NATIONAL MULTIFAMILY HOUSING COUNCIL

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Is Rent the Only Reason for the Affordability Crisis?

Rent increases have spurred much discussion around strategies to curb these rises, most notably those that include rent control or rent stabilization measures. Record demand for apartments paired with lackluster levels of new construction have been main drivers for these increases, as previous issues of Research Notes have shown.

However, housing is just one part of a household's budget. This Research Notes explores how housing fits into the overall budget, whether other elements of a household's budget are also seeing increases and whether incomes are matching the price increases.

Our research shows that while housing is indeed the largest part of a household's budget and rents are increasing, housing cost increases are not completely to blame for the budget crunch many households are feeling. Growing income inequality and rising costs of other goods appear to contribute to the affordability crisis as well.

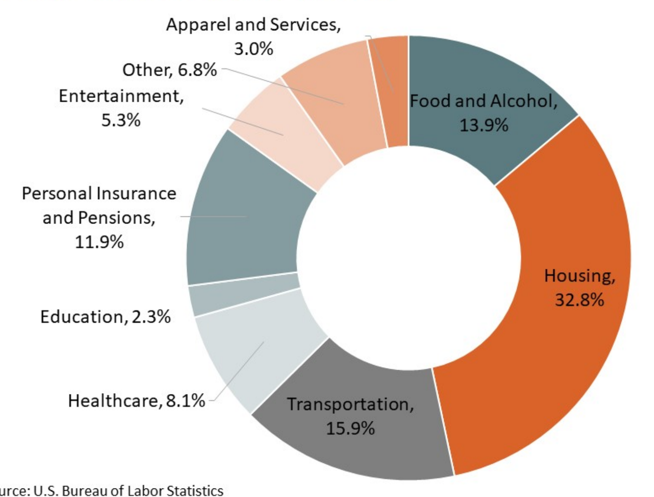
Housing Remains the Biggest Household Expenditure

The U.S. Bureau of Labor Statistics (BLS) provides detailed household spending information through its Consumer Expenditure Survey (CES). Housing, which has consistently accounted for the largest percentage of household spending, was 32.8 percent of all spending in 2018. (See Figure 1.) This housing category includes rent/mortgage payments, as well as utilities, housekeeping supplies and household furnishings (childcare expenses are also included in this category).

Transportation was the next largest spending category in 2018 (15.9 percent), followed by food and alcohol (13.9 percent) and personal insurance and pensions (11.9 percent). The same distribution occurs when broken down by housing tenure.

FIGURE 1

Share of Household Spending by Category (2018)



Source: U.S. Bureau of Labor Statistics

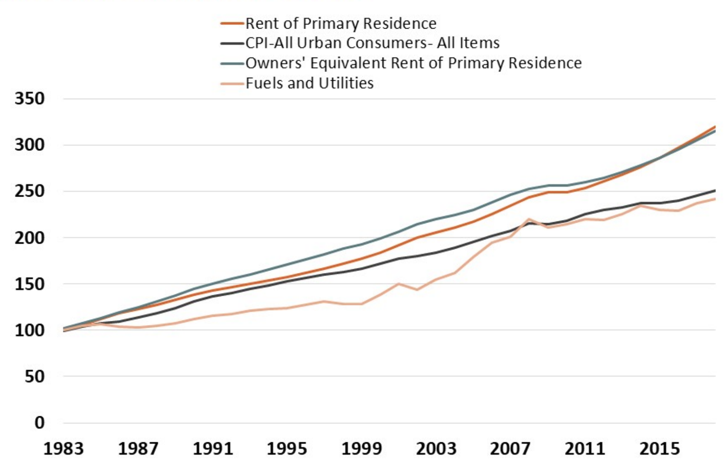
While we know that housing is the largest part of household expenditures, that tells us nothing about how that cost has changed over time. One way to track how the cost of housing has changed is through the Consumer Price Index (CPI), also published by the BLS, which tracks the price of different types of goods.

The CPI provides price changes for a variety of housing-related items, including rent and utilities (Figure 2). The cost of both rent and "owners' equivalent rent" (what an owner-occupied house would rent for) has consistently increased faster than the overall rate of inflation.

From 2008 to 2018, the cost of rent rose 31.2 percent, while the cost of owners' equivalent of rent rose 24.9 percent. That compares with an 16.6 percent increase for the cost of all goods during the same period. The cost of housing-related fuels and utilities was the only major housing expense to increase slower than the rate of inflation.

FIGURE 2

Price Changes of Housing-Related Expenses



Source: U.S. Bureau of Labor Statistics

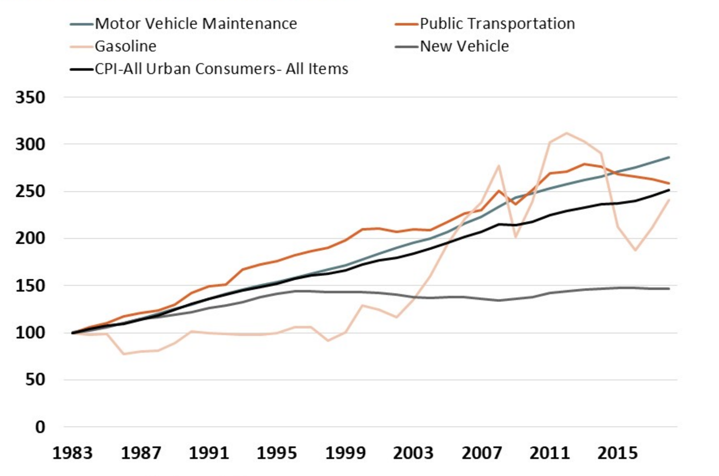
Prices Also Exceed Inflation in Other Spending Categories

As shown in Figure 1 above, transportation is the second largest part of households' budgets. Included in this category are items such as car purchases and leases, gasoline and public transportation. Figure 3 below shows the change in price for these items over time compared to CPI. Prices for some transportation-related expenses like gasoline have varied tremendously over the years, but several expenses—vehicle maintenance and public transportation—have long outpaced inflation.

