

# PAYCHECK TO PAYCHECK



More than Housing by Brian Stromberg and Mindy Ault

RESEARCH NOTE January 2017

## Housing Affordability in Context

**When housing is unaffordable, there often is not enough money left over for a household to pay for other necessities.**

The National Housing Conference's annual *Paycheck to Paycheck* report highlights the difficulties posed by the mismatch between incomes and housing costs for a wide range of workers in metropolitan areas across the U.S. This research note expands on this analysis and explores the context in which these salaries are being earned.

In some ways, the situation for American households has improved since the 2008 recession. Well-publicized data from the Census Bureau's 2016 Current Population Survey showed that the median household income in 2015 rose by 5.2 percent

from 2014, from \$53,718 to \$56,516.<sup>1</sup> While household median income is still below where it was prior to the 2008 recession, this increase is notable for being distributed across the broader population. Households that fell within the lower and middle income percentiles saw a greater increase in income than those in the higher percentiles (see Figure 1). Increases in income in prior years were mostly found in the higher income brackets. Income gains for middle-class households suggest a more sustained economic recovery than in previous years, when most gains were being realized by households on the higher end of the income spectrum.

Despite rising incomes, many households are still facing challenges in affording their housing. Housing is far and away their greatest household expense (see Figure 2). Changes in the cost of housing can have a huge impact on the ability of families to afford other household expenses, such as healthcare, transportation, and food. According to Consumer Expenditure Survey data from the U.S. Bureau of Labor Statistics, housing and related costs comprised 38 percent of the average U.S. renter household's total expenses in 2015, compared to 31 percent for homeowners (see Figure 2).<sup>2</sup>

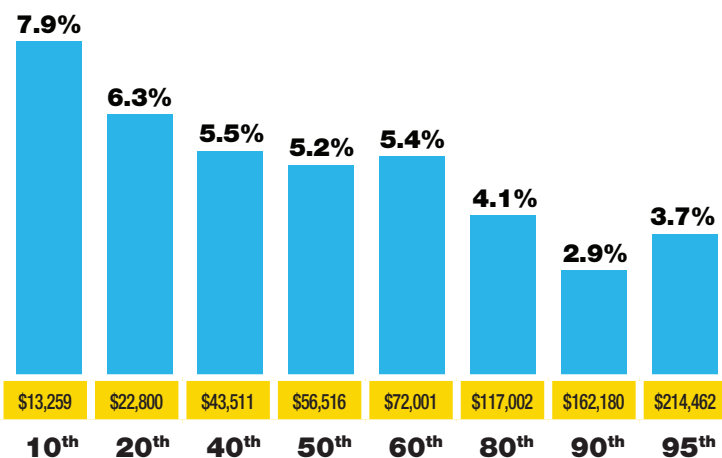
Though there is a general pattern to household expenditures (housing is the largest expense, followed by transportation), these costs can vary greatly when analyzed alongside certain other social characteristics. For example, the spending on housing can vary significantly when considered in terms of household income, housing tenure, and geography.

First, the percentage of a household's earnings that go to housing costs varies tremendously according to *household income*. Households (both renter and homeowner) in the bottom quintile of income spend 40.4 percent of their earnings on housing costs on average, while households in the top quintile on average spend 29.9 percent (see Figure 3).

