



Rent Stress in Louisiana

a research memo prepared for the
Louisiana Housing Corporation

October 8, 2014

LSU Public Administration Institute *Project for Community Engagement*

LSU

E. J. Ourso College of Business
Public Administration Institute



As noted in the Housing Needs Assessment of June 2014, a central policy challenge facing Louisiana is rental affordability. This problem is not unique to Louisiana. Nationally, the demand for rental units has increased sharply across most age groups over the past decade, and supply has been slow to match it.ⁱ

The problem is well known: increasingly renters are paying in excess of 30 percent of their income on housing expenses. The Secretary of HUD, Shaun Donovan, claims the present period the “worst rental affordability crisis that this country has ever known.”ⁱⁱ

Addressing this problem through policy instruments requires a firm understanding of the nature of the problem, and this culminates in the development of an appropriate measurement of “rental affordability”. This measure must somehow incorporate the systemic quality of rental costs to households. An appropriate measurement of rental affordability will capture the effects of high rents on household decisions and opportunities. Briefly we will examine three alternative methods to determining affordability.

Conventional Measurement: The threshold rule

The standard measurement of rental unaffordability considers any household that spends more than 30 percent of its pre-tax income on housing as having an affordability problem. Housing is considered “affordable” to a household if the rent (including utilities) is no more than 30% of its pre-tax income. Households spending more than 30 percent are labeled “cost burdened” or “rent-stressed,” and those spending more than 50 percent are labeled “severely cost burdened” or “severely rent-stressed

incomes between \$20,000 and \$35,000. In total, 94 percent of rent-stressed households have household incomes less than \$35,000.

This way of measuring housing affordability—in terms of the share of income spent on housing—has come to shape our collective views of how serious, how widespread, and for whom housing affordability is a problem. Most now unquestioningly use these standards and construe housing affordability as beginning and ending with how large housing costs are as a fraction of household incomes.ⁱⁱⁱ

The 30% and 50% rules are simple to calculate and allow policy makers an easily framed concept for understanding rental affordability. What such a measurement fails to capture are the tradeoffs families make to afford rent. The measurement of tradeoffs has influenced the ongoing discussion of affordability. A family may live in crowded conditions or in a dilapidated unit to reduce the share of income spent on rent, a household may cut back on food expenditures, forego health care expenses or important prescription drugs, or underinvest in retirement. Households that are severely rent burdened spend an estimated \$130 less on food a month and spend significantly less on healthcare and retirement savings.^{iv} These tradeoffs are issues of affordability, but an exclusive focus on the share of income spent on rent obstructs a broader discussion on the behavioral and decisional effects of rent stress.

Alternative methods to measuring affordability: Alternative methods to measuring affordability fall under two types: supply-based variations and residual income approaches.^v

In the 2014 HNA, the threshold we used was a GRAPI of 35 for what we considered “rent-stressed” households. A closer consideration of this category reveals some interesting insights. Of those we designated rent stressed, we discovered that statewide more than 60 percent of such households expend more than 50 percent of their gross household income on gross rent. Put otherwise, the vast majority of rent stressed household are actually severely rent stressed (with a GRAPI over 50).

Another important consideration was the household income. The Census ACS data categorizes gross rent by household income. Of the rent-stressed households, 31 percent have household incomes less than \$10,000, 39 percent have incomes between \$10,000 and \$20,000, and 24 percent have household

ⁱ Joint Center for Housing Studies. (2013). America’s Rental Housing: Evolving Market and Needs. Joint Center for Housing Studies, Graduate School of Design [and] John F. Kennedy School of Government, Harvard University.

ⁱⁱ Diana Olick. (December 9, 2013). Skyrocketing rents hit ‘crisis’ levels. In CNBC. Retrieved October 2, 2014, from <http://www.cnbc.com/id/101258649>.

ⁱⁱⁱ Belsky, E. S., Goodman, J., & Drew, R. B. (2005). Measuring the nation’s rental housing affordability problems. Joint Center for Housing Studies, Graduate School of Design [and] John F. Kennedy School of Government, Harvard University.

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^{vi} *ibid* pg 15

Supply-Based Approaches

Supply based approaches focus on available and affordable rental stock as a baseline from which to perform calculations. The housing wage approach compares the minimum wage necessary to afford a quality rental. The measurement is based on the overall distribution of rental costs for units in an [area](#).^{vi} Based on the HUD Fair Market Rent (FMR), the housing wage approach measures the prices of the 40th percentile of recently rented units in an area. The lowest FMR in Louisiana for a 2-bedroom unit is \$627 a month. For such a unit to be affordable, a household must earn about \$25,000 a year, or a bit more than \$12 an hour. A person earning the minimum wage would have to work 67 hours a week to afford the lowest fair market rent in the

state. The highest FMR in the state is in the New Orleans Metro Area, where a 2-bedroom unit costs \$950 a month. For a person earning the minimum wage to afford the FMR in this area, she would have to work over 100 hours a week. For such a unit to be considered affordable (a GRAPI no more than 30), a household would have to earn \$18.27 per hour or \$38,000 per annum.^{vii}

A second supply-based approach, median ratios comparison approach (MRCA), uses a similar methodology as the housing wage method. The MRCA uses the ratio of the median gross rent in an area to the median household income in an area to assess affordability.^{viii} One could also calculate the income required to make the median gross rent affordable. This measure allows policymakers to judge the affordability of rentals in the area.

A share of income calculation is still an integral component of both the median ratios comparison approach and the housing wage approach. Both rely in some way on the 30% rule but do not necessarily incorporate the quality and age of the rental stock or the strategic tradeoffs mentioned previously.

Residual Income Approach

The residual income approach also uses a share of income formula but does so in reverse application. Instead of measuring the proportion of income spent on housing to determine affordability, the residual income method looks to measure the proportion of non-housing expenditures relative to income to determine affordability. This means that a household has a housing affordability problem if it cannot adequately address additional expenditures after paying for housing. Thus, the appropriate indicator of the relationship between housing costs and incomes is the difference or residual income left after paying for housing.^{ix}

Such a measure directs attention to the affordability of not only housing but also other living necessities. The RIA moves in the direction of a comprehensive affordability metric, but with such comprehension comes a great deal more analytical burden. Essentially, the use of RIA requires policymakers to consider the expenses of other goods and services.

How one measures a problem dictates how one frames solutions. It is imperative that such considerations are at the core of the policy discussion about rent-stress in the state.

Rent Stress in Louisiana

As a follow-up to the 2014 HNA, we have investigated the con-

ditions of rent stress based upon the available data. As we have done in previous analyses, we have divided the state in Regional Labor Market Areas and presented the data through maps.

Two of the key concerns for us initially were how the rent-stress is distributed based on income and how it is distributed within RLMAs. We focused on the effects on low-income earners by presenting the data in a way that highlights the burden that increasing rents will have on them, but this is only based on data.

^{vii} These calculations were made using the Housing Wage Calculator available through the National Low Income Housing Coalition. see <http://nlihc.org/library/wagecalc>. The 2015 HUD Fair Market Rent is calculated based on the 2012 ACS survey that includes 2-bedroom standard quality units. The rents are 40th percentile rates, meaning the vast majority of units will cost more than the FMR.

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^{ix} Stone, M. E. (2006). What is housing affordability? The case for the residual income approach. *Housing policy debate*, 17(1), 163

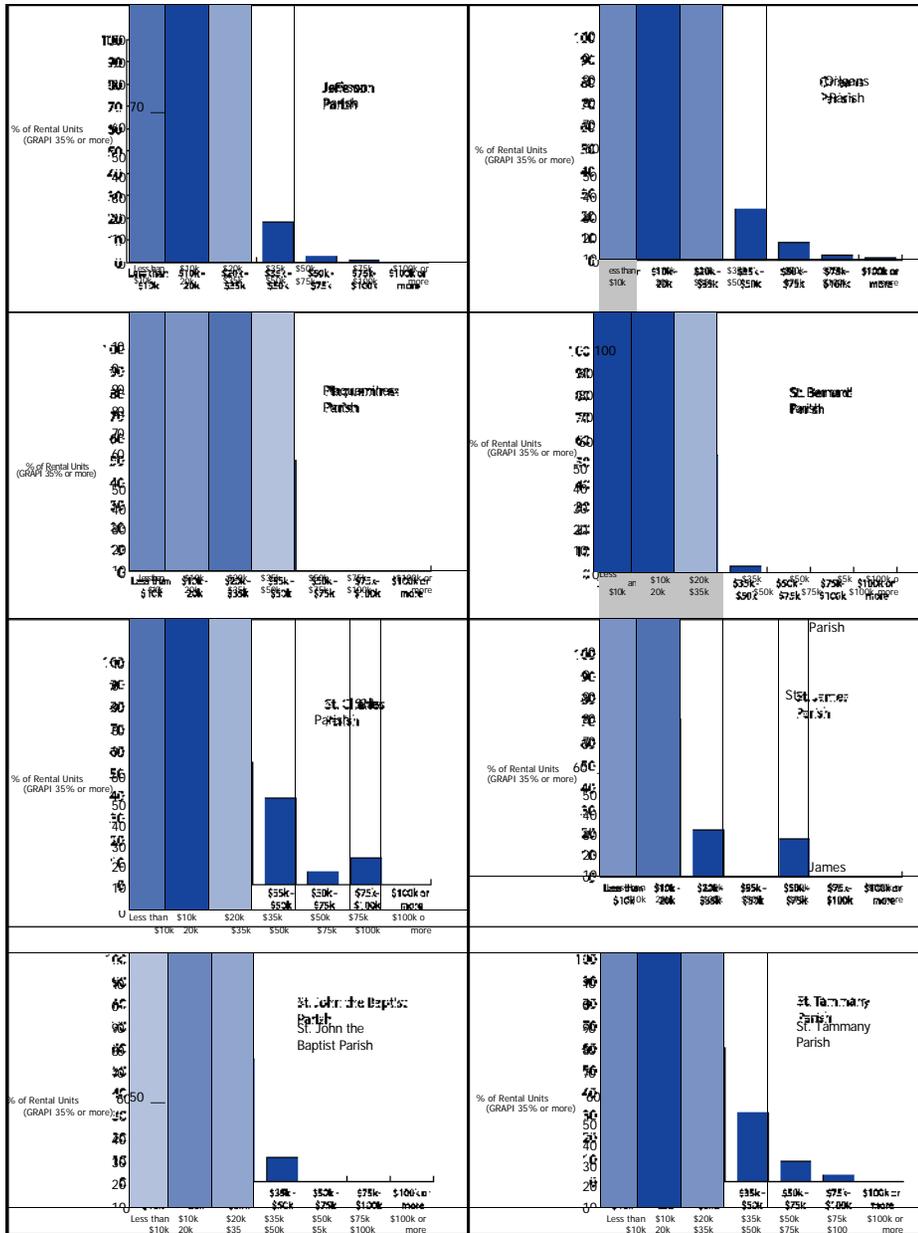
Louisiana Regional Labor Market Area 1

New Orleans

Jefferson / Plaquemines / St. Charles / St. Tammany / Orleans / St. Bernard / St. James / St. John the Baptist



RLMA ¹



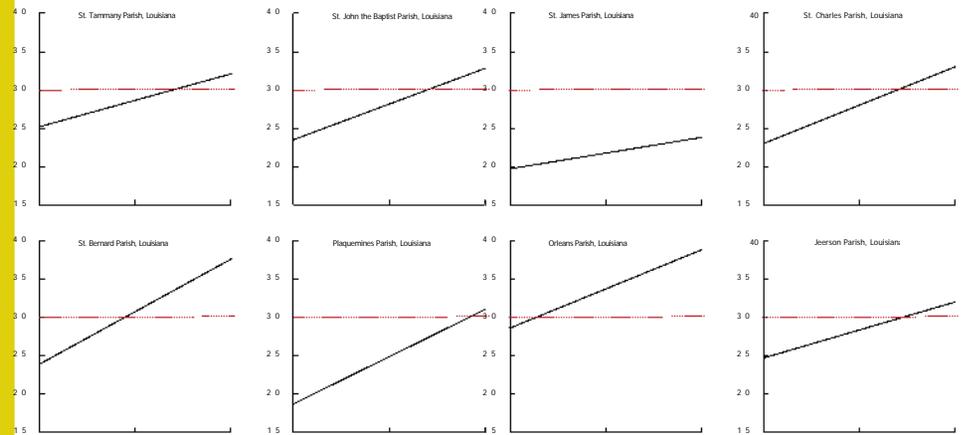
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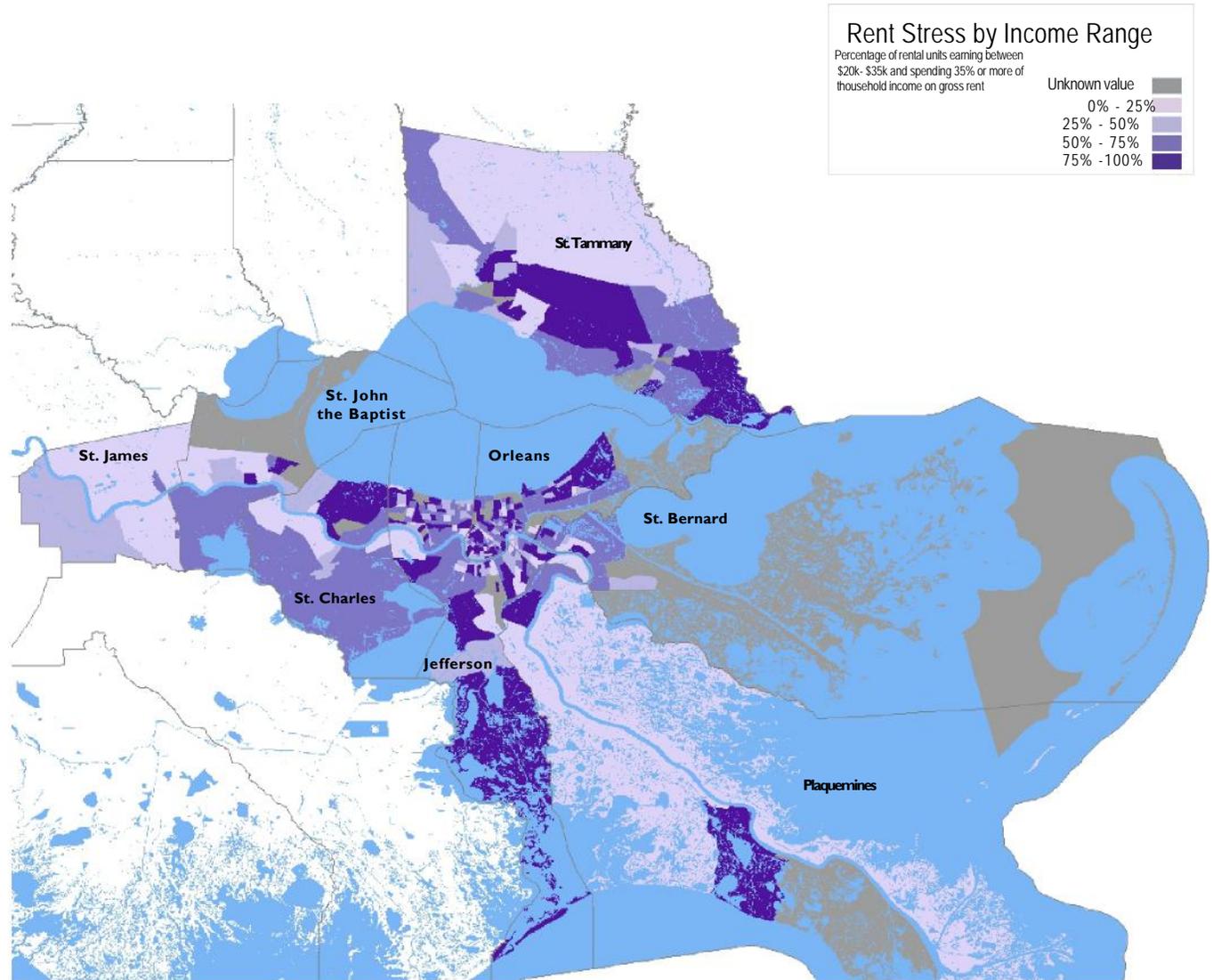
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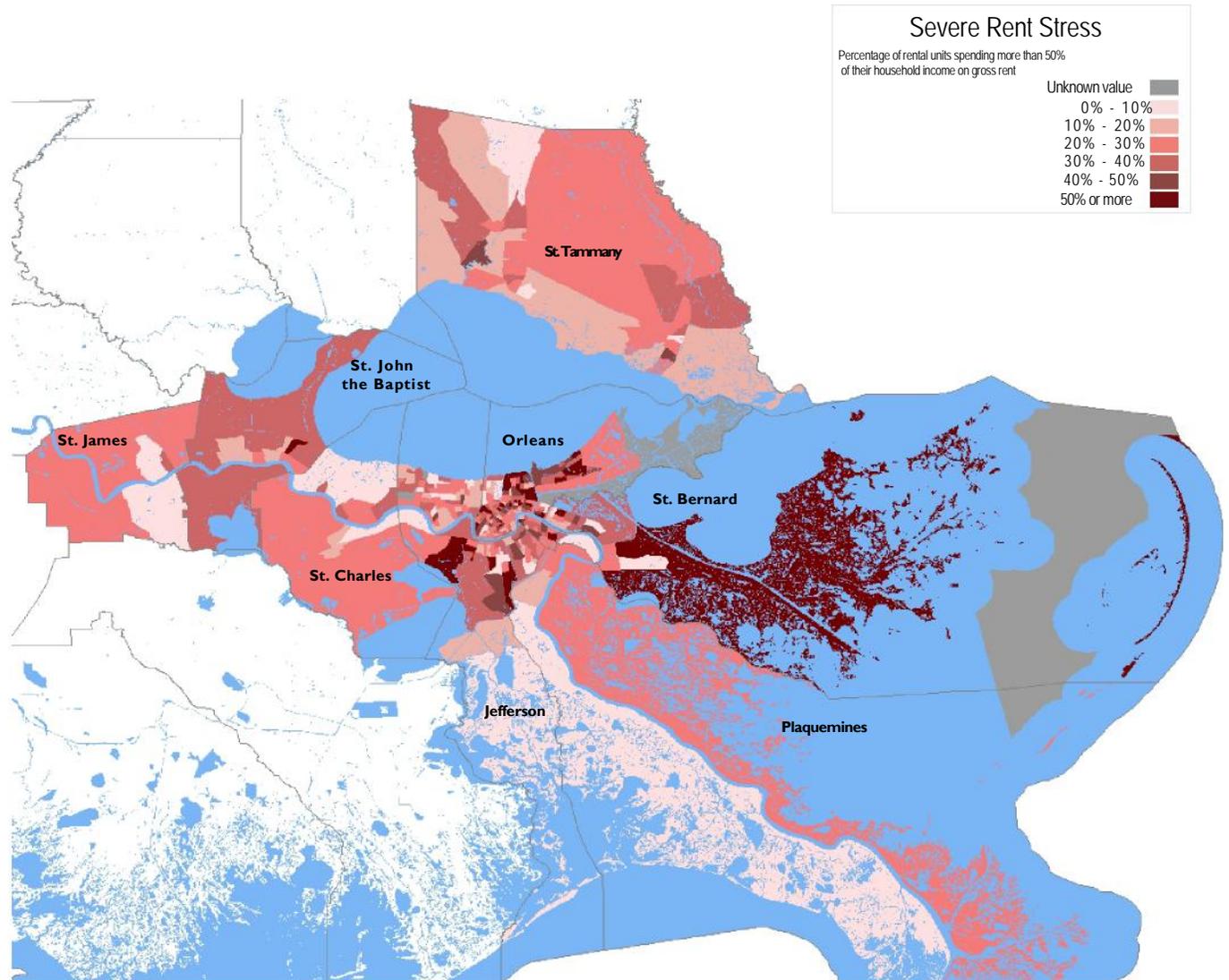
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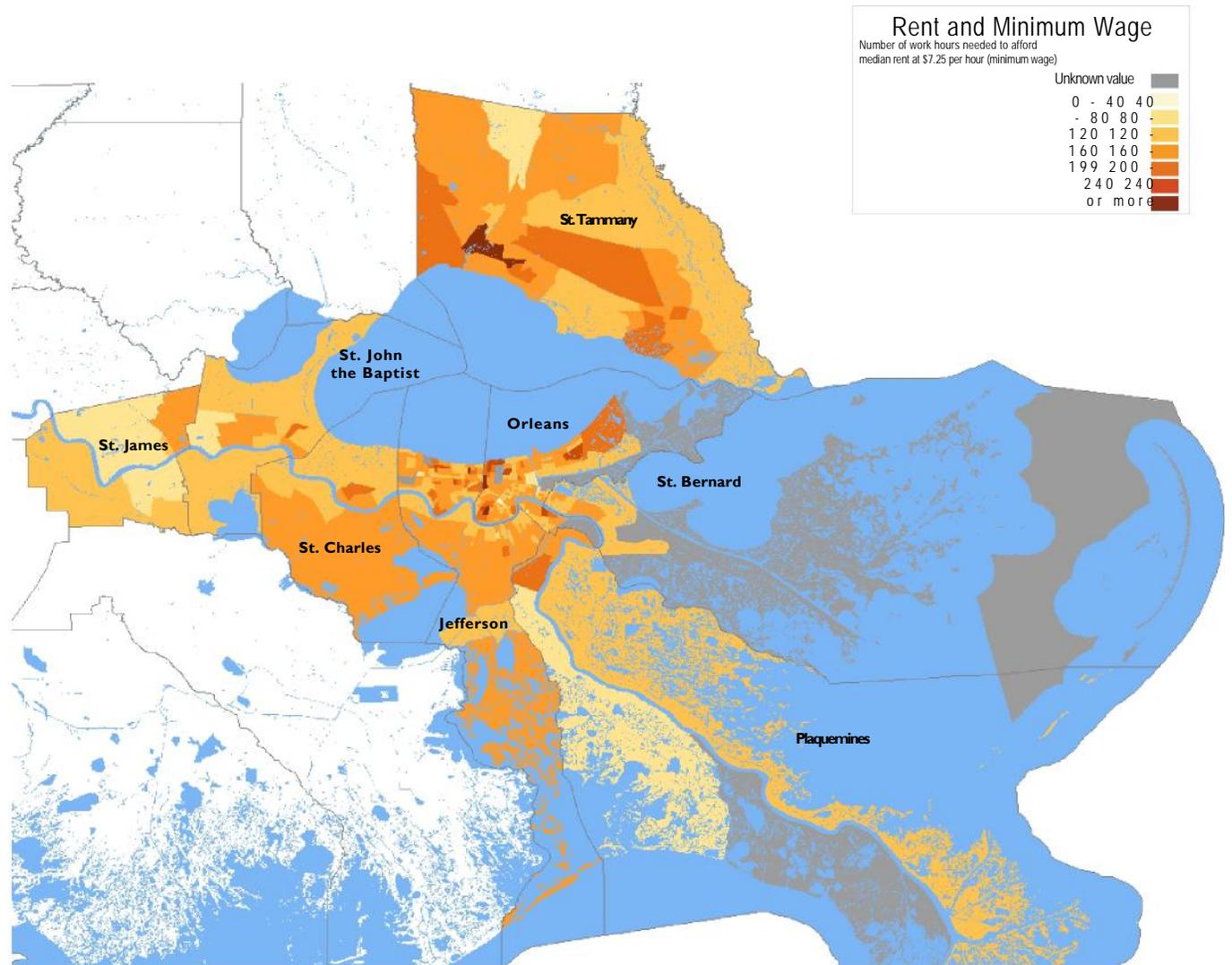
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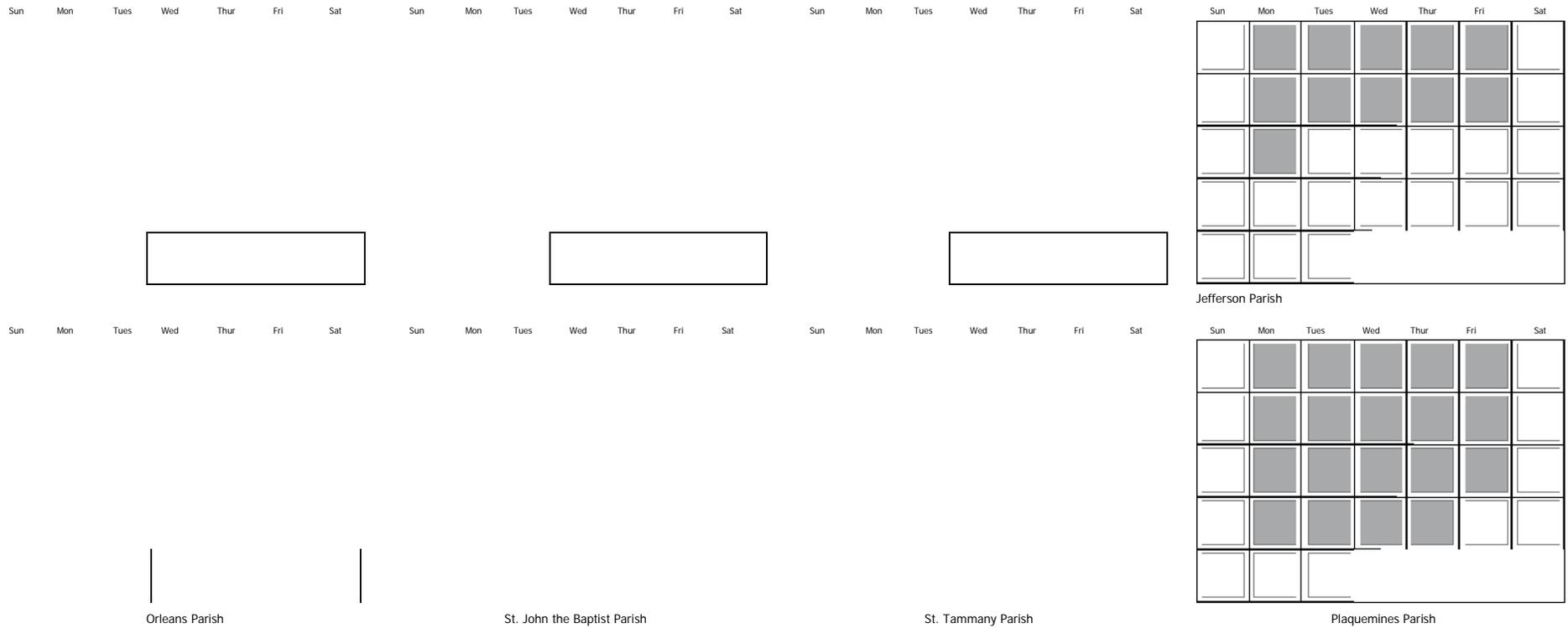
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In Louisiana, a person earning the minimum wage working 40 hours a week without taking any unpaid leave (a total of 2,080 hours a year) would earn slightly more than \$15,000 annually. Such earners are typically renters. This map illustrates how many hours per month a person earning the minimum wage would have to work to afford the median rent in a given tract.



