"Demographics of Poverty and Progress after the Recession".
June 9, 2014

# Roundtable discussion: Income Inequality Trends from a Regional Housing Policy Standpoint

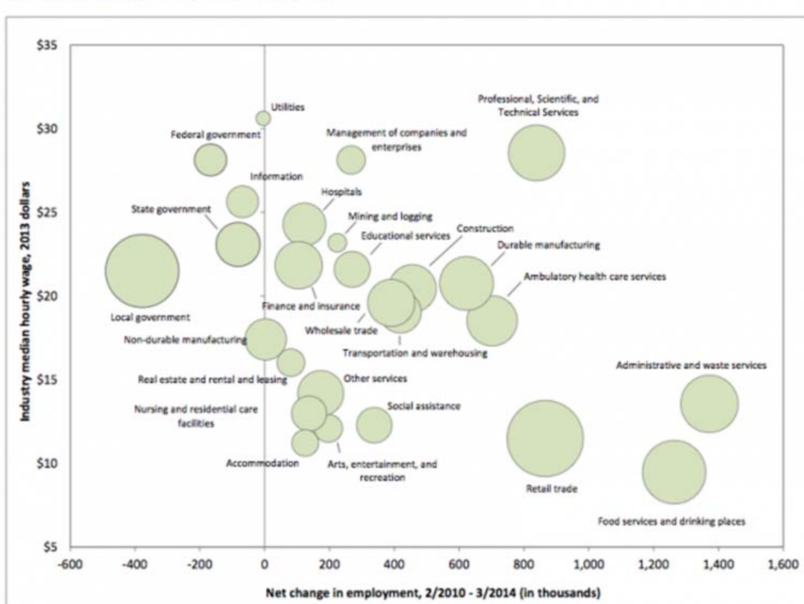
**The Rise in Poverty is accompanied by a Contraction in the Middle Class: The hardest hit are Generation Y Young Adults and Retiring Boomers**

2014 Observations:

There is a new majority of low-income students in California public schools (54%), young adults are heavily burdened by student loan debt and there is a sharp rise in seniors in poverty.
(http://www.southerneducation.org/getattachment/0bc70ce1-d375-4ff6-8340-f9b3452ee088/A-New-Majority-Low-Income-Students-in-the-South-an.aspx).

There are three major challenges facing California and the region. First is improving the education level of low-income students and reducing the trillion-dollar student debt burden generally. Second, California, with its high cost of living and health care, leads the nation in the percentage of older adults living in poverty, according to a 2013 report by the Kaiser Family Foundation. Third, state and regional low wage job growth supports unemployment decline. But it also contributes to income inequality gaps between the rich and poor. Low wage jobs have returned far more quickly than middle or high-income work. The housing sector is a key middle-income employer that has failed to rebound.

**Figure 4. Net Employment Change by Major Industry, February 2010 to March 2014**
(Bubble size scaled by industry's current employment)

