

# INTRODUCTION

The signature finding of *Out of Reach* is the annual Housing Wage - the hourly wage a full-time worker must earn to afford a decent two-bedroom rental home at HUD-estimated Fair Market Rent (FMR) while spending no more than 30% of income on housing costs. The Housing Wage allows *Out of Reach* to capture the gap between wages and rents across the country, and reveals the growing disparity that low income renters face.

**In the United States, the 2014 two-bedroom Housing Wage is \$18.92. This national average is more than two-and-a-half times the federal minimum wage, and 52% higher than it was in 2000. In no state can a full-time minimum wage worker afford a one-bedroom or a two-bedroom rental unit at Fair Market Rent.**

Each year, *Out of Reach* demonstrates that large numbers of low income renters cannot afford the cost of living in the cities and towns where they work. On the 25th anniversary of *Out of Reach*, the report continues to underscore the growing challenges faced by the lowest income renters: increasing rents, stagnating wages, and an extreme shortage of affordable housing.

As policymakers consider raising the federal minimum wage and combating income inequality, the shortage of affordable housing must also be addressed. Expanding the supply of affordable rental homes dedicated to the lowest income renters is a critical and fundamental part of any real solution.

## MEETING DEMAND IN THE U.S. RENTAL HOUSING MARKET

There are over 40 million renter households in the U.S., making up 35% of all households nationwide in 2012. This is a 1.1 million increase over the previous year<sup>1</sup> and double the rate of growth in previous decades.<sup>2</sup> Renting has become more attractive to people in all demographic groups, appealing across age and income groups. While some opt for rental housing because of the flexibility it provides, many others are boxed out of homeownership due to tight credit. Increasingly, student loan debt is being seen as another deterrent to homeownership. For many, simply being able to make rent is a month-to-month challenge.

With the demand for rental housing growing, the U.S. vacancy rate, which hit 8% in the aftermath of the financial crisis, fell to 4.1% in the fourth quarter of 2013.

The rate is the lowest since 2001's third quarter. Landlords continued to raise rents in reaction to this trend, with an average price increase of 3.2% over 2013.<sup>3</sup> Rent increases surpass the average inflation rate and translate to higher cost burdens and housing instability for millions of Americans.

Finding a decent, affordable home is a challenge for all renters, but the poorest households have very few options. For every 100 extremely low income (ELI)<sup>4</sup> renter households, there are just 31 affordable and available units.<sup>5</sup>

Only a sliver of the rental market remains affordable and available to the lowest income households. The level of investment in new affordable housing units today is insufficient to meet the demand. Although nearly a third (28%) of renter households live below the federal poverty line<sup>6</sup> and a quarter of renters are ELI,<sup>7</sup> most newly constructed units are for high income households, while older units are being upgraded to serve a higher income market. Only 34% of new units in 2011 were affordable to the median income renter.<sup>8</sup> Meanwhile, over 12.8% of the nation's supply of low cost housing, or 650,000 units, have been permanently lost since 2001.<sup>9</sup> The supply of subsidized rental housing is also steadily shrinking, with a loss of 10,000 public housing units each year. This pattern of housing inequality is dangerous for the millions of affected families and for the economy as a whole.

## GREATEST HOUSING NEED AMONG EXTREMELY LOW INCOME HOUSEHOLDS

Today, one out of every four renter households is an extremely low income (ELI) household. There are a total of 10.2 million ELI renter households across the United States, and three in four (75%) ELI renters spend over 50% of their income on housing costs. These 7.7 million households have little left over to meet other basic needs.<sup>10</sup> And the need for affordable housing among ELI households continues to grow. In 2010, there was a need for 6.8 million units affordable and available to ELI households; this figure rose to 7 million by 2012.<sup>11</sup>

On average, ELI households in the United States have incomes of no more than \$19,706 but this varies and is often less depending on their specific location. At this national level, ELI households can afford to spend no more than \$493 a month on rent. This year, the national two-bedroom Fair Market Rent (FMR) rose to \$984, and the one-bedroom FMR is \$788, far above the rent ELI households can afford.

