



HOUSING AFFORDABILITY CONTINUES DECLINE

In June, housing affordability declined year-over-year for the fourth consecutive month, following two years of increasing affordability, according to The First American Real House Price Index (RHPI).

“The decline in June occurred even as two of the three key drivers of the RHPI, household income and mortgage rates, swung in favor of greater affordability relative to one year ago,” First American Chief Economist Mark Fleming said. “House-buying power, how much one can buy based on changes in income and interest rates, increased by 6.8 percent in June compared with a year ago, propelled by lower mortgage rates and higher household income.”

That affordability gain was offset by nominal house price appreciation, Fleming said, which reached a record 19 percent compared with a year ago.

“Nominal house prices are well above the housing boom peak, but real, house-buying power-adjusted house prices remain 42 percent below the 2006 housing boom peak,” he said. “House-buying power has benefited from a long-run decline in mortgage rates and the slow, but steady growth of household income. Since the housing boom peak in unadjusted prices in 2006, the average 30-year, fixed mortgage rate has fallen by approximately 3.3 percentage points, from 6.32 percent to 2.98 percent. Over the same period, nominal household income has increased 55 percent. The dramatically lower mortgage rates and higher income levels mean homebuyers in June had 129 percent more house-buying power than in 2006.”

Although real estate markets tend to move in cycles, not all booms end in a bust, Fleming noted.

“As buyers pull back from the market and sellers adjust their price expectations, house prices will adjust, but the shortage of supply relative to demand will continue to keep house price appreciation positive,” he said. “Today, the underlying fundamentals driving the housing market signal that booming house prices are poised to gradually moderate rather than bust.”

The five states with the greatest year-over-year increase in the RHPI were Arizona (23.3 percent), Vermont (21.4 percent), Nevada (20.9 percent), Connecticut (19.2 percent), and Rhode Island (17.8 percent). There were no states with a year-over-year decrease.

Source: The Title Report <https://bit.ly/2Xji27y>

