

**Who Can Afford To Live in a Home?:**  
**A look at data from the 2006 American Community Survey**  
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US Census Bureau

With creative financing in the present day housing market, housing values are increasing and homeowners are taking chances with alternative financing methods and consequently putting their homes on the line. As evidenced in the Housing and Vacancy Survey Annual Report for 2007<sup>1</sup>, homeownership rates are decreasing for the US as a whole, and most states. Increasingly, householders are not able to afford the homes they are in, and are losing them. Renters also are facing increasing challenges in meeting their monthly housing costs. Utilities, real estate taxes, and insurance rates are increasing – costs that are be passed on to renters in increased rents.

The 2006 American Community Survey (ACS) shows that 46 percent of renters nationwide pay 30 percent or more of their income on housing costs. Thirty-seven percent of owners with mortgages and 16 percent of owners without mortgages spend 30 percent or more of their income on housing costs. Throughout the presentation, we will refer to “30 percent or more of income spent on housing costs” as “housing-cost burden.” In addition, for several figures we will further split the housing-cost burden into moderately housing-cost burden (30.0 to 49.9 percent of income spent on housing costs) and severely housing-cost burden (50% or more of income spent on housing costs).

*Why the 30 Percent of Income Standard for Housing Affordability?*

Talk of housing affordability is plentiful, but a precise definition of housing affordability is at best ambiguous. The conventional public policy indicator of housing affordability in the United States is the percent of income spent on housing. Housing expenditures that exceed 30 percent of household income have historically been viewed as an indicator of a housing affordability problem.<sup>2</sup> The conventional 30 percent of household income that a household can devote to housing costs before the household is said to be “burdened” evolved from the United States National Housing Act of 1937. The National Housing Act of 1937 created the public housing program, a program that was designed to serve those “families in the lowest income group.” Income limits rather than maximum rents were established for family eligibility to live in public housing; that is, a tenant’s income could not exceed five to six times the rent. By 1940, income limits gave way to the maximum rent standard in which rent could not exceed 20 percent of income – in practice, the same as the predecessor income limit standard. The Housing Act of 1959 maintained maximum rents, but it also gave local public housing authorities more autonomy in establishing them. By 1969, the escalation of rents by public housing authorities struggling to meet spiraling operation and maintenance costs nearly nullified the purpose of the public housing program established in 1937 to serve the nation’s neediest. To reverse this, the Brooke Amendment (1969) to the 1968 Housing and Urban Development Act, established the rent threshold of 25 percent of family income; that is, a

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<sup>1</sup> Callis, Robert and Cavanaugh, Linda, *Housing and Vacancy Survey Annual Statistics:2007*. Available [Online]: <http://www.census.gov/hhes/www/housing/hvs/annual07/ann07ind.html> [February 2008].

<sup>2</sup> “Housing Affordability: Myth or Reality?” *Wharton Real Estate Center Working Paper, Wharton Real Estate Center, University of Pennsylvania, 1992*

family would be required to pay one-quarter of its income in rent. By 1981, this threshold had been raised to 30 percent, which today remains the rent standard for most rental housing programs.

Because the 30 percent rule was deemed a rule of thumb for the amount of income that a family could spend and still have enough left over for other nondiscretionary spending, it made its way to owner-occupied housing too. Prior to the mid 1990s the federal housing enterprises (Fannie Mae and Freddie Mac) would not purchase mortgages unless the principal, interest, tax, and insurance payment (PITI) did not exceed 28 percent of the borrower's income for a conventional loan and 29 percent for an FHA insured loan. Because lenders were unwilling to hold mortgages in their portfolios, this simple lender ratio of PITI to income was one of many "hurdles" a prospective borrower needed to overcome to qualify for a mortgage. There are other qualifying ratios as well; most of which hover around 30 percent of income. The amount of debt outstanding and the size and frequency of payments on consumer installment loans and credit cards influence the lender's subjective estimation of prospective homebuyers' ability to meet the ongoing expenses of homeownership. Through the mid 1990s, under Fannie Mae guidelines for a conventional loan, total allowable consumer debt could not exceed eight percent of borrower's income for conventional mortgage loans and 12 percent for FHA-insured mortgages. So through the mid 1990s, underwriting standards reflected the lender's perception of loan risk. That is, a household could afford to spend nearly 30 percent of income for servicing housing debt and another 12 percent to service consumer debt. Above these thresholds, a household could not afford the home and the lender could not afford the risk. While there are many underwriting standards, none of them made their way into the public policy lexicon like the 30 percent of income indicator of housing affordability.