FIGURE 1

### Incomes of Lower- and Middle-Income Households Rose More Than Incomes of Higher-Earning Households

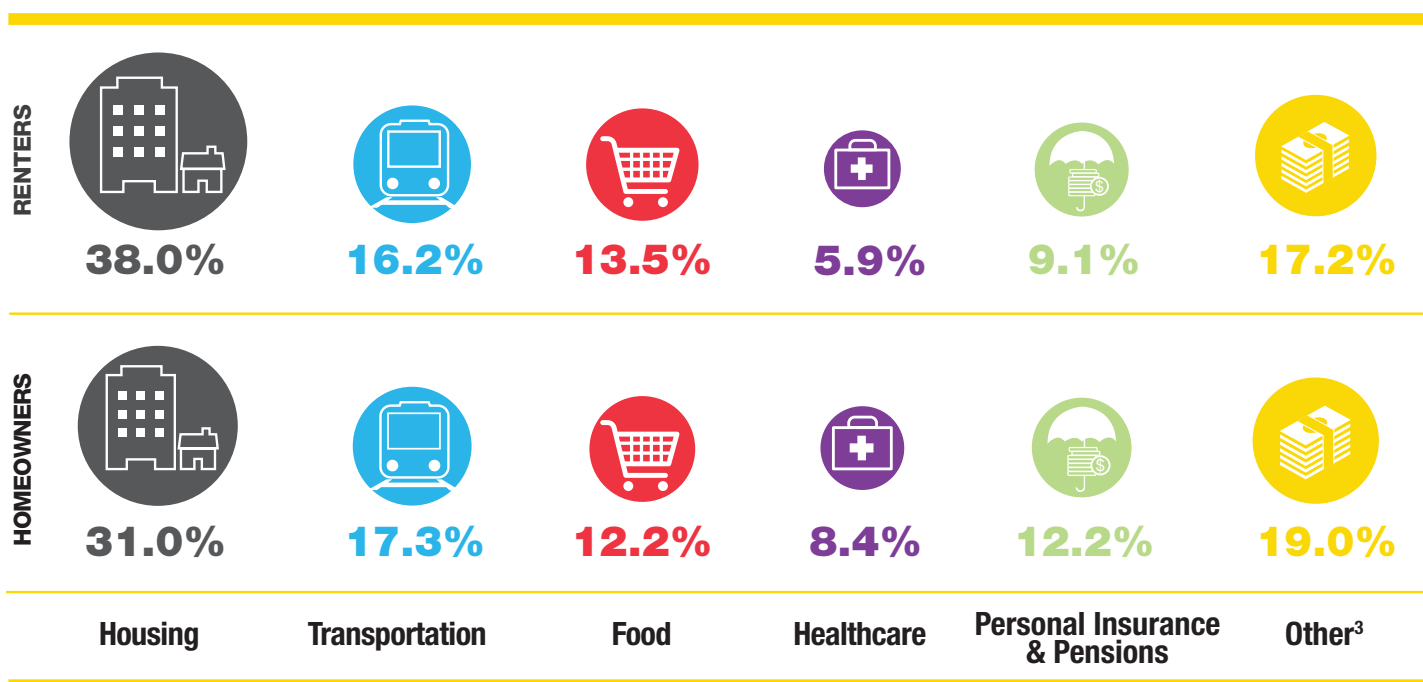
Change in Median Annual Household Income from 2014 to 2015  
by Income Percentiles



**FIGURE 2**

## Housing and Transportation Dominate Household Spending

Share of Total Household Expenditures by Type in 2015



Source: Housing tenure and type of area. Consumer Expenditure Survey, Bureau of Labor Statistics, August 2016.

Housing tenure is also a factor in how much a household pays for its housing. In 2015, the mean expenditure on housing was much higher for renters, at 38 percent, than it was for homeowners, at 31 percent (see Figure 2, above). For households with incomes that fell below the 20th percentile, the expenditure on housing increased for renters to 48.1 percent and for homeowners to 37.9 percent (see Figure 4).

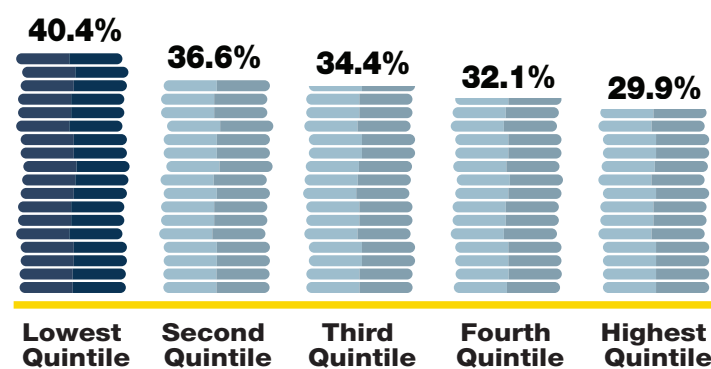
Expenditures also vary significantly by *geography*. The National Housing Conference's analysis of data from the American Community Survey and other sources shows that households earning the area median income (AMI) cannot afford to buy a median-priced home in 92 out of 210 large metros. In addition, although households earning AMI can afford the typical rents for two-bedroom units in all 210 metros, many of them may struggle to accumulate savings for a down payment to eventually transition to homeownership.<sup>4</sup>

