Indianapolis Neighborhood Housing Partnership

RESEARCH BRIEF

Housing Cost Burden & General Affordability

JUNE 2022

The following explores two concepts related to the relationship between housing costs and income: Housing Cost-Burden—paying more than 30 percent of household income on housing costs—and Affordability Ratios—the relationship between median housing costs and median household incomes.

Issues relating to housing costs and housing affordability are experienced in communities large and small across Indiana. The charts below show data for Indiana counties, and counties are categorized as “urban”, “mid-sized” or “rural”, based on the classification developed by the Indiana University Public Policy Institute as part of its *Thriving Communities, Thriving State effort*.[1]

HOUSING COST-BURDEN

Housing Cost-Burden is a commonly referenced concept that measures the percent of a household’s monthly income that is used to pay for housing and housing-related costs (including mortgage/rent payments, real estate taxes, homeowners’/renters’ insurance, utilities, and similar costs). A household is considered to be “cost-burdened” if it pays more than 30 percent of the household’s pre-tax income for housing. A recent report on the state of the nation’s housing from the Joint Center for Housing Studies at Harvard University notes nearly half of all US renters and 20 percent of US homeowners had housing cost burdens in 2019.[2]

Experiencing a housing cost-burden contributes to stressors across several domains of well-being. Beyond housing concerns, it has been shown to have a deleterious effect on the mental and physical health of household members, contribute to food insecurity, and limit wealth building opportunities. While the lowest of lower-income households have long been impacted by housing cost burdens, recent research from the Joint Center for Housing Studies at Harvard University finds that rental cost burdens are increasingly impacting those earning higher incomes as well, noting the prevalence of cost burdened households, at present, reflects a stark shortage in affordable housing.

A 2018 study by the Pew Charitable Trusts found that 38 percent renting households were cost-burdened, the rate having doubled since 2001, further noting that nearly half of Black-led renting households are cost burdened, compared with just more than one third of white renting households. The Pew report likewise found these cost burdened renting households were financially vulnerable in other ways, beyond housing.[3]

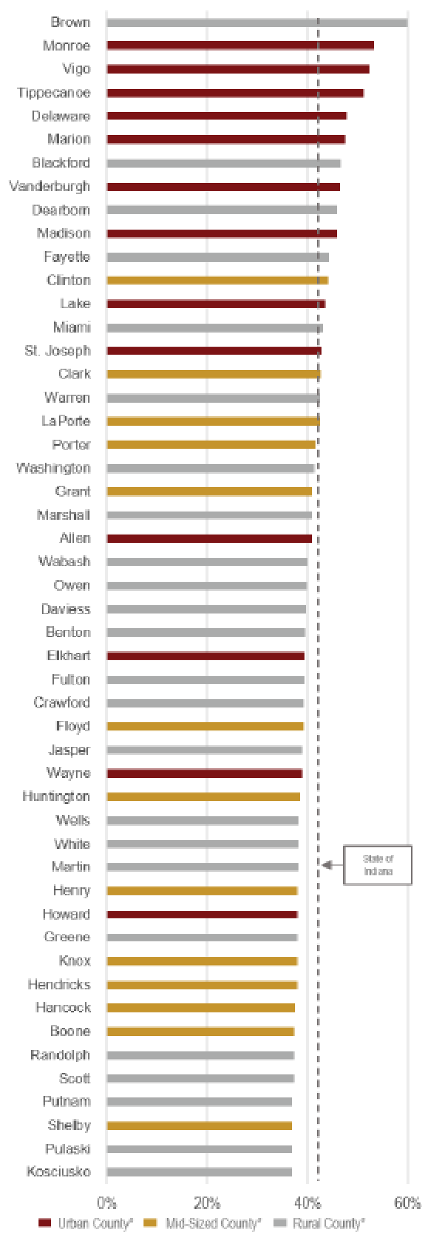
The National Low Income Housing Coalition’s 2022 annual gap analysis—examining the shortage of affordable rental homes—reports the US has a shortage of more than 7 million rental homes that would be affordable and available to individuals with incomes at 30 percent of their area median incomes.[4] The same research effort notes that there are only 78 affordable units for every 100 households earning at or below 50 percent of area median income in Indiana.

