UPDATE

The Heritage Foundation Backgrounder

214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202)546-4400

7/2/91 Number 162

UNAFFORDABLE HOUSING: NO CLEAR EVIDENCE YET

(Updating *Backgrounder* No. 783, "Washington's Continuing Fiction: A National Housing Shortage," August 22, 1990.)

One of the myths that abound in Washington is that the cost of housing, either to rent or to own, is moving further beyond the reach of Americans. Two recent studies, one from the Census Bureau and the other from the Center on Budget and Policy Priorities, a liberal think tank in Washington, D.C., lend apparent credence to this notion. Spokesmen for real estate pressure groups are pointing to these studies as proof of a worsening housing affordability crisis. Example: Says National Association of Home Builders (NAHB) economist Michael Sumichrast of the Census Bureau study, "We've simply priced ourselves out of the market."[1]

In fact, however, these studies offer no such evidence. Indeed, in recent years there has been an upsurge in housing affordability, especially for home buyers. Millions of renter households, moreover, are more in reach of buying their first home than they were just two years ago, while millions of home owners are better able to buy a more spacious and comfortable home than their present one.

The Census Bureau study was released this May, and is entitled *Who Can Afford to Buy a House?*[2] It examines the incomes, assets, and liabilities of a sample of 12,000 American home owners and renters, and compares them with house prices in their respective regions. The study concludes that some 91 percent of all renter households cannot afford the median-priced home in their region, and that even 36 percent of all current home owners cannot do so. The other study, *A Place to Call Home: The Crisis in Housing for the Poor*, was released in June by the Center on Budget and Policy Priorities (CBPP).[3]

Surveying low-income families in the Baltimore metropolitan area, the report claims that 64 percent of poor white households, and 54 percent of poor black households, spend at least half their income on housing. Adds the report, four out of five poor households, including home owners as well as renters, spend at least 30 percent of their income on housing.

---

1 Kirstin Downey, "Fewer Renters Can Afford to Buy Home," *Washington Post*, June 14, 1991.

2 U.S. Bureau of the Census, Current Housing Reports, H121/91-1, *Who Can Afford to Buy a House?* (Washington, D.C.: U.S. Government Printing Office, May 1991). The report assumed a home purchase to be financed with a conventional, fixed-rate, 30-year mortgage.

3 Scott Barancik and Mark Sheft, *A Place to Call Home: The Crisis in Housing for the Poor* (Washington, D.C.: Center on Budget and Policy Priorities, June 1991).

Advocates of expanding government housing subsidies point to these studies as evidence that Congress must act now to prevent the "crisis" from becoming worse. A closer reading of these studies, however, points to no such conclusion.

The Census Bureau Study

Those who cite the Census Bureau study as evidence that single-family homes are "overpriced" overlook the following points:

1) The study used median home price as merely one benchmark of affordability. A median represents the number separating half of all sampled cases. In other words, 50 percent of all dwellings in the Bureau sample cost less than the median price, and 50 percent of all dwellings cost more. Those who would use median price as the sole indicator of affordability ignore the obvious fact that vast numbers of Americans seeking to buy will consider houses costing less than the median – especially renters buying their first "starter" home. Thus the price of a median house says almost nothing about the costs of housing appropriate for first-time buyers.

Indeed, the Bureau itself acknowledges this. Defining a "modestly" priced home as one among the 25 percent least expensive in the region, the Bureau concludes that an additional 9.1 million American households would be able to afford to buy a home by using this as the threshold of affordability rather than the median price.

The evidence is strong that first-time buyers do in fact "shop down." According to Chicago Title and Trust Company's 1990 survey of recent home buyers, repeat buyers paid a median price of $149,400 for a home in 1990, while first-time buyers paid only $106,000.[4] According to the National Association of Realtors monthly publication, *Home Sales*, all home buyers paid a median of $95,500 in 1990, while first-time buyers paid only $81,200.[5]

2) The fact that certain aspiring buyers cannot at the moment afford a home does not suggest they are not moving up the ladder to home ownership. Most households, even with two or more full-time working adults, require time to build up the savings necessary for a down payment and to reach an income necessary to meet monthly mortgage and other housing expenses. Thus it is no surprise that while the report indicates that only 5.9 percent of households under age 25 were able to buy the median house in 1988, some 28.8 percent of those aged 25 to 34, as well as 52.8 percent of those aged 35 to 44, and 64.8 percent of those aged 45 to 54, were able to do so. The figures for married-couple families in these age ranges were 10.4, 36.7, 61.7, and 73.1 percent, respectively.