However, defining a metro area as “affordable” or “unaffordable” oversimplifies the landscape of housing affordability, as there are degrees to affordability. Breaking apart these two categories shows that some low-cost housing

**FIGURE 3**

## Spending on Housing is Significantly Higher for Lower-Income Households

Mean Percentage of Household Expenditure on Housing by Income Quintile in 2015

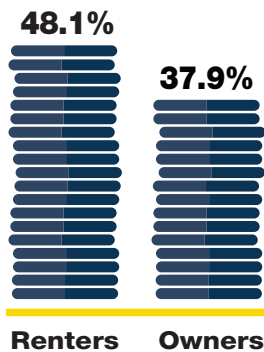


Source: Quintiles of income before taxes. Bureau of Labor Statistics, Consumer Expenditure Survey, August 2016.

**FIGURE 4**

## Lower-Income Renters Spend Relatively More of Their Income on Housing Than Low-Income Homeowners

Mean Housing Expenditure by Housing Tenure for Households in 20<sup>th</sup> Percentile of Income, 2015

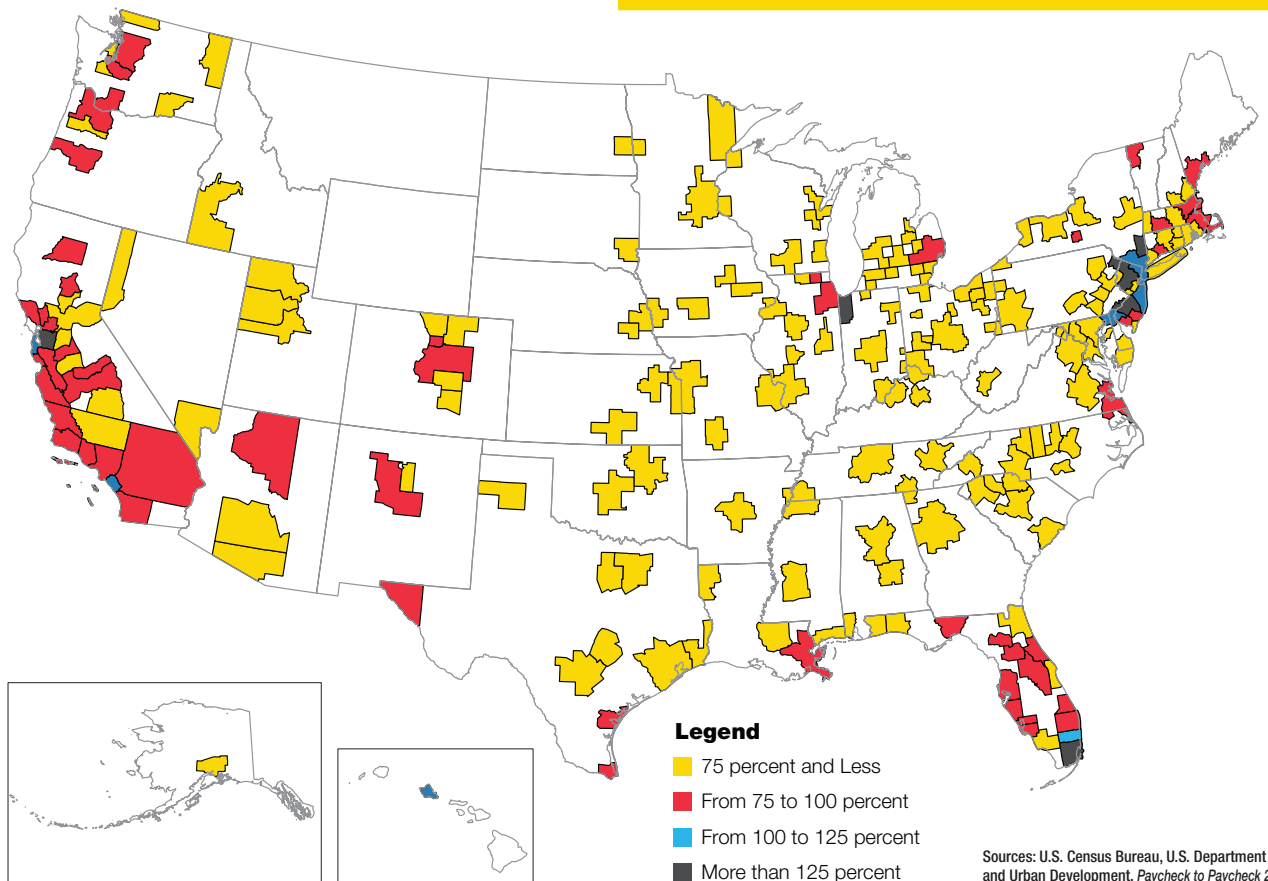


Source: NHC tabulation of Consumer Expenditure Survey Public-Use Microdata for 2015.

**FIGURE 5**

## Closer Analysis of the Cost of Rent Reveals Variety in Affordability

Income Needed to Afford Fair Market Rent for Two-Bedroom Home as Percentage of AMI



Sources: U.S. Census Bureau, U.S. Department of Housing and Urban Development, *Paycheck to Paycheck* 2016.

markets have housing affordability challenges, and that some “unaffordable” metropolitan areas are more unaffordable than others (see Figures 5 and 6).

Both renters and owners are more likely to encounter major housing affordability challenges in and around major cities along the East and West Coasts. Midwestern metros generally appear to be more affordable than coastal cities. It should be noted, however, that this is only true for households with earnings near AMI; low-income households (those earning less than 80 percent of AMI) tend to face struggles in every region of the country, including the Midwest and Southeast.<sup>5</sup>

For example, despite Gary, Ind., ranking near the middle of 210 large metros in terms of rental costs (114th) and median home sales price (146th), many of its low-income residents face serious housing affordability challenges; the income needed to afford typical rents in the Gary metropolitan region is 26 percent higher than the median earnings of low-income households. In addition, the income required for buying a typically priced home is 44 percent higher than earnings by the same group. In the Jackson, Miss., metro, low-income households have incomes only slightly above the income required for typical rent, and the earnings required to afford to buy a median-priced home are 25 percent higher than what low-income households earn.<sup>6</sup>

