5 | RENTAL AFFORDABILITY

While affordability has improved somewhat, the share of renter households with cost burdens remains well above levels in 2001. Although picking up since 2011, renter incomes still lag far behind the 15-year rise in rents. Renters of all types and in all markets face affordability challenges, although lower-income households are especially hard-pressed to find units they can afford. Indeed, high housing costs have eroded the recent income gains among these households, leaving many renters with even less money to pay for other basic needs.

RENTER INCOMES AND HOUSING COSTS

Despite some recent improvement, the rental housing affordability gap remains wide. Median monthly rental costs were up 15 percent in real terms in 2000–2016, increasing from $850 to a high of $980. At the same time, median renter household income fell sharply between 2000 and 2011, from $38,000 to $32,000, before gradually recovering to $37,300 in 2016. Part of this rebound, however, reflects the growing presence of higher-income households in the rental market rather than income gains alone.

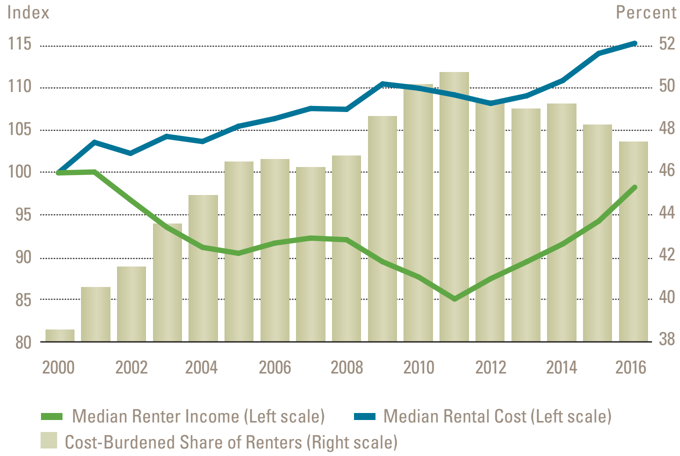
Even so, growth in renter incomes across all income quartiles has outpaced the rise in housing costs since 2011, modestly narrowing the affordability gap. The median monthly income for renters in the bottom quartile increased 10 percent in real terms from $1,000 in 2011 to $1,100 in 2016, while their monthly housing costs rose 3 percent from $740 to $760. By comparison, the median monthly income for renter households in the top quartile grew 9 percent over this period, to $11,300, but their housing costs jumped 6 percent, from $1,600 to $1,700.

With this pickup in income growth, the number of cost-burdened renter households (paying more than 30 percent of income for housing, including utilities) receded from a high of 21.3 million in 2014 to 20.8 million in 2016. The number of severely cost-burdened renters (paying more than 50 percent of income for housing) also edged down from 11.4 million to 11.0 million. The declines in the number of cost-burdened households between 2015 and 2016 coincide with the largest increase in median renter income since 2000.

While down sightly since its 2011 peak, the share of cost-burdened renter households remains high **(Figure 26).** After increasing from 39 percent in 2000 to 51 percent in 2011, the share of cost-burdened households dipped to 47 percent in 2016. The share of severely cost-burdened renters also fell from 28 percent in 2011 to 25 percent. Again, these small improvements reflect not only a drop in the number of cost-burdened renters but also rapid growth in the number of renters with higher incomes—the group least likely to be cost burdened. In fact, the number of renters earning at least $75,000 rose by 40 percent between 2011 and 2016, to 9.1 million, the fastest growth in renter households in any income group.

FIGURE 26

Despite Rising Incomes, the Share of Cost-Burdened Renters Remains High

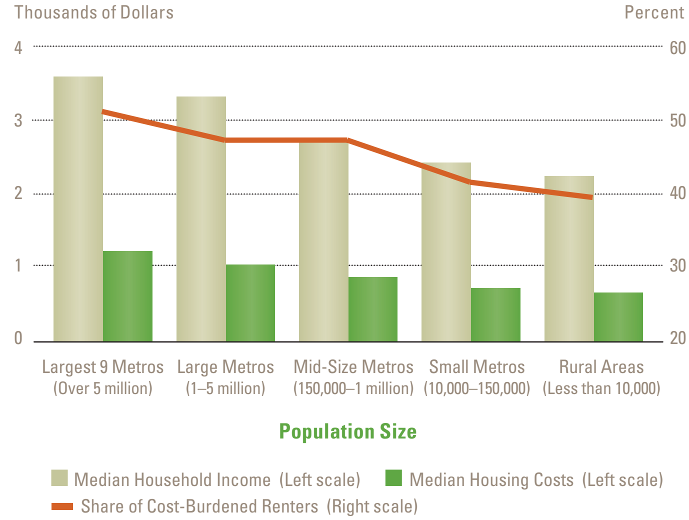


Notes: Median costs and household incomes are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items. Housing costs include cash rent and utilities. Cost-burdened households pay more than 30% of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens. Indexed values represent cumulative percent change.

