



## AFFORDABILITY CHALLENGES

With so many lower-income renters competing for the limited supply of affordable housing, growing numbers of households find it increasingly difficult to make ends meet. To cover even modest rents, they must either sacrifice other needs to pay for decent housing or live in crowded, inadequate conditions in locations that are unsafe, inconvenient, or both. Meanwhile, the affordable rental stock continues to shrink, placing additional upward pressure on rents. Making matters worse, the tightening of credit standards in response to the foreclosure crisis is adding to the already heavy debt burdens of lower-income renters.

### GROWING RENT BURDENS

After declines in the 1980s and early 1990s, inflation-adjusted gross rents (rents plus utility costs) moved up steadily from \$704 in 1996 to an all-time high of \$775 in 2007. The upward drift in rents reflects the fact that even as better-quality and higher-rent units are being added to the inventory, older, lower-quality, lower-rent units are being lost. From 1995 to 2005, 1.5 million units renting for less than \$600 a month in 1995 were demolished or otherwise removed from the housing inventory (Figure 15). Of these, some 944,000 rented for less than \$400. Overall, these losses represent almost 8 percent of the lower-cost stock.

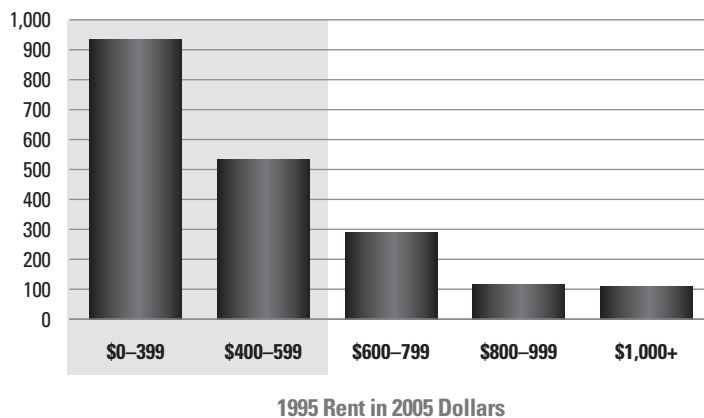
With losses of this magnitude on top of lagging renter income growth, affordability problems have reached unprecedented levels. According to the American Community Survey, the median gross rent rose 2.7 percent in real terms from 2001 to 2006 while the median renter income fell by 8.4 percent (from over \$31,600 to \$29,000). As a result, nearly half of all renters paid more than 30 percent of their incomes for housing in 2006, and about a quarter—nearly nine million households—spent more than 50 percent (Table A-6).

Although the share of renters with such severe cost burdens increased in all but the top income group, affordability remains a special concern for the nation's lowest-income renters (with annual incomes of \$24,200 or less in 2006). Fully 52 percent of these renters spent more than half their incomes on housing in 2006, up from 47 percent in 2001. In absolute terms, the number of lowest-income renters with severe cost burdens increased by more than one million between 2001 and 2006 to surpass the eight-million mark.

Minority households, as well as the youngest and oldest renters, are the most likely to face affordability problems. More than 30 percent of black renters and 27 percent of Hispanic renters were severely housing-cost burdened in 2006, compared with 21 percent of white renters. In addition, 34 percent of renters under age 25, along with 32 percent of renters aged 75 and over, also paid more than half their incomes for housing.

**FIGURE 15** Twice as Many Low-Cost Rental Units Have Been Lost Than of All Other Units Combined

Rental Units in 1995 Permanently Removed from the Stock by 2005 (Thousands)

