

land-fall: an approach to or sighting of land

How Important Is Affordability?

By Dan Flanagan

The previous issue of this newsletter discussed the ratio of median home price to median income. In that article, we concluded that median home prices had risen to 3.5 times the median income, which is considerably higher than the long term average of 2.8 times the median income. We then suggested that home prices must fall and return to levels closer to the long term average for the market to recover.

If our conclusion is valid, then it seems reasonable to next examine *how much* of an impact home prices have on the rate of sales of homes – especially new homes. To try to reach some conclusions regarding this question, I used median household income data for the greater Chicago area (provided by Claritas) to determine how many people were “priced out” of the ability to purchase a home at different price points.

According to this data, there are approximately 3,581,905 households in the greater Chicago metropolitan area.

The following table provides a breakdown of median household income levels:

Chicago Metropolitan Area Median Household Income

Household Income	Number of Households	Percent of Total
Less than \$25,000	683,086	19.1%
\$25,000 to \$34,999	332,280	9.3%
\$35,000 to \$49,999	512,018	14.3%
\$50,000 to 74,999	716,020	20.0%
\$75,000 to \$99,000	497,277	13.9%
\$100,000 to \$149,999	515,737	14.4%
\$150,000 and over	325,487	9.1%

Source: Claritas

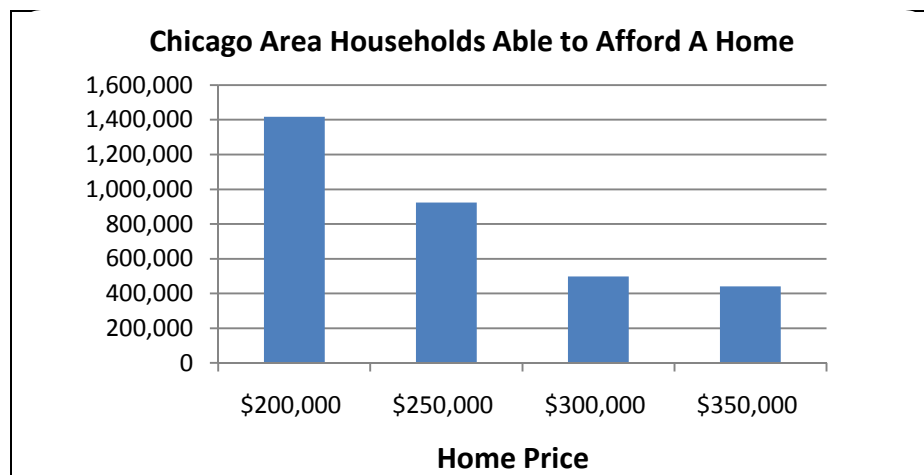
Using conventional mortgage underwriting standards, the typical buyer can afford a home priced around 2.8 times their household income. Obviously, there are a number of variables that can impact this ratio, including interest rates, down payment, loan type, and other factors. Notwithstanding that fact, for simplicity I will use this ratio to illustrate the point.

Applying this ratio to the median household income levels in the above table yields the following results for estimating how many potential purchasers are able or unable to afford a home at various price points:

Households Priced Out of the Market by Home Price Point

Price Point	Number of Households "Priced Out"	Number of Households "Not Priced Out"	Percent of Total Households "Priced Out"
\$200,000	2,163,855	1,418,050	60%
\$250,000	2,657,806	924,099	74%
\$300,000	3,084,508	497,397	86%
\$350,000	3,141,812	440,092	88%

The following graph more clearly illustrates the relationship between home prices and the pool of potential buyers:



The current median home price (both new and existing) for the Chicago market as of the 3rd Quarter of 2008 was about \$250,000. If the median home price was reduced from \$250,000 to \$200,000 we would have about 494,000 additional buyers who could afford a median-priced home. According to the National Association of Homebuilders, the median new home price in the Chicago market was about \$350,000 as of late 2007. If the median new home price was reduced to under \$300,000, we would make median-priced new housing available to an additional 57,000 people. However, if the median new home price was reduced to \$250,000, we would make median-priced new housing potentially available to an additional 484,000 people.

