



RENTAL AFFORDABILITY

Despite brief periods of easing, rental housing affordability has deteriorated for more than a half-century. Falling real incomes and the Great Recession made the 2000s an especially difficult decade, substantially boosting the ranks of cost-burdened renters. Some 10.1 million renters—more than one in four—now spend over half their incomes on housing. Low-income renters are particularly likely to be severely cost-burdened because of the shortage of affordable housing across the country.

A DISMAL DECADE

The 2000s were terrible for affordability. Lagging renter incomes during the housing boom drove up the already high share of renters with housing cost burdens. Then, just as affordability problems were beginning to moderate, the Great Recession hit and widespread unemployment pushed the cost-burdened share of renters even higher.

In 2001, one-fifth of renters already had severe cost burdens, spending more than half of pre-tax household income on rent and utilities. Another fifth had moderate burdens, spending between 30 and 50 percent of income on housing. After the economic downturn, employment took an unprecedented four years to return to pre-recession levels. With labor demand slack, real median household income fell. Compounding the problem, real rents rose as the housing bubble inflated during the 2000s. The number of severely cost-burdened renters thus climbed by 1.5 million in the first half of the decade, hitting 9.1 million.

Although easing somewhat in 2007, the share of renters with severe cost burdens remained near its all-time high. When the Great Recession struck, rents softened and vacancy rates rose, but affordability failed to improve. Instead, persistently high unemployment and falling real incomes lifted the number of severely cost-burdened renter households to 10.1 million in 2009 (**Table A-7**).

At the end of the decade, 18.8 million renters had at least moderate housing cost burdens. The increase in 2008–9 alone was 1.2 million, or nearly twice the rise in 2007–8. But since the start of the recession, more than two-thirds (69.0 percent) of the growth in cost-burdened renters was among households paying more than half their incomes for housing. Indeed, the upswing in the number of severely burdened renters in 2009 was the largest annual increase in a decade of increases.

While the total number of renters grew by 2.2 million over the decade, the number of severely cost-burdened renters

was up by 2.6 million, lifting the share from 20.7 percent in 2001 to 26.1 percent in 2009. At the same time, the share of renters with moderate burdens rose from 20.5 percent to 22.6 percent. As a result, nearly half of all renters faced at least moderate housing cost burdens by 2009.

LONG-RUN EROSION IN AFFORDABILITY

Rental affordability problems have been steadily spreading for at least a half-century. In 1960, housing cost burdens were only half as prevalent as they are today, with 11.9 percent of renters severely burdened and the same percentage moderately burdened. By 2009, only half of renters had affordable housing, and the number and share of those with severe burdens had reached all-time highs (**Figure 24**).

Both falling incomes and rising rents have contributed to the long-run rise in cost-burdened renters. Renter income gains have been weak since 1975, leaving larger shares of renters in the lowest income quintiles. As a result, even though the real median household income rose from 1975 to 2009, the real median renter income fell. Meanwhile, the inflation-adjusted cost of providing rental housing has climbed in recent decades in response to rising land costs, increases in housing quality and average unit size, and higher material and labor costs.

Using an alternative measure of rental affordability—the share of units a median-income renter can afford at 30 percent of income—it is possible to decompose the impact of changes in housing costs and changes in incomes by decade. By this calculation, affordability problems ratcheted up the most in the 1970s and 2000s. While rising housing costs have put pressure on affordability in every decade, renter income gains helped to offset those increases in the 1960s, 1980s, and 1990s. In the 1970s and 2000s, however, real renter incomes declined. As a result, the shares of renters with cost burdens shot up 8.4 percentage points in 1970–79 and 10.6 percentage points in 2000–9—together accounting for more than three-quarters of the total increase in the share of cost-burdened renters over the last 50 years.

