



RENTAL HOUSING AFFORDABILITY

After a decade of falling incomes and rising rents, unprecedented shares of renters in markets across the country pay more than half their incomes for housing. While lowest-income renters have the greatest challenge finding affordable housing, nearly half of moderate-income renters also pay more than 30 percent of their incomes. The lack of low-cost housing options undermines quality of life for these families, forcing difficult tradeoffs in both housing quality and spending on other vital needs.

COST-BURDENED HOUSEHOLDS AT HISTORIC HIGHS

According to initial estimates from the American Community Survey, the number of renters paying more than 30 percent of income for housing (the traditional measure of affordability) reached another high in 2012. Excessive housing costs strained the budgets of more than half of all renters, or 21.1 million households—a slight increase from the year before. The only glimmer of good news is that the share of cost-burdened renters declined slightly for the first time since the recession began in 2007, to 50 percent. But this modest improvement came about only because the number of higher-income renters increased sharply, reducing the overall cost-burdened share.

The recent deterioration in rental affordability comes after a decade of lost ground. The share of cost-burdened renters increased by a stunning 12 percentage points between 2000 and 2010, the largest jump in any decade dating back at least to 1960. The cumulative increase in the incidence of housing cost burdens is astounding. In 1960, about one in four renters paid more than 30 percent of income for housing. Today, one in two are cost burdened. Even in 1980, following two decades of worsening affordability, the cost-burdened share of renters was just above a third.

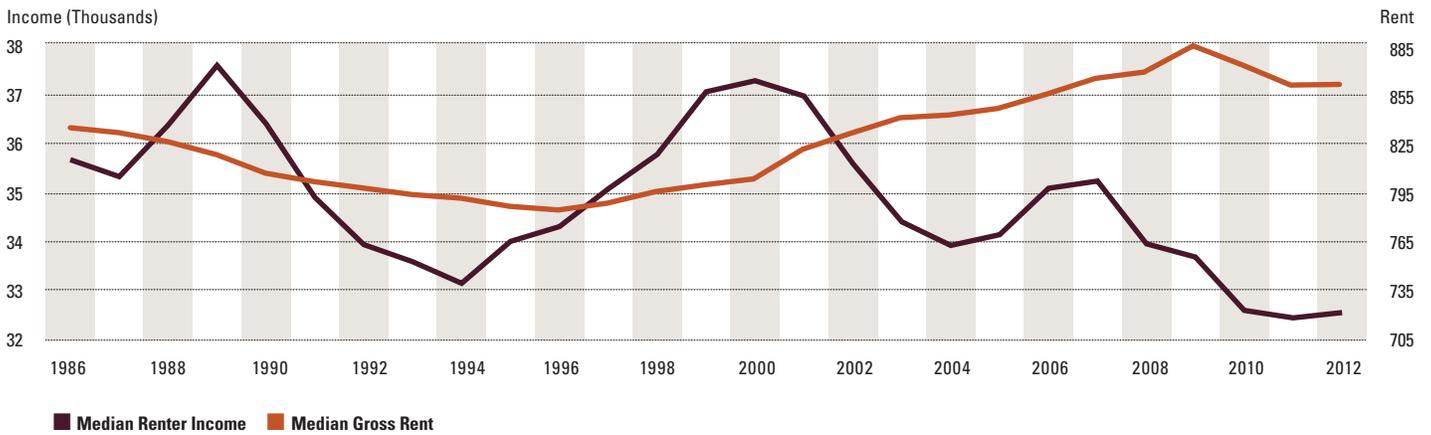
The spread of severe cost burdens during the Great Recession and its aftermath is particularly alarming, accounting for roughly two-thirds of the total increase in the number of cost-burdened renters during the 2000s. By 2011, 28 percent of renters paid more than half their incomes for housing, bringing the number with severe cost burdens up by 2.5 million in just four years, to 11.3 million.

