

Something's Gotta Give:

Working Families and the Cost of Housing



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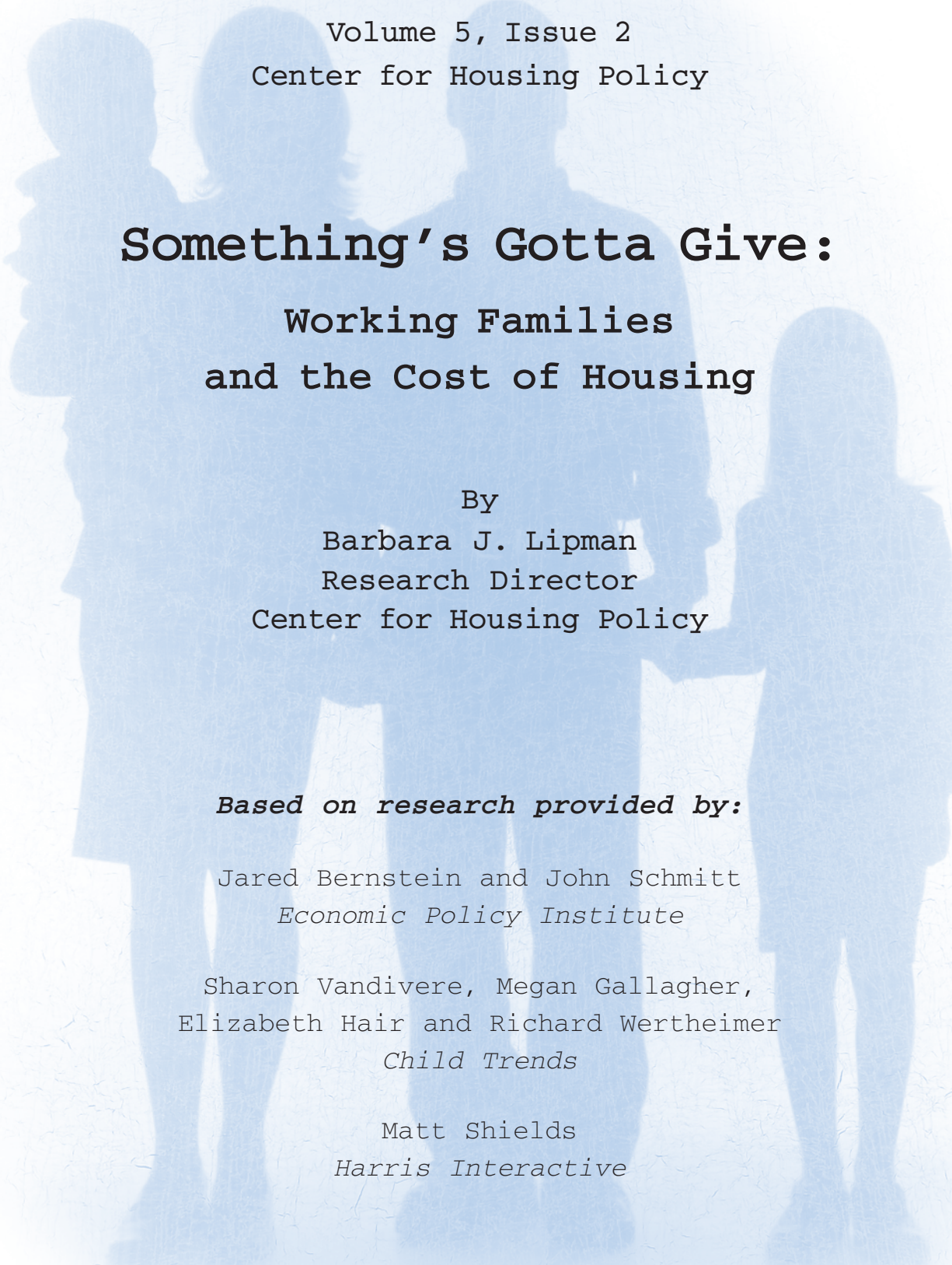
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Volume 5, Issue 2
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Something's Gotta Give:

**Working Families
and the Cost of Housing**

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Research Director
Center for Housing Policy

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The Center for Housing Policy is the nonprofit research affiliate of the National Housing Conference (NHC) and combines state-of-the-art research with the insights and expertise of housing practitioners. The Center works to broaden understanding of America's affordable housing challenges and examines the impact of policies and programs developed to address these needs.

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Message from the Center Chairman, Ann B. Schnare

Paying an excessive portion of their household budget for housing takes a toll on the quality of life of many working families. As this study shows, after meeting their housing costs, many working families, especially renters, have too few dollars available for other basic necessities. Among the most vulnerable working families, high housing costs can entail serious hardship, such as inadequate food (38 percent) and lack of health insurance for themselves or their children (37 percent).

For still other working families, high housing expenditures are a “choice” — albeit a difficult one — that requires major compromises such as shortchanging pensions or savings, becoming indebted, or living in homes that are smaller or more expensive than they desire. Long commutes to work are a typical way for working families to cope with high housing costs. When housing costs are considered together with transportation expenses, the share of working families paying half their total expenditures soars from 8.3 to 44.3 percent.

Clearly, when it comes to dealing with the housing problems of working families, “something’s gotta give.” Too many communities have shortages of both rental and homeownership housing geared to low- and moderate-income working families. Housing costs are rapidly rising. From 2001 to 2003, rent on a typical modest two-bedroom apartment rose 10 percent to almost \$800 per month, and the price of a typical existing home rose at a similar rate to \$176,000. But as the Economic Policy Institute points out in its recent report, *State of Working America*, one out of every four workers earned less than \$8.70 per hour, and median family income actually has declined just over 1 percent between 2000 and 2003. These dynamics virtually ensure that some working families will never keep up.

Government, business, and the broader community all have a stake in improving access to housing for these vital workers. And all have a role to play. We know how to create more housing opportunities. Proven tools exist. For example, federal (and, in turn, state) funding for housing and community development can be used

as a “carrot and stick” to reward localities that create more workforce housing and to withhold funding from those that zone it out. Local governments can learn to think regionally when it comes to creating public transportation options. This is one way to provide workers with greater access to employment and training opportunities while reducing commuting costs and congestion. And private employers can step in with employer-assisted housing programs that will help them attract and retain the workforce so vital to their bottom line.

But it takes consensus and political will to implement these solutions. Above all, it is essential for citizens, especially working families and their neighbors, to recognize how important good, affordable housing is to all the things they cherish — strong families, safe neighborhoods, good education, and vital economies.



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EXECUTIVE SUMMARY

Something's Gotta Give: But What?

Struggling with severe housing cost burdens is not supposed to be so commonplace. General rules of thumb for housing say that about one-third of income is what most working families can afford. But at last count, at least 13 million families in America paid more than *half* their income for housing and more than *4 million of these families worked full-time jobs*.

Yet, we may be underestimating the extent of the problem. Housing is usually the largest and least flexible item in the family budget. How do working families — i.e., those that earn between minimum wage and 120 percent of local median income — cope with high housing costs? Do they put off buying food or healthcare and other necessities? Do they run up a mountain of debt? Do they live long distances from work? And if working families are devoting so much of their expenditures on housing, or on housing plus transportation, what does this mean for the quality of life of these families, especially their children?

The Center took two approaches to exploring these questions: The first used the federal government's *Consumer Expenditure Survey* to look at the "line items" of household budgets — the shares of income and expenditures spent on housing and other necessities, and the tradeoffs working families make. The second study used the *2002 National Survey of America's Families* to look, in some depth, at the "bottom line" of how individual families are affected by high housing costs. These studies were supplemented by a focus group of working families from around the country.

Tradeoffs Working Families Make

✓ Compared with working families in more affordable housing, families that pay more than half of household expenditures for housing reduce expenditures for other essentials such as food, clothing, and healthcare. But by far, the biggest tradeoff is for transportation. Working families that spend more than half their total household expenditures on housing put 7.5 percent of their expenditures toward transportation. Contrast this with working families in affordable housing spending 30 percent or less of

their total expenditures. Their expenditure shares for transportation are more than three times higher, or nearly 24 percent of their household budget.

✓ Homeowners and renters appear to differ in their ability to cope with severe housing cost burdens. For example, while healthcare and insurance expenditure levels decline as the housing cost burden goes up for both owners and renters, renters are left with relatively fewer dollars to spend. Estimates show typical healthcare expenditures of about \$2,000 for renters in affordable housing and less than \$600 for renters paying more than half their total expenditures for housing as compared with \$4,000 and \$2,300 for owners, respectively. Moreover, to some extent, working families with severe housing and transportation cost burdens are a “tale of two types of tradeoffs.” Some working families make tradeoffs in basic necessities. Others make difficult quality of life choices primarily in the area of transportation.

✓ Commuting is a common strategy for working families to cope with high housing costs. When the cost of transportation is considered together with the cost of housing, the percentage of working families paying more than half their total expenditures increases five-fold from 8.3 percent to 44.3 percent of working families. Calculations show that working families spend 77 cents on transportation for every dollar decrease in housing costs. Although not all of family transportation cost is attributable to commuting, the journey to work from less expensive housing likely accounts for a substantial part of it.

Impact on Working Families

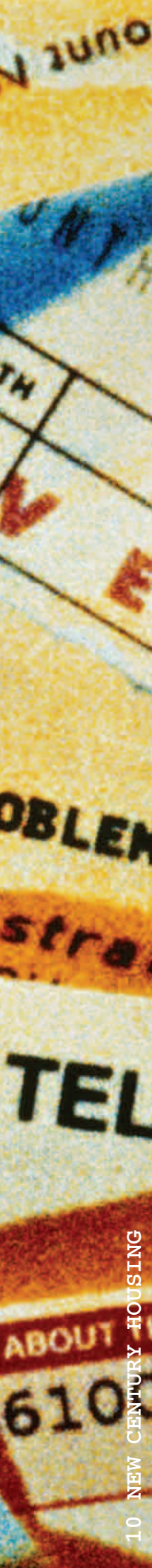
✓ Some of the tradeoffs working families make when they pay half their income for housing entail real hardships, especially for the most vulnerable working families. These working families are 23 percent more likely than those paying less for housing to encounter difficulties purchasing food. They also are 28 percent more likely to have either a child or an adult lack health insurance and almost twice as likely lack a car (not necessarily a hardship but possibly if it limits access to education or employment). As suggested in the focus group, even the prospect of lacking some of these items

leaves many families feeling vulnerable. Perhaps of greatest concern is the fact that working families with children are more likely to pay half their income for housing and endure other hardships.

