The Market Is Incapable of Creating Affordable Housing

An interview with Dan Threet

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There isn't a single place in the United States where minimum-wage workers can afford to live near their jobs. Addressing the affordability crisis will require a major rollback of market influence over the housing sector.

Interview by Luke Savage

Last month, the National Low Income Housing Coalition (NLIHC) published its annual report on what the minimum wage enables workers to rent. The report's findings were both striking and bleak: in more than nine out of ten American counties, it's quite literally impossible for someone earning minimum wage to afford a single-bedroom rental suite working forty hours a week. Data from the economic downturn of the past year has actually yet to become available, meaning that the situation is likely far worse than even the current numbers suggest.

Dan Threet is a research analyst at the NLIHC and a project lead on its Out of Reach report. Jacobin spoke to Threet about the organization's recent findings, the landscape for renters in America, and the urgent need for an ambitious housing policy agenda that puts people before profits.

LS - *Before we get into your findings, the report uses something called the "housing wage." Can you explain what this is and how it's calculated?*

DT - The housing wage is a good heuristic for seeing the gulf between what people actually earn and what they would need to earn to be able to afford decent rental housing in each area. Essentially, it represents what a full-time worker would need to earn every hour, working forty hours per week, fifty-two weeks a year, to be able to afford rent and utilities in their area. It's based on the Department of Housing and Urban Development's (HUD) fair market rents (FMR). HUD calculates fair market rents for each housing market across the country — in part for use in some federal housing programs — as payment standards. They draw on five years of American community survey data (actual surveys that find out what people are paying for rent in their communities). The FMRs are typically set at the 40th percentile of standard quality gross rents for the area, so they're priced below the middle of the market. This is not, in other words, the rent for a luxury unit in the community.

The bar for standard quality is pretty low. It just means that the units have full plumbing, a full kitchen, and it excludes units that were built in the last two years. They take that five-year data and they adjust it a little to be able to estimate what a family moving today would need to pay to be able to afford rent and utilities for their area. So, when it comes to the housing wage there, we just calculate from what that actual fair market rent is, then figure out what someone would need to earn in order to have an income that would allow them to afford the unit.

And it might be worthwhile for me to say something about what I mean by afford, because the standard we use is the one that's also reflected in federal housing policy. Essentially, it says that a household shouldn't spend more than 30 percent of its income on housing costs. Households that spend more than 30 percent are typically called cost-burdened, and those that spend more than 50 percent are severely cost-burdened. As a consequence, if there isn't affordable housing in an area for a household that could mean several things: it could mean that they get pushed out to the periphery, meaning they have much longer commutes (and all the harmful consequences that go with that). Just as likely, it means that the lowest-income renters are forced into homes that they cannot afford and are forced to spend more than 30 percent or even more than 50 percent of their income on housing. We know from a lot of research that there is a whole range of harmful consequences that go along with being that constrained.

LS - *And I suppose another potential consequence is that many of them just may have to work extra hours well above forty per week?*

DT - Absolutely. As part of the report, we try to calculate how many hours someone working at the relevant minimum wage would need to work in their area to be able to afford the fair market rent. On average, taking into consideration higher state and county minimum wages, a minimum-wage worker would need to work ninety-seven hours a week in order to be able to afford the average two bedroom at fair market rent and seventy-nine hours a week to afford a one bedroom. Now, obviously that makes some assumptions that are not actually going to be borne out in practice. Workers who are working minimum-wage jobs often have trouble getting even forty hours of work a week. And ninety-seven hours a week is going to be impossible for many households.

LS – "*Out of Reach" is an annual report and, in your analysis this year, it seems things have worsened in terms of housing affordability. What were your findings this year and how did they compare to last year's?*

DT - There are a couple of things to note here. First is that the data is pulled from the latest available surveys, much of which is from 2019. So this is a picture of the extent to which the pre-pandemic status quo itself was already unsustainable for low-wage workers. I mean, this is a period of time in which the unemployment rate hit a fifty-year low, so we're talking about a comparatively stronger economy, and we have reason to believe that many of these households have it worse now than in 2019. But the key finding for the report this year is that, on average, the national housing wage for a one-bedroom apartment is $20.40 an hour, the figure for a two-bedroom apartment being $24.90 an hour.

Obviously, that's going to be out of reach for minimum-wage workers across the country. We find that nowhere in America does working full-time on minimum wage allow workers to earn the two-bedroom housing wage for their area. But it's also the case that, in the vast majority of places, minimum-wage workers can't afford a one-bedroom apartment on one full-time job either. That's true in 93 percent of counties nationwide. And it's not just a problem for minimum wage workers: I think it's worth emphasizing that this is a problem for workers and renters up the income ladder as well. Our estimate of the average renter wage this year is $18.78 an hour, which is less than both the national one and the two-bedroom housing wage. This means that many renters are going to be struggling with that.

I will say, though, that while it seems to be an increasingly severe problem, this is not a new problem either for minimum wage workers or low-wage workers generally. We've been publishing the report for about thirty-two years now and, even in editions from fifteen or sixteen years ago, it was just as true that minimum-wage workers working full-time struggled to be able to afford a one- or a two-bedroom apartment in most places across the country.