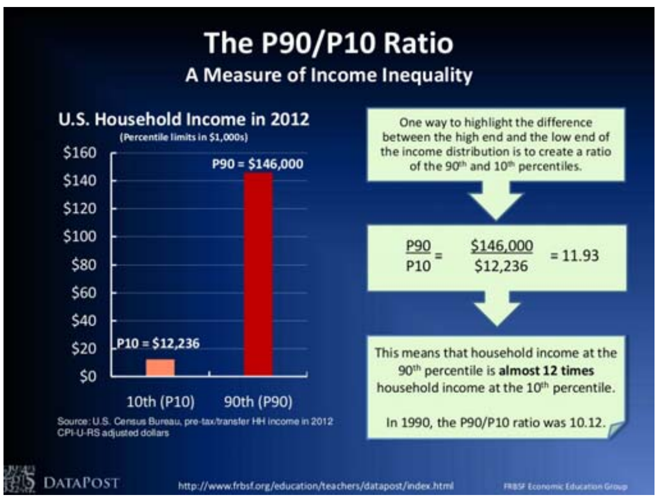


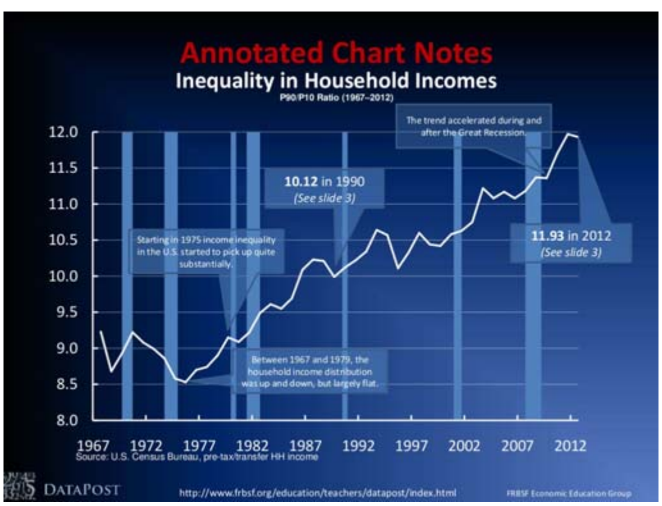

Source: NELP analysis of Bureau of Labor Statistics data, see Appendix A for details.

The National Employment Law Project chart shows changes in employment by industry. The further to the right, the more workers added since 2010. The further down the lower the wages. Bubbles in the middle are sizable but have lackluster growth and are tied to the Housing sector. Without job growth among young middle class workers who would be first time buyers, and with interest rates on the rise, builders will be expected to focus on the high-end market and this hampers a fuller rebound in middle class jobs.

**Measuring Income Inequality:**

The Federal Reserve Bank of San Francisco measures the difference between the high and the low end of the income distribution by creating a ratio between the two.




http://image.slidesharecdn.com /incomeinequalityfinal2014-02-04-140207161046-phpapp01/95/slide-5-1024.jpg?cb=1391816049

The California mandated Regional Housing Needs Assessment prepared by SCAG for southern California identifies the number of households in each jurisdiction that are very low, low, moderate and above moderate income by county based on area median income. The housing needs assessment also includes a fair share adjustment to avoid a disproportionate concentration of poor households in one community versus another in the same market area. Local governments further identify extremely low income and may identify workforce housing needs as well as homeless need. It is in this way that the state attempts to address income inequality through consensus regional “fair share” planning goals by income group. It is up to each jurisdiction to set local land use and housing production, rehabilitation and preservation goals for each income group. All jurisdictions in a region collectively update the housing elements of their local General Plans according to a state mandated schedule every 8 years. The State Housing and Community Development Department reviews the updates for conformance with state law.

2014 Observations

What may be fueling the rise in poverty and drop in the middle class in southern California are education and income/debt barriers among young adults seeking first time apartments and home ownership, while many seniors hurt by the 2008 economic collapse may have lost their jobs or homes and saw their savings evaporate or pensions cut after the Great Recession.

Longer life spans are also a contributing factor to rising senior poverty levels with social security lagging well behind rising health, long term care and medical costs for the frail elderly.

**Generation Y Faces Higher Renter qualification and Home Ownership Lending Standards**

2014 Observations:

Affordability will worsen as interest rates rise and wage levels lag. Risk based lending needs to make a comeback for homeownership to expand. But even FHA isn’t cheap with their low down payment and high priced PMI rates.

The hope is to refinance out in a few years. But interest rates may rise and this countervailing trend pushes back against affordability.

Low inventory works against affordability. But for demand to rise, and spur new building activity and inventory, household growth and net in migration must increase. But high wage jobs are lacking, while population growth alone is not robust enough.

Where are the repeat buyers? Poor credit and risk adverse lenders combine to stymie demand as first time buyers are priced out.

Student loan debt delays renting, homeownership, marriage and children and retirement! Backing up of demand among the young results in a failure to launch from home to apartment and beyond.

Generation Y faces high debit, poor credit and inability to save delays home ownership for young adults.

High school dropout rates are high and limit wage growth needed to afford an apartment or home. College students are carrying a trillion dollar debit!

Southern California housing markets may be over valued and this may dampen demand, especially given education attainment levels and student debit burdens.

