

# Homeownership is Affordable Housing in New Mexico

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## Executive Summary

New Mexico, like much of the nation has a severe shortage of affordable housing. Over 37.5 million U.S. households and 219,000 (29%) of New Mexico households pay more than 30 percent of their income toward housing. Federal regulators deem these households “cost burdened” because spending such a large percentage of income on housing necessitates difficult tradeoffs like cutting back on food, health care and transportation.

Subsidized rental housing, including public housing projects and Section 8 rental vouchers, have long been the central feature of the U.S. housing safety net. Subsidized rentals are critical to ensuring that all Americans are housed, but rentals alone cannot solve the affordable housing crisis.

In contrast to renting, homeownership provides sustainably affordable housing because the principal and interest portion of the payment on a fixed-rate mortgage is constant over the life of a loan. In 2021, 49 percent of New Mexico’s renters were cost burdened compared to 21 percent of homeowners. Homeowners enjoy more consistent, and frequently lower, housing costs than renters and their monthly payments increase much more slowly over time because they are less impacted by inflation. Freed from anxiety about rent increases or eviction, homeowners are better positioned than similarly situated renters to budget, plan, save, and ultimately, to get ahead.

One reason homeownership is under-utilized by government as an affordable housing strategy is the widespread belief that homeownership is more costly than renting. This report challenges that myth using readily available U.S. Census data for New Mexico and demonstrates that for many moderate- and low-income households, homeownership is actually more affordable than renting, even in today’s relatively high-cost housing market.

The affordability of housing is measured by a household’s ‘housing expense ratio’ - the absolute cost of housing divided by total household income. New Mexico homeowners are generally better able than renters to afford their housing. The typical New Mexico homeowner spends 15 percent of their income on housing while the typical renter must devote 26 percent of their income to rent.

Some of the difference in the housing expense ratios of owners and renters is attributable to income – ‘typical’ homeowners have higher incomes than ‘typical’ renters. However, homeownership remains more affordable, on average, than renting even among low-income households. Typical low-income renter households in New Mexico spend 38 percent of income on housing while owners in the same income group spend just over one-quarter (26%).

The affordability advantage of homeownership is also evident at the local level – renters in Albuquerque, Santa Fe, and Las Cruces, as well as those outside the metropolitan areas have higher housing expense ratios than their neighbors who own.

Both in New Mexico and nationally, African American and Hispanic homeowners have higher average housing expense ratios than White non-Hispanic homeowners, but the owners fare better than renters, regardless of race. In New Mexico, African American, Native American, Hispanic, and White non-Hispanic owners all have lower housing expense ratios than renters of the same race/ethnicity. Homeowners of color also experience lower average housing cost burdens than White renters.

Homeownership is particularly advantageous during periods of high inflation. Unlike renters who are perpetually vulnerable to housing cost increases, homeowners are less affected by rising home prices because the largest component of their mortgage payment – principal and interest – is fixed for the term of the loan. Even when residential property values are skyrocketing, homeowners with fixed-rate mortgages only see their monthly payments increase when their property taxes or homeowner’s insurance premiums go up. Meanwhile, the renter’s entire payment is subject to inflation, at a rate that often exceeds that of wage growth.

While homeownership is not the right solution for every household, it is an opportunity to obtain sustainably affordable housing that could benefit far more New Mexico households than it currently does.

## Introduction

New Mexico, like much of the nation, has a severe housing crisis. An inadequate supply of affordable housing impedes upward mobility, limits the pool of skilled labor available to employers, forces families to live in crowded and substandard conditions, and imposes onerous, costly commutes on workers who can’t afford to live near their jobs. Although this issue has received a great deal of attention in recent years, the problem is not a new one. For decades, moderate income households and working families have struggled with stagnating wages, rapidly escalating rents, and soaring home prices. In fact, over 37.5 million U.S. households and 219,000 New Mexico households pay more than 30 percent of their income toward housing and over 40 percent of these households devote over half of each dollar they make to housing.<sup>1</sup> Federal regulators deem households in the first category ‘cost burdened’ and those in the second category ‘severely cost burdened’ because spending such a large percentage of income on housing necessitates painful tradeoffs like cutting back on food, healthcare and transportation. High housing costs are also a risk factor for homelessness because households that dedicate most of their income to housing are very unlikely to have savings or other assets that can sustain them through a temporary financial set-back, like illness or the loss of a job.

