



**GRUEN GRUEN + ASSOCIATES**  
MEMORANDUM

Date: May 11, 2012  
To: Hope Stege  
From: Gruen Gruen + Associates  
Subject: **C1317: Affordable Housing in Greater Des Moines**  
cc:

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## **INTRODUCTION**

This memorandum presents measures of housing affordability in context of housing affordability of reference or comparison communities utilized for other ongoing regional planning efforts. It then presents an estimate of housing needs within the Greater Des Moines by income in order to identify the needs for lower income residents, which because of low income and poverty are likely to be challenged in obtaining affordable housing. Finally, this memorandum presents recommendations for maintaining a well-functioning housing market and for addressing specifically affordable housing challenges of the region's low-income households which are caused more by poverty and low incomes than by high housing costs.

## **COMPARISON MEASURE OF HOUSING AFFORDABILITY**

We use a measure of “median multiple”; that is, median housing prices divided by gross, before-tax annual median household income to evaluate housing affordability. As a general benchmark, to be affordable, housing prices should not exceed 3.0 times gross annual household income.

As shown in the following table, using the median multiple housing affordability measure, as of the third quarter 2011, the Des Moines metro area housing market was affordable with a median multiple of 2.91 (median price of \$157,900 and median household income of \$55,300).



<b>TABLE 1</b>	
<b>Comparison of Affordability Across Metropolitan Areas</b>	
<i>Market</i>	<i>Median Multiple<sup>1</sup></i>
Kansas City, MO-KS	2.49
Omaha, NE-IA	2.53
<b>Des Moines, IA</b>	<b>2.91</b>
Wichita, KS	3.02
Lincoln, NE	3.13
Madison, WI	3.78
Denver, CO	3.97
<sup>1</sup> Median owner-occupied home price divided by median annual before-tax household income.	
Source: 8 <sup>th</sup> Annual Demographia International Housing Affordability Survey	

To put this figure in context, Des Moines metro area housing is less affordable than that of the Omaha, Nebraska-Iowa metro area housing market (which has a median multiple of 2.5) but is considerably more affordable than the Denver, Colorado metro area housing market (with a median multiple of 4) and Madison, Wisconsin metro area housing market with a median multiple of 3.8. These metro areas are used as references in the Capital Crossroads *Competitive Capacity Assessment*.

The Des Moines metro area's relative housing affordability reflects not only the advantages of an ample land supply. The metro area has avoided the kind of land use polices in places like coastal California and Portland Oregon that have enacted restrictions on the growth in the supply of housing and adopted other policies which have resulted in dramatic increases in housing prices with which middle class incomes not kept pace.

## **ANALYSIS OF HOUSING NEEDS**

### **Income and Housing Affordability**

Estimates and projections of households are not a direct indication of housing need because it does not take into account the ability of households to pay for housing. The production of new housing units will be stimulated if a sufficient number of households are able to pay a price that would enable builders to supply new units at a profit. To identify effective housing needs, the ability of households to pay for housing must be considered. We make this estimate by estimating the distribution of income for households within the region and then estimating the unit price that households within each income category can likely afford.



A comparison of housing need to existing supply highlight potential shortfalls or deficiencies in the housing stock as a function of household income.

Adjusted for inflation, Table 2 below summarizes the estimated distribution of household income within Greater Des Moines in 2000 and 2010.

<b>TABLE 2</b>		
<b>Household Income Distribution in Greater Des Moines<sup>1</sup></b>		
Household Income (in 2012 dollars)	2000 % of Households	2010 % of Households
Less than \$15,000	8.4	8.8
\$15,000 to \$34,999	16.6	19.2
\$35,000 to \$49,999	13.7	14.8
\$50,000 to \$74,999	20.5	19.1
\$75,000 to \$99,999	17.4	14.0
\$100,000 to \$149,999	13.6	14.4
\$150,000 and Above	9.7	9.8
TOTAL	100.0	100.0
<sup>1</sup> Income ranges taken from Census and American Community Survey results are adjusted for inflation to current 2012 dollars, based on the Consumer Price Index for urban consumers in the Midwestern United States. Estimates of household distribution by income range are then calculated assuming a normal distribution within each bracket.		
Sources: U.S. Census Bureau, <i>2000 Census</i> , <i>2010 American Community Survey</i> ; Gruen Gruen + Associates.		

