

# Housing Bubble Means Workers Can't Afford A Home Where They Work

by Mary Jane Freeman and Richard Freeman

Most working Americans cannot afford to buy a home where they work and many cannot afford to rent there, as Federal Reserve Chairman Alan Greenspan's policies have driven up the price of homes and the rental market in the United States. A just-released national survey, "Paycheck to Paycheck: the Cost of Housing in America," by the Center for Housing Policy (CHP), found that "the median price of a home rose 20% [from \$186,000 to \$225,000] in just a year and a half" ending the first quarter of 2005. Yet, "at the same time, wages for key community workers . . . in the majority of cities nationwide remained flat."

This confluence of skyrocketing housing costs with flat wages comports with Lyndon LaRouche's economic forecasts, and with *EIR*'s own "Paychecks" analysis of the actual decades-long erosion of the buying power of the lower 80% of Americans by income. Yet, driven to keep up with the Joneses, and desperate for a decent place to live, many working people are now enslaving themselves to very high-risk mortgage schemes to buy a home. Some are just looking for decent housing; but others, deluded that the housing market will keep rising, are resorting to exotic financing, and assuming huge debt, in hopes they can buy and sell before the bubble pops and still get out with their shirt on.

The CHP survey hones in on reality: A single, and in many cases double, 40-hour work-week salary for a household no longer provides enough income to buy a home. When one compares astronomical home and rental prices, to median incomes of key essential service workers—e.g., police, firemen, school teachers, nurses—one sees that they do not earn enough to afford to buy a home in 50-90% of the 183 cities surveyed; nor are their incomes sufficient to rent a two-bedroom apartment in many locations, and still have enough left over to meet other basic living costs such as food, transportation, health care, and clothing.

The CHP assumes the Department of Housing and Urban Development (HUD) premise that the combined cost of owning a home—mortgage, insurance, and taxes—should be no more than 30% of a household's income. Thus, if the median cost of owning a home is \$30,000 per year (\$2,500 or more per month)—as it is in Boston, New York, Los Angeles, or San Francisco—a family would need a \$100,000 annual

income to buy and make mortgage payments on that home, to keep to spending only 30% of its income. Rental costs, too, are not to exceed 30% of income.

*EIR* has used the same method for the last decade to show that families cannot afford housing (see *EIR*, May 16, 2003).

Taking the median price of a home in a given market, CHP applied the 30% rule to determine what annual income was needed to qualify to buy a home. With that affordability determination, the survey then compared *median home prices* in 183 U.S. cities, with the *median annual salary* for 63 different job types—retail clerks, police officers, licensed practical nurses, and so on. The least affordable places in the country, with the highest home prices, were: San Francisco (\$705,000 median price); San Diego (\$455,000); and Northeast cities such as Boston (\$355,000), New York (\$417,000), or Washington, D.C. (\$339,000). The most affordable places were in the Midwest, such as Peoria, Ill.; Waterloo, Iowa; Lima, Ohio; or Topeka, Kan.

The report's lead author, Barbara Lipman, who has done prior studies, warned that because of "the flatness of the wage growth and the increased pressures on home prices and rents," cities such as Minneapolis and Tulsa, traditionally considered affordable, are becoming a "problem. It used to be a bi-coastal problem affecting California and New York. That is not the case any more."

## Some Workers Can't Afford Anywhere

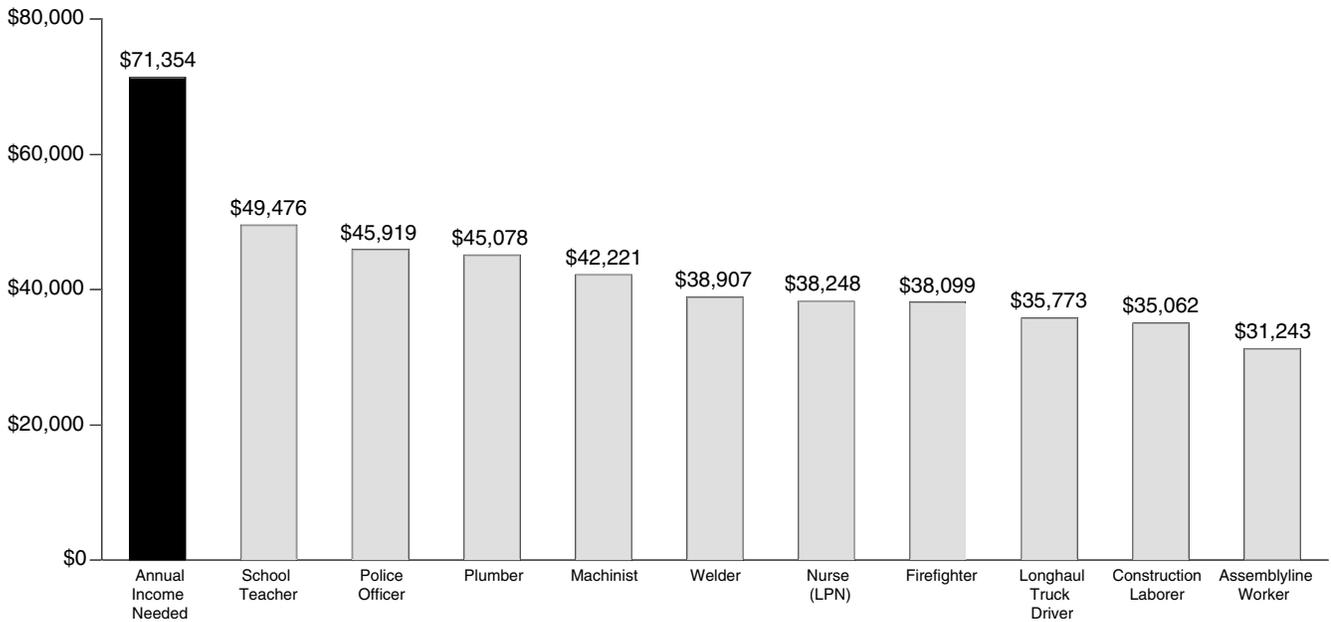
Indeed, look at the Minneapolis market where the median home price is now at the national level, \$225,000. **Figure 1** shows that the median annual income needed to buy a home there is \$71,354. *EIR* used the CHP database to look at ten basic jobs there, and found that none would give the job holders enough to afford buying a home. Even doubling the income of an assemblyline worker or construction laborer, he or she still falls short. Let's say the spouse of one of these workers is a bank teller, cashier, data entry keyer, nursing aide, or retail salesperson. Adding their two incomes together still fails to earn the household enough to afford that home.

