

“Homeownership Affordability in Virginia”

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A Report on Virginia Homeownership Affordability ¹
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The Virginia Tech Center for Housing Research has estimated the affordability of homeownership across the Commonwealth based on the average sales price of homes sold through local Boards of Realtors® and the median family income estimated by the Center for Housing Research.

Housing affordability is measured by the ownership cost burden, or the percent of income required for owner-occupied housing. Ownership costs are the principal and interest payments for an average priced home, as measured by recent sales prices and the average interest rate for a fixed-rate mortgage including amortized origination fees, as measured by the Federal Housing Finance Board’s interest rate survey for Virginia and the Washington DC Metropolitan Statistical Area (the latter is used for Northern Virginia locations in this MSA and for 2002). Average sales prices are for single-family houses sold during the calendar year. For 2002, the sales price data only covers through November.

Estimated ownership costs reflect a loan-to-value ratio of 80% and a 30-year term. Consequently, changes in ownership cost burden are due to changes in sales prices, interest rates, and incomes. It is important to bear in mind that there are other costs associated with owner-occupied housing that influence affordability, mainly maintenance, insurance, taxes and utilities. If the cost of maintenance, insurance, property taxes, and utilities increase faster (or slower) than the cost of principal and interest on the average price house, this report will understate (or overstate) the ownership cost burden. Additionally, a 20% down-payment requires an accumulation of savings that might pose a barrier to some potential buyers.

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In general, areas where the average housing price requires less than 25% of the median family income are considered “affordable” to the average family; areas where the average sales price requires 25% or more of the median family income are considered “unaffordable” to the average family. The next obvious question is “the average family where?” For instance, the average family in an area characterized by high prices will likely have a high income compared to other places. Although the area might be “affordable” to the families who live there, it might not be affordable to families in other communities nearby or to the average family in Virginia as a whole. Consequently, we have calculated affordability for both the average family who lives within the same area for which housing prices were measured and for the average family in Virginia as a whole. Within the two metropolitan areas with more than one local Board of Realtors® (Northern Virginia and Tidewater), we have also calculated affordability for the average family in the metropolitan area. (Market areas are defined in Table 6 and shown on Map 1. Greater Hampton Roads, Bristol and Eastern Shore did not report their sales price data for any years.)

For the nation as a whole, 18.6% of the median family income was required to purchase the average house sold (see Table 1) in 2002, down from 20.3% in 2001 and 19.0% in 2000. Over the same two-year period, Virginia (with a cost burden of 21.8% in 2000) went from being less affordable than the national average to being more affordable (an 18.0% cost burden in 2002). The differences between Virginia and the national averages are slight, however.

Ownership cost burdens declined throughout most of Virginia from 2000 to 2002, reflecting the drop in mortgage rates during this period. Between 2000 and 2002, interest rates fell by 1.65 percentage points. In some areas (e.g. Harrisonburg, Martinsville and South Central), the ownership cost burden fell 3 or more percentage points, representing a significant increase in affordability. However, for several areas the ownership cost burden stayed constant or went up from 2000-2002: Fredericksburg, Prince William, Fairfax-Northern Virginia, Greater Piedmont, and Massanutten. The cost burden declined in most of these areas from 2000 to 2001 and bounced back up again in 2002. The geographic pattern is clear—most of the housing markets where ownership cost burdens recently have increased are in or near the Washington metropolitan area.

Most of the Virginia market areas reported by VAR had lower ownership cost burdens than the national average for both 2001 and the first eleven months of 2002. In the first quarter of 2002 ownership cost burdens for the residents of the market area at or above the national average were in Greater Piedmont (above Charlottesville), Chesapeake Bay and Rivers, Fairfax-Northern Virginia, Williamsburg, Northern Blue Ridge, Massanutten, Lexington, New River Valley, and Dulles. Even though these can be considered the “least affordable” areas for the residents living there, all but two (Greater Piedmont and Lexington) had cost burdens below 25%. Most of these areas are readily recognized by higher housing prices, whereas low incomes influence the higher ownership cost burdens in the New River Valley, Massanutten, and Lexington areas. In addition, for the average family within their respective metropolitan areas, Fairfax, Dulles and Williamsburg had ownership cost burdens of 23.8%, 22.2% and 24.7%. These three submarkets are significantly less affordable to the average family within their metropolitan areas than to the average family already living within their smaller market area. In

contrast, the Northern Blue Ridge, Fredericksburg, and Prince William submarkets are much more affordable to residents of the Northern Virginia metropolitan area than to their current residents.

