Introduction

The recent recession has been described as the worst economic decline experienced in the United States since the Great Depression of the 1930s. Though the Federal Reserve announced that the economy is "on firmer footing" in March of 2011[1] and the Labor Department reported that 216,000 jobs were added the same month, other indicators suggest Americans continue to struggle. In January 2011, there were five job-searching Americans for every open position[2] and the Bureau of Labor Statistics reported that the unemployment rate in March of 2011 hovered near 9%.

The number of long term unemployed hit a high of six million by March of 2011. Over half of American workers have been affected by job losses, reduced work hours, pay cuts and underemployment,[3] while the costs of renting remain stubbornly high.[4]

Box 1: Statistics for extremely low income renter households as of 2009:

- There was a shortage of 3.4 million affordable units.
- Only 32 adequate units were affordable and available for every 100 households.
- The number of renters with worst case needs in 2009 (7.1 million) rose 42% since 2001.
- Among units affordable to extremely low income renters, the vacancy rate is only 4.3%.

As economic difficulties persisted, the number of very low income (VLI) renters[5] has increased by 1.18 million between 2007 and 2009. HUD recently reported that the number of "worst case housing needs" households, VLI, unassisted renters with severe housing problems, increased 20% from 5.9 to 7.1 million households between 2007 and 2009.[6] Households with severe housing problems pay over 50% of their income towards rent, live in inadequate housing, or struggle with both issues.

With a tight supply of affordable rental units nationwide, more than half of American renters lived in unaffordable housing in 2009.[7] Despite the growing need, housing assistance programs are at risk in budget cuts proposed at the federal level and in state houses, city halls, and county seats across the country. Recently, the House proposed cutting public housing preservation funding by 43%, greatly accelerating the current annual loss of more than 10,000 public housing units a year. The

[1] Federal Reserve Board. Monetary Policy Release. http://www.federalreserve.gov/newsevents/press/monetary/20110315a.htm
[2] Center on Budget and Policy Priorities. (April 2011). The Legacy of the Great Recession. http://www.cbpp.org/cms/index.cfm?fa=view&id=3252
[3] Pew Research Center, Social and Demographic Trends (2010, June). *The Great Recession at 30 Months*. Retrieved from: http://pewresearch.org/pubs/1643/
[4] Consumer Price Index Summary (Bureau of Labor Statistics, 2011). The rent index rose 0.2 percent in January of 2011.

[5] HUD defines a VLI household as one that earns 50% or less of the Area Median Income (AMI).
[6] Barry Steffan et al. (2011). *Worst Case Housing Needs 2009: Report to Congress*. Washington DC: HUD.
[7] American Community Survey (U.S. Census Bureau, 2009). Paying more than 30% of gross income on housing is considered unaffordable housing by most federal low income housing programs. See Pelletiere (2008) for further discussion.

FY11 federal budget passed in April of 2011 after lengthy negotiations included cuts of $2,130 billion to HUD specific line items. Public housing suffered $605 million worth of cuts.

In this environment, more than ever, *Out of Reach* underscores the fundamental mismatch between the wages people earn and the price of decent housing. The recession has indeed caused greater housing hardship, but in fact, the failure of this country's housing system to produce sufficient affordable housing is itself at the root of the crisis. As a result the increase of incomes relative to housing prices will be an important indicator of how sustainable the economic recovery is likely to be.

Box 2: Measures of the sluggish recovery:

- The unemployment rate fell slightly to 8.8% in March 2011.
- Over 2 in 5 unemployed workers have been unemployed for over half a year.
- There are 5 unemployed workers for every position available.
- There has been a 12% increase in renters who move to join another family (or "double up") between 2008 and 2009.

Persistent Problems and Troubling Trends

More Renters Experience a Housing Cost Burden: The number of renters paying over 30% of their income for housing reached 18.5 million nationwide in 2009, representing 52% of all US renters.[8] A decade ago, 40% of renters were in this predicament, and only 25% of renters faced such a burden in 1960. Even against this backdrop, the deterioration of affordability over the last few years has been dramatic. Half of the increase in the number of cost burdened renters since 2000 occurred between 2007 and 2009, with an increase of over 1.7 million cost burdened renters in just two years.