Clearly, this situation of ballooning home prices with stagnant wages has priced most low- to moderate-income families out of the housing market. A look at the rental market reveals a similar picture. CHP's data track monthly rental costs. *EIR* took its two-bedroom apartment costs, as against the median hourly wage for the same ten jobs. **Figure 2** looks at the Boston rental market for these jobs. Here, a two-bedroom apartment median rent is \$1,266 per month, requiring an hourly wage of \$24.35. Of the ten selected jobs, only the secondary school teacher makes above the hourly wage needed—and that by only 73 cents—to rent such an apartment.

We then looked nationally at the income data for the eight occupations listed in **Table 1** in all 183 cities. Retail clerks, on their earned income, cannot afford to buy a home in any of the 183 cities surveyed; nor could they afford to rent a two-

FIGURE 1

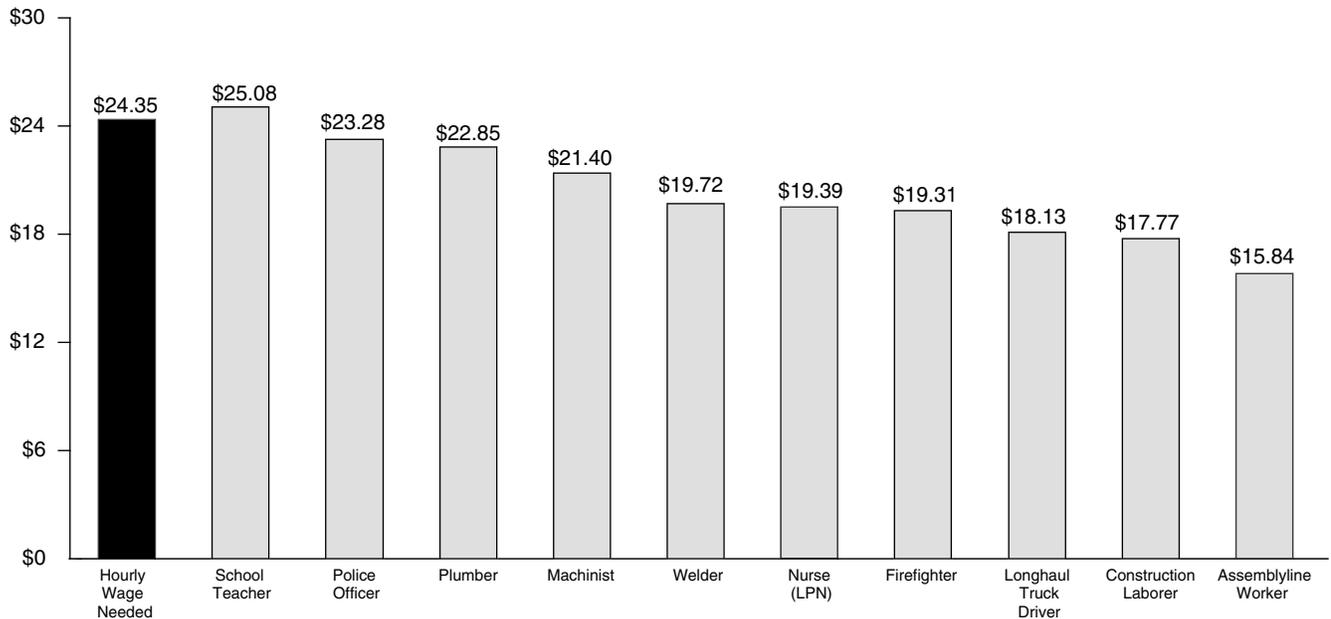
### Who Can't Afford a Home in Minneapolis/St. Paul



Sources: National Housing Conference's Center for Housing Policy, "Paycheck to Paycheck: the Cost of Housing in America"; *EIR*.

