Sustainability Insights | Research

No Quick Fix For The U.S. Affordable Housing Shortage

Aug. 21, 2024

More than ever, finding affordable housing in the U.S. is a challenge. Not-for-profit lenders and developers are responding to demand with limited impact on credit--for now.

This research report explores an evolving topic relating to sustainability. It reflects research conducted by and contributions from S&P Global Ratings' sustainability research and sustainable finance teams as well as our credit rating analysts (where listed).

This report does not constitute a rating action

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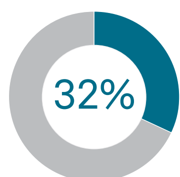
Financing mechanisms and entities are working to address an increasing need for affordable housing in the U.S. In this research, S&P Global Ratings examines how access to affordable housing has changed over time, particularly since the COVID-19 pandemic began; the role of affordable housing to help improve socioeconomic outcomes; and the credit implications of these trends on affordable housing entities we rate.

In particular, we focus on U.S. not-for-profit affordable housing lenders and developers to distinguish these entities in the U.S. public finance sector. We look at how they fulfill their publicly stated missions to help stabilize the housing market by providing access to affordable options for renters and homebuyers. We use housing and household income data from the U.S. Federal Reserve (the Fed) and Census Bureau, and our database on U.S. labeled debt.

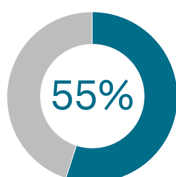
Key Findings

- Due to high mortgage interest rates and persistently high real estate prices, a median priced home is now unaffordable for a median income American household.
- Conditions are most acute for households in highly populated areas and earning less than the U.S. median income, over 63% of which now spend greater than 30% of household income on housing.
- Demand for assistance from U.S. affordable housing issuers has risen, leading to a 32% year-to-date increase in debt issuance over 2023 highs.
- At some point, not-for-profit housing issuers, particularly multifamily lenders, may struggle to preserve credit quality by deploying reserves to meet affordable housing needs.

By the numbers: The state of affordable housing in the U.S.



% of median household income required to make a mortgage payment on a median-priced home



Households earning below median income and housing burdened

Since 1992

252%

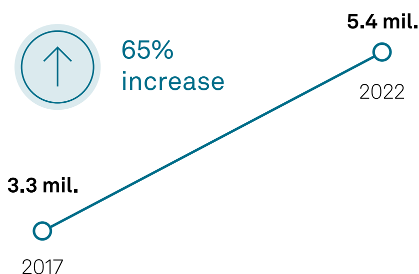
increase of a median-priced home

43%

median income rise

Number of housing burdened households earning above the median income

65% increase



$41 bil.

debt issued by not-for-profit affordable housing lenders in 2023

436%

increase in social-labeled debt by not-for-profit housing issuers from 2019-2023

Source: S&P Global Ratings.

Housing Affordability In The U.S.: A Critical Challenge

A July 2022 S&P Global Ratings report "The American Dream May No Longer Be In Reach" found that it was harder than ever for U.S. households to afford a home, based on the time required to save for a down payment and the percentage of income needed to cover monthly payments. That report suggests it would take a first-time homebuyer "11.3 years to save for a 10% down payment and 22.6 years to save for a 20% down payment--both more than double their pre-pandemic rates of five and 10 years, respectively."

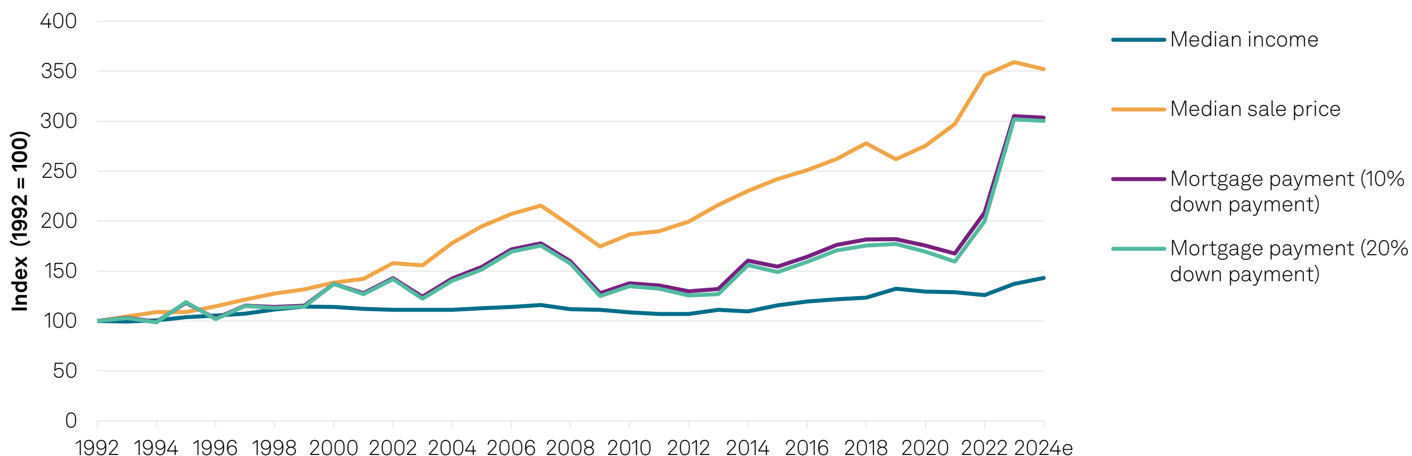
Home prices subsequently peaked in late 2022, but in the two years since, have stabilized and even declined slightly relative to incomes. However, households across the country continue to face substantial affordability challenges, particularly in light of stubbornly high real estate prices and mortgage interest rates. As a consequence, not-for-profit affordable housing entities have been called on to meet the high and increasing demand for assistance.

