

Introduction

In 2008, the housing problems facing Americans are making headlines. After years of absence from the front page, stories of families unable to afford their homes and facing foreclosure and eviction fill the news.

With the focus on the homeownership crisis, it is not surprising that the long standing and steadily growing gap between wages and the cost of rental housing, the fundamental problem described in *Out of Reach*, has received considerably less attention. But it is important to recognize that these two problems share the same root: a national housing policy that has failed to provide and protect safe, decent, affordable housing for millions of Americans.

During the housing boom, pundits and politicians observed the apparent ease with which even a low income family could buy a home and lauded homeownership as the “solution” for low-income households aspiring to achieve stable housing, self sufficiency, and the American Dream. In the current political context, this solution was particularly attractive because it was taking place through the apparent magic of “financial innovation” in private mortgage markets, and not through ongoing government assistance or charity.

Now, as home sales slump and prices decline, it is clear that much of the innovation did not protect the long-term interests of homeowners and that the apparent gains were unsustainable. Encouraged by widely publicized, but unrealistic, expectations

and assumptions about the security and wealth afforded by simply owning a home, millions of American families became saddled with unaffordable mortgages, often the victims of mortgage fraud.

The aftermath is likely to add significantly to the number of low income Americans with housing problems. By some estimates, nearly 1.3 million households entered some stage of foreclosure proceedings in 2007 alone,¹ and as many as 3.5 million households may lose their homes through foreclosure during the next three years.²

While homeownership and the problems of homeowners receive most of the attention from policy makers and the media, the ranks of those searching for rental housing are swelling. In the wake of this crisis, former homeowners and renters displaced by foreclosure are turning to rental markets in search of a new home, while current renters, reluctant to purchase or unable to meet tighter lending standards, are staying put in their rented homes. A survey conducted by the U.S. Census Bureau found that the fourth quarter of 2007 saw a decrease in the number of homeowners compared with the previous year, while the number

¹ Realtytrac.com. (2008, Jan. 29). *2007 year-end U.S. foreclosure market report*. Retrieved January 31, 2008, from www.realtytrac.com.

² Center for Responsible Lending. (2008, Jan. 30). *Voluntary loan modifications fall far short: Foreclosure crisis will continue unabated without court-supervised modifications*. Durham, NC: Author. Retrieved February 18, 2008, from www.responsiblelending.org/pdfs/paulson-brief-final.pdf.

of households renting their homes rose by more than 1.5 million. In 2007, the homeownership rate fell below 68% for the first time since 2002.³

For these households, and the remainder of the 36.5 million American renter households, affordable rental housing is the most immediate concern. And as in past years, the stark columns of numbers in *Out of Reach* lead to one unmistakable conclusion: no rental market in America can offer low income Americans safe harbor from unaffordable housing.

Two Fundamental Questions

Housing advocates have long had to defend against the notion that those with housing problems are undeserving and simply need to “get a job.” One response has been to argue that affordable housing is a necessity and a right. Another has been to point out that the majority of families with housing need already have wage income, are elderly, or face disabilities.⁴ This last fact has become increasingly clear as media attention has focused on

³ See the U.S. Census Bureau’s *Housing Vacancy Survey: Fourth Quarter 2007*. Retrieved January 31, 2008, from www.census.gov/hhes/www/housing/hvs/hvs.html.

⁴ For example, HUD estimates that 39% of households with the “worst case needs” for affordable housing are either elderly or disabled. HUD also finds that 53% have wages as their primary source of income. See U.S. Department of Housing and Urban Development, Office of Policy Development and Research. (2007). *Affordable housing needs: A report to Congress on the significant need for housing*. Washington, DC: Author, and U.S. Department of Housing and Urban Development, Office of Policy Development and Research. (2008). *Housing needs of persons with disabilities: Supplemental findings to the Affordable Housing Needs 2005 report*. Washington, DC: Author.

the millions of households with good-paying jobs struggling to keep a roof over their heads as the foreclosure crisis spreads.