FIGURE 2

### Who Can't Afford to Rent a 2-Bedroom Apartment in Boston



Sources: National Housing Conference's Center for Housing Policy, "Paycheck to Paycheck: the Cost of Housing in America"; *EIR*.

TABLE 1

**Who Can't Afford a Home or Apartment, in 183 U.S. Cities**

| Occupation               | Can't Afford a Home:<br>Cities/Percent | Can't Afford a 2-Bedroom<br>Apartment:<br>Cities/Percent |
|--------------------------|--|--|
| Retail Clerk             | 183/100%                               | 155/85%  |
| Assemblyline Worker      | 173/95%                                | 65/36%   |
| Construction Laborer     | 164/90%                                | 37/20%   |
| Fire Fighter             | 152/83%                                | 20/11%   |
| Nurse (LPN)              | 151/83%                                | 22/12%   |
| Machinist                | 135/74%                                | 11/6%  |
| Police Officer           | 117/64%                                | 9/5%   |
| Secondary School Teacher | 103/56%                                | 2/1%   |

Sources: National Housing Conference's Center for Housing Policy, "Paycheck to Paycheck: the Cost of Housing in America"; *EIR*.

bedroom apartment in 85% of them. Retail clerks, in today's "shop 'til you drop" service economy, number 24 million—about 15% of the workforce. And among our nation's first responders, firefighters' median income does not afford them the opportunity to buy a home in 83% of the cities; police officers can't afford a home in 64% of them.

In the cities where some of these workers' incomes would qualify them to apply for a standard 30-year mortgage, the margin of their income *above* that needed is minimal. An assembly line worker would qualify in ten cities, but in six of those 10 the margin of annual income over and above the annual income needed for a median priced home was a mere \$1,000 or less. Similarly, for police officers, in eight of the 66 cities where they'd qualify, and fire fighters in nine of the 31 cities where they'd qualify, the margin of their incomes above the needed annual income was \$2,000 or less.

Table 1 presents a cross-spectrum of occupational incomes. One could have used any low-end wage earner, with a result that nearly all are unable to afford a home. This swath shows that the wage-to-home price problem is endemic to the consumer society America has become.

For none of the occupations in Table 1, except the school teacher, does the median income provide enough money to rent a two-bedroom apartment in Boston, Mass.; in Orange County, San Diego, San Francisco, or San Jose, Calif.; or in Washington, D.C. In Los Angeles, only the teacher, police officer, and machinist could rent a two-bedroom apartment.

### Out on a Limb

Despite hot house prices and flat wages, Americans' desires for a home and their delusions about the economy are driving many more home-buyers to go out on a limb, loading up with debt obligations well beyond their means. In California, the least affordable market, a study released Aug. 17 found that an incredible 20% of the state's recent home buyers have put *more than 50% of their monthly income* into their

mortgages! And fully 40% of all California households with mortgages, are beyond HUD's 30% proscribed limit. The only way this phenomenon works in the short term, as home prices climb, is the use of exotic lending gimmicks.

For example, during 2004, in California, an astounding 60% of homes were purchased using either "interest-only" or "negative amortization" mortgages. For the first kind, assume the mortgage payment on a home is \$1,600 per month—\$1,300 in interest, \$300 in principal. In an interest-only loan, for the first five or so years, the home buyer agrees to pay \$1,300 in interest, and zero principal. In a negative amortization loan, the home buyer pays, for example, \$1,000 in interest—less than the

required amount—and zero principal. The unpaid interest is added to the principal due on the mortgage. Once the original "bargain" terms are over—a few years later—the monthly mortgage payment jumps up by as much as 50%.

Yet another such gimmick is the piggy-back mortgage. During the first half of 2005, nationwide, 48% of home-buyers used these mortgages (this percentage had risen sharply, from 19% in 2001), in which, to be able to afford the home, the purchaser had to take out not one, but two mortgages.

These very gimmicks, enticing people into markets they can't afford, are feeding and pumping Greenspan's housing bubble. And there are many Baby Boomer realtors who are in the market to make money, not to house working people. During the first four months of 2005, "investors" accounted for 9.9% of new home mortgages, and another 7.2% of new home mortgages went for second homes; that is, 17.1% of U.S. home purchases were not for normal home-living arrangements. The comparable rates for these two categories as recently as 2001, were only 6.2% and 2.2%, respectively.

The bursting of this bubble will come, as it must. With that event, the mechanisms Lyndon LaRouche has called for, need to be in place to protect the working families who have overextended themselves in order to have a home. So too, must a commitment be made to build affordable housing, of which there is a scarcity now.

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