Housing affordability is at an all-time low

Median income has not kept pace with housing prices (including rent). Over the last 30 years, housing prices across the U.S. have increased far faster than household incomes. Indeed, while median income is up an estimated 43% from 1992, the median home sale price has risen 252% (see chart 1). According to the Harvard University Joint Center for Housing Studies (JCHS), the home price-to-income ratio in 2022 reached 5.6, the highest point on record.

Chart 1

Median home sale prices have far outpaced the increase in median income



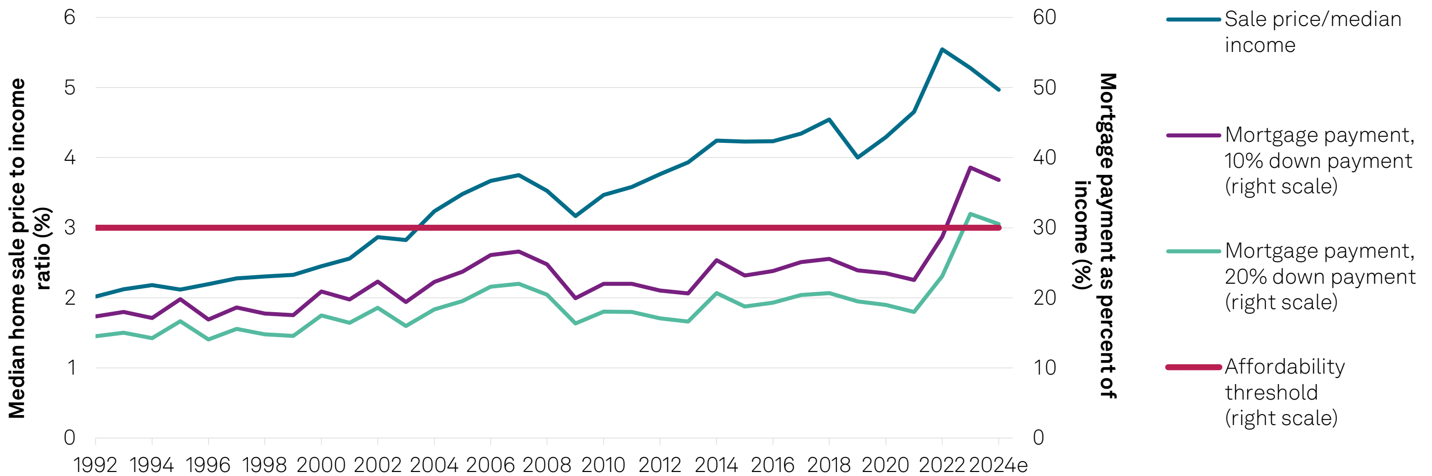
Data as of July 2024. e--Estimate. Median income estimates for 2023 and 2024 calculated based on growth rates of disposable personal income per U.S. Bureau of Economic Analysis. Estimated mortgage payments with 10% down payment assumes a 0.55% per year mortgage insurance payment (MIP). Actual MIP may vary over time and by loan terms, size, and loan-to-value ratio. Sources: Federal Reserve Bank of St. Louis, S&P Global Ratings.

Mortgage interest rates and persistently high home prices have made owning a home more challenging. Despite housing prices outpacing income growth between 1992 and 2022, home ownership remained relatively affordable on a monthly payment basis due to low interest rates. Affordability is commonly determined on whether housing costs equal or exceed a threshold of 30% of household income. Households spending more than 30% are generally considered housing burdened. The U.S. Department of Housing and Urban Development, for example, uses the 30% standard to determine eligibility for many of its housing programs.

Through the 1990s, 2000s, and 2010s, the median sale price of a home increased faster than median incomes. During that period, price-to-income ratios ballooned to over 5x from 2x (see chart 2). Despite this, low interest rates kept the estimated monthly 30-year fixed mortgage payment (whether with a 10% or a 20% down payment) below the 30% affordability threshold. This shifted dramatically, however, when the Federal Reserve began raising interest rates in 2022. By the third quarter of that year, average 30-year fixed rate mortgage interest rates reached 6.66%. For the first time, the median sale price of a home in the U.S. surpassed 30% of median household income, even with a 20% down payment. From 2023 into 2024, housing price increases slowed while the Federal Reserve Bank of St. Louis estimates median income has continued to rise. Homeownership, however, remains largely unaffordable for millions of American households.

Chart 2

Estimated mortgage payments on a median priced home are now above 30% of median household income