Census data indicates that the income make-up of Greater Des Moines remained relatively stable over the 2000 to 2010 period. The distribution of income when adjusted for inflation over the period did not change noticeably in one direction or the other. The lower- and upper-tiers of the household income spectrum each experienced minimal increases. In 2000, approximately 25 percent of households had an annual income of less than \$35,000. A larger share of households, approximately 34 percent, had an annual income between \$35,000 and \$75,000. In 2000, households with annual incomes greater than \$75,000 represented 41 percent of the Greater Des Moines household base.

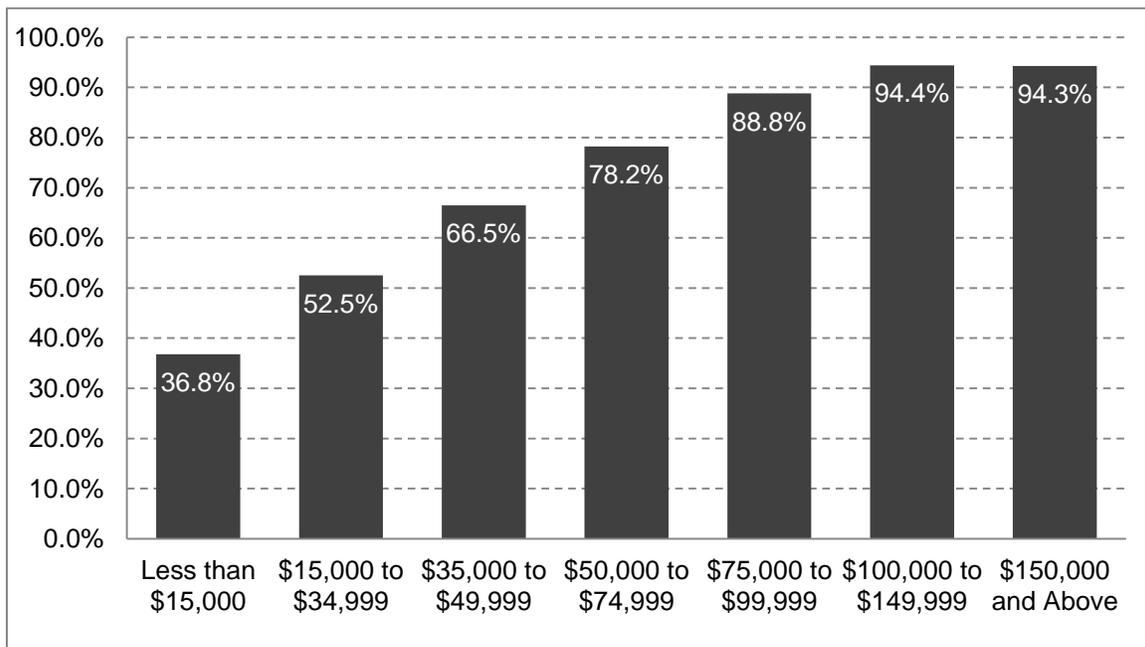
By 2010, the proportion of households with annual incomes below \$35,000 shifted upwards slightly to 28 percent while the proportion of households with incomes between \$35,000 and \$75,000 did not change. Households with annual incomes greater than \$75,000 in 2010 comprised approximately 38 percent of the household base, representing a slight decline



over 2000 levels. The proportion of high-income households (with annual incomes in excess of \$100,000) remained relatively stable.

