

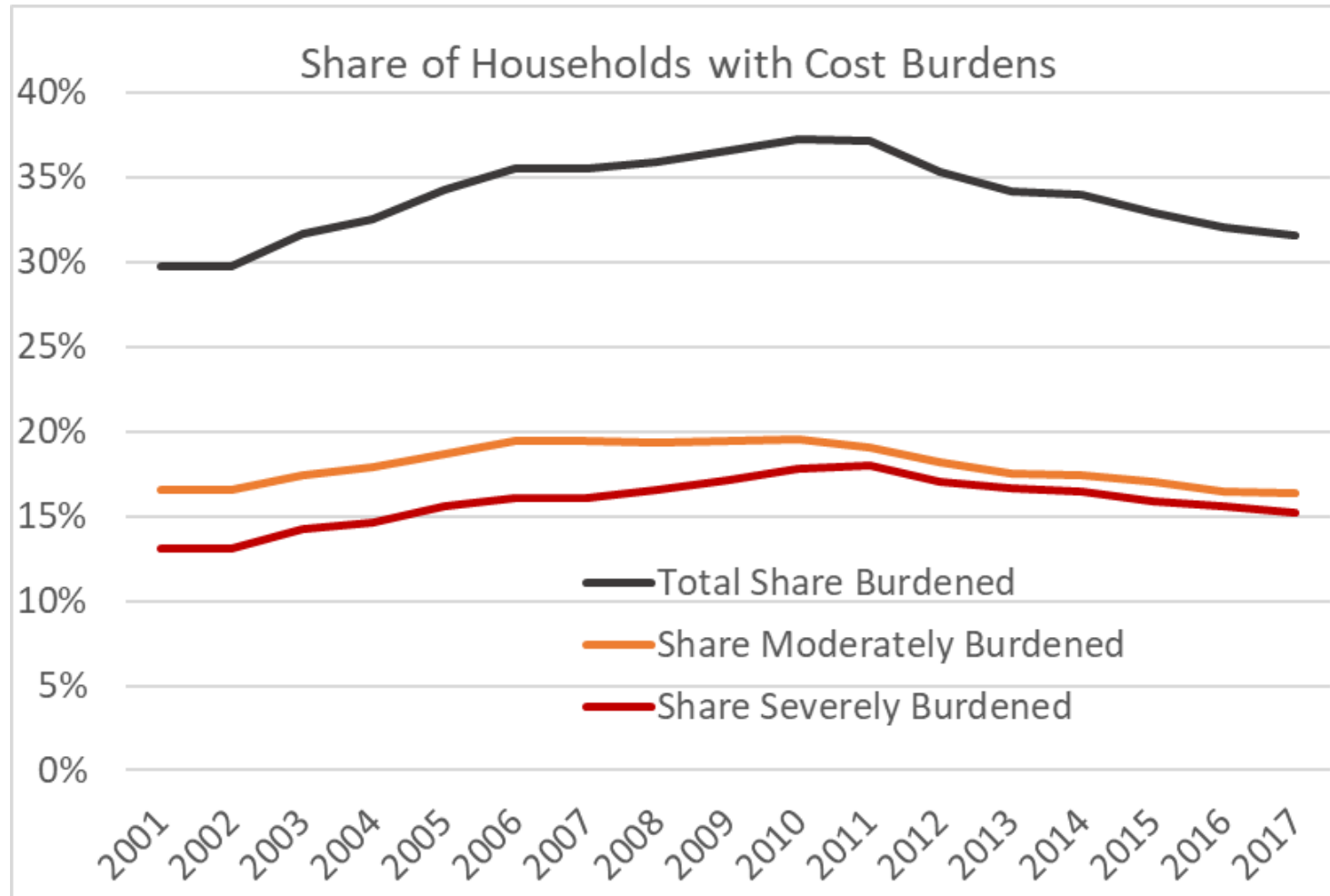
Measuring Housing Affordability

MBA Research and Economics

March 5, 2020

Housing Costs Burdens

The Share of Households with Housing Cost Burdens Has Improved Since the Great Recession—But Remains Elevated



The share of households—both renters and owners—with housing cost burdens increased during the “housing boom” as home prices and rents increased faster than incomes. In 2010, 43 million households (three out of eight), faced cost burdens.

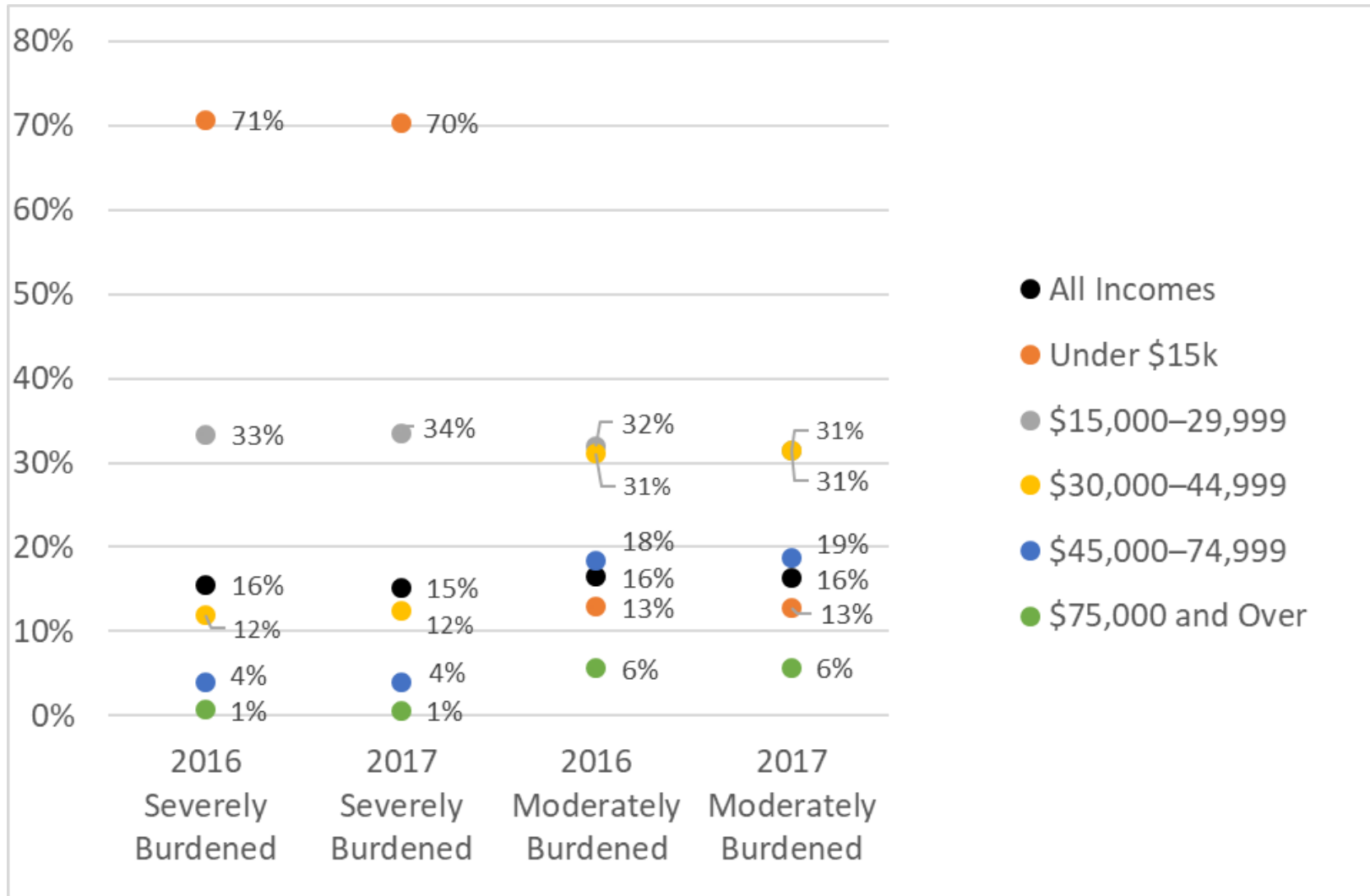
By 2017, rising incomes and declining interest rates meant that 38 million households (one in three) faced cost burdens.

Preferred Measure: Affordability measured by the ratio of housing expenditure to income, sometimes referred to as the “traditional” measure of affordability. The measure compares a household’s gross income to its housing costs, including rent, mortgage payments and real estate taxes and insurance.

