What the Housing Affordability for Renters Index Tells Us about Homeownership Prospects for Newark Renters

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The homeownership rate in Newark, New Jersey, 22 percent, is about one-third of the national rate and one of the lowest in the country. And although the median income for homeowners in Newark is similar to the national median, the incomes of Newark's renters is much lower (Neal et al. 2020). Despite the limited incomes of most Newark renters, home prices have risen 58 percent since 2012, suggesting that many homebuyers have been moving in from outside the community. The median sales price in Newark, approximately $200,000, remains relatively affordable, but is it affordable to renters already living in Newark and the surrounding communities?

In this brief, we look at Newark in the context of our housing affordability for renters index (HARI). HARI compares the share of area renters who have the same or more income than area homeowners who recently bought their homes with a mortgage, in effect measuring how many renters have enough income to purchase a house in the area. We focus on Southwest Newark and North and East Newark, the city's two Public Use Microdata Areas (PUMAs), and compare renters in these PUMAs with renters in other PUMAs in Essex County, where Newark is situated. We constructed three geographic levels of HARI: (1) a PUMA index, looking at how affordable the Newark PUMAs are for renters already living within the Newark PUMAs; (2) a county index, looking at how affordable Newark PUMAs are to renters in Essex County; and (3) a metropolitan statistical area (MSA) index, looking at how affordable Newark PUMAs are to renters in the New York City MSA.

We show that Newark is not affordable to Newark renters. According to the HARI methodology, only 20 percent of Southwest Newark renters have the income necessary to buy a home, and only 22 percent of renters in North and East Newark can afford to purchase a home there. Newark PUMAs are

more affordable for renters from other parts of the New York MSA: 39 percent of New York MSA renters can afford to buy in Southwest Newark, making it the most affordable PUMA to renters outside the Newark PUMA. Thirty-three percent of New York MSA renters can afford to buy in North and East Newark.

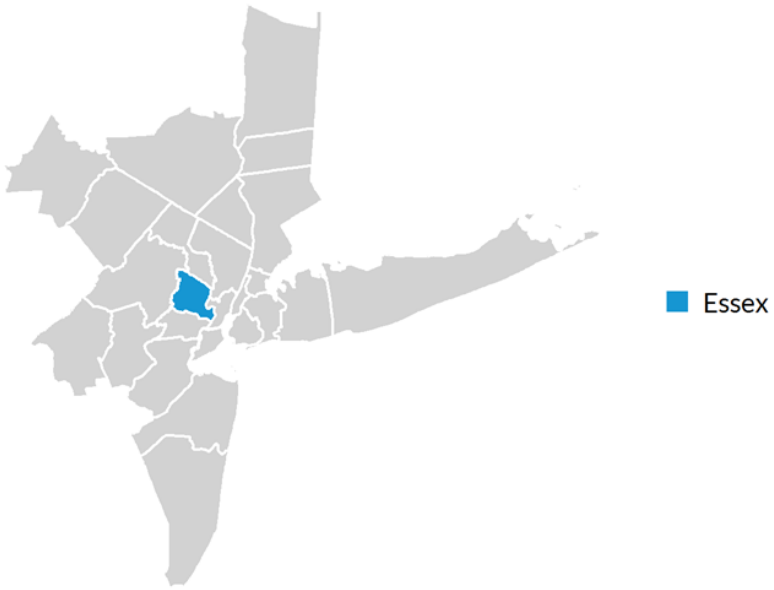
We also examine census data to estimate trends among new Newark homebuyers, including where they were living before buying in Newark. Consistent with our affordability index for renters, Newark has been an attractive place for homebuyers in the New York MSA. In 2018, the share of new homebuyers among all homeowners is higher in Newark PUMAs than in the overall New York MSA. The majority of these new homebuyers are from Essex County, but we still see reasonable inflows from other counties in the New York MSA as well. Compared with current Newark homeowners, new homebuyers are younger, they have more income and higher education levels, and they tend to move into larger and newer houses. This evidence suggests that Newark is gentrifying.

About Newark

Newark is in the southeast corner of Essex County, one of the 23 counties in the New York-Newark-Jersey City, NY-NJ-PA, MSA. Ten of these 23 counties are in New York, 12 are in New Jersey, and 1 is in Pennsylvania. Figure 1 shows Essex County's location within the New York MSA.

