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HOUSING AFFORDABILITY IN IOWA

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ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Iowa's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Iowans. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Iowans are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Iowans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

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INTRODUCTION

Thanks to a surge in home prices since 2020 and high interest rates, purchasing a home has become prohibitively expensive for many Americans. Fortunately, Iowa remains one of the most attractive places in the United States to buy a home in terms of relative affordability. The mortgage on a home purchased at the U.S. median list price consumes about 33% of the median household's income in the United States; the median Iowa household only pays 22% of their income for a median house in the state. While considerably more affordable than the U.S. average, buying in Iowa has become more challenging than it was before the pandemic. A continued housing shortage in many of the

state's most populous counties and relatively high property tax rates continue to put upward pressure on Iowa's home prices. In this report, Common Sense Institute examines the present affordability of Iowa's housing market. It then recaps where Iowa stands in CSI's Housing Competitiveness Index, highlighting where improvements can be made to improve competitiveness. Finally, it explores data related to the state's housing supply to determine whether and where shortages exist and how increasing housing supply can help to alleviate price pressures.

KEY FINDINGS

- While housing affordability has declined nationwide since the start of the pandemic, Iowa has one of the most affordable housing markets in the nation. Compared with the other 49 states and D.C., Iowa has—
 - the 7th most affordable housing market in absolute terms when factoring in only the cost of a mortgage.
 - the 11th most affordable housing market when factoring in property taxes.
 - the 9th most affordable housing market relative to what residents earn.
- According to CSI's Housing Competitiveness Index, which factors in affordability and supply factors, Iowa has the 17th overall most competitive housing market in the nation.
- As of September 2024, the average Iowan needs to work at least 37 hours per month to afford their mortgage payment. This is 12 hours less than the national average.
- From Q2 2020 through Q2 2024, single family home prices rose by 48% across the United States and 40% in Iowa.
- Despite a nationwide decline in new construction in 2024, Iowa is on track to eliminate its housing shortage within the next five years. CSI anticipates a deficit of 13,222 homes across Iowa in 2024 and projects the deficit will fall to 10,692 in 2025.
- Of Iowa's 10 largest counties, Pottawattamie County has the largest housing shortage with 2.85% (1,148) more homes needed followed by Dubuque County with 1.31% (573) more needed and Polk County with 1.24% (2,781) more needed.
- While it cannot change mortgage rates, Iowa can increase housing affordability by increasing the supply of new units and reducing property taxes.

HOUSING AFFORDABILITY

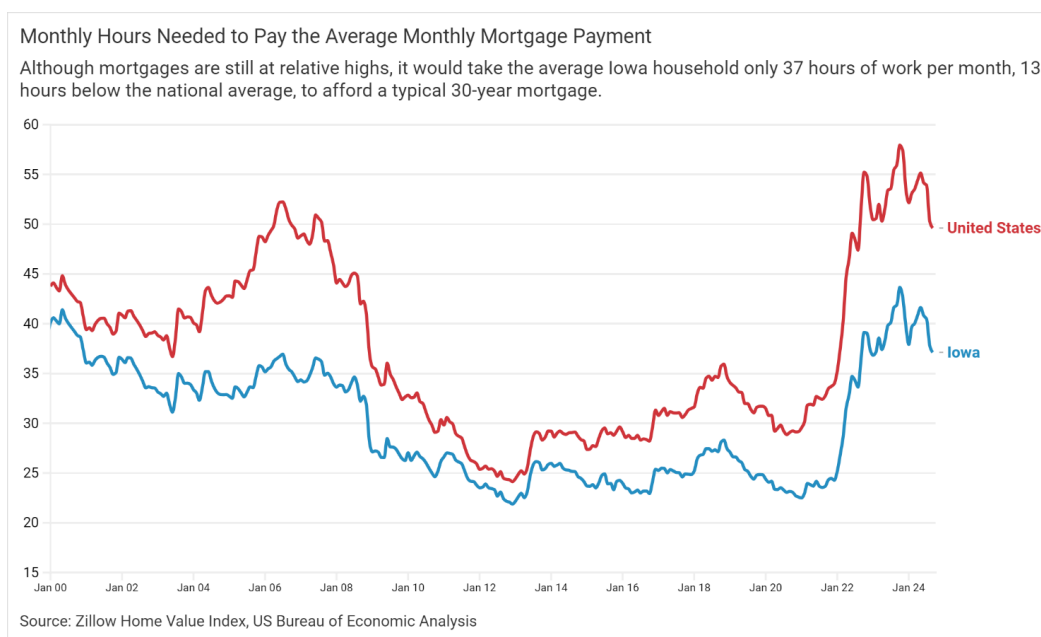
Single family home prices in Iowa rose by just over 40% from Q2 2020 through Q2 2024, according to the Federal Housing Finance Agency’s (FHFA) House Price Index for Iowa. Three of the ten largest annual home price increases occurred in the last three years, according to the agency.¹ Across the broader United States, single family home prices rose even more, increasing by 48%.² While low mortgage interest rates during the pandemic helped accelerate the growth in home prices, subsequent rate increases did not dampen prices. On the contrary, home values in the United States increased by 5.7% in the two quarters before mortgage rates peaked at 7.8% in October 2023.³ Iowa values rose 5% over the same period.⁴ Despite the highest mortgage rates since the summer of 2000, home prices continued to reach new all-time highs. As mortgage rates fell from their high point over the last year, prices continued to rise. Across the entire United States, the cost burden of purchasing a home has risen as values and rates have risen. Figure 1 illustrates housing affordability in Iowa and the United States based on the number of hours of work required to pay the mortgage on a newly purchased home going back to 2000.