# Supporting Renters, Encouraging Homeownership

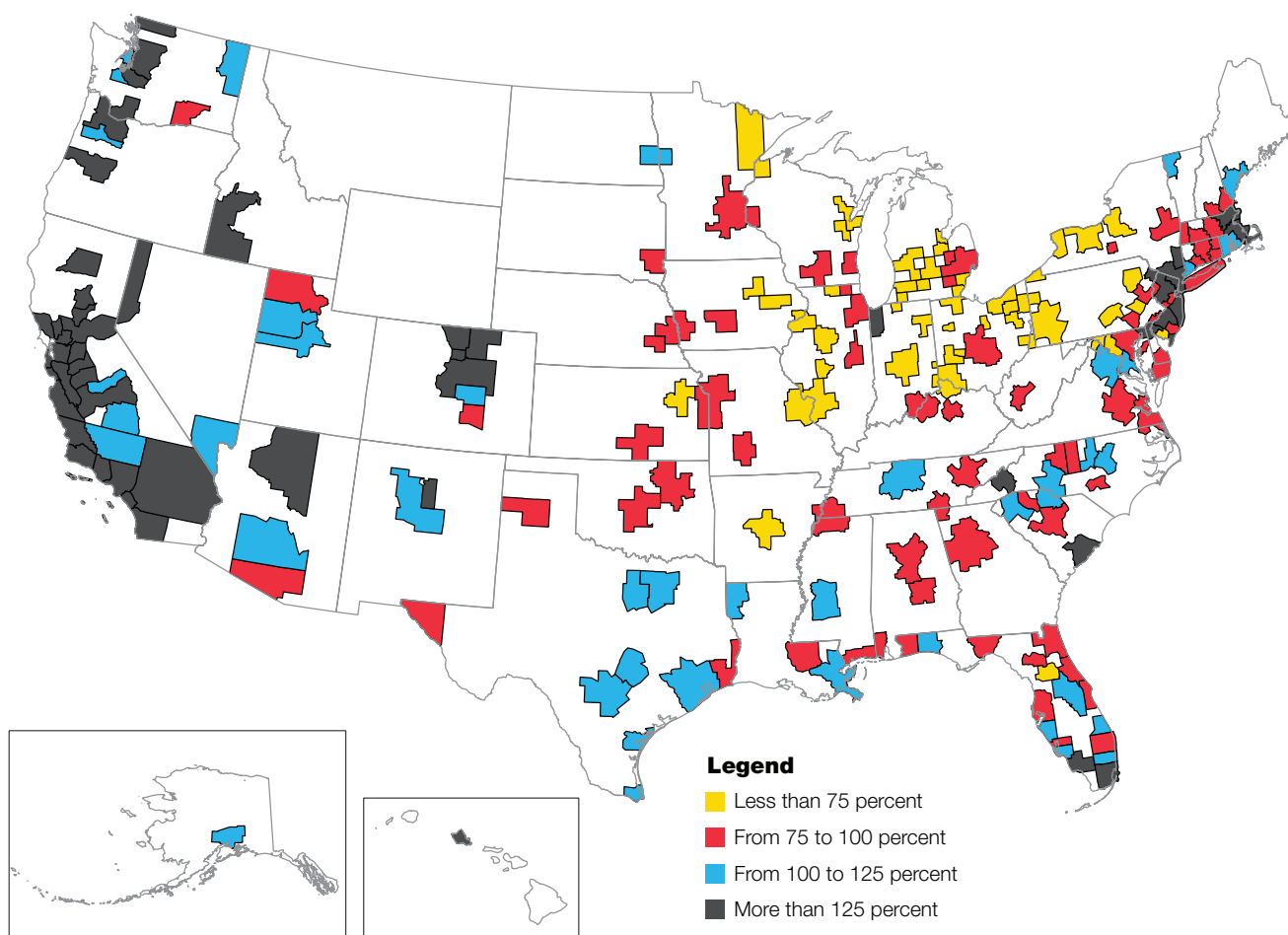
The data presented in this supplement may make it appear that managing housing costs is more of a challenge for homeowners than for renters. However, the data do not capture the large percentage of renters who want to become homeowners but struggle to save up a down payment and qualify for a mortgage while managing rising rents. With the highest percentage of households renting homes since the late 1960s, any disparate impact on renters has broad implications. Much of this increase in renter households has been driven by more high-income households entering the rental market, which has in turn pushed up rents in metro areas across the country.<sup>7,8</sup>

According to research sponsored by the MacArthur Foundation, a large percentage of renters (nearly 70 percent) aspire to own a home.<sup>9</sup> Housing costs for renters can be within the affordable range but still high enough to leave no room for savings (especially when considered alongside other household expenditures). This can prevent these households from making the jump from rental to ownership. Pursuing strategies that promote access to affordable rental housing can provide stability to low-income households and give households hoping to buy a home greater ability to save money for a down payment. Housing finance reform and expanded home purchase support (such as down payment assistance or affordable loan products) can further reduce the barrier to ownership.

**FIGURE 6**

## Homeownership is Unaffordable in Many Moderate- and High-Cost Metro Areas Around the Country

*Income Needed to Afford to Buy Median Priced Home as Percentage of AMI*



Sources: U.S. Census Bureau, U.S. Department of Housing and Urban Development, *Paycheck to Paycheck* 2016.