FIGURE 1

Essex County's Location within the New York Metropolitan Statistical Area



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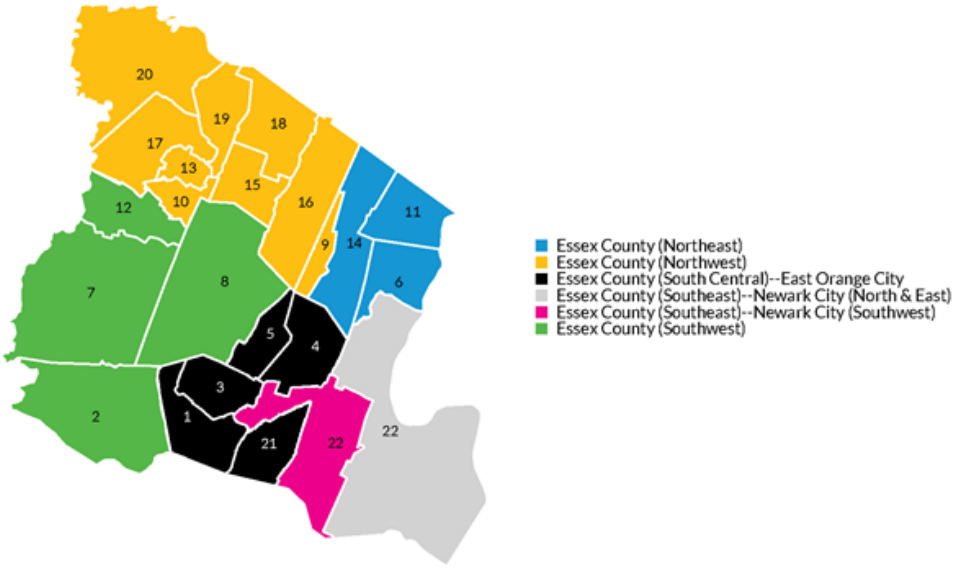
Essex County contains six PUMAs, the smallest geographic level in the American Community Survey (ACS). A PUMA contains at least 100,000 people, respects county and city boundaries, and is the smallest geography available for observation-level data. Two of these PUMAs comprise the City of Newark. Figure 2 is a map of Essex County, with the PUMAs delineated. It also shows the cities that compose each PUMA.

FIGURE 2

Public Use Microdata Areas within Essex County



1	Maplewood Township	9	Glen Ridge Borough	16	Montclair Township
2	Millburn Township	10	Essex Fells Borough	17	West Caldwell Township
3	South Orange Village Township	11	Nutley Township	18	Cedar Grove Township
4	East Orange City	12	Roseland Borough	19	North Caldwell Borough
5	City of Orange Township	13	Caldwell Borough	20	Fairfield Township
6	Belleville Township	14	Bloomfield Township	21	Irvington Township
7	Livingston Township	15	Verona Township	22	Newark City
8	West Orange Township				

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Although Essex County overall has homeownership rates and incomes similar to those in the New York MSA overall, the PUMAs show enormous variation. The two Newark City PUMAs have the lowest homeownership rates and incomes among the six Newark PUMAs. There is a large gap between Essex County's homeownership rate (45 percent) and the rates in the two Newark City PUMAs (20 and 25 percent). And although the median family income for Essex County trails the New York MSA median income by only $996, the median incomes in the two Newark City PUMAs are 57 and 51 percent of the New York MSA median income. Incomes for homeowners and renters show a similar pattern.

TABLE 1

Economic Conditions for Essex County PUMAs

	Homeownership rates	Median income	Median homeowner income	Median renter income
New York MSA	52%	$77,600	$110,000	$50,000
Essex County, NJ	45%	$76,604	$110,757	$38,338
Newark City (North & East)	20%	$43,961	$76,300	$36,000
Newark City (Southwest)	25%	$39,513	$77,600	$27,000
Essex County (Southwest)	81%	$139,547	$154,000	$78,000
Essex County (Northeast)	57%	$80,699	$104,300	$49,400
Essex County (Northwest)	71%	$135,042	$159,000	$75,000
Essex County (South Central)[a]	37%	$58,463	$100,000	$34,000

Source: 2018 American Community Survey data and 2018 Home Mortgage Disclosure Act data.

Note: MSA = metropolitan statistical area; PUMA = Public Use Microdata Area.

[a] East Orange City.

Newark's low homeownership rates, coupled with its high renter share, raise important concerns about housing affordability, especially for renters who are potential first-time homebuyers. In the brief, we use our housing affordability for renters index to analyze whether buying a home is affordable to renters in the Newark PUMAs and more generally to renters in nearby areas.

Methodology

In this brief, we want to quantify how affordable buying a home in Newark is to renters in the New York MSA, to renters in Essex County, and to renters in Newark. To do this, we compare the income distribution of renters in the applicable areas with the income distribution of borrowers who took out purchase-only mortgages in that same period. We refer to this as the housing affordability for renters index (HARI).

