Scott Bernstein, President, Center for Neighborhood Technology

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Redefining Affordability

Everyday in America, as people shop for homes or apartments, allocate subsidies for affordable housing tax credits or rent subsidies, or estimate a gap in the amount of affordable housing and set goals to meet that gap, millions of decisions are made in the absence of full knowledge of the true costs of a location.

In the 19th century, English kids were taught a poem, the last line of which was, "A Week's Wage for a Month's Rent," hence the rule of keeping housing costs to a quarter of income—now you know 100 percent of the hard science behind affordability indexing.

Keeping the definition of housing affordability as a firm 30 percent of income, as does the Cranston-Gonzalez Act formally and informally by most trade groups, ignores the cost of transportation; not a problem if it's trivial but it's not.

For working families, those earning $20,000-$50,000, we found that in general, while housing takes 30 percent, transportation takes 27 percent of income, and in the exurbs, transportation can easily exceed housing costs.

When gas prices soared and spiked at $4-5 per gallon, so did foreclosures. In metro Chicago, foreclosures were 1.5 times higher in the suburbs than in the city in 1998; but were cumulatively 4.5 times higher by December 31, 2009. Those ratios were much higher when grouped spatially in the hot spots, such as entire exurban subdivisions.

We're not saying transport costs caused this, but rather they helped trigger these events. Predictably, every time gas prices spiked, so did foreclosures, six to nine months later. Across America, the sum of housing and transport cost increases wiped out income gains, leaving almost no income to pay for food, medical or mortgage reset increases.

So what can be done?

- Lenders & Government-sponsored enterprises (GSEs) can adopt the Housing +Transportation (H+T) Affordability Index, which has been calculated for every block group in metro America. In underwriting Location Efficient Mortgages[1], out of 2000 offered, we identified only 1 default;

[1] Fannie Mae ran two location-efficient mortgage programs, Location Efficient Mortgage® (LEM), and SmartCommute. The Massachusetts State Housing Finance Authority's "Take the T" offered zero-down-payment, below-market-rate mortgages to buyers who proved they were mass transit riders.

- HUD can modify the Real Estate Settlement Procedures Act (RESPA) rules under current authority, and require labeling housing with neighborhood averages for either transportation costs or the sum of housing & transportation costs;
- Partnership for Sustainable Communities can make H+T reduction mandatory for all applicants for demonstration funds, as can Congress in reauthorization;
- Realtor.com could include these costs in MLS listings;
- Agencies allocating infrastructure funds, such as MPOs & others, can use the Index to prioritize where to invest or not invest, as screened by a goal of reducing the sum of H+T;
- As economic impact analysis is used to prioritize what to invest and where to invest it, include Cost of Living reduction as a legitimate economic development goal;
- Counseling can include local transportation costs explicitly with local options to reduce; and
- Greenhouse Gas (GHG) reduction plans can include affordability screening of mitigation measures.

For 50 years, "Drive 'til You Qualify" has been the rule, and it has helped put America at risk. Instead of a recovery goal of returning the market to where it was, we need build demand for a better situation, so that locating, riding and walking until you are financially secure becomes the norm.

For more information, Scott Bernstein can be contacted at (773) 269-4035, scott@cnt.org
For more information about the H+T Affordability Index, go to htaindex.org
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