✓ Paying half their income for housing can be a struggle or, at the very least, a source of stress for families. Factors such as income, education, and quality of the neighborhood shape the way paying so much for housing affects the well-being of adults or children in working families. For example, among children in poor working families, those with high housing costs are more likely to have fair or poor health than those who don't pay so much for housing. But just the opposite is true for children in the highest income groups. Those with high housing costs are less likely to experience these problems because their income and neighborhood offer greater access to medical care.

✓ What are the future prospects for working families with severe housing cost burdens? If they are young, educated, or experiencing a short-term loss of income, the problem may be temporary. But with rising costs for housing and other necessities, many other working families will be stuck in a situation where they are unable to get ahead. And unless incomes gain substantial ground against rising housing costs or more affordable housing geared to working families is produced, they are likely to be joined by growing numbers of families in similar circumstances. For these working families and their children, unaffordable housing can compromise their future prospects and quality of life.

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SOMETHING'S GOTTA GIVE: Working Families and the Cost of Housing

Introduction

Struggling with severe housing cost burdens is not supposed to be so commonplace. Rules of thumb help determine what families can afford. The housing industry considers housing affordable if payments are no more than 28 to 32 percent of household income. Government programs use 30 percent of income to determine how much housing assistance to give a low-income family. Financial planners advise families to spend no more than one-third of household income for housing. Yet — whether it's because jobs are lost, incomes fall, costs rise, or unforeseen circumstances — these "rules" routinely are broken. The fact is that, at last count, at least 13 million households in America pay more than *half* their income for housing and almost *4 million of these are families working full-time jobs*.¹

For more than five years, the Center for Housing Policy ("the Center") has tracked the growing number of working families in America paying at least half of their income for housing. These families defy stereotypes. Over half are homeowners. Suburbanites outnumber city residents. They include teachers, police officers, and firefighters, as well as service workers. And while housing affordability problems are greatest in the Northeast and the West, they are growing fastest in the South and Midwest.

What's more, we may be *underestimating* the extent of the problem. Housing is usually the largest and least flexible item in the family budget. How do working families that pay an excessive portion of their expenditures on housing cope? Do they cut back on food, healthcare, and other necessities? Run up a mountain of debt? Spend long hours commuting to work? And what does this all mean for the quality of life of these families, especially their children?

¹Center for Housing Policy, *The Housing Landscape for America's Working Families*, 2005 (Washington, DC, Apr. 2005).

Why Some Working Families Pay So Much

Perhaps the first question to answer is why do so many working families face a severe housing cost burden in the first place? The Center's analysis shows that despite the "new economy," high-tech jobs are not eliminating traditional occupations that pay traditional wages. Retail sales workers, teachers, food preparation workers, cashiers, and janitors are all on the U.S. Department of Labor's list of 10 occupations with the largest projected job growth for 2002-2012. The point is large numbers of working families will continue to earn their incomes from these and other traditional occupations with similar earnings.²

Meanwhile, housing costs, both rental and homeownership, are beyond comfortable reach for many working families. Nationally in 2003, in order to afford a two-bedroom apartment (using the not more than the 30 percent of income rule of thumb), a worker would have had to earn \$15.21 per hour. But the national median wages of a retail sales worker and a janitor were \$8.82 and \$8.98, respectively. In some local markets the gap is much larger.

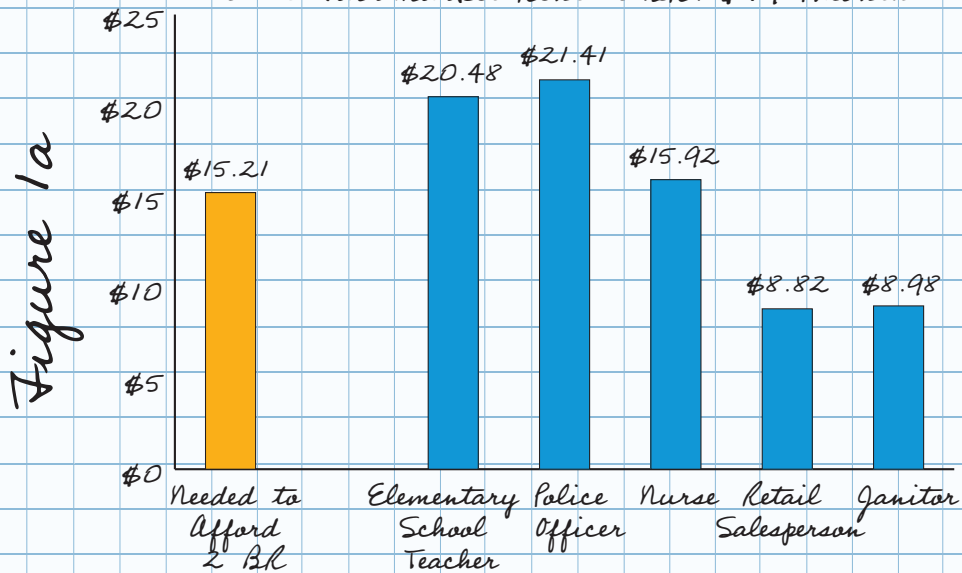
On the homeownership side, the national median salary for licensed practical nurses of just over \$33,000 was up about 4 percent between 2001 and 2003. Elementary school teachers made about \$43,000, up roughly 3 percent, and police officers typically earned \$45,000, up almost 7 percent. But the median-priced home was over \$176,000, up more than 11 percent from 2001. This highlights a fundamental problem that even lower interest rates didn't solve: prices are not only above the level many working families can afford, but are growing faster than the incomes of these families. See Figures 1A and 1B.

At the heart of the issue is the other important reason why working families pay so much of their income for housing, namely, the lack of supply of affordable units. In a recent survey of some of the nation's largest and/or fastest growing counties, 85 percent of the county officials reported that most new housing in their counties is geared to middle- and upper-income households, not low- to moderate-income working

²*Paycheck to Paycheck*, an analysis of wages and housing costs in 2003, is available on the Center's interactive Web site at: <http://www.nhc.org>. The analysis includes 65 occupations and 200 metropolitan areas.

Hourly Wages and Rents Nationwide

2003 Fair Market Rent 2 BR: \$791/month



Source: Center for Housing Policy *Paycheck to Paycheck* Online Interactive Database, <http://www.nhc.org>.

families.³ A separate study of the national rental housing stock found that for the last ten years, new construction has been disproportionately concentrated in the top fifth of the rent distribution.⁴ The fact is, shortages of affordable housing confront many working families.

Stretched Thin: What Paying Excessive Housing Costs Means to Working Families

Spending half their income on housing — the definition of a severe housing cost burden — leaves less left over for everything else, diminishing the quality of life of working families and their children. While that argument seems logical, the story is more complicated. In some respects, half of income is as arbitrary a standard as 30 percent. For example, a household with an income of \$80,000 paying half for housing would have \$40,000 left over for

³Center for Housing Policy & National Association of Counties, *Paycheck to Paycheck: Wages and the Cost of Housing in the Counties*, 2004 (Washington DC, 2004), p. 2.

⁴Harvard University, Joint Center for Housing Studies, *State of the Nation's Housing*, 2004 (Cambridge, MA, 2004), p. 23.

everything else. But a household spending 30 percent of \$22,000 (roughly the equivalent of two minimum wages) would have only \$15,400 left for meeting other needs.

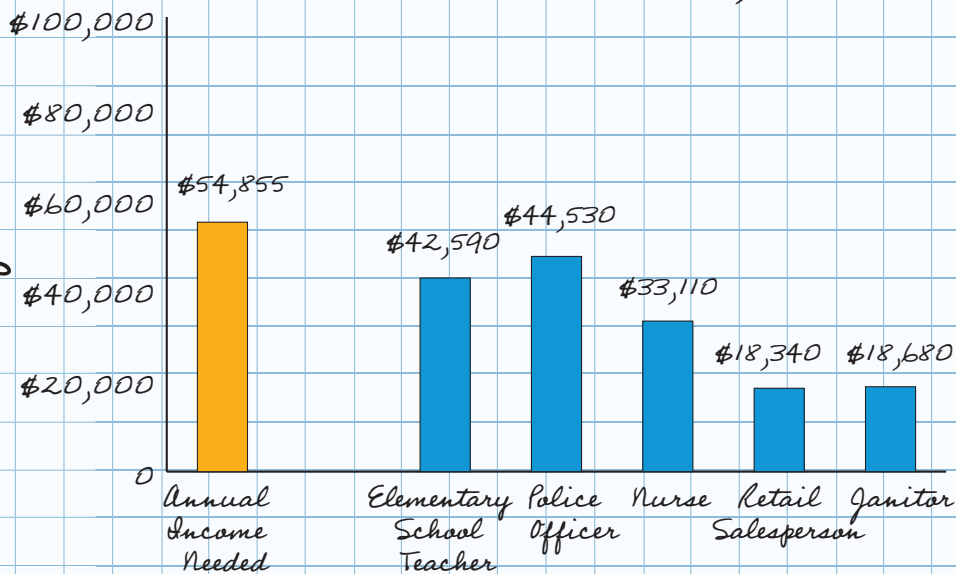
Family size matters, too. A single person with the same \$22,000 and spending 50 percent of income on housing (\$916 per month) would have \$916 left over each month to devote to other necessities. But a three-person household with the same income would have only \$306 per person to meet other needs.⁵

Of course, there is some truth to the adage that "a dollar can only be stretched so far." For some families, housing expenses may be so high that they incur hardships, such as inadequate food or drastic cutbacks in other necessities. Even when parents try to protect their children, by skimping on food so their children don't go without, for example, the resulting problems for parents, such as depression, place children at higher risk for health and psychological problems.⁶

Annual Wages and Homeownership Costs Nationwide

2003 Median Priced Home: \$176,000

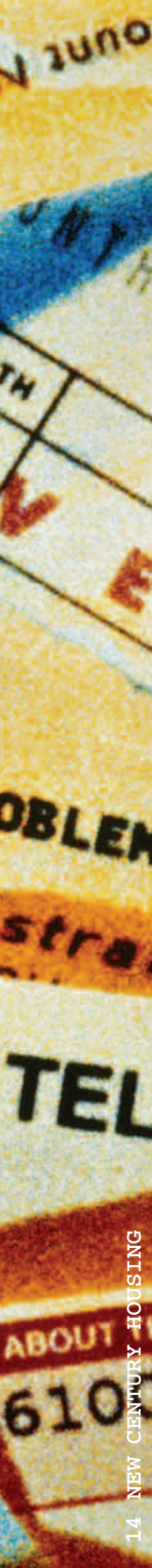
Figure 1b



Source: Center for Housing Policy Paycheck to Paycheck Online Interactive Database, <http://www.nhc.org>.

