

# THE GOOD LIFE AT THE WRONG PRICE

## NEBRASKA'S AFFORDABLE HOUSING CHALLENGES

*A Legislative Research Office Backgrounder*



**JULY 2024**



*Image Credit: Dragon Claws via iStock*

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July 2024

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# Breaking Ground

The lack of affordable housing is a critical national issue, and the recently elevated cost of housing is being examined at the federal level by both [Congress](#) and the [White House](#). Illustrating the urgency of the problem, the President of the United States delivered [historic](#) comments regarding affordable housing during the [2024 State of the Union Address](#).

Each state's particular housing market challenges are unique, but the shortage of available and attainable housing units is particularly pronounced in Nebraska. Compared to just five years ago, the pains Nebraskans now endure to acquire an affordable house or apartment are much worse, especially for those below the median household income. Furthermore, affordable housing challenges in the Cornhusker State only appear to be increasing for low-income workers.

Various factors are exacerbating the affordable housing crisis in Nebraska. For example, most other states in the U.S. have a higher percentage of residents who work in "[high wage](#)" occupations, and more than a third of Nebraska households earn less than \$50,000 per year.

Additionally, as the cost to build housing surged in recent years, fewer housing units were constructed - further inflating the cost of the remaining supply. In many Nebraska counties, the available housing stock is decades older than the national average and may suffer from serious housing problems like a lack of complete kitchen or plumbing facilities. Finally, the lack of ready-to-develop land, a limited construction workforce, and complex regulations also contribute to the affordable housing challenges in Nebraska.

This Legislative Research Office report aims to summarize the main issues within the state housing market, which have each contributed to the current shortage of affordable, available, and attainable housing units in Nebraska.

**"I've been doing housing work for 30 years — the housing affordability challenge is the worst I've ever seen in my career."**

**– Shaun Donovan, former secretary of Housing and Urban Development**

# Occupations and Incomes in Nebraska

Workers earning a median wage in Nebraska are often unable to obtain a proper housing unit - whether it is a house or an apartment - especially in light of recent rising values. In 2022, the [Nebraska Strategic Housing Council](#) stated that nearly all counties in Nebraska struggled to supply housing for persons making 70 to 120 percent of the median income for their area. Many Nebraskans near (and above) the median income are not eligible for housing subsidies and assistance, yet still have difficulty attaining, and affording, the type of housing that truly meets their needs.

