

HOUSING: AFFORDABLE TO WHOM AND WHERE?

Interested to know who can afford what housing and where? We are too. Housing issues in Dane County are on many of our radars currently, and for good reason. Housing prices are increasing faster than wages and a growing number of people have trouble affording a place to live. In this month's data feature, we look at workforce housing for low-wage workers.

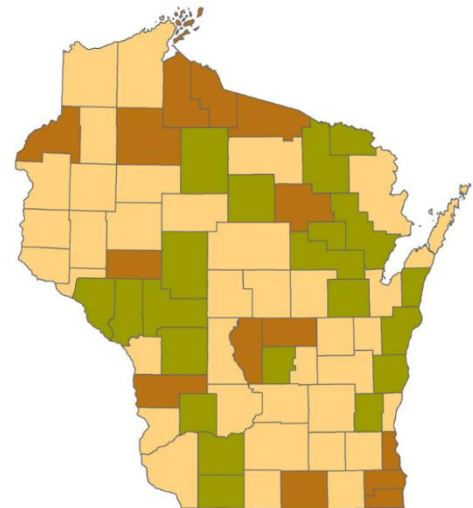
Housing availability, affordability, and location are all interconnected. These issues acutely affect the many low-wage workers in Dane County. To examine these effects, we looked at ZIP codes across south central Wisconsin to see which ones are more affordable to low-wage workers.

First, however, a statewide picture of housing affordability helps set the context. A recent publication by the **Wisconsin Realtors Association (WRA)**,ⁱ assessed rental and entry-level housing supply and affordability across Wisconsin at the county level.

Wisconsin Renter Affordability Index by County, 2017

- Not affordable (less than 100)
- Barely affordable (100-120)
- Affordable (greater than 120)

Note: A value of less than 100 means that the median income renter-household in a county cannot afford the median rental unit in the county. A value greater than 100 indicates that the median income renter-household can afford the median rental unit.

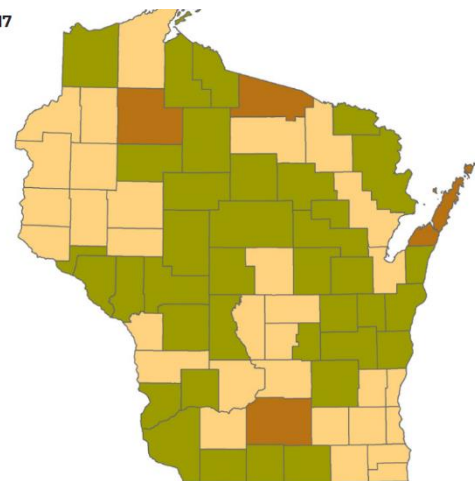


Renting the "average" unit in Dane County was scored as barely affordable. Purchasing a home was scored as not affordable to the "average" household.

Wisconsin Entry-level Housing Affordability Index by County, 2017

- Not affordable (less than 100)
- Barely affordable (100-120)
- Affordable (greater than 120)

Note: A value of less than 100 means that the median-income household in a county cannot afford the median-priced home in the county. Any value greater than 100 indicates that the median-income household can afford the median-priced home.



What is “affordable” and what is “workforce housing” you ask? A simple working definition of affordability is housing costs at or below about 30% of household income. UW-Madison professor Kurt Paulsen uses these measures in the WRA study as well as the 2019 update to the *Dane County Housing Needs Assessment*. We repeat their use for our study. Workforce housing is housing that is priced to be affordable to the workforce in an area.

[In our interactive workbook this month](#), we look at where housing is affordable to low-wage workers by ZIP code.ⁱⁱ To better understand the housing budgets of the low-wage and early-career workforce, we draw from the work of Paulsen in his *Dane County Housing Needs Assessment 2019 Update*.

Paulsen identified low-wage workers as the 25 lowest annual median-wage occupations with over 1,000 employees. This segment makes up 20% of Dane County’s total workforce, 82,000 workers.

Low-wage, High-employment Occupations in Dane County	
Occupation	Median Annual Income
Miscellaneous Assemblers and Fabricators	\$33,137
Laborers and Material Movers, Hand	\$33,083
Receptionists and Information Clerks	\$32,547
Supervisors of Food Preparation and Serving Workers	\$32,371
Farmers, Ranchers, and Other Agricultural Managers	\$32,325
Packaging and Filling Machine Operators and Tenders	\$32,316
Grounds Maintenance Workers	\$32,025
Nursing, Psychiatric, and Home Health Aides	\$31,930
Teacher Assistants	\$30,503
Security Guards and Gaming Surveillance Officers	\$30,198
Waiters and Waitresses	\$29,585
Preschool and Kindergarten Teachers	\$28,789
Counter and Rental Clerks and Parts Salespersons	\$28,629
Barbers, Hairdressers, Hairstylists and Cosmetologists	\$27,889
Cooks	\$27,690
Building Cleaning Workers	\$27,219
Personal Care Aides	\$26,272
Miscellaneous Agricultural Workers	\$25,741
Stock Clerks and Order Fillers	\$25,675
Retail Salespersons	\$23,772
Childcare Workers	\$23,021
Cashiers	\$22,542
Bartenders	\$20,136
Fast Food and Counter Workers	\$20,002
Hosts and Hostesses, Restaurant, Lounge, and Coffee Shop	\$19,885

