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IOWA HOUSING COMPETITIVENESS INDEX

AUTHORS: STEVEN L. BYERS, PH.D., BEN MURREY, PETER LIFARI

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ABOUT THE AUTHORS



Steven L. Byers, Ph.D. is the Common Sense Institute Chief Economist. Steven spent three years working for the Coalition for a Prosperous America, a nonprofit organization. Steven's experience as an economist spans twenty-three years, including work at federal regulatory agencies (SEC, CFTC, PCAOB) and quantitative economic analysis supporting

international trade litigation cases brought before the U.S. International Trade Commission. His Ph.D. dissertation topic was based on a computable general equilibrium model (CGE) he developed to evaluate the economic impact of regional tax incentives in a small city (Fort Collins, CO)



Ben Murrey is Iowa Director of Policy and Research with the Common Sense Institute where he leads the research efforts of CSI Iowa to provide insightful, accurate and actionable information about the impact of public policy on Hawkeye families, businesses, and communities.



Peter F. LiFari is the Chief Executive Officer of Maiker Housing Partners, a socially conscious public housing authority, owner, operator, and developer of multifamily affordable housing. He is currently a Housing Fellow and Terry J. Stevinson Fellow with Common Sense Institute.

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

Common Sense Institute 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. Common Sense Institute'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. Common Sense Institute operates independently of any political party and does not take positions.

INTRODUCTION

Iowa is not alone in its difficulties with housing. A flood of liquidity from fiscal and monetary stimulus in response to the COVID-19 pandemic has sent consumer prices and asset prices—including housing—sky high. A decade of low interest rates after the 2008 global financial crisis followed by record low mortgage rates in 2020 and 2021 further pushed up home values. A near tripling of average 30-year mortgage rates in less than 3 years transformed those high values into even higher servicing costs for new mortgages.¹ In short order, millions of Americans were priced out of owning a home. Iowa is no exception, but its housing market has remained attractive relative to other states. Nonetheless, there remains room for improvement from free-market housing policy reforms.

Key Findings

- **Iowa's overall Housing Competitiveness Index improved from 75 in 2011 to 81 in 2023, putting it at the 17th most competitive in the nation.**
- **While Iowa housing prices rose significantly from the summer of 2020 through the summer of 2022, rents and mortgages have remained very affordable relative to other states.**
- **While rents rose faster than wages in most states, the opposite was true in Iowa. The number of hours of work required to pay rent in Iowa declined from 40 hours in 2011 to 36 in 2023.**
- **The number of hours an Iowan must work to pay for a new mortgage increased from 26 hours in 2011 to 48 hours in 2023, an 85% increase.**
- **Despite improving its relative index scores, the "housing shortage as a percentage of population" and "permits as a percentage of the housing shortage/surplus" suggest deficiencies in current and future housing supply.**
- **The supply of housing valued at between \$100,000 and \$300,000 is far below the demand for housing in the same range.**

STATE HOUSING COMPETITIVENESS INDEX

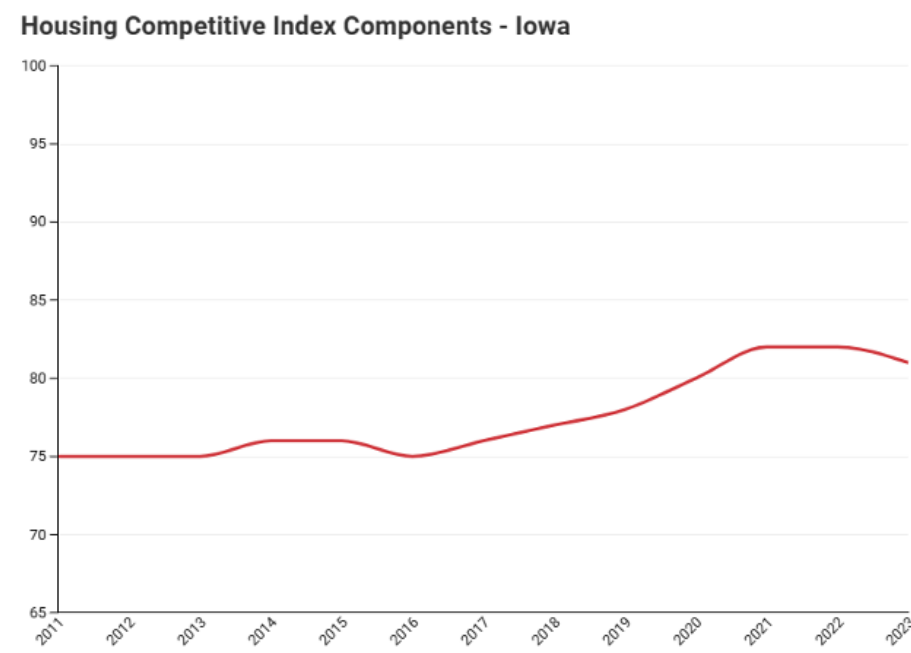
The Common Sense Institute issues a Free Enterprise Report annually. The report assesses each state's competitiveness relative to 49 other states and the District of Columbia, and it provides data and analysis on eight policy areas: education, energy, healthcare, housing, infrastructure, public safety, Government budget, and taxes and fees. An increase (decrease) in an index indicates increased (decreased) competitiveness relative to the other 49 states and the District of Columbia. For example, if Iowa's performance on a particular metric improves but other states improve by a greater amount, Iowa's competitiveness rank relative to all states will decline. This report provides additional detail on Iowa's housing competitiveness beyond what the Free Enterprise Report provides.

To gauge how well Iowa's housing market performs relative to other states, CSI produces a State Housing Competitiveness Index for all 50 states and the District of Columbia consisting of four metrics that capture the supply of housing and the affordability of housing:

1. The percentage of permits as a share of the housing deficit/surplus ("permits" metric),
2. The housing deficit/surplus as a percentage of the population ("housing surplus" metric),
3. 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), and
4. The number of hours of work required to pay the monthly average rent at the average wage rate ("hours to pay rent" metric).