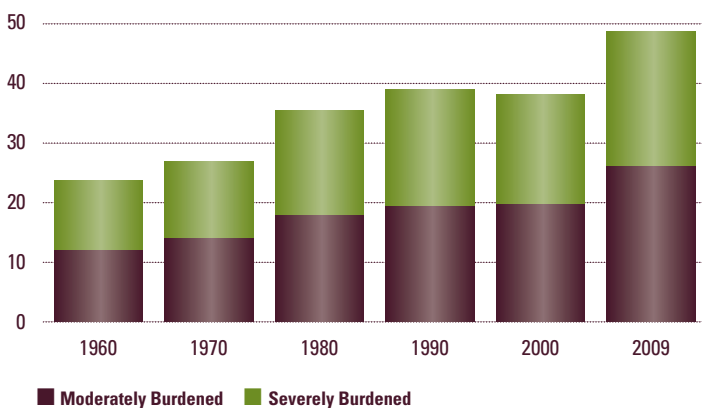
BURDENS OF LOWEST-INCOME RENTERS

What many cost-burdened renters have in common is poverty. In 2009, the share of renters in the bottom income quintile paying more than half their incomes for housing was 61.4 percent, an increase of 4 percentage points from 2007. Another 20.0 percent of these lowest-income renters devoted 30–50 percent of their incomes to housing in 2009. For renters in the lower-middle income quintile, the incidence of severe burdens was a much more modest 14.8 percent, although another 40.8 percent faced moderate rent burdens. Only a small share (2.8 percent) of renters in the middle income quintile paid more than half their incomes for housing. Fully 83.0 percent of severely burdened renters were therefore in the bottom income quintile while another 14.7 percent were in the lower-middle income quintile.

FIGURE 24

The Share of Renters with Affordability Problems Has Doubled in the Last 50 Years

Shares of Cost-Burdened Renter Households (Percent)



Notes: Rent includes tenant-paid utilities. Moderately (severely) cost-burdened renters pay 30–50% (more than 50%) of pre-tax household income for housing. Renters with zero or negative income are assumed to be severely burdened, while renters not paying cash rent are assumed to be unburdened. Source: Table A-8.

Many lowest-income households are retirees or living on transfer payments. Even allowing for the fact that standard measures may not capture some of the income these households receive, the housing cost burdens of these renters are substantial. But many employed renters are also in this group. Indeed, wages and salaries account for half the aggregate income reported for bottom-quintile households. For these working poor, their earnings are usually insufficient to avoid paying more than 30 percent of income for housing.

A substantial majority of almost all demographic groups with the lowest incomes have severe rental cost burdens. Among this group, younger households are especially vulnerable, with 71.3 percent of renters under age 25 and 69.1 percent of those aged 25–44 severely burdened. Large shares of lowest-income families with children—including 72.7 percent of married couples and 70.5 percent of single-parent house-

holds—also pay more than half their incomes for housing. Moreover, 72.7 percent of lowest-income households with one unemployed member, and 75.3 percent of those with multiple unemployed members, are similarly burdened.

SPREAD OF COST PRESSURES

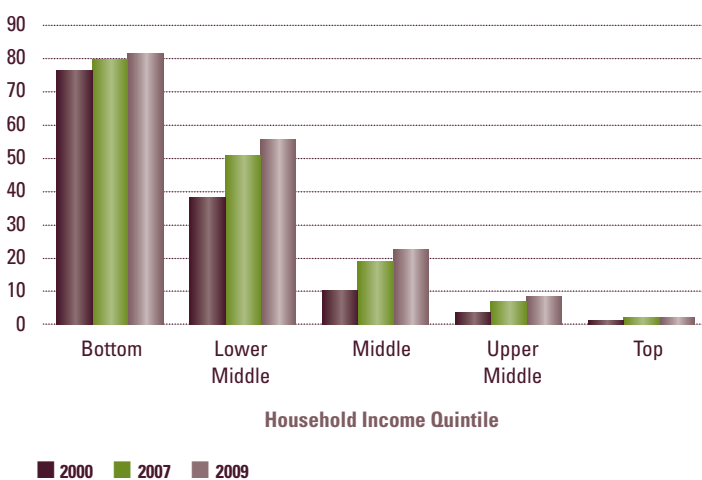
Although housing cost burdens are much more common among lowest-income renters, affordability problems are moving up the income scale (**Figure 25**). Between 2007 and 2009, 1.1 million more renters in the three middle-income quintiles faced at least moderate housing cost burdens. By 2009, more than one in five middle-income renters, and more than half of lower-middle-income renters, spent at least 30 percent of income on rent and utilities.

