

HOUSING AFFORDABILITY HITS 15-YEAR LOW



AUGUST 2022 — **Ballooning mortgage costs, driven by skyrocketing prices and interest rates, have made mortgages less affordable than at any time since at least 2007.** Demand for homes has pulled back in response, easing price growth, slowing sales and boosting inventory, according to a recent Zillow market report.

Mortgage rates shot up in early June, averaging 5.78 percent. A new purchase of a typical U.S. home at that rate would mean monthly mortgage payments of \$2,127. That's 51 percent higher than a year ago and up 36 percent year to date.

"Mortgage rates took an unprecedented leap skyward over the past two weeks and quickly multiplied housing costs as they rose," Zillow economist Nicole Bachaud said in a June 21 release. "We are already seeing signs of waning demand and expect these recent rate hikes to quicken the market's needed rebalancing. While shoppers will likely experience less competition for homes than the frenzied recent months, their purchasing power has dwindled."

Incomes are lagging rising mortgage costs, leading to the most significant affordability challenges in the past 15 years, according to Zillow. The latest data available from April shows monthly payments taking about 28 percent of homeowners' monthly income, dangerously close to the 30 percent threshold, beyond which is considered a cost burden. With rates now far above April's average, that share is likely at or very near 30 percent.

After annual price appreciation set new record highs for 13 straight months, home values finally turned the corner in May to show a slightly slower pace of annual growth: 20.7 percent, down from 20.9 percent in April.

"Arriving in the middle of the spring selling season, this deceleration is a clear signal that buyers are dialing back their demand for homes in the face of daunting affordability challenges," Zillow Senior Economist Jeff Tucker said.

The trend appears to show that the market passed an inflection point for home values between April and May, transitioning to somewhat cooler price growth. The typical home is now worth \$349,816 — nearly \$60,000 more than last year and almost \$95,000 higher than in May 2020.

Sales are also slowing, according to Zillow. The number of for-sale listings that went under contract in May is down nearly 20 percent from 2021 and 2 percent below that of May 2019. The median time on market for new listings is seven days, holding steady from April.

Share of listings with a price cut is ticking up as well, rising to 11.5 percent in May from a recent low of 8.5 percent in February.