

Introduction

The foreclosure crisis has been *the* housing story since 2007. When it began, the story seemed simple enough: Some owners had taken out loans they could not afford, home values dropped, and, lacking the ability to refinance or sell for a profit, foreclosure followed. However, the story became more complex as the deflating housing bubble precipitated a full-blown economic recession and widespread job losses, making it difficult for owners and renters of all stripes to remain in their previously affordable homes.

It is important to remember that extremely low income renters were in the midst of a housing crisis well before this wave of foreclosures captured America's attention.

Box 1: Statistics for extremely low income renter households *before the current crises*:

- 70% spent more than half of their income on rent.
- There was a shortage of 2.8 million affordable units.
- Only 38 units were affordable and available for every 100 households.

very low income (VLI) renters were either severely burdened by their housing costs or lived in substandard housing in 2005.²

By 2007, the average extremely low income (ELI) renter household spent an extraordinarily high proportion of its income on housing costs, largely because the 9.0 million households in search of affordable rental housing were competing for only 6.2 million affordable units (see Box 1³).

It is important to remember that as dismal as these statistics are, they do not include the 672,000 individuals who, on any given night, did not have a place to call home at all, affordable or otherwise.⁴

The Inequitable Calm before the Storm

Housing conditions for low income renters were dire even before the current foreclosure crisis began. Beginning in 1995, a decade of condo conversions, housing speculation, and gentrification resulted in a significant 17% shrinkage in the number of units affordable to renters earning less than \$16,000.¹ Illustrating the scarcity of affordable units, the Department of Housing and Urban Development (HUD) estimated that nearly 6.0 million

¹ Joint Center for Housing Studies of Harvard University. (2006). *America's rental housing: Homes for a diverse nation*. Cambridge, MA: Author.

The Crisis at Hand

The unemployment and foreclosure crises have only exacerbated the difficulties that low income households have historically encountered in their search for decent, affordable rental housing.

² U.S. Department of Housing and Urban Development, Office of Policy Development and Research. (2007, May). *Affordable housing needs 2005: Report to Congress*. Washington, DC: Author.

³ Statistics in Box 1 are from NLIHC tabulations of the 2007 American Community Survey PUMS housing file.

⁴ Sermons, M.W., & Henry, M. (2009, January). *Homelessness counts: Changes in homelessness from 2005 to 2007*. Washington, DC: National Alliance to End Homelessness.

Unemployment: Falling home values, tight credit markets, and a contraction in consumer spending have resulted in the highest monthly unemployment rate (8.1%) in 25 years. In the last 12 months, the economy has shed 4.2 million jobs, and the ranks of the unemployed have swelled by 5.0 million.⁵

There is ample evidence that today's recession is hitting those at the lower end of the economic spectrum particularly hard. Unemployment is running at 12.6% for those without a high school degree, and many of the layoffs have occurred in non-professional industries like manufacturing, construction, and retail trade that, in good times, often provide wage income for poor households.⁶

Underemployment is on the rise, as well. The number of individuals working part-time either because their hours have been cut or because they could not find a full-time job has nearly doubled in the last year alone, growing from 4.8 million to 8.6 million workers.⁷

Joblessness and underemployment will force some families into poverty. Should the unemployment rate rise as high as it has in past recessions, it is estimated that as many as 1.5 million people

could experience homelessness in the next two years as a direct result.⁸

Box 2: Measures of the current crises:

- The unemployment rate has increased from 4.8% to 8.1% in the last 12 months, increasing the number of unemployed workers by 5.0 million.
- The number of "involuntary" part-time workers has risen to 8.6 million.
- An estimated 40% of foreclosures displace renter households.
- The number of renter households has grown by 2.2 million in the last two years, while the number of owners has contracted.
- As many as 1.5 million additional people could experience homelessness in the next two years.

Foreclosure and the Rental Market: Millions of homes have gone through foreclosure in the last several years, and many more are expected to follow as the economy continues to slump. Home sales and median values have plummeted, and conventional wisdom indicates that in many former bubble markets, homeownership is much more affordable today than just a few years ago.