The price of public transportation, for one, has consistently outpaced inflation since the 1980s, although the gap has narrowed in recent years. In fact, public transportation expenses increased 160.1 percent from 1983 to 2018 while overall inflation rose 152.1 percent during the same period. The price of new vehicles, in contrast, rose 46.4 percent.

FIGURE 3

Price Changes of Transportation Expenses



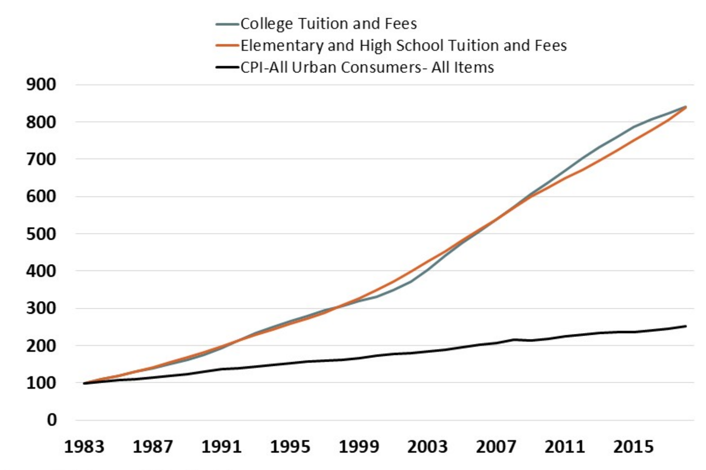
Source: U.S. Bureau of Labor Statistics

Education expenses have increased drastically over the years, despite accounting for a relatively small part of overall household spending. Figure 4 below shows the change in the price of tuition for both elementary/high school and college compared to the overall cost of inflation.

From 1983 to 2018, tuition and fees for elementary/high school and college rose 741.5 percent and 743.9 percent, respectively. This compares to an increase of 152.1 percent for all goods and services. Also noteworthy is that, while the cost of tuition and fees have always risen faster than overall inflation, costs increased particularly during the early 2000s. For college tuition, this coincides with the beginning of the large state budget cuts seen at many public universities.

FIGURE 4

Price Changes of Education Expenses



Source: U.S. Bureau of Labor Statistics

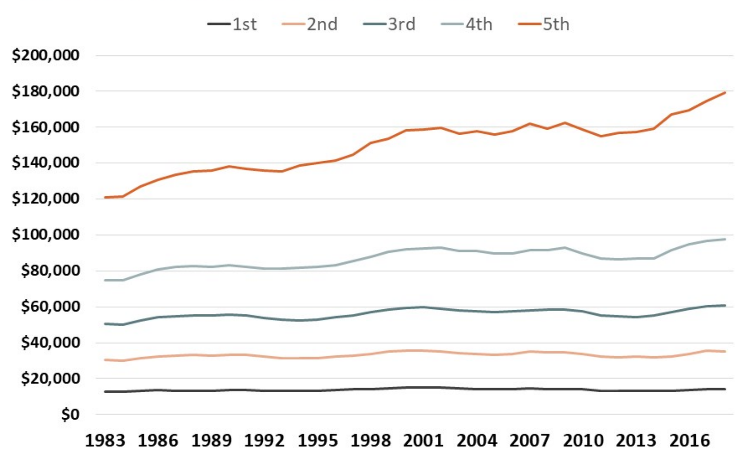
Incomes Increase, Mainly for Higher Income Households

It is expected that the cost of goods will increase over time, and in a perfect world, incomes would also increase at least enough to make up for this change. However, data indicate that, for many households, this is not happening.

In fact, the change in the real median household income by quintile for all households in the United States (Figure 5) indicates a growing income gap between the wealthy and the poor. The median income of the wealthiest 20 percent of U.S. households rose steadily from $121,015 in 1983 to $179,100 in 2018, a 48.0 percent increase. The median income of the lowest-earning households, meanwhile, only experienced an 11.4 percent increase.

FIGURE 5

Median Household Income by Quintile (2018 Dollars)



Source: NMHC tabulations of Current Population Survey microdata

Renters have historically made up the bulk of the lowest-earning households; in fact, renter households made up 54 percent of the lowest quintile in 2018, the same amount as in was in 1983. Conversely, owners have overwhelmingly made up the bulk of the highest-earning households, although the share of renter households in the top quintile increased from 14 percent in 1983 to 17 percent in 2018.

Households Feel Stress from More Than Just Housing

This edition of Research Notes is intended to paint an initial, broad picture of affordability beyond the housing context. Not captured in this analysis is the effect of household debt, which has fallen in the short term, but risen over the longer term. This is important because, if slow income growth in the bottom half of the income distribution continues, some households may end up taking on more debt or find ways to curb their spending to try to address their affordability needs.

Still, housing remains the largest percentage of a household's budget, and costs are indeed rising, particularly when compared to the overall cost of inflation. However, other major household spending categories are experiencing price increases as well. These prices are rising for households across the income spectrum, leaving many with few ways to control their budgets. Given that renters comprise most of the households in the lower-income quintiles, it is unsurprising that they would feel the pressure of rising costs and attempt to curtail costs wherever they can.

Questions

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