

New Century Housing

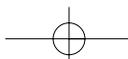
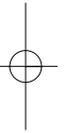
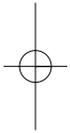
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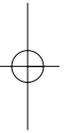
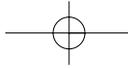
The Center for Housing Policy

June 2000

Housing America's Working Families

A groundbreaking new study that examines the critical housing problems of the nation's moderate-income working families and recommends housing policy initiatives to meet this crisis.

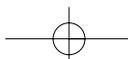


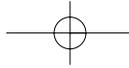


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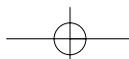
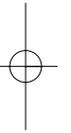
Housing America's Working Families

by

Michael A. Stegman

Roberto G. Quercia

George McCarthy



The Center for Housing Policy

New Century Housing is published by the Center for Housing Policy, a nonprofit research affiliate of the National Housing Conference (NHC). The Center for Housing Policy is devoted to rethinking the fundamentals of our national housing policies and creating approaches that are integrated into larger social and economic goals.

New Century Housing presents housing and community development issues that have significant public policy implications in a way that will attract and hold the attention of those who will ultimately influence public policy. Some issues will be controversial. In those cases, *New Century Housing* will strive to present all sides of an issue in a fair and unbiased manner.

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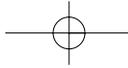
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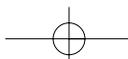
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Housing America's Working Families

Executive Summary

1. Fourteen Percent of American Families Have Critical Housing Needs

This nation is experiencing unprecedented economic prosperity, yet one out of every seven American families has a critical housing need, including millions of working families.

There are 13.7 million families with critical housing needs—from all walks of life. Some are elderly. Others are unemployed and dependent on welfare. Some have physical or emotional handicaps that limit their full participation in the economic mainstream. Others are working families whose modest incomes do not support the costs of decent housing. Still others have incomes that place them squarely in the ranks of the middle class and, in some cases, even higher.

For most of the last 20 years, federal housing policy has implicitly or explicitly linked the housing problems of American families to issues of poverty and welfare dependency. While the poor have by far the highest incidence of housing needs, an exclusive focus on very low-income families fails to appreciate the full extent of the country's affordable housing problems.

Housing America's Working Families focuses on a segment of the population that is largely ignored by current housing policy—the roughly three million moderate-income families who have critical housing needs despite working the equivalent of a full-time job. The issues discussed here are not about welfare and poverty. On the contrary, our focus is on families who work and play by the rules, yet pay more than half their income for housing or live in severely dilapidated units.

The goal of this report is to provide the housing community, the housing industry, and policy makers at all levels of government with the information necessary to broaden housing policies to recognize, and deal with, the needs of working families. Given the extraordinary role that housing plays in the lives of all Americans—and the possibility that the scarcity of affordable housing could put a brake on economic development in communities across the country—the housing needs of working families clearly justify a higher place on the policy agenda. The stability and economic well being of our communities will be tied directly to the ability to meet the housing needs of these working families.

2. More Than Three Million Moderate-Income Working Families Have Critical Housing Needs

Having a job does not guarantee a family a decent place to live at an affordable cost. More than three million working households had critical housing needs in 1997 (the latest year for which data are available). Throughout this report, we use the term “working families” to include households who earned at least half their income from employment, and whose total income fell between \$10,700 a year—the equivalent of a full-time job at the minimum wage—and 120 percent of the local area median income.

Excessive housing costs account for the majority of critical housing needs among working families. Seventy-six percent of all working families with critical housing needs—or some 2.4 million households—spend more than half of their incomes on housing. Twenty-one percent—or about 650,000 working families—occupy seriously substandard housing.

Critical housing needs of working families are growing rapidly. Between 1995 and 1997, the number of moderate-income working families with critical housing needs rose by about 440,000—a 17 percent increase in just two years.

Homeowners account for the majority of all working families with critical housing needs. Fifty-one percent of all working families with critical housing needs own their homes.

Critical housing needs are not confined to the nation’s cities. In fact, the number of working families with critical housing needs is higher in the suburbs (1.3 million) than it is in the central cities (1.2 million).

Today, it takes more than one working adult to keep families out of serious housing stress. Moderate-income families with only a single earner are 1.6 times more likely to have a critical housing need than families with two or more working adults.

Minimum wage workers are particularly at risk. Not surprisingly, the incidence of critical housing needs is greatest among workers at the bottom rung of the economic ladder.

Many workers whose wages are tied to the old economy are struggling. More than 730,000 working families with one or more blue-collar workers spend more than half their incomes for housing, as do more than 550,000 service workers and a similar number of retail sales workers.

Vital municipal workers like teachers and police officers are increasingly vulnerable. More than 220,000 teachers, police, and public safety officers across the country spend more than half their income for housing, and the problem is growing worse.

In some metropolitan areas, the incidence of critical housing needs among working families is at least double the national rate. Local variations in critical housing needs are caused by many factors, including differences in

population growth, regional variations in economic growth and job mix, and housing market conditions.

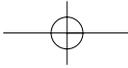
The lack of decent, affordable housing is increasingly being seen as a significant impediment to local economic growth. In Los Angeles and Orange counties, California, for example, more than 278,000 new jobs have been created since 1984, but only 78,000 new homes have been built.

3. Policy Implications

The first lesson that can be drawn from the study is that national policy must strive to meet the housing needs of moderate- and middle-income American families, and not just the very poor. This does not suggest that any resources should be diverted from the housing needs of the very poor, but rather that more resources must be devoted to housing for moderate-income working families. In America, families who work and play by the rules should not have to pay more than half their income for housing nor live in severely dilapidated homes. A decent home in a suitable environment is a basic tenet of American life, yet our housing policy does not support this promise for working families of moderate income.

The second lesson is that because conditions vary so much from place-to-place, the federal government should provide a menu of flexible housing resources supported by tax code incentives and annual appropriations, along with financial incentives to encourage local regulatory reforms, which enable states and localities to custom-tailor their own affordable housing strategies.

Finally, the analysis contained in this report supports the significant expansion of supply-side assistance and the need for increasing existing demand-side programs.



Housing America's Working Families

Introduction

In America, families who work and play by the rules should not have to pay more than half their income for housing nor live in severely dilapidated homes. A decent home in a suitable environment is a basic tenet of American life, yet our housing policy does not support this promise for working families of moderate income. The goal of this report is to provide the housing community, the housing industry, and policy makers at all levels of government with the information necessary for broadening housing policies to recognize and deal with the needs of working families.

Given the fundamental role that housing plays in the lives of all Americans—and the possibility that the scarcity of affordable housing could put a brake on economic growth in communities across the country and displace long-term residents—the lack of affordable housing for working families clearly justifies a higher place on the policy agenda.

The information economy notwithstanding, hundreds of thousands of working families still earn their livings in old economy-type jobs with their concomitant lower wages and incomes that lag behind rising housing costs. The stability and economic well being of our communities is tied directly to the ability to meet the housing needs of these working families. But government alone cannot change the trajectory of the affordable housing problem. As the syndicated urban journalist Neil Peirce has said, “Critical clout has to come from the business community, too. Unless it’s out there fighting for housing opportunities for its workers, even those at the bottom of the pay scales, it can’t count on a work force. Business should be lobbying, locally and regionally, for a sharply expanded affordable housing stock.”¹

1. Fourteen Percent of American Families Have Critical Housing Needs

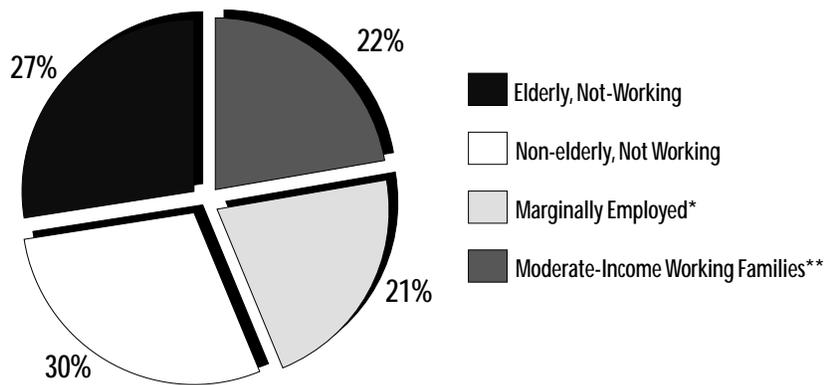
This nation is experiencing unprecedented economic prosperity, yet one out of every seven American families has a critical housing need, including millions of working families. For purposes of this report, a family is defined as having critical housing needs if it spends more than half its total income on housing and/or lives in a severely inadequate unit.²

¹Neil R. Peirce, “Cities Revive but Where Will the Working Poor Live?,” *The Washington Post*, October 24, 1999.

²This is the same definition used by the U.S. Department of Housing and Urban Development (HUD) in defining “worst case” needs, although HUD restricts its analysis to very low-income renters. See, for example, U.S. Department of Housing and Urban Development, *Rental Housing Assistance—The Worsening Crisis: A Report to Congress on Worst Case Housing Needs*, Washington, D.C., March 2000, p. 13.

The 13.7 million families with critical housing needs come from all walks of life. More than 3.7 million are elderly. Another four million are unemployed and/or dependent on welfare (Figure 1).³ The remaining six million are working families, about half of whom are only marginally attached to the labor market, i.e. their income from wages is less than the equivalent of one full-time minimum wage earner. The other half are working families whose incomes go all the way up to 120 percent of median—placing them squarely in the ranks of the middle class.

FIGURE 1
Working Status of All Households With Critical Housing Needs, U.S., 1997



*Marginally employed include families with earnings from wages of \$2,675–\$10,700 (e.g. between one-quarter and one, full-time minimum wage equivalent)

**Moderate income are families whose total income is between \$10,700 and 120 percent of area median income, and where earnings account for at least half the family's total income.

Source: 1997 American Housing Survey

The incidence of critical housing needs varies dramatically from place to place (Figure 2).⁴ In seven of the 17 metropolitan areas for which we have current data, the level of critical housing needs exceeds 20 percent, which is at least 50 percent greater than the national average. These include Boston, New York, Oakland, Rochester, San Francisco, San Jose, and Tampa.

For most of the last 20 years, federal housing policy has implicitly or explicitly linked the housing problems of American families to issues of poverty and welfare dependency. While the poor have by far the highest incidence of housing needs, an exclusive focus on very low-income families fails to appreciate the full extent of the country's affordable housing problems.

³ See also Table 1 in Appendix.

⁴ See also Table 2 in Appendix.

