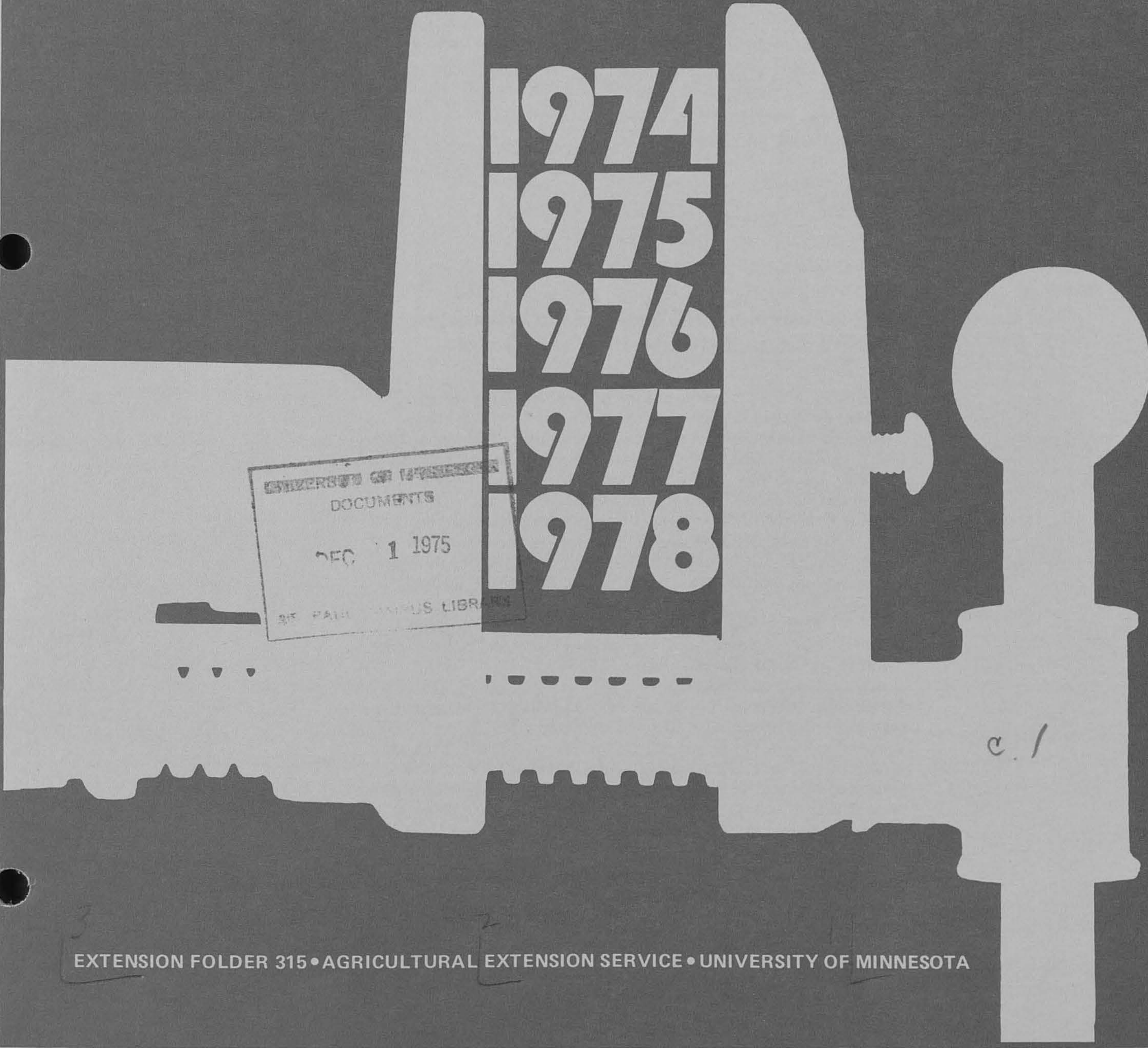
HOUSING COSTS

1974 1975 1976 1977 1978



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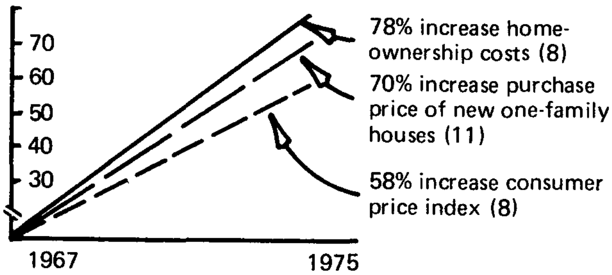
Escalating housing costs are becoming a way of life for every consumer. During the past 50 years, the costs of home ownership and residential construction have consistently increased faster than the cost of living as measured by the Consumer Price Index (20).[1] For instance, since 1967, American consumers encountered the following trends (to March 1975):



For the average family, these increases mean that for every $1,000 spent in 1967:

- homeownership costs increased $782 by March 1975,
- an additional $700 was needed to purchase a newly built house during the first quarter of 1975, and
- another $580 was needed for goods and services consumed in March 1975.

With recent rampant inflation, the American dream of buying or building a new home is becoming more difficult to achieve. By April 1975, the average sales price of a new single-family home was nearly $41,000 and increasing at a rate of approximately 7 to 10 percent annually (11). Furthermore, the average sales price of a previously occupied, mortgage financed home had increased to $36,000 by the beginning of 1975 (9). The average American is facing a serious dilemma; suitable housing is more difficult to obtain and more expensive. Housing continues to consume the largest share of the budget, and the cost is increasing at a staggering rate greater than the rate of inflation. Even more critical is the fact that average purchase prices of new single-family houses and homeownership costs both rose faster than per capita disposable income in 1974:

– per capita disposable income[2]	up 3.1%
– average purchase price of new single-family houses	up 9.6%
– homeownership costs	up 11.0%

Although costs have and will continue to fluctuate the consumer can make intelligent decisions when considering any housing change. The consumer must understand the basic housing costs and the corresponding trends of recent years. An overview of housing costs reveals four basic, yet interrelated, trends:

- INITIAL DEVELOPMENT AND CONSTRUCTION COSTS – A house is a very complex product; according to some estimates, it contains more than 80,000 individual parts and pieces and requires more than 1½ "man years"[3] of labor to build. This is one reason that it is difficult to guarantee or warranty the quality of a new house.