The five most affordable areas in 2002 (Table 2) for their local residents were Southside, Martinsville, Dan River, Richmond, and South Central. The percent of median family income required in purchasing the average price house in these areas ranged from 10.4% to 15.5%. These areas benefit from moderate prices that are highly affordable to the average family living there.

Several areas would clearly present affordability problems to the average family in the state. The least affordable areas to the average Virginia family (Table 3) are Fairfax-Northern Virginia, Dulles, Greater Piedmont, Williamsburg and Prince William.

The affordability patterns in the northern section of the state point to ongoing and increasing pressures for sprawl. Housing markets at the metropolitan fringe are very affordable compared to closer-in alternatives, pushing homebuyers farther and farther out. The terrible irony is that the search for affordable housing on the metropolitan fringe and beyond can also lead to increased prices for land and housing in those areas, making those areas less and less affordable to their existing residents. The newcomers get a bargain that the existing residents cannot afford.

The average sales price in the state was \$188,750 in 2002, 13% below the national average (Table 4). Median incomes, however, are 9% higher in Virginia than in the nation. Average prices for 2002 exceeded \$200,000 in five areas of the state (Fairfax, Dulles, Greater Piedmont, Williamsburg, and Prince William), including a chart topping \$318,223 for Fairfax. Average prices ranged from Fairfax's high to a low of \$83,908 in Martinsville.

Declining interest rates were undoubtedly the biggest boost to increased affordability. Some areas also benefited from incomes increasing faster than housing prices (Table 5). During the period from 2000 to 2001, incomes increased on average in the state by 5.1% and housing prices only increased 1.9%. From 2001 to 2002 incomes increased 6.9% on average, just slightly below housing prices (7.0%). Average prices in the northern section of the state, however, increased dramatically at double-digit annual rates. Housing prices in these areas are substantially outpacing income growth by a multiple of 2 or more.

The most important findings are starkly in contrast. First, the good news—homeownership is affordable to the median income family in virtually all the housing market areas throughout the state. On average the state is a good area for homebuyers. Second, much of northern Virginia is becoming increasingly less affordable, particularly to anyone moving into the area from elsewhere in the state. Prices are increasing twice as fast as local incomes and three to four times faster than incomes in most other areas of the state, making the area less affordable to its existing residents and much less affordable to others elsewhere in the state. As the search for affordable housing pushes metropolitan prices farther into the countryside, these areas will also become less affordable to the average Virginian.

Table 1: Percent of Median Family Income Required for the Average Priced Home, 2000-2002

