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California's Housing Affordability Crisis Hits Renters and Households With the Lowest Incomes the Hardest

Unaffordable housing costs are one of California's most pressing challenges. The high cost of housing is one of the primary drivers of California's high poverty rate – ranked first among the 50 states – under the Supplemental Poverty Measure, which accounts for differences in the local cost of living.¹ The lack of affordable housing increases economic insecurity among California families and also creates challenges for California employers striving to retain and recruit workers. Housing affordability is a problem throughout the state when housing costs are compared to incomes, and the Californians who are most affected by the housing affordability crisis are renters and households with the lowest incomes. Policy solutions that particularly target these households represent a promising approach to tackling the state's housing crisis strategically, with a focus on those most deeply affected.

Renters Are Especially Likely to Have Unaffordable Housing Costs, While Homeowners Without Mortgages Are Least Affected

Determining whether housing is affordable requires considering both housing costs and household incomes. For renters, housing costs include monthly rent payments, plus the cost of utilities if not included in the rent. Housing costs for homeowners include monthly mortgage principal and interest payments, plus property tax, property insurance, utilities, and condo or mobile home fees (if applicable). To understand California's housing affordability challenges, it is important to consider these housing costs *relative to incomes*. If high housing costs are matched by high incomes, then expensive housing may be affordable to many households. At the same time, even relatively low housing costs may be unaffordable if local incomes are also low.

For housing costs to be considered affordable, a household's total housing costs should not exceed

30 percent of household income, according to the US Department of Housing and Urban Development. Households paying more than 30% of income toward housing are considered housing "cost-burdened," and those with housing costs that exceed half of their income are considered "severely cost-burdened." By these standards, more than 4 in 10 households statewide had unaffordable housing costs in 2017. Furthermore, 1 in 5 households across California faced severe housing cost burdens, spending more than half of their income toward housing expenses.

California's renters are substantially more likely to struggle with housing affordability than homeowners in California. More than half of renter households paid over 30% of income toward housing in 2017, and more than a quarter were severely cost-burdened, paying more than half of household income toward housing costs. California homeowners generally struggle less to afford their housing, though more than a third of homeowners with mortgages were housing cost-burdened in 2017. Owners without mortgages are least likely to face high housing

burdens in California. Besides not having the monthly expense of a mortgage, many of these homeowners have been in their homes for decades and therefore benefit from relatively low property taxes due to Proposition 13's limitation on property tax increases (Figure 1).

Low-Income Households Are Particularly Affected by Unaffordable Housing

Households with the lowest incomes are by far the most likely to have housing costs that are unaffordable. Eight in 10 households with low incomes (those with incomes of less than 200% of the federal poverty line) were housing cost-burdened in 2017, and more than half of these households spent more than half their income on housing. At the same time, only about 16% of high-income households (with incomes of 400% or more of the federal poverty line) were housing cost-burdened in 2017, and less than 3% were severely cost-burdened (Figure 2).

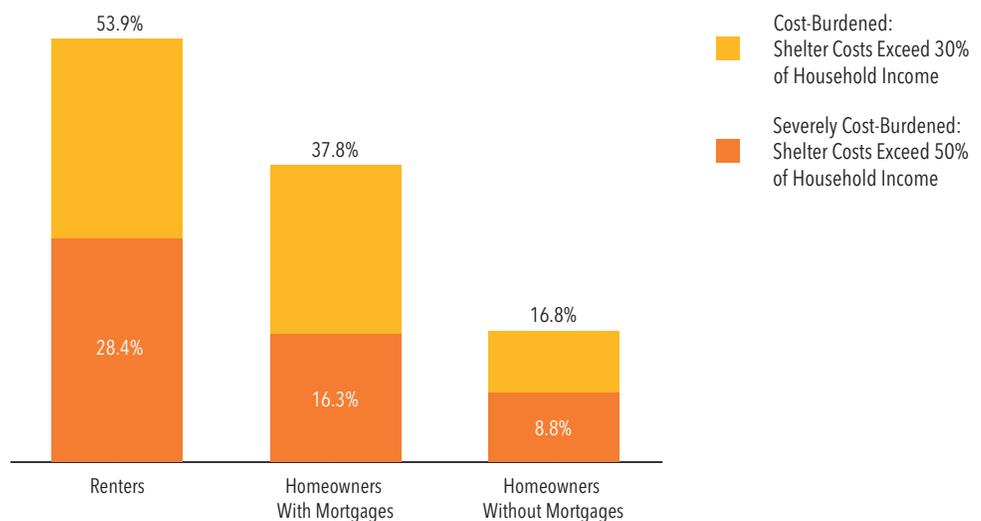
Housing Affordability Is a Problem in All Regions of California, and Many of Those Affected Are People of Color

Housing costs vary substantially throughout California, with the highest costs in coastal urban areas and the lowest costs in inland rural areas. But incomes also vary regionally, and areas with relatively lower housing costs also tend to have lower typical incomes. The result is that housing affordability is clearly a problem throughout the state when housing costs are compared to incomes. Across every region of California, from the high-cost San Francisco Bay Area and Los Angeles and South Coast to the lower-cost Central Valley and Far North, at least a third of households spent more than 30% of their incomes toward housing in 2017, and more than 1 in 6 spent more than half of their incomes on housing costs (Figure 3).

