

Part 6: Housing Affordability Analysis



PART 6

HOUSING AFFORDABILITY ANALYSIS

What is Affordable Housing?

Affordable housing means paying no more than 30% of gross household income for housing expenses including mortgage or rent, utilities, insurance and taxes, regardless of income level. When a household pays more than 30%, the household is considered cost burdened.

Who are the households unable to afford housing in the Lehigh Valley? Many of them are members of the regional workforce such as teachers, police officers, nurses, and other residents who work in retail jobs. They are employed at the corner deli, the local auto shop and own the small business down the block. They are the folks we rely on everyday to keep our community thriving.

The National Housing Conference (NHC) classifies these workers as holding vital community occupations. Each year NHC provides updated research comparing home ownership and rental affordability with median wages in 200 metropolitan areas and for more than 60 occupations. The database reveals the degree of difficulty that households in the Lehigh Valley have in becoming homeowners. The research is based on the premise that housing should be affordable to those workers that fill vital community occupations. The five vital community occupations identified by the NHC include:

- Janitor / Custodian
- Retail Salesperson
- Licensed Practical Nurse
- Police Officer, and
- Elementary School Teacher.¹

Together, these five vital community occupations comprise one-third of the national labor force. For the purposes of this report, a sixth occupation of Packaging Line Worker was added because of the demand for this type of warehouse / distribution job in the Lehigh Valley. Additionally, wage data provided by PA Career Link (dated April 2006) was used where available.

Based on the median sales price of \$189,000², an annual household income of \$58,431 would be needed to purchase a home in the Lehigh Valley.³

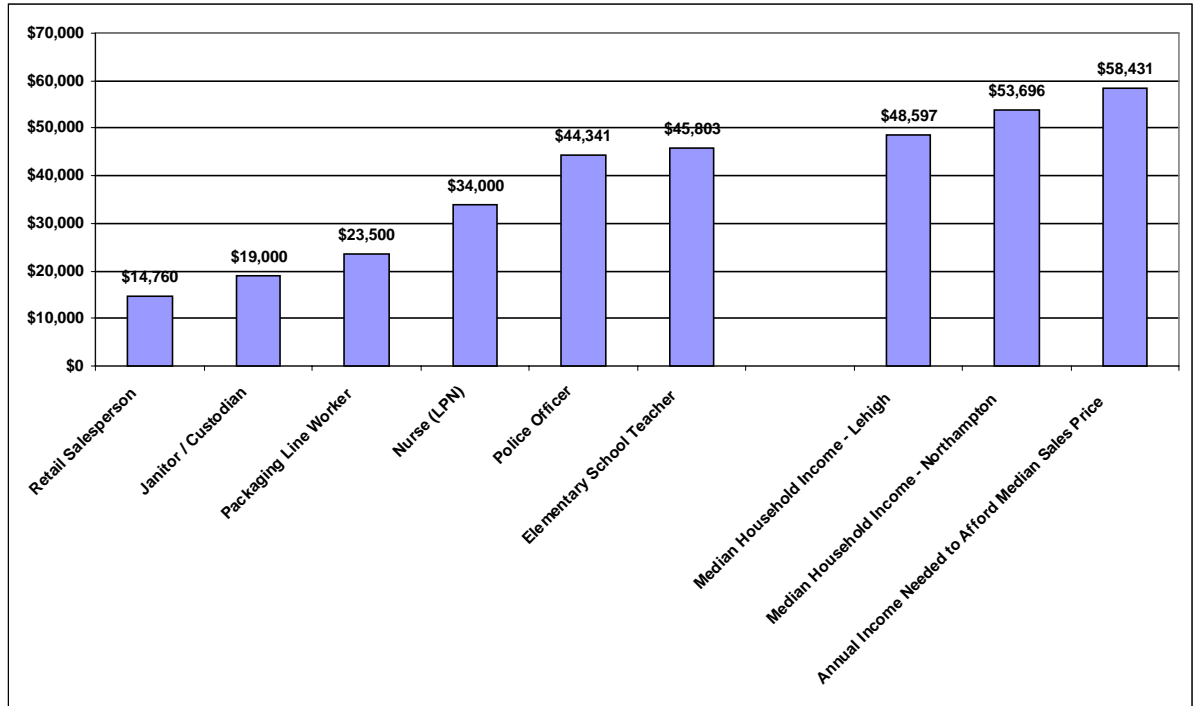
Assuming these were one-wage earning households, none of these six households could afford to purchase a home selling for the median price.