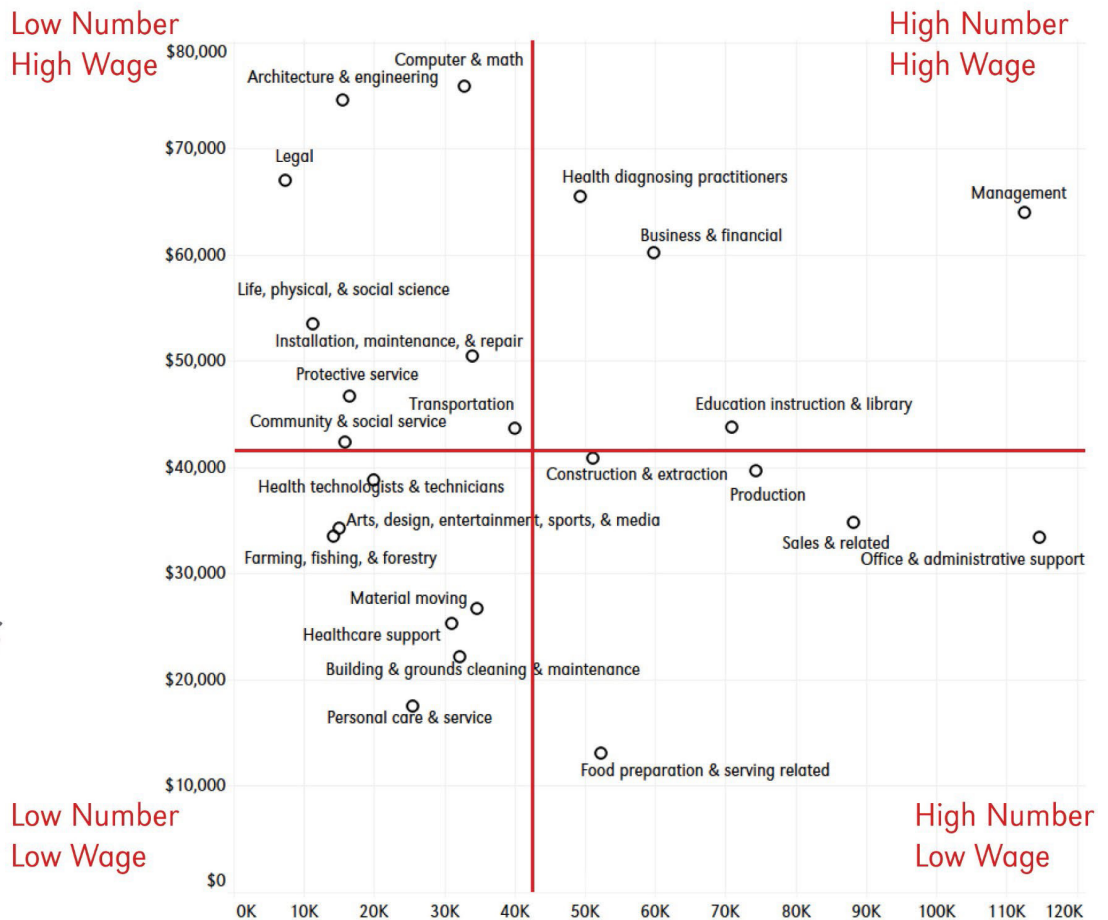
## Low-wage vs. High-wage Jobs

According to Dr. Josie Schafer, Director of the Center for Public Affairs Research (CPAR) at the University of Nebraska-Omaha, more workers in Nebraska are employed in “low-wage” jobs, such as food preparation and office support, than those who work in traditionally “high wage” occupations like architecture and the legal profession.

In 2021, the Nebraska state workforce ranked 28th in the country with 29 percent of residents working in high-wage occupations. Additionally, between 2018 and 2021, most other states added high-wage jobs at a faster pace than Nebraska, which ranked 42nd among the 50 states.

Occupations by Employment Count and Wage Matrix

**More Nebraskans work in low wage (553,102) than high wage occupations (465,998)**  
*Median wages by number of 16 and older in occupations*



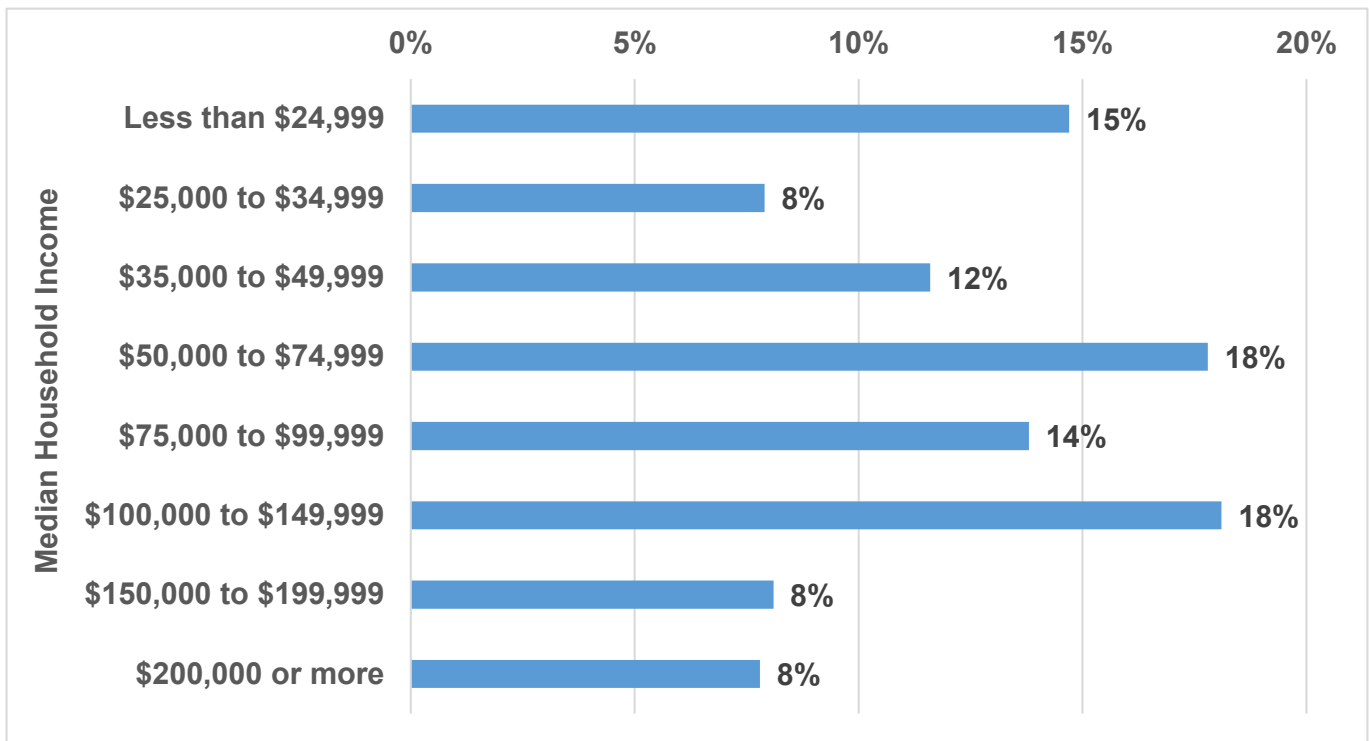
# Occupations and Incomes in Nebraska

## Median Income

According to data from the U.S. Census Bureau (Census), the March 2024 median income for all households in Nebraska was nearly \$72,000 per year, slightly less than the national median household income of \$75,000 annually.

