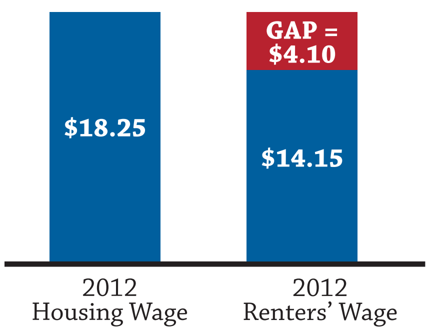
INTRODUCTION

Although the recession may have temporarily stalled the rising cost of housing in the United States, it did not result in increased access to affordable rental housing for households that need it most: extremely low income families facing the greatest housing cost burden. As demand flooded the rental market over the past year, indicated by the vacancy rate dropping to the lowest level since 2001, rental costs have begun to inch up, impacting those households already most vulnerable to price fluctuations.[1] The rental market is expected to continue to heat up, with more moderate income households choosing to rent, making even fewer housing options available to low income renters.

WHAT IS THE GAP BETWEEN THE ESTIMATED HOURLY WAGE NECESSARY TO AFFORD A TWO-BEDROOM APARTMENT AND THE WAGE AN AVERAGE AMERICAN RENTER ACTUALLY EARNS?



By the fourth quarter of 2011, the homeownership rate dropped to 66%, the lowest since 1998, reflecting caution among prospective homeowners. Over the past four years, renter household growth has consistently surpassed owner household growth.[2] It is estimated that the number of renter households rose by nearly 4 million between 2005 and 2010. Over the next decade, the number of renters may increase by upwards of 470,000 annually, further straining the rental market and disproportionately affecting extremely low income households.[3]

Among renter households, the number of extremely low income renters, those earning 30% or less of the Area Median Income (AMI), jumped by nearly 900,000 in the years between 2007 and 2010.[4] Extremely low income (ELI) renters, competing with an ever-growing number of households in search of decent, safe and affordable rental units, face a tightening market with fewer and fewer options. With the recent surge in demand, the need for affordable rental units has never been greater.

Out of Reach 2012 clearly shows that this need cuts across all parts of the country by fusing housing cost data with wage data at the national, state, metro, and county levels. The analysis illustrates a wide gap between the cost of decent housing and the hourly wages that renters actually earn. The numbers in *Out of Reach* demonstrate that this year, in every community across the country, there are renters working full-time who are unable to afford the rents where they live.

The Housing Wage is an estimate of the full-time hourly wage a household must earn in order to afford a decent apartment at the HUD estimated Fair Market Rent (FMR) while spending no more than 30% of income on housing costs. Nationally, the average two-bedroom FMR for 2012 is $949. Accordingly, the 2012 Housing Wage is $18.25, significantly surpassing the $14.15 hourly wage actually earned by renters, on average, nationally. The gap between the Housing Wage and the average renter wage is an indicator of the magnitude of need for more affordable rental units. In 2012, in 86% of counties studied nationwide, the housing wage exceeds the average hourly wage earned by renters.

In spite of this bleak picture, it is possible to work towards bridging the gap between wages and housing costs. Policies that support expanding the supply of affordable housing, targeted to the lowest income households, are an important step toward providing more households access to decent housing.

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 gross housing costs. 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. Area Median Income is set according to family size and varies by region.

Extremely Low Income (ELI) refers to earning less than 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-substandard 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 2010 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, 2012.

[1] Wotapka, D. (2012, January 5). "Apartment-Vacancy Rate Tumbles to 2001 Level". *Wall Street Journal*.
[2] Joint Center for Housing Studies. (2011). *State of nation's housing*. Cambridge, MA: Author. www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2011.pdf
[3] Joint Center for Housing Studies. (2011). *America's rental housing: Meeting challenges, building on opportunities*. Cambridge, MA: Author.
[4] NLIHC tabulations of 2007, 2010 ACS PUMS data.