⁵Center for Housing Policy, *Paycheck to Paycheck: Working Families and the Cost of Housing in America* (Washington, DC, June 2001), pp. 22-23.

⁶U.S. Department of Health and Human Services, *Trends in the Well-Being of America's Children and Youth* (Washington, DC: U.S. Government Printing Office, 2002).



Some families, however, may choose to spend a large portion of their income on housing to live in a “better” home or neighborhood for their children — benefits they believe outweigh the difficulty of having less money available for everything else. Research studies show what many of these parents already know firsthand: Bad home environments can put young children and adolescents at risk, while a “good quality” neighborhood can lead to good outcomes, including higher income later in life.⁷ Homeowners, particularly, may see benefits in making the sacrifice. They obtain both a valuable asset and a tax break in the process. And a number of research studies link homeownership with higher levels of child well-being.⁸ However, if in the course of achieving these goals parents are foregoing important items like healthcare, savings, or pensions, they may be jeopardizing their own futures.

In short, paying an excessive portion of their income for housing is a constraint for some working families and a choice — albeit a difficult one — for others. Moreover, there are quality of life decisions working families make to avoid paying so much of their income for housing. Crowding into housing and making inordinately long commutes are two common ways to cope with high housing costs, but these strategies entail costs of their own.

About This Study

Clearly, in a variety of ways, severe housing cost burdens affect the quality of life of many working families. The Center took two different approaches to exploring this issue: The first was an Expenditure Study designed to look at how spending patterns of working families who have high housing costs differ from those of other households. This study was carried out by the Economic Policy Institute, a Washington, DC-based, economics research group, using the U.S. government’s national *Consumer Expenditure Survey* for 2001-2002. The second was an “Impacts Study,” which focused on how the economic, social, and physical well-being of working families and their children are affected by high housing costs. This study was conducted by Child Trends, a nonprofit, nonpartisan research organization, utilizing the *National Survey of America’s Families* for 2002.

Two approaches were called for because there is no one data source available to address the full scope of the

⁷Vartanian, T.P. & Buck, P.W., “Childhood and Adolescent Neighborhood Effects on Adult Income,” Paper Presented at the Meeting of the Association for Public Policy Analysis and Management (Washington, DC, Nov. 2003).

⁸Haurin, Donald R., Parcel, Toby L., & Haurin, R. Jean, “Does Homeownership Affect Child Outcomes?” *Real Estate Economics* 30(4): 635-66 (2002).

issue. The first study looks at the “line items” of household budgets — the shares of income and expenses spent on housing and other necessities, and the tradeoffs working families make; the second looks, in some depth, at the “bottom line” of how individual families are affected by high housing costs. These studies were supplemented by an online focus group of working families from around the country conducted on behalf of the Center by Harris Interactive, a market research and polling firm. More information about all three studies can be found in the Appendix.

To the extent they could, these studies adopted the Center for Housing Policy’s definition of *working families*. These are households whose total annual earnings exceed the full-time minimum wage equivalent (\$10,712), with earnings that comprise at least half of household income (i.e., they depend primarily on wage and salary income), and whose incomes are less than 120 percent of local area median income (AMI).⁹ The national AMI in 2002 was \$54,400, but there was a great deal of local variation. For example, in Baltimore, MD, it was \$63,100; in Baton Rouge, LA, \$49,200; in Boise, ID, \$54,500; in Boston, MA, \$70,000; and in Bakersfield, CA, \$40,300. Thus, working families include those with moderately high as well as quite low incomes.¹⁰

The Center considers working families to have a critical housing affordability problem if they pay more than half their income or their total household expenditures for housing.¹¹ Sometimes the terms “critical housing affordability problem” or “severe housing cost burden” are used interchangeably.

This study ventures into relatively unexplored territory, using sources of data that are not traditionally used for housing analyses. An important contribution of this project is that it quantifies the spending tradeoffs working families with severe housing cost burdens make. And to the extent possible, it provides an estimate of the impact on family, child, and adult well-being, taking into account both the benefits and the costs of high housing expenditures.

⁹Because the *Consumer Expenditure Survey* does not report state or city of residence, the EPI study had to rely on regional median incomes. For reasons noted in the Appendix, the study utilized total household expenditures for most of the analyses.

¹⁰Area median incomes are available at <http://www.huduser.org/datasets/il/fmr02/medians.pdf>.

¹¹The Center’s definition of “critical housing need” is that a family pays more than half of its income for housing and/or lives in dilapidated conditions. In about 85 percent of the cases, the problem is housing affordability. Neither the *Consumer Expenditure Survey* nor the *National Survey of America’s Families* used in this study contains information about the physical conditions of housing. Therefore, this study necessarily focuses on the larger, more pervasive issue of housing affordability.



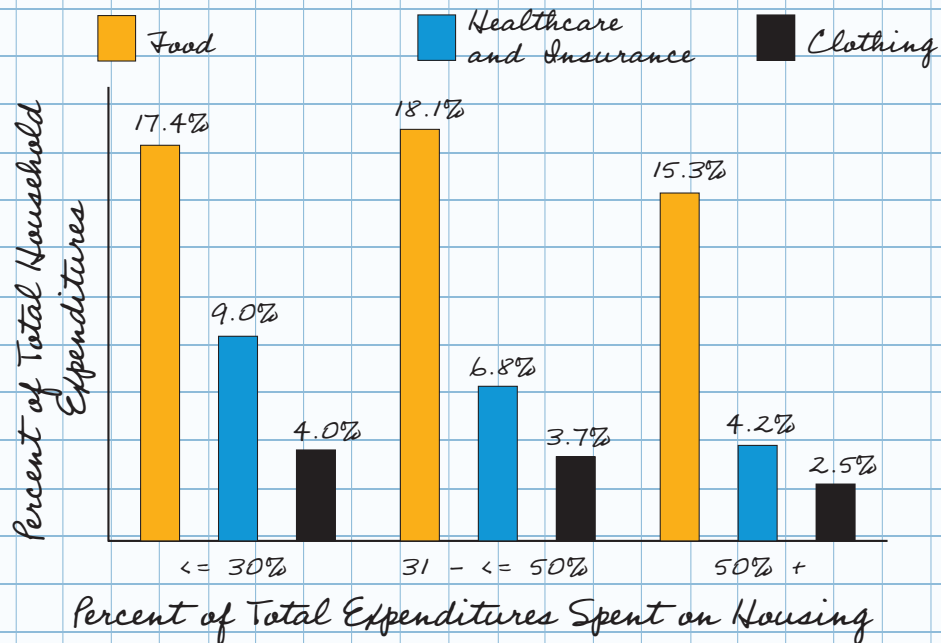
Expenditures of Working Families: The Household Budget Line Items

Are working families that live in housing forced to reduce expenditures on food, healthcare, or other necessities? What other tradeoffs do these families make? This study addresses these questions using data from the 2002 Consumer Expenditure Survey (CES), a survey conducted monthly by the Bureau of Labor Statistics. The CES has a quarterly sample of about 5,000 households. For more information about the CES and the methodology for this study, see the Appendix.

✓ Compared with working families in more affordable housing, families that pay more than half of household expenditures for housing reduce expenditures for other essentials such as food, clothing, and healthcare. But by far, the biggest tradeoff is transportation.

Figure 2 presents typical expenditures of working families for some common items in the household budget and shows them as a share of all family expenses. A clear

Typical Expenditure Shares
of Working Families, 2002

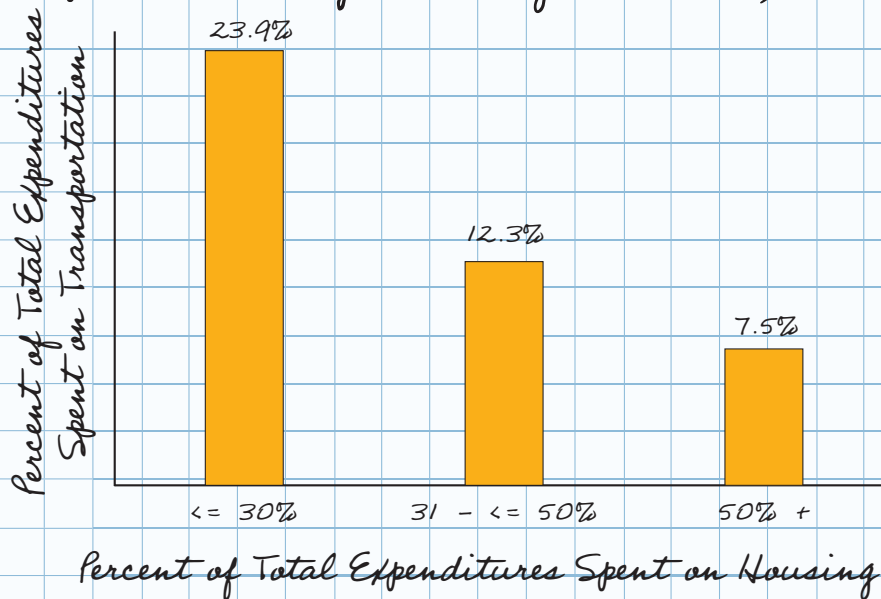


Source: Calculations by Economic Policy Institute.

Figure 2

Tradeoffs Between Transportation and Housing Expenditures by Working Families, 2002

Figure 3



Source: Calculations by Economic Policy Institute.

tradeoff between housing and other types of expenditures emerges. For healthcare, for example, working families spending more than half their total expenditures on housing spent 4.2 percent of what was left on health care and insurance, while those living in "affordable" housing, i.e., putting 30 percent or less of total expenditures toward housing, had more resources to devote and spent 9 percent of their expenditures on that item.

The same pattern of decreasing expenditure shares prevails in other important categories, including food and clothing. Food represents just over 15 percent and clothing some 2.5 percent of expenditures for those with housing expenditures more than half their household total, as compared with 17.4 percent for food and 4 percent for clothing for those whose housing is 30 percent or less of their total expenditures.

But the biggest tradeoff by far is for transportation. As shown in *Figure 3*, families that spend more than half their total household expenditures on housing, put 7.5 percent of their expenditures toward transportation. Contrast this with working families spending 30 percent or less of their total budget on housing. Their expenditure shares for transportation are more than three

times higher, or nearly 24 percent of their household budget. These tradeoffs are true — and roughly the same magnitude — for the poorest working families, i.e., with incomes below half the local area median. Those with housing expenditures of more than half their total devoted 6.3 percent of expenditures to transportation. Those whose housing is a more affordable proportion of 30 percent or less of the household budget spent just over 24 percent of their total expenditures on transportation.