To arrive at the number of hours needed to pay a mortgage payment on a new home, CSI first calculated a typical mortgage payment for the U.S. and Iowa buyer. This assumes a 20% down payment on the average price of a single-family home in the respective region.⁵ The other component in this estimate is the average hourly wage, which

CSI calculated using the region’s annually average per-capita personal income.⁶ This allows for an accurate representation of the area’s earning power.

While the payment on a new mortgage in Iowa has nearly doubled since 2000 in nominal terms, the typical Iowa homebuyer today can afford a comparable home

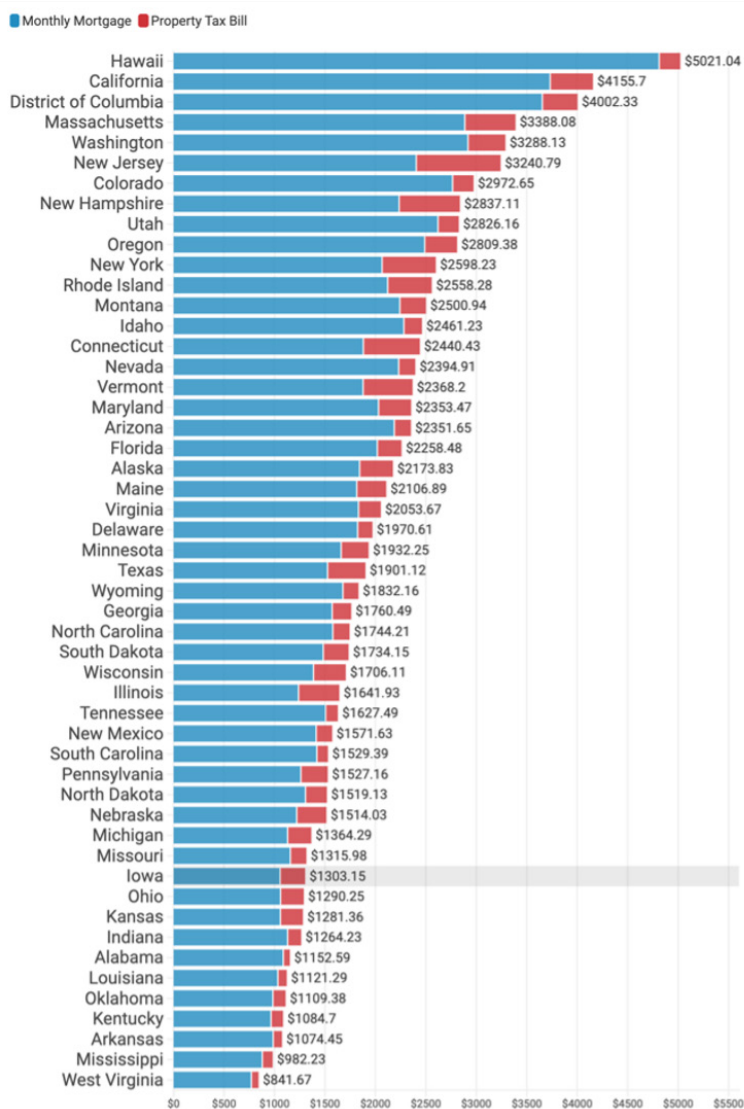
FIGURE 1. MORTGAGE AFFORDABILITY IN IOWA AND THE UNITED STATES



for fewer hours worked. In September 2024, the homebuyer worked 37 hours in a month just to cover the cost of a mortgage on a new home compared with 39 hours in September 2000. In contrast, the typical U.S. homebuyer earning an average wage had to work 50 hours compared with just 43 in 2000. Since 2000, Iowa has consistently remained a more affordable state for homeownership. Even as mortgage rates and home prices rose sharply nationwide following the pandemic, Iowa's affordability advantage persisted. However, figure 1 does not factor in property taxes, which make Iowa somewhat less affordable on a relative basis.

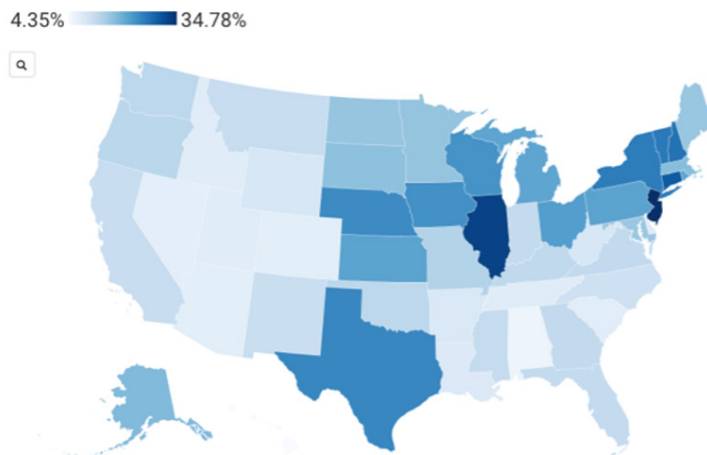
Property taxes impact all homeowners, but these rates can vary significantly by state and locality. Figure 2 shows the monthly mortgage cost of a new home by state with the average cost of property tax. In 2022, Iowa ranked as the 9th highest in the nation for average effective property, according to the Tax Foundation.⁷ Although one of the highest property tax states, Iowa homeowner costs—comprised of both monthly mortgage costs and property tax bills—were the 9th lowest in the nation. This is attributable to relatively low home prices in the state. Regardless, property taxes still accounted for an average of 23.41% of the total monthly home cost, contributing significantly to costs for Iowa homebuyers. Based on mortgage costs alone without factoring in property taxes, Iowa had the 7th lowest cost of homeownership in the nation in 2022. Reducing the property tax burden would improve Iowa's absolute and relative housing affordability. The darker shading in figure 3 represents the states where property taxes in 2022 comprised a larger percentage of overall homeownership costs, and lighter shading those with lower relative property taxes.

