

## **Middle-Income Households Still Struggle With Affordable Housing**

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Affordable homes will continue to remain out of reach for middle-income households in some cities, even as home prices are falling at the national level, according to a study of select metropolitan areas released today.

The study, conducted by Moody's Economy.com for the nonprofit Homes for Working Families, examines housing affordability challenges facing middle-income households -- households earning between 60 percent and 120 percent of area median income -- against the backdrop of falling home prices.

In most markets, working families earning the median income include teachers, retail workers, police officers, office workers and others.

"These findings paint a grim picture for middle-income households struggling to purchase or keep their homes," said Amy Hosier, director of research and policy, Homes for Working Families. "The study shows that the prohibitive affordability gap middle-income families face will continue to threaten their ability to access safe, good-quality homes in the coming years. Since 2000, they have endured the lion's share of the negative effects of an ever-changing marketplace. They struggled most to purchase homes when housing prices soared, and their homes are now losing value most quickly."

The full study, "Analyzing Affordability in Metropolitan Housing Markets: An Examination of Affordability for Middle-Income Households," can be downloaded [here](#).

The metropolitan areas featured in the study have seen little improvement in overall home affordability. The study also shows that future price reductions likely will not restore home affordability to 1990s levels and that home affordability problems will continue to plague middle-income households in the coming months and years.

"While the housing market's correction is causing house prices to decline, the fall in prices is not enough to restore housing affordability for middle-income households in many metropolitan areas," according to Celia Chen, director of housing economics, Moody's Economy.com.

"Hit harder by price increases during the housing boom, it will be harder for middle-income households to make up this lost ground during the bust. Further, given the fragile conditions in credit markets, home buyers face the added barrier of stricter qualifying standards when trying to finance a home purchase."

The study features an analysis of the Case-Shiller three-tiered indexes of home prices. It focuses on the lowest of the three price tiers, which includes most of the homes that would be purchased by middle-income households. Findings indicate that homes in this tier are the most vulnerable to changes in market conditions.

During the period of accelerated growth from 2000 to 2005, home prices in this lower tier increased significantly faster than home prices in the top two tiers, according to the study. Conversely, as home values have begun to decrease, prices in this lower tier are falling more dramatically. This effect has put middle-income households at an even greater risk of losing equity as market conditions shift.

The report shows that, since 2000, the rapid increase in house prices has had the most significant negative influence on affordability. On average, if there had been no changes in

incomes or interest rates during that time, housing affordability would have worsened by 89 percent as a result of the increase in house prices alone. Income growth since 2000 offset only about 23 percent of the erosion in affordability, and drops in interest rates had a mildly positive influence.

The report's authors created a housing affordability index in which 100 represents a market where a household earning the median income spends exactly 28 percent of their income on housing. A number below 100 represents a market where purchasing a median-priced home is unaffordable to a household earning the median income.

Of the 40 Case-Shiller markets considered in the report, below are the 20 with the greatest affordability gap for middle-income households:

1. San Francisco, Calif. - 37.7
2. Los Angeles, Calif. - 46.9
3. Santa Ana-Anaheim-Irvine, Calif. - 48.6
4. San Jose, Calif. - 49.6
5. Santa Rosa, Calif. - 51.9
6. San Diego, Calif. - 55.3
7. Ventura, Calif. - 55.7
8. Miami, Fla. - 55.7
9. Oakland, Calif. - 56.6
10. Bridgeport-Stamford, Conn. - 64.3
11. Seattle, Wash. - 68.8
12. Riverside, Calif. - 69.9
13. New York, N.Y. - 72.1
14. Peabody, Mass. - 75.1
15. Cambridge, Mass. - 76.2
16. Fort Lauderdale, Fla.-76.2
17. Boston, Mass. - 76.7
18. Sacramento, Calif. - 77.5
19. Portland, Ore. - 77.9
20. Chicago, Ill. - 87.3