VI. Housing Costs and Affordability Analysis

The description of existing housing stock and demographics in the previous chapters provides a starting point for an analysis of the affordability of various types of housing in Grand Island. The purpose of this section is to determine the ability of households, both renters and homeowners, to purchase modest houses and the ability of renters to afford decent rental units. As a mortgage is integral to the purchase of a house, the study will first determine the minimum income required to obtain mortgages of different amounts. The chapter will then conclude with an analysis of the affordability of rental housing.

Mortgage Payments

The analysis of mortgage payments begins with Table 6-1, which shows a range of house prices from $30,000 to $200,000 and the associated income required to be "bankable" for a 30-year fixed-payment mortgage at 7% interest. For each price, the components of a mortgage payment have been estimated based on the following assumptions:

- **Principle and Interest (P& I)** – based on the price of a house and the standard calculations of a 30-year mortgage at 6% interest. For simplicity, a zero down payment is assumed. Closing costs are assumed to be paid out-of-pocket or by grant.

  Although the average interest rate over the past few years has been lower, zero down payment loans typically have higher interest rates than conventional 80/20 loans.

- **Property Insurance** – estimated at $5 per $1000 of valuation.

- **Real Estate Taxes** – estimated at $2.074528 per $100 of valuation. This is the most widely used rate in Grand Island for 2007.

- **Private Mortgage Insurance (PMI)** – per year is 0.78% of the total amount borrowed. The payment is this number divided by 12.

The sum of these four main items is the actual mortgage payment, shown as "Total Monthly Payment" in Table 6-1.

According to Fannie Mae guidelines, the total annual house payment should not exceed 30% of a homeowner's annual income. Multiplying the monthly payment by 12 and dividing it by 0.30 (30%) provides the lowest annual income for which the mortgage is affordable, shown in the column labeled, "Income Required for Mortgage".

As Table 6-1 shows, the sale price for the median house in Grand Island over the past three years was $93,000. To purchase such a house, potential owners would have to make at least $32,729 in household income. This is $11,111 less than the Claritas estimated 2008 median household income of $43,840. Housing within the study areas has been more affordable than in the entire city. The price of a median study area house was $60,500. To acquire that level of housing, a prospective homeowner would need to make at least $21,277 in household income, which is $22,563 less than the median household income for 2008. The projected median household income for 2013 will be $16,342 more than what would be needed to buy a median priced house. This suggests affordability may increase over time for low-income house buyers.

Although these figures do not include adjustments for other household debt like credit cards or car payments, they reflect that housing in Grand Island is affordable to a majority of households. Additionally, housing within the study area is more affordable than the rest of the community.

Table 6-1: Income Required for Various Mortgage Amounts

Housing Price	P&I	Property Insurance	Real Estate Taxes	PMI	Total Monthly Payment	Income Required for Mortgage	Housing Category
$30,000	$180	$13	$52	$20	$264	$10,575	
$40,000	$240	$17	$69	$26	$352	$14,086	
$50,000	$300	$21	$86	$33	$440	$17,598	
$60,000	$360	$25	$104	$39	$528	$21,109	
$60,500	$363	$25	$105	$39	$532	$21,277	Median Study Area House
$70,000	$420	$29	$121	$46	$616	$24,621	
$80,000	$480	$33	$138	$52	$703	$28,132	
$90,000	$540	$38	$156	$59	$792	$31,684	
$93,000	$558	$39	$161	$60	$818	$32,729	Median House
$100,000	$600	$42	$173	$65	$880	$35,195	
$123,500	$744	$52	$220	$80	$1,096	**$43,840**	Median Household Income (2008)
$137,500	$827	$60	$250	$89	$1,227	**$49,071**	Median Household Income (2013)

Source: Hall County Assessor Office, August 2005-August 2008; Claritas, 2008
Note: Data on general non-developed parcels and mobile home sales have been removed to reflect CDBG eligible housing statistics.
Note: Income Required for Mortgage does not include adjustments for other household debt payments.

Homeownership Affordability Analysis

Table 6-2 shows an analysis of the ability of different level income households to purchase various house types. The first table refers to the "Median House." As described above, a buyer must have at least an income of $45,250 in order to obtain a mortgage for this type of house.