EXTREMELY LOW INCOME HOUSEHOLDS FACE THE GREATEST HOUSING NEED

By 2010, the number of ELI renter households rose to 9.8 million, accounting for one out of every four renter households. ELI renter households face a tough rental market: for every 100 such households seeking an apartment, only 30 units both affordable and available can be found.[5] In sum, 6.8 million additional units are required to address the need for affordable housing among ELI households.[6]

Despite the immense need, the supply of low-cost rental units is actually shrinking, as more units are converted to serve higher income tenants or fall into disrepair. According to recent ACS data, the number of units renting for $500 or less fell by one million from 2007 to 2010, and during that same time period, the number of units renting at $1,250 or more grew by two million units.[7]

1 out of 4
RENTER HOUSEHOLDS IS ELI. BUT DESPITE THE IMMENSE NEED, THE SUPPLY OF LOW-COST RENTAL UNITS IS ACTUALLY **SHRINKING.**

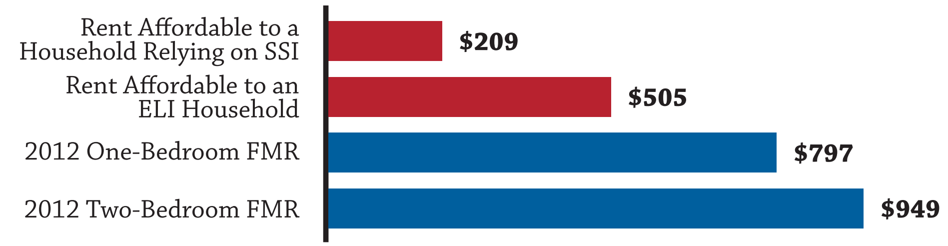
This year's edition of *Out of Reach* underscores the great need for additional affordable housing among ELI households. In 2012, the average ELI household will earn roughly $20,210 and can afford to spend no more than $505 on rent. Yet, this year, the national two-bedroom FMR is $949, and the one-bedroom FMR is $797, both far more than the rent ELI households are able to pay.

Among ELI households, those relying on fixed incomes face the most limited housing choices. Roughly 8 million individuals receive Supplemental Security Income (SSI) because they are elderly, blind or disabled and have few economic resources.[8] With the maximum federal monthly payment of $698 in 2012, *Out of Reach* estimates that an SSI recipient can afford rent of only $209.[9] SSI is the only source of income for 57% of all recipients.[10] Among those reliant on SSI, there is not a single county in the U.S. where even a modest efficiency apartment, priced according to the FMR, is affordable. By 2010, an estimated 46.2 million people lived in poverty in the United States, the largest poverty estimate since the Census began to quantify the indicator over fifty years ago.[11] With the number of American households living in poverty on the rise, it is likely that the need for affordable housing, especially among the lowest income households, will continue to grow.

Year after year, *Out of Reach* data show that for many extremely low income Americans, including seniors on fixed incomes and the disabled, a decent apartment remains incredibly difficult to find.

[5] NLIHC. (2012, February). *Housing Spotlight: The Shrinking Supply of Affordable Housing.* Washington, D.C.: Author.
[6] Ibid.
[7] NLIHC. (2011, October). *Housing Spotlight: Renters' Growing Pain*. Washington, D.C.: Author.
[8] Social Security Administration. (2012). *SSI monthly statistics, December 2011*. Washington, D.C.: Author. Retrieved January 20, 2012 from: www.socialsecurity.gov/policy/docs/statcomps/ssi_monthly/2011-12/table01.html
[9] Because SSI payments are reduced for beneficiaries who report other sources of income, the average federal payment in December 2011 was $502. However, 45 states supplement the federal payment for all or a subset of recipients, depending on the state. See Appendix A.
[10] Social Security Administration. (2011, August). *SSI annual statistical report, 2010*. Washington, D.C.: Author.
[11] U.S. Census Bureau. (2011, September). *Income, Poverty, and Health Insurance Coverage in the United States: 2010*. www.census.gov/prod/2011pubs/p60-239.pdf. Washington, D.C.: Census Bureau.

WHAT TYPE OF RENTAL UNIT CAN VULNERABLE HOUSEHOLDS AFFORD?



WAGES REMAIN INSUFFICIENT TO COVER RENTS

While economic indicators have shown signs of growth since mid-2009, opportunities for economic gains for low income workers have been stunted by the effects of the Great Recession. Recent analysis of Census data found that families in the bottom fifth of the income distribution scale saw their incomes decline significantly during the recession, by 11.3% between 2007 and 2010, while the top fifth only saw losses of 4.5%.[12] The poor have been hit the hardest by the economic downturn, and continue to struggle to recover from the financial setbacks of this period.

As of November of 2011, retail was leading the way in terms of job openings.[13] Low income service sector workers, including those earning the minimum wage, compose a sizeable portion of the nation's 9.8 million extremely low income renters. Minimum wage workers, according to federal law, earned $7.25 per hour for 2012. Eighteen states and D.C. have established minimum wage rates above the federal level. Eight states increased their minimum wage effective January 1, 2012 due to adjustments based on the cost of living index. And San Francisco became the first city in the nation to have a minimum wage of above $10 an hour, as of 2012.