Overall, 29 percent of New Mexico households are cost-burdened, but renters are far more likely than owners to struggle with excessive housing costs. One-in-five New Mexico homeowners are cost burdened compared to 49 percent of renters.<sup>2</sup> Part of this is due to income – homeowners have higher average incomes than renters – but the homeowner affordability advantage persists even after controlling for income.

Wide recognition of the pressing need to increase the supply of affordable housing has spawned a plethora of policy proposals at all levels of government. Unfortunately, most of these strategies, like the housing crisis itself, aren’t new. Rather, they ‘double down’ on decades-old public sector investments in multi-family rental housing by building more public housing projects, increasing subsidies to private sector builders of apartment complexes that include some affordable units, and/or increasing access to ‘Section 8’ rent vouchers. While rental housing has an important role to play in addressing the housing crisis, focusing so intensely on the rental market fails to take advantage of America’s largest, most sustainable and enduring source of affordable housing: homeownership.

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<sup>1</sup> Steven Ruggles, Sarah Flood, Matthew Sobek, Danika Brockman, Grace Cooper, Stephanie Richards, and Megan Schouweiler. IPUMS USA: Version 13.0 [2021 ACS]. Minneapolis, MN: IPUMS, 2023. <https://doi.org/10.18128/D010.V13.0>

<sup>2</sup> US Census Bureau 2021 American Community Survey

Why would well-intentioned policymakers seeking cost-effective solutions to a national crisis fail to recognize the ‘bird’s nest on the ground’ of homeownership? Two pervasive myths are largely to blame. The first widely held misconception is that homeownership is more costly than renting. The second, perhaps more insidious, fallacy is that homeownership is ‘not appropriate’ for households below a certain income threshold. This report debunks the first myth with readily available, publicly sourced data while also acknowledging that to achieve a lasting solution to the housing crisis confronting New Mexico and the nation, we must also address the pernicious role that false narratives about the willingness and ability of moderate income households to manage their own finances have played in shaping U.S. housing policy.

## Subsidized Rentals are a Costly, Partial Solution

Subsidized rental housing, in one form or another, has long been the central feature of the U.S. housing safety net. Over 10 million Americans and 51,000 New Mexicans use federal rental assistance to afford modest housing.<sup>3</sup>

Rental housing plays an important role in ensuring that all Americans are housed. However, rental strategies fall short when it comes to ensuring *long-term* housing affordability and over-reliance on subsidized rentals to meet the nation’s affordable housing needs is *extremely* inefficient public policy.

Many rental programs, such as rent vouchers, require a government assistance check to be issued every month to a landlord who is under no obligation to renew a tenant’s lease. In addition, on-going federal support for subsidies of any sort is not guaranteed. Changes in Congress or a new administration can mean cutbacks that reduce or even eliminate a family’s rent subsidy. Rent subsidies are also expensive for taxpayers. In FFY 2022 alone, the U.S. Department of Housing and Urban Development expended over \$41 billion on rental assistance programs.<sup>4</sup>

Homeownership, in contrast, provides the consistently affordable housing that modest-income households need. Unlike rents that increase with (and often outpace) inflation, fixed-rate mortgage payments fluctuate very little and tend to become more affordable over time. Homeowners, unlike renters, are also protected from rent increases and eviction.