¹ Center for Housing Policy, Paycheck to Paycheck: Wages and the Cost of Housing in America, <http://www.nhc.org/chp/p2p/> (accessed November 1, 2006).

² Lehigh Valley Association of Realtors, Monthly Market Update, October 2006.

³ The annual income needed to qualify for a mortgage was calculated assuming a 30-year fixed rate mortgage at 7%, a 5% downpayment, and includes principal, interest, taxes and insurance.

Figure 6-1: Annual Income Needed to Afford the Median Housing Sales Price in 2006



Source: National Housing Conference; Lehigh Valley Association of Realtors; Mullin & Lonergan Associates, Inc.

To calculate the price range in which these households could look for sales housing, one must first calculate the amount of house each *household* could afford to purchase. The following chart lists the maximum sales price that each of these six households could afford based on the following assumptions:

- A 30-year fixed rate mortgage at 7%
- A downpayment of 5% of the purchase price
- Home owners insurance of \$360 per year (\$30 per month)
- Property taxes averaging \$2,700 per year (\$225 per month), and
- The total amount of principle, interest, taxes and insurance (PITI) equal to no more than 30% of gross household income.

In the chart below, the dollar amounts of home owners insurance and property taxes are constant. However, together these two amounts decrease as a percentage of monthly PITI as monthly salary increases. As a result, the amount of money available each month to retire the mortgage debt increases exponentially as salary increases. For this reason, while the salary of an Elementary School Teacher is approximately three times the salary of a Retail Salesperson, the teacher can afford a mortgage equal to almost eight times the mortgage affordable to the retail clerk.

Figure 6-2

Maximum Sales Prices Affordable to Six Vital Community Occupations in the Lehigh Valley in 2006				
Occupation	Annual Salary*	Amount Available for Monthly PITI	Maximum Mortgage Amount	Maximum Sales Price
Retail Salesperson*	\$14,760	\$369	\$16,976	\$17,869
Janitor / Custodian*	\$19,000	\$475	\$32,760	\$34,484
Packaging Line Worker*	\$23,500	\$588	\$49,512	\$52,118
Licensed Practical Nurse*	\$34,000	\$850	\$88,601	\$93,264
Police Officer**	\$44,341	\$1,109	\$127,097	\$133,786
Elementary School Teacher**	\$45,803	\$1,145	\$132,540	\$139,516

* Wage data provided by PA Career Link (April 2006).

** Wage data obtained from National Housing Center database.

Source: National Housing Conference; PA Career Link; Mullin & Lonergan Associates, Inc.

Three of the six occupations listed above would be limited to houses selling for less than \$55,000. Even the two households with the highest income would be limited to purchasing homes selling in the range of \$130,000-\$140,000. In a region where the median sales price was \$189,000, purchasing a home would be extremely difficult, if at all possible, for these six households as single-wage earning households.

While the argument is made here using single-wage earning households, *total* household income would be used to compute the amount of house a household could afford. In 2006 the median *renter* household income was estimated to be \$31,763 in Lehigh County and \$32,269 in Northampton County.⁴ As a result:

- Approximately 18,956 (50%) Lehigh County renter households⁵ would be limited to a maximum sales price of \$85,000 or less, and
- Approximately 12,886 (48%) Northampton County renter households⁶ would be limited to a maximum sales price of \$86,500 or less.

Other factors that impact the purchase of a home include the household's other long-term debt and living expenses. Lenders typically consider as acceptable a housing payment to household income ratio of 30% in addition to a total debt-to-household income ratio of 36%. Many households are encumbered with debt and monthly living expenses that cause them to exceed permitted total debt to income ratios even if their annual household income is within an acceptable housing payment to household income ratio of 30%. Additionally, a typical expense for many working families is child care, which can be a considerable amount of household monthly income. Households without health insurance may pay as much per month for health insurance as they pay for their housing. Also, across the Lehigh Valley, many households need a vehicle to get to work. For low income households, owning a vehicle is a major household expense that significantly impacts the household income to total debt ratio, reducing the ability to finance housing debt. The impact of many of the typical living expenses is greatest on low income

⁴ National Low Income Housing Coalition, *Out of Reach 2006*, <http://www.nlihc.org/oor/oor2006/area.cfm?state=PA>

⁵ Census 2000 American Community Survey.