Source: JCHS tabulations of US Census Bureau, American Community Surveys.

FIGURE 27

While Most Common in Large Metros, Cost Burdens Are Widespread in Markets of All Sizes



Notes: Household income is monthly. Housing costs are monthly and include cash rent and utilities. Cost-burdened households pay more than 30% of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens. Small metros include micropolitan areas with populations between 10,000 and 50,000.

Source: JCHS tabulations of US Census Bureau, 2016 American Community Survey 1-Year Estimates using the Missouri Census Data Center MABLE/Geocorr14.

GEOGRAPHY OF COST BURDENS

Despite declines in the majority of states between 2015 and 2016, large shares of renters across the country are housing cost burdened. Indeed, the shares in California, Colorado, Florida, Hawaii, and New York range from 51 percent to 54 percent, although for different reasons. For example, renters in Colorado, Florida, and New York have relatively moderate median incomes but face high housing costs. In contrast, renters in California and Hawaii have high incomes but even higher housing costs, with both rents and incomes ranking in the top five in the country. Alaska is currently the most affordable state, with the cost-burdened share of renters at 37 percent. Although housing costs in Alaska are the sixth highest nationwide, median renter income is the second highest.

Lower housing costs, however, do not mean greater affordability. Although median housing costs in Alabama, Kentucky, Maine, Mississippi, and West Virginia are in the bottom fifth for the nation, the shares of cost-burdened renters in these states are above 41 percent. The states with the smallest shares of cost-burdened renters are located primarily in the Great Plains region—including Montana, North Dakota, South Dakota, and Wyoming—where median housing costs are low and renter populations are small. But even in these states, more than one-third of renters have housing cost burdens.

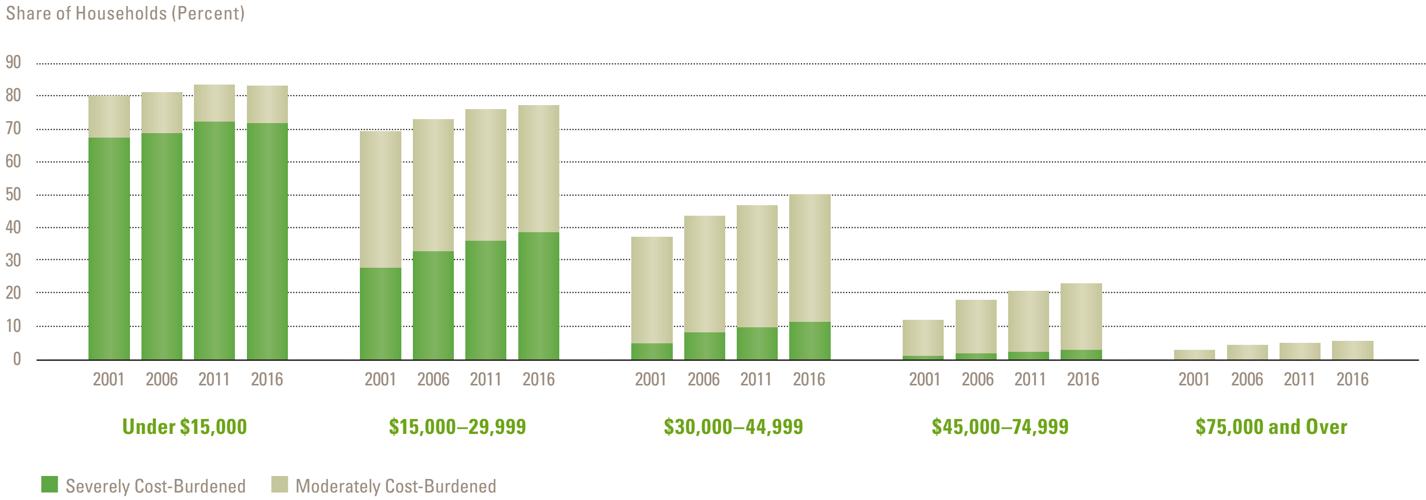
Cost-burdened renters live in communities of all sizes, but finding affordable housing in larger metro areas is particularly challenging. About half (51 percent) of renter households in the nation's nine largest metros pay more than 30 percent of income for housing **(Figure 27).** The median monthly housing cost in these areas is $1,200 while the median renter income is $3,600. Among this group of nine metros, Miami has the highest shares of cost-burdened renters at 61 percent. The shares of cost-burdened renters are slightly lower in large (47 percent), mid-size (47 percent), and small metros (42 percent). Small metros have the lowest median housing costs of any urbanized areas at $720 and the lowest median incomes at $2,400.