Census data collected between 2018 and 2022 revealed that just over 34 percent of households in Nebraska earned a total annual income of less than \$50,000. Notably, families and individuals earning \$100,000 or more also encompassed 34 percent of Nebraska households.

Percentage Distribution of Household Income  
in Nebraska (in 2022 Inflation-Adjusted Dollars)



Source: U.S. Census Bureau 2018-2022 ACS 5-Year Estimates

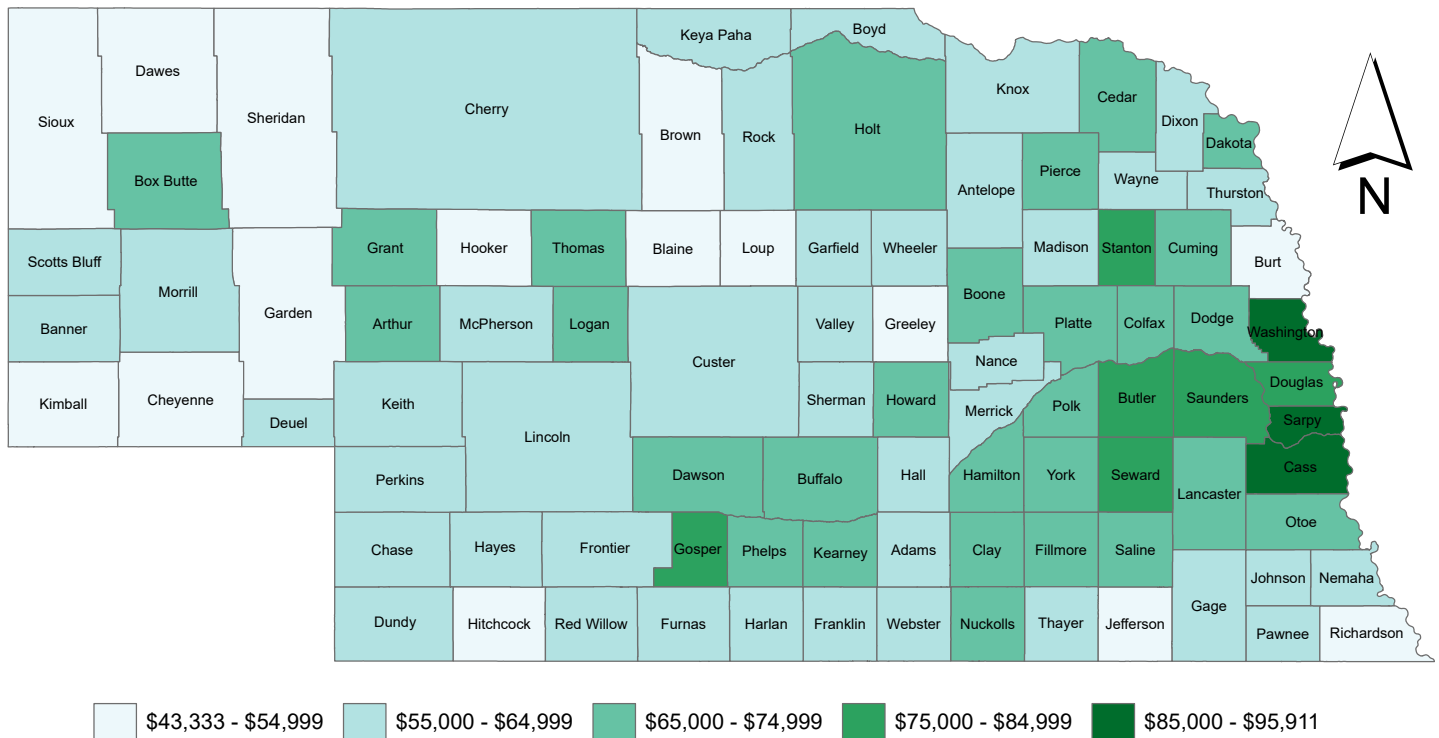
The amount of income a household earns in Nebraska varies widely when considering households' ownership status and location.

For households living in owner-occupied housing units, the median annual income in Nebraska was over \$91,000. However, households renting their housing units, whether a house or an apartment, earned just slightly more than \$44,200 annually.