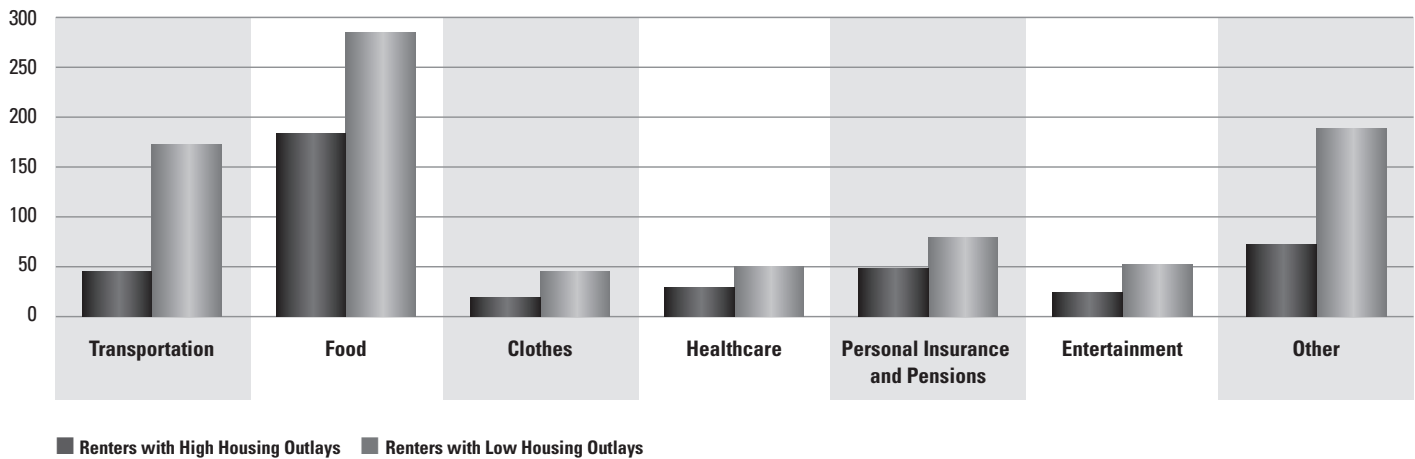


Source: JCHS tabulations of the 1995 and 2005 American Housing Surveys, using JCHS-adjusted weights for 2005 data.

**FIGURE 16**

**Low-Income Renters with High Housing Costs Spend Much Less on Other Needs**

Average Monthly Expenditures of Renters in the Bottom Expenditure Quartile



Notes: Expenditure quartiles are equal fourths of households sorted by total monthly expenditures. High (low) housing outlays are housing costs that are over 50% (under 30%) of monthly expenditures. Source: JCHS tabulations of the 2005 Consumer Expenditure Survey, using Quarterly Interview Survey data.

Even the 6.7 million households living in subsidized rental housing are not immune to these cost pressures because many of today’s subsidized housing programs do not cap rents at 30 percent of income. American Housing Survey data indicate that half of all subsidized renters pay more than 30 percent of their incomes for rent, while a quarter pay more than 50 percent.

Among the subsidized households facing high rent burdens are many residents of LIHTC units. To qualify for the tax credit, developments must set rents that are affordable to households earning 60 percent of area median income. But because area median income is based on the incomes of both owners and renters, this standard is not as tightly targeted as it may first appear. Indeed, in a typical metropolitan area, only about one-third of renters can afford a tax-credit unit without additional subsidy.

**RENTER TRADE-OFFS**

While not captured in simple affordability measures, high housing costs affect a wide range of consumption choices and undermine the quality of life for millions of renter households. Rather than pay large shares of their income for housing, households may instead choose to live in substandard units, double up with friends or relatives in crowded conditions, or locate in unsafe or inconvenient neighborhoods.

Renters are more likely than homeowners to endure such poor living conditions. Almost 5 percent of renter households

live in crowded units while almost 11 percent live in structurally inadequate housing. Comparable shares for homeowners are just 1 percent and 3 percent. Moreover, renters are more likely than owners to face threats to health and safety in their neighborhoods, especially those living in older housing units that are located in economically distressed center city neighborhoods. For example, more than 21 percent of renters reported crimes in their neighborhoods in 2005, compared with 12 percent of owners.

Rather than sacrifice the quality of their housing, some households pay half or more of their incomes for rent and skimp on other expenses. To meet high rents and utility payments, these severely cost-burdened renters make difficult trade-offs (Table A-5). Those in the bottom expenditure quartile devote 33 percent less to food, 42 percent less to healthcare, and almost 60 percent less to clothing than renters with the same total expenses but living in affordable housing (Figure 16).

While renters with high housing costs spend 74 percent less on transportation than those with low housing expenses, this trade-off may be no bargain if it means that they are unable to access areas where job growth is strongest. Indeed, almost 60 percent of lowest-income renters do not own cars and thus face serious obstacles to seeking jobs in high-growth suburban employment centers. While public transit is sometimes an option, these systems are generally ill-suited to moving people from core areas to widely scattered suburbs.