The mid to late 1990s ushered in many less stringent guidelines.<sup>3</sup> Many households whose housing costs exceed 30 percent of their incomes are choosing then to devote larger shares of their incomes to larger, more amenity-laden homes. These households often still have enough income left over to meet their non-housing expenses. For them, the 30 percent ratio is not an indicator of a true housing affordability problem but rather a lifestyle choice. But for those households at the bottom rungs of the income ladder, the use of housing costs in excess of 30 percent of their limited incomes as an indicator of a housing affordability problem is as relevant today as it was four decades ago.

### *Objective*

This poster examines the ability of different demographic groups to comfortably afford to pay for their renter or owner related costs. It also looks at the disparities in different areas of the country.

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<sup>3</sup> "Review of Selected Underwriting Guidelines to Identify Potential Barriers to Hispanic Homeownership", U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 2006

## *Data*

This poster uses data from the 2006 American Community Survey (ACS). The American Community Survey is a nationwide survey designed to provide communities a fresh look at how they are changing. It will replace the decennial long form in future censuses and is a critical element in the Census Bureau's reengineered 2010 census.

The ACS is a vehicle for providing the data communities need every year instead of once in ten years. Now that the survey is in full implementation, data are collected from housing units and group quarters in every county of the United States. The survey includes approximately three million households every year. Data are collected by mail and Census Bureau staff follow up with those who do not respond.

As with the decennial census long form questionnaire, the ACS will provide estimates of demographic, housing, social, and economic characteristics every year for all states, as well as for all cities, counties, metropolitan areas, and population groups of 65,000 people or more.

For smaller areas, it will take three to five years to accumulate sufficient sample to produce data into averages for areas as small as census tracts. These averages can be updated every year. Eventually, we will be able to measure changes over time for small areas and population groups.

Monthly owner costs come from questions on the following:

- Mortgage
- Second mortgage and/or home equity loans
- Real estate taxes
- Homeowners insurance
- Condo fee (if applicable)
- Mobile home cost (if applicable)
- Utilities – Electricity, Gas, Water and Sewer, and Other Utilities

Monthly gross rent costs come from the following questions:

- Contract rent
- Utilities – Electricity, Gas, Water and Sewer, and Other Utilities

These two items are divided by monthly household income to calculate monthly owner costs as a percentage of income, and gross rent as a percentage of income.

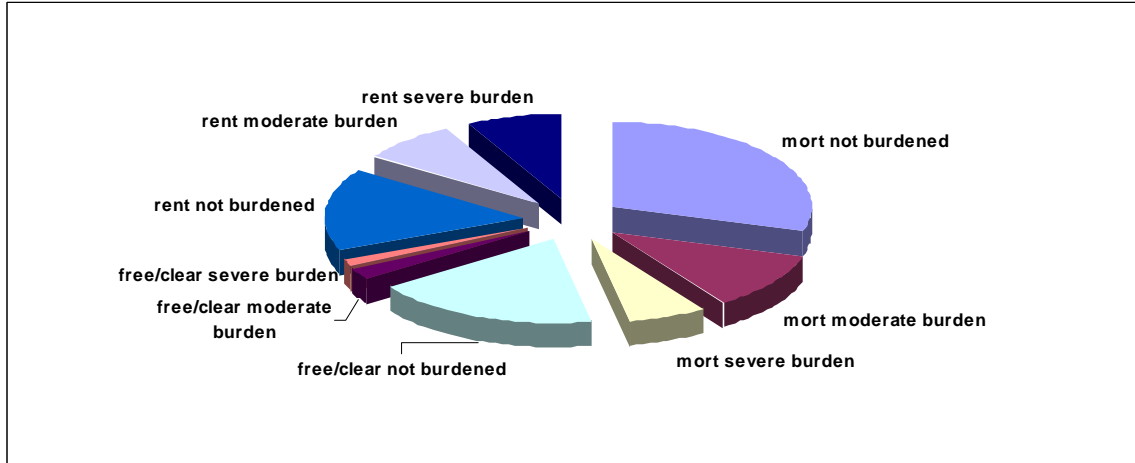
## *Methods*

The ACS questionnaire captures the housing related expenses specified above as reported by the respondent. This reflects the expenses for the household.

We will look at the monthly housing costs as a percentage of income as a proxy of “affordability” of suitable housing. A household that pays 30 percent or more of their income on housing costs are considered to be burdened. We will determine the affordability for renters and owners with a mortgage. There will also be some tables for owners without a mortgage.

