BUILDERS ASSOCIATION OF THE TWIN CITIES
PROFESSIONAL HOME BUILDERS & REMODELERS

THE GOOD NEWS! *Homes Becoming More Affordable*

Nationwide, and in the Twin Cities, homes are becoming more affordable. According to the National Association of Home Builders/Wells Fargo Housing Opportunity Index (HOI), the U.S. housing market is at its most affordable level since the second quarter of 2004.

The quarterly HOI survey, released last month, reveals that a greater percentage of the population are able to purchase a new and/or existing home. This is the third consecutive quarter where homes, nationwide, have become more affordable.

"Today's HOI reading shows that 53.8 percent of all new and existing homes that were sold during the first quarter of 2008 were affordable to families earning the national median income of $61,500," noted Sandy Dunn, a builder from West Virginia and president of the National Association of Home Builders (NAHB).

"Three factors combined to substantially increase housing affordability nationwide – mortgage rates returning to near the record low levels of a few years ago, a $2,500 rise in family income nationwide, and lower house prices," Dunn explained.

The HOI indicates that the national weighted interest rate on fixed and adjustable-rate mortgages – a key component in calculating the HOI – was 6.02 percent in the first quarter of 2008, compared to 6.42 percent in the fourth quarter of 2007, and the lowest since third quarter of 2005.

The nation's most affordable major housing market is Indianapolis – where 90.1 percent of the homes that sold in the first quarter of 2008 were affordable to families that earned the area's median household income of $65,100.

At the other extreme, the Los Angeles/Long Beach/Glendale metro area has been the least affordable major housing market for 14 consecutive quarters. According to the HOI study, only 10.5 percent of new and existing homes sold during the first quarter of 2008 were affordable to those earning the area's median family income of $59,800.

WHAT IS HOI?

Here is how an area's Housing Opportunity Index is determined. First, NAHB uses the annual median family income for a metro area, as determined by the Department of Housing and Urban Development. NAHB assumes that a family can afford to spend 28 percent of its gross income on housing. (This is a standard assumption in the lending industry.) The area's median income is then multiplied by 28 percent (to determine how much can be spent on housing). This figure is divided by 12 to arrive at the monthly maximum housing costs.

Next, NAHB utilizes data from sales transaction records on the sales price of homes that are actually sold. Based on a 30-year fixed rate mortgage for 90 percent of the sales price (which assumes a 10 percent down payment), the monthly mortgage payment (incorporating principal and interest) is determined. The interest rate is a weighted average of fixed and adjustable rates during that quarter, as reported by the Federal Housing Finance Board.

Also included in the monthly costs are estimated property taxes and property insurance.

Finally, these two figures are compared. The HOI is the percentage of homes sold in an area that would have been affordable to a family earning the local median income. In other words, if a region has a HOI of, say, 75, and the local median income is $60,000 – that would mean 75 percent of the homes sold in that quarter were affordable to families with the area median income of $60,000 or more.

HOW DOES THE TWIN CITIES COMPARE?

Fortunately, here in the St. Paul-Minneapolis Metropolitan Area, we are significantly better off than the Los Angeles metro area. Plus, our HOI has significantly increased in the past year.

This means, because of low mortgage interest rates and the decreasing pricetag of homes, it is becoming increasingly affordable to purchase a home in the Twin Cities.

For additional information on the NAHB HOI chart, refer to *www.nahb.org/hoi* for tables, historic data and details.

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