“Severely burdened” households are those paying 50% or more of their income to housing costs.

“Moderately burdened” households are those paying between 30% and 50% of their income to housing costs.

Income Levels are a Key Driver of Housing Cost Burden



Income levels are a key driver of housing cost burden.

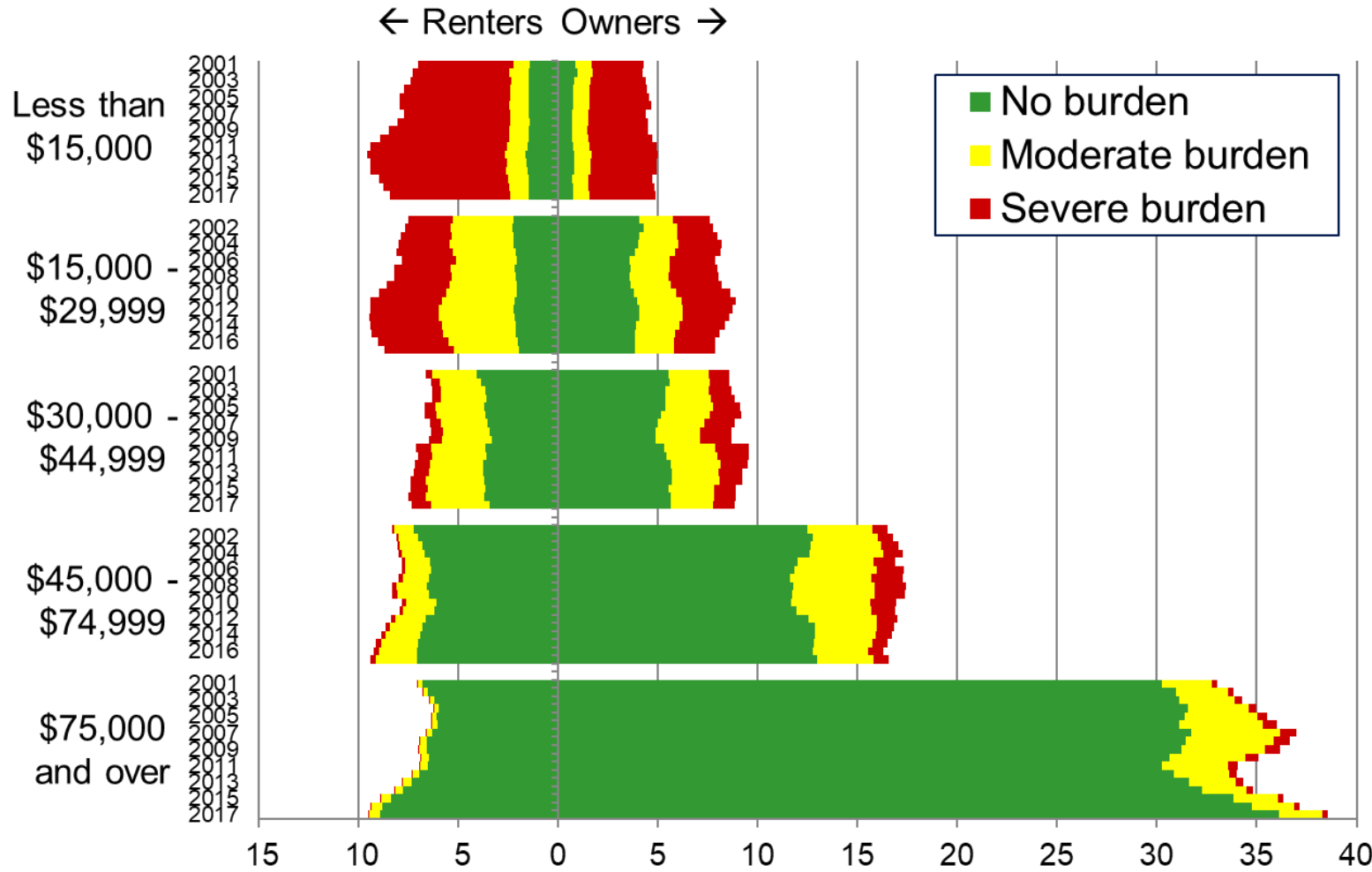
Lower income households are far more likely to face severe housing cost burdens than are other households. This is particularly true for those earning less than \$15,000 or between \$15,000 and \$29,999 per year.

Relatively large shares (31%) of households earning \$15,000 to \$44,999 are moderately burdened by their housing costs.

Even a small share of households earning \$75,000 or more are moderately burdened.

Cost Burdens Vary By Income, by Housing Tenure and by Time

Number of Households, by Real Income and Level of Housing Cost Burden, Selected Years (millions)



Housing costs burdens are experienced by renters and owners alike.

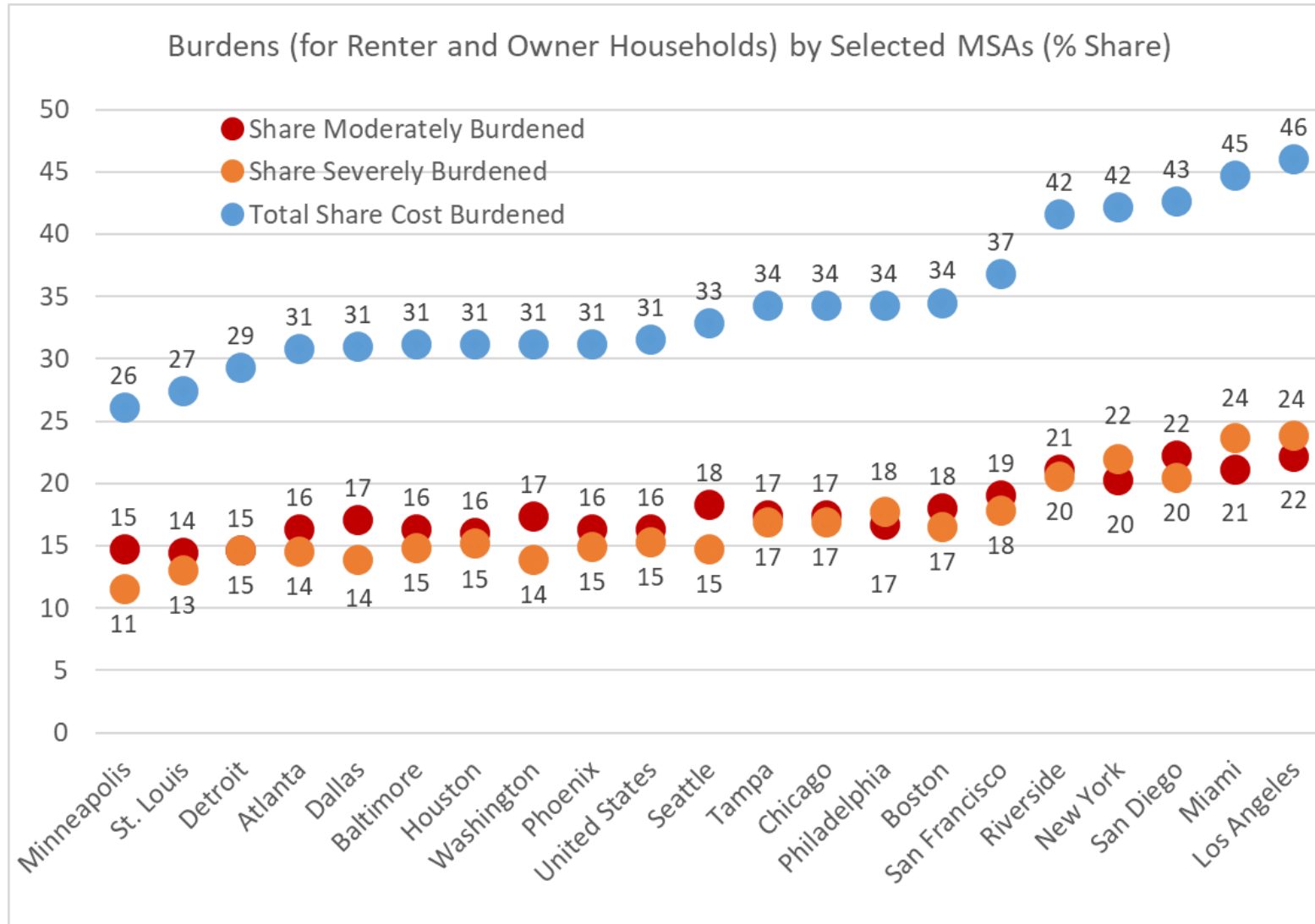
The fact that lower-income households are more likely to rent than to own, and that the rental market is composed of a higher share of low-income households, means that households with affordability challenges are more heavily concentrated in rental than ownership markets.