Some of the largest percentage increases are among demographic groups traditionally less likely to have affordability problems. These include householders aged 25–64, married couples with children, and renters with some college education but no degree. The share of Hispanic householders with severe rental cost burdens has also risen sharply.

FIGURE 25

While Lower-Income Households Are Most Likely to Be Cost Burdened, Higher-Income Groups Increasingly Face Affordability Problems

Shares of Cost-Burdened Renter Households (Percent)



Notes: Renters with housing cost burdens pay more than 30% of household income for rent and utilities. Income quintiles are equal fifths of all households (both owners and renters) sorted by pre-tax household income. Renters with zero or negative income are assumed to be burdened, while renters not paying cash rent are assumed to be unburdened.

Source: JCHS tabulations of US Census Bureau, 2000 Decennial Census and 2007 and 2009 American Community Surveys.

The number of severely burdened households aged 25–64 with two or more earners increased 11.2 percent in 2007–9 alone. Over the decade as a whole, the deterioration in affordability among these multiple-earner households was even more pronounced, with the severely burdened share rising from just 4.0 percent in 2001 to 6.6 percent in 2009. The share of single-earner renters with severe burdens also climbed sharply over the decade, from 15.8 percent to 21.6 percent.

Among all working-age adults living in rental units, the share facing severe housing cost burdens rose 3.3 percentage points in 2001–7 and another 2.0 percentage points in 2007–9, to 17.4 percent. Among civilian adults, the highest incidence of severe burdens was among service workers, including more than a quarter of personal care, cleaning, and food service workers, as well as nearly a quarter of those in healthcare support.

But housing cost burdens also increased across the board. Construction workers and farm workers were particular hard hit by the recession, with their shares with severe burdens up roughly 4 percentage points in just two years. At the same time, the share of managers with severe burdens also jumped from 6.2 percent in 2001 to 9.7 percent in 2009.

As cost burdens have moved up the income ladder, they have affected a growing fraction of the near-poor. Three-quarters of working-age households with incomes equivalent to the full-time minimum wage were severely housing cost-burdened in 2009, only slightly higher than in 2001 in inflation-adjusted terms. Meanwhile, though, the share of severely burdened renters with incomes between one and two times the 2009 minimum wage rose from one-quarter to nearly one-third. Even the shares of housing cost-burdened renters earning at least twice the minimum wage more than doubled from 3.6 percent to 7.5 percent over the decade. These increases are particularly troubling because so many renters fall within these income categories. In 2009, nearly half of working-age renter households had incomes that were less than the earnings from two minimum-wage jobs.

DIFFICULT TRADEOFFS

Renters paying large shares of their incomes for housing must make difficult choices. They can scrimp on housing costs by settling for poorer-quality units and neighborhoods, or they can trade higher transportation costs for higher-quality housing in outer areas. But even these difficult tradeoffs do not ensure manageable housing costs.

FIGURE 26

Lower-Income Families with High Housing Costs Have Little Left to Spend on Other Necessities

Average Monthly Non-Housing Expenditures for Renter Families with Children, 2009 (Dollars)



Notes: Renters with low (high) housing outlays devoted less than 30% (more than 50%) of total outlays to housing. Lower-income renters are defined based on expenditure quartiles. Source: Table A-9.

