

C Community Development Committee

Meeting date: February 21, 2012

ADVISORY INFORMATION

Date:	February 14, 2012
Subject:	Livable Communities Act – Ownership and Rent Affordability Limits 2012
District(s), Member(s):	All
Policy/Legal Reference:	Livable Communities Act, Minnesota Statute 473.25
Staff Prepared/Presented:	Beth Reetz, 651-602-1060 Libby Starling, 651-602-1135
Division/Department:	Community Development / Livable Communities

Proposed Action

None. Information only.

Overview

The Council's definition of "affordable housing" represents the upper limit of monthly rents and home-purchase prices for housing referred to in Framework policy as affordable to low- and moderate-income families. These income limits for determining affordability have been a part of the foundation for goals negotiations and monitoring of goals progress with Livable Communities Act (LCA) participating cities since 1995, and have been the basis for counting all new affordable units in the housing stock, i.e., all new publicly-assisted and market rate units affordable to low-and-moderate income households.

For units constructed in 2011 and beyond, the Council is using a consistent income limit of what a family of four with an income at or below 60 percent of area median income (AMI) can afford to pay in monthly housing costs for either rental housing or mortgage costs (including principal, interest, property taxes and home insurance).

This level is also consistent with the preference adopted in 2001 by the Local Housing Incentives Account Additional Metropolitan Housing Implementation Group (MHIG) Funding Criteria for funding homeownership units affordable at 60 percent of area median income.

Through 2010, the Council had identified a purchase price ceiling or target maximum price for owner-occupied homes based on what a family of four with an income at or below 80 percent of AMI could afford at prevailing interest rates. For affordable rental units, the Council had previously used the maximum monthly rents affordable for households at 50 percent of AMI.

Area Median Income for a family of four, 2012 Minneapolis-St. Paul Metropolitan Statistical Area U.S. Department of Housing and Urban Development	
Area median income	\$83,900
60% of area median income	\$50,340
30% of area median income	\$25,170

Applying an interest rate on a 30-year fixed-rate home loan of 3.875 percent for 2012 and other payment factors¹ to the 60 percent of area median income amount adjusted for a family of four (\$50,340), yields an affordable purchase price of \$171,500 in 2012. This compares to a 2010 purchase price limit at 60 percent of area median income of \$179,100 and a 2011 limit of \$160,250. (Changes were made between 2010 and 2011 in the assumptions of debt-to-income ratios and mortgage insurance costs to reflect current standards in Federal Home Administration underwriting.)

To implement the Livable Communities Act in 2012, the Metropolitan Council will use as the upper limit of affordability for ownership purchase price and monthly rents, the following dollar amounts:

2012 HOMEOWNERSHIP	
Household Income Level:	Affordable Home Price
60% of area median income (\$50,340)	\$171,500
30% of area median income (\$25,170)	\$78,000

2012 RENTAL HOUSING			
Bedroom size:	Monthly gross rent including tenant-paid utilities, affordable at 30 percent of area median income	Monthly gross rent including tenant-paid utilities, affordable at 50 percent of area median income	Monthly gross rent including tenant-paid utilities, affordable at 60 percent of area median income
Efficiency	\$441	\$735	\$882
1 bedroom	\$472	\$787	\$945
2 bedrooms	\$567	\$945	\$1,134
3 bedrooms	\$654	\$1,091	\$1,309
4 bedrooms	\$730	\$1,217	\$1,461

¹ Assumes a 29 percent housing debt to household income ratio, 3.5 percent downpayment, a property tax rate of 1.25 percent of property sales price, mortgage insurance at 1.15 percent of unpaid principal, and \$100 / month for hazard insurance.