FIGURE 2. MONTHLY MORTGAGE AND PROPERTY TAX COSTS PER STATE IN 2022



Source: Tax Foundation, Zillow

FIGURE 3. PROPERTY TAXES AS A PERCENTAGE OF MONTHLY HOME OWNERSHIP COSTS, 2022



Source: Tax Foundation, Zillow

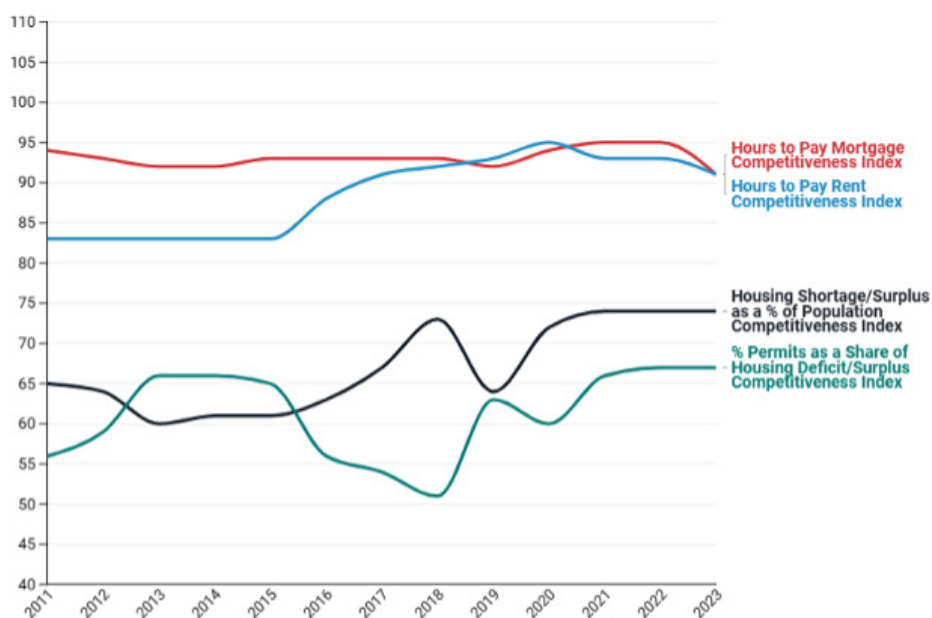
CSI'S HOUSING COMPETITIVENESS INDEX

In April, CSI published its report, "Iowa Housing Competitiveness Index," to gauge how well Iowa's housing market performs relative to other states and D.C. The report found Iowa had the 17th most competitive housing market in the nation in 2023. This index comprises more than just affordability. Rather, it consists of four metrics that capture both the affordability and supply of housing in the state:

1. The hours required (at the average wage) to pay the monthly mortgage based on 30-year mortgage rates for the average priced home ("hours to pay a mortgage" metric),
2. The number of hours of work required to pay the monthly average rent at the average wage rate ("hours to pay rent" metric).
3. The percentage of permits as a share of the housing deficit/surplus ("permits" metric), and
4. The housing deficit/surplus as a percentage of the population ("housing surplus" metric).