Figures 1 and 2 (see next page) show the percent of renting households and homeowning households, respectively, experiencing a housing cost-burden among the fifty most renting/homeowner cost-burdened counties in Indiana. Within Indiana, according the most recent American Community Survey data available for all counties from the US Census Bureau, 42.2 percent of renting households are experiencing a cost-burden while 15.6 percent of homeowning households experience a cost-burden. While all community types

[1] Indiana University Public Policy Institute: Thriving Communities, Thriving State
[2] Joint Center for Housing Studies of Harvard University: The State of the Nation’s Housing 2021
[3] Pew Charitable Trusts: American Fmailies Face a Growing Rent Burden
[4] National Low Income Housing Coalition: The Gap: A Shortage of Affordable Homes (2022)

FIGURES 1 & 2: FIFTY MOST COST-BURDENED INDIANA COUNTIES, RENTER AND HOMEOWNER, BY COUNTY TYPE

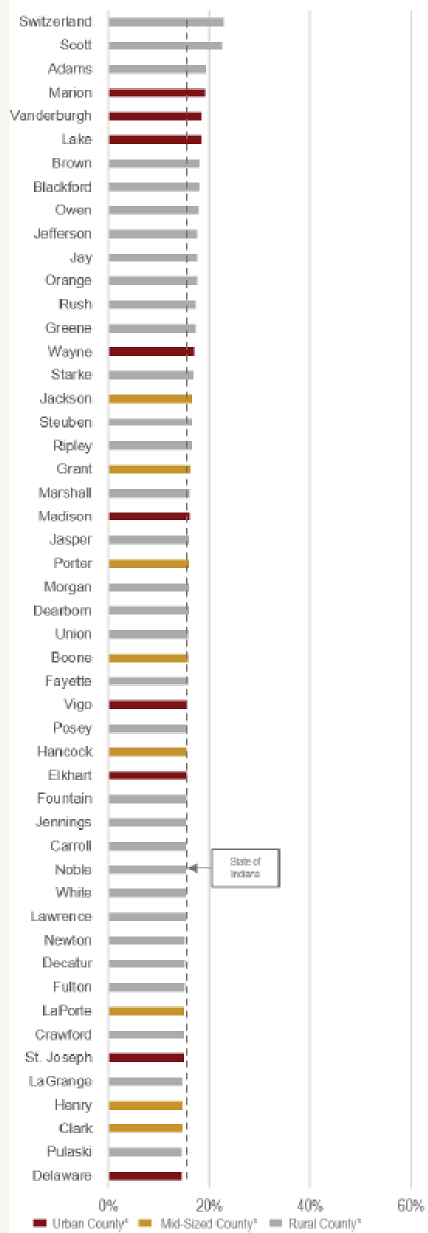
% of Renters Paying More than 30% Income on Housing, Fifty most renter-cost burdened Indiana Counties



* Using county classifications developed by the Indiana University Public Policy Institute in its *Thriving Communities, Thriving State* research effort

Source: American Community Survey: 2020 Five-Year Estimates (2022)

% of Homeowners Paying More than 30% income on Housing, Fifty most homeowner-cost burdened Indiana Counties



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Source: American Community Survey: 2020 Five-Year Estimates (2022)

experience housing cost burdens, a number of urban areas – especially those with universities – tend to have the highest percentages of renting cost-burdened households while several rural counties rank near the top in counties with the highest percentages of those experiencing homeowning cost-burdens.

Another way of examining housing costs relative to earnings is to examine **Affordability Ratios:** the relationship between the median earner and the median cost of housing. This ratio seeks to identify what the typical cost of housing would be relative to the typical earning household in a given area. Because median rents are presented on a monthly basis and median sales prices reflect the total prices of tangible assets, the methods for presenting these affordability ratios vary.

In our analysis, we examine the median rent relative to one-twelfth of the median (annual) household income. This enables us to compare monthly rents with monthly incomes. Further, we consider only the monthly incomes among renting households because those are the households most likely to realize the changing costs related to the cost of renting. For the homebuyer affordability ratio, we consider the ratio of the median sales price and the median household income of all households.[5]

Among renting households across the state, the median household monthly income is 29.7 percent of the median rent. Put another way, for nearly half of all renting households, the median rent is more than 30 percent of their income.