These increases are largely driven by the growing disparity between renter incomes and housing costs. Throughout the 1980s and 1990s, real renter incomes moved up and down with economic cycles, while real rents, though less volatile, also went through periods of gains and losses. Affordability thus waxed and waned over the two decades as incomes and rents drifted apart and converged again. Since 2000, however, the two mea-

FIGURE 24

Declining Incomes and Rising Rents Continue to Erode Affordability

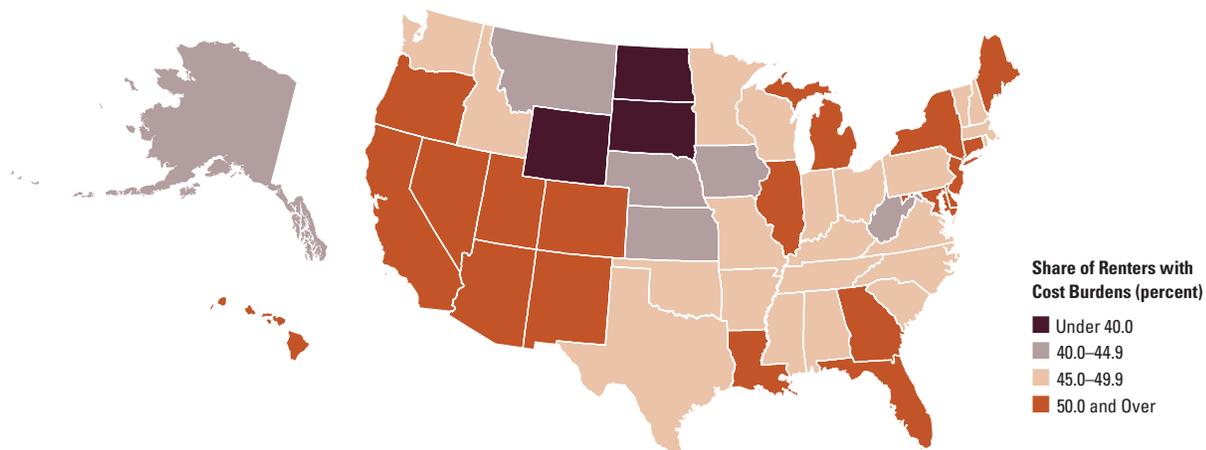
2012 Dollars



Source: Table A-1.

FIGURE 25

Large Shares of Renters Across the Country Are Housing Cost Burdened



Note: Cost burdens are defined as housing costs of more than 30% of household income.
Source: JCHS tabulations of US Census Bureau, 2011 American Community Survey.

tures have diverged sharply (Figure 24). After remaining almost flat through the 1990s, rents climbed 6 percent in real terms between 2000 and 2012. Meanwhile, real median renter incomes fell over much of this period, ending 13 percent lower in 2012 than in 2000. As a result, the gap between rental costs and renter incomes in 2012 was wider than in any year except 2010.

NATIONWIDE SPREAD OF COST BURDENS

While housing costs and incomes vary significantly across states, the incidence of renter cost burdens is similar. Indeed, the share of moderately burdened renters is 45 per-

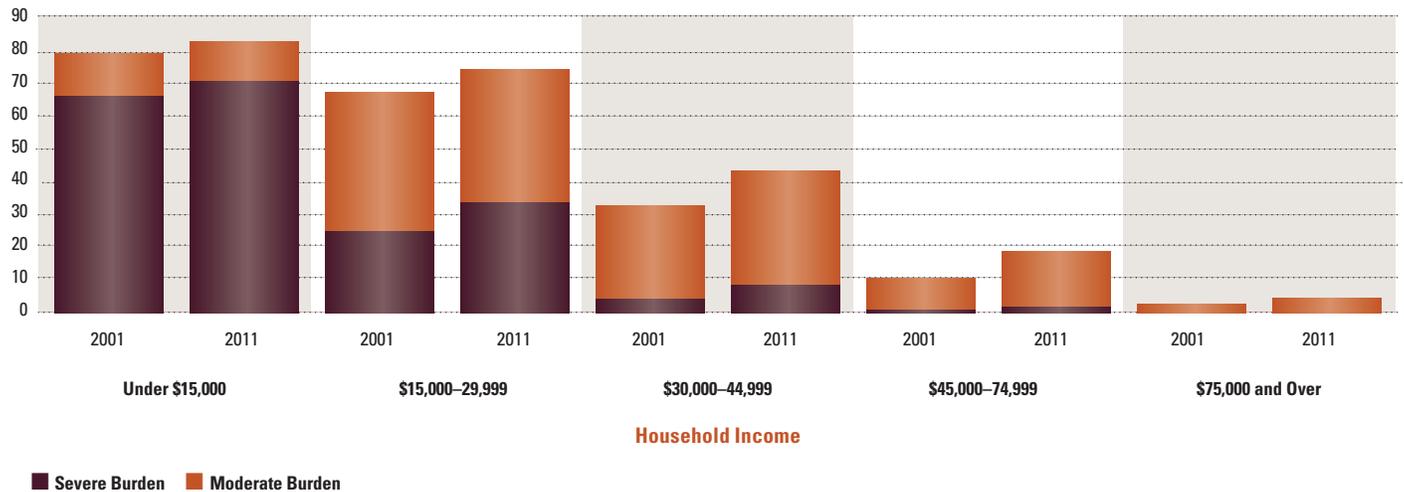
cent or higher in 41 states and the District of Columbia, and exceeds 40 percent in all but three states. More than half of all renters in 19 states, along with Washington, DC, are cost burdened (Figure 25).

