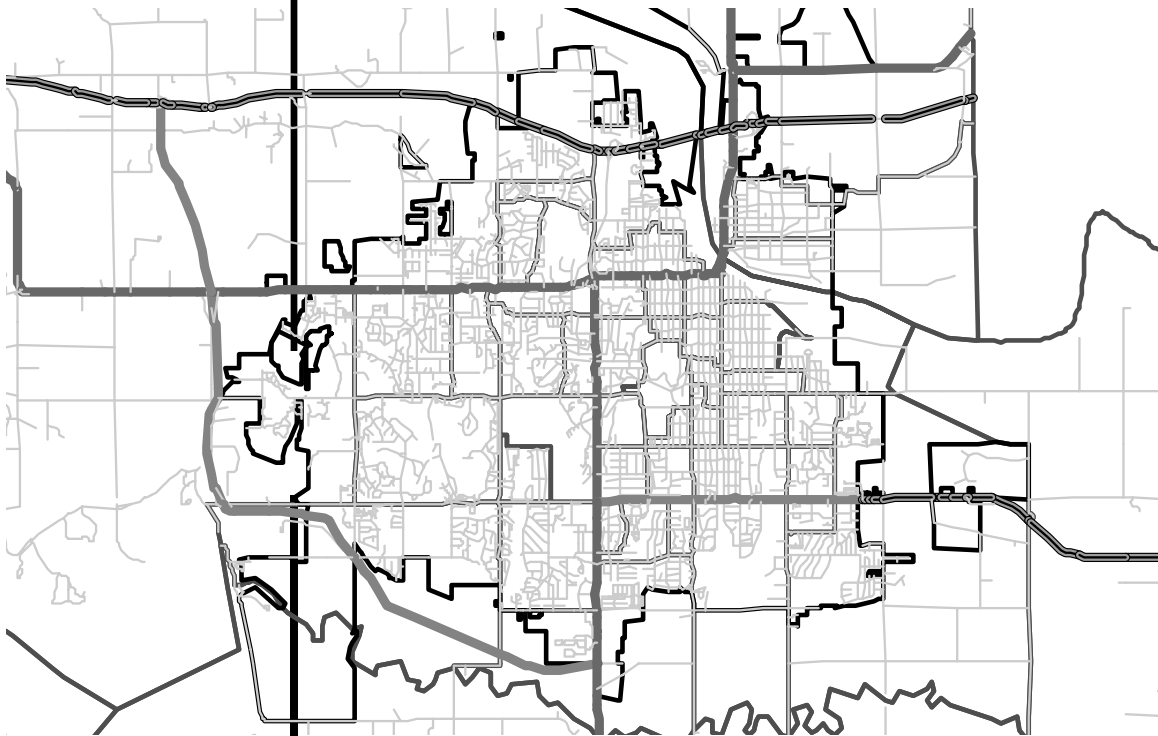


Research Report

## Housing Affordability in Lawrence, Kansas



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## *Abstract*

*The rental and owner housing markets of Lawrence have been examined separately using data from the U.S. Bureau of the Census. The households in each tenure category have been grouped according to income level and the units grouped according to price or rent level. These groups illustrate where the housing market of Lawrence is balanced and where affordability problems exist. Overall, the Lawrence housing market is well balanced. Generally, the housing affordability problems of Lawrence do not result from a shortage of affordable units; rather, the problems result from many households having such low income that the market cannot provide good quality units at prices affordable to these households. Given this market condition, the best approach to resolving housing affordability problems may be found in rental assistance and homebuyer assistance programs rather than in costly production programs.*

## **Introduction**

Housing affordability problems are not easy to identify; it is difficult to distinguish between the problems of insufficient affordable housing units and households who have insufficient income to afford housing in the market. Many techniques exist to assess the nature and scope of the problem. This paper addresses just a few of the most commonly employed measures of housing affordability to determine the nature of the housing affordability problems in Lawrence, Kansas.

Among the best ways to identify housing affordability problems is to understand where the market stands relative to other markets.

According to the U.S. Census, the median gross rent (contract rent plus utilities not included in the rent) in Lawrence in 2000 was \$555 per month. For the nation, the median gross rent was \$602, thus Lawrence rents were 8 percent below the national level.

Also according to the Census, the median value of owner-occupied homes in Lawrence in 2000 was \$112,800. For the nation, the median owner-occupied home was \$111,800. Thus, Lawrence was within 1 percent of the national median. Thus, rents are lower than typically found across the nation, and home prices are very much in line with prices elsewhere.