<sup>3</sup> Federal Rental Assistance Fact Sheets. Center on Budget and Policy Priorities. <https://www.cbpp.org/research/housing/federal-rental-assistance-fact-sheets#N>

<sup>4</sup> National Low Income Housing Coalition. (2022, 28 July). FY23 Budget Chart for Selected Federal Housing Programs. Retrieved from: [https://nlihc.org/sites/default/files/NLIHC\\_HUD-USDA\\_Budget-Chart\\_FY23\\_Senate.pdf](https://nlihc.org/sites/default/files/NLIHC_HUD-USDA_Budget-Chart_FY23_Senate.pdf) AND <https://www.usaspending.gov/agency/departments-of-housing-and-urban-development?fy=2022>

## Owning is Often More Affordable than Renting

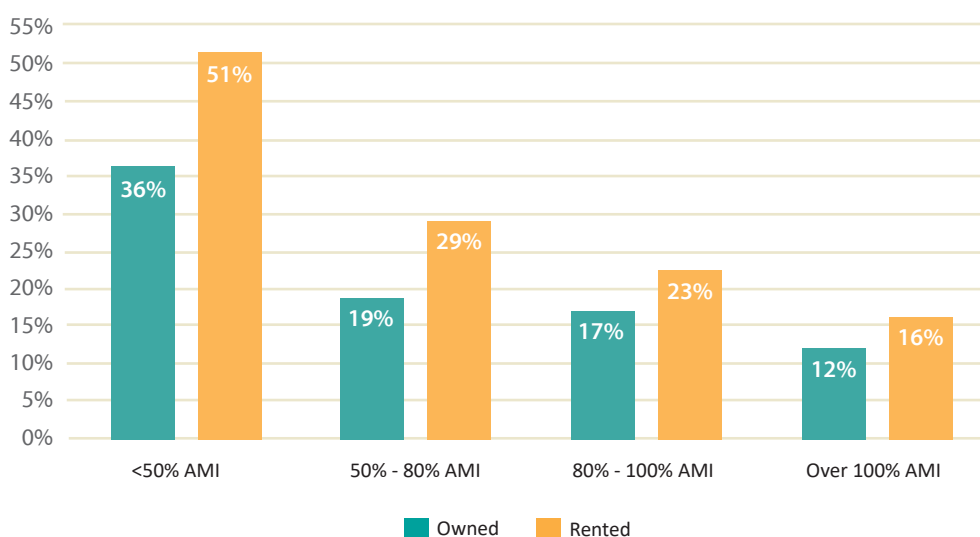
Contrary to popular belief, owning one's own home is frequently more affordable than renting. The affordability of housing is measured by the 'housing expense ratio' – housing costs expressed as a percentage of a household's overall budget. For example, a household with a monthly income of \$2,000 that spends \$1,000 on housing has a housing expense ratio of 50 percent.

The typical New Mexico homeowner spends about 15 percent of income on housing while the typical New Mexico renter spends 26 percent.<sup>5</sup> Some of the differences in housing expense ratios are attributable to income – typical homeowners have higher incomes than typical renters. However, homeownership remains generally more affordable than renting even after controlling for income (**Figure 1**). Renter households with annual incomes below 50 percent AMI (\$34,300 for a family of four in Bernalillo County), spend half of their income on housing while owners in the same income group spend just over one-third (35%). Among New Mexico households with incomes between 50 percent AMI and 80 percent AMI (\$55,000 for a family of 4), homeowners spend an average of 19 percent of income on housing while renters in this income bracket devote 29 percent of their income to housing-related expenses (**Figure 1**).

### Measuring Income

Eligibility for means-tested federal housing subsidies is often based on a household's income relative to the median income for their area. Area Median Income (AMI) is the household income for the middle household in a given region: 50% of households have incomes higher than the area median and 50% have incomes below the median. Households with income below 80% of the area median (80% AMI) are generally considered 'low income.' In 2023, AMI for a family of four in Bernalillo County is \$68,700 and 80% AMI is \$55,000.