  Although only about 2 percent of the housing stock is built in an average year (2), construction costs have a direct (though usually delayed) effect on all consumers whether they are building, buying, or renting.

- INITIAL OCCUPANCY COSTS – These costs are encountered when first buying or renting a housing unit. The amount of these expenses varies according to the individual's specific situation: 1) for buyers, type and source of financing and subsequent, required downpayment, prepayment expenses, legal and other settlement costs and 2) for renters, required deposits and prepayment of rent. A renter, for instance, may encounter little or no initial costs, but home buyers using FHA or VA

[1] Numbers in parentheses refer to references cited and listed on page 12.

[2] Per capita disposable income is basically a measure of the amount of income remaining after payments to government (including taxes) have been deducted, averaged over the entire population. It thus represents the income available for spending and saving.

[3] Refers to a standard amount of work one individual could perform within 1 year.

financing may face expenses of more than $1,000 plus the required downpayment.

- MONTHLY OCCUPANCY COSTS – These are the expenses that the consumer must be willing to bear month after month. The amount of these expenses is influenced directly by initial development and construction costs as well as initial occupancy costs. Important monthly (or periodic) occupancy costs include payments for mortgage principal, interest, and insurance fee; property taxes; property insurance; utilities; and maintenance and repair. Naturally, the homeowner faces these expenses directly while the renter usually pays for them indirectly through monthly rent.

- SELLING COSTS (for owners) – These expenses frequently are overlooked when considering housing. However, for sellers these expenses are substantial, often amounting to 10 percent or more of the home's sales price. When selling, the homeowner may encounter substantial expenses for legal fee, appraisal fee, "points," and broker's commission as well as many other taxes and charges. The exact amount of selling costs influences the wisdom of buying or building a home as explained in the last section of this folder.

INITIAL DEVELOPMENT AND CONSTRUCTION COSTS[4]

Data computed by the Bureau of the Census show the effect of inflation upon residential construction and, subsequently, upon the sales prices of one-family houses. Since builders tend to change characteristics such as floor area, number of bathrooms, air conditioning, parking facilities, and other features according to economic fluctuations, two sales-price measures are given: prices of average houses sold and prices of similar houses sold (i.e., floor area and other characteristics the same from year to year (11, table 1).

Although the magnitude of price change has fluctuated, the costs of building or buying a new house, with similar features found in 1967, have increased more than 70 percent or more than $17,000.

The costs of building a house vary according to four major factors: land, labor, material, and the contractor's overhead and profit. Needless to say, all of these components have increased and, thus, have fueled spiraling costs for new houses. The National Association of Home Builders has noted significant increases between 1969 and mid-1974. Construction financing costs increased 100 percent; land costs, nearly 60 percent; overhead-profit, 40 percent; labor and material costs, more than 40 percent (5). Reflecting this trend, the Minnesota Office of the Department of Housing and Urban Development estimates that between 1970 and 1975, labor and material costs have risen 24 percent, overhead and profit increased about 15 percent, and land costs rose 50 percent or more in outstate areas and 75 to 100 percent in the Minneapolis-St. Paul area (18).

Because of regional variation, size, number of rooms, equipment, and quality considerations, as well as price fluctuations, it is difficult to estimate the average proportionate relationships between the four major

[4]Data examined in this section relate directly to the cost of building a single-family house. Similar trends have, however, affected the cost of building townhouses, condominium apartments, and rental dwellings.

Table 1

Average sales prices of

Year	Similar (same) new houses: Price	Similar (same) new houses: % Change	Average new houses: Price	Average new houses: % Change
1967	$24,600	- -	$24,600	- -
1968	25,900	5.1	26,600	8.1
1969	27,900	8.1	27,900	4.9
1970	28,900	3.3	26,600	-4.7
1971	30,300	4.9	28,300	6.4
1972	32,200	6.3	30,500	7.8
1973	35,600	10.5	35,500	16.4
1974	38,900	9.2	38,900	9.6
1975 (1st quarter)	41,900	12.0*	40,600	6.8*

*Change from first quarter of 1974.

components of development-construction costs in specific situations. However, the consumer buying or building an "average" new house will find a cost breakdown similar to that in table 2 (4,5).

Table 2

Item	Percent	Hypothetical $40,000 house
Developed land	25	$10,000
Materials	32 to 36	12,800 to 14,400
On-site labor	15 to 19	6,000 to 7,600
Overhead and profit	13 to 14	5,200 to 5,600
Miscellaneous	6 to 15	2,400 to 6,000
	100%	$40,000

The Minnesota Housing Institute (MHI) using a more detailed accounting system studied the actual costs of building two different houses in the Minneapolis-St. Paul area in 1974 (table 3) (10). House 1 with greater amenities was built in a suburban community with extremely stringent regulations, and house 2 was constructed in a rural fringe location with few restrictions.

Note that $46,081.53 is the minimum price that MHI believes a single-family house can be built in a particular suburban community. According to MHI, the high cost was largely the result of local zoning and subdivision regulations. For example, MHI contends that if regulations were changed, the total costs could be reduced by 12 percent to about $40,500 by the following actions:

$2,143.20, if the builder could contract privately for installation of water, sewer, curb, gutter, and street facilities rather than paying the municipality for the work.

$1,707.30, if the municipality would allow an average lot of 16,000 square feet instead of the required minimum 20,000 square feet.