Another way to consider the issue is to compare typical expenditures of working families whose housing expenditures are more than half their total with those living in more affordable housing, whose housing expenditures are 30 percent or less of their total. These calculations take into account a range of household characteristics including total expenditures, family composition, education, region, race and ethnicity, and other factors. The results show that, on average, working families paying half of their total expenditures on housing spend \$1,189 less on food, \$978 less on healthcare and insurance, and \$5,227 less on transportation among other items. See Figure 4.

✓ Homeowners and renters appear to differ in their ability to cope with severe housing cost burdens.

Some evidence suggests that homeowner and renter households differ in their expenditures and their ability to make adjustments. For example, both homeowners and renters whose housing expenditures amount to 30 percent or less of their total expenses spend similar amounts for food, about \$5,700 and \$5,300, respectively. But this figure drops to \$4,535 for owners and almost \$1,000 less (\$3,686) for renters, whose housing expenditures are more than half of household outlays, a signal that for these renters high housing costs can cut deeply into basic necessities.

Likewise, typical expenditures on healthcare and

Figure 4
Compared to working families in affordable* housing, those spending half their expenditures for housing spend this much less on:

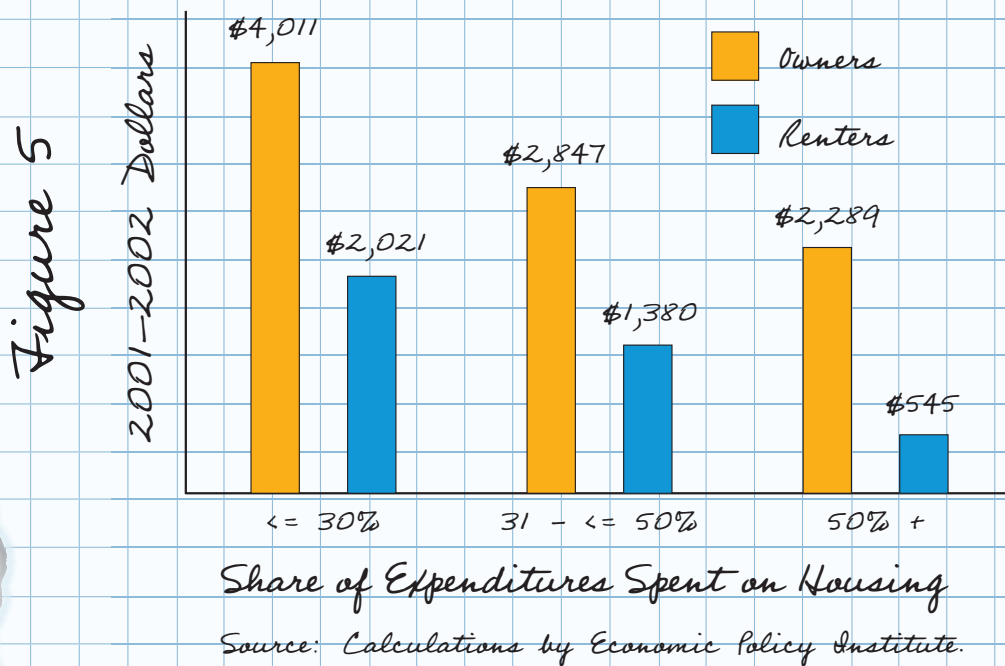
• Food	\$1,189
• Apparel	\$595
• Transportation	\$5,227
• Healthcare	\$683
• Health Insurance	\$295
• Entertainment	\$629
• Pensions	\$598
• Child Care	\$236

*Affordable housing means working families pay 30 percent or less of their total expenditures.

NOTE: Regressions include controls for total expenditures and demographics such as age, race, education, family composition, region, and urban status.

Source: Calculations of 2002 CES by Economic Policy Institute.

Working Families' Expenditures on Healthcare and Insurance, Homeowners vs. Renters, 2002



insurance for owners in affordable housing (less than 30 percent of total expenditures) are nearly double those of renters living in affordable housing. And while healthcare and insurance expenditure levels decline as the housing cost burden goes up for both owner and renters, renters are left with relatively fewer dollars to spend. Estimates show about typical healthcare expenditures of \$1,400 for renters with moderate cost burdens and less than \$600 for renters paying more than half their total expenditures for housing. See Figure 5.

What are the practical financial implications for homeowner and renter working families? Over the past few years, household debt levels have sharply increased. According to a recent report, "with more income going to housing and other rising expenses related to medical care, education, vehicles, child care, and so forth, families are relying on credit as a way to meet everyday needs."¹² In addition to credit card debt, which exceeds

¹²The Century Foundation, *Life and Debt: Why American Families are Borrowing to the Hilt* (New York, NY, 2004). The Federal Reserve statistic mentioned here also is cited in this report.

\$8,000 on average, families are taking on auto loans and other types of installment debt. The Federal Reserve estimates that one-in-four low-income families spend about 40 percent of take-home earnings on debt payments. This concern is that as interest rates rise, working families will find themselves way over their heads.

Another important difference between owners and renters sheds some light on our earlier findings. Because renters' incomes are generally well below that of owners, they are more likely to have to make serious compromises on other necessities. As described in the Impacts study, later in this report, some of these tradeoffs force the lowest-income working families to endure real hardships. Furthermore, the reason some homeowner families paying half their expenditures may be better equipped to cope with severe cost burdens may be debt — they are borrowing or dipping into savings to meet current consumption needs. Working families with homes have an asset to borrow against, while renters do not.

Recent statistics show that owners are, indeed, taking advantage of their asset. Between 2001 and 2003, homeowners extracted a record \$333 billion in cash from their homes. Almost half of homeowners who refinanced cashed out some of their home equity, resulting in higher monthly payments for 4 out of 10 of them and stretching the life of the loan for 8 out of 10. Meanwhile, owners' equity in their homes has fallen from 70 percent in the 1980s to a record low of 55 percent in 2003.¹³

Other options available to families include long commutes (discussed below), crowding to reduce housing costs (discussed in the next section of this report), and living in poor quality or dilapidated housing. While this last item is not explored in this report (because information on housing quality was not available in the data sources used), other research by the Center for Housing Policy indicates that this is the reality for approximately 900,000 working families, more than 60 percent of them renters.¹⁴

✓ **When transportation costs are combined with housing expenses, the number of working families paying more than half their total expenditures increases five-fold from 8.3 to 44.3 percent of working families.**

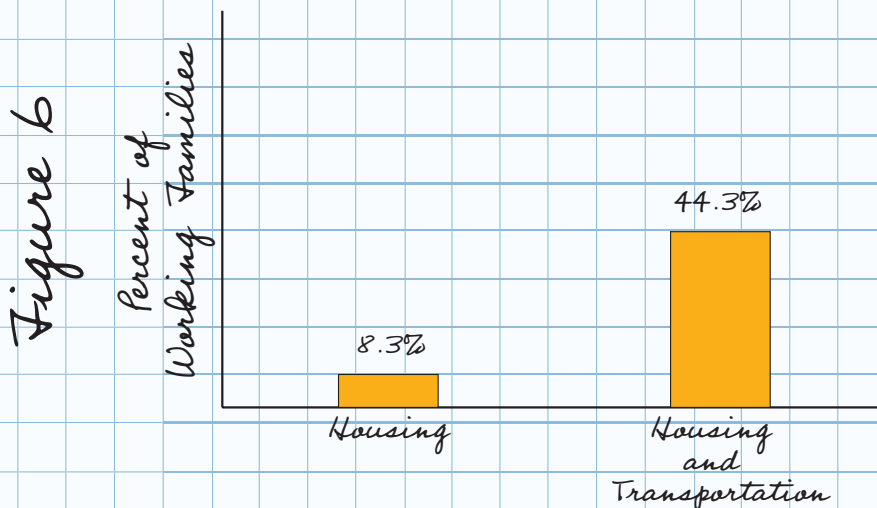
¹³Ibid.

¹⁴Center for Housing Policy, *The Housing Landscape for America's Working Families, 2005* (Washington, DC, Apr. 2005), p. 21.

Although working families trade off housing and transportation expenses, both are usually the two biggest ticket items in the household budget. This means that working families have to make complex decisions about where they live, balancing their preferences for features of their home against schools, neighborhood amenities, and other factors. Access to work also is a major consideration. In a majority of the nation's major metropolitan areas, higher rates of job growth occur in the suburbs than in the central cities. But most affordable rental and homeownership housing is located in central cities and inner-ring suburbs and on the outer urban fringe partly because suburban localities limit the development of affordable housing. Many working households must choose to either pay exorbitant suburban housing costs or endure lengthy commutes from areas with more affordable housing. For these reasons, it is important to look at the combined cost of housing and transportation.

An analysis of the CES shows that 8.3 percent of working families spent half their total expenditures on housing in 2001-2002, a huge increase from the less than 2 percent that did so in 1980-1981. When the cost of transportation is considered together with the cost of housing, the number of working families with a critical affordability problem rises dramatically to 44.3 percent paying half their total expenditures for both items. See Figure 6. This finding is roughly consistent with other studies (although these

Percent of Working Families Paying More Than Half of Total Expenditures for These Items, 2002



Source: Calculations by Economic Policy Institute.

studies are not focused on working families). For example, a recent review by the Urban Land Institute showed that the combined costs of transportation and housing consumed half of average total household expenditures in virtually all of the 28 metropolitan areas included in the study.¹⁵

Housing and transportation account for the lion's share of the household budget for both renters and homeowners. For renters living in affordable housing, typical housing expenditures on both housing and transportation consume virtually half their total expenditures, with households spending as much or more on transportation as housing. Renters putting more than half their expenditures (56 percent on average) toward housing devote only about 7 percent of their expenditures to transportation. But combined, housing and transportation for these working families consume 63 percent of the total household budget.

Among homeowners, the dollar magnitudes are somewhat larger, but a similar pattern prevails. Homeowners in affordable housing or with a moderate housing cost burden (31 to 50 percent of expenditures) spend about half their total household budget on housing and transportation. Owners putting more than half their total expenditures on housing alone ended up spending about 65 percent of the household budget for both items. *See Figure 7.* A separate analysis of the poorest working families showed that, although the dollar values of overall expenditures are, of course, lower, both the relative levels and combined shares of housing and transportation are similar to those mentioned above for homeowners and renters.