FIGURE 1

More Than Half of California's Renters and Over a Third of Homeowners With Mortgages Have High Housing Costs

Percentage of Households With Housing Cost Burden or Severe Housing Cost Burden, 2017



Note: Definitions of housing cost burden are from the US Department of Housing and Urban Development.
 Source: Budget Center analysis of US Census Bureau, American Community Survey data

FIGURE 2

Eight in 10 Households With Low Incomes in California Have Unaffordable Housing Costs

Percentage of Households With Housing Cost Burden or Severe Housing Cost Burden, 2017

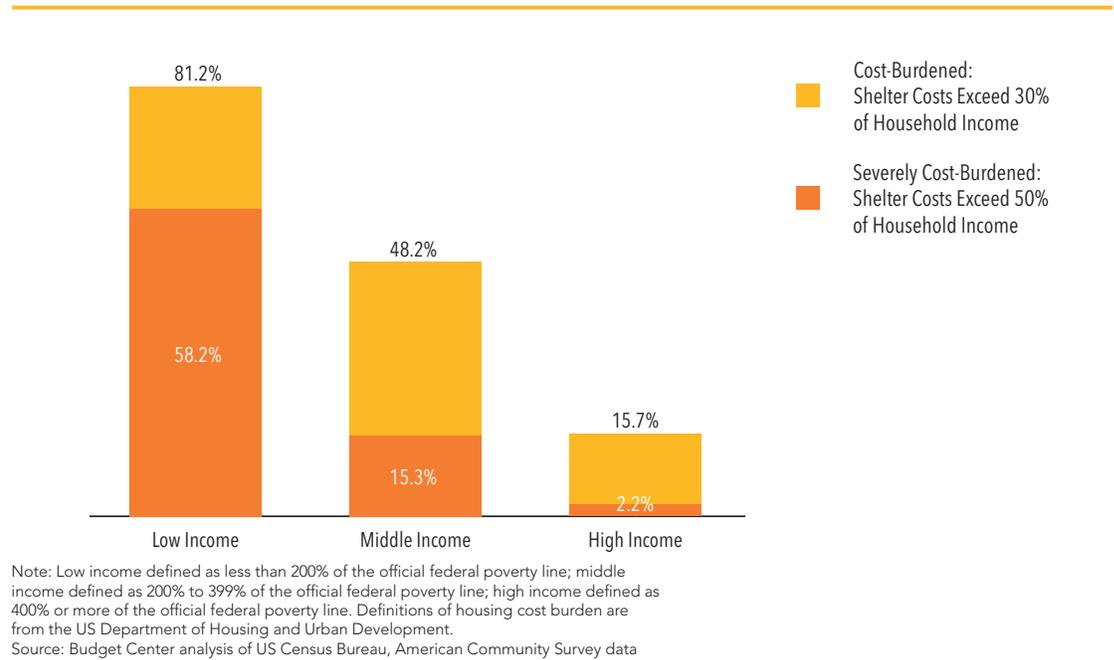
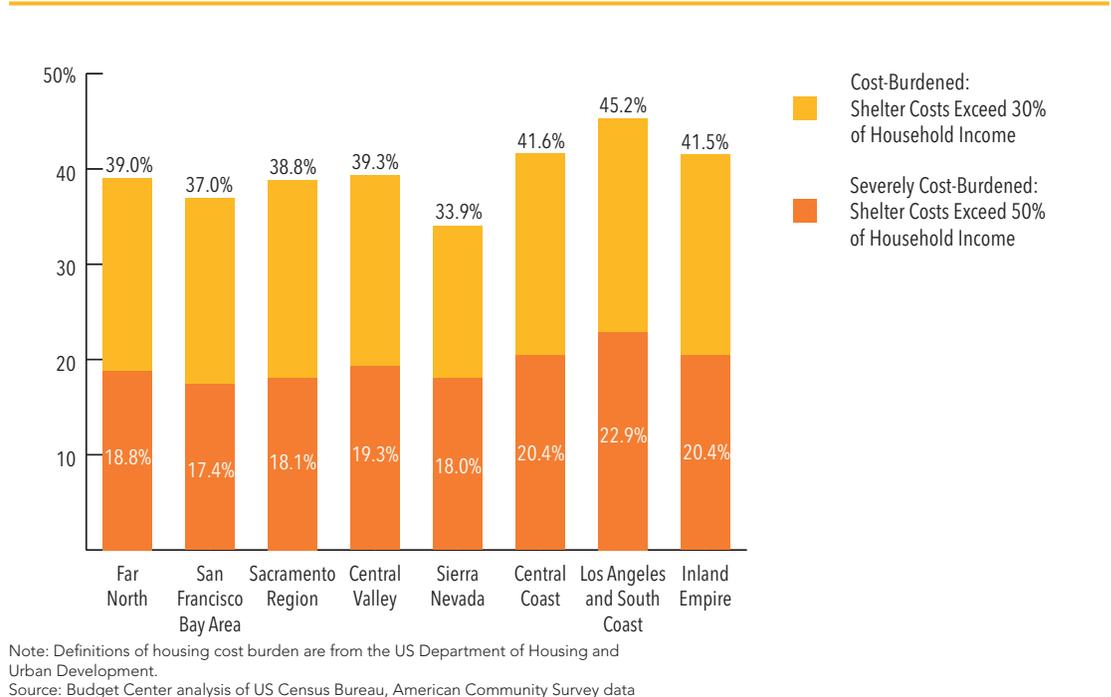