From 2011 to 2016, the cost-burdened shares of renters declined in 220 out of the nation's 275 mid-size and larger metros (80 percent), but primarily because increasing numbers of moderate- and higher-income households had entered the rental market. The number of cost-burdened renters decreased in only 46 percent of these metros over this period.

In 63 of the nation's 658 small metros (10 percent), more than half of renters were housing cost burdened in 2016. About two-thirds of small metros with majority shares of cost-burdened renters are in the South and West. Meanwhile, the number of cost-burdened renters in 385 small metros (59 percent) fell between 2011 and 2016.

FIGURE 28

The Share of Middle-Income Renters with Cost Burdens Is Growing Rapidly



Notes: Household incomes are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items. Moderately (severely) cost-burdened households pay 30–50% (more than 50%) of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

Rural areas tend to have lower, but still sizable, shares of cost-burdened renters (40 percent). Even so, more than 46 percent of rural renters in California, Maryland, New Hampshire, and New York are housing cost burdened. These states are largely urbanized, suggesting that high rents in metropolitan areas extend into rural areas. Cost-burdened households in rural areas are often more dispersed than in metro areas, making it difficult to target effective policy interventions.

UNIVERSALITY OF COST BURDENS

Renters in many demographic groups are cost burdened, but low-income households are the most likely to pay a disproportionate share of their incomes for housing. In 2016, 83 percent of renter households with incomes below $15,000 had cost burdens, including 72 percent with severe burdens. Some 77 percent of renters earning between $15,000 and $30,000 were also cost burdened. By comparison, only 6 percent of renters making at least $75,000 were cost burdened in 2016.

Over the past 15 years, more than half of the growth in the number of cost-burdened renters has been among renters earning under $30,000. However, the largest increases in cost-burdened shares have been among moderate-income households. From 2001 to 2016, the number of cost-burdened renters earning $30,000–45,000 rose by 1.3 million, bringing the share for this income group from 37 percent to 50 percent **(Figure 28).** Similarly, the addition of 1.1 million cost-burdened households with incomes of $45,000–75,000 nearly doubled the share in this group from 12 percent to 23 percent.

Being fully employed is no panacea. In 2016, some 56 percent of renters with jobs in personal care and service occupations were housing cost burdened **(Online Figure 5).** Indeed, more than half of renters working in food preparation and service, building and grounds maintenance, and healthcare support—industries with many low-wage jobs—had cost burdens. Conversely, less than 20 percent of renters in higher-paying fields such as computer science, mathematics, architecture, engineering, and oil extraction, were housing cost burdened in 2016.

In addition to low income, several household characteristics—including race/ethnicity, age, household composition, and disability status—are associated with cost burdens. For example, 55 percent of black and 54 percent of Hispanic renters were housing cost burdened in 2016, an increase of about 7 percentage points for both groups in 2001–2016. By comparison, 43 percent of white renters and 47 percent of Asian and other minority renters were cost burdened, up 5–6 percent over this period.

In addition, cost burdens are common among households age 65 and over, as well as among those under age 25. As of 2016, 54 percent of older renters had cost burdens, along with 60 percent of younger renters. Many members of these age groups are out of the workforce or have low wages, either because of retirement and/or disability or because they are still students.

Household composition also makes a difference. Married or partnered households with more than one potential earner are less frequently cost burdened. Those with children present are more frequently burdened, perhaps reflecting the more limited hours that parents are available to work. For these reasons, single parents have the highest cost-burdened share (63 percent) of any household type, well above that for married or partnered parents (39 percent).

