The Transportation Quotient of the Affordability Equation

Transportation costs are a determining factor when buying a home

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By Brad Broberg

In the housing market, distance matters. As the odometer turns, house payments fall. That makes homes farther from city centers less expensive, but does it make them more affordable?

Maybe. But maybe not.

To truly assess affordability, homebuyers must look beyond their mortgages. They must also think about how much money — and time — they're spending to travel between home and work and other daily destinations.

"Something's Gotta Give," a 2006 study by the Center for Housing Policy (CHP), found that for every dollar a working family saved on housing in less expensive suburbs, they had to spend an additional 77 cents on transportation.

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"You can't just talk about housing affordability anymore," said Gloria Ohlman, communications director at Reconnecting America. "If you want to talk about affordability, you have to talk about the cost of housing and transportation together."

Reconnecting America, home of the Center for Transit-Oriented Development (CTOD), is one of several organizations beating the drum to look at housing and transportation costs in combination when addressing the issue of affordability.

That drum is starting to be heard. This spring, the secretaries of the U.S. Department of Transportation (DOT) and the Department of Housing and Urban Development (HUD) announced they will collaborate to expand affordable housing and transportation choices. High on their agenda: helping metro areas develop indexes that roll housing and transportation costs into a single measure of affordability — aka the cost of place.

"This idea had no traction for a long time, and suddenly the Obama administration seems to be seeing the importance," Ohlman said. "I think this is the first time DOT and HUD have partnered on a project in something like 40 years."

Understanding the interplay between housing costs and transportation costs is important on many levels. By considering both factors together, families can make smarter choices about where they can afford to live, and policy-makers can make smarter choices about how to promote affordability.

That's also a goal of smart growth. By stressing density, walkability, mixed-use and transit, smart growth is a blueprint for coordinating the development of housing and transportation to increase the overall affordability of neighborhoods.

For example, a 2007 study by CTOD titled "Realizing the Potential," describes how developing housing near transit does more than just get people out of their cars. In terms of the cost of place, it can make neighborhoods more affordable.

Homebuyers are making the connection between housing and transportation.

Courtesy of DART

Living in dense, walkable, mixed-use neighborhoods with access to quality transit is cost-effective when it comes to transportation.

The study, funded by HUD and the Federal Transit Administration, showed that the average American family spent 32 percent of its household budget on housing and 19 percent on transportation. However, those living in dense, walkable, mixed-use neighborhoods with access to quality transit spent only 9 percent on transportation compared to 25 percent for those living in auto-dependent neighborhoods.

"That is huge, especially for a low-income household," Ohlman said. "It can make the difference between staying afloat and sinking."

The case for treating housing and transportation costs as a single indicator of affordability is supported by a growing list of studies that crunch the numbers in convincing fashion. The latest is "Beltway Burden," which examines the combined cost of housing and transportation in metropolitan Washington, D.C.

Published earlier this year, the study documents the challenges faced by working families who are forced to "drive 'til they qualify" for housing. In general, the study finds that increases in transportation costs begin offsetting savings in housing costs when families move roughly 15 to 17 miles away from employment centers.

"I think we struck a chord with people when that study came out," said Jeffrey Lubell, executive director of CHP, which joined the Center for Neighborhood Technology (CNT) and the Urban Land Institute Terwilliger Center for Workforce Housing to produce the study.

No doubt the not-so-distant memory of $4-a-gallon gas raised the study's profile, but Lubell believes "it's not all about gas prices. It's about a combination of things." Long commutes play a role in climate change, traffic congestion and quality-of-life issues, he said.

Still, gas prices remain a huge threat to overall affordability for households with heavy transportation burdens. "They could change next week and that scares us in a couple of ways," Lubell said. "How are people going to get to work? And if they can't get to work, how are they going to pay their mortgage?"

The numbers for Clarke County, Va., illustrate the main point of "Beltway Burden" — that driving 'til you qualify doesn't always pay off.

Located in the suburban fringe far from employment centers, Clarke County offers lower-than-average annual housing costs — $19,939 compared to the metro average of $22,960. However, higher transportation costs — $17,090 compared to $13,234 — make the combined cost of living in Clarke County higher than the metro average — $37,029 compared to $36,194.

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That doesn't seem like such a big difference — until incomes are factored in. According to the study, the average metro area household earns $78,221 a year and spends nearly 30 percent on housing and 17 percent on transportation. The average Clarke County household earns $64,288 a year, spending about the same share of its budget on housing — 31 percent — but far more on transportation — 26 percent.

Do the math. Despite Clarke County's relatively affordable housing costs, the combined cost of housing and transportation in Clarke County consumes a greater share of the average household's budget — 57 percent — than the metro area average — 47 percent. Suddenly, Clarke County doesn't sound so affordable after all.

That relationship between housing costs, transportation costs and overall affordability echoes a 2006 study by CHP, CNT and the Institute of Transportation at the University of California, Berkeley.

