Rents burden high in low- and high-cost metros alike

Housing, a cost that nearly every American family has to bear, has become prohibitively expensive for much of the population. In 1990 and 2000, about a third of American renters were cost burdened—defined here as paying more than 35 percent of their income on rent. By 2010, that share had jumped to 44 percent nationwide and was even higher in some places.

New analysis of data from the Neighborhood Change Database shows how widespread rent cost burdens have become, increasing in poorer cities and high-cost metros alike.

While homeowners build equity when housing prices rise, renters face a much different reality: housing price inflation directly affects their ability to spend or save for the future. And unlike homeowners, renters see no return on their dollar.

**Rent Cost Burdens Are a Problem in All Types of Neighborhoods**

Rent burden is an important economic indicator, perhaps as important but not as widely discussed as unemployment rates or gasoline prices. Rent cost burdens are a function of two components: rents and incomes. Rates of rent burden can go up when rents rise faster than incomes or when incomes fall faster than rents. Looking at the two together, we see that both rents and incomes increased modestly between 1990 and 2000, but between 2000 and 2010, inflation-adjusted incomes fell while rents continued to rise.

In 1990, 41 percent of those living in low-socioeconomic (SES) neighborhoods were rent burdened, but high-SES neighborhoods were not immune. Between 1990 and 2000, the situation improved slightly in low-SES neighborhoods before relapsing significantly. By 2010, over half of renters in low-SES neighborhoods and more than a third in high-SES neighborhoods were cost burdened.

However, low-SES neighborhoods have more renters, by volume, than neighborhoods that rank at the top; and thus a higher number of cost-burdened renters. The number of renters in low-SES neighborhoods has risen from 52 percent in 1990 to 56 percent in 2010. On the other end, the number of renters in high-SES neighborhoods has fallen from 27 percent in 1990 to only 19 percent by 2010.

In total, 4.8 million of America’s renter households live in low-SES neighborhoods, compared with about half as many, 2.4 million, in high-SES neighborhoods.

**Cheap Housing Isn’t a Renter’s Paradise**

It seems fair to hypothesize that high cost burdens disproportionately affect renters in expensive metro areas. NCDB data reveals that this is not actually the case. Let’s take a look at two cities that illustrate this point.

San Jose is the heart of Silicon Valley, with a strong economy and many high-wage technology jobs. It also has one of the most expensive housing markets in the United States, where the median home sells for almost $649,000 and rents are $1,443 a month. In Detroit, on the other hand, long-considered one of the worst housing markets, homes sell for a quarter of San Jose’s median price, at only $158,000, and median rents are a bit more than half, at $884 a month.

Comparing these metro areas side by side, it becomes clear that rent cost burdens are not simply a problem exclusive to high-cost areas or even necessarily worse in high-cost areas. In 1990, the cost burden rates in Detroit and San Jose were 38 percent and 35 percent respectively, but by 2010 that number had ballooned in both metros. Detroit now has a considerably higher number of families who are rent burdened (48 percent) than San Jose (40 percent).

The national picture shows very similar trends, with cost burdens rising 10 percentage points from 34 percent in 1990 to a current high of 44 percent. Rent burdens are more complex than housing markets themselves. Metro areas with weaker economies tend to have softer housing markets, but weak economies also correlate with lower incomes and higher unemployment, creating a rent burden crisis that’s national in scope.

How is this possible? Rent is only one of the two metrics needed to understand cost burdens, the other is income. In inflation-adjusted (2010) dollars, the average family income in San Jose has grown considerably higher than in Detroit. That average income dipped slightly between 2000 and 2010 in both Detroit and San Jose, which combined with steadily increasing rents to create ever-higher cost burdens in both cities.

The difference in rent cost burdens becomes especially stark when you limit the analysis to the high-SES neighborhoods in both cities. Detroit is among a small number of metros where income actually declined in high-SES neighborhoods. Rent cost burdens in San Jose’s high-SES neighborhoods remained relatively flat over time, while in Detroit, they grew from 27 percent in 1990 to 42 percent in 2010, nearly as high as the 2010 national average of X percent.

**The Problem is Clear. What’s the Fix?**

The problem of high rent cost burdens has reached a critical juncture. Slightly less than half of American renters can’t afford their monthly housing costs.

Strong metro economies are tied to higher rents, which makes solving the rent burden crisis a complex task for local officials. As research has shown, lower median rents do not necessarily mean lower burdens, and improving a struggling economy is not a task that cannot happen by fiat.

In high-cost markets, one way to keep burdens from climbing out of control is to make sure the supply of new housing keeps up with demand. For very low-income renters, policymakers should ensure enough subsidized housing (or preserve the existing stock). In low-cost markets, the focus should be squarely on improving the economic reality for very low-income renters. An inexpensive apartment by national standards could still easily be out of reach for someone who works for minimum wage or who struggles to secure hours and shifts at their job.