There are several commonly cited affordability measures that look primarily at median spending on housing costs versus the area median household income. The often-quoted National Association of Realtors (NAR) Index looks at the ability of a family earning the median family income to afford the median home, putting 20 percent down and financing the rest with a mortgage at current market rates. In its index calculation, the NAR assumes that the mortgage payment should be 25 percent of median family income. As of August 2020, assuming the median home price used in this calculation was $314,800 with a 3 percent interest rate on 80 percent of the home price, the mortgage payment would be $1,062 a month, or $12,744 a year. The qualifying family income would be $50,976 ($12,744 / 0.25). The NAR estimated the median family income nationwide to be $81,009, producing an index value of 158.9 ($81,009 / $50,976).[1] This shows that homes are relatively affordable by historic standards.

The National Association of Home Builders (NAHB) Housing Opportunity Index looks at the share of recently sold homes that are affordable to families earning the median family income and paying 28 percent of their income for housing. The index assumes a 10 percent down payment, with the remainder

financed with a mortgage at current market rates, and it includes taxes and insurance in the calculation. So, a value on the index of 63 indicates that 63 percent of recently sold homes are affordable to families earning the median income.

These indexes have two drawbacks. First, they consider only median income or median home price. This can be highly misleading, as median value does not tell you anything about the distribution. Consider two markets with the same income distribution and the same median home price. One market has a broad home price distribution, and the other has a narrow distribution. Affordability is likely to be better in the market with the broader distribution, as low-income families will be able to find homes they can afford. Second, these market-level measures consider all households, without distinguishing between homeowners and renters. But when we speak about affordability, we want to know how affordable buying a home is to someone who is currently renting, because they are potential first-time buyers. Also, renters tend to have lower incomes than homeowners. The 2018 ACS shows the median household income of renters nationwide is $41,000 versus $78,000 for the median homeowner.

Our HARI methodology, first introduced in Goodman, Wei, and Zhu (2018) and updated in Goodman and Zhu (2019), compares the incomes of renters with those of recent home purchasers. This methodology addresses both issues in the NAR and NAHB indexes, as the HARI considers the full distribution of incomes, rather than only the median. Moreover, the HARI considers renters only, as this is the population for whom affordability will determine, in large part, whether a renter can achieve homeownership. The HARI does not look at the entire population, as many homeowners locked in their purchases years ago, and current affordability is less relevant.

Our results are determined by two factors: the probability of a renter's income falling within a specific income level ("% of all renters in this range" in table 2), and the probability that the renter with a specific income level has enough income to get a mortgage to purchase a home ("% of all borrowers in this range"). The latter is defined by recent homebuyer activity. To be more specific, assume a renter earns $50,000 annually. The renter can afford a home purchased with a mortgage by a homeowner who also earns $50,000. That renter can also afford all the homes purchased by homeowners who earn less than $50,000. We repeat the calculation at each income level (in $10,000 increments) and cumulate the results for each rental income level ("Cumulative % of borrowers in this range or a lower range"), weighting by the share of renters for each income level.

Because renters are more mobile than homeowners (Rohe and Stewart 1996), we create multiple geographic-level HARI indexes: a PUMA index, evaluating local renters' ability to purchase houses in that PUMA; an Essex County index, evaluating the housing affordability of renters in the wider county to move to the PUMA; and a New York MSA index, evaluating housing affordability for renters in the New York MSA who move to the PUMA.

This methodology assumes that a renter has the same resources and can hence afford what a homeowner with the same income can afford. This assumption represents a significant analytical limitation, as we do not explicitly consider down payments or credit scores. Recent homeowners have overcome these obstacles, whereas renters of the same income may be unable to do so. A 2017 Zillow

survey shows that the largest obstacle to homeownership is the down payment. Moreover, 2017 data indicate that the median FICO score for borrowers with a mortgage is 752, but the median for all adults is 682. In fact, the 25th percentile FICO score for borrowers with a mortgage is 682 (Ginnie Mae 2020). These limitations (the index does not account for the ability to save for a down payment or an acceptable credit score) apply the NAR and NAHB indexes as well.

Renter and Mortgage Borrower Incomes

We used 2018 American Community Survey data for renter income and 2018 Home Mortgage Disclosure Act data for borrowers who took out a purchase mortgage during this period. 2019 ACS data were unavailable when we began our analysis, so we used the 2018 data for consistency. We used two datasets to obtain more meaningful results. Although we can obtain income data from the ACS on homeowners with a mortgage, the ACS does not tell us when the home was purchased, so we cannot isolate recent purchasers.

For the two PUMAs in Newark, North and East Newark and Southwest Newark, we separate renters' incomes and recent mortgage borrowers' incomes into 22 intervals (table 2). Each interval represents a $10,000 increment, with renter probability and borrower probability representing the share of each group in each interval. We assume that renters of a given income level can afford all homes purchased by new homebuyers at that same income level and at lower income levels.