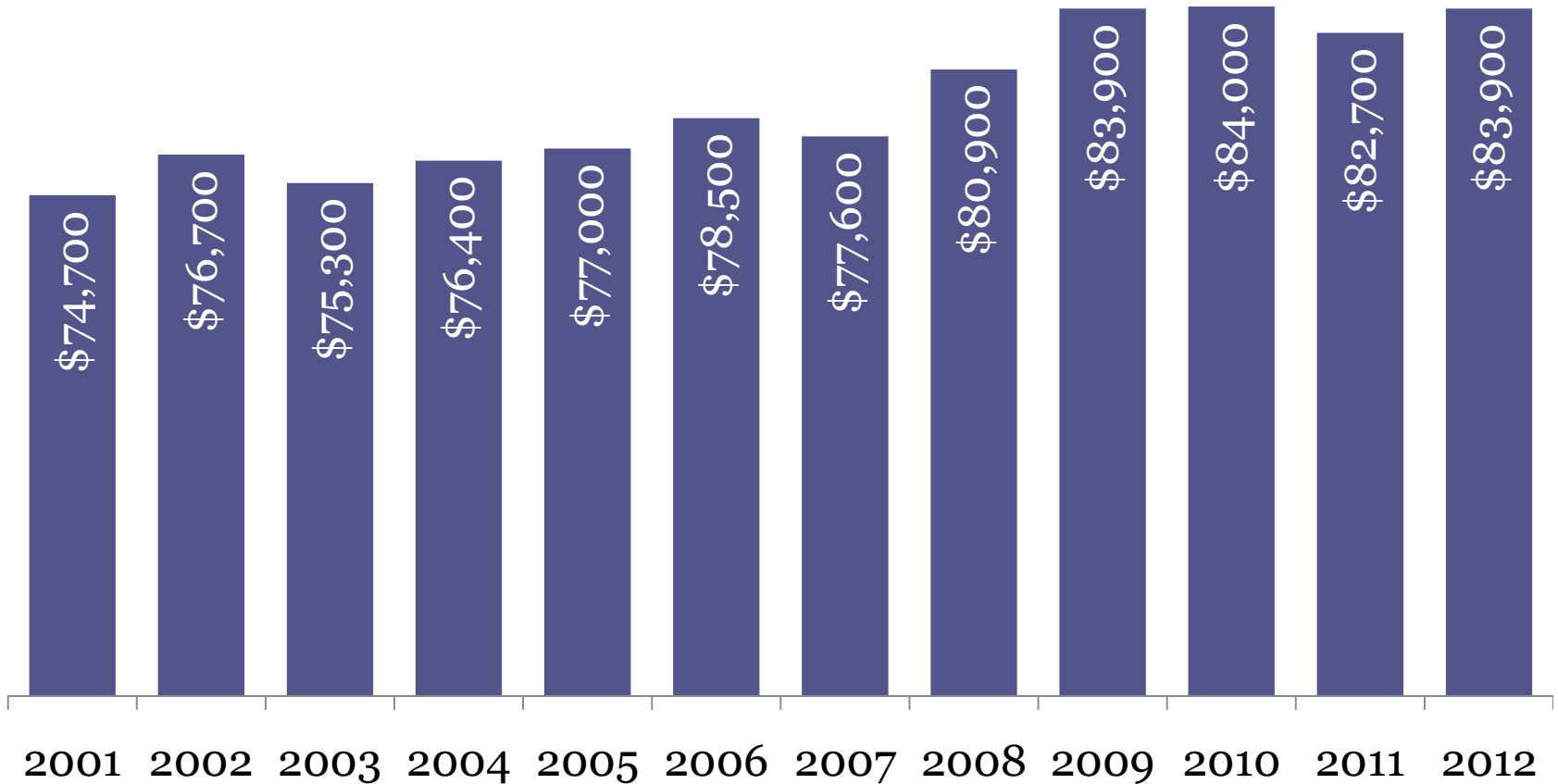
Ownership and Rent Affordability Limits for 2012

Livable Communities Act

Why we have affordability limits

- Metropolitan Land Planning Act
- Livable Communities Act

Area Median Income (family of four)