⁶ Census 2000 American Community Survey.

households as these costs take a greater proportion of their monthly income than higher income households.

To find locations in the Lehigh Valley where these six households could potentially look for an affordable home to purchase, the Multiple Listing Service (MLS) of the Lehigh Valley Association of Realtors was analyzed. Over the 18-month period from January 2005 through June 2006, in any given month, the number of homes for-sale at or below \$70,000 (the lowest category provided) ranged from as few as 27 units up to 73 units. Some of these units may have been listed for more than one month and may be duplicate listings from month-to-month. However, the average number of days a listing remained on the market was 40 throughout 2005 and 46 through November 2006.

Figure 6-3

Number of Sales Housing Listings by Month, Lehigh Valley 2005-2006										
	Under \$70,000	\$70,001 - \$90,000	\$90,001- \$100,000	\$100,001- \$120,000	\$120,001- \$140,000	\$140,001- \$160,000	\$160,001- \$200,000	\$200,001- \$250,000	\$250,001- \$500,000	\$500,001 and above
2005										
January	66	24	16	36	46	51	83	50	105	6
February	70	41	23	44	48	48	88	46	111	13
March	73	55	29	41	68	57	91	64	152	6
*May	51	59	23	52	54	69	125	97	162	12
June	62	51	45	63	68	74	176	128	284	29
*August	52	49	25	61	75	62	169	137	305	29
September	50	42	27	62	63	61	146	122	216	24
October	44	47	30	56	69	72	148	90	204	23
November	42	38	29	43	68	67	119	117	213	16
December	41	46	22	56	57	59	101	81	161	20
2006										
January	35	24	18	37	43	40	101	68	138	14
February	27	45	21	43	55	46	99	66	120	11
March	49	39	18	49	75	54	117	84	171	23
April	29	45	17	32	64	66	115	101	160	28
May	44	53	19	52	94	61	151	110	217	24
June	29	45	24	57	65	79	137	128	306	36

*April and July unavailable

Source: Lehigh Valley Association of Realtors, Multiple Listing Service Market Update

For the households who are financially able to purchase homes selling for more than \$70,000 but less than \$100,000, the options expand. During this 18-month period 1,089 homes were listed within this price range with the same duplicate factor possible. Expanding the search to include homes selling for \$100,000 to \$140,000 added another 1,796 potential listings. However, more than two-thirds of all for-sale listings were priced higher than \$140,000 meaning the options for low and moderate-wage working families moving into the region or trying to move from renting to homeownership were very limited. Additionally, the locations of the lower priced units were not distributed evenly throughout the two counties (see Figure 5-18).

Property Tax Assessments

Real estate taxes are levied on land and buildings and provide primary revenue streams for counties, municipalities, and school districts throughout Pennsylvania. “County assessment offices establish the market value of each property and then apply a pre-determined ratio to establish a property’s ‘assessed value.’ The ratio could range from 20% to 100%, and varies from county to county. From this assessment each taxing

jurisdiction levies a uniform tax millage rate against the assessed value of each property.”⁷

Levies are measured in tenths of a cent and commonly called “mills.” Levies are multiplied by the assessed value of a property to calculate a property owner’s real estate tax. This methodology is dependent upon how accurately assessed values reflect market values as well as the local tax rate. Across the bi-county region, real estate taxes vary widely.

⁷ Issues PA. The Property Tax Part 1: The Tax People Love to Hate, 2002.

