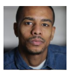
OPINION

Minding, then mending, the ‘affordability gap’



by **Michael Romain**
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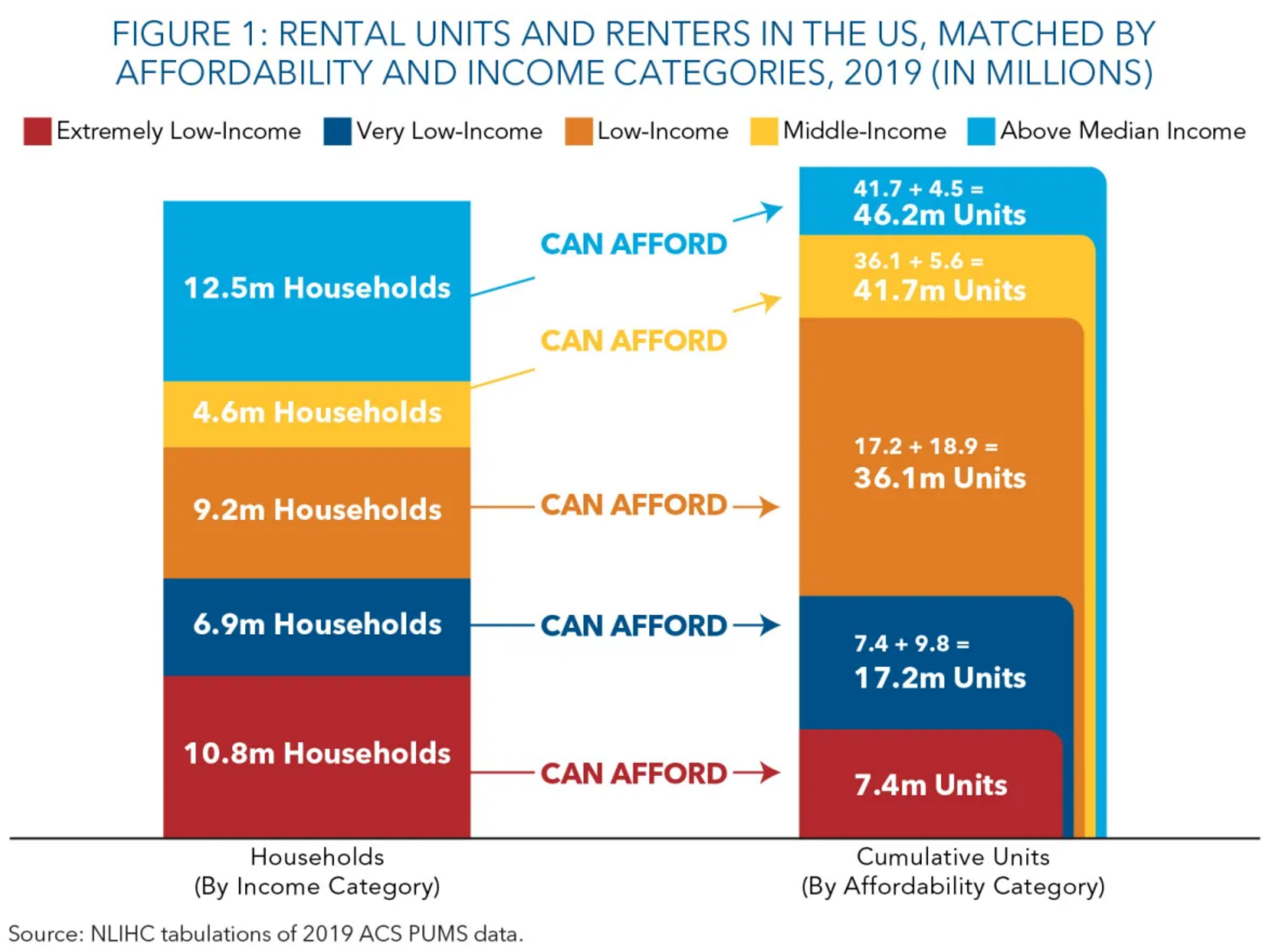

In September, the Institute for Housing Studies at DePaul University released its latest State of Rental Housing in Cook County report.

The data shows around 43 percent of all households in the county were renters, a percentage point lower than the historic high of roughly 44 percent in 2015. More and more of the county’s renter households are those with higher incomes, since more and more low-income households are leaving the county due, in part, to a lack of affordable housing.

The report outlines what’s called the “affordability gap,” which is defined as the “difference between the demand for rental housing by lower-income households earning 150 percent of poverty, or $39,258 annually, and the supply of units that would be affordable at 30 percent of a lower-income household’s income — about $981 per month. Affordable demand also includes renter households earning more than 150 percent of the poverty level but who live in units that are affordable to lower-income households.”

The county had a shortage of 159,122 units of affordable rental housing in 2019, a decrease from 176,213 units in 2012.

Nationwide, according to the National Low Income Housing Coalition, the U.S. has a shortage of 6.8 million affordable rental homes for low-income households making at or below the poverty guideline or 30 percent of their area’s median income.

This reality persists despite the fact that the country is increasingly becoming a renter nation, as Alena Semuels wrote in The Atlantic in 2019.