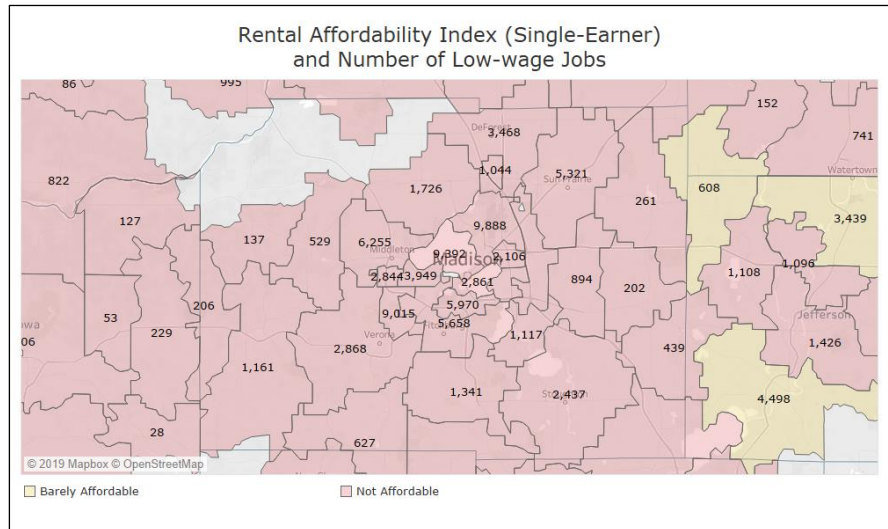
DATA NOTE

One of the tradeoffs in working with data is its availability versus accuracy, especially as geographies and sample sizes get smaller. In the case of this month’s story, current data below the County level is hard to acquire. Housing cost data from Zillow was used to estimate affordability. While Zillow, like most data at smaller geographies, has margins of error, we felt that the overall picture generated by the analysis is valid. For more details about data sources, see footnotes at the end of the article.

The Challenge of Affordable Rent

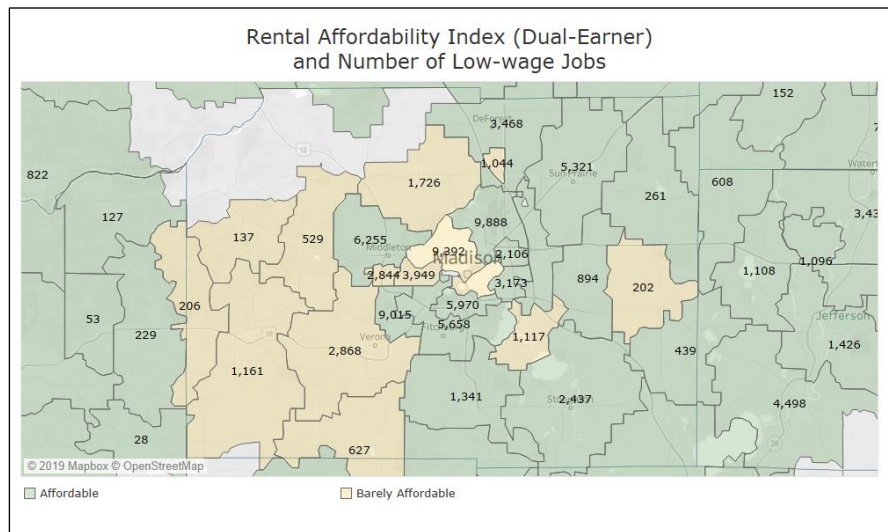
Renting is often the only option for low-wage, single-income households. However, there are only a handful of ZIP codes where the median rental cost is affordable even at the very top of the income range. Many ZIP codes in south central Wisconsin have median rents that exceed 50% of income for households with an income of \$33,000 or less.

This is not to imply that there are no affordable rentals available to these households in those ZIP codes, just that the *average rental* within a given ZIP code is unaffordable. When we apply Paulsen's index methodology to ZIP codes in south central Wisconsin, it highlights areas where low-wage households may have difficulty renting.



The challenge faced by low-wage workers is complicated by the fact that the largest concentrations of low-wage jobs are in central Dane County, the location of the highest median rental prices in the region.