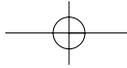
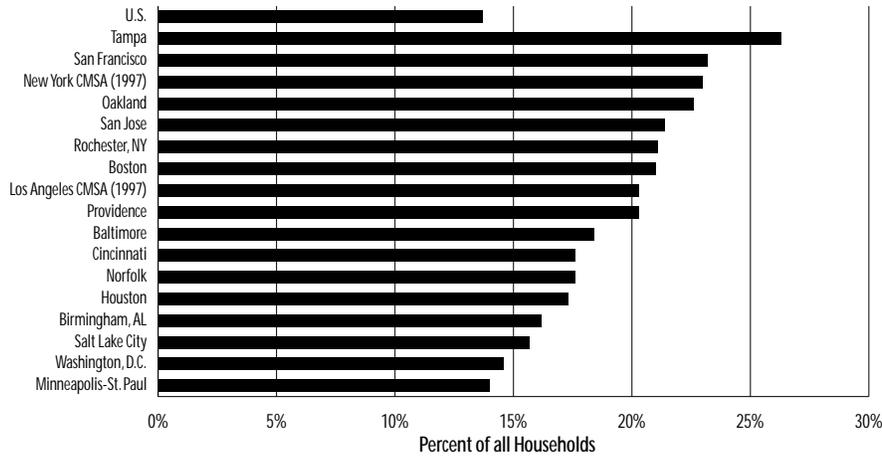


FIGURE 2
Percent of All Households With Critical Housing Needs,
Selected Metropolitan Areas, U.S., 1998



Source: 1998 American Housing Survey metropolitan files and authors' calculations

This report focuses on a segment of the population that is largely ignored by current housing policy—the roughly three million moderate-income families who have critical housing needs despite working the equivalent of a full-time job. The issues discussed here are not about welfare and poverty. On the contrary, our focus is on working families who live and play as responsible citizens yet pay more than half their income for housing or live in severely dilapidated units.

2. More Than Three Million Moderate-Income Working Families Have Critical Housing Needs

Having a job does not guarantee a family a decent place to live at an affordable cost. More than three million working households had critical housing needs in 1997 (the latest year for which nationwide data are available). Throughout this report, we use the term “moderate-income working families” to include households who earned at least half their income from employment, and whose total income fell between \$10,700 a year—the equivalent of a full-time job at the minimum wage—and 120 percent of the local area median income. This definition includes half of all working households in the country, regardless of income, and captures the vast majority of working families with critical housing needs.⁵

⁵See Table 3 in Appendix.

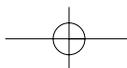
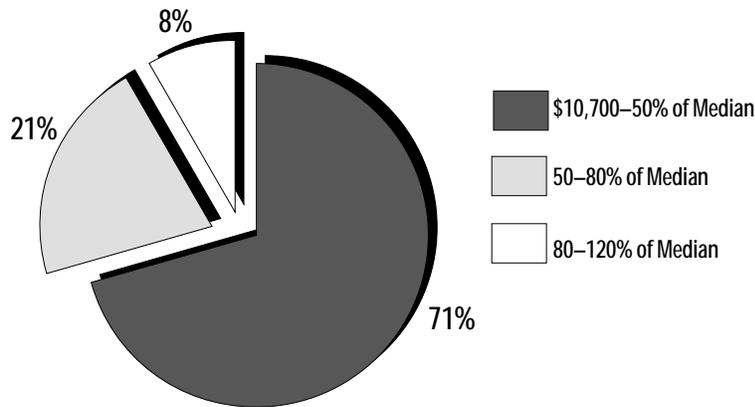


Figure 3⁶ illustrates our definition of moderate-income working families with critical housing needs, while Table 5 in the Appendix compares our estimates with HUD’s recently published analysis of worst case needs. By virtue of their low incomes, about 30 percent of all moderate-income working families with critical housing needs also meet HUD’s definition of worst case needs. Also included in our estimates are nearly 145,000 families who, despite receiving some form of government housing assistance, still have critical needs. These families are not included in HUD’s official count of worst case needs.

In some metropolitan areas, the incidence of critical housing needs among

FIGURE 3
The Incomes of Working Families With Critical Housing Needs, U.S., 1997



Source: 1997 American Housing Survey and authors' calculations

working families is at least double the national rate. Local variations in critical housing needs are caused by many factors, including differences in population growth, regional variations in economic growth and job mix, and housing market conditions. While about 10 percent of all moderate-income working families across the country have critical housing needs, this is true for 27 percent of working families in San Jose, 26 percent in San Francisco, 20 percent in Boston and Tampa, about 17 percent in Providence, and 16 percent in Washington, D.C. (Figure 4).⁷

⁶ See also Table 4 in Appendix.

⁷ See also Table 6 in Appendix.

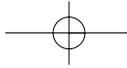
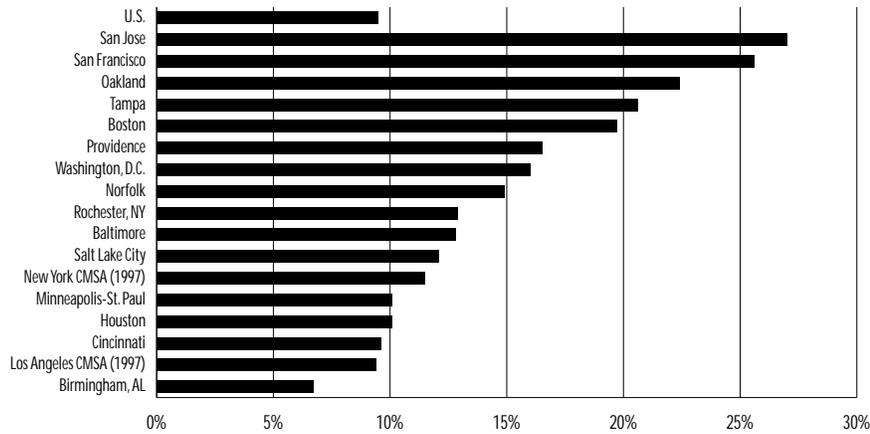


FIGURE 4
Percent of All Working Families With Critical Housing Needs,
Selected Metropolitan Areas, U.S., 1998



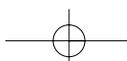
Source: 1998 American Housing Survey metropolitan files and authors' calculations

Nationally, working families account for about 22 percent of all families with critical housing needs, but in some markets their share of the problem is significantly greater. In high-cost centers like New York, Los Angeles, Washington, D.C., San Jose, and San Francisco, working families account for more—in some cases, significantly more—than 30 percent of the pool of families with critical housing needs.

Excessive housing costs account for the majority of critical housing needs among working families. Seventy-six percent of all working families with critical housing needs—or some 2.4 million households—spend more than half of their incomes on housing. While this amounts to 7.5 percent of all moderate-income working families paying more than half their income in order to keep a roof over their heads, in some markets the problem is three times more serious. More than 20 percent of all working families in San Francisco and San Jose spend more than half their incomes on housing, while in Tampa, Boston, and Oakland, the cost squeeze is just slightly less severe.⁸

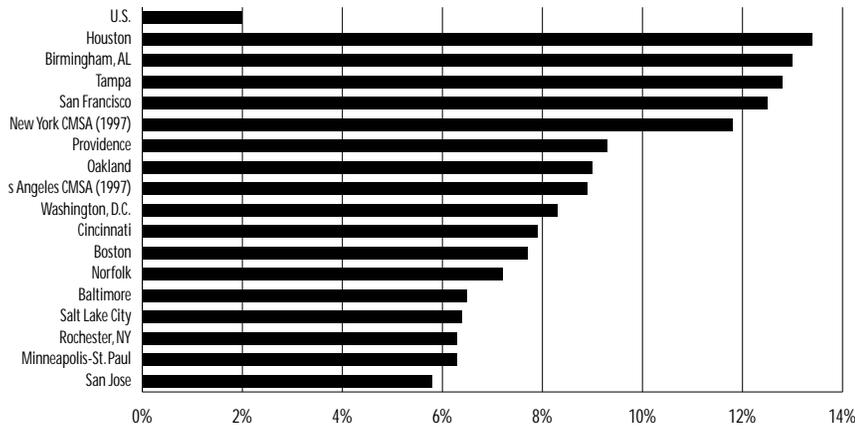
About 650,000 working families across the country occupy seriously substandard housing, while more than three times this many live in moderately inadequate units. The problem of housing deterioration is substantially higher

⁸See Table 7 in Appendix.



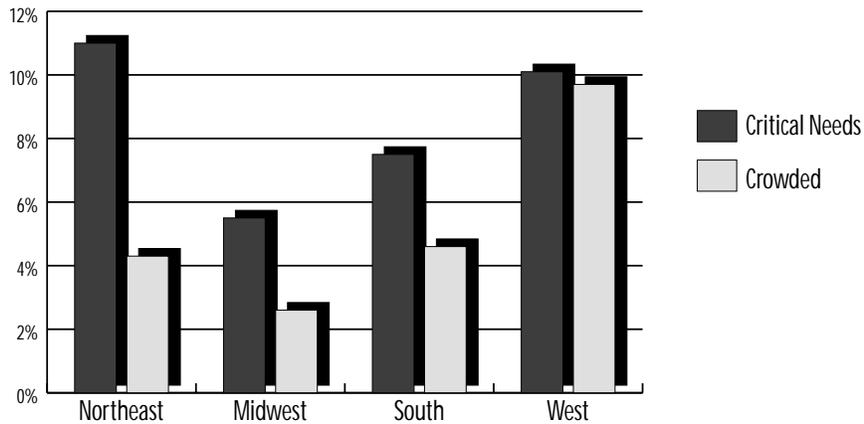
than average in New York, San Francisco, and Houston (Figure 5). While not included in our definition of critical needs, more than five percent of all working families also live in overcrowded units. Crowding varies substantially by region, and is highest in the West where almost one in 10 working families live in housing with more than one person per room (Figure 6). In Los

FIGURE 5
Housing Problems of Working Families,
Selected Metropolitan Areas, U.S., 1998



Source: 1998 American Housing Survey metropolitan files and authors' calculations

FIGURE 6
Housing Problems of Working Families, by Region, U.S., 1997

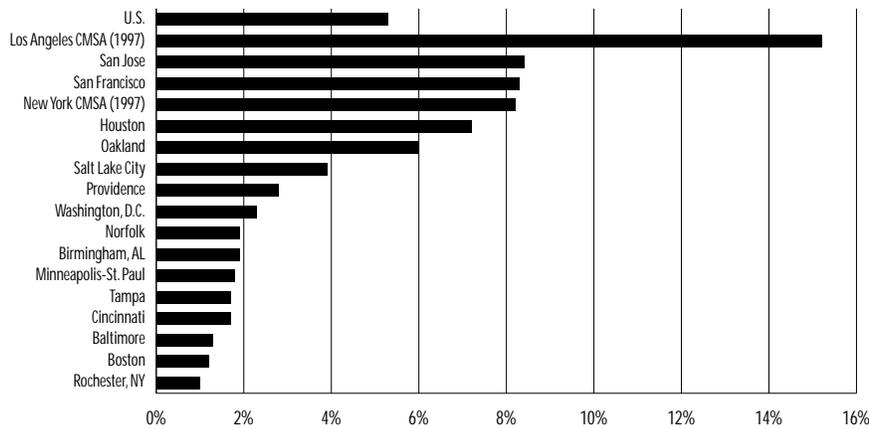


Source: 1997 American Housing Survey metropolitan files and authors' calculations

Angeles, 15 percent of all working families are crowded, while this is true for eight percent of all working families in New York, San Francisco, and San Jose (Figure 7). Crowding is particularly high among Hispanic families in the West, where more than 30 percent of all working renters and 18 percent of all working homeowners are crowded.⁹

Critical housing needs of working families are growing rapidly. Between 1995 and 1997, the number of moderate-income working families with critical housing needs rose by about 440,000—a 17 percent increase in just two years (Figure 8).¹⁰ Seventeen percent more working families also lived in severely or moderately deteriorated housing in 1997, and the rise among renters was an astounding 29 percent. The dramatic increase in housing needs primarily reflects the escalation in housing prices that has occurred in recent years. For example, between 1995 and 1997, average monthly rents rose at about twice the overall inflation rate, as measured by the Consumer Price Index.¹¹ The average sales price of an owner-occupied home also increased at a rate significantly greater than inflation.¹² Between 1995 and 1999, U.S. housing

FIGURE 7
Crowding Rates Among Working Families, Selected Metropolitan Areas, U.S., 1998



Source: 1998 American Housing Survey metropolitan files and authors' calculations

⁹See Table 8 in Appendix.