<sup>1</sup> Joint Center for Housing Studies. (2013a). *State of the nation's housing, 2013*. Cambridge, MA: Author. <http://bit.ly/1jc2tUo>

<sup>2</sup> Joint Center for Housing Studies. (2013b). *America's rental housing: evolving markets and needs*. Cambridge, MA: Author. <http://wapo.st/1jd55Np>

<sup>3</sup> Wotapka, D. (2014, January 6). U.S. Rents Rise Again as Market Tightens. *Wall Street Journal*. <http://bit.ly/18xoF48>

<sup>4</sup> Extremely low income households are those with incomes at or below 30% of the Area Median Income (AMI).

<sup>5</sup> NLIHC analysis of 2012 American Community Survey (ACS) data, 2014. A unit is both affordable and available if that unit is both affordable and vacant, or if it is currently occupied by a household at the defined income threshold or below.

<sup>6</sup> U.S. Census Bureau. (2012). Table C17019: Poverty Status in the Past 12 Months by Tenure. <http://factfinder2.census.gov>

<sup>7</sup> NLIHC (2013). *Housing Spotlight: America's affordable housing shortage, and how to end it*. Washington, DC: Author.

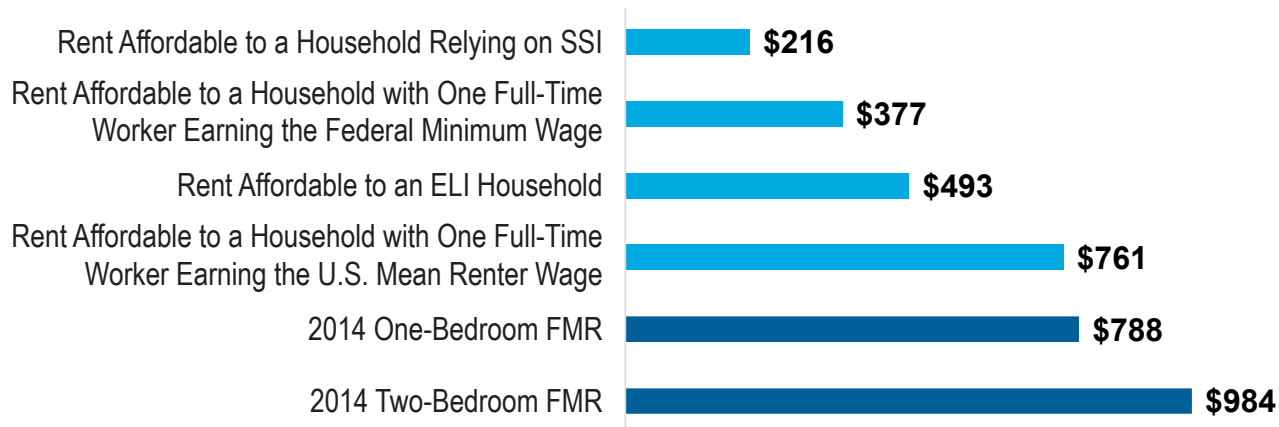
<sup>8</sup> Joint Center for Housing Studies. (2013b).

<sup>9</sup> Ibid.

<sup>10</sup> NLIHC analysis of 2012 ACS data, 2014.

<sup>11</sup> Ibid.

## THE GAP BETWEEN AFFORDABILITY AND REALITY FOR RENTERS



While ELI renter households may qualify for federal and local subsidy programs, housing assistance programs are oversubscribed and three-quarters of eligible households go unassisted. Low income households desperately in need of housing find themselves on years-long waiting lists, or find that waiting lists for affordable housing in their area are closed entirely. For example, in April 2013, the DC Housing Authority decided to close its waiting list of nearly 70,000 applicants when the average wait time for a studio apartment was 39 years and 28 years for a one-bedroom unit. DC Mayor Vincent Gray responded with a plan to create or preserve 10,000 units by 2020 but this does not address the immediate needs of hundreds of thousands DC residents.<sup>12</sup> Households trapped on waiting lists experience unstable housing situations. These may include living “doubled up” with family or friends (40%), or in the worst cases, individuals may find themselves homeless as they bounce from one untenable housing situation to another (23%).<sup>13</sup>