The remaining three tables measure the affordability of the three types of housing that were described in Table 6-1. The percentage of households who can afford a given type of house decreases as the type of house becomes more expensive.

Single-Family Housing Cost Analysis – Construction of New Market Rate Units

To review the cost of new construction, Central Nebraska Home Builders Association was consulted to explain the average construction cost of two types of units of typical size in Grand Island. The typical entry-level new housing unit ranges from about 1,200 to 1,500 square feet in size. The moderate housing unit reviewed was a 1,700-2,000 square foot unit type.

Table 6-2: Cost of New Construction Homes

	Entry Level Model 1,300 Sq. Ft.	Moderate Model 1,800 Sq. Ft.
Typical Lot (including infrastructure)	$ 30,000	$ 40,000
Construction Costs and Fees	$ 173,719	$ 279,000
Total	$ 203,719	$ 319,000

Source: Central Nebraska Home Builders, Association, 2008

As the table above illustrates, the cost of an entry level model is rather expensive and out of the price range of many of the income groups in Table 6-1. The Central Nebraska Home Builders Association stated that the entry level home could cost less, however the demand for this type of home is rare as financing for these lower income groups is often harder to acquire.

Rental Affordability Analysis

To analyze the affordability of rental housing, current rents, number of bedrooms and location were collected for a sample of 39 rental complexes in Grand Island. Detail of this data can be found in Tables 4-14 and 4-15 in Chapter 4. These statistics were compiled to analyze the distribution of rents for the different types of existing multi-family units. Additionally, the cost to construct new multi-family units is reviewed later in this section.

Multi-Family Rental Unit Distribution

Another way to review the rental market is to look at the distribution of rent prices by number of bedrooms. Table 6-3 below provides this distribution, linking the range of rents to the number of bedrooms per unit. Although this analysis does not include single-family renter-occupied housing, it is a useful tool in diagnosing the spread of number of units per cost range for rental complexes, identifying gaps that can be filled with new construction. The most common units are two bedroom units with rents from $450 to $550, a total of 493 of these units make up a large portion of the units in complexes. One bedroom units with rents ranging from $300 to $450 make up another major segment with 467 units combined.

Table 6-3: Distribution of Rents by Number of Bedrooms

	Rental Intervals								
Num. of Bedrooms	< $300	$300-$350	$350-$400	$400-$450	$450-$500	$500-$550	$550-$600	> $600	Totals
0 BR	15	23		5					43
1 BR		179	124	164	66				533
2 BR		6	72	108	240	253	184	64	927
3 BR					50		36	153	239
4+ BR							20		20
Totals	15	208	196	277	356	253	240	217	

Source: The Schemmer Associates, 2008
Note: Figures are approximate, based on rental housing survey data.

Multi-Family Housing Cost Analysis – Construction of New Market Rate Units

To review the cost of new construction, many factors were considered. The cost of the land, site work needed, actual construction costs, professional services fees, finishing details and financial and legal considerations are reviewed. These details were compiled and are provided in Table 6-4 for review.

Table 6-4: Cost Analysis for a Typical Duplex Development Project (4 Units Total)

Cost Component	Cost/Unit	Total Cost
Land	9,048.47	36,193.87
Sitework (Infrastructure, Utilities)	525.00	2,100.00
Construction Cost	68,236.07	272,944.26
Architectual	700.00	2,800.00
Engineering, Survey	250.00	1,000.00
Landscaping, etc.	2,501.60	10,006.00
Legal and Financing	637.30	2,549.50
Construction Interest	1,250.00	5,000.00
Lease up Expenses	500.00	2,000.00
Contingency	1,250.00	5,000.00
Total	$ 84,898.52	$ 339,594.03

Source: Central Nebraska Home Builders, Association, 2008

According to the Central Nebraska Home Builders Association, the estimated cost of the development of a typical 4-unit duplex project is approximately $339,594. This presents a per-unit cost of $84,898.