Foreclosure's impact on the rental market is less clear. Anecdotal evidence suggests that some homeowners "underwater" on their mortgage are opting to rent their homes rather than sell them for a loss. These homes are increasing the overall number of units for rent in many markets, but because the owners

need to cover the cost of an inflated mortgage, these units are unlikely to meet the demand for low-cost rentals.

Any increase in the supply of units for rent on the "shadow market" may be offset by the actions of lenders, who often empty foreclosed homes of their occupants and leave them vacant after the owners or renters are evicted. Beyond contributing to a sense of disinvestment in the surrounding community, this practice simultaneously takes units off the market and increases the pool of households actively looking for rental housing.

⁵ Bureau of Labor Statistics. (2009, March). *The employment situation: February 2009*. Washington, DC: U.S. Department of Labor.

⁶ Ibid.

⁷ Ibid.

⁸ National Alliance to End Homelessness. (2009, Jan. 23). *Homelessness looms as potential outcome of recession*. Washington, DC: Author.

Competition not just for rental housing – but for *low-cost* rental housing – could become particularly fierce because an estimated 40% of the households displaced by foreclosure are renters.⁹ Since renters commonly have lower incomes than owners, evicted renters will increase the demand for low-cost units and be more likely to struggle finding affordable housing after an eviction.

It is clear that, whether by choice or necessity, a growing number of American households are renting. Between the fourth quarter of 2006 and the same quarter in 2008, the number of owner-occupied households dipped by 255,000 while the number of renter households grew by 2.2 million.¹⁰

Given the increase in the number of households seeking rental housing and the dramatic slowdown in housing production today, it follows that nominal rents would at least remain level if not rise in many markets, as was the case in 2008 for 13 of the 14 largest metropolitan areas in the country.¹¹

⁹ Pelletiere, D. (2009, January). *Renters in foreclosure: Defining the problem, identifying solutions*. Washington, DC: National Low Income Housing Coalition.

¹⁰ U.S. Census Bureau. Housing vacancies and homeownership (CPS/HVS) fourth quarter 2008, historic tables, table 8. Washington, DC: Author. Retrieved and tabulated on February 17, 2009 from <http://www.census.gov/hhes/www/housing/hvs/historic/files/histtab8.xls>.

¹¹ Of the 14 metropolitan areas covered by the Consumer Price Index (CPI), the rent of a primary residence rose in all but Detroit. Data are from the Bureau of Labor Statistics, CPI – All Urban Consumers through December 2008. Retrieved and tabulated February 17, 2009 from <http://www.bls.gov/cpi/>.

Average rents will fall in some areas, and markets in which both home values and rents are declining are likely bearing the brunt of the economic crisis.¹² In these areas – Las Vegas, Phoenix, parts of California and Florida – rising unemployment suggests that few households will have the means or the motivation to take advantage of these lower housing costs. It is important to remember that increased affordability occurs only when rents fall relative to incomes.

How Much is Enough?

Given the instability that characterizes housing and job markets today and the subsequent dislocation that often accompanies job loss and foreclosure, many people will be in search of an affordable place to live in 2009. Unfortunately, low income households will be competing 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 questions:

1. How much will I have to earn to be reasonably assured of finding an affordable rental unit?
2. At prevailing wage levels, will a full-time job allow me to find a home I can afford?

¹² Elphinstone, J.W. (2009, Feb. 8). “It’s not every place where rents are dropping.” *San Francisco Chronicle*, p. N-2.

The Housing Wage answers the first question. It represents the full-time¹³ 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. Following are some of the top-level findings.

Findings

A household must earn the equivalent of \$37,105 in annual income to afford the national average two-bedroom FMR of \$928 per month.¹⁴ Assuming full-time, year-round employment, this translates into a national Housing Wage of \$17.84 in 2009.

¹³ 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 33 hours per week (Bureau of Labor Statistics. (2009, March). *The employment situation: February 2009*. Washington, DC: U.S. Department of Labor).