Affordability is not defined just by housing prices. Affordability is also a function of household income. In 2000, the median household income for those households in Lawrence who owned their own home was \$56,094, 9 percent higher than the median for all owner households in the nation at \$51,323. Thus, homeowners in Lawrence enjoy higher incomes than found elsewhere while house prices are on a par with the rest of the nation.

However, the comparison for renters is not as good or as simple. In 2000, the median household income for those households who rented their housing in Lawrence was \$22,166, 19 percent below the national median of \$27,362. Renters appear to have lower income, but this may reflect the fact that Lawrence is a college town with a high incidence of student households whose income is artificially low during their student years. These student households, many of whom are renters in the private market, often receive financial support from parents that is not captured by the Census. This results in an exaggerated count of very low-income renter households.

Jim Schneider, working with the Bureau of the Census, used 1990 data to determine the incidence of students among the very low-income renter households of Lawrence. Schneider found that 59 percent of the very low-income renters (renters with income below \$10,000) in Lawrence were headed by students. This suggests that the long-term resident very low-income renters in Lawrence are fewer in number than the Census data would indicate given the transitory poverty and underreported income of students.

If house prices and rents are at or below national levels and income levels are mixed, it is unclear how this translates into a conclusion on housing affordability in Lawrence. One measure of housing affordability is an examination of the percentage of income that households devote to housing costs. In Lawrence in 2000, the Census finds that among owner-occupants, the median housing cost as a percent of income is 18.2 percent, on a par with the national median of 18.7 percent. Many owner-occupants are free of mortgage debt and many are not. However, even if broken out by mortgage status, Lawrence is comparable to the nation. Owner-occupants with mortgages have a median housing cost of 20.4 percent of income compared to 21.7 percent for the nation. Owner occupants without a mortgage enjoy a lower median housing cost at 10.0 percent compared to the national median of 10.5 percent. In all cases, Lawrence is within the national level by less than one percentage point.

Given the high incidence of student households, the median housing cost as a percent of income among renters has less meaning. In Lawrence during 2000, the median cost of housing among renter households was 30.0 percent compared to 25.5 percent nationally. Thus, Lawrence appears to be 4.5 percentage points above the national level. It is unclear how much of this is due to the presence of students with underreported income.

Another measure of housing affordability is the percentage of households paying more than 35 percent of income toward housing. Having to allocate more than 35 percent of income toward housing is generally deemed to indicate a housing cost hardship. Among owner-occupants in Lawrence about 12 percent suffer from a housing affordability hardship, which is lower than the 15 percent found nationally. Thus, about 1 in 8 owner households suffer from a housing affordability problem in Lawrence. Among renters in Lawrence, about 42 percent suffer from a housing affordability hardship, which is higher than the 32 percent found nationally. Some of this higher hardship among renters may be due to the high incidence of students. Even adjusting the estimates downward to the

Table 1.

**Measures of Housing Affordability  
Lawrence, Kansas and the Nation**

	<u>Lawrence, Kansas</u>	<u>The Nation</u>
<i>Median Percent of Income Spent on Housing Costs</i>		
Renter Households	30.0	25.5
Owner Households	18.2	18.7
Owners with a mortgage	20.4	21.7
Owners without a mortgage	10.0	10.5
<i>Percent of households paying greater than 35 percent of income to housing</i>		
Renter Households	42.1	31.9
Owner Households	11.8	15.9
Owners with a mortgage	14.3	19.2
Owners without a mortgage	3.0	8.1

Source: U.S. Bureau of the Census, Census 2000, SF3  
Calculations by author.

national level, about 1 in 3 renter households suffer from a housing affordability problem in Lawrence.

Since 15 percent of owners suffer a housing affordability hardship and at least 32 percent of renters suffer this hardship, the question remains is this problem the result of too few affordable units or households with very low incomes who cannot afford housing at any price independent of the supply?