Figure 6-4

2006 Millage Rates							
Municipality	Municipal	School*	Total Mills**	Municipality	Municipal	School*	Total Mills**
Lehigh County				Northampton County			
Cities				Cities			
Allentown (land)	50.38	41.73	102.36	Bethlehem	14.1	35.58	59.98
Allentown (buildings)	10.72	41.73	62.70	Easton	18.95	42.91	72.16
Bethlehem	14.10	35.58	59.93	Boroughs			
Boroughs				Bangor	13.00	41.95	65.25
Alburtis	8.40	38.16	56.81	Bath	11.00	37.25	58.55
Catasauqua	10.50	35.67	56.42	Chapman	1.00	37.25	48.55
Coopersburg	10.00	39.60	59.85	East Bangor	9.00	41.95	61.25
Coplay	9.10	34.52	53.87	Freemansburg	9.26	35.58	55.14
Emmaus	9.83	38.16	58.24	Glendon	4.95	44.10	59.35
Fountain Hill	11.25	35.58	57.08	Hellerton	13.10	47.06	70.46
Macungie	5.95	38.16	54.36	Nazareth	10.20	38.34	58.84
Slatington	10.63	56.82	77.70	Northampton	7.60	37.25	55.15
Townships				North Catasauqua	9.70	35.71	55.71
Hanover	0.25	35.67	46.17	Pen Argyl	6.83	35.29	52.42
Heidelberg	1.80	40.72	52.77	Portland	9.82	41.95	62.07
Lower Macungie	0.00	38.16	48.41	Roseto	6.00	41.95	58.25
Lower Milford	2.00	39.60	51.85	Stockertown	9.50	38.34	58.14
Lowhill	2.00	40.72	52.97	Tatamy	9.50	38.34	58.14
Lynn	1.30	40.72	52.27	Walnutport	15.00	51.47	76.77
North Whitehall	1.00	33.86	45.11	West Easton	8.00	44.10	62.40
Salisbury	3.76	38.72	52.73	Wilson	11.00	44.10	65.40
South Whitehall	4.90	33.86	49.01	Wind Gap	8.50	35.29	54.09
Upper Macungie	1.00	33.86	45.11	Townships			
Upper Milford	0.25	38.16	48.66	Allen	5.00	37.25	52.55
Upper Saucon	4.20	39.60	54.05	Bethlehem	4.74	35.58	50.62
Washington	0.70	56.82	67.77	Bushkill	4.40	38.34	53.04
Weisenberg	1.70	40.72	52.67	East Allen	2.50	37.25	50.05
Whitehall	6.95	34.52	51.72	Forks	4.60	42.91	57.81
*2005-2006 school year				Hanover	4.67	35.58	50.55
**Sum of municipal, school and county tax rates. Lehigh County millage rate is 10.25; Northampton County millage rate is 10.3.				Lehigh	2.71	37.25	50.26
				Lower Mt. Bethel	4.60	42.91	57.81
				Lower Mt. Bethel Ind.	4.60	41.95	56.85
				Lower Nazareth	4.25	38.34	52.89
				Lower Saucon	3.14	47.06	60.50
				Moore	1.00	37.25	48.55
				Palmer	5.25	42.91	58.46
				Plainfield	1.00	35.29	46.59
				Upper Mt. Bethel	3.25	41.95	55.50
				Upper Nazareth	3.50	38.34	52.14
				Washington	3.50	41.95	55.75
				Williams	1.25	44.10	55.65

Source: Lehigh Valley Planning Commission

In Lehigh County, the total millage rates (including county, municipal, and school district rates) range from 45.11 mills in North Whitehall and Upper Macungie Townships to 102.36 mills for land in Allentown. In Northampton County, rates range from 46.59 mills in Plainfield Township to 76.77 mills in Walnutport Borough. In both counties the assessed value of a property is equal to 50% of its appraised value. As a result, a house that appraised for \$100,000 would have an assessed value of \$50,000 for which a tax bill would be calculated.

To illustrate the financial impact that property taxes have on housing affordability in the Lehigh Valley, the annual real estate tax payment for a hypothetical house selling for

\$100,000 (and assessed at \$50,000) was calculated for each municipality in the region. Tax payments in Lehigh County ranged from \$2,256 in North Whitehall and Upper Macungie Townships to \$3,885 in Slatington Borough. In Northampton County, tax bills on the same house would range from \$2,330 in Plainfield Township to \$3,839 in Walnutport Borough.

On average, real estate taxes across the Lehigh Valley account for \$225 of the monthly PITI on a house selling for \$100,000. The significance of calculating property taxes on a residential property is that the amount of taxes must be factored into the affordability question. If a property owner is considering the purchase of a home, estimating the monthly mortgage payment must include the principle, interest, taxes and insurance (referred to as the PITI).