Figure 1: Share of Income Spent on Housing by Income Class, NM



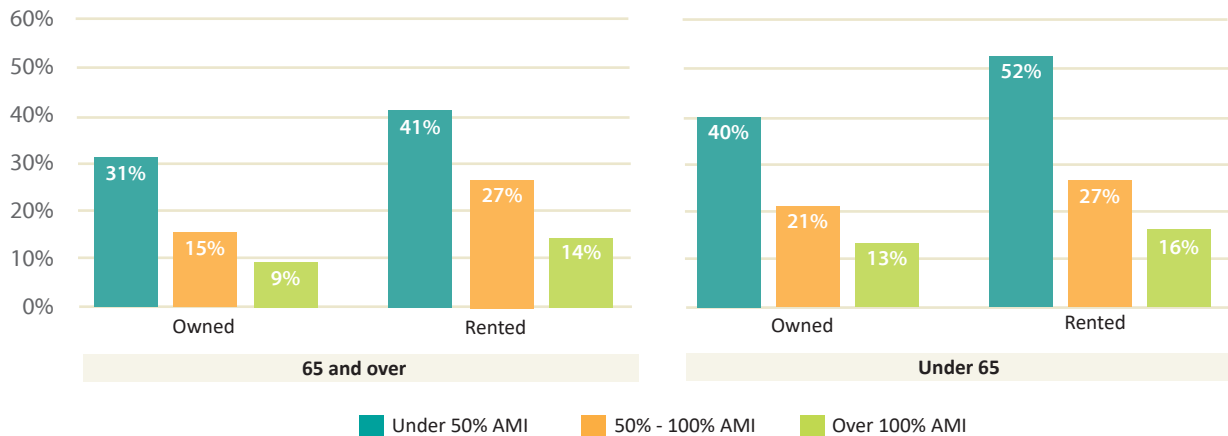
Source: US Census 2021 5-Yr American Community Survey Public Use Microdata and author calculations

<sup>5</sup> Steven Ruggles, Sarah Flood, Matthew Sobek, Danika Brockman, Grace Cooper, Stephanie Richards, and Megan Schouweiler. IPUMS USA: Version 13.0 [2021 ACS]. Minneapolis, MN: IPUMS, 2023. <https://doi.org/10.18128/D010.V13.0>



Figure 2 compares the relationship between tenure and housing expense ratio for two types of households: those headed by someone 65 or older (senior households) and those headed by a younger adult (working age households).<sup>6</sup> Owners have considerably lower housing expense ratios than renters at all levels of income. The cost advantages of owning are more pronounced for seniors who are more likely than younger people to have been in the same house for many years and are more likely to have paid off their mortgages.

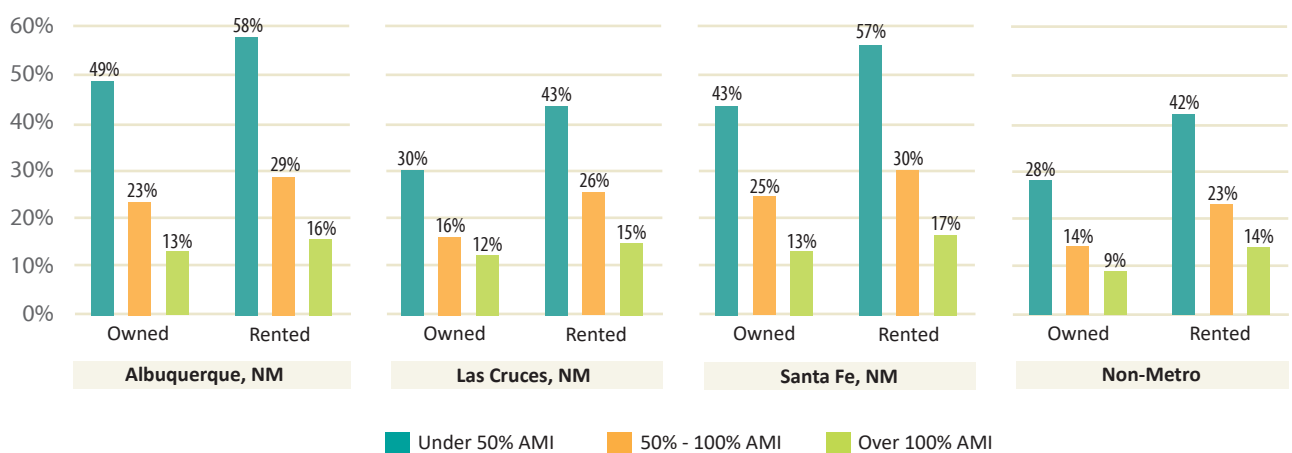
Figure 2: Housing Expense Ratios by Income and Age, NM



Source: US Census 2021 5-Yr American Community Survey Public Use Microdata and author calculations

The advantage of homeownership over renting is also evident at the local level. Figure 3 contrasts owner and renter housing expense ratio for New Mexico's three largest cities and the state's non-metropolitan areas.