The index ranks Iowa relative to all fifty states and the District of Columbia by each of these metrics. It then equally weights and sums each ranked metric, which it then ranks again to produce an aggregate measure of state budget competitiveness as shown in **Figure 1**.

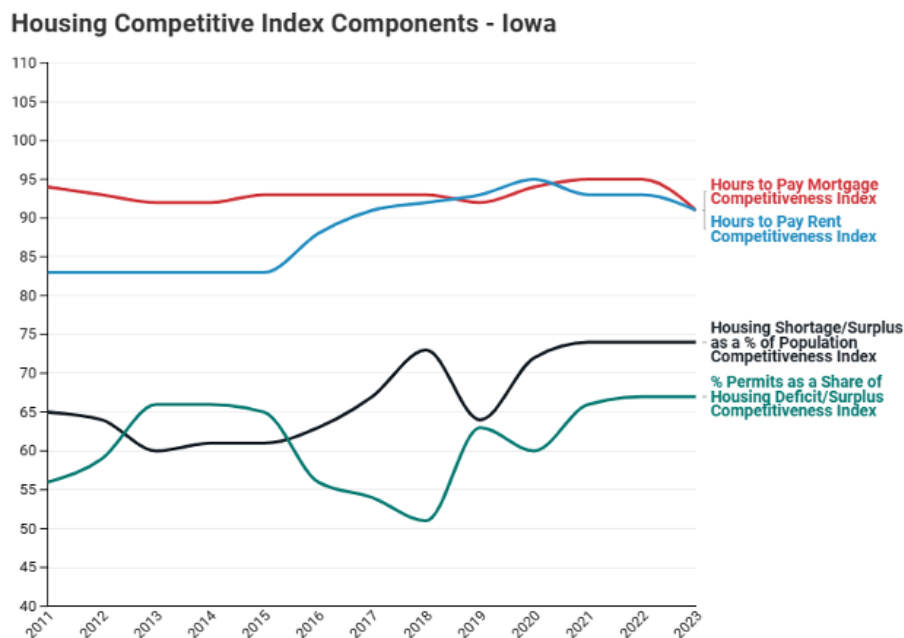
FIGURE 1 - HOUSING COMPETITIVENESS INDEX - IOWA



Iowa’s Housing Competitiveness Index score improved from 75 in 2011 to 81 in 2023. An increase in either the housing competitiveness metric or the four sub-metrics represents a positive qualitative change— i.e. the state’s competitiveness improves as the index approaches one hundred.

Figure 2 shows the evolution of the four components included in the Housing Competitiveness Index. The increase in the Housing Competitiveness Index resulted from increases in three of the component competitiveness indices. The Competitiveness Index for the “permits” metric increased from 56 in 2011 to 67 in 2023, contributing to the increase in the composite Housing Competitiveness Index score. The Competitiveness Index for the “hours to pay a mortgage” metric declined from 94 in 2011 to 91 in 2023. The Competitiveness Index for the “hours to pay rent” metric increased from 83 in 2011 to 91 in 2023. The Competitiveness Index for the “housing surplus” metric increased from 65 in 2011 to 74 in 2023.

FIGURE 2 - IOWA HOUSING COMPETITIVENESS INDEX COMPONENTS

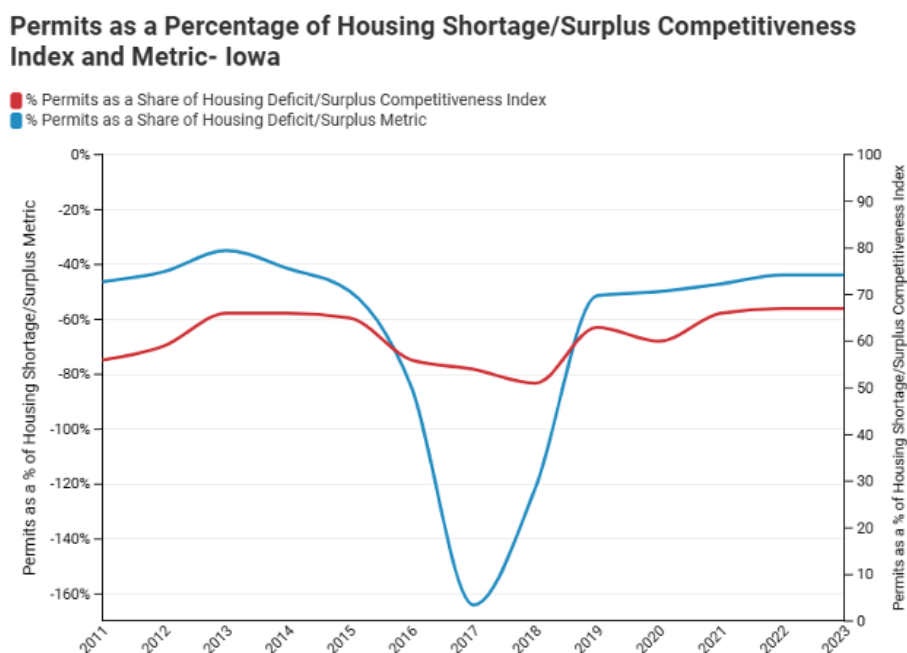


PERMITS AS A PERCENTAGE OF HOUSING DEFICIT/SURPLUS COMPETITIVENESS INDEX AND METRIC

Figure 3 shows the change in the permits as a percentage of the housing shortage (normalized and ranked) against the change in the underlying metric. This informs whether the change in Iowa's relative index score resulted from a change in its performance or a change in the performance of other states (or both).