There are pressing concerns around the potential impact of investor ownership on communities, tightening rental markets, and the ongoing challenges of preserving affordability as bidding for existing single family homes favors all cash investors.

These properties are rented instead of purchased by potential homebuyers using loans.  All cash purchases also enable the skipping of the appraisal process. Appraisals are a crucial part of the checks and balances needed for responsible lending.

Negative equity, existing debit burden, lack of down payment resources and poor credit history stands in the way of first time and repeat buyers from purchasing a home, especially among blacks and Hispanics – the groups suffering the largest decline in home ownership attainment as a result of the Great Recession.

**Tools for fighting income inequality available to local and state government**

In SoCal coastal areas "high rents and stagnant wages are pushing out the middle class and low-income families." The resulting exodus is leaving ever widening gaps between the rich and poor and haves and have-nots.

A NY Times article using the Federal Reserve Bank of SF ratio of the $90^{th}$ to $10^{th}$ percentile income distribution to measure income inequality notes: "Across the country the top 1 percent of households has captured about 95 percent of the income gains eked out during the tepid recovery from the Great Recession. And inequality has increased in 94 of the country’s 100 biggest metropolitan areas since 1990, growing especially wide in the last few years."

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The New York TimesThe New York TimesThe New York Times
The New York Times

## Urban Divides

Income inequality, which has grown in nearly every one of the country's largest cities since 1990, is closely tied with the availability of affordable housing. Both metrics for the 100 largest metro areas are shown below.
APRIL 6, 2014


Source: Trulia

2014 Observations

Tools for fighting income inequality available to local and state government are limited and include: raising the minimum wage paid by employers, more Prop 30 type initiatives sharply increasing taxes on the rich to help the middle class and poor by supporting education and bolstering programs for public education, transportation, affordable housing and wages generally.

Local housing element updates supporting a state mandated regional housing needs assessment and fair share workforce and land use policy can be a significant tool to address household income distribution and social equity issues across jurisdictions in a subregion or between communities sharing transportation corridors and transit infrastructure impacting regional development.

Even so, The NY Times article notes, “The federal government must address inequality’s root causes, like globalization and technological change."
This is because "Cities and Counties generally have little or no control over the federal tax code and large benefit programs like Social Security, Medicaid and Medicare. It is those federal policies that have the biggest effect on inequality."
http://mobile.nytimes.com/2014/04/07/business/economy/cities-advancing-inequality-fight.html

Consequently, it could be inferred that the most significant policies for southern California coastal cities and counties to adopt are those that are aimed at encouraging the middle class to remain there rather than moving to the suburbs in Inland Valley and Desert areas in SCAG region by supporting more coastal infill infrastructure, Transit Oriented Job development (TOJ), more affordable workforce and lower income housing near transit, improving schools and expanding public transportation.

The paradox: the coastal middle and lower income household exodus and job sprawl is needed to fuel a resurgence of the Inland and Desert area economies. Job Housing Balance swings from less balanced to more balance to less balanced once again leaving in its wake a larger and increasing gap between the rich and the poor, especially near existing and planned job and transit centers.

Roundtable discussion Issue:

**How does southern California achieve fair share income distribution goals and reverse income Inequality trends that lead to a concentration of poverty in one community versus another? Further, what strategies are needed to support sustainable regional growth, increased transit use and less middle-income household flight?**

# Notes: Income Inequality Trends from a Regional Housing Policy Standpoint

Student loan debt also appears to be affecting homeownership trends.

According to research by the Federal Reserve Bank of New York, fewer 30-year-olds in general have bought homes since the recession, but the decline has been steeper for people with a history of student loan debt and has continued even as the housing market has recovered.

One of the crucial reasons the housing market has not expanded enough to support robust economic growth is that young adults are not setting up their own households at anywhere near the historical norm.

http://mobile.nytimes.com/2014/05/15/upshot/the-role-of-student-debt-in-stunting-the-recovery.html?referrer=

Is It Better to Rent or Buy?

The choice between buying a home and renting one is among the biggest financial decisions that many adults make.

The Times created an online calculator that enables prospective buyers and renters to analyze their own decision. For example, for a typical person considering the purchase of a $500,000 house who expects to live there seven years, it might make more sense to rent if a similar place is available for $1,956 a month or less.