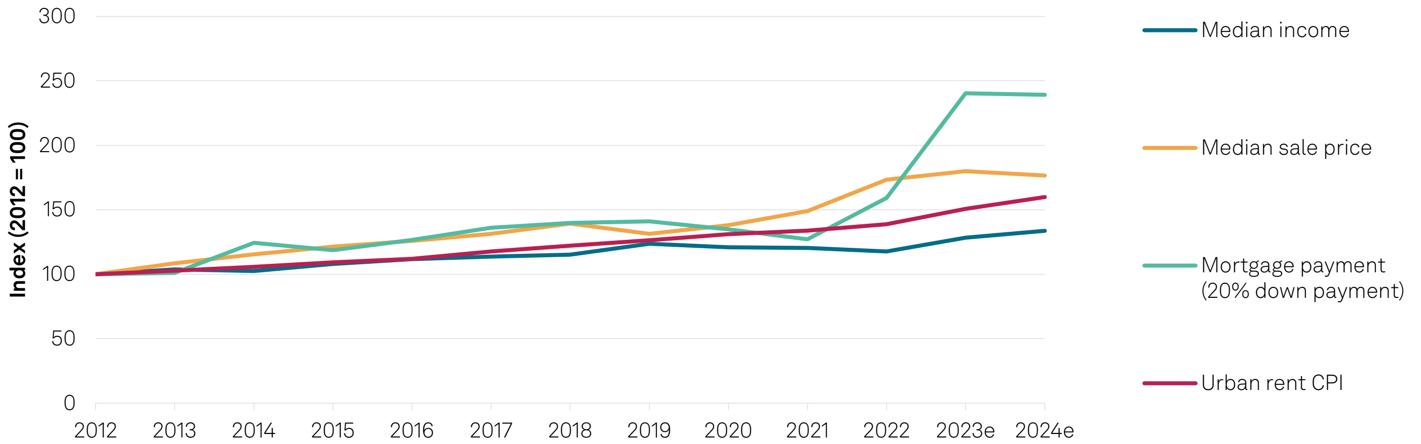


Data as of July 2024. e--Estimate. Median income estimates for 2023 and 2024 calculated based on growth rates of disposable personal income per U.S. Bureau of Economic Analysis. Estimated mortgage payments with 10% down payment assumes a 0.55% per year mortgage insurance premium (MIP). Actual MIP may vary over time and by loan terms, size, and loan-to-value ratio. Sources: Federal Reserve Bank of St. Louis, S&P Global Ratings.

Rent has not increased at the same pace as home prices, but renters carry a heavier burden. Rental affordability is more complicated. Rents have not increased as fast as home prices (see chart 3). Since 2012, when the U.S. consumer price index began providing data for a primary residence in cities, through the beginning of 2024, rent has increased 59%. This rate of increase outpaces income growth but remains below the 77% increase in the median home sale price over the same period.

Chart 3

Rents have increased faster than incomes, but not as rapidly as home prices and mortgage payments

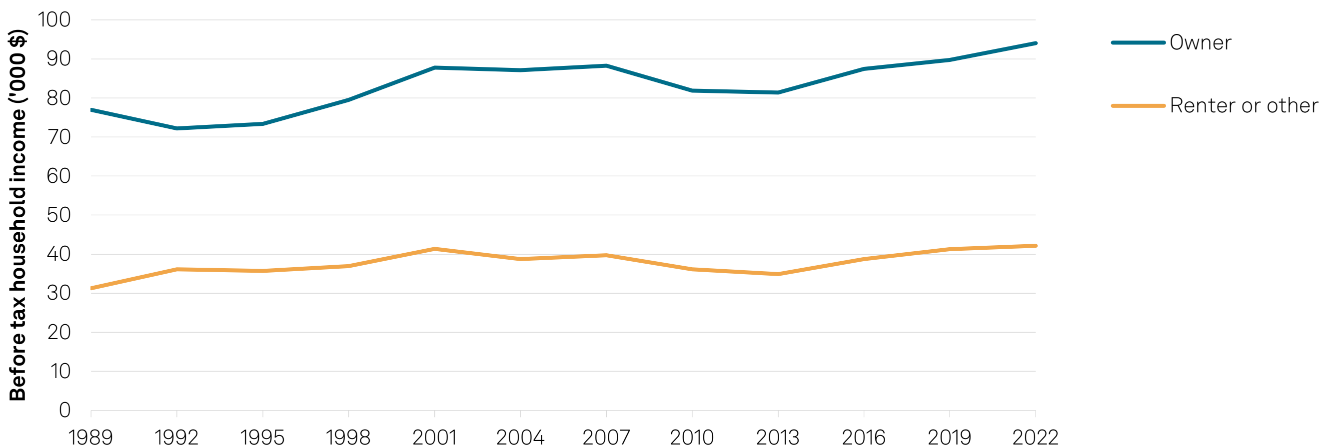


Data as of July 2024. CPI--Consumer price index. e--Estimate. Median income estimates for 2023 and 2024 calculated based on growth rates of disposable personal income per U.S. Bureau of Economic Analysis. Sources: Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics, S&P Global Ratings.

Affordability challenges disproportionately affect households that rent. Data from the Federal Reserve Survey of Consumer Finances shows that households that rent earn substantially less than those that own their homes (see chart 4). In 2022, the median rental household earned $42,160 annually, less than half the $94,040 median income of an owner household. Another way to look at this: 69% of rental households earn less than the U.S. median income versus just 40% of those that own. And according to the U.S. Census Bureau's American Community Survey (ACS), which provides data on household housing costs (owning and renting), over 46% of all rental households are housing burdened, including 23% that spend over half of their gross income on rent (see table 1).

Chart 4

Households that own homes earn over twice the annual income of households that rent



Sources: U.S. Federal Reserve, S&P Global Ratings.

