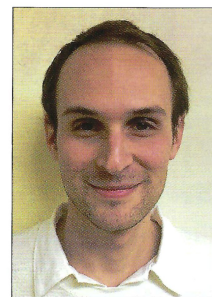


# Affordability Can Make a Comeback in 2016

While affordability in many housing markets see-saws, some builders are refocusing on affordable homes for the growing Millennial base

By JONATHAN DEAN



While the housing market has been recovering steadily since the Great Recession, economic conditions have placed many in uncertain waters when it comes to buying new homes. While there are definitely Gen-Xers and Baby Boomers hoping to find a home they can afford, Millennials have outpaced both groups as the majority of potential homebuyers in 2016; Millennials now make up around 32 percent of the buyers. Unfortunately for them, many builders have not focused on creating entry-level or affordable homes for this emerging group of the population.

A worry that came during the end of the year and into the beginning of 2016 was the looming notion that the Federal Reserve would raise its interest rates past the low rate it had allowed as part of the housing recovery effort. It would seem that the Fed is staying its hand for the time being, which is good for making homes more affordable for more Americans. Federal Reserve Chair Janet Yellen told U.S. News and World Report that "Our decision to keep this accommodative policy stance reflects both our assessment of the economic outlook and the risks associated with that outlook. The committee's baseline expectations for economic activity, the labor market and inflation have not changed much since December."

The Federal Reserve seems to have postponed a rise in interest rates until the beginning of summer, giving recovering and first-time buyers more time to look for a home. The National Association of Home Builders (NAHB) has revealed its Housing Opportunity Index (HOI) for the fourth quarter, and the report reveals that low mortgage rates have managed to keep raising home prices in check for affordability. The NAHB HOI report reveals that around 63.3 percent of homes on the market remain affordable for median income earners, which is slightly better than the numbers this time last year.

However, mortgage interest rates are not the only concern buyers have regarding affordability. Locality affects affordability significantly; so picking a hot housing market may make purchasing a new home difficult for many potential homebuyers. The NAHB report also stated that the Midwest and small Northeastern communities boasted the best affordability for buyers with Binghamton, NY being the most affordable housing market in the

mortgage payment towards a \$170,370 loan needed to buy the home.

According to Realtor.com, many builders have instead chosen to focus on building higher-priced homes due to a suppressed labor force, higher land costs, and worry over the demand for affordable homes.

"Builders were able to be profitable and grow by following this move-up and luxury strategy, but their growth potential was limited

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country. The least affordable markets were in the western United States, mostly concentrated in California with the San Francisco/San Mateo/San Jose area ranking the least affordable.

However, the subject of affordability is beginning to be taken very seriously in many housing markets, particularly in those deemed quite unaffordable. In New York City, Mayor de Blasio has been pushing a recently approved agenda to expand the amount of affordable housing within the five boroughs through amendments to the Mandatory Inclusionary Housing and Zoning for Quality and Affordability texts. In Oakland, Mayor Libby Schaaf is proposing over 17,000 affordable housing units be built.

Beyond particular markets and high rents, it has also fallen to the builders themselves to shift their focus to more affordable housing for the recovering and first-time buyers, who hold the majority. According to the National Association of Realtors, the average price for an entry-level home is about \$189,300, and an average down payment at 10 percent would be \$18,930; a buyer would need to make a median income of \$40,563 to afford a \$845 monthly

by avoiding the entry level," notes Jonathan Smoke of Realtor.com in regards to a shift back towards building single family homes in 2016. "We are already seeing a decline in new-home prices for new contracts signed this [past] fall. In addition, credit access is improving enough to make the first-time buyer segment more attractive to builders."

The freshly formed CalAtlantic Homes is one of the major builders in the United States to begin this shift towards affordable, entry-level homes that will house the next generation of homeowners. Earlier this year, Builder and Developer magazine covered the announcement of The Pines community in Dayton, Minn., built by CalAtlantic and catering to the entry-level buyer crowd while still offering beautiful single family homes.

Affordability has a ways to go in America, but with the largest group served demanding entry-level housing, builders may follow CalAtlantic's example into 2016.



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