THE HOUSING AFFORDABILITY CRISIS

REPORTS ON HOUSING

ECONOMICS EXPLAINED

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DREAMS PLACED ON HOLD

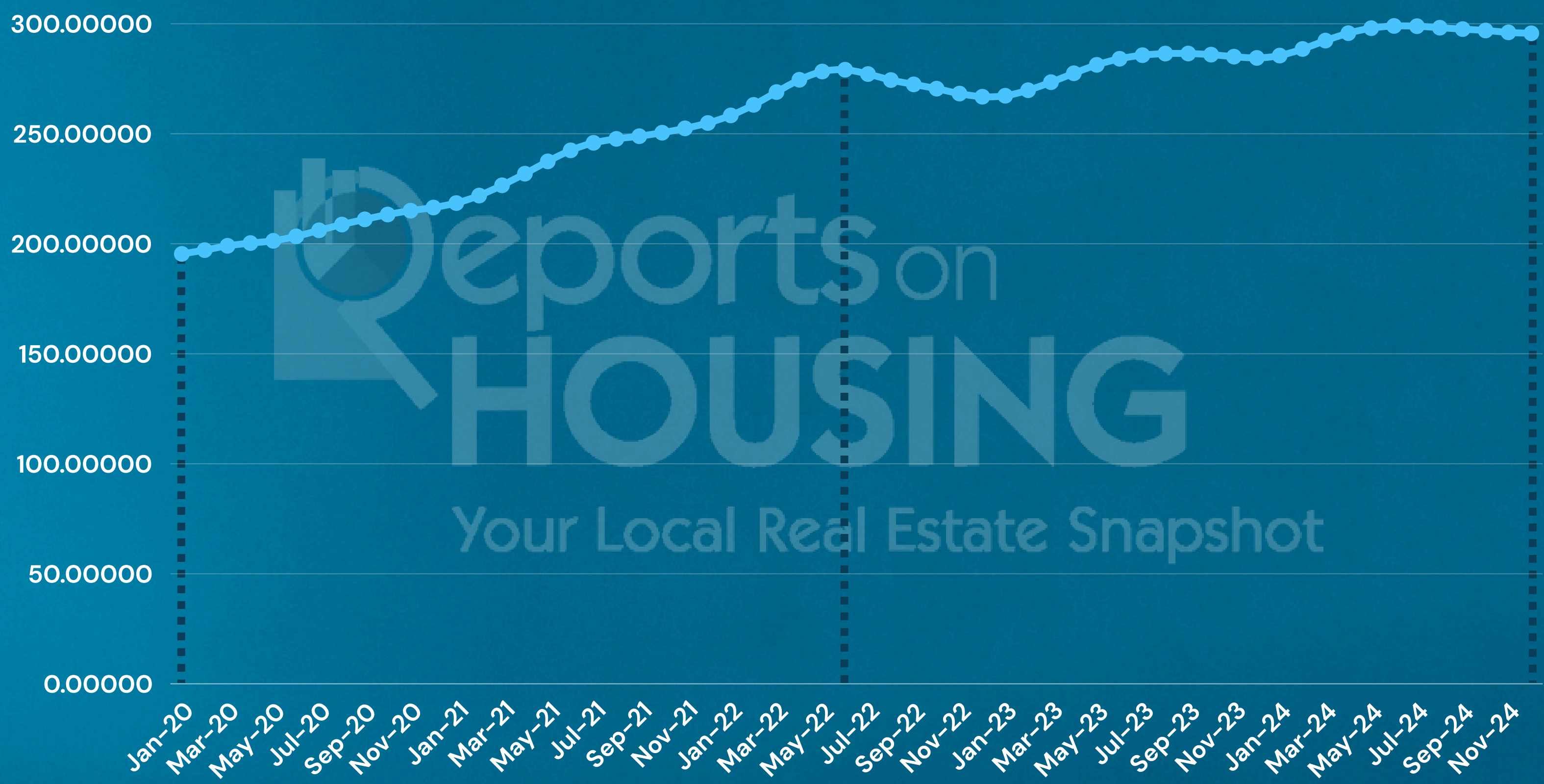
From 2012 to 2019, the main worry of the public was recovering from the Great Recession. The primary fear from 2020 was whether the housing market could recover from the COVID lockdown. Since then, fears have focused on affordability and whether it may return to pre-COVID levels. To combat these fears, house seekers should stick with the facts and set **proper expectations**.

Affordability is stricken; there is no sugar-coating that fact. However, to better understand affordability, it's essential to understand the key factors involved: **mortgage rates** rose from historic lows to decade-record highs, **housing prices** have continued to soar, and **incomes** are not growing as fast as needed.

To put the mortgage market into perspective, when mortgage rates hit 8% in October 2023, this was the highest reading since August 2000. Many speculate that the market would freeze and lead the United States into a recession, but the housing market has proven extremely resilient. On October 5, 1981, mortgage rates hit an all-time high of 18.42%. Of course, housing prices were much lower compared to today, but it shows that mortgage payments could've been much worse.

Housing prices have been the talk of the town ever since 2008. From the unprecedented housing crash during the Great Financial Crisis to the overwhelming housing price boom following rates hitting a historic bottom during COVID. According to Freddie Mac's House Price Index (HPI), from the peak of 2022 to today, home prices in the United States have risen by 6%. Since the start of 2020, prices have increased by a staggering 51%. This index is known to be volatile, but signs of weakness have shown in the HPI Index, as home prices fell from their all-time peak in June 2024 through December 2024 by 1.1%. As long as mortgage rates hover near 7%, home prices will continue to show signs of weakness.

FREDDIE MAC HOUSE PRICE INDEX - 2020-2024



THE FREDDIE MAC HPI, ADJUSTED TO DECEMBER 2000, SHOWS HOME PRICE CHANGES RELATIVE TO THAT BASELINE

JANUARY 2020	JUNE 2022	DECEMBER 2024
195.39	284.46	295.65

The last contributor, but not least important, is income levels. According to the Federal Reserve Bank of St. Louis, average hourly earnings in the United States have increased by 15% since the start of 2020. As mentioned before, home prices rose by 51%. That means that there is a disparity of 36% during that period. If those figures were closer to 0%, affordability would be on track to improve. Sadly, home prices have significantly outpaced incomes.

The three main factors combined are why affordability has eroded. Younger generations, like Millennials and Gen. Z, struggle to enter the housing market. According to the National Association of Realtors, only 24% of all U.S. home sales in 2024 went to first-time home buyers. The 24% was the “lowest share” since tracking began in 1981. Fewer first-time home buyers are purchasing due to issues with affordability and the mortgage rate lockdown, where fewer people are inclined to move with their low-locked-in fixed mortgage rate.

To fix this issue, one cannot depend on home prices to plunge. Thankfully, affordability can improve again, with mortgage rates eventually easing below 6% and incomes improving with a strong United States economy. Till then, we will have to watch how 2025 continues to unfold.