Growth in the number of low-income households during the great recession, and more recent declines, have been a key driver of overall affordability metrics.

Source: MBA and JCHS



Housing Cost Burdens are More Pronounced in Certain Markets



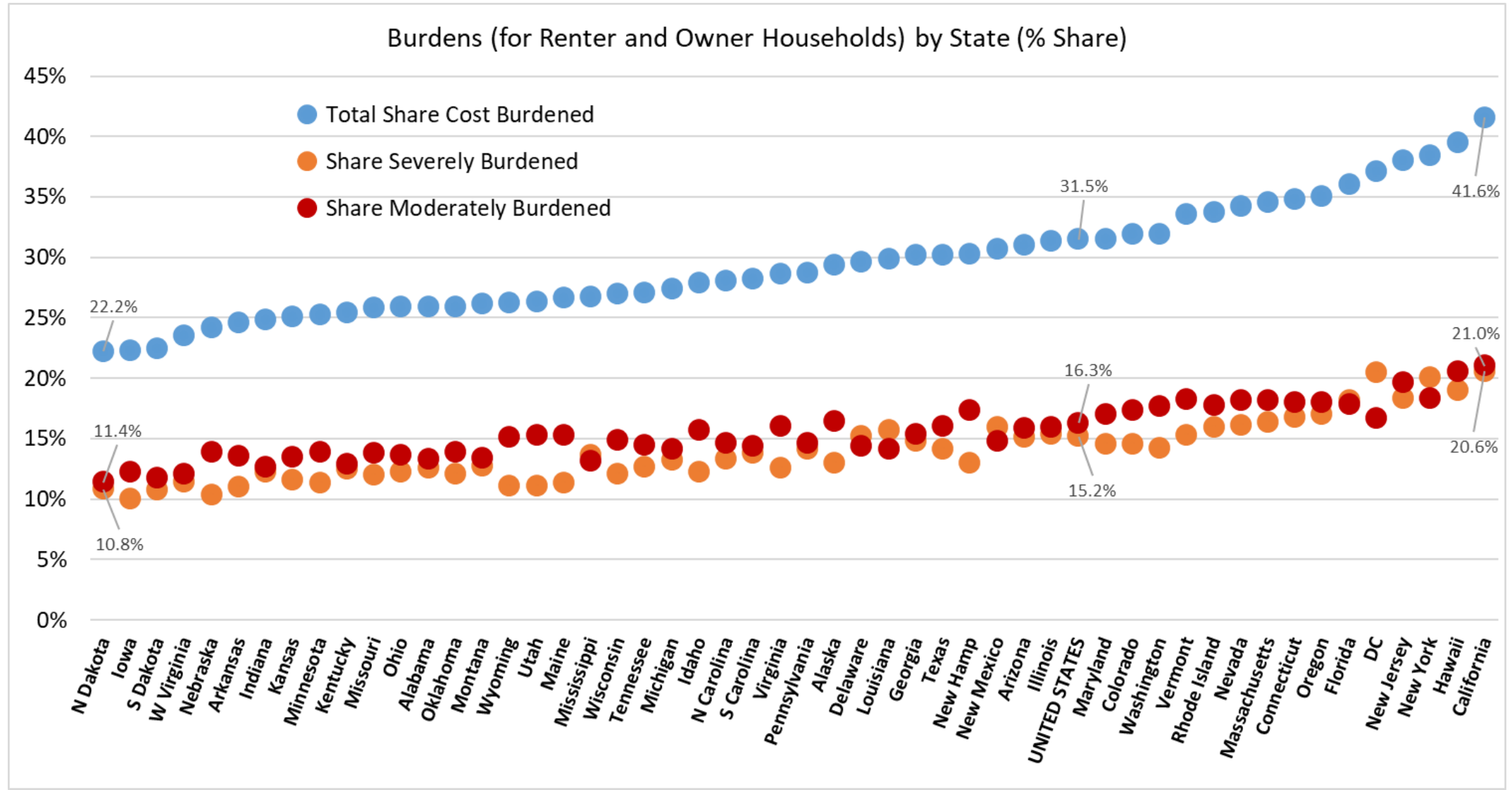
In addition to varying by income levels, affordability varies significantly by market. In general, larger, denser, higher-cost coastal markets face greater affordability challenges.

But higher income levels can offset some of the burden of higher housing costs.

Of note is San Francisco, where the median income for homeowners is \$130,000 versus \$75,000 for the United States. More than one-third of renters in San Francisco earn more than \$100,000. High housing costs are partially met by high household incomes.

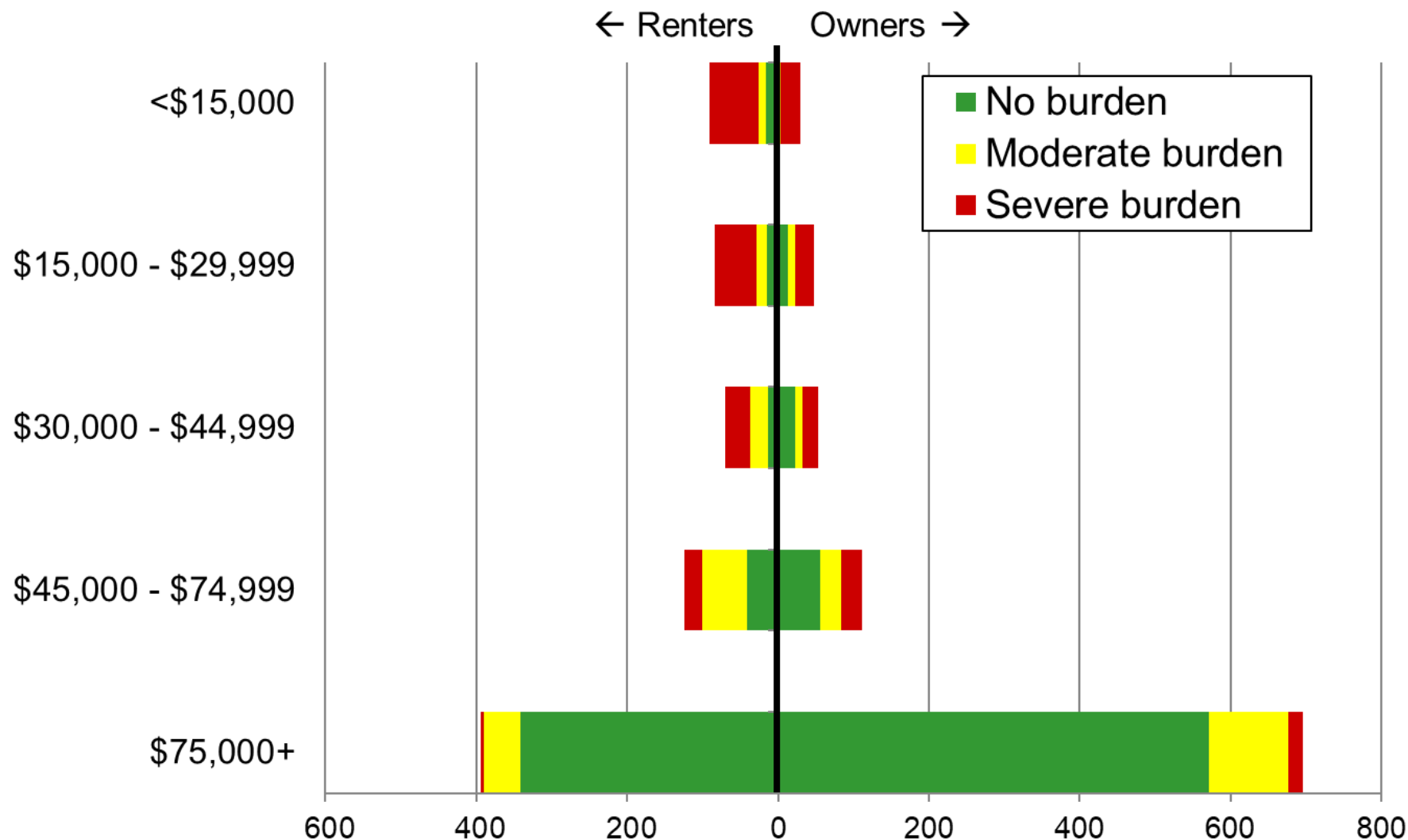
Affordability is the relationship between housing costs and incomes, and cost burdens are the most pronounced where costs and incomes most diverge.

