



# AFFORDABILITY CHALLENGES

**Affordability is far and away the most pressing problem for renters. Today, minimum-wage earners working full time cannot cover the cost of a basic two-bedroom apartment at the local fair market rent. For the nation's nearly seven million lowest-income renters—including many elderly and disabled households as well as families with children—the high cost of housing imposes a difficult tradeoff between paying rent or buying food, medicine, and other essentials.**

## RECORD-HIGH RENTS

Although slower to reflect market changes than other measures, the Consumer Price Index (CPI) provides the best sense of long-term rent trends. According to this index, gross rents (rents plus utility costs) have been increasing faster than inflation and now stand at an all-time high. After a 10-year slide starting in 1986, gross rents moved up steadily from \$611 in 1996 to \$711 in 2004 (Table A-2). With the recent jump in energy costs, gross rents are certain to head even higher.

Rents have been on the increase despite significant weakness in the high-end segment of the market. With mortgage interest rates at historical lows and the number of first-time buyers growing rapidly, demand for higher-end rental units dropped off sharply after 2000. Nationally, vacancy rates rose for five consecutive years to more than 10 percent in 2004. But now that job growth has picked up and new construction of multifamily apartments has slowed, rents on high-end units have resumed their upward climb in most areas. Indeed, average vacancy rates in 41 of the 59 metro areas surveyed by M/PF Yieldstar fell in 2004.

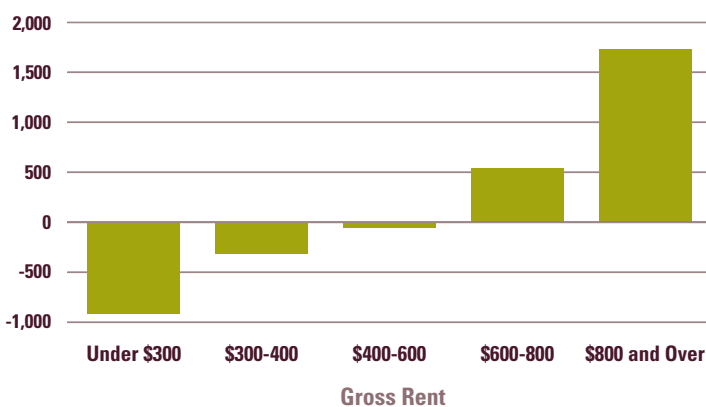
Meanwhile, rentals at the low end of the market are rapidly disappearing from the stock. Between 1993 and 2003, the number of units renting for \$400 or less in inflation-adjusted terms fell by 13 percent—a loss of more than 1.2 million (Figure 19). By comparison, the number of housing units renting for more than \$800 a month increased by 1.7 million over this same 10-year period. While these higher-priced apartments undoubtedly offer more amenities than less costly ones, the annual income required to afford these units (using the 30-percent-of-income standard) is \$32,000—well beyond the means of more than half of all renters.

## MOUNTING COST BURDENS

With low-cost units disappearing and incomes essentially flat, the housing cost burdens of renter households (gross rent as a percent of income) are mounting. In 2003, some 7.5 mil-

**FIGURE 19** Rental Stock Losses Are Primarily at the Low End

Change in Units, 1993-2003 (Thousands)



Notes: Includes occupied and vacant for-rent units. Ranges based on gross rent of unit including utilities. Source: JCHS tabulations of the 1993 and 2003 American Housing Surveys.

lion renters were severely cost-burdened in that they paid more than 50 percent of their incomes for rent. Overall, 14.8 million renter households (44 percent) pay more than 30 percent of their incomes for housing—an all-time record and an increase of nearly one million renters since 1999.

The share of cost-burdened households is especially high among the 20 percent of renters earning under \$10,600 a year. Within this lowest-income group, 70 percent pay more than half of their incomes for housing, and another 12 percent pay 30–50 percent. Despite devoting such high shares of income to rent, 15 percent of these households are still forced to live in structurally inadequate units (Figure 20).

