



# The Widening Gap Between What Houses Cost and What Families Can Afford... It's One Big Math Problem

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**H**ousing prices in Florida have increased significantly over the past ten years, far exceeding increases in income over the same period. Though the gap has been widening between what houses cost and what families can afford, state funding of the local housing trust fund has been stagnating, forcing local governments into a difficult position: target purchase-assistance programs to families with higher incomes, or dramatically increase subsidy amounts and thereby help fewer and fewer lower-income families.



housing that is affordable to families earning the median income. The index looks at all sales in a Metropolitan Statistical Area (MSA) and calculates the percentages of homes that sold at a price that would be affordable to a family earning the median income in that MSA. In the fourth quarter of 1995 in the Daytona Beach MSA, over 75 percent of all homes sold were affordable to a family earning the MSA's median income of \$33,900. By the fourth quarter of 2005 just over 30 percent of the homes sold in the MSA were affordable to a family earning the median income of \$48,650. In the Fort Lauderdale MSA, over 69 percent of all home sales in 1995 were affordable to a family earning the median income of \$43,100. By 2005 barely 32 percent of all home sales were affordable to a family earning the

## WHY THE GAP EXISTS

The mortgage amount for which a family can qualify is influenced by several factors including interest rate, non-mortgage monthly debt, taxes, insurance and income. Lenders allow borrowers to allocate a certain percentage of their monthly income to housing costs, defined as principal, interest, taxes and insurance. While this percentage varies, a common number is 33 percent. Lenders also set a limit on the percentage of monthly income allocated to overall long-term debt, including housing costs. A typical number is 41 percent. The lower a family's income, the lower the monthly mortgage payment they can qualify for, and thus, the lower the price must be for a house to be affordable. A family with substantial non-mortgage monthly debt will be further restricted in the mortgage they can qualify for and the house they can afford. As sales prices of housing have increased, so too have property taxes and insurance because they are based on home value. That further reduces the monthly amount families have available for the mortgage payment, and therefore in turn, constraining a family's ability to qualify for a mortgage.

## THE HOUSING OPPORTUNITY INDEX

The National Association of Home Builders has developed the Housing Opportunity Index to measure the supply of

**TABLE I. PERCENTAGE OF HOMES AFFORDABLE TO MEDIAN-INCOME FAMILIES**

MSA	4th Quarter 1995	4th quarter 2005
Daytona Beach	75.7	30.7
Fort Myers-Cape Coral	73.1	26.1
Ft. Lauderdale-Pompano-Deerfield	69.1	32.2
Fort Pierce-Port St. Lucie	77.5	22.1
Fort Walton Beach	73.5	45.0
Jacksonville	77.3	56.8
Lakeland	79.3	45.6
Miami-Miami Beach-Kendall	57.2	13.7
Naples	63.3	16.3
Ocala	80.0	53.2
Orlando, FL	76.8	34.2
Pensacola, FL	81.7	57.0
Punta Gorda	67.9	41.9
Sarasota-Bradenton	67.5	28.0
Tallahassee	79.4	65.2
Tampa-St. Petersburg- Clearwater	74.0	42.3
West Palm Beach	65.9	30.4

Source: National Association of Home Builders' The Housing Opportunity Index is the percentage of all home sales in a MSA that are affordable to families earning the median income for that MSA.