Housing Cost Burdens are More Pronounced in Certain States

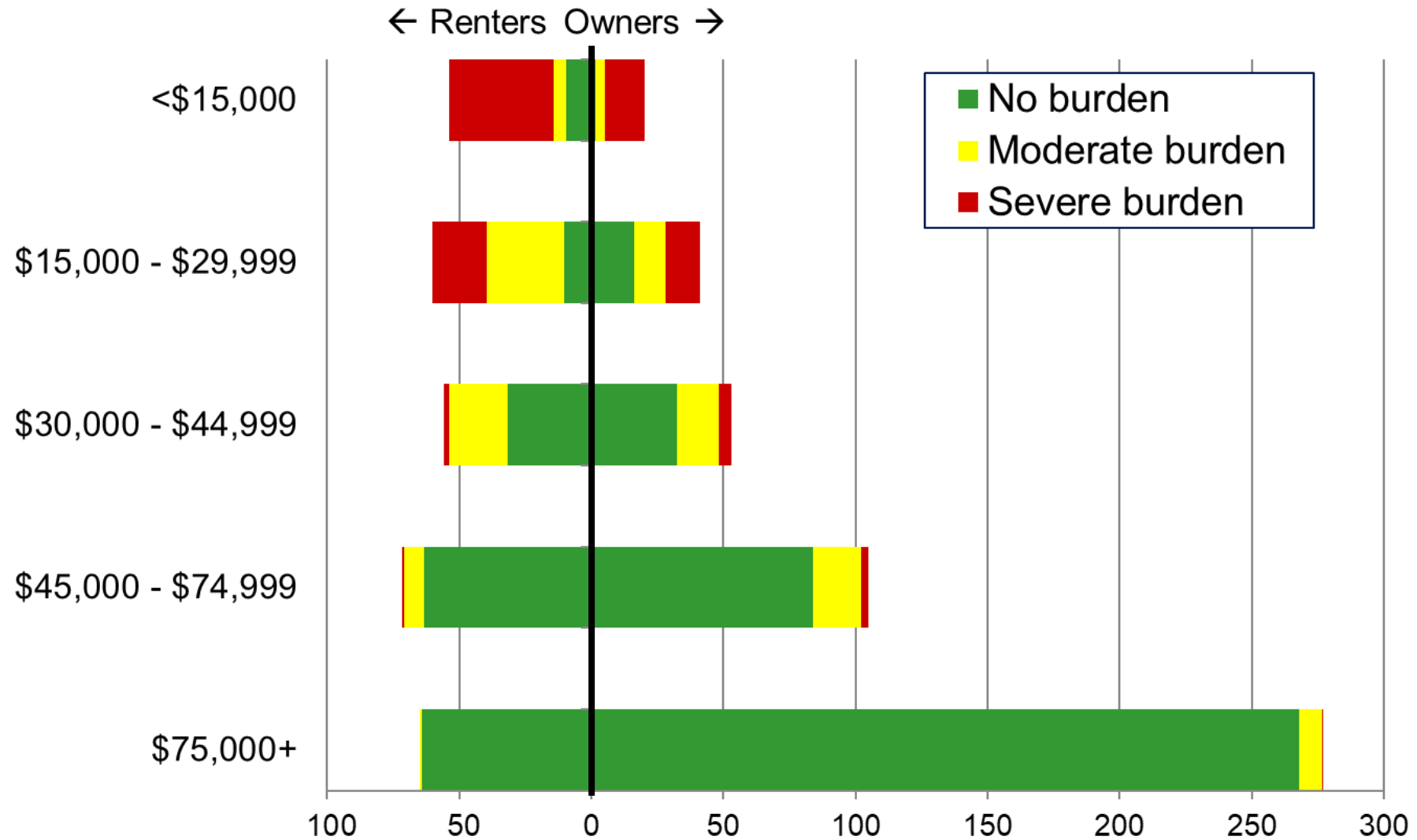


Source: JCHS tabulations of ACS 2017 1-year Estimates

SAN FRANCISCO-OAKLAND-BERKELEY CA - Number of Owner and Renter Households, by Real Income and Level of Housing Cost Burden, 2017 (000s)

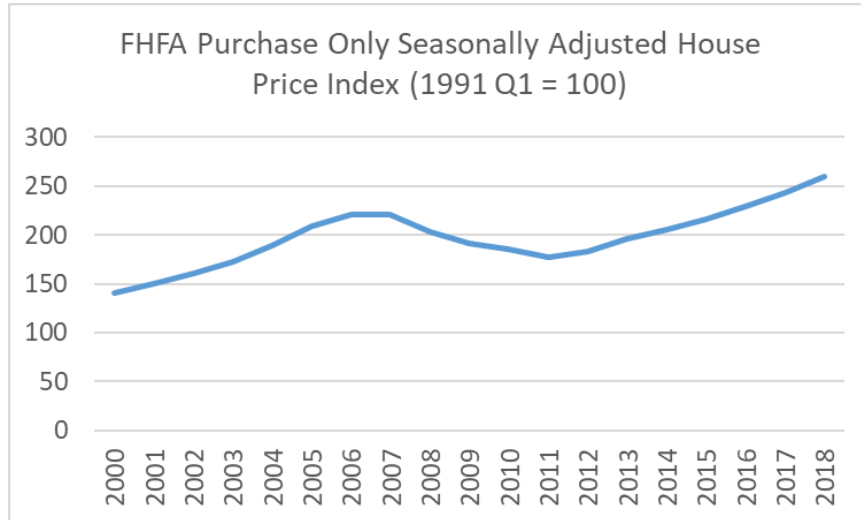


COLUMBUS, OH - Number of Owner and Renter Households, by Real Income and Level of Housing Cost Burden, 2017 (000s)



Affordability and Financial Access to Homeownership

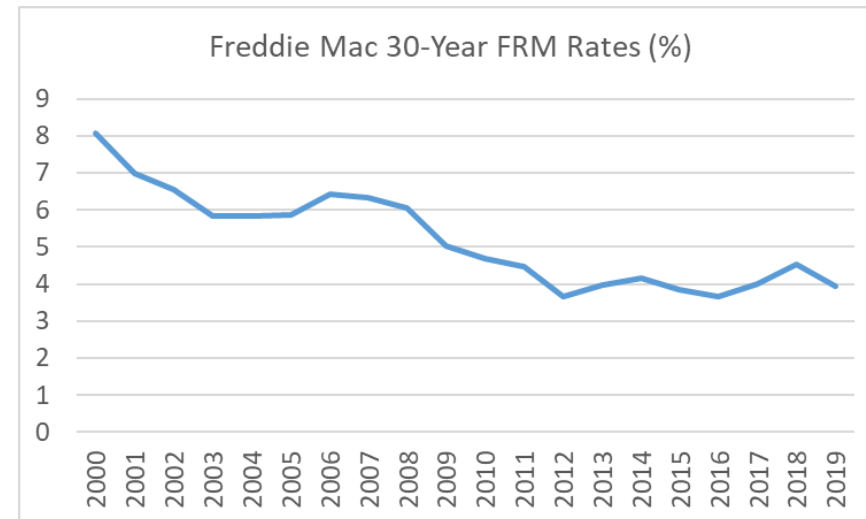
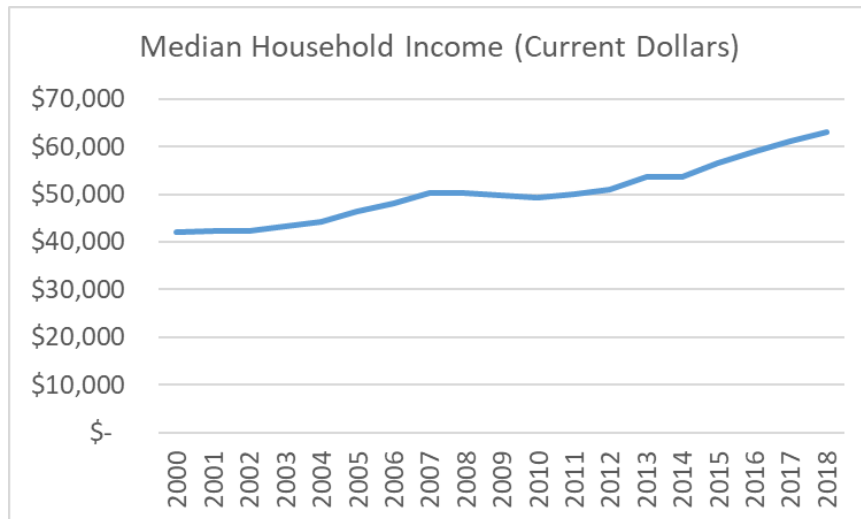
Financial Access to Homeownership is Driven by House Prices, Incomes and Interest Rates



