THE RESEARCH ROOM

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Housing Affordability

A LONG-TERM ANALYSIS

A recent Forbes headline asked the question: When will home prices be affordable again?[1] It's a fair question to ask in light of recent sales data from the Wisconsin Realtors Association that show the median price of a home sold in Wisconsin increased 44% from $197,833 in 2019 to $285,000 in 2023. The national price increase was similar at 45%, but the 2023 median sales price was significantly higher ($394,100).[2]

Rising prices meant that a 20% down payment on a Wisconsin home jumped from $39,600 to $57,000. With the average mortgage rate approaching 7% in 2023, up from less than 4% in 2019, the monthly principal and interest payment nearly doubled from $748 to $1,480.

These are stunning numbers. Homes have become much less affordable over the past several years. But what do they look like in a broader context? Are homes less affordable today than they were 25 or 50 years ago? To answer this question, we examined national data on housing prices, incomes and mortgage rates from 1975 through 2023.

Rising prices, bigger houses

In 1975, the median new home was 1,535 square feet. In the 48 years since, and despite families getting smaller, the preference for larger homes with more bedrooms and bathrooms has risen. In 2023, the size of the median new home was 2,300 square feet, a 50% increase from 1975.

Among homes sold, new and old, the median sale price in 1975 was $41,600. Since then, prices have climbed significantly. Despite recent trends, the increase in median home prices is not a new phenomenon. Since 1975, the median sale price of a home in the U.S. rose an average of 4.8% per year.

Three periods stand out for their outsized increases. From 1975 through 1979, the median sale price rose an average of 11.6% annually. During 1983-1988, prices rose an average 7.8% per year. More recently, median home prices increased an average of 12.6% per year during 2019-2022. Since 1975, prices have fallen just six times, with four of those coming during and shortly after the Great Recession.

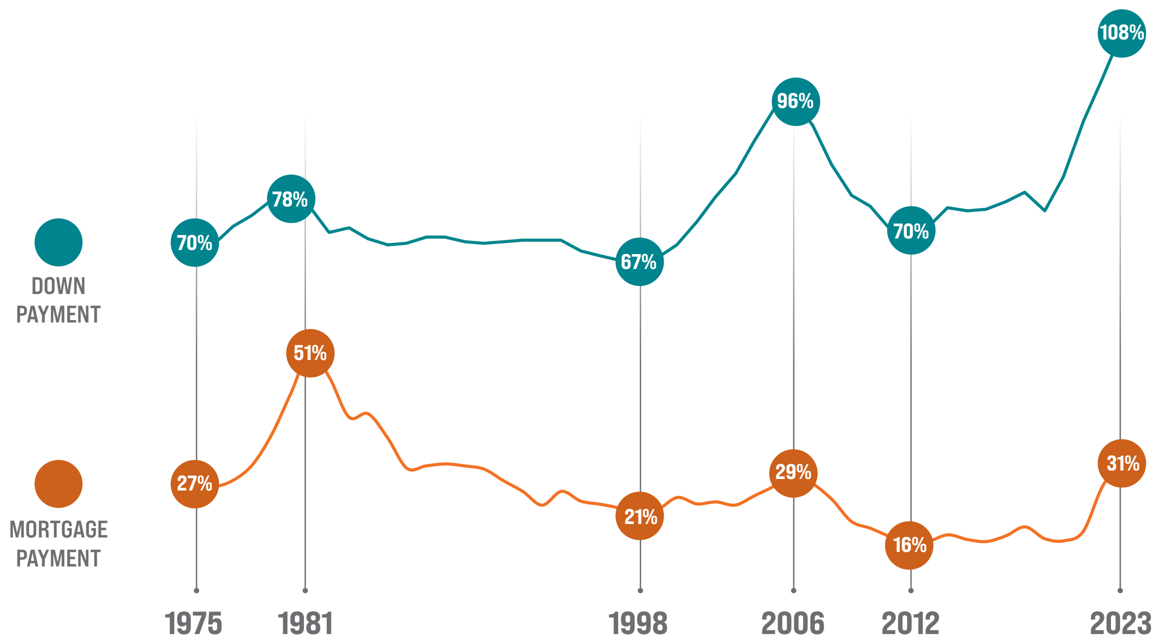
The increase in size explains part of the price growth. Other factors driving prices include building costs and, more recently, housing supply not keeping pace with demand.

Share of income

While home prices are much higher today than in 1975, affordability also depends on buyers' incomes, which have risen as well. We look separately at the two components of a home purchase — the down payment and monthly mortgage payment. In a somewhat surprising finding, from 2009 to 2021, the mortgage payment was more affordable than in any other period since 1975, though the down payment was slightly less. However, as mentioned above, over the past several years, both components of the purchase have become much more costly.

DOWN PAYMENT For many young families, the biggest challenge to buying a home is saving for the down payment. In 1975, a 20% down payment on the median home was $8,300, or 70% of the median household income at the time. After 1980, the share-of-income ratio gradually declined until it reached 67% in 1998 (see chart). Then, in the lead-up to the Great Recession, home prices climbed 78% while household incomes rose just 32%. Down

MORTGAGE AND DOWN PAYMENT **AS SHARE OF MEDIAN HOUSEHOLD INCOME**



payments became much less affordable, reaching 91% of income in 2007.

The housing "crash" helped bring this ratio down to 72% by 2012, after which it crept higher, reaching 79% in 2018. After a blip down in 2019, the 20% down payment soared to 108% of income by 2023, the highest since at least 1975.

MORTGAGE PAYMENT Along with price and income, interest rates also impact the affordability of a new house. While mortgage rates have risen over the past two years, during each of the prior 12 years they were below 5%, and under 4% in eight of those years. By comparison, the average 30-year mortgage rate was just over 9% in 1975 and climbed to more than 16% in the early 1980's, causing the 30-year mortgage payment to nearly double (see chart).

The long-term decline in mortgage rates since then helped homes become more affordable. By 1998, the mortgage share of income had fallen to 21%. It then rose as prices climbed through 2007 and fell during and after the Great Recession.

Based on this measure, the 13 years from 2009 through 2021 were the most affordable years since 1975. A 30-year mortgage ranged from 17% to 20% of median income during this period. When interest rates moved up in 2022, house buying became much more challenging. By 2023, the mortgage share of income was just over 30%.

Caveats

While this macro picture of housing affordability offers some surprising findings, we must keep in mind that housing affordability varies widely across states and cities. Wisconsin differs from other states while regions within Wisconsin vary as well. The housing market in Madison is much different from the market in Rhinelander, which differs from Platteville.

Perhaps more importantly, the affordability measure in this article only accounts for interest rates, home prices and median household income. Family expenditures have changed significantly since 1975, including the cost of services that were once deemed optional but may be considered necessary today, such as high-speed internet and cell phones. Additionally, the cost of other major purchases, such as cars and college education, has increased as well.

That said, many cities and villages have a shortage of housing driving prices higher. Combined with high interest rates that may not come down for many months, home buying will remain unaffordable for many young families. ■

Forward Analytics is a Wisconsin-based research organization that provides state and local policymakers with nonpartisan analysis of issues affecting the state.

1. Forbes.com/advisor/mortgages/real-estate/housing-market-predictions; April 11, 2024.
2. Median sales price from National Association of Realtors®.