**TABLE 2: INCOMES, HOUSING PRICES AND SUBSIDIES**

MSA	1995				2005			
	70% of Median Income	Mortgage amount for 70% Median Income family	90% Median Home Price	Subsidy needed for 90% median home	70% of Median Income	Mortgage amount for 70 % Median Income family	90% of Median Home Price	Subsidy needed for 90% median home
Daytona Beach	\$23,730	\$62,912	\$66,600	\$2,355	\$34,055	\$72,360	\$190,800	\$114,625
Fort Myers-Cape Coral	\$26,250	\$72,138	\$74,700	\$1,067	\$37,870	\$79,077	\$229,500	\$145,833
Ft. Lauderdale-Pompano-Deerfield	\$30,170	\$86,214	\$88,200	\$221	\$40,670	\$98,740	\$216,900	\$113,822
Fort Pierce-Port St. Lucie	\$27,510	\$76,366	\$72,000	\$0	\$36,715	\$76,066	\$220,500	\$140,023
Fort Walton Beach	\$25,410	\$67,392	\$77,400	\$8,460	\$38,605	\$98,245	\$187,200	\$85,210
Jacksonville	\$27,580	\$77,094	\$78,300	\$0	\$40,495	\$116,870	\$163,800	\$43,654
Lakeland	\$23,170	\$61,420	\$62,550	\$0	\$33,320	\$80,319	\$154,800	\$70,385
Miami-Miami Beach-Kendall	\$24,990	\$62,930	\$85,500	\$20,860	\$32,445	\$51,370	\$225,000	\$169,130
Naples	\$31,290	\$86,694	\$103,500	\$14,736	\$44,310	\$76,705	\$333,000	\$249,635
Ocala	\$20,790	\$50,893	\$61,200	\$9,082	\$30,170	\$74,639	\$126,000	\$48,841
Orlando, FL	\$28,000	\$78,338	\$81,000	\$1,041	\$38,570	\$90,944	\$207,000	\$111,915
Pensacola, FL	\$24,290	\$64,126	\$71,100	\$5,551	\$35,490	\$96,930	\$144,000	\$44,191
Punta Gorda	\$23,240	\$58,957	\$72,000	\$11,602	\$34,405	\$82,953	\$166,500	\$80,217
Sarasota-Bradenton	\$26,390	\$70,841	\$81,000	\$8,538	\$39,130	\$85,564	\$230,400	\$140,228
Tallahassee	\$28,280	\$80,847	\$77,400	\$0	\$40,390	\$123,415	\$144,000	\$17,704
Tampa-St. Petersburg- Clearwater	\$25,480	\$69,202	\$71,100	\$476	\$36,505	\$91,745	\$173,700	\$78,481
West Palm Beach	\$31,150	\$86,041	\$103,500	\$15,389	\$43,470	\$98,354	\$260,100	\$156,543

Assumptions for 1995:\$250 in Non Mortgage Monthly Debt, 8% rate, insurance 0.60% of sales price, assessment at 85% of value, 25,000 homestead exemption, millage of \$25/\$1000 of value

Assumptions for 2005:\$325 in Non Mortgage Monthly Debt, 6.5% rate, insurance 0.60% of sales price, assessment at 85% of value, 25,000 homestead exemption, millage of \$25/\$1000 of value

Source: National Association of Home Builders

median income. Table 1 shows the fourth quarter 1995 and fourth quarter 2005 Housing Opportunity index for Florida’s MSAs. Every community showed a decline in the percentage of homes affordable to the median-income family.

Reduction in inventory that is affordable to the median-income family translates into fewer and fewer units affordable to those earning less than median. It also translates into lower-income families needing deeper and deeper subsidies. Purchase assistance programs in Florida make up the difference between what a family can afford and what the market is producing. In 1995, in the Daytona Beach MSA, a family earning 70 percent of the median income could qualify for a \$62,900 mortgage<sup>1</sup>. In most communities, there are a number of homes being offered at 90 percent of the median sales price. In 1995 a home at 90 percent of the median purchase price in the Daytona Beach MSA sold for \$66,600. With a 3 percent down payment, a family earning 70 percent of median only needed \$2,355 in subsidy to purchase this house. In 2005, a family earning 70 percent of median

(\$34,055) could qualify for a \$72,320 mortgage<sup>2</sup>. By this time, however, a home at 90 percent of the median sales price had jumped to \$190,800. In 2005 a family in the Daytona Beach MSA earning 70 percent of median needed over \$114,000 in subsidy to purchase a home at 90 percent of the median sales price. Table 2 shows the results of this analysis for Florida’s MSAs. As these data show, local governments must provide substantially more subsidy per family now than they did 10 years ago, resulting in substantially fewer families being served. If subsidies at the local level do not go up, then these programs will only be able to serve families at the higher income levels. In light of the cap on the Sadowski Trust Fund, those that do raise their subsidies so that they can continue to help families earning less than 80 percent of median will see their programs assist fewer and fewer families.