Figure 3: Median Housing Expense Ratios by Income and Location, NM



Source: US Census 2021 5-Yr American Community Survey Public Use Microdata and author calculations

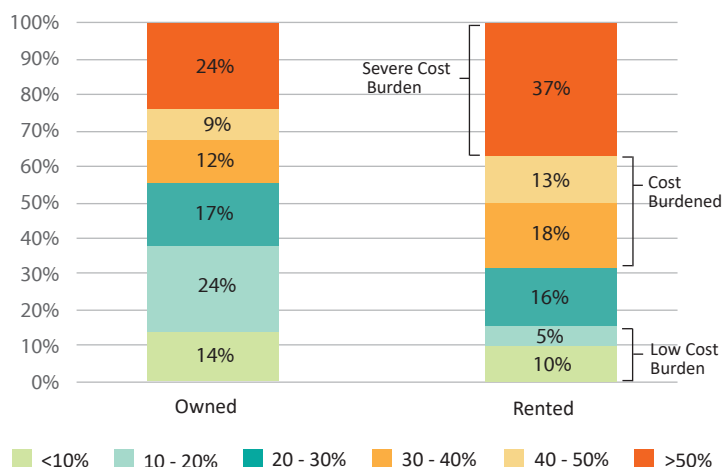
Homeownership is more affordable than renting in all four areas and across all income groups, with the greatest differential occurring between very low income (<50% AMI) households in Santa Fe, a relatively high-cost housing market. The smallest differentials between owner and renter expenses exist for households with incomes above the area median in Albuquerque and Las Cruces.

<sup>6</sup> For purposes of this analysis, 'senior' households are those headed by someone age 65 or older and 'working age' households are those headed by someone aged 18 to 64.

## Homeownership Benefits Even Very Low-Income Households

Today, about 336,164 New Mexico households have annual incomes below 80 percent of their area's median. Fifty-five percent (184,347) of these households own their homes. These low-income homeowners fare better than low-income renters. **Figure 4** shows the housing cost burden of New Mexico households with income below 80 percent of New Mexico's 2023 area median income. Renters in this income range are far more likely than owners to be severely cost burdened (35% of renters versus 22% of owners) and far less likely to benefit from low (<20%) housing cost burden (17% of renters versus 39% of owners).

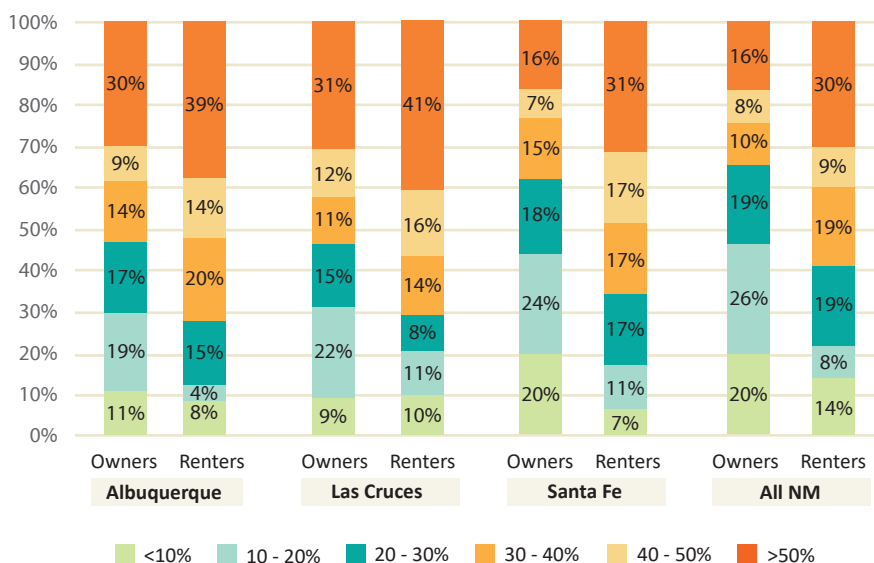
**Figure 4. Low-Income Households by Expense Ratio and Tenure, NM**



Source: US Census 2021 5-Yr American Community Survey Public Use Microdata and author calculations

**Figure 5** shows average cost burdens for low-income renters and owners in New Mexico's three largest metropolitan areas as well as non-metro areas of the state. Among the groups depicted in **Figure 5**, non-metro homeowners are the population least likely to be cost burdened, whereas renters in Albuquerque are more likely than any other group to experience both housing cost burden and severe housing cost burden.