In both PUMAs (and elsewhere in the US), renters earn less than homeowners. More than 58 percent of North and East Newark renters and 69 percent of Southwest Newark renters have incomes below $50,000 (intervals 1 through 5). In contrast, only 8 percent of new mortgage borrowers in North and East Newark and 13 percent in Southwest Newark make less than $50,000.

TABLE 2

Housing Affordability Index Calculations for Newark PUMAs

		North and East Newark					Southwest Newark				
Income interval	Income range ($ thousands)	% of all renters in this range	% of all borrowers in this range	Cumulative % of borrowers in this range or a lower range	Renters who can afford a house (%)	PUMA HARI (%)	% of all renters in this range	% of all borrowers in this range	Cumulative % of borrowers in this range or a lower range	Renters who can afford a house (%)	PUMA HARI (%)
1	1–10	9.6	0.5	0.5	0.0	0.0	12.6	0.3	0.3	0.0	0.0
2	11–20	14.6	0.0	0.5	0.1	0.1	20.4	0.5	0.8	0.2	0.2
3	21–30	15.8	1.0	1.5	0.2	0.4	18.7	0.0	0.8	0.2	0.4
4	31–40	9.7	1.8	3.3	0.3	0.7	11.3	4.2	5.0	0.6	0.9
5	41–50	8.7	4.9	8.2	0.7	1.4	6.3	8.2	13.3	0.8	1.8
6	51–60	8.9	7.9	16.1	1.4	2.8	8.1	13.3	26.6	2.2	3.9
7	61–70	5.8	11.8	27.9	1.6	4.5	6.2	13.4	40.0	2.5	6.4
8	71–80	7.6	13.3	41.2	3.1	7.6	2.4	16.3	56.3	1.3	7.8
9	81–90	4.8	11.8	52.9	2.6	10.1	3.3	15.1	71.4	2.4	10.1
10	91–100	1.7	10.0	62.9	1.1	11.2	2.4	9.1	80.5	2.0	12.1
11	101–110	1.7	8.4	71.4	1.2	12.4	1.9	6.2	86.7	1.7	13.7
12	111–120	3.3	5.9	77.2	2.6	15.0	2.1	4.5	91.3	1.9	15.6
13	121–130	1.4	7.7	84.9	1.2	16.2	1.2	3.0	94.3	1.2	16.8
14	131–140	0.8	4.3	89.3	0.7	16.9	0.0	2.7	97.0	0.0	16.8
15	141–150	0.3	3.3	92.6	0.3	17.2	0.0	0.2	97.1	0.0	16.8
16	151–160	0.5	2.0	94.6	0.5	17.6	0.6	1.2	98.3	0.6	17.4
17	161–170	0.2	1.0	95.7	0.2	17.9	0.7	0.3	98.7	0.7	18.1
18	171–180	1.5	0.5	96.2	1.4	19.3	0.1	0.0	98.7	0.1	18.2
19	181–190	1.1	0.5	96.7	1.1	20.3	0.0	0.5	99.2	0.0	18.2
20	191–200	0.0	1.0	97.7	0.0	20.3	0.2	0.3	99.5	0.2	18.4
21	201–210	1.3	0.0	97.7	1.3	21.6	0.0	0.0	99.5	0.0	18.4
22	211–Max	0.6	2.3	100.0	0.6	**22.2**	1.4	0.5	100.0	1.4	**19.7**

Sources: 2018 American Community Survey data and 2018 Home Mortgage Disclosure Act data.