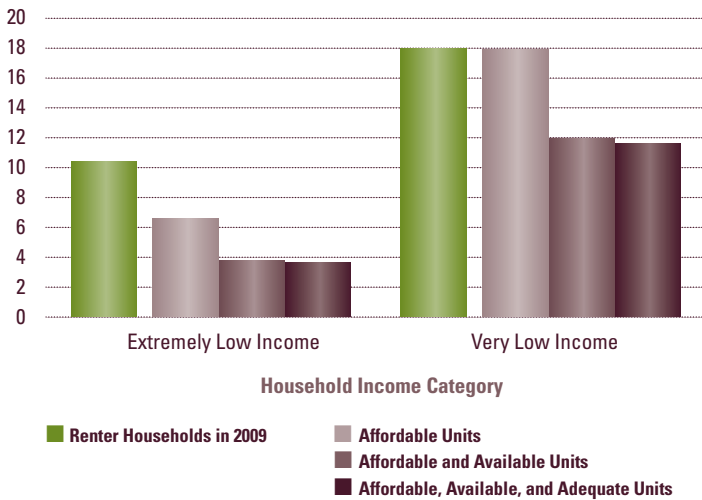
Moreover, renters with excessive housing cost burdens have little left to pay for other necessities such as food, clothing, and healthcare. In 2009, families with children in the bottom expenditure quartile spent less than \$1,450 each month on housing and all other needs. On average, those with severe rent burdens devoted more than three times as much of their monthly budgets to housing than their counterparts in affordable units, and had only half as much (\$571) as unburdened renters (\$1,107) for all other expenses (Figure 26). On average, these severely housing cost-burdened families spent 71 percent less on transportation, 52 percent less on clothes, 52 percent less on healthcare, and 37 percent less on food than those living in affordable housing.

Households in the lower-middle expenditure quartile are also under significant pressure. Families with children had roughly \$2,550 per month to spend on housing and all other needs. Those with high housing outlays, however, had only \$1,050 available for non-housing expenses—again, roughly half as much as those living in affordable housing. These housing cost-burdened families spent on average 63 percent less on transportation, 59 percent less on clothing, 74 percent less on healthcare, and 24 percent less on food than families with affordable housing. Clearly, the availability of affordable rental housing options has a dramatic impact on the basic well-being of lower-income families.

FIGURE 27

Low-Income Renters Far Outnumber Affordable, Available, and Adequate Units

Millions



Notes: Extremely (very) low-income households have incomes up to 30% (up to 50%) of HUD-adjusted area median family income. Gross rent includes rent and tenant-paid utilities. Affordable units have gross rents up to 30% of the income threshold for the category. Available units are vacant or rented by households with incomes no higher than the threshold for the category. Adequate units exclude occupied units that the AHS defines as severely inadequate and vacant units that lack full plumbing. Gross rent for vacant units is estimated at 1.15 times the asking rent. Units rented but not yet occupied are excluded. Source: JCHS tabulations of US Department of Housing and Urban Development, 2009 American Housing Survey, using JCHS-adjusted weights.

THE WIDENING SUPPLY GAP

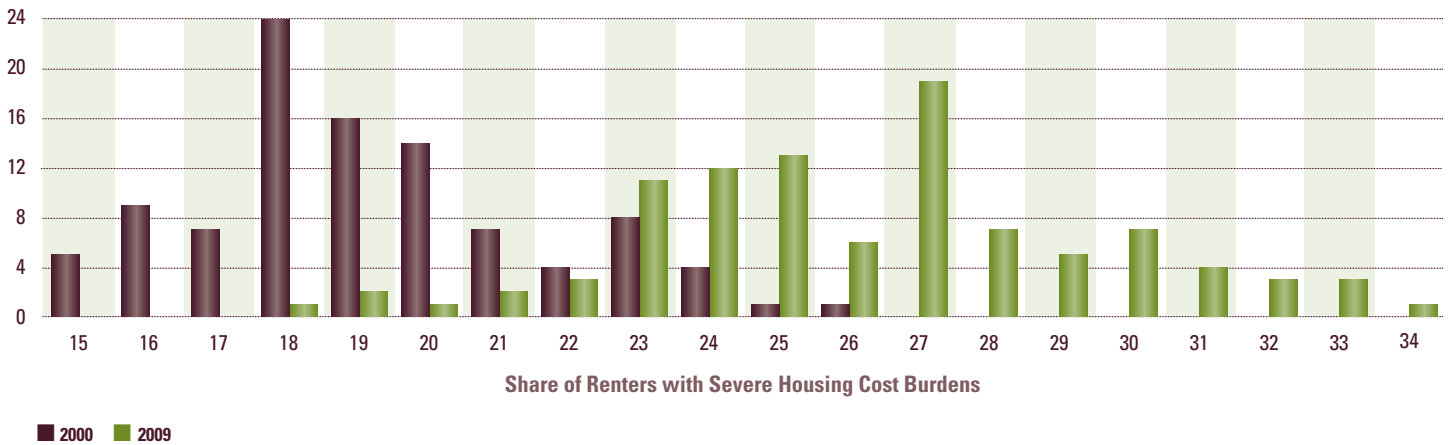
The shortage of affordable, adequate rental units for low-income households is increasingly acute (Figure 27). The widening supply gap reflects the difficulty of producing market-rate housing at affordable rents, as well as the ongoing loss of low-cost units. Moreover, as affordability problems move up the income scale, more middle-income renters are competing for the shrinking inventory of affordable units.