There is a wide disparity of median income by Nebraska county, which results in large differences in what constitutes an affordable housing unit across the state. Census data collected between 2018 and 2022 revealed that, compared to households in other counties, Sarpy County households earned the highest estimated median income annually, at nearly \$96,000, while the median Hooker County household income was just over \$43,000 per year.

# Occupations and Incomes in Nebraska

Median Household Income by County



Source: U.S. Census Bureau 2018-2022 ACS 5-Year Estimates

At current income levels in the state, what is the price of housing that would be affordable for Nebraskans in urban and rural areas of the state and for workers who earn near (or below) the median income? According to the [Nebraska Investment Finance Authority](#), for the average home sale price in August 2023 at \$280,000 (with a 10 percent down payment), the estimated income required on a conventional loan to make the home "affordable" would be over \$85,000. Only three counties in the state had a median household income at that level.

Image Credit: Srdjanns74 via iStock



# The Cost of Purchasing a Home

In [1969](#), Congress limited the percentage of income that a public housing resident could be expected to pay for rent to 25 percent of their income. Today, the United States Department of Housing and Urban Development ([HUD](#)) defines affordable housing as a housing unit in which the occupant is paying no more than 30 percent of their gross income for housing costs, including utilities. As a rule of thumb, when buying a home or renting an apartment, a household should not spend more than 40 percent of its net monthly income on housing costs.

## Rising Purchase Prices

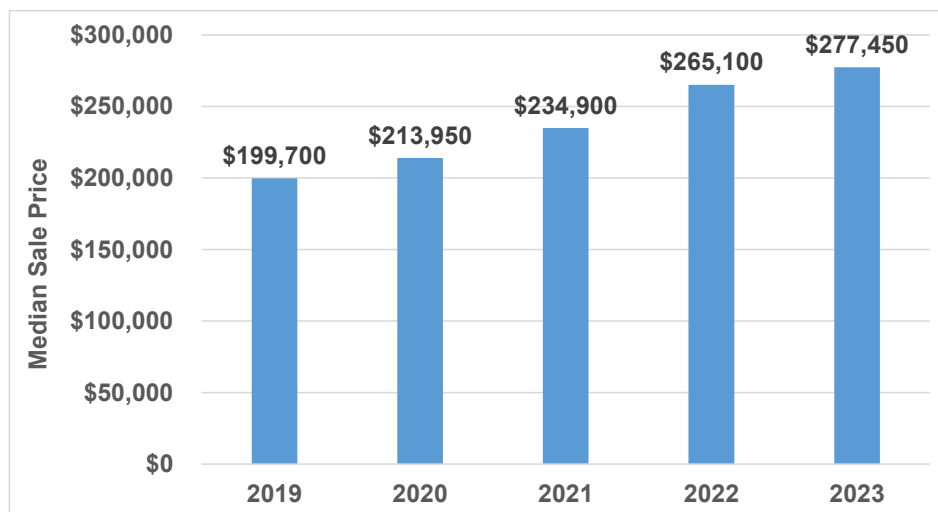
Homeownership helps people get a foot on the economic ladder. The 2023 [Survey of Consumer Finances](#) from the Federal Reserve estimated that homeowners had a net worth that was nearly 40 times greater than the net worth of renters. As of 2022, the median net worth of renters was approximately \$10,500 compared to the median net worth of homeowners at over \$396,000.

In April 2024, the median existing single-family home in America sold for more than \$384,000, an increase of 6 percent over the prior year. When considering the rise in price over the last 10 years, the median price of a single-family home in the U.S. has increased by nearly 88 percent.

According to home sales data from the National Association of Realtors, in the four years between 2016 and 2020, the median purchase price of houses in Nebraska increased by 30 percent. The rise in home purchase prices was nearly twice the increase in median household incomes during the same period (16 percent).

Over the last five years, the median sale price of a home in the Cornhusker State increased by nearly 40 percent, from \$200,000 in 2019 to over \$275,000 in 2023.

Median Purchase Price of Nebraska Homes (2019-2023)



Source: Redfin.com via NIFA

**Tracie McPherson of Habitat for Humanity said that in 2020, a Habitat home was appraised at \$137,000. Four years later, in 2024, the appraisal for a similar home, with a similar floor plan, and in a similar neighborhood increased by more than \$100,000 (\$240,000).**



# The Cost of Purchasing a Home

According to the [National Association of Home Builders](#), between April and September 2020, lumber costs increased by roughly 175 percent. The next year, in 2021, the framing lumber average yearly cost rose another 55 percent. According to the [St. Louis FED](#) the average annual lumber producer price index fell slightly from a record high in 2021 (346) to 2022 (342) and dropped significantly in 2023 (257).

