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Mortgage Rates Were Once 18%. Here's Why You're Still Worse Off Now

Today's crazy real estate prices are as bad as the crazy mortgage rates of 40 years ago

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If you're hoping to buy a home and have grumbled to parents or grandparents about mortgage rates being [near 8%](#), they may have reminded you that back in the 1980s, rates were twice as bad, even topping 18% at one point.

But the older generations shouldn't get too cocky. Even though rates aren't nearly as high as they were then, [today's prices](#) — a symptom of the pandemic-induced buying frenzy — are far worse, relatively speaking. When all is said and done, a typical mortgage actually requires about the same share of income today as it did in 1984, the last time the real estate market was this unaffordable.

"Their mortgage rates were much higher, but the homes were much cheaper," said Lawrence Yun, chief economist of the National Association of Realtors.

The surprising parallel underscores how important both price and interest rates are to the real estate cost equation. During the pandemic, ultra-low mortgage rates helped people afford homes that were [surging in value](#). But last year rates more than doubled, making the inflated prices far less bearable for anyone needing financing and putting homeownership out of reach for many U.S. households.

A good way to compare the financial burden of buying a house at different points in history is to gauge the typical monthly mortgage cost as a percentage of the nation's median household income at any given time.

So let's say you bought a house last month for \$445,567, the median U.S. sale price for October, according to real estate data from Intercontinental Exchange (ICE), formerly known as Black Knight.

If you got a 30-year mortgage with an interest rate of 7.79% and put 20% down, your monthly loan payment (before adding in any [property taxes or insurance costs](#)) would be \$2,564 — just over 40% of the current median household income for a month, according to ICE.

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If you did the same thing in 1984, when mortgage rates were roughly 14% and houses went for around \$80,000, it would have been about 40% too, the ICE data shows.



Mortgage rates may have been sky high in the 1980s, but at least properties were more affordable then, relative to income. SDI Productions/Getty Images

In other words, even though it's only about half as expensive to borrow money now, the amount you have to borrow to pay for the property erases that savings.

In fact, even when inflation pushed rates to a record high of over 18% back in 1981, and homebuyers had to use almost 55% of their income for their mortgage, they were arguably in better shape than they are now because at least real estate was more affordable. Homes were selling for 3.7 times the median annual income back then, compared to 5.9 times today, according to ICE data.

"If mortgage rates fall, you can always refinance at a lower rate, but once you buy a house, you can't change the price you paid," said Chris Low, chief economist of FHN Financial, a fixed-income broker dealer in New York.

Property values rose so quickly in 2020 and 2021 that they are now 47% higher than they were when COVID-19 first broke out in March 2020. Americans were craving more space to live and work from home but also had an almost irresistible financial incentive when the Federal Reserve cushioned consumers from the economic toll of lockdowns and job losses by lowering borrowing costs.

Mortgage rates of around 3% became a fixture of the pandemic, with the average 30-year fixed rate ultimately falling as low as 2.65% in early 2021. Bidding wars practically became the standard, and some people even bought sight unseen. In 2021 alone, prices rose 18%, a record for one year.

Once inflation took hold, however, higher borrowing costs became the antidote, and mortgage rates quickly headed north. By the end of 2022, they had more than doubled to over 6% — and by this fall, they were sprinting again, this time toward 8%.

The spike in rates shifted the momentum in the housing market, but not by as much as experts expected, thanks to an [unusually short supply](#) of properties for sale. There was a slight dip in values initially, but no correction, and in fact many national gauges of prices are already back to setting even more record highs.

To put it all into perspective, consider that October was the first time a mortgage payment had eaten more than 40% of income since 1984, according to the ICE data.

For the three decades prior to the pandemic, the average was 24%. If it were 24% today, a homebuyer would save over \$1,000 a month in principal and interest, paying \$1,518 rather than \$2,564.

Properties are so expensive relative to incomes that even if mortgage rates fall, it likely won't be enough to get monthly payments back under 25% of income, [ICE said in its latest Mortgage Monitor report](#).

In the 1980s, falling rates alone were enough to restore affordability, and during and after the financial crisis of 2008, widespread corrections in prices did the trick.

Fixing today's market won't be as easy, ICE suggested. It will likely require some combination of a 4.4 percentage point decline in rates (putting them around 3.4%), a 38% decline in the median home price or a 62% rise in median household income, its researchers predict.

That may be a tough ask, at least in the near term, even if mortgage rates [have peaked](#) and prices max out at some point.

The Mortgage Bankers Association, the [National Association of Realtors](#), and the mortgage giant [Fannie Mae](#) all predict prices will continue to rise, but at a significantly slower pace, and MBA — which has the least conservative of the three estimates — predicts mortgage rates [won't fall below 5.4% through 2026](#).

Though ICE's figures are just one measure of the market, other data makes the same point. The [Housing Affordability Index](#) from NAR, which found that single-family houses sold for a median of \$399,200 in September, shows the last year or so is the first time since the 1980s the typical household hasn't been able to afford a median-priced house for any meaningful stretch of time. For four straight months, it's required an [income of over \\$100,000](#), according to the index.

Prices have risen so quickly over the past few years that it practically makes Dean Baker's 1988 purchase of a \$73,000 three-bedroom home in Ann Arbor, Michigan, look like a good deal, he said.

Even though the co-founder of the Center for Economic and Policy Research had an [adjustable-rate mortgage](#) that started at 10%, "you're probably worse off trying to buy a home today," he said.