Many of the states with the largest shares of cost-burdened renters have high housing costs, although the correlation with rents is less than perfect. High-cost California and Hawaii rank among the top three states in terms of cost-burdened share. But more than half of renters in Michigan, New Mexico, Maine, and Louisiana—states where both rents and incomes are relatively low—are also cost burdened. States such as Massachusetts

FIGURE 26

Higher-Income Renters Increasingly Face Affordability Challenges

Share of Renter Households (Percent)



Notes: Moderate (severe) burdens are defined as housing costs of 30–50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened.
Source: JCHS tabulations of US Census Bureau, American Community Surveys.

and Virginia have high rents, but are in the middle of the pack in terms of affordability because renter incomes are also relatively high. The states with the smallest shares of cost-burdened renters are Wyoming and the Dakotas, where there are few renters, rents are low, and incomes are high relative to rents. Nonetheless, the shares of renters with cost burdens in all states are well above levels prevailing a decade ago.

The widespread incidence of renter housing cost burdens reflects the gap between what lower-income households can afford to pay in rent and what housing costs to build and operate across the nation. An analysis by the National Low Income Housing Coalition (NLIHC) compares the rent for a modest two-bedroom home in each state in 2013 to the average hourly wage that full-time workers would have to earn to afford that housing. In the highest-cost states, the estimated wage is more than \$20 an hour—well above the earnings of a typical renter. But even in the lowest-cost states, the wage needed to rent a modest home is at least \$12 an hour, considerably more than the federal minimum wage of \$7.25. In no state did the mean hourly wage of renters exceed what was needed to afford a modest home.

PRESSURES MOVING UP THE INCOME SCALE

Housing affordability is an almost universal challenge for low-income households. Some 83 percent of renters with

incomes below \$15,000 were cost burdened in 2011, with the vast majority paying more than half their incomes for housing. Three-quarters of renters with incomes between \$15,000 and \$30,000 were also burdened, although less than half severely so. But while the incidence of cost burdens among these low-income renters did not rise significantly over the past decade, the numbers of households with incomes below \$30,000 did. Between 2001 and 2011, the number of cost-burdened renters with incomes below \$15,000 rose by 2.5 million, while the number with incomes of \$15,000–29,999 was up by 1.8 million.

Meanwhile, affordability problems among higher-income groups increased substantially. Between 2001 and 2011, the share of renters earning \$30,000–44,999 and paying more than 30 percent of income for housing jumped by 11 percentage points, to 44 percent (Figure 26). At the same time, the cost-burdened share among those earning \$45,000–74,999 nearly doubled, reaching nearly one in five of these relatively well-off households. With the sharp rise in share, the number of cost-burdened renter households with incomes of \$30,000–44,999 increased by 800,000, while the number with incomes between \$45,000 and \$75,000 increased by 651,000. The concentration of household growth among low-income renters, together with the creep of burdens up the income scale, thus propelled the spread of housing affordability challenges.

Working full time is no antidote. In fact, the increase in burdens has been especially dramatic among full-time workers. The cost-burdened share of fully employed renters jumped from just 28 percent in 2001, to 34 percent in 2007, and to 38 percent in 2011. These increases boosted the cost-burdened ranks by more than 2.5 million over the decade, including 1.4 million since 2007. Among those in the labor force, about two-thirds of the growth in cost-burdened renters since the Great Recession has been among the fully employed.