¹⁰See also Table 9 in Appendix.

¹¹U.S. Department of Housing and Urban Development, *Waiting in Vain: An Update on America's Rental Housing Crisis*, March 1999, p. 12.

¹²U.S. Census Bureau, *Statistical Abstract of the United States*, 1998, p. 490.

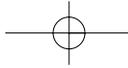
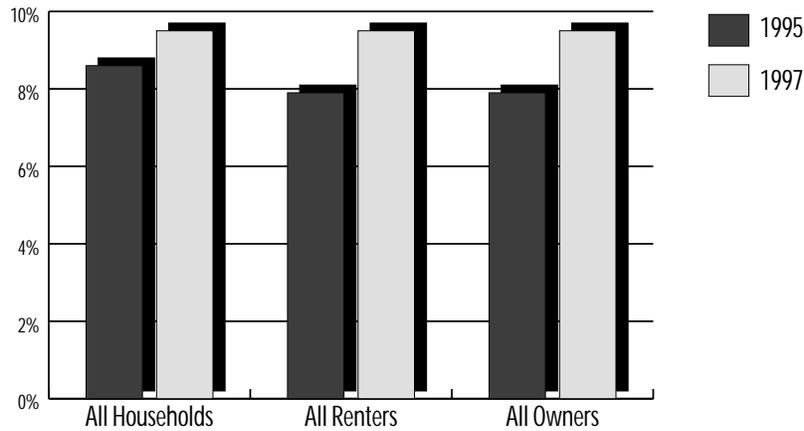


FIGURE 8
Percent of Working Families with Critical Housing Needs,
by Tenure, U.S., 1995 and 1997



Source: 1997 American Housing Survey and authors' calculations

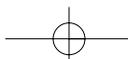
prices adjusted for inflation increased by more than 26 percent.¹³ High house prices are making it much harder for working families to buy a home. And as the demand for housing increases in high growth areas, units become unaffordable to many working families because of inflated housing costs.

Today, it takes more than one working adult to keep families out of serious housing stress. Moderate-income families with only a single earner are 1.6 times more likely to have a critical housing need than families with two or more working adults.¹⁴ However, having more than one working adult is not enough to guarantee a decent, affordable place to live. In fact, 29 percent of the three million working families with critical housing needs have more than one adult participating in the labor market.

Homeowners account for the majority of all working families with critical housing needs. Despite the fact that 51 percent of all working families with critical housing needs own their homes, there are no federal programs that address this serious problem. In theory, these nearly 1.6 million families should benefit from the favorable tax treatment accorded owner-occupied housing. In practice, however, most low- and moderate-income taxpayers, including homeowners, do not itemize deductions, making the impact of the tax code on their effective housing costs (i.e. after tax) relatively small.

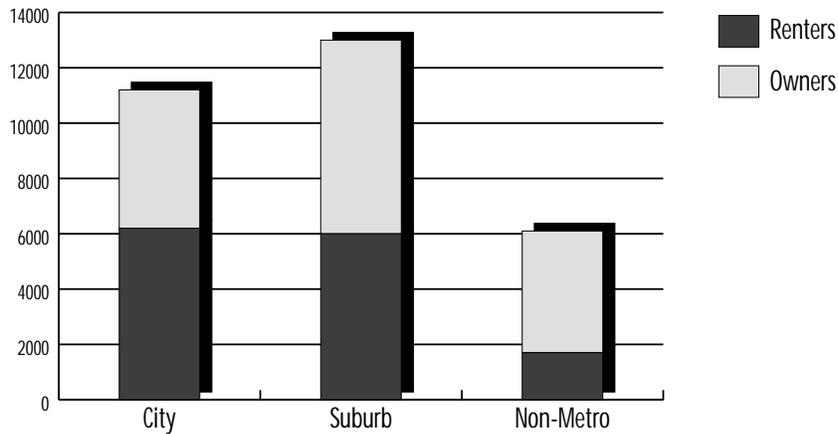
¹³Office of Housing Enterprise Oversight, *OFHEO House Price Index*, www.ofheo.gov/house/, accessed April 24, 2000, p. 3.

¹⁴See Table 10 in Appendix.



Critical housing needs are not confined to the nation's cities. In fact, the number of working families with critical housing needs is higher in the suburbs (1.3 million) than it is in the central cities (1.2 million) (Figure 9).¹⁵ The remaining 513,000 working families with critical housing needs live in non-metropolitan areas and almost 80 percent own their home. Thus, while once believed to be primarily an urban or rural problem, critical housing needs are increasingly moving to suburban areas—following most of the country's population and employment growth.

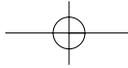
FIGURE 9
The Location and Tenure of Working Families
with Critical Housing Needs, U.S., 1997
(000s)



Source: 1997 American Housing Survey and authors' calculations

Combining tenure and location, the picture looks like this: a significant majority (62.6 percent) of working families with critical housing problems who live in central cities are renters; a smaller majority of suburban working families (53.9 percent) are homeowners, while almost 80 percent of all moderate-income working families with critical housing problems also own their home.

¹⁵ See also Table 11 in Appendix.



3. The Lack of Decent, Affordable Housing is Increasingly Being Seen as a Significant Impediment to Local Economic Growth

Local press accounts, planning studies, and employer surveys suggest that an affordable housing shortage threatens continued economic development. In Los Angeles and Orange counties, California, for example, more than 278,000 new jobs have been created since 1984 but only 78,000 new homes have been built.¹⁶ With a booming, diversified economy, the number of used single-family homes in Houston listed for sale below \$150,000 dropped by 50 percent from June 1995 to June 1999.¹⁷ A recent survey by the New York State Controller found that 86 percent of businesses cited housing costs as a serious deterrent to attracting firms to New York.¹⁸ Surveys in Lake County, a Chicago suburb,¹⁹ and Livingston County in suburban Detroit,²⁰ have found similar results.

Boulder, Colorado's growth controls, and by extension, growth management practices in other communities that limit housing supply, may also constrain economic development. According to Boulder Planning Director Peter Pollack, "Right now, we could not handle a midsize firm that wants to become a large firm."²¹ With about 4,000 more jobs than residents, new jobs in Boulder create more commuters and road congestion. On the one hand [says Pollack,] "local leaders say, the growth controls are a great economic-development tool, since they've helped create a very attractive place to live. On the other, few major new companies are likely to come, given the housing market, so economic development means mostly bringing in service companies and small startups."²²

The press has reported other ways in which the strong economy and the 1990s real estate boom (which is now slowing) have conspired to make it harder for hospitals to recruit residents and interns,²³ and for local

¹⁶Daryl Strickland, "Home Buyers Feel Squeeze as Market Tightens in Region," *Los Angeles Times*, August 30, 1998, p. A1.

¹⁷Ralph Bivins, "Climbing Home Prices Put Squeeze on Buyers; Economy Jacking Up Demand for Dwellings," *The Houston Chronicle*, October 3, 1999, p. A1.

¹⁸No byline, "Easing City's Housing Crunch," *New York Daily News*, November 1, 1999, p. 32.

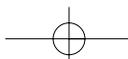
¹⁹Becky Beaupre, "Put Off by Suburban Crawl," *Chicago Sun-Times*, January 25, 1998, p. 6.

²⁰Sheri Hall, "Workers Given Perks, Bus Rides to Livingston County," *The Detroit News*, October 29, 1999, p. C5L.

²¹Jay Price, "Cary Leaders Take Hint from Boulder's High Home Prices," *The News and Observer*, May 6, 2000, p. B5.

²²Ibid.

²³Linda Sandler, "Hospitals, the Emergency is Housing," *The Wall Street Journal*, December 15, 1999, p. B18.



governments to hire and retain teachers, police officers, and other essential municipal workers. With the imminent start of the annual beach migration, “nearly half the jobs on East Hampton’s [New York] 36-member road crew were unfilled because workers could not afford to take jobs paying, on average, \$25,000.”²⁴ And, what is happening in the Hamptons “is being repeated in many of the country’s wealthiest enclaves and resort towns.”²⁵ *The Wall Street Journal* recently reported that two candidates turned down key management jobs in the ski resort area of Blaine County, Idaho, because “the salary—nearly \$50,000 a year—wasn’t enough to make ends meet in an area where residential real estate can command \$750,000 an acre.”²⁶ Meanwhile, the boom has driven housing prices out of reach for many working families, including middle-management employees of Sun Valley who earn less than \$40,000.

Similar problems can be found in other resorts, like Aspen, Colorado, where the shortage of affordable housing is contributing to sprawl and high levels of congestion. They also are occurring in rural boomtowns where the housing crunch accompanying rapid economic growth affects newcomers moving to the area for jobs and/or the people least able to afford homes, who are often the long-term residents.²⁷ So acute is Aspen’s affordable housing shortage reported to be that “the nightly exodus of Aspen’s work force threatens to subsume smaller towns, or at least irretrievably alter their rural character.”²⁸

Shortages of affordable housing in places like Silicon Valley have reached such an extreme that 34 percent of the homeless population in Santa Clara County in 1999, estimated at 20,000, have full-time jobs, up from 25 percent in 1995.²⁹ “More teachers, police officers, firefighters, commissioned sales people—all people who make more than \$50,000 a year and would be comfortably middle-class in many other places—are seeking the services of area homeless shelters in Silicon Valley.”³⁰

Although no available dataset enables us to generalize from these anecdotal accounts to the nation as a whole, we are able to measure with sufficient

²⁴Tracie Rozhon, “In Hamptons, High Costs Force Out Those Who Work There,” *The New York Times*, May 7, 2000, p. 33.

²⁵Ibid, p. 1.

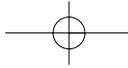
²⁶Steven D. Jones, “Resort Towns Face Ruckus Over ‘Affordable’ Housing,” *The Wall Street Journal*, November 24, 1999, p. NW 1.

²⁷“Rural Boomtowns Need to Plan for Affordable Housing: Housing Assistance Council Studies Effects of Rapid Growth,” News Release, www.ruralhome.org/pubs/pressreleases/boomtowns.htm.

²⁸Julie Cart, “California and the West; Aspen Battles Sky-High Home Prices,” *Los Angeles Times*, December 27, 1999, p. A3.

²⁹Evelyn Nieves, “Homeless on \$50,000 a Year in Luxuriant Silicon Valley,” *The New York Times*, February 20, 2000, pp. 1, 16.

³⁰Ibid.