Since 2011, Iowa has maintained a housing deficit, but despite a large dip in the intervening years, the percentage of permits as a share of Iowa's housing deficit was about the same in 2023 as in 2011, going from -46.3% to -43.8%. While this index provides a snapshot for the entire state, the deficit that appears in the data likely comes largely from rural parts of the state. Iowa has long struggled with shortages of rural housing inventory.ⁱⁱ Nonetheless, the state has increased its index score for this metric from 56 in 2011 to 67 in 2023 primarily because of worsening conditions in other states.

FIGURE 3 - PERMITS AS A PERCENTAGE OF HOUSING DEFICIT/SURPLUS



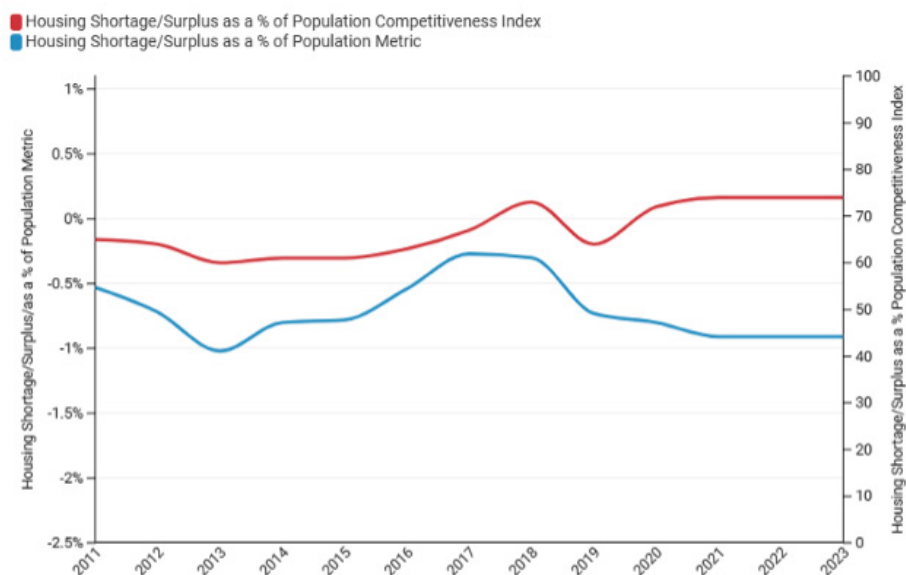
HOUSING SHORTAGE/SURPLUS AS PERCENTAGE OF POPULATION – COMPETITIVENESS INDEX AND METRIC

Figure 4 shows the change in Iowa’s housing shortage as a percent of its population (normalized and ranked) against the change in the underlying metric. Again, this informs whether the change in Iowa’s relative index score resulted from a change in its performance or a change in the performance of other states (or both).

As with the permits metric, the state’s competitiveness rose under this metric because of a larger decline in other states. Iowa’s decline from -0.53% in 2011 to -0.91% in 2023 resulted in Iowa’s competitive index increasing from 64 to 74.

FIGURE 4 – HOUSING SHORTAGE/SURPLUS AS A PERCENTAGE OF POPULATION – COMPETITIVENESS INDEX AND METRIC

Housing Shortage/Surplus as a % of Population Competitive Index and Metric- Iowa



HOURS REQUIRED TO PAY MORTGAGE - COMPETITIVENESS INDEX AND METRIC

Figure 5 shows the change in the number of hours an Iowan with an average wage must work to pay a typical 30-year mortgage (normalized and ranked) against the change in the underlying metric. This informs whether the change in Iowa’s relative index score resulted from a change in its performance or a change in the performance of other states (or both).

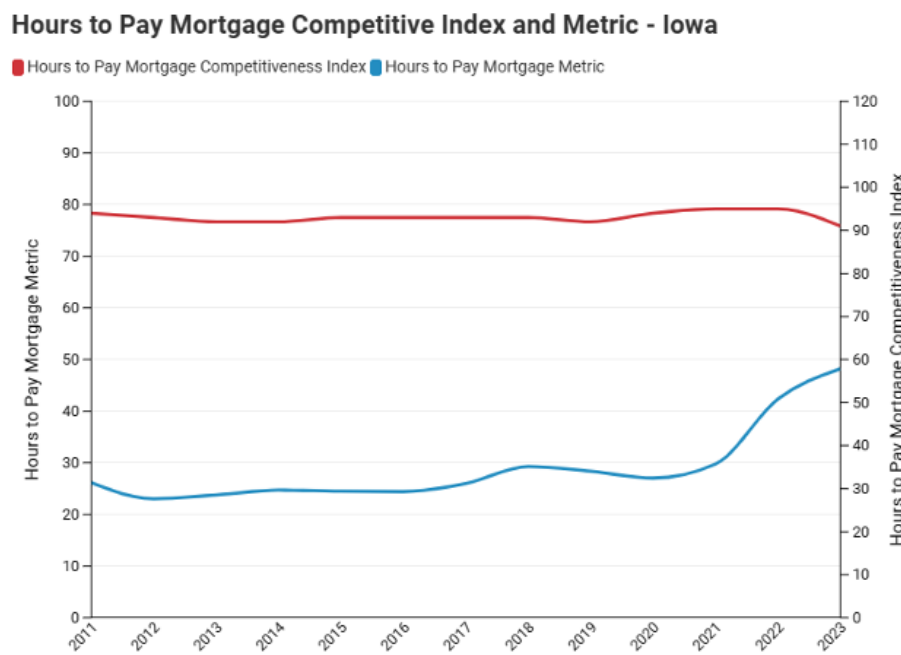
In the decade from 2011 through 2020, the number of work hours required to pay a mortgage ranged between 23 and 30, increasing by only 1 hour from the beginning to the end of the decade, from 25.5 to 26.5 hours. During the COVID-19 pandemic, however, historically low interest rates and a flood of monetary and fiscal stimulus into the United States economy bid up the price of housing across the country, and affordability soon began to deteriorate.

