

FINANCIAL FAQs

WHAT MAKES A HOUSE AFFORDABLE?

The National Association of Home Builders (NAHB) just released its Home Opportunity affordability index (HOI), which gives the percentage of population with a median income that can afford a median-priced home. This is one of several measures used to gauge housing affordability.

Nationwide housing affordability remained virtually unchanged from the end of 2005, as slightly lower home prices and higher household income helped offset an upward movement in mortgage rates to keep the index almost flat. The HOI rose marginally from its lowest level on record, 41.0 at year-end 2005, to 41.3 in the first quarter of 2006.

It is no surprise that interest rates control affordability. Household incomes have been rising 3.8 percent of late, slightly higher than the inflation rate, while short-term interest rates such as the Prime Rate have increased 100 percent since June 2004.

The latest HOI shows that only 41.3 percent of new and existing homes sold during this year's first quarter were affordable to families earning the national median income," said NAHB President David Pressly. "This is down from just over 50 percent of all homes sold in the first quarter of 2005 that were affordable to the average family."

"Compared to the fourth quarter of last year, the median price of all new and existing homes that were sold during the first quarter of 2006 declined 1.5 percent, while the national median income, as calculated by the federal government on an annual basis, was adjusted upward from \$58,000 to \$59,600," explained NAHB Chief Economist David Seiders. "These factors kept housing affordability from sliding further despite the fact that the national weighted interest rate on fixed and adjustable-rate mortgages rose 18 basis points in the period, from 6.21 percent to 6.39 percent."

In the nation's most affordable major housing market of Indianapolis, just over 90 percent of homes sold in the first quarter were affordable to families earning the area's median household income of \$65,100. The median sales price of all homes sold in Indianapolis during that time was \$113,000 - down from \$120,000 at year-end 2005. Also near the top of the list for affordable major metros was Youngstown-Warren-Boardman, Ohio-Pa., followed by Detroit-Livonia-Dearborn, Mich.; Rochester, N.Y.; and Buffalo-Niagara Falls, N.Y., in that order.

Four smaller housing markets outranked all others in housing affordability this time around, including Lansing-East Lansing, Mich. at the top of the list; Davenport-Moline-Rock Island, Iowa-Ill.; Lima, Ohio; and Battle Creek, Mich., respectively. Bay City, Mich., was the fifth-most affordable market smaller than 500,000 people.

Los Angeles-Long Beach-Glendale, Calif. maintained its standing at the very bottom of the affordability chart in the first quarter, with just 1.9 percent of new and existing homes sold in the area being affordable to families earning the median household income of \$56,200. The median price of all homes sold in the metro during the first quarter was \$500,000, which was unchanged from the previous HOI. Other major metros at the bottom of the housing affordability chart included Santa Ana-Anaheim-Irvine, Calif., followed by San Diego-Carlsbad-San Marcos, Calif.; New York-White Plains-Wayne, N.Y.-N.J.; and Nassau-Suffolk, N.Y.

Among metro areas smaller than 500,000 people, Santa Barbara-Santa Maria, Calif. was the least affordable housing market. Four other small California markets also fell at the bottom of the affordability chart, including Modesto as the second-least affordable small market, followed by Salinas, Merced, and Napa.

Another way of looking at affordability is the index published by the National Association of Realtors, which shows that a median-household income can afford 112 percent of a median-priced home, a \$244,160 home. The index was as high as 140 percent in 2001, so there is no question that affordability of middle and lower-income household is declining in the coastal regions, particularly, as housing prices there have continued to rise.

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