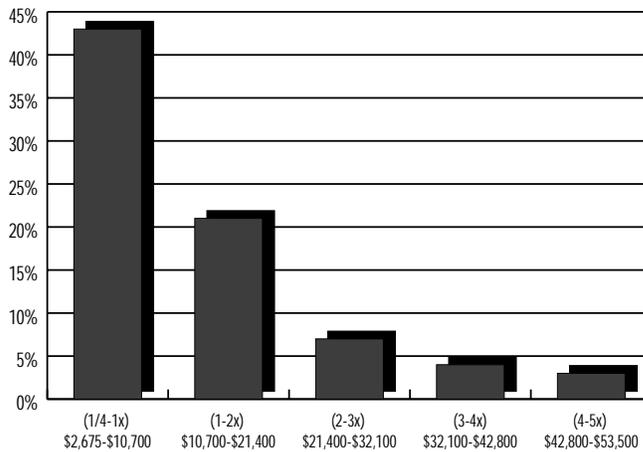


statistical accuracy the magnitude of affordable housing problems for minimum wage workers and various occupations as a whole.

Minimum wage workers are particularly at risk. According to the Economic Policy Institute, 8.7 percent of all workers nationwide earned the minimum wage or close to it in 1999, while in Los Angeles this was true for about 11 percent of all workers.³¹ We estimate that about 11 percent of all working families in the New York Consolidated Statistical Metropolitan Area likewise subsist on a minimum wage income. New York and Los Angeles' experiences make it clear that despite the new economy, there are large numbers of jobs that pay old economy wages. As a recent newspaper article reported: "Forget the image of a teenager flipping burgers on the weekend. In the new Los Angeles, the lowest-paid worker is far more likely to be...an immigrant on an assembly line, working fast and hard, with little opportunity for advancement."³²

Not surprisingly, the incidence of excessive housing cost burdens is greatest among these workers, who are at the bottom rung of the economic ladder. While about 10 percent of all working families spend more than half their income on housing, this is true for 45 percent of those earning up to the full-time equivalent of the minimum wage—more than half a million families (Figure 10).³³ So too do 21 percent of the 8.5 million working families who

FIGURE 10
Incidence of Critical Housing Needs by Family Income Relative to the Minimum Wage, U.S., 1997

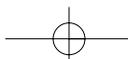


Source: 1997 American Housing Survey and authors' calculations

³¹Nancy Cleeland, "Workers Trapped in el Minimo," *Los Angeles Times*, March 9, 2000, p. A26.

³²Ibid.

³³See also Table 12 in Appendix.

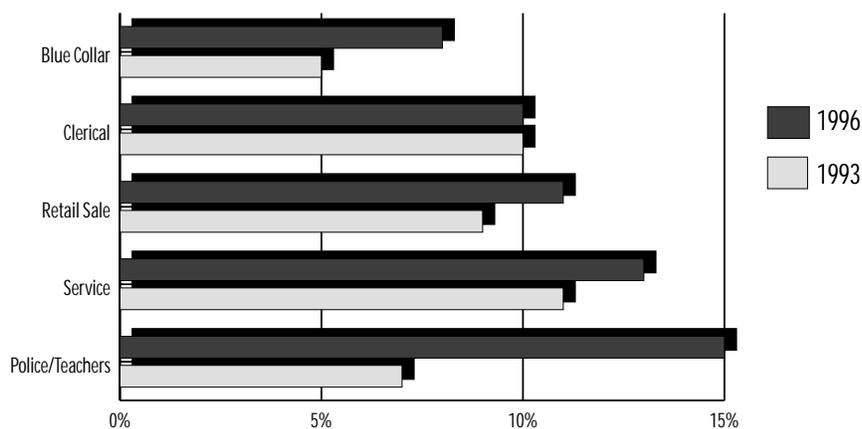


earn less than the equivalent of two full-time, minimum wage jobs—some 1.8 million families in all. This also is true for about five percent of working families with incomes between \$21,400-\$32,100, which is equivalent to earning two to three times the minimum wage. Although this last percentage is small, this group includes almost three-quarters of a million more working families with critical housing needs.

Workers whose wages are tied to the old economy are struggling. Consistent with media reports of the growing housing crunch facing workers who are not benefiting from the current economic boom, we find large numbers of blue collar and service workers as well as other workers who are essential to healthy communities spending more than half their income on housing. The number of such households also has increased over time, reflecting the fact that housing costs have been rising faster than incomes. In 1993, about seven percent of all working families spent more than half their income on housing; by 1996, this figure had climbed to just under 10 percent.

More than 730,000 working families with one or more blue collar workers spend more than half their incomes on housing, as do more than 560,000 service workers and 550,000 clerical workers (Figure 11).³⁴ Working families with blue collar jobs who spend more than half their income on housing increased by about 43 percent between 1993 and 1996, while the growth among families with service workers increased by 25 percent.

FIGURE 11
Severe Housing Cost Burdens of Essential Workers, U.S., 1993 and 1996



Source: 1997 American Housing Survey and authors' calculations

³⁴See also Table 13 in Appendix.

Vital municipal workers like teachers and police officers are increasingly vulnerable. More than 220,000 teachers, police, and public safety officers across the country spend more than half their income on housing, and the problem is growing worse. Our analysis confirms media accounts that suggest this trend. Using data from the Panel Study of Income Dynamics, we find that the incidence of teachers and public safety officers spending more than half their income on housing doubled between 1993 and 1996, from 6.8 percent to 14.6 percent.

4. The Supply of Affordable Housing for Working Families

Two central factors determine the nationwide incidence of critical housing needs of working families: inadequate incomes and an insufficient supply of affordable units. Inadequate income may result from low wages and/or less than full-time employment. In this section, we examine the adequacy of the affordable housing supply to meet the needs of working families, and the supply of affordable units in the private sector rental and for-sale markets.

As we indicated earlier, rents are rising faster than inflation and much more rapidly than the incomes of many moderate-income working families. This is especially true among low-skilled workers in service industries, including cashiers and restaurant workers, whose incomes decreased from 1991 to 1999 even without controlling for inflation. But it also is true for many higher-skilled workers in critical occupations. Regarding the previous analysis of worsening housing cost burdens, while teachers' wages increased over the 1991 to 1997 period they did not keep up with inflation. Similarly, the wages of law enforcement professionals barely kept up with inflation.³⁵

At the same time, overall rents are rising at twice the rate of inflation. This may be good news for landlords, but it is a matter of deep concern to the affordable housing community. "In 1997 rents increased 3.1 percent while the overall Consumer Price Index (CPI) increased by only 1.6 percent. In 1998, rents increased 3.4 percent while the overall CPI increased 1.7 percent."³⁶ The Joint Center for Housing Studies reports that rent increases now exceed inflation in all regions of the country, and in all 23 metropolitan areas tracked by the Consumer Price Index.³⁷

³⁵Patrick Barta, "Raises in Many Salaries Barely Keep Up with Inflation," *The Wall Street Journal*, February 1, 2000, A2.

³⁶U.S. Department of Housing and Urban Development, *Waiting in Vain: An Update on America's Rental Housing Crisis*, March 1999, p. 12

³⁷Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 1999*, Cambridge, 1999, p. 21.

Local newspaper accounts increasingly report spiraling housing costs and growing housing shortages. According to the *Minneapolis Star-Tribune*, for example, the current metro-wide vacancy rate for apartments is 1.6 percent, and the tight Twin Cities market allows owners to raise rents sharply and still have waiting lists for units.³⁸ And then there is the growing number of families doubled up in single apartments, or paying \$400 a month to live in a garage or to sleep on a stranger's living room floor. In more middle-class areas of Southern California, white-collar professionals who can't afford rents that average \$1,000 a month share apartments with senior citizens and single parents. The pairings have created what experts describe as "pseudo-families, in which the senior citizens become 'grandparents,' and the children of single parents become 'siblings.'"³⁹

In gentrifying Park Slope, Brooklyn, a one-bedroom unit that rented for \$1,000 five years ago is now going for \$1,600, while in "lower-middle-class neighborhoods of Pelham Bay and Throgs Neck in the Bronx, one-bedroom apartments that rented for \$500 to \$600 a month in 1995 are now renting for \$700 to \$800, not including heat."⁴⁰ Exacerbating the problem in New York is the fact that "scores of single-room-occupancy buildings that once housed single poor people have been converted to \$100-a-night tourist hotels."⁴¹

In response to the economic expansion of the last decade, private developers have concentrated production at the high-end of the market. This helps explain why the median asking rent in unsubsidized apartment buildings, after adjusting for inflation, rose a striking 16 percent—from \$645 in 1994 to \$724 in 1997.⁴² Newer apartments are even more expensive—completions from the third quarter of 1998 through the third quarter of 1999 had a median asking rent of \$773.⁴³

Asking rents vary considerably by region. New apartments completed in 1998 cost at least 16 percent more than the national average in the Northeast (\$850+), about 10 percent more in the West (\$805), but are 22 percent cheaper in the Midwest (\$604). Because the South accounts for more than half of all new apartment construction, median rents in the South are about equal to the national median (\$738).⁴⁴

³⁸HOME Line, *Diminished Choice 5: The Ever Shrinking Market for Section 8 in Suburban Hennepin County, Minnesota*, October 1999, p. 2.

³⁹Jennifer Mena, "House Poor: Orange County's Affordable Housing Crisis," *Los Angeles Times*, December 19, 1999, p. A1.

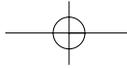
⁴⁰Barbara Stewart, "Precious Rooms, Even Where Rent is Low," *The New York Times*, January 24, 2000, p. 1.

⁴¹*Ibid.*

⁴²Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 1999*, Cambridge, 1999, pp. 24-25.

⁴³U.S. Census Bureau, *Survey of Market Absorption, Third Quarter 1999*, Table 9.

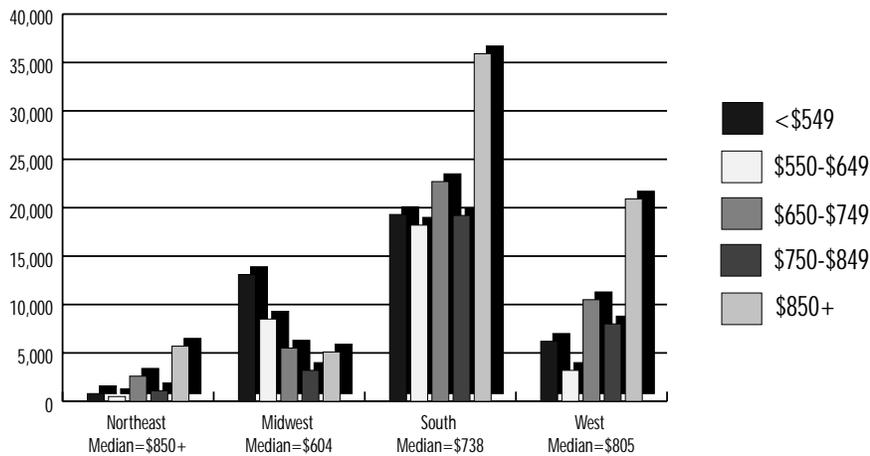
⁴⁴*Ibid.*



Just six percent of all new two-bedroom unfurnished private market apartments completed in 1998 had an asking rent of under \$450 a month, a rent affordable to working families with a \$9/hour full-time equivalent income (Figure 12).⁴⁵ Less than 20 percent had an asking rent of under \$550, a rent affordable to families working full-time at \$11/hour.⁴⁶ Unsubsidized production of affordable rental units was lowest in the Northeast and the West. In the Northeast, the market produced a total of less than 11,000 new rental units in 1998, and of these, less than three percent had an asking rent of under \$450 and just five percent had an asking rent of between \$450 and \$549. While the West saw more than four times the total production of the Northeast (48,800 vs. 10,700) this resulted in the production of just 1,200 new highly affordable units—less than three percent with an asking rent under \$450, and five percent with an asking rent between \$450 and \$549.

