Missed rent payments dropped 10.6% in states that raised minimum wage

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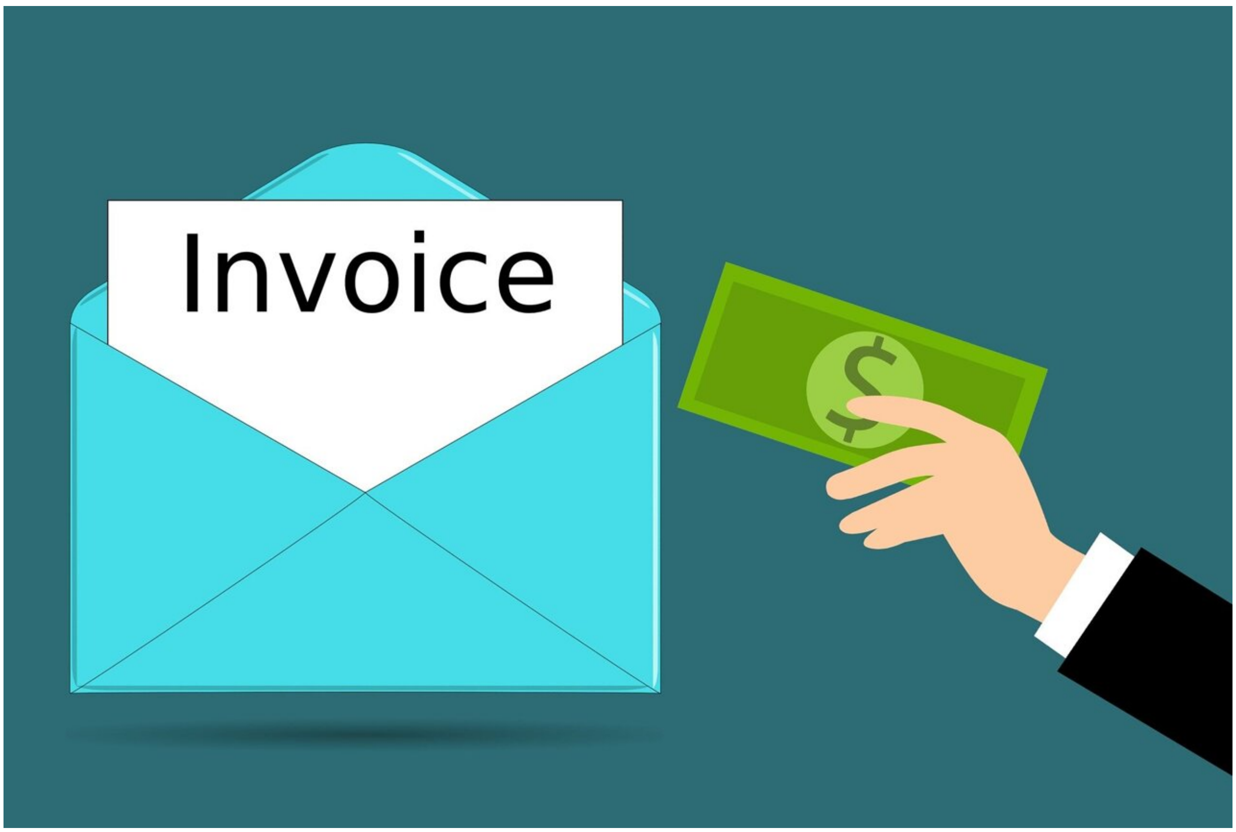

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The housing crisis isn't unique to coastal megacities. From Salt Lake City to Charlotte, rent prices are surging. What can policymakers do to provide some relief? A new study published in the *Journal of Urban*

Economics shows that in states that raised their minimum wage, rental defaults declined by 10.6 percent. However, it didn't take long for landlords to begin increasing rent.

