ANOTHER LOOK AT AFFORDABILITY

REPORTS ON HOUSING
ECONOMICS EXPLAINED

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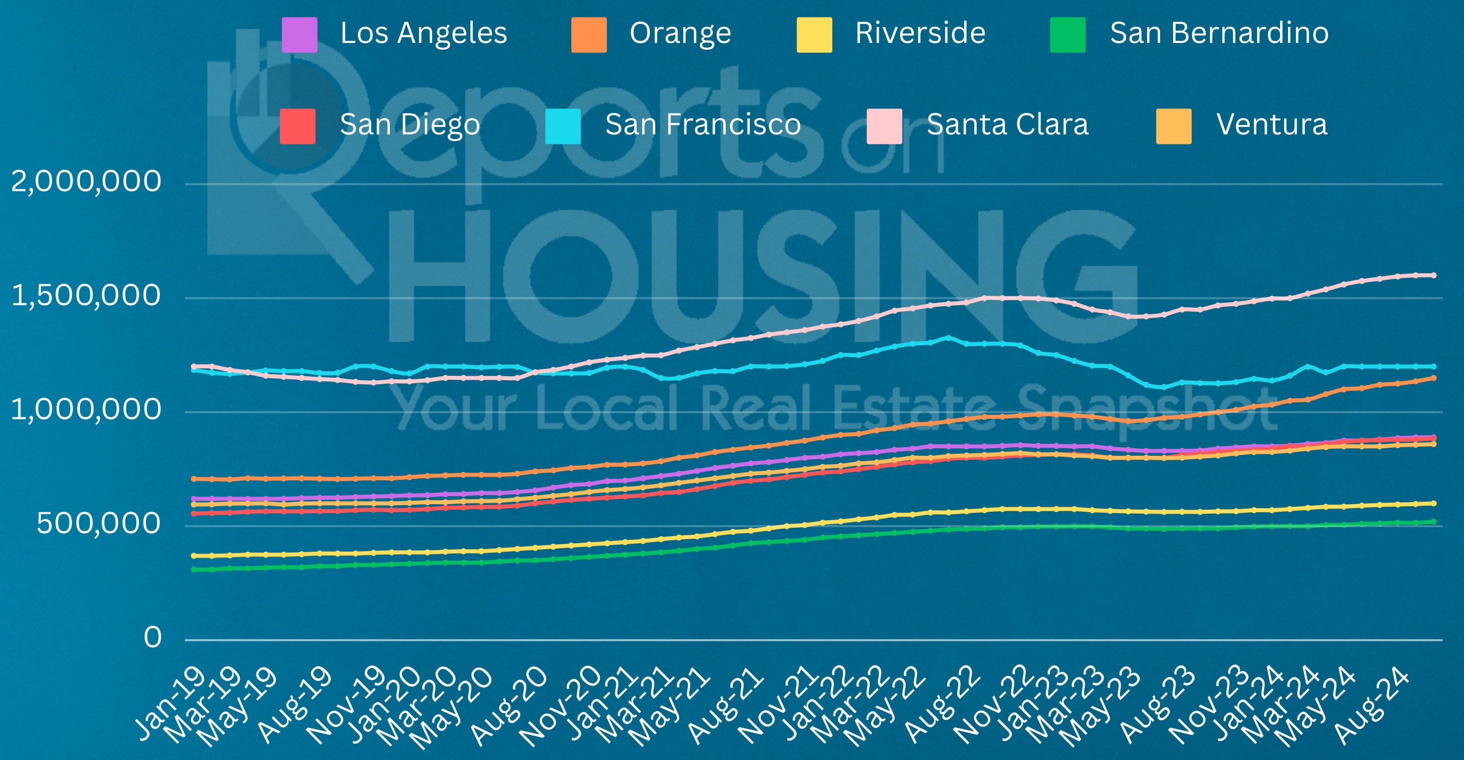
HOME PRICES ARE STILL INCREASING

The 2024 housing market has faced significant challenges, building on the downturn seen in 2023 with struggling home sales. Housing affordability in California remained near historic lows, posing ongoing difficulties for buyers and sellers. Although affordability improved in many counties due to rising household incomes and slightly lower mortgage rates, home prices remained elevated across the state, softening only marginally from the previous quarter. Consequently, affordability in one-fourth of California counties tracked by C.A.R. either stayed the same or declined compared to the same quarter last year.

A recent National Association of Realtors (NAR) report revealed that nearly **90%** of the 226 metro markets tracked experienced home price increases in the third quarter of 2024. NAR Chief Economist Lawrence Yun commented that while housing affordability remains challenging, the “worst appears to be over.” Rising wages are now outpacing home price growth, mortgage rates are stabilizing, and inventory levels are improving, giving consumers more options.

Oxford Economics released another report analyzing the income households need in 173 U.S. metros to afford a median-priced home, including property taxes and insurance. Their findings indicate that the average U.S. household would require an income of $107,700 annually to afford these costs in Q3 2024, almost double the $56,800 required in Q3 2019. **Only 36% of households in 2024 earned this amount, down from 59% in 2019.** California accounted for four of the five least affordable metros, with San Jose topping the list; prospective buyers would need nearly double the income required five years ago, with the median home price at $1.89 million in Q3.

CALIFORNIA COUNTIES: MEDIAN SALES PRICE 2019 -2024



*ROLLING 12 MONTH AVERAGES

According to C.A.R.'s Traditional Housing Affordability Index (HAI), **16% of Californian homebuyers could afford a median-priced, single-family home in Q3 2024**, a slight increase from 14% in the previous quarter and 15% in Q3 2023. This index measures the percentage of households that can afford a median-priced home in California. For the third quarter of 2024, a household needed an annual income of $220,800 to qualify for the purchase of a median-priced home at $880,250, with a monthly payment (including taxes and insurance) of $5,520 on a 30-year fixed-rate loan at an effective interest rate of 6.63%. This payment decreased from the previous quarter due to slight rate reductions. Yet, with rates creeping up back up to 7%, affordability has diminished once again.

Statewide, the median price of existing single-family homes in California declined 2.9% quarter-over-quarter due to seasonal factors and a shift in the sales mix. Year-over-year, California saw price increases for the fifth consecutive quarter, albeit at a slower rate of 4.3%—the slowest since Q3 2023. With the market entering the off-season, prices are expected to soften further as inventory rises and competition cools. Slower price growth could help alleviate the affordability strain, though recent spikes in mortgage rates may continue to challenge buyers for the remainder of the year.

Persistently high interest rates and borrowing costs have placed significant pressure on housing affordability over the past two years. However, the prospect of lower rates in 2025 suggests that homebuying and refinancing activity may soon see an upswing. Lawrence Yun forecasts a **10%** increase in existing home sales in 2025 and 2026. Whether this will ease the current housing cost burden for American families remains to be seen. Stay tuned for a comprehensive market forecast from Steven Thomas, Chief Economist at Reports on Housing, who will share his 2024 assessment and 2025 affordability insights at our annual forecast event next month.