Despite rapidly rising home prices in 2021, the hours of work required to pay a mortgage increased by only one hour, from 26.5 to 27.5 hours, as low interest rates kept monthly mortgage payments low even as home prices rose. Starting in January of 2022, however, interest mortgage rates began to surge while home prices continued to increase through the summer. This caused affordability to fall quickly. In just two years from 2021 to 2023—as mortgage rates rose to nearly 8 percent—the hours of work required to pay a mortgage surged by

65%, from 27.5 to 45.5 hours. Despite this, Iowa’s relative affordability under this metric fell only 4 spots on CSI’s “hours to pay a mortgage” metric, remaining highly competitive with a score of 91 in 2023.

The average number of hours of work required to pay a mortgage also rose in most states but was much less pronounced in Iowa. Iowa managed to remain competitive while experiencing a sudden and drastic fall in affordability because mortgage affordability fell more dramatically in other states. Across the United States, wages have generally failed to keep pace with increased housing prices and rents, leading to widespread unaffordability.

FIGURE 5 – HOURS TO PAY MORTGAGE COMPETITIVENESS INDEX AND METRIC AND METRIC - IOWA



HOURS REQUIRED TO PAY RENT COMPETITIVENESS INDEX AND METRIC

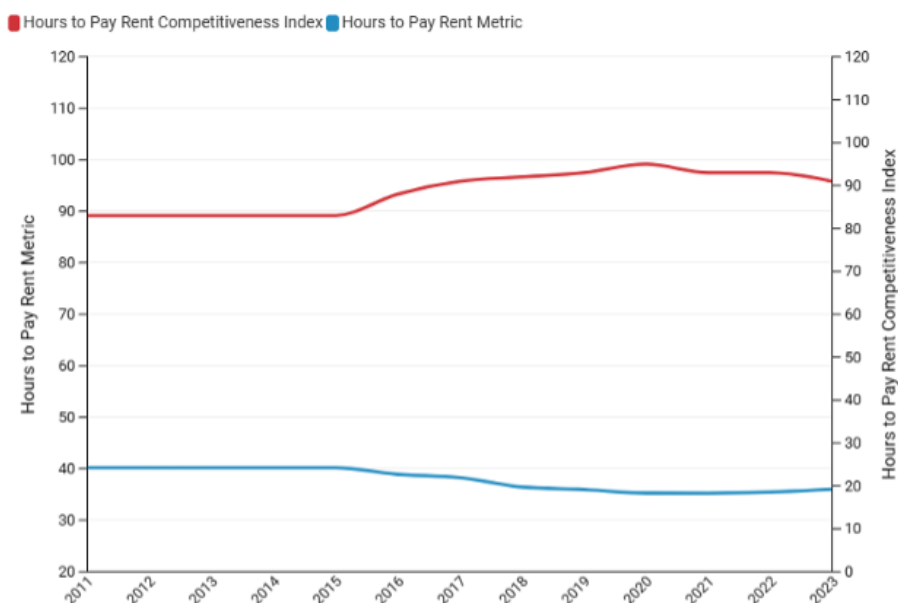
Figure 6 shows the change in the number of hours an Iowan with an average wage must work to pay a typical 30-year mortgage (normalized and ranked) against the change in the underlying metric. This informs whether the change in Iowa's relative index score resulted from a change in its performance or a change in the performance of other states (or both). Data for rent became available starting in 2015, so the index assumes 2015 rents for the years 2011 through 2014.

In 2011, an Iowan earning an average wage would have needed to work 40.2 hours to pay typical. By 2023 that number had fallen to 36 hours. Meanwhile, rents grew dramatically in other states, and the hours to pay the rent increased much more than in Iowa. As a result, the competitiveness index for Iowa increased from 83 in 2011 to 91 in 2023.

This metric and the mortgage affordability metric each measure the cost to rent or to buy today. While the increase in the cost of a new mortgage may deter many Iowa renters from buying a house, their cost of shelter has remained affordable. Meanwhile, the higher cost of a new mortgage today does not impact the affordability of existing mortgages.

FIGURE 6 - HOURS TO PAY RENT COMPETITIVENESS INDEX AND METRIC

Hours to Pay Rent Competitive Index and Metric - Iowa



VALUE OF HOUSING VS. HOUSEHOLD MORTGAGE CAPACITY

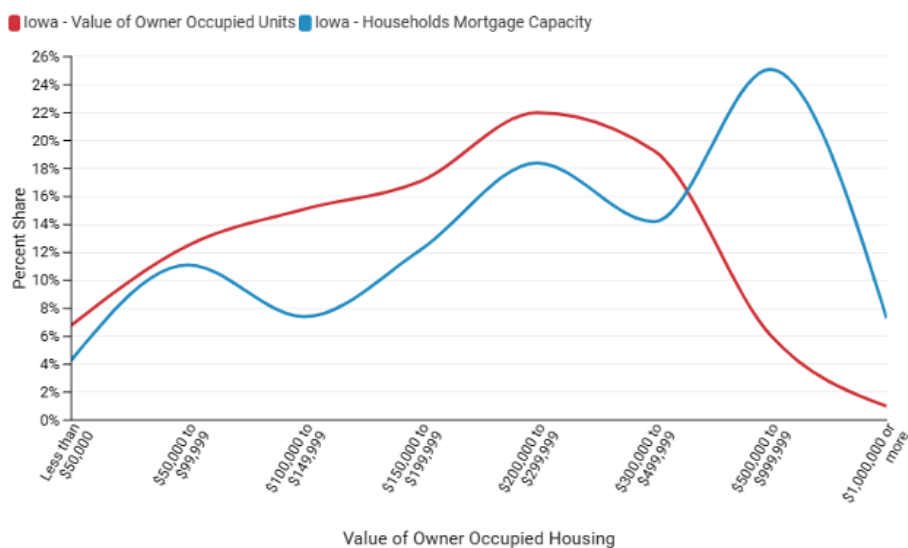
Although not directly incorporated into the Housing Competitiveness Index, beyond simply trying to determine whether an overall surplus or shortage of housing units exists within a state, there is also the policy question of whether the supply of housing aligns with what prospective buyers can afford.