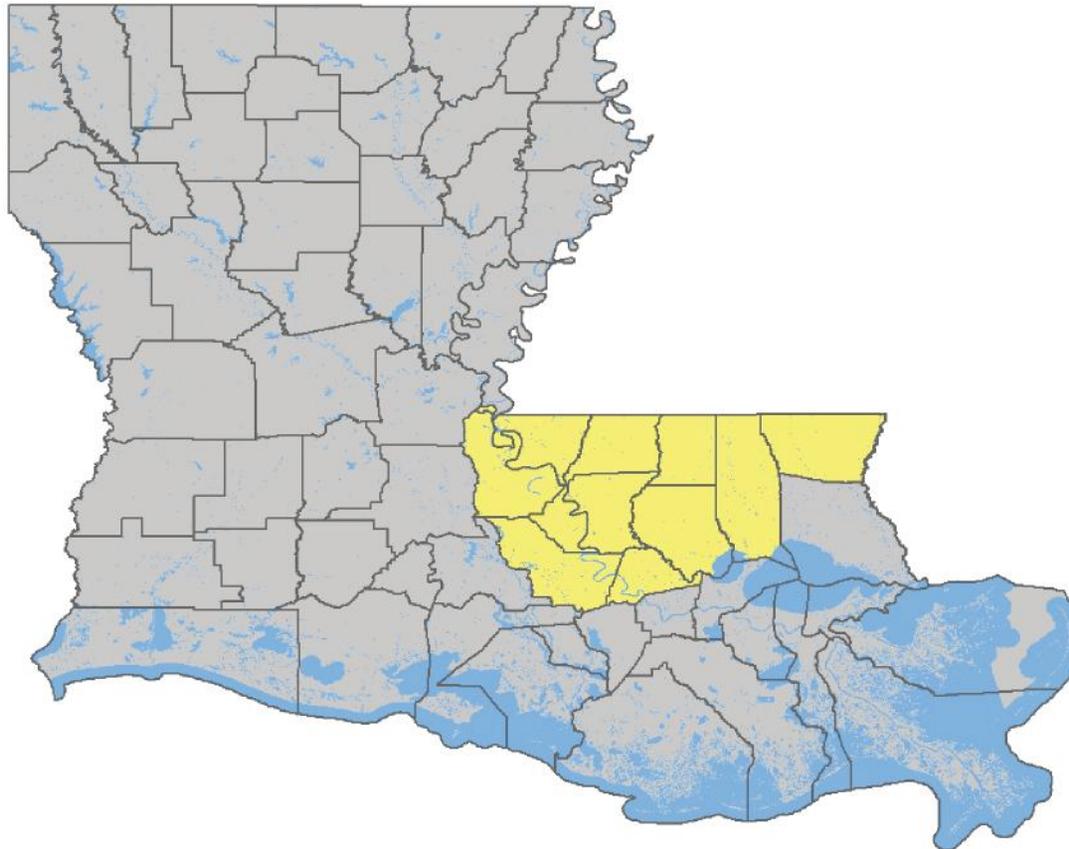
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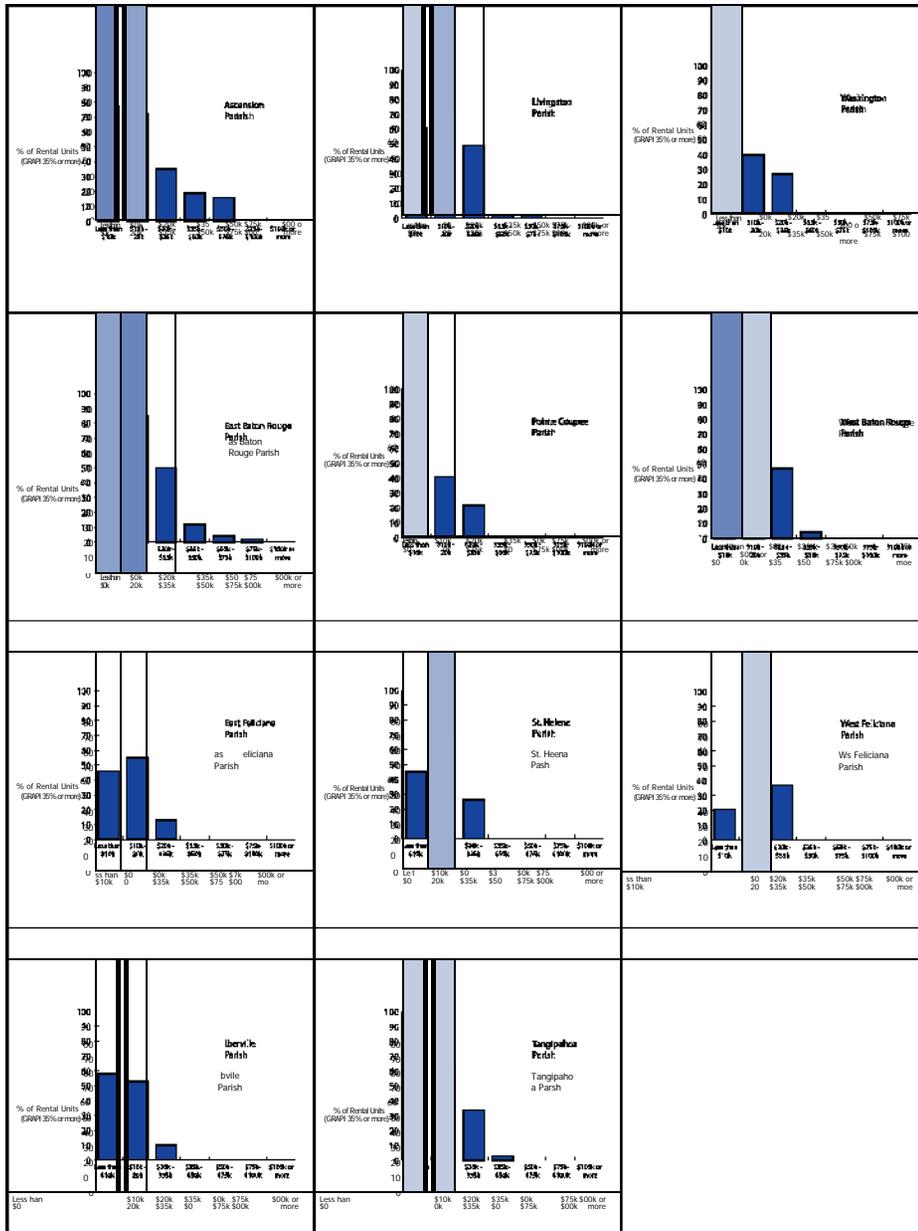
Louisiana Regional Labor Market Area 2

Baton Rouge

Ascension / Iberville / St. Helena / Livingston / Washington / West Feliciana / East Baton Rouge / East Feliciana / Pointe Coupee / West Baton Rouge / Tangipahoa



RLMA 2



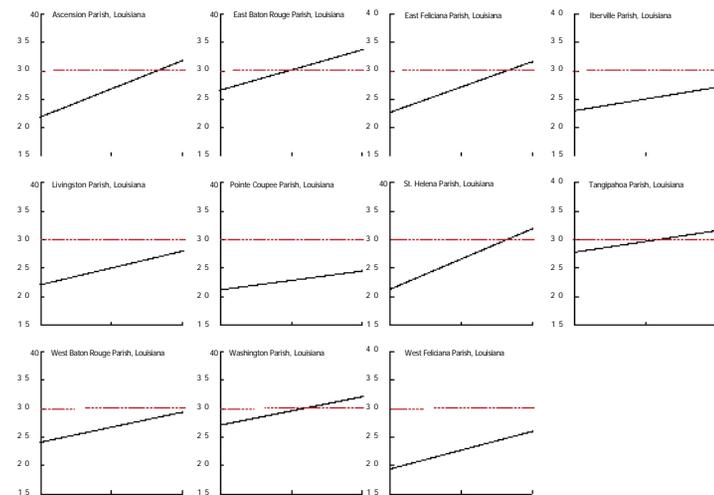
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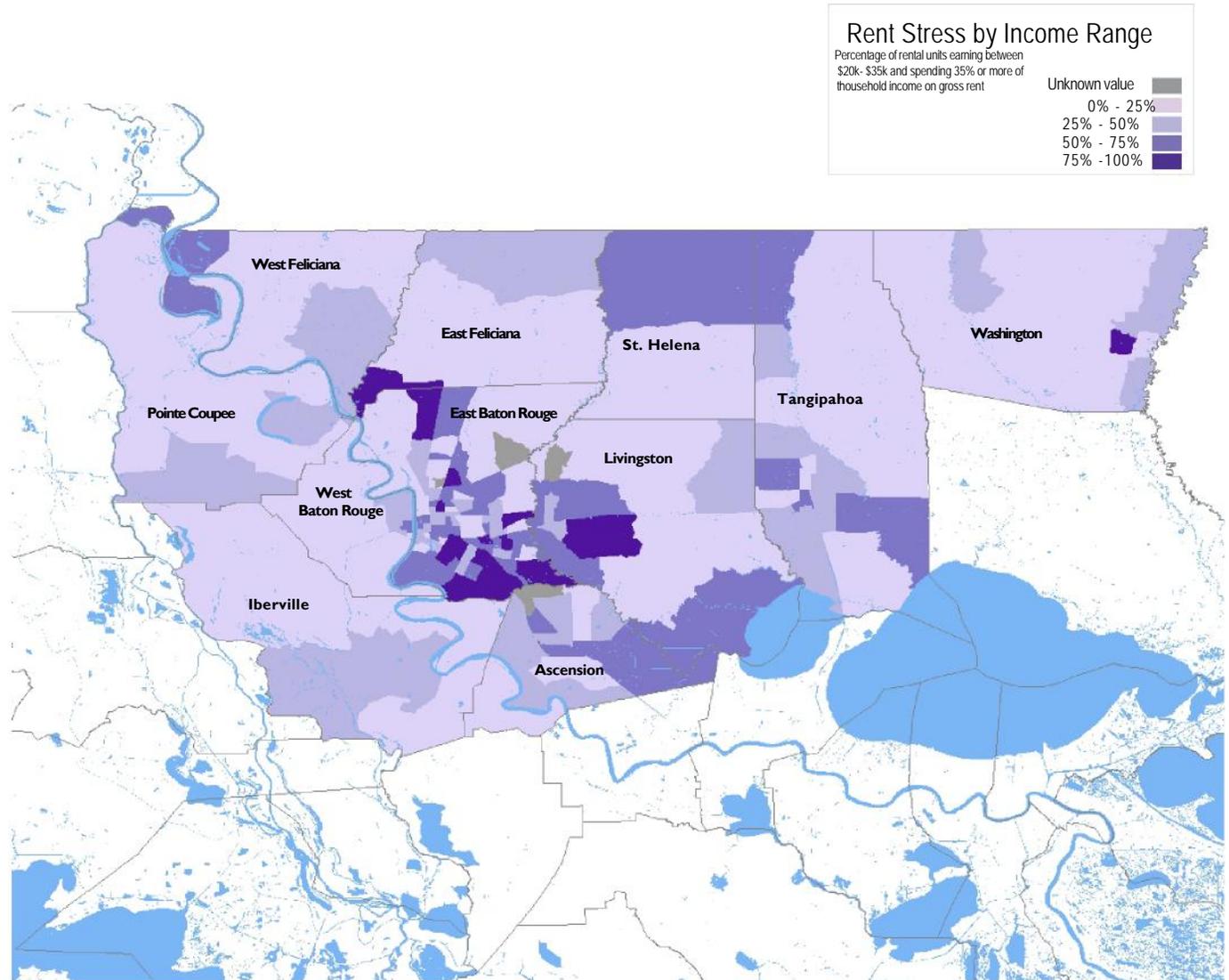
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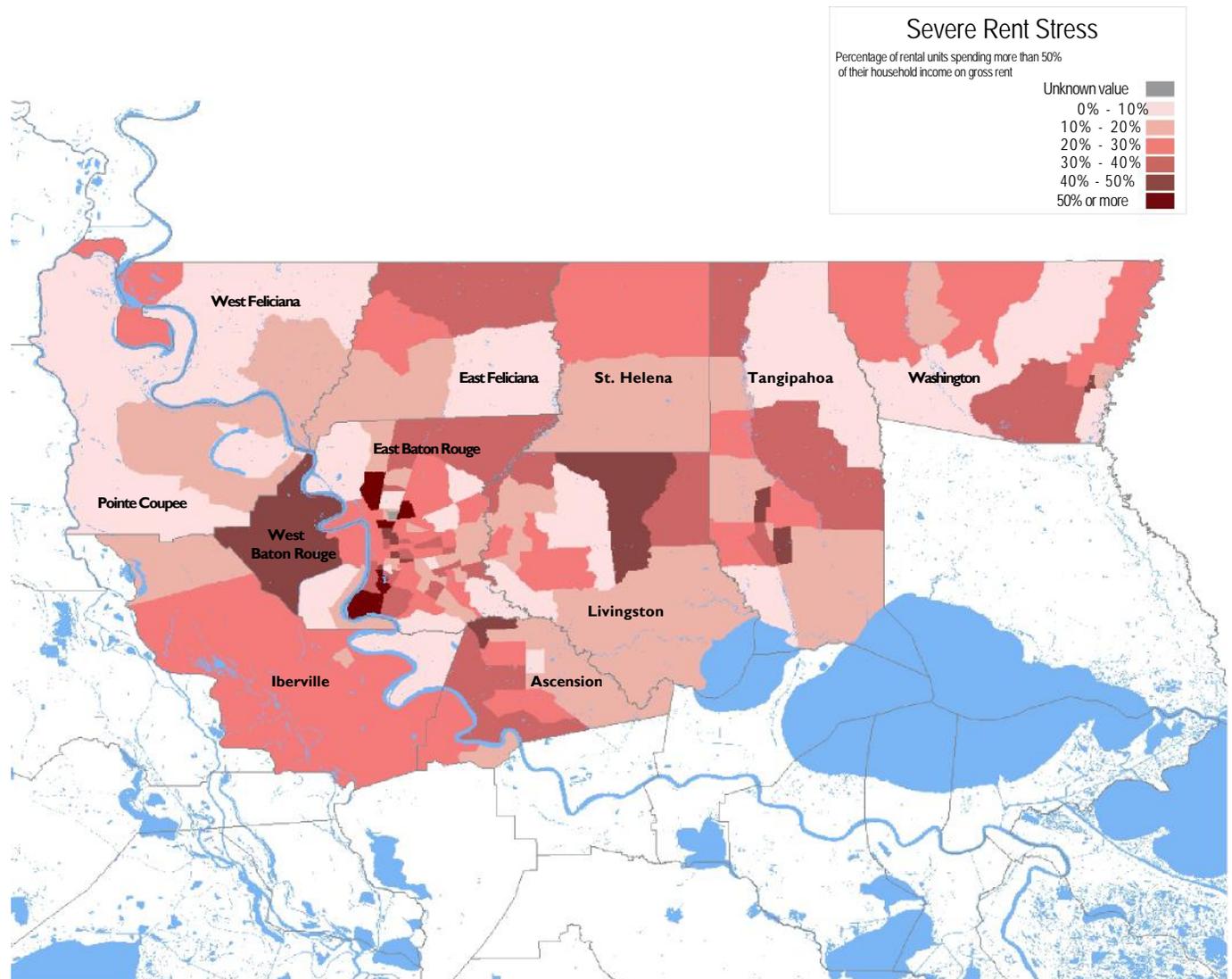
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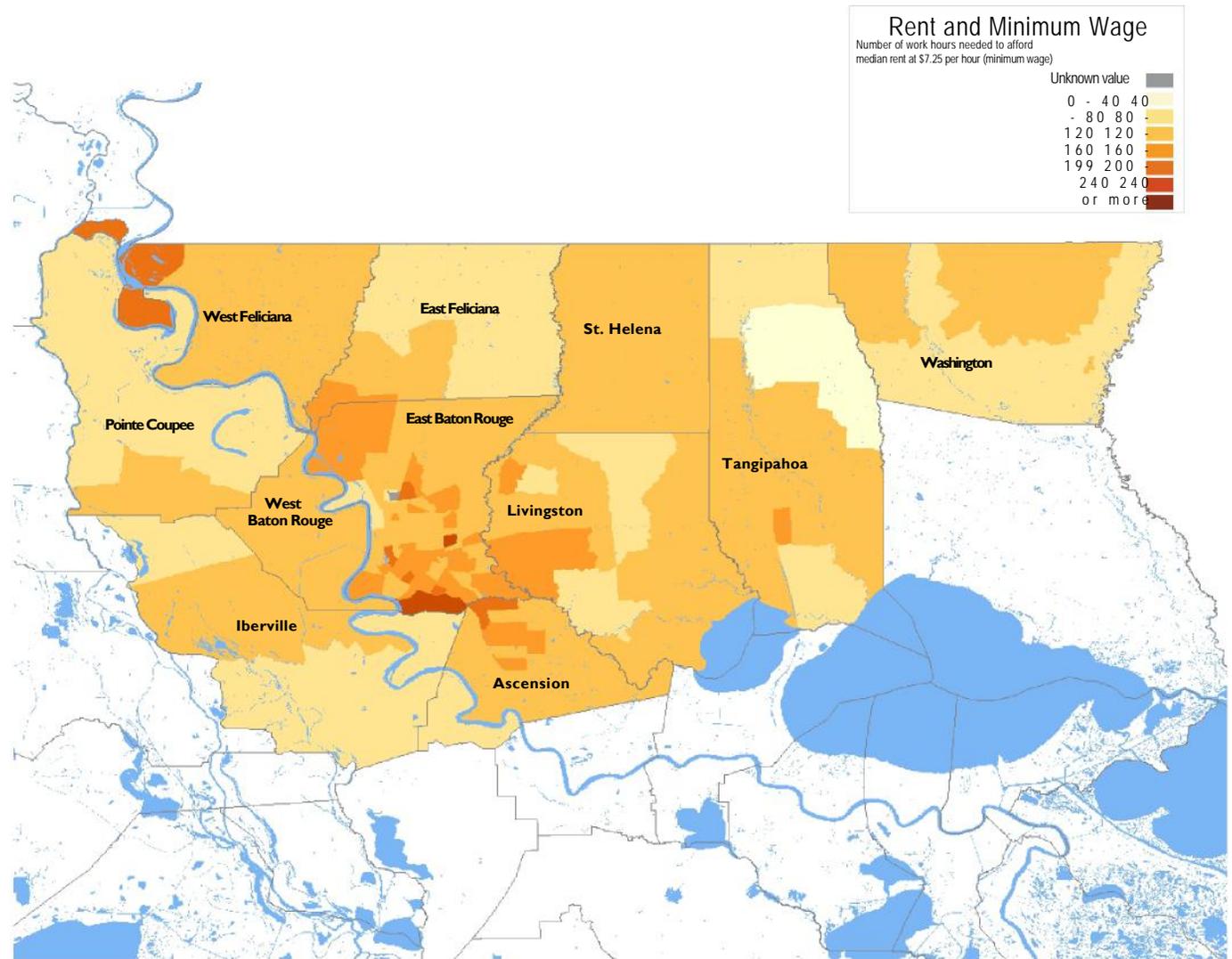
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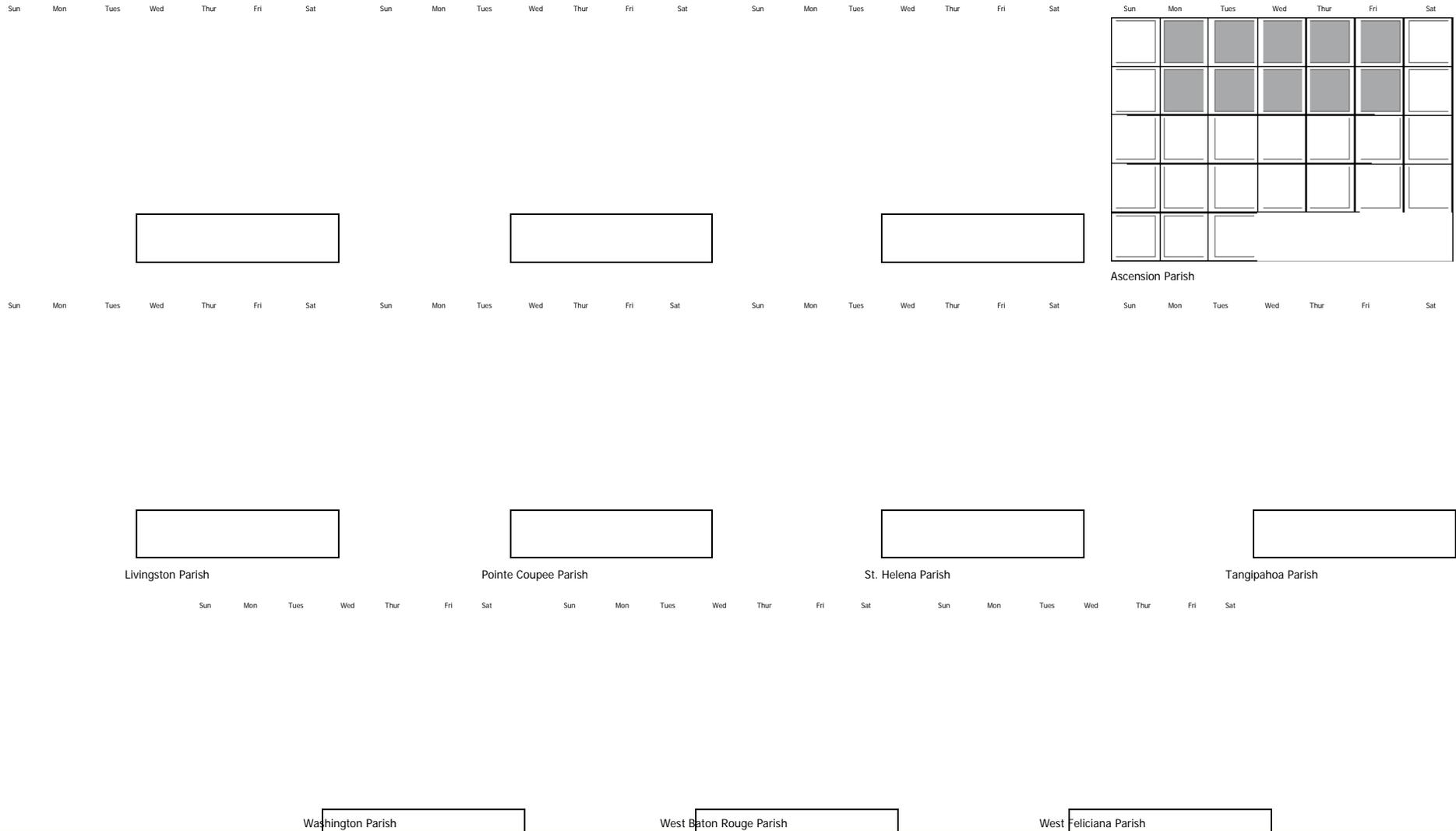


