Why is housing unaffordable?

Millions of people have housing costs they can’t afford. As a result, they don’t have enough monthly income left over to pay for food, transportation, health care, and other essential living expenses. They may also be one missed paycheck away from eviction or foreclosure.

Why can’t these families find a place they can afford?
There are four big reasons for this:

**The first is that incomes for many workers are just too low compared to the cost of housing.**
Some people think that full-time workers can afford housing, but that’s a myth. In some housing markets, only workers earning hourly wages of $30 or more can comfortably afford housing. In fact, there is no metro area in which full-time workers earning the Federal minimum wage can comfortably afford the costs of a typical 2-bedroom rental unit.

On average, a worker needs to earn $20.30 an hour to afford a typical 2-bedroom apartment. In other words, someone earning the federal minimum wage of $7.25 per hour would need to work almost three full-time jobs in order to afford a typical two-bedroom apartment.
And the problem is getting worse, not better. Incomes for low- and moderate-income workers have largely stagnated while housing costs have risen.

**The second reason is closely related to the first: for-profit developers generally don’t respond to the demand for housing among lower-income households.**

It’s not because they don’t want to, it’s because they can’t. The rents and home prices that many households can afford to pay are too low to cover the costs of developing and operating newly constructed housing. Some households’ incomes are too low to cover even the costs of maintaining and insuring existing housing.

**A third problem is that certain types of government regulation raise production costs and reduce the overall supply of all types of housing.**

For example, limits on density restrict the number of homes that can be built on available land, and complicated and lengthy approvals processes can slow down the construction process and even cause developers to go elsewhere, making it difficult for the supply of housing to keep pace with increases in demand and rising housing prices throughout the entire housing market.

It may seem counterintuitive, but it’s true: limits on construction of middle- and high-end housing also affect affordability in the lower half of the housing market. Too little building for moderate- and high-income households hurts people further down the income spectrum, because moderate- and higher income households end up driving up rents on units that would otherwise be relatively affordable.

There are good reasons for many government regulations. But it’s important to remember that increases in development costs are often passed on to families. We should at least take a hard look at regulations that affect development costs to figure out whether they are unavoidable and the benefits outweigh the costs, which can run to the tens of thousands of dollars per unit.

Reducing regulation will not lower costs enough to make new housing development for low-income households economical without government subsidies, but it could make housing more affordable for families in the middle.

**A final problem is a lack of government funding.**

To expand the availability of affordable homes, federal, state and local government fund a range of programs that successfully house millions of families. Unfortunately, these programs are not keeping pace with the need. Federal housing assistance over
the past 15 years has been stagnant or declining at the same time that the number of renters with very low incomes (less than 50% of AMI) is increasing. Currently, only about one in four eligible households with a housing burden receives government housing assistance of any kind.

To learn more about what you can do to make a difference, visit LocalHousingSolutions.org.

Video forthcoming