

Introduction

Housing issues have been at the forefront of Americans' minds for over 3 years now and while there have been a number of attempts at all levels of government to improve the health of the housing market, low income people and renters in particular continue to struggle to remain in their current homes or find an adequate and affordable place to live. The majority of the initiatives aimed at stabilizing the housing market over the past few years have focused almost exclusively on the needs of homeowners and on encouraging people to buy homes, rather than on providing incentives for people to rent or on making rental units more affordable.

As the housing crisis evolves into one of the worst economic recessions in recent history, economic hardship is being felt by a wide swath of the population. With so much of the nation's attention still focused on the housing market and on alleviating these hardships, it is critical that advocates of affordable housing continue to inform the public about the persistent affordable housing crisis facing low income renters, a crisis that has only worsened in the current recession. The argument in favor of a more balanced housing policy, one that seeks to provide housing to those in the greatest need and stabilize the lives of American families whether they rent or own, has never been stronger.

Box 1: Statistics for extremely low income renter households as of 2008:

- 71% spent more than half of their income on rent.
- There was a shortage of 3.1 million affordable units.
- Only 37 units were affordable and available for every 100 households.

Persistent Problems and Troubling Trends

The numbers in *Out of Reach 2010* do not appear in isolation.

They are a part of the broader economic and social forces affecting the opportunities and housing choices Americans face in their communities.

Affordable Housing Shortage: Since long before the current foreclosure and economic crises, low income renters have faced a large array of housing challenges. Extremely Low Income (ELI) renter households (those earning

30% or less of their area's median family income) continue to be the only income group facing an absolute shortage of affordable housing units, with only 6.1 million units affordable to 9.2 million ELI renters.¹

However, if only apartments that are both affordable and *available* are counted, this number shrinks to a mere 3.4 million units for all ELI renter households. Further illustrating the problem is the fact that from 2000 to 2008 the number of units receiving project based assistance from HUD decreased by over

¹ Pelletiere, D. (2009, November). *Preliminary assessment of American Community Survey data shows housing affordability gap worsened for lowest income households from 2007 to 2008*. Washington, DC: National Low Income Housing Coalition.

210,000.² This mismatch in the supply and demand of affordable housing leads to an astonishingly high number of ELI renters who pay more than half of their income on housing costs (See Box 1).³

More People are Doubling Up: Those households that can't or are unwilling to devote such a large percentage of their income towards housing costs may decide to move in with family members or friends, or live in substandard housing that lacks necessary amenities such as working plumbing or electricity. Recent HUD data shows a 25% increase from 2005 to 2009 in the percentage of movers who joined an existing household, or "doubled up."⁴

Additionally, a recent study by the Pew Research Center⁵ showed that the number of "multi-generational" family households, or households containing at least two adult generations, increased by 33% between 1980 and 2008. While some of this increase may be attributed to demographic and cultural shifts, such as a larger immigrant population or the rising median age of marriage, a large increase of 2.6 million Americans living in multi-generational households between 2007

² NLIHC tabulations of HUD's "A Picture of Subsidized Households" from 2000 and 2008.

³ Statistics in Box 1 are from NLIHC tabulations of the 2008 American Community Survey PUMS housing file.

⁴ Collinson, R. & Winter, B. (2010, January). *U.S. rental housing characteristics: supply, vacancy, and affordability*. HUD PD&R Working Paper 10-01. Washington, DC: U.S. Department of Housing and Urban Development.

⁵ Taylor, P. et al. (2010, March). *The Return of the Multi-Generational Family Household*. A Social & Demographic Trends Report. Washington, DC: Pew Research Center.

and 2008 points to high unemployment and rising foreclosures as part of the reason for this trend.

Rise in Homelessness: For the lowest income families that can not find affordable housing, homelessness threatens. There were over 650,000 homeless people in the U.S. in 2008. Homelessness in individuals remained largely unchanged from 2007 to 2008, but homelessness in families increased by 9%, and increases in both populations were more substantial in rural and suburban areas than in principal cities. The increase in family homelessness seems to be a direct result of the recession, since families have historically been more immediately impacted by changing economic conditions than individuals.⁶ The Center on Budget and Policy Priorities estimated that the number of people in "deep poverty," or with incomes below half of the poverty line and therefore at risk of housing instability and homelessness, would increase by somewhere between 4.5 or 6.3 million if the unemployment rate reached 9%.⁷ In December 2009 the unemployment rate reached 10%.⁸

Unemployment Remains High: According to data from the Bureau of Labor Statistics (BLS) the number of unemployed persons at the beginning of the recession (December 2007) was 7.7 million and the unemployment rate was 5%. By December

⁶ Office of Community Planning and Development. (2009, July). *The 2008 annual homeless assessment report to Congress*. Washington, DC: HUD.