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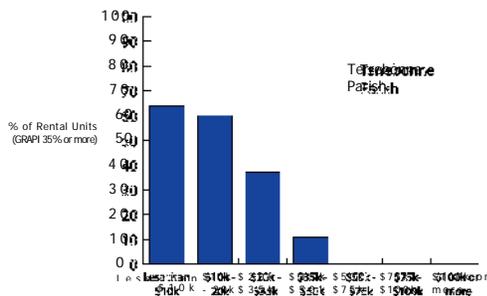
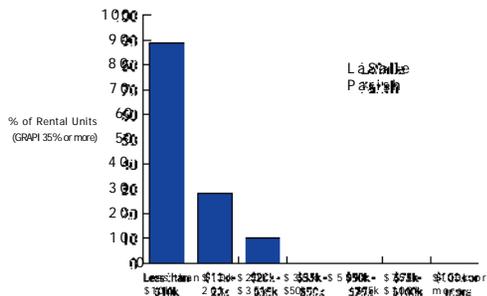
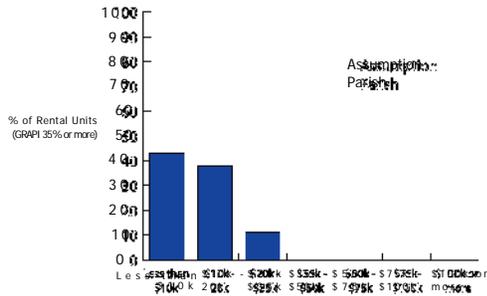
Louisiana Regional Labor Market Area 3

Houma-Thibodeaux

Assumption / Lafourche / Terrebonne



RLMA 3



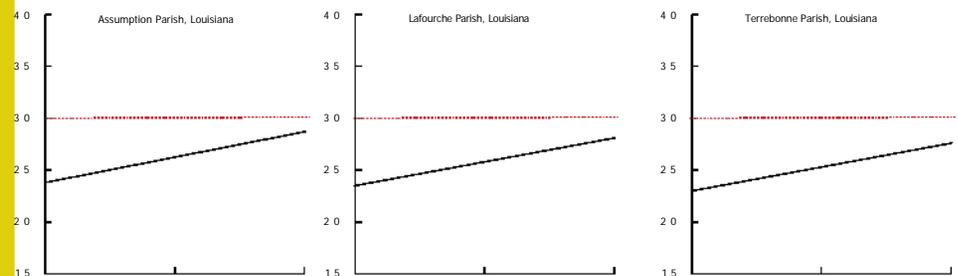
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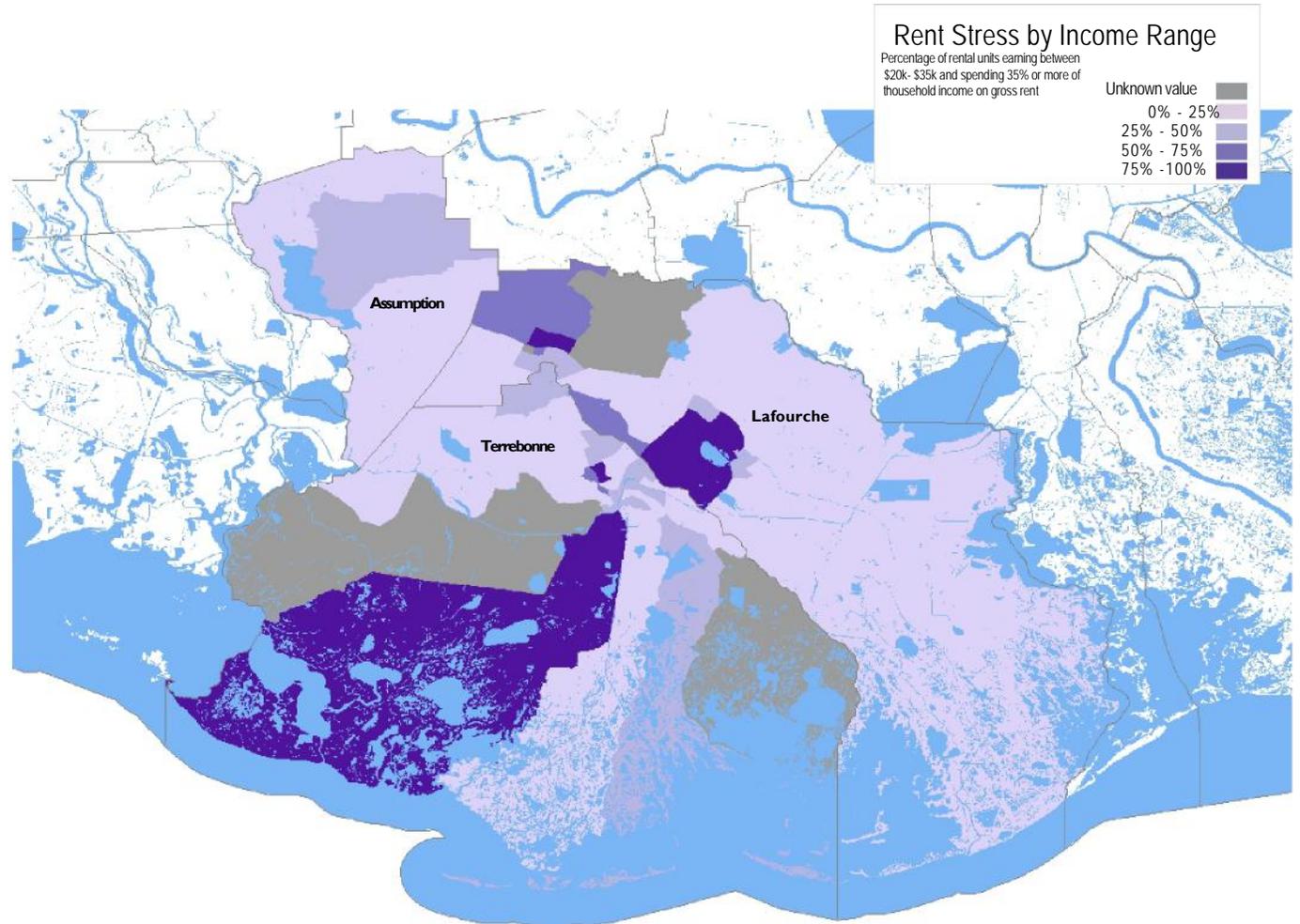
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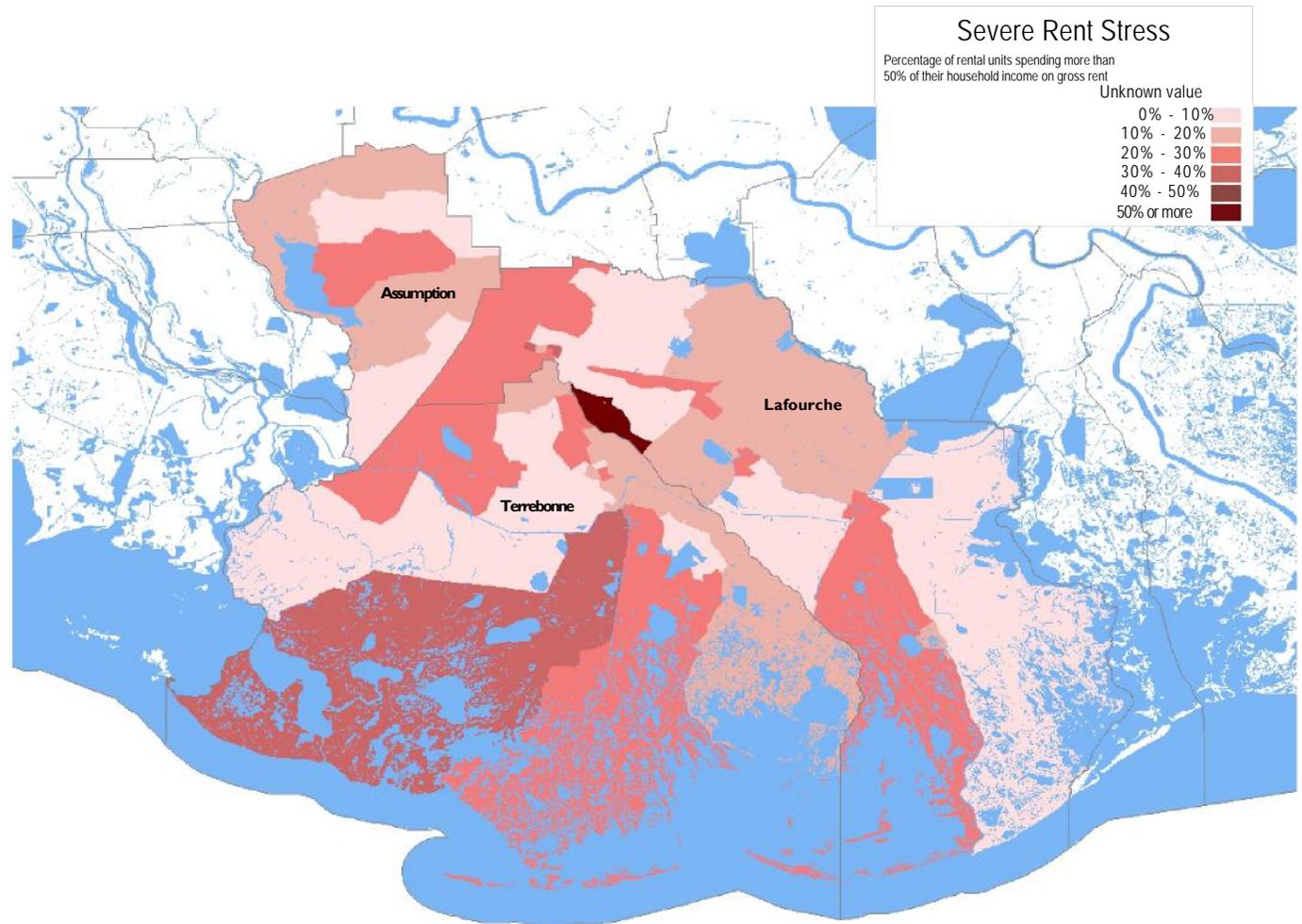
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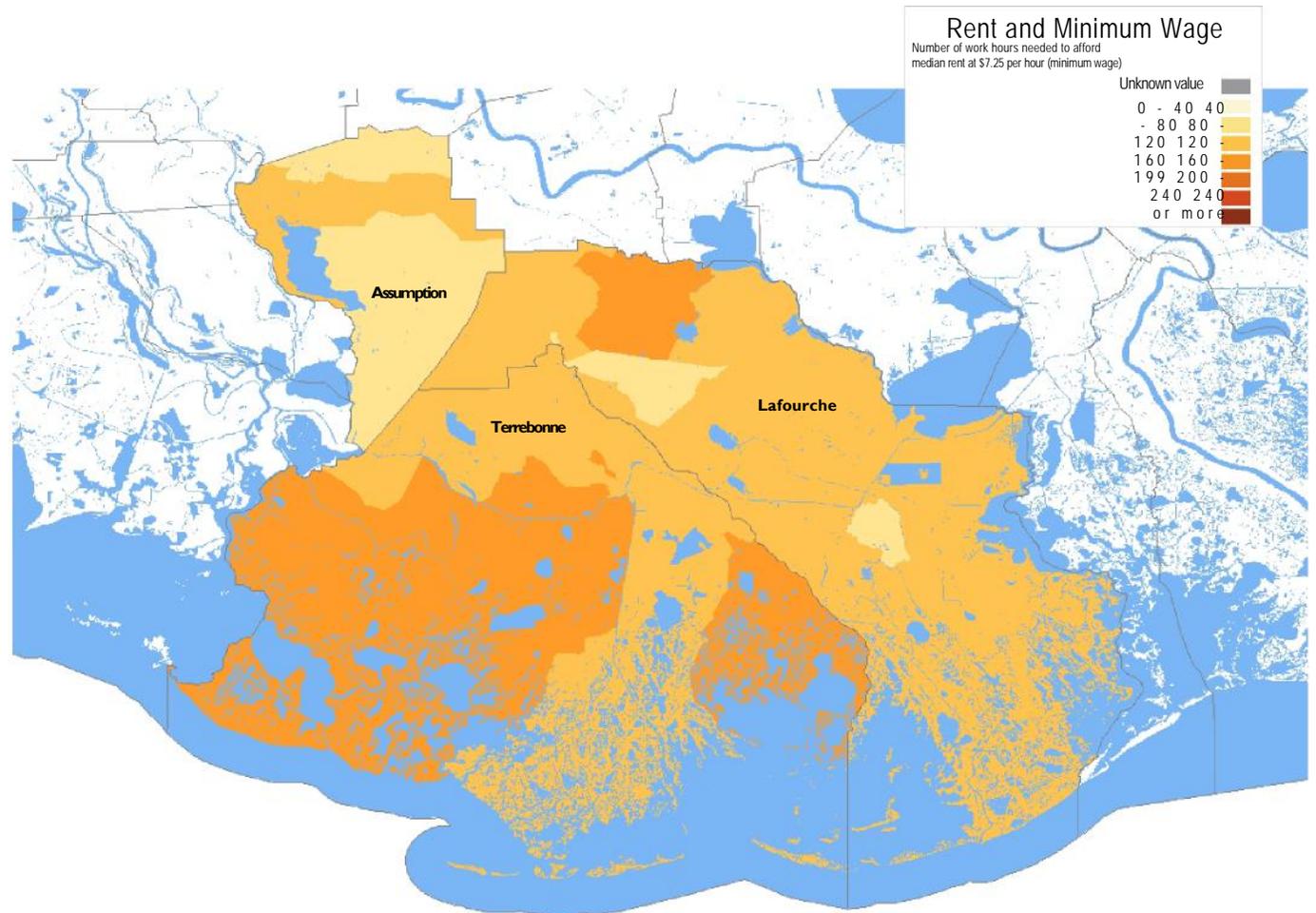
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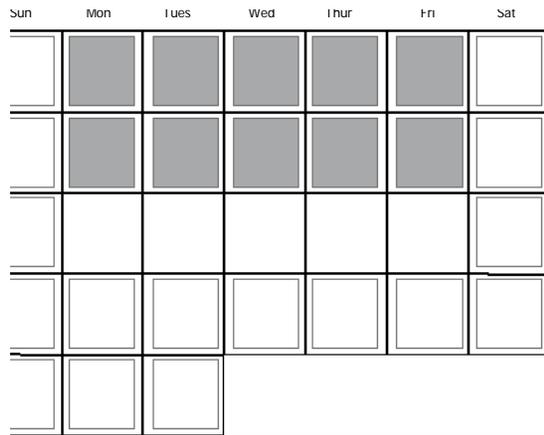