Thanks to low interest rates and home prices that remain 13 percent below their 2006 peak nationally, buying continues to look like a good deal in much of the country. In the once-frothy markets of Phoenix, Las Vegas and Orlando, Fla., for example, the typical home price is still 30 to 40 percent below 2006 levels, even more if one accounts for inflation.

But across much of California and the Northeast, prices are now high enough that the costs of owning a home – property taxes, repairs, fees to real-estate agents and mortgage interest – may outweigh the financial benefits, including the tax break.

It is the latest change in a yo-yo pattern over the past decade. From 2004 to 2006, the math overwhelmingly favored renting rather than buying across most of the country, even as many Americans mistakenly decided that home prices could never fall. From 2009 to 2011, buying was an extraordinary deal in most of the country. Even the markets that have experienced huge price increases are far from the clear-cut bubble conditions of the mid-2000s, but they're inching closer with every bidding war.

Since the start of 2011, prices have risen 33 percent in the San Francisco area, 30 percent in Miami, 24 percent in Los Angeles — and even more in some of the most desirable neighborhoods within those areas.

http://mobile.nytimes.com/2014/05/22/upshot/rent-or-buy-the-math-is-changing.html?from=homepage

http://www.nytimes.com/interactive/2014/upshot/buy-rent-calculator.html

Overvalued markets may be the result of three forces

1. They are taking place in local economies that suffered only minimally during the recession that began in 2008 and have experienced strong job growth since then. (But not in middle-income jobs)

2. They are fueled further by the low-interest rate policies that are aimed at bolstering the overall national economy but don't discriminate based on geography. Even as San Francisco's housing market is at risk of overheating, buyers there get the same ultra low mortgage rates engineered by the Federal Reserve as home buyers in depressed Detroit or Cleveland do.

3. And the new booms are taking place in markets where restrictions on building hinder developers from responding to rising demand by constructing more housing. That distinguishes the major California markets from the strong local economies in Texas and elsewhere. The Dallas area and the San Francisco area added similar numbers of jobs last year, but local governments in Dallas issued permits for nearly four times as many new housing units."

New Federal Program to reverse the Rise in Poverty

The Promise Zone designation is a new federal initiative at the neighborhood level to reverse the rise and concentration of poverty by increasing job training, community college educational attainment, and affordable housing availability and transit investment to promote job growth and lessen middle class flight. SCAG's Compass Blueprint and subregional economic development and sustainable growth initiatives may leverage access to this designation.

Gentrification remains a fear as resurgence may trigger displacement in some zones and neighborhoods. For instance, soaring home prices have spurred both an economic resurgence and low-income household displacement near USC. As the expanding Expo light rail line delivers new residents, retail job growth, and additional student housing, it also accelerates significant demographic and household income group shifts as properties change hands in what was once a high poverty and distressed USC area. This area is along the shared light rail corridor that connects USC to the new south Los Angeles Promise Zone.

http://touch.latimes.com/#section/5/article/p2p-80065219/?related=true

Retaining a Middle Class

Retaining a middle class remains a challenge as only 12% of LA City residents can afford a median priced home and soaring rents displace low income households. A family with two median incomes—theoretically middle-class—can only afford about 12 percent of homes on the market in Los Angeles, according to a new study by listing site Redfin - see link below.

"Using stats from the Bureau of Labor Statistics, the study shows that if there's only one member of the household bringing home the checks, that household's home options are reduced to about one percent of houses on the market. (Unlike housing prices, incomes adjusted for inflation haven't increased much, if at all, in decades.) If we expand that housing search to include the entire LA metro (pulling in areas outside of Los Angeles proper, like Castaic, El Monte, Santa Ana), about 40 percent of homes are affordable for the typical homebuyer, according to a new report by Zillow." Check out their home affordability map.

http://m.la.curbed.com/archives/2014/04/a_middle_class_la_household_can_only_afford_12_of_homes.php

An expanded affordable housing supply will be a key factor in spurring a Middle Income Economic Recovery and to hold in check rising post recession poverty levels.