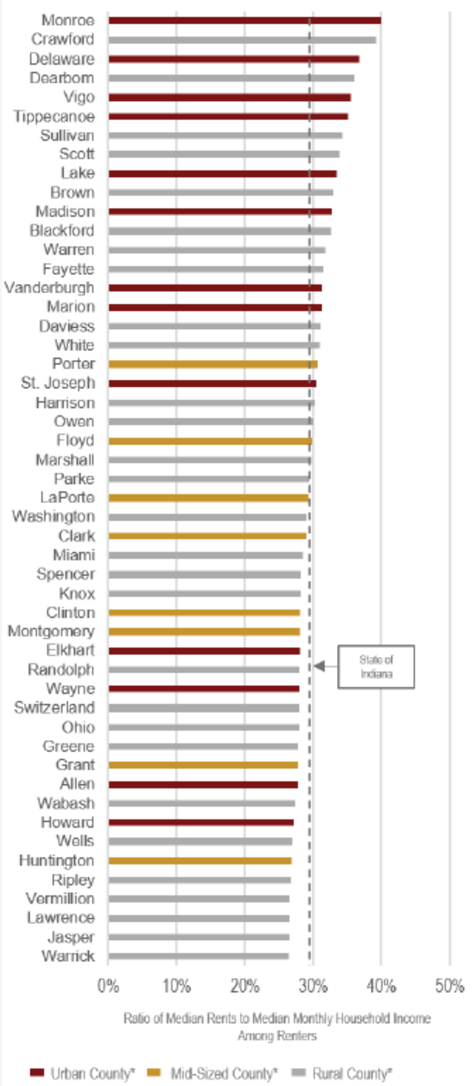
For homebuying households, the median sales price of housing has long been appreciating more rapidly than incomes have been growing. A good rule of thumb, in most parts of the country, is that a homebuyer can afford a home that costs 2.6 years of the household's income (i.e., a household earning $100,000 could comfortably afford a $260,000 home). In Indiana, using the most recent data available on median sales prices and income (see data note on Figure 4), the ratio of median sales price to median income is more than 3.8, suggesting the median sales price is largely out of reach for the median earning household.

As with cost-burden, for both renters and homeowners, affordability is not a challenge limited to urban or mid-sized counties. Several rural counties—among a mix of urban and mid-sized counties--are represented on both lists of the top 50 least affordable (see Figures 3 and 4, next page).

[5] We examine the median sales price to purchase a home against all households because the cost of purchasing a home is often viewed as a barrier to achieving stable affordable housing among renters who would become homeowners, particularly among first-time homebuyers. Changing rental prices do not generally pose a comparable barrier to current homeowners; for that reason, current homeowners are excluded from the calculation of the rental affordability ratio while renters are not excluded from the homebuyer ratio.

FIGURES 3 & 4: FIFTY LEAST AFFORDABLE INDIANA COUNTIES, RENTERS AND HOMEBUYERS, BY COUNTY TYPE

Ratio of Median Rents to Median Household Income Among Renters, Fifty Least Affordable Indiana Counties, by Affordability Ratio



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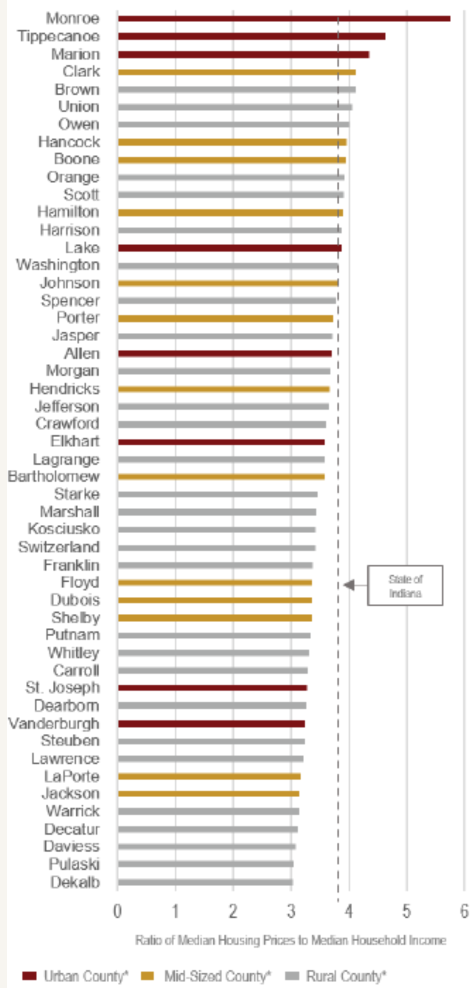
Source: American Community Survey: 2020 Five-Year Estimates (2022)

Ratio of Median Sales Price to Median Household Income, Fifty Least Affordable Indiana Counties, by Affordability Ratio



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Sources: Indiana Association of Realtors, American Community Survey

Data Note: Median Sales Prices are from 2022, Year-to-Date, through April (statewide data through March 2022). Median Household Incomes are from the 2020 ACS, 5-year estimates. Both represent the most recent data available at the time this chart was created.