# Working Households Face Challenges in Budgeting for Basic Expenses

Though the national data discussed at the beginning of this research note indicate that incomes have risen across the country, housing affordability remains a struggle for many. National numbers do not capture the lived experiences of individual households. Monthly budgets for four households working in school-related occupations are illustrated below, using data from *Paycheck to Paycheck 2016*, the Economic Policy Institute, the Consumer Expenditure Survey, and other sources (see methodology section).

<b>Monthly Income</b>	<b>\$4,596</b>
Rent	\$1,176
Food	\$584
Child Care	\$1,294
Transportation	\$454
Health Care	\$481
Student Loans	\$322
Other Necessities	\$755
Taxes	\$892
<b>Monthly Expenditures</b>	<b>\$5,958</b>
<b>Income Remaining</b>	<b>-\$1,362</b>

Jackie is a **school social worker** living in Chicago with her two school-aged children. Child care is quite expensive for two young children, and it takes up more of Jackie's income than even the rent on her two-bedroom apartment. Additionally, she has a monthly student loan payment from earning her bachelor's degree. Her annual salary of \$55,157 is the median for a bachelor's-level social worker in the Chicago metro area, but it is not enough to cover Jackie's monthly costs, so she ends up accruing credit card debt to pay for some basic necessities each month.



<b>Monthly Income</b>	<b>\$4,559</b>
Rent	\$827
Food	\$399
Child Care	\$743
Transportation	\$480
Health Care	\$310
Student Loans	\$322
Other Necessities	\$574
Taxes	\$553
<b>Monthly Expenditures</b>	<b>\$4,208</b>
<b>Income Remaining</b>	<b>\$351</b>



Melissa is a **high school teacher** living in Pittsburgh. She is a single mother to a 5-year-old daughter, and her annual income of \$54,709 per year represents the area median for her profession. Fortunately, the typical rent for a two-bedroom unit in Pittsburgh comprises only 18 percent of Melissa's pre-tax income, although the cost for child care is nearly as high as her rent. Like many Americans, she also has a monthly student loan payment. According to data from the Federal Reserve Bank of New York, in 2014 more than 43 million people in the U.S. had outstanding student loan debt, with an average balance per borrower of \$27,000.<sup>10</sup> Because her rent is affordable at 18 percent of her monthly income, Melissa is able to put some money aside each month toward saving for her daughter's education.



**Monthly Income \$6,913**

Rent	\$2,289
Food	\$618
Child Care	\$689
Transportation	\$608
Health Care	\$863
Other Necessities	\$1,243
Taxes	\$1,063

**Monthly Expenditures \$7,373****Income Remaining -\$462**

Terri, a **child care worker** earning \$36,649 annually, and her partner Mike, a delivery truck driver who earns a yearly salary of \$46,296, live in San Francisco with their 6-year-old son. Despite being a dual-income household, Mike and Terri still do not earn enough to cover their monthly expenses. Both Mike and Terri grew up in the area and their entire family and social network is there, but the San Francisco metro area is the most expensive rental market in the nation.<sup>11</sup> Given the pace at which rents are increasing in the area, they are considering moving to a lower-cost area within commuting distance. However, doing so would necessitate their buying a car, an expense that they also cannot afford. For now, they often have to go without other things that they need in order to pay their bills each month. Like many households in high-cost areas, Mike and Terri face few options to make their situation affordable.

**Monthly Income \$4,749**

Rent	\$891
Food	\$782
Child Care	\$1,259
Transportation	\$620
Health Care	\$802
Other Necessities	\$767
Taxes	\$660

**Monthly Expenditures \$5,781****Income Remaining -\$1,032**

Hector and Belinda live in Colorado Springs. Belinda **drives a school bus** and earns the annual median salary of \$23,155, and Hector works as a groundskeeper in the same school district, earning \$33,837, also the median salary for that area. They have two young girls who are in child care. Despite the fact that they live in a relatively affordable metropolitan area, their combined income falls short of their expenses.



