

## Housing and Transportation Affordability Initiative

Housing is the single biggest budget item for most American households, with transportation costs being a close second. Today, the combined cost of housing and transportation claims 52 cents out of every dollar of the average household's budget.<sup>1</sup> Some working-class households have transportation expenses that *exceed* their housing costs, leaving less in the budget for food, healthcare and other necessities. Unlike the cost of housing, which is typically a fixed monthly rent or mortgage payment, transportation costs are less transparent, so families often do not fully account for them when making decisions about where to live or work.

To fill this information gap, HUD's Office of Sustainable Housing and Communities (OSHC), in partnership with the Department of Transportation (DOT), is heading up the federal Housing and Transportation Affordability Initiative to explore the link between housing and transportation costs. OSHC has engaged the Manhattan Strategy Group (MSG), which will work with the Center for Neighborhood Technology (CNT) to develop a Location Affordability Index that measures housing and transportation costs at the neighborhood level. MSG will also work closely with HUD and DOT program offices and other key stakeholders to identify potential applications of the Index in HUD programs.

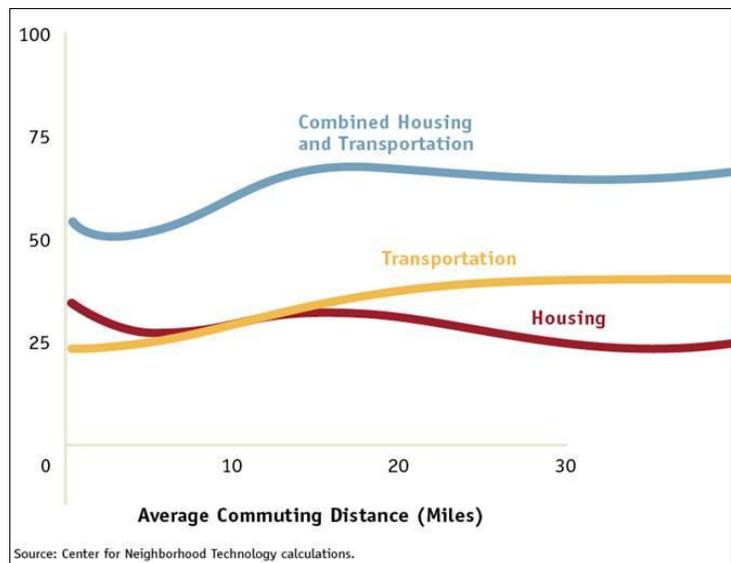
### Measuring Affordability

A 2006 study by the Center for Housing Policy looked at 28 metropolitan areas and found that the average household spent 27 percent of its income on housing and 20 percent on transportation. The average percentage of income devoted to housing costs was comparable across all households; however, the transportation costs for low- and moderate-income families were significantly higher.<sup>2</sup>

Since housing costs outside the metropolitan core tend to be lower, many families seek more affordable rent or mortgages payments by moving farther away from center city locations. However, transportation costs tend to increase as housing costs decline: starting 12 to 15 miles outside the central core, housing cost savings tend to be offset by increased transportation costs.<sup>3</sup>

Additionally, households with high transportation costs are more vulnerable to fluctuations in gas prices. A recent analysis by CNT showed that, from 2000 to 2009, families living in areas with high transportation costs experienced a \$3,900 increase in annual transportation costs, compared with an increase of \$1,400 in less-costly areas.<sup>4</sup>

This is partly due to the fact that families living in more auto-dependent areas are unable to switch to less expensive forms of transportation. Another recent study suggests that high transportation costs can be greater mortgage default risk than a high level of overall debt.<sup>5</sup>



<sup>1</sup> Scott Bernstein, Carrie Makarewicz, and Kevin McCarty. 2005. Driven to Spend: Pumping Dollars Out of Our Households and Communities. Center for Neighborhood Technology and Surface Transportation Policy Project.

<sup>2</sup> Barbara J. Lipman, 2006. A Heavy Load: The Combined Housing and Transportation Burdens of Working Families. Center for Housing Policy.

<sup>3</sup> Ibid.

<sup>4</sup> [www.cnt.org](http://www.cnt.org). "Updated and Expanded H+T Index Reveals Combined Housing and Transportation Affordability Has Declined Since 2000."