Not only are new affordable apartments increasingly rare, they are more quickly spoken for than other market segments, with about 81 percent of all new apartments having an asking rent of under \$650 being rented within three months of completion.⁴⁷ The comparable absorption rates for more expensive

FIGURE 12
New, Unsubsidized Apartments Completed, by Rent and Regions, U.S., 1998

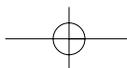


Source: 1998 American Housing Survey and authors' calculations

⁴⁵See also Table 14 in Appendix.

⁴⁶Because the Census Bureau doesn't define a housing unit built with assistance from the federal Low Income Housing Tax Credit as subsidized, Census data overestimates the extent of unassisted private market production of affordable rental housing. It is likely that a substantial share of the under-\$550 production noted above was actually subsidized through tax credits.

⁴⁷U.S. Census Bureau, *Survey of Market Absorption Characteristics* 1998, Table 2.



apartments range between 66 percent and 71 percent. Three-month absorption rates for affordable apartments in the Northeast and West are even higher. Virtually 100 percent of all new apartments in the Northeast with an asking rent of less than \$550 was absorbed within 90 days of completion, as well as 90 percent of those with an asking rent between \$550 and \$650. In the West, 94 percent of all new two-bedroom apartments with an asking rent under \$550 were spoken for within 90 days of completion.

More than half (53.4 percent) of all new two-bedroom unsubsidized apartments completed in 1998 were located in the suburbs, and 41 percent were built in central cities, with the remainder located in non-metropolitan communities. Three-month absorption rates for affordable rentals were higher for central cities and non-metropolitan areas than for the suburbs. For apartments with asking rents of less than \$450, the 90-day absorption rate for the country is 79 percent—for central cities and non-metropolitan areas it is 88 percent and 91 percent, respectively, while for the suburbs it is 72 percent.

Many working families face the prospect of a lifetime of renting because, in many areas, there are no homes to buy that they can afford. In particular, this is the case for many working renter families that have critical housing problems. Even if they were to rely on the most affordable mortgage products available today, these families still confront the reality that homes are priced beyond their reach.

In the 17 metropolitan areas for which data are available, we estimate that over 200,000 working renter families could afford to purchase a three-plus bedroom house priced between \$50,000 and \$75,000, yet, only 30,000 homes in that price range were available in the market.⁴⁸ We assume that these families would qualify under an affordable mortgage product such as Fannie Mae's Alt 97 or Freddie Mac's Flex 97.⁴⁹ In many places, this potential demand represents a significant percentage of the stock of three-plus bedroom homes available for sale. For instance, in San Francisco, about 2,500 working renter families could purchase a \$75,000-\$100,000 home, but when the 1998 American Housing Survey was conducted in that city, there were no houses for sale in this price range. In Los Angeles, the potential demand for homes with three or more bedrooms priced between \$75,000-\$100,000 is 10 times the total stock of houses for sale in this price range. In Boston, this potential demand is more

⁴⁸See Table 15 in Appendix.

⁴⁹These mortgage products have a 97 percent loan-to-value ratio and allow the three percent down payment to come from non-borrower sources. In the simulations, we used an eight percent interest rate and a 38 percent front-end ratio (PITI). Because of data availability, we were unable to include other important underwriting considerations, such as credit scores, credit histories, and overall debt levels. Many of the families we considered able to purchase a home may have credit problems or high debt burdens that may preclude them from obtaining a mortgage. Thus, the simulation should be considered as the maximum possible potential demand, and not the actual potential demand.

than 13 times larger than the number of houses that were available for sale in early 1998.

Many working families with critical housing needs also could afford to buy a home, and pay less to own a decent-condition home than they currently pay in rent. We estimate that over 100,000 working families can afford to buy a \$50,000-\$75,000 house with three or more bedrooms.⁵⁰ Similarly, we estimate that over 60,000 working families with critical needs could afford to purchase a three-plus bedroom house if it were priced between \$75,000-\$100,000. Finally, over 30,000 working families with critical needs could purchase a home even if it were priced between \$100,000 to \$125,000.

As before, this potential demand represents a significant percentage of the stock of available for sale three-or-more bedroom homes in many areas. For example, in Oakland we estimate that more than 1,500 working families with critical needs could afford to purchase a house for \$75,000-\$100,000, yet there were none for sale. The potential demand by working families with critical needs in Oakland for three-or-more bedroom units priced between \$100,000 and \$125,000 was three times the available stock of such units for sale in 1998. Even in places like Cincinnati, where housing markets are not as tight as in the Bay Area, the potential demand for three-or-more bedroom homes priced between \$100,000-\$125,000 represents more than three times the amount of such priced homes available for sale.

Overall, we find little private sector production of affordable rental units and, in many areas, an insufficient availability of modestly priced houses for sale. There are many possible reasons for these shortages, including national, regional, and local factors.

5. *Policy Implications*

A number of implications for national, state, and local housing policy are revealed by the analysis. First, national policy must strive to meet the housing needs of moderate- and middle-income American families and not just the very poor. To reiterate a point made in the introduction, the information economy notwithstanding, millions of working families still earn their livings in old economy-type jobs with their concomitant lower wages and incomes that lag behind rising housing costs. As the new economy continues to generate jobs and create enormous wealth, the housing industry continues to move up-market to accommodate the near-insatiable demand for high-amenity homes and apartments, which results in even lower levels of affordable housing production.

Because conditions vary so much from place to place, the federal government

⁵⁰See Table 16 in Appendix.

must provide a menu of flexible housing resources supported by tax code incentives and annual appropriations, along with financial incentives to encourage local regulatory reforms, which enable states and localities to custom-tailor their own affordable housing strategies. Working families with critical housing needs are found in many places—old urban neighborhoods, older inner suburbs, the newer suburbs, and in rural areas—anywhere teachers, police officers, firefighters, and service workers are needed. These communities have their own mix of needs and their own prescription for meeting them, which may include inclusionary zoning, smart growth, second mortgage pools, tax exempt bond financing, modification of building codes, innovative construction techniques, the use of technology to reduce production and transaction costs, etc. Also, making more affordable housing available can offer an effective tool in combating “urban sprawl,” an increasingly serious problem.

With respect to the latter, research suggests that while sprawl is costly and wasteful, growth controls also can lead to higher housing prices. Robert Burchell estimates that “relative to more compact forms of growth—sprawl costs about 20 percent more for roads and land, and lesser additional percentages for schools, housing and public services.”⁵¹ On the other hand, Samuel R. Staley and Gerard C.S. Mildner, for example, suggest that Portland, Oregon’s urban growth boundaries have led to rising prices of lots and homes, making it one of the least affordable housing markets in the West.⁵² While none of the empirical research on these issues is definitive, it makes sense for federal policy to encourage states and communities to reduce regulatory barriers to affordable housing, and to take explicit account of the need for more affordable housing in the development and implementation of smart growth policies.

Additionally, the analysis contained in this report supports the significant expansion of supply-side assistance and the need for increasing existing demand-side production incentives—this will require meaningful coalitions between business, organized labor, and governments to develop innovative and cost effective programs. Because large numbers of working families with incomes up to 120 percent of median have severe cost burdens, the federal government should increase income limits for existing supply-side programs to more realistic levels.

⁵¹Anthony Downs, “Some Realities About Sprawl and Urban Decline,” *Housing Policy Debate*, Volume 10, Issue 4, 1999, p. 964.

⁵²“Housing Hurt by Caps on Growth, Study Finds,” *Philadelphia Inquirer*, November 7, 1999, www.uli.org/pub/pages/c_enews/smartgrowthnews/newsletters/10859.cfm. See also Bahram Adrangi and Neal Higgins, “Effects of Urban Growth Boundaries on Regional Housing Prices,” *Real Estate Review*, Vol. 29, No. 2, 1999, pp. 80-86.

And, since a significant number of moderate-income working renters with critical housing needs can afford the carrying charges on homes costing up to \$100,000, there is an important role for down payment assistance programs, Individual Development Account initiatives that match a family's savings dollar-for-dollar to help them save for a down payment on a first home, and production incentives that would reduce development costs on for-sale housing to more affordable levels.

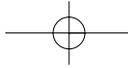
Also, because so many working families with severe housing cost burdens own their homes, there also is an important future role for time-limited homeownership vouchers where, among other possibilities, a first mortgage would be underwritten using the borrower's current income from employment, with the 10-year homeownership voucher fully amortizing a second mortgage that would cover the difference between the home price and the sum of the down payment and first mortgage. Finally, targeted rental development subsidies are needed in overheated markets where more housing vouchers cannot be effectively used.

There also is a tremendous need for additional demand-side assistance. We estimate that more than one million moderate-income working families buy their way out of substandard housing by paying more than half their income for rent or homeownership costs. These hardworking families would be helped by housing vouchers. Families lower down on the income scale who are struggling to make the transition from welfare to work also would benefit from tenant-based rental assistance. This is why states may want to consider using a portion of their Temporary Assistance to Needy Families (TANF) surplus for rental assistance to help families make the transition from welfare to work. Nationally, welfare caseloads have fallen by more than half since the early 1990s.⁵³ As both caseloads and spending on cash assistance have fallen, welfare budgets have not because the 1996 welfare reform law froze federal welfare funding levels in the early 1990s. According to the Center on Budget and Policy Priorities, at the end of FY 1999, 33 states had accumulated a total of more than \$2.5 billion in unobligated TANF funds since the beginning of FY 1997.⁵⁴

Finally, even though the Earned Income Tax Credit (EITC) for the working poor is not a housing program per se, there is reason for increasing EITC benefits for those families, who are especially at risk. Moreover, where housing costs have been rising significantly faster than the wages of working families, state supplemental EITC programs can be particularly helpful.

⁵³Center on Budget and Policy Priorities, Ed Lazere, *Welfare Balances After Three Years of TANF Block Grants: Unspent TANF Funds at the End of Federal Fiscal Year 1999*, Revised January 12, 2000, p. 1.

⁵⁴Ibid, pp. 9-10.

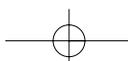
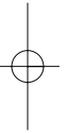
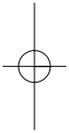


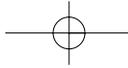
6. *Conclusions*

In highlighting the critical problems of millions of working families, this report has attempted to broaden the housing policy debate to include causes and consequences that go beyond the problems of poverty and welfare dependency. This does not suggest that we support diverting resources from the housing needs of the very poor, but rather that more resources must be devoted to housing for moderate-income working families.

Rather than sowing the seeds of division within the housing community that is starved for funds, this report presents a compelling case for expanding the affordable housing coalition to include working families and the influential constituencies of which they are part, including organized labor and the business community.