✓ **To some extent, working families with severe housing and transportation cost burdens may be a "tale of two types of tradeoffs." Some working families make tradeoffs in basic necessities. Others make difficult quality of life choices primarily in the area of transportation.**

Who are the households that put half their total household expenditures toward housing? Some 47 percent are families with children. Almost half (49 percent) depend on one wage earner. Almost 1 in 5 are single

¹⁵Dunphy, Robert T., "Housing and Traffic," *Urban Land* (Feb. 2004), pp. 76-80.

Expenditures on Housing and Transportation by Homeowners and Renters, 2002

Figure 7



Source: Calculations by Economic Policy Institute.

females with children, although a not insubstantial number are married couples with children and two income earners (13 percent). About one-quarter (23 percent) did not finish high school. A majority (55 percent) own their own homes, and their average checking and savings account balances run about \$2,200.

Among the poorest working families — those with incomes below half the regional median — similar shares (48 percent) have children but other demographics are different. Almost two-thirds (64 percent) depend on one income earner and one-third (32 percent) are single females with children. One in 10 is a married couple with children and two income earners. Almost one-third

(31 percent) did not complete high school. Six out of 10 are renters, and the average balance in their checking and savings account is \$1,460.

Now, consider those with severe cost burdens when housing *plus transportation* is taken into account. They more closely resemble households with *no* housing and transportation cost burdens. For example, their incomes are nearly equal (\$31,000). They equally are as likely as those without affordability problems to depend on the income of two or more earners. They also are even more likely to be married with children. More than half (56 percent) are white, and the ratio of owners to renters is similar.

Although not conclusive, these CES data suggest that, generally speaking, at least two kinds of households face critical housing affordability problems. The first are households in economic distress. Typically, these are likely to be low-income working families, or low- to moderate-income working families in local real estate markets with high and rising rents and home prices. For example, according to a recent estimate, nearly 1 out of 5 of all renters in Seattle paid half their income for housing.¹⁶

The second group of households paying half their income for housing may actually be relatively better off, but for good reasons (school, having children, for example) or "bad" reasons (lost job, illness, divorce) may find themselves struggling to meet their housing costs. By and large these working families were somewhat better educated, had higher average combined checking and savings balances, were more likely to be married, and (not unlike the other groups) include substantial numbers of homeowners. For these households, their primary tradeoff may be in the area of transportation. This supports the idea, discussed in the introduction to this report, that choice as well as constraint plays a role in working families' housing cost burdens.

✓ **The transportation and housing tradeoff is a deliberate, major quality of life decision for many working families.**

Clearly, a common practice is for households to lower housing costs by paying more for commuting (and vice

¹⁶Foster, Heath, "Why Many in State are Hungry," *Seattle Post-Intelligencer*, Sept. 1, 2003.

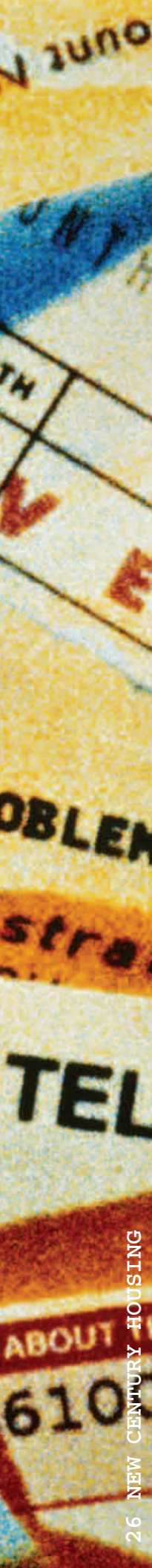
versa). Figure 8 shows transportation and housing tradeoffs for all working families (including upper-income families) and for owners versus renters. Overall, low- to moderate-income working families spend 77 cents less for transportation for every additional dollar spent on housing. This finding reflects the difficult choice that many working families face between expensive housing close to employment and cheaper housing farther away.

Comments from the Center's focus group clearly show that these tradeoffs are "top of mind" for many working families. "I'd (rather) live in a slightly smaller home or a slightly more expensive home so I can have a decent commute," said April E. of Indianapolis, IN. Taking the opposite view was Kate C. of Bartlett, TN. "We are willing to spend more time commuting and on gas and car maintenance so that we can live in a bigger, nicer place," she said. Jill S. from Las Vegas, NV, viewed the issue, not as a tradeoff in space but with locale. "I

Figure 8.
A Dollar Spent on Housing Results in
This Much Less Spent on Transportation. . .



Source: Calculations of 2002 CES by Economic Policy Institute.



would not trade a less safe or worse neighborhood just to save a few minutes on the road each day.”

One participant took an entirely different view. In describing his former commute on the Southeast Expressway near Boston, MA, he said, “It was 50 minutes in the morning going in and about 90 minutes coming home in the afternoon. There were never any tradeoffs considered...we just did it.” Still others spoke of the non-monetary, but equally important, costs of commuting. “I have no desire to spend two-plus hours each day commuting,” said Michael R. from Lincoln, NE. “I would rather spend that time with my family.”

Admittedly, although the analysis attributes higher transportation costs to longer commutes, it is possible that other explanations are at work. Since transportation costs include car payments, maintenance, operating costs, etc., some working families may choose higher transportation expenditures because they prefer newer or more costly cars. Moreover, transportation expenditures may not reflect distance from work, given that households can typically choose from many commuting arrangements, including more or less fuel-efficient cars, car-pooling, public transportation, telecommuting, and others.

Still, the tradeoff between distance from work and housing costs is the most compelling explanation for the estimates presented here. Other data indicate that working families are, indeed, tolerating longer commutes between their homes and their jobs. A recent study of commuting by Texas A&M indicates that the average annual delay in 75 major metropolitan areas in the U.S. in 2001 was 62 hours per person, up from 16 in 1982.¹⁷ Commuting — or decisions taken to avoid excessive commuting — undoubtedly affects the quality of life of many working families.

Conclusion: Lessons from the Expenditure Study

This research looked at the expenditures of low- to moderate-income working families that have severe housing cost burdens. If they are spending so much of their income on housing, are they cutting back in other ways that could negatively affect their quality of life? This study found some evidence of that, especially in the “discretionary” areas of food, healthcare, and health insurance. After meeting their housing costs, renters

¹⁷Schrank, David & Loman, Tim, *The 2002 Urban Mobility Study* (Texas A&M: Texas Transportation Institute, 2002), Table A-4.

are more likely to have too few dollars available for food or adequate healthcare. But the major tradeoff, for both homeowners and renters is for transportation.

Our analysis showed that working families living in relatively affordable housing (i.e., accounting for 30 percent or less of household expenditures) spent on average 24 percent of their total expenditures on transportation. By contrast, families spending more than half of their total household expenses on housing spent a considerably less 7.5 percent of their total outlays on transportation. Moreover, the analysis shows a clear tradeoff between housing costs and transportation that is both statistically and economically significant (about 77 cents for every dollar decrease in housing costs).

While there is evidence of tradeoff between housing and transportation, both are typically the most expensive items in the household budget. When both are taken into account, the number of working families with a critical affordability problem increases five-fold from 8.3 percent to 44.3 percent of all working families.

Together, these findings suggest that some working families are unable to locate affordable housing closer to where they work and must, therefore, trade off housing costs for commuting costs. They also suggest other ways high housing costs have negative consequences for the quality of life for working families — commuting affects for the worse their money, their time, and even the environment in which they live.



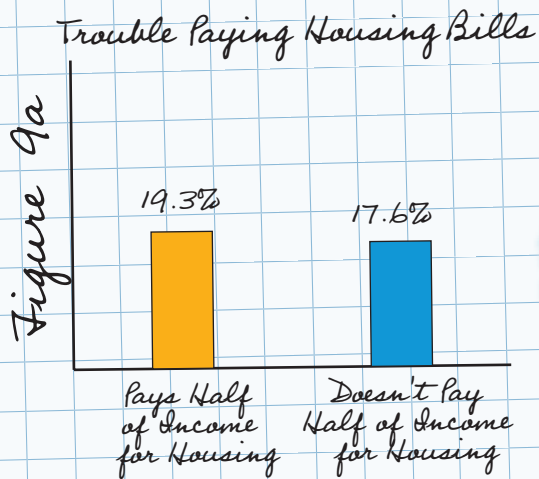
Impacts of Paying Half of Income for Housing: The Bottom Line for Working Families

As noted in the introduction to this report, the Center commissioned an "Impacts Study" to explore how the economic, social, and physical well-being of working families and their children are affected when they pay half their income on housing. The study uses the 2002 *National Survey of America's Families* (NSAF), a survey of approximately 44,000 households that includes data on income, housing costs, material hardships, and parent and child measures of health and well-being. See Appendix.

✓ Working families paying more than half their income for housing are more likely than other working families to endure food insecurity, lack of health insurance, and other hardships.

Working families apparently consider their housing expenses a top priority. Even those families that pay half their income for housing are no more likely than those who devote a lower portion of their income to report they have been unable to pay their rent, mortgage, or utility bills at some time in the previous 12 months. For most families, housing or utility bills are the largest and least flexible items in the budget. As focus group participant La Vera D. of Plainsboro, NJ, put it, "Rent or mortgage is the most important because you have to be able to live (in your home) or nothing else matters." A typical pattern is for working families to pay their fixed costs first — primarily housing — and make compromises in other areas.

Among the compromises working families paying more than half their income make is "food insecurity." Specifically, these working families are more likely than other working families (38 versus 31 percent) to report they ran out of food and



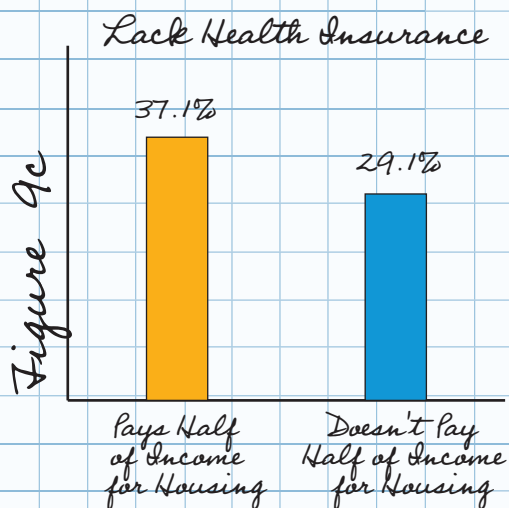
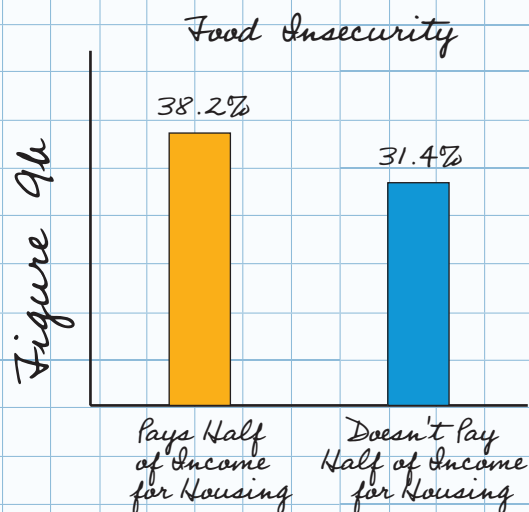
Figures 9a-9c Source: Calculations of 2002 NSAF by Child Trends.

didn't have the money to purchase more. Some said they cut down on the size of their meals or even skipped meals because there wasn't enough money for food. Renters were more likely to report food insecurity than homeowners.