⁷ Sard, B. (2010, January). *Number of homeless families climbing due to recession: recovery package should include new housing vouchers and other measures to prevent homelessness*. Washington, DC: The Center on Budget and Priority Policies.

⁸ Bureau of Labor Statistics. (2010, January). *The employment situation: December 2009*. Washington, DC: U.S. Department of Labor.

2009, both the number of unemployed and the unemployment rate had doubled to 15.3 million and 10% respectively.⁹ A discouraging upward trend comes in the increasing number of long-term unemployed persons. From December 2008 to December 2009, the number of people unemployed for 27 weeks or longer more than doubled, increasing from 2.6 million to 6.1 million.¹⁰

Unfortunately, unemployment rates are highest among minorities (15.8% for African Americans and 12.4% for Hispanics), people with disabilities (13.8%), and those without a high school diploma (15.6%),¹¹ groups which also tend to have historically high proportions of low income households. Contributing to high unemployment rates among these populations is the loss of jobs in industries that are traditionally available to those without higher education, such as manufacturing and construction.

Among those who are unemployed but want a job, the number of discouraged workers (or those who think that there are no jobs available to them) has increased by 500,000 over the past year, indicating a growing frustration with current economic

conditions.¹² In hard financial times, people often try to work multiple jobs in order to make ends meet, but in a recession such as this, it becomes difficult to find one job, much less two or three. This is reflected in the decreasing number of people holding multiple jobs, which went from 7.7 million in February 2009 to 7.2 million in February 2010.¹²

Box 2: Measures of the current crises:

- The unemployment rate has increased from 8.2% to 9.7% in the last 12 months.
- The percentage of people who have been unemployed for 27 weeks or longer increased from 22% to 40% in the last 12 months.
- An estimated 40% of foreclosures displace renter households.
- The number of renter households grew by 1.1 million between 2007 and 2008, while the number of owners contracted.
- There has been a 25% increase in renters who move to join another family (or “double up”) since 2005.

Foreclosure and the Rental Market: The foreclosure crisis has had a dramatic effect on the housing market. Rental demand continues to surge as more and more people are either forced out of ownership due to foreclosure or choose to rent rather than own in light of the tightening credit market and now obvious risks involved with homeownership. Renter households currently make up 33% of the total occupied housing units, up from only 31% at the height of the housing boom in 2004.¹³

Even with this increased demand for rental housing, for-rent vacancy rates are at historic highs. The for-rent vacancy rate in the fourth quarter of 2009 was 10.7%, up from 10.1% in the fourth quarter of 2008.¹⁴ Homeowners and investors who are overleveraged and face the threat of delinquency or foreclosure are increasingly looking for

⁹ Ibid.

¹⁰ Ibid.

¹¹ Bureau of Labor Statistics. (2010, March). *The employment situation: February 2010*. Washington, DC: U.S. Department of Labor.

¹² Ibid.

¹² Ibid.

¹³ U.S. Census Bureau. Housing vacancies and homeownership (CPS/HVS) fourth quarter 2009, historic tables, table 7. Washington, DC: Author.

¹⁴ U.S. Census Bureau. Housing vacancies and homeownership (CPS/HVS) fourth quarter 2009, historic tables, table 1. Washington, DC: Author.

renters or roommates to help them with their high debt payments pushing up the number of units for rent. There is some evidence that rents in large, professionally managed apartment buildings declined in all four quarters of 2009.¹⁵

However, it is important to keep in mind that from 2001 to 2007 the high-rent rental housing stock increased by 94.3% as the affordable rental housing stock decreased by 6.3% and it is these high-rent developments, along with units now for-rent that were previously for-sale that are contributing to these higher vacancy rates and declining rents.¹⁶ These units remain unaffordable for the growing number of low income households looking for low cost housing. The CPI rent index, which covers all rental housing, shows rents continuing to rise despite the economic slowdown.¹⁷

While the nation has focused almost exclusively on the troubles in the single-family homeownership market, a second crisis looms in the commercial real estate market. The multifamily mortgage default rate increased in recent quarters and was at 3.58% in the third quarter of 2009, up from 3.14% in the second quarter.¹⁸ Apartment owners face a tightening credit market, decreasing property values and many are highly overleveraged. These characteristics will make it difficult for them to refinance their mortgages and they may resort to tactics such as foregoing necessary property improvements or passing along their

¹⁵ National Multi Housing Council. (2010, March). *Market Trends*. Washington DC: Author.