Greater Des Moines exhibits a high rate of homeownership; more than 87 percent of households with annual incomes greater than \$50,000 own housing in the region.

**HOMEOWNERSHIP RATES IN GREATER DES MOINES BY INCOME: 2010**



More than 72 percent of all households, irrespective of income, own housing in Greater Des Moines. According to *American Community Survey* data, the national homeownership rate was approximately 65 percent in 2010. Approximately 52 percent of households with annual incomes below \$50,000 own housing, another indication of a highly-affordable local housing market.

### **Current Housing Need by Price Range**

The relationship between household income and the value of housing which households can afford is estimated by considering the typical proportion of income expended on housing. The standard approach used by the United States Department of Housing and Urban Development (“HUD”) assumes that households spend up to 30 percent of their income on total housing costs, including rent or mortgage payments, taxes, insurance, and utilities. The 30-percent-of-income “standard” is used in a variety of national funding and down payment



assistance formulas. Households required to spend more than 30 of their before-tax income on housing are typically considered to be burdened.

The financial assumptions used to translate household income into for-sale housing prices are as follows:

- Monthly mortgage payments equal to 22.5 percent of household income;
- Other housing expenses (property taxes, homeowners insurance, utilities, and HOA/condo fees) equal to 7.5 percent of household income;
- 20 percent down payment; and
- 30-year fixed rate mortgage with a 6.0 percent interest rate.

For rental housing, gross rent afforded is assumed to represent 30 percent of income. Under these assumptions, Table 3 below summarizes the price of for-sale and rental housing affordable to households within various income brackets.

<b>TABLE 3</b>		
<b>Housing Afforded by Household Income Segment<sup>1</sup></b>		
<b>Household Income</b>	<b>For-Sale Housing Price<sup>2</sup></b> <b>\$</b>	<b>Monthly Gross Rent<sup>3</sup></b> <b>\$</b>
Less than \$15,000	Below 58,000	Below 375
\$15,000 to \$35,000	58,000 - 135,000	375 - 875
\$35,000 to \$49,999	135,000 – 194,000	875 - 1,250
\$50,000 to \$74,999	194,000 – 290,000	1,250 - 1,875
\$75,000 to \$99,999	290,000 – 387,000	1,875 - 2,500
\$100,000 to \$149,999	387,000 – 581,000	2,500 - 3,750
\$150,000 and Above	Above 581,000	Above 3,750
<sup>1</sup> Figures are rounded. Presented in current 2012 dollars.		
<sup>2</sup> Assumes mortgage payments equal 22.5 percent of income; a 20 percent down payment; and 30-year fixed rate mortgage at an annual interest rate of 6 percent.		
<sup>3</sup> Assumes monthly gross rents equal 30 percent of income.		
Source: Gruen Gruen + Associates		

Based on current homeownership rates and income distribution, we compare the supply of housing within the region to the number of households able to afford both owner-occupied and rental units at different price to points to identify possible deficiencies in the current housing stock with respect to the needs of current households.



As summarized below in Table 4, the vast majority or nearly 90 percent of existing owner-occupied housing units in the region are valued at less than \$315,000 (in current 2012 dollars).

<b>TABLE 4</b>			
<b>Relationship Between Cost of Existing Housing and Price of Housing that Greater Des Moines Households Can Afford<sup>1</sup></b>			
<i>Home Value:</i>	Supply of Existing Units <sup>2</sup> #	Number of Households Able to Afford Units <sup>3</sup> #	Existing Surplus / (Deficit) in Units by Price #
Less than \$63,000	13,527	7,250	6,277
\$63,000 to \$131,999	47,878	22,573	25,304
\$132,000 to \$183,999	43,768	22,002	21,766
\$184,000 to \$315,999	49,865	33,341	16,525
\$316,000 or more	18,540	78,761	(60,222)
<i>Monthly Rent:</i>			
Less than \$370	3,976	12,444	(8,467)
\$370 to \$839	37,167	20,415	16,752
\$840 to \$1,314	21,321	11,091	10,229
\$1,315 or more	4,498	15,889	(11,391)
<sup>1</sup> Figures are rounded. Presented in current 2012 dollars.			
<sup>2</sup> Value and rents for vacant units are unknown. Assumes distribution by price is similar to occupied units.			
<sup>3</sup> Based on a 30 percent-of-income burden threshold. Households in higher-income categories can also afford housing priced in ranges that would be affordable to lower-income households.			
Sources: U.S. Census, <i>2010 American Community Survey</i> ; Gruen Gruen + Associates.			