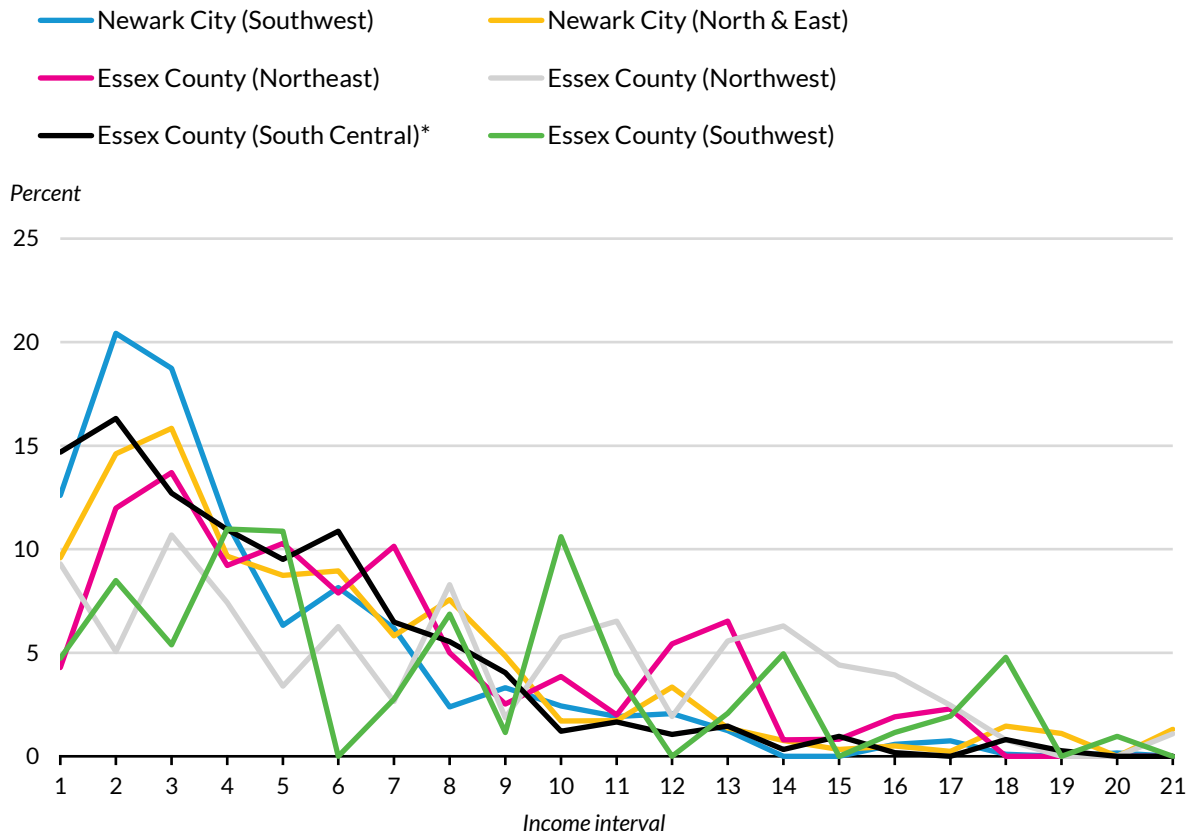
Notes: HARI = housing affordability for renters index; PUMA = Public Use Microdata Area. Incomes are rounded to the nearest thousand dollars. "Renters who can afford a house" indicates the probability that renters of a given income level can afford all homes purchased by new homebuyers at that same income level and at lower income levels. "PUMA HARI" indicates the cumulative probability that renters of a given income level can afford all homes purchased by new homebuyers at that same income level and at lower income levels.

Newark renters in both PUMAs have lower incomes than renters in the rest of Essex County (figure 3). Within Newark, renters in Southwest Newark have lower incomes than renters in East and North Newark. The Essex County South Central PUMA containing East Orange City also has a large concentration of low-income renters, with 64 percent of renters in the lowest five income intervals. In contrast, the other three PUMAs have lower concentrations of low-income renters and larger spreads.

Newark mortgage borrowers also have lower incomes than borrowers elsewhere in Essex County (figure 4). Within Newark, recent borrowers in Southwest Newark have the lowest incomes. For Essex County South Central, the borrower base is more affluent than in Newark City, though substantially less affluent than the other three PUMAs.