**Figure 5. Low-Income Households: Cost Burden by Tenure and Metro, NM**

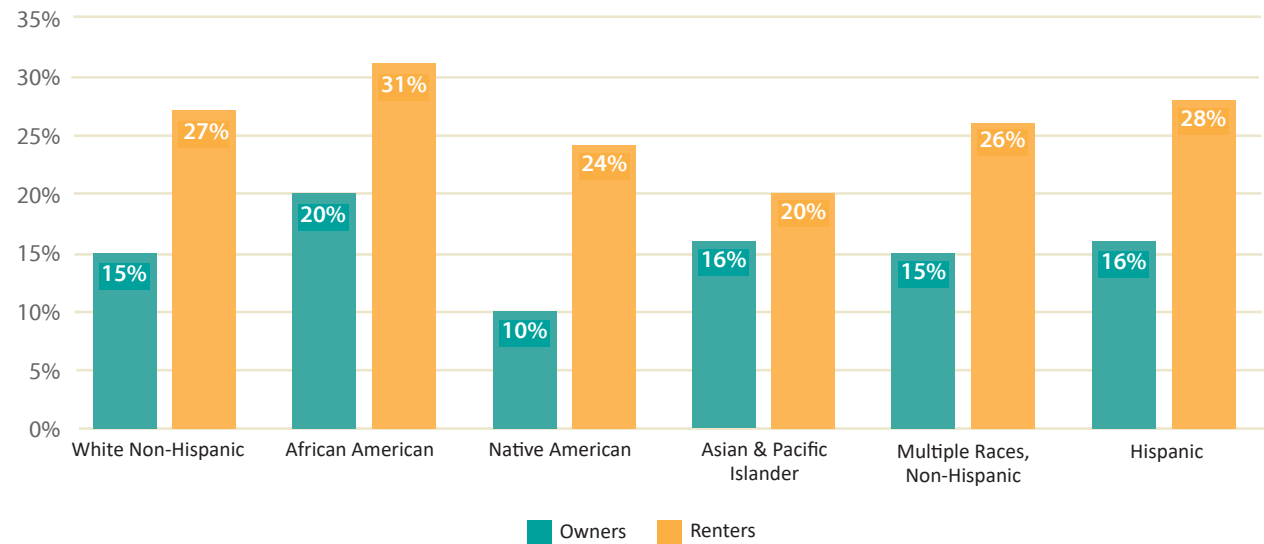


Source: US Census 2021 5-Yr American Community Survey Public Use Microdata and author calculations

## Homeownership Benefits Households of All Races

The cost advantage of owning versus renting is also consistent across races and ethnicities. **Figure 6** depicts the share of household income devoted to housing-related expenses for New Mexico households of different races and ethnicities. Both in New Mexico and nationally, African American and Hispanic homeowners have higher average housing expense ratios than White non-Hispanic homeowners, but the owners fare better than renters, regardless of race. Homeowners of color also experience lower average housing cost burdens than White renters.

**Figure 6. Median Housing Expense Ratio by Race/Ethnicity, NM**



Source: US Census 2021 5-Yr American Community Survey PUMS and author calculations

## Homeownership Helps Protect Households from Inflation

The major affordability benefits of homeownership accrue over time. Rising rents and rising home prices affect renters and owners differently. Residential leases are typically renewed annually and renewal is often accompanied by a rent increase designed to offset rising costs of property maintenance and management and to reflect other market conditions (such as the overall supply of rental housing).