FIGURE 3

Housing Costs Are Unaffordable Throughout California

Percentage of Households With Housing Cost Burden or Severe Housing Cost Burden, 2017



Throughout the state, many of the individuals affected by unaffordable housing costs are people of color. Among all Californians living in households paying more than 30% of income toward housing costs in 2017, more than two-thirds were people of color, and about 45% were Latinx (Figure 4).

High Housing Cost Burdens Call for Policies Designed to Help Those Who Are Most Affected

What problems arise when households struggle to afford housing? Unaffordable housing costs can force families to spend less on other basic necessities like health care or food, to cut costs by seeking lower-quality child care, and to under-invest in important long-term assets like education or retirement savings. Unaffordable housing costs can also force families and individuals to accept substandard housing or live in neighborhoods that lack basic safety and offer limited opportunities. In the most serious cases, unaffordable housing can push households into homelessness. All

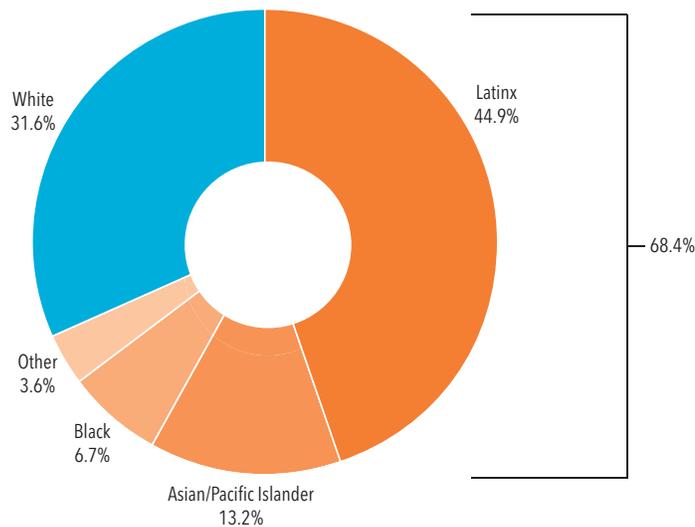
of these consequences can have cascading effects on health and can shape both short-term well-being and long-term outcomes for affected individuals.²

Given the challenges of housing affordability across all regions of California – especially for renters, households with the lowest incomes, and people of color – strategies to increase affordability are urgently needed, particularly for the most-affected Californians. Housing affordability policy solutions can focus on *protection* of affordability for current residents, *preservation* of existing affordable housing, and *production* of more housing, particularly homes targeted to the households that struggle most to find and retain affordable housing, including renters and those with the lowest incomes. Specific policy solutions that can make a difference include tenant protections against excessive rent increases, funding to support affordable housing construction and preservation, and policies that increase local incentives and local accountability for accommodating more housing development, particularly for housing

FIGURE 4

More Than 2 in 3 Californians With Unaffordable Housing Costs Are People of Color

Race/Ethnicity of Individuals in Households With Housing Cost Burden, 2017



Note: "Housing cost burden" is defined by the US Department of Housing and Urban Development as shelter costs exceeding 30% of household income. Race/ethnicity categories are mutually exclusive. Source: Budget Center analysis of US Census Bureau, American Community Survey data

affordable to low-income households. Moreover, policies outside of the housing arena that help families make ends meet – by reducing costs for child care, food, health care, or other necessities, or by supplementing incomes – represent another important approach to helping Californians who are struggling to afford the cost of housing.

As state leaders craft budget and policy proposals, it is important to acknowledge that a mix of policies is needed to address California’s housing affordability challenges and that doing so is particularly important for California’s renters, low-income households, and people of color.

Sara Kimberlin prepared this *Issue Brief*. The Budget Center was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The Budget Center engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the Budget Center is provided by foundation grants, subscriptions, and individual contributions. Please visit the Budget Center’s website at calbudgetcenter.org.

ENDNOTES

- ¹ Sara Kimberlin and Esi Hutchful, *New Census Figures Show That California Has 7.5 Million Residents Living in Poverty – More Than Any Other State* (California Budget & Policy Center: September 2018).
- ² Adriana Ramos-Yamamoto, *Advancing Health Equity: How State Policymakers Can Increase Opportunities for All Californians to Be Healthy* (California Budget & Policy Center: March 18, 2019).