

Homeownership and Rental Affordability

Lower-Income Households in North Dakota have Limited Options for Housing

Affordable housing is a function of both the supply of low-cost housing and the income levels of residents. The Department of Housing and Urban Development (HUD) sets income limits that determine eligibility for assisted housing programs serving lower income households, housing for the elderly, and housing for persons with disabilities. HUD develops income limits based on median family income estimates for states and counties in the U.S.

Homeownership Affordability. Table 3 provides the income limits set by HUD based on the 2022 median family income (MFI) for North Dakota of \$96,800 (U.S. Department of Housing and Urban Development, 2023). Seven categories of income are provided for housing program purposes and are based on a percentage below or above the state's MFI. In Table 3, the affordable purchase prices provided for homeowners were based on a formula that is typical of those used by lenders and includes the following assumptions: a 30-year loan fixed at 6.0% interest; 5% down payment; property taxes at 1% of the loan; property insurance at 1% of the loan; a front-end debt-to-income ratio of no more than 28%; and the back-end ratio including all monthly debts at no higher than 36%.

Table 3. Housing Ownership Affordability by Household Income Level in North Dakota, 2022

Household Income Category	Income Limits based on the 2022 MFI of \$96,800 in North Dakota defined by HUD	Total Households that Meet the HUD Income Limit Thresholds		Ownership Affordability		
				Maximum Affordable Purchase Price (at 6.0% interest)	Owner-Occupied Homes meeting Affordability Limits based on Home Values (N=202,213)	
		Estimate	Percent of Total Households		Number	Percent
Extremely Low	Less than \$29,041	61,024	19%	\$81,101	32,203	16%
Very Low	\$29,041 - \$48,400	45,624	14%	\$135,168	56,387	28%
Low	\$48,401 - \$77,440	55,097	17%	\$216,269	112,040	55%
Lower Moderate	\$77,441 - \$111,320	44,389	14%	\$310,887	168,017	83%
Moderate	\$111,321 - \$135,520	34,919	11%	\$378,471	168,017	83%
Upper*	\$135,521 or more	78,985	25%	\$454,165	184,881	91%
Lower (0-60% MFI)	Less than \$58,081	131,168	41%	\$162,202	69,199	34%

Note: *The maximum affordable purchase price for Upper Income Households was determined by capping the "upper" income limit to 20% higher than the lower limit. Sources: U.S. Department of Housing and Urban Development (2023) and U.S. Census Bureau (2023a)

Based on these assumptions, households with moderate- and upper-level incomes in North Dakota are able to afford most of the state's housing inventory (using self-reported home values). However, the affordable purchase price of a home for a North Dakota family with lower income (i.e., earning at most \$58,081) in 2022 was \$162,202. Based on home values of housing in 2022, 34% of the owner-occupied housing units in the state were affordable for families with lower household income, with rates varying considerably based on geography (from 17% in Burleigh County to 72% in Pembina County, based on county-specific affordable purchase prices).

Placed in context, 41% of North Dakota households cannot afford to purchase a home for more than \$162,202. It is important to understand that the above assumptions are based on a 30-year fixed mortgage rate of 6.0%. In early May 2024, mortgage rates rose to 7.22%, the highest level since October 2023 according to Freddie Mac's Primary Mortgage Market Survey (Freddie Mac, 2024). However, as inflation continued to slow, the Federal Reserve cut the federal fund rate in September, which lowered mortgage rates further. If mortgage rates were to drop to 5.0%, the estimated, affordable purchase price for lower income families in North Dakota could rise to \$175,698 (Table 4).

Table 4. Housing Ownership Affordability for Lower Income Households in North Dakota, 2022

Assumptions: 30-year loan fixed, property taxes at 1% of the loan, property insurance at 1% of the loan, front-end debt-to-income ratio at no more than 28%, back-end ratio including all monthly debts at no higher than 36%

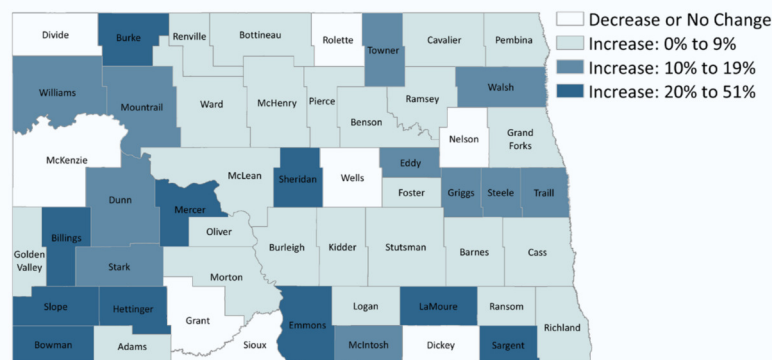
Note: Lower-income households are defined as those households earning less than \$58,081 in 2022 (i.e., up to 60% MFI).