$1,804.83, if the municipality allowed a further reduction of average lot size to 13,500 square feet with average 80 foot widths.

In addition to these potential savings, the builder could offer the buyer a choice of postponing certain design amenities if the municipality would permit new homes to be built as follows:

- without the required two car garage ($2800.00 savings)
- crushed rock rather than required hard surface driveway ($600.00 savings)
- 912 square foot home (24 x 38 rambler) rather than required 1100 square foot home ($2499.84 savings)
- 60 foot wide lots averaging 10,300 square feet rather than required 20,000 square foot minimum ($2100.00 savings in addition to savings note for 13,500 foot lot).

If the municipality would permit the builder to offer the buyer this range of options, the buyer could choose a house for as little as $32,500.00 or about 30% less than the least expensive house ($46,081.53). For the less expensive home, the buyer would forego or postpone certain amenities. The important point is that the buyer would have this choice rather being required to purchase a home with expensive amenities he or she may not want or can not afford.

Local regulations strongly influence building costs, and, therefore, the financial impact upon consumers. AS A CONCERNED CONSUMER, CHECK THE REGULATIONS IN THE COMMUNITY BEFORE YOU BUILD. Are the regulations necessary or desirable (e.g. large minimum lot sizes to accomodate septic systems)? Are they worth the cost compared to the amenities they provide? Do these regulations have desirable environmental and energy impact (e.g. create sprawl)? Are they fair? If local regulations are not fair or desirable you should work to change them through the local political process or as a last resort choose to build elsewhere. Because land acquisition and development costs have contributed the greatest proportion increase in the cost of a new house, special consideration should be given to the site costs and regulations.

In addition to considering local regulations that influence site costs, individuals planning to build a home also may wish to consider doing some of the construction or functioning as a general contractor, subcontracting specific phases of construction (e.g. plumbing, wiring, etc.). A study of owner-built housing noted that 20 to 25 percent of the homes built each year are constructed or partially constructed by the owners (1). Depending on the individual's knowledge, skill, and involvement, a maximum potential savings of 45 percent in initial construction-development costs are possible, although the savings frequently are much less. Before deciding to function as an owner-builder, several questions should be answered: 1) Does the individual have the necessary skills or willingness to learn the skills to do the job? 2) Are competent sources of technical assistance readily available? 3) Does the individual have the time necessary to complete the task? 4) Do local building codes permit an individual to do the work anticipated? In short, the prospective owner-builder should educate himself or herself before picking up a hammer and saw. (For more information, obtain Owner-Built Housing from your county extension agent.)

Table 3	House 1 (1160 Sq. Ft.) 3 Bedroom 20,000 Sq. Ft. Lot 2-car Garage/Hard Drive		House 2 (912 Sq. Ft.) 3 Bedroom 1 acre (43,560 Sq. Ft.) Lot Car Parking Pad/Rock Drive	
Materials	Price	%	Price	%
Appliance package	206.24	.4	308.04	1.0
Sand and gravel	318.04	.7	109.48	.3
Windows, basement	47.52	.1	63.36	.2
Cement	652.47	1.4	384.61	1.3
Blocks	596.36	1.3	521.40	1.8
Hardware, finish	36.06	.1	10.00	.1
Kitchen cabinets, vanities	607.70	1.3	299.19	1.0
Lumber	2,787.30	6.1	1,936.20	6.5
Milwork, doors	1,234.44	2.6	1,524.76	5.2
Medicine cabinets	- - -	- -	17.16	.1
Steel beams	93.92	.2	73.54	.2
Vanity tops	- - -	- -	45.86	.1
Misc., m. box and c. door	43.74	.1	17.90	.1
Trusses	744.10	1.6	427.84	1.5
Shutters	- - -	- -	33.46	.1
Grids	50.98	.1	- - -	- -
+Subcontractor				
Appliance hook-up	70.00	.1	- - -	- -
Ceramic tile	290.00	.6	125.00	.4
Combination windows	183.00	.4	- - -	- -
Electrician	1,032.00	2.2	733.50	2.5
Garage door	252.80	.5	- - -	- -
Heating	767.00	1.6	748.00	2.5
Insulation	287.75	.6	250.90	.9
Linoleum and formica	384.45	.9	256.40	.9
Painting	1,049.60	2.3	440.00	1.5
Plumbing	2,398.00	5.2	1,942.00	6.5
Roofing and siding	2,005.00	4.3	1,300.00	4.4
Shower doors	30.70	.1	- - -	- -
Weather stripping	47.50	.1	36.00	.1
Taping	733.44	1.5	601.60	2.0
Carpet	850.00	1.8	528.00	1.8
Driveway/parking pad	554.48	1.1	250.00	.8
+Labor				
Survey	- - -	- -	- - -	- -
Excavation	287.33	.6	287.33	.9
Concrete	1,509.36	3.2	1,049.06	3.5
Carpenter	2,433.96	5.2	1,682.87	5.8
+Other direct costs				
Building permit	234.01	.5	36.49	.1
Inspection fees, FHA – VA	6.38	.1	6.38	.1
Gas and power	155.00	.3	155.00	.5
Closing costs (2% job costs)	685.05	1.5	- - -	- -
Sewer charge	300.00	.6	300.00	1.0
Payroll extras (20% labor)	846.13	1.8	603.85	2.0
Equipment rental	418.00	.9	418.60	1.5
Miscellaneous construction cost	423.06	.9	301.93	1.0
Overhead	5,130.49	11.1	3,787.27	12.9
=Total job costs	**30,782.93**	**66.7**	**22,723.63**	**77.0**
+Land costs	($13,000.00)	(28.3)	5,300.00	18.0
Acquisition	3,549.00	7.6	NA	
Improvements (sewer, grading, etc.)	6,800.00	14.8	NA	
Overhead and profit	2,651.00	5.8	NA	
=Total job & land costs	43,782.93	95.0	28,023.63	95.0
+Sales costs (5% T.J.L.C.)	2,298.60	5.0	1,471.24	5.0
=Total sales price	**$46,081.53**	**100.0**	**29,494.87**	**100.0**

