

Affordable Housing vs. Social Housing

What is “affordable” housing?

According to the United States government, housing is “affordable” if it costs a household no more than 30% of the monthly household income for rent and utilities. Most federal and state housing assistance programs set maximum incomes for eligibility to live in subsidized housing, and maximum rents and housing costs that may be charged to eligible residents, usually based on their incomes.

The California Department of Housing and Community Development (HCD) publishes annual tables of official federal and state income limits for determining these maximums for a variety of programs. State statutory limits are based on federal limits set and periodically revised by the U.S. Department of Housing and Urban Development (HUD). HUD’s limits are based on surveys of local area median income (AMI). The commonly used income categories are approximately as follows, subject to variations for household size and other factors:

- Extremely low-income (ELI) : 0 to 30% of AMI
- Very low-income (VLI): 30% to 50% of AMI
- Low-income (LI): 50% to 80% of AMI (the term “lower income” may be used to mean all low-income categories, 0% to 80% of AMI)
- Moderate-income (Mod): 80% to 120% of AMI
- Above moderate-income (Above Mod): 120% of AMI and above

Who is considered “low-income” in California?

Most subsidized affordable housing developments are built for families and individuals with incomes of 60% or less than AMI; as noted above, AMI is set regionally and means different things in different areas of the state.

Sacramento County, 2023

	LI (80% AMI)	VLI (50% AMI)	ELI (30% AMI)
2-person household	\$68,600	\$42,900	\$25,750
4-person household	\$85,750	\$53,600	\$32,150

Renters in Sacramento need to earn \$32.23 per hour (\$5,587 per month) to afford the average monthly asking rent of \$1,676.¹ A renter earning minimum wage makes \$2,687 per month (\$32,244 year), medical assistants make \$4,712 per month (\$56,544 year), Sacramento Unified School Teacher (with a BA) makes between (\$50,000 and \$62,000 year year).

Los Angeles County, 2023

	LI (80% AMI)	VLI (50% AMI)	ELI (30% AMI)
2-person household	\$80,750	\$50,450	\$30,300
4-person household	\$100,900	\$63,050	\$37,850

¹ *Sacramento County 2023: Affordable Housing Needs Report*. California Housing Partnership Corporation. Accessed here: https://chpc.net/wp-content/uploads/2023/05/Sacramento-County_Housing-Report_2023.pdf

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Renters in Los Angeles need to earn \$47.15 per hour to afford the average monthly asking rent of \$2,452². A renter earning Los Angeles' minimum wage makes \$2,780 per month (\$33,360 per year), medical assistants make \$3,657 per month (\$43,884 per year), and a Los Angeles Unified School Teacher starts at \$5,166 per month (\$62,000 per year).

Riverside County, 2023

	LI (80% AMI)	VLI (50% AMI)	ELI (30% AMI)
2-person household	\$59,650	\$37,300	\$22,400
4-person household	\$74,550	\$46,600	\$30,000

Renters in Riverside County need to earn \$36.19 per hour to afford the average monthly asking rent of \$1,882.³ A renter earning minimum wage makes \$2,687 per month (\$32,244 per year), medical assistants make \$3,418 per month (\$41,016 per year), and a Riverside Unified School District Teacher (with a BA) starts at \$5,728 per month (\$68,744 per year).

How is affordable housing financed?

“Market rate” housing has relatively straightforward financing—a developer or property owner charges high enough rents so that there is cash flow left over after loan payments to attract an investor to provide cash for up-front costs. Rents in subsidized housing developments are intentionally more affordable (*i.e.*, set at rents that are affordable to lower income families) than housing rented in the private market; therefore, cash flow is not sufficient for a typical investor.

Developing housing that is affordable to lower income families requires some amount of public investment to fill the gap between what a household can afford pay in rent and what is needed to provide for the up-front financing of the housing development. In California, projects that contain units exclusively for lower income families must receive some public subsidies to make the project “pencil.” The high cost of land and construction, as well as regulatory barriers, in California generally makes it economically impossible to build new housing that can be sold or rented at prices affordable to such households. The private sector sometimes provides financial subsidies or land donations mandatorily through inclusionary zoning policies or voluntarily through density bonus ordinances, described below. In most cases, however, some amount of public financial subsidy is needed from federal, state, and/or local governments.

Density bonus law allows public entities to reduce or even eliminate subsidies for a particular “mixed-income” project (*i.e.*, a project containing units affordable to a mix of incomes including units sold on the rental market at market rate rents) by allowing a developer to include more total units in a project than would otherwise be allowed by the local zoning in exchange for affordable units. Allowing more total units permits the developer to spread the cost of the affordable units more broadly over the market rate units. The idea of density bonus law is to cover at least some of the financing gap of affordable housing with regulatory incentives, rather than additional subsidy.

² *Los Angeles County 2023: Affordable Housing Needs Report*. California Housing Partnership Corporation.

Accessed here: https://chpc.net/wp-content/uploads/2023/05/Los-Angeles-County_Housing-Report_2023.pdf

³ *Riverside County 2023: Affordable Housing Needs Report*. California Housing Partnership Corporation. Accessed here: https://chpc.net/wp-content/uploads/2023/05/Riverside-County_Housing-Report_2023.pdf

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What is “social” housing?

Social housing is simply publicly-subsidized housing, but within a specific framework, most commonly used outside of the United States. All definitions of social housing distinguish it in various ways from privately-owned, for-profit housing provided through market mechanisms. The Assembly Select Committee on Social Housing held an informational hearing on October 20, 2021 and Rob Weiner from the California Coalition for Rural Housing shared the Organization for Economic Cooperation and Development (OECD) definition of social housing as: “the stock of residential rental accommodations provided at sub-market prices and allocated according to specific rules rather than according to market mechanisms.”⁴

Under this definition, there are an estimated 480,000 subsidized housing units available for rent in California, or about 3.5% of the state’s housing stock. These deed-restricted affordable rental units are generally built using a mix of public and private financing and residency is restricted to low-income households that make no more than 80% of county area median income (AMI). Other versions of social housing specify permanent affordability requirements and ownership by the government or a non-profit entity. Most of California’s deed-restricted affordable housing is not publicly owned and the length of affordability requirements varies, though permanent affordability is not required in most cases.

Another variation of social housing involves making accommodations available to all individuals regardless of their household income. In particular, Vienna, Austria is often held up as an example of a large city with widespread mixed-income social housing. The Viennese model relies on two key components: government owned, funded, and maintained social housing blocks and public-private partnerships for mixed-income, cross-subsidized housing. Cross-subsidization occurs when higher income households pay market rate rents which then subsidize the below market rents for lower-income households. This mechanism is the same logic that underlies California’s density bonus law—a policy that allows residential developers to receive added density and other concessions and incentives from a local government in exchange for building a certain percentage of affordable units—and inclusionary housing ordinances—which mandate housing developers build a certain percentage of affordable units or pay in-lieu fees that are used to pay for future affordable housing.

Although Vienna provides access to affordable housing for a considerable portion of the population, private developers still play a role in the housing market. The large number of cross-subsidized mixed income housing units create competition in the private rental market, and private developers are forced to maintain low rents to remain competitive.

⁴ California Assembly Select Committee on Social Housing. October 20, 2021.
<https://www.assembly.ca.gov/media/assembly-select-committee-social-housing-20211020/video>