In this time of great prosperity and the prospect of huge federal budget surpluses in the future, affordable housing need not become a zero sum game in which more support for working families means less for seniors and those who cannot work.





Appendix I Tables

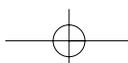
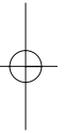




TABLE 1
Working Status of Households with Critical Housing Needs, U.S., 1997
(000s)

	Number	Percent
Elderly, Not-Working	3,753	27.5
Non-elderly, Not Working	3,929	28.7
Marginally Employed*	2,939	21.5
Moderate Income Working Families**	3,046	22.3
Total	13,667	100.0
Percent of all U.S. Households		13.7

*Marginally employed include families with earnings from wages of \$2,675–\$10,700 (e.g. between one quarter and one, full-time minimum wage equivalent).

**Moderate income are families whose total income is between \$10,700 and 120 percent of an area median income, and where earnings account for at least half the family's total income.

Source: 1997 American Housing Survey and authors' calculations

TABLE 2
Critical Housing Needs of All Households,
Selected Metropolitan Areas, U.S., 1998

Metropolitan Area	Number	Percent of All Households
Baltimore	188,891	18.4
Birmingham	63,800	16.2
Boston	283,267	21.0
Cincinnati	115,260	17.8
Houston	267,638	17.3
Los Angeles (1997) CMSA*	1,279,550	20.3
Minneapolis-St. Paul	161,076	14.0
New York (1997) CMSA**	1,575,010	23.0
Norfolk	112,780	17.8
Oakland	202,156	22.6
Providence	84,522	20.3
Rochester	94,596	21.1
Salt Lake City	69,707	15.7
San Francisco	162,229	23.2
San Jose	126,319	21.4
Tampa	299,038	26.3
Washington, D.C.	265,000	14.6
U.S.	13,667,000	13.7

*Los Angeles are for 1997. Los Angeles CMSA includes Los Angeles-Anaheim-Riverside, CA

**New York are for 1997. New York CMSA includes New York-Northern New Jersey-Long Island, NY-NJ-CT

Source: 1998 American Housing Survey metropolitan files and authors' calculations

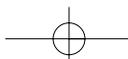




TABLE 3
Housing Characteristics of Moderate-Income Working Families

Moderate-income working households include:

- One half of all working households in the U.S., regardless of income
- 46 percent of all renter households
- 73 percent of all working renters, regardless of income
- 25 percent of all homeowners
- 38 percent of all working homeowners, regardless of income

Source: 1997 American Housing Survey and authors' calculations

TABLE 4
The Incomes of Moderate-Income Working Families
with Critical Housing Needs, U.S., 1997
(000s)

Family Income	Critical Housing Needs	
	Number	Percent of All Working Families
\$10,700 to 50% of Median	1,706	27.1
50 to 80% of Median	865	8.1
80 to 120% of Median	475	3.2
\$10,700 to 120% of Median*	3,046	9.5

*There also are 383,000 working families with critical housing needs with incomes greater than 120 percent of median.

Source: 1997 American Housing Survey and authors' calculations

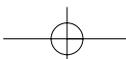




TABLE 5
Relationship Between Critical Housing Needs of Moderate-Income Working Families and HUD's Worst Case Needs, U.S., 1997

	HUD's Worst Case Needs	Critical Needs of All Households	Critical Needs of Working Families
Category			
Unassisted Renters			
Severe Cost Burden	5,063,000	5,308,000	943,000
Severely Inadequate	469,000	902,000	405,000
Both	-151,000	-169,000	-11,000
Total	5,379,000	6,039,000 (a)	1,337,000 (a)*
Assisted Renters			
Severe Cost Burden	NA	1,371,000	102,000
Severely Inadequate	NA	169,000	44,000
Both	NA	-71,000	-2,000
Total	NA	1,469,000 (b)	144,000 (b)
Home Owners			
Severe Cost Burden	NA	5,537,000	1,372,000
Severely Inadequate	NA	725,000	201,000
Both	NA	-81,000	-7,000
Total	NA	6,182,000 (c)	1,566,000 (c)
Total Critical Housing Needs (a+b+c)	NA	13,667,000	3,046,000

*900,000 of these families meet HUD's worst case needs definition.
 Source: 1997 American Housing Survey and authors' calculations

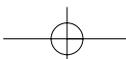
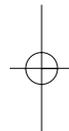




TABLE 6
Moderate-Income Working Families with Critical Housing Needs,
Selected Metropolitan Areas, U.S., 1998

Metropolitan Area	Number	Percent of All Working Families	Working Family's Share of Critical Housing Needs
Baltimore	44,628	12.8	23.6
Birmingham	7,974	6.7	12.5
Boston	88,573	19.7	31.3
Cincinnati	19,972	9.6	17.3
Houston	55,870	10.1	20.9
Los Angeles CMSA (1997)	401,402	9.4	31.3
Minneapolis-St. Paul	46,496	10.1	28.9
New York CMSA (1997)	513,649	11.5	32.6
Norfolk	31,965	14.9	28.3
Oakland	63,952	22.4	31.6
Providence	20,008	16.5	23.7
Rochester	17,919	12.9	18.9
Salt Lake City	20,600	12.1	29.6
San Francisco	49,609	25.6	30.6
San Jose	45,278	27.0	35.8
Tampa	56,206	20.6	18.8
Washington	90,280	16.0	34.0
U.S.	3,046,000	9.5	22.3

Source: 1998 American Housing Survey metropolitan files and authors' calculations

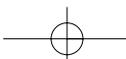




TABLE 7
Housing Problems of Moderate-Income Working Families,
Selected Metropolitan Areas, U.S., 1998

Metropolitan Area	Percent with Severe Cost Burdens	Percent in Severely Inadequate Housing	Percent in Moderately Inadequate Housing	Percent Crowded
Baltimore	11.1	1.8	4.7	1.3
Birmingham	5.0	1.7	11.3	1.9
Boston	17.5	2.9	4.8	1.2
Cincinnati	7.9	1.8	6.1	1.7
Houston	8.0	2.2	11.2	7.2
Los Angeles (1997) CMSA	14.3	2.0	6.9	15.2
Minneapolis-St. Paul	8.8	1.3	5.0	1.8
New York (1997) CMSA	17.6	5.7	6.1	8.2
Norfolk	13.3	1.8	5.4	1.9
Oakland	19.4	3.5	5.5	6.0
Providence	15.0	1.6	7.7	2.8
Rochester	11.3	2.2	4.1	1.0
Salt Lake City	10.6	1.5	4.9	3.9
San Francisco	22.2	3.8	8.7	8.3
San Jose	25.4	1.9	3.9	8.4
Tampa	19.9	0.8	4.8	1.7
Washington, D.C.	14.4	2.0	6.3	2.3
U.S.	7.5	2.0	6.4	5.3

Source: 1998 American Housing Survey metropolitan files and authors' calculations

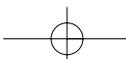




TABLE 8
Housing Problems of Moderate-Income Working Families,
by Race, Ethnicity, Tenure, and Region, U.S., 1997

		Percent			
		Northeast	Midwest	South	West
<u>Non-Hispanic White</u>					
Renters					
	Critical Needs	10.3	5.1	7.8	10.2
	Crowded	2.4	2.6	2.8	3.3
Owners					
	Critical Needs	11.4	5.8	7.3	10.0
	Crowded	1.4	1.1	1.6	2.2
<u>Non-Hispanic Black</u>					
Renters					
	Critical Needs	12.7	6.0	9.4	12.5
	Crowded	9.7	5.9	5.0	7.9
Owners					
	Critical Needs	16.7	7.8	10.0	7.9
	Crowded	3.9	1.7	3.7	0.0
<u>Hispanic</u>					
Renters					
	Critical Needs	22.7	5.3	8.2	12.9
	Crowded	15.9	15.8	19.5	30.8
Owners					
	Critical Needs	31.0	10.5	10.1	18.5
	Crowded	9.7	9.3	12.4	17.8
<u>All Working Families</u>					
	Critical Needs	11.0	5.5	7.5	10.1
	Crowded	4.1	2.6	4.6	9.7

Source: 1997 American Housing Survey and authors' calculations

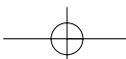


TABLE 9
Housing Problems of Moderate-Income Working Families,
by Tenure, U.S., 1995 and 1997
(000s)

	1995		1997		Change 1995-1997	
	Number	Percent	Number	Percent	Number	Percent
All Households	30,220	100.0	32,074	100.0	1,854	6.1
Severe Cost Burden	2,055	6.8	2,417	7.5	362	17.6*
Severe or Moderately Inadequate	2,257	7.5	2,693	8.4	436	19.3*
Crowded	1,506	5.0	1,703	5.3	197	13.1
Critical Needs	2,606	8.6%	3,046	9.5	440	16.9*
All Renters	15,510	100.0	15,624	100.0	114	0.7
Severe Cost Burden	914	5.9	1,044	6.7	130	14.2*
Severe or Moderately Inadequate	1,366	8.8	1,765	11.3	399	29.2*
Crowded	957	6.2	1,182	7.6	225	23.5*
Critical Needs	1,224	7.9	1,481	9.5	257	21.0*
All Owners	14,710	100.0	16,450	100.0	1,740	11.8
Severe Cost Burden	1,142	7.8	1,372	8.3	230	20.1
Severe or Moderately Inadequate	880	4.2	928	4.4	48	5.5
Crowded	549	3.7	521	3.2	-28	-5.1*
Critical Needs	1,382	7.9	1,565	9.5	183	13.2*

*Differences are statistically significant at the .05 level.
 Sources: 1995 and 1997 American Housing Surveys and authors' calculations



TABLE 10
Housing Problems of Working Families,
by Number of Wage Earners, U.S., 1997

Housing Conditions	Percent with Critical Housing Needs	
	Number of Earners	
	1	2 or More
Severe Cost Burden	9.4	4.8
Severely Inadequate Housing	2.0	2.1

Source: 1997 American Housing Survey and authors' calculations

TABLE 11
Metropolitan Location of Working Families with
Critical Housing Needs, By Tenure, U.S., 1997

	All Working Families		Renters		Owners	
	Number (000s)	Percent	Number (000s)	Percent	Number (000s)	Percent
Central City	1,230	40.4	770	52.0	461	29.4
Suburbs	1,303	42.8	601	40.6	702	44.8
Non-Metropolitan	513	16.8	110	7.4	403	25.8
Total	3,046	100.0	1,481	100.0	1,565	100.0

Source: 1997 American Housing Survey and authors' calculations

TABLE 12
Critical Housing Problems of Minimum Wage Working Households, U.S., 1997

Income Relative to Minimum Wage	Number in Income Range (000s)	Median Income	Critical Needs	Percent with Critical Needs
Equivalent of Less Than 1 Full-time Worker at Minimum Wage	1,357	\$10,550	510	37.6
Between 1-2	8,574	\$16,800	1,833	21.4
Between 2-3	10,830	\$26,800	744	3.9
Between 3-4	7,624	\$37,000	330	4.3
Between 4-5	3,647	\$47,000	101	2.8

Source: 1997 American Housing Survey and authors' calculations





TABLE 13
Incidence of Severe Housing Cost Burdens of Selected Occupations, U.S., 1993 and 1996 (000's)

