AFFORDABILITY EXPLAINED

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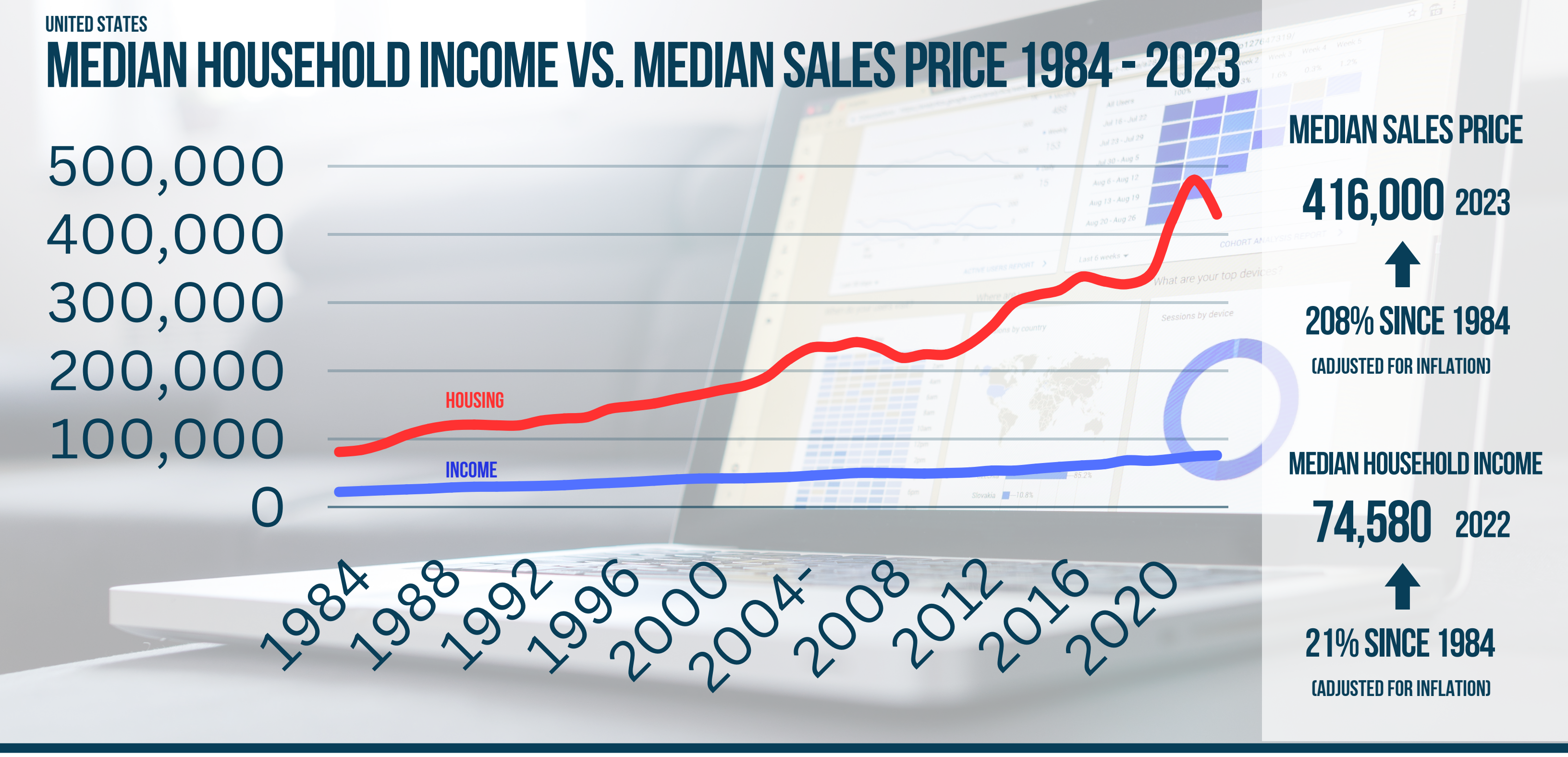
AFFORDABLE, OR OUT OF REACH?

The undeniable truth about the U.S. housing market is that it has mainly become unattainable for most prospective homebuyers. High mortgage rates, soaring home prices, and a lack of inventory have created an unprecedented affordability crisis for many Americans. According to data from the National Association of REALTORS®, the dream of homeownership for families is now at a historical low, a stark reality confronting over 80% of U.S. residents living in metropolitan areas as of 2023. With that number expected to grow to nearly 90% by 2050, something must be done to right the ship of affordability in the United States.

In the face of this ongoing erosion of housing affordability, U.S. citizens have become increasingly alarmed. In 2018, when the Pew Research Center asked about the major issues affecting local communities, the top concern was Drug Addiction at 42%, with the Availability of Affordable Housing trailing at 39%. However, by 2021, the tables had turned dramatically, with housing affordability taking the number one spot, an alarming 49% of respondents, a 10% increase. In contrast, Drug Addiction concerns fell to 35%. Younger Americans (55%), urban residents (63%), and those with lower incomes (57%) expressed heightened worry compared to their counterparts.

The house-price-to-income ratio in the U.S., which gauges house prices in relation to annual income, has steadily climbed since the mid-1980s, surpassing the historical range of three to four. It soared to a high of 5.11 in 2005. Though it dipped somewhat in the aftermath of the subprime mortgage crisis, it never returned to historical norms. New records were set in 2014 (5.33) and again in 2021 (5.61). Notably, this ratio calculation involves averaging housing prices annually due to the different release frequencies of median housing prices and median household incomes.



HOUSING OUTPACING INCOME

The numbers from the U.S. Bureau of Labor Statistics are equally alarming, showing housing prices in 2023 to be a staggering 207.52% higher than in 1984, equivalent to a $168,089 difference in value. This represents an average annual inflation rate of 2.92%, far exceeding the overall inflation rate of 2.79% during the same period. To put it into perspective, a home that cost $81,000 in 1984 would set you back $249,089 in 2023. Most homeowners today, at least in California, would jump at the opportunity to purchase an average home for $250k. Unfortunately, that is not a reality in today's market. The median sales price for a California detached home in September this year was $843,000.

So, what's the root cause behind the relentless erosion of housing affordability in the United States? Ultimately, it comes down to a number of factors. One major factor is that new construction has not kept pace with population growth for years. In January 1959, there were approximately 1.7 million housing starts, whereas in January 2023, that number had dropped to 1.3 million, even as the U.S. population nearly doubled from 176 to 335 million. Numerous factors at the local level conspire against more housing construction, including limited space, restrictive zoning laws hindering the development of multi-family homes, and the complications arising from the COVID-19 pandemic, which have caused global supply chain disruptions and escalated material costs for housing. The situation is further exacerbated by rising interest rates, posing a formidable barrier to the aspirations of first-time homebuyers looking to enter the market.

To see housing return to a more affordable environment, it will likely take a correction in home prices, a significant decline in 30-year mortgage rates, or a substantial hike in income to normalize the market. The latter is the least likely scenario to occur, so look for affordability to return to normalcy once rates ease in the long run.