Middle Class Security Project

An Initiative of the AARP Public Policy Institute

Loss of Housing Affordability Threatens Financial Stability for Older Middle-Class Adults

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AARP'S MIDDLE CLASS SECURITY PROJECT
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AARP's Public Policy Institute informs and stimulates public debate on the issues we face as we age. Through research, analysis, and dialogue with the nation's leading experts, PPI promotes development of sound, creative policies to address our common need for economic security, health care, and quality of life.

The views expressed herein are for information, debate, and discussion, and do not necessarily represent official policies of AARP.

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NOTABLE FINDINGS

- Housing cost burdens increased significantly for older adults over the past decade.
- African American and Latino households lost over half of their net worth between 2005 and 2009.[1]
- The proportion of middle-income older families paying 30 percent or more of their income for housing increased from 20 percent in 2000 to 29 percent in 2009.
- The percentage of homeowners aged 50+ who own their homes free and clear dropped between 2000 and 2009.
- In 2011, one out of seven (16 percent) of borrowers aged 50+ owed more than their house was worth.[2]

INTRODUCTION

Homeownership is often identified as the "American dream," virtually synonymous with middle-class status. Owning one's home is a benchmark of having achieved adulthood among the young, and maintaining one's home is a measure of successful aging in place at the end of life. Housing is the largest asset for most homeowners, but it is also the largest source of debt and the largest expense in most family budgets.

This paper looks at the role of housing in establishing or undermining middle-class security among renters and homeowners, with a particular focus on households age 50 and older. It explores housing affordability, the importance of home equity as an asset, and debt accumulation and foreclosure as threats to middle-class security. Finally, it looks at how housing choices connect families of all ages to communities of middle-class opportunity—or limit those opportunities.

COMPARING RENTERS AND HOMEOWNERS

The following sections look at three types of households age 50 and older—homeowners without mortgages, homeowners with mortgages, and renters. Our focus is on middle-class households, defined for this analysis as the two middle-income quartiles among households age 50+ ($23,128 to $86,195 in 2009). Each of these household types faced increased cost burdens between 2000 and 2009 (see figure 1), but each group has distinct housing affordability challenges.

Compared to homeowners, renters have lower incomes, lower net worth, and more debts. Median income fell between 2007 and 2010 for both homeowners and renters. For homeowners, income fell by 7.7 percent, from $64,600 to $59,600 (all numbers adjusted for

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1 Rakesh Kochhar, Richard Fry, and Paul Taylor, *Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics: Twenty-to-One* (Washington, DC: Pew Research Center, June 26, 2011), http://www.pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/.

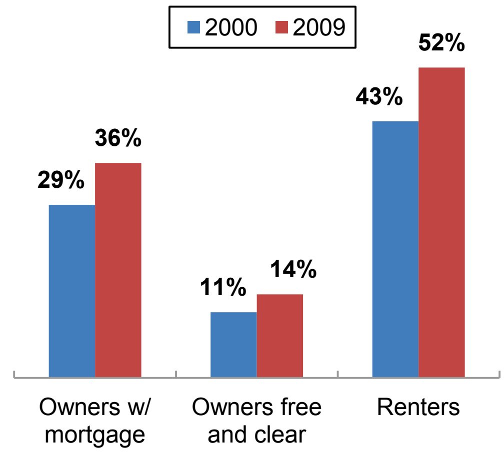
2 Lori A. Trawinski, *Nightmare on Main Street: Older Americans and the Mortgage Market Crisis* (Washington, DC: AARP Public Policy Institute, July 2012).

inflation). At the same time, median income for renters fell at an even higher rate of 10.3 percent, from $29,100 to $26,100.[3]

Families also saw significant drops in their overall net worth between 2007 and 2010, as homes and other assets lost value. The median net worth for homeowners fell by 29.1 percent, from $246,000 to $174,500. Renters' far lower net worth declined from $5,400 to $5,100.[4]

Housing cost burdens are just part of a larger picture of cost burdens experienced by the middle class. Generally, middle-class families must balance housing with costs of auto ownership, college educations for children, health care, retirement security, and other key expenses of a middle-class lifestyle.[5] These challenges are part of a long-term trend. For example, health care costs are not directly housing related, but both homeowners and renters have experienced additional stresses due to increased costs. From 1986 to 2010, annual health care costs for renters increased from $1,313 to $1,518 (16 percent), but for homeowners these same costs grew more than twice, as fast at 42 percent, from $2,837 to $4,016.[6] The underlying cause of the rise in annual health care costs is primarily related to the dramatic increase in the cost of health insurance during this 25-year period. Renters' costs increased by 124 percent (from $406 to $909), and homeowners' costs increased by 145 percent (from $943 to $2,314).[7]

Figure 1
Percentage of Owners and Renters Age 50+ Who Pay 30% or More of Their Income for Housing Costs, 2009



Source: AARP Public Policy Institute estimates based on the American Community Survey. State Housing Profiles 2011 data.