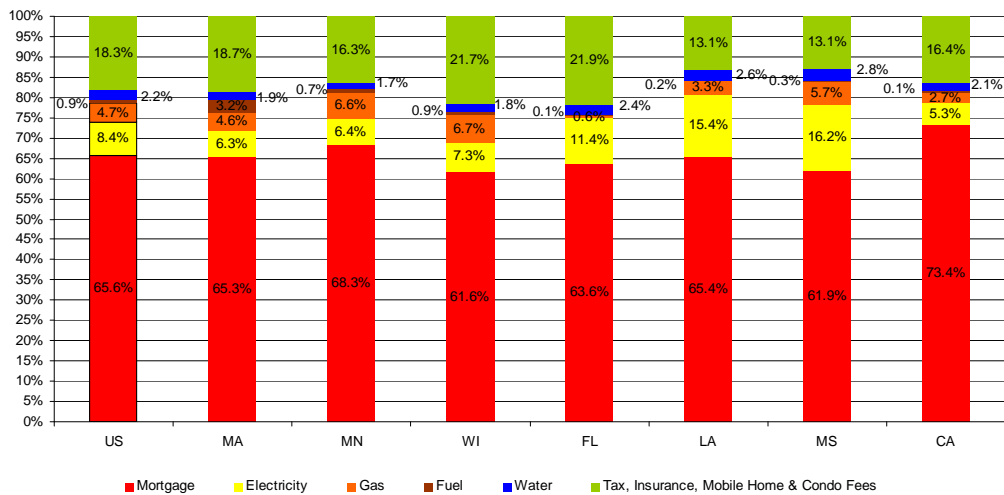
We will examine this characteristic for householders by age, race, Hispanic origin, and income. We will also display data on housing burden for different geographic areas.

**Figure 1 - Percent of Occupied Housing Units by Housing-Cost Burden: 2006.**



This graph shows the percent of housing units in the United States that are owned with a mortgage, owned free and clear and rented. It further breaks down each tenure category by those without burden (under 30% of income spent on housing costs), with moderate burden (30% to 49.9%), and severe burden (over 50%). Mortgaged households comprise the highest percent of occupied housing units. Mortgaged owners have the highest overall share of housing-cost burden. Renters have the highest share of severe burden.

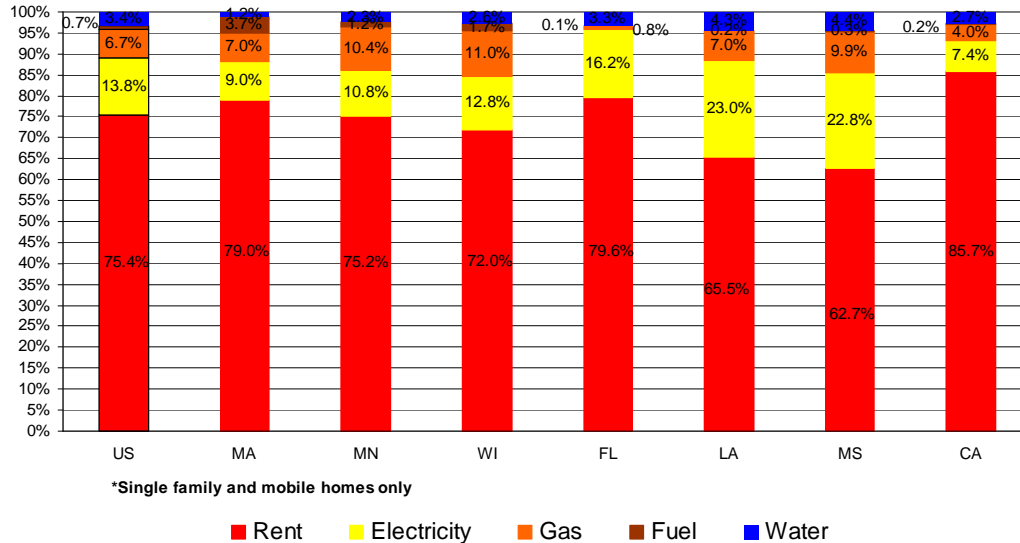
**Figure 2 – Share of Mortgaged Owner Costs Attributable to Components of SMOC for the U.S. and Selected States: 2006**



The relative contributions of the “components” of housing costs vary by state. For those units owned with a mortgage, the SMOC, or selected monthly owner costs, are comprised

