lower a Vermont renter's income, the more likely it is to lack affordable housing. About 75% of the state's extremely low-income renter households are burdened by their housing costs. This means that an estimated 13,000 households with incomes at or below $15,000 lack affordable housing.

Many of these households are spending substantially more than 30% of their income for rent and utilities. An estimated 13,000 lower income renter households (with incomes of less than 80% of the median) spend more than half of their income for rent and utilities. Paying half or more of an already low income for housing leaves scant resources for other important needs such as food, health care, and child care. These households have very little ability to effectively cope with sharp spikes in fuel prices and other elements of basic living. According to a recent national study, low-income renters paying more than 50% of their income for housing spend 33% less on food, 52% less on healthcare, and almost 60% less on clothing than renters who live in housing they can afford.[5]



SOURCE: VHFA ANALYSIS OF ESTIMATES PROVIDED BY NIELSEN CLARITAS AND U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2005-7, TABLES B25106 AND B25070.

Note: "MI" refers to "median income." The estimated median income for 2009 was $51,000.



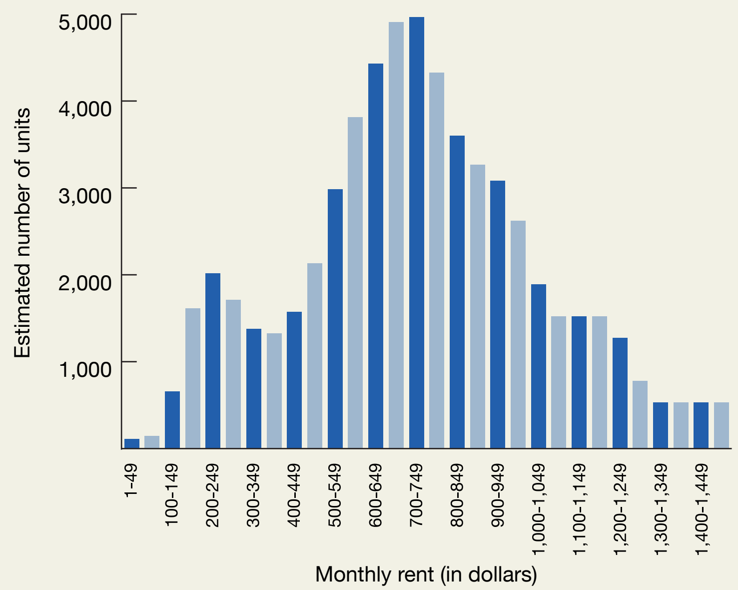
SOURCE: VHFA ANALYSIS OF ESTIMATES PROVIDED BY NIELSEN CLARITAS AND FROM THE U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2005-7, TABLES B25106 AND B25070.

Demand exceeds supply of apartments with affordable rents

The prevalence of high cost burdens among lower income Vermont renters is caused largely by the lack of a sufficient number of affordable apartments. The graph below illustrates the distribution of rental units in Vermont by monthly rent groups. The most common rent levels are in the $500 - $1,000 range. Units in this rent range comprise an estimated 60% of Vermont's rental stock.[6]

The lower a household's income, the fewer the options in terms of finding apartments with rents that are affordable. As shown in the lower left portion of the table entitled "Vermont Renter Households by Income and Rent, 2007," many households making less than $35,000 occupy "unaffordable" units with rents above $600. Similarly, many households with incomes above $35,000 occupy units with rents less than $600 (as shown in the upper right portion of the table). These households spend less than 30% of their income for rent. There are several reasons why a household would pay less than the maximum 30% of their income for rent. A few examples are: unusually high household expenses (health care, child care, alimony, transportation), a desire to save money towards a goal (such as moving into homeownership), or not wanting to feel pressure to make ends meet.

Vermont rental units by monthly rent, 2009



SOURCE: VHFA ANALYSIS OF ESTIMATES FROM THE U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2005-7 TABLE B25063.

Note: Shows units with rents of $1-$1,500.