Out of Reach, however, takes a different approach in responding, asking the reader to consider the answers to two questions:

1. **Could someone who gets a full-time job in your community today reasonably expect to find a modest rental unit he or she could afford?**
2. **What would a family in your community have to earn to be reasonably assured of quickly finding an affordable rental unit?**

To help answer these questions, *Out of Reach 2007-2008* compares the “Housing Wage” to local wage and income levels for every county, metropolitan area, and state in the country. The Housing Wage is the full-time⁵ hourly wage one would need to earn in order to pay what the Department of Housing and Urban Development (HUD) estimates to be the Fair Market Rent (FMR) for an apartment where you live, spending no more than 30% of your income on housing costs.⁶

⁵ Full-time work is defined as 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 for households that cannot work 40 hours per week because the necessary income must be earned in far fewer hours of annual employment (roughly 1,750 hours on average). See *The Employment Situation: January 2008* from the Bureau of Labor Statistics, retrieved February 5, 2008, from www.bls.gov/news.release/archives/empsit_02012008.htm.

⁶ The Housing and Urban-Rural Recovery Act of 1983 made the 30% of income standard applicable to all current rental housing assistance programs. This standard has remained in place since.

By distilling housing costs and incomes into an hourly wage, *Out of Reach* translates the national housing crisis into numbers that the reader can relate to in his or her life and enables those without housing problems to understand that simply having or getting a job is rarely sufficient to provide a family with decent, affordable rental housing.

More importantly, the Housing Wage is more than an indicator of distress; it provides a goal for policy. Whether by decreasing housing costs or increasing incomes, advocates should pursue policies that narrow the gap between the Housing Wage and what Americans actually earn.

Analysis

The 2008 national Housing Wage for a two-bedroom rental unit is \$17.32. A full-time worker must earn this wage and work year-round in order to afford the national average FMR of \$900 per month.

Figure 1 provides a basic illustration of the analysis in this section, comparing on an annual basis the income needed to afford the national two-bedroom FMR with the income earned at various national wage levels. Recognizing that a one-bedroom unit is sufficient for some single wage earner households, the annual income associated with the national one-bedroom Housing Wage is also shown.⁷ Similarly, recognizing that households often exceed 40 hours each week at work, the chart also shows annual incomes at the various wage levels assuming a

⁷ FMRs and housing wage calculations for one to four bedroom homes are available at www.nlihc.org/oor2008/.

household logs 52 hours of work each week, which is typical of three- to four-person renter households with wage and salary income.^{8,9}

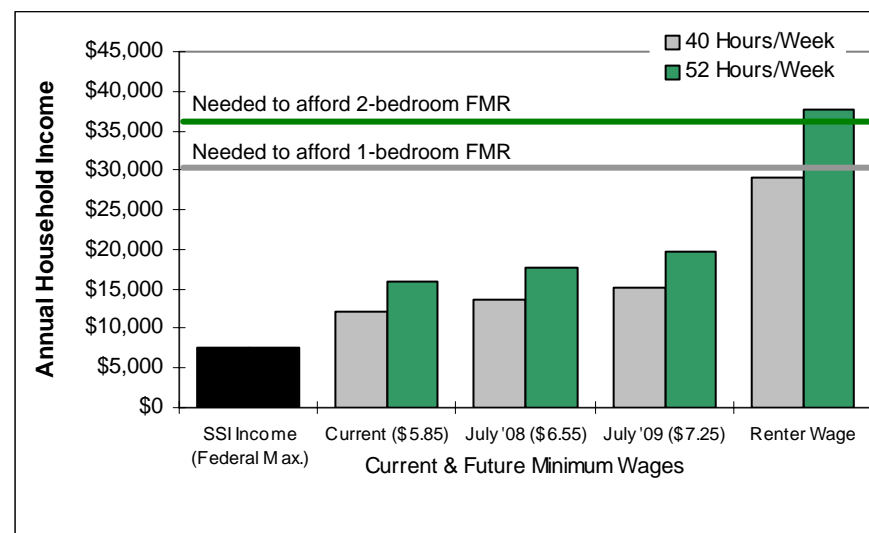


Figure 1. Even at Higher Minimum Wages and Hours Per Week, Incomes Needed to Afford National Fair Market Rents are Out of Reach in 2008

⁸ For information on the employment characteristics of renter households by household size, see Wardrip, K. & Pelletiere, D. (2007). *Research note #07-03: Putting the Housing Wage to the test*. Washington, DC: National Low Income Housing Coalition.