Table 1

Nearly half of all rental households are housing burdened

Red highlight indicates housing burdened

Percentage of income spent on rent	Number of rental households	(%)
Less than 10.0	1,724,900	4
10.0 to 14.9	3,681,553	8
15.0 to 19.9	5,197,343	12
20.0 to 24.9	5,261,967	12
25.0 to 29.9	4,754,176	11
30.0 to 34.9	3,760,574	9
35.0 to 39.9	2,750,710	6
40.0 to 49.9	3,735,036	8
50.0 or more	10,301,618	23
Not calculated	3,070,716	7
Total	**44,238,593**	

Sources: U.S. Census Bureau, S&P Global Ratings

Housing affordability challenges still most acutely affect lower income households, but households across the income spectrum feel the impact. According to ACS data, by 2022 more than 55% of households earning the median income or lower were housing burdened. And these proportions increase dramatically in the lowest income brackets. For example, 68% of households earning between $20,000 and $34,999 per year, and 86% of households earning less than $20,000 per year, spend over 30% of their income on housing (see table 2).

Table 2

For middle- and higher-income households, housing affordability has become a greater challenge

	2022			2017			
Annual household income	Total households	Households spending 30% or more on housing	Proportion	Total households	Households spending 30% or more on housing	Proportion	% Change in proportion 2017-2022
<$20,000	12,921,169	11,080,921	86%	16,968,952	14,088,762	83%	3.3%
$20,000 to $34,999	13,512,681	9,172,546	68%	16,795,049	10,261,918	61%	11.1%
$35,000 to $49,999	13,175,671	6,556,749	50%	15,112,412	5,855,490	39%	28.4%
$50,000 to $74,999	19,903,069	6,155,541	31%	20,700,957	4,606,256	22%	39.0%
$75,000 or more	62,483,686	5,398,155	9%	45,414,177	3,264,866	7%	20.2%

Sources: U.S. Census Bureau, S&P Global Ratings.

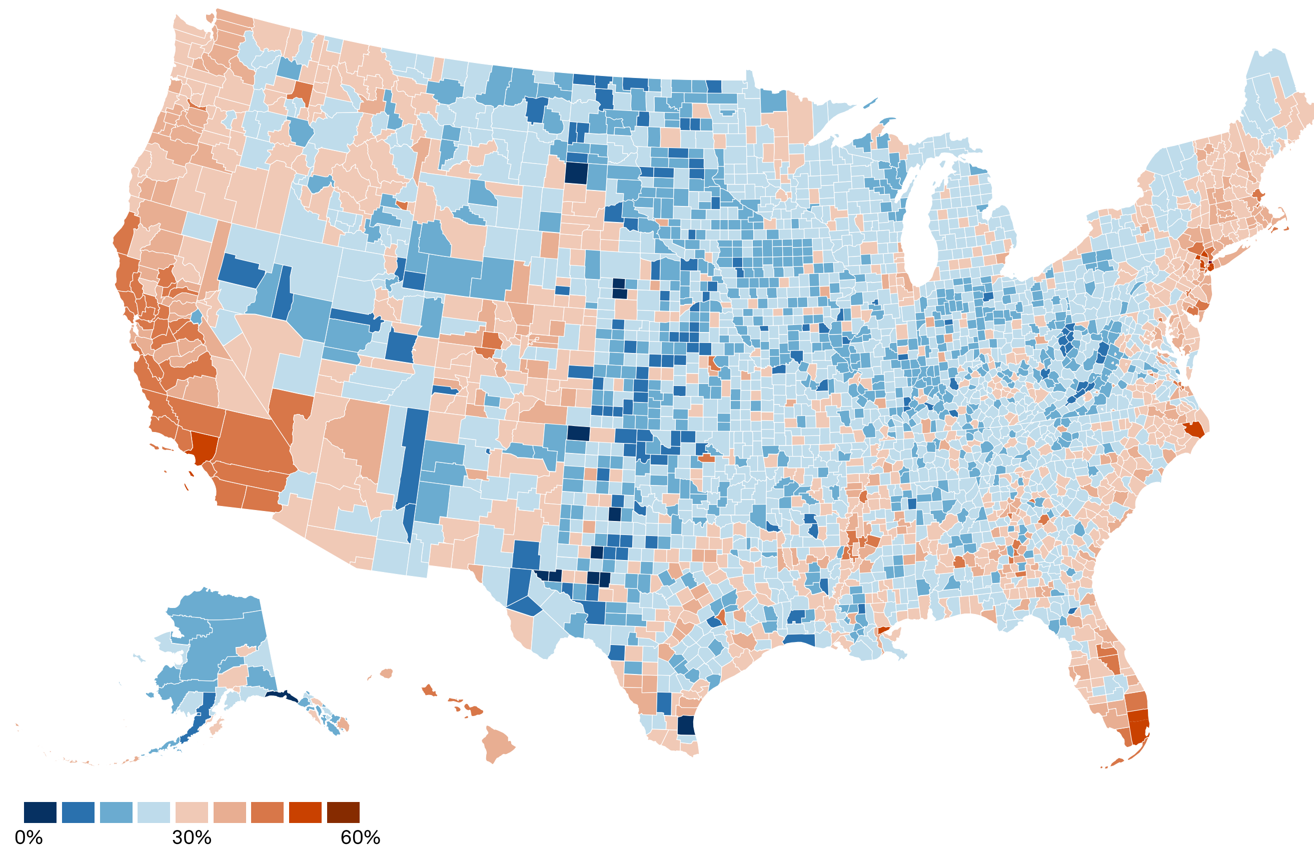
The share of housing burdened households has increased rapidly in the middle and even higher income categories. The proportion of housing burdened households earning less than $20,000 per year increased by 3 percentage points between 2017 and 2022 compared to a 2 percentage point change for those earning $75,000 or more (see table 2). However, the rate of change from 2017 to 2022 was more substantial for households in the $50,000 to $74,999 and $75,000 or more income categories. And in absolute terms, housing burdened households earning the median income or higher increased 65% to 5.4 million from 3.3 million during that period.