Breaking the index out into its component metrics reveals more about where Iowa is most competitive and where it can improve its relative competitiveness. The index takes the same approach to measuring housing affordability as figure 1. It considers both the absolute cost of homeownership and what residents of each state earn. On an absolute basis, Iowa had the 7th lowest cost of buying a new home in 2022, as shown in figure 2. According to the misery index, Iowa was the 5th most affordable in 2022. In 2023, Iowa fell to the 9th most affordable housing market in the nation. The misery index does not factor in the cost of property taxes. On each of the two supply-related metrics, Iowa ranks 26th and 33rd in the nation. Iowa does well on affordability, but weak supply reduces its overall competitiveness. However, recent data show Iowa is on track to increase supply, which will put downward pressure on prices and improve its competitiveness.

FIGURE 4. HOUSING COMPETITIVENESS INDEX COMPONENTS - IOWA



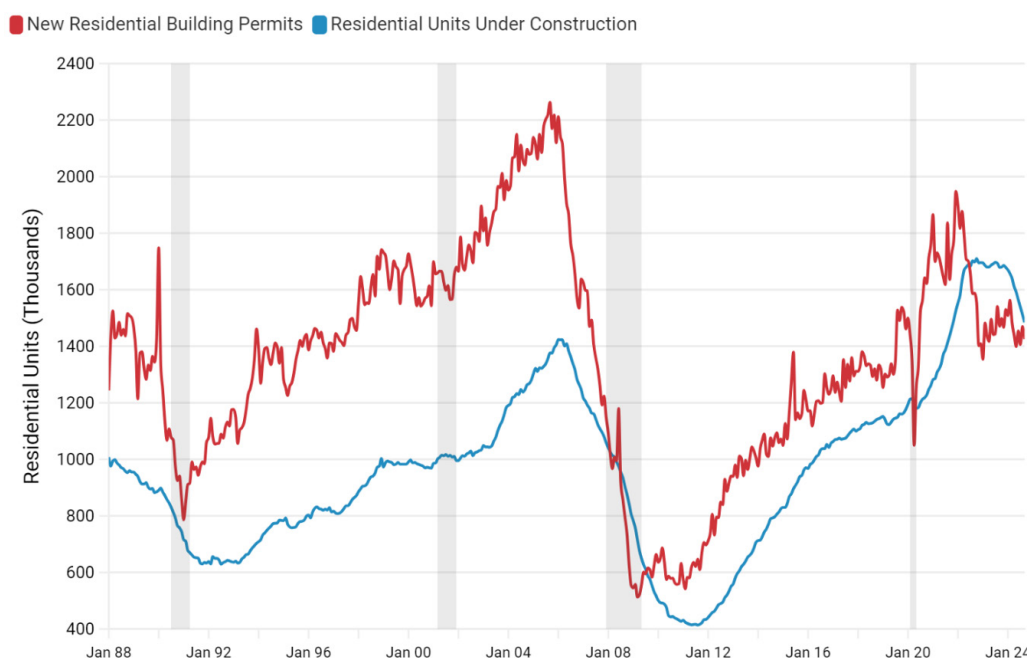
NEW SUPPLY CONTINUES TO FALL ACROSS THE U.S.