When the Federal Reserve began aggressively increasing the federal funds rate in early 2022 to fight inflation, mortgages also began to rise quickly. Paired with higher home values, this has dramatically increased mortgage servicing costs. Because incomes have not kept pace, this has resulted in the erosion of overall housing affordability across the United States. Generally, rising interest rates push home prices down. In Iowa, home prices have continued to rise—just at a slower rate—since mortgage rates began to trend up. Common Sense Institute gathered and analyzed data from the American Community Survey on housing values and household incomes to understand how these changes have impacted the ability of Iowans to purchase homes.

Figure 7 compares two distributions. For the first, it translates incomes into mortgage capacity and shows the share of households with a capacity to afford mortgages on homes of different values. This comparison does not include households who have a home to sell and use the proceeds to buy a new home. It assumes the new home will be 100% financed. The second distribution shows the percentage of the total housing stock at different prices.

FIGURE 7 - VALUE OF HOUSING VS. HOUSEHOLD MORTGAGE CAPACITY

Iowa - Value of Housing Stock vs. Household Mortgage Capacity



Source: U.S. Census

In Iowa, the number of households with the capacity to purchase homes under \$100,000 is close to the available supply of homes valued at under \$100,000. There are more homes valued in this range than the number of households with the mortgage capacity to purchase them, indicating that there is an excess supply of homes in this range. Supply continues to exceed demand for houses up to \$500,000. For homes valued above \$500,000, however, the supply of homes exceeds the percentage of households with the mortgage capacity to purchase them.

In the appendices, the same comparison is provided for the following Iowa metropolitan statistical areas: Cedar Rapids, Davenport-Moline-Rock Island, Des Moines-West Des Moines, Dubuque, Iowa City, Sioux City, and Waterloo-Cedar Falls.

POLICIES TO CONSIDER

– PETER LIFARI, HOUSING FELLOW

Despite the rise in home prices and mortgage rates since 2020, the Iowa housing market has remained relatively competitive compared with other states. Now is the time for Iowa to capitalize on its competitive housing market by ensuring that housing unit development remains consistent. While a significant percentage of the housing development value chain is out of the control of local and state governments, much can be accomplished at the local level. To ensure Iowa's housing unit deficit does not grow, Iowa must promote a regulatory environment conducive to home development in high-cost market conditions. Iowans and their representative local governments would be wise to harness and bundle land use reforms that other states and cities have only turned to in desperation, long after the compounding impacts could have been easier managed.

Land use strategies that promote gentle density solutions, that legalize missing middle housing types such as duplexes and quads with underlying design standard regulations that promote greater attainable home prices are all tools available to local governments, if they choose to deploy them. Land use reforms can cut the cost of development and thus incrementally lower housing costs. Such reforms include increasing dwelling units per acre, reducing minimum lot size, reducing setbacks, increasing height restrictions, reducing or eliminating minimum parking requirements, and allowing for accessory dwelling units. By

addressing land use regulations and fast-tracking housing development approvals, Iowa will be positioned to promulgate housing development regulatory environments that benefit both market rate and affordable housing development.

As Iowa focuses on serving its rural communities, recent federal legislation such as the *Promote Rural Housing Affordability Act* can help Iowa gain greater access to capital to address their affordable housing unit shortfall in rural communities.ⁱⁱⁱ Iowa may also consider investing in offsite housing manufacturing to reduce the cost of construction while investing in local small businesses that create jobs. Colorado's Innovation Housing Incentive Program could provide a roadmap for Iowa. The program provides loans for factory development, grants to assist with working capital, and per-unit affordable development incentives.^{iv}

By focusing on free-market land use reforms that drive down the cost of housing development, coupling them with streamlining housing development approvals, and investing in local offsite housing manufacturing, Iowa will be best positioned to manage this period of commodities inflation, labor shortages, and the general discomfort with housing development amongst community members.

APPENDICES

FIGURE 8 - AMES, IOWA MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

Ames, Iowa MSA - Value of Housing Stock vs. Household Mortgage Capacity

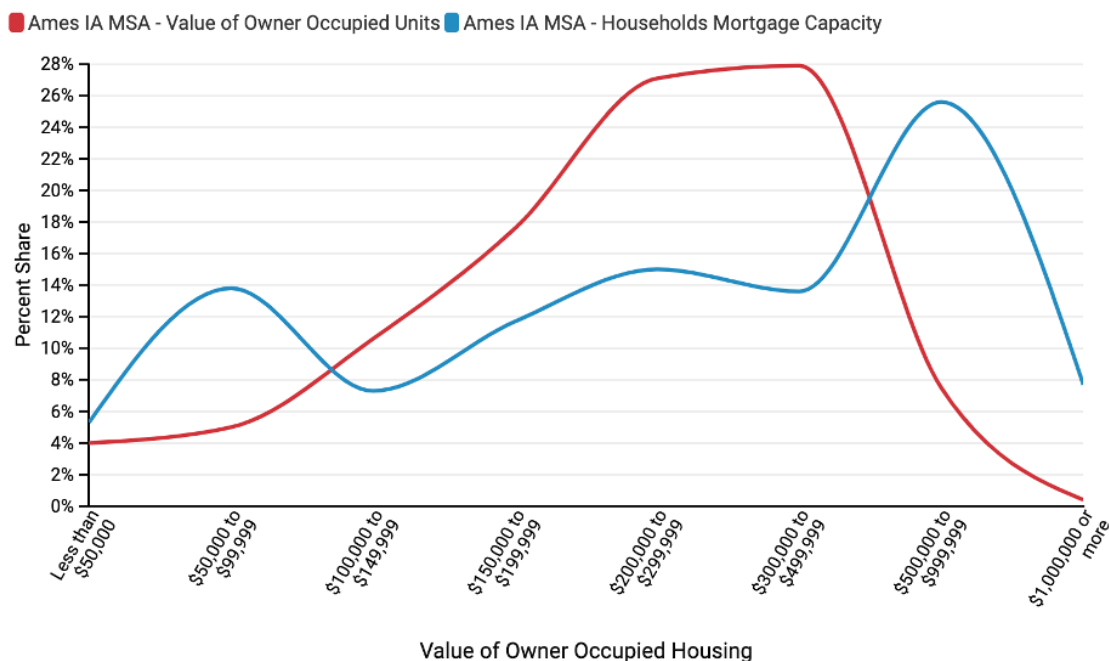


FIGURE 9 - CEDAR RAPIDS, IOWA MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