A recent report out of Washington State makes a strong link between rents and food insecurity. Recently, state officials conducted a study to understand why high-tech Washington is considered the second-hungriest state in the nation, even though it does not have an especially high poverty rate. They found that 1 in every 5 Washington renters spent more than half their income on housing, leaving little left over for other basics, including food.¹⁸

The other major area of compromise for working families paying half their income for housing is health insurance. These families were more likely (37 versus 29 percent) to

have had a family member — either a child or an adult — lack health insurance at some time during the prior year. Lack of insurance leaves many families feeling vulnerable. As April E., a focus group participant from Indianapolis, IN, put it, "Because of rent and car payments, (my partner and I) cannot afford to take the



¹⁸Foster, *op. cit.*

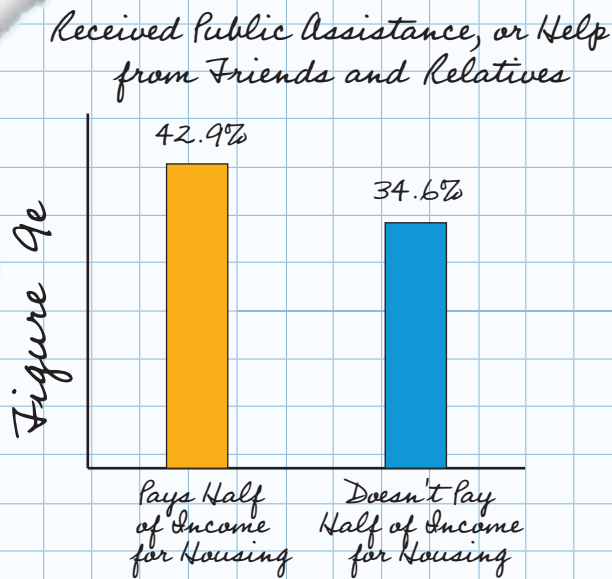
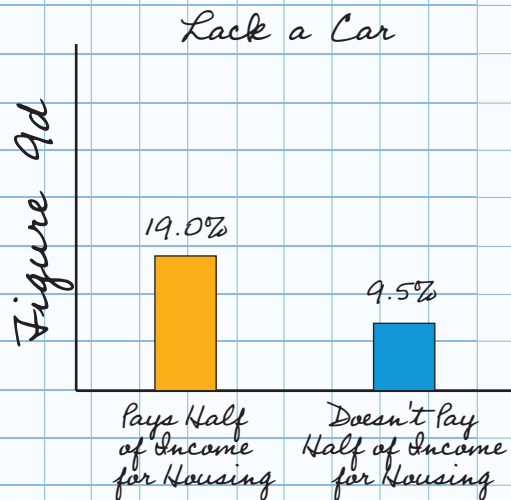
insurance from his company. Both he and I are without medical insurance and that is a real concern for me. Mostly I just worry about getting sick or seriously hurt in a car accident."

Evidence of this link also comes from other sources. A study of households without health

insurance during the 1990s noted that there was a connection between high housing costs paid by low-income families and their lack of insurance.¹⁹ The analysis of the expenditures of working families discussed in the previous section of this

report also indicates that spending more on housing can lead to spending less on health insurance, especially among renters.

Another hardship linked to paying half of income for housing — and this relates to the discussion about transportation and housing in the previous section of this report — is the lack of a car (19 versus 10 percent). Again, renters are more likely to be affected than owners. Among the poorest working families paying more than half their income for housing, one-third of the renters had no car as compared with 13 percent of



¹⁹Levy, Helen & DeLeire, Thomas, *What Do People Buy When They Don't Buy Health Insurance and What Does That Say About Why They are Uninsured*, (NBER Working Paper No. 9826) (Cambridge, MA, National Bureau of Economic Research, July 2003).

the owners. Whether the lack of a car is truly a hardship or not depends on whether these working families have alternative ways — walking, public transit — to get to work. But to the extent it limits a family's access to better paying jobs or to education and training opportunities, the lack of a car can contribute to the sense that they are "stuck" and unable to move out of their current economic circumstances.

Open to some interpretation is the finding about public assistance (a housing voucher or food stamps, for example) or private assistance (from friends and relatives). Receipt of assistance can be an indicator of hardship because families are likely to seek out such assistance only if they are experiencing financial difficulties that are affecting their quality of life. In some cases though, this assistance is unlikely to be sufficient to enable these working families to avoid hardships altogether, which may explain why assistance is more common among families that pay half their income for housing than among those who do not (42.9 versus 34.6 percent). The analysis also found some evidence that receiving assistance can protect some families from hardships they face, including helping them avoid paying half of their income for housing.

✓ **Working families from traditionally disadvantaged social and economic groups are among those most affected by high housing costs and other hardships.**

Income, of course, is key to whether a family has a critical housing affordability problem or experiences hardships. In addition to income, geography matters. For example, paying half their income for housing is more common among working families living in states and regions with high housing costs such as New York in the Northeast, and California and Colorado in the West. Severe

Groups with severe housing cost burdens & hardships

- ✓ Low-income and poor families,
- ✓ Families living in lower-cost neighborhoods,
- ✓ Racial and ethnic minority families,
- ✓ Immigrants (particularly non-citizens),
- ✓ Large families,
- ✓ Single-parent families,
- ✓ Families with parents with lower levels of educational attainment, and
- ✓ Younger families (particularly those in which a parent is between the ages of 20 and 29).



housing cost burdens occur to a lesser extent in low-cost housing states, such as Mississippi and Alabama in the South, and Michigan and Minnesota in the Midwest. Material hardships, on the other hand, are less prevalent in wealthier states like Massachusetts and Michigan and more common in poorer states like Texas and Florida.

Regionally, working families in the West and Northeast are more than twice as likely as working families in the Midwest and South to have critical housing affordability problems. Likewise, working families living in metropolitan areas are more than twice as likely to pay half their income for housing as families in non-metropolitan areas. As for hardships, what is most striking is the fact that health-related hardships are more common in the South than elsewhere. Compared with the Northeast, working families in the South are more likely to lack health insurance (35.3 versus 23.5 percent), to postpone medical care (29 versus 23.8 percent), and to have no usual source of care (23.2 versus 16 percent).

✓ **Working families with children are more likely to pay half their income for housing and endure other hardships.**

Both paying more than half of income for housing and other material hardships are more common when children are present than when they are not. For example, as shown in *Figure 10*, working families with children are more likely to have had trouble paying their mortgage, rent, or utility bills at some time during the prior year (20 versus 9 percent). They also are more likely to experience food insecurity (35 versus 19 percent) and to have a family member lack health insurance during the previous year (33 versus 27 percent).

It is not only the presence of children, but also the number of children in the household that increases the chances that a working family will endure hardships. The share of working families experiencing such hardships as food insecurity, crowding, receipt of assistance, and lack of insurance generally rises with an increasing number of children in the family in both low- and moderate-income households.

The findings about food insecurity are troubling because a separate study in five states found that infants and toddlers in food insecure households are 30 percent more likely to be hospitalized for illnesses and

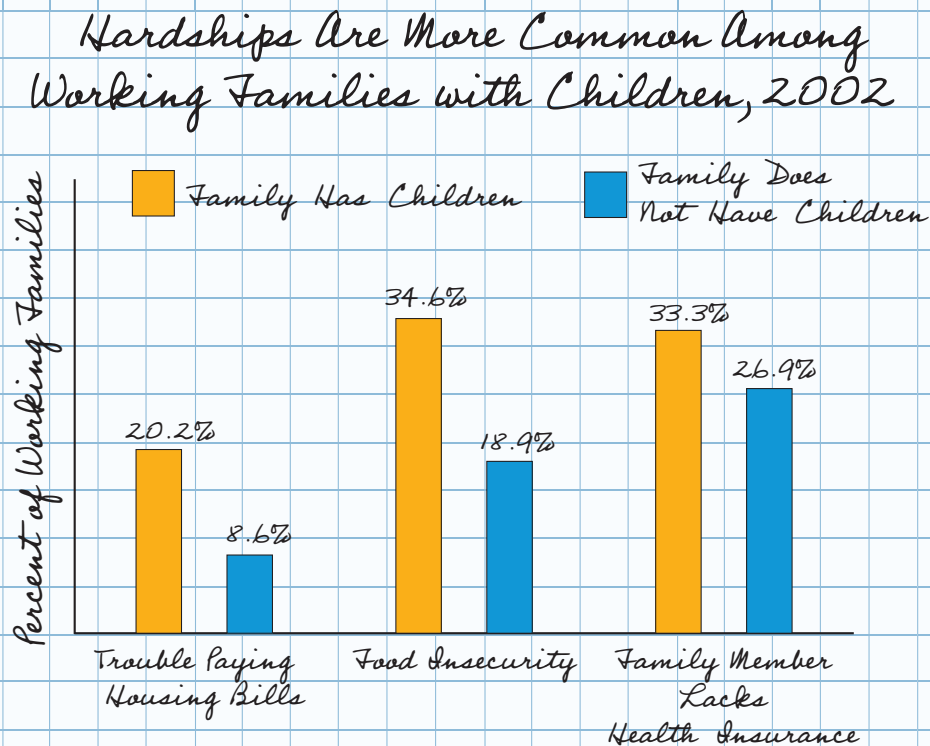
90 percent more likely to be in generally fair or poor health. Because these children are deficient in vitamins and minerals, they also are more likely to develop learning disorders, emotional problems, and behavior problems in school. Underscoring the link between housing and nutrition, the same study noted that children who live in families receiving housing assistance are better protected from becoming underweight or undernourished.²⁰

It, perhaps, is not surprising that hardships are more common among working families with children considering that the poverty rate of households with children is higher than that of households with just adults or with seniors.²¹ But the presence of children also profoundly affects the

²⁰Children's Sentinel Nutrition Program, *The Safety Net in Action* (Boston, MA, 2004).