3) The housing market has been picking up since this March, and it is young first-time home-seekers – those alleged to be priced out of the market – who are the most prominent recent buyers. According to a survey by the Mortgage Bankers Association, 78 percent of all lenders report increases in mortgage borrowing for low-cost single-family homes from March 1990 to March 1991; only 9 percent report increases in borrowing for the most expensive homes.[6]

---

4 *Who's Buying Houses in America: Chicago Title and Trust Company's 15th Annual Survey of Recent Home Buyers* (Chicago: Chicago Title and Trust Company, 1991).

5 National Association of Realtors, *Home Sales*, Vol. 5, No. 5 (May 1991.)

6 Mitchell Pacelle, "Return of Home Buyers Remains Limited to Low End of Markets; Prices Are Flat," *Wall Street Journal*, April 5, 1991.

4) The point in time chosen for the Census study, spring 1988, was during an economic boom in which many Americans were putting their new wealth into housing, thereby bidding up prices. Since then, housing prices have risen much more slowly, and in some areas have declined. According to the Chicago Title and Trust report, during 1986-1988 the median price of a home for first-time buyers rose from $74,700 to $97,100, an increase of 30.0 percent. During 1988-1990, however, the price rose from $97,100 to $106,000, an increase of only 9.2 percent.[7] *Home Sales* similarly reveals a slowdown. During 1986-1988, the median sale price for all single-family homes rose from $80,300 to $89,300, or by 11.2 percent. Yet during 1988-1990, the median price increased from $89,300 to $95,500, or just 6.9 percent.[8]

One of the best indicators of general housing affordability is the National Association of Realtors' Housing Affordability Index. This indicates the degree to which median-income households can qualify for a typical mortgage loan. The 1990 figure of 110.2, for example, means that a household earning the median family income that year had 110.2 percent of the income necessary to qualify for a conventional mortgage loan covering 80 percent of the median price for an existing single-family home -- a typical loan requirement. The higher the index number, the eaiser it is for the median family to buy a house. Any figure above 100.0 is considered to be good news, since it means that the median-priced house is within range of the median-income family.

The trend since the mid-1980s has been toward increased affordability. After a dramatic improvement in affordability from 94.8 to 108.9 during 1985-1986, the index remained stable for the next three years, after which it again improved dramatically. The jump from from 110.2 to 115.5 during 1990-February 1991 (the most recent month for which figures are reliable) shows the affordability trend continuing.

Several housing experts project this improvement in housing affordability to continue for some time. Edwin Mills and Ronald Simenauer, both of Northwestern University's Center for Real Estate Research, estimate that home price differences between the Northeast, North Central, South, and West regions will all but disappear by the decade's end due to relative declines in the expensive Northeast and West regions.[9]

This is important because prices in the Los Angeles, San Francisco, Washington, D.C., and New York areas tend to provide the basis for impressions of a national affordable housing shortage. Additionally, Harvard economists Gregory Mankiw and David Weil project that during 1987-2007 inflation-adjusted housing prices will decline by two to three percent annually.[10]

5) Since the study conducted by the Census Bureau is the first of its kind, it cannot indicate any trends. It is a snapshot, and thus gives no indication of whether the situation is improving or deteriorating.

---

7 Chicago Title and Trust, *Who's Buying Houses?*

8 National Association of Realtors, *Home Sales*.

9 Edwin Mills and Ronald Simenauer, *Home Ownership as an Investment* (Evanston, IL: Northwestern University, Center for Real Estate Research, April 1991).

10 N. Gregory Mankiw and David N. Weil, "The Baby Boom, the Baby Bust, and the Housing Market," *Regional Science and Urban Economics*, Vol. 19 (1989), pp. 235-258.

The CBPP Study

The Center for Budget and Policy Priorities (CBPP) study on housing costs among poor renters and home owners is even more subject to misleading interpretations. Like the Census study, the analysis was conducted several years ago. Based on data from the biennial 1987 American Housing Survey, it does not take into account falling prices and rents during the past year.

The authors define "low-income" households as those with annual incomes of under $10,000, and "low-income" units as those with monthly rents of $250 or less. The report estimates that there were 83,700 renter households in the Baltimore area with incomes under $10,000, yet only 44,500 low-income units. To draw the conclusion from this analysis that the Baltimore area suffered from a severe affordable housing shortage is erroneous because such a conclusion ignores the following:

1) The poverty rate for the elderly was about 14.7 percent , as opposed to 8.8 percent for the non-elderly. Elderly renters tend to live in modest dwellings since they have no children with them. They also have fewer family commitments, and so a certain level of rent is usually less onerous for them than it would be for a young family with children.