Affordability is by far the primary housing problem facing low-income renters. Indeed, the incidence of severe housing inadequacy has declined in recent years, falling from 3.2 percent of occupied rental units in 2005 to just 2.8 percent in 2009. Still, 1.1 million renters lived in units with incomplete plumbing, inadequate heat or electricity, or other serious deficiencies in that year. Among extremely low-income renters (earning less than 30 percent of area median income, adjusted for household size), 3.9 percent lived in severely inadequate units. The share of black extremely low-income renters living in inadequate conditions was even higher. Many extremely low-income renter households could not even afford this poor-quality housing, with 3.0 percent pay-

FIGURE 28

Over the Past Decade, the Number of Major Metros with Large Shares of Severely Cost-Burdened Renters Increased Sharply

Number of Metros



Notes: Renters with severe housing cost burdens pay more than 50% of household income for rent and utilities. Metros are the top 100 metros by population in 2009. Source: JCHS tabulations of US Census Bureau, 2000 Decennial Census, and 2009 American Community Survey.

ing more than half their meager incomes for units with severe structural inadequacies.

In 2003, there were 9.4 million extremely low-income renter households but only 3.8 million occupied or vacant units that they could afford, were available, and were of adequate quality—a supply gap of 5.6 million units (Table A-10). All other rental units were either more expensive or occupied by more affluent renters. By 2009, the number of extremely low-income renter households swelled to 10.4 million and the number of available, affordable, and adequate units fell to 3.6 million, bringing the supply gap to 6.8 million units. As a result, only 35 percent of extremely low-income renters lived in, or had access to, adequate units they could afford.

The supply gap for very low-income renters (with incomes up to 50 percent of area medians) also increased. In 2003, 16.3 million of these households competed for 12.0 million affordable, available, and adequate units. In 2009, these renters numbered 18.0 million while the supply of units dipped to 11.6 million, widening the gap from 4.3 million to 6.4 million units.

STATE AND LOCAL MARKET CONDITIONS

Affordability pressures are mounting across the country. In the 100 largest metro areas, the share of severely cost-burdened renters climbed by an average of 7.0 percentage points

between 2001 and 2009, with increases ranging from 1.9 percentage points to 12.8 percentage points. By the end of the decade, the shares of renters spending more than half their incomes on rent and utilities exceeded 24 percent 73 metros, 28 percent in 26 metros, and 30 percent in 15 metros (Figure 28).

Miami had the largest share of severely burdened renters in 2009, followed by McAllen and Detroit. Two Connecticut metros (New Haven and Bridgeport) and two Ohio metros (Toledo and Akron) also had shares above 30 percent. New Orleans, Orlando, and Memphis rounded out the list of the 10 least affordable metros. In contrast, the most affordable metros include Des Moines, Harrisburg, Ogden, Lancaster, and Worcester. Even there, though, roughly one in five renters still faced severe housing cost burdens (Table A-11).

This variation reflects differences in housing costs and renter incomes. In some areas, such as San Francisco and Boston, the presence of larger shares of higher-income renters (due, for example, to lower homeownership rates) offset high rents. In other areas such as Detroit, Buffalo, and Toledo, housing costs are low but renter incomes are even lower. In general, metros with greater income inequality have higher shares of rent-burdened households.

At the state level, the share of cost-burdened renters tends to track the share of population living in metro areas, because

cost burdens are substantially lower in non-metro areas. Thus, 22.6 percent of renters living in non-metro areas had severe rent burdens in 2009, compared with 27.0 percent living in metro areas. An exception is Michigan, the state with the highest unemployment in 2009 and the highest share of severely burdened renters. Florida, Connecticut, California, and New York were the other four least affordable states. Alaska, Wyoming, North Dakota, Montana, and South Dakota were the most affordable, with shares of severely burdened renters of less than 20 percent.