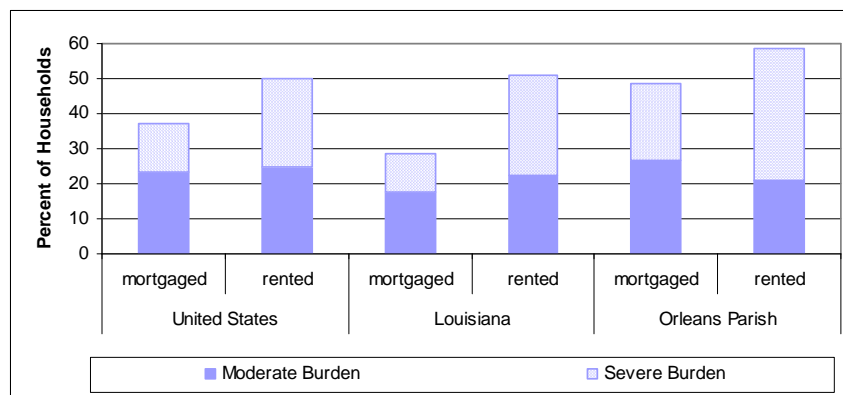
of mortgage, second mortgage, home equity loan or line of credit, utilities (electricity, gas, other fuels, water), real estate taxes, property insurance, and any mobile home costs or condominium fees that may be applicable.

**Figure 3 - Share of Renter Costs for Single-family Homes Attributable to Components of GRNT for the U.S. and Selected States: 2006**



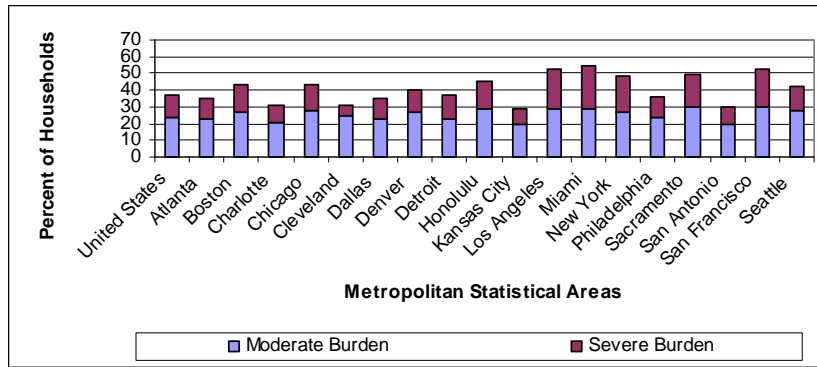
For those units that are rented, the GRNT, or gross rent, is comprised of rent and utilities (electricity, gas, other fuels, water and sewer).

**Figure 4 – Housing-Cost Burden and Severe Burden for the US, Louisiana, and Orleans Parish : 2006.**



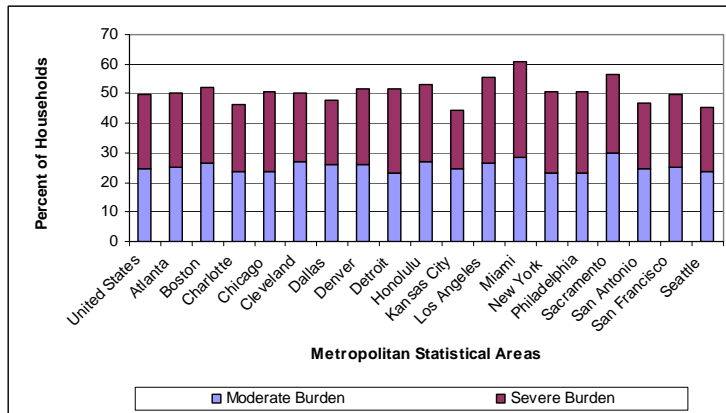
This graph shows those households considered housing-cost burdened for the three areas mentioned, split out by moderately and severely housing-cost burden. Renters in Orleans Parish pay a higher percent of household income than owners or renters in the United States or in the state of Louisiana. Orleans Parish also has a higher percentage of renters paying more than 50% of their household income on housing than those owners with severe burden in the U.S., Louisiana, or Orleans Parish.

**Figure 5 – Housing-Cost Burden for Owners with Mortgaged Housing Units in Selected Metropolitan Areas: 2006**

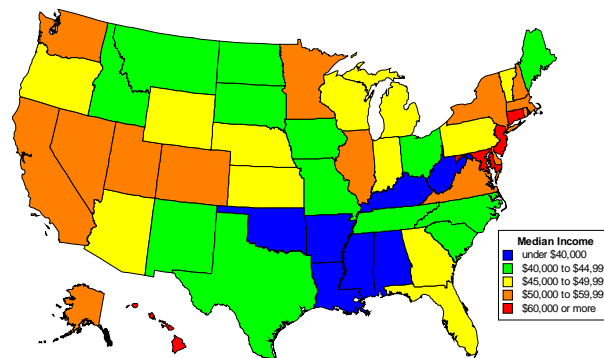


Figures 5 and 6 show variation in burden, moderate burden and severe burden for mortgaged and rented housing units in several metropolitan statistical areas (MSAs) and the US.