Rising housing cost burden disproportionately affects the lowest income renters. Among renters earning $20,000 or less, 88% faced a housing cost burden in 2009 while 53% of those earning between $20,000 and $49,999 also faced a cost burden the same year.[9]

Fewer Affordable Units Available:
In 2009, only 32 adequate units of affordable housing were available for every 100 extremely low income (ELI) renters.[10] Rising demand for rentals among higher income households is contributing to the scarcity of affordable units. Higher income renters occupy 42% of all the units affordable to the ELI renters[11] and 36% of the units affordable to VLI renters.[12] As a result, the vacancy rate for the most affordable units is only 4.3% nationally compared to a vacancy rate of 15% among the highest rent units.[13]

Not only is there greater demand for affordable rentals, but the affordable housing stock shrunk during the boom years when units were upgraded to serve higher income tenants and converted to condos in strong markets, and demolished or lost to neglect elsewhere. Analysis of American Community Survey data from 2000 to 2007 shows that the number of units affordable to ELI households declined by nearly 900,000 units

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8 U.S. Census Bureau (2009). American Community Survey.

9 Ibid.

10 Barry Steffan et al. (2011).

11 HUD defines an ELI household as one that earns 30% or less of the Area Median Income (AMI).

12 Ibid.

13 Ibid.

while the number of ELI renter households increased by over 1 million.[14]

HUD data from 2000 to 2008 suggest that the number of hard rental units receiving some type of low income assistance from the department decreased by a little over 200,000 units. This pattern reverses as income increases. For example, renters earning between 50% and 80% of the median income experienced a 14% increase in the number of units affordable to them even as the number of households increased just 4%.[15]

Long Term Impact of Recession: Alongside the long term trend of a declining affordable rental stock, the recession's impact on income adds to the stress placed on low income renters. HUD attributes over a third (410,000) of the historic increase in worst case needs to income losses stemming from unemployment and underemployment.[16] It is not merely the depth but also the length of this recession that is causing the intensity of the current affordable housing crisis. Among the 13.5 million unemployed in March of 2011, 45.5% have been looking for work for over 27 weeks.[17] The long term unemployed are more likely to exhaust savings, fall behind on rent payments, and face eviction.

[14] Megan DeCrappeo and Danilo Pelletiere (2011) *Dark before the Storm. A Picture of Low Income Renters' Housing Needs before the Great Recession from the 2005-2007 American Community Survey*. Washington, D.C.: NLIHC
[15] Ibid.
[16] Barry Steffan et al. (2011).
[17] Center for Budget and Policy Priorities (2011, April). *Chart Book: Legacy of the Great Recession.* Retrieved from http://www.cbpp.org/cms/index.cfm?fa=view&id=3252

Rise in Homelessness: For families struggling to find work and affordable housing, homelessness is becoming a real threat. Between 2008 and 2009, there was a 3% rise in homelessness nationwide. The number of homeless increased in 31 states.[18] The largest percentage increase (4%) among subpopulations occurred among family households between 2008 and 2009. According to HUD's Annual Homeless Assessment Report, 62,000 more family members relied on a shelter in 2009 than in 2007.[19]

As an indicator of things to come, the number of households "doubling up" by moving in with friends or family members in order to reduce their housing cost burden rose 12% over the course of 2009.[20] The National Alliance to End Homelessness estimates that the odds of experiencing homelessness rises to 1 in 10 among those doubled up, and living in a doubled up housing situation is common among adults just prior to entering the shelter system.[21]

Two Fundamental Questions

More households are recognizing the value of renting. Until the recent recession, homeownership seemed like a solid investment and many touted the civic benefits of a high homeownership rate. The positive perception of homeownership was tarnished with the advent of the housing crisis, and the homeownership rate

[18] M William Sermons and Peter Witte. (2011 January). *State of Homelessness in America*. National Alliance to End Homelessness. Washington DC: Author.
[19] Office of Community Planning and Development. (2010, June). *2009 Annual Homeless Assessment Report*. Washington, DC: HUD.
[20] M William Sermons and Peter Witte. (2011 January).
[21] Ibid.

slipped to 66.5% by the fourth quarter of 2010, the lowest level since 1998. A cultural shift seems to be underway as more Americans in search of affordability and flexibility turn to renting. Renting, with flexible terms, can make sense in an economy when geographic mobility improves job prospects.

For the family who has to relocate to a new community to find work or for any family seeking an affordable rental, *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?

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

The Housing Wage answers the first question. It represents the full-time[22] 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 national-level findings that can be drawn from these data.

