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The Economic Implications of Reducing Cost Burden in Connecticut

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According to the most recent Census numbers, Connecticut renters now represent over a third of all households in the state (35.2%). This percentage has grown by five percentage points over the past 10 years and consequently our state depends more on renters now than ever before. These rental households make significant contributions to our economy. Nationally, not including rent and utilities, they spend $1.5 trillion per year (National Equity Atlas). If less of these renters were severely cost burdened (i.e., spending more than half of their income solely on housing costs) they could contribute even more to our economy. In an Ipsos Public Affairs poll conducted in 2016, 57% of respondents that struggled to pay their rent said they were forced to cut back on groceries (Make Room 2016). Currently, about a quarter (24.4%) of Connecticut renters are severely cost burdened, which leaves little left over for basic expenditures like food, transportation, childcare, etc. (American Community Survey 2016).

Over time the spending power of renters has steadily declined as rents have risen, while their incomes have remained relatively flat. Since 2000, median rents increased by almost 65% while median renter household incomes increased by less than 30% (cumulative). As a result, the amount these 100,000 + severely cost burdened households have left over each month to pay for other basic needs and boost our economy has also declined (American Community Survey 2016).

This is not only bad for these households, but it is bad for the state. Research shows a consistent relationship between household cost burdens and economic performance. Locations with lower housing and transportation costs have experienced better economic outcomes. These results are significant even when solely focusing on the very-low income individuals (Sanchez 2017).

One rationale for this is that lower-income households generally consume a higher share of income than their more affluent counterparts and their savings rates are typically lower than higher income households. Low-income households tend to spend their residual income to fulfill basic household needs, which generates significant and immediate economic activity. Conversely, higher-income families have more freedom to save and consequently spend a lower proportion of their income (Bivens and Edwards 2010; Wardrip, Williams, and Hague 2011).

Several studies have estimated the economic impact reducing housing costs could have on low-income families and their local economies.

- Research comparing the rent of the 25th percentile in several cities across the country with rents paid by residents of public housing found that those afforded the opportunity to live in public housing save about $500 each month to use in the local economy. This adds up to almost $6,000 every year, which is equivalent to over half of their annual income (Econsult 2007).
- Conducting an analysis of two Low-Income Housing Tax Credit (LIHTC) buildings in the Bronx, Walker (2010) found that residents of these developments were paying about $300 less each

month than residents in the same community living in non-subsidized homes. This essentially doubled the discretionary income these residents could access.

- PAHRC (2017) found that if the millions of unassisted cost-burdened low-income renter households (i.e., households spending 30% or more of their income on housing costs) in the U.S. received rental assistance, discretionary income for their necessities would increase by over $300 per month. This is equivalent to about a $50 billion investment in local economies across the country. They conducted the same calculations for Connecticut and found that providing unassisted cost-burdened low-income renter households with rental assistance would increase each of these household's discretionary income by about $4,500 per year. This is equivalent to well over a half-billion-dollar investment in Connecticut's economy.
- Research conducted by the National Equity Atlas (2017) revealed that if we did not allow renters to suffer from being cost burdened they would have access to an additional $124 billion to spend in their respective communities each year. This is equivalent to about $6,000 per household. According to the analysis, residents in Washington, D.C., would gain around $8,600, while those in El Paso, TX, would gain around $4,000 to pay for family expenditures.
- According to an analysis of affordable housing in Louisville, KY conducted by the Urban Studies Institute (Kelly, Kornstein, Kelley, and Woodard 2015), relieving the housing cost burden of families with incomes below 50% and 80% AMI would provide these families with an additional $2,800 and $2,700 per year, respectively.
- Commonwealth Economics (2010) estimates that having access to housing that costs no more than 30% of their incomes would allow households in Lexington, KY to increase their discretionary income by about $2,500 per year. Assisting over 2,000 households each year should lead to direct, indirect, and induced impacts of over $6 million per year.

These studies confirm that affordable housing not only provides financial assistance so residents can meet their non-housing needs but it also provides a significant boost to local economies as they purchase necessities such as childcare, healthcare, and groceries. Future research should replicate some of the methods detailed in the aforementioned studies to calculate and highlight the fiscal benefits (e.g., sales, sales tax revenue, jobs, etc.) of reducing the housing expenditures of our severely cost burdened residents. For example, the Commonwealth Economics study uses the IMPLAN (IMpact analysis for PLANning) economic input-output model, which provides multipliers that estimate the flow of purchases and sales to illustrate their impact on the economy. Sharing these benefits could influence public opinion regarding affordable housing, reduce NIMBYism, and generate policies that can increase housing options for these families.

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