Alongside Dr. Sumit Agarwal at the National University of Singapore and Dr. Brent W. Ambrose at Pennsylvania State University, USC Price School of Public Policy Assistant Professor Moussa Diop co-authored the research. Diop says the study is groundbreaking in that it is the first to specifically analyze how renters may benefit from minimum wage increases and how property owners capitalize on those increases.

"This has not been documented before—not even explored," Diop said.

Distilling a decade of data

While the federal minimum wage has remained at $7.25 per hour since 2009, state minimum wages vary widely. Some states have no separate minimum wage beyond the federal requirement, but others have hourly rates as high as the District of Columbia's at $15.20.

"There is a lot of heterogeneity [and] variation in the minimum wage between states," Diop said.

For the study, the research team examined 41 states, 25 of which implemented minimum wage increases between 2000 and 2008.

The three researchers sourced their data from the U.S. Census Bureau as well as RentBureau, a national credit repository that tracked payment patterns of leases from January 2000 to November 2009.

They noted that "the advantage of this data source is that it is a national database of rental performance covering over 1.8 million individual leases from approximately 2,600 multifamily properties."

Diop and his colleagues found that on average, there is a 1.1 percent decrease in the number of people defaulting on their leases for every 1 percent increase in the minimum wage. This corresponds to 10.6 percent fewer monthly defaults in states that raised the minimum wage compared to those that did not.

Notably, researchers also evaluated how landlords responded to minimum wage hikes.

"What was most surprising to us was when we started really looking at the impact in the rental market," Diop said. Property owners begin slowly bumping up rent roughly three months after the new minimum wage goes into effect. "When you change minimum wage, this is a shock to the system, and you expect the system to really readjust."

Focusing on lower-income communities

The 10.6 percent drop in defaults is significant—but perhaps equally important was the segment of the population it affected most. According to the study, low-income tenants were the likeliest to be able to keep paying rent following a minimum wage hike, thereby lowering their risk of eviction.

As noted in the paper, "[Tenants] in the low-rent group are less likely to move following a minimum wage increase. This result makes sense because low-income renters are more likely to miss rent payments, thus more exposed to involuntary moves due to eviction."

When examining their results, Diop and his colleagues also found that even after landlords increased rent, there was still an average net benefit for tenants.

"As long as any resulting increase in rents does not overwhelm the direct effect of the wage increase on lease performance, the net effect on rent default should be negative," the study states.

Indeed, Diop said that generally speaking, the boost to renters' incomes will cover the rent hikes—but not by a wide margin. "On average, if you increase minimum wage, rent is going to increase, but the rent increase will take away about 55 percent of the wage increase, so it's quite substantial," Diop explained.

Diop made it clear: the research is not intended to advocate for or against minimum wage hikes. However, he does hope politicians will reference it when creating future policies.

"We're not trying to be prescriptive in any way. All we're trying to do here is just draw empirical evidence so policymakers can look at it when they try to have a more holistic view of what increasing minimum wage does," Diop said. "This evidence hasn't been presented before and maybe this evidence can win [over] some people who are a little bit reluctant."

The research is especially relevant in California, where the population grew by just 6.1 percent from 2010 to 2020, according to the Census. The slow growth forced the Golden State to lose a congressional seat for the first time in its history. In order for that pattern to change, Diop says, it has to be cheaper to live here. He believes housing affordability in California is fundamentally a supply issue.

"The housing crisis needs to be addressed for the state to keep growing," Diop said. "People focus on the Elon Musks of the world moving to new states—that's a big tax leaving. But I think what's more important are the average residents leaving who we don't see—people who are really making the economy work—because they cannot afford to live in California anymore."

The solution will undoubtedly be complex. But at a time when Americans are desperate for an answer, their leaders can turn to evidence-based research for guidance.

More information: Sumit Agarwal et al, Minimum wage increases and eviction risk, *Journal of Urban Economics* (2021). DOI: 10.1016/j.jue.2021.103421

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