Within every price range below \$315,000, the region has a surplus of units relative to households who can afford the units. Using the 30-percent-of-income standard as the housing cost burden threshold, the region includes a large deficit of higher-priced units that higher-income households can potentially afford. This, however, does not necessarily indicate a deficiency in the owner-occupied housing stock. Rather, it signals an affordable for-sale housing inventory that offers the features and quality acceptable to higher-income households at prices that permit allocating far less than 30 percent of their income to housing. This is another indicating of a well-functioning, competitive land and housing market



Based on most recent American Community Survey data, Greater Des Moines does appear to lack a significant number of very low-priced rental housing units that are affordable to the households with the lowest incomes in the region. Approximately 12,400 renter households – based on the 30-percent-of-income cost burden threshold – can afford to pay no more than \$370 per month in gross rent. The metro region is estimated to contain only 4,000 such units. Large surpluses exist at higher rental price points of \$370 to \$840 per month and \$840 to \$1,315 per month. Some of this surplus, much like owner-occupied housing, is accounted for by higher-income renter households who are able to find satisfactory units at prices that enable them to spend less than 30 percent of their annual income on rent.

The estimates summarized above in Table 4 should be considered order-of-magnitude estimates describing the type and price of housing that households can potentially *afford*, not what they will necessarily elect to purchase or rent.

### **CURRENT AFFORDABLE HOUSING SHORTFALL**

When considering this broad-level data readily available for the region and its households, as summarized above, the housing stock of Greater Des Moines is affordable to the vast majority of households. Based on the 30 percent-of-income standard, for example, the current need for units priced below \$132,000 or \$840 in monthly rent approximates 63,000 units. The metro region contains more than 100,000 of such housing units.

As suggested in the data presented in Table 6, however, an increasing proportion of households expend more than 30 percent of their household incomes on housing and therefore can be considered burdened by housing costs.

<b>TABLE 6</b>			
<b>Cost-Burdened Households in Greater Des Moines<sup>1</sup></b>			
	1990 %	2010 %	Shift <u>Percentage Points</u>
Homeowners	14.0	23.8	9.8
Renters	36.6	45.9	9.3
<sup>1</sup> Percent of households spending more than 30 percent of their before-tax income on housing and related expenses (utilities, taxes, insurance, etc).			
Sources: U.S. Census Bureau, <i>1990 Census, 2010 American Community Survey</i> ; Gruen Gruen + Associates.			



## **AFFORDABLE HOUSING PROGRAMS**

A variety of Federal, State, Regional, Community and other programs are currently available to help address housing affordability challenges. For example, the United States Department of Housing and Urban Development (HUD) has provided grants to promote affordable housing and economic development to the Iowa Native American community, to provide permanent housing and support to homeless military veterans, and other homeless in the region. HUD has also awarded funds to improve the public housing stock and combat housing discrimination.