Vermont Renter Households by Income and Rent, 2007

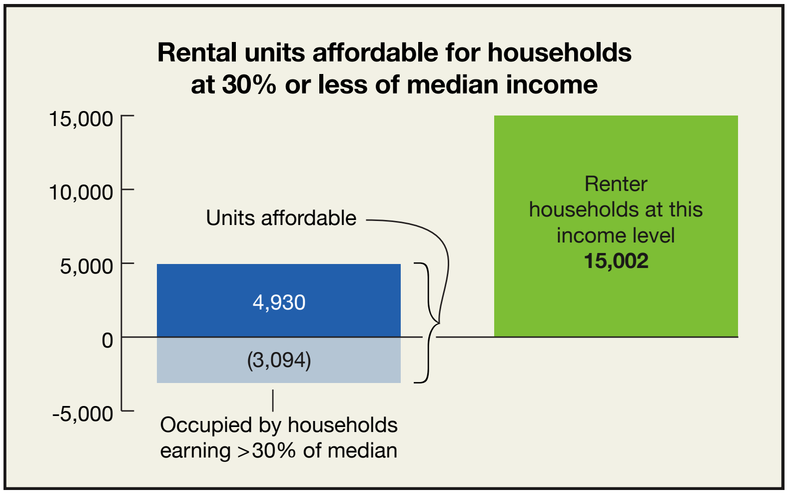
	Annual household income							
Monthly gross rent	<$10,000	$10,000-$19,999	$20,000-$34,999	$35,000-$49,999	$50,000-$74,999	$75,000-$99,999	$100,000+	Total
No cash rent	735	1,185	1,406	651	813	227	235	5,252
<$100	100	22	42	64	0	0	0	228
$100-$199	1,575	466	128	62	0	0	39	2,270
$200-$299	1,640	1,596	508	83	31	0	6	3,864
$300-$399	459	1,407	399	131	85	45	10	2,536
$400-$499	620	1,256	828	551	114	75	68	3,512
$500-$599	854	1,732	2,199	1,134	754	193	61	6,927
$600-$699	1,301	2,101	2,847	1,749	1,028	188	181	9,395
$700-$799	1,060	1,842	2,482	2,117	1,489	410	218	9,618
$800-$899	495	875	2,081	1,781	1,004	374	111	6,721
$900-$999	287	891	1,611	1,213	1,457	290	233	5,982
$1,000-$1,249	467	1,055	1,378	1,873	1,583	737	524	7,617
$1,250-$1,499	184	341	465	454	477	439	292	2,652
$1,500-$1,999	227	348	357	269	438	287	446	2,372
$2,000+	101	0	6	118	158	159	137	679

SOURCE: VHFA ANALYSIS OF ESTIMATES FROM THE U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2005-7, TABLE B25122.

Key: ☐ = All or a portion of the rents in this group are unaffordable at the 30% level to households in the middle of this income group.

The following charts summarize the supply and demand for rental units affordable to lower income Vermonters.

The graph at right illustrates the situation that a household making no more than 30% of the median would face, if searching for an affordable apartment in Vermont. This household makes an income of no more than approximately $15,000, making a rent level of up to approximately $417 affordable for households at the top of this income range. An estimated 8,024 units have rents at this level. However, about 39% of these units are occupied



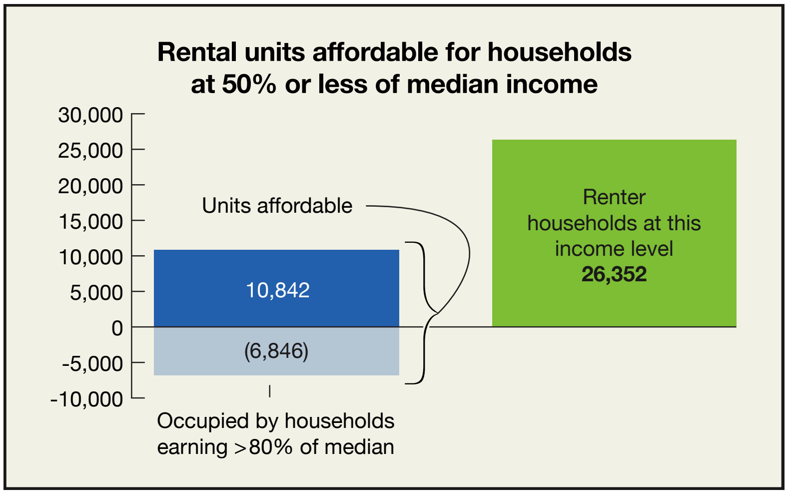
SOURCE: VHFA ANALYSIS OF ESTIMATES PROVIDED BY NIELSEN CLARITAS AND THE U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2005-7, TABLES B25063 AND B25122.

Note: Excludes households paying no cash rent.

by higher income households (above $15,000). This leaves a scant 4,930 units available with rents less than $417. Competition for these units is stiff, since approximately 15,000 households with incomes in this range need apartments to rent. This "deficit" in the housing supply pushes most of these households into higher rent units where they become cost burdened (i.e. pay more than 30% of their income for rent).