INITIAL OCCUPANCY COSTS

Whether a family rents or buys a home frequently depends upon the individual's ability to accumulate adequate financial resources to pay initial occupancy costs. Whereas initial requirements for rent are modest and may include simply the advancement of a month's rent and posting a security or damage deposit, the costs of buying a house may be quite staggering. According to a 1971 study conducted by the Department of Housing and Urban Development, the national average cost of buying an $18,000 house financed with an FHA or VA mortgage included the following initial costs (13):

– Title examination	$116
– Title Insurance	129
– Attorney's fee	102
– Preparation of documents	28
– Survey	42
– Closing fee	47
– Miscellaneous fees and inspection	225
– Transfer tax	70
Total	$759

These expenses, which must be paid by the average buyer at the closing, amounted to 3.8 percent of the purchase price. According to the same study (13), the settlement costs (excluding survey and tax expenses) of buying an FHA or VA financed home in Minnesota were less than the national average. In comparison, home buyers usually find that initial financing costs with a conventional mortgage are substantially less—generally, about one-half of the costs—than FHA or VA mortgages. During 1973 and 1974, for example, the Federal Home Loan Bank Board reported that initial costs (excluding insurance) of buying a home with a conventional mortgage ranged from .94 to 1.40 percent of the purchase price (9).

For additional information about specific sources of financing and types of initial occupancy costs in Minnesota, see: Facts About Buying (Extension Folder 299), Selecting a Mobile Home (Extension Folder 266), or The Renter's Guide (Extension Folder 283), available from county extension offices in Minnesota, or Settlement Costs and You—A Guide for Homebuyers, available from any lender or real estate agent. As noted in these references, some initial costs may be negotiated between the buyer and seller.

In addition to paying the initial costs of arranging mortgage financing, the lender may require the buyer to prepay property taxes[5] and property insurance. When added together, prepayment expenses and initial financing costs would likely range from $500 to $1500 or more, or from 2 to 5 percent of the purchase price.

Despite the significance of these initial and prepayment costs, the home buyer will find that the downpayment required probably will be much larger. Since 1970, the average downpayment made by home buyers using conventional mortgages[6] ranged from 20 to 30 percent, or between $8700 on a $31,700 house and $10,900 on a $41,300 house (9). Without question, the amount of downpayment required is the most significant monetary challenge facing the home buyer.

MONTHLY OCCUPANCY COSTS

A family also must be concerned with monthly housing costs including rent or mortgage payments and utility bills. Other expenses for owners including property taxes, insurance, and repair and maintenance should be budgeted on a monthly basis. An examination of major monthly occupancy costs of housing begins to provide important insight into the amount of these items:

MORTGAGE PRINCIPAL AND INTEREST – Because 85 percent of people buying homes do so with a mortgage, the largest monthly expense encountered by most housing consumers is the mortgage principal and interest. (20)

The exact amount an individual pays will vary according to three important variables: 1) amount borrowed (house price minus downpayment), 2) interest rate, and 3) term (years) of the loan. For example, a change in any of these factors will produce results similar to those illustrated in charts 1 and 2. (See Appendix A.) Careful examination of monthly and long-term mortgage costs reveals important relationships that the consumer should understand.

The average buyer's monthly mortgage principal and interest payments have increased 133 percent from 1967 to July 1, 1974 according to data from the Departments of Labor (14) and Housing and Urban Development (7). This tremendous increase has been fueled by rising purchase prices and, subsequently, amounts borrowed as well as higher interest rates. This situation reflects the interrelationship between inflation and the three major types of housing costs: 1) initial construction-development costs and, thus, purchase price; 2) initial occupancy costs; and 3) monthly occupancy costs.

[5]Because property taxes in Minnesota are assessed 1 year and due and payable the following year, it is becoming more common for buyers and sellers to negotiate (and usually split) property taxes assessed but not paid.

[6]Conventional mortgages accounted for 65 to 90 percent of all mortgages made for new houses during 1970-1974 and approximately 65 percent of all mortgages held against all single family homes in the U.S. (20).

Chart 1. Monthly mortgage payment, 6%, 9%, 12% by year

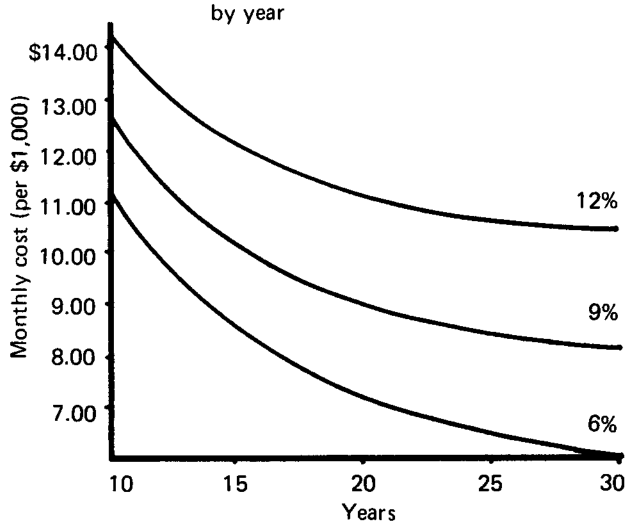
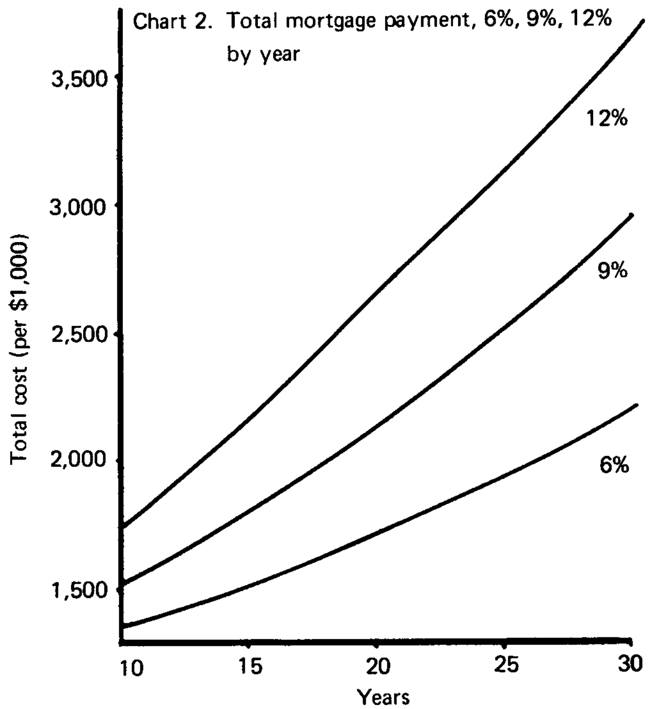


