Paycheck to Paycheck 2009 Executive Summary: How Affordable is Housing for U.S. Workers?

Since the release of the 2008 edition of *Paycheck to Paycheck*, declining home prices and rising foreclosures have frequently made the news, yet many questions remain about the impact on typical U.S. households. How much more affordable has homeownership become between 2007 and 2008? How have rents been impacted by the struggling economy and by rising numbers of renters as families exit homeownership due to foreclosure? Have prices dropped enough to make homeownership affordable for America's working families? Can workers at least afford to rent an apartment for their family? And what does this mean for communities?

The new edition of *Paycheck to Paycheck* provides some answers by looking at the wages for more than 60 occupations compared with home prices and rents in over 200 metropolitan areas. The study also looks at (1) trends in affordability for 199 homeownership markets between the third quarter of 2007 and the fourth quarter of 2008[1] and (2) trends in rents in 27 combined statistical areas that include more than 60 of the rental markets covered by *Paycheck to Paycheck*.

How much more affordable has homeownership become between 2007 and 2008?

In almost all of the metro areas studied, the income needed to purchase a home has dropped. Between 2007 and 2008, the income needed to purchase a median-priced home dropped in 194 out of 199 metropolitan areas. The median change in qualifying income was -14.5%. Twenty-seven metro areas (all in Arizona, California, Florida, and Nevada) experienced decreases in qualifying income of one-third or more. In 19 metro areas spread through most of the nation, decreases in qualifying income were fairly modest (5% or less). In three metro areas (Peoria, IL; Cedar Rapids, IA; and Davenport, IA) the income needed to purchase a home increased by approximately five to ten percent, and in another two areas (Raleigh, NC, and Charleston, WV) qualifying income stayed the same. Changes in interest rates appear to be responsible for around a 1% reduction in the income needed to purchase a home. The majority of the decrease in qualifying income is due to declining home prices.

How have rents been impacted by the struggling economy and by rising numbers of renters as families exit homeownership due to foreclosure?

Rents have increased in many metro areas even as home prices have declined.
Many markets experienced rent increases between 2007 and 2008[2], according to the Consumer Price Index for rents in 27 consolidated statistical areas (CSAs) that cover more than 60 metro markets. One-third of the CSAs experienced rent increases of 4% or more between 2007 and 2008; approximately two-fifths experienced moderate rent increases (2% to less than 4%); and just over one-quarter experienced zero to minimal rent increases (from -0.2% to less than 2%). The largest rent increase (7.8%) occurred in

[1] Unless otherwise specified, all comparisons between 2007 and 2008 are between the 3rd quarter of 2007 (used for the last release of *Paycheck to Paycheck*) and the 4th quarter of 2008 (the most recent available data).

[2] The comparison of rents is between the 2007 and 2008 calendar years. The data used for this analysis are only available for some of the metro areas included in *Paycheck to Paycheck*

the Seattle-Tacoma-Bremerton CSA. The Detroit-Ann Arbor-Flint CSA is the only area that experienced a slight rent decrease (-0.2%). In urban areas nationally, rents increased 3.7% between 2007 and 2008, as measured by the rent component of the Consumer Price Index.

Comparing the relative affordability of metro areas studied in *Paycheck to Paycheck* between 2007 and 2008[3], some markets held steadily as among the most expensive (such as San Francisco, CA) or least expensive (such as Youngtown, OH) while others experienced more dramatic changes in relative affordability. Florida's rental markets provide a striking example. Compared with the other metro areas studied, renting has become more unaffordable in every single Florida metro area in *Paycheck to Paycheck* between 2007 and 2008. Some of Florida's metro areas climbed more than 10 or even 20 places closer to the position of most expensive.

Have prices dropped enough to make homeownership affordable for America's working families? Can workers at least afford to rent an apartment for their family?

For many U.S. workers – including those in construction-related occupations that may see a boost from the stimulus package – homeownership is unaffordable even after the recent drop in home prices. For workers in more expensive areas or in lower-wage occupations, renting a two-bedroom apartment is also unaffordable.

Construction laborers: Of the five construction-related occupations that are the focus of this edition of *Paycheck to Paycheck*, construction laborers fare the worst in terms of affordability due to wages that tend to be in the mid to high $20,000s annually. Renting a two-bedroom apartment is unaffordable for construction laborers in 161 out of 210 markets studied. Homeownership is unaffordable in 196 of the 208 markets. Metropolitan areas where construction laborers can afford to purchase a home are in Ohio, Michigan, Indiana, and West Virginia.