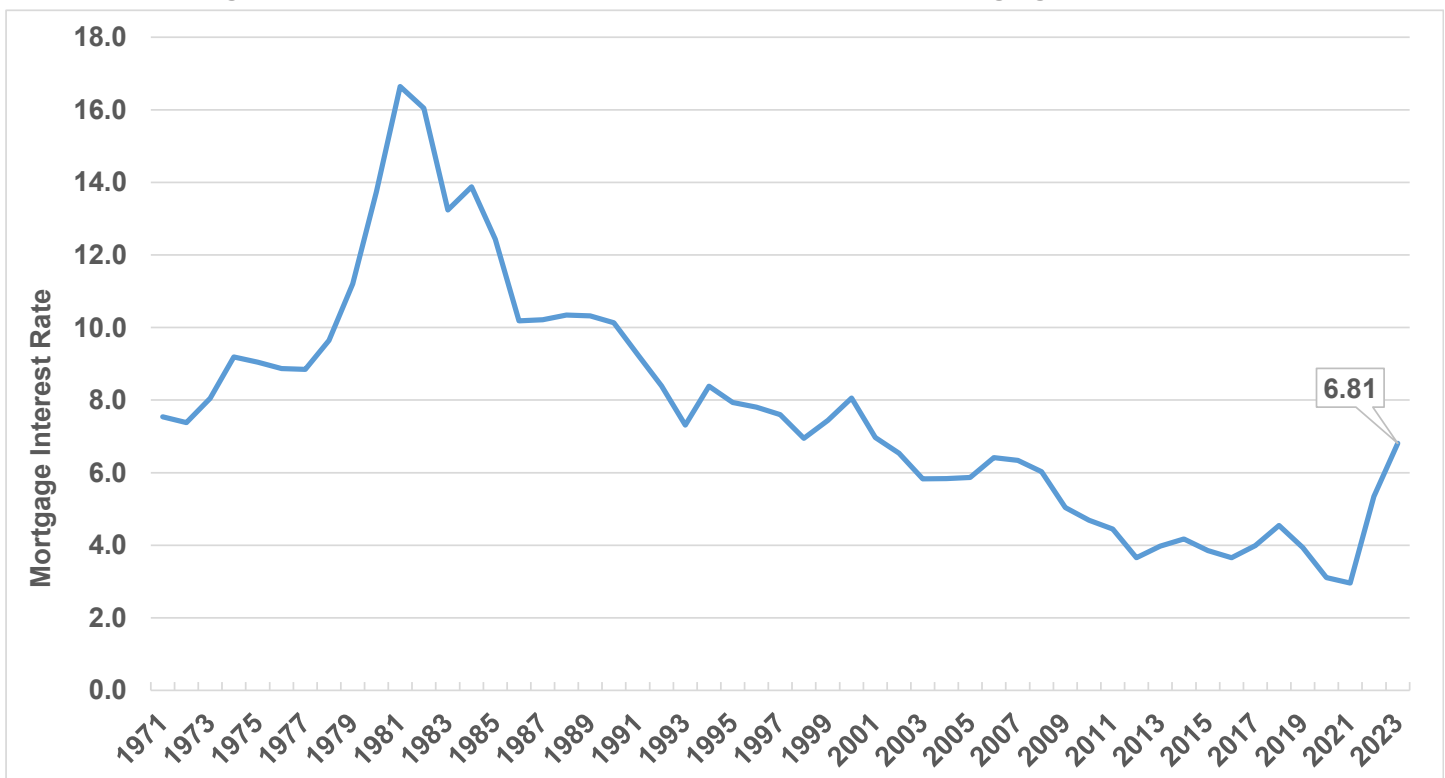
## Increased Interest Rates

Economists predicted that housing prices might fall with increased interest rates (brought on by historic pandemic-related inflation). However, partly due to 30-year mortgage rates reaching above 8 percent in 2023, homeowners retained their low rates instead of selling and acquiring an undesirable mortgage rate, thus limiting supply and increasing housing costs for homebuyers.

The actual full cost of a loan has been significantly increased due to rising [interest rates](#). Using an [amortization calculator](#), a \$280,000 loan originating in March 2024 for a 30-year mortgage fixed at a 2.96 percent interest rate (the average rate for the year in 2021), would have a total cost of nearly \$423,000 over the full life of the loan. The interest paid on those 360 monthly payments, \$1,174 each, would total almost \$143,000.

However, due to the Federal Reserve increasing rates, the average annual mortgage interest rate rose to 6.81 in 2023. At that rate, the total cost of the same loan amount would increase the monthly payment by nearly \$700 to \$1,827. Furthermore, the cost of the total life of the loan would increase to nearly \$658,000, with \$378,000 of interest paid during the 30 years of mortgage payments.