2) Even more damaging to the study's conclusion, the researchers fail to count most income of renters. Like recent studies on housing affordability by the Harvard Joint Center for Housing Studies,[11] and the Economic Policy Institute,[12] the CBPP defines "income" as reported cash income only, as does the Census Bureau. This ignores vast sources of income. A great many of the poor receive housing subsidies, food stamps, Medicaid, and other noncash benefits. Because the Bureau includes only about 15 percent of the almost $200 billion in such federal, state, and local noncash benefits as income,[13] a significant portion of the income of "low-income" households goes uncounted in the CBPP study.

Recent federal *Consumer Expenditure Survey* data, assembled by the Bureau of Labor Statistics, moreover, reveal that much of the cash income of the poor goes unreported. The poor actually spend an average of over two dollars on household items for each dollar they report as income.[14] Thus the income figures on which the CBPP study are based not only fail to count most noncash income of the poor, but also fail to count even most of their cash income.

The study by the Harvard Joint Center on Housing Studies, flawed as it is, at least looks at rents according to whether or not a household receives housing subsidies, although the study ignores these benefits in income tabulations. The results are illuminating. Like the CBPP, the re-

---

11 William C. Apgar, Jr. et al., *The State of the Nation's Housing 1990* (Cambridge, MA: Joint Center for Housing Studies of Harvard University, 1990).

12 Michael E. Stone, *One-Third of a Nation: A New Look at Housing Affordability in America* (Washington, D.C.: Economic Policy Institute, 1990).

13 Vee Burke, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1986-88* (Washington, D.C.: Library of Congress, Congressional Research Service, October 24, 1989), p. 6.

14 U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditure Survey: Quarterly Data, 1984-1987* (Washington, D.C.: U.S. Government Printing Office, 1989), p. 16.

searchers worked with data from the 1987 American Housing Survey, jointly conducted by the Census Bureau and the U.S. Department of Housing and Urban Development. The Harvard analysts found that unsubsidized poor renters paid $360 a month for rent, while subsidized poor renters paid only $188 a month out of their pockets.[15] Thus, the Baltimore study conducted by CBPP supposed a rent burden for the subsidized poor double the actual amount.

♦ ♦ ♦

The Census Bureau and the Center on Budget and Policy Priorities studies thus cannot be used as a basis for declaring that America lacks affordable housing. Of course, real housing problems confront many Americans, especially the poor. Yet talk of a crisis in the supply of housing is more apparent than real. During 1980-1990, the number of vacant dwellings in America rose from 8 million to 10.3 million.[16] Mortgage interest rates meanwhile have hovered between 9 percent and 10 percent for at least a half-year, making first-time ownership easier for young working families than it has been in years. And in several of the most expensive metropolitan areas, housing prices and rents actually have fallen in the past year.[17]

Reducing Regulatory Barriers. The principal challenge now facing Congress and the Bush Administration is the removal of barriers to the functioning of the housing market. The federal government needs to encourage state and local governments to reduce the regulatory impediments to building, rehabilitating, and maintaining housing which mean unnecessarily high prices and rents in many local markets. The Advisory Commission on Regulatory Barriers to Affordable Housing has addressed many of these problems. Formed by Housing and Urban Development Secretary Jack Kemp, the 22-member Commission has been examining how zoning, building codes, and other regulations can raise the cost of housing. In Southern California, the costs of government fees alone can add $20,000 to the cost of a new home, while New Jersey developers have told the Commission that regulation can add 25 percent to the price of a house. The Commission is due to present its report with recommendations in July.

Congress and the Bush Administration should ignore those who argue that there is a lack of housing affordability in America if these arguments are based on the studies released by the Census Bureau and the Center on Budget and Policy Priorities. While the Census Bureau report, in particular, contains useful information about the market for housing, neither study provides any support for the myth that housing is becoming less affordable for Americans.

Carl F. Horowitz, Ph.D.
Policy Analyst

---

15 Apgar, *op. cit.*, p. 21.

16 "At a Glance," *National Journal*, May 11, 1991, p. 1125.

17 See, for example, Vivian Marino, "Some Homeowners Face Catch-22 As Rates, Home Values Fall," *Washington Post*, March 9, 1991; Jim Carlton, "As Home-Price Slump Reaches California, Risk to Economy Rises," *Wall Street Journal*, November 28, 1990.