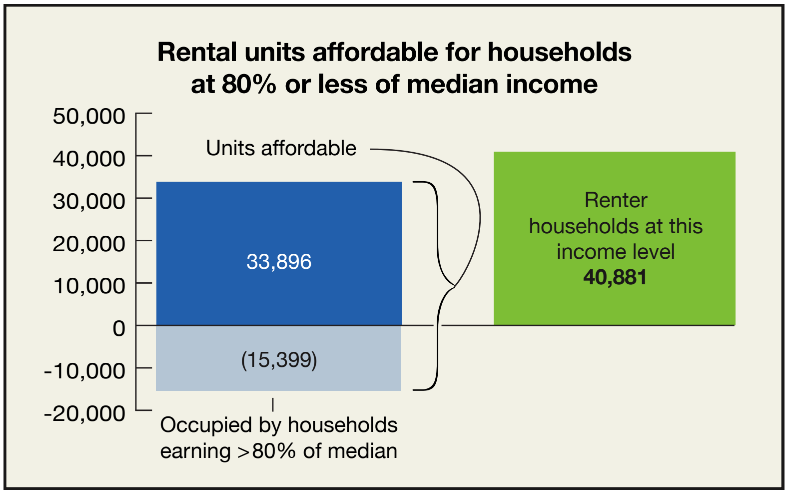
For households with incomes closer to 80% of the median, the situation improves somewhat, as shown at lower right. A household at the 80% of median level makes $41,000 and can afford monthly rent of up to $1,139, assuming a 30% affordability standard. Vermont's rental stock includes an estimated 49,295 units at or below this rent level. However, renters with incomes at this level still face competition from upper income households. About 31% of the units with rents of no more than $1,139 are occupied by households with incomes above $41,000. This brings the number of units available with rents of up to $1,139 down to 33,896 — substantially less than the 40,881 lower income households paying rent in Vermont.

In addition, we know that the distribution of household incomes and unit rents in these large categories is not uniform, as shown in the earlier table entitled "Vermont Renter Households by Income and Rent, 2007." This means that even if the number of available units with rents less than $1,139 and the number of households with incomes less than $41,000 were the same (i.e. the height of the bars in the graph above was the same), many of the households with incomes less than $41,000 would likely be in units they could not afford.



SOURCE: VHFA ANALYSIS OF ESTIMATES PROVIDED BY NIELSEN CLARITAS AND THE U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2005-7, TABLES B25063 AND B25122.

Note: Excludes households paying no cash rent.



SOURCE: VHFA ANALYSIS OF ESTIMATES PROVIDED BY NIELSEN CLARITAS AND THE U.S. CENSUS BUREAU, AMERICAN COMMUNITY SURVEY 2005-7, TABLES B25063 AND B25122.

Note: Excludes households paying no cash rent.

Building rental housing during troubled economic times

Vermont's aggregate rental stock will likely need to increase by approximately 5,000 units between 2009 and 2014, if the latest projections about growth among renter households and vacancy rates hold. In addition, this increase will be needed to replace units at the end of their life cycle (i.e. destroyed) and to ensure that the stock is large enough to include permanent shelter for the state's homeless.

Producing these new rental units by 2014 (or an average of 975 units each year) will require at least doubling the pace of construction that took place in Vermont during the past five years. An estimated 460 rental homes (both subsidized and privately owned) were built each year in Vermont between 2005 and 2009.[7]

Since the current recession introduces more uncertainty to renter population growth and vacancy rate projections, updating this analysis frequently is critical to accurately quantifying Vermont's new construction needs until the economy stabilizes. New construction during a recession also requires careful local market analysis and strategic long-range planning, since not all local areas reflect the statewide trends discussed in this study. On the positive side, the recession provides an opportunity to secure favorable construction pricing while offering employment opportunities to the besieged construction industry.

A variety of factors limit availability of affordable rental housing

Estimated increases to total rental housing stock needed by 2014

Additional renter households	1,098
Housing homeless families	465
Housing homeless individuals	2,391
Units removed from stock/destroyed*	380
Additional units needed to reach a "healthy" vacancy rate*	539
Total additional units needed	**4,873**

SOURCE: VHFA ANALYSIS OF ESTIMATES PROVIDED BY NIELSEN CLARITAS, THE VERMONT EMERGENCY SHELTER GRANT PROGRAM, AND U.S. CENSUS BUREAU HOUSING VACANCY ESTIMATES.

**Assumes an annual housing destruction rate of 0.103% and that 5% is a "healthy" vacancy rate, as opposed to the actual 4.3% rate most recently estimated by the Census Bureau for the last 4 quarters (July 2008-June 2009).*

Factors contributing to the number of households lacking affordable rental housing in Vermont include:

1. Vermont's lower than average rental housing vacancy rate which puts little downward pressure on rent levels.
2. Propensity of some renters to spend less than 30% of their income for rents.
3. Many less expensive units are not of acceptable quality, in locations and/or the size needed by lower income renters.
4. Pace of subsidized housing development targeted at lower income renters.
5. High cost of constructing quality units and uncertainty of long-term operating costs.
6. Economic considerations that lead many profit-motivated developers to create multi-family for-sale units rather than affordable apartments.