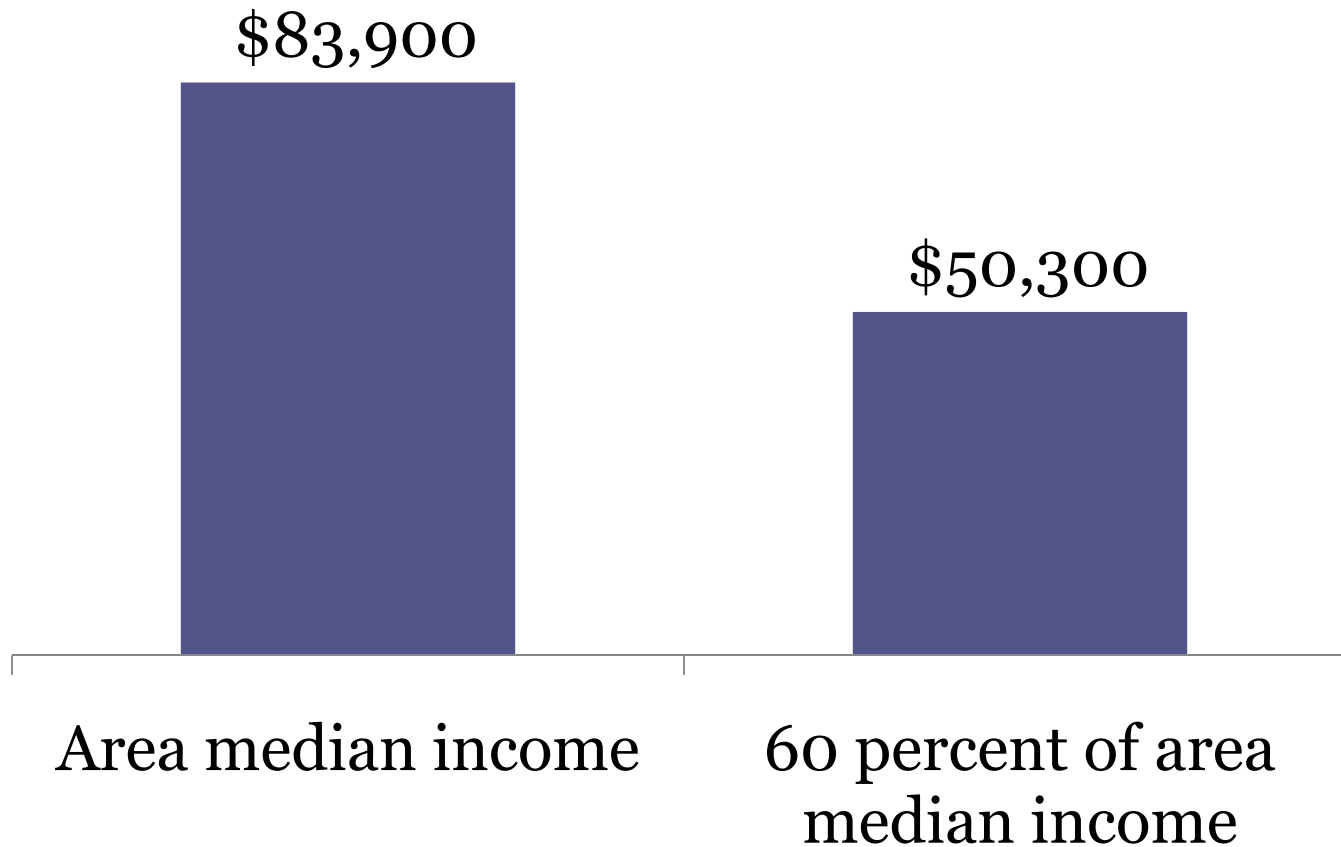


Source: U.S. Department of Housing and Urban Development

Levels of area median income for affordability:

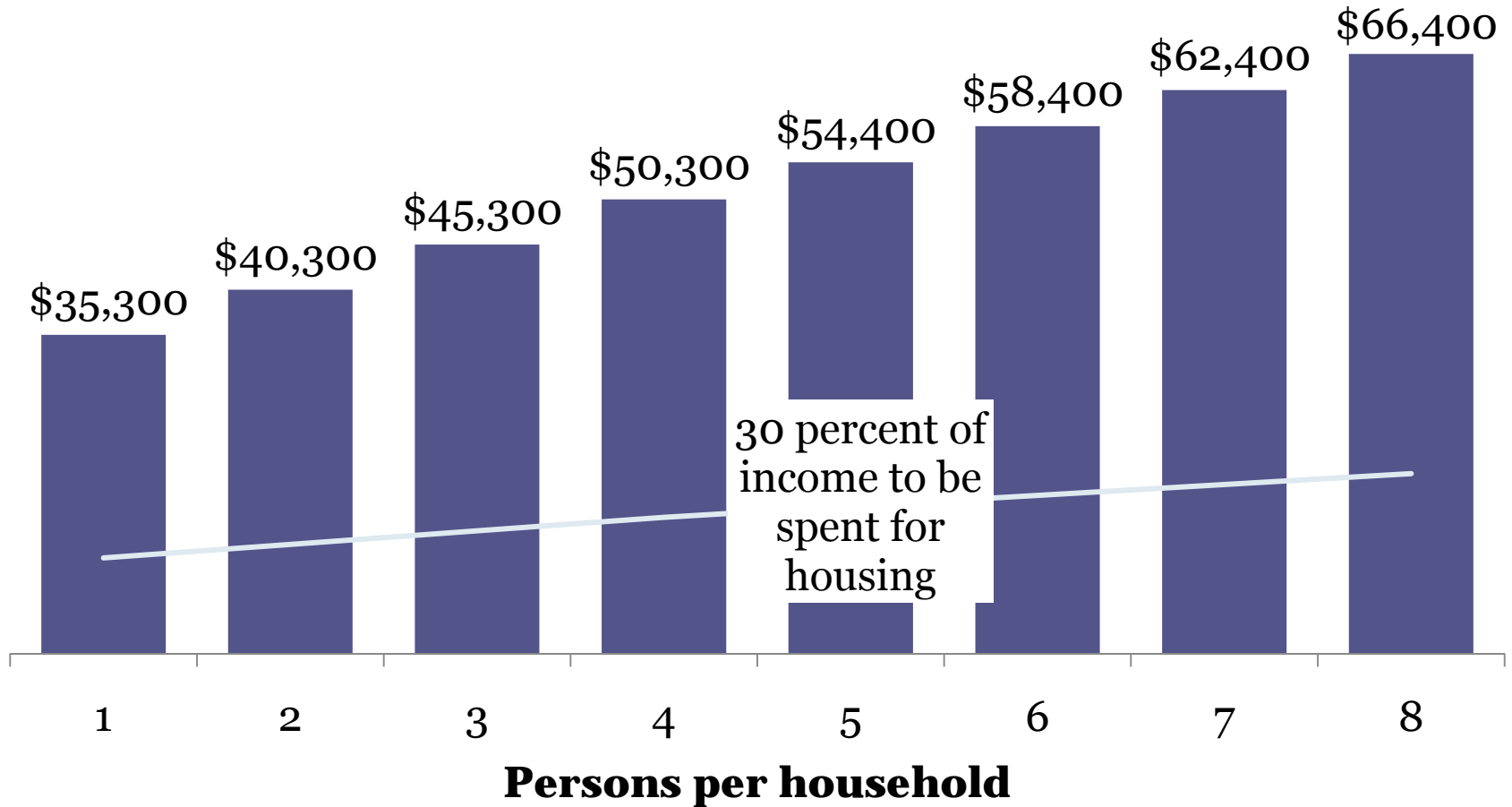
- Prior goals period 1996-2010
 - 50% AMI for rental
 - 80% AMI for homeownership
- Beginning 2011:
 - 60% AMI for both rental and homeownership