About 8.3 million individuals receive Supplemental Security Income (SSI) because they are elderly, blind, or have another disability, and have few economic resources.<sup>14</sup> The maximum federal monthly SSI payment is \$721 in 2014. On this income, an SSI recipient can afford rent of only \$216 a month.<sup>15</sup> There is not a single county in the U.S. where even a modest efficiency apartment is affordable for an individual receiving the maximum federal SSI benefit. The Technical Assistance Collaborative (TAC) and the Consortium for Citizens with Disabilities (CCD) Housing Task Force found that in 2012, one-bedroom rents surpassed 100% of monthly SSI in 181 housing markets across 33 states; and within 19 of these areas, housing costs exceeded 150% of SSI. Even in the 21 states that administer discretionary SSI supplements, recipients were still unable to afford rental units without a permanent rental subsidy.<sup>16</sup>

<sup>12</sup> Dvorak, P. (2013, April). In D.C., a public housing waiting list with no end. *Washington Post*. <http://wapo.st/1jd55Np>

<sup>13</sup> Leopold, J. (2012, July). The housing needs of rental assistance applicants. *Cityscape*, 14(2). <http://bit.ly/NAgqwx>

<sup>14</sup> Social Security Administration. (2013, July). *SSI annual statistical report, 2012*. Washington, DC: Author. [http://www.ssa.gov/policy/docs/statcomps/ssi\\_asr/](http://www.ssa.gov/policy/docs/statcomps/ssi_asr/)

<sup>15</sup> Because SSI payments are reduced for beneficiaries who report other sources of income, the average federal payment in 2012 was \$519. However, 46 states supplement the federal payment for all or a subset of recipients, depending on the state. See Appendix A.

<sup>16</sup> Cooper, E., O'Hara, A., Singer, N., and Zovistoski, A. (2013, May). *Priced out in 2012*. Boston, MA: Technical Assistance Collaborative (TAC) and the Consortium for Citizens with Disabilities (CCD) Housing Task Force. <http://www.tacinc.org/media/22484/PricedOut2012.pdf>

## DEFINITIONS

**Affordability** in this report is consistent with the federal standard that no more than 30% of a household's gross income should be spent on rent and utilities. Households paying over 30% of their income are considered cost burdened. Households paying over 50% of their income are considered severely cost burdened.

**Area Median Income (AMI)** is used to determine income eligibility for affordable housing programs. The AMI is set according to family size and varies by region.

**Extremely Low Income (ELI)** households are those with incomes at or below 30% of AMI.

**Housing Wage** is the estimated full-time hourly wage a household must earn to afford a decent rental unit at HUD-estimated Fair Market Rent while spending no more than 30% of their income on housing costs.

**Full-time work** is defined as 2,080 hours per year (40 hours each week for 52 weeks). The average employee works roughly 34.5 hours per week, according to the Bureau of Labor Statistics.

**Fair Market Rent (FMR)** is the 40th percentile of gross rents for typical, non-standard rental units. FMRs are determined by HUD on an annual basis, and reflect the cost of shelter and utilities. FMRs are used to determine payment standards for the Housing Choice Voucher program and Section 8 contracts.

**Renter wage** is the estimated hourly wage among renters by region, based on 2012 Bureau of Labor Statistics data, adjusted using the ratio of renter income to the overall household income reported in the ACS and projected to April 1, 2014.

## WAGES INSUFFICIENT TO MEET RISING RENTS

The federal minimum wage continues to be just \$7.25 per hour in 2014. The inflation-adjusted value of the federal minimum wage has fallen by more than a third from its peak and is currently about 20% less than it was in 1981.<sup>17</sup> This means that the federal minimum wage is not keeping up with the rising cost of rent. The map on page 15 shows that while there are regional differences in the gap between what one earns and how much housing costs, there is no state where a full-time minimum wage worker can afford a modest two-bedroom rental home.

On average, it takes 2.6 full-time minimum wage jobs to afford a modest two-bedroom unit in the United States. Even in states where the state minimum wage exceeds the federal minimum wage, one full-time minimum wage job is insufficient for a household to afford a two-bedroom unit. The mean number of full-time jobs that a household must work at the prevailing state minimum wage to afford a two-bedroom unit at Fair Market Rent (FMR) ranges from 1.4 jobs (Puerto Rico) to 4.4 jobs (Hawaii).

This disparity exists for households in need of a one-bedroom unit as well. The one-bedroom Housing Wage also exceeds the federal minimum wage in each state. In fact, with the exception of a handful of counties in Washington and Oregon (where the state minimum wage is \$9.32 and \$9.10, respectively), there is no county in the U.S. where even a one-bedroom unit at FMR is affordable to a full-time minimum wage worker.