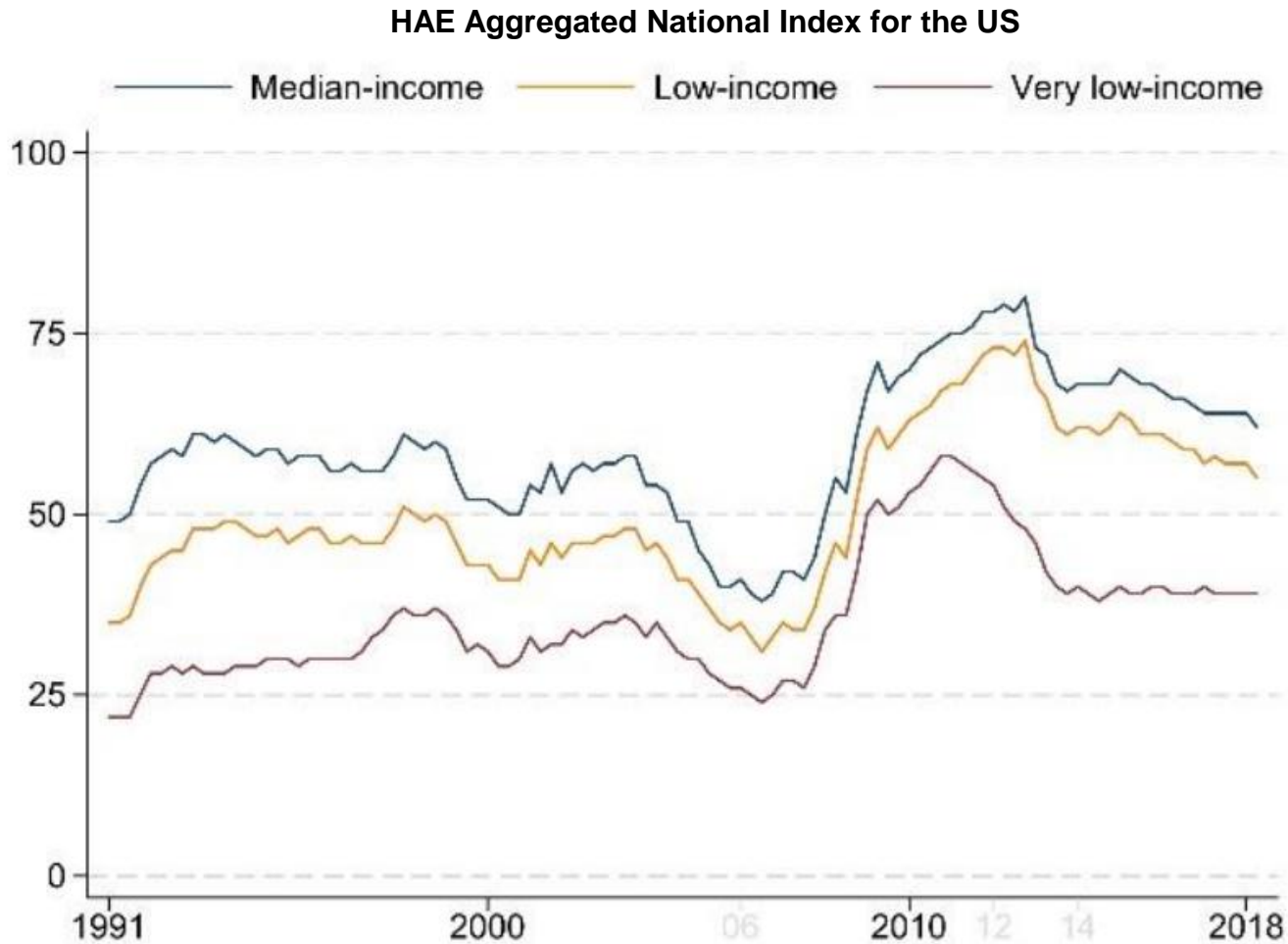
The ability of households to afford to purchase a home is driven by home prices, household incomes and interest rates, all of which have seen dramatic shifts over the last two decades.

Since 2001,

- Home prices are up 81%
- The median household income are up 50%
- Mortgage rates are down 49%



On a National Basis, Affordability to Purchase a Home is Relatively High



Financial access to homeownership improved after the financial crisis through the end of 2012, as home values and interest rates fell more than incomes, making the monthly cost of owning a home more affordable. In the last seven years affordability has trended downwards (as the rise in home values outpaced growing incomes and declining mortgage rates). Today, the affordability to buy a home remains above levels from 1990 through 2008.

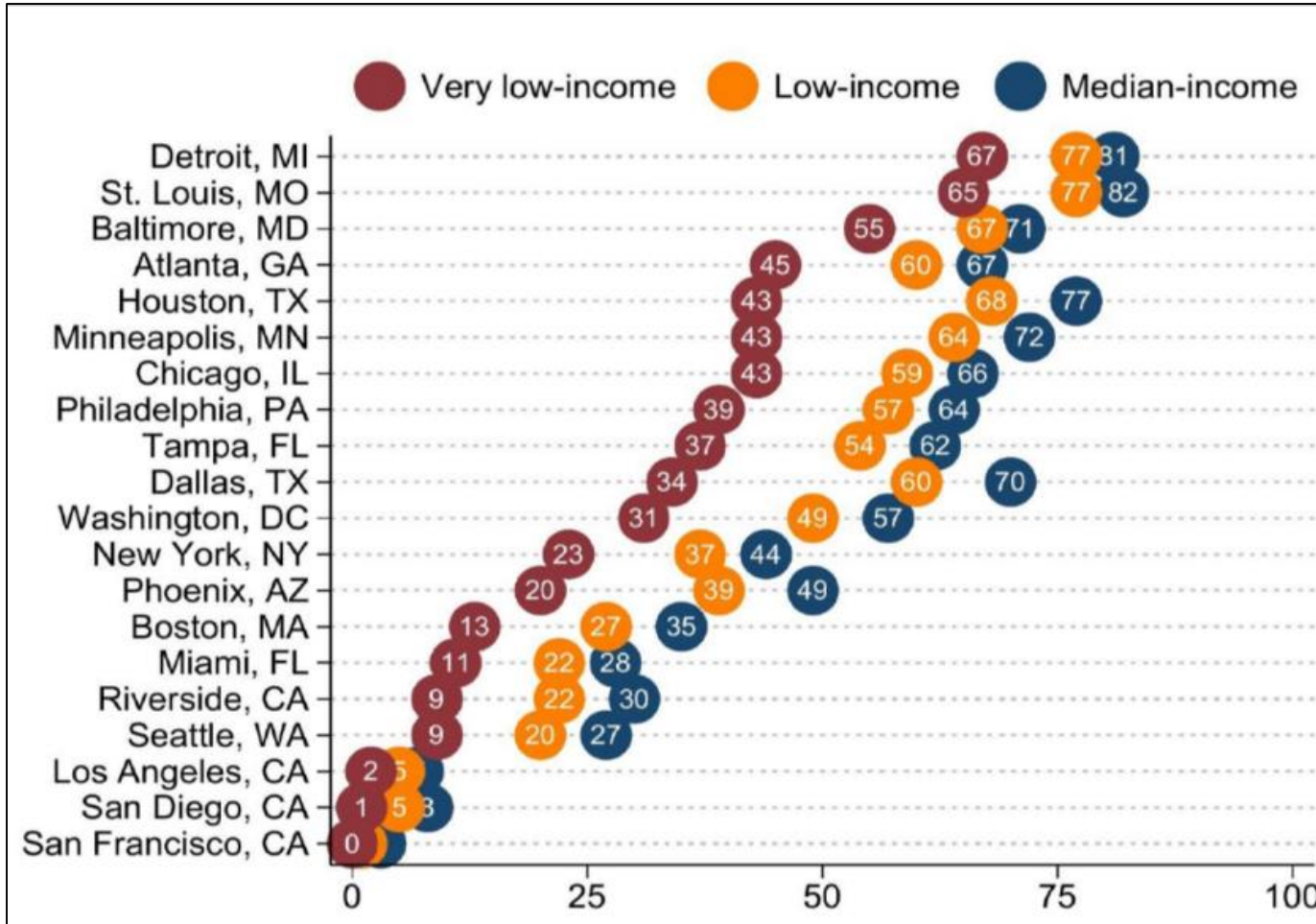
Preferred Measure: FHFA's Home Affordability Estimate (HAE) that focuses on the share of housing stock that is affordable to certain households (e.g., median-income, low-income households, etc.). Higher values imply greater affordability.