²¹DeNavas-Walt, Carmen, Proctor, Bernadette D., & Mills, Robert J., *Income, Poverty and Health Insurance Coverage in the United States: 2003* (U.S. Census Bureau, CPS Reports, P-60-226) (Washington, DC: U.S. Government Printing Office, 2004), p. 9.

Figure 10



Source: Calculations by Child Trends.

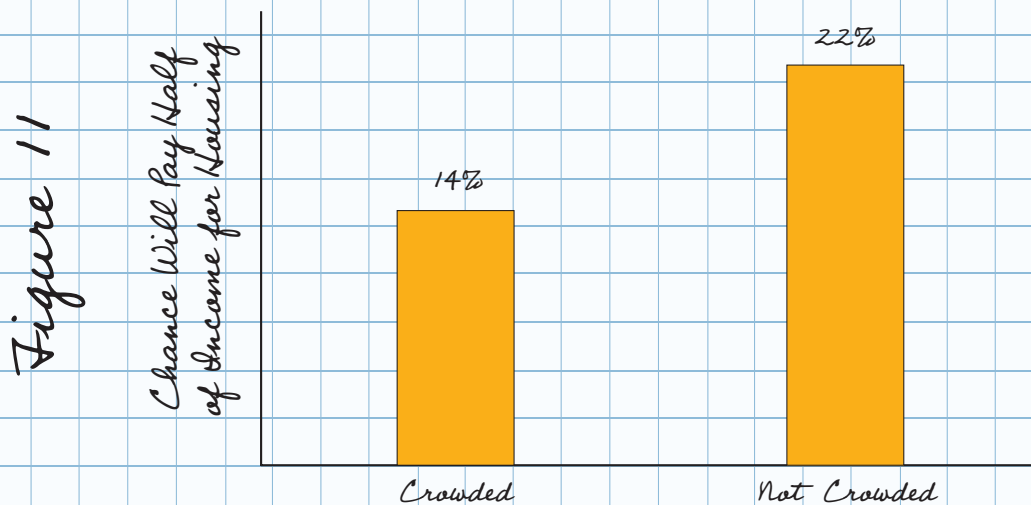
economic well-being of middle-class families. In their book, *The Two Income Trap*, authors Elizabeth Warren and Amelia Tyagi write that “having children has become the dividing line between the solvent and the insolvent... today’s parents are working harder than ever and falling desperately behind even with two incomes.” They go on to note that the single best predictor of financial trouble is being a parent with children at home.²²

✓ **Crowding helps some working families cope with high housing costs but does not necessarily protect them from severe housing cost burdens or other hardships.**

Crowded families (defined as more than two people per bedroom) are less likely to pay more than half their income for housing than non-crowded families, after taking into account family income, neighborhood quality, the number of children in the family, and other factors. See Figure 11. Why would this be? Consider two families

²²Warren, Elizabeth & Tyagi, Amelia, *The Two Income Trap: Why Middle-Class Mothers and Fathers are Going Broke* (New York: Basic Books, 2003), pp. 6 & 13.

Crowding Reduces the Chances That Some Working Families Will Have a Severe Cost Burden, 2002



NOTE: Predicted probabilities reported here are for working families with the following characteristics: family income below the poverty threshold, live in second-most expensive quartile of neighborhoods, renters lived in their home between 2 and 5 years, non-Hispanic Black, U.S.-born, 2 children, married, and adults are 30 years old and have high-school diploma.

Source: Calculations by Child Trends

that are similar in many respects —the same number of children, the same income level, the same ownership status, the period of time in their current home, and the same neighborhood cost —but that differ in one key way: One family lives in a smaller home and is crowded, while the other family lives in a larger home and is not crowded. Since smaller homes typically cost less than larger homes, the family that is crowded probably pays a smaller portion of their combined income on their home than the larger family. This suggests some lower-income families resort to crowding in order to spend a lower portion of their income on housing and to avoid other hardships.

But as a coping mechanism crowding may only be partly successful. The analysis also showed that crowded working families still have a higher likelihood of experiencing food insecurity and lack of a car, even after taking into account family income and other demographic factors. Crowded working families are also more likely than other working families to have low incomes, to be renters, to have been in their current home for shorter periods of time, to be immigrants, and to have larger families — all risk factors for housing affordability and other hardships.

Crowding, of course, entails costs of its own. Some studies show, for example, that crowding puts household members at greater risk of illness and communicable disease. And as an office manager from Las Vegas, NV, noted in the focus group, taking on an additional roommate because of a loss in income helps her pay the rent but has changed her quality of life, as well. “My biggest non-monetary expense right now is ‘Patience,’” she said.

✓ **The way severe housing cost burdens affect the well-being of adults in working families depends on such factors as income, education, and the quality of the neighborhood in which they live.**

This part of the analysis looked at four areas of adult well-being: 1) experiences a high level of parental aggravation, 2) reports symptoms of poor mental health, 3) reports a fair or poor health status, and 4) has a physical, mental, or other health condition that limits the kind or amount of work; four areas of adult activity: 1) works 50 hours per week or more, 2) works night shift, 3) volunteers a few times a month or more often in past year, and 4) attends a religious service a few times a

month or more often in past year; and two indicators of time spent with children: 1) frequency of reading to child under age 6, and 2) frequency of taking child under age 6 on outings.

We found that how and whether severe housing cost burdens affect the well-being of working families indirectly, depends upon several other factors:

Overall, adults in families with greater incomes tend to have better adult well-being and spend more time with their children. For example, a lower percentage of adults from families with incomes 200 percent or above the poverty threshold report they are in fair or poor physical health compared to higher rates of poor health in adults in the three lower-income categories (10.8 versus 25.6, 21.0, and 19.0 percent in the other groups).

Parental education (itself an important determinant of income) is a consistent predictor of adult and family well-being. The higher the education of the parents, the less likely the family is to endure hardships, the more likely they are to engage in adult activities, and the more time they spend with their children.

Homeowners fare better than renters on most measures including physical and mental health, more positive activities, and more time spent with children. For example, 15 percent of homeowners report symptoms of poor mental health compared with almost 22 percent of renters.

Adults living in higher quality (more expensive) neighborhoods are more likely to fare well on measures of adult well-being than those in lower-quality neighborhoods. For example, adults in these neighborhoods tend to spend more time with children. They are more likely to read to a child under the age of 6 more frequently than those in other neighborhoods (61.4 versus 48.7, 51.5 and 52.4 percent, respectively, in the other quality groups).

What is clear is that high housing costs work in complex ways to affect the quality of life of working families. When groups of adults are examined separately according to their family income level and neighborhood quality, housing cost burdens do matter when it comes to adult well-being, adult activities, and time spent with children — but not in a systematic pattern. Much depends upon working families' particular circumstances.

Insufficient income and poor education adversely affect the well-being of adults in low-income working families — some of the very same factors that contribute to a working family having a housing affordability problem in the first place. Certainly, where there are

“It would be **good** if there were **more affordable housing** in the area, especially if it brought in more shops and services ... diversity is **important** for **every neighborhood.**”

—La Vera D., suburban renter

shortages of affordable housing these disadvantages are intensified. For these working families, the struggle to pay mortgage or rent, and the poor quality of their neighborhood can diminish their quality of life.

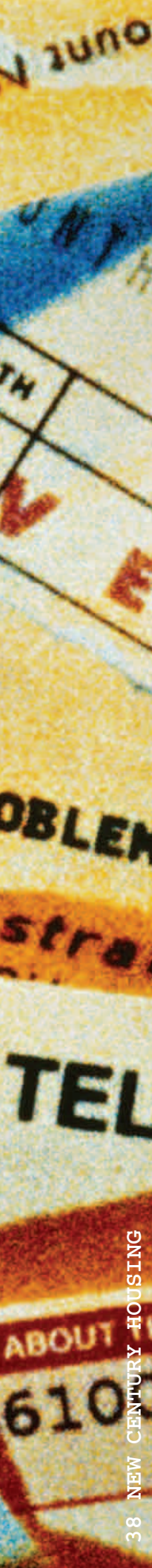
For working families who are relatively better off, high housing costs entail financial stress (as discussed in the Expenditures section of this report) often from taking on debt or draining savings. For some, this stress may be offset by living in better quality homes and neighborhoods. But that is not to minimize their struggle to maintain their economic standing. As one focus group participant put it, “Stress can affect so many other aspects of our lives. I’d say it’d be more important than most of my bills because when I’m stressed it makes everything seem ten times worse.”

✓ **When it comes to the well-being of children, the effect of working families paying more than half their income for housing is inextricably linked with the characteristics and economic circumstances of their parents.**

Out of eight indicators of child well-being, three differ according to whether families have a critical housing affordability problem. Consistent with the idea that high housing costs can adversely affect child well-being indirectly through the experience of financial or material hardships, the analysis shows that children in working families that pay more than half their income for housing are more likely to be in fair or poor health (10 percent versus 6 percent) than children in other working families.

The arrow points in the other direction, however, for two other findings. Specifically, children in working families with critical housing affordability problems were found to be *less* likely to have a high level of behavioral and emotional problems (5 versus 8 percent), and *less* likely to have accidents or injuries that required medical





attention (10 versus 14 percent), possibly reflecting children’s access to medical care as well as the prevalence of accidents and injuries. These findings support the idea that paying more than half of income for housing improves child well-being by enabling a working family to live in a better quality home or neighborhood.

On several other measures, such as whether the children had high or low engagement in school, had participated in sports clubs or activities, or had been expelled or suspended from school, child well-being appears to be related more to the characteristics of the child’s parents than to housing costs. Indeed, a strong case can be made that when it comes to the quality of life of children, parents hold the key.

Economic and demographic characteristics such as parent’s education and family structure are responsible for much of the variation in child well-being. But these are some of the same factors that expand or limit housing options and the ability to pay for better quality housing and neighborhood. For example, among children in *poor* working families, those with severe housing cost burdens are *more likely* to have fair or poor health than those who don’t pay so much for housing. But just the opposite is true for children in the highest income groups. Those with severe housing cost burdens are *less likely* to experience these problems. So, the relationship between housing costs and child well-being is complex and merits further investigation.

