Forty-three million US households burdened by excessive housing costs

By Debra Watson
3 July 2013

More than 43 million US households pay excessive shares of income for housing according to *The State of the Nation's Housing 2013*, released last week by Harvard University's Center for Housing Studies. Thirty-seven percent of all US households are overburdened by housing costs, paying out monthly more than 30 percent of income, the housing affordability benchmark, just to keep a roof over their heads.

A staggering 20.6 million households paid more than half their total income for housing in 2011, according to the most recent Census Bureau figures available. These households are defined as severely burdened, and their numbers have been rising steadily for a decade. The number of severely burdened households rose by 347,000 from 2010 to 2011, 2.6 million from 2007 when the recession began, and 6.7 million from a decade ago.

This report examines household statistics for both types of housing tenure, those headed by renters and those residing in owner-occupied houses. It reveals that the number of cost-burdened and severely burdened households continue to rise and actually were increasing long before the 2007 crash.

It states: "The most recent increases were almost entirely among severely burdened renters, whose numbers soared by 2.5 million from 2007 to 2011, pushing the share to 27.6 percent. While up only 173,000 over this period, the number of cost-burdened homeowners had already surged by 2.7 million in 2001-2007 amid the sharp rise in house prices and the widespread availability of easy mortgage credit.

"What is remarkable on the owner side is that the incidence of cost burdens has not fallen much more dramatically, given the substantial decline in home prices and low interest rates."

The authors of the 2013 annual report address the housing prospects for those at the bottom of the income scale. They state: "Nearly seven out of ten households with annual incomes of less than $15,000 (roughly equivalent to year-round employment at the minimum wage) are severely burdened. With income inequality worsening over the past decade, the share of households with these low incomes has continued to grow."

The deprivation these families suffer is indicated by a citation in the report from the latest Consumer Expenditure Survey. "[S]everely burdened families in the bottom expenditure quartile (a proxy for low incomes) spend a third less on food, half as much on pensions and retirement, half as much on clothes, and three-quarters less on health care as families paying affordable shares of their incomes for housing."

The gap between the supply of affordable housing and demand from extremely low-income renters doubled to 5.3 million in just four years.

The number of renter households with extremely low incomes (less than 30 percent of area medians) increased by 2.5 million between 2007 and 2011, while the number of available housing units that households at this income level could afford to rent declined by 135,000. Between 2001 and 2011, a total of 650,000 or 13 percent of the low-cost housing unit inventory was permanently removed from the US housing stock.

As the number and percentage of households in need of affordable housing has risen dramatically, the availability of already highly inadequate government housing assistance declined precipitously. According to recent HUD estimates, only one in four of those eligible for rental assistance get it.

Government help for extremely burdened households, chronically inadequate, is now being eviscerated. The report notes: “Funding for the Housing Choice Voucher Program has increased, but with rents rising and incomes falling, the subsidy needed per renter has also increased-leaving the number of assisted households almost unchanged. Other programs—including public housing, the HOME program, and the Community Development Block Grant program—have faced outright cuts. And at a time when the need has never been greater, federal budget sequestration will further limit the number of households receiving rental assistance.”

A broad range of housing market indicators sector finally started to tick upward in 2012. The report headlines with these upticks as a possible beginning recovery in the home market. New and existing home sales were up, as were home prices and housing starts.

An examination of the drivers of this change point to its tenuous nature and to the broader growth of inequality in the overall economy. But the report explains the market indicators were highly influenced by low interest rates. Right after the Harvard report was released, interest rates on 30-year mortgages rose to 4.56 percent up from 3.74 percent a month ago.

Sales were highly influenced by institutional and individual investors buying up modestly priced homes, often for cash. The national homeownership rate actually fell to 65.4 percent, the eighth straight year of decline. This drop reflects not only 1.1 million more households renting instead of buying, but also a net loss of 161,000 homeowners for the year.

Investment in real estate is lucrative for the owners of speculative capital. Except for 2009, return on investments for property investment has been in the black and pre- and post-recession rates of return have been at 10-20 percent.

At the same time, the possibility of home ownership is out of reach for more and more families. Low interest rates and falling home prices had not boosted the rate of first-time homebuyers. Potential owner-occupiers either cannot come up with down payments due to personal financial constraints, or have credit scores too low to qualify for mortgages if they managed to save money for the down payment.

The report notes in the section on homeownership: “In 2007, borrowers with credit scores below 620 accounted for 45 percent of FHA loans. By the end of 2012, that share was under 5 percent.” Even many with high credit scores are denied mortgages.

The face of housing tenure is changing dramatically in the US as the number and percentage of renter households go up and homeownership fails to grow in line with population demographics. For example, the share of young adults living independently dropped significantly even though the population under 35 rose, stalling potential household formation.

This has affected home ownership rates. In 2012, the rates for the 25-to-54-year-old age group were at their lowest point since recordkeeping began in 1976. The largest drop in home ownership was among families with children, dropping 7 percentage points to 72.6 percent.

Families already in their own homes are facing continuing challenges. According to the report, more than 10 million owners owe more on their mortgages than their homes are worth.

The entire report can be found here .