The methodology considers affordability as it relates to funds available for down payments, initial monthly housing-related payments, and future projections of household income and costs. It also ensures that households have enough income for non-housing expenses.

An HAE measure of 66 for median-income households means that 66% of the housing stock was affordable to the median income household at that time.

Financial Access to Homeownership Varies Widely by Market

Using HAE to contrast affordability for different income groups across select MSAs



Financial access to homeownership varies significantly by market – depending on the relationships between home prices and incomes in those areas.

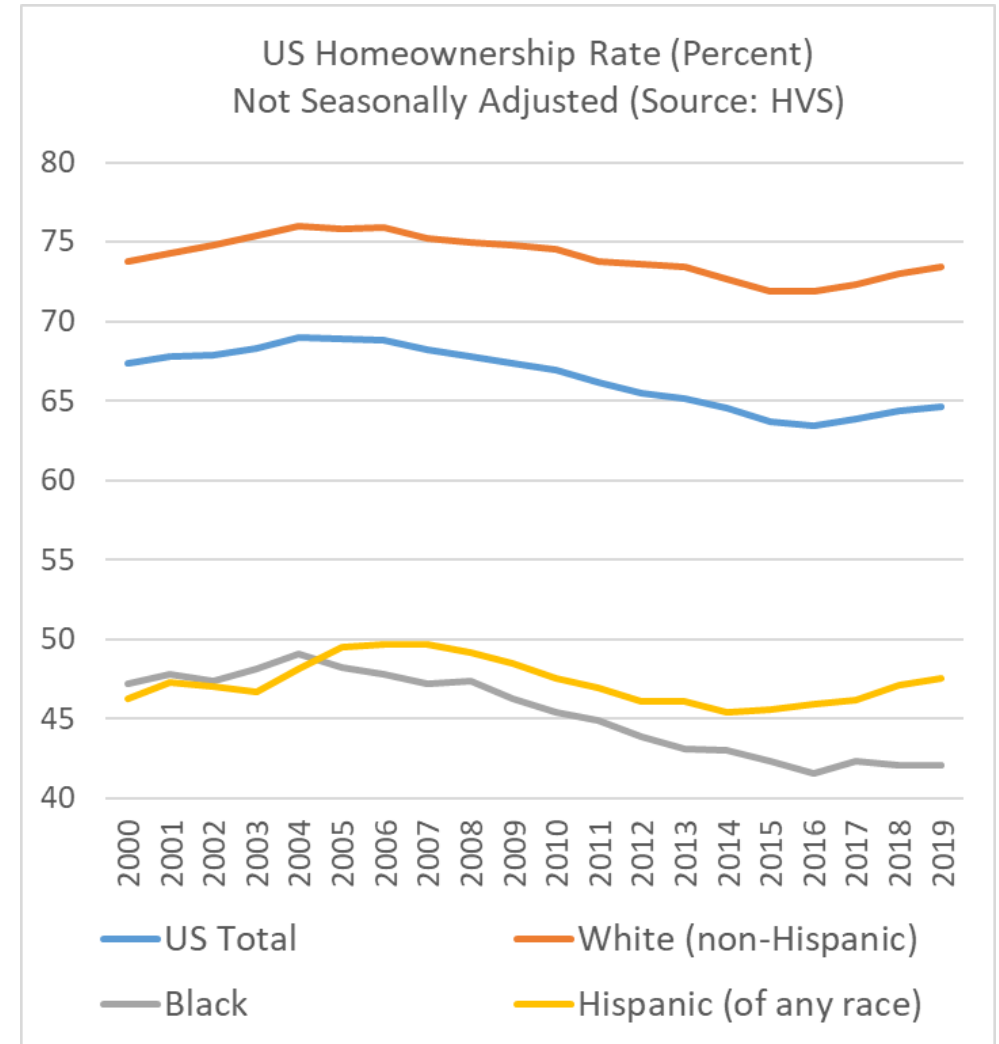
Some MSAs are relatively affordable. In Chicago, for example, 66% of the housing stock was affordable to purchase by the median income household in 2018 Q2, 59% by low-income households and 43% by very low-income households.

In Los Angeles, San Diego and San Francisco, less than 8% of the stock was affordable to the median household and less than 2% to very low-income households.

Financial access to homeownership varies considerably by geography.

A Look at Columbus: Certain Population Groups Face Key Challenges

- The 2018 Q2 HAEs for Columbus, OH were 75, 69 and 55 for median-income, low-income and very low-income households respectively.
 - It is one of the more affordable places in the US and financial accessibility to homeownership is high. *
- Yet, the homeownership rate for Franklin County was 53.4%**
- Why?
 - There are large gaps in homeownership between different groups (e.g., by race, age and income).
 - For example, the black/African American population in Franklin County is 24% (vs. 13% for Ohio).
 - The difference highlights, among other possible factors, the four key challenges to access homeownership:
 - Information gaps, trust gaps, market gaps and resource gaps.
- **Bottomline:** The affordability index is an input into understanding the situation in a locality, but it is not a stand alone number.

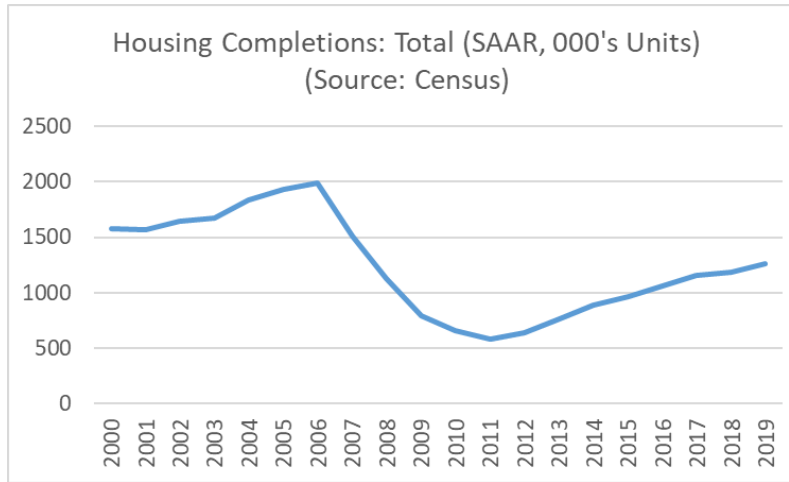
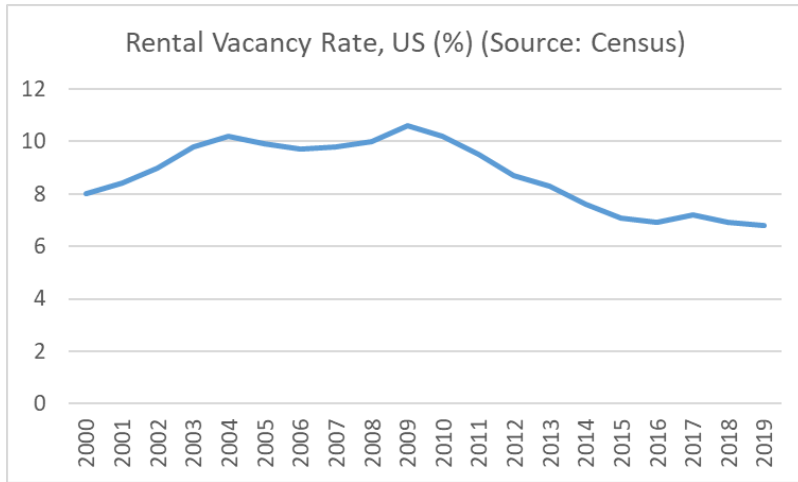


* While FHFA has not published HAE data for Memphis, the HOI data reveal that it is also a relatively affordable market.