National homebuilding activity—measured by permits, unit count changes, and other indicators—rose rapidly following the pandemic. Rising home prices incentivized homebuilders to increase construction of new homes across the country. Optimistic homebuilder activity thus contributed to a growing supply of homes. However, as mortgage interest rates began to rise in May 2022, new construction growth stagnated across the U.S. Starting in January 2024, new supply began to decline. Since the start of this year, new permit issuance fell 5.5% and residential units under construction fell 11%.⁸ To capture national homebuilder sentiment, figure 5 shows the number of residential building permits and new homes under construction across the United States as a reflection.

Figure 5 demonstrates the number of permits pulled is a leading indicator of how many housing units will be under construction approximately one year later. When interest rates fell and home prices were rising in 2021 and 2022, permits increased for new builds. When mortgage rates began rising in 2022, new permits fell, but new construction continued to rise until 2023. New construction is now falling as permits have stabilized. Despite a recent nationwide decline in new residential housing permits and units under construction, homebuilder activity in Iowa has remained relatively strong since the pandemic.

FIGURE 5. NATIONAL BUILDER INTEREST VS. HOMES ALREADY UNDER CONSTRUCTION

Homebuilder sentiment - measured by building permits - has declined 5.5% over 2024.



Source: US Census Bureau • Shaded areas indicate Recessions.

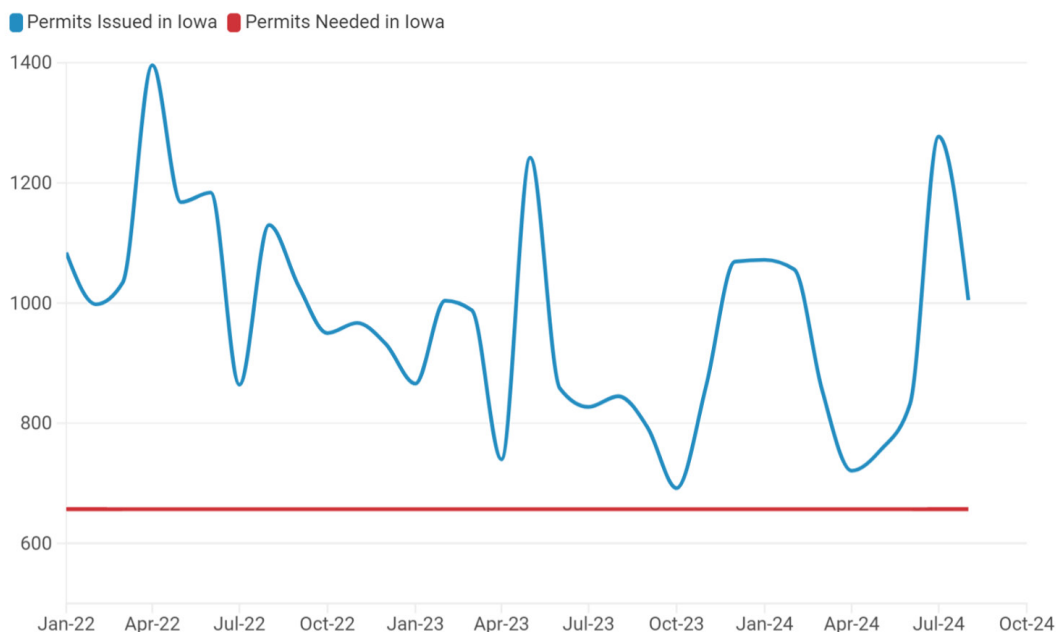
IOWA ON TRACK TO CLOSE HOUSING SHORTAGE IN 5 YEARS

Local jurisdictions in Iowa have issued between 10 and 12 thousand new permits each year since 2022.⁹ This trend has helped close Iowa’s housing gap, reducing home shortages especially in the top ten most populated counties. The rise in homebuilding in these major counties in 2024 should help alleviate the state’s housing shortages over the next few years. Shown in figure 6, CSI’s estimate of new permit issuance through the end of the year reflects current day and historical trends in the available data. As data becomes more finalized, actual permit data could point to a different conclusion.