¹⁶ Collinson & Winter. (2010, January).

¹⁷ National Multi Housing Council. (2010, March).

¹⁸ Congressional Oversight Panel. (2010, February). *Commercial real estate losses and the risk to financial stability*. Washington DC: Author.

increased debt payments in the form of higher rents or fees to tenants.

An estimated 40% of the households displaced by foreclosure are renters,¹⁹ a number which may rise significantly if conditions in the multifamily market continue to deteriorate. Renters tend to have lower incomes than owners and end up paying a larger proportion of their income on housing costs, making them more vulnerable to a weak job market than traditional homeowners.

Two Fundamental Questions

As a result of the swelling ranks of unemployed and households who have been foreclosed upon or evicted from their homes, there will be a large number of households searching for an affordable place to live in 2010. Unfortunately, low income households will continue to compete with higher income households for a pool of low-cost units that was insufficient to meet demand in the first place.

For the family who has to relocate to a new community to find work – or for the family who has been displaced by foreclosure and wants to remain in the same town – *Out of Reach* answers two fundamental questions:

1. How much will I have to earn to be reasonably assured of finding an affordable rental unit?

¹⁹ Pelletiere, D. (2009, January). *Renters in foreclosure: Defining the problem, identifying solutions*. Washington, DC: National Low Income Housing Coalition.

2. At prevailing wage levels, will a full-time job allow me to find a decent home I can afford?

The Housing Wage answers the first question. It represents the full-time²⁰ hourly wage one would need to earn in order to pay what HUD estimates to be the Fair Market Rent (FMR) for an apartment, spending no more than 30% of income on housing costs.

To answer the second question, *Out of Reach* compares the Housing Wage to local wage and income levels for every county, metropolitan area, state, and nonmetropolitan portion of every state in the country.

By answering these two questions in this way, the numbers in *Out of Reach* allow readers to gain a clear understanding of the difficulty that low income households face in finding a home they can actually afford in their community with the wages they earn. Advocates can use the following findings to make the case that there is still a pressing need to create more affordable rental housing in this country in an effort to narrow the gap between the Housing Wage and what Americans actually earn.

²⁰ Full-time work is defined as 2,080 hours per year (40 hours each week for 52 weeks). For households that cannot work 40 hours per week, this is a conservative estimate because the required income must be earned in fewer hours. For households working more than 40 hours per week, the Housing Wage is actually lower than is stated here. The average employee works roughly 34 hours per week (Bureau of Labor Statistics. (2010, March). *The employment situation: February 2010*. Washington, DC: U.S. Department of Labor).

Findings

Assuming full-time, year-round employment, the 2010 national Housing Wage for a two-bedroom rental unit at the national average FMR of \$959 is \$18.44. This means that a household must earn the equivalent of \$38,360 in annual income to afford a modest rental home.²¹ There are two states in which the Housing Wage actually decreased from 2009 to 2010: Michigan and Oklahoma. This was due to economic weakness and declines of the FMRs in large metropolitan areas of these states such as Ann Arbor, Detroit and Oklahoma City.

Minimum Wage: In all but 15 states, the minimum wage in effect in the first part of 2010 is greater than at the same time last year, in many cases because the federal minimum increased to \$7.25 in the summer of 2009. As a result, the distance between the minimum wage and many state Housing Wages narrowed and the number of jobs per household at the prevailing minimum wage needed to afford the two-bedroom FMR decreased in 27 states.

Despite this progress, the number of full-time jobs that a household must work at the prevailing state minimum wage to afford the average two-bedroom FMR ranges from 1.1 jobs (Puerto Rico) to 4.3 jobs (Hawaii). In other words, in no state can an individual working full-time at the minimum wage afford a two-bedroom apartment for his or her family. In fact, with the exception of 32 Municipios in Puerto Rico, there is no county in

²¹ The data contained in this printed version are supplemented by additional data online, such as the Housing Wages for an array of apartment sizes (0-4 bedrooms).

the U.S. where even a one-bedroom unit at the FMR is affordable to someone working full-time at the minimum wage. Also, there are no further projected increases to the minimum wage, so it is likely that the gap between the housing wage and the minimum wage will begin to widen again next year.

Renter Wage: At the estimated average renter wage of \$14.44, a household must work 51 hours per week to afford the national average two-bedroom FMR. This average renter wage decreased from \$14.69 in 2009, as the recession took its toll on wage earners. Ninety-six hours, or roughly 2.4 full-time jobs, are required at Hawaii's renter wage to afford the state's two-bedroom FMR, while only 39 hours are required in Texas.