Longhaul truck drivers: Longhaul truck drivers play a critical role in transporting construction materials and other goods across the nation, but they cannot afford to own a home in 174 out of 208 metro areas with incomes that tend to be in the high $30,000s. Renting a two-bedroom apartment is unaffordable in 57 out of 210 metro areas.

Equipment operators: With annual incomes typically in the high $30,000s to low $40,000s, operators of heavy equipment, such as bulldozers, scrapers, and graders, can afford rents in most of the metro areas studied, but not homeownership. The typical rent for a two-bedroom apartment is unaffordable in 52 of the 210 metro areas studied. Homeownership, on the other hand is unaffordable in 173 out of 208 areas.

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[3] The discussion of rent comparisons from *Paycheck to Paycheck* in 2007 and 2008 uses the Department of Housing and Urban Development's fair market rents (FMRs) for fiscal year 2007 (in effect during the 3rd quarter of 2007) and fiscal year 2009 (in effect during the 4th quarter of 2008). Despite changes in HUD's methodology between the two years, relative affordability can be compared to assess whether rents are becoming more or less affordable compared to the other markets studied.

Carpenters: In most of the country, carpentry pays enough to afford the rent for a two-bedroom apartment, but is not sufficient to afford homeownership. With annual salaries that are typically in the low- to mid- $40,000s, carpenters are priced out of homeownership in 157 out of the 208 metropolitan areas studied. Renting is affordable for carpenters in all but 27 out of 210 markets.

Construction managers: Construction managers earn salaries substantially higher than the other construction-related occupations featured in this study. With salaries around $100,000 per year, construction managers can afford typical rents in each of the 210 markets studied and can afford to purchase a home in all but nine out of the 208 homeownership markets studied. The unaffordable homeownership markets include Honolulu, HI; higher-priced California markets, such as San Francisco and San Jose; and the higher-priced New York and New Jersey markets of New York City, Long Island (Suffolk-Nassau, NY), and Ocean City, NJ.

Housing affordability has also not dramatically improved for traditional community workers, such as police officers, elementary school teachers, nurses, janitors, and retail workers. These key workers often cannot afford to purchase a home and, in some cases, cannot even affordably rent an apartment for their family.

Retail Salespeople: With annual wages that tend to be in the low $20,000s, retail salespeople continue to be priced out of both homeownership and renting a two-bedroom apartment in each of the markets studied. In 2008, even a one-bedroom apartment was too expensive for a retail salesperson in 184 out of 210 markets.

Janitors: In 2008, a janitor could afford a two-bedroom apartment in only one of the 210 rental markets studied (Bay City, MI) and could afford a home in just one of 208 homeownership markets (Saginaw, MI). Falling home prices in Saginaw, MI, made it newly affordable on a janitor's wages (generally around the mid $20,000s) in 2008 compared with 2007. Interestingly, in Saginaw, MI, the income needed to affordably rent a two-bedroom apartment was approximately $3,000 more than the income needed to qualify to purchase a median priced home – a possible indication of increasing demand in the rental market from families that have lost their homes to foreclosure.

Licensed Practical Nurses: In 2008, a licensed practical nurse (LPN) could not afford to purchase a home in 172 of the 208 homeownership markets studied or to rent a two-bedroom unit in 47 out of 210 rental markets despite typical wages in the high $30,000s. Falling home prices and rising wages made home ownership newly affordable to LPNs in 18 markets in 2008, mainly in the Midwest, but LPNs remain priced out of homeownership in the majority of metro areas.

Police Officers: In 2008, a police officer's salary (typically in the high $40,000s to low $50,000s) was sufficient to affordably rent a two-bedroom unit in all but nine of the 210 rental markets studied, but was not enough to qualify for homeownership in 123 out of 208 markets. Homeownership became affordable for police officers in 29 previously unaffordable metro areas in 2008.

Elementary school teacher: In 2008, elementary school teachers, with salaries that tend to fall in the high $40,000s to low $50,000s, were priced out of renting a two-bedroom apartment in nine of the 210 rental markets studied and could not afford to purchase a median-priced home in 116 out of 208 homeownership markets. Falling home prices made homeownership newly affordable for elementary school teachers in 39 metropolitan areas compared to 2007.

What does this mean for communities?

Many American workers cannot affordably live in the communities they serve. States and localities will need to go beyond saving or creating jobs and pay attention to the housing affordability needs in their communities. Policies can help to convert vacant or foreclosed properties into affordable rental or homeownership homes, prevent renters and owners from being displaced by foreclosure, and even create new opportunities for affordable housing despite a weakened development environment.