Chart 2. Total mortgage payment, 6%, 9%, 12% by year



PROPERTY TAXES – Between 1967 and 1975, property taxes have increased 55 percent for the average American homeowner (8).[7] A substantial amount of this increase is related to inflated market values of homes rather than increased assessments.

According to a study by the Department of Housing and Urban Development, annual property taxes average 1½ percent of the replacement value of FHA- and VA-financed homes in the United States and 1¾ percent of the same value in Minnesota (13). However, several reports indicate wide variations and inequities in property taxes. For example, a survey of ten major metropolitan cities revealed that average property taxes ranged from less than 1 percent to 15 percent of the home's market value (22). In Minnesota, the Department of Revenue has periodically conducted "sales ratio" studies and found wide discrepancies in assessment practices (12). In most areas of Minnesota, assessments have ranged from 50 to 140 percent of market value. (See Appendix D.) Until this situation is corrected, property taxes will vary substantially for homes of similar value even those located in the same municipality.

In 1975, the average annual property tax in Minnesota was $132 for a $10,000 house, $310 for a $20,000 house, $582 for a $30,000 house, $952 for a $40,000 house, and $1320 for a $50,000 house (16). Generally, however, property taxes in Minnesota range from 1¼ to 4 percent[8] of the market value of homes (16). Thus, the property taxes for a $30,000 house will range from $450 to $1200 annually or $37.50 to $100.00 per month.

This amount varies according to assessed value of the home, local tax mill levy, and if homestead credit is deducted. Therefore, when buying a home, check with the local assessor to obtain exact figures. Many lenders require that borrowers pay 1/12 of their annual property taxes each month with their mortgage payments. This money is put into an escrow account until taxes are due.

PROPERTY INSURANCE – Another housing expense is fire and hazard (property) insurance. The annual cost of property insurance is generally about ½ percent of the market value of the house. Thus, the cost of insuring a $30,000 house is about $150.00 per year or $12.50 a month. Costs naturally vary somewhat according to coverage and location. Although inflation has increased home values and insurance costs in recent years, the increase in insurance costs has been relatively small (1967-1975, 28 percent increase) (8).

UTILITIES – A major factor increasing monthly housing costs has been escalating utility costs. Increases of more than 100 percent were experienced from 1967 to 1975 in certain heating fuels, although the average utilities costs increased only 60 percent.

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[7] Many leading housing authorities contend that the consumer should consider the level of services provided by communities as well as the dollar amount of property taxes. For instance, if higher property taxes produce better fire protection, the homeowner's insurance costs may be less or if better schools and parks are provided, resale value may be improved. There appears, however, to be a limit to such contentions, especially when the homeowner may receive little or no benefit from services provided by property taxes.

[8] In a few cases, property taxes may even be less. The most notable example is observed in the Minnesota iron range cities where a special taconite credit is given to residential property owners.

Naturally, it is difficult to estimate average costs for specific situations because utility costs for electricity, telephone, gas, oil, water, and sewer vary according to: 1) the family's life style, 2) the age and condition of the heating system, 3) the type of heating fuel used and local rates, 4) the presence of selected equipment such as an air conditioner, 5) the quality of insulation, windows, and weather stripping, 6) the local climatic conditions, and so on. However, to establish an accurate estimate of monthly housing costs, it is necessary to determine approximate utility costs for electricity, telephone, gas, oil, water, and sewer. To resolve this dilemma, the home buyer may check with the seller or local utility suppliers.

Generally in Minnesota the annual costs of utilities average 2 to 3½ percent of the market value of the home per year (6) except in unusual situations. Thus, the utility costs for a $30,000 house would be $600 to $1050 a year or $50 to $88 per month in most cases.

REPAIR AND MAINTENANCE – The most frequently overlooked cost of housing is the expense of repair and maintenance. Although these expenses are difficult to anticipate, the consumer must budget for repair and maintenance. For the average homeowner, these costs have increased 83 percent between 1967 and 1975 (8).

Research has indicated that annual maintenance-repair expenses may vary between 1 percent of the market value of new houses to 2½ percent of the value of older houses (3). This wide range may be attributed to several factors including the age and quality of original construction, the amount of labor furnished by the owner, climatic conditions and natural disasters, and so on. Perhaps the most realistic estimates for Minnesota may be based on periodic surveys conducted by the Veterans Administration Regional Office. The VA reports that annual repair-maintenance expenses average 1 percent of the market value of houses 15 years old or less and 2 percent of the market value of houses older than 15 years (6). Thus, for a new $30,000 house, maintenance and repair costs would average about $300 per year or about $25 per month.