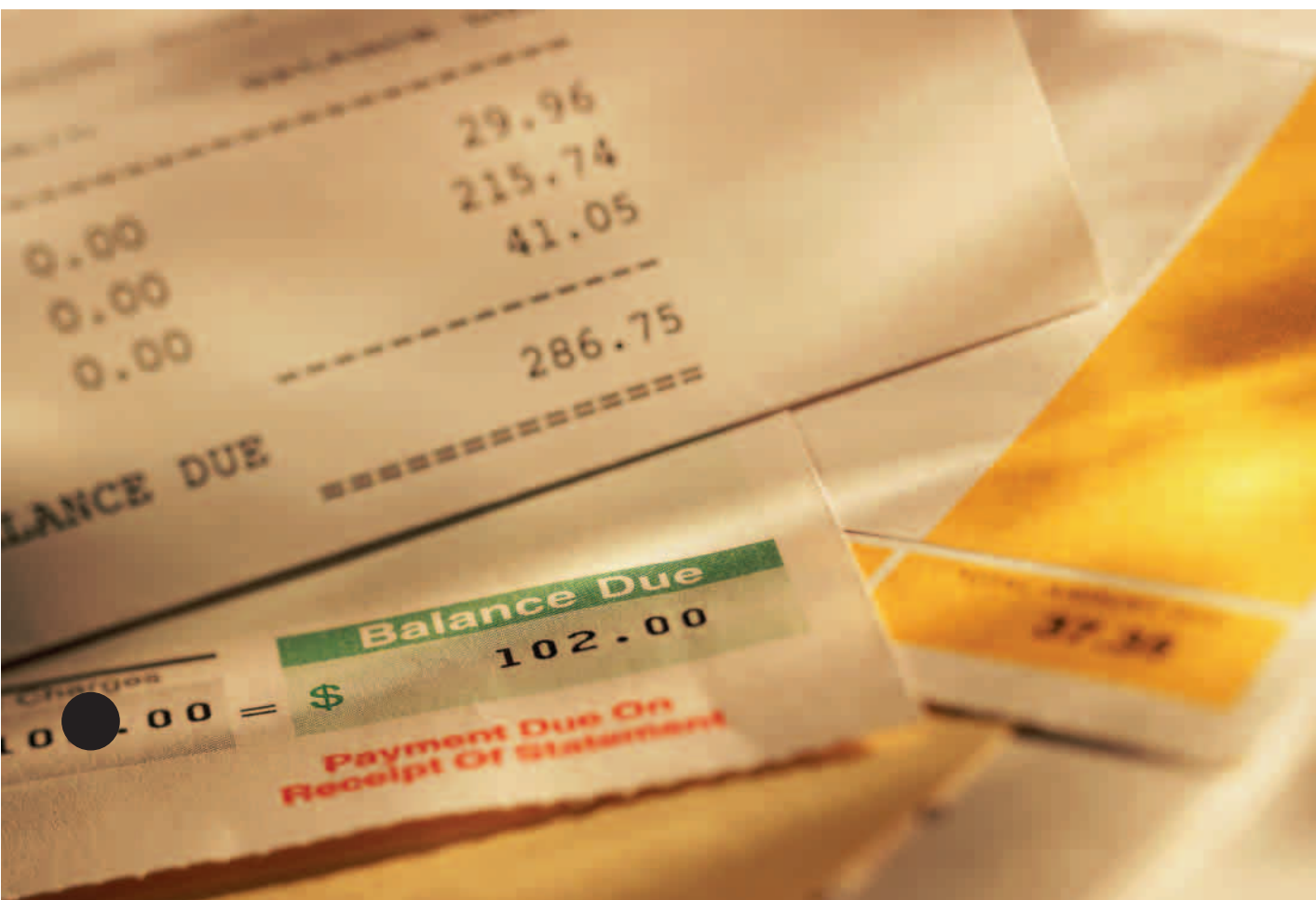
Conclusion — Lessons from the Impacts Study

Material hardships are more common among working families that pay more than half their income for housing than among those who do not. Among these hardships are food insecurity, lack of health insurance, lack of a car, and — to the extent it is used as a strategy to cope with high housing costs — the physical and emotional discomforts of crowding. These are clearly more common among working families that spend more of their income on housing because these families have less to spend on other necessities. As noted in the expenditure analyses in the previous section of this report, renters are among those most likely to make these compromises. Of particular concern is the fact that the presence of children increases the risk that a family will pay high housing costs and endure hardships.

Low income and education levels are the common characteristics of working families that both pay half their income for housing and endure these hardships. In the future, unless incomes gain substantial ground against rising housing costs or more affordable housing geared to these families is produced, many working families will stay mired in this situation to be joined by growing numbers of other families in similar circumstances.

While there is a strong and consistent association between paying half of income for housing and material hardships, the connection between paying half of income for housing and child and adult well-being is more complex. Whether paying more than half their income for housing bodes well or ill for adults and children in working families depends on other factors such as family income and neighborhood quality. These factors, in turn, bear on whether working families have a critical housing affordability problem in the first place.

This study was a first foray into the topic using data that are not traditionally used to address housing issues. Clearly much more needs to be done to better understand the link between the cost of housing and the quality of life of working families.





1,809	+	*
690	+	
763	+	*
85	+	
509	+	+
5,258	+	+
1,310	+	+
3,286	+	+
1,704	+	0
563	+	35
5,867	+	575
233	+	520
62,250	+	540

Appendix

METHODOLOGY

This study has relied on a variety of data sources that go beyond the traditional sources of information about housing such as the Census or the U.S. Department of Housing and Urban Development's *American Housing Survey*. These usual sources do not provide the information needed to study economic tradeoffs or the impact of tradeoffs on individual working families.

Instead, the Center turned to other data that address these issues, but that have not been designed specifically to study housing. All the data, therefore, had limitations, and much of the work conducted as part of these studies was experimental. The Center hopes this work makes an important contribution but, at the same time, recognizes that much more remains to be done.

More information
is available at the
Center for Housing
Policy Web site:
www.nhc.org

EXPENDITURE STUDY

Data

The Expenditure study utilizes the *Consumer Expenditure Survey* (CES) for 1980-1981 and 2001-2002. The first CES interview is an intake interview; the second through fifth interviews, which are the source of all data presented here, collect detailed information on household demographics, labor-market participation, other characteristics, and expenditures in the preceding three months. The Bureau of Labor Statistics (BLS) estimates that the interview panel covers about 80 to 95 percent of all household expenditures and about 80 percent of income compared with the aggregate income collected in the *Current Population Survey*. The sample used for analysis includes only households that completed a fifth interview during each period. Following standard BLS procedure, the sample was limited to only those households that were complete income reporters, although, generally, the study utilized expenditure data in lieu of income data. Housing

"Having **different** housing options is important. I feel that we all have different **purposes**, and **all jobs** are important as are different **kinds of housing**."

— Julia H., medical transcriptionist

costs include mortgage, rent, utilities, taxes, and related housing costs.

Looking at tradeoffs, it's reasonable to assume that households that spend more on housing must spend less on other things. But whether this is true sometimes depends upon which measure you use — income or expenditures. For some families, the share of income spent on food goes up as housing costs increase. How can this be? The shares of all expenditures sum to 100 percent, so an increase on one item means a decrease on another. This is not the case when we consider expenses by income. By using debt and drawing down family savings, households with high housing expenditures can and often do spend *more* on other types of expenditures as well. Government statistics show, for example, the expenditures of even relatively modest income households earning about \$21,000 were 28 percent higher than their incomes (about \$27,000).²³ Expenditures are considered by many researchers to be a more reliable measure of overall family well-being, while incomes — which are considered more likely than expenditures to be underreported — are more indicative of current financial circumstances.

Analysis

The multivariate analyses of expenditure tradeoffs followed the recent approach of Helen Levy and Thomas DeLeire, although their research focused on tradeoffs around health insurance, not housing.²⁴ Their method involves using the data from the total of N households in each of the t periods to capture the impact of high housing expenditures on expenditures in other categories by fitting a series of separate regressions for various expenditure categories. One caveat is in order. Households make decisions about housing expenditures at the same time they are making decisions about expenditures in each of the categories that are the dependent variables (as well as their overall level of expenditures). This approach used here did not control for the simultaneous nature of this process, which may or may not alter some of the estimates.

²³See Bureau of Labor Statistics Web site: <http://www.bls.gov/cex/csxann02.pdf>.

²⁴Levy & DeLeire, *op. cit.*

IMPACT ANALYSIS

Data

The Impact Analysis uses the *National Survey of America's Families* (NSAF), a representative sample of the non-institutionalized population in the U.S. under age 65. Adults age 65 and over were included in the sample only if they were living in households that included children or other adults under the age of 65. This NSAF was conducted in 2002 and includes data for approximately 44,000 households on earnings, income, housing costs, material hardships, child outcomes, parent activities and outcomes, housing arrangements, and health information.

One limitation of the NSAF is that complete information about housing expenses is not available. Although respondents were asked the amounts they paid for rent or mortgage, they were not asked about amounts paid for utilities, property taxes, or maintenance expenses. Therefore, the calculations for housing expenses underestimate families' total housing-related expenses. Although this affects estimates of overall incidence, it likely does not affect reported outcome measures for individual families. Also, because survey respondents did not report on the quality and safety of their homes and neighborhoods, median home values were used instead. Despite this, the NSAF is a unique resource for examining housing affordability problems, material hardships, and child and adult well-being in a large, recent, nationally representative survey.

Analysis

For the descriptive analyses, cross tabulations were produced to determine whether associations between subgroup characteristics (such as family income, race/ethnicity, and family structure) and the hardship and well-being measures were statistically significant. All of the analyses are weighted so that the estimates reflect the characteristics of the actual population of families in the U.S.

Descriptive analyses measure the extent to which the prevalence of housing affordability problems and material hardships, as well as levels of child and adult well-being, differ across important subgroups of the population. However, many of the subgroup characteristics examined are interrelated. Therefore, where appropriate, more complex analyses were carried out to identify these relationships. In most cases, multivariate logistic regressions were used.

ONLINE FOCUS GROUP

An online “bulletin board” focus group was conducted from September 8-10, 2004, with three separate days of topics posted. Twenty-two respondents actively participated. Overall, they:

- ✓ Had between \$11K and \$70K in total household income;
- ✓ Had at least 1 full-time or 2 part-time workers in household;
- ✓ Included a mix of ages 18-64, and were 9 male and 13, female;
- ✓ Were approximately half owners and half renters;
- ✓ Were from a mix of family types, educational backgrounds, and urban/suburban/rural locales.

All participants were recruited via telephone by professional interviewers experienced in qualitative recruiting and were paid a small honorarium for their participation. The Center for Housing Policy was not identified to participants as the client.







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