Finally, 55 percent of renter households that have a member with a disability have cost burdens, compared with 45 percent of those with no disabilities. Rental cost burdens can be particularly detrimental to households with disabilities in that high housing costs may constrain their ability to pay for medical and other essential needs.

THE LOW-COST HOUSING DEFICIT

The prevalence of cost burdens among lower-income renters is due in part to a shortage of low-cost housing in the private market. To be low cost, housing must be affordable at the 30-percent-of-income standard to very low-income renters (earning up to 50 percent of area median income).

HUD's Worst Case Housing Needs 2017 Report to Congress documents the growing gap between supply of and demand for low-cost rentals. Worst case needs are defined as the number of very low-income renters who are severely cost burdened or living in inadequate housing. After a slight dip from 8.5 million in 2011 to 7.7 million in 2013, the number of renter households with worst case needs increased to 8.3 million in 2015. Nearly all of these cases (98 percent) arise from lower-income households having to pay more than half their incomes for housing costs rather than from problems of housing adequacy.

Some of the pressures on the low-cost supply arise from the fact that households with moderate or even high incomes occupy the units that low-income renters could afford. HUD estimates that 93 units are affordable for every 100 very low-income renters, but of these, only 54 are both available and adequate. For extremely low-income renters, the supply of affordable housing nationally is just 66 units per 100 renters, with only 33 of those units meeting the available and adequate criteria.

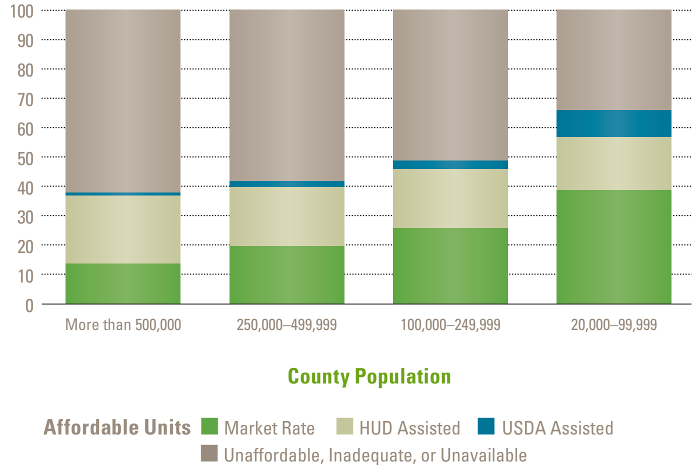
HUD adjusts incomes based on household size to determine affordability and eligibility for housing subsidies. Given that the median income of very low-income families nationally was $28,400 in 2015, a very low-income family of four could afford to pay $710 per month for rent. This number, however, is much lower in some counties. Moreover, the median family of four with extremely low income could afford only $430 in monthly housing costs.

Recent data from the Urban Institute confirms the shortage of privately owned affordable rental housing (also known as naturally

FIGURE 29

The Most Populous Counties Face the Largest Shortfalls in Affordable Supply

Average Number of Units per 100 Extremely Low-Income Renters

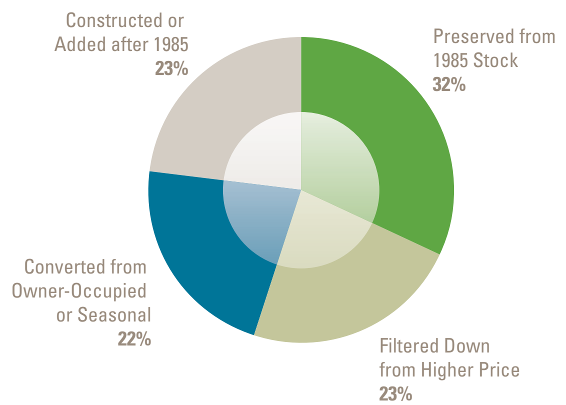


Notes: Affordable is defined as costing no more than 30% of income for households with extremely low incomes (earning up to 30% of area median). Adequate units have complete bathrooms, running water, electricity, and no sign of major disrepair. Available units are not occupied by higher-income households.
Source: JCHS tabulations of Urban Institute, Mapping America's Rental Housing Crisis, 2017.