Some additional statistics may help clarify the magnitude of the impact that pricing has on the pool of available buyers. The pool of available buyers for a \$250,000 home is almost twice as large as the pool of available buyers for a \$350,000 home. Next, consider what happens when we go from a home price of \$350,000 to \$200,000. The pool of potential buyers for a \$200,000 home is over three times as large as the pool of potential buyers for a \$350,000 home. Based on this analysis, the median new home price was not affordable to 88% of the households. This is especially significant when the affordability gap was most often resolved through the use of non-conventional financing - which has now all but disappeared.

Our conclusion that lower home prices could help spur demand appears to be supported by the recent announcement by the National Association of Realtors (NAR) that December 2008 pending homes sales increased 6.3% from the prior month and 2.1% from a year earlier. NAR attributed the increase to lower home prices and interest rates. It's about time we had some good news regarding the housing market!

Let's hope we continue to see more positive news in the coming months!

NEWS AND UPDATES

If you have not yet visited our web site at www.flanaganland.com, I encourage you to do so. We are constantly updating the site with new information, research and reports, available properties, as well as other information. I hope you find it useful and informative. We will be adding more properties and information in the coming weeks....

Also, keep an eye on the newspapers and our website to read about our recent involvement in putting together a large, high profile Brownfield re-development project in the Fox Valley. Stay tuned!

We have also posted several new articles to our web site including a presentation I recently gave entitled **"11 Key Factors Impacting Chicago Residential Land Values."** I encourage you to download the presentation (for free!) from the website. I have had several people ask me to meet with them individually to discuss the presentation and the analysis it contains. If you would like to discuss this report in more detail, please give me a call.

We are now licensed in the State of Wisconsin! Call if you have land needs "North of the Border!"

AVAILABLE LAND

Finished Lots

13 Lots – Hidden Creek of Shorewood. Great location. Minooka Schools.

6 Lots – Whispering Meadows of Yorkville. Additional Lots Available. **No SSA.**

2 Lots – Creekside of Plainfield. Additional Lots Available. Ideal Model location.

15 Lots – Riverbend of Genoa. 50+ Additional Lots Available. **100% USDA Financing for Homebuyers!**

46 Lots – Heritage Estates. Salem, Wisconsin. On Rt. 83, **5 Minutes to Antioch Metra. Nationally Rated Schools.**

Just Listed –Lots in- Lynwood, Joliet, Matteson, University Park, Poplar Grove, Cortland, Beecher & Plainfield!

Industrial Land

8.58 Acres – Orchard Road, Montgomery. Close to 88. Ideal for warehouse, ind. or self storage.

6 Acres – Schaumburg. Call for Details. Unique opportunity, great value.

Investment/Transitional Land

~~83 Acres – Rockton, IL. Contiguous to Village, water and sewer available. Great price. DEAL PENDING!~~

137 Acres – Davis Junction. Annexed, zoned, platted, engineered. **OFFERS CONSIDERED.**

634 Acres – Beloit, Wisconsin – **UNDER CONTRACT!**

Farms/Hunting Land

+/- 237 Acres – Licensed Hunting Preserve with ponds, CRP land, wetlands, & 121 tillable acres. Lee County.

+/- 157 Acres, Lee Center Township, Lee County. Excellent Soils. \$6,250/acre.

If you don't see what you are looking for, please call. We maintain an extensive list of available land of every type, size, and location. If we don't already know about it, we will find it!

HAPPY NEW YEAR!

I hope the New Year finds you well. I am pleased to announce that my oldest son Sean (6) just lost his first tooth. It was a proud moment for both us. Afterwards, he immediately informed me that the tooth fairy would be bringing him \$5.00. When I asked him how he knew it would be that much, he said that is what all of his friends had received when they lost a tooth. I recall getting a nickel for a lost tooth when I was a kid. Who says we don't need to worry about inflation? It is clearly out of control in my neighborhood....

Flanagan Realty, LLC is a real estate brokerage and advisory company focusing on residential, commercial, and industrial land and farms. For more information about our services or available properties, please contact us by telephone at (630) 388-8522, or by email at flanaganrealty@yahoo.com.

We also invite you to visit our website at www.flanaganland.com



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FLANAGAN REALTY, LLC
36W739 RED HAW LANE
ST. CHARLES, IL 60174