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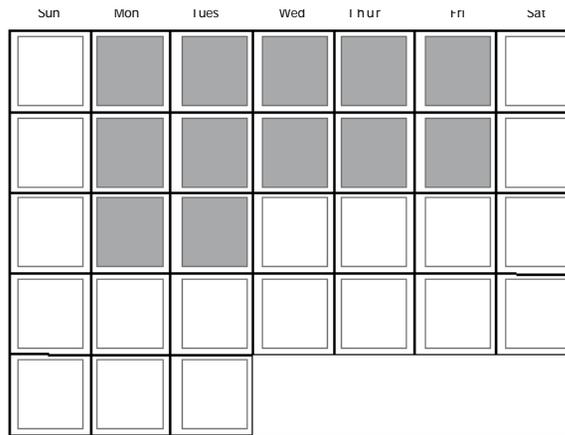


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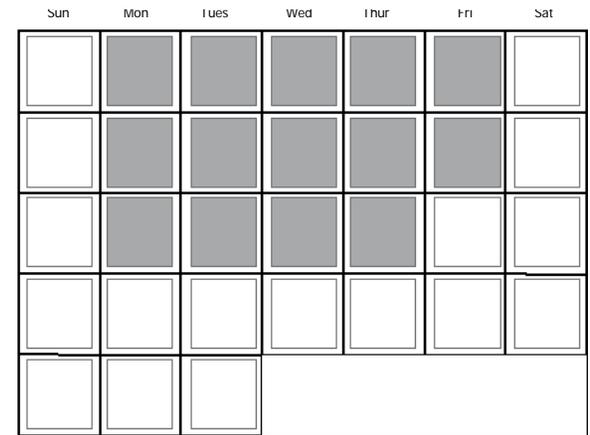
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Assumption Parish



Lafourche Parish



Terrebonne Parish

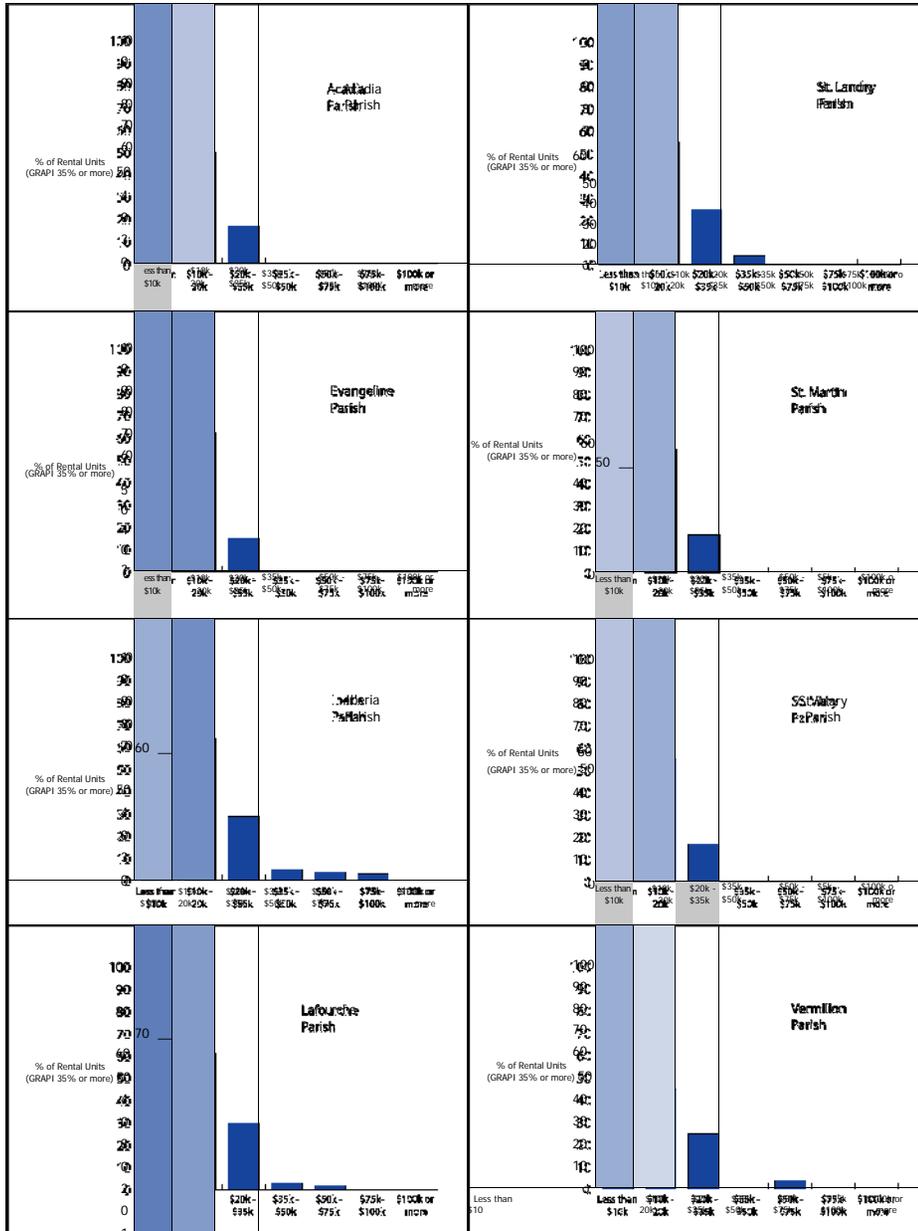
Louisiana Regional Labor Market Area 4

Lafayette

Acadia / Iberia / St. Landry / St. Mary / Evangeline / Lafayette / St. Martin / Vermilion



RLMA ⁴



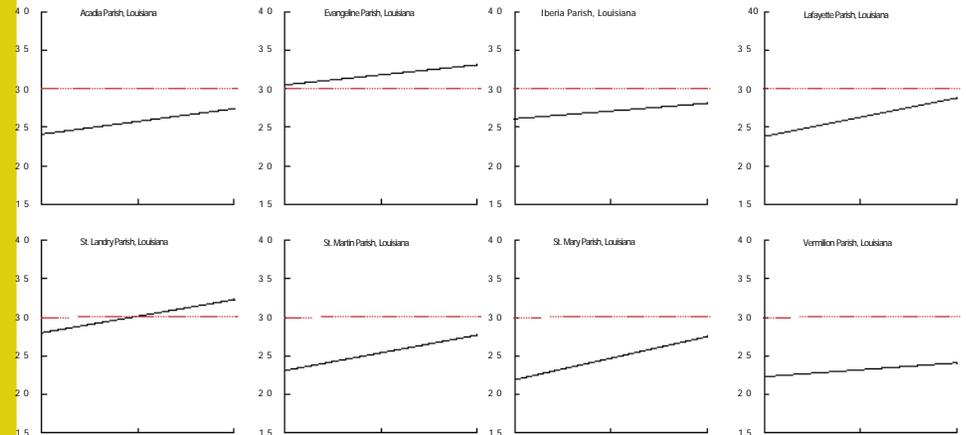
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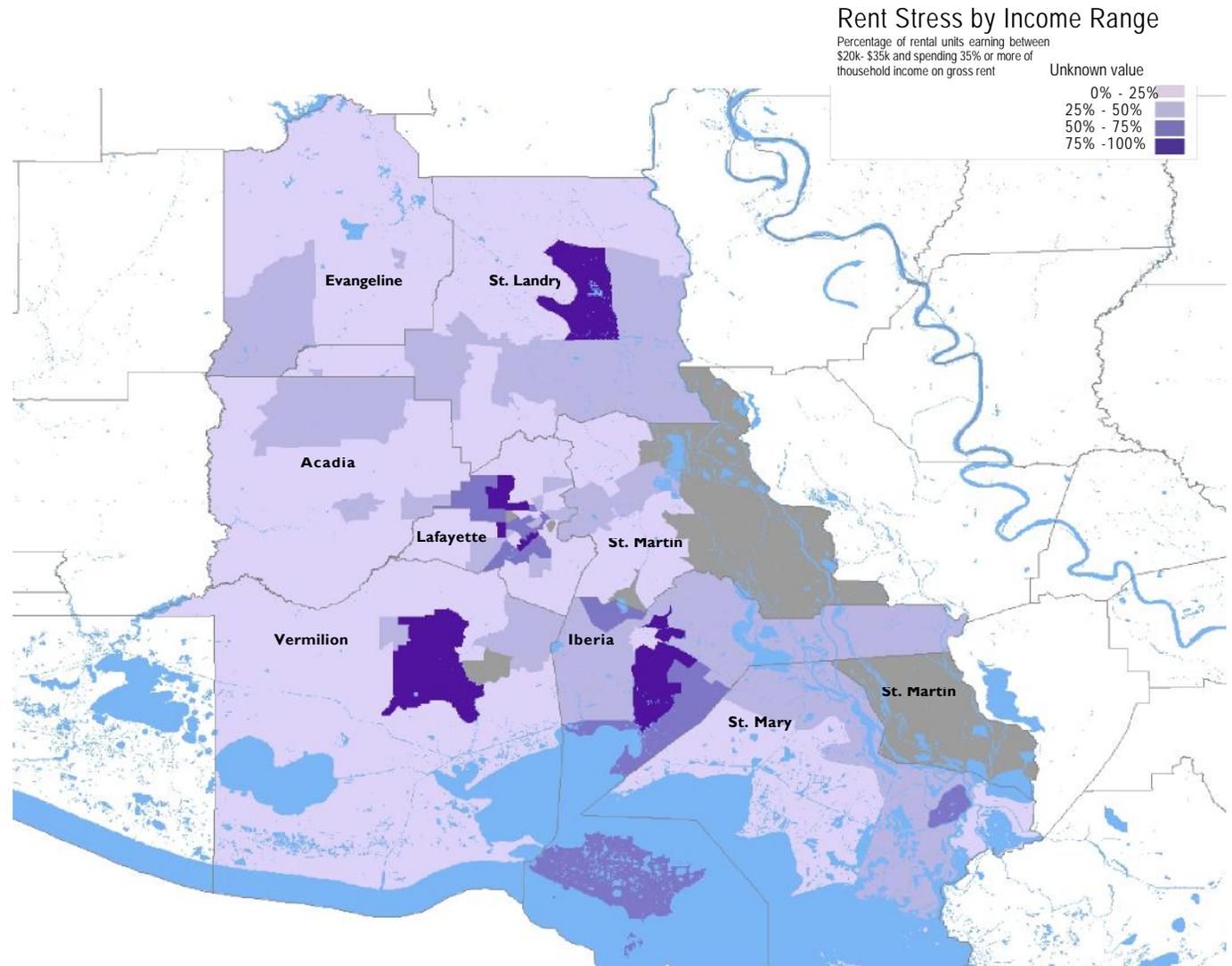
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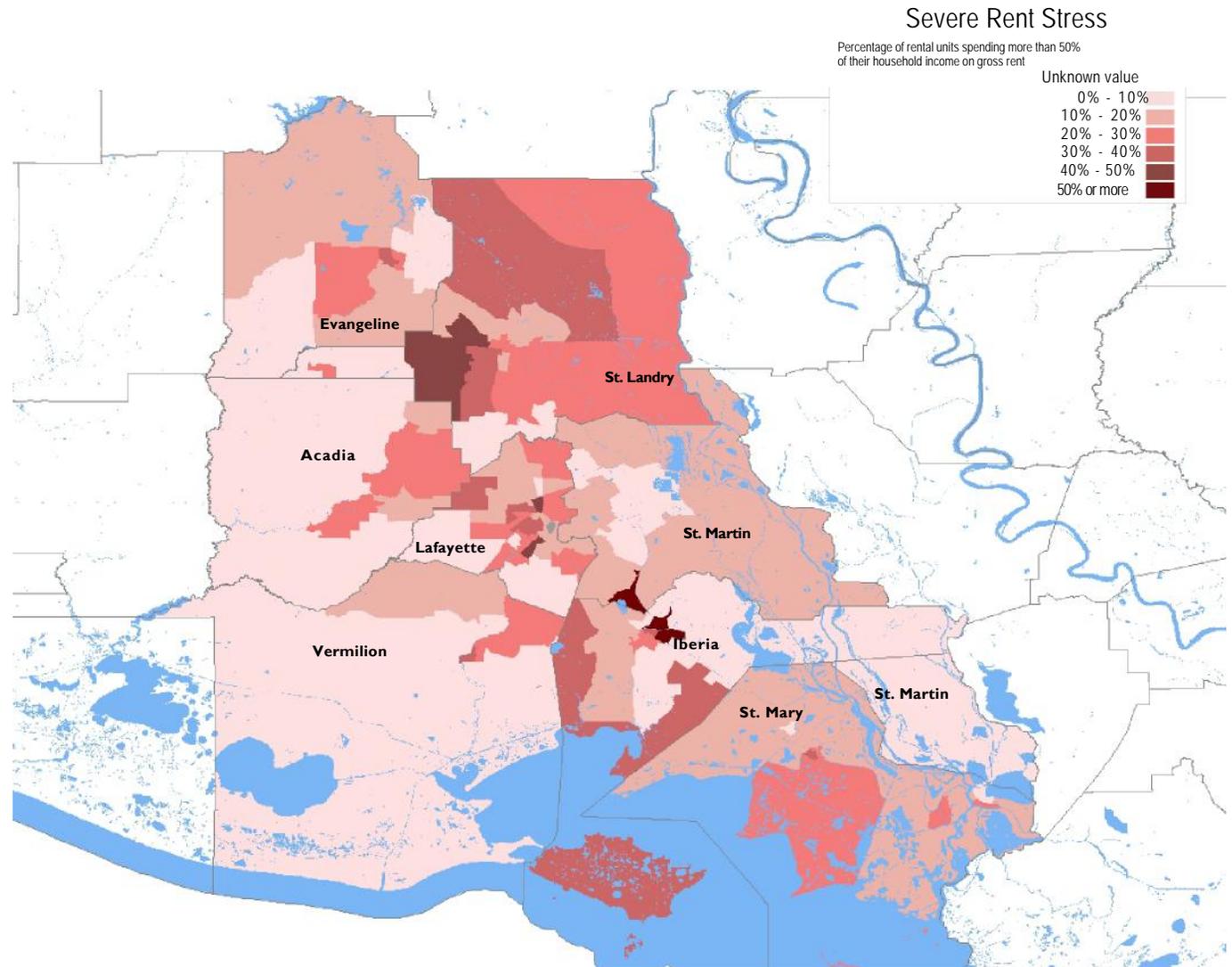
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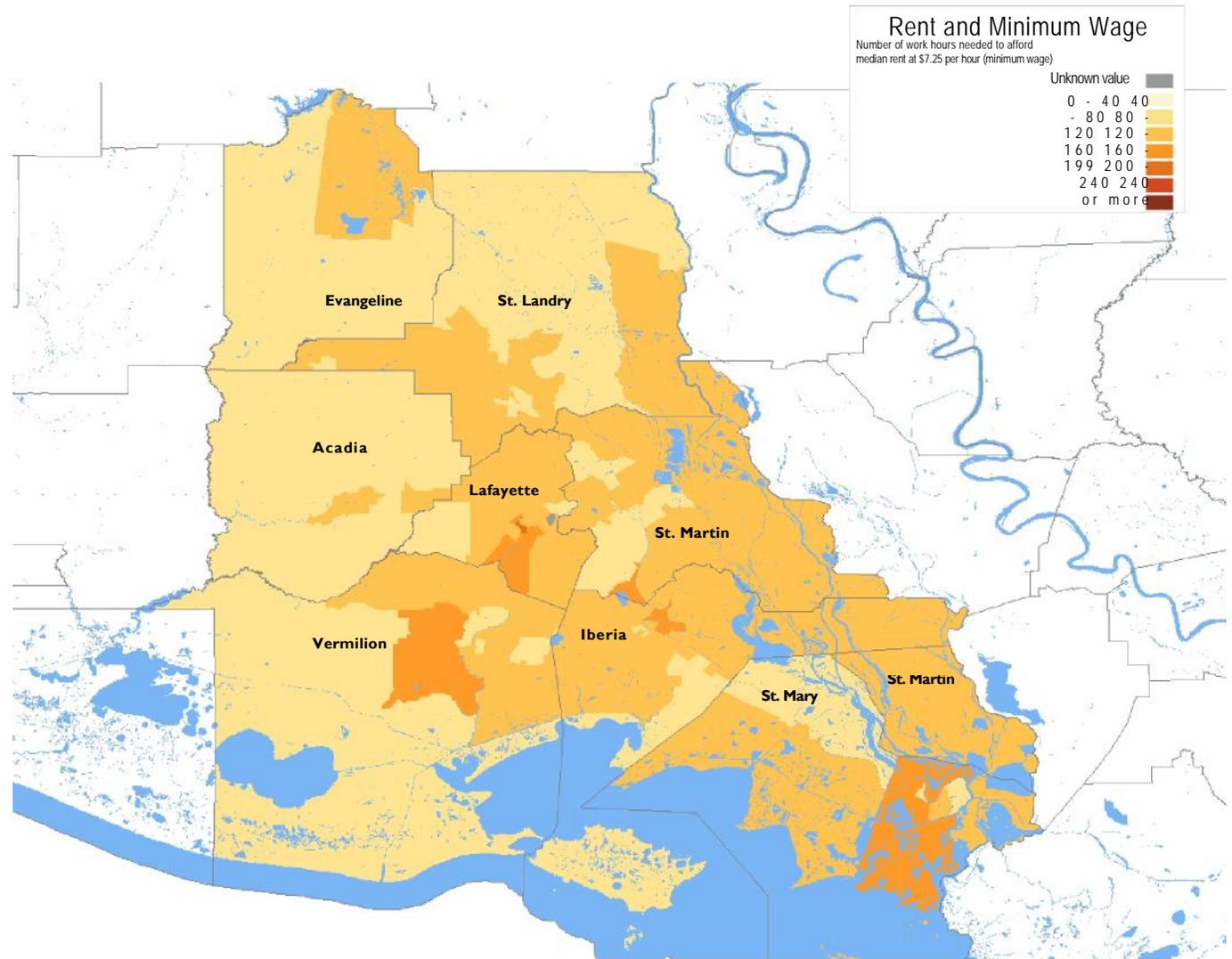
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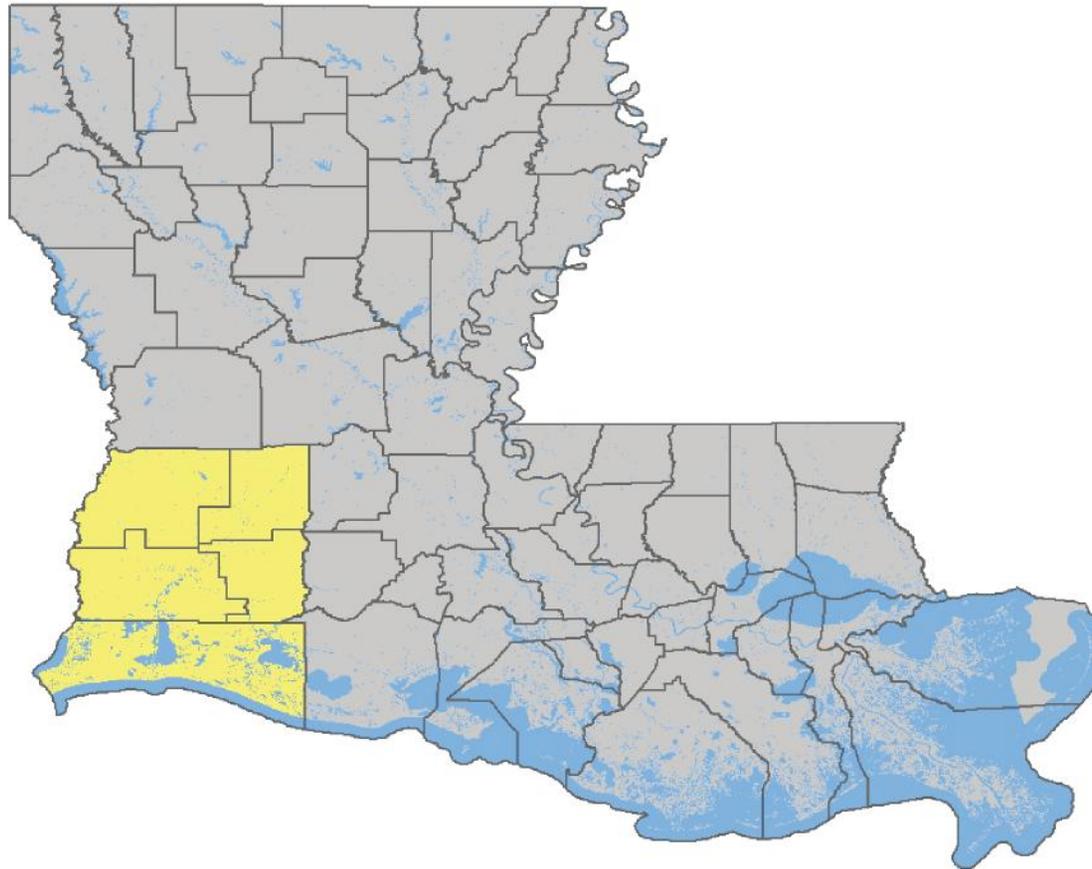
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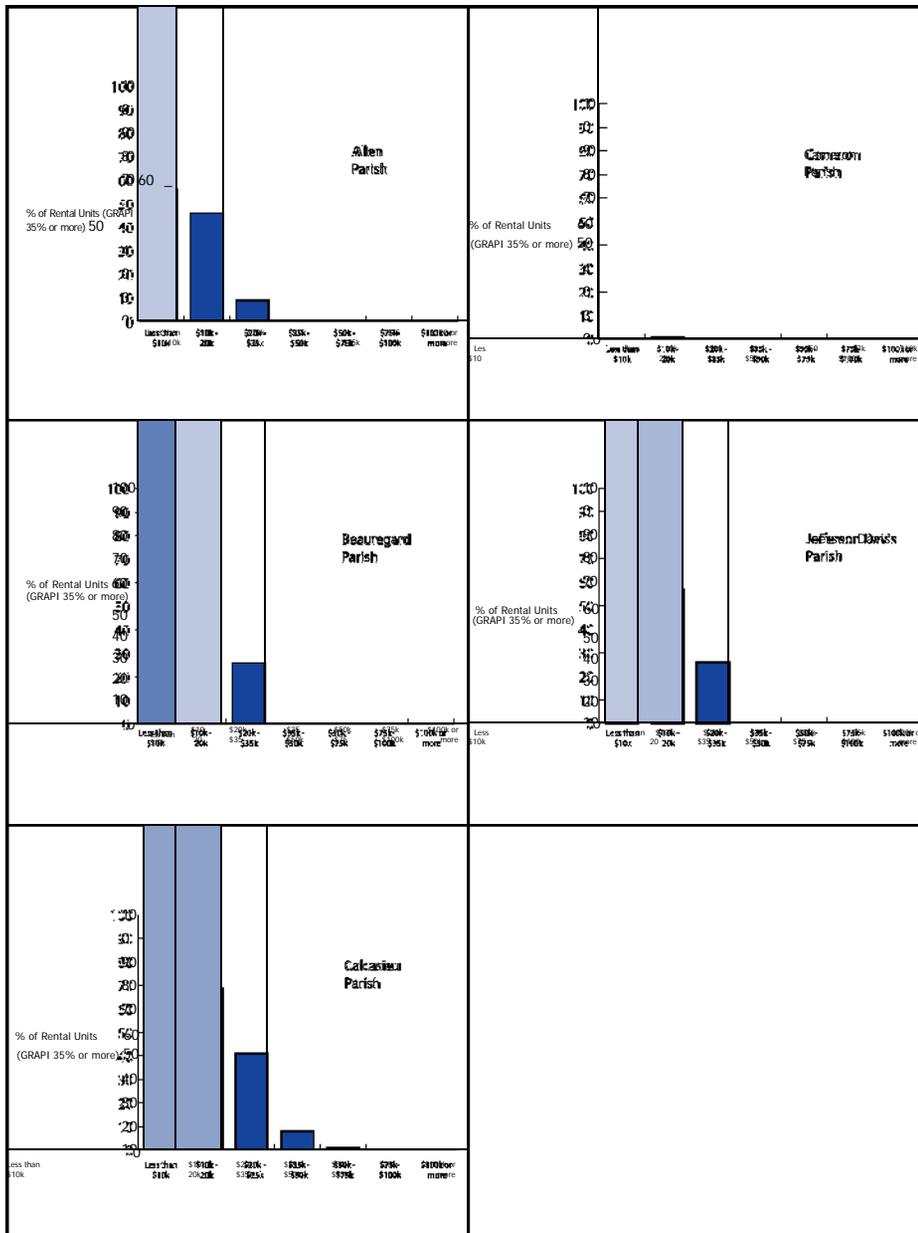
Louisiana Regional Labor Market Area 5

