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You Now Have to Earn Over $100,000 to Afford a Typical Home in the US

Between the steep mortgage rates and the crazy prices, a monthly payment – not counting insurance and property taxes – is well over $2,000 these days

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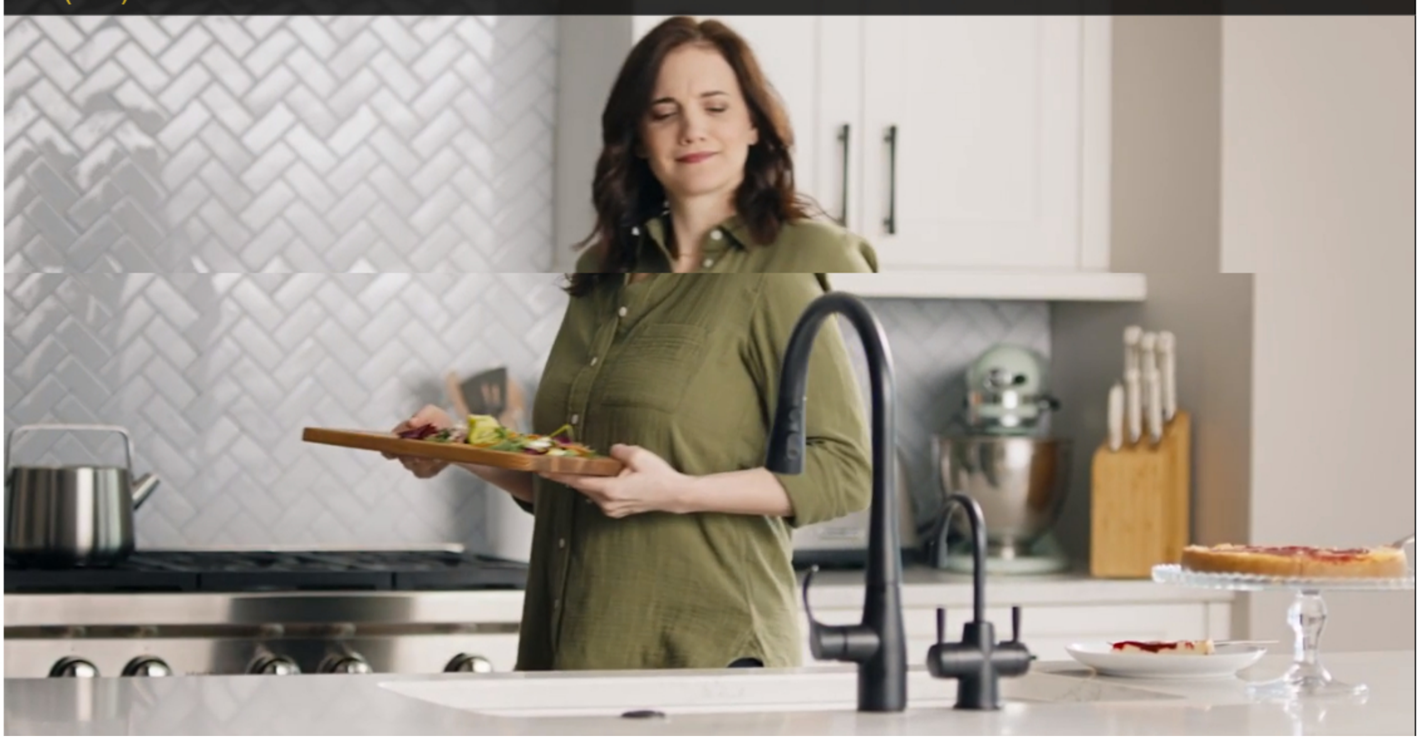

Believe it or not, buying a typical house in this country now requires a six-figure income.

With today's high mortgage rates and expensive real estate, the median family income of $91,721 isn't enough to buy a median-priced house.

In fact, it now takes a record income of $104,496 to qualify for a median-priced house at prevailing mortgage rates, according to the latest data from the National Association of Realtors (as of July). As recently as February, it was only $87,840 — about $3,000 less than the median income.

Even though property prices rose at record rates during much of the pandemic, the ultra low mortgage rates triggered by the economic shock of COVID-19 kept buying a home affordable for the average American household. But mortgage rates have shot up, more than doubling to over 7% amid soaring inflation, and prices are still setting new records because there are so few houses for sale. That's been a lethal combination for affordability, the NAR data shows.

"Normally, we would see prices come down when rates rise as much as they have in the last year and a half, but sellers aren't budging because they don't have to — there are so few homes on the market," said Chris Low, chief economist at FHN Financial in New York, a division of First Horizon Bank. "This is exactly what happens when anything people want is in short supply. People are priced out of the market until supply and demand eventually reach a new equilibrium."

A typical single-family house hasn't been this unattainable for the typical family since Ronald Reagan was in the White House, according to NAR, which tracks this data for its monthly affordability index.

Qualifying for a mortgage usually requires that the principal and interest payment be no more than 25% of pre-tax income. On a $412,300 house — the median as of July — a 30-year mortgage with a fixed rate of 6.92% costs $2,177 a month in principal and interest, assuming the buyer puts 20% down. But in July, that $2,177 ate up a record 28.5% of the $91,721 median for annual family income.

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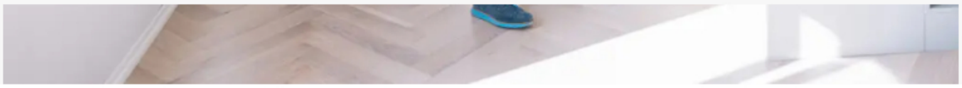
In other words, not only did the qualifying income surpass $100,000 for the first time in June (getting even higher in July,) but the gap between the qualifying and actual income hasn't been bigger since 1985.

While buying a house got less affordable once mortgage rates started rising in 2022, the tipping point wasn't until May of that year, the first time in decades that a mortgage payment ate up more than 25% of a typical income (excluding the insurance and property taxes that go along with it.)

Since then there have been a few months when prices or rates improved slightly, but the shortfall between qualifying and actual income had generally been widening even before the 30-year crossed the 7% threshold in mid-August (which is not yet reflected in NAR's data), reaching its highest point in more than two decades.

Inflation is proving stubborn enough that we may even see 8% interest rates on the most popular type of mortgage, Lawrence Yun, NAR's chief economist, said last week.

Today's mortgage rates have an unprecedented stranglehold on the housing market not just because they are high but because they have swung so wildly in recent years.



A typical house hasn't been this unaffordable since Ronald Reagan was in the White House. visualspace/Getty Images

The average 30-year rate fell to a record low below 3% early on in the pandemic, but as the economy reopened, supply shortages ignited the fastest inflation in over 40 years. That pushed the 30-year rate up more than 4 percentage points in just 12 months, the fastest spike since the early 1980s — the last time inflation tortured the economy.

Because of these extremes, 61% of Americans with a mortgage have a rate under 4%, leaving little incentive for many to move. That in turn has exacerbated a shortage of available properties, keeping competition stiff and prices steep despite the higher borrowing costs. In other words, not many people who bought or refinanced during the pandemic buying boom are willing to sell their house – even for a lot of money — if it means doubling their interest rate.

"There are many people who have low-rate mortgages, and whereas they might want to sell in a normal situation, they're not going to because they have so much value in their mortgage," Federal Reserve Chairman Jerome Powell told reporters last week. That "means that supply of existing homes is really, really tight, which is keeping prices up."

Indeed, August data, which hasn't been incorporated into NAR's affordability index yet, shows that no August has seen fewer houses on the market — 970,000 — or a higher median sale price — $413,500.