The Great American Housing Challenge: Rising Costs and Stagnant Incomes

July 8, 2024 - In recent years, the dream of homeownership has become increasingly elusive for many Americans. A new study by Zillow highlights a dramatic shift in the housing market, showing a 42% surge in home prices and a 96% increase in mortgage payments since 2020. This spike has created substantial barriers for those looking to buy a home.

Prospective buyers now need to earn 80% more than they did just four years ago to comfortably afford a home. However, median incomes have only risen by 23% during the same period, widening the affordability gap. The chief economist at Zillow, Orphe Divounguy, emphasized that the income required to purchase a home now far exceeds what most households earn, pricing many families out of the market. That too is a significant change from just four years ago.

Back in 2020, The average household income was $66,000 and a majority of families in the hunt for a house could qualify for a mortgage on a median priced home. Only $59,000 in income was required for that. But today, the average household income is $81,000. And the average household income needed to qualify on for a mortgage on a median priced home is $106,000. Put another way, a majority of people who want to purchase a home today simply canâ€™t afford to buy one.

One of the primary factors leading to the housing affordability issues is interest rates. In January, 2020 mortgage interest rates hovered around 3.5%. Today, they are close to 7%.

For the average American family, these developments present a daunting challenge. The gap between incomes and home prices means that many potential buyers are being priced out of the market entirely. This trend not only delays the dream of homeownership but also has broader implications for economic stability and wealth accumulation. Without the ability to purchase homes, families miss out on building equity and securing long-term financial stability.
by Jim Malmberg
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