	Payment as % Area Median Family Income			Payment as % of State Median Family Income		
	2000	2001	2002	2000	2001	2002
US	19.0%	20.3%	18.6%			
Virginia	21.8%	19.1%	18.0%			
Northern Blue Ridge	20.4%	19.4%	19.5%	18.4%	18.0%	19.6%
Using metro median income	13.6%	12.9%	13.3%			
Dulles Area	21.4%	NA	20.4%	31.6%	NA	32.7%
Using metro median income	23.4%	NA	22.2%			
Fredericksburg	17.7%	16.9%	17.7%	19.4%	19.1%	21.1%
Using metro median income	14.3%	13.7%	14.3%			
Prince William	15.5%	15.6%	16.5%	20.0%	20.9%	23.1%
Using metro median income	14.8%	14.9%	15.7%			
Fairfax-Northern Virginia	22.3%	21.7%	22.4%	32.2%	32.4%	35.1%
Using metro median income	23.8%	23.2%	23.8%			
Greater Piedmont	24.7%	24.4%	25.1%	25.0%	25.6%	27.9%
Harrisonburg	20.7%	19.1%	17.7%	16.7%	16.0%	15.2%
Staunton	19.4%	17.6%	17.8%	15.5%	14.4%	14.8%
Massanutten	19.8%	17.7%	20.0%	14.0%	13.0%	15.0%
Richmond	17.3%	15.4%	15.0%	19.7%	18.2%	18.6%
Charlottesville	NA	21.7%	NA	NA	13.9%	NA
Lexington	26.3%	24.8%	25.8%	19.3%	19.0%	20.0%
Lynchburg	18.7%	17.2%	16.2%	15.6%	14.8%	14.4%
Dan River Region	16.0%	15.1%	14.4%	11.7%	11.4%	11.1%
Martinsville	17.4%	13.4%	12.8%	12.0%	9.5%	9.4%
South Central	18.8%	16.0%	15.5%	12.6%	11.1%	11.5%
Southside	13.3%	NA	10.4%	14.5%	NA	12.3%
Chesapeake Bay and Rivers	24.5%	NA	23.1%	21.6%	NA	21.6%
Northern Neck	25.9%	19.0%	18.4%	20.8%	15.7%	15.8%
Eastern Shore***	NA	NA	NA	NA	NA	NA
Greater Hampton Roads***	NA	NA	NA	NA	NA	NA
Virginia Peninsula	18.6%	17.5%	17.6%	16.8%	16.3%	17.0%
Using metro median income	18.2%	17.0%	16.9%			
Williamsburg	23.8%	20.6%	20.7%	26.6%	23.7%	24.8%
Using metro median income	28.8%	24.9%	24.7%			
Bristol***	NA	NA	NA	NA	NA	NA
New River Valley	20.9%	19.7%	19.6%	15.4%	15.0%	15.6%
Roanoke Valley	20.2%	18.6%	17.8%	17.7%	16.9%	16.8%
Southwest Virginia	NA	21.7%	NA	NA	13.9%	0.0%
NA = Not Available						
***Sales price data unavailable						
Source: Virginia Center for Housing Research						

Table 2: Rank Within Virginia Based on Cost Burden Using Area Income

Rank	2002
US	18.6%
Virginia	18.0%
Lexington	25.8%
Greater Piedmont	25.1%
Williamsburg using metro median income	24.7%
Fairfax using metro median income	23.8%
Chesapeake Bay and Rivers	23.1%
Fairfax-Northern Virginia	22.4%
Dulles using metro median income	22.2%
Williamsburg	20.7%
Dulles Area	20.4%
Massanutten	20.0%
New River Valley	19.6%
Northern Blue Ridge	19.5%
Northern Neck	18.4%
Staunton	17.8%
Roanoke Valley	17.8%
Fredericksburg	17.7%
Harrisonburg	17.7%
Virginia Peninsula	17.6%
VA Peninsula using metro median income	16.9%
Prince William	16.5%
Lynchburg	16.2%
Prince William using metro median income	15.7%
South Central	15.5%
Richmond	15.0%
Dan River Region	14.4%
Fredericksburg using metro median income	14.3%
Northern Blue Ridge using metro median income	13.3%
Martinsville	12.8%
Southside	10.4%

Table 3: Rank Within Virginia Based on Cost Burden Using State Income

Rank	2002
US	NA
Virginia	18.0%
Fairfax-Northern Virginia	35.1%
Dulles Area	32.7%
Greater Piedmont	27.9%
Williamsburg	24.8%
Prince William	23.1%
Chesapeake Bay and Rivers	21.6%
Fredericksburg	21.1%
Lexington	20.0%
Northern Blue Ridge	19.6%
Richmond	18.6%
Virginia Peninsula	17.0%
Roanoke Valley	16.8%
Northern Neck	15.8%
New River Valley	15.6%
Harrisonburg	15.2%
Massanutten	15.0%
Staunton	14.8%
Lynchburg	14.4%
Southside	12.3%
South Central	11.5%
Dan River Region	11.1%
Martinsville	9.4%