60 percent of area median income



Source: U.S. Department of Housing and Urban Development

60 percent median income



Source: Calculated from data from U.S. Department of Housing and Urban Development

Calculating rental limits

Number of bedrooms	Assumed number of residents	Annual household income	Monthly household income	Monthly affordable rent (30 percent)
0 BR	1	\$35,300	\$2,940	\$882
1 BR	1.5	\$37,800	\$3,150	\$944
2 BR	3	\$45,300	\$3,775	\$1,132
3 BR	4.5	\$52,350	\$4,360	\$1,308
4 BR	6	\$58,400	\$4,870	\$1,460

Source: Calculated from data from U.S. Department of Housing and Urban Development using methodology from the Minnesota Housing Finance Agency

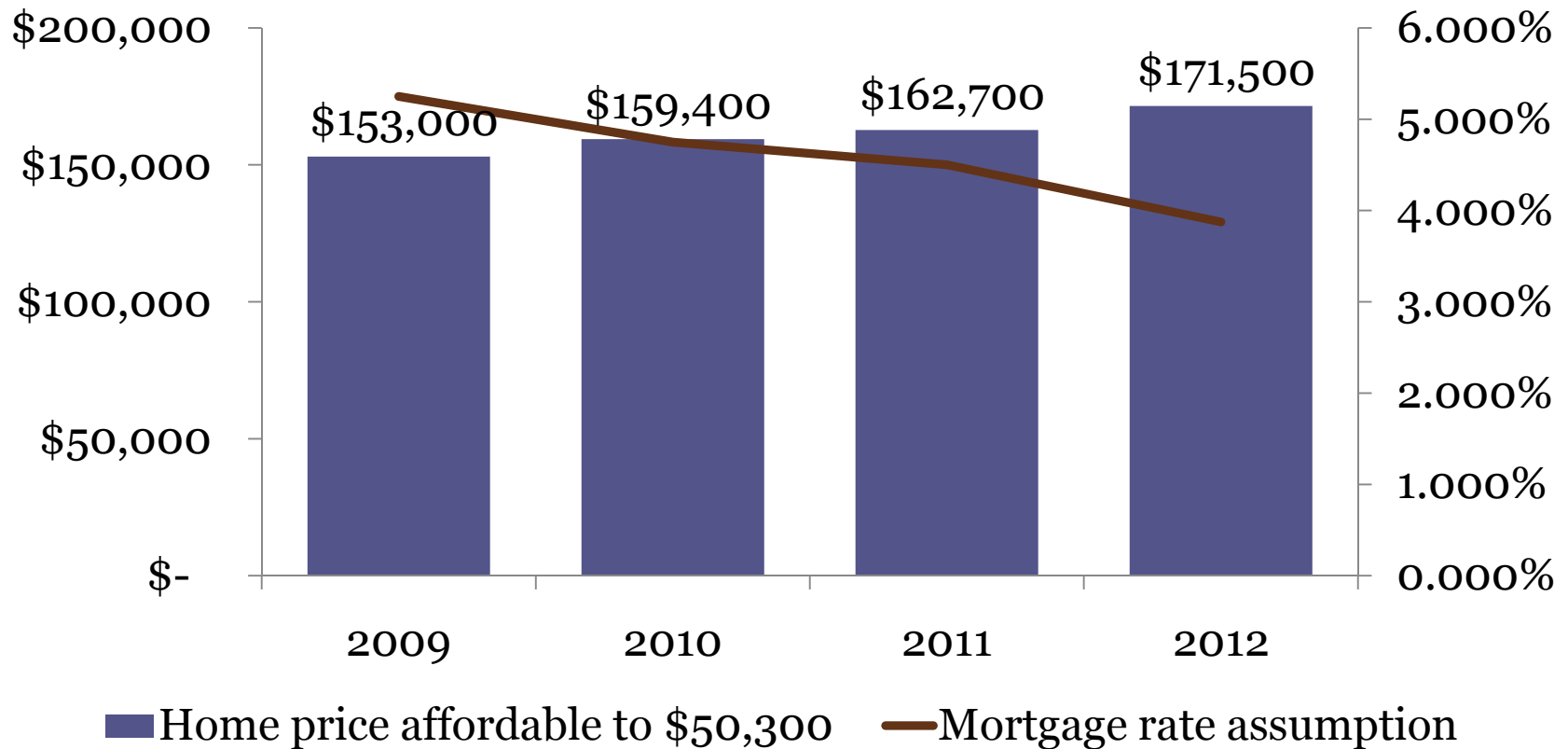
Calculating homeownership limits

Item	Assumption	Value
Annual income for a family of four		\$50,300
Monthly income		\$4,192
Monthly income available for house payment (principal, interest, taxes, insurance)	29 percent (FHA limit)	\$1,216
Principal + interest	3.875 percent interest	\$778
Property taxes	1.25 percent of value	\$179
Mortgage insurance	1.15 percent of mortgage	\$159
Hazard insurance		\$100
Percentage downpayment	3.5 percent of purchase price	\$6,003
Purchase price		\$171,500

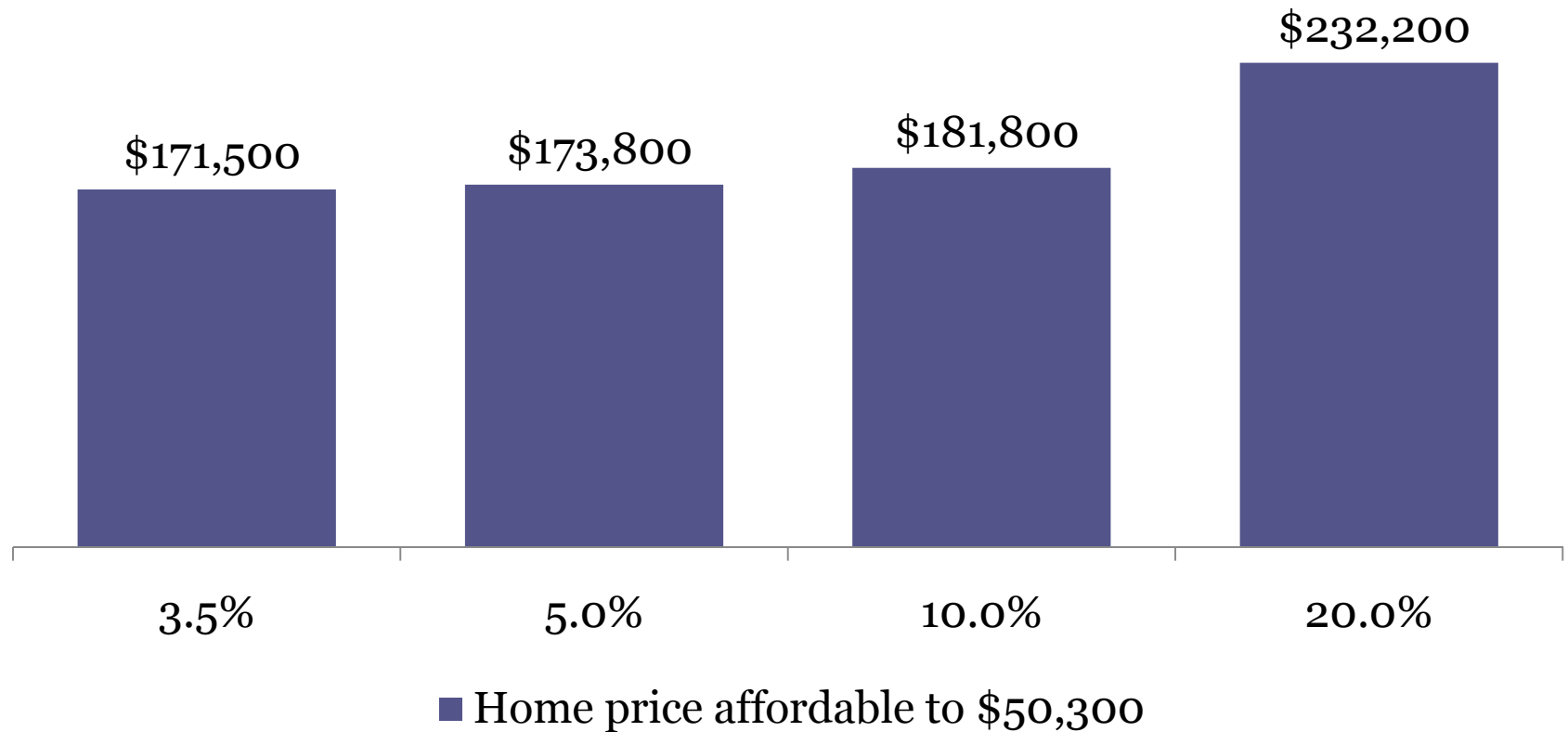
What drives changes in affordability limits