**Figure 6 – Housing-Cost Burden for Renters in Selected Metropolitan Areas: 2006**

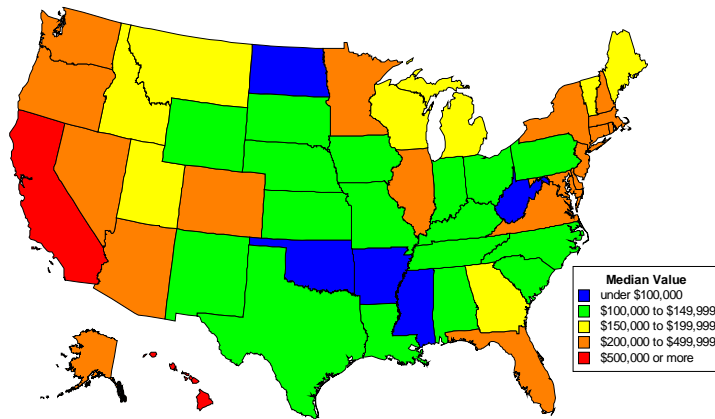


**Figure 7 - Median Household Income by State: 2006**



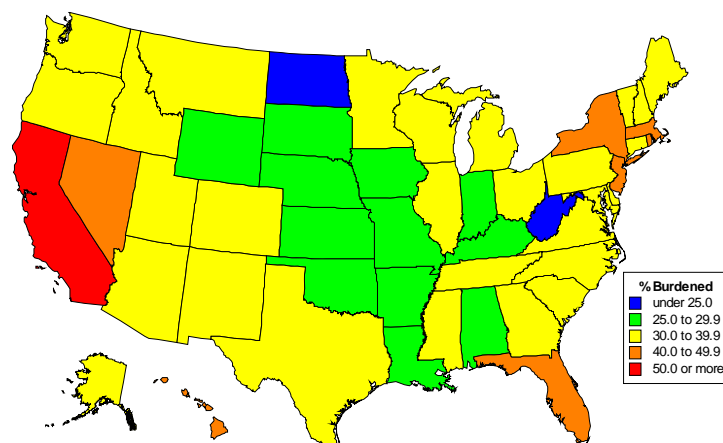
Maryland, New Jersey, and Connecticut have higher median incomes than any other state. Mississippi and West Virginia have the lowest median household income.

**Figure 8 - Median Property Value by State: 2006**



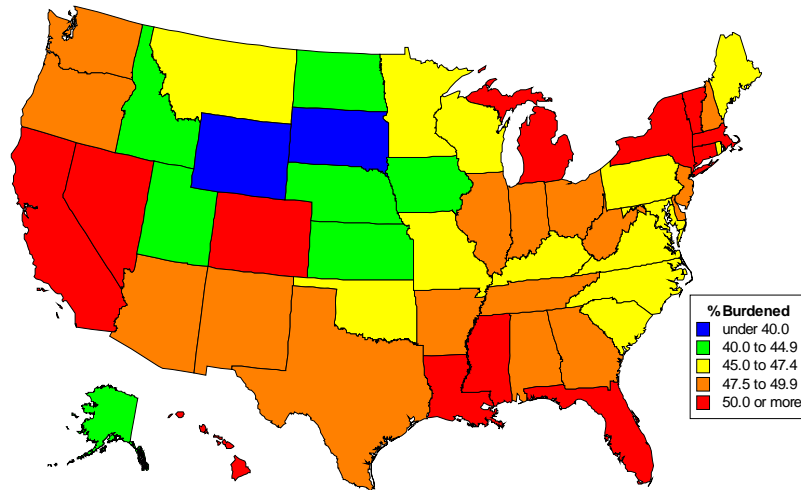
California and Hawaii have higher median values than all other states. Mississippi and West Virginia have the lowest property values.