Variable Assumptions		Ownership Affordability for Lower Income Households		
		Maximum Statewide Affordable Purchase Price	Owner-Occupied Homes meeting Affordability Limits based on Home Values (N=202,213)	
Interest Rate	Monthly Debt as % of Income (non-housing)		Number	Percent
5.0%	10% (\$484)	\$175,698	80,721	40%
6.0%	10% (\$484)	\$162,202	69,199	34%
6.0%	15% (\$726)	\$131,009	56,387	28%
7.0%	15% (\$726)	\$121,247	47,396	23%

Sources: U.S. Department of Housing and Urban Development (2023) and U.S. Census Bureau (2023a)

Another assumption included in the formula to estimate affordability is that monthly household debt payments excluding a mortgage are no more than 10% of household income. While it is difficult to find information that defines exactly how many households exceed this limit, there are data suggesting that consumer debt overall is rising in North Dakota. For example, data from the Federal Reserve Bank of New York indicate that the average household consumer debt in North Dakota was \$51,190 in 4th quarter 2023, which is up 41% from \$36,320 in 4th quarter 2013 (or an increase of 4% per year on average). While mortgage debt is contributing to this rise (4% growth per year on average), non-housing debt is also a significant factor. Auto loan debt in North Dakota grew 5% per year on average, credit card debt grew 4%, and student loan debt grew an average of 2% annually since 2013 (Federal Reserve Bank of New York, 2024).

Figure 42. Average Annual Change in the 4th Quarter Debt-to-Income Ratios in North Dakota by County, 2013 to 2023*



Note: *Annual average change is based on 4th quarter data for 2013 through 2022 and 3rd quarter data for 2023. Source: Federal Reserve (2024)

Figure 42 shows the variation by county of the change in household debt relative to household income over the past 10 years. In 2013, the ratio of median household debt to income in North Dakota was 0.80, meaning that household income exceeded the debt level for households, on average. However, by 2023, the ratio flipped and rose to 1.1 (meaning debt levels exceed household income) (Federal Reserve, 2024). In addition, the ratio rose in most counties across the state. For 10 North Dakota counties, the ratio rose by at least 20% annually, on average, from 2013 to 2023 (Figure 42).

Depending on how monthly payments are determined for the various types of debt a household may hold, it may become quite

challenging for many lower-income households in North Dakota to afford a mortgage. For example, assume that a lower-income household (earning less than \$58,081) had monthly car and credit card payments totaling \$726 per month. This non-housing debt accounts for about 15% of their monthly household income. This level of non-housing debt, combined with an interest rate of 6.0% would bring the affordable purchase price for this family down to \$131,009. At this price, only 28% of existing owner-occupied homes in the state are affordable and valued below this level – and percentages vary considerably by county (Table 4).

Rental Affordability. For renter households, monthly affordable housing costs were estimated at 30% of the corresponding income category – a level which, if exceeded can result in substantial budget constraints. In 2022, there were 61,024 extremely low-income households in North Dakota, which comprised one in five households statewide. These extremely low-income households were able to pay no more than \$726 for rent each month without spending more than 30% of their income on housing (U.S. Census Bureau, 2023a). Based on the housing inventory at that time, about 28% of all rented units were affordable to extremely low-income households (Table 5). However, household income and rental rates vary widely throughout the state. In 2022, the percentage of renter-occupied housing units that

were affordable to households with extremely low-income ranged from 11% in McKenzie County to 65% in Adams County (based on county-specific affordable monthly rent).

The inventory of affordable homes was much greater for North Dakota households in the lower moderate-income bracket (household income of \$77,441 to \$111,320); 83% of the owner-occupied homes and 94% of renter-occupied homes were affordable for lower moderate-income households (Tables 3 and 5).

Table 5. Rental Housing Affordability by Household Income Level in North Dakota, 2022

Household Income Category	Income Limits based on the 2022 MFI of \$96,800 in North Dakota defined by HUD	Total Households that Meet the HUD Income Limit Thresholds		Rental Affordability		
				Affordable Monthly Housing Costs – Rent a family can pay without spending more than 30% of income on housing	Renter-Occupied Homes Paying Cash Rent that meet Affordability Limits* (N=111,447)	
		Estimate	Percent of Total Households		Number	Percent of Renter-Occupied Homes
Extremely Low	Less than \$29,041	61,024	19%	\$726	33,357	28%
Very Low	\$29,041 - \$48,400	45,624	14%	\$1,210	87,206	74%
Low	\$48,401 - \$77,440	55,097	17%	\$1,936	107,245	91%
Lower Moderate	\$77,441 - \$111,320	44,389	14%	\$2,783	110,401	94%
Moderate	\$111,321 - \$135,520	34,919	11%	\$3,388	110,731	94%
Upper*	\$135,521 or more	78,985	25%	\$4,066	111,447	95%
Lower (0-60% MFI)	Less than \$58,081	131,168	41%	\$1,452	98,007	83%

Note: *The maximum affordable housing costs for Upper Income Households was determined by capping the “upper” income limit to 20% higher than the lower limit. Sources: U.S. Department of Housing and Urban Development (2023) and U.S. Census Bureau (2023a)