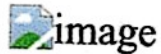


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Home-Buying Market Is Toughest Since '80s

Mortgage rates are lower now, but more supply than led to better affordability

BY NICOLE FRIEDMAN AND ALANA PIPE

Today's housing market is the most difficult in decades, a great frustration for millennials and Gen Zers looking for a starter home. Baby boomers can relate.

Home-buying affordability dropped last fall to the lowest level since September 1985, and it fell near that level again in June. In 1985, millions of Americans were in their late 20s and early 30s, the prime first-time home-buying years. They also found themselves priced out of the market.

But because buyers in the mid-80s had much more housing supply, homes became more affordable as mortgage rates fell in subsequent years.

First-time home buyers these days have it considerably harder. While affordability is likely to improve by year end if borrowing rates ease and inventory continues to grow, it won't get significantly better without more home building, economists say.

The National Association of Realtors' affordability metric incorporates median singlefamily existing-home prices, mortgage rates and median family incomes. Even though it is roughly the same today as in the mid-1980s, the drivers of the housing market and consumer sentiments are nothing alike.

In the mid-1980s, home prices weren't unusually high relative to incomes. It was the mortgage rate, which soared above 18% in 1981 and held above 10% for most of the decade, that frustrated buyers.

Mortgage rates currently sit just below 6.5%, according to Freddie Mac, which is more than double where they stood in 2021 but below the longterm average level since 1971. But home prices are much higher, having soared more than 50% since 2019.

Mortgage rates rose rapidly in the late 1970s as the Federal Reserve increased shortterm rates to slow inflation. After home-buying affordability hit a record low in 1981, home sales slumped. But median existing-home prices, which aren't adjusted for inflation, kept rising on an annual basis, according to NAR.

Affordability improved after 1981 as inflation got under control and mortgage rates declined. That is a key difference from today: Home buyers in 1985 were more optimistic than they are today, because affordability had improved from a few years earlier.

In September 1985, 72% of consumers said it was a good time to buy a home, according to the University of Michigan's consumer sentiment survey. In June 2024, just 12% said the same.

In January 2021, a family needed income of \$49,152 to afford the median-priced single-family home with a 20% down payment, according to NAR's affordability index. In June 2024, the family would need an income of \$110,544 to make the same purchase.

Other costs associated with homeownership, including property taxes and home insurance, have also risen.

Existing-home sales slid in 2023 to the lowest level since 1995 and have held at low levels in the first half of 2024.

Another sign that the housing market was easier in the mid-1980s is that home buyers were younger.

The typical first-time home buyer in 1984 was 29, according to a NAR survey conducted at the time. In NAR's 2023 survey, the median firsttime home buyer age was 35.

Millennials are getting married and having children later in life than prior generations. Three-fourths of first-time buyers in 1984 were married couples and about half had children. In the 2023 survey, 52% of first-time buyers were married couples and 36% had children.

Almost 60% of baby boomers were homeowners at age 33, compared with about 40% of millennials at the same age, according to an analysis by Victoria Gregory, an economist at the Federal Reserve Bank of St. Louis.

Millennials are catching up as they get older, and many jumped into the market during the pandemic-era housing boom. About 55% of millennials were homeowners in 2023, according to real-estate brokerage Redfin.

Buyers in the 1980s also took advantage of loans that helped them evade high mortgage rates. Just over half of conventional single-family mortgages originated in 1985 had adjustable rates, which have historically had lower upfront rates than fixed-rate loans, according to the Federal Housing Finance Agency.

ARMs today aren't as appealing to buyers. ARMs made up 5.6% of mortgage originations in the first five months of 2024, according to Intercontinental Exchange.

Buyers today benefit from a broader array of down-payment assistance programs, real-estate agents say.

But policy changes put in place after the 2008 financial crisis have made lending standards stricter. That makes it less likely that there will be another large foreclosure crisis. It also makes it harder for some potential homeowners to enter the market.

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