Lake Charles

Allen | Calcasieu | Cameron | Beauregard | Jefferson Davis



RLMA 5



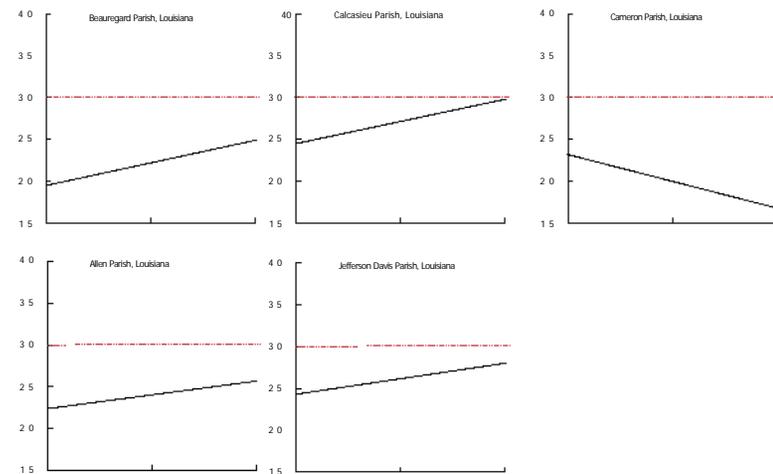
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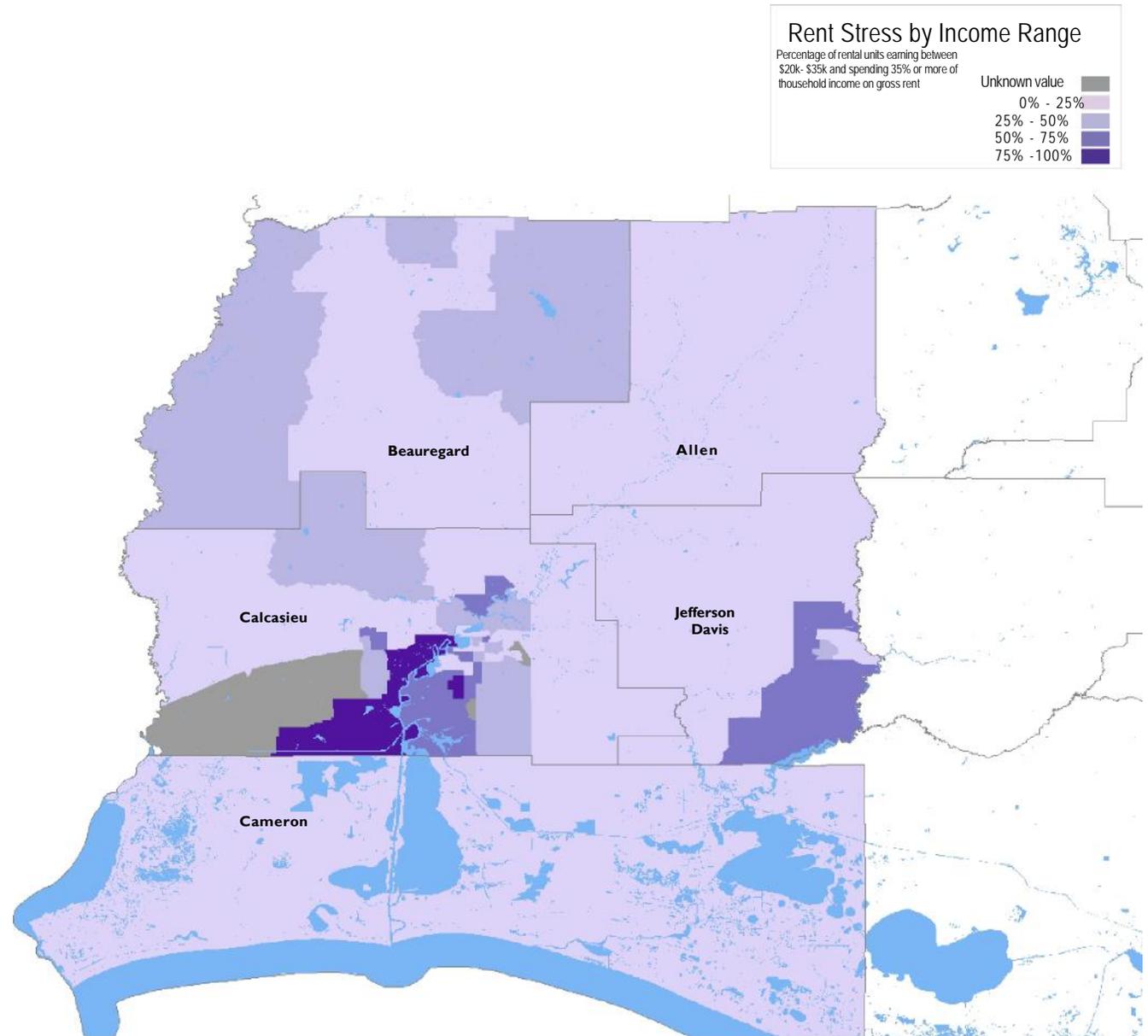
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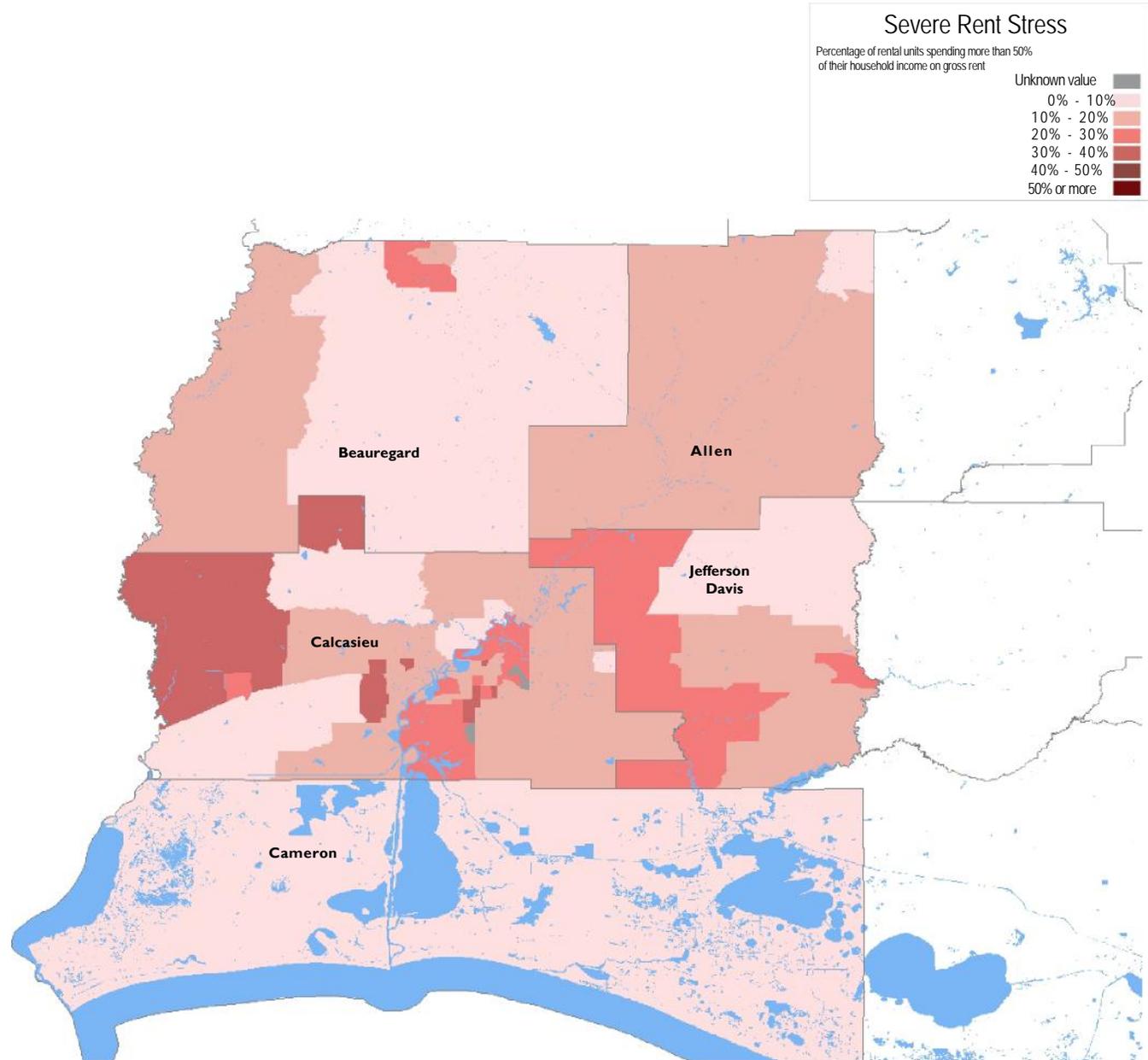
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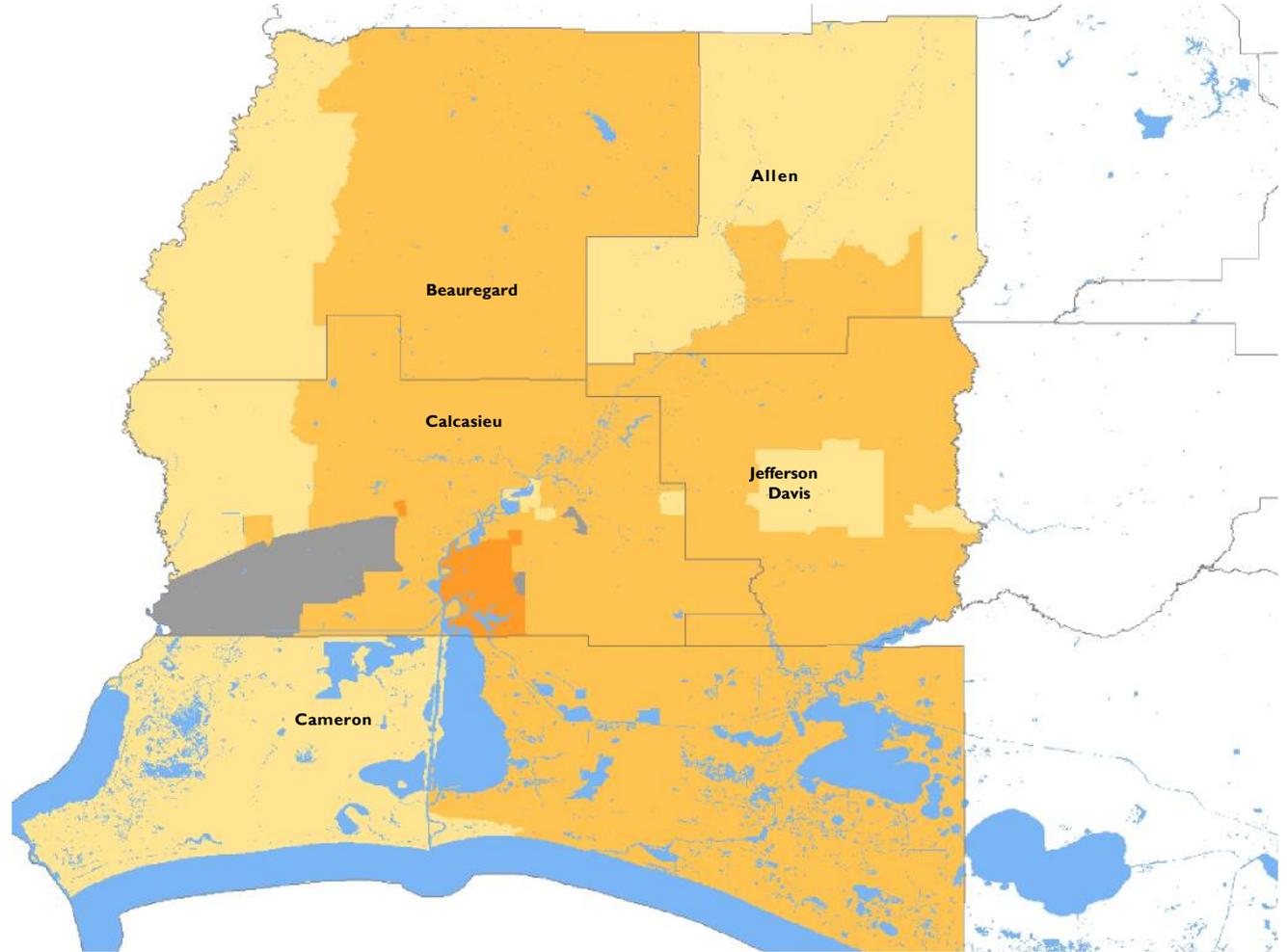


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Rent and Minimum Wage

Number of work hours needed to afford median rent at \$7.25 per hour (minimum wage)

- Unknown value
- 0 - 40
- 40 - 80
- 80 - 120
- 120 - 160
- 160 - 199
- 199 - 200
- 200 - 240
- 240 or more



Workdays Required to Pay Median Gross Rent at *Minimum Wage*

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Sun Mon Tues Wed Thur Fri Sat Sun Mon Tues Wed Thur Fri Sat Sun Mon Tues Wed Thur Fri Sat