## THE STRUGGLE OF WORKING FAMILIES AND SENIORS

To combat the rising cost of living, the federal minimum wage is currently set to increase gradually from today's \$5.85 to \$7.25 by 2009. Yet even if the full amount were now in effect, one minimum-wage job would not pay enough to cover the cost of a modest two-bedroom rental unit anywhere in the country. According to the latest estimates from the National Low Income Housing Coalition (NLIHC), the housing wage—or the hourly wage that someone working 40 hours a week, 52 weeks a year, would have to earn to cover the cost of a modest two-bedroom rental while paying no more than 30 percent of income for rent—climbed from \$16.31 in 2007 to \$17.32 in 2008.

The shortfall in renter earnings is not for lack of effort. Based on an analysis of the 2006 American Community Survey, the NLIHC reports that 77 percent of renter households received wage and salary income. The shares receiving such income increase with household size, from 61 percent for one-person households to 92 percent for households with five or more persons. Moreover, more than half of all renter households with earnings in 2006 reported working more than the standard 40 hours a week (Figure 17).

Renter households without wage and salary income are typically older or have at least one household member with a disability that limits their ability to work. For example, single-person households with no wage and salary income

were seven times more likely to be age 60 and older than single-person households with earnings. Similarly, 39 percent of two- and three-person households with no wage and salary income included at least one person age 60 and over, compared with only 8.5 percent of same-size households with income from earnings.

Unfortunately for young and old renters alike, even full-time employment is no guarantee that a household can afford housing. Using statewide average fair market rents (FMRs), NLIHC estimates that 42.6 percent of all working families did not earn enough in 2006 to afford an appropriately sized housing unit. Although larger renter households tend to receive higher wage and salary income because they have multiple workers, they are still unable to cover the relatively higher costs of larger apartment units. As a result, as many as 59 percent of five- and six-person renter households cannot afford the fair market rent for a modest three-bedroom apartment.

American Community Survey data also indicate that nearly 2.5 million senior renters (53 percent) pay more than 30 percent of their incomes for housing, while 1.4 million pay more than 50 percent. Seniors and others unable to work who have basic Supplemental Security Income (SSI) are especially likely to face high housing-cost burdens. Universal entitlement still leaves these households without sufficient resources to pay for rent and utilities as well as for food, medicine, and other necessities. Indeed, the basic SSI payment of \$623 a month is only enough to cover a rent of \$191 a month—far below the FMR for an efficiency apartment, let alone one with a separate bedroom.

## GROWTH OF RENTER DEBT

Faced with high housing costs that leave little left over for other necessities, many renters in the lowest-income quartile have to borrow to make ends meet. Indeed, the number of lowest-quartile renters in debt grew by 20 percent from 1995 to 2004, to 7.6 million. For all lowest-income renters, average outstanding debt was up 62 percent in inflation-adjusted terms, from \$3,200 to \$5,200 (Figure 18). While increasing across all age and racial groups, mean debt among renter households with heads age 55 and older surged by 76 percent, to \$8,800. Among minorities, mean debt rose by 61 percent to \$7,900.

Despite these growing debt levels, the combination of low interest rates and easy credit terms kept minimum monthly payments low. According to the 2004 Survey of Consumer Finances, the typical lowest-income renter with debt put just 9 percent of his or her meager income toward debt repayment