The most heavily populated counties continue to face the most substantial housing affordability challenges. Geographically, counties that are more urban and heavily populated have a greater concentration of housing burdened households (see chart 5). Households in Bronx County, New York (55%) and 48% of those in Miami-Dade County, Florida, for instance, are housing burdened. Home prices in these counties are generally the highest relative to household income and have a greater proportion of households that rent. In 2022, for instance, home prices in the most highly populated counties (those with populations of 1 million or more) were on average 3.8x the county median incomes. Home prices are 2.7x county median incomes in the least populated counties (those with populations 20,000 or less). Moreover, over 23.6 million households (33%) in all highly populated counties are spending more than 30% of income on housing. And if we look specifically at households in highly populated counties earning less than median income, we find that the proportion that are housing burdened rises to 63%.

Chart 5

Highest concentrations of housing burdened households are in urban counties on the coasts

Estimated percentage of households spending 30% of income or more on housing costs in 2022



0% 30% 60%

Sources: U.S. Census Bureau, S&P Global Ratings.

Housing unaffordability is an increasing problem in lesser populated areas as well. In the five years between 2017 and 2022, median housing prices increased in the most populated U.S. counties by an average of 41%, that is, 11 percentage points higher than the rate of median income growth. In the least populated counties, that differential was slightly less severe but nevertheless meaningful. Median home prices increased 36% versus median income growth of just 26%, a 10-percentage-point difference. Indeed, by 2022, even in these least populated

counties, where housing prices are lowest in absolute terms as well as relative to incomes, 23% of households were considered housing burdened.

Societal impacts of poor access to affordable housing

Besides providing shelter and security, the availability of high-quality affordable housing can have significant knock-on effects for society, including those related to health, education, crime, and intergenerational poverty.

Lack of affordable housing can have meaningful societal and economic consequences. Particularly for lower-income households, there are direct and meaningful tradeoffs that must be made when a disproportionately large percentage of income must be dedicated to covering basic housing needs. In its 2023 "State of the Nation's Housing" report, the Joint Center for Housing Studies (JCHS) of Harvard University points out that "with such high housing costs, many households with lower incomes may struggle to pay for other necessities like food, clothes, and health care, which have become more expensive as inflation has risen." Indeed, the JCHS estimates that in 2022, severely housing burdened rental households, "spent 39% less on food and 42% less on health care than households in their expenditure group who were not cost burdened."

In some cases, high housing costs may lead to a trade-off with the amount of disposable income that can be saved or invested for the future. For many, though, it translates into difficult decisions regarding using medical services, investing in education, providing healthy and nutritious meals, and going into debt to finance basic needs or in response to unexpected events. Such trade-offs can reinforce societal inequities and inhibit economic advancement.

Children, in particular, can bear the brunt of housing unaffordability impacts. By 2022, the ACS data finds that 21.8 million (or 30%) of the 72.5 million children in the U.S. live in housing burdened homes. A large body of research points to linkages between access to affordable and stable housing and outcomes for children. A 2023 systematic review of academic literature published in Public Health Research journal examining the impact of housing insecurity (a consequence of unaffordability) on the health and well-being of children found "children are affected in many ways including their social life, schooling, health, financial and family well-being ... [leading] to anxiety/stress, trouble eating and sleeping, wetting the bed, and health problems, such as asthma." Research published in 2016 in Health Affairs from Newman and Holupka demonstrated that "high [housing] burden affects parents' expenditures on both necessities for and enrichment of their children ... [affecting] children's development, including their cognitive skills and physical, social, and emotional health." And poor housing affordability can limit family mobility and, by extension, the ability of parents to locate into better school districts.

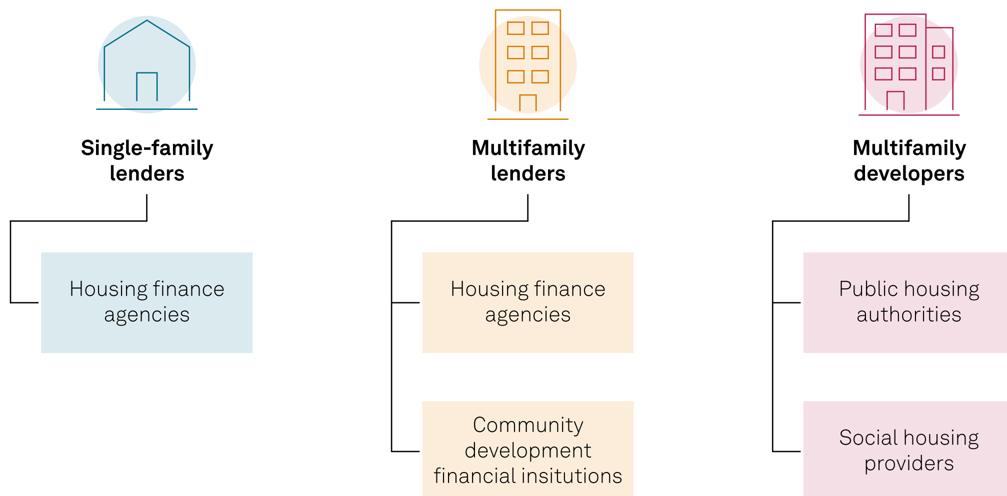
Not-For-Profit Lenders And Developers Are Key

U.S. affordable housing issuers have opportunities and challenges in expanding their mission and meeting demand. This is because housing affordability difficulties have endured for a long time. Such issuers are typically not-for-profit lenders or developers of single-family and multifamily affordable housing (see chart 6).