Race, Ethnicity, and Housing Security

Wealth losses due to the recession and housing crisis disproportionately affected households of color. By 2009, the income gap between white households and other households had grown for all age groups below age 75. After increasing by 7.2 percent between 1994 and 2004, the homeownership rate among African American households

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3 Jesse Bricker, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus, "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin* 98, no. 2 (June 2012), p. 11.

4 Ibid., p. 18.

5 Economics and Statistics Administration, United States Department of Commerce, *Middle Class in America* (Washington, DC: Economics and Statistics Administration, United States Department of Commerce, January 2010).

6 Adam Reichenberger, "A Comparison of 25 Years of Consumer Expenditures by Homeowners and Renters," *Beyond the Numbers* 1, no. 15 (October 2012).

7 Ibid.

declined by 4.3 percent between 2004 and 2011, nearly twice the decline in homeownership rates among white households.[8]

For mortgage borrowers age 50+, foreclosure rates on prime loans differed greatly by race: By 2011, African Americans had a foreclosure rate of 3.5 percent, Latinos had a rate of 3.9 percent, while white households had a foreclosure rate of 1.9 percent.[9] These and other factors affecting homeowners of all ages led to drops in overall wealth of 66 percent for Latino households and 53 percent for African American households over the 2005–2009 period. The wealth gap between whites and African Americans nearly doubled during the recession and housing crisis.[10]

The Growing Housing Cost Burden for Older Adults

Housing is the greatest share of most household budgets. In 2009, American households spent on average $49,067, with more than one-third ($16,895) going to housing costs.[11] The share was similar for older households.[12]

Households are considered "cost burdened" if they use 30 percent or more of their incomes for housing costs. Households are "severely cost-burdened" if they spend 50 percent or more of their incomes on housing.[13] By both measures, the housing cost burden has risen for middle-income households headed by someone age 50+. The percentage of middle-income families paying 30 percent or more of their incomes on housing increased from 20 percent in 2000 to 29 percent in 2009. The percentage of older middle-income families who spent 50 percent or more of their incomes on housing nearly doubled, from 5 percent in 2000 to 9 percent in 2009 (see figure 2).[14]

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8 The Joint Center for Housing Studies at Harvard University, *State of the Nation's Housing 2012* (Cambridge, MA: The Joint Center for Housing Studies at Harvard University, 2012).

9 Trawinski, *Nightmare on Main Street*.

10 Kochhar et al., *Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics*.

11 Bureau of Labor Statistics, *Consumer Expenditures in 2009* (Washington, DC: Bureau of Labor Statistics, May 2011).

12 Those aged 65+ pay 35 percent of their income in housing costs. Bureau of Labor Statistics, *Consumer Expenditure Survey*, Table 47 (Washington, DC: Bureau of Labor Statistics, October 2010).

13 "Cost-burdened" households spend 30 percent or more of their income on housing costs—including contract rent and utilities (if not included in rent) for renters; and mortgages or similar debts on the property, real estate taxes, insurance, utilities, and where appropriate, condominium fees and mobile home costs for owners.

Households spending 50 percent or more of income on housing costs are considered extremely burdened. The impact of the mortgage interest deduction is not usually considered in cost burden calculations.

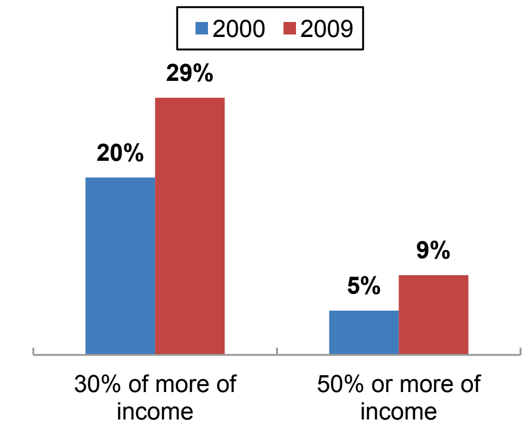
14 Rodney Harrell, *Housing for Older Adults: The Impacts of the Recession* (Washington, DC: AARP Public Policy Institute, August 2011).

Older households typically live in homes that are older than the homes of younger households. In 2000, 39 percent of owners age 50+ and 38 percent of renters lived in homes that were built before 1960. In 2009, 45 percent of owners and 48 percent of renters were in homes that were built before 1970 (see figure 3). In general, housing conditions deteriorate with the increasing age of the housing stock.[15] Home maintenance costs can be substantial and add to an already strained household budget.

