

Hey, middle class, the housing crisis is coming for you next

As housing prices keep rising, new study finds Americans higher and higher up the income spectrum feel the pinch

Curbed, by Patrick Sisson, June 11, 2019, 12:22pm EDT

Charlotte, North Carolina, one of the Southeast's biggest cities, is short 34,000 affordable housing units. A booming job market has attracted 100,000 new households to the city since 2000, and supply hasn't kept up with demand. In Salt Lake City, Utah, there are more families than available places to live, a shortage of about 54,000 units. It's the most severe manifestation of pricing pressure in a state where housing costs can run higher than both Las Vegas and Phoenix. This deficit comes after a year when Salt Lake City led the nation in homebuilding. In Columbus, Ohio, the housing market has cooled after ever-higher prices exhausted buyers who simply can't keep up with rising costs.

"The sweet spots are still a challenge, but there's no sweet spot in the high end," Andrew Show, a local realtor, told the *Columbus Dispatch*.

Three of the nation's fastest-growing cities, all far from the craziness of real estate in coastal markets, all building at a relatively speedy clip, and all with popular neighborhoods, boasting year after year of rising prices, have become too expensive for a greater number of potential owners and renters.

When policymakers and pundits talk about the nation's affordable housing crisis, they usually talk about the forces that deny low-income Americans reliable and accessible housing near better jobs and educational opportunity. And they should; it's not just a national crisis and widespread policy failure, but a moral crisis for the world's richest nation.

But new research shows that the shocking realities of the nation's affordability crisis—8 million renters pay more than half their income on rent, and the country is short 7.2 million affordable housing units, according to the National Low-Income Housing Coalition—have begun to metastasize and impact the middle class.

A new paper by Jenny Schuetz, a housing policy fellow at the Brookings Institution's Metropolitan Policy Program, found that some of the severe affordability issues impacting low-income Americans have crept into the lower-middle class and, without action, will get worse. In "Cost, crowding, or commuting? Housing stress on the middle class," Schuetz looked at census data to find the impact of a decade when housing costs rose faster than average incomes.

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Her nuanced conclusions suggest that, on an aggregate national level, there isn't a middle-class housing crisis. High-cost metros like Seattle and San Francisco unquestionably have challenges, and, of course, low-income households are stretched like crazy. But it depends on how you look at the data.

If you break down the nation into five income groups, the crises faced by the fifth group—or the lowest-income—are increasingly being seen within the fourth group, the lower-middle class. The fifth of the country with the lowest income spends 60 percent of their money

on housing, while the next-lowest fifth spends 40 percent, both significantly higher than the 30 percent recommended by economists.

“The issues facing low-income Americans are now showing up in lower-middle-income Americans, and I think that’s something we should worry about,” says Schuetz. “It’s a national pattern. That group is spending more money on rent everywhere, in Cleveland and not just in California.”

Other studies point to a similar kind of strain. Research from Berkadia, a Berkshire Hathaway company, found that the lower-middle income bracket, which it qualified as earning \$35,000 to \$49,999 between 2012 and 2017, has been hit hard, with 6 percent growth in rent-stressed families during that time period. Cities like Tulsa, Oklahoma, and Omaha, Nebraska, have become challenging for renters, with 40 percent or more of families identifying as rent-burdened.

It’s easier to focus on the extremes of the housing shortage, both the rising levels of poverty and homelessness and the seven-figure spec mansions of the tech jet set. But the creeping cost of housing is pinching a middle class already struggling with flat wages, rising child care costs, and the skyrocketing price tag of a four-year college degree. This “middle-class squeeze,” as a 2014 report by the Center for American Progress illuminated, was about new constraints, and how “the costs of key elements of middle-class security rose by more than \$10,000 in the 12 years from 2000 to 2012, at a time when this family’s income was stagnant.”

Housing unaffordability isn’t the cause of the crisis, per se. But with the cost of everything else rising, it’s not surprising that formerly stable families feel squeezed by even slight increases in housing costs, and that overall growth is hampered by a middle class barely able to pay the bills and put their kids through school.

Aren’t we already in a crisis?

Middle-class Californians, many of whom have recently moved to other, more affordable, areas in the West, like Boise, Idaho, and most new homebuyers looking to buy in the nation’s largest cities, would probably tell you there’s long been an affordability crisis across the income spectrum. And it’s an issue that’s grown over decades: According to a 2017 report done by the St. Louis Federal Reserve Bank, the median price of single-family housing in the U.S. outgrew the rise in median household income by 390 percent between January 1986 and July 2017.

Schuetz’s analysis for Brookings found that lower-middle-income renters and homeowners continue to be forced to make the traditional trade-offs, sacrificing a combination of cost, commute time, and home size for proximity to big-city job markets. It’s all part of the agglomeration crisis, the clustering of jobs and opportunities in specific metros.

What Schuetz has identified as a newer aspect of the problem is the decision by city governments to cut back on housing production via restrictive codes and zoning, which only drives up land prices (the Lincoln Institute of Land Policy found that the cost of land skyrocketed by 76 percent from 2000 to 2016). Big, productive, and progressive cities have hampered their housing supply with very deliberate policy choices.

“Waving our hands and saying we can’t do anything to fix it gives a pass to local government who have made very bad decisions,” says Schuetz. “As the cost burden of housing keeps inching its way up the income spectrum, if we don’t see that as a problem and change the housing delivery system, it will become a middle-income crisis in more widespread terms.”

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If this is what the housing market can produce in a good economy, what will happen to homebuilding if we fall into a recession? A report from the Kansas City Federal Reserve Bank found that during the last 10 years of economic expansion the annual rate of single-family home starts was 25 percent below '90s levels. The current rate of construction relative to the number of households is at its lowest levels since the '50s, the earliest date at which this kind of reliable nationwide data is available.

Schuetz believes cities need to ramp up affordable housing production. Will newly rising metros like Denver, Austin, and Nashville act in time to stem rampant price inflation? Or will they fall into the same trap as other, larger metros?

There are also increased calls for state-level intervention, to overrule failed policies at the local level. The repeated, and so far unrealized, push for SB 50, California's transit-oriented zoning bill, as well as the successful passage of statewide rent control in Oregon, demonstrate the public's hunger to have governors and state legislatures step in and use the tools at their disposal to put pressure on local governments.

"Local governments have no incentive to change, and actually have incentive to dig in their heels on these issues, so ultimately, I think that's going to require probably state intervention, like withholding funds," says Schuetz.

Without some kind of relief on the horizon, the middle class will be locked out of many areas due to housing strain. And like all Americans suffering from the affordability crisis, they'll lose out—a loss for the entire country.

"The highest-opportunity neighborhoods have become gated communities, and you can't move in unless you're a millionaire," says Schuetz. "To the extent that high housing costs discourage anybody from moving to a place to find a job, have new ideas, and contribute to a society, we should worry about that. That's fundamentally damaging to opportunity, and that's going to hurt the vitality of our most productive regions."