	1993			1996		
	Median Income (1997 Dollars)	Number with Severe Cost Burden	Percent	Median Income (1997 Dollars)	Number with Severe Cost Burden	Percent
All Working Families	\$29,359	1,863	6.5	\$27,072	2,613	9.6*
Working Families Including:						
Blue Collar	\$23,779	539	5.3	\$23,368	732	7.6*
Clerical	\$28,032	637	10.2	\$28,541	552	9.6
Service	\$25,548	506	10.7	\$27,597	564	13.4*
Retail Sales	\$27,117	133	8.8	\$26,863	156	11.2
Police/Teacher	\$29,519	114	6.8	\$30,060	221	14.6*

*The increase between 1995 and 1997 is statistically significant at the .05 level.
 Source: 1993 and 1996 Panel Study of Income Dynamics and authors' calculations

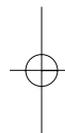


TABLE 14
New, Unfurnished, Unsubsidized Apartments Completed, by Rent, United States and Regions, 1998

Characteristics	Affordable with an Hourly Wage of: *	United States	Northeast	Midwest	South	West
Asking Rent						
<\$450	\$9	13,200	300	2,600	9,100	1,200
\$450 - \$549	\$9 - \$11	26,300	500	10,500	10,200	5,000
\$550 - \$649	\$11 - \$13	30,400	500	8,500	18,200	3,200
\$650 - \$749	\$13 - \$15	41,300	2,600	5,500	22,700	10,500
\$750 - \$849	\$15 - \$17	31,500	1,100	3,200	19,200	8,000
\$850 +	\$17+	67,600	5,700	5,100	35,900	20,900
Total		210,300	10,700	35,500	115,300	48,800
Median		\$735	\$850 +	\$604	\$738	\$805

*Affordable with a full time-equivalent wage.
 Source: U.S. Census Bureau, Survey of Market Absorption Characteristics 1998, Table 1

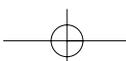




TABLE 15
The Potential Demand for Home Ownership by Moderate-Income Working Families,
by Price and Number of Bedrooms, Selected Metropolitan Areas, 1998

1 – 2 Bedroom Houses						
Metropolitan Area	\$50,000 - \$75,000		\$75,000 - \$100,000		\$100,000 - \$125,000	
	Potential Demand	Number of Standard Units, Vacant-For-Sale	Potential Demand	Number of Standard Units, Vacant-For-Sale	Potential Demand	Number of Standard Units, Vacant-For-Sale
Baltimore	16,472	901	13,534	1,649	20,566	676
Birmingham	5,762	165	8,352	247	6,969	249
Boston	15,311	606	19,979	0	30,791	1,255
Cincinnati	11,207	1,067	10,484	1,774	13,274	686
Houston	36,846	329	28,573	672	40,714	0
Los Angeles (1997) CMSA	147,484	0	171,030	6,368	180,255	1,988
Minneapolis	17,539	1,030	23,623	510	23,991	768
New York (1997) CMSA	137,168	4,066	129,099	0	187,424	3,149
Norfolk	15,045	662	14,644	1,089	15,201	0
Oakland	13,448	398	13,650	205	18,212	195
Providence	5,930	554	6,409	273	7,311	548
Rochester	6,278	1,081	8,421	93	8,237	98
Salt Lake City	6,531	575	6,625	475	7,959	654
San Francisco	6,656	0	14,486	272	15,356	0
San Jose	5,752	0	4,797	0	8,878	127
Tampa	25,198	4,077	17,833	1,236	21,161	239
Washington	21,502	412	26,232	2,094	40,369	2,411

Source: 1998 American Housing Survey metropolitan files and authors' calculations

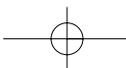




TABLE 15 (Continued)
 The Potential Demand for Home Ownership by Moderate-Income Working Families,
 by Price and Number of Bedrooms, for Selected Metropolitan Areas, 1998

3 or More Bedroom Houses						
Metropolitan Area	<u>\$50,000 - \$75,000</u>		<u>\$75,000 - \$100,000</u>		<u>\$100,000 - \$125,000</u>	
	Potential Demand	Number of Standard Units, Vacant-For-Sale	Potential Demand	Number of Standard Units, Vacant-For-Sale	Potential Demand	Number of Standard Units, Vacant-For-Sale
Baltimore	4,236	2,006	5,668	1,410	6,520	1,128
Birmingham	1,377	750	2,597	585	1,691	671
Boston	4,393	317	4,474	333	9,421	310
Cincinnati	2,557	674	3,554	1,068	2,401	139
Houston	8,398	2,633	13,874	3,228	16,707	1,587
Los Angeles (1997) CMSA	118,654	17,780	149,677	13,261	95,337	6,283
Minneapolis	2,778	530	2,498	263	4,873	947
New York (1997) CMSA	64,763	0	62,805	1,575	70,414	2,118
Norfolk	5,468	1,425	4,992	1,763	6,597	690
Oakland	3,207	0	3,324	0	7,402	610
Providence	1,420	282	2,914	571	3,480	520
Rochester	940	1,053	2,103	1,491	1,897	97
Salt Lake City	1,923	311	1,985	448	3,119	779
San Francisco	1,795	152	2,462	0	17,765	1,063
San Jose	1,540	0	2,501	0	3,307	0
Tampa	2,950	2,616	4,939	1,418	6,692	939
Washington	2,075	339	10,428	2,253	9,716	1,989

Source: 1998 American Housing Survey metropolitan files and authors' calculations



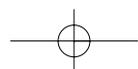


TABLE 16
 The Potential Demand for Home Ownership by Moderate-Income Working Families with
 Critical Housing Needs, by Price and Number of Bedrooms, Selected Metropolitan Areas, 1998

1-2 Bedroom Houses						
Metropolitan Area	<u>\$50,000 - \$75,000</u>		<u>\$75,000 - \$100,000</u>		<u>\$100,000 - \$125,000</u>	
	Potential Demand	Number of Standard Units, Vacant-For-Sale	Potential Demand	Number of Standard Units, Vacant-For-Sale	Potential Demand	Number of Standard Units, Vacant-For-Sale
Baltimore	3,730	901	1,217	1,649	746	676
Birmingham	960	165	782	247	0	249
Boston	8,261	606	5,365	0	3,544	1,255
Cincinnati	1,885	1,067	621	1,774	287	686
Houston	9,650	329	1,036	672	2,502	0
Los Angeles (1997) CMSA*	65,730	0	23,420	6,368	12,712	1,988
Minneapolis	5,083	1,030	1,460	510	1,238	768
New York (1997) CMSA*	83,870	4,066	35,976	0	28,901	3,149
Norfolk	4,916	662	1,126	1,089	289	0
Oakland	7,474	398	5,064	205	2,991	195
Providence	1,642	554	386	273	180	548
Rochester	1,725	1,081	516	93	100	98
Salt Lake City	2,287	575	292	475	293	654
San Francisco	4,033	0	5,613	272	2,457	0
San Jose	4,902	0	2,875	0	1,930	127
Tampa	5,115	4,077	1,816	1,236	831	239
Washington	11,197	412	2,908	2,094	1,689	2,411

Source: 1998 American Housing Survey metropolitan files and authors' calculations

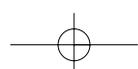
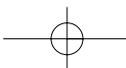


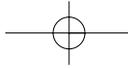


TABLE 16 (Continued)
 The Potential Demand for Home Ownership by Moderate-Income Working Families with
 Critical Housing Needs, by Price and Number of Bedrooms, Selected Metropolitan Areas, 1998

3 or More Bedroom Houses						
Metropolitan Area	<u>\$50,000 - \$75,000</u>		<u>\$75,000 - \$100,000</u>		<u>\$100,000 - \$125,000</u>	
	Potential Demand	Number of Standard Units, Vacant-For-Sale	Potential Demand	Number of Standard Units, Vacant-For-Sale	Potential Demand	Number of Standard Units, Vacant-For-Sale
Baltimore	2,718	2,006	1,288	1,410	254	1,128
Birmingham	82	750	175	585	81	671
Boston	2,987	317	1,056	333	2,625	310
Cincinnati	707	674	563	1,068	424	139
Houston	2,694	2,633	1,081	3,228	688	1,587
Los Angeles (1997) CSMA*	57,775	17,780	30,913	13,261	13,832	6,283
Minneapolis	1,093	530	1,112	263	614	947
New York (1997) CSMA*	32,846	0	18,441	1,575	7,358	2,118
Norfolk	1,984	1,425	311	1,763	706	690
Oakland	2,166	0	1,539	0	1,800	610
Providence	673	282	610	571	99	520
Rochester	408	1,053	103	1,491	212	97
Salt Lake City	744	311	461	448	197	779
San Francisco	1,152	152	1,162	0	360	1,063
San Jose	1,414	0	1,921	0	1,492	0
Tampa	1,353	2,616	0	1,417	0	939
Washington	1,578	339	1,697	2,253	781	1,989

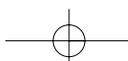
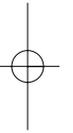
Source: 1998 American Housing Survey metropolitan files and authors' calculations





Appendix II

Technical Definitions



Procedures Used To Estimate Housing Needs for Working Families From American Housing Survey Data

To accurately estimate critical housing needs from American Housing Survey (AHS) data, it is necessary to determine:

1. whether a household earns more than \$10,700 in wage income;
2. whether the majority of household earnings comes in the form of wages and salaries;
3. whether household incomes fall below 120 percent of HUD-adjusted area median family income;
4. whether an income-eligible household has one or more of HUD's so-called priority problems — rent burdens exceeding 50 percent of income, or severely substandard housing.

The following discusses the procedures and definitions used with microdata from the 1997 AHS national data and the 1998 AHS Metro files to estimate the number of working households in different income categories that have critical housing needs or other housing problems.

Income

Income — Income in AHS is based on the respondent's reply to questions about income during the 12 months prior to the interview. It includes amounts reported for wage and salary income, net self-employment income, Social Security or railroad retirement income, public assistance or welfare payments, and all other money income, prior to deductions for taxes or any other purpose.

Household income — Reported income from all sources for all household members.

Wage income — Reported income from wages and salary only for all household members.

Income categories — HUD-adjusted area median family income (HAMFI). In 1974, Congress defined "very low income," "low income" and "low-moderate income" for HUD rental programs as incomes not exceeding 50, 80 and 120 percent, respectively, of the area median family income, as adjusted by HUD.

Statutory adjustments now include upper and lower caps for areas with low or high ratios of housing costs to income and, for each non-metropolitan county, a lower cap equal to its State's non-metropolitan average. Estimates of the median family income and the official income cutoffs for each metropolitan area and non-

metropolitan county are based on the most recent decennial census results and then updated each year by HUD. Each base income cutoff is assumed to apply to a household of four, and official cutoffs are further adjusted by household size: one person, 70 percent of base; two persons, 80 percent; three persons, 90 percent; five persons, 108 percent; six persons, 116 percent; and so on.

In order to ensure confidentiality of the households that participate in the AHS, the publicly available sample only identifies the location of housing units using broad identifiers. These are the census region, the metropolitan area, and broadly defined climate zones based on degree heating and cooling days.