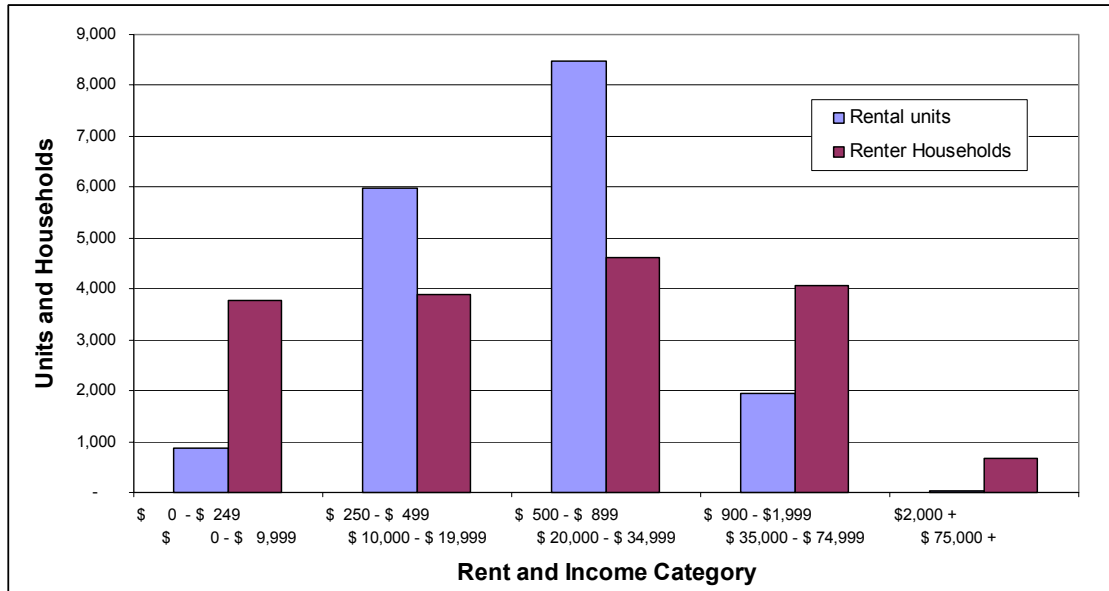
According to the United States Department of Housing and Urban Development (HUD), a household should have to pay no more than 30 percent of its income toward housing costs. For renters, these housing costs include the contract rent plus the costs of utilities not included in the rent. For owner-occupants, these housing costs include the payments on a mortgage loan plus utilities, maintenance, taxes and insurance on the home. Given each household's income, it is possible to determine the amount of housing that the household can consume without exceeding the HUD definition of affordability. As long as the housing market provides a home within that income constraint, then it can be assumed that the household is not suffering from an affordability problem.

Alternatively, if the market is not providing enough units at an appropriate price range, then affordability problems may be present due to a lack of units.

Using data from the 2000 Census, the housing market of Lawrence has been analyzed to find whether sufficient units are available in all price ranges to adequately meet the needs of the city's households. This analysis is performed separately, once for renters and a second time for owner-occupants as these two markets tend to operate separately. The households in each tenure group are divided up into categories by income level. The counts of households in each income group are compared to the counts of units affordable to each category. For example, the number of renter households with income from \$10,000 to \$20,000 is compared to the number of rental units with rent plus utilities costing \$250 to \$500 per month as units in this rent range would be affordable if these households are to spend no more than 30 percent of income on housing. The number of owner-occupant households in the same income range is compared to the number of owner units valued between \$30,000 and \$60,000 as these homes would be affordable to the household given the income needed to qualify for a typical mortgage loan as well as pay utilities and upkeep on the home without exceeding 30 percent of income on housing.

Figure 1 illustrates the supply and demand match ups for the rental housing market. The distribution of rental units is normally distributed with a peak in the category of units renting from \$500 to \$899 per month including all utilities. The distribution of renter households by income is also normal. The peak is in the category of incomes ranging from \$20,000 to \$34,999 per year in 2000. Careful inspection of these two distributions indicates the some of the problems of housing affordability in this community. The lowest income and rent category indicates that there are more very low-income households than there are units affordable to these households. These households had an income of less than \$10,000 per year in the year 2000. At this income level, these households can only afford units renting for less than \$250 per month including all utilities. In