HUD has awarded the Iowa Finance Authority a contract for the administration HUD's Project-Based Section 8 program. The Iowa Finance Authority uses the profits generated from this program to assist in the preservation and advancement of affordable housing through a variety of programs.<sup>1</sup>

The Iowa Finance Authority recently provided grants and tax credits totaling nearly \$100 million to create or rehabilitate nearly 1,300 units of affordable housing. In addition to the State-created Iowa Finance Authority, governmental units within the Des Moines region have affordable housing programs. For example, The City of West Des Moines has developed a Consolidated Plan with goals related to affordable housing, infrastructure, homeless individuals and families, and the provision of special needs services. The City also has a long-range Comprehensive Plan that guides development and provision of services into the future and establishes goals and policies to aid those activities. The City of West Des Moines serves as the administering agency for the Dallas County Local Housing Trust Fund, the Metro Home Improvement Program, and the Polk City Home Improvement Program.

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<sup>1</sup> The Housing and Community Development Act of 1974 created the Project-Based Section 8 rental assistance program. Under the program, HUD enters into contracts with property owners to provide rental assistance for a fixed period of time for low-income families. Project-Based Section 8 assistance may be provided only for tenants with incomes no greater than 80 percent of the area median income and tenants generally pay rent equal to 30 percent of adjusted household income. HUD provides contracts for the oversight and administration of most Section 8 project-based contracted properties.



Another local 501c(3) organization, the Polk County Housing Trust Fund, organizes its work around three strategic priorities, including assessment and planning, providing for supportive services and capacity building.

### ***City of Des Moines Services***

The Community Housing Development Organization for Des Moines acts as developer and general contractor in the construction or rehabilitation of homes. The homes are used to provide homeownership opportunities to low-income families through various financing models. As a certified Community Housing Development Organization, HOME, Inc. undertakes development activities to aid in the revitalization and redevelopment of federally designated low income neighborhoods in Des Moines. In partnership with governmental or non-profit entities, HOME, Inc. may act as a general contractor in building or improving housing for low-income people in Polk County.

The Des Moines Municipal Housing Authority also owns and manages rental units for low- and moderate-income families within Des Moines City limits.

The Federal Home Loan Bank of Des Moines allocates 10 percent of its income to its Affordable Housing Program. The Affordable Housing Program (AHP) is a competitive grant award program that awards funds to projects that create or rehabilitate affordable housing. Grants are awarded for both owner occupied and rental housing projects. Households served must be at or below 80 percent of the area median income. In 2010 the Bank provided \$15 million of grants directed to creating both affordable single-family housing as well multi-family housing facilities, including the Central Iowa Shelter (& Services facility) under construction in Des Moines. In 2011, FHLB Des Moines awarded \$15 million in grants to 45 projects that will create or rehabilitate 1,734 homes or apartments that will house families with children, seniors, persons with disabilities and people who are homeless. The projects will create brand new homes and rehab existing units. These projects alone would cover more than 6 percent of all future housing needs associated with households within incomes below \$35,000 over the next four decades.

The YWCA “Residence Program” consists of low-cost transitional housing for women and women with children. Greater Des Moines Habitat for Humanity is a Christian housing ministry that sells new and renovated houses at no interest to qualified low-income families in Polk County.



## **CONTINUE TO ENCOURAGE THE PROVISION OF AFFORDABLE HOUSING**

As indicated above, housing affordability is high because of policies and other actions by governmental, non-profit and other entities that have not unduly limited the supply of housing and unduly raised housing costs. In addition, a variety of organizations and policies and projects are directed towards meeting the needs of households facing challenges because of low-incomes and poverty.

The Tomorrow Plan should encourage local governments to alter regulations that raise housing costs and could otherwise encourage the continued provision of affordable housing by the following recommendations:

- Zone up to 10 percent of residential land for multi-family housing;
- Institute “fast-track” zoning and building permit processes for all development projects that propose to include housing units designate for occupancy by low- or moderate-income households;
- Encourage developers to create low-or moderate-income housing within their boundaries by awarding density bonuses for projects that contain such housing;
- Encourage every community to have a target for low- and moderate-income housing; and
- Encourage through positive financial and technical assistance to local governments and locally-formed housing organizations promoting low- and moderate-income housing in specific communities.