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 4.4 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. Overall, there are very few places in the U.S. where even a one-bedroom unit at the FMR is affordable to someone working full-time at the minimum wage.

According to 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.[14] Minimum wage workers are especially vulnerable to the rising cost of rental housing as their wages remain stagnant and insufficient to cover their basic needs.

[12] Gould, E. and Shierhold, H. (2011, September 14). *A lost decade: Poverty and income trends continue to paint a bleak picture for working families*. Washington, D.C.: Economic Policy Institute. www.epi.org/publication/lost-decade-poverty-income-trends-continue/
[13] Rohde, D. (2012, January 5). "Yes, we're creating jobs, but how's the pay?" *Reuters*. http://blogs.reuters.com/david-rohde/2012/01/05/yes-were-creating-jobs-but-hows-the-pay/
[14] Cooper, D. (2012, January 4). *Most minimum wage workers are not teenagers*. Washington, D.C.: Economic Policy Institute. Retrieved from: www.epi.org/publication/minimum-wage-workers/

AFFORDABILITY IS A NATIONAL CONCERN

Housing costs vary across the nation, but uniformly, low income households are likely to face a grueling search for affordable housing with few decent options available to them. Nationally, the Housing Wage is highest in Hawaii, where costs of land development and building materials drive up the cost of housing. California and the highly urbanized Northeast corridor between Boston and Washington, D.C. also are home to communities with extremely high housing wages.

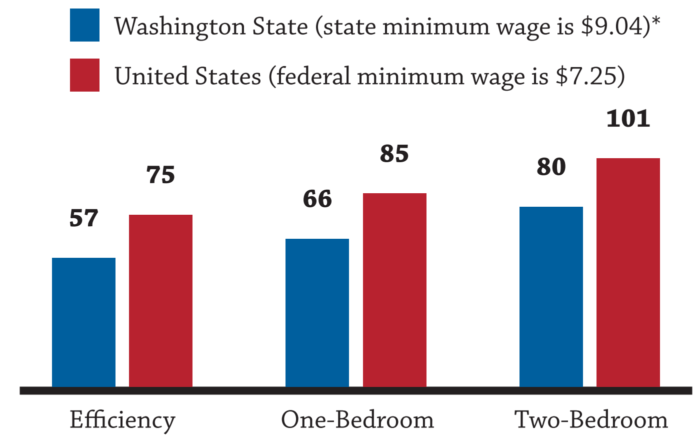
Yet, the lack of affordable housing is not an issue constrained to high-cost, urbanized regions. In fact, according to *Out of Reach* calculations, a worker earning the renter wage is unable to afford a two-bedroom unit in nearly every state, unless they pick up extra hours by cobbling together several jobs. In 28 states, the one-bedroom FMR exceeds the rent affordable to the average renter. And, in all but one state (WY), the two-bedroom FMR exceeds the rent affordable to the average renter.

FOR A FULL-TIME INDIVIDUAL EARNING THE RENTER WAGE, A TWO-BEDROOM UNIT IS **UNAFFORDABLE IN NEARLY EVERY STATE.**

For each state, *Out of Reach* combines data for counties outside metropolitan areas and calculates the Housing Wage for these rural communities. Our findings this year 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 2012* indicates that the Housing Wage, on average across nonmetropolitan America, is $12.21, still exceeding the nonmetropolitan renter wage of $9.87. At the state level, the nonmetropolitan two-bedroom Housing Wage exceeds the renter wage in all but five states.

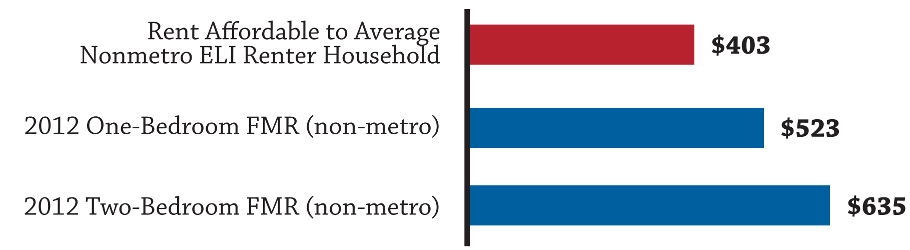
Low income renters continue to struggle to overcome poverty and limited economic opportunities, while facing rents that are likely to rise in the coming years as demand grows. In both rural and urbanized America, more renters are not making ends meet: over half of all renters (53%) are cost burdened, paying over 30% of their income for housing.[15] Only 25% of renters faced such a burden in 1960.[16] And, of course, this issue affects the lowest income families more severely than others. Seventy-six percent of ELI renter households spend more than 50% of their income on housing costs, or have a severe housing cost burden.[17] The rising incidence of housing cost burdens among renters makes evident the urgent need for expanding the supply of affordable housing.