Households with two low-wage workers who combine incomes will have a much easier time affording the median rent.ⁱⁱⁱ At the top of the income range, a dual-income household makes close to the median income, approximately \$67,000. The average unit in most Dane County ZIP codes costs around 25% of income for these households. In some cases, dual-income may mean one person working two jobs.



The Challenge of Affordable Homeownership

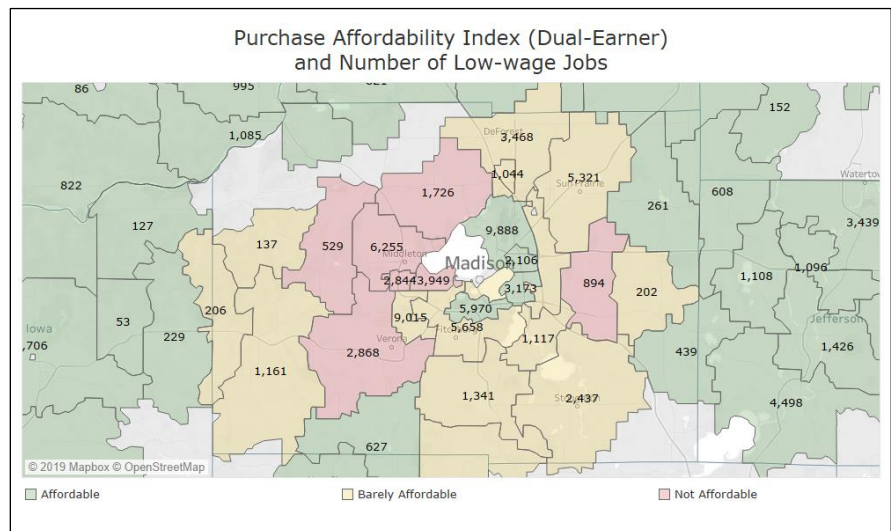
Affordable homeownership is unobtainable for many single-earner households in low-wage occupations. The lowest median home value for any ZIP code in south central Wisconsin was around \$131,000 according to 2018 Zillow Housing Value Index (ZHVI) data, beyond the reach of someone with a \$20,000 to \$33,000 income.

What about dual-income households looking to purchase a home? With a combined income of \$66,000, the affordability threshold is around \$267,000 using a conventional, 30-year loan.^{iv} There are several affordable ZIP codes south, east, and north of central Madison. However, households with workers in these low-paying positions may not have the necessary down payment to purchase. In August of 2018, the closing cost on a \$267,000 home was approximately \$59,000.

With an FHA loan, and its substantially lower down payment of 3.5%, purchasing power would be about \$218,000 with \$12,000 due at closing.

ZIP codes with average home values close to that amount are located along the Beltline between Madison and Fitchburg and on Madison's eastside and northside, or outside of Dane County.

However, there are many ZIP codes in central Dane County that employ many low-wage workers where the average home price is unaffordable.



As wage growth lags behind housing cost increases and housing supply falls short of demand, we will see an increasing gap between what average housing costs and what average households can afford. As the region plans for the future workforce, the proximity of affordable housing relative to the location of jobs is a key performance indicator to watch. If you are interested in exploring the data further, [check out our interactive workbook](#).

ⁱ *Falling Behind: Addressing Wisconsin's workforce housing shortage to strengthen families, communities, and our economy*

ⁱⁱ Zillow's ZRI (Zillow Rental Index), Zillow's ZHVI (Zillow Housing Value Index), AND EMSI's compilation of the Bureau of Labor Statistics' County Business Patterns employment data.

ⁱⁱⁱ Unsurprisingly, many workers in low-wage jobs share rent with others or take on a second job.

^{iv} Our analysis utilizes values defined by Paulsen in the *Dane County Housing Needs Assessment* for both purchase scenarios. Paulsen's methodology assumes the following: For option 1 ("conventional"), assumes borrower qualifies for existing 30-year fixed rate (4.625% as of 8/13/2018), can provide downpayment plus closing costs out of own funds (not borrowed), and does not prepay any points. Option 1 assumes that PITI (principal+interest+insurance+taxes) does not exceed 30% of gross (pre-tax, post-transfer) income. For option 2 ("FHA"), assumes borrower qualifies for FHA 30-year fixed rate (4.5% as of 8/13/2018) and rolls over the up-front mortgage insurance premium (UFMIP) into the value of the loan at current MIP rates (175 bps for UFMIP and 85 bps annual). Option 2 assumes that PITI+MIP (principal+interest+insurance+taxes) does not exceed 31% of gross (pre-tax, post-transfer) income. Both options involve assumptions of \$1000 per year in homeowner insurance and a property tax rate of 20 mils.