FIGURE 3

Renter Percentages, by Income Interval



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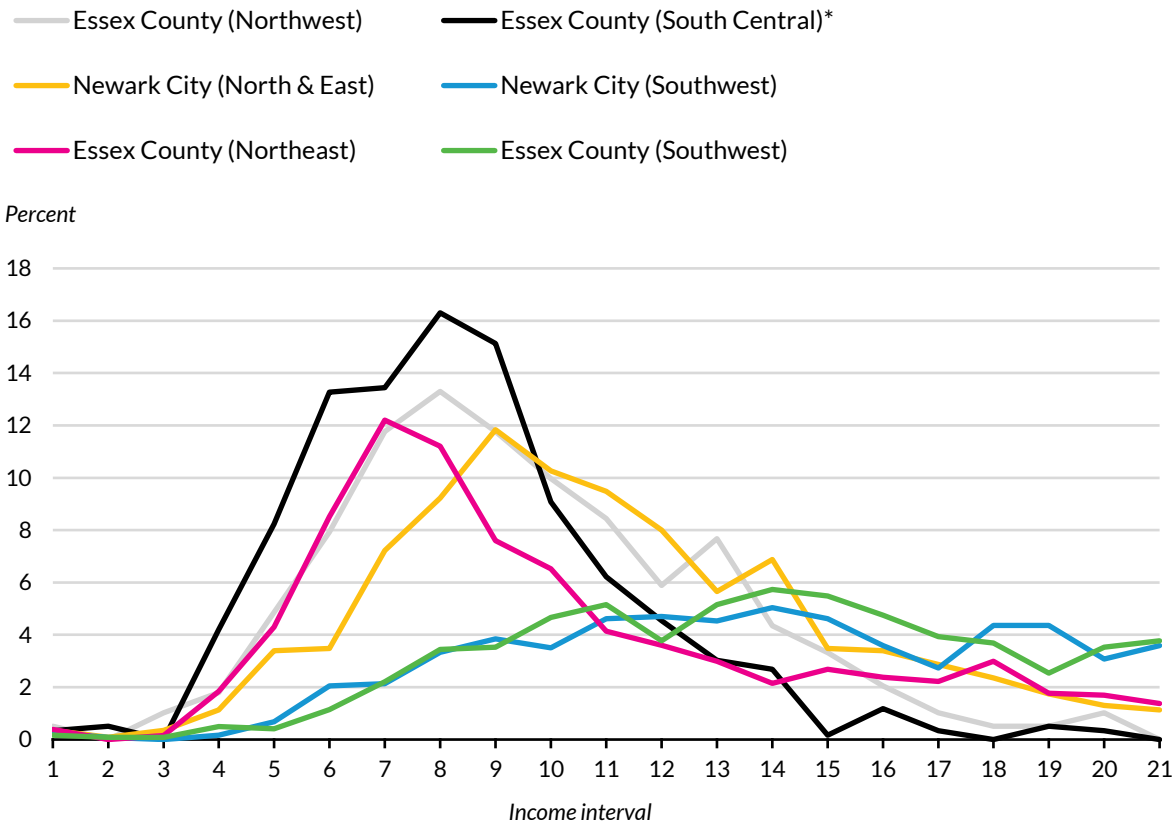
Sources: 2018 American Community Survey data and 2018 Home Mortgage Disclosure Act data.
Notes: The income intervals on the horizontal axis apply to $10,000 ranges: 1 = $1,000 to $10,000; 2 = $11,000 to $20,000, 3 = $21,000 to $30,000; and so on. Incomes are rounded to the nearest thousand dollars.
* East Orange City

FIGURE 4

Mortgage Borrower Percentages, by Income Interval



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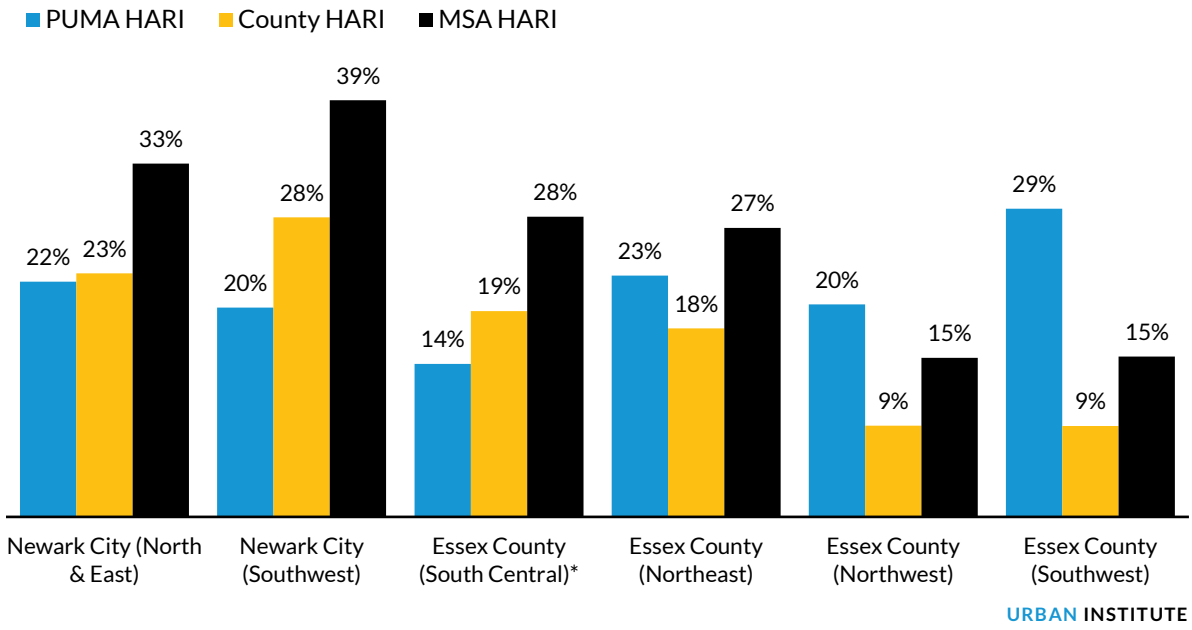
Sources: 2018 American Community Survey data and 2018 Home Mortgage Disclosure Act data.
Notes: The income intervals on the horizontal axis apply to $10,000 ranges: 1 = $1,000 to $10,000; 2 = $11,000 to $20,000, 3 = $21,000 to $30,000; and so on. Incomes are rounded to the nearest thousand dollars.
* East Orange City