¹⁴ 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).

Minimum Wage: In all but 10 states, the minimum wage in effect in the first part of 2009 is greater than at the same time last year, in many cases because the federal minimum increased to \$6.55 in

the summer of 2008.¹⁵ As a result, the discrepancy between the minimum wage and many state Housing Wages narrowed. 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 1.4 jobs (Puerto Rico) to 4.1 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, there is no county in the U.S. where even a one-bedroom unit at the FMR is affordable to someone working full-time at the minimum wage.

Renter Wage: At the average renter wage of \$14.69, a household must work 49 hours to afford the national average two-bedroom FMR. Ninety-one hours, or roughly 2.3 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 and the District of Columbia.

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 roughly \$19,596, which,

¹⁵ See Appendix A for guidance on how to adjust the statistics in *Out of Reach* for the increase in the minimum wage scheduled to take effect on 7/24/09.

Box 3: State-Level Findings

- In 30 states, more than two full-time *minimum wage* jobs are required to afford the two-bedroom FMR.
- In 17 states, a household must work at least 50 hours at the *average renter wage* to afford the two-bedroom FMR.
- In 34 states, an ELI household cannot afford to spend more than \$500 per month on rent and utilities.
- In 15 states, the FMR for an efficiency exceeds the entire monthly SSI payment.
- In 11 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.

assuming a household spends no more than 30% of its income on housing, implies that an ELI household could afford no more than \$490 in monthly rent. Compared to the national two-bedroom FMR of \$928, the rent affordable to an ELI household is barely half, which illustrates the true disparity between prevailing and affordable rents for ELI households.

Supplemental Security Income: Roughly 7.5 million individuals receive Supplemental Security Income (SSI) because they are elderly, blind, or disabled and have few economic resources. With the maximum federal monthly payment of \$674 in 2009,¹⁶ an SSI recipient could afford rent of only \$202. SSI is the only source of income for more than half of all recipients.¹⁷

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, their lower wages often do not make renting any more affordable. To illustrate, the average nonmetropolitan FMR of \$626 is roughly two-thirds of the national FMR (\$928), but the same relationship applies to the renter wages. Thus, roughly equivalent to the national statistic, the average national nonmetropolitan FMR is affordable only by working 48 hours at the average renter wage in these areas.

¹⁶ Because SSI payments are reduced for beneficiaries who report other sources of income, the average federal payment in January 2009 was \$474. However, 46 states supplement the federal payment for all or a subset of recipients, depending on the state. See Appendix A and Social Security Administration. (2009, February). *SSI monthly statistics, January 2009*. Washington, DC: Author.

¹⁷ Social Security Administration. (2008, September). *SSI annual statistical report, 2007*. Washington, DC: Author.

Conclusions

Before the housing bubble burst, the country had a real demand for affordable rental housing that the private market could not meet: There was an absolute shortage of 2.8 million units affordable to ELI households. And since many of the units that *were* affordable were occupied by households with higher incomes, the actual shortage of affordable and available units was 5.5 million.¹⁸

As in previous years, the statistics presented in *Out of Reach 2009* show that in both urban and rural areas from coast to coast, decent housing is affordable for low-wage workers only if they are able to work significant overtime or hold down multiple jobs.

The foreclosure and economic crises have only widened the persistent gulf between affordable rents and the incomes of low-wage workers, both by increasing the demand for low-cost units and by decreasing the opportunities for families to make ends meet through gainful employment.

With the information provided in *Out of Reach*, advocates can clearly demonstrate the inability of low-wage employment to provide stable, decent housing for low income families. Measuring the distance between prevailing wages and the Housing Wage not only draws attention to the problem today, but it also tells us how long the bridge must be to span the gulf and end the affordable housing crisis.

¹⁸ NLIHC tabulations of the 2007 American Community Survey PUMS housing file.

The Numbers in this Report

As in past years, *Out of Reach 2009* relies on data from HUD, the U.S. Census Bureau, the U.S. 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, as well as additional materials and data, can be found online at www.nlihc.org/oor2009/.