HOW MANY HOURS A WEEK MUST A MINIMUM WAGE EARNER WORK TO AFFORD THE FMR?

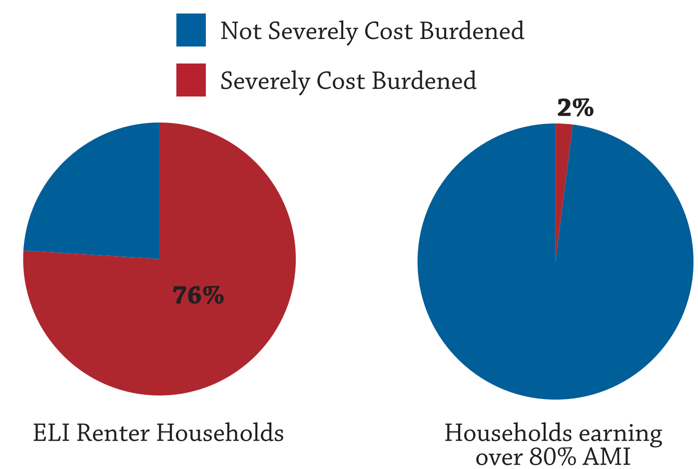


*Washington state has the nation's highest state minimum wage.

WHAT TYPE OF RENTAL UNIT CAN A RURAL ELI RENTER HOUSEHOLD AFFORD?



WHO IS THE MOST SEVERELY COST BURDENED?



Source: NLIHC. (2012, February). *Housing Spotlight: The Shrinking Supply of Affordable Housing*. Washington, D.C.: Author.

[15] U.S. Census Bureau (2010). American Community Survey. Washington, D.C.: Author.
[16] Joint Center for Housing Studies. (2011). *State of nation's housing*. Cambridge, MA: Author.
[17] NLIHC. (2012, February). *Housing Spotlight: The Shrinking Supply of Affordable Housing*. Washington, D.C.: Author.

AFFORDABLE HOUSING IS A BASIC HUMAN NEED.

MEETING THE NEEDS OF LOW INCOME AMERICANS FOR MORE AVAILABLE AND AFFORDABLE HOUSING SHOULD THEREFORE BE A TOP PUBLIC POLICY PRIORITY.

CONCLUSIONS

This year, as in years past, *Out of Reach* speaks to a fundamental truth: a mismatch exists between the cost of living, the availability of rental assistance and the wages people earn day to day across the country.

With the number of low income renters on the rise, the argument for sustaining affordable housing assistance is timely.

- In 2012, a household must earn the equivalent of $37,960 in annual income to afford the national average two-bedroom FMR of $949 per month.[18]
- Assuming full-time, year-round employment, this translates into a national Housing Wage of $18.25 in 2012.
- This year the housing wage exceeds the average renter wage, $14.15, by over four dollars and is nearly three times the minimum wage.

Despite the great need for affordable housing units, subsidies for critical affordable housing programs continue to face the threat of cuts, as do many social safety net programs. For FY12, HUD suffered cuts of $3.7 billion dollars, 9% below FY11 funding levels. Although HUD estimates that its public housing capital needs are in excess of $25 billion, the Public Housing Capital Fund received 8% lower funding for FY12.[19] The HOME program, key to the production of many new affordable units at the local level, suffered a cut of 38% between FY11 and FY12, a cut that is estimated to result in 31,000 fewer affordable rental homes. Meanwhile, the National Housing Trust Fund (NHTF), which Congress authorized in 2008, remains unfunded. The NHTF would fund the production and preservation of homes affordable to the lowest income households. Funding the NHTF is NLIHC's top priority.

An affordable home, providing stability and shelter, is a basic human need. Expanding the availability of affordable housing to address the unmet need of so many low income Americans should be a top public policy priority.

THE NUMBERS IN THIS REPORT

As in past years, *Out of Reach 2012* 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. In 2012, the FMR estimates were developed using American Community Survey (ACS) data as base rents, rather than data from the Decennial Survey. 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 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/2012

[18] 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).
[19] NLIHC. (2012, November 18). "Final FY12 budget cuts HUD, rural housing programs". *Memo to Members*. Washington, D.C.: Author. Retrieved from: http://nlihc.org/detail/article.cfm?article_id=8308