**Figure 9 - Housing-Cost Burden for Owners with a Mortgage by State: 2006**



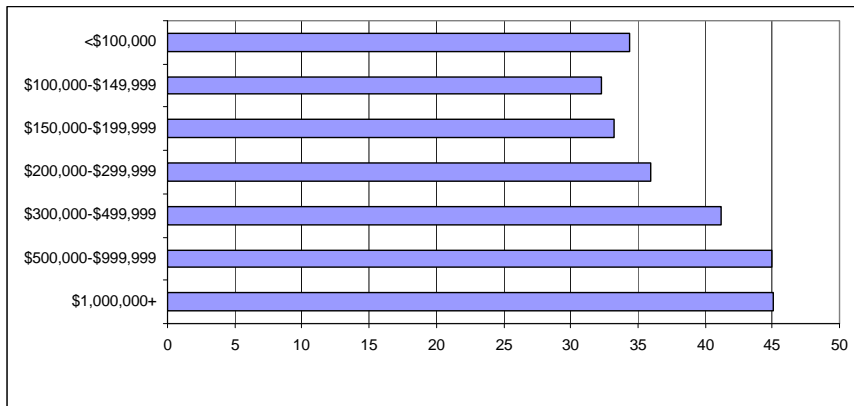
California has the highest percent of mortgaged homeowners with housing burden of any state in the United States. Hawaii, Nevada, Florida, New Jersey, Rhode Island, and Massachusetts had the highest burden after California, although burden for those states is similar.

**Figure 10 – Housing-Cost Burden for Renters by State: 2006**



FL and CA have the highest percent of renters with housing burden of any state in the United States.

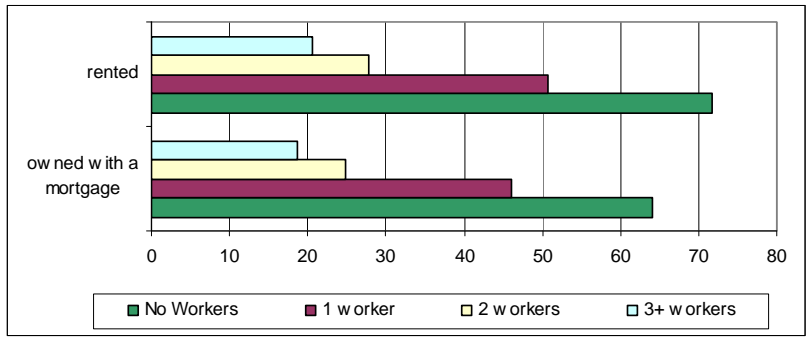
**Figure 11 – Housing-Cost Burden for Mortgaged Properties by Property Value: 2006**



Share of housing-cost for properties valued over \$100,000 increases as property value increases until it reaches \$500,000 or more, where it levels off.

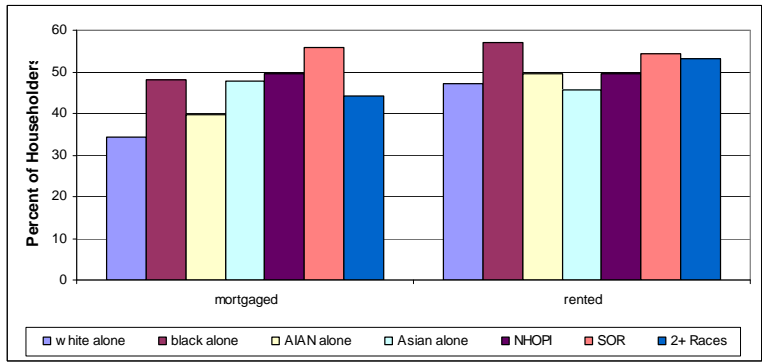


**Figure 12 – Housing-Cost Burden by Number of Workers in the Household: 2006**

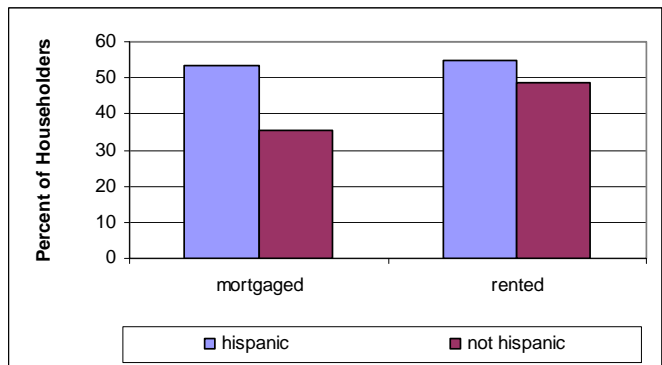


Households with no workers have the highest share of housing burden for both mortgaged and renter units. Households with three or more workers experience the lowest share of housing burden for mortgaged and renter units.