THE CONTRIBUTION OF ENERGY COSTS

Energy accounts for a substantial share of rental costs. The 2011 American Housing Survey reports that direct payments by the typical tenant to energy suppliers represented 13 percent of total monthly housing costs and 4 percent of household income. And since the principal uses of energy—heat, refrigeration, and lighting—are necessities, the amount spent on energy varies little with income. As such, the median monthly outlay for energy was \$91 among renters with incomes below \$15,000 annually, rising only to \$135 among those with incomes of \$75,000 or more. Given the large disparity in the incomes of the two groups, lowest-income renters have to pay a much larger share of their income for energy costs. Indeed, utility costs represent some 15 percent of income for renters with incomes below \$15,000, but just 1 percent for those with incomes of \$75,000 or more (Figure 27).

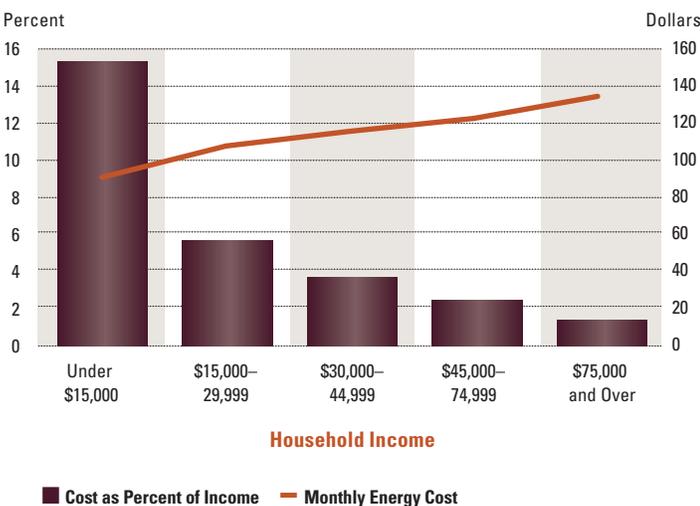
But these estimates understate the total cost of energy consumed in the home, given that landlords bear some costs for energy used in common areas of multifamily buildings and in cases where the rent includes heat. One way to gauge full energy costs is to consider the outlays by renters who pay for their own heat. For renters in this group with incomes below \$15,000, the median monthly energy expense was \$116 in 2011—raising the share of income they spent on energy costs to 21 percent.

The smaller shares of incomes and rents that higher-income households devote to energy costs also reflect the greater efficiency of their housing. Low-income renters typically live in older buildings and are more likely than higher-income renters to reside in units in two- to four-unit structures or mobile homes. Older homes, especially in small multifamily structures, are generally less energy efficient, while mobile homes—even though not as old—use more energy per square foot than conventional structures. Furthermore, a recent study published by the National Bureau of Economic Research found that among renters living in structures of five or more units, those with lower incomes were less likely to have Energy Star appliances, programmable thermostats, or other energy-efficient features.

Among the biggest hurdles preventing rental property owners from investing in energy improvements is the so-called “split incentives” problem. The property owner bears the costs of appliance purchases and upgrades to insulation, windows, doors, and other features affecting efficiency. But tenants that pay directly for energy use are generally the ones that benefit from these investments. Unless landlords can recoup the cost of such upgrades in higher rents, they have no incentive to improve the energy efficiency of their rental properties. Potential mechanisms for addressing this problem include subsidizing investments in efficiency, mandating standards for energy efficiency, and improving the transparency of energy efficiency and costs so that households can apply that information in choosing a rental and landlords can better recover their costs.

FIGURE 27

Low-Income Renters Pay a Disproportionately Large Share of Their Incomes for Energy Costs



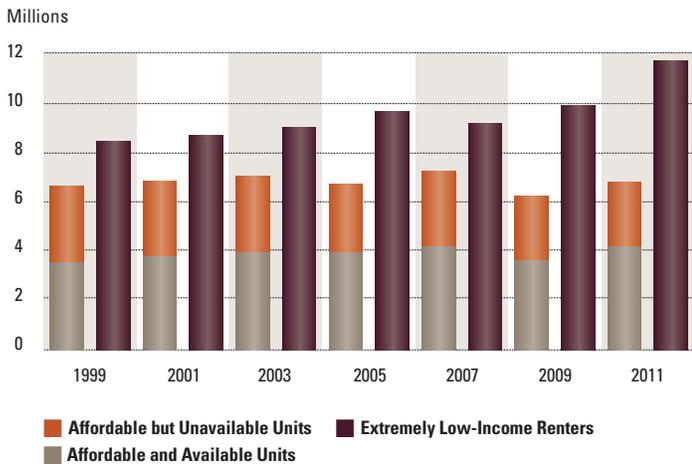
Note: Values shown are medians.
 Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey; and US Energy Information Administration, 2009 Residential Energy Consumption Survey.