Cedar Rapids, Iowa MSA - Value of Housing Stock vs. Household Mortgage Capacity

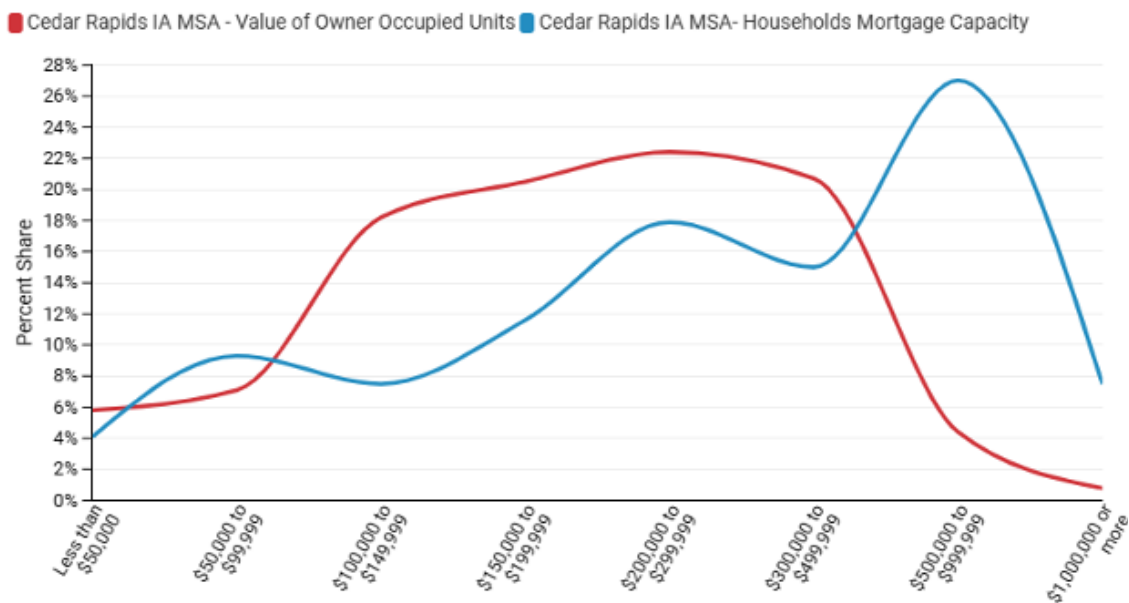


FIGURE 10 - DAVENPORT-MOLINE-ROCK ISLAND MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

Davenport-Moline-Rock Island, Iowa MSA - Value of Housing Stock vs. Household Mortgage Capacity

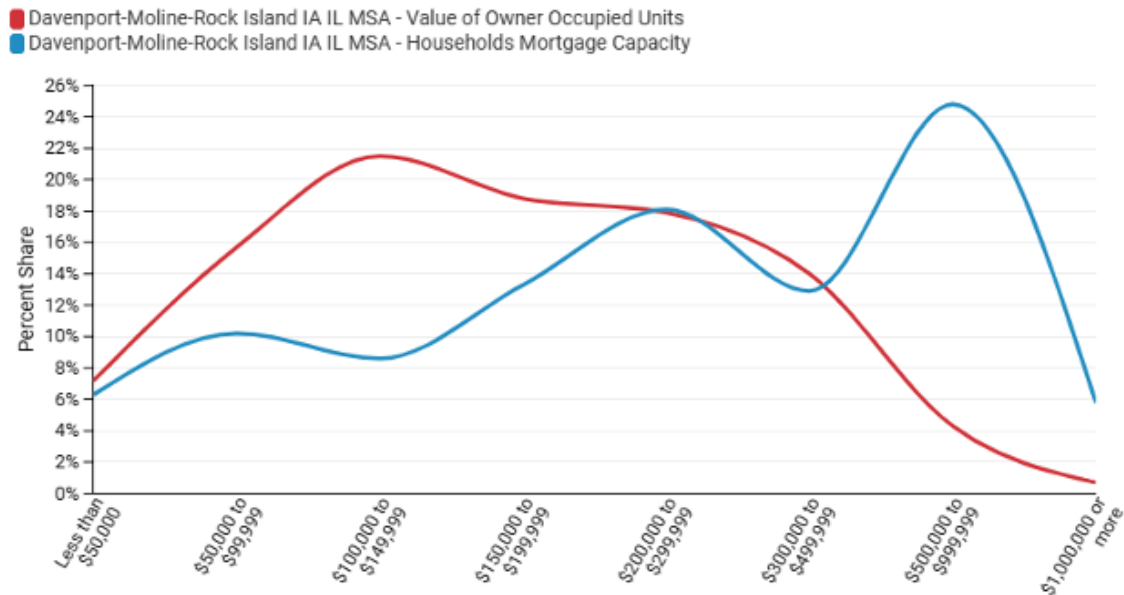


FIGURE 11 - DES MOINES-WEST DES MOINES, IOWA MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

Des Moines-West Des Moines, Iowa MSA - Value of Housing Stock vs. Household Mortgage Capacity

