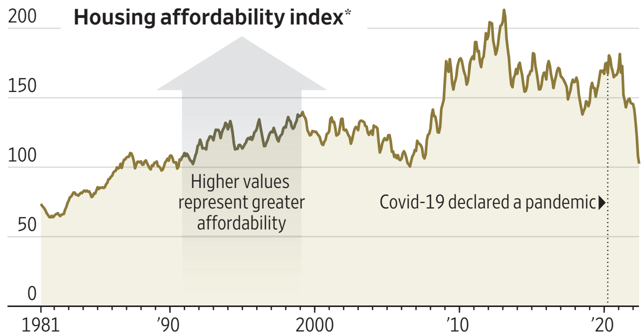
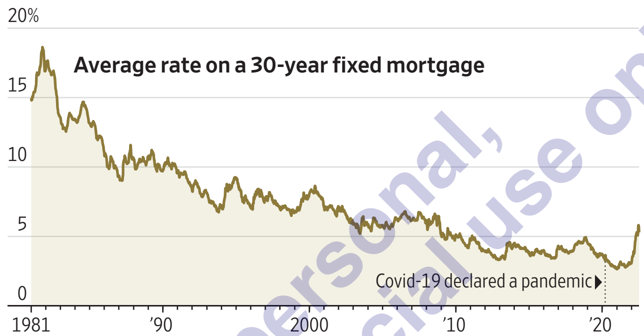
Housing Affordability Sinks

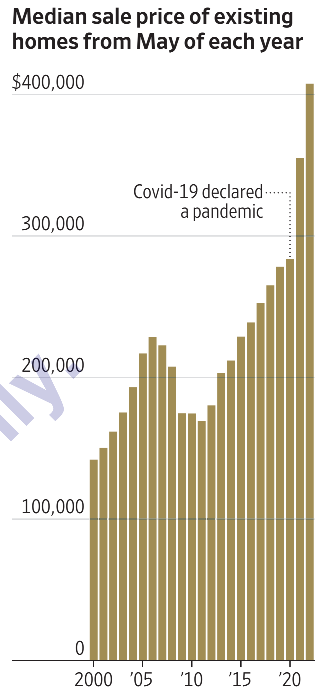
By Nicole Friedman





*Assuming 20% down payment and 30-year fixed-rate mortgage for existing median-priced home with median family income for the corresponding year. Monthly data, through May

Sources: National Association of Realtors (index, median sale price); Freddie Mac (rate)



Note: World Health Organization declared Covid-19 a pandemic in March 2020.

Record home prices and higher mortgage rates in May made it the most expensive month since 2006 to buy a home, prompting more buyers to give up and pressuring sellers to cut asking prices.

The National Association of Realtors' housing-affordability index fell to 102.5 in May, the association said Friday, the lowest level since the index fell to 100.5 in July 2006. It was close to the lowest level since July 1990, when the index stood at 100.2. The affordability index incorporates median existing-home prices, median family incomes and average mortgage rates.

On a national basis, home buying was relatively affordable in 2020 and last year, thanks to record-low mortgage rates even as strong demand sent home prices skyrocketing. But this year, mortgage rates have moved up sharply and house prices have climbed to new highs nationwide.

"I don't know that we'll ever see affordability again like we saw in the last year or two," said Mark Fleming, chief economist at First American Financial Corp.

The decline in affordability makes it especially difficult for first-time home buyers to enter the market, economists say. Homeownership has long been the key path to wealth-building for the U.S. middle class.

The typical monthly mortgage payment rose to $1,842 in May, NAR said, up from $1,297 in January and $1,220 in May 2021, assuming a 30-year fixed-rate mortgage and a 20% down payment.

Mortgage rates have slipped in the past two weeks. But affordability is likely to get worse in the coming months because home-price growth is expected to exceed income growth, said Lawrence Yun, NAR's chief economist.

The housing market has cooled significantly in recent weeks as would-be buyers have stepped back. Sales of previously owned homes slid in May for the fourth straight month. Some buyers can no longer qualify for mortgages, while others are unwilling to pay hundreds of dollars more a month compared with what they budgeted just a few months ago, real-estate agents say.

The sudden drop in demand is expected to lead to slower home-price growth by the end of the year. Some economists are forecasting price declines.

"We're in a housing-affordability crisis right now," said Robert Dietz, chief economist at the National Association of Home Builders.

More sellers have cut asking prices in recent weeks, especially in housing markets that posted some of the sharpest price growth in recent years, including Boise, Idaho; Phoenix; and Austin, Texas, according to real-estate brokerage Redfin Corp.

Nationwide, however, many economists say home prices can keep rising because the inventory of homes for sale generally remains low. The number of active listings in June was down 34% from June 2020 and down 53% from June 2019, according to Realtor.com. News Corp, parent of The Wall Street Journal, operates Realtor.com.

Dalton and Lacy Lyons saw the market slowdown firsthand as they shopped for a home near Denver. They started house hunting in April and made five offers over list price but lost out to other bidders. By the time they found a three-bedroom home with an unfinished basement in Castle Rock, Colo., in June, the market competition had cooled off. The seller accepted their offer at the $555,000 asking price and agreed to pay $2,500 toward their closing costs.

But a less-competitive market didn't mean a cheaper one. The Lyonses had to reduce their budget as mortgage rates climbed.

"We're very excited," Mr. Lyons said. But "what's really disheartening is if we would have been shopping six months ago, the way rates were, we would have been looking at more like a $700,000 home."

The average rate on a 30-year fixed-rate mortgage was 5.3% this past week, said mortgage-finance company Freddie Mac. That was down sharply from 5.7% the previous week but up from 2.9% a year ago.

Mortgage-interest rates have largely held below 5% since the 2007-09 recession. In recent years, many millennials have aged into their prime home buying years, and the Covid-19 pandemic has upended where many Americans want to live. Second-home demand has soared during the pandemic, and investors have flocked to the market to buy houses to rent out as rent prices have risen.