With incomes ranging from \$10,600 to \$20,600, renters in the lower-middle quintile fare only slightly better. Although just 31 percent face severe rental cost burdens, another 40 percent have moderate cost burdens and 16 percent live in structurally inadequate housing.

Rising rents are particularly onerous for the nation’s 4.1 million elderly renters. Most of these households (with heads aged 65 and over) live on fixed incomes that are insufficient to cover rent and utility payments and still meet the costs of other necessities such as food and medicine. Nearly 2.4 million seniors (57 percent) pay more than 30 percent of their incomes for rent, while nearly 1.4 million (34 percent) pay more than 50 percent for housing.

High housing costs also take a toll on families with children, especially those with only one wage earner. For example, some 3.2 million single-parent households (29 percent) pay more than half their incomes for rent. Parenting is a difficult job under the best of circumstances, but severe rent burdens limit the ability of low-income parents to meet even the basic needs of their children—not to mention pay for the extracurricular activities and other enrichment programs that help students succeed and thrive.

Even households receiving rent subsidies are not immune to these cost pressures. While 6.2 million renters report receiving some form of housing assistance, many of these households participate in programs that do not cap recipients’ contributions to rent at 30 percent. As a result, half of all subsidized renters pay more than 30 percent of their incomes for rent, while a quarter pay more than 50 percent. Similarly, over 700,000 assisted households live in structurally inadequate units. While typically concentrated in older, federally subsidized properties, inadequate conditions are also found in properties covered under the Section 8 voucher program.

### THE CONTRIBUTION OF LOW WAGES

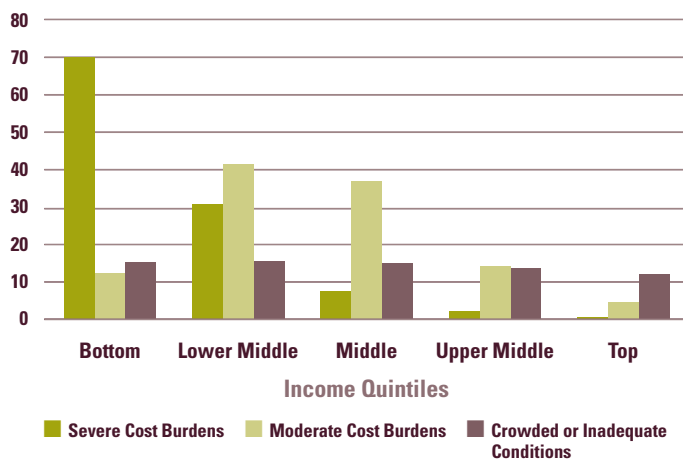
Contrary to popular perceptions, nearly 60 percent of non-elderly lowest-income renters do work—although typically at a low-wage or part-time job that does not pay enough to cover the cost of decent housing (Table A-6). Moreover, studies of the non-working poor living in assisted housing suggest that most are elderly, disabled, or otherwise incapable of holding down a job, or cannot work because they are the primary caregiver for a disabled child or relative.

Using HUD’s fair market rent measure, the National Low Income Housing Coalition estimates that the current “housing wage”—the amount it takes to afford a standard two-bedroom apartment at 30 percent of income—is two to three times the minimum wage in most larger metropolitan areas. Even in smaller, lower-cost metro areas and non-metro counties, minimum-wage workers cannot afford basic rental housing. Indeed, households with one full-time minimum wage earner cannot afford to rent even a one-bedroom apartment anywhere in the country (Figure 21).