**Figure 13 – Housing-Cost Burden by Tenure and Race and Hispanic Origin of Householder: 2006**

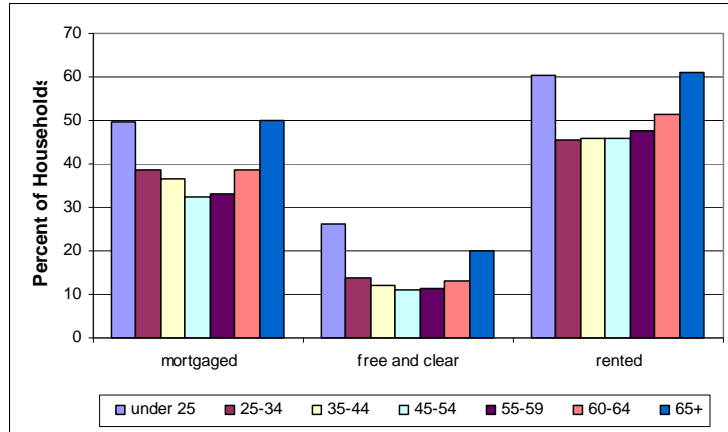


For mortgaged properties, householders with some other race had the highest share of housing burden. White householders had the lowest share of housing-cost burden.



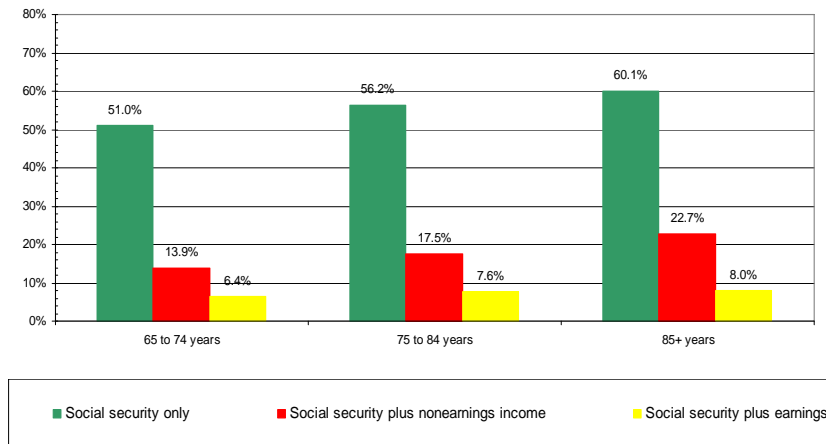
Hispanic householders have higher share of housing-cost burden than non-hispanic householders for owners with mortgages and renters.

**Figure 14 – Housing-Cost Burden by Age of Householder: 2006**



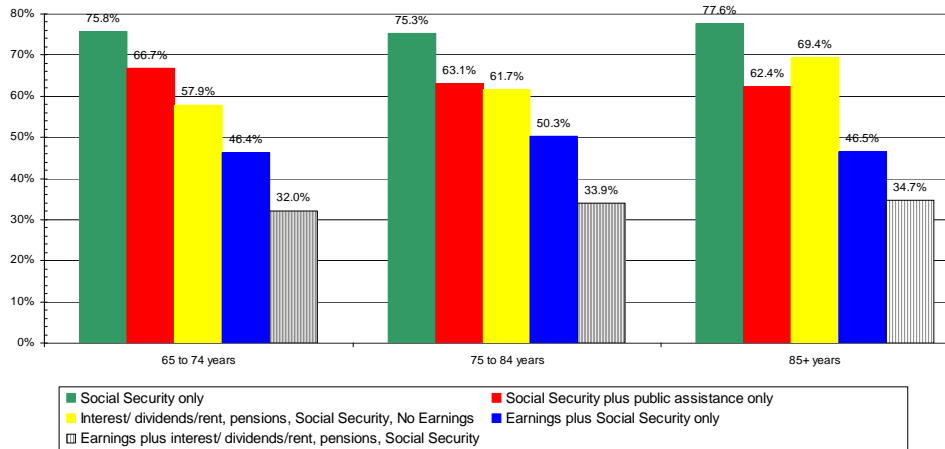
Younger (under 25) and older (65 or older) householders experience similar rates of housing burden to each other, but higher than other age groups for mortgaged, free and clear, and rented housing units.