Low-income Californians getting squeezed by rising rents

Median rents in California have risen more than 20 percent between 2000 and 2012. Yet median income fell by 8 percent.

A new report from the California Housing Partnership Corporation says close to a million Californians who make 'extremely-low' incomes are especially vulnerable to the lack of affordable housing.

And as incomes stay stagnant or fall, and rents keep going up, that number is expected to rise – especially here in Southern California..

http://blogs.kcrw.com/whichwayla/2014/02/low-income-californians-getting-squeezed-by-rising-rents

City of Los Angeles Promise Zone Strategy

The Los Angeles Promise Zone

Los Angeles, CA (Neighborhoods of Pico Union, Westlake, Koreatown, Hollywood, and East Hollywood)

The City of Los Angeles's key strategies include:
Increasing housing affordability by preserving existing affordable housing and partnering with housing developers to increase the supply of affordable new housing to prevent displacement.

Ensuring all youth have access to a high-quality education, and are prepared for college and careers through its Promise Neighborhoods initiative, by partnering with the Youth Policy Institute and L.A. Unified School District to expand its Full Service Community Schools model from 7 schools to all 45 Promise Zone schools by 2019.

Ensuring youth and adult residents have access to high-quality career and technical training opportunities that prepare them for careers in high-growth industries through partnerships with career and technical training schools and the Los Angeles Community College District.

Investing in transit infrastructure including bus rapid transit lines and bike lanes, and promoting transit-oriented development (TOD) that attracts new businesses and creates jobs.

Charging its Promise Zone Director and Advisory Board with eliminating wasteful and duplicative government programs.

http://mobile.reuters.com/article/idUSBREA251ZK20140306?irpc=932

http://m.whitehouse.gov/the-press-office/2014/01/08/fact-sheet-president-obama-s-promise-zones-initiative

## A Tale of Two Economies

California is a state increasingly split between coastal communities, where the economic recovery is humming along and where median household incomes are highest (think San Francisco, Santa Monica and San Diego) and inland areas where job growth and new investment still lag (think Fresno, Stockton and Riverside).

How is an economic rebound achieved and balanced between the coastal and inland areas of the state?

Carreras
6/7/14



Published: April 13, 2012

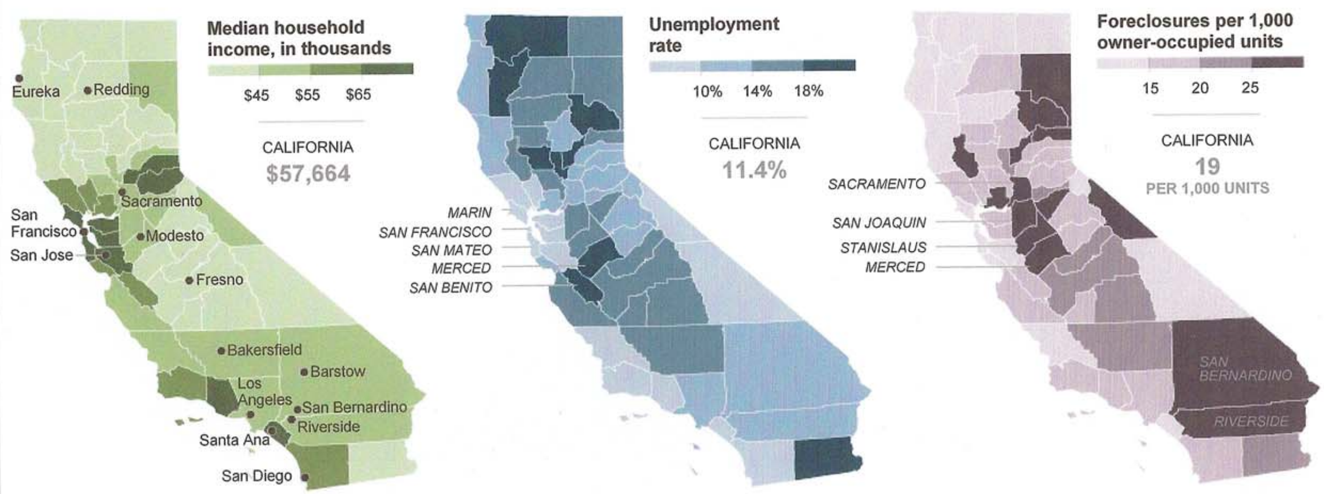
# An Economic Divide in California

Related Article »

Many counties along the state's western coastline have median household incomes well above some inland communities like Sacramento, Fresno and Riverside.