THE GROWING SUPPLY GAP

While growth in the number of low-income renters is an important factor driving the spread of cost burdens, the difficulty of supplying housing at rents these households can afford is also a problem. As a result, the gap between the demand for and supply of affordable rentals continues to widen. The shortfall for extremely low-income renters (earning up to 30 percent of area median income or AMI) is most

FIGURE 28

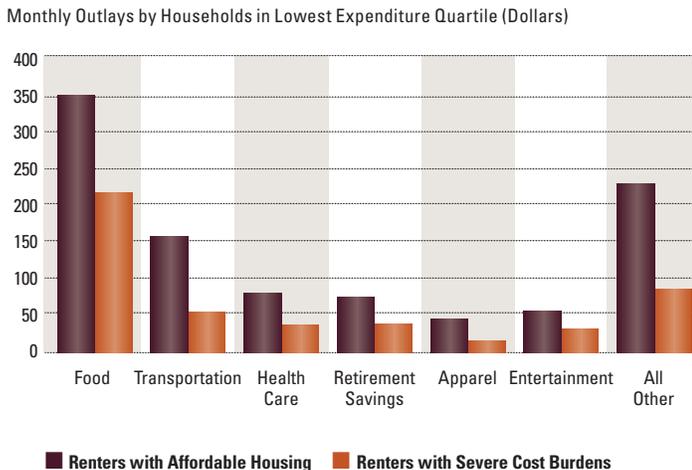
The Affordable Supply Gap Continues to Widen



Note: Extremely low income is defined as no more than 30% of area median income.
 Source: US Department of Housing and Urban Development, Worst Case Housing Needs Reports to Congress.

FIGURE 29

Low-Income Renters with Severe Cost Burdens Have Much Less to Spend on Critical Necessities, Including Food



Notes: Expenditure quartiles are equal fourths of all households ranked by total spending. Renters with affordable housing (severe burdens) devote less than 30% (more than 50%) of monthly expenditures to housing.
 Source: JCHS tabulations of US Bureau of Labor Statistics, 2012 Consumer Expenditure Survey.

acute, more than doubling from 1.9 million units in 2001 to 4.9 million units in 2011 (Figure 28). Most of this increase reflects the 2.5 million rise in the ranks of extremely low-income renters between 2007 and 2011, while the stock of low-cost rentals was essentially flat. Competition from higher-income households further limits the supply of affordable rentals available to lowest-income households. Of the units

that extremely low-income renters could afford in 2011, more than a third were occupied by households with higher incomes. For every 100 extremely low-income renters, only 36 units were both affordable and available.

The shortage is evident in central cities, suburbs, and non-metropolitan areas alike. In 2011, 36 central city rentals were affordable and available for every 100 extremely low-income renters, compared with 31 in suburbs and 46 in non-metro areas. The larger supply of affordable and available units in rural areas is offset somewhat by higher rates of inadequacy within the low-cost stock. Excluding inadequate housing, only 39 rentals were therefore affordable and available for every 100 extremely low-income rural renters.

THE TOLL OF HOUSING COST BURDENS

When households pay more than half their incomes for housing, they have much less to spend on other necessities that profoundly affect quality of life. For lowest-income households, high housing costs mean skimping on other basic needs to the detriment of their health and well-being. Cost-burdened households with even modest incomes spend less on vital needs, although there are some notable differences in where they make cutbacks. At the same time, limited spending on non-housing items by these households has significant implications for large segments of the economy, including the transportation, apparel, and entertainment sectors.

According to the 2012 Consumer Expenditure Survey, renters in the bottom quartile (corresponding to an annual income of about \$15,000) spend about \$1,300 each month. Renters in this group with severe cost burdens spend about \$500 more each month on housing than their counterparts living in affordable units. Cuts in spending to accommodate their higher housing costs fall most heavily on the two largest items in their household budgets—food and transportation (Figure 29). The tradeoff between spending on housing and food is particularly troubling and underscores the link between the lack of affordable housing and the problem of hunger in America. The next-largest spending cutbacks are for health care and retirement savings, further undermining renters' well-being both now and in the future. Together, these four categories account for more than 60 percent of the difference in spending between bottom-quartile renters that are housing cost burdened and those who are not. Cost-burdened households also spend less on apparel and entertainment, which together account for another 11 percent of the disparity in expenditures.