**FIGURE 17** Larger Working Families Face Particularly High Housing Cost Burdens

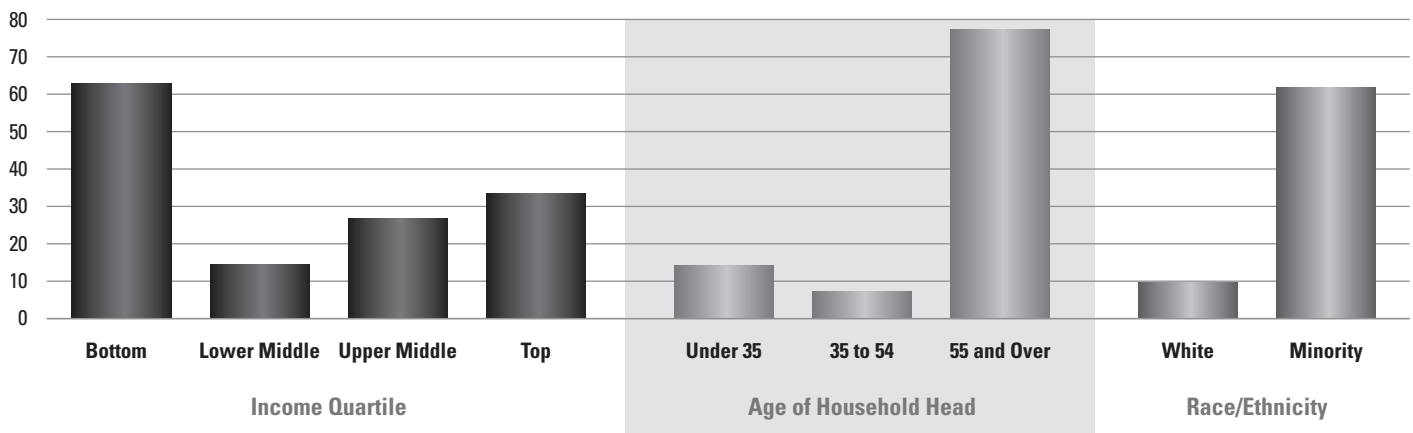
Number in Household	All Households		Households With Wage/Salary Income	
	Number (000s)	Percent With Wage/Salary Income	Percent Working 40+ Hours Per Week	Percent Unable to Afford FMR
One	14,050	61.1	58.4	39.4
Two	9,691	82.8	74.4	36.9
Three to Four	9,534	90.6	76.3	46.1
Five or More	2,770	91.6	79.9	59.3
<b>All</b>	<b>36,045</b>	<b>77.1</b>	<b>80.5</b>	<b>42.6</b>

Note: FMRs (fair market rents) are HUD estimates of the gross rent for a modest two-bedroom unit in 530 metropolitan areas and 2,045 non-metropolitan areas.

Source: National Low Income Housing Coalition tabulations of 2006 American Community Survey.

**FIGURE 18** Renter Debt Has Grown Substantially

Inflation Adjusted Change in Average Debt Outstanding, 1995–2004 (Percent)



Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. White householders are non-Hispanic, and minority householders are all others.  
Source: JCHS tabulations of the 1995 and 2004 Surveys of Consumer Finances.

each month, despite having a median debt-to-income ratio of almost 40 percent. Payments of this size reduce the cash available for rent and other necessities, but they are usually insufficient to cover the accumulating interest on debt, much less the principal. By 2004, millions of lowest-income renters were caught in a trap as the average number of months required to pay off their outstanding balances moved up sharply and their debt mounted.

The recent tightening of credit will likely keep the debt burdens of low-income renters on the rise, at least in the near term. Financial institutions are already reporting sharp upticks in delinquencies on credit cards and auto loans. In consequence, lower-income and less creditworthy borrowers are likely to see higher carrying costs on current debt and to have limited access to new debt.

### THE OUTLOOK

Housing affordability pressures are expected to increase in the near term. With foreclosures forcing owners into the rental market and forcing current renters out of their apartments, the pressure on the affordable housing inventory is likely to drive rents higher. And with energy costs also on the rise, gross rents are certain to climb in the year ahead.

Unfortunately, any improvement in rental affordability will not come from the income side of the equation. Renter incomes have been stagnant or declining for the last few years, and large shares of lowest-income families already work full

time. If the economy goes into recession, the slowdown in employment and wage growth will only make matters worse.

The rising cost of consumer credit will also take a toll, especially on renters that have run up significant debt in an attempt to cover basic living expenses. Even for lowest-income consumers that have managed their credit responsibly in the past, stricter credit standards will constrain the options for making ends meet in times of unexpected costs or sudden loss of income.

Over the longer term, the flood of foreclosed properties onto the rental market could ease some of the affordability pressures, but only to the extent that for-sale units converted to rentals meet the needs of households in the market. Indeed, lowest-income renters may be unable to afford even the highly discounted asking rents on foreclosed homes. Moreover, given that foreclosures are concentrated in many economically distressed urban areas, many low-cost rental properties could sit vacant or abandoned for years.