



Paycheck to Paycheck 2010 Executive Summary: Is housing affordable for America's workers?

Since the last release of *Paycheck to Paycheck* in April 2009, mortgage interest rates have dropped and a tax credit for first-time homebuyers has increased residents' buying power. These factors, along with a drop in median home prices in a majority of markets between the fourth quarter of 2008 and the fourth quarter of 2009, have helped to reduce the costs of buying a new home. On average, rents have risen moderately over this one-year period, and incomes have risen somewhat but have not kept pace with rents in many markets.

While more workers can afford typical housing costs in their community in 2009 compared with 2008, a substantial gap remains between many workers' salaries and the income needed for housing. Despite lower interest rates, relatively low home prices, and moderate rent increases, many workers are still unable to affordably buy a median-priced home or rent a typical apartment in the communities they serve. The somewhat higher-paid workers in the green economy – people who make the nation's homes and businesses more energy efficient and who help to produce clean and sustainable energy – are better able to afford housing than other working families but still struggle with housing affordability in many markets.

The new edition of *Paycheck to Paycheck* provides a snapshot of housing affordability for America's workers by looking at the wages for more than 60 occupations compared with home prices and rents in over 200 metropolitan areas.¹ The study also looks at trends in affordability for (1) 207 homeownership markets between the fourth quarter of 2008 and the fourth quarter of 2009 and (2) 198 rental markets. This year's *Paycheck* shines a particular focus on the housing challenges facing workers in the green economy.

Is homeownership more affordable in 2009 than 2008?

Although home prices rose or held steady in more than two-fifths of metro areas studied, the income needed to purchase a home dropped in almost all areas due to lower mortgage interest rates.

Between 2008 and 2009, home prices rose or held steady in 90 (43.5 percent) out of 207 metropolitan areas. Over the same time period, the income needed to purchase a median-priced home decreased in 193 metro areas (93.2 percent). A drop in mortgage interest rates reduced monthly mortgage payments (and the income needed to afford them) even in most of the markets in which home prices rose or

¹ The study includes home prices for 208 metropolitan areas in the fourth quarter of 2009 and Fair Market Rents for 210 metropolitan areas for Fiscal Year 2010 (the rents in effect during the fourth quarter of 2009). One metropolitan area (Mansfield, OH) does not have home price data for the fourth quarter of 2008. Due to HUD methodological changes, Fair Market Rents are not comparable between 2008 and 2009 in twelve of the metropolitan areas included in this study.

leveled off.² Among the metropolitan areas studied, the median reduction in the amount of income needed to purchase a home was 9.1 percent. In 22 markets (over half of which are in Florida), the income needed to afford the median-priced home dropped by 20 percent or more.

While the income needed to afford the median-priced home dropped in most areas, a small number of markets became less affordable. Even with lower interest rates, the income needed for homeownership held steady or increased in 14 markets and increased by more than five percent in Tallahassee, FL; Saginaw, MI; Santa Barbara, CA; and Scranton, PA.

It is also important to note that, due to ongoing constraints on the availability of credit, many families that have sufficient income to qualify for a mortgage may nevertheless be unable to obtain one at all or unable to obtain one at a reasonable interest rate.

Is rental housing more affordable in 2009 than in 2008?

Rents have increased in many metro areas and have occasionally surpassed monthly mortgage payments for a median-priced home.

Fair market rents held steady or increased between 2008 and 2009 in the vast majority of metropolitan markets.³ Just two areas (Oklahoma City, OK and Ann Arbor, MI) experienced a rent *decrease* of more than two percent. The median increase in rent for a two- bedroom unit over this time period was 2.8 percent. Rising rents may be due, in part, to increased demand for rental housing as families exit homeownership due to foreclosure and as renters wait for market stability before buying a home.

In 24 out of 208 metro areas, fair market rents for a two-bedroom unit are higher than the monthly mortgage payment for a median-priced home. Despite ownership costing less on a monthly basis in these markets, workers may need to keep renting due to a lack of access to credit or insufficient savings for a downpayment. Others may choose to rent, given the uncertainty in the labor market and still-falling home values.

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 the median-priced home is unaffordable even at today's relatively low prices. Even many workers in the growing green economy cannot afford to purchase a home of their own. For workers in more expensive areas, renting a typical two-bedroom apartment is also unaffordable.

Insulation workers: Of the five green economy occupations that are the focus of this edition of *Paycheck to Paycheck*, insulation workers fare the worst in terms of affordability. With salaries in the high \$30,000s to low \$40,000s, insulation workers cannot afford to buy the median-priced home in 163 out of 208 markets. Insulation workers cannot afford to rent a typical two-bedroom

² According to the Federal Housing Finance Agency's Monthly Interest Rate Survey, the effective interest rate on a 30-year fixed rate conventional mortgage went from 6.26 percent in November 2008 to 5.19 percent in November 2009.

³ Fair Market Rents are set by HUD based on the cost of a moderately-priced rental unit.

apartment in 68 markets – or around a third of the 210 rental markets studied. They can afford the rent for a typical one-bedroom unit in all but 29 markets.

Maintenance and repair workers: With salaries similar to insulation workers (the high \$30,000s to low \$40,000s), maintenance and repair workers cannot afford to buy a median-priced home in 159 out of 208 markets. Rent on a typical two-bedroom apartment is unaffordable in 64 out of 210 markets, and even a one-bedroom apartment is too expensive in 29 markets.