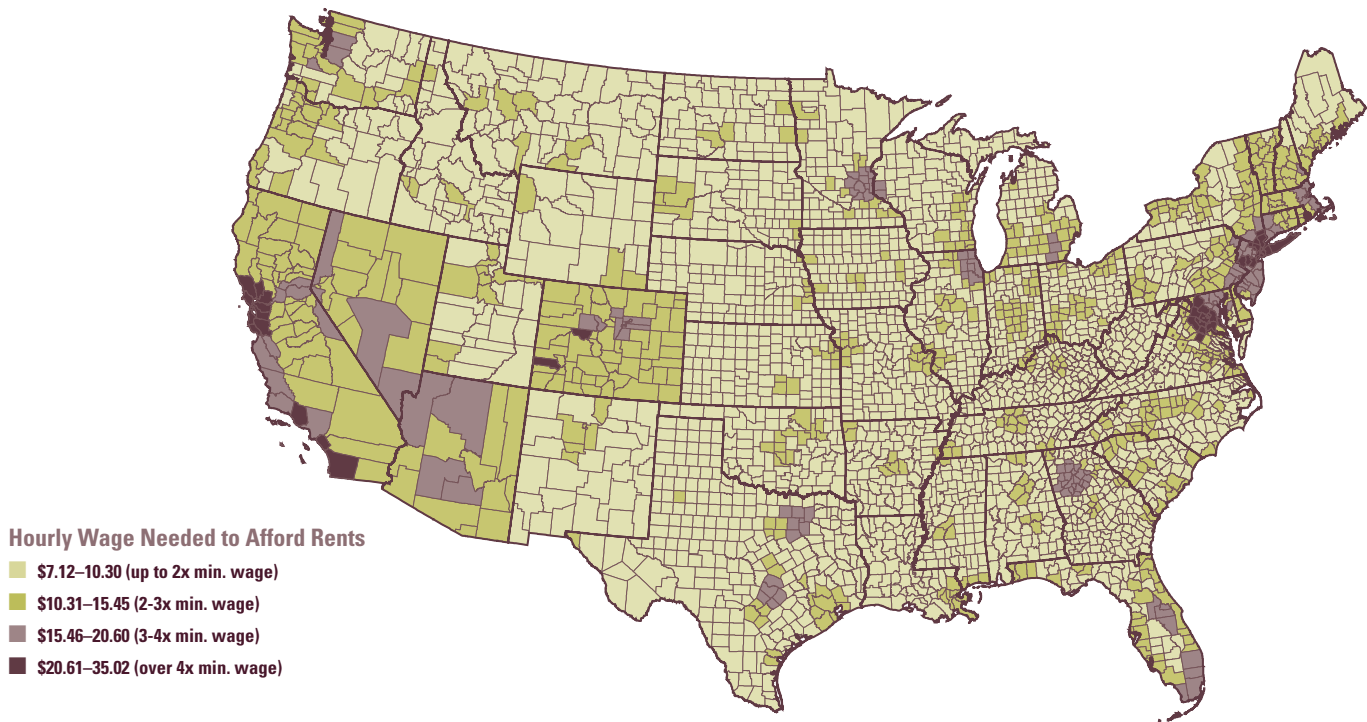
Seniors and others unable to work who receive basic Supplemental Security Income (SSI) also face high cost burdens. At the 30-percent-of-income standard, the basic SSI payment of \$579 is only enough to afford an apartment renting for \$174 per month. As reported by the National Low Income Housing Coalition, this amount does not even cover

**FIGURE 20** Housing Problems Are Widespread Among Lowest-Income Renters

Share of Renters with Housing Problems (Percent)



Note: See source for definitions.  
Source: Table A-6.

**FIGURE 21****Even Modest Rental Housing Is Beyond the Means of Many Low- and Moderate-Wage Workers**

Notes: Federal minimum wage in 2004 was \$5.15 per hour. Hourly wage needed to afford the Fair Market Rent on a modest 2-bedroom unit assumes paying 30% of income on housing and working 40 hours a week for 52 weeks a year. Source: HUD's Fair Market Rents for 2004, based on methodology developed by the National Low Income Housing Coalition.

the fair market rent for an efficiency apartment, let alone a unit with a separate bedroom.

Of course, affordability problems are most severe in the nation's most overheated housing markets. In San Francisco, for example, the income needed to afford the fair market rent for a two-bedroom apartment in 2000 was \$54,480 (Figure 22). In Boston, the income required was \$37,680. Even households in areas with lower rents—such as Washington, San Diego, and Chicago—needed incomes of at least \$30,000 to afford a modest two-bedroom apartment.