Table 4: Housing Prices and Incomes, 2000-2002

	Average Price			Median Income		
	2000	2001	2002	2000	2001	2002
US	207,000	213,200	218,100	53,900	56,500	58,600
Virginia	173,060	176,420	188,750	56,900	59,800	63,900
Northern Blue Ridge	143,770	155,941	177,535	50,393	52,130	57,063
Dulles Area	246,788	NA	296,566	82,693	85,489	91,382
Fredericksburg	151,509	165,546	191,361	61,288	63,346	67,815
Prince William	156,303	180,575	209,880	72,343	74,790	79,945
Fairfax-Northern Virginia	251,590	280,207	318,223	80,755	83,486	89,240
Greater Piedmont	194,850	221,128	248,747	56,526	58,746	63,075
Harrisonburg	130,235	138,173	135,537	45,136	46,934	48,921
Staunton	121,257	124,390	132,002	44,861	45,628	47,353
Massanutten	109,495	112,705	133,514	39,665	41,146	42,651
Richmond	153,575	157,255	165,624	63,610	66,032	70,349
Charlottesville	NA	138,763	NA	54,154	57,710	60,131
Lexington	150,955	164,666	178,800	41,180	42,995	44,208
Lynchburg	121,890	127,899	128,124	46,730	48,102	50,469
Dan River Region	91,731	98,860	98,868	41,158	42,465	43,685
Martinsville	93,401	81,805	83,908	38,441	39,619	41,881
South Central	98,437	96,181	102,295	37,602	38,895	41,948
Southside	113,015	NA	109,641	47,002	48,702	51,806
Chesapeake Bay and Rivers	168,464	NA	192,644	49,250	50,639	53,159
Northern Neck	162,618	135,903	141,155	44,948	46,367	48,932
Eastern Shore	NA	NA	NA	33,613	34,624	36,456
Greater Hampton Roads*	NA	NA	NA	50,294	52,011	56,004
Virginia Peninsula	130,960	NA	151,638	50,393	52,131	54,993
Williamsburg	207,517	205,344	221,369	62,423	64,613	68,629
Bristol	NA	NA	NA	37,719	39,123	39,123
New River Valley	120,607	129,926	139,404	41,372	42,746	45,303
Roanoke Valley	138,250	NA	150,044	49,043	50,753	53,853
Southwest Virginia	NA	119,780	NA	34,836	35,793	36,643

NA = Not Available
Sources: Virginia Association of Realtors (prices) and the Virginia Center for Housing Research (incomes)
*Greater Hampton Roads market area does not have data

Table 5: Percent Change in Average Sales Price and Median Income

	Change in Average Price		Change in Median Income	
	2000-2001	2001-2002	2000-2001	2001-2002
US	3.0%	2.3%	4.8%	3.7%
Virginia	1.9%	7.0%	5.1%	6.9%
Northern Blue Ridge	8.5%	13.8%	3.4%	9.5%
Dulles Area	NA	NA	3.4%	6.9%
Fredericksburg	9.3%	15.6%	3.4%	7.1%
Prince William	15.5%	16.2%	3.4%	6.9%
Fairfax-Northern Virginia	11.4%	13.6%	3.4%	6.9%
Greater Piedmont	13.5%	12.5%	3.9%	7.4%
Harrisonburg	6.1%	-1.9%	4.0%	4.2%
Staunton	2.6%	6.1%	1.7%	3.8%
Massanutten	2.9%	18.5%	3.7%	3.7%
Richmond	2.4%	5.3%	3.8%	6.5%
Charlottesville	NA	NA	6.6%	4.2%
Lexington	9.1%	8.6%	4.4%	2.8%
Lynchburg	4.9%	0.2%	2.9%	4.9%
Dan River Region	7.8%	0.0%	3.2%	2.9%
Martinsville	-12.4%	2.6%	3.1%	5.7%
South Central	-2.3%	6.4%	3.4%	7.8%
Southside	NA	NA	3.6%	6.4%
Chesapeake Bay and Rivers	NA	NA	2.8%	5.0%
Northern Neck	-16.4%	3.9%	3.2%	5.5%
Eastern Shore	NA	NA	3.0%	5.3%
Greater Hampton Roads*	NA	NA	3.4%	7.7%
Virginia Peninsula	7.4%	7.8%	3.4%	5.5%
Williamsburg	-1.0%	7.8%	3.5%	6.2%
Bristol	NA	NA	3.7%	0.0%
New River Valley	7.7%	7.3%	3.3%	6.0%
Roanoke Valley	5.7%	2.7%	3.5%	6.1%
Southwest Virginia	NA	NA	2.7%	2.4%
NA = Not Available				
Sources: Virginia Association of Realtors (prices) and the Virginia Center for Housing Research (incomes)				
*Greater Hampton Roads market area does not have data				