FIGURE 30

Maintaining the Stock of Rental Housing Depends Largely on Preservation

Share of Affordable Rental Stock in 2013

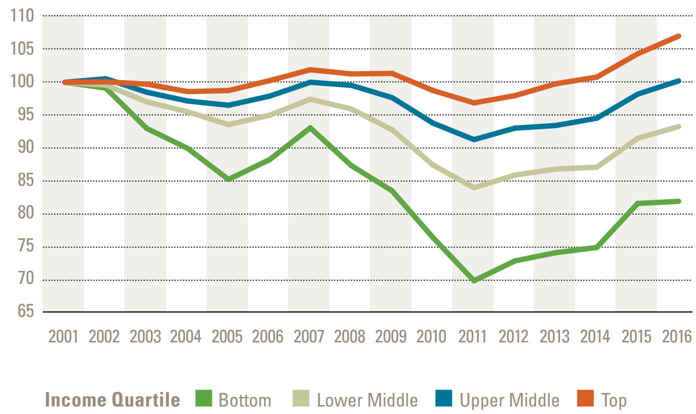


Notes: Affordable is defined as costing no more than 30% of income for households with very low incomes (earning up to 50% of area median). Units added after 1985 include rentals that were temporarily out of the stock in that year.
Source: JCHS tabulations of Weicher, Eggers, and Moumen, 2016.

FIGURE 31

Rising Housing Costs Have Eroded Disposable Incomes…

Median Income Left Over After Paying for Housing Costs (Indexed)

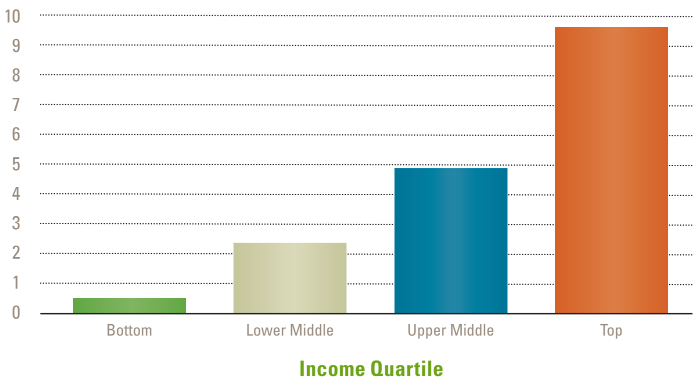


Notes: Income quartiles include both owners and renters. Median housing costs and household incomes are in constant 2016 dollars, adjusted for inflation using the CPI-U for All Items. Housing costs include cash rent and utilities. Indexed values are cumulative percent change.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

FIGURE 32

…Especially Among Lowest-Income Renters

Median Income Left Over After Paying for Housing Costs (Thousands of dollars)



Notes: Income quartiles include both renters and owners. Housing costs include cash rent and utilities.
Source: JCHS tabulations of 2016 American Community Survey.

occurring affordable housing) available to extremely low-income renters. In 2014, counties with populations of at least 20,000 had an average of 34 naturally occurring affordable, adequate, and available units per 100 extremely low-income renters. Of these counties, 29 (about 2 percent) had no units meeting the criteria, while the most affordable counties provided 81 units for every 100 extremely low-income renters. On average, smaller counties have a higher ratio of supply to demand than larger urban counties, while large urban counties have the greatest deficit **(Figure 29).**

At the same time, a Hudson Institute report finds that losses of low-cost units are high. About 60 percent of the 15 million rentals affordable in 1985—some 8.7 million units—were lost by 2013. The biggest reductions were due to permanent removals, with 27 percent of affordable rentals in 1985 (4.1 million units) demolished, destroyed in disasters, or reconfigured into fewer units. About 18 percent (2.7 million units) were converted to owner-occupied or seasonal housing, while 12 percent (1.7 million units) were upgraded to higher rents through gentrification. The remaining 276,000 units were temporarily out of the affordable stock.

This same report also documents how the low-cost rental stock is replenished over time. A little under a third of affordable rentals in 2013 were also affordable in 1985, highlighting the importance of preservation. Even so, a large majority of affordable rentals were added through a variety of other means over time, with roughly equal shares coming from new construction and conversion of non-residential structures, filtering from higher price points, and conversion of owner-occupied or seasonal housing to rentals **(Figure 30).**

Given the lack of naturally occurring affordable units, federal housing assistance is crucial for lowest-income renters. The Urban Institute estimates that HUD and USDA programs assist 53 percent of units affordable to extremely low-income renters. In the largest counties where supplies of naturally occurring affordable units are especially tight, federal programs on average contribute an average of 24 units per 100 extremely low-income renters. In smaller and non-metropolitan counties, federal programs account for an average of 27 units per 100 extremely low-income renters.

