

Introduction

Out of Reach provides its readers with a direct comparison of rental housing costs and income levels for states, metropolitan areas, and counties nationwide. Using the federal affordability standard of spending no more than 30% of income on housing costs, it illustrates in black and white the often large discrepancy between the income required to afford decent housing and the earnings available to many households in their local economy.

In the 16 years that *Out of Reach* has been published, this comparison has proven invaluable to practitioners and advocates in helping policy makers and others quickly understand the disconnect between rising housing costs and stagnating incomes experienced by many Americans.

Analysis

Out of Reach brings together data from multiple sources into a single reference. This year the report includes data from the Department of Housing and Urban Development (HUD), the U.S. Census Bureau, the Bureau of Labor Statistics (BLS), the Department of Labor, and the Social Security Administration (see Appendix A for a detailed explanation of data sources and methodologies).

In keeping with prior editions, the analyses in *Out of Reach* are based on HUD's determination of the Fair Market Rent for metropolitan areas and counties (see Appendix B). The Fair Market Rent is HUD's best estimate of what a household seeking a modest rental unit can expect to pay in the private market for rent and utilities in the current local economy. Thus, Fair Market Rents differ from other measures of rent levels in two important ways: they include expected utility costs, and they reflect what a family moving into an apartment today can expect to pay, not what those already settled are currently paying.

From the Fair Market Rent, the income required to afford modest housing is calculated and compared with local income and wage levels. It is also from the Fair Market Rent that the **Housing Wage** – the hourly wage necessary to pay the Fair Market Rent for a two-bedroom home while spending no more than 30% of income on housing costs – is calculated.¹

Previous editions of *Out of Reach* reported the number of hours that a household must work at the minimum wage in order to

¹ The Housing Wage represents the annual income required to afford a two-bedroom unit converted to an hourly wage, assuming 2,080 hours of annual employment (40 hours per week, 52 weeks per year). In fact, this is a conservative estimate of the requisite wage because the necessary income must typically be earned in far fewer hours of annual employment (roughly 1,750 hours). See *The Employment Situation: October 2005* at www.bls.gov/news.release/empsit.nr0.htm.

afford the Fair Market Rent for a two-bedroom rental unit. This year a variation is reported: the number of full-time minimum wage jobs necessary to afford rent at this level. While at its root this value is simply the number of hours required to afford the Fair Market Rent at the minimum wage divided by 40, the hours in the standard workweek, for most of the country it more effectively puts into perspective the inability of even households with more than one minimum wage earner to afford a decent rental unit.

Complementing this calculation, and new this year, is the estimation of the mean (average) renter wage for workers in each county.² Even though this wage is often significantly higher than the minimum wage, the data indicate that 90% of renters live in counties where the mean renter wage is insufficient to cover the cost of a two-bedroom rental unit at the Fair Market Rent.

The data contained in this printed version are supplemented by additional data on-line at www.nlihc.org/oor2005/.

² From the 2004 Quarterly Census of Employment and Wages (preliminary) produced by BLS. Data are collected from 98% of all employers nationwide and capture payments made to employees during each month, including paid vacation, bonuses, stock options, etc. Only private (non-government) employees are included in this publication, and data are assigned to counties based on the location of the establishment, not the residence of the employee. See Appendix A for a discussion of the adjustment of the average wage to a “mean renter wage.”

Important Data Notes

There are important changes to the Fair Market Rents this year that warrant special attention. First and foremost, this year the new Office of Management and Budget (OMB) Core-Based Statistical Area (CBSA) metropolitan area definitions serve as the geographical foundation for HUD’s Fair Market Rent calculations. HUD, however, has made a number of modifications to the new definitions in an effort to preserve some continuity with historic Fair Market Rent areas and to limit the impact of this transition. As a result, the reader should bear in mind that the metropolitan Fair Market Rent area definitions used here may not be directly comparable with either the definitions used in previous years nor with other data sources based on the CBSA definitions. Metropolitan Fair Market Rent areas that differ from the official OMB metropolitan area definition are known as HUD Metro Fair Market Rent Areas and are followed by the suffix “HMFA” in the tables that follow.

In an effort to be more consistent with the Fair Market Rent areas as defined by HUD this year, for the first time *Out of Reach* incorporates HUD household income estimates based on the CBSA metropolitan area definitions.

Additionally, after a one-year hiatus, HUD has re-applied the notion of a state minimum Fair Market Rent to rural areas that otherwise were estimated to have unrealistically low Fair Market Rent estimates. Appendix B addresses these issues more fully.

These changes preclude any wholesale comparison of this year's *Out of Reach* data with those from previous years for counties, metropolitan areas, and combined nonmetro areas, and it is recommended that no such comparisons be made without a thorough understanding of the methodological and data peculiarities described in the appendices.

Housing Costs

Nationally, the Housing Wage for a two-bedroom rental unit is \$15.78.

Though even the national comparisons must be made carefully, the fact that the 2005 national Housing Wage is higher than the \$15.37 reported in 2004 finds support in recent trends. According to the Bureau of Labor Statistics, between fall 2004 and fall 2005, both average wages and average rents increased by 2.9%, indicating that for the market as a whole, incomes kept pace with rent payments made to landlords in the last year.³ However, overall inflation outpaced earnings, in part because of a 13.3% increase in the costs of housing-related fuel and utilities.⁴ Again, Fair Market Rents are estimates of both rent and utility costs. Thus, as this year's *Out of Reach* data indicate, for many low-income renters – and the public at large

³ See the following Bureau of Labor Statistics reports: Table B-3 of *The Employment Situation: October 2005*, available at www.bls.gov/news.release/empst.t16.htm and Table 1 of *Consumer Price Index: September 2005*, available at www.bls.gov/news.release/cpi.nr0.htm.