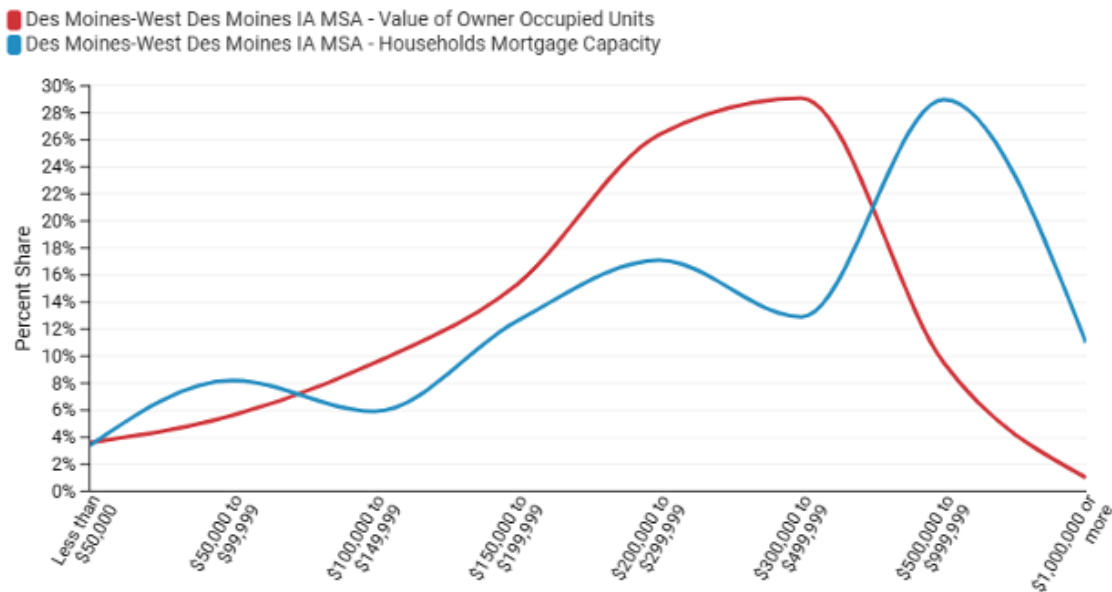


FIGURE 12 - DUBUQUE, IOWA MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

Dubuque, Iowa MSA - Value of Housing Stock vs. Household Mortgage Capacity

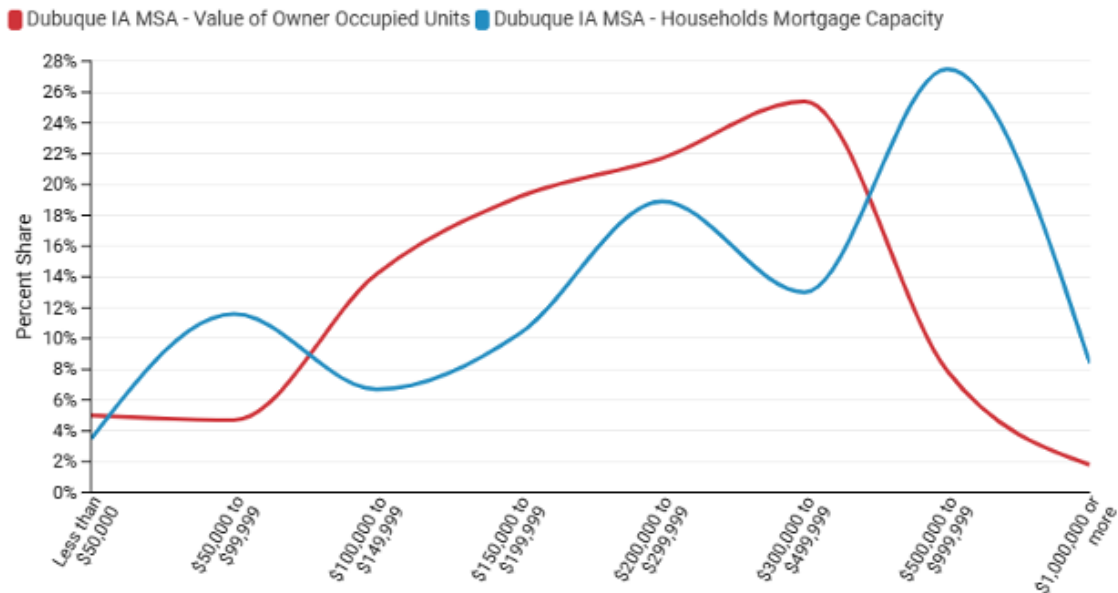


FIGURE 13 - IOWA CITY, IOWA MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