Figure 6-5

2006 Taxes Owed on a \$100,000 Appraised House by Municipality					
	Total Mills*	Taxes Owed		Total Mills*	Taxes Owed
Lehigh County			Northampton County		
Cities			Cities		
Allentown (land)	102.36	\$5,118	Bethlehem	59.98	\$2,999
Allentown (buildings)	62.70	\$3,135	Easton	72.16	\$3,608
Bethlehem	59.93	\$2,997	Boroughs		
Boroughs			Bangor	65.25	\$3,263
Alburtis	56.81	\$2,841	Bath	58.55	\$2,928
Catasauqua	56.42	\$2,821	Chapman	48.55	\$2,428
Coopersburg	59.85	\$2,993	East Bangor	61.25	\$3,063
Coplay	53.87	\$2,694	Freemansburg	55.14	\$2,757
Emmaus	58.24	\$2,912	Glendon	59.35	\$2,968
Fountain Hill	57.08	\$2,854	Hellerton	70.46	\$3,523
Macungie	54.36	\$2,718	Nazareth	58.84	\$2,942
Slatington	77.70	\$3,885	Northampton	55.15	\$2,758
Townships			North Catasauqua	55.71	\$2,786
Hanover	46.17	\$2,309	Pen Argyl	52.42	\$2,621
Heidelberg	52.77	\$2,639	Portland	62.07	\$3,104
Lower Macungie	48.41	\$2,421	Roseto	58.25	\$2,913
Lower Milford	51.85	\$2,593	Stockertown	58.14	\$2,907
Lowhill	52.97	\$2,649	Tatamy	58.14	\$2,907
Lynn	52.27	\$2,614	Walnutport	76.77	\$3,839
North Whitehall	45.11	\$2,256	West Easton	62.40	\$3,120
Salisbury	52.73	\$2,637	Wilson	65.40	\$3,270
South Whitehall	49.01	\$2,451	Wind Gap	54.09	\$2,705
Upper Macungie	45.11	\$2,256	Townships		
Upper Milford	48.66	\$2,433	Allen	52.55	\$2,628
Upper Saucon	54.05	\$2,703	Bethlehem	50.62	\$2,531
Washington	67.77	\$3,389	Bushkill	53.04	\$2,652
Weisenberg	52.67	\$2,634	East Allen	50.05	\$2,503
Whitehall	51.72	\$2,586	Forks	57.81	\$2,891
			Hanover	50.55	\$2,528
			Lehigh	50.26	\$2,513
			Lower Mt. Bethel	57.81	\$2,891
			Lower Mt. Bethel Ind.	56.85	\$2,843
			Lower Nazareth	52.89	\$2,645
			Lower Saucon	60.50	\$3,025
			Moore	48.55	\$2,428
			Palmer	58.46	\$2,923
			Plainfield	46.59	\$2,330
			Upper Mt. Bethel	55.50	\$2,775
			Upper Nazareth	52.14	\$2,607
			Washington	55.75	\$2,788
			Williams	55.65	\$2,783

*Sum of municipal, school and county tax rates. Lehigh County millage rate is 10.25; Northampton County millage rate is 10.3.

Source: Lehigh Valley Planning Commission; Mullin & Lonergan Associates, Inc.