THE ROLE OF RISING ENERGY COSTS

During the 1980s and 1990s, falling real energy prices offset rising rents and helped to moderate the spread of affordability problems. The trend reversed in 1999 as rising global demand fueled sharply higher prices (Figure 29). Household utility costs rose 22.7 percent in 2000–10 in real terms, more than three times the increase in rents. As a result, energy costs as a share of gross rents rose from 10.8 percent to 15.0 percent between 2001 and 2009. Lowest-income renters saw the largest increase in their utility share, a jump from 12.7 percent to 17.4 percent.

Since low-income renters must pay a substantial share of income for utilities, they are especially vulnerable to rising energy costs. Combining landlord- and tenant-paid utilities, utility costs in 2005 accounted for nearly 30 percent of total housing costs among bottom-income quintile renters. In some cases, tenants of low-cost rentals may pay even

more for energy than tenants in more expensive properties because their buildings have poor insulation and aging systems. Indeed, three-quarters of extremely low-income renters in 2009 lived in units built before 1980, compared with two-thirds of higher-income renters.

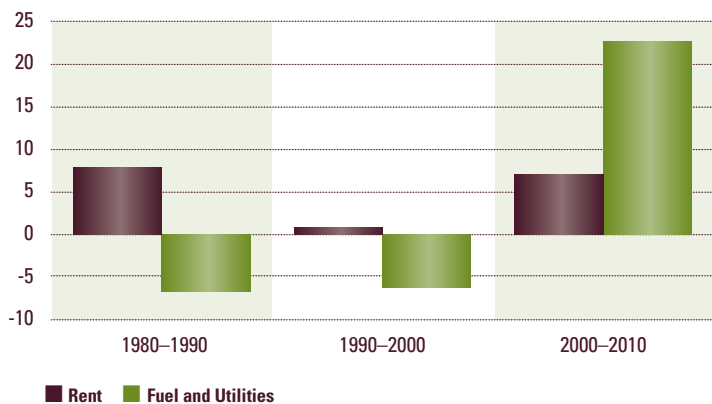
Substantial investments in weatherization, upgraded heating systems and appliances, and other measures could lower household energy use, which would not only improve affordability but would also reduce carbon emissions. The Benningfield Group estimates that the energy efficiency of multifamily properties in the US could be economically improved by 30 percent, saving \$9 billion in energy costs and reducing carbon emissions by an amount equivalent to the level currently generated by 4 million households.

Regardless of who pays for the cost of utilities, tenants and landlords have conflicting motivations for investment and conservation. When renters pay for utilities, landlords have little incentive to upgrade their properties. When landlords pay for utilities, renters have little incentive to conserve. Even when renters have reason to make energy-efficient investments—such as by buying new appliances that they own themselves—their low incomes may make it difficult to afford these purchases. Overcoming these obstacles may require greater government efforts to provide incentives for investments in energy efficiency in rental housing. Ratepayer-funded energy efficiency programs—which supported an estimated \$4.5 billion in investments in 2009—are one possible approach. To date, however, the multifamily sector appears to be underrepresented in these investments.

FIGURE 29

Soaring Energy Costs Have Added to Affordability Pressures Since 2000

Real Change in Price Indexes (Percent)



Note: Indexes for rent of primary residence and fuel and utilities are deflated using the CPI-U for All Items.

Source: Bureau of Labor Statistics, Consumer Price Index.

THE OUTLOOK

Improvements in affordability require both increasing renter incomes and moderating housing costs. But with persistently high unemployment, the prospects for renter income gains are dim and rising demand for rental housing may well put added pressure on rents. Moreover, global energy demand is almost certain to grow, further limiting the ability of the poorest renters to afford housing.

As a result, the affordable housing shortfall is unlikely to improve any time soon. Innovations in housing production may, however, be able to help bridge the gap between what low-income renters can afford to pay and the rents necessary to supply and maintain affordable housing. In the meantime, most low-income renters will continue to face difficult tradeoffs between paying for housing and paying for other necessities.