- On the rental side:
 - Changes in area median income directly drive changes in rents
- On the ownership side:
 - Changes in area median income
 - Changes in mortgage rate assumptions
 - Changes in mortgage requirements

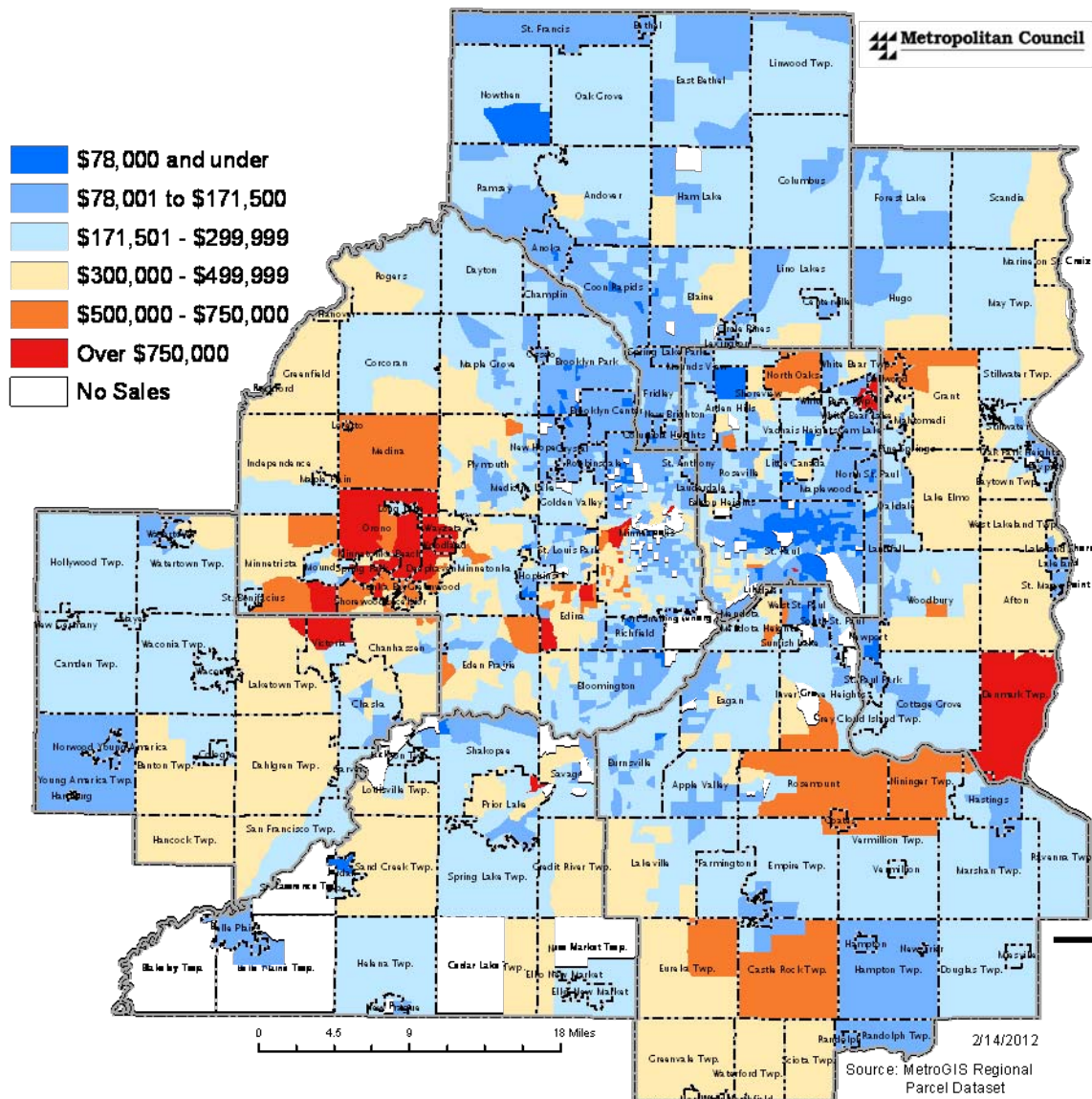
Affordability limits at different mortgage interest rates