⁴ See *Consumer Price Index: September 2005*, produced by the Bureau of Labor Statistics, at www.bls.gov/news.release/cpi.nr0.htm.

– the benefits of stable rents were more than offset by the increasing costs of utilities and other essential expenses.⁵

While the national Housing Wage illustrates the average cost of housing at the aggregate level, it is important to consider the substantial local variation that it conceals. The San Francisco area has the dubious distinction of boasting the highest Housing Wage (\$29.54), while certain parts of Louisiana, before the recent hurricanes, had housing wages as low as \$8.10.

Extremely Low Income Renters

As in past years, Extremely Low Income households, with incomes equal to or lower than 30% of the local Area Median Income (AMI), continue to have virtually no affordable housing options in the private market. This year, there are 10 counties – home to only 18,000 of the 36 million renter households in the nation – in which the two-bedroom Fair Market Rent is affordable for Extremely Low Income renters.⁶ By contrast, one-quarter of all renter households live in counties where the income of an Extremely Low Income

⁵ In inflation-adjusted dollars, weekly earnings decreased by 2.7% between September 2004 and September 2005. See *Real Earnings in September 2005*, produced by the Bureau of Labor Statistics, available at www.bls.gov/news.release/realer.nr0.htm.

⁶ According to NLIHC tabulations of the 2003 American Housing Survey, there are roughly seven million Extremely Low Income renter households in the U.S.

household does not represent even half of the income required to afford the two-bedroom Fair Market Rent.

Minimum Wage

In 2004, more than two million employees nationwide – or 2.7% of all non-salaried workers – were paid an hourly wage at or below the federal minimum wage of \$5.15.⁷ In no rural county or metropolitan area can a renter with a full-time job paying the prevailing minimum wage afford even a one-bedroom unit priced at the Fair Market Rent. And in only 42 counties – representing less than 1% of renter households nationwide – does a full-time minimum wage job constitute sufficient income to afford an efficiency or studio (i.e. zero-bedroom) unit.⁸

Further illustrating the inadequacy of the minimum wage relative to the growing cost of housing, more than 80% of all renter households live in jurisdictions where the minimum wage is less than half of the Housing Wage. In other words, the vast majority of renter households find themselves in localities in which decent housing is unaffordable unless their combined income exceeds that of two wage earners working full-time, with no vacation or sick days, at the minimum wage. For more than one-third of renter households, household income must

⁷ See Table 44 of the 2004 Current Population Survey report, produced by the Bureau of Labor Statistics, at www.bls.gov/cps/cpsaat44.pdf.

⁸ Assumes that a full-time job is equivalent with 2,080 hours of employment annually, which is rarely the case. See footnote 1.

exceed the equivalent of three full-time minimum wage jobs in order to afford a two-bedroom unit at the Fair Market Rent.

Insufficient Earnings

While the situation of the lowest income Americans, including minimum wage workers, is the most dire, most wage earning American households earn more than \$5.15 per hour and more than the \$10,712 a year that a minimum wage worker would earn working full time every week.⁹

With this in mind, *Out of Reach* includes hourly wage data from the Bureau of Labor Statistics,¹⁰ which makes it possible to take the discussion of wages and housing costs beyond the minimum wage to the mean (average) renter wage in a given locality. Using these data, the estimated national mean renter wage is approximately \$12.22 per hour, or 2.4 times the federal minimum wage. Assuming 40 hours per week and year-round employment without vacation or sick days, the local mean renter wage is sufficient to make a two-bedroom unit affordable in only 41 metropolitan areas nationwide, containing only 14% of all renter households. The story is only slightly better for smaller units: Slightly more than one-third (38%) of all renter households live in metropolitan areas where the Fair

⁹ Based on 2003 American Community Survey Public Use Microdata, 89.8% of the 120 million American households earned more than \$10,712 in the 12 months preceding the survey.

¹⁰ For a description of this data, see footnote 2 and Appendix A.

Market Rent for a one-bedroom unit is affordable for a full-time worker earning the mean renter wage.

In 10 housing markets, two individuals, both earning the mean renter wage and working 40 hours a week, 52 weeks a year, cannot afford a two-bedroom unit at the Fair Market Rent.

Supplemental Security Income (SSI)

Individuals with few resources who are over 65, disabled, or blind are eligible to receive Supplemental Security Income (SSI). In 2005, the federal payment for a single qualifying individual was \$579,¹¹ and seven states provided additional funds of between \$31 and \$233 per month.¹²

Nowhere in the country is monthly income of \$579 sufficient to afford the Fair Market Rent for an efficiency or studio, to say nothing of rental units with separate bedrooms. In fact, the monthly rent affordable to an individual receiving the standard federal SSI payment is \$174, which is \$110 below the Fair Market Rent for an efficiency or studio in the least expensive metro area for these types of rental homes.

¹¹ The monthly benefit to eligible individuals is expected to increase to \$603 in 2006. See www.ssa.gov/notices/supplemental-security-income/ for more information on SSI benefits.

¹² Seven states allow their payments to be managed by the federal government but provide additional benefits to all eligible individuals living independently. Where benefits differ for the elderly, disabled, and blind, the payments made to the elderly are used. See www.ssa.gov/pubs/11015.pdf for additional information.

Conclusion

As in previous editions, this version of *Out of Reach* illustrates that housing is unaffordable for many low income singles, families with children, the elderly, and the disabled. Whether a family's income is supported by government transfer payments, fixed retirement income, or the minimum or prevailing wage, affordable, decent housing is often out of reach.

If, like those of us at the National Low Income Housing Coalition, you believe that affordable housing is a right and should be the norm – not a rare exception to be celebrated – then *Out of Reach* is a resource for illustrating the lack of affordable housing in your community and making a case for its expansion.