Homeowners without Mortgages

Traditionally, homeownership has been a solid investment that helped ensure middle-class financial stability. Older adults could count on the increasing values of their homes to supplement their retirement savings.[16]

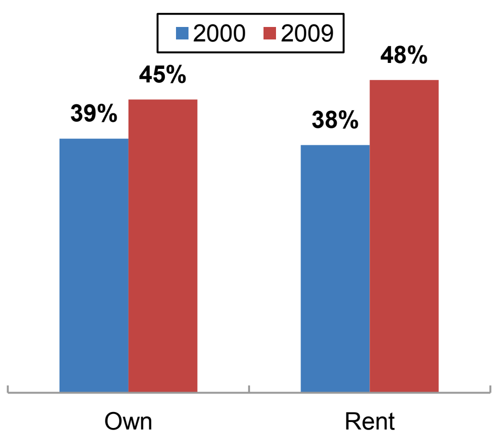
Figure 2
Percentage of Age 50+ Households in the Middle Two Income Quartiles with a Housing Cost Burden



Middle Two Income Quartiles: $23,218–$86,195

Source: AARP Public Policy Institute estimates based on the American Community Survey. State Housing Profiles 2011 data.

Figure 3
Percentage of Age 50+ Households in Older Housing



Source: AARP Public Policy Institute estimates based on the American Community Survey. State Housing Profiles 2011 data.

The housing price bubble that began before 2000 and burst beginning in 2006 negatively affected the wealth of many households. The overall median home value decreased 18.9 percent, from $209,500 in 2007 to $170,000 in 2010.[17]

Middle-class homeowners age 50+ who own their homes free and clear are the most financially stable of the three household types, but still must deal with property taxes, utilities, and other costs. In 2000, 2 percent of these households were cost burdened, which increased to 5 percent in 2009. The percentage of severely cost-burdened households also increased during this time. Their median monthly housing costs increased from $371 to $436 during this period.[18]

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[15] Ibid.

[16] Ibid.

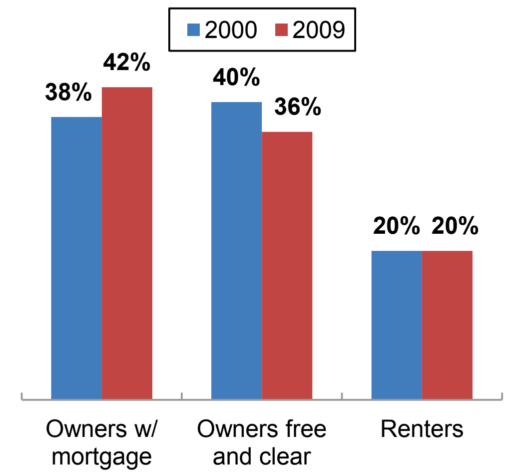
[17] Bricker et al., “Changes in U.S. Family Finances from 2007 to 2010,” pp. 46–50.

[18] AARP Public Policy Institute, analysis of U.S. Census Bureau, *American Housing Survey* national data from 2001 to 2009.

Homeowners with Mortgages

In 2000, 40 percent of all households age 50+ owned their homes with no mortgage, and 38 percent had a mortgage. By 2009, these percentages had reversed—36 percent of households age 50+ owned with no mortgage, and 42 percent had a mortgage. The number of renter households remained the same, holding at 20 percent (see figure 4).[19]

Figure 4
Age 50+ Households by Housing Tenure



Source: AARP Public Policy Institute estimates based on the American Community Survey. State Housing Profiles 2011 data.

As a result, more middle-income older homeowners now live with the burden of mortgage payments. Of the three groups of households, homeowners with mortgages have the highest housing-related costs. In 2000, 37 percent of middle-income homeowners age 50+ with mortgages had a housing cost burden—a number that rose to 47 percent in 2009. The proportion severely cost burdened within this group grew from 11 percent to 16 percent during the same period.[20]

For homeowners with mortgages, debt is rising. Between 2001 and 2008, average mortgage balances rose 26 percent, from $62,535 to $79,831, before dropping slightly in 2009 to $78,859.[21] For middle-income households age 50+, median monthly costs rose from $1,277 to $1,460 from 2000 to 2009.[22]

Moreover, one out of seven homeowners age 50+ with a mortgage in 2011 was "under water," owing more than their home was worth. In these circumstances, homeowners have fewer options for avoiding default, as sale or refinancing options are limited. In fact, foreclosures have increased for the 50+ population. From 2007 to 2011, the foreclosure rate for all loans of the 50+ group grew nearly tenfold, from 0.3 percent to 2.9 percent. In 2011, the majority (53 percent) of loans of the 50+ population in foreclosure were in middle-income households.[23]

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[19] Harrell, *Housing for Older Adults*.