Affordability limits at different downpayments

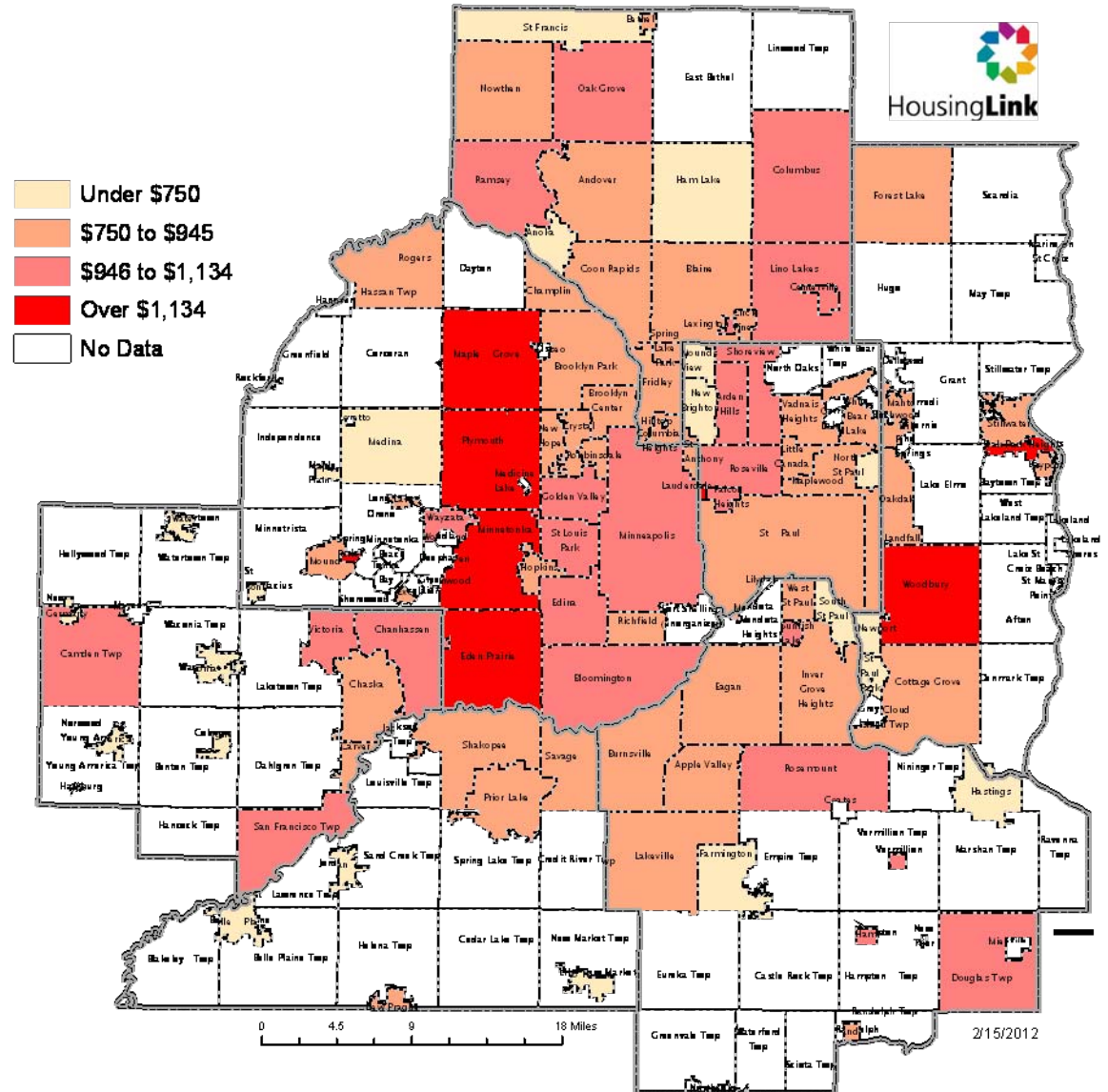


Average home sales price by 2012 affordability limits



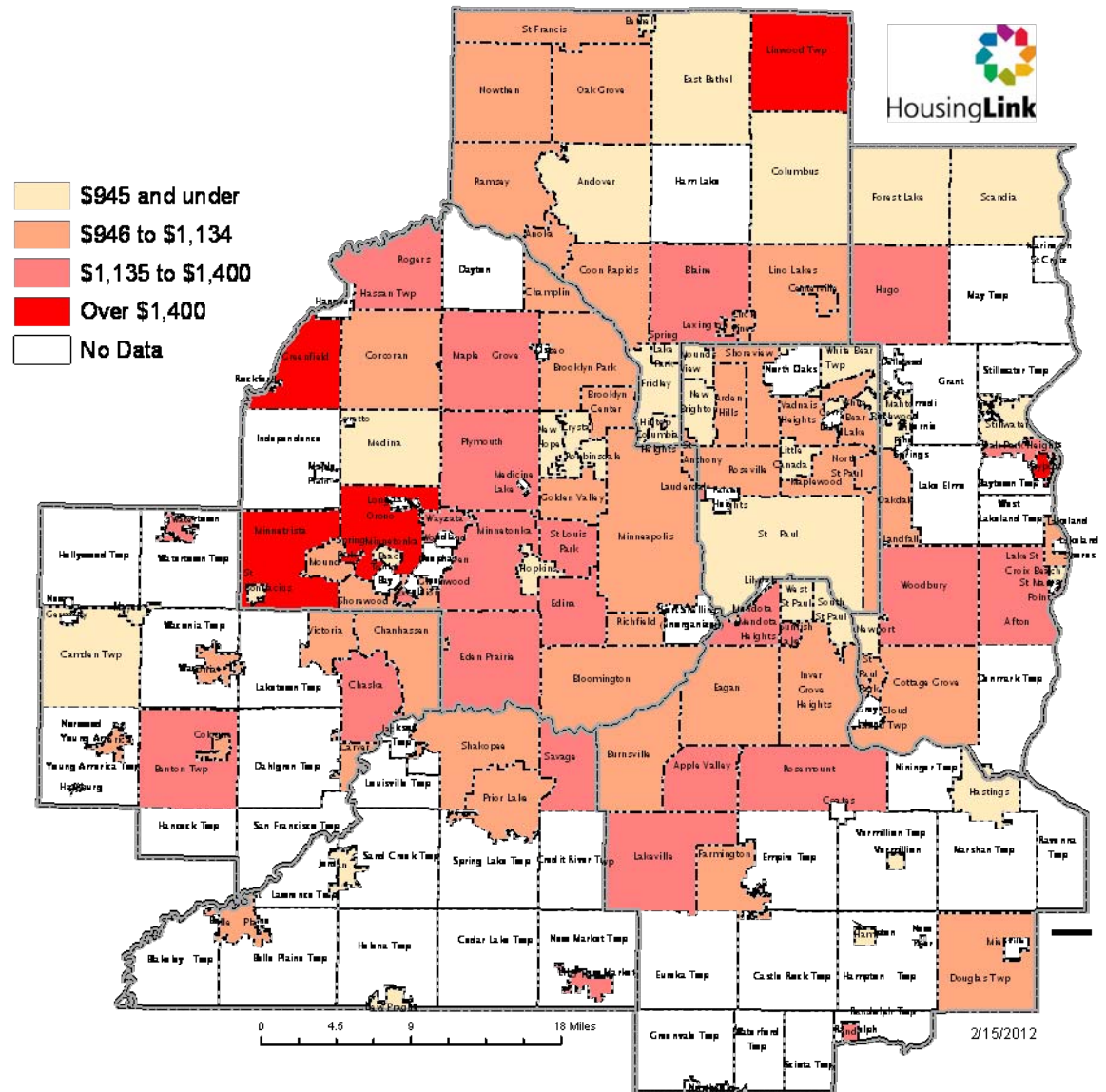
Source: Average home sales price by Census block group, October 2010–October 2011

Median rents for a 2-bedroom apartment



Source: HousingLink Twin Cities Rental Review, 4th quarter 2011

Median rents for a 2-bedroom rental (single-family homes, condos, duplexes)



Source: HousingLink Twin Cities Rental Review, 4th quarter 2011

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Livable Communities Act