To close the housing shortfall within five years, CSI estimates Iowa localities would need to permit approximately 657 residential units per month statewide. In August, Iowa’s local jurisdictions issued 1,005 residential building permits, 18.9% more than August 2023. Figure 6 visualizes the state’s monthly permit issuance compared to permits required to close this gap since January 2022. At its current pace, the state is well ahead of this monthly minimum goal and is on track to close the housing shortfall within five years. However, not all individual counties are on a clear trajectory towards closing this gap in five years.

FIGURE 6. AVERAGE MONTHLY BUILDING PERMITS NEEDED OVER 5 YEARS

Given the housing shortfall and historical population growth, Iowa needs to permit about 657 housing units every month to close the gap in 5 years; in August it permitted 1005.



Source: Census Bureau, CSI Estimates

In figure 7, CSI reports the supply and building information for the state of Iowa and its ten most populous counties. Based on a combination of an area’s housing supply, vacancy rates, permitting rates, and household population rates, CSI estimates the housing shortage or surplus for each. The table estimates the average number of new yearly home constructions required to resolve the area’s shortage within five years.

Among the counties listed in figure 7, eight had a shortfall greater than 1% of all existing units in 2023. One had no deficit in 2023. The number of major counties without a housing deficit will increase to three for 2024 and five in 2025, according to CSI projections. Polk and Pottawattamie, two counties with the most significant shortage, will slightly reduce their shortage in 2025 despite permitting fewer than the yearly requirement necessary to close the supply gap. Because of changes in vacancy rates and declining household population growth rates, counties may see some reduction in their shortages without issuing the minimum required permits.

FIGURE 7. IOWA’S HOUSING SHORTAGE, BY COUNTY, SINCE 2021

The decline in 2024 statewide shortages is attributable to current trends of increased homebuilding.

County	2021 Deficit	2022 Deficit	2023 Deficit	2024 Deficit Est.	Shortfall as % of Existing	5-year Construction Needed per Year	2024 Permits Est.	2025 Deficit Est.
Polk County	(2,472)	(4,395)	(4,670)	(2,781)	1.24%	2,288	1,979	(2,436)
Linn County	(1,351)	308	(1,369)	(480)	0.46%	363	440	467
Scott County	(1,027)	(1,166)	(1,127)	(449)	0.57%	204	314	113
Johnson County	(558)	(844)	(158)	446	n/a	n/a	403	557
Black Hawk County	163	(558)	400	911	n/a	n/a	177	1,187
Dallas County	(1,130)	(152)	(788)	(406)	0.83%	1,686	746	(213)
Woodbury County	(842)	(1,220)	(671)	(295)	0.68%	356	81	(247)
Dubuque County	(1,078)	(944)	(945)	(573)	1.31%	287	130	(244)
Story County	(322)	(671)	(347)	16	n/a	n/a	120	388
Pottawattamie County	(1,021)	(1,239)	(1,162)	(1,148)	2.85%	207	95	(1,051)
Iowa Shortage	(22,515)	(26,050)	(25,303)	(13,222)	0.91%	7,890	11,356	(10,692)

Source: US Census Bureau, CSI estimates • Out-year forecast values are based on current trends and forecasts in permits, population growth, and demand (measured by vacancy rates). They may not align with projected unit need given 2023 market actual market conditions.



BOTTOM LINE

Housing affordability across the nation has rapidly decreased since the start of the pandemic. The combination of record-high home prices in conjunction with high mortgage rates has created a challenging market for buyers. However, Iowa's housing market remains far more affordable than the broader United States. Increasing supply and lowering property taxes would further increase the attractiveness of Iowa's housing market to would-be buyers. While the United States also shows diminishing prospects for closing the nationwide housing shortfall, Iowa is improving. Since the start of this year, the United States has seen new residential units under construction fall sharply. In contrast, Iowa has seen newly issued permits across the state remain at levels on track to close the state's housing shortage within five years. This will make Iowa's housing market more attractive for buyers. If the Federal Reserve continues to cut interest rates in the coming months and mortgage rates fall without causing a surge in home prices, Iowa's housing market will improve even more.

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