### *Who are low-wage and minimum wage workers?*

Low income service sector workers, including those earning the minimum wage, compose a sizeable portion of the nation's 10.2 million ELI renters. Overall job growth has been heavily concentrated in low-wage industries, with 58% of new jobs in the post-recession recovery period paying no more than \$13.84 per hour.<sup>18</sup> This trend is likely to continue over the coming decade, with job growth between 2010 and 2020 projected to be dominated by low-wage jobs, such as home health aides.<sup>19</sup>

According to an analysis from the Economic Policy Institute, 78% of minimum wage workers work at least 20 hours per week and 80% are at least 20 years old, dispelling the myth that the majority of minimum wage workers are teenagers working part-time after school.<sup>20</sup> Low income workers affected by a minimum wage increase are on average 35 years old, about 54% work full-time, about 69% come from families with incomes less than \$60,000, and more than a quarter have children.<sup>21</sup>

### *Raising the Minimum Wage*

Minimum wages can be raised above the federal statute by a state or locality. As of January 1, 2014, 13 states increased their minimum wage from the previous year. Nine of these were those statutorily required to as their minimum wage is linked to the Consumer Price Index (CPI). In addition, Connecticut, New Jersey, New York, and Rhode Island increased their minimum wage. Residents of SeaTac, Washington voted to increase its minimum wage to the highest in the country: \$15 an hour. Yet, these wages are still below what is needed to afford a decent rental home in local markets. For example, San Francisco's minimum wage is nearly \$3 more than the federal minimum wage, yet it is three-and-a-half times less than what is needed to afford a decent two-bedroom unit in this expensive jurisdiction.

Raising the federal minimum wage has gained much attention in the past year. The Fair Minimum Wage Act of 2013, a bill introduced by Senator Tom Harkin (D-IA) in the U.S. Senate and Representative George Miller (D-CA) in the U.S. House of Representatives, would raise the federal minimum wage to \$10.10 per hour in three increments over the next three-and-a-half years. The Harkin-Miller proposal would also index the minimum wage to inflation to preserve its real value. In his 2014 State of the Union address, President Barack Obama announced that he would use his executive authority to raise the minimum wage for new federal service contracts to \$10.10 an hour.

While increasing the federal minimum wage would benefit millions of low income workers, it would not solve the affordable housing problem as households would still not earn enough to find affordable rental homes. The national 2014 two-bedroom Housing Wage is nearly \$9 higher than the proposed \$10.10 federal minimum wage. In fact, the 2014 two-bedroom Housing Wage is higher than \$10.10 in every state, and only in Arkansas, Kentucky, and Puerto Rico is the 2014 one-bedroom Housing Wage less than \$10.10.

<sup>17</sup> White House Office of the Press Secretary. (2014, January 28). *Opportunity for All – Rewarding Hard Work*. Washington, DC: Author. <http://1.usa.gov/1fk6cLg>

<sup>18</sup> National Employment Law Project. (2012, August). *The low-wage recovery and growing inequality*. Washington, DC: Author. [www.nelp.org](http://www.nelp.org)

