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Rising rental rates and stagnant salaries widen affordability gap

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Teaser:

In suburban Cook County in Illinois, the affordability gap skyrocketed 25% between 2007 and 2011. But in the midst of all of this, the amount of renters grew by 11% in the suburbs in the same time period.

It looks like supply and demand isn't only pushing home prices up, indicating a strong and healthy housing recovery — it is also forcing rent to increase, widening the affordability gap.

In suburban Cook County in Illinois, the affordability gap skyrocketed 25% between 2007 and 2011. But in the midst of all of this, the amount of renters grew by 11% in the suburbs in the same time period, according to a [recent study](#) ^[2] from DePaul University.

"After the housing crisis, households shifted to renting for a number of reasons," said Geoff Smith, co-author of the study and executive director of DePaul University's Institute for Housing Studies. "The weak economy, homes lost to foreclosure, increased difficulty receiving a mortgage, a lack of confidence in the housing market and flexibility with renting all contributed to a boom in the rental housing market."

Now, I'm no economist myself, but it seems obvious that there are consequences to this trend. The widening gap will inevitably force a growing number of households to allocate a larger portion of their income towards their rent.

If a household spends more than 30% of their monthly income on rent, they're considered "rent burdened." In Cook County, between 2007 and 2011, the number of rent-burdened households rose by nearly 14%.

But let's think for a second about those who are forced to rent instead of owning their own home. They are those who faced a foreclosure, are unable to obtain a mortgage or don't have enough money for a downpayment.

Of the Cook County renters, 56% make less than half of the area median income, according to a

study.

So how are these families supposed to save up for a downpayment on a house when they can barely pay rent each month? Rising rent rates are outpacing stagnant salaries.

Smith notes that the appropriate rental housing policy responses will vary in each of these market types. According to the study, underlying characteristics to Cook County's rental housing demand can be segmented into strong, weak and transitional submarkets.

"In strong markets, keeping housing affordable is the challenge, while in weaker markets the focus is on community development and rebuilding demand. In transitional markets, understanding whether the increase in rental demand is short- or long-term will inform the appropriate policy response," said Smith.

It seems blatantly evident that something's got to give to turn these families into homeowners. We need to steer away from this investor-driven recovery and get real families into homes, but that just can't happen when more and more families are being deemed "rent-burdened."

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Links:

[1] <http://www.housingwire.com/author/megan-hopkins>

[2] <http://newsroom.depaul.edu/NewsReleases/showNews.aspx?NID=2599>