⁹ Nearly 5 million people who want to work full-time have to settle for part-time employment. For households unable to attain the 40-hour workweek assumed by the Housing Wage, this statistic actually underestimates what they must earn to afford decent rental housing in their community. See Table A-5 of *The Employment Situation: January 2008* from the Bureau of Labor

Minimum Wage

As indicated in Figure 1, the federal minimum wage increased from \$5.15 to its current level of \$5.85 in July 2007. Additional increases are planned for the summers of 2008 and 2009, after which the minimum wage will be \$7.25.

Despite these increases, Figure 1 illustrates that “just getting a job” at the federal minimum wage is not nearly sufficient to house a family affordably at either the national one- or two-bedroom FMR. Moreover, neither planned increases in the minimum wage nor the assumption of 52 hours of work per week makes up for the shortfall.

As striking as the disparity is between income from a full-time minimum wage job and the income required to afford the FMR, it is not uncommon. In 2006, roughly 8.8 million renter households – almost one-quarter of all renters – reported household income below what a full-time job at their state’s current minimum wage would pay today.¹⁰

Since *Out of Reach* was last published and largely as a result of long-overdue federal action, the minimum wage has increased in 44 states and Puerto Rico. And thanks to state legislation superseding the federal raise, the minimum wage in 11 states is more than 20% higher than it was in the fall of 2006. In each

Statistics. Retrieved February 5, 2008, from www.bls.gov/news.release/archives/empsit_02012008.htm.

¹⁰ NLIHC tabulations of 2006 American Community Survey data. Although this compares 2006 household income with higher 2008 minimum wage levels, it nevertheless hints at how many renter households subsist on very little income.

case, the number of hours that a household must work each week to afford the two-bedroom FMR decreased by at least 11 hours, and it fell by more than 20 in Ohio, New Hampshire, Arizona, Iowa, Pennsylvania, and Colorado.

While these significant reductions clearly illustrate the positive impact that higher wages can have on housing affordability, the number of hours that a household must work – even at the higher minimum wages in these 11 states – still ranges from 66 to 120 each week, or 1.6 to 3.0 full-time jobs. And despite states’ efforts, there is no county in the country where an individual can work 40 hours per week at the minimum wage and afford even a one-bedroom apartment at the local FMR.

Renter Wage

While there were roughly 1.7 million minimum wage earners in the U.S. before the rate was increased in 2007, most Americans earn more than the minimum wage for every hour they work.¹¹ The median hourly wage in this country is just under \$16.00.¹²

¹¹ In 2006, 1.7 million wage earners reported earning the minimum wage or less for every hour they worked. Of these, roughly half were between the ages of 16 and 24. Data are for wage and salary workers, excluding the incorporated self-employed. See Table 1 of the *2006 Current Population Survey’s Characteristics of Minimum Wage Workers* from the Bureau of Labor Statistics. Retrieved on January 30, 2008, from www.bls.gov/cps/minwage2006.htm.

¹² In May of 2006 (the most recent data available) the Occupational and Employment Statistics Estimates from the Bureau of Labor Statistics reported the median wage for private employees nationwide was \$14.61 (Retrieved January 30, 2008 from (www.bls.gov/oes/)). Using the 3.4% growth rate observed in private sector wages (September 2006-September 2007) to grow the median wage to spring 2008 produces an estimated median wage of

This analysis estimates that nationwide the average renter earns around \$13.94 an hour.