HUD publishes county-specific income limits by family size, and county-specific fair market rents by unit size. Data from the National Oceanographic and Atmospheric Administration was obtained to determine the average heating and cooling degree days for each county.

To categorize households in relation to “local” income limits as accurately as possible within the limitations of the AHS geography, household income was compared with area income limits for all households. Very low, low, and low-moderate income cutoffs for all households — that is, 50, 80, or 120 percent of HAMFI, respectively — were defined for each unit of geography identified in the AHS national microdata. Official income limits were used directly for each of the 141 Metropolitan Statistical Areas (MSAs) identified in the AHS. For housing units outside these MSAs, the AHS geography identifies only four regions, metropolitan status, and six climate zones. Average income limits were calculated for each of these 48 locations.

For the 1998 Metro files, each household fell within one of 15 Standard Metropolitan Statistical Areas (SMSAs). SMSA-level income limits, provided by HUD, were used to determine household incomes relative to HAMFI.

For all households, income status is determined by comparing household income with the very low and low income cutoffs, with the appropriate adjustments for household size. Households reporting negative income were dropped from the sample.

Low-moderate income — Reported household income not in excess of 120 percent of HAMFI.

Low income — Reported household income not in excess of 80 percent of HAMFI or, if lower, the national median family income.

Very low income — Reported household income not in excess of 50 percent of HAMFI.

Housing Problems

Overcrowding — The condition of having more than one person per room per residence.

Rent or cost burden — Ratio between payments for housing (including utilities) and reported household income. This calculation is based on gross

income. It does not make the adjustments to income required by housing assistance programs before percentage-of-income rents are determined. To the extent that respondents underreport total income, the AHS estimates overcount the number of households with cost burden. Rent burdens are not calculated for households reporting zero or negative income.

Moderate rent or cost burden — Housing costs between 31 and 50 percent of reported income.

Severe cost burden — Housing costs exceeding 50 percent of reported income.

Inadequate housing — Housing with severe or moderate physical problems, as defined in the AHS since 1984.

Severely inadequate — a unit is considered severely inadequate if it has any one of the following five problems:

Plumbing. Lacking piped hot water or a flush toilet or lacking both bathtub and shower, all for the exclusive use of the unit.

Heating. Having been uncomfortably cold last winter for 24 hours or more or three times for at least six hours, each due to broken down heating equipment.

Upkeep. Having any five of the following six maintenance problems: leaks from outdoors, leaks from indoors, holes in the floor, holes or open cracks in the walls or ceilings, more than a square foot of peeling paint or plaster, or rats in the last 90 days.

Hallways. Having all of the following four problems in public areas: no working light fixtures, loose or missing steps, loose or missing railings, and no elevator.

Electrical. Having no electricity or having all of the following three electrical problems: exposed wiring, a room with no working wall outlet, and three blown fuses or tripped circuit breakers in the last 90 days.

Moderately inadequate — a unit is defined as moderately inadequate if it has any of the following five problems, but none of the severe problems:

Plumbing. Having all toilets break down simultaneously at least three times in the last three months for at least six hours each time.

Heating. Having unvented gas, oil, or kerosene heaters as the main source of heat (since these heaters give off unsafe fumes).

Upkeep. Having any three of the six upkeep problems mentioned under “severe problems.”

Hallways. Having any three of the four hallway problems mentioned under “severely inadequate.”

Kitchen. Lacking a sink, range, or refrigerator for the exclusive use of the unit.

Priority housing problems — Problems qualifying for federal preference in admission to assisted housing programs: paying more than one-half of income for rent (severe rent burden) or living in severely substandard housing (including being homeless or in a homeless shelter).

Household and Family Types

Family — The “families” eligible for HUD programs have traditionally included households with relatives, households with children, elderly single persons age 62 or older, and single persons with disabilities.

Families with children — A household with a child under age 18 present. These are distinguished as follows:

1. Families with more than one adult
2. Families with a single adult

Families without children — A household with no members under age 18 present. These are distinguished as follows:

3. Families with more than one adult
4. Families with a single adult

Working family — A household with: 1) total earnings from wages and salaries exceeding \$10,700; 2) wages and salaries representing more than half of household’s income; and, 3) total household income less than 120 percent of HAMFI.

Elderly — Household in which the head of household or spouse is age 62 or older, and there are no children present.

EITC-eligible — families that are eligible to receive the Earned Income Tax Credit (EITC). The EITC is a graduated income supplement offered to households with incomes between \$1 and \$30,000. The amount of the tax credit is determined by the family income and the number of children. The amount of the tax credit varies from \$1 to \$3,656, peaking at incomes near \$15,000 for families with children.

Housing Assistance Status

Receiving assistance — From AHS data, includes those responding “yes” to the following AHS questions: 1) Is the building owned by a public housing authority? 2) Does the federal government pay some of the cost of the unit? 3) Do the people living here have to report the household’s income to a public housing authority every year so they can set the rent? 4) Does the household receive a voucher to cover all or part of the rent? 5) Is the household required to report their income to anyone in order to renew a lease? If the answer to 5) is “yes” it is determined whether the household reports the income to any non-governmental authority, if not, the

household is assumed to receive government support. Although the number and characteristics of households responding affirmatively to these questions are generally consistent with program data, detailed examination reveals that households often do not report their assistance status correctly (see Duane T. McGough, *Characteristics of HUD-Assisted Renters and Their Units in 1993*, May 1997).

Worst case needs — Unassisted very low income renters with the priority housing problems that give them preference for admission to rental assistance programs.

Location

SMSA — From 1973 to 1983, the definitions of metropolitan location in Annual Housing Survey data corresponded to the 243 SMSAs used in the 1970 census. Since 1984, metropolitan location in AHS has referred to MSAs defined in 1983, based on the 1980 census.

Region — The four census regions are the Northeast, Midwest, South, and West.

Non-metropolitan — Households not located in an SMSA are identified according to their urban/rural status, census region, and climate type.

Expanded Metropolitan Areas (EMA) — to look more carefully at the geographic distribution of housing problems, the 1997 AHS national data was aggregated into metropolitan areas larger than the Standard Metropolitan Statistical Areas or the Consolidated Metropolitan Statistical Areas (CMSA) defined by the census. The three expanded metropolitan designations are:

Los Angeles EMA — includes Los Angeles CMSA, Los Angeles SMSA, Anaheim, San Diego.

New York City EMA — includes: New York City CMSA; New York City SMSA; Newark, NJ; Trenton, NJ.

Coastal Metropolitan Areas — **East:** Boston CMSA; Lawrence; Springfield; Hartford CMSA; Providence CMSA; New York City CMSA; New York City SMSA; Newark; Trenton; Washington, DC; Baltimore; Norfolk; Miami CMSA; Miami SMSA; West Palm Beach; Sarasota; Daytona; Ft. Myers; Orlando. **West:** Seattle CMSA; Portland CMSA; Tacoma; San Francisco; San Jose; Oakland; Salinas; Santa Barbara; Santa Rosa; Los Angeles CMSA; Los Angeles SMSA; Anaheim; San Diego.

Weighting of AHS estimates, 1990 based

All results in the report are weighted in order to use the sample to represent the U.S. stock of housing. Because each housing unit in the AHS sample represents many other units, the sample data are adjusted so that each year's total matches independent estimates of the total housing stock. For 1997, these independent estimates were based on the 1990 Census of Housing (1990 weights).

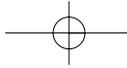
Mortgage Underwriting Assumptions for Homeownership Analysis

“Demand” for owner-occupied housing is estimated for working renters and working renters with critical housing needs. The maximum house price that the household can afford with its current income is calculated. To estimate the maximum house price, it is assumed that an affordable 30-year fixed rate mortgage like Freddie Mac’s Affordable Gold is used. Mortgage terms include: a 97% loan-to-value ratio, a three percent down payment that can originate from any source, including grants of gifts. The mortgage is assumed to be underwritten at eight percent annual interest and allow a “front end” payment to income ratio of 38 percent. Taxes, insurance, and private mortgage insurance are assumed at 2.25 percent of the purchase price.

To estimate the minimum number of bedrooms needed the following algorithm was used:

Number of adults	Number of children	Minimum number of bedrooms needed
1	0	1
	1	2
	2	2
	3+	3
2	0	1
	1	2
	2	3
	3+	4+
3+	Any	Number of adults – 1 + (number of children + 1)/2 [rounded up]

The number of estimated bedrooms cannot exceed the number of persons in households.
If the number of bedrooms in the current dwelling exceeds the number estimated, the minimum number of bedrooms needed equals the current number.



Analysis Using the Panel Study of Income Dynamics (PSID)

Procedures Used to Estimate House Cost Burdens for Working Families from the PSID

Data from the Panel Study of Income Dynamics (PSID) were used to look at the distribution of critical housing needs across occupations of the head of household. Because data on housing quality is not available in the PSID, it was only possible to determine whether families had high house cost burdens. Procedures for determining housing cost burdens and relative family incomes differ from those described above for the AHS in two ways. First, the PSID does not have data on utility payments needed to calculate gross rent for renters. Utility payments were estimated for different income groups using information provided by the Bureau of Labor Statistics.

Annual Income	\$0- \$20,000	\$20-\$30,000	\$30-\$40,000	\$40-\$50,000	>\$50,000
Utilities (% of Income)	9.0%	8.5%	6.8%	5.8%	5.2%

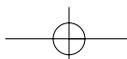
Second, estimates of family income relative to area median income were calculated differently. The geography of the PSID differs from the American Housing Survey geography in that the state of residence is identified for each observation. Relative incomes were measured relative to statewide median incomes, adjusted for family size. Family incomes were then compared to the various income cutoffs (50 percent of family-size adjusted median, etc.), to determine income brackets.

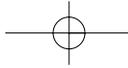
Determining Occupations Using the PSID

PSID definitions of occupation classes use the 1970 three-digit Standardized Occupation Codes (SOC). These occupations were collapsed into the following general occupations:

TEACHERS/POLICE (SOC 31-33, 141-145, 960-965): Teachers: Primary, Secondary, Librarians; Government protective service workers: firemen, police, marshals, and constables.

SERVICE (SOC 901-984) Private household workers, barbers, beauticians, manicurists, bartenders, boarding and lodging housekeepers, counter and fountain workers, housekeepers and stewards, waiters, cooks, midwives, practical nurses, babysitters, attendants in physicians' and dentists' offices.

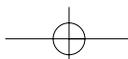
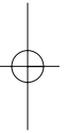


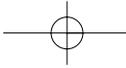


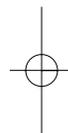
CLERICAL (SOC 301-395): Secretaries; stenographers; typists; library assistants and attendants; bank tellers; cashiers; bill collectors; ticket, station, and express agents, etc.; receptionists.

SALES (SOC 260-266, 280-296) Retail store salesmen and sales clerks, newsboys, hucksters, peddlers, traveling salesmen, advertising agents and salesmen, insurance agents, brokers, and all other salesmen.

BLUE COLLAR (SOC 400-586, 600-796, 800-846) Craftsmen, foremen and kindred workers; operatives and kindred workers; transport equipment operatives; operatives, except transport; laborers; unskilled laborers-nonfarm; farm laborers; and foremen.







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