Why Housing Affordability Needs to be Reevaluated

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Traditionally, academics and policymakers have determined whether an individual or family can afford to live somewhere by simply dividing their housing costs by their income. If at least 30 percent of a person's or family's income goes to housing and related expenses like utilities, then their household is said to be "cost burdened." The ratio is not determined by economic or social analysis; rather, it is simply the number Congress chose in 1981, which has not been changed nor updated since. Although this approach is easy to understand, it falls short of accurately reflecting the financial burdens people actually experience. This is a problem because many federal housing programs rely on this 30 percent measure to determine rent.

Measuring Housing Affordability

This ratio-based approach breaks down for Americans with extremely low incomes. If wages decline, a middle-class family could potentially downsize its home or related expenses. When people live below the poverty line, however, they must spend above a minimum just to live in a home that meets the local building codes and meets basic human needs.

"Shelter poverty" analysis provides an alternative to the traditional approach. Shelter poverty is a concept that was first developed by a professor of community planning, Michael Stone, in the 1970s. In this analysis, instead of comparing housing costs to income, housing costs are evaluated in the broader context of the household's other basic needs, including food, clothing, and transportation. If housing costs are high enough that households cannot cover these basics from their income, then they are said to be experiencing shelter poverty. The challenge for this method lies in determining how much money must be spent to meet other needs, especially because the federal government no longer publishes such estimates for non-housing necessities.

The Self-Sufficiency Standard, created by University of Washington senior lecturer Diana Pearce in the 1990s, addresses this issue by compiling estimates of basic expenditures from various public and private sources, based on the county of residence, the number of persons in the household, and the age(s) of any children present. This information can be combined with anonymized responses to the American Community Survey, a nationally representative survey conducted annually by the U.S. Census Bureau. The combined data make it possible to determine whether each household in the sample is experiencing shelter poverty. This method also helps determine if, and by how much, households fall short in covering their expenses. That is called the "affordability gap." Using estimates developed in this way, analysts can extrapolate out to the general U.S. population.

Housing Affordability in Ohio and South Carolina

A shelter poverty analysis was conducted for Ohio renters who responded to the American Community Survey, and for sampled South Carolina renters and homeowners (including both mortgage holders and those who own a home free and clear). In both states, the shelter poverty method generates substantially different results than a basic cost burden analysis. Although overall rates of economic distress are generally similar using the two different measures, the total affordability gap using the shelter poverty measure is substantially larger. Among Ohio renters, it would take over $3 billion annually to address cost burdens using the 30 percent metric, but nearly $15 billion per year to mitigate shelter poverty entirely. The disparity is somewhat narrower in South Carolina, but a similar gap exists.

There are differences in the areas of need as well. In both Ohio and South Carolina, the prevalence of a cost burden measured by the ratio system is higher than the burden of shelter poverty in suburban areas with the highest median household incomes. In economically distressed urban and rural areas in both states, far more households experience shelter poverty than excessive ratio cost burdens. In other words, it appears that current standards of housing affordability overstate the needs of families who are most able to pay and understate burdens for those least able to do so.

Improving Housing Affordability

Overall, experts may not be accurately describing the magnitude and nature of housing affordability challenges in the United States. Those experiencing shelter poverty are found in nearly every community nationwide. In South Carolina, which is not by national standards a particularly expensive state to live in, households experiencing shelter poverty (nearly one third of all individuals and families statewide) have an average affordability gap of $14,330 per year, or about $275 per week.

Meanwhile, the geographic distribution of shelter poverty suggests that the 30 percent measure distorts the landscape of housing affordability. That distortion happens because there are households that choose to spend more than 30 percent of their income voluntarily and are thus inappropriately categorized as cost burdened. Meanwhile, others spend less than 30 percent on housing costs but still find they do not have enough to make ends meet. Taken together, failure to consider these issues leads decision makers to understate the level of economic inequality among U.S. households.

It is worth noting that affordability gaps are not only measures of deprivation experienced by less fortunate Americans. These gaps also reflect economic activity that is lost due to the inability of many households to meet basic needs. Ohio renters have about $15 billion less to spend each year as consumers in the state's economy because they lack access to affordable housing.

Although housing costs have become more politically salient in recent years, the scope and scale of the problem has not been fully articulated. Housing is the single largest expense for most individuals and families, and it is typically regulated at the county and municipal level through zoning codes and related ordinances. Local policymakers must consider whether their policies are harming the welfare of residents and businesses alike by artificially restricting housing supply or preventing construction of subsidized housing.

All Americans have a stake in better measurements of housing affordability – and better solutions to the shortfalls many people face in this vital area. A shortage of affordable homes can have numerous downstream effects. Employers may face high rates of labor turnover if employees cannot find places to live in the vicinity.

Longer commuting distances increase the amount of traffic and contribute to urban sprawl, which has a variety of negative environmental, social, and economic consequences.

To find solutions, local officials must engage with homeowners, renters, business owners, and nonprofit groups, as well as housing policy experts in the public and private sectors. To ensure communities across the country have a path toward a prosperous and sustainable future, everyone must be able to find a suitably located and affordable place to call home.

Opinions expressed in this brief are those of the author alone, not the State of South Carolina or any other entity.

Read more in Bryan P. Grady, "Shelter Poverty in Ohio: An Alternative Analysis of Rental Housing Affordability," *Housing Policy Debate* 29, no. 6 (November 2019): 977-989.