Assuming that the aforementioned averages are accurate and that monthly costs will remain stable (which of course they will not), the monthly and 30-year direct costs of owning a new $30,000 house may be estimated as follows (table 4):

$30,000 purchase price (also market value or MV)
600 initial costs (2 percent of MV)
7,500 downpayment (25 percent of MV)
22,500 mortgage at 8 percent[9] for 30 years

Table 4

Item	Average percent	Average monthly expense	Average 30-year total
. Principal (30-year average)	18.4	$ 62.50	$ 22,500
. Interest (30-year average)	30.2	102.60	36,936
. Taxes (@ 2% of MV per year)	14.7	50.00	18,000
. Insurance (@ ½% of MV per year)	3.7	12.50	4,500
. Utilities (@ 3% of MV per year)	22.0	75.00	27,000
. Repair-Maintenance (@ 1½% of MV per year)	11.0	37.50	13,500
TOTAL	100.0%	$340.10[9]	$122,436

Using the property tax rate, down payment, and previously mentioned monthly costs for more expensive new houses, the costs for a $35,000 house would average $400 per month, and a $40,000 house would average $467 per month.[9]

[9]At the time of publication (September, 1975) interest rates for conventional and FHA mortgages averaged 9 percent nationally. In the examples noted above, this interest rate would increase the monthly cost of the $30,000 house to $356, the $35,000 house to $418 and the $40,000 house to $488.

Of course, many variations in these expenses are possible. For instance, if the interest rate increased or decreased ½ percent, the expense for principal and interest would change about $8 per month or $3,000 over a 30-year period.

While considering total monthly occupancy costs, it may be surprising to realize that all monthly housing costs, except for principal, do nothing to pay for the lot or house itself. The other expenses are the operating costs paid by the homeowner for the money borrowed (interest); public services (taxes); insurance protection; heat, light, water, sewer, and telephone service (utilities); and repair and maintenance.

Including the initial construction costs in the same example of the $30,000 house, the breakdown expenses would be similar to table 5.

The reduction of construction costs may have little direct effect upon the consumer although a reduction in the purchase price may lower mortgage interest costs. Indeed, the most significant costs of housing are those that occur on a monthly or periodic basis including mortgage interest, property taxes, property insurance, utilities, and repairs and maintenance.

IN THIS PERIOD OF RAPID INFLATION, CONSUMERS MUST REALISTICALLY ESTIMATE MONTHLY OCCUPANCY COSTS BEFORE MAKING LONG-TERM COMMITMENTS SUCH AS THE COMMITMENT TO BUY A HOUSE.

SELLING COSTS

The consumer frequently overlooks the fourth major type of housing cost, that of selling a house, which could be quite substantial and thus will influence the financial wisdom of buying or selling a home.[10] For the past several decades, the average length of time that a homeowner has remained in his or her home has been less than 10 years. Thus, to realistically estimate housing costs, a homeowner should consider the eventual expenses of selling as well as the costs of construction-development, initial occupancy, and monthly occupancy. Typical selling costs will include the following:

REAL ESTATE AGENT'S COMMISSION—Most home sellers employ a real estate agent to sell their homes. (According to various estimates, between 70 and 80 percent employ an agent.) Currently, the agent's commissions range from 4 to 10 percent and average 6 to 7 percent of the sales price depending on the community. Thus, the cost of selling a $30,000 house usually includes an expense of $1,800 to $2,100 for the agent's commission.

DISCOUNT POINTS—When a lender makes an FHA or VA mortgage, "discount points" usually are charged (one point = 1 percent of the mortgage amount). Because federal regulations prohibit charging "points" against the borrower (buyer),[11] the seller is expected

[10] Some individuals believe that the impact of selling costs are minimized since the seller attempts to shift the burden of these expenses to the buyer through a higher selling price. While this belief is logically sound, it ignores the fact that these expenses must be met whether disguised in a higher purchase price or borne directly by the seller.

[11] Federal regulations do, however, permit the lender to collect a 1 percent origination fee from the borrower (buyer).

Table 5

Item (if stable)	Monthly occupancy costs		Percent of monthly costs		Percent of construction costs
. Principal (30-year average)	$ 62.50		18.4		———
— developed land		15.62		4.6	25%
— on-site labor		11.88		3.5	19
— materials		22.50		6.6	36
— overhead and profit		8.75		2.6	14
— miscellaneous		3.75		1.1	6
. Interest (30-year average)	102.60		30.2		———
. Taxes (@ 2½% MV per year)	50.00		14.7		———
. Insurance (@ ½% MV per year)	12.50		3.7		———
. Utilities (@30% MV per year)	75.00		22.0		———
. Repair-Maintenance (@ 1½% per year)	37.50		11.0		———
TOTAL	$340.10		100.0%		100.0%

to pay this charge to the lender. For example, if an individual sells a house to a buyer who obtains a $25,000 FHA or VA mortgage from a lender who is charging 5 "points," the seller is expected to pay $1250 (5 percent of $25,000) at the closing. In recent years, "points" have ranged from 1 to 10 or more depending on the mortgage market and the specific lender.

TRANSFER TAX—When property titles are transfered, the seller is generally expected to pay a transfer tax. This amount varies substantially depending on the sales price and the state's tax rates. In Minnesota, the state transfer (deed) tax is $1.10 per $500 of actual cash transacted from the buyer to seller. Thus, in Minnesota, a house sold for $30,000 would obligate the seller to pay a deed tax of $66.00.

PREPAYMENT PENALTY—If the seller's loan is not assumed by the buyer, the seller must pay the remaining mortgage balance when selling the home. This situation is quite common; data indicate that only about 10 percent of the nation's home buyers assume the seller's mortgage (20) and that the average mortgage is paid during the first half of its original term (within 11 or 12 years for 25-year mortgages) (21). When conventional (non-FHA or VA) mortgages are paid before the original maturity date, it is common for lenders to charge a penalty fee. Depending on the original mortgage terms and perhaps the remaining balance, the lender generally will charge between 1 and 3 months' interest for prepayment. The following example illustrates this for a specific situation (prepayment after 7 years):

Original mortgage = $20,000 at 6 percent for 25 years; prepayment penalty of 3 months' interest on remaining balance.