State and local **housing finance agencies** (HFA) and **community development financial institutions** are usually lenders. **Public housing authorities** (PHA) and **social housing providers** (SHP) are typically developers with a public mission or engage not-for-profit developers.

Chart 6

Typical role of U.S. affordable housing issuers



Source: S&P Global Ratings.

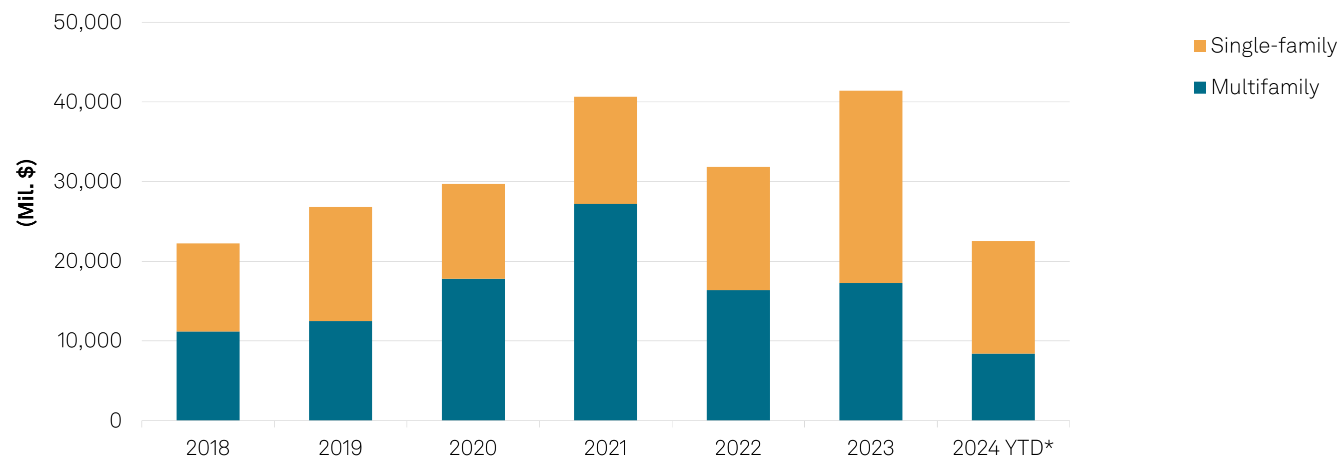
Mission delivery could boost the credit quality of not-for-profit lenders

U.S. affordable housing issuers support increased affordable housing by accessing capital markets. Affordability concerns for renters and homeowners, such as high mortgage interest rates and inflationary pressures from food, utilities, and other costs have underscored the importance of the public mission of U.S. not-for-profit affordable housing issuers.

With higher-for-longer interest rates, such issuers have an opportunity to bolster their balance sheets. This is because of the positive financial spread between the lower overall cost of funds at which tax-exempt debt (which allows investors to exclude interest earnings from federal, state, and local income taxes) is issued and the higher interest rate at which issuers lend debt proceeds. This is one reason the highest issuance to date across the sector was over $41 billion in 2023. And there are no signs of slowing, with 2024 issuance through June up approximately 32% year over year (see chart 7). Even if interest rates gradually decline, in line with our economic forecasts, the positive financial spread may narrow but persist because the cost of funds for debt may also drop. Of note, however, 2022 did not align with the trend, since lending for multifamily developments declined 40%. These projects were difficult to execute in the face of inflation and higher costs for building materials and labor.

Chart 7

Debt issuance by not-for-profit affordable housing lenders mirrors the rise in affordability challenges



YTD--Year to date. Source: S&P Global Ratings.

Sustainable debt provides one way to raise capital to fund affordable housing. In 2023, social labeled issuance for affordable housing totaled approximately $15 billion, or more than 40% of the total labeled debt issued by U.S. public finance issuers. 2023 marked a substantial increase in the amount of social bonds dedicated to affordable housing, which in 2019 was only $2.8 billion. This information is drawn from an internal proprietary database we use to track labeled issuance in U.S. public finance, collecting information since 2013. While it is difficult to estimate the exact amount of proceeds specifically dedicated to increasing the stock of affordable housing, local or state housing finance agencies use social labeled bonds to fund their mission. Of note, New York City Housing Development Corp. was the largest issuer of social bonds in 2023 with $1.8 billion and the largest issuer of labeled bonds over a 10-year period (from 2013 to 2023) at nearly $14.7 billion issued (see table 3). In 2023, labeled debt represented just over a third (36.5%) of not-for-profit affordable housing issuance.