Average Annual Interest Rate for 30-Year Fixed Mortgages (1971-2023)



Source: Federal Reserve of St. Louis

# The Cost of Purchasing a Home

## Mortgage Costs

August 2023 data from the National Association of Realtors showed the median home sale price in Nebraska was \$280,000. At the median purchase price, with a conventional 30-year loan, the interest rate at the time (more than 7 percent), and a 90 percent loan-to-value (LTV) ratio, monthly mortgage payments would likely cost between \$2,000 and \$2,200. With a Federal Housing Administration 30-year loan and a 96.5 percent LTV ratio, payments on a typical home in Nebraska would cost approximately \$2,300, monthly.

In January 2022, a typical \$250,000 home sold came with a \$1,200 monthly payment, but 12 months later the monthly payment on the home had increased by \$500 or 42 percent.

At estimated mortgage payment prices, the required annual household income (for the house to remain affordable) would be approximately \$85,000 - greater than the median household income in the state (\$72,000). Thus, the median price of a house is unaffordable for the typical household income in Nebraska.

## Transaction Costs

Once a homebuyer has found the property he or she intends to buy, secured financing, reached a deal, and received a home inspection, they may finally begin closing the deal on the home purchase. Depending on the relevant escrow company's procedures, at the time of closing the buyer must provide a down payment and pay for [closing costs](#).

Adding to the purchase price, closing costs include fees related to the origination and underwriting of a mortgage, sales commissions, taxes, insurance, and record filing fees. These costs, among others, to complete a house sale transaction may be paid either by the homebuyer or the seller. However, in the case of a "sellers' market" (when demand exceeds supply), homebuyers invariably find themselves having to pay the closing costs.

Closing costs expenses may range between 2 and 6 percent of the total mortgage loan. For example, with a \$280,000 home loan, between \$5,600 and \$16,800 is likely to be spent by the homebuyer on closing costs – not including any down payment.

A \$280,000 home with a 10 percent down payment (\$28,000) and a 7 percent interest rate would yield a total of nearly \$11,000 in estimated closing costs (over 4 percent of the loan's total value).

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*In a recent housing antitrust lawsuit development, a [federal jury ruled](#) that the National Association of Realtors and several large brokerages had illegally conspired to artificially inflate the commissions paid to agents. The real estate agent association has since [agreed](#), contingent upon a federal court's approval, to settle several lawsuits with \$418 million in damages payments and eliminate the association's rules on commissions.*

# The Cost of Purchasing a Home

## The Appraisal Gap

The difference between the fair market value for a newly constructed housing unit and the level at which a bank (or another lender) appraises the unit's value - the appraisal gap - has become a central issue in Nebraska's housing market in light of rising values.

A home appraisal is intended to be an objective and professional assessment of how much a home or property is worth. One type of [appraisal gap](#) occurs when the sale price of a home is greater than its appraised value.

Another type of appraisal gap occurs when the cost to construct a house is greater than its appraised value.

Conceptually, new homes coming onto the market must be appraised based on existing comparable homes in the area. Especially in rural areas and blighted urban areas of Nebraska, similar size and style homes are likely to be appraised at a lesser value than a newly built home. Thus, a gap is created between fair market value and the amount at which a bank appraises newly developed single- or multi-family housing units. Consequently, for-profit developers are less likely to build in areas where large appraisal gaps exist, unless they are ensured a fair rate (or profit) for their work.



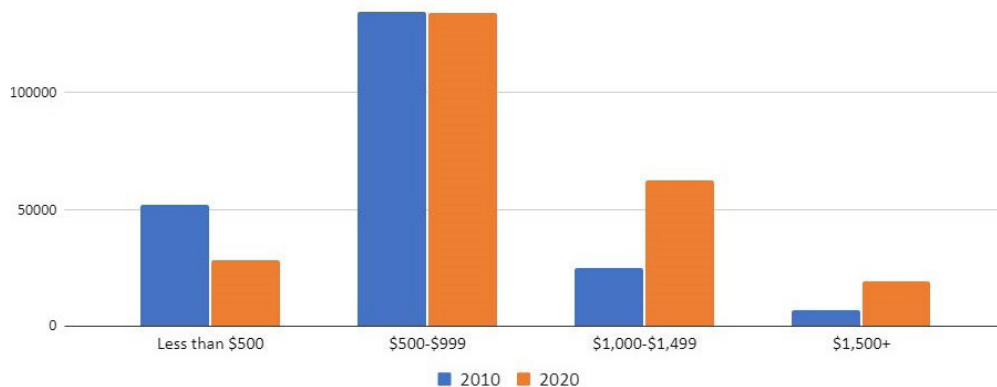
# The Rising Cost of Rent

The nationwide average cost to rent housing was \$1,959 in April 2024, an increase of nearly 30 percent since the start of the COVID-19 pandemic in 2020.