[20] AARP Public Policy Institute estimates based on the *American Community Survey. State Housing Profiles 2011* data (Washington, DC: U.S. Census Bureau, 2012).

[21] AARP Public Policy Institute, analysis of U.S. Census Bureau, *American Housing Survey* national data from 2001 to 2009.

[22] AARP Public Policy Institute estimates based on the *American Community Survey. State Housing Profiles 2011* data.

[23] Trawinski, *Nightmare on Main Street*.

HOUSING AFFORDABILITY AND RENTERS

Middle-class renters aged 50+ are spending more of their incomes on housing. The proportion of cost-burdened renters rose from 28 percent of middle-income 50+ households in 2000 to 35 percent in 2009.[24] The proportion of renters who were severely cost burdened rose from 5 percent to 8 percent during this period.[25] Costs are increasing for renters of all of ages. Median monthly housing costs for 50+ renters increased from $678 in 2000 to $761 in 2009.

Housing costs for renters decline with increasing age (median monthly costs for all renters were $851 in 2009). However, the lower incomes of those 65 and older mean that they are more burdened by housing costs than younger households. Housing costs for renters age 65+ average 35 percent of their incomes, versus 30 percent for younger age groups.[26]

Homeownership rates have decreased in recent years, making the rental market tighter. Vacancy rates for rentals have fallen from 9.5 percent to 8.6 percent from the second quarter of 2007 to the second quarter of 2012.[27] Increased demand has been a factor in rising rents, making affordable options less available.

Renters make up approximately 40 percent of the families affected by foreclosure.[28] Renters may be unaware of their landlord's financial problems and may find themselves living in a foreclosed home without warning. Foreclosure causes financial strains on renters as they may be forced to find new housing, possibly paying higher rent.

ACCESS TO MIDDLE-CLASS OPPORTUNITY

In addition to the direct impact of housing costs and assets on well-being, housing choices play an important indirect role in middle-class security. Housing location can provide—or deny—access to services that enhance economic opportunity. Segregation of housing by income has increased in recent decades, a trend that can affect families' ability to achieve middle-class security.[29,30]

For parents, choosing a home with access to good schools is a critical way to enable their children to attain the education increasingly needed to ensure middle-class status. A

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24 AARP Public Policy Institute estimates based on the *American Community Survey. State Housing Profiles 2011* data.

25 Ibid.

26 Rodney Harrell and Ari Houser, *State Housing Profiles: Housing Conditions and Affordability for the Older Population* (Washington, DC: AARP Public Policy Institute, August 2011).

27 U.S. Census Bureau News, *Residential Vacancies and Homeownership in the Second Quarter 2012* (Washington, DC: U.S. Census Bureau, July 2012).

28 National Low Income Housing Coalition, *Renters in Foreclosure Fact Sheet* (Washington, DC: National Low Income Housing Coalition, June 2012).

29 Paul Taylor and Richard Fry, *The Rise of Residential Segregation by Income* (Washington, DC: Pew Research Center, August 1, 2012).

30 Sean F. Reardon and Kendra Bischoff, *Growth in Residential Segregation of Families by Income, 1970 to 2009*, US2010 Project, (New York, NY: Russell Sage Foundation, November 2011).

recent study found that housing costs in districts with high-performing schools were 2.4 times as expensive as in districts with low-performing schools—pricing many middle-class families out of this pathway to middle-class security.[31] The impact of housing costs on the middle class is not limited to older adults; it can affect multiple generations.

Conclusion

Housing affordability for middle-class older adults is in jeopardy. The lack of affordable housing options already threatens the financial stability of older households and will likely worsen as the population age 50+ grows over the coming decades. The recent decline in home values will further limit the choices of homeowners who must rely on their home equity to pay for supportive services or housing alternatives that meet their needs in late life.

Most older people desire to age in place, and the housing market and public policy should respond with options that are affordable—not just in terms of housing costs, but related costs as well.[32] Homes in locations with access to multiple transportation choices and other community assets make overall household costs more sustainable for families and older individuals.[33] Universal design features can increase access and usability of the home for people of all ages and levels of physical ability and help prevent costly falls. Energy-efficient features can help to keep temperatures at a safe level year-round and save on energy costs. State and local governments can provide financial support for policies and programs that encourage a mix of housing options that meet these needs.

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31 Jonathan Rothwell, *Housing Costs, Zoning, and Access to High-Scoring Schools* (Washington, DC: Brookings Institution, April 2012).

32 Nicholas Farber and Douglas Shinkle, with Jana Lynott, Wendy Fox-Grage, and Rodney Harrell, *Aging in Place: A State Survey of Livability Policies and Practices* (Washington, DC: AARP Public Policy Institute, December 2011)

33 Harrell, *Housing for Older Adults*.