**Figure 15 - Share of Older Homeowners without Mortgages with Housing-Cost Burden by Age and Income Source: 2006**



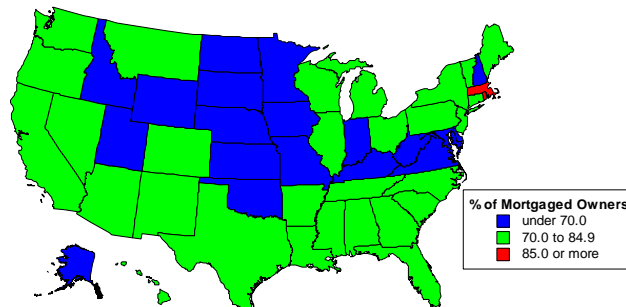
Housing policy often focuses on elderly households. Many of the HUD programs are targeted to the elderly. Many financial market innovations, including reverse annuity mortgages, and local property tax relief programs are geared toward the older homeowners. Data from the 2006 ACS offer ample support for targeting the elderly, showing that many older homeowners and renters carry heavy housing-cost burdens (see also figure 16). This chart shows that large shares of older homeowners without mortgages living on social security only are housing-cost burdened. Shares of older homeowners without mortgages who are housing-cost burdened are lower for those with social security and other income.

**Figure 16 - Share of Older Renters with Housing-Cost Burden by Age and Income**  
**Source: 2006**



This chart shows that about three quarters of renters aged 65 and older with social security only spent 30 percent or more of their incomes on rent and utilities. The shares of renters who are housing cost-burdened are generally lower for those with social security and other income.

**Figure 17 – Severely Housing-Cost Burdened Mortgaged Homeowners in Bottom Income Quartile: 2006**

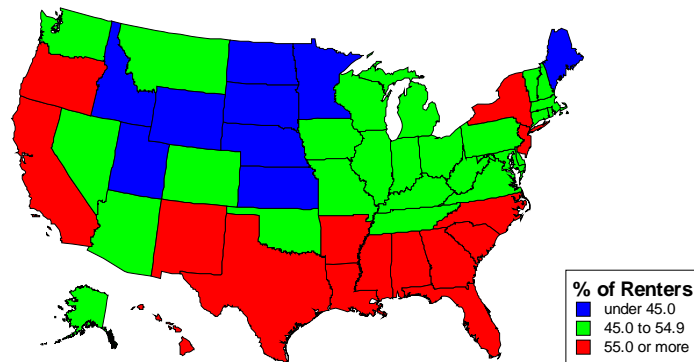


Homeowners on the lowest rungs of the income ladder suffer the most from high housing costs. Unlike higher income households, these households are often unable to enjoy quality of life after paying their housing expenses. In addition to their other burdens, households at the bottom rungs of income ladder are more likely to be severely housing cost-burdened. In the late 1980s, Michael Stone called these households that cannot meet their needs for food, clothing, medical care and transportation at some minimum level of adequacy after paying for housing “shelter poor.”<sup>4</sup> The American Community Survey does not collect data on consumer expenditures and thus cannot measure the true plight of low income households. Figures 17 and 18 then only tell part of the story for low income households. They show those households in the bottom income quartile (household income) paying 50% or more of their income on housing costs. The lowest income quartile for the nation is \$25,244 or less.

<sup>4</sup> Stone, Michael E, “Shelter Poverty: New Ideas on Housing Affordability”, Temple University Press, 1993

For mortgaged homeowners, ACS shows that in 31 states and the District of Columbia, 70 percent or more of mortgaged owners in the lowest income quartile spend 50% or more of their income on housing costs.

**Figure 18 - Severely Housing-Cost Burdened Mortgaged Renters in Bottom Income Quartile: 2006**



For renters, ACS shows that in 15 states and the District of Columbia, about 55 percent or more of renters in the lowest income quartile spend 50% or more of their income on housing costs.

## Results

Some of the results we found follow:

- Mortgaged households comprise the highest percent of occupied housing units and have the highest overall share of housing-cost burden.
- California has the highest percentage of mortgaged homeowners with housing-cost burden.
- Hispanic householders have a higher share of housing burden than nonhispanic householders.
- The rate of housing burden declines as the number of workers in the household increases.
- Younger (under 25) householders and older householders (over 65) have a higher share of housing-cost burden than other age groups.
- Generally, older householders with social security as the only source of income had a higher share of burden than those householders with other income sources.

Data from the 2006 American Community Survey is available by accessing <http://www.census.gov/acs/www/>

The 2006 Public Use Microdata Sample File (PUMS) can be accessed at <http://www.census.gov/acs/www/Products/PUMS/>

The 2006 Source and Accuracy Statement can be accessed at : <http://www.census.gov/acs/www/UseData/Accuracy/Accuracy1.htm>

Stay Tuned – Data from the 2007 ACS will be available in September 2008 and will be accessible at the websites given above.

**Note: This report is released to inform interested parties of ongoing research and to encourage discussion of work in progress. Any views expressed on methodological issues are those of the authors and not necessarily those of the U.S. Census Bureau.**