The dramatic increase in the cost to rent a housing unit has priced out many in the Great Plains region. Between the years 2016 and 2020, the total number of units for rent at \$500 to \$999 remained stable, but the number of units paying less than \$500 per month for rent fell 45 percent. The number of expensive units between \$1,000 and \$1,499 increased 150 percent and units paying more than \$1,500 per month increased by nearly 190 percent.

The August 2023 fair market rent price for a 1-bedroom unit in Nebraska was nearly \$790, which would be affordable to an individual earning more than \$31,500 annually. For a 2-bedroom unit, fair market rent was nearly \$1,000 – affordable to someone making \$39,300 or more per year. Finally, a 3-bedroom unit priced at \$1,300 for fair market rent would be affordable to a household earning \$52,600 or more annually, more than the median household income of renter-occupied housing units (\$44,200).

Rent Paying Units by Gross Rent Paid (2010 vs. 2020)



Source: Great Plains Regional MLS Housing Market Data, 2020

Data from the [National Low Income Housing Coalition](#) estimates that Nebraska suffers from a shortage of over 40,000 rental units that are affordable (and available) for extremely low-income households. The lack of this type of housing unit increases the demand, and thus the rent cost, for all other types of rental units.

In addition to the mismatch of incomes and prices, Nebraska, like other states, suffers from unique housing market challenges.

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Recently in [March 2024](#), the U.S. Department of Justice indicated it was expanding its investigation of the rental housing market. One such case stemmed from a [class-action lawsuit](#) brought by renters against a software company. Since then, the federal government has opened a criminal investigation alleging widespread rent price-fixing by the company in violation of the [Sherman Anti-Trust Act](#). The software at the heart of this criminal case is used by property owners to estimate demand for their rental units, which allows landlords to algorithmically maximize what they charge for rent. Federal investigators are working to determine whether competitors can exchange sensitive pricing data that rival property owners (who are not using the software) would be unable to access.

# Nebraska's Key Affordable Housing Challenges

[Nebraska's 2022 Strategic Housing Framework](#), developed by housing experts who each bring diverse perspectives to the Strategic Housing Council of Nebraska (Council), remains a prominent guiding document regarding affordable housing challenges in Nebraska. The Council has suggested that the state is at an "inflection point" because of the lack of available and diverse housing stock that is affordable - and attainable - for Nebraskans. Housing experts also suggest that efforts to improve housing stock should be tailored differently for various areas of Nebraska due to the lack of an obvious, and simple, statewide solution to the affordable housing crisis.

## Increasing Population and Stagnant Housing Construction

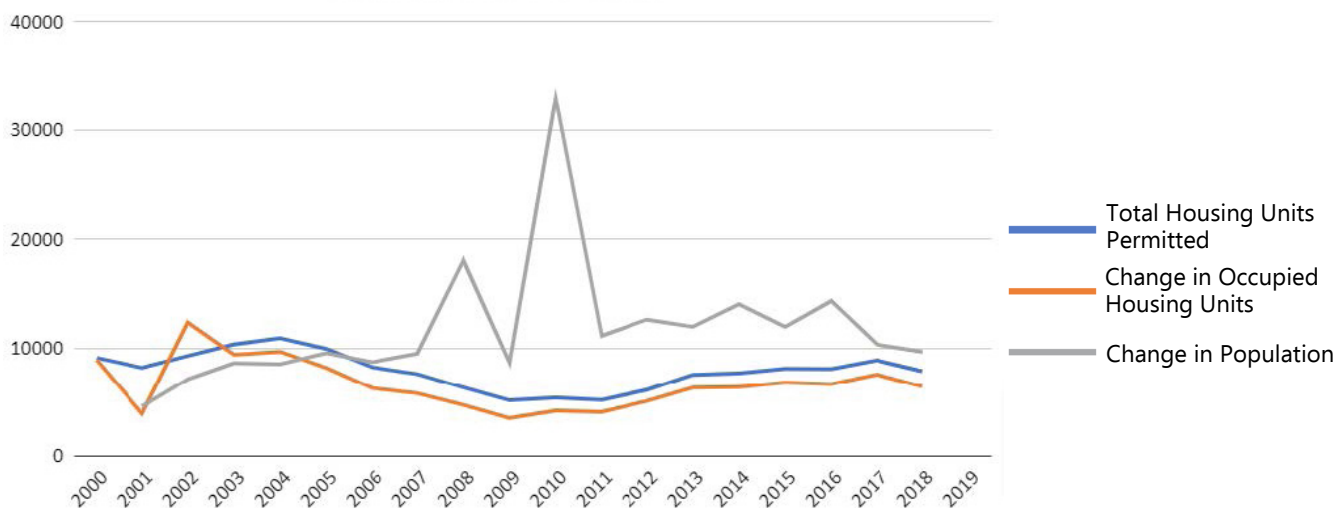
The origins of the housing unit shortage can be traced to the housing market collapse in 2006 and the subsequent recession. Illustrating the recent lack of home-building, the U.S. added fewer single-family homes from 2010 to 2020 than any decade since the 1960s.