Patterns for households in the second-lowest expenditure quartile are similar. Renters in this group spend roughly \$2,500 monthly on average (corresponding to an annual income of about \$30,000). Those with severe cost burdens spend nearly \$1,000 more each month for housing than their counterparts devoting less than 30 percent of expenditures to rent. As with renters in the lowest-expenditure quartile, these households meet their high housing costs by spending less on food than those with affordable housing.

The biggest differences, however, are in outlays for transportation. Cost-burdened renters in the second-lowest expenditure quartile spend more than \$200 per month less on transportation than those living in affordable units, reflecting in part the tradeoff between living in a unit that is less expensive but far from work and one that is more expensive and convenient to work. Also like the lowest-expenditure renters who are cost burdened, this group cuts back on retirement savings (\$110 less each month than their counterparts in affordable housing) and health care (\$78 less). All told, these four critical spending categories account for more than half of the cutbacks needed to offset high housing costs, with negative effects that are likely to be cumulative and enduring.

AFFORDABILITY AND HOUSING QUALITY

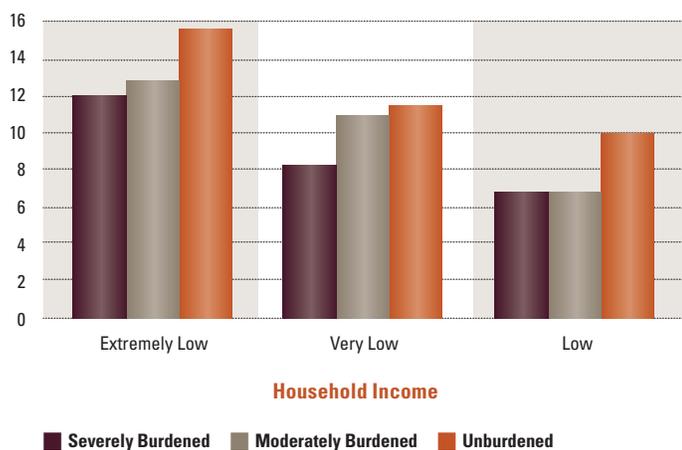
In searching for rentals they can afford, low-income households may settle for structurally deficient housing. Based on the American Housing Survey's comprehensive measure of housing adequacy, lower-income households are much more likely to live in structurally deficient housing. Some 12.8 percent of extremely low-income renters, as well as 10.3 percent of very low-income renters (earning 30–50 percent of AMI), live in units with structural deficiencies. By comparison, 7.1 percent of moderate- and higher-income renters (with incomes above 80 percent of AMI) live in housing that fails to meet AHS standards of adequacy.

The likelihood of living in inadequate housing is somewhat higher for renters without cost burdens, highlighting the tradeoff these households must make between affordability and quality. In fact, across all income categories below 80 percent of AMI, the share of renters without cost burdens living in inadequate housing is more than 3 percentage points higher than the share for those with severe burdens (Figure 30). For example, 15.7 percent of extremely low-income renters without cost burdens live in inadequate housing, compared with 12.1 percent of those with severe burdens—nearly a 30 percent difference. Very low-income renters fare a little better, although 11.6 percent of those without cost burdens live in inadequate housing, along with 8.3 percent of those with severe burdens.

FIGURE 30

Low-Income Renters Often Compromise on Quality to Keep Their Housing Costs Down

Share Living in Inadequate Units (Percent)



Notes: Extremely low income is defined as no more than 30% of area median income; very low income as 30–50% of AMI, and low income as 50–80% of AMI. Moderate (severe) burdens are defined as housing costs of 30–50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters paying no cash rent are assumed to be unburdened.

Source: JCHS tabulations of US Department of Housing and Urban Development, 2011 American Housing Survey.

THE OUTLOOK

The significant decline in real renter incomes since 2000, together with a rise in rents, has fueled the spread of housing cost burdens. The latest measures indicate, however, that renter incomes have stopped falling, providing reason for hope that continued employment gains will help to stem the erosion of rental affordability. Still, renter income growth has a long way to go to catch up with housing cost increases.

Conditions on the cost side may in fact improve if rent increases moderate as new rentals now in the pipeline come on line. With the high cost of development and the scale of the problem, however, making housing affordable for lower-income renters will require a range of approaches that might include allowances for more efficient forms of development, as well as reducing the operating costs of existing rentals through energy improvements.