## Methodology

The data on monthly expenses come primarily from the Economic Policy Institute's (EPI) 2015 Family Budget Calculator, which summarizes average household expenses for different family types in different metropolitan areas across the country. The data were published in August 2016 and reflect 2015 expenses. Aside from the rent and student loan expenses (see below), all expense data were obtained from EPI's Family Budget Calculator online tool.<sup>12</sup>

Data on rent are the fair market rent rates from the U.S. Department of Housing and Urban Development for the fiscal year 2016. Homeowner costs are calculated using data from the National Association of Home Builders' Housing Opportunity Index and interest rate data from the Federal Housing Finance Agency's Monthly Interest Rate Survey, both for the first quarter of 2016.

Data on monthly student loan payments were taken from the 2013 Survey of Consumer Finances. The number is the average total monthly payments on education loans by households with earnings over \$1,000 annually. This analysis is based on one done by the Brookings Institution in 2014.<sup>13</sup> The mean value was used in examples where the workers had attended a four-year college.

The analysis in the *Paycheck to Paycheck* report for homeownership compares the monthly payments on a mortgage loan for a home at the median sales price in each metropolitan area (assuming a 10 percent down payment and a 30 year mortgage). More information on the *Paycheck to Paycheck* methodology can be found at [paycheck.nhc.org/paycheck-to-paycheck/](http://paycheck.nhc.org/paycheck-to-paycheck/).

## Endnotes

1. Bernadette D. Proctor, Jessica L. Semega, and Melissa A. Kollar. 2016. U.S. Census Bureau, Current Population Reports, P60-256(RV), *Income and Poverty in the United States: 2015*. Washington, DC: U.S. Government Printing Office.
2. Consumer Expenditure Survey. 2016. *Housing Tenure and Type of Area*. Washington, DC: U.S. Bureau of Labor Statistics.
3. The category of "other" includes alcoholic beverages, apparel, entertainment, personal care, reading, education, tobacco products, miscellaneous expenses, and cash contributions.
4. See *Paycheck to Paycheck 2016: A Snapshot of Housing Affordability for School Workers* for an explanation of how affordability is calculated. Available at <http://paycheck.nhc.org/paycheck-to-paycheck/>.
5. This is the same definition used by the Department of Housing and Urban Development.
6. The income required to afford rent for a typical two-bedroom home is 92 percent of the income of a household earning 80 percent of AML.
7. See RentCafe's analysis of data from the American Community Survey at <http://www.rentcafe.com/blog/rental-market/luxury-apartments/1-2-million-more-wealthy-renters-in-10-years/>.
8. Joint Center for Housing Studies. 2016. *The State of the Nation's Housing*. Cambridge, MA.
9. MacArthur Foundation. 2016. *How Housing Matters*. Chicago, IL. Available at [https://www.macfound.org/media/files/E-How\\_Housing\\_Matters\\_National\\_Full\\_Report.pdf](https://www.macfound.org/media/files/E-How_Housing_Matters_National_Full_Report.pdf).
10. Meta Brown, Andrew Haughwout, Donghoon Lee, Joelle Scally, and Wilbert van der Klaaw, 2015. *The Student Loan Landscape*. New York, NY: Federal Reserve Bank of New York. Available at [http://libertystreeteconomics.newyorkfed.org/2015/02/the\\_student\\_loan-landscape.html#.V6t5F\\_krKUK](http://libertystreeteconomics.newyorkfed.org/2015/02/the_student_loan-landscape.html#.V6t5F_krKUK).
11. National Housing Conference. 2016. *Most to Least Expensive Rental Markets, 2016*. Available at <http://paycheck.nhc.org/paycheck-to-paycheck/>.
12. EPI's online Family Budget Calculator tool can be accessed at <http://www.epi.org/resources/budget/>.
13. Beth Akers. 2014. *The Typical Household with Student Loan Debt*. Washington, DC: The Brookings Institution.

PHOTOS FROM ISTOCK

SUPPORT FOR THIS REPORT WAS PROVIDED BY THE CHICAGO DWELLINGS ASSOCIATION.