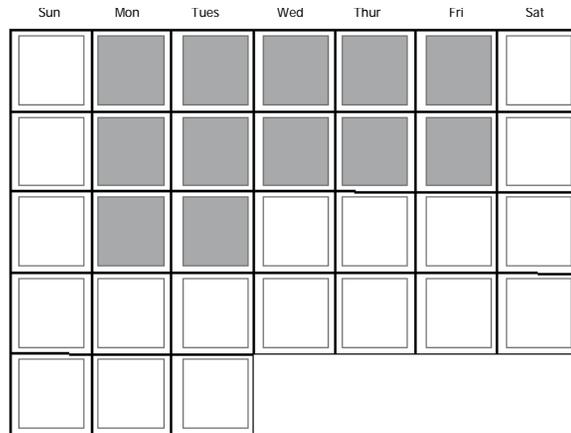
Allen Parish



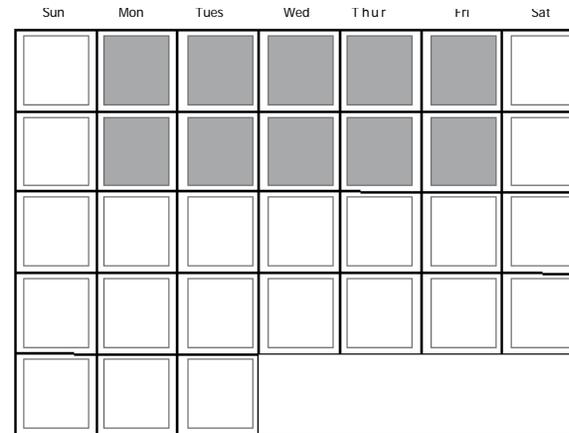
Beauregard Parish



Calcasieu Parish



Cameron Parish

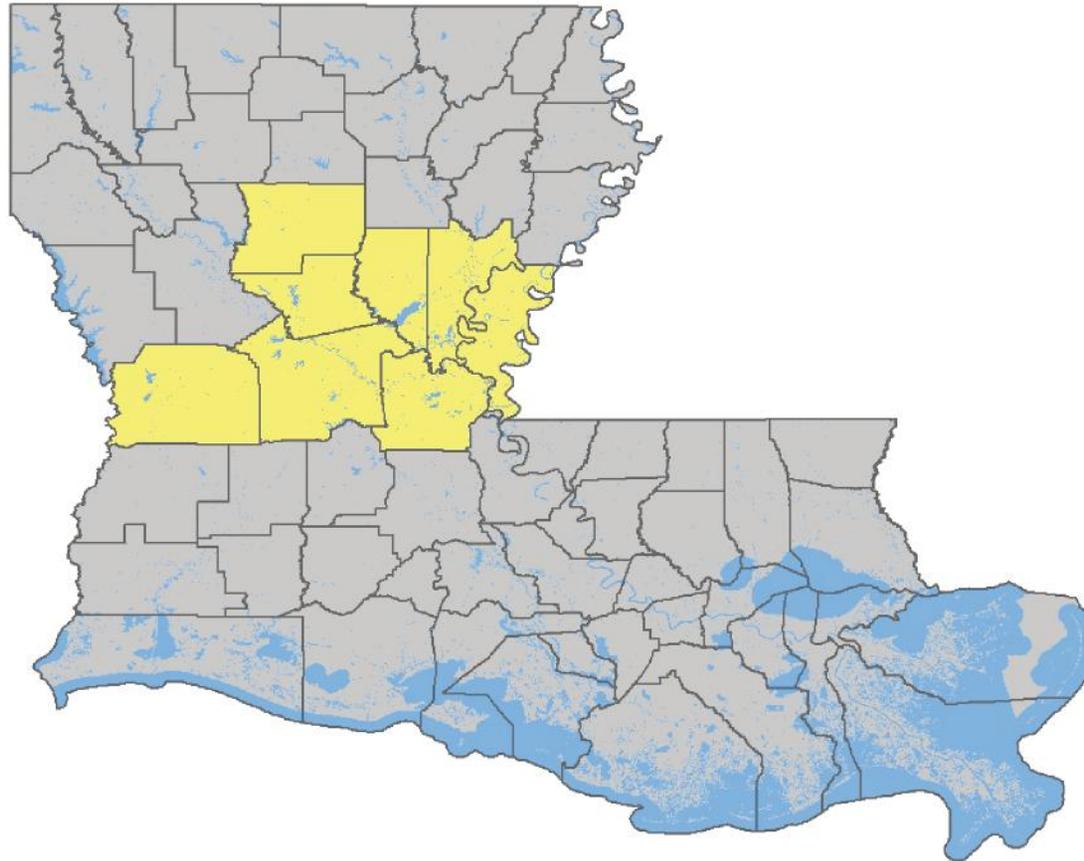


Jefferson Davis Parish

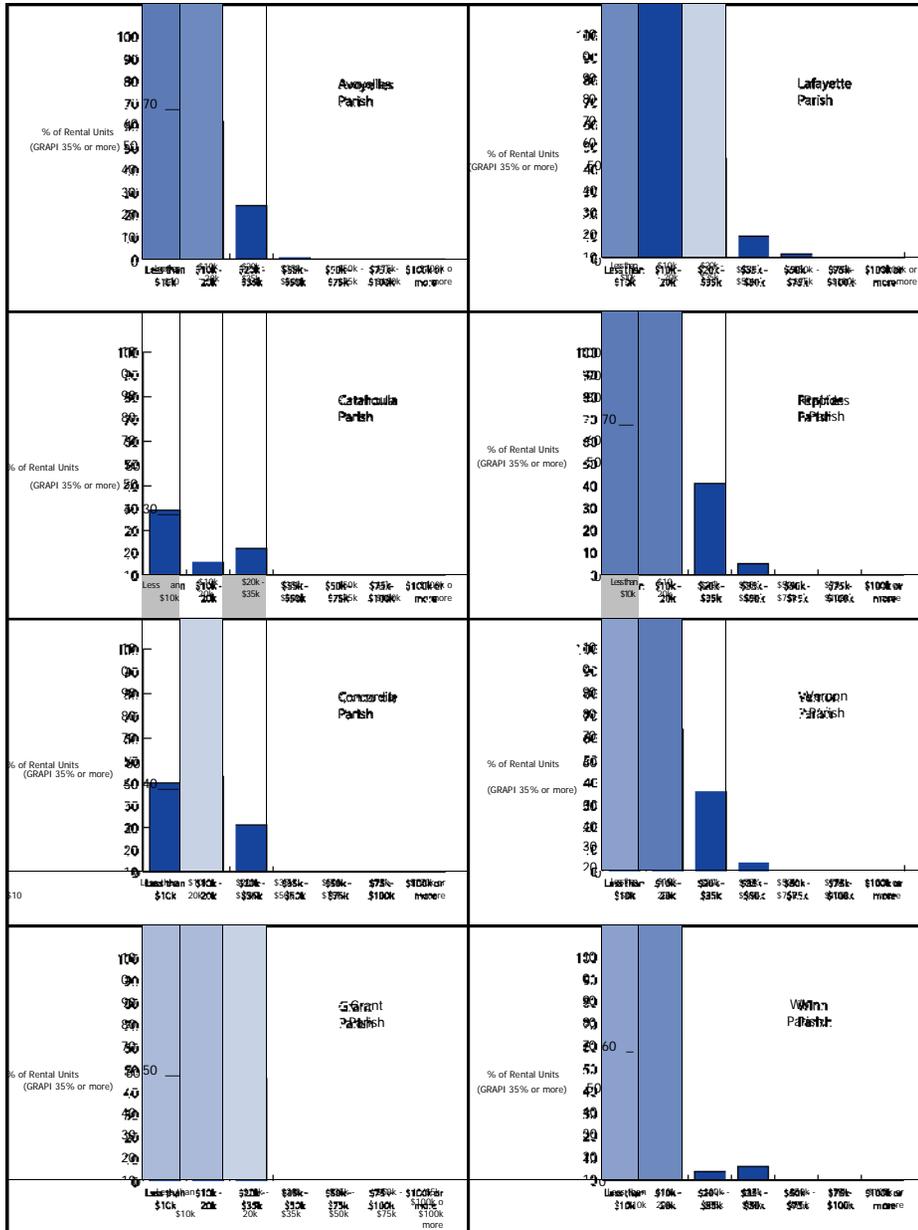
Louisiana Regional Labor Market Area 6

Alexandria

Avoyelles / Concordia / Lasalle / Vernon / Catahoula / Rapides / Grant / Winn



RLMA ⁶



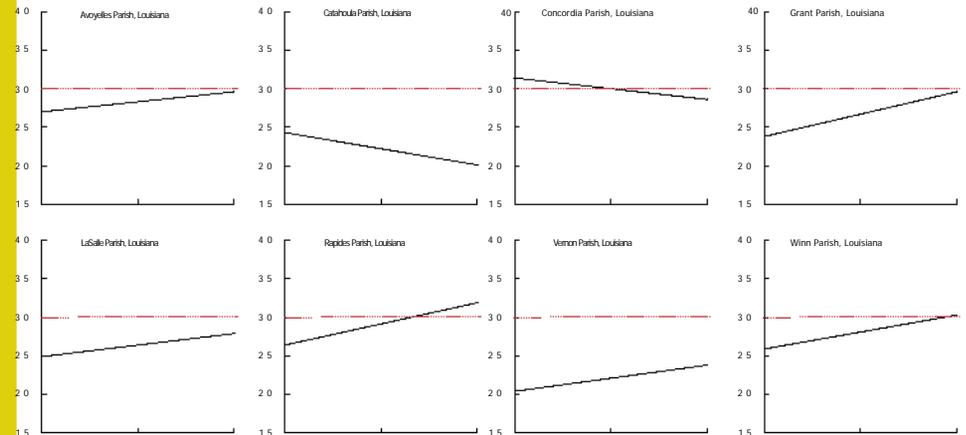
Rental Affordability

As the measurement of residual income suggests, an important consideration of affordability is household income. The charts to the left illustrate the distribution of rent stress by income bracket. As in previous analyses, a GRAPI (gross rent as a percentage of income) of 35 is used.

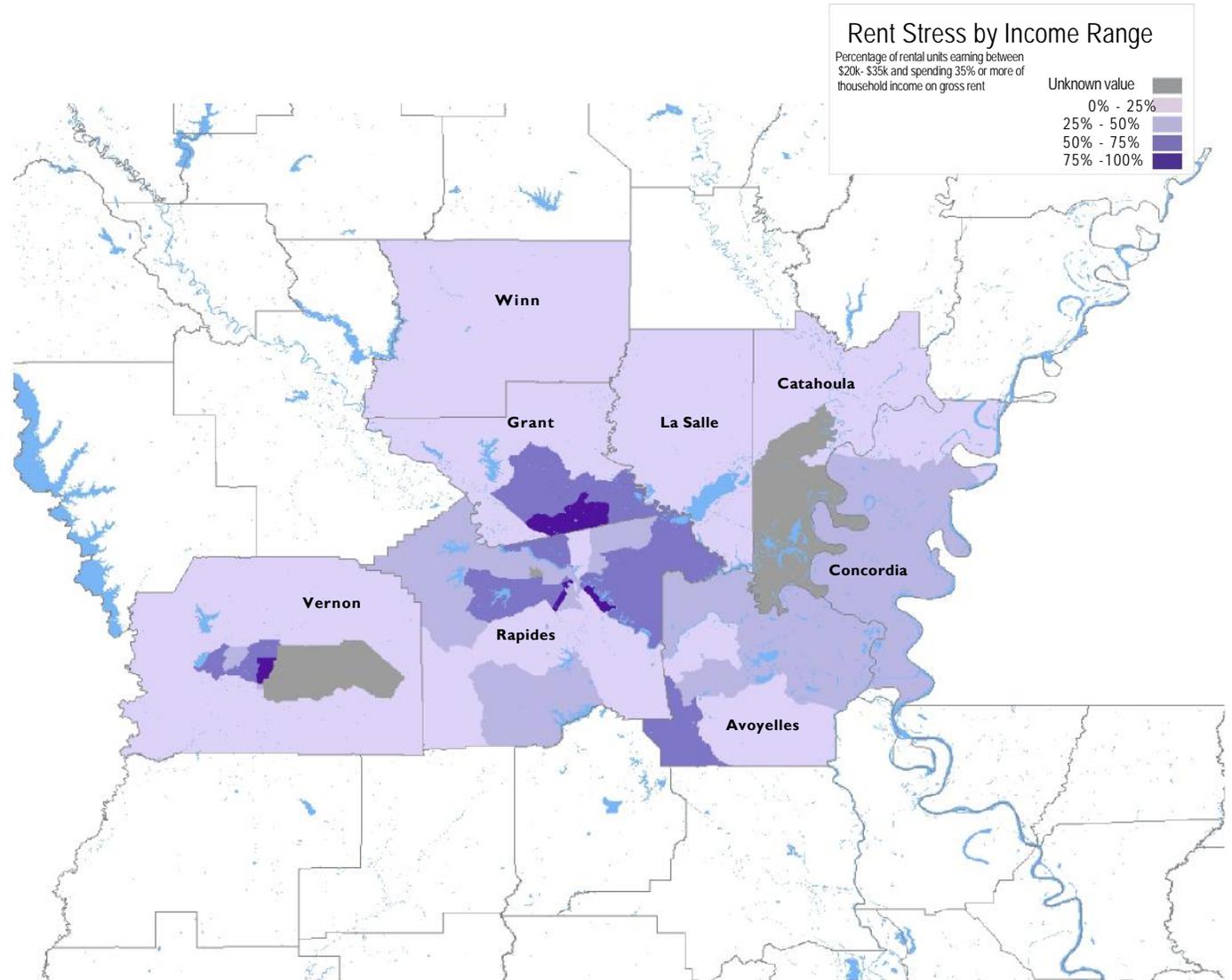
The trend lines below show the change in median gross rent as a percentage of income at the parish level from 1999 to the most recent available data, 2012. The red line is the “affordability threshold”. In almost all cases, median gross rents as a percentage of household incomes have gone from below this threshold to above it.

A note on the threshold point for affordability: In the trend lines below the threshold of affordability is 30. This is a conventional measure of affordability, but in previous analyses a GRAPI of 35 is used to indicate rent-stress. The use of 35 has been selected in order to avoid marginal ambiguities; the assumption is that *all* households with GRAPI of 35 are reasonably considered rent-stressed, whereas *some* households in the 30-35 range may not be.

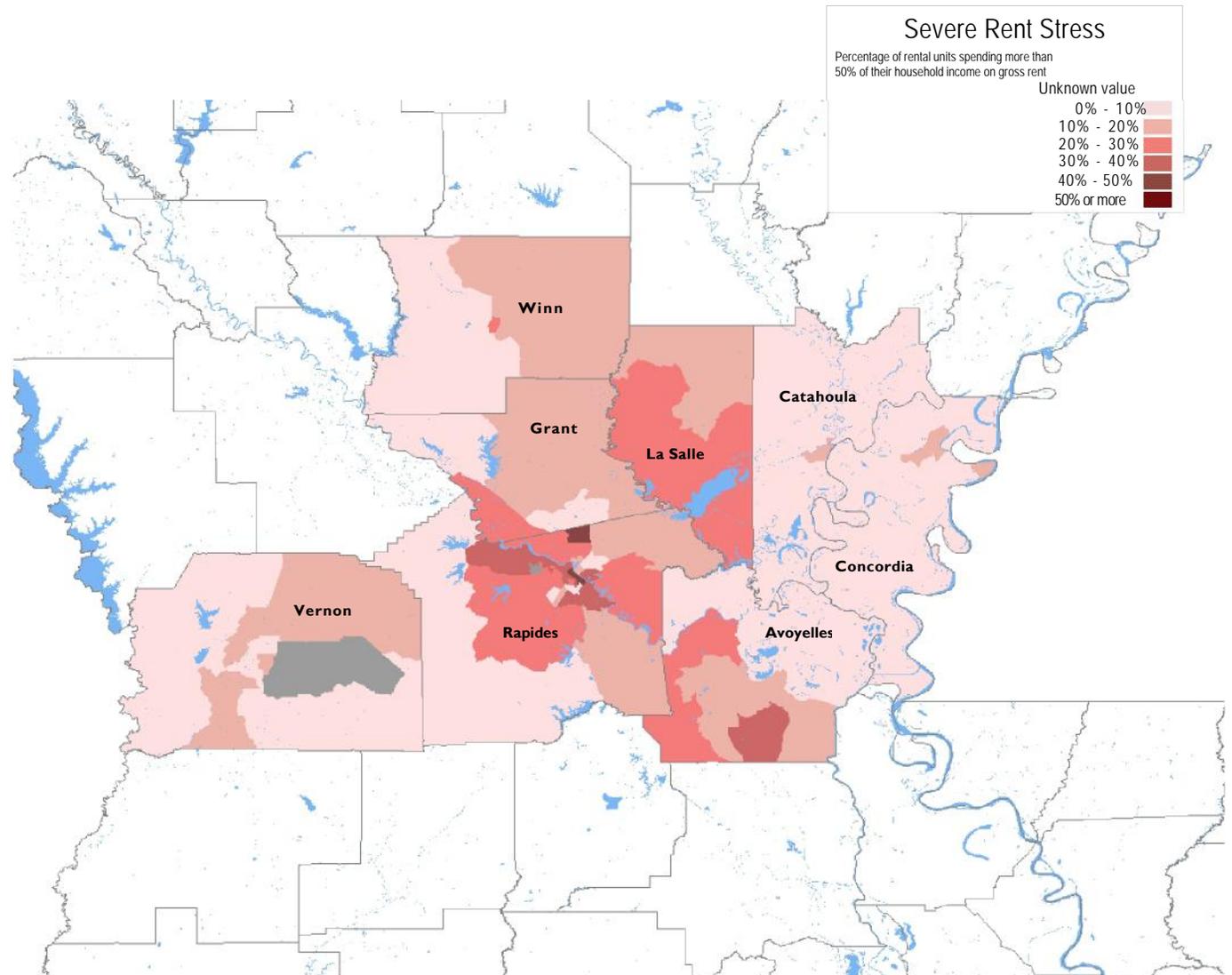
Median Gross Rent as a Percentage of Household Income, 1999 - 2012



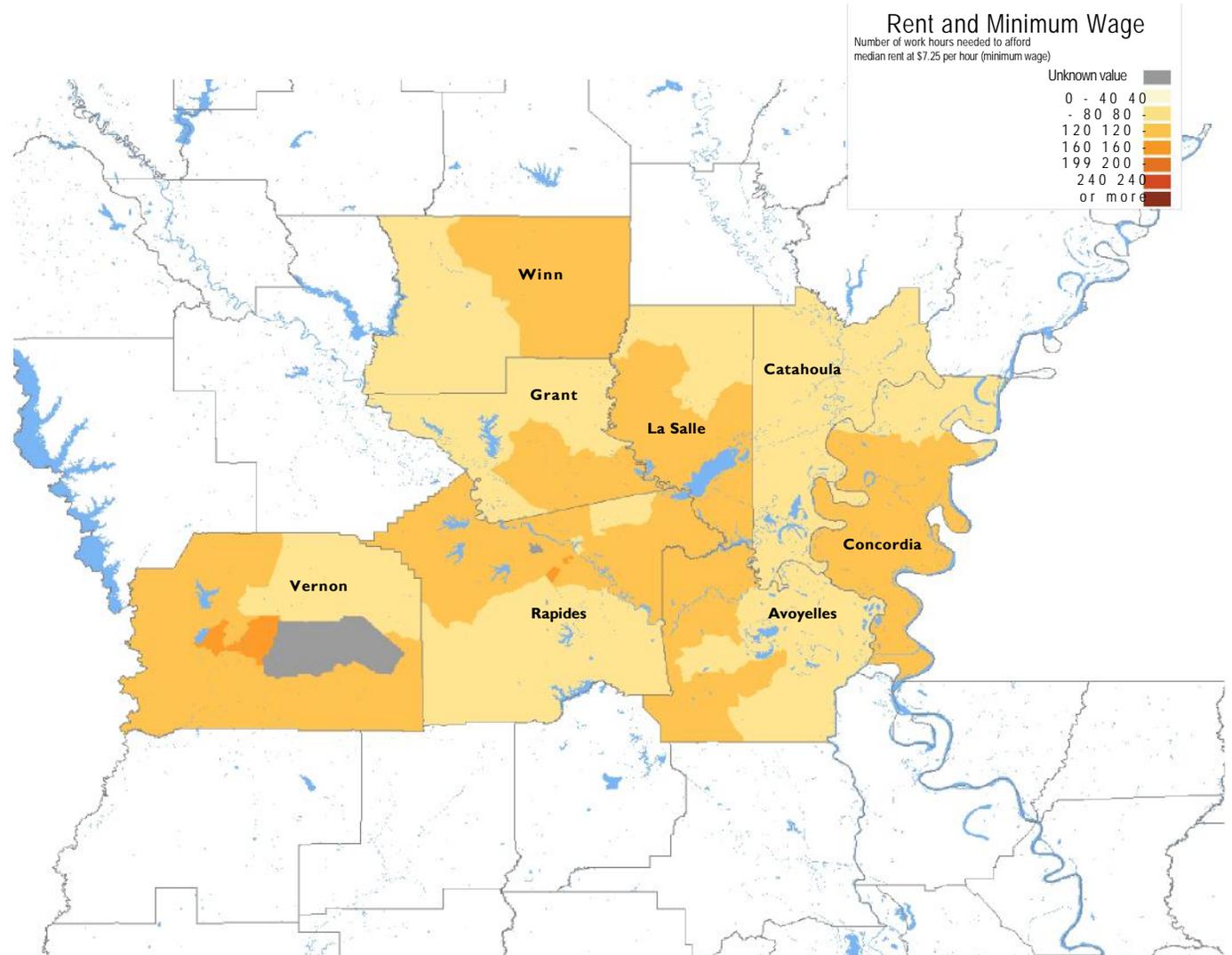
As the column charts on the previous page illustrate, the distribution of rent-stress within income brackets varies by parish. It also varies within parishes. With this map we have selected one income bracket (household income between \$20k and \$35k) to illustrate the spatial distribution of rent stress for such households. The darker purple areas are those Census tracts with higher concentrations of such households in rent-stressed conditions.



Another aspect that required more extensive consideration was what we call *severe rent stress*, defined by households with a GRAPI of 0.50 or greater. These households expend more than half of their monthly income on gross rent, leaving very little of their remaining income for health expenses, food, savings, or any kind of leisure and entertainment. Of all the rent-stressed households statewide (meaning of all households with a GRAPI of 35 or higher) more than **sixty percent** would be considered severe rent-stressed.



In Louisiana, a person earning the minimum wage working 40 hours a week without taking any unpaid leave (a total of 2,080 hours a year) would earn slightly more than \$15,000 annually. Such earners are typically renters. This map illustrates how many hours per month a person earning the minimum wage would have to work to afford the median rent in a given tract.