Table 3

Top 10 U.S. municipal affordable housing GSSSB issuers, 2013-2023

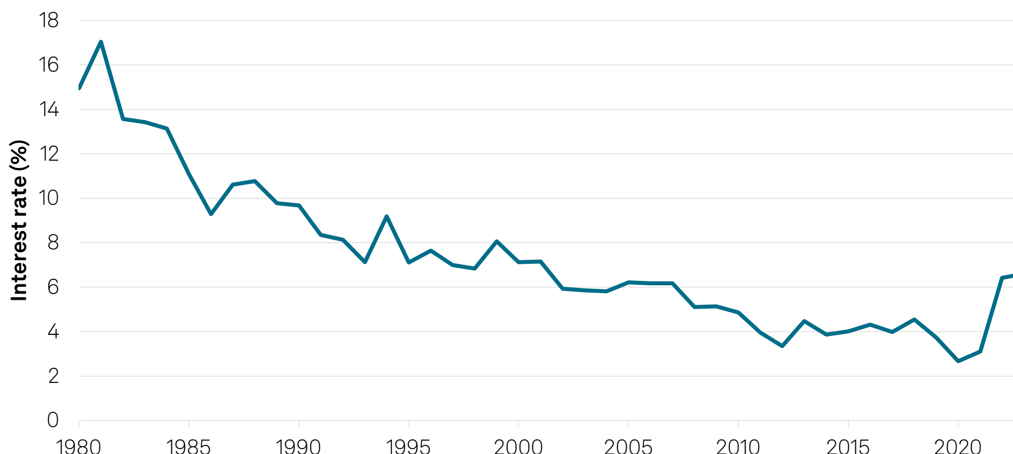
Issuer	Par (Mil. $)	Par (%)
New York City Housing Development Corp.	14,666	7.2
New York Metropolitan Transportation Authority	12,476	6.1
California Community Choice Financing Authority	8,711	4.3
New York State Housing Finance Agency	6,348	3.1
San Francisco Public Utilities	4,426	2.2
CSCDA Community Improvement Authority	4,422	2.2
Massachusetts (State of)	4,168	2.0
Indiana Finance Authority	3,662	1.8
Iowa Finance Authority	3,191	1.6
San Francisco Bay Area Rapid Transit District	2,694	1.3
Top 10	64,764	31.69

GSSSB--Green, social, sustainability, and sustainability-linked bonds. Source: S&P Global Ratings.

High mortgage interest rates reduce prepayment risk, helping housing agencies retain liquidity and generate steady revenue. In March 2022, the Federal Reserve initiated its monetary tightening policy to help control inflation, lifting 30-year fixed, conventional mortgage interest rates to between 6% and 7%. While these were still lower than during the 1980s and early 1990s, the recent increases followed a decade when conventional mortgage interest rates were between 3% and 4% (see chart 8). The high interest rate environment has, in some cases, improved financial performance for affordable housing issuers as new loan originations outpace prepayments. This provides liquidity stability, financial resources, and steady annuity revenue from mortgage payments for single-family program lenders. Although our economic forecast contemplates the Fed will initiate monetary easing in the near term, we believe housing agencies' balance sheets are well positioned to absorb increasing prepayment speeds as interest rates gradually decline.

Chart 8

Conventional 30-year mortgage rates rise in 2022 after period of historical lows from 2012-2021



Sources: Federal Reserve Economic Data (FRED); Federal Reserve Bank of St. Louis.

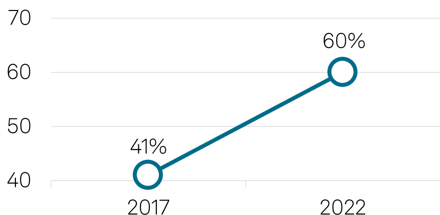
Single-family affordable housing lenders also meet homebuyer demand through down payment assistance programs. High home prices and the nearly 11- to 23-year time frame to save for a down payment exacerbate the affordability challenges brought on by high mortgage interest rates. Demand for single-family mortgage originations through HFAs is partly spurred by down payment assistance initiatives. HFAs have flexibility to provide one-time funding assistance to increase the down payment amount or contribute to closing costs (thereby lowering the total mortgage loan requirement). Down payment assistance and attractive first mortgage interest rates have increased the demand of HFA products to low- and moderate-income and first-time homebuyers compared to conventional mortgages, contributing to program growth.

Since 2017, HFAs have provided increasing down payment assistance to more borrowers. HFAs can fund this assistance in their single-family mortgage revenue bond programs through sources such as general fund reserves, bond proceeds, and state legislature allocations. Most down payment assistance is structured as amortizing loans followed by deferred or due-on-sale loans, but some assistance could be "forgivable," with HFAs waiving repayment of the assistance. For more information on HFA down payment assistance programs, see our report "Turning Housing Into Homes: U.S. HFAs Evolve Down Payment Assistance Programs Amid Changing Housing Market Dynamics," published Sept. 14, 2023.

Chart 9

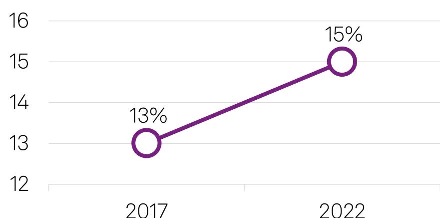
HFAs' increasing use of downpayment assistance (DPA) products is unlikely to abate

Percentage of agencies offering some form of DPA to more than 90% of homebuyers

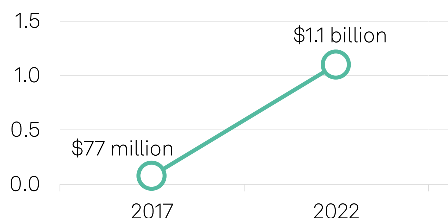


The average DPA provided per borrower

Average DPA provided over borrower income of an HFA borrower's income



Total amount of DPA provided by HFAs



HFA--Housing finance agency. Source: S&P Global Ratings.

Management adds credit stability for most affordable housing issuers

In general, these lenders' and developers' management teams are highly experienced, nimble, and creative when addressing affordable housing. So far, households' affordability challenges have not impaired issuers' credit quality.

Management teams have successfully balanced demand with increasing financial responsibilities. Lenders typically have strong underwriting standards, engage in robust borrower education about mortgage requirements, and--in some cases--service the mortgage loans they originate, which together help curtail payment delinquencies and nonperforming loans.