Remaining balance (after 7 years) = $17,340 ($20,000 x .867).[12]

Monthly interest on remaining balance = $86.70 ($17,340 x .005).[12]

Prepayment penalty = $260.10 ($86.70 x 3 months).

Federal Regulations permit FHA and VA mortgages to be prepaid or assumed without penalty. For specific details about prepayment penalties and/or assumption fees, an individual should check with his or her lender.

[12]See Appendices B and C.

MISCELLANEOUS CHARGES—In addition to the costs already discussed, the seller may encounter other expenses including:

. Charge for abstract of title or torrens certificate,
. Survey fee,
. Registration or processing fee,
. Attorney's fee,
. Pest control inspection,
. Capital gains taxes (if not buying another house within 12 months or building one within 18 months of the selling date), and
. Other expenses as negotiated.

When weighing future housing costs, the consumer should recognize that selling costs have increased at a rate slightly greater than the increasing value of preoccupied houses and that the costs of selling influence the financial wisdom of buying versus renting. (For further information, see Rent or Buy? listed on the next page.)

SUMMARY

Housing consumes the greatest single proportion of the average consumer's budget and is increasing at a rate in excess of inflation. It is essential to understand the basic nature and interrelationship of housing costs. With this understood, housing consumers have the foundation to make more intelligent decisions.

For further information, you may wish to check with mortgage officers, local housing and redevelopment authorities, or obtain the following references (free of charge from county extension offices throughout Minnesota, unless noted):

Housing Alternatives (Extension Folder 318), forthcoming January 1976
Balancing Your Housing Needs and Resources (Extension Folder 267)
Selecting a Preowned House
- I. Facts About Buying (Extension Folder (299)
Selecting a Preowned House
- II. Obtaining Financing and Professional Assistance (Extension Folder 300)
Selecting a Preowned House
- III. Finding Your Best Buy (Extension Folder (301)

Selection Guide for Mobile Homes (Extension Folder 266)
Site Selection For Your Mobile Home (Extension Folder 265)
Costs of Owning a Mobile Home (Extension Folder 287)

The Renter's Guide (Extension Folder 283)
Selection Guide For Factory-Built Housing (Extension Folder 286)
Thoughts on Remodeling (Extension Folder 268)
House Planning Worksheet (Extension Folder 270)
The Home Seller's Guide (Extension Folder 288)
Selling Your House Yourself (Extension Folder 302)

Rent or Buy? (Bulletin 1823) Available for 80 cents from the Government Printing Office, Washington, D.C. 20402

Settlement Costs and You — A Guide for Homebuyers (Published by the American Bankers Association as prescribed by the Real Estate Settlement Procedures Act of 1974) Available free from any lender or real estate agent.

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Appendix A. Monthly payment tables (per $1000) for mortgage principal and interest

Interest rate (percent)	10 years Monthly	10 years Total	20 years Monthly	20 years Total	25 years Monthly	25 years Total	30 years Monthly	30 years Total
6	$11.11	$1333.	$ 7.17	$1721.	$ 6.45	$1935.	$ 6.00	$2160.
7	11.62	1394.	7.76	1862.	7.07	2121.	6.66	2398.
7½	11.88	1425.	8.06	1934.	7.39	2217.	7.00	2520.
8	12.14	1457.	8.37	2009.	7.72	2316.	7.34	2642.
8½	12.40	1488.	8.68	2083.	8.06	2418.	7.69	2768.
9	12.67	1520.	9.00	2160.	8.40	2520.	8.05	2898.
9½	12.94	1553.	9.33	2239.	8.74	2622.	8.41	3028.
10	13.22	1586.	9.66	2318.	9.09	2727.	8.78	3161.
11	13.78	1654.	10.33	2479.	9.81	2943.	9.53	3431.
12	14.35	1722.	11.02	2645.	10.54	3162.	10.29	3704.

Appendix B. Remaining mortgage balance (percent of original 30-year loan)

Interest rate (percent)	Years: 2	5	7	10	15	20	25
6	97.5	93.1	89.6	83.7	71.0	54.0 (21)*	31.0
7	97.9	94.1	91.1	85.5	74.0	57.3 (22)	33.6
7½	98.1	94.6	91.8	86.8	75.4	58.9 (23)	34.9
8	98.3	95.1	92.5	87.7	76.8	60.5 (23)	36.2
8½	98.4	95.5	93.1	88.6	78.1	62.0 (23)	37.5
9	98.6	95.9	93.6	89.4	79.3	63.5 (23)	38.8
10	98.8	96.6	94.6	90.9	81.7	66.4 (24)	41.3

(percent of original 25-year loan)

Interest rate (percent)	Years: 2	5	7	10	15	20
6	96.3	89.9	85.0	76.3	58.0 (16)*	33.3
7	96.8	91.2	86.7	78.6	60.9 (17)	35.7
7½	97.1	91.7	87.5	79.7	62.2 (17)	36.9
8	97.3	92.3	88.2	80.8	63.6 (17)	38.1
8½	97.5	92.8	88.9	81.8	64.9 (18)	39.2
9	97.7	93.3	89.6	82.7	66.2 (18)	40.4
10	98.0	94.2	90.9	84.6	68.8 (18)	42.8

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*Year when remaining balance (principal) of loan is less than 50 percent.