“According to census data, between 2007 and 2017, the United States added less than 1 million households in owner-occupied homes, but 6.5 million in renter-occupied homes,” Semuels wrote. “Many families wanted to live in a spacious house in a good school district, but could no longer afford to do so as owners. The homeownership rate bottomed out at 62.9 percent in 2016, down from a high of 69 percent in 2005.”

But there’s also a dearth of housing even for people who you’d think should be able to afford to buy a nice starter home.

“It is tough to buy a house right now,” Ailsa Chang, the host of NPR’s *All Things Considered*, said in September. “The country is nearly 4 million homes short of demand, and it’s especially tight in that corner of the market that once launched the American dream, the starter home.”

Reporter Uri Berliner pointed out on the show that the no-frills starter home, so essential for younger middle class Americans in their road to building wealth, "is just about vanishing in America. In 2020, the number of starter homes built was less than a fifth of the yearly average of the early '80s."

In April, Freddie Mac, the government-sponsored mortgage entity, released data showing that the country's housing shortage increased to 3.8 million units by the end of 2020 — up by some 1.3 million units since 2018.

The main driver behind the shortage, according to Freddie Mac, is "the long-term decline in the construction of single-family homes."

As the housing shortage exacerbates, home prices are at record highs in the U.S. On Nov. 30, new figures from Redfin, the property analytics firm, showed that "the average home price in the United States was $359,975 in the four-week period ending November 21," according to a report in Mortgage Professional America.

Daniel Immergluck, a professor of urban studies at Georgia State University, told the New York Times Magazine that we're currently living in "one of the greatest recoveries of land value in the history of the country." From 2010 and 2011 "at the bottom of the crisis to now, we've seen huge gains in property values, especially in suburbs."

But instead of those "accruing to many moderate-income and middle-income homeowners, many of whom were pushed out of the homeownership market during the crisis, that land value has accrued to these big companies and their shareholders."

The New York Times Magazine article, "A $60 Billion Housing Grab by Wall Street," which was published in October, shows that private-equity firms were able to silently swoop in on the housing industry that Wall Street had helped ruin and create special real estate investment trusts (REITs) "to pool funds to buy bundles of foreclosed properties."

Where did the money come from? The REITs, the Times shows, were funded by a Who's Who of kleptocrats. One such entity, called Colony American Homes, was funded by an "investment company in Qatar, the Korea Exchange Bank on behalf of the country's national pension, shell companies in California, the Cayman Islands and the British Virgin Islands."

How the housing shortage looks closer to home

Last month, a group of activists from Chicago's Uptown community trekked over to Trader Joe's in Oak Park to protest the fact that Lincoln Property, the corporate owner of the building where the grocery store is housed, is looking to build more luxury apartments on a parking lot of Weiss Memorial, the safety net hospital owned by private equity firm Pipeline Health, which also owns West Suburban Medical Center in Oak Park.

The Uptown activists are rightly concerned about getting priced out of their community. Affordable housing in the community declined by nearly 9 percent from 2012 to 2019, according to a study by two University of Illinois Chicago professors.

The activists have strategized that by putting public pressure on Lincoln Property retail tenants, they may be able to force the company to the negotiating table. They even printed flyers with the company's number, urging people to call Lincoln Property with their demands.

What's missing from the deliberations, however, is the government. In fact, the government seems to be either conspicuously absent or feckless in the conversation about how to make housing available for the people who most need it.

Consider the obvious remedies to the housing shortage problem. Perhaps the most obvious one is to simply build more affordable rental units, but this strategy is almost, by definition, inadequate.

Building anything is already too slow and precarious, particularly in our pandemic environment. But building affordable housing anywhere nowadays is a Herculean task — often contingent on developers navigating a confusing political maze of tax credits and red tape.

In nearby Maywood, a 5-story, $19 million, 72-unit affordable housing development opened in September. Perry Vietti, president of Interfaith Housing Development Corp., the organization that develops and manages affordable housing complexes in the Chicago area (including at Grove and Madison in Oak Park), said his organization received roughly 1,700 applications for those units.

"Actually, the number would have been much higher, but we had an electronic portal that people applied to and we cut it off because it just became ridiculous," he said. "I think the need for affordable housing is demonstrated by that number."

Vietti said it took "five different funders" to make the development possible. Plans for the building were roughly a decade in the making. Cook County was one of those funders, which nowadays is about where government intervention in the housing supply situations starts and ends.

So building affordable housing, as Vietti demonstrates, is often like playing Whack-a-mole. For every unit of supply that comes online, there are dozens of people in need.

That leaves developers like Lincoln Property to attempt to fill the gap, but this too is an inadequate strategy. For instance, Lincoln Property wants to build 314 units of rental housing on the site of a hospital that serves many low-income patients and only eight of those units will be affordable (and that's without even starting to quibble with their definition of "affordable").

The post-Great Recession recovery seems to have created a perfect storm for absentee corporations to pad profits and for international criminals to launder money through an increasingly unregulated maze of cash, shell companies and trusts, as Taylor Williams wrote in RE Business Online in July.

Meanwhile, for the rest of us, the rent is too damn high and housing is hard to come by, even for those who can afford it. Something has to give. Perhaps the federal government can start by pushing those dark forces that are tinkering with the housing supply into the light.

CONTACT: **michael@oakpark.com**