<sup>1</sup> \$250 in Non Mortgage Monthly Debt, 8% rate, insurance 0.60% of sales price, assessment at 85% of value, 25,000 homestead exemption, millage of \$25/\$1,000 of value  
<sup>2</sup> \$325 in Non Mortgage Monthly Debt, 6.5% rate, insurance 0.60% of sales price, assessment at 85% of value, 25,000 homestead exemption, millage of \$25/\$1000 of value

# Florida Housing Prices Continue to Rise

On June 1, 2006, the Office of Federal Housing Enterprise Oversight released the Housing Price Index for the first quarter of 2006. Out of the 20 MSAs with the largest percentage house price gains in the past year, 10 were in Florida. Nationwide, Florida trailed only Arizona in appreciation rate. The appreciation rates for Florida's MSAs, along with the change in median income over the past five years are listed below.

## FIRST QUARTER 2006 HOUSING PRICE INDEX FOR FLORIDA'S MSA'S

### CHANGE IN HOUSING PRICE

MSA	National Ranking	HPI % Change			Median Income	Median Income	2001-2006 % Change
		3/31/2005 3/31/2006	12/31/05- 3/31/2006	3/31/2001 3/31/2006	2001	2006	
Daytona Beach	16	27.36%	2.33%	115.16%	\$44,400	\$50,300	13.29%
Fort Myers-Cape Coral	3	36.90%	6.12%	140.91%	\$49,000	\$56,000	14.29%
Ft. Lauderdale-Pompano-Deerfield	10	29.29%	4.26%	139.76%	\$56,900	\$60,600	6.50%
Fort Pierce-Port St. Lucie	27	24.24%	2.48%	140.99%	\$50,600	\$54,600	7.91%
Fort Walton Beach	24	25.04%	2.60%	115.35%	\$48,900	\$57,800	18.20%
Jacksonville	43	21.43%	4.42%	79.44%	\$54,500	\$60,300	10.64%
Lakeland	5	35.60%	6.21%	89.55%	\$45,000	\$49,500	10.00%
Melbourne-Titusville-Palm Bay	25	24.86%	3.21%	134.39%	\$51,200	\$57,300	11.91%
Miami-Miami Beach-Kendall	13	28.03%	4.80%	133.11%	\$45,600	\$55,900	22.59%
Naples	2	37.73%	4.55%	140.42%	\$65,000	\$66,100	1.69%
Ocala	*	30.44%		90.85%	\$40,000	\$44,900	12.25%
Orlando, FL	7	31.98%	4.82%	100.14%	\$52,000	\$57,400	10.38%
Panama City-Lynn Haven	50	20.06%	1.37%	100.68%	\$44,800	\$51,600	15.18%
Pensacola, FL	42	21.56%	1.54%	74.41%	\$44,100	\$51,900	17.69%
Punta Gorda	21	26.06%	3.32%	125.62%	\$43,800	\$50,800	15.98%
Sarasota-Bradenton	12	28.23%	3.75%	125.04%	\$50,500	\$58,400	15.64%
Tallahassee	70	16.58%	2.75%	66.12%	\$54,900	\$58,500	6.56%
Tampa-St. Petersburg- Clearwater	20	26.22%	4.54%	99.71%	\$47,700	\$54,400	14.05%
West Palm Beach	17	27.32%	4.75%	138.94%	\$60,000	\$64,400	7.33%
<b>FLORIDA</b>	<b>2</b>	<b>26.62%</b>	<b>4.29%</b>	<b>111.53%</b>	<b>\$49,400</b>	<b>\$54,800</b>	<b>10.93%</b>

\* Percent Change in House Prices for MSAs and Divisions Not Ranked in Previous Tables.

Note: Rankings based on annual percentage change, for the 220 MSAs containing at least 15,000 transactions over the last 10 years.

The House Price Index is based on transactions involving conforming, conventional mortgages purchased or securitized by Fannie Mae or Freddie Mac. Only mortgage transactions on single-family properties are included. Conforming refers to a mortgage that both meets the underwriting guidelines of Fannie Mae or Freddie Mac and that doesn't exceed the conforming loan limit, a figure linked to an index published by the Federal Housing Finance Board. The conforming limit for single-family homes in 2006 is \$417,000. Conventional means that the mortgages are neither insured nor guaranteed by the FHA, VA, or other federal government entity.

Source: Office of Federal Housing Enterprise Oversight (OFHEO) Housing Price Index  
U.S. HUD 2006