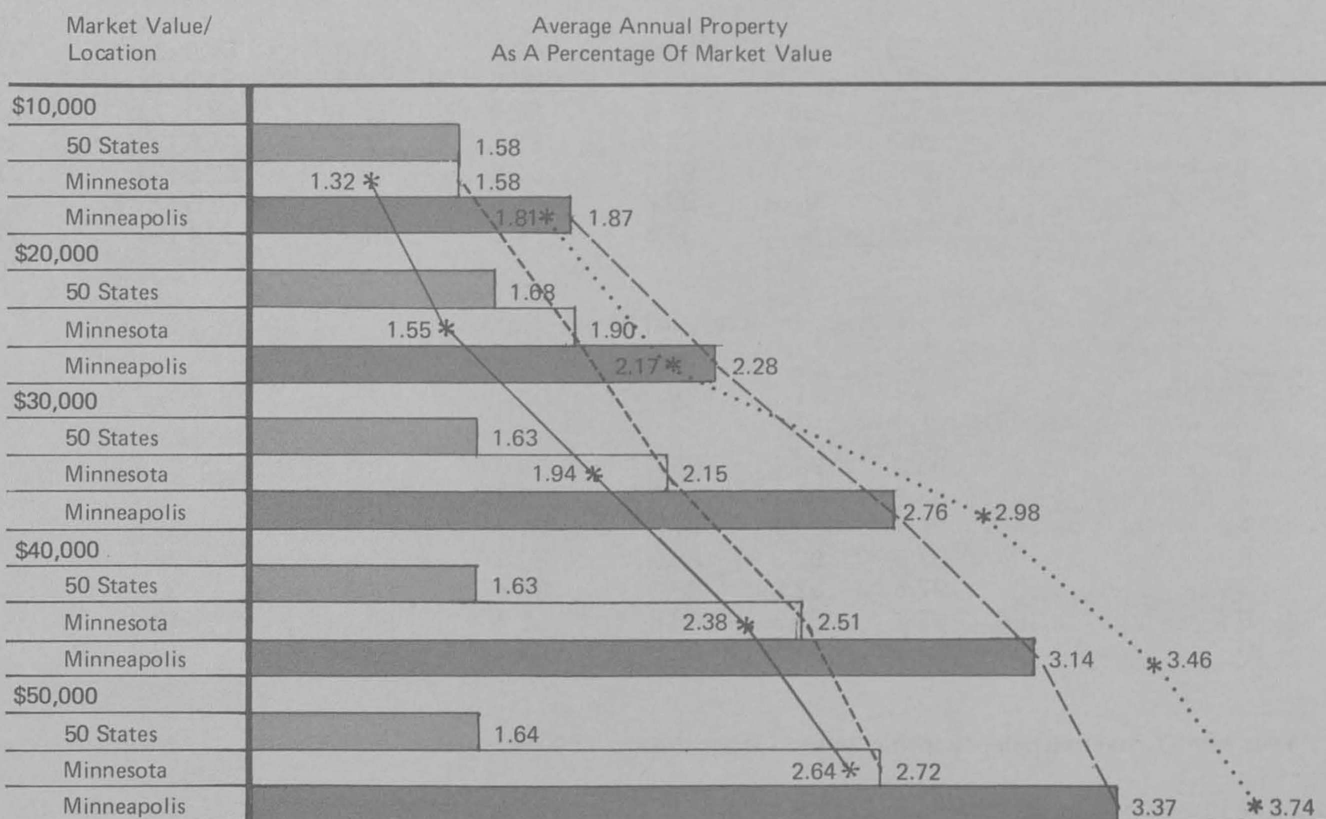
The importance of the remaining balance concept is that most homeowners do not hold their mortgages for the entire term or life of the mortgage. Frequently, when a homeowner sells the home, he or she pays the remaining balance of the mortgage. The exact amount the homeowner pays depends on four factors: (1) original loan amount, (2) interest rate, (3) original term of the loan, and (4) time when the mortgage is repaid. Thus, if the homeowner has a $30,000 mortgage at 8 percent and pays his mortgage after 7 years, he or she would owe $27,750 ($30,000 x 92.5%) if the original term was 30 years and $26,460 ($30,000 x 88.2%) if the term was 25 years.

Appendix C. Interest factors of monthly loan payments

Interest rate (percent)	Factor	Interest rate (percent)	Factor
6	.5	8½	.7083
6½	.5417	9	.7500
7	.5833	10	.8333
7½	.6250	11	.9167
8	.6667	12	1.0000

To calculate the monthly interest payment on a mortgage, the balance of the mortgage is multiplied by the factor corresponding to the interest rate. For example, if an individual has a 7 percent mortgage with a remaining balance of $20,000, the monthly interest payment would be $116.66 ($20,000 x .5833). This table is useful when an individual encounters a prepayment penalty as described on page 11.

Appendix D. Average Property Tax Liability by Market Value 1972 and 1975



Notes: Bar graphs = property taxes payable in 1972
Asterisk (*) = property taxes payable in 1975
50 State = average of 50 states in 1972 (1975 data not available)
Sources = 1972 data (19); 1975 data (16)

This graph reflects information collected by the Minnesota Department of Taxation. The data indicate several pertinent facts for housing consumers:

- Minnesota residential property taxes have been higher than the 50 state average.
- Residential property taxes in Minneapolis are substantially higher than both the 50 state and Minnesota averages.
- Between 1972 and 1975, property taxes as a percentage of market value have on the average
  - declined in Minnesota especially among lower value residences
  - slightly declined on lower value residences in Minneapolis while increasing for higher value residences.

Because of rising market values on most homes, however, property taxes have generally increased for Minnesota homeowners — especially for owners of more expensive homes. This situation is illustrated in the following example for a house worth $30,000 in 1972 and $40,000 in 1975 (approximately 10% increase in value per year).

AVERAGE PROPERTY TAXES PAID

LOCATION	1972 ($30,000 House)	1975 ($40,000 House)
50-State	$489 (1.63% of MV)	NOT AVAILABLE
Minnesota	$645 (2.15% of MV)	$952 (2.38% of MV) = 48% increase
Minneapolis	$828 (2.76% of MV)	$1,384 (3.46% of MV) = 67% increase