Workdays Required to Pay Median Gross Rent at *Minimum Wage*

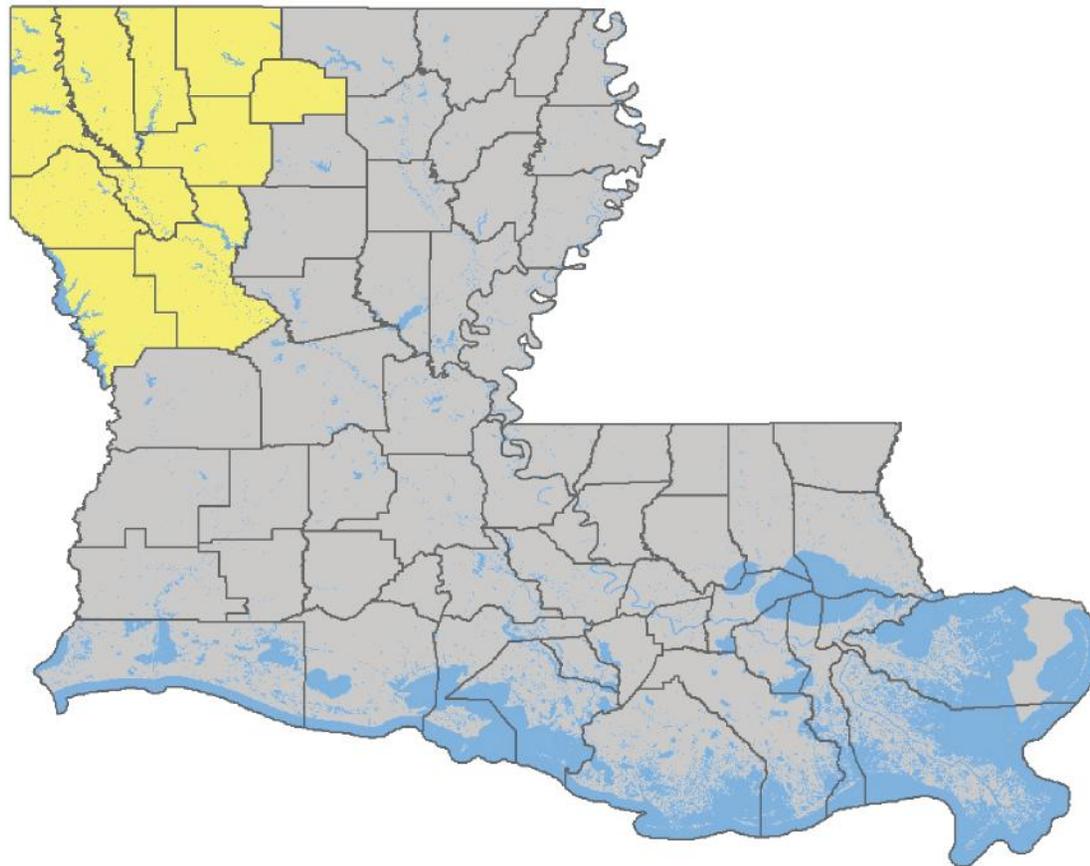
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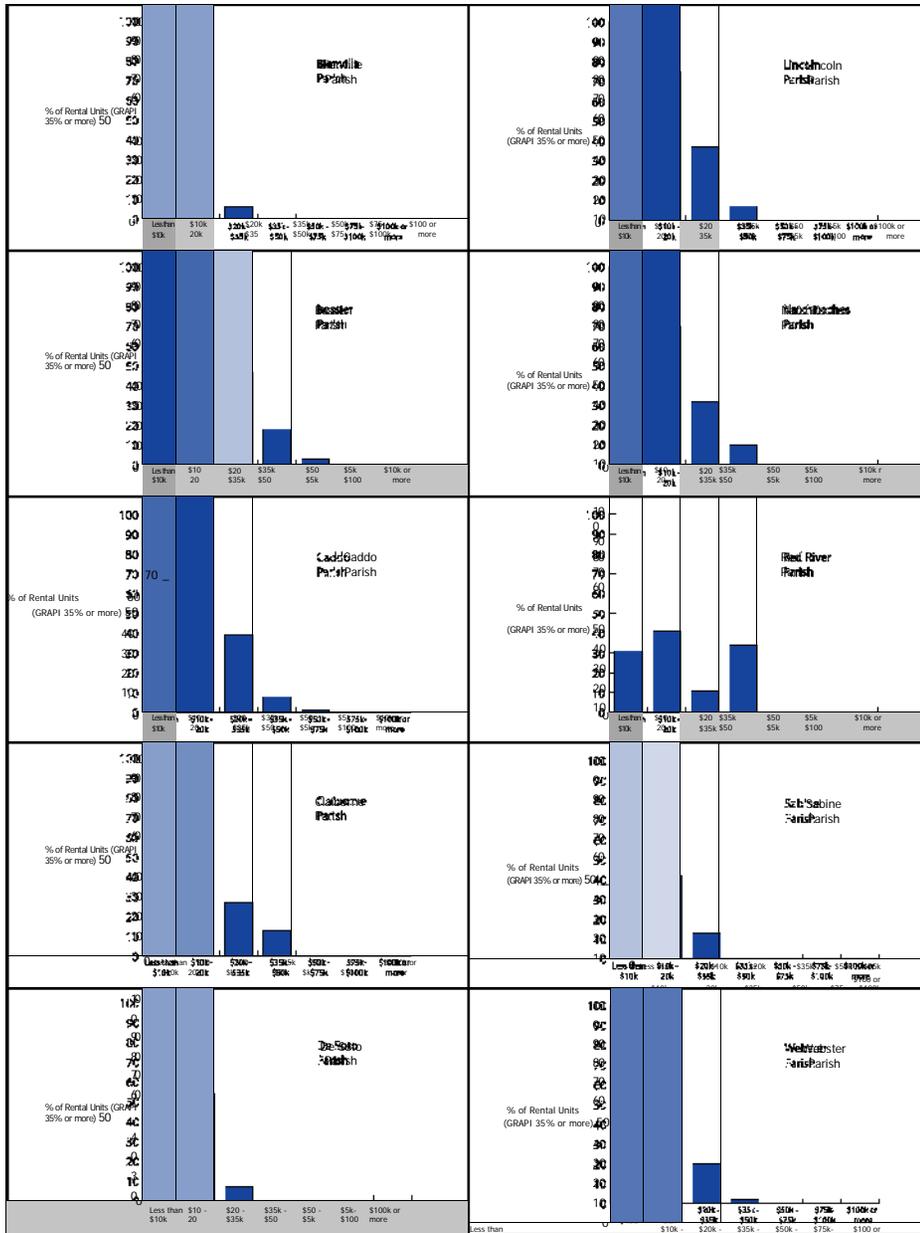
Louisiana Regional Labor Market Area 7

Shreveport-Bossier

Bienville | Caddo | Bossier | Sabine | Webster | De Soto | Claiborne | Lincoln | Natchitoches | Red River



RLMA 7



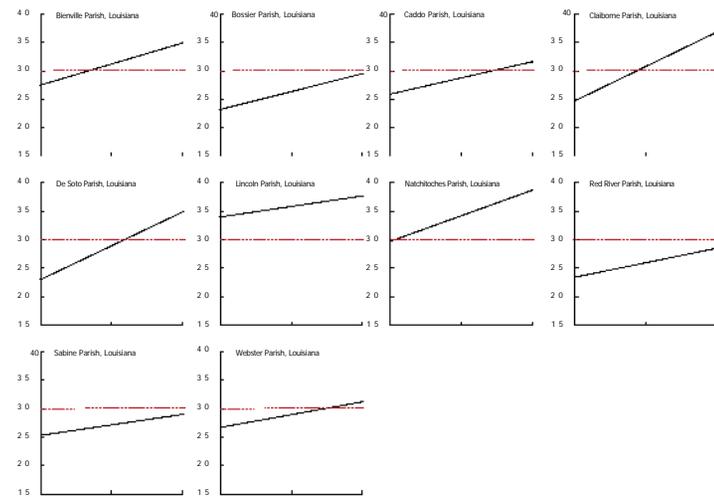
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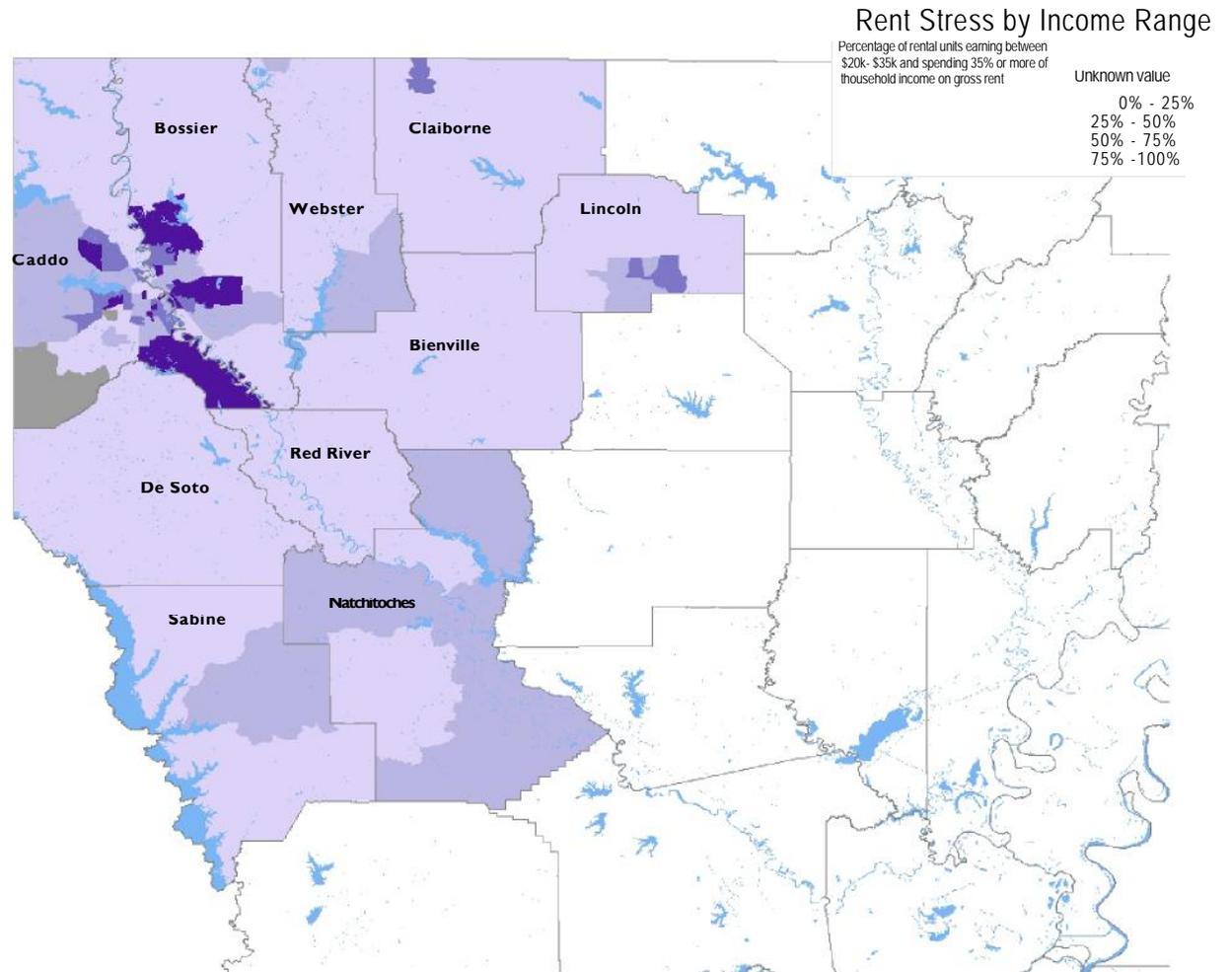
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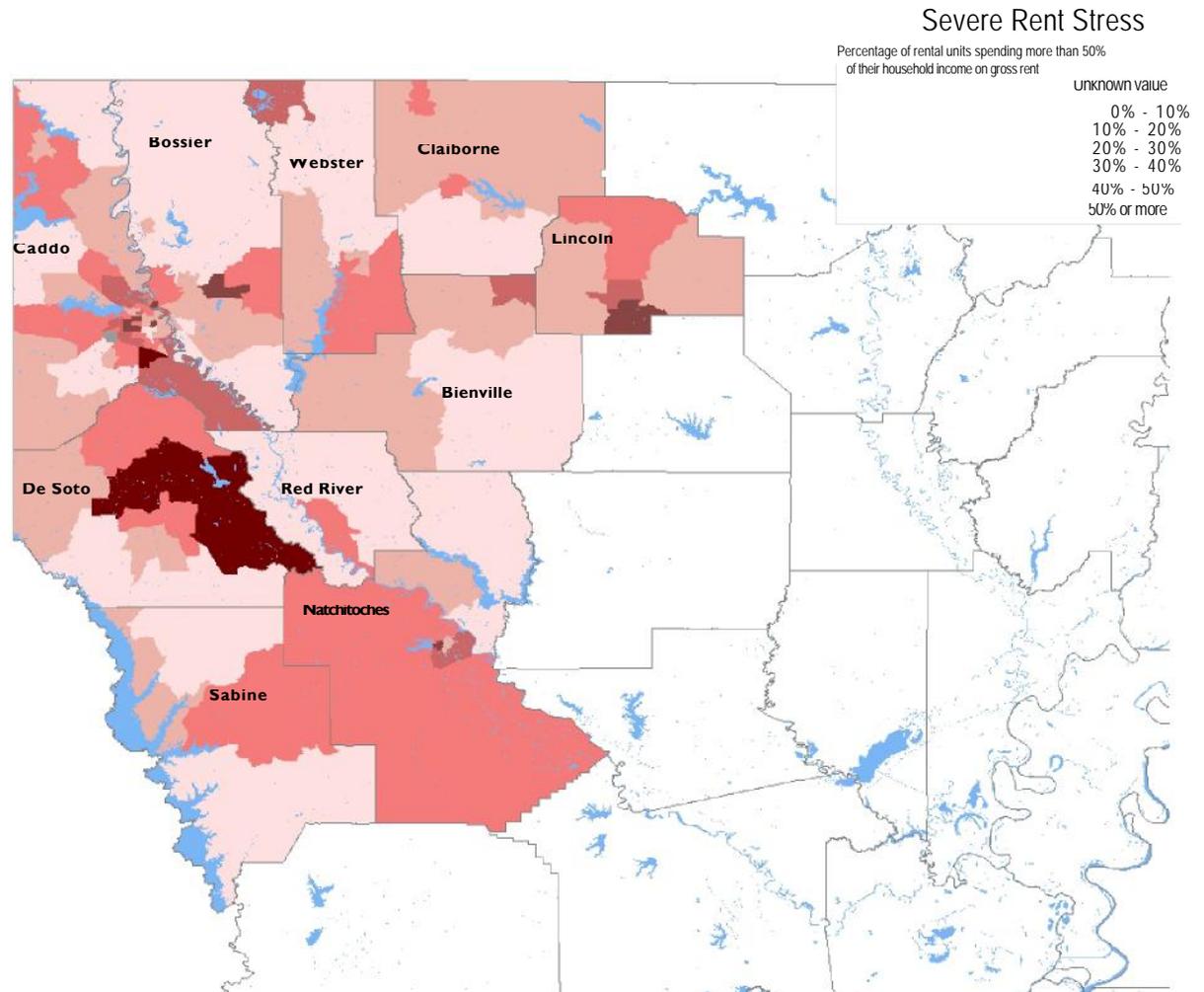
Median Gross Rent as a Percentage of Household Income, 1999 - 2012



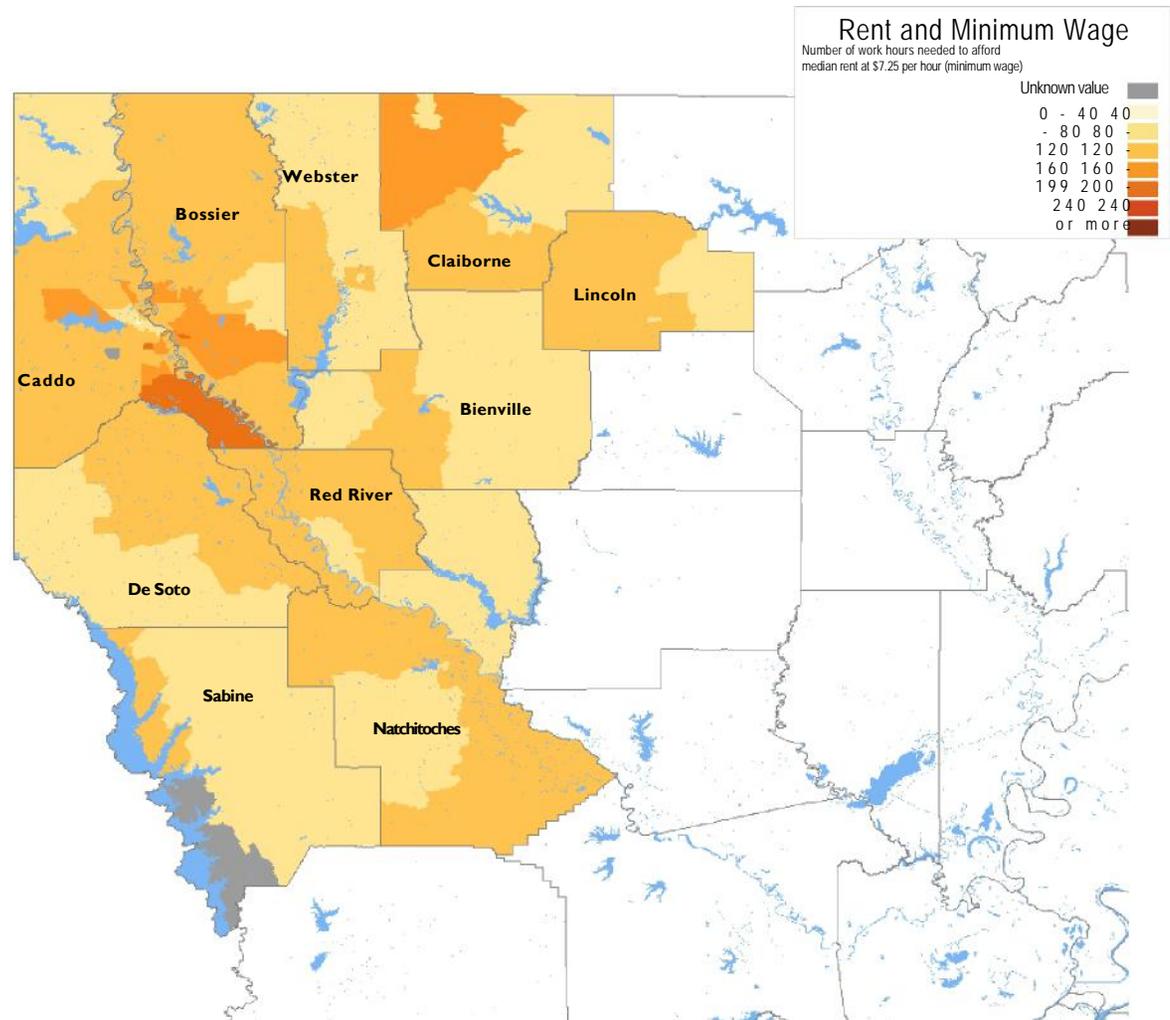
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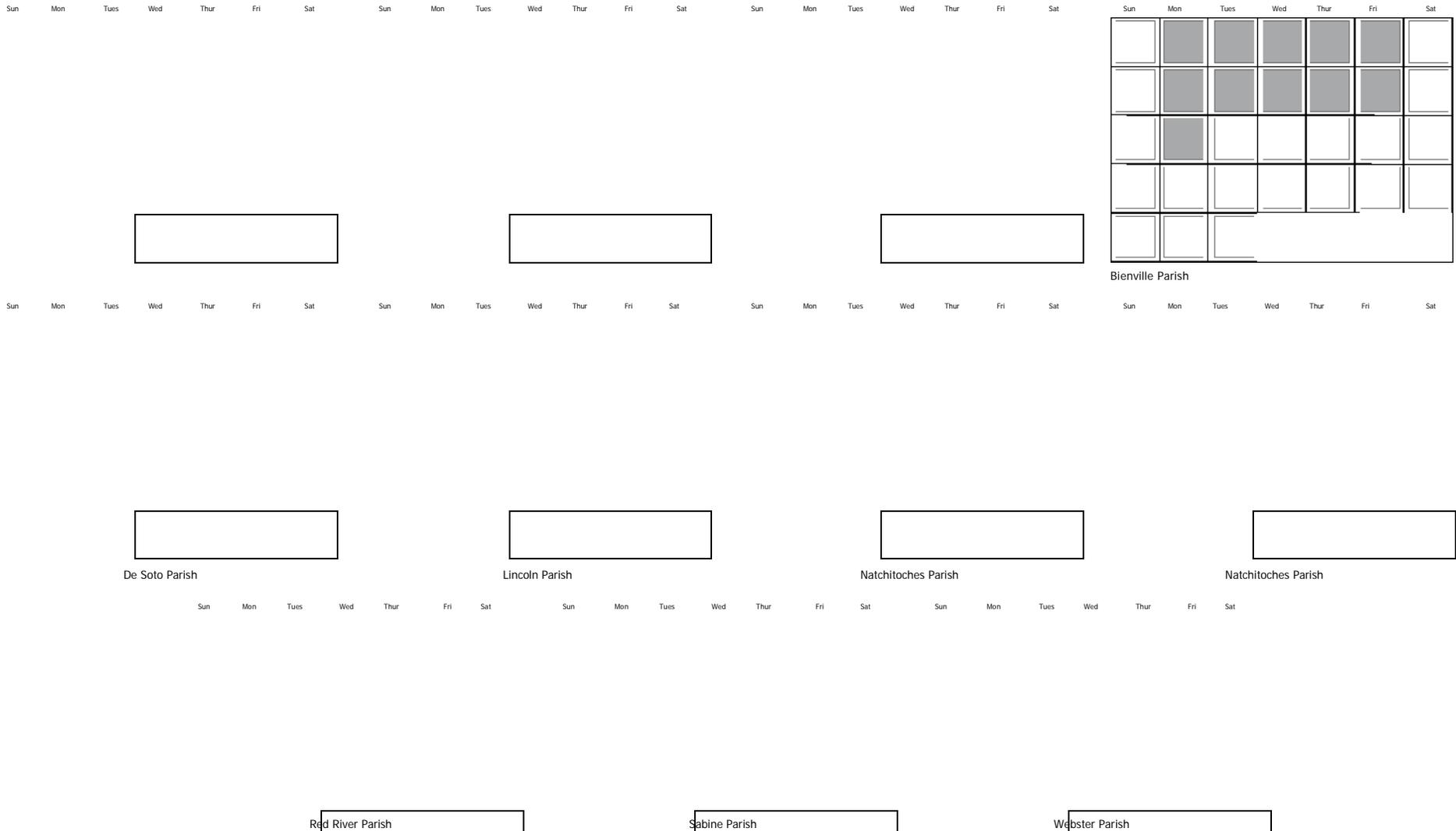