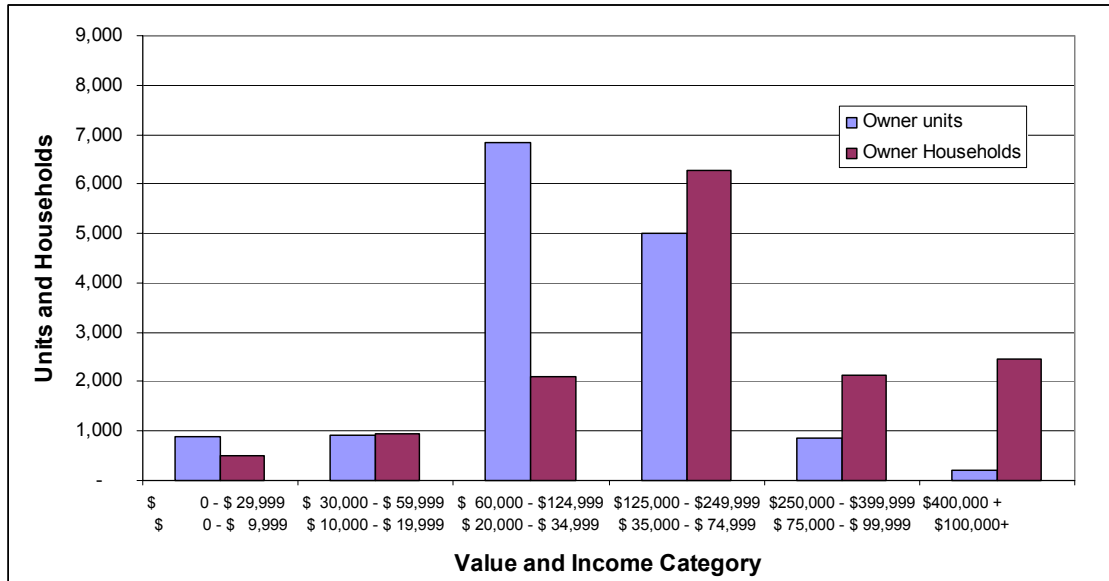
**Figure 1. Supply of and Demand for Rental Housing  
Lawrence, Kansas 2000**



Source: U.S. Bureau of the Census, 2000 Census of Population and Housing, SF3.

2000, there were just under 4,000 such renter households in Lawrence, but fewer than 1,000 rental units affordable to them. Given that 59 percent of these households may be students, then the shortage in affordable units may not be as great as indicated. There are 3,778 renter households with incomes below \$10,000. These households are served by only 859 units indicating a shortage of 2,919 units. If 59 percent of these 3,778 households are student households with unreported financial support, then the number of long-term resident renter households with incomes below \$10,000 is about 1,549, which reduces the shortfall to 690 units. This reduced estimate is important, as a surplus exists in the next higher income and price category. In the rent range of \$250 to \$499, there is a surplus of 2,089 units. This surplus is sufficiently large to accommodate the shortage in the lowest price range if rental assistance could be found. It has long been established in housing policy research that rental assistance is a more efficient way to assist renters of very-low income than is construction of affordable housing, provided that the market has sufficient units to

**Figure 2. Supply of and Demand for Owner-Occupied Housing  
Lawrence, Kansas 2000**



Source: U.S. Bureau of the Census, 2000 Census of Population and Housing, SF3.

house the entire population (see John C. Weicher, "The Voucher/Production Debate" in *Building Foundations*, Denise DiPasquale and Langley C. Keyes, editors, University of Pennsylvania Press, 1990). This suggests that the appropriate strategy for assisting Lawrence’s very low-income renter households would be better served by programs providing rental assistance than by programs seeking to build affordable units.

Examination of the market of owner-occupied housing finds that there no significant shortage exists in any of the price ranges. Only at the highest price ranges are there fewer units available than there are households in the corresponding income category. Households in these higher income ranges have many options in life. They may consume homes at the maximum price, which their income will support, or they can consume homes at a lower price, freeing income for other uses. Given the large surplus of homes in the \$60,000 to \$124,999 price range relative to the households who can afford homes in this

price range, there is no problem with higher income households consuming homes in a lower price range. The market is providing more than enough units in these lower price ranges. This suggests that for homebuyers, Lawrence does not need to adopt a production strategy in order to assist its low-income first-time homebuyers. Rather, the city should seek to help these homebuyers acquire units that already exist in the marketplace.

## **Conclusion**

Housing affordability problems exist in Lawrence. Approximately 42 percent of renter households and approximately 12 percent of owner households pay more than 35 percent of their household income toward housing costs. However, the incidence of housing cost burden is not as great as indicated among renters as the counts are probably biased upward by student households with unreported financial support. Adjusting for this bias in the counts of low-income households, it appears that the housing affordability problems of Lawrence do not result from a shortage of affordable units; rather, the problems result from many households having such low income that the market cannot provide good quality units at prices these households can afford. Given that the housing market of Lawrence provides an adequate supply of housing units, the best approach to resolving housing affordability problems may be found in rental assistance and homebuyer assistance programs rather than in costly production programs.