Affordability Gap Analysis

The costs of home ownership and renting can be compared to a household's ability to pay for housing, based on the 2000 HUD median income of $47,400 for Riverside County, and based on the 1990 median income of $37,694. The term "affordability gap" refers to the difference between prevailing housing costs and the income levels of area residents.

Table H-23 presents the affordable rents and purchase prices by income category based on 30% of income expended. In the case of rent, the 30% does not include allowance for utilities which may impose additional costs to the renter of between $50 and $100 per month or more, depending on which utilities the renter is responsible for paying. Renters may be required to cover water, sewer, and trash pickups in addition to the usual electric, gas, telephone, and in many cases, cable service. The addition of these costs may cause rental of a unit which would otherwise be affordable to become a condition of overpayment. In the case of purchase, the 30% includes payment on principal and interest, and an assumed 1.25% allocation for taxes and homeowner insurance. In actuality, taxes and insurance may exceed the assumed 1.25% in newer areas subject to assessment, Mello-Roos districts or high fire hazard/flooding. A 10% downpayment and a 7.5% interest rate is assumed, based on current market conditions. In the Very Low category (less than 50% of median income) the maximum affordable rent is $593 per month using the HUD standard of paying no more than 30% of gross income for housing. The maximum purchase price for the same category would be approximately $80,000. Although it is not specifically addressed in the analysis of regional housing needs, the Extremely Low Income category is also included in Table H-23. This income level translates to approximately $7.00 per hour for a full-time job. This wage level is typical of agricultural workers and unskilled service industry jobs such as in the fast food or restaurant business, day care workers, laborers, landscape maintenance, maids, etc. (Source: California Employment Development Department, 1998 Occupational Employment Statistics Survey.) In addition, there are elderly persons whose only source of income may be Social Security in this category.

Table H-23
Affordable Rent and Purchase Price by Income Category
2000

Type	Annual Income [1]	Affordable Rent Payment [2]	Estimated Affordable Purchase Price [3]
Extremely Low	Under $14,220	$356	Under $50,000
Very Low	$14,220 - $23,700	$357 - $593	$50,000 - $85,000
Low	$23,701 - $37,920	$594 - $948	$85,000 - $130,000
Moderate	$37,921 - $56,880	$949 - $1,422	$130,000 - $180,000
Above Moderate	Over $56,880	Over $1,422	Over $180,000

[1] Income limits established by HUD. Based on MFI of $47,400 for Riverside County.
[2] Based on 30% of income.
[3] Assumes 10% down payment, an 7.5% interest rate, 1.25% tax and homeowners insurance.
Source: The Planning Center

Overpayment refers to renters and homeowners who must pay more than 30% of their gross incomes for shelter. A high cost of housing eventually causes fixed-income, elderly, and lower income households to use a disproportionate percentage of their income for housing. This may cause a series of related financial problems which may result in a deterioration of the housing stock, because housing costs associated with maintenance must be sacrificed for more immediate expenses (e.g. food, clothing, medical care and utilities), or inappropriate housing sizes and types to suit the needs of the household. The term “affordability gap” refers to the difference between prevailing housing costs and the income levels of area residents.

A comparison of rental affordability maximums based on 2000 HUD income limits presented in Table H-23 with rental statistics presented in Table H-22 shows that only studio and one-bedroom units are generally within the financial reach of Very Low income households in both the western (WRCOG) and eastern (CVAG) areas of the County. The average two-bedroom and larger units are offered at rents which exceed the affordability limits for this income range. This analysis indicates a need for increased rental opportunities at rents affordable to Very Low income households, whether at market rate or assisted through federal, state or local programs.

Analysis of rental units within the affordability range of Low-income households paints a significantly different picture. In both the WRCOG and CVAG areas the average rental price for one- and two-bedroom units falls well within the affordability limits of Low-income households. Even the average three-bedroom unit is within the reach of the upper income ranges of the Low-income households. In general, the WRCOG area is more expensive than the CVAG region for all unit types except for studio units.

The affordability picture reverses when analyzing the available resale and new home costs with affordability maximums. It appears that the median priced resale home is generally beyond the financial limits of the Very-Low-income households in all areas, with the exception of the Desert Hot Springs area. There are 7 cities/communities which reflect median home prices affordable to Low-income households. In portions of the CVAG area, and the majority of western communities along the I-15 and SR-91 freeways, the median priced unit is generally beyond the financial capabilities of the lower income categories, with the median prices affordable to Moderate and Above-Moderate income households, although a limited proportion of units would be offered at prices affordable to lower-income households. Median prices in some of the resort communities are affordable only to Above-Moderate income households. Overall, the median price on a Countywide basis is affordable to Moderate-income households.

“*The ‘American Dream’ has long been equated with home ownership. Certainly, one of the basic needs of all people is adequate shelter. County government feels a strong responsibility in the area of housing, to ensure that there is an ample supply of affordable and suitable housing, and to make sure that such housing is made available to all persons, regardless of their economic status or functional ability.*”

– Riverside County Strategic Vision Plan

This analysis indicates that buying a new home has become an unattainable goal for many households, particularly first-time home buyers in the lower income categories. Fewer people can afford to purchase homes as a result of the current economy and market trends. However, the existing stock of resale units in the County is a valuable resource for the households in the lower income categories, to achieve home ownership opportunities. Maintaining this stock of affordable housing is currently achieved, and will continue to be maintained through the First Time Homebuyers, Mortgage Credit Certificate Program, and housing rehabilitation programs.