Findings

A household must earn the equivalent of $38,400 in annual income to afford the national average two-bedroom FMR of $960 per month.[23] Assuming full-time, year-round employment, this translates into a **national Housing Wage of $18.46** in 2011, up from $18.44 in 2010 even as renters' earnings have been falling.

<u>Renter Wage</u>: At the average renter wage of $13.52, a household must work 55 hours per week to afford the national average two-bedroom FMR. This average renter wage decreased significantly from $14.44 in 2010, indicating the detrimental impact the recession has had on wage earners. 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 45 hours are required in Texas.

<u>Minimum Wage</u>: In 2009, the federal minimum wage increased to $7.25 per hour. Seventeen states have established minimum wage rates above the federal level. Seven states increased their minimum wage effective January 1, 2011 due to adjustments based on the cost of living index.

[22] 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 34.3 hours per week (Bureau of Labor Statistics. (2011, April). *The employment situation: March 2011*. Washington, DC: U.S. Department of Labor).

[23] 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). http://www.nlihc.org/oor/oor2011/.

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 1.3 jobs (Puerto Rico) to 4.2 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 8 Municipios in Puerto Rico and a handful of counties in Illinois, 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.

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 35 states, a household must work at least 50 hours at the *average renter wage* to afford the two-bedroom FMR.
- In 18 states, the FMR for a studio apartment exceeds the entire monthly SSI payment.
- In 9 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.

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[24] is $19,897 which, assuming a household spends no more than 30% of its income on housing, implies that an ELI household could afford no more than $497 in monthly rent.

Compared to the national two-bedroom FMR of $960, the rent affordable to an ELI household is nearly $500 lower, which starkly illustrates the true disparity between prevailing and affordable rents for ELI households.

Supplemental Security Income: Roughly 8 million individuals receive Supplemental Security Income (SSI) because they are elderly, blind, or disabled and have few economic resources.[25] With the maximum federal monthly payment of $674 in 2011, an SSI recipient could afford rent of only $202.[26] SSI is the only source of income for 57% of all recipients.[27]

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 non-metropolitan two bedroom FMR of $647 is roughly three-fourths of the national FMR ($960), but the same relationship applies to the renter wages since the average renter wage in nonmetropolitan areas is only $9.54. Thus, as with the national statistic, the average national nonmetropolitan FMR is affordable only by working 52 hours at the average renter wage in these areas.

[24] See Appendix A for a discussion on how AMIs were estimated for 2011.

[25] Social Security Administration. (2011, March). *SSI monthly statistics, February 2011*. Washington, DC: Author. Retrieved March 22, 2011 from http://www.socialsecurity.gov/policy/docs/statcomps/ssi_monthly/

[26] Because SSI payments are reduced for beneficiaries who report other sources of income, the average federal payment in January 2011 was $476. However, 46 states supplement the federal payment for all or a subset of recipients, depending on the state. See Appendix A.

[27] Social Security Administration. (2010, September). *SSI annual statistical report, 2009.* Washington, DC: Author.

Conclusions

Year after year the statistics found in *Out of Reach* show that there is a severe shortage of housing that is decent and affordable to low income renters. For a household earning the average renter wage it is often exceedingly difficult to obtain decent housing. For the lowest income households, such as households earning the prevailing minimum wage, it is very nearly impossible.

Out of Reach continues to provide firm evidence to support the argument for expanding and preserving affordable housing through acquisition, rehabilitation, new construction and tenant based assistance. *Out of Reach 2011* demonstrates that wages across the country earned by low income households have fallen significantly during the recession. At the same time, demand for rental housing continues to rise as more households turn to renting in the face of foreclosure and depressed incomes, creating more competition for the few affordable units. ELI renters, with the fewest resources, lose out in the hyper-competitive rental housing market where decent, well-located, affordable rental homes are increasingly scarce. While the nation sets its sights on a gradual recovery from the economic recession, the shortage of affordable housing is an immediate crisis threatening the economic stability of American households.

The Numbers in this Report

As in past years, *Out of Reach 2011* 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. HUD methodology and the geography of FMR areas can change from year-to-year. Please consult the appendices and NLIHC research staff for assistance interpreting changes in the data from one edition of *Out of Reach* to the next.

The data in this report and the additional materials and data can be found online at http://www.nlihc.org/oor/oor2011/