In 2008, a 4-unit complex was constructed in Grand Island using the aforementioned costs. Units in this complex range in size between 960 square feet to 1,062 square feet and include attached garages. The project utilized $50,000 in Tax Increment Financing (TIF) which subsidized the development and improved affordability of the units. The current rental rate for these units is $750 per unit. This is a rate that is relatively high for the neighborhood, but it is near the breakeven point for the property owner. Typical rates for new construction rental units without subsidies have been near $0.85 per square foot. Without the TIF subsidy, this square foot rate for new construction rental units would require charging rent of $816 to $903 per month per unit.

In order to improve the affordability of new rental units, various sources of funding are needed to subsidize construction costs. Grand Island should promote information and educate developers about the availability and sources of these funds to improve affordability of new construction rental housing stock.

Bridging the Affordability Gap

The intent of this section is to identify the strategies needed to bridge the affordability gap. It will look at facilitating the production of affordable housing, reviewing the barriers that impede their production, and reviewing strategies to assist homeowners in eliminating the financial divide between their household and what's needed for homeownership.

The Homeownership Affordability Gap

Although the price of a median home in Grand Island is theoretically affordable for a median income family (as shown in Table 6-1), there is still a gap for those families below the median income in obtaining affordable, quality housing. This gap could be reduced in at least one or more of the following ways for a typical household:

1. Increase the household monthly income,
2. Increase the down payment,
3. Reduce the interest rate of the mortgage,
4. Reduce the overall cost of the home, or
5. Reduce the amount of the first mortgage placed on the property by utilizing an affordable housing program funding source.

The Grand Island Affordable Housing Survey in Appendix 1 reported that 50.5% of the renters were living in single-family houses, whereas 49.5% were renting apartments. Those in apartments are more likely to qualify for affordable housing programs due to probable lower incomes than those renting single-family homes.

Additionally, the survey found that 41% of participants anticipated a need for affordable housing in the next five years. Although the survey represents a relatively low sample size for the City of Grand Island, if the number of households that were in need of affordable housing over the next five years was extracted out of that percentage, it would equate to 6,928 households of the Claritas estimated 16,897 households in the City of Grand Island. Considering that the survey also said that 78.7% of those who responded were looking to purchase rather than rent, this is a staggering number when considering the demand on the housing market.

The Rental Affordability Gap

Conducting a financial analysis for affordable multifamily housing development is much more complex than for single-family housing. Since these are much larger projects than single-family houses the funding streams are often somewhat different. Investors may be from the government, banks, foundations, and/or private sector joint venture partners. To analyze affordability, it is not possible to just review the construction costs of multi-family development, but the ongoing operation costs of the development must be included. Therefore, only general methods used to reduce the rental affordability gap will be discussed in this section.

In order to reduce the gap between market rate and affordable rents, it is necessary to either subsidize the tenant's monthly rent costs, subsidize the developer's construction costs, or make a combination of both.

One example of subsidizing the tenant's monthly rent costs is the Section 8 Rental Assistance program. The Hall County Housing Authority administers the tenant-based Section 8 program which allows a tenant to rent a privately owned rental unit and pay only a fraction of the rent typically charged by the landlord. The Section 8 program pays the difference between the market-rate rent and the subsidized rate.

One way to effectively reduce the rate charged for rental units is to offer developers a subsidy to decrease the developer's construction costs, thus reducing the amount of debt service for the multi-family units, allowing the developer to charge a more affordable rate. This is often achieved by accessing reduced interest rates. One resource for lowering development rates is Nebraska Department of Economic Development's Predevelopment Revolving Loan Fund (PDLF). The PLDF assists community-based organizations with the initial "seed financing" for affordable housing projects. Although this startup fund is small, it provides low- or even no-interest predevelopment financing.

There are other types of funding mechanisms that provide equity for the developer of an affordable housing development, reducing the amount of principal needed for the first mortgage. One of the more widely used programs in Grand Island is the Low Income Housing Tax Credits Program (LIHTC). The program provides a credit that offsets an investor's federal income tax liability, helping the developer to finance the project by reducing their overall size of the first mortgage.

For more information on these programs and others, see the Funding Sources section in Chapter 8.