



The Housing Affordability Window

Mortgage rates are still low but trending upward. Banks are offering 30-year mortgages at a national average rate of 4.35%, up from 3.81% in May. Housing prices are still low by historical standards, but are also rising. Home prices have risen an average of 10% over the last 12 months. Wages for American workers are going up slower than the inflation rate. Mix these three numbers together, and you have a decline in the affordability of homes in the U.S.

The National Association of Realtors (NAR) issued its most recent update to the U.S. Home Affordability Index a few days ago: the index fell from 178.1 earlier in the year to 160.8 -- which is about where it was in the third quarter of 2009. However, to put that into perspective, this compares favorably with the average level of the index (134) since the NAR began tracking it in 1986. So, while home affordability may no longer be at its peak, the current market remains unusually accessible -- at least by historical standards.

The problem with these numbers is that different markets have different housing dynamics. Homes can be affordable in one region and outside the reach of most residents in others. Examples of affordability include Syracuse, NY (median home price: \$92,000, compared with a median income of \$65,800), Indianapolis, IN (\$93,000; \$65,100), Cleveland, OH (median listing price: \$63,729), Flint, MI (\$84,437) and Sioux City, IA (\$97,969).

At the other end of the spectrum, consider the San Francisco bay area, where the median home costs \$779,000 and the median income of local residents is \$101,200--a 7:1 ratio. Los Angeles (median home price: \$425,000 vs. median income of \$61,900), New York (\$464,000 vs. \$66,000 median income), and the Silicon Valley (\$625,000 vs. \$101,300) also tend to fall into the less-affordable-market category.

Regardless of where you live, however, people are likely to look back at this period when interest rates were still relatively low and homes were more attractively priced. Eventually, this window of opportunity will be closed as housing recovers and interest rates rise. It's hard to predict the future, but the trends suggest that our current affordability index level won't last forever.