These income levels are well above the earnings of lower-skilled workers such as retail salespersons and janitors. But even professionals with higher-paying jobs do not necessarily have the financial resources to afford local rents. For instance, the median earnings of teachers living in Washington, DC do not match the amount needed to afford the basic two-bedroom apartment. Similarly, nurses in both San Diego and Washington, DC would have to pay more than 30 percent of their incomes to rent a modest unit.

### DIFFICULT TRADEOFFS

High housing costs clearly undermine quality of life. To find units they can afford, many working households live at great distances from their jobs. Indeed, while a growing number of low-wage renters do manage to find apartments that rent for less than 30 percent of their incomes, they must pay disproportionately more for transportation—whether for keeping a car on the road or for taking public transit. For the many workers who commute by public transportation to distant worksites, the time spent traveling to their jobs imposes another large cost.

After paying more than half of their incomes on rent, households in the lowest expenditure quartile have just \$384 a month left over to meet all of their other needs (Figure 23). This means spending only \$177 on food, \$44 on transportation, and \$28 on healthcare each month. By comparison, households in the bottom expenditure group who live in affordable rental housing manage to have \$59 more a month for food, \$98 more for transportation, and \$22 more for healthcare. Though modest, these incremental increases in expenditures

## FIGURE 22 Affordability Problems Are Moving Up the Income Scale

Fair Market Rents and Median Incomes for Sample Metro Areas in 2000

	San Francisco	Boston	Washington	San Diego	Chicago	Dallas
Monthly Rent for Standard Two-Bedroom Apartment	\$1,362	\$942	\$840	\$805	\$762	\$749
Income Needed to Afford	\$54,480	\$37,680	\$33,600	\$32,200	\$30,480	\$29,960
<b>Median Income for:</b>						
Retail Salespersons	\$19,323	\$17,930	\$17,285	\$17,139	\$17,971	\$17,243
Janitors	20,800	20,987	15,787	16,536	18,824	14,810
Nurses	39,603	39,541	33,280	31,990	31,990	38,938
Biological Technicians	36,546	36,109	32,219	32,781	35,526	32,011
Teachers	38,293	38,584	32,781	38,584	36,733	34,861

Notes: Fair Market Rent (FMR) is the median price of a modest two bedroom apartment. Income to afford the FMR is based on the 30 percent of income standard.  
Source: HUD Fair Market Rents and Bureau of Labor Statistics.

## FIGURE 23 High Housing Costs Limit Household Expenditures on Other Necessities

Average Monthly Expenditures in 2003

Share of Expenditures on Housing	Food	Transportation	Insurance and Pensions	Healthcare	Total
50% and Up	\$177	\$44	\$31	\$28	\$384
30-50%	231	94	56	45	606
Under 30%	236	138	52	50	729

Source: Table A-4.

can make the difference between keeping the family car in decent repair and having grocery money at the end of the month.

Working within these tight budgets, lowest-income families have little margin for emergencies. One unexpected bill, one spell of unemployment, or even a minor health problem may make it impossible to pay the rent. Recent research by the Poverty and Race Action Council suggests that evictions and forced movements diminish the quality of life of poor renters and their families in several ways. In addition to limiting community involvement and the development of beneficial social capital, frequent moves make it difficult for parents to hold jobs and manage childcare duties.

Perhaps most importantly, this instability is damaging to children's educations. In fact, high turnover in schools disrupts the educational achievement not only of the children that move but also of those that stay. These educational impacts are especially significant for lower-income and minority children, who are more likely to attend schools in largely rental neighborhoods with relatively high turnover.

Constant fear of eviction is just one of the many stresses that lowest-income renters face. For many, it is a daily struggle to dodge creditors or bill collectors and to decide which bills to pay. Many become severely depressed in the face of such pressures, eroding their ability to live independently. A recent study shows, however, that many very low-income households show remarkable resilience when they are able to move from distressed public housing.

### THE OUTLOOK

The recent string of natural disasters in the United States has made it abundantly clear that affordability is not just a housing issue, but part of a larger set of social problems. Without sustained efforts to attack the root causes of poverty and expand the supply of decent and affordable rental housing, many of the nation's lowest-income households will remain unable to meet even basic needs—much less protect themselves and their families in a time of emergency.