As Figure 1 illustrates, a full-time job at the national mean renter wage falls short of providing enough income to afford even a one-bedroom home at the average FMR. Only a household that averages 50 hours per week year-round – with no unpaid time off – can afford the national average FMR for a two-bedroom unit at the national mean renter wage.

HUD's Area Median Income Estimates

Out of Reach includes estimates of each area's median income (AMI) developed by HUD, as well as the rent affordable to a family earning the AMI. Because one-quarter of renters earn less than 30% of their area's median family income – HUD's definition of Extremely Low Income (ELI) – *Out of Reach* also calculates this income level and the rent affordable to someone earning this amount annually. (Data for 50% and 80% of AMI are available online.)

Nationally, an ELI household earns roughly \$18,800 and, since housing costs should consume no more than 30% of income, can afford to spend approximately \$470 on gross rent each month. Fewer than one in ten renter households live in an area where the FMR for a studio apartment is affordable to an ELI household in the community.

\$15.62 (Employment Cost Index, September 2007 retrieved January 30, 2008, from www.bls.gov/news.release/eci.nr0.htm).

Supplemental Security Income

While this report focuses on those who are working, the 7.4 million individuals receiving Supplemental Security Income (SSI) are particularly vulnerable to the high cost of housing and thus deserve our attention.¹³ These are people of limited means who are over 65, disabled, or blind, and who are not able to work. In 2008, individuals qualifying for SSI receive a maximum federal payment of \$637 per month, the level reflected in Figure 1.¹⁴ As a result, a recipient relying entirely on the maximum federal SSI payment would be able to afford \$191 in monthly housing costs, well below the cost of a studio apartment in the least expensive county (nonmetropolitan Avoyelles Parish, LA at \$307). (Data and local comparisons to SSI payments are available online.)

Who Is Affected Nationally?

Out of Reach illustrates the significant gap between what low income people can expect to earn and what they can expect to pay for rental housing. Roughly a third of American households rent, and approximately 18.5 million – more than half – do not earn enough to afford the average FMR for an appropriately-

¹³ Table 1 of SSI Monthly Statistics, December 2007. Retrieved on February 4, 2008, from www.ssa.gov/policy/docs/statcomps/ssi_monthly/2007-12/index.html.

¹⁴ The Social Security Administration (SSA) administers supplementary payments for six states, and many other states administer their own additional payments. Of those administered by the SSA, California has the highest monthly payment for an individual (\$870). Information on supplementary payments administered by individual states rather than the SSA is not available.

sized unit in their state.¹⁵ Roughly 44% of these 18.5 million households moved in the two years leading up to the 2006 ACS, indicating that each year millions of families are in the market for standard quality rental units they cannot afford.

In 2006, more than 9 million renter households nationwide paid *more than half* of their income for housing, and 98% of them were considered low income.¹⁶ The affordability gap is real; it affects millions of real American renter families, many of whom will need to find a new rental home this year.

While the national data can give an indication of the Housing Wage gap that millions of American families face, *Out of Reach's* local housing cost and wage comparisons give the reader a much better sense of both the depth and the breadth of the crisis.

Among all areas classified as metropolitan in 2008, the Stamford-Norwalk, CT, area had the highest two-bedroom Housing Wage (\$31.58), while Henry County, AL, had a Housing Wage of \$9.25, the lowest outside of Puerto Rico. Thus, despite Connecticut's higher prevailing minimum wage of \$7.65, compared to \$5.85 in Alabama, it is considerably harder for a

household relying on minimum wage employment to make ends meet in the Stamford-Norwalk area.

An area's FMR and its resulting Housing Wage provide an indication of how *expensive* it is to rent there. The area with the highest rent is the most expensive. But for an idea of how *affordable* a particular rent is, one must look at how much renters earn in the labor force. A place may have relatively high rents, but its employment opportunities may make it more affordable than a nearby town with lower rents but fewer good-paying jobs.