<http://www.cnt.org/news/2012/02/28/updated-and-expanded-ht-index-reveals-combined-housing-and-transportation-affordability-has-declined-since-2000/>.

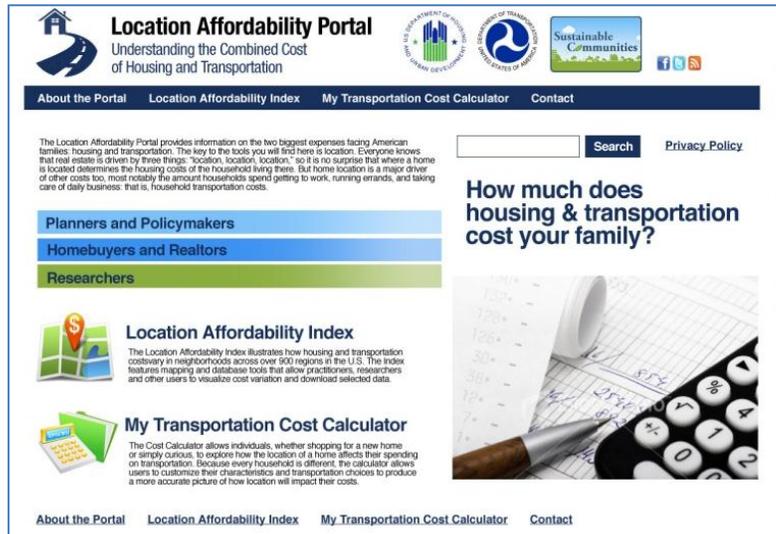
<sup>5</sup> Stephanie Y. Rauterkus, Grant I. Thrall, and Eric Hangan. 2010. "Location Efficiency and Mortgage Default." Journal of Sustainable Real Estate 2 (1): 117-141.

## An Updated, Enhanced Tool

Without reliable information about the impact of transportation costs on household budgets, it is difficult for families, planners, and policymakers to make informed decisions. Recent analyses show how transportation costs and travel behavior are driven by household and neighborhood characteristics, making it possible to estimate transportation costs for a household in a given location. Making this data readily available will enhance consumers' and policy-makers' understanding of the relationship between housing and transportation costs and enable them to make more informed decisions.

To accomplish this goal, the Initiative will produce:

1. **A transparent index of housing and transportation costs that incorporates new research and data.** Development of the Location Affordability Index will be guided by a technical review panel of leading researchers and practitioners and informed by an independent third-party analysis, field tests, and updated data from the Census, American Community survey, and CNT's All Transit Database<sup>SM</sup>. In addition, the Initiative will test the potential of additional variables to improve the model's estimation of travel behavior and costs.



2. **A Transportation Cost Calculator that provides customized transportation cost estimates based on location and household characteristics.** The calculator will provide a user-friendly interface through which individuals can enter information about their household (income, household size, work location, etc.) and view customized transportation cost estimates.
3. **Ongoing technical support to HUD staff, planning professionals and the general public to ensure that the Index, Cost Calculator, and related information are widely disseminated and user-friendly.** Workshops, regional trainings, webinars, press releases, articles, social media, technical support and direct technical assistance will ensure that the Index and related tools are broadly understood and utilized by policy makers and practitioners across the country. MSG will host, market, and support websites featuring the Index and Cost Calculator, as well as conduct field tests to explore potential applications.
4. **An analysis of the impact of HUD programs on combined housing and transportation costs in HUD-supported communities that will assess the feasibility of integrating the Index as a measure of affordability.** The project team will analyze HUD programs and policies from the perspective of housing and transportation affordability in order to advise HUD on potential applications of the Location Affordability Index that would decrease housing and transportation cost burdens in HUD-assisted communities.

## Potential Applications of the Location Affordability Index

- **Regional Planning:** Inform regional planning and investments by incorporating housing and transportation cost analysis into planning decisions.
- **Affordable Housing Policy:** Analyze community investments to support the integration of housing and transportation costs into agency policy.
- **Housing Counseling:** Inform prospective homebuyers about the potential impact of transportation costs on overall household budget and the variation in costs across the region.