Table 6: Definition of Market Areas

<u>Northern Blue Ridge</u> Clarke County Frederick County Warren County Winchester City	<u>Greater Piedmont</u> Culpeper County Fauquier County Madison County Orange County Rappahannock County	<u>Northern Neck</u> Essex County King and Queen County* Lancaster County Northumberland County Richmond County Westmoreland County*	<u>Southside</u> Dinwiddie County Greenville County Prince George County Surry County Sussex County Colonial Heights City Hopewell City Petersburg City
<u>Bristol</u> Washington County* Bristol City	<u>Harrisonburg</u> Rockingham County Harrisonburg City	<u>Fairfax-Northern Virginia</u> Arlington County Fairfax County Alexandria City Fairfax City Falls Church City	<u>Southwest Virginia</u> Russell County Smyth County Washington County* Wise County
<u>Charlottesville</u> Albemarle County Fluvanna County Greene County Louisa County Nelson County Charlottesville City	<u>Lexington</u> Rockbridge County Buena Vista City Lexington City	<u>Prince William</u> Prince William County	<u>Staunton</u> Augusta County Staunton City Waynesboro City
<u>Chesapeake Bay and Rivers</u> Gloucester County King and Queen County* King William County* Mathews County Middlesex County	<u>Lynchburg</u> Amherst County Appomattox County Bedford County* Campbell County* Bedford City Lynchburg City	<u>Richmond</u> Charles City County* Chesterfield County* Goochland County Hanover County Henrico County King William County* New Kent County* Powhatan County Richmond City	<u>Virginia Peninsula</u> Isle of Wight County* York County* Hampton City Newport News City Poquoson City
<u>Dan River Region</u> Halifax County Pittsylvania County Danville City	<u>Martinsville</u> Franklin County* Henry County Patrick County Martinsville City	<u>Roanoke Valley</u> Bedford County* Botetourt County Craig County Franklin County* Roanoke County Roanoke City Salem City	<u>Williamsburg</u> Charles City County* James City County New Kent County* York County* Williamsburg City
<u>Dulles Area</u> Loudoun County	<u>Massanutten</u> Page County Shenandoah County		<u>Not included</u> Alleghany County Bath County Buchanan County Dickenson County Highland County Lee County Scott County Tazewell County
<u>Fredericksburg</u> Caroline County King George County Spotsylvania County Stafford County Westmoreland County* Fredericksburg City	<u>New River Valley</u> Bland County Carroll County Floyd County Giles County Grayson County Montgomery County Pulaski County Wythe County Galax City Radford City	<u>South Central</u> Amelia County Brunswick County Buckingham County Charlotte County Cumberland County Lunenburg County Mecklenburg County* Nottoway County Prince Edward County	
<u>Greater Hampton Roads</u> Isle of Wight County* Southampton County Chesapeake City* Franklin City Norfolk City Portsmouth City Suffolk City Virginia Beach City			

Map 1. Market Areas