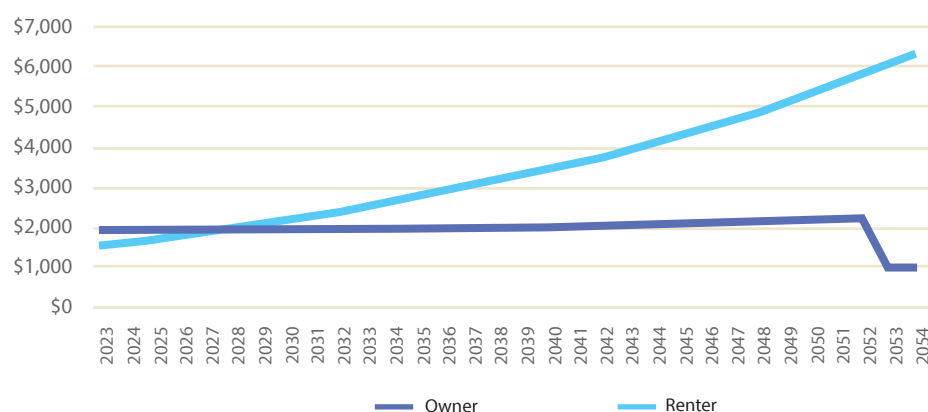
Unlike renters who are perpetually vulnerable to housing cost increases, homeowners are not directly affected by rising home prices because the largest component of their mortgage payment – principal and interest – is fixed for the term of the loan (typically 15, 20, or 30 years). Even when residential property values are skyrocketing, homeowners with fixed-rate mortgages only see their monthly payments increase when their property taxes or homeowner’s insurance premiums go up. Meanwhile, the renter’s entire payment is subject to inflation, at a rate that often exceeds that of other goods and services and may exceed wage growth. Homeownership is therefore particularly advantageous during periods of high inflation.

Over time, the homeowner’s and renter’s differing cost trajectories produce starkly different economic outcomes. **Figure 7** illustrates this phenomenon by comparing two hypothetical 4-person Albuquerque households with annual income equal to the 2023 New Mexico area median (\$68,500). The owner is assumed to have purchased a median-priced home (\$277,150) in 2023 and the renter starts out paying



the 2023 fair market rent for a 3-bedroom apartment in Albuquerque. For purposes of this example, rent is assumed to increase at a rate of 4.5 percent, the annual rate at which the fair market rent for a 3-bedroom apartment in Bernalillo County grew between 2012 and 2022,<sup>7</sup> taxes and insurance each grow by 1 percent annually, and maintenance costs increase at a rate of 3 percent, the average U.S. inflation rate between 2013 and 2023.<sup>8</sup> The renter's monthly housing expenses start out lower, but surpass the owner's monthly costs within five years. Over the course of the subsequent 25 years the renter's costs grow much faster than the owner's until, in year 30, the owner pays off their mortgage and their monthly housing cost drops to roughly 15 percent of the renter's, which continue to rise.

**Figure 7. Hypothetical Homeowner and Renter Households: Housing Costs Over Time**



Source: US Census 2021 5-Yr American Community Survey Public Use Microdata and author calculations