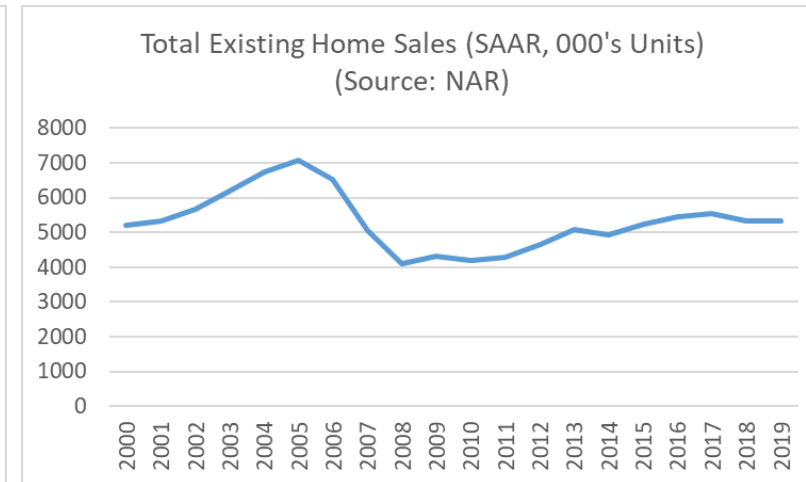
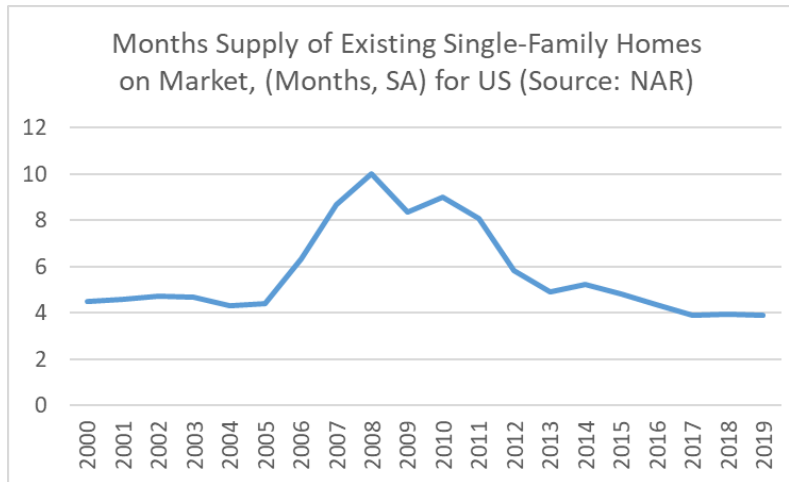
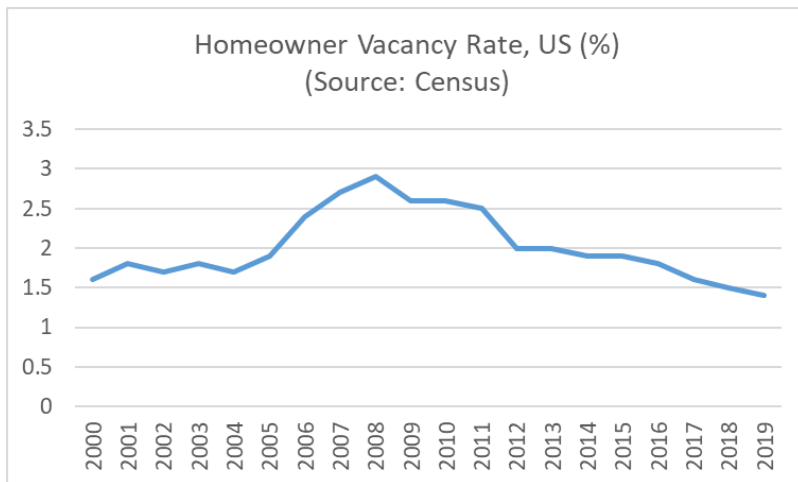
** Source: 5-year ACS 2014-2018 estimates.

Availability/Supply

Across a Number of Measures, the Supply of Homes Available is Extremely Low

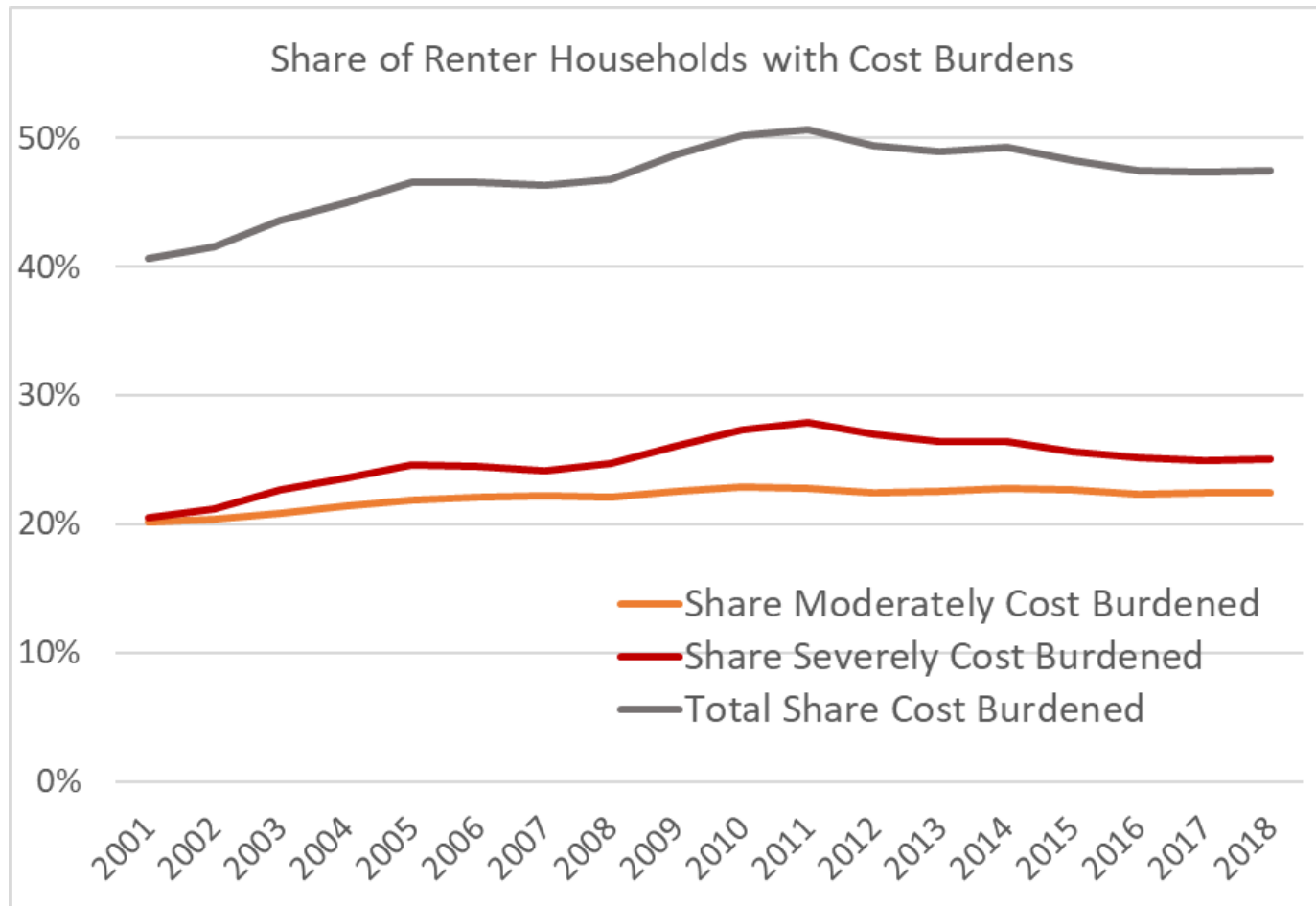


A common complaint in the market today is the lack of availability of houses to buy or rent. A household may be ready to move, but unable to find an available house that meets their criteria. This lack of supply is seen the low numbers of homes that are vacant, being built, available for sale and recently sold.