Vermont had a rental vacancy rate of 4.3% during the past 12 months, well below the national average rate of 10.2%.[8] Low vacancy rates put little pressure on landlords to limit rent increases from year to year. Another factor limiting the supply of affordable housing available to lower income households is the propensity of some households to absorb a considerable segment of the state's affordable housing stock by spending less than 30% of their income for rent. For example, of all of the rental units affordable to lower income Vermonters (with incomes at or below 80% of median), 31% are occupied by households with higher incomes (above 80% of median).

Even if Vermont's total housing stock included as many affordable apartments as lower income households, many households would still find themselves paying unaffordable rents due to other considerations, such as the quality or size of the unit and its location relative to jobs. Much of Vermont's rental housing stock (43%) was built before 1950 when lead-based paint was commonly used.[9] According to the National Low-Income Housing Coalition, 1 in 10 rural renter households "lives in either severely or moderately-inadequate housing."[10] Despite these indicators, insufficient data exists to quantify the effect of quality deficiencies on Vermont's total rental stock. Consequently, all estimates shown in this report pertain to the total rental stock, not just those that are of decent quality. A renter household faced with an affordable, substandard unit and a decent unit that requires spending more of their income for rent may choose the latter option to achieve safe living conditions. A large household may make a similar trade-off to provide adequate space for its members. Finally, the location of housing relative to a renter's job may affect her ability to keep rent affordable. If someone is employed in an area in which no rental units available are affordable, she may need to pay more rent in order to keep her job, rather than leaving the job to take a cheaper apartment in another location.

Units subsidized through public programs play a unique role since they are targeted to lower income households and require that rents remain affordable for occupants. Furthermore, subsidized housing development can be focused on the types, location, and size of units needed most by lower income Vermonters. Despite these advantages, the pace of development of these units is extremely low relative to the number of lower income renter households lacking affordable housing. An average of 260 new rental units were added each year to Vermont's subsidized housing stock between 2004 and 2008.[11] A variety of factors make constructing rental units difficult, including high construction costs and the uncertainty of building operation costs over the long term.

Nationally, the consensus in research appears to be that "the unassisted private housing market generally does not provide for-profit developers with enough of a profit to build or maintain decent quality housing that is affordable to low-income households."[12] As the Millennial Housing Commission stated, the "private sector needs the proper incentives to be an effective partner in the federal government's efforts to address the nation's housing challenges."[13] While much of the rental housing built in this state recently has been subsidized and developed by non-profits, for-profit developers remain the leading source of new for-sale homes.

A variety of public policy efforts and community approaches have been used successfully to help lower income renters find housing they can afford. These approaches include expanding the availability of publicly funded rental assistance, supporting programs that improve wages among lower income workers, and promoting the expansion of the supply and quality of existing rental housing.

1 The median is the figure that occurs halfway down a list of figures that are sorted from smallest to largest, so that half of all the figures are higher than the median and half are lower.
2 *Resident Characteristics Report*. US Department of Housing and Urban Development. Although most live in privately-owned homes, an estimated 14% of Vermont's rental voucher holders live in subsidized housing.
3 This information was collected as part of the VHFA/VHCB's Preservation Initiative with the MacArthur Foundation that began in 2009.
4 *Improving the Odds for Kids*. Vermont Child Poverty Council. January 29, 2009. Page 54.
5 *America's Rental Housing: The Key to a Balanced National Policy*. Joint Center for Housing Studies of Harvard University. 2008. Page 16.
6 Based on VHFA's analysis of data from *American Community Survey 2005-7, Table 25063*. US Census Bureau. Excludes units with no cash rent.
7 VHFA estimates based on *US Census Bureau housing unit estimates*, *building permit data* and *American Community Survey 2005-7, Tables B25003 and B25004* and data provided by Nielsen/Claritas.
8 Based on average quarterly rental housing vacancy rates for the last 2 quarters of 2008 and the first 2 quarters of 2009 from the *Housing Vacancy Survey* of the U.S. Census Bureau.
9 See *Vermont's Housing Stock Challenges*, another fact sheet in this series, for additional information.
10 *Section 515 Rural Rental Housing Fact Sheet*. National Low Income Housing Coalition. May 2009.
11 Vermont Directory of Affordable Rental Housing. June 2009.
12 *Nonprofit and For-Profit Developers of Subsidized Rental Housing: Comparative Attributes and Collaborative Opportunities*. Housing Policy Debate. Volume 19, Issue 2, 2008. Page 335.
13 *Meeting Our Nation's Housing Challenges: Report of the Bipartisan Millennial Housing Commission*. Millennial Housing Commission. May 2002. Page 32.