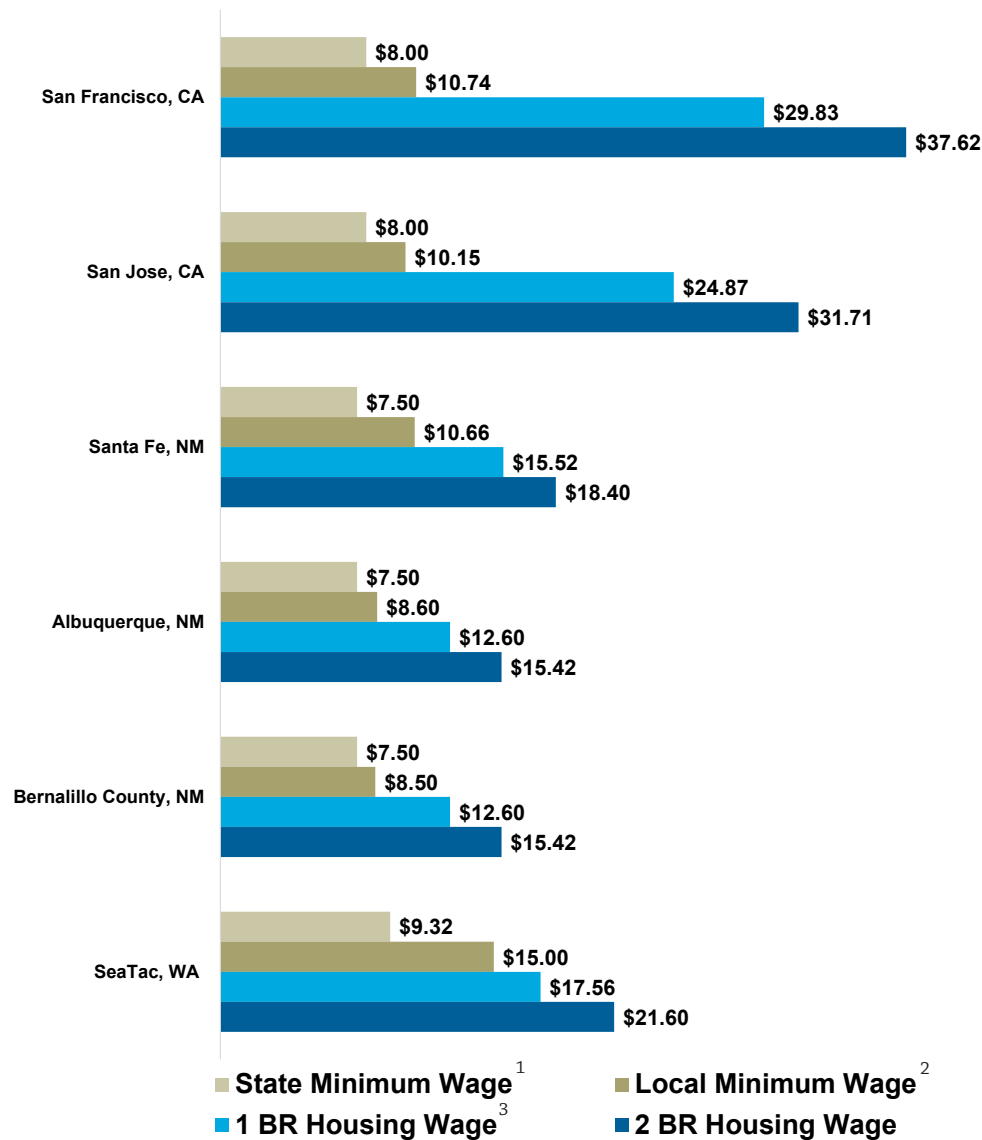
<sup>19</sup> Bureau of Labor Statistics. (2012, January). *Occupations with the most job growth, 2010 and projected 2020*. <http://1.usa.gov/1gnuTF6>

<sup>20</sup> Cooper, D. (2012, January 4). *Most minimum-wage workers are not teenagers*. Washington, DC: Economic Policy Institute. <http://bit.ly/11WU0BI>

<sup>21</sup> Cooper, D. (2013, December 19). *Raising the federal minimum wage to \$10.10 would lift wages for millions and provide a modest economic boost*. Washington, DC: Economic Policy Institute. <http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/>



## HIGHER LOCAL MINIMUM WAGES NOT ENOUGH TO SOLVE AFFORDABLE HOUSING CRISIS



### NOTES ON CHART:

(1) *Out of Reach* uses the state minimum wage to calculate the number of hours needed to afford an apartment at Fair Market Rent (found in the state pages at [www.nlihc.org/oor/2014](http://www.nlihc.org/oor/2014)).

(2) Local minimum wage amounts used in this chart are as of March 1, 2014. Due to a lack of comprehensive data sources on local minimum wage rates across the United States, *Out of Reach* does not include local minimum rates in its state files.

(3) Housing Wage calculations in this chart are based on the following statistical geographies: San Francisco HMFA, San Jose-Sunnyvale-Santa Clara HMFA, Santa Fe MSA, Albuquerque MSA, Bernalillo County, and Seattle-Bellevue HMFA.

Source: NLIHC *Out of Reach 2014* analysis, National Employment Law Project data on local minimum wages.

## AFFORDABILITY IS A NATIONAL CONCERN

In 2014, the U.S. mean renter wage is \$14.64, which is more than twice the federal minimum wage (\$7.25). However, the mean renter wage would need to be \$4.00 more an hour in order to afford a two-bedroom unit. The national mean renter wage is also insufficient to afford an average one-bedroom unit at Fair Market Rent (FMR). Even for the average American renter, decent housing is still out of reach.