For example, the two-bedroom FMR in the Seattle-Bellevue metro area (\$942) is clearly more expensive than it is in Wenatchee, WA (\$669). Given the employment opportunities available in the larger metropolitan area, a renter earning the average renter wage in Seattle can afford the two-bedroom FMR there by working "only" 42 hours per week, compared to 61 hours per week required in Wenatchee. This illustrates that less expensive rents are not always more affordable to local people earning local wages.

Rural Areas

Out of Reach also provides a summary line for combined nonmetro areas in each state, providing readers with a quick way of assessing how a state's rural areas are faring relative to metro areas and the state as a whole. The data show that in no state can a full-time minimum wage job assure a household access to affordable rental housing even in nonmetro areas, which are often assumed to be affordable. A dearth of quality rental housing, a lack of overall demand, and limits on rental

¹⁵ NLIHC tabulations of 2006 American Community Survey data. NLIHC compared a household's income with the income required to afford the average FMR for one of four unit sizes in the household's state of residence. The number of persons in the household determined which FMR (zero-, one-, two-, or three-bedroom) was used in the comparison.

¹⁶ NLIHC tabulations of 2006 American Community Survey data. HUD considers households earning no more than 80% of AMI "Low Income." The majority of households with severe housing cost burdens earn 30% of AMI or less.

development can often put rural rental housing out of reach of those who need it.

Conclusion

In 2008, could someone who gets a full-time job in your community today reasonably expect to find a modest rental unit he or she could afford?

In no community in the U.S. today can someone who gets a full-time job at the minimum wage reasonably expect to find a modest rental unit he or she can afford. While planned increases in the minimum wage over the next two years may put affordable housing closer within reach for some households, they will not close the gap between full-time earnings at the federal minimum wage and the income needed to afford prevailing rents in most markets.

While the gap between what low income workers earn and what they can afford is most pronounced in the highest cost metropolitan areas, the data in this report should also make clear that the problem is nationwide. Whether they are unable to work because of age or disability or they hold a decent paying job with the opportunity to work overtime, many low income households across America face significant barriers to finding modest affordable rental housing.

Low cost rental housing is available. Along with subsidized rental units and tenant-based rental subsidies, there remains a stock of market-rate rental units that low income people can afford. But in the private market these units are frequently occupied by higher income households or are deteriorating and

unsafe, sometimes lacking complete facilities. Moreover, with each passing year the number of both private and subsidized low cost units shrinks from neglect, gentrification and conversion to condominiums.¹⁷

In 2008, what would a family in your community have to earn to be reasonably assured of quickly finding an affordable rental unit?

The local Housing Wage is a good benchmark for what an individual or a household would have to earn to be reasonably assured of finding a modest, affordable rental unit today. If the cost of rental housing can be brought down, however, so can the Housing Wage. Working to lower the cost of housing and to raise the incomes of low income people are two ways to help bring America's affordable housing crisis to an end.

We hope that you will use *Out of Reach* as a resource toward this goal.

The Numbers in this Report

As in past years, *Out of Reach 2007-2008* 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.

¹⁷ Joint Center for Housing Studies at Harvard University. (2006). *America's rental housing: Homes for a diverse nation*. Cambridge, MA: Author.

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*.

HUD annually updates FMRs and AMIs for all metropolitan areas and nonmetropolitan counties in the U.S. Since *Out of Reach* was last published in late 2006, HUD has significantly changed the way it updates these figures. The new methodologies incorporate data from the annual American Community Survey and appear sound, but readers should note that large increases or decreases in an area's rents or incomes might reflect these new methods rather than changes in underlying market conditions. Appendix B provides additional information on these new methodologies, and Appendix C lists the areas with the greatest change in their two-bedroom FMR relative to FY07.

The data contained in this printed version are limited and are supplemented by additional data on-line, such as the Housing Wages for an array of apartment sizes (0-4 bedrooms). ***The data in this report and the additional materials and data can be found online at www.nlihc.org/oor2008/.***