## Homeownership Becomes Increasingly Affordable Over Time

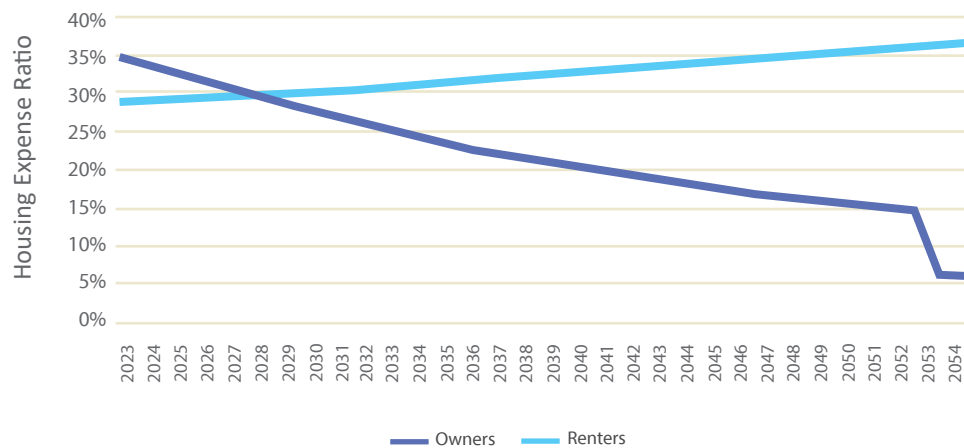
The benefits of homeownership become even more pronounced when the housing expense ratios of owners and renters are compared over time. In general, incomes, rents, and other expenses rise over time due to inflation. If a renter's income and rent grow at the same rate, the share of income they spend on housing, and thus the affordability of that housing, will stay the same. However, although incomes, rents, and other expenses tend to move in the same direction, they do not typically grow at the same rate. If rents rise faster than incomes, as has been the tendency in recent years, the renter's housing expense ratio will increase, and housing will become relatively less affordable. **Figure 8** depicts housing expense ratios for the hypothetical Albuquerque homeowner and renter whose housing expenses are depicted in **Figure 7**. Because the owner's housing payments are relatively stable and wages are assumed to grow at an average annual rate of 3.7 percent, the average annual increase in wages of New Mexico workers between Q3 2012 and Q3 2022,<sup>9</sup> housing as a share of household income declines over time for the owner. The renter, in contrast, is subject to rent increases that outpace the rate of wage growth and thus experiences increasing housing cost burden over time.

<sup>7</sup> US Department of Housing and Urban Development. Office of Policy Development and Research. Final FY2023 New Mexico FMR Metropolitan Area Summary. Retrieved from: <https://www.huduser.gov/portal/datasets/fmr.html>

<sup>8</sup> Bureau of Labor Statistics. CPI Inflation Calculator. Retrieved from: [https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm)

<sup>9</sup> US Bureau of Labor Statistics. Quarterly Census of Employment and Wages. Series ENU3500040010, Average Weekly Wage in Total Covered Total, all industries for all establishment sizes in New Mexico. Retrieved from: <https://data.bls.gov/cgi-bin/dsrv>

Figure 8. Hypothetical Homeowner and Renter Households: Affordability Over Time



Source: US Census 2021 5-Yr American Community Survey Public Use Microdata and author calculations

Although this brief focuses on the short-term cost advantages of owning versus renting, the enormous boost in affordability that occurs after a homeowner makes their final mortgage payment must be acknowledged. After the mortgage is paid in full, the homeowner's only housing costs are taxes, insurance, maintenance, and repairs. This affordability windfall may be particularly welcome and well-timed if the homeowner is nearing retirement.

It is also critical to note that after 30 years of regular mortgage payments, the owner will own their home outright. If the home has appreciated at an annual rate of 5.9 percent, the annual average rate by which New Mexico home values have grown over the past 20 years, according to Zillow,<sup>10</sup> it will be worth about \$1.5 million or over 5 times what it cost to buy in 2023.

## Conclusion

High housing cost burden is a problem for 29 percent of New Mexicans and 49 percent of New Mexico renters. Homeowners, even those with very low incomes, are less likely to be cost burdened than renters. This is due, in part, to the fact that payments on fixed rate mortgages grow at a much slower rate than do rents and the fact that mortgages, once paid off, result in dramatically lower housing costs.

Homeownership is by no means the right solution for every household; but many more New Mexico households could benefit from this opportunity to attain sustainably affordable housing than currently do.

<sup>10</sup> The average annual rate at which the Zillow Home Value Index (ZHVI) for the median-priced single-family home in New Mexico increased between February 2003 and February 2023.



This report is authored by Kelly O'Donnell PhD, Chief Research & Policy Officer at Homewise. She can be reached at 505.659.5702 or [KODonnell@homewise.org](mailto:KODonnell@homewise.org)

Homewise is a New Mexico based nonprofit organization that helps people achieve financial stability through affordable and sustainable homeownership. We offer a comprehensive suite of homeownership services that includes financial education and coaching, real estate services, affordable mortgage lending and down payment assistance, loan servicing, refinance and home improvement lending.



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