Furthermore, we typically assess HFA lending programs' management as strong, reflecting a neutral view of program management and operational risk. Only 14% of programs have one or more negative program management attribute, in our view. A negative attribute could reflect concentration risk in interest rate swap providers or asset-to-liability management related to initiatives that, in our opinion, use the program's net assets in an unsustainable manner. Also, affordable housing issuers are highly regulated and subject to reporting requirements from state and federal agencies. Management's experience in successfully navigating a difficult regulatory framework highlights the highly skilled teams employed by HFAs.

Credit quality could weaken absent higher revenue

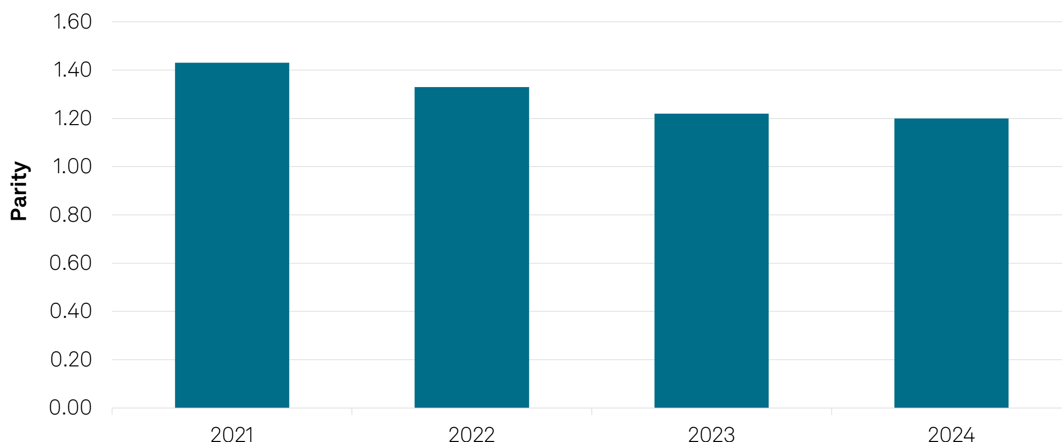
Multifamily lenders face the challenge of meeting demand while balancing cost pressures. This has led to declining parity coverage (net assets versus total debt.) Since the Great Recession of 2007-2009, HFAs have increased the net assets and reserves in their multifamily mortgage revenue bond programs, in part due to reduced lending demand when conventional mortgage interest rates were lower.

If households' affordability continues to deteriorate, multifamily lenders may struggle to meet demand while preserving credit quality. As HFAs expanded their mortgage programs to help close borrowers' financial gaps, they started using program net assets to help cover higher housing prices, mortgage interest rates, and rising construction costs due to inflation. As a result, as discussed in our report, "U.S. Mortgage Revenue Bond Program Medians: Strong Credit Quality Keeps The House In Order," published Sept. 12, 2023, program parity has materially declined in HFA multifamily programs since 2020 (see chart 10). Despite this, these programs have maintained higher overcollateralization than expected loan losses, leading to stable credit quality among the HFA issuers we rate.

Chart 10

Multifamily lenders have reduced program equity to support borrowers

Represented as aggregate parity across rated programs



Source: S&P Global Ratings.

U.S. affordable housing developers may need rent increases to offset higher expenses, continue their funding strategies, and expand their portfolios. Such developers include PHAs and SHPs. Slower development pipelines during the pandemic, coupled with high interest rates and costs related to insurance premiums, labor, and materials have led some developers to slow development or pursue alternative financing sources to build or acquire affordable housing units. As discussed in "U.S. Social Housing Providers Have The Foundation To Insulate Against New Post-Pandemic Risks," published Oct. 4, 2023, we anticipate PHAs and SHPs will continue entering the municipal bond market to expand their portfolios. However, the additional debt could have negative credit implications in the long term, unless developers are able to raise rents or manage operating costs. That said, additional units that translate into higher revenue for a not-for-profit developer and contribute to a robust liquidity position could outweigh additional debt service costs.

Looking Ahead

Recent moderation in housing price growth relative to incomes provides some level of optimism that this protracted period of acute housing unaffordability in the U.S. may recede, particularly if the Fed starts cutting its benchmark rate in September 2024, as we forecast in "A Cooling U.S. Labor Market Sets Up A September Start For Rate Cuts", published Aug. 6, 2024. The long-term trends, however, remain intact. Even with interest rates coming off recent highs, without substantial housing cost declines, especially in the most pressed urban areas, demand for

assistance from U.S. not-for-profit affordable housing issuers is unlikely to abate soon. We therefore continue to monitor these organizations' capacity to fulfill their important missions in light of potentially increasing financial pressures that could impair credit.

Related Research

- A Cooling U.S. Labor Market Sets Up A September Start For Rate Cuts, Aug. 6, 2024
- Rethinking The American Dream Of Homeownership In New York City, May 23, 2024
- U.S. Muni Sustainable Bonds: Moderate Growth In 2024, Feb. 15, 2024
- U.S. Public Finance Housing Outlook 2024: A Stable Foundation Despite Emerging Risks And Slower Economic Growth, Jan. 24, 2024
- U.S. Social Housing Providers Have The Foundation To Insulate Against New Post-Pandemic Risks, Oct. 4, 2023
- Turning Housing Into Homes: U.S. HFAs Evolve Down Payment Assistance Programs Amid Changing Housing Market Dynamics, Sept. 14, 2023
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