"A Heavy Load" examined the combined housing and transportation costs of working families earning between $20,000 and $50,000 a year in 28 metropolitan areas. The study found that those families spent the same share of their budget — 27.7 percent — on housing as families of all incomes, but spent much more on transportation — 29.6 percent compared to 20.2 percent.

gas prices — came back to haunt homebuyers fixated on the lower housing costs in distant suburbs.

According to census data cited by "A Heavy Load," 15 of the 20 fastest-growing counties in the United States are located 30 miles or more from the closest central business district.

"We are seeing a lot of foreclosures in the areas where people drove 'til they qualified," Lubell said. "Were they fully aware of how much their transportation costs could go up?"

Ohlman doubts it. Families pay for housing in monthly lump sums — either rent or mortgage — but they pay their transportation costs in bits and pieces. "Who knows how much they spend on gas, repairs, insurance?" Ohlman said. "It's all these disaggregated costs. I don't think people are very cognizant of how much they spend on transportation."

That's one of the reasons DOT and HUD are eager to help metropolitan areas measure the true cost of place by creating affordability indexes. At least one such tool already exists.

The Housing and Affordability Index — developed by CTOD and CNT on behalf of The Brookings Institute — prices the tradeoffs that households make between housing and transportation costs in 42 cities across the country.

In their search for lower cost housing, working families often locate far from their place of work, dramatically increasing their transportation costs and commute times.

The study's conclusion: "In their search for lower cost housing, working families often locate far from their place of work, dramatically increasing their transportation costs and commute times. Indeed, for many such families their transportation costs exceed their housing costs."

Lubell wonders whether the failure to consider higher transportation costs — aggravated by last year's spike in

The index adds average housing costs and average transportation costs and divides it by average income, calculating transportation costs based on a model that takes into account density, walkability and transit availability of individual neighborhoods.

Although people evaluate more than housing prices and transportation costs when deciding where to live, A family should spend no more than 47 percent of its income on housing and transportation.


Courtesy of DART

data on other variables such as property size, quality of schools and crime rates are readily available. Facts about the relative transportation costs of different neighborhoods are scarce.

The Housing Affordability Index concludes a family should spend no more than 47 percent of its income on housing and transportation. That figure is based on the national average expenditure of 19 percent for transportation plus the mortgage underwriting standard of 28 percent for housing. Using 47 percent as a benchmark, the index can tell families — and/or their REALTOR® — which neighborhoods are affordable based on a family's particular income.

In the short run, soaring gas prices may have negated the need for an index. The pain at the pump told many people that their transportation costs were out of whack.

"The lure of the shiny new construction home [in distant suburbs] kind of offset the cost of transportation, but when gas prices went up, we saw people who lived out there selling those homes and moving closer to the city," said Jennifer Kuhlman, a REALTOR® with Windermere Real Estate/Mill Creek in suburban Seattle.

Tracy Pless, a REALTOR® with Long and Foster Real Estate in suburban Reston, Va., agrees. "They'll have to trade a new 3,000-square-foot home for an older 2,000-square-foot home with a smaller lot, but people are doing that, not just because of gas prices, but because of the time it takes to commute," she said.

That's why Bob and Regina Thomas chose to remain in Reston, an inner suburb of Washington, D.C., rather than move to an outer suburb when they swapped their town home for a single-family home two years ago.

By staying in Reston, Bob can bike to his job as an engineer at General Dynamics, and Regina faces just a short drive to her job as an attorney at AOL, giving them more time to spend at home with twin baby boys.

"I know a lot of people who live in Loudoun County [an outer suburb] because they can get more home for their money, but we thought Reston was a nice compromise," Regina said.

Courtesy of DART

Courtesy of the Maryland Office of Tourism

Courtesy of Glenwood Park

Ultimately, it's about creating more walkable and transit-oriented communities where more of the things people need to do are closer together.

That may sound like a simple decision, but it's not. "It's a more complicated issue than just how much you're paying [for housing and transportation]," Lubell said. "People also move because they want a bigger house, a safer neighborhood, better schools."

Like the Thomas family, Sam and Sheri Meadema live in Reston, but they're planning to leave because of concerns about the schools. The question is whether to go west to Loudoun County, where they can get more bang for their buck, or head east where they would be closer to their government jobs in downtown D.C. (Sam) and on the edge of downtown (Sheri).

The commute from Loudoun County would take an hour or more each way and require $11 a day in tolls. However, the couple could afford a much newer and bigger home there.

"We'd be lucky if we got a 2,500-square-foot home built in the '70s or '80s for $700,000 closer [to D.C.], but in Loudoun County, we could get a 4,000-square-foot, brand-new home for $600,000," Sam said. "We're very much on the fence."

The villain in most discussions about the relationship between housing costs, transportation costs and affordability is the extra transportation burden many people swallow in exchange for lower housing costs. However, as more people move where transportation costs are lower, the opposite can also occur.

What's the answer?

"Ultimately," Lubell said, "it's about creating more walkable and transit-oriented communities where more of the things people need to do are closer together." ●

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