

Housing Market Hits 1980s Level of Unaffordability

November 9, 2023 - U.S. housing market is facing its worst affordability crisis since the 1980s. The reason? Mortgage rates have reached the highest level in 23 years. In October, the monthly cost of the principal and interest on a typical home exceeded \$2,500 for the first time since 1975. This payment increased by \$144 in just one month.

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Over the past two years, the monthly payment has risen by a staggering 94%. As of November 2, the average rate for a 30-year fixed-rate mortgage was 7.76%, according to Freddie Mac. On average, this monthly payment now consumes about 41% of household income. This is a significant jump from less than 25% of household income, which is where the number was just two years ago. It is also important to note that these price increases don't include taxes and insurance costs; which have also increased.

This pricing pain is not being spread equally across the country. Cleveland is the most affordable market, with monthly payments taking up 25.5% of a household's income. Los Angeles is the least affordable, with payments eating up 76.5% of a household's income, followed by San Diego and San Jose.

Prices in many markets have begun to fall but again, that isn't happening equally across the country. Boise, ID has probably seen the largest drop in prices. One of the main reasons for this is that during the COVID pandemic, many employers weren't requiring their employees to come into the office. And many people decided to relocate to the Boise area at that time. But that's all changed and many of the new transplants in the area are finding that they have to move again to keep their jobs.

On the other hand, the Los Angeles market has too few property listings and virtually everything on the market is receiving multiple offers and selling within a matter of days. The bottom line here is that any price reductions on a national basis are likely to vary substantially on a regional basis.

by Jim Malmberg

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