

AFFORDABILITY REVISITED

REPORTS ON HOUSING
ECONOMICS EXPLAINED

ARTICLE BY: MATTHEW GARCEAU



AFFORDABILITY IN AN ELECTION YEAR

In the United States, there exists a pressing issue of housing affordability, a problem that has been brewing for several decades. At its core lies the failure to construct an adequate number of homes to accommodate the nation's expanding population. This shortage strikes at the fundamental aspiration of the American dream of homeownership, challenging assertions of a robust economy by the current presidential administration and highlighting the oversight of this issue during the tenure of prior administrations.

According to an analysis by Harvard University, housing scarcity has led to a significant percentage of renters allocating an excessive proportion of their income toward housing expenses. Insufficient availability of homes for sale or under construction has led to elevated prices. Additionally, average mortgage rates have more than doubled, exacerbating the affordability crisis.

The Census Bureau's report indicates a slight decline in homeownership towards the end of the previous year despite an otherwise stable economy. If not for the burden of shelter costs, inflation, Biden's prominent economic concern, would be at a healthier and more stable rate of 1.8%, instead of the current 3.2%.

This housing affordability challenge is increasingly recognized as bipartisan, potentially fostering collaboration between political parties. Once predominantly an issue in Democratic strongholds like New York City and San Francisco, expensive housing has extended its reach into Republican territories such as Boise, Idaho, where residents grapple with soaring prices.

Mark Zandi, the chief economist at Moody's Analytics, suggests that the outcome of the November election could hinge on the trajectory of 30-year mortgage rates. The current housing affordability crisis may render homeownership unattainable for many first-time buyers if rates continue to rise. Consequently, voters' perceptions of the economy could be deeply influenced by the accessibility of homeownership. Lowering mortgage rates may sway voters, but economists caution that such measures offer only temporary financial relief, as purchase prices are likely to adjust upwards in response to increased demand.

While addressing housing affordability through construction presents a more lasting solution, it requires years to implement and new state and local regulations. The administration is attempting to incentivize zoning changes, but major decisions lie beyond the White House's jurisdiction.

The generally accepted guideline suggests that individuals should not allocate more than 30% of their income towards rent or mortgage payments. However, a typical household seeking to purchase a home would need to dedicate 41% of its income to mortgage payments, according to Redfin. Daryl Fairweather, chief economist at Redfin, highlights the severity of the issue, noting that despite improvements in income and overall economic conditions, many people still struggle to afford homes, posing a significant challenge for the Biden administration.

Although bipartisan acknowledgment of the need for increased housing availability exists, a comprehensive plan has yet to be approved by both the House and the Senate. Biden has proposed housing assistance initiatives throughout his tenure, but implementation has yet to materialize. Unfortunately, with the upcoming election cycle, there may not be sufficient time for any proposed solutions to take effect, leaving families and individuals grappling with the urgency of housing affordability issues.



ORANGE COUNTY ACTIVE LISTINGS INVENTORY