THE ADDED BURDEN OF UTILITY AND TRANSPORTATION COSTS

For renters that pay for their own use, utilities can be a sizable component of total housing outlays. The 2016 American Community Survey reports that the median renter spent $140 per month on electricity, gas, heating fuel, and water bills beyond any utility costs included in the rent.

Utility spending varies across income groups and geographies. Lowest-income renters (making less than $15,000) spend the least on utilities, or $120 per month at the median. Renters in this income group living in the East South Central census division, including Alabama, Kentucky, Mississippi, and Tennessee, have the highest median outlays of $155 per month. Renters making $75,000 or more have the highest utility bills, amounting to $150 per month. Highest-income renters in the East South Central area spend the most, or $188 per month.

Although lower-income households spend less than higher-income households on utilities, they must dedicate a larger share of their incomes to these costs. Renters in the lowest income group spend 17 percent of their annual incomes on utilities, and highest-income households spend only 2 percent. While the median share of income devoted to utility costs has fallen across all income groups over the last five years, these costs still contribute significantly to overall housing outlays.

Some renter households make tradeoffs between housing they can afford and location, thus adding to their transportation costs. Indeed, the median household with no housing cost burden spends more on transportation than the median household that is cost burdened. The 2016 Consumer Expenditure Survey reports that transportation costs account for 31 percent of total housing and transportation spending for the median renter. Even excluding vehicle purchases, the median transportation cost represents 21 percent of housing and transportation costs combined.

CONSEQUENCES OF HIGH HOUSING COSTS

High housing costs have eroded renter incomes and exacerbated inequality among renter households. After paying for their housing, the amount of money that lowest-income renters had left over for all other expenses fell 18 percent from 2001 to 2016 **(Figure 31).** Over the same period, the amount of money that highest-income renters had to spend on other costs increased by 7 percent.

In 2016, the median renter household in the bottom income quartile paid 60 percent of its income for housing. For the median renter in this income group, the amount left over for all other needs was less than $500 per month **(Figure 32).** By comparison, the median renter in the top quartile paid just 14 percent of household income for housing and had nearly $9,700 left over for other expenses.

A recent JCHS working paper assesses the gap between household incomes and outlays for both housing and basic living expenses (including transportation, food, childcare, healthcare, and income taxes) in three metropolitan areas in 2015. Not surprisingly, low-income households faced significant challenges in paying for basic necessities after covering their rents, even if these households were fortunate enough to find housing they could afford. Despite lower living expenses, lowest-income single-person households still faced significant financial challenges in covering housing costs and necessities. The results also show that childcare costs incurred by families leave even moderate-income households with cost burdens.

THE OUTLOOK

While the recent drop in the number of housing cost-burdened renters is good news, future meaningful progress is far from certain. Indeed, at the average annual pace of decline from 2014 to 2016, it would take another 15 years just to return to the 2006 level of 17.0 million cost-burdened households and 24 years to hit the 2001 level of 14.8 million households. In effect, the latest economic cycle seems to have defined a new normal for the nation's rental affordability challenges.

Improvement in rental affordability depends on the trajectories of household incomes and housing costs. The recent growth in renter incomes has come at a time when the economy is nearing full employment, so sustained gains are uncertain. In addition, the Bureau of Labor Statistics expects that the fastest employment growth will be in several low-wage occupations—such as personal care, healthcare support, and food preparation—with large shares of housing cost-burdened workers. For earners in these occupations, full employment will not guarantee access to housing they can afford.

Meanwhile, tight rental market conditions have propelled rapid growth in housing costs relative to incomes, although the recent rise in vacancy rates may help to ease some of the pressure on rents in the short term. Turning back the tide on the nation's rental affordability challenges thus requires efforts to address lagging incomes among those near the bottom of the economic ladder as well as steps to help reduce the cost of housing. And for those with low incomes, increasing access to rental assistance, expanding the low-cost stock, and preserving affordable housing will be necessary to close the gap between income and housing costs.