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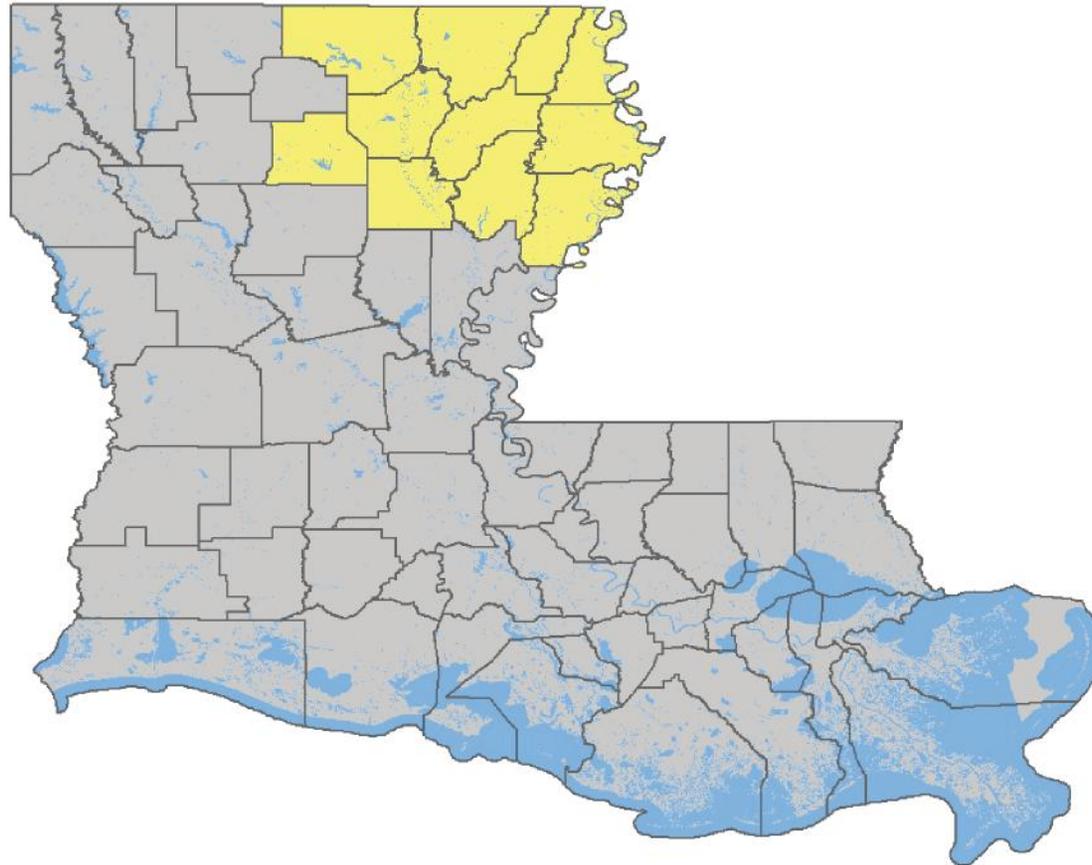
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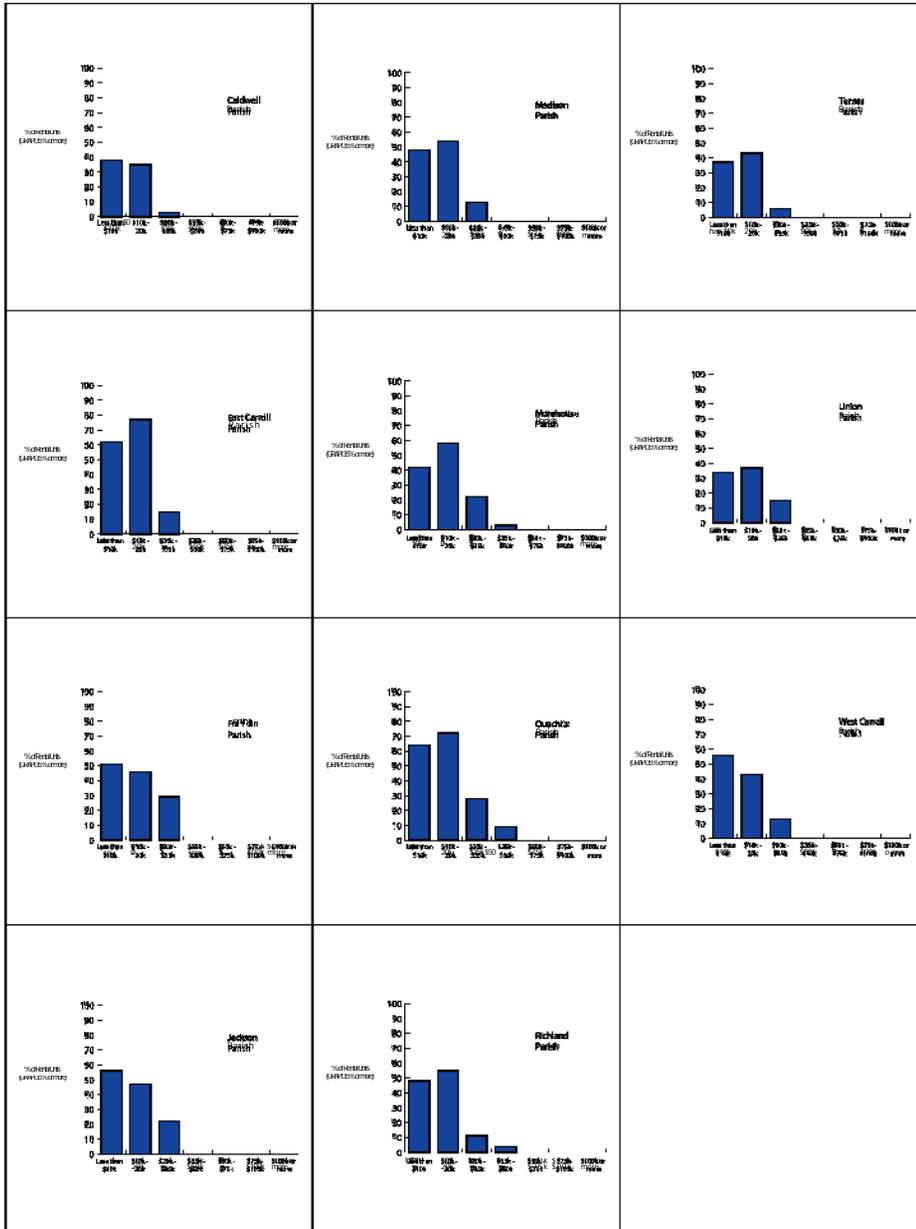
Louisiana Regional Labor Market Area 8

Monroe

Caldwell / Franklin / Madison / Ouachita / Tensas / Union / East Carroll / Jackson / Morehouse / Richland / West Carroll



RLMA8

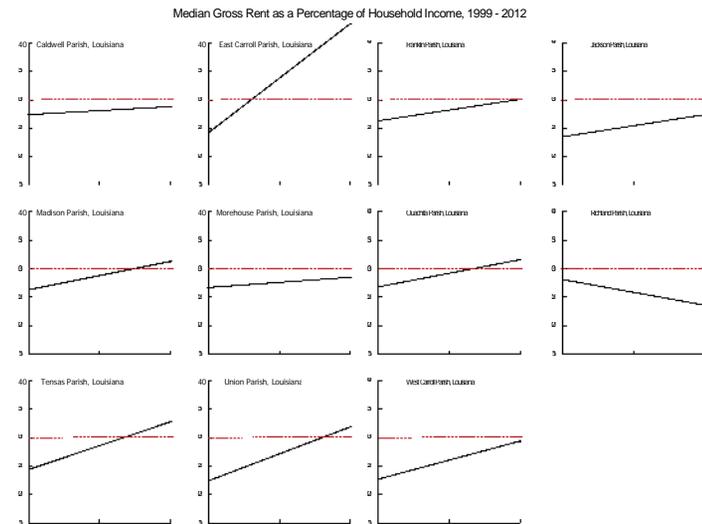


Rental Affordability

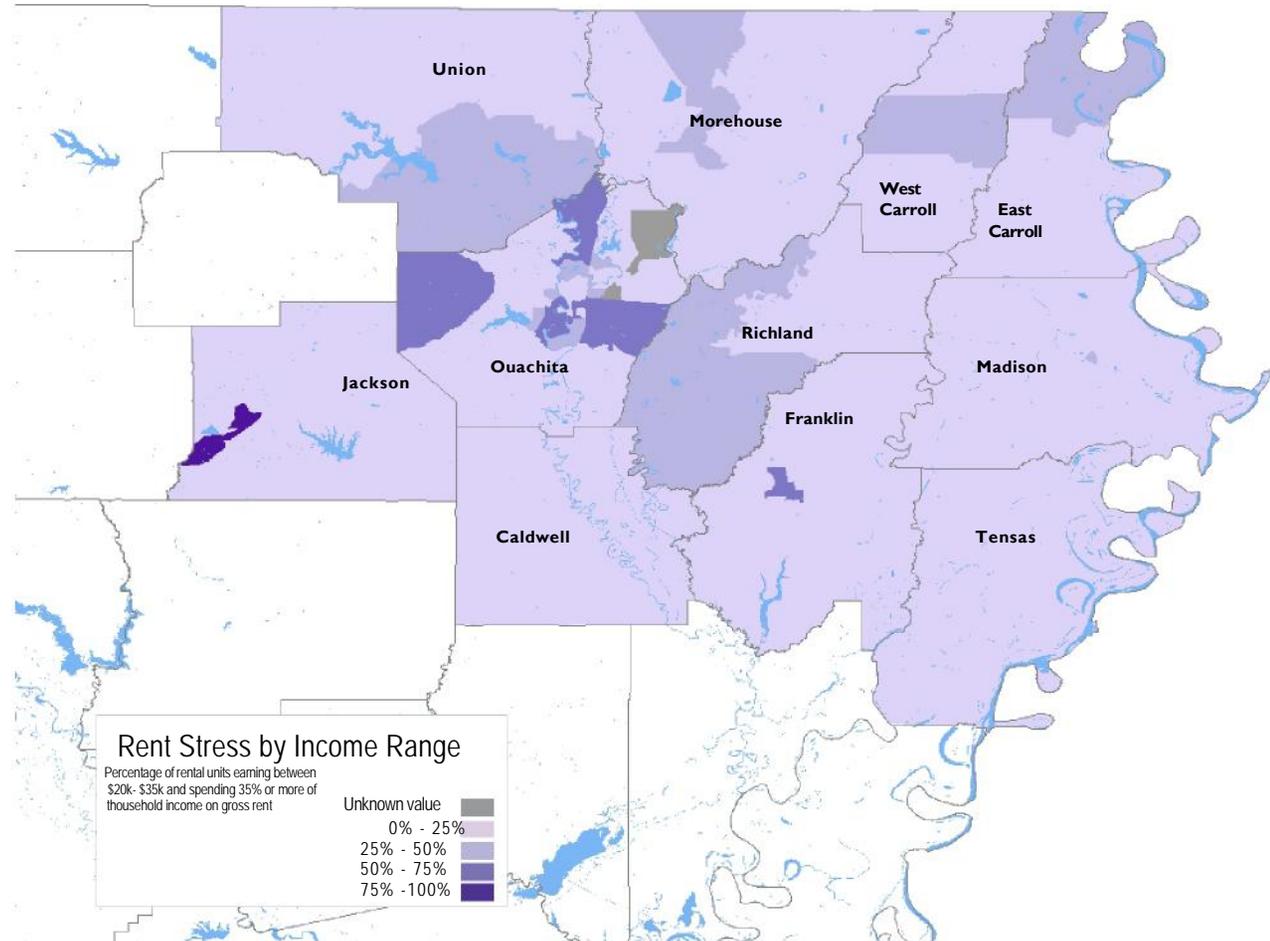
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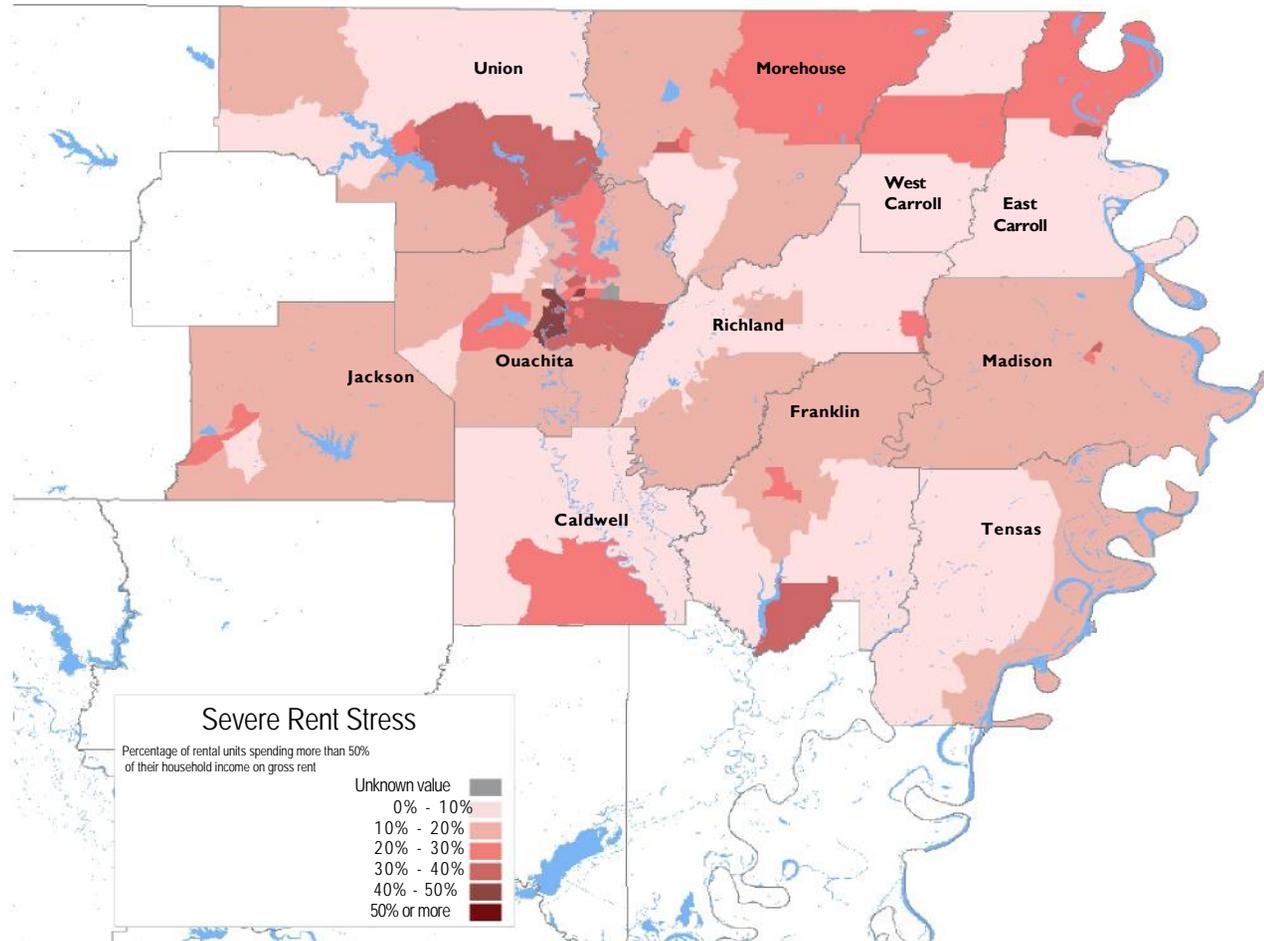
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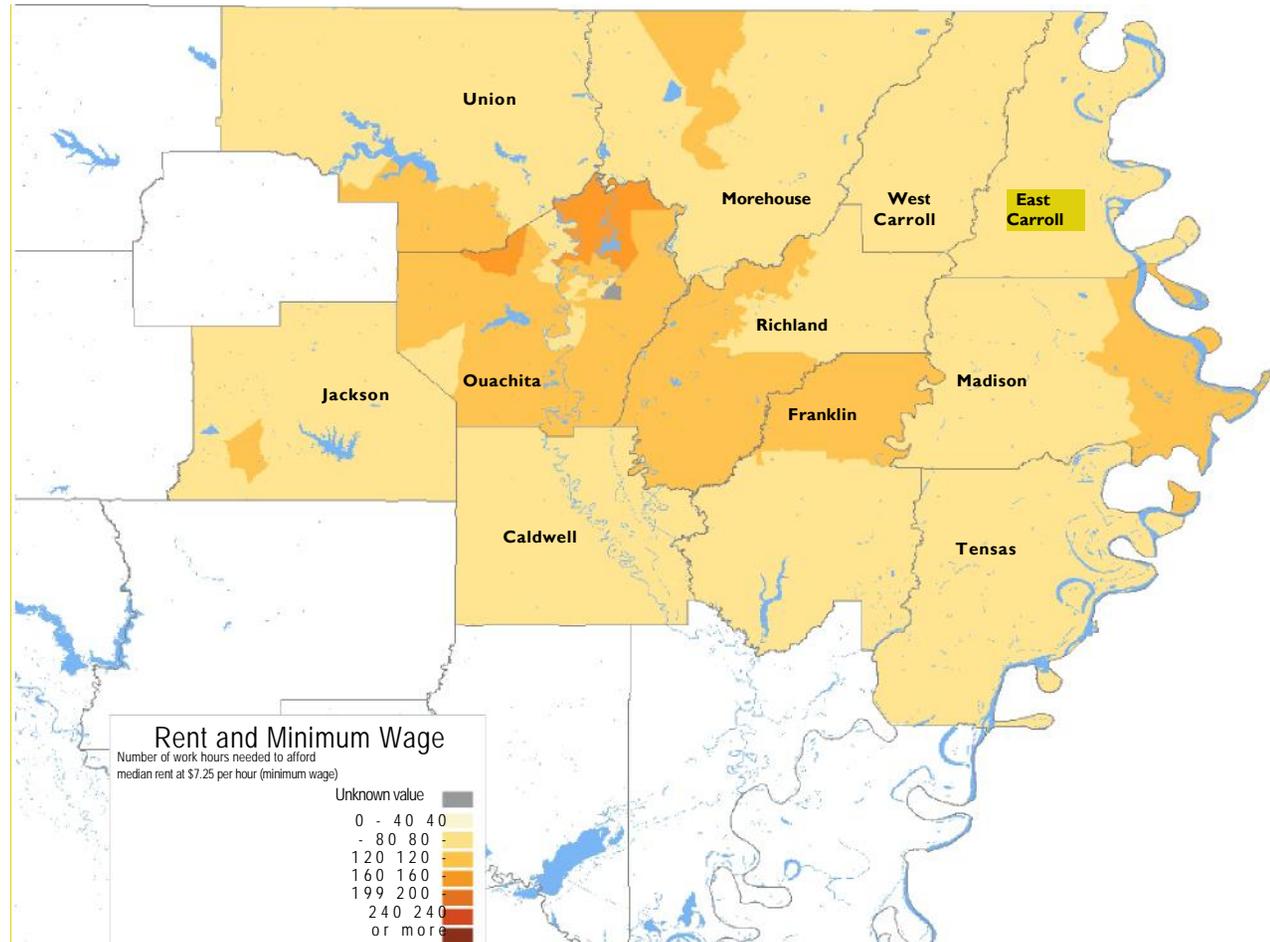
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