ELI Households: HUD defines an ELI household as one that earns 30% or less of the Area Median Income (AMI). Thirty percent of the national average AMI is \$19,740²² which, assuming a household spends no more than 30% of its income on housing, implies that an ELI household could afford no more than \$494 in monthly rent. Comparing the amount an ELI household can reasonably afford to the national two-bedroom FMR of \$959 illustrates the true disparity between prevailing and affordable rents for ELI households.

²² This number differs from the estimated national average AMI that was included in the original release of *Out of Reach 2010*. This release includes HUD's official FY10 AMIs, which were released in May, 2010.

Box 3: State-Level Findings

- In 28 states (including DC), more than two full-time *minimum wage* jobs are required to afford the two-bedroom FMR.
- In 20 states, a household must work at least 50 hours at the *average renter wage* to afford the two-bedroom FMR.
- In 29 states, an ELI household cannot afford to spend more than \$500 per month on rent and utilities.
- In 16 states, the FMR for a studio apartment exceeds the entire monthly SSI payment.
- In 13 states, a household must work at least two full-time jobs at the minimum wage to afford the two-bedroom FMR in the state's combined nonmetropolitan areas.

Supplemental Security Income: Roughly 7.7 million individuals receive Supplemental Security Income (SSI) because they are elderly, blind, or disabled and have few economic resources.²³

With the maximum federal monthly payment of \$674 in 2010, an SSI recipient could afford rent of only \$202.²⁴ SSI is the only source of income for 56% of all recipients.²⁵

Nonmetropolitan Areas: For each state, *Out of Reach* combines the data for counties that are not included in a metropolitan area and calculates the Housing Wage and related statistics for this combined area. Although housing is often less expensive in rural areas than in big cities, these areas also generally have lower wages than are found in metropolitan areas. To illustrate, the average nonmetropolitan FMR of \$699 is roughly three-fourths of the national FMR (\$959), but the same relationship applies to the renter wages since the average renter wage in nonmetropolitan areas is only \$10.37. Thus, as with the national statistic, the average national nonmetropolitan FMR is affordable only by

²³ Social Security Administration. (2010, March). *SSI monthly statistics, January 2010*. Washington, DC: Author. Retrieved March 29, 2010 from http://www.socialsecurity.gov/policy/docs/statcomps/ssi_monthly/

²⁴ Because SSI payments are reduced for beneficiaries who report other sources of income, the average federal payment in January 2010 was \$476. However, 46 states supplement the federal payment for all or a subset of recipients, depending on the state. See Appendix A.

²⁵ Social Security Administration. (2009, September). *SSI annual statistical report, 2008*. Washington, DC: Author.

working 52 hours at the average renter wage in these areas.

Conclusions

Year after year, the statistics found in *Out of Reach* show the effects of the severe shortage of housing that is both decent and affordable to low income renters. *Out of Reach 2010* shows that even with the recent increases to the federal minimum wage and a weak housing market, households still need to work over 40 hours a week or hold down multiple jobs to be assured of being able to afford a modest rental home; a task made harder in the recession.

While some may point to recent spikes in rental vacancies or reports of declining rents as an indicator that there is no longer a need to create more affordable housing, housing advocates can use *Out of Reach 2010* statistics to show that the need remains. Wages are decreasing, unemployment remains at an historic high and the rents low income people pay continue to go up, all while more and more households are entering the rental market. It is harder than ever for households to find decent, stable housing at the wages they earn.

The Numbers in this Report

As in past years, *Out of Reach 2010* relies on data from HUD, the U.S. Census Bureau, the Bureau of Labor Statistics, the Department of Labor, and the Social Security Administration to make its case. See Appendix A for a detailed explanation of data sources and methodologies.

The FMR on which the Housing Wage is based is HUD's best estimate of what a household seeking a modest rental unit in a short amount of time can expect to pay for ***rent and utilities*** in the current market. Thus, the FMR is an estimate of what a family moving today can expect to pay for a modest rental home, *not* what current renters are paying *on average*. See Appendix B for information on how HUD calculates the FMR.

Readers are cautioned against comparing statistics in one edition of *Out of Reach* with those in another. In recent years, HUD has changed its methodology for calculating FMRs and incomes. The new methodology is thought to be an improvement on past practices, but it can introduce more year-to-year variability into the data. For this reason and others (e.g., changes to the metropolitan area definitions), readers should not compare this year's data to previous editions of *Out of Reach* and automatically assume that differences reflect actual market dynamics. Please consult the appendices and NLIHC research staff for assistance interpreting the data.

The data in this report and the additional materials and data can be found online at www.nlihc.org/oor2010/.