LS - *One thing that's quite striking is that your data actually captures a period of relative economic prosperity and doesn't even include the pandemic. Given this, what do you think next year's report will look like?*

DT - That's a good and difficult question. This downturn was anomalous in many ways and there's been lots of talk about a K-shaped recovery, and the extent to which high-wage workers returned to work faster or were able to work remotely. So some of the national averages that have been evaluating the recovery really can obscure the extent to which the lowest-wage workers in the economy have really been struggling throughout. This makes it difficult to predict what things will look like when the next round of data comes in. We're facing some uniquely dire circumstances. In trying to understand what's happening now, there are a few sources we do have: the Census Bureau has been publishing the Household Pulse Survey, which for the past sixteen months has been giving us real-time information about how renters have been faring during the crisis.

The latest data is current as of July 5 and suggests that something like 15.5 percent of all renter households say they are not caught up on rent, which would amount to about 6.5 million renter households. Of those, about half say they expect eviction in the next two months. It could be more than that. It could be less. The latest CDC eviction moratorium will likely be subject to intense legal challenges from landlords and apartment associations, and at the state level there is only an uneven patchwork of protections. Even renters who are protected in theory may still be evicted, because there isn't a blanket ban on evictions. So we may see sudden bursts of evictions, or they may be protracted over months.

Another thing that the Census Pulse survey has brought out: they've asked questions like "To what extent have you needed to use credit cards and loans or borrow from friends and family, sell assets or take out loans in order to be able to meet your spending needs in the last seven days?" And we see patterns that suggest that the lowest-income renters have been far more likely to need to borrow from friends and family to meet those spending needs. That's obviously not a sustainable method of getting by. The rent-payment trackers organized by folks like the National Multifamily Housing Council (which represents professionally managed rental properties — i.e., the more expensive end of the market) have said throughout the pandemic that the payment rates have remained relatively high. Even if that's also true at the lower end of the market, there's a phrase that people sometimes use, which is that "the rent eats first," and I think that that's likely true here. A lot of families are cutting back, and are now in a situation that might just be that much worse.

LS - *In other words, even if they're making rent, that's likely because they're foregoing expenditures on other essentials?*

DT - Right. Which could well wind up having serious consequences later if (for example) they're forgoing health care costs. And there are a whole range of other potential harms for their well-being as well.

LS - *As a final question then: The obvious prescription that comes to mind here, of course, is simply raising the minimum wage. But the report offers some other potential policy solutions. Can you tell us about a few of those?*

DT - I'm sure your readers are already well-equipped to understand the extent to which the system is broken, and I think that the prescriptions we lay out here are first steps toward trying to address a long-term structural affordability problem. This is something we need to tackle on both ends. So, obviously, I think we can agree that the minimum wage is insufficient and doesn't currently even allow people to afford basic needs. It's been stagnant at the federal level since 2009, and we have data that suggest that even before that the minimum wage was insufficient. We need better labor policy across the country more broadly to help create bottom-up pressure on wages — not just at the minimum wage but all the way up.

At the same time, while we are working on that, we need to bear in mind extremely low-income [nonworking] renters — that is, renters who make 30 percent of area median income (AMI) or who are below the federal poverty level. There are about 5 million renter households in this country that are extremely low income and are either elderly or with a disability, so are not in the labor force. Solely focusing on wages would exclude them. There are many reasons why some households can't participate in the labor market or can't participate in the labor market to the extent they would have to make ends meet. So we talk about a couple of prescriptions on the housing end that are needed as well. One is bridging the gap between incomes and wages. Something that's persistently true — and this comes out in our other report that we publish annually called *The Gap* — is that the private market on its own never supplies an adequate number of affordable homes for the lowest-income renters.

There are just no incentives for the private market to do that. It requires government intervention and subsidy. Part of that is rental subsidy. Right now, only one out of every four households eligible for federal rental assistance actually receives it. It's not an entitlement program and you only get it if the funds are available. As a consequence, if you check the waitlist for housing choice vouchers throughout this country, many of the poorest renters are put on waitlists that require them to wait for years to receive assistance with their rent, which is obscene. In addition to that, we also need to make a significant concerted investment in expanding the supply of affordable housing. That means using tools like the National Housing Trust Fund, which has a dedicated revenue stream that's focused on building homes with subsidized rents for households below 30 percent of AMI or below 50 percent of AMI.

We also need something like $70 billion just to cover the backlog of capital repair needs for our public housing stock (that's before even considering the need we have to expand the public housing stock). So those are a couple of the things on the housing end that we need to do. We can also talk about some of the other prescriptions, like the need for a national stabilization fund. This country doesn't have an infrastructure for this, which is not surprising, but it's still shocking. We shouldn't become inured to it just because the country hasn't done it. There's nothing in place nationally that will step in when someone encounters a short-term financial emergency. As a result, many households are evicted for really paltry sums of money. We're talking like $600 or less.

So a permanent stabilization fund that can step in and keep households housed is really important. We're also talking about renter protections right now. I think one thing that the pandemic has made really clear is that there is this enormous power imbalance between landlords and renters. Given that, we enumerate a handful of things that are important first steps (though insufficient on their own) to redress this power imbalance, like ensuring that when renters have to go through eviction proceedings they are represented in court by a lawyer. Something like fewer than one in ten have that representation right now — and when they do, it makes a dramatic difference to whether they can stay housed. We also need something like just cause eviction protections that limit the number of reasons why a landlord can kick a renter out of their home. Those are just some of the things that we need to do on the housing end, in addition to tackling insufficient wages.

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