HVAC mechanics: With salaries ranging from the low \$40,000s to low \$50,000s, heating, ventilating, and air conditioning mechanics are better able to afford homeownership than some other workers, but nevertheless cannot afford to buy the median-priced home in 90 (43 percent) of 208 markets. Renting a typical two-bedroom apartment is unaffordable in just 15 markets, and the fair market rent for a one-bedroom apartment is unaffordable in just 8 markets, including Boston, MA; Edison, NJ; Honolulu, HI; and a few high-cost California markets.

Environmental engineering technicians: Environmental engineering technicians have a similar affordability profile to HVAC mechanics; they cannot affordably purchase the median-priced home in 90 (43 percent) of 208 markets. With salaries that range from the low \$40,000s to low \$50,000s, renting a typical two-bedroom apartment is affordable in all but 18 of the 210 areas studied. In four markets (Bethesda, MD; Washington, DC; Suffolk-Nassau, NY; and Honolulu, HI), even a one-bedroom apartment is unaffordable.

Electrical engineering technicians: With salaries that tend to be in the mid \$40,000s to high \$50,000s, electrical engineering technicians can afford to buy the median-priced home in nearly 60 percent of the markets studied. Yet even their comparatively high wages are not sufficient to afford the median-priced home in 86 markets (41 percent) across the country. In 12 markets, electrical engineering technicians cannot afford a typical two-bedroom apartment, and in Honolulu even a one-bedroom unit is too expensive.

Housing affordability has 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 median-priced home and, in some cases, cannot afford the fair market rent for an apartment for their family.

Retail Salespeople: With annual wages that tend to be in the low \$20,000s and have experienced a median increase of 1.3 percent between 2008 and 2009, retail salespeople continue to be priced out of renting a typical two-bedroom apartment in each of the markets studied. With rents increasing faster than retail salespeople's incomes (2.8 percent median increase for rents compared with 1.3 percent for incomes), the rental affordability challenges for these workers have actually worsened since 2008. They can, however, afford to buy the median-priced home in one of 208 markets (Battle Creek, MI) due to a drop in home prices and interest rates. In 184 out of 210 markets, a retail salesperson's wages are not even sufficient to afford the fair market rent for a one-bedroom apartment. Interestingly, in Battle Creek, MI, the income needed to affordably rent a typical two-bedroom apartment is approximately \$5,000 more than the income needed to qualify to purchase a median priced home – a possible indication of both a glut of lower-priced foreclosed homes in the

market and increasing demand in the rental market from families that have lost their homes to foreclosure.

Janitors: A janitor can afford the fair market rent for a two-bedroom apartment in only one of the 210 rental markets studied (Bay City, MI). Rent on a typical one-bedroom apartment is affordable in just 58 markets – only about one-quarter of those studied. Janitors can afford to purchase the median-priced home in six of 208 homeownership markets. Homeownership affordability has increased for janitors since 2008 when the median-priced home in just one market (Saginaw, MI) was affordable. Although Saginaw’s home prices have rebounded enough to make the median-priced home unaffordable for janitors there, home prices have dropped into the affordable range in six other markets (Battle Creek, Bay City, and Detroit, MI; Springfield and Youngstown, OH; and Wheeling, WV) and janitors’ wages have experienced a median increase of 1.7 percent across the areas studied.

Licensed Practical Nurses: A licensed practical nurse (LPN) cannot afford to purchase a median-priced home in 146 of the 208 homeownership markets studied or to rent a typical two-bedroom unit in 55 out of 210 rental markets despite wages that tend to be in the high \$30,000s to mid \$40,000s. They are now able to afford to purchase the median-priced home in 26 markets that had been unaffordable in 2008. Between 2008 and 2009, incomes for LPNs experienced a median increase of 2.1 percent, somewhat less than the median rent increase of 2.8 percent.

Police Officers: A police officer’s salary (typically in the high \$40,000s to mid \$50,000s) is sufficient to affordably rent a typical two-bedroom unit in all but 12 of the 210 rental markets studied, but is not enough to qualify to purchase the median-priced home in 86 (41 percent) out of 208 markets. Buying a median-priced home is now affordable for police officers in 37 of the metro areas that had been unaffordable in 2008. The median increase in income for police officers between 2008 and 2009 was 2.7 percent.

Elementary school teacher: Elementary school teachers, with salaries that tend to fall in the high \$40,000s to mid \$50,000s, are priced out of renting a typical two-bedroom apartment in only 11 of the 210 rental markets studied but cannot afford to purchase a median-priced home in 83 (40 percent) out of 208 homeownership markets. Although incomes for elementary school teachers rose by a median of just 1.6 percent, falling home prices and low interest rates made buying a median-priced home newly affordable for elementary school teachers in 33 metropolitan areas compared to 2008.

What does this mean for communities?

Many American workers cannot affordably live in the communities they serve. Rental affordability remains as challenging as ever for lower-wage workers and in more expensive markets. Home prices, although lower in many areas compared with 2008, are still not affordable for many moderate-wage workers. For skilled workers in the emerging green economy, wages are often sufficient to cover the costs of fair market rents and may even be enough to make the median-priced home affordable in lower-cost markets. But in many markets, even the comparatively higher-paying green-economy jobs do not pay enough to enable workers to purchase a home.

States and localities may benefit from helping workers train for and get jobs in the green economy, but they will still need policies that focus on the housing affordability needs in their communities. Without such policies and the affordable housing that results, even workers in the green economy may be forced to commute long distances to work, increasing their transportation costs and imposing environmental costs on their communities.