Appendix

On a National Basis, Cost Burdens Have Improved Since the Great Recession—But Remain Relatively High



From 2011 to 2017 the percentage of renters paying at least 30% of their gross income for housing decreased modestly, but remained above the levels prior to the financial crisis. In 2018, the proportion ticked up to 47.5%. Of the nation’s 44 million renter households in 2018, more than 20 million were burdened, and over half of these were severely burdened.

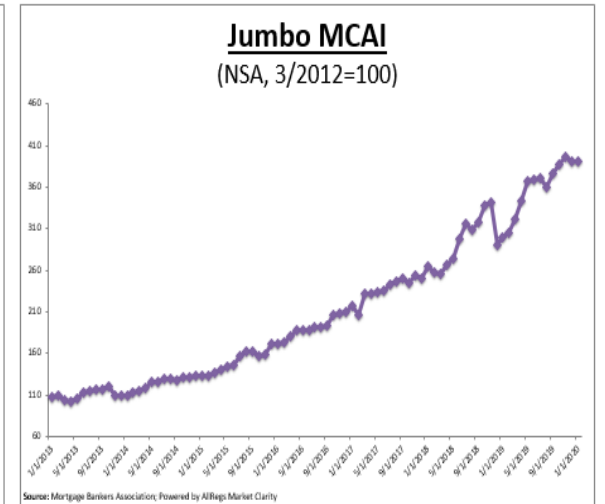
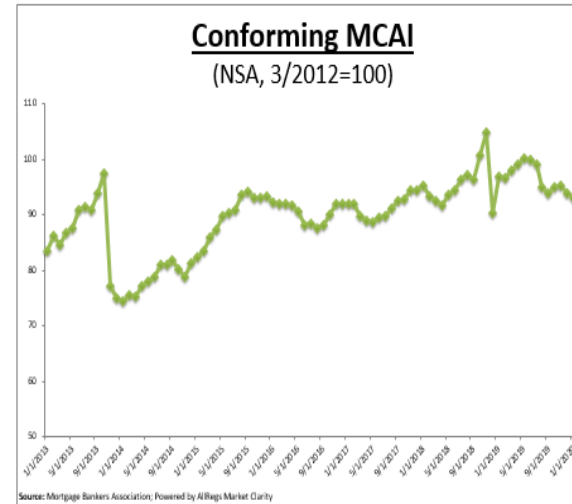
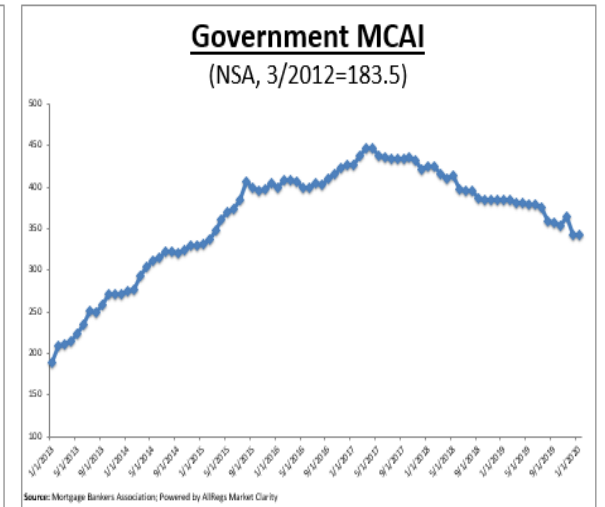
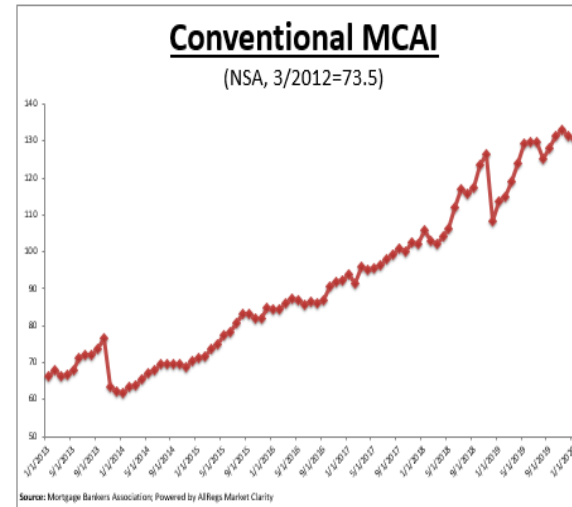
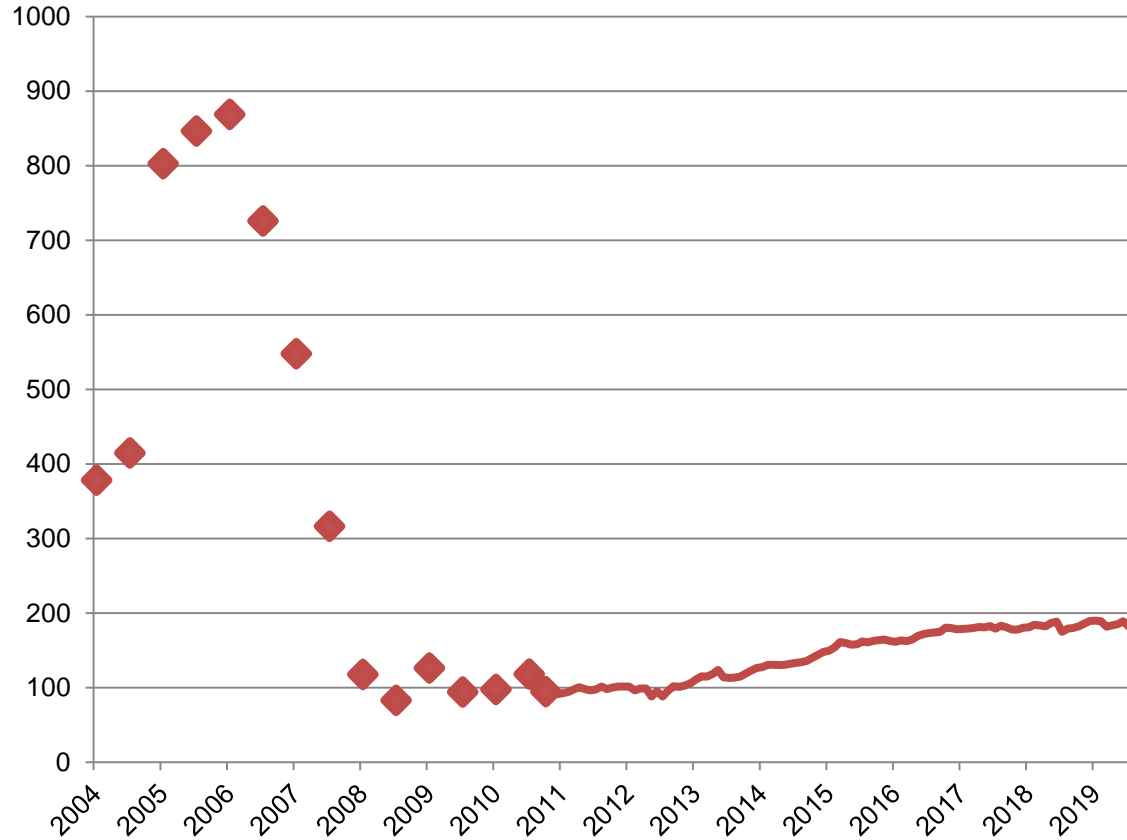
Preferred Measure: Affordability measured by the ratio of housing expenditure to income, sometimes referred to as the “traditional” measure of affordability.

The measure compares a household’s gross income to its housing costs, including rent, mortgage payments and real estate taxes and insurance.

It is a household-level metric that is simple to build and is widely used. For example, HUD uses a simple median based measure to define affordability and identify cost burdens and HUD’s definition has been adopted in JCHS studies, NHC’s Paycheck to Paycheck report, NLIHC’s Out of Reach and Gap reports and others.

Mortgage Credit Supply Trends

Expanded Historical Series: Mortgage Credit Availability Index
(NSA, 3/2012=100)



Contact Information and MBA Resources

Edward Seiler, Ph.D.

Housing Economist & Executive Director, Research Institute for Housing America | Research and Economics

(202) 557-2739

eseiler@mba.org

Jamie Woodwell

Vice President, Commercial Real Estate Research | Research and Economics

(202) 557-2936

jwoodwell@mba.org

MBA Research:

www.mba.org/research

RIHA:

www.housingamerica.org