Iowa City, Iowa MSA - Value of Housing Stock vs. Household Mortgage Capacity

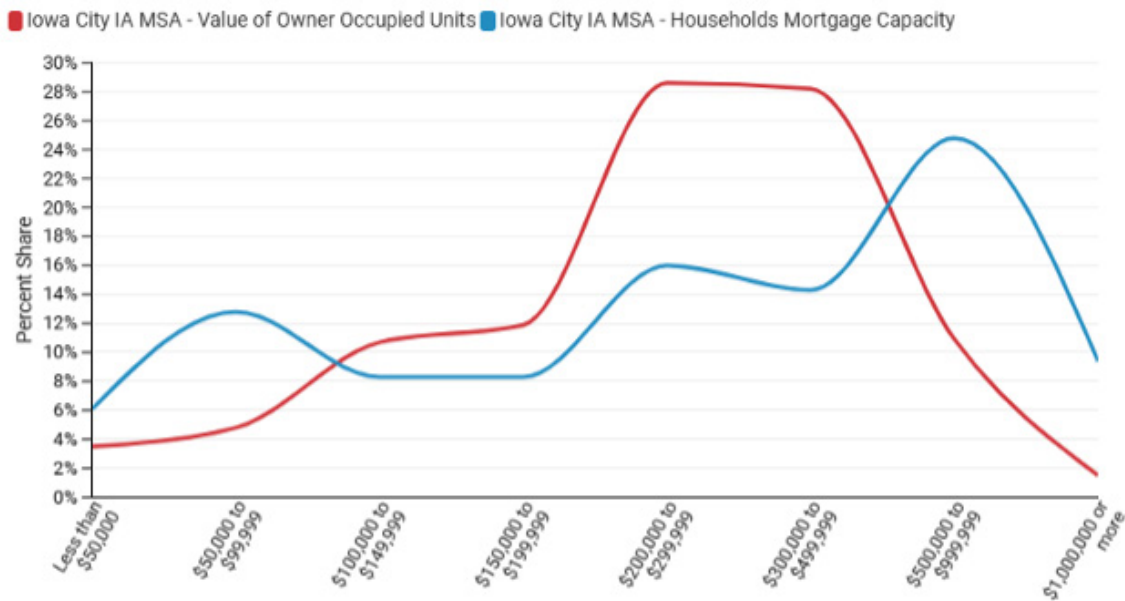


FIGURE 14 - SIOUX CITY, IOWA MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

Sioux City, Iowa MSA - Value of Housing Stock vs. Household Mortgage Capacity

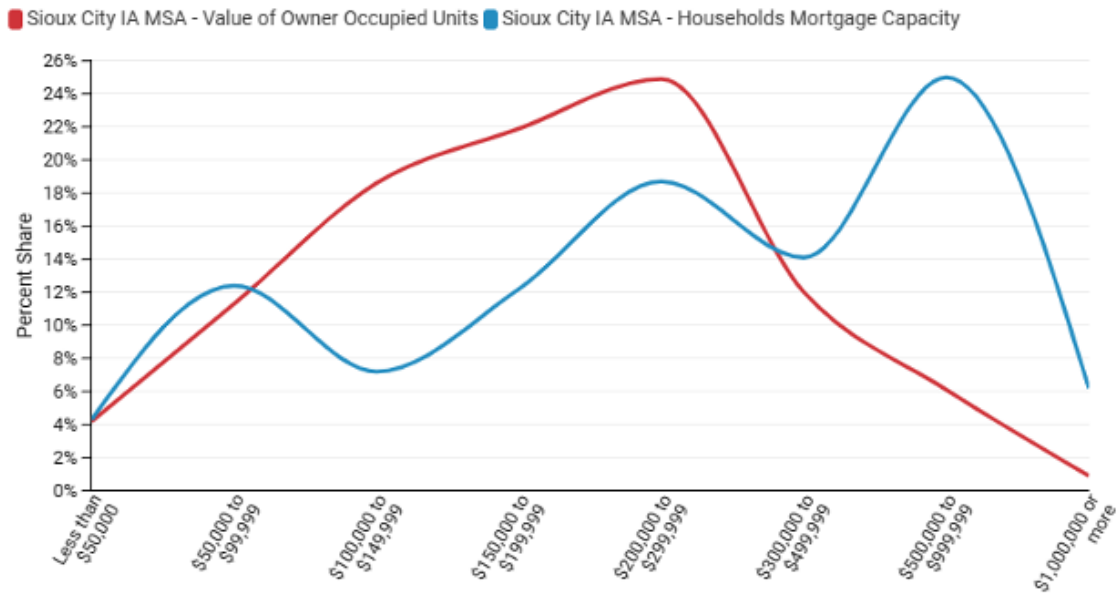
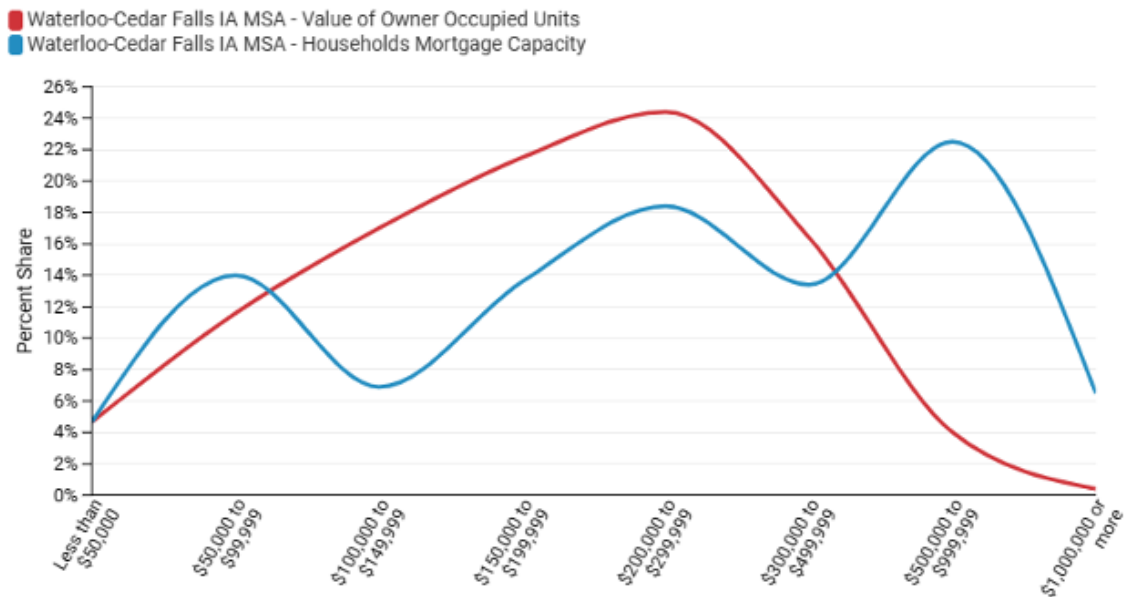


FIGURE 15 - WATERLOO-CEDAR FALLS MSA - VALUE OF HOUSING STOCK VS. HOUSEHOLD MORTGAGE CAPACITY

Waterloo-Cedar Falls, Iowa MSA - Value of Housing Stock vs. Household Mortgage Capacity



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