HARI and Its Policy Implications

With renters' and borrowers' income distributions at hand, we can calculate the share of renters that can afford a home in each income interval. The 8.7 percent of renters whose incomes fall into interval 5 in North and East Newark could afford homes purchased by borrowers in intervals 1 through 5 (8.2 percent of the total), for a contribution of 0.7 percent (table 2). The results across the renter intervals are aggregated in the PUMA HARI column. Twenty-two percent of renters in North and East Newark and 20 percent of renters in Southwest Newark earn enough to buy recently purchased homes in those PUMAs.

FIGURE 5

Housing Affordability for Renters Index at the PUMA Level for Essex County



Sources: 2018 American Community Survey data and 2018 Home Mortgage Disclosure Act data.
Note: HARI = housing affordability for renters index; MSA = metropolitan statistical area; PUMA = Public Use Microdata Area.
* East Orange City

Figure 5 shows how affordable each Essex County PUMA is to three groups: renters within the PUMA, renters within Essex County, and renters within the broader New York MSA. The South Central PUMA is the least affordable to its own PUMA renters—only 14 percent have the incomes to buy there—but is affordable to 19 percent of county renters and 28 percent of New York MSA renters. Southwest Newark is the second least affordable to its own PUMA renters, with just 20 percent having the income to buy there, but it is the most affordable to those outside the PUMA, within reach of 28 percent of Essex County renters and 39 percent of New York MSA renters.

In North and East Newark, 22 percent of local renters can afford to purchase a home, making local affordability not too different than in many of the other PUMAs. On the other hand, 33 percent of renters in the New York MSA can afford to buy homes in North and East Newark, making it affordable by the standards of the whole MSA. In contrast, in the least affordable PUMAs, Essex County Northwest and Southwest, only 9 percent of Essex County renters and 15 percent of renters in the New York MSA can afford to buy a home.

Because of high housing affordability, there is a higher homebuyer inflow from Essex County and the New York MSA into Newark, compared with other places in the New York MSA. Using 2018 ACS data, we find the share of new homebuyers is higher in Newark PUMAs (6.4 percent) than in other PUMAs in Essex County (5.4 percent) (table 3). Both these numbers are higher than the 4.9 percent for PUMAs in the New York MSAs (outside Essex County) or the 5.1 percent national average.

TABLE 3

The Distribution of New Homebuyers in 2018

	New homebuyer share	Prior residence was… In Essex County	Prior residence was… In NY MSA outside Essex County	Prior residence was… Outside NY MSA	Share with FHA mortgages	Estimated first-time homebuyer share
Newark PUMAs	6.40%	79%	12%	10%	64%	72%
Essex County outside Newark	5.50%	59%	29%	12%	21%	54%

Sources: 2018 American Community Survey data and 2018 Home Mortgage Disclosure Act data.
Note: FHA = Federal Housing Administration; PUMA = Public Use Microdata Area.

We would expect that given Newark's relative affordability to renters outside the community, new homebuyers would be (1) disproportionately first-time homebuyers and (2) disproportionately from outside Essex County but inside the New York MSA. The first point turns out to be true but not the second. Although the data do not allow us to identify first-time homebuyers (former renters), we can identify the type of mortgage used. In Newark, Home Mortgage Disclosure Act data indicate that 64 percent of purchase loans are Federal Housing Administration loans versus 21 percent of purchase loans in Essex County outside Newark and 16 percent elsewhere in the New York MSA. Eighty-five percent of Federal Housing Administration loans go to first-time homebuyers, while about 50 percent of Fannie Mae, Freddie Mac, and Veterans Administration purchase loans go to first-time homebuyers. Using these numbers, we can estimate that the share of first-time homebuyers in Newark would be about 72 percent (64 percent * 85 percent + 36 percent * 50 percent) and the share of first-time homebuyers in the rest of Essex County would be about 54 percent (21 percent * 85 percent + 79 percent * 50 percent).

But relative to both the rest of Essex County and the nation, a higher share of the new Newark homebuyers is from within the county. Of the 6.4 percent of new homebuyers in Newark, 79 percent are from Essex County, 12 percent are from the New York MSA but outside Essex County, and 10 percent are from regions outside the New York MSA. We cannot determine how many of the 79 percent from Essex County are from Newark. For PUMAs in Essex County but outside Newark, 59 percent of new homebuyers are from Essex County, a number close to the nationwide average within-county move rate of 59 percent. This indicates that despite its affordability, Newark is less attractive to potential homebuyers outside Essex County.