Rental Housing

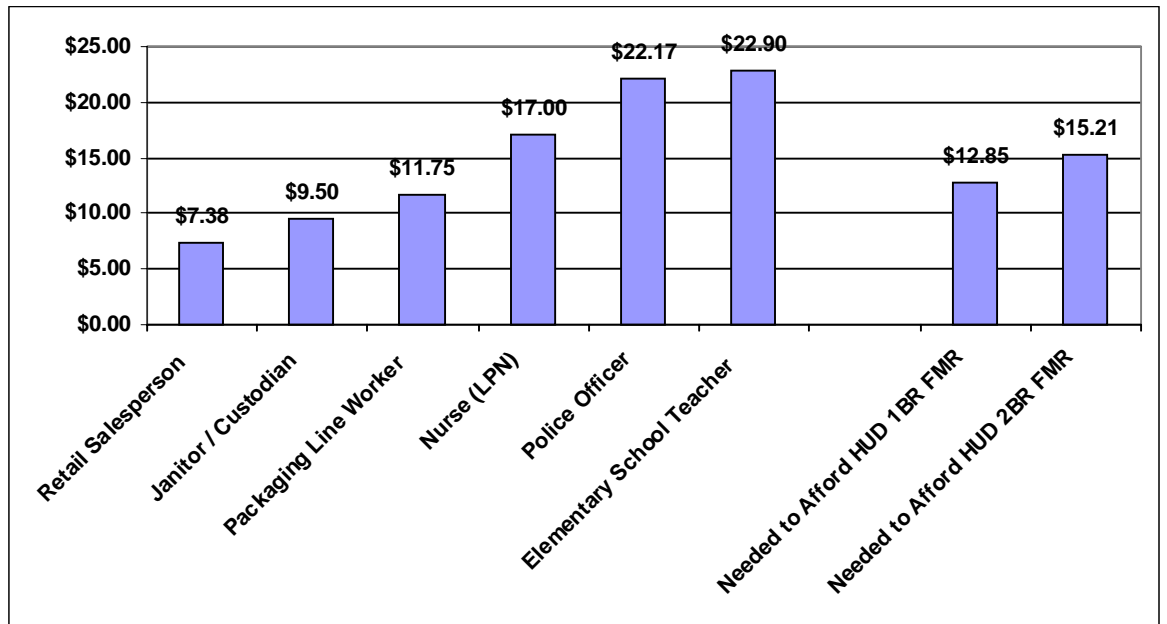
One of the most credible and widely used sources of information about rental housing cost and affordability is the National Low Income Housing Coalition's (NLIHC) annual publication *Out of Reach*. The 2006 *Out of Reach* publication reported the following data for the Lehigh Valley relative to housing affordability:

- The median income for all households in 2006 was \$65,900.⁸ For renter households, the median income was only \$31,763. This equates to a gross monthly income of \$2,647. For a household with this income, monthly rent of \$794 or less is affordable.
- The 2007 HUD Fair Market Rent (FMR) for a 2-bedroom unit is \$791. Therefore, a household earning the median renter income could afford the HUD 2-bedroom FMR.
- In Lehigh County, NLIHC estimates that approximately 49% of the 38,010 renter households cannot afford the HUD 2-bedroom FMR. In Northampton County, approximately 48% of the 27,090 renter households cannot afford the HUD 2-bedroom FMR. Together, 31,268 renter households cannot afford the HUD 2-bedroom FMR. Compounding this situation is the fact that "street" rents are higher than the FMRs, placing even more rental units out of reach for approximately one in every two renter households in the Lehigh Valley.

Based on the 2007 HUD FMRs, Retail Salespersons, Janitors / Custodians, and Packaging Line Workers could not afford a one-bedroom unit renting for the HUD FMR of \$668 per month as one-wage earning households. LPNs, Police Officers and Teachers could afford a one-bedroom unit or a two-bedroom unit renting for the HUD FMR of \$791 per month, even as one-wage earning households.

⁸ NLIHC used the 2006 median income for the entire Metropolitan Statistical Area which included Carbon County, PA and Warren County, NJ in addition to the Lehigh Valley. The median household income figures used elsewhere in this report (\$48,957 for Lehigh County and \$53,696 in Northampton County) reflect 2005 income levels for only Lehigh County and Northampton County. The 2006 income figures provided in the NLIHC publication are included above solely for the purpose of incorporating the most recent NLIHC information relative to the number of renter households who were determined to be cost burdened in 2006.

Figure 6-6



Source: National Housing Conference; U.S. Department of Housing and Urban Development 2007 Fair Market Rents

The Lehigh Valley needs people who need affordable housing. Communities need police officers to keep their towns and villages safe. They need teachers to educate their children. They need people to work the counters at the local grocery store, coffee shop and dry cleaners. They need janitors to clean local businesses and schools. The human infrastructure of our communities is vital to the economic sustainability of communities, yet many of these workers cannot afford to live where they work. In order to find affordable housing, they are forced to move farther and farther away from employment centers, enduring longer commutes and contributing to increased traffic congestion and pollution. Availability of affordable housing within a reasonable commuting distance is a key factor for business location decisions.