Although some areas in Nebraska may have more available units than families to fill them, the area would still be classified as having a housing stock deficit if prospective buyers (with a typical income for the area) are unable to purchase housing.

Data included in the [Nebraska 2022 Statewide Housing Needs Assessment](#) showed that from 1980 to 2005, housing unit construction (in terms of housing units permitted) generally kept pace with population growth in the Cornhusker State. However, between the years 2005 and 2019, the state's population grew by over 180,000 and only an estimated 82,000 housing units were built.

Based on data from the Building Permits Survey, conducted by the Census, the number of new building permits per year in Nebraska has only recently reached pre-2006 levels.

Change in Population and Total Housing Units (2000-2019)



Source: U.S. Census Bureau via the 2022 Statewide Housing Needs Assessment

Even more recently, since 2020, the number of households in Nebraska has grown faster (40,000) than the construction of new housing units (17,000), further exacerbating the lack of housing supply.

Concerning the existing housing stock in Nebraska, experts have suggested that the age, occupancy rates, and the condition of homes are the gravest concerns.









# Nebraska's Key Affordable Housing Challenges

Renter-occupied units are more likely than owner-occupied to have multiple housing problems. However, even for owner-occupied units, rural areas of the state tend to have higher rates of homes with one or more severe issues compared to urban areas of Nebraska.

In addition to the age, availability, supply, and quality of Nebraska's existing housing stock, several other issues are hampering the availability of affordable housing in the state.

## Limited Land Availability

Another barrier to creating prevalent affordable housing in Nebraska is the lack of ready-to-develop land. In Nebraska cities, infrastructure is often present, but not enough developable lots are available to meet the affordable and attainable housing supply needs of the state. Significantly delaying development in rural areas, the cost to construct necessary infrastructure (i.e., water, sewer, electricity, gas, floodplain mitigation, roads, etc.) has prohibited developers from building.

## Lack of Housing Diversity

Diverse housing refers to the blend of housing unit types that any given community requires. Every community in the state desires safe and varied housing options for households with different needs, like space or amenities for children or accommodations for the elderly or disabled persons.

A lack of sufficient housing diversity can lead to a limited workforce for employers and fewer options for low-income and fixed-income households. The shortage of rental units for extremely low-income households and the shortage of low- to middle-income workforce housing units are the essential, and missing, housing types in the state, according to industry experts.

## Workforce Challenges

Employers drive the need for housing, and the construction of housing is related to the number of construction companies and workers per household in an area. Especially in rural areas of the state, a deficit of construction businesses and workers has created significant housing development challenges.

The ratio of the number of households per construction employee helps to indicate whether there is a sufficient amount of workforce available in an area. Urban areas of the state feature 12 households per construction worker. However, the ratio in rural areas averages 27 households to one construction employee and more than a 50:1 ratio in some areas of Nebraska.

## Complicated Regulatory Framework

Across the country, nearly 75 percent of urban and suburban residential land is zoned exclusively for single-family houses. Furthermore, certain neighborhoods can mandate the minimum lot size and even require specifications for new home construction, like a minimum house height.

Requirements and regulations vary across Nebraska communities regarding building codes, land use policy, and zoning.

Housing construction costs are often significantly higher in rural areas compared to urbanized areas, for the same build plan. This is partly due to the non-uniform building codes and zoning regulations across the state.

# Laying the Foundation

The demand for housing in the U.S. far outpaces supply, which has led to a rapid increase in housing costs and has demolished the American dream of homeownership for many young professionals and those earning less than the median income for their area.

Relative to other states, the affordable housing supply in Nebraska is woefully lacking. A shortage of diverse and appropriate housing units in the market has increased both the cost of rent and home purchase prices of the available houses and apartments in the state.

Multiple reasons exist for the recent difficulty of constructing new affordable housing stock, including higher interest rates and appraisal gaps. Further contributing to Nebraska's challenges are an insufficient number of ready-to-develop plots of land, a limited construction workforce in rural counties, and complex regulations from one city or village to another.

Adding to the state housing crisis, the currently available units in Nebraska may be older and in need of repair or may not be an appropriate type of housing for potential homebuyers.

Finally, with more Nebraskans working in low-wage jobs than in high-wage occupations, the barrier to building wealth through home equity continues to grow in the Cornhusker State. Unfortunately for many in Nebraska right now, regarding affordable housing, the good life comes at the wrong price.



Affordable  
Housing  
Crisis



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