TABLE 4

A Comparison between Current Homeowners and New Homebuyers

Homeowner type	Median household income	Share with a college degree	Average age	Share of houses built after 1980	Average number of bedrooms	Average number of rooms	Share with kids younger than 18	Share with kids ages 6 to 18
Newark PUMAs								
Current	$73,000	54%	56	32.0%	3.8	6.1	20.2%	19.4%
New	$95,000	66%	37	36.1%	4.2	6.4	58.7%	40.4%
Essex County outside Newark								
Current	$130,000	77%	57	11.0%	4.3	7.4	33.9%	29.3%
New	$140,000	73%	44	13.4%	4.7	7.8	52.6%	43.9%
New York MSA outside Essex County								
Current	$110,000	69%	58	24.7%	4.1	6.6	27.3%	24.8%
New	$119,600	77%	46	29.0%	3.9	6.3	36.2%	25.2%

Source: 2018 American Community Survey data.

Note: MSA = metropolitan statistical area; PUMA = Public Use Microdata Area.

In table 4, we compare recent homebuyers and current homeowners in Newark with their counterparts in Essex County (outside Newark) and in the New York MSA (outside Essex County).

In Newark, new homebuyers' incomes are 30 percent higher than current homeowners' incomes, and new buyers are younger and more likely to have a college degree. New homebuyers also had larger and newer homes than current owners. This trend holds for Essex County outside Newark and for the overall New York MSA. But new residents in Newark's PUMAs differ more from current residents than new residents do in other PUMAs and local areas.

Tables 3 and 4 suggest that although Newark is a candidate for gentrification, out-of-county residents do not view it as a choice destination. Part of this may reflect concerns about the school system. The share of new homebuyers in Newark with at least one child younger than 18 is higher than in Essex County as a whole (59 percent versus 53 percent), but the share with a school-age child is lower (44 percent versus 40 percent). The new Newark homebuyers, though, are younger and more affluent than those they are replacing, suggesting some, albeit limited, gentrification and raising interesting issues. On one hand, gentrification brings in high-income renters who buy homes, likely increasing property values, bringing new jobs, and lowering crime rates (Biro 2007). Moreover, rising property values and taxes could, in turn, be used to improve the school system. Recent research by Brummet and Reed (2019) shows that many original adult residents stay and benefit from the lower poverty exposure while their children benefit from increased exposure to high-opportunity areas, which increases the share of children attending and completing college.

On the other hand, gentrification creates the potential for displacement. Brummet and Reed (2019) show modest increases in out-migration, though the families who moved were not made observably worse off. Dragan, Ellen, and Glied (2020) show no increase in out-migration caused by gentrification. Families who move tend to move farther away, indicating that families must look farther away to find affordable options. But the families who moved were not made worse off than they would have been had the area not gentrified.

To minimize the potential displacement caused by gentrification, a risk magnified by the fact that the typical household in Newark (owner or renter) is cost burdened, we believe Newark can use policies that have been successful elsewhere, including implementing zoning changes and subsidy programs to increase the housing supply, particularly of more affordable housing types, in high-demand areas. In addition, programs that help Newark renters buy homes in Newark would both provide greater stability and minimize displacement. Down payment assistance programs are useful, too. These types of policy actions would allow Newark to reap the benefits of gentrification while minimizing its costs.

Conclusion

Newark is showing some signs of gentrification, New homebuyers in the city are younger, wealthier, and better educated than current homeowners, and they are living in newer and larger homes than homeowners who have been living in the city for generations. Although this trend is consistent

throughout the New York MSA, the scale of the difference between new and current homeowners in Newark is even larger, suggesting that gentrification is taking off faster in this city.

Newark is also vulnerable to gentrification and displacement because, though generally affordable, it is not affordable to potential homeowners already living in Newark. Our HARI analysis shows that 20 to 22 percent of local Newark renters could afford to buy a home in either Southwest Newark or North and East Newark but 30 to 33 percent of renters from the New York MSA could afford to buy in these same areas. But gentrification in Newark is apt to proceed slowly, as a low share of Newark buyers is from outside Essex County.

Although gentrification would provide some positive effects, policy actions such as increasing the supply of affordable homes and programs that help local residents with home purchases would be needed to offset possible displacement.

Note

[1] To calculate median family income, the NAR uses the 2019 ACS median family income, the latest available, and adjusts it to reflect the change in wage growth and personal income. Median family income is higher than median household income, as the former considers only families with at least two related parties living in the same household. Single-person households are eliminated from the calculation.

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