Housing costs vary across the nation, but the lack of affordable housing affects renters in all corners of the country. Nationally, the two-bedroom Housing Wage is highest in Hawaii, the District of Columbia, California, Maryland, New Jersey, and New York, states known for high costs of living. Unsurprisingly, low income renters in these high-cost metropolitan regions are not earning anywhere near enough to afford market-rate rental units.

The lack of decent, affordable housing is not solely an urban issue. In spite of lower housing costs, rural Americans are increasingly facing a cost burden. Between 2000 and 2010, the number of cost burdened rural renter households increased by ten percentage points, largely caused by the lack of affordable rental units in rural areas. Many rural and tribal communities have minimal resources devoted to the development of new rental housing. Furthermore, rural affordable housing developers face unique challenges, such as limited access to capital financing.<sup>22</sup>

For each state, *Out of Reach* combines data for counties outside metropolitan areas and calculates the Housing Wage for the rural communities within a state. The 2014 findings demonstrate that while housing costs are lower in rural areas, these areas also generally have lower wages than metropolitan areas. To illustrate, *Out of Reach 2014* indicates that the two-bedroom Housing Wage on average across nonmetropolitan America is \$13.24, still exceeding the nonmetropolitan renter wage (\$10.24) by \$3.00. At the state level, the nonmetropolitan two-bedroom Housing Wage exceeds that state's nonmetropolitan renter wage in all but two states.

In both rural and urban America, renters are affected by the affordable housing shortage, and rents are expected to continue to rise in coming years as the demand grows. Over half of all renters (53%) are cost burdened, paying over 30% of their income for housing, up 12% from a decade earlier. Renters with severe cost burdens, paying more than 50% of their income on housing, account for much of the increase.<sup>23</sup>

<sup>22</sup> Housing Assistance Council. (2012). *Taking stock: Rural people, poverty and housing in the 21st century*. Washington, DC: Author.

<sup>23</sup> Joint Center for Housing Studies. (2013a).

Compared to low income families living in housing they can afford, severely cost burdened low income families spend about two-thirds as much on food, half as much on clothing, one-fifth as much on health care, and half as much on pensions and retirement.<sup>24</sup> For many ELI households, homelessness and housing instability are real threats.

In order to close the gap between the demand for affordable housing and the supply, we need to add 4.4 million units affordable to ELI households. This is not an unattainable goal. Once funded, the National Housing Trust Fund (NHTF) would provide states with the dollars they need to expand the stock of housing that is affordable to ELI households.

## STILL OUT OF REACH

The lack of decent housing affordable to low income households has remained a pervasive national issue for over 25 years, affecting every single community across the United States. Today, federal housing programs serve approximately five million low income households, but the needs of many more households go unmet. Low income, unassisted households often face housing instability, threats of eviction, poor housing conditions, and great risk of homelessness. Ensuring that each family has a safe and stable place to call home should be a public policy priority. As the country continues its recovery from the recession, the time to focus on expanding the supply of affordable housing is now.

In 2008, the National Housing Trust Fund (NHTF) was established precisely to address the need for additional affordable housing to serve extremely low income (ELI) households. Unlike other federal housing programs, the NHTF creates a dedicated pool of funding not subject to the uncertainty of the annual budget appropriations process. The NHTF is also uniquely designed to serve the lowest income, most vulnerable households, with 90% of funding reserved for rental housing and 75% of the funds reserved solely for ELI households.

The National Low Income Housing Coalition (NLIHC) remains focused on securing funding for the NHTF. Once funded to scale, the NHTF will provide the real solution our country needs to finally increase access to affordable housing for the lowest income households.

<sup>24</sup>Ibid.

## THE NUMBERS IN THIS REPORT

As in past years, *Out of Reach 2014* 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 Fair Market Rent (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. Since 2012, HUD has developed the FMR estimates using American Community Survey (ACS) data as base rents, rather than data from the Decennial Survey. The new methodology 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 assume that differences reflect actual market dynamics. Please consult the appendices and NLIHC research staff for assistance interpreting changes in the data.

The data in this report and the additional materials and data can be found online at [www.nlihc.org/oor/2014](http://www.nlihc.org/oor/2014).