The Bay Area counties of Marin, San Mateo and San Francisco have the state's lowest jobless rates, while nearby inland counties like Merced and San Benito have among the highest.

San Bernardino and Riverside Counties, with their many vacant homes, and parts of the Central Valley near Sacramento have among the highest foreclosure rates.




Send Feedback

Sources: Census Bureau; U.S.D.A. Economic Research Service; California Employment Development Department; RealtyTrac; socialexplorer.com

**State HCD 2012 Income Category Limits and Maximum Housing Affordability Payment**

**Orange County**
100% of Area Median Income = $83,500

| **Income Categories** | **HCD Income limit for a 4 person Family** | **Housing Affordability Limit at 30% of Income/ month** |
|---|---|---|
| HCD Extremely low income (30% of Area Median Income) | $ 28,900 | $ 723 |
| **RHNA Very Low Income (50% of Area Median Income)** | $ 48,150 | $ 1,204 |
| **RHNA Lower Income (80% of Area Median Income)** | $ 77,050 | $ 1,926 |
| **RHNA Moderate Income Essential Workforce Need -Tier 1 ( 50 to 120% of Area Median Income)** | $ 102,350 | $ 2,559 |
| RHNA Above Moderate Income Workforce Need -Tier 2 (150% of Area Median Income) | $ 125,250 | $ 3,131 |
| Workforce Need -Tier 3 (180% of Area Median Income) | $ 150,300 | $ 3,758 |

**First-time Buyer Housing Affordability Index 2012 Q 3**

| **C.A.R. Region** | **Housing Aff. Index** | **Entry-Level Price** | **Mo Pymt Includes Taxes & Insurance** | **Minimum Qualifying Income** |
|---|---|---|---|---|
| **CA SFH (SAAR)** | **67** | **$ 288,880** | **$ 1,390** | **41,640** |
| CA Condo/Townho | 76 | $ 219,360 | $ 1,050 | 31,620 |
| Los Angeles Metro | 69 | $ 266,980 | $ 1,280 | 38,480 |
| **Orange County** | **57** | **$ 476,270** | **$ 2,290** | **68,650** |
| Inland Empire | 81 | $ 164,820 | $ 790 | 23,760 |
| S.F. Bay Area | 57 | $ 482,830 | $ 2,320 | 69,600 |
| US | 80 | $ 158,190 | $ 760 | 22,800 |

http://www.car.org/marketdata/data/ftbhai/

**HUD FY2012 Orange County - 40th Percentile Rents**

| Final FY2012 40th Percentile Rents By Unit Bedrooms | | | | | |
|---|---|---|---|---|---|
| | Efficiency | One-Bedroom | **Two-Bedroom** | Three-Bedroom | Four-Bedroom |
| **Final FY2012 FMR** | ***$1,145*** | ***$1,293*** | ***$1,543*** | ***$2,183*** | ***$2,514*** |

**Note: to afford a 2BR rental with 30% of Income a household would need to earn $61,720**

http://www.huduser.org/datasets/fmr/fmrs/fy2012_code/2012summary40.odn?inputname=METRO31100MM5945*Orange+County,+CA+HUD+Metro+FMR+Area&force_40=yes&data=2012&year=2012&fmrtype=Final&incpath=C:%5CHUDUSER%5CwwwMain%5Cdatasets%5Cfmr%5Cfmrs%5CFY2012_Code&path=%24path%24&selection_type=hmfa

LA County 2BR FMR is $1,447 requiring an income of $57,880 to afford the unit with 30% of income

State HCD 2012 Income Limits: http://www.hcd.ca.gov/hpd/hrc/rep/state/inc2k12.pdf
Note: For a unit to meet HCD reporting requirements as "Affordable to Lower Income Households" it must meet specific criteria, e.g. covered by an affordability covenant, etc.

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12/6/2012