

# Affordability in a Hot Housing Market

It seems that rarely a day goes by when there is not a news story about the housing market. Most often, the stories revolve around rapidly rising home prices. Indeed, the median price of a home sold rose 10% in Wisconsin during 2021. Over the past two years, the increase was 21%. This price appreciation is raising concerns about home affordability.

## ► Affordability measures

In the housing market, two measures are commonly used to measure affordability. One is the price-to-income ratio, which shows how many years of income it would take to buy a house. The second measure looks at the mortgage payment as a percent of income. Both calculations use the median price of homes sold in a particular period and median household income.

The price-to-income ratio is currently flashing warning signs about the market. From 2012 to 2021, this measure increased from 2.5 to 3.5. Thus, a median-priced home in 2021 required 3.5 years of income, 40% more than the 2.5 years required in 2012. Most of the increase occurred in 2020 and 2021 (see orange line in Figure 1).

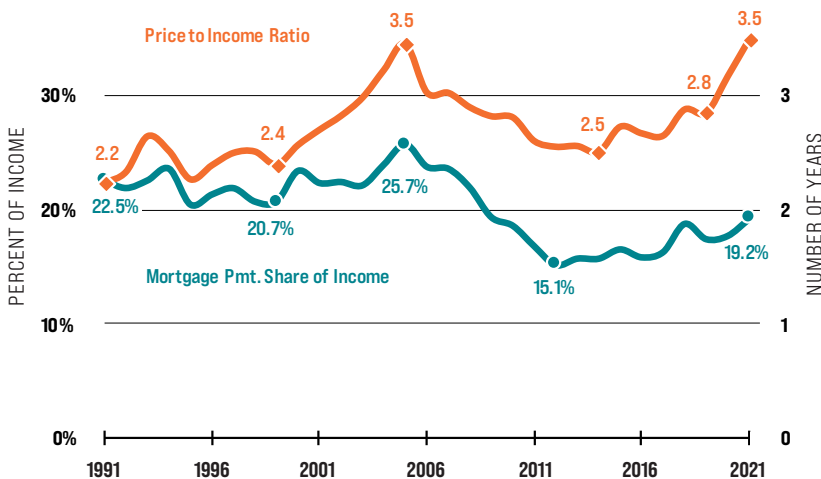
Wisconsin’s current price-to-income ratio is lower than the national average of 5.1 years. However, since 1991, the state has reached its current level only once before, just prior to the 2008 housing market “crash.”

The second affordability measure paints a rosier picture. Since 2012, the 30-year mortgage<sup>1</sup> payment on the median-valued home has generally been rising. In 2021, it reached 19% of median household income (teal line in Figure 1). However, that is well below the 20-25% “norm” during 1991-2008.

The main reason this measure shows homes are “more affordable” today is the long-term decline in mortgage rates. From 1991 to 2021, rates fell from 9.3% to 3.0%. The reduction more than offset the 247% increase in home prices over that same period. Indeed, if mortgage rates had remained at 9.3%, the house payment in 2021 would have consumed nearly 35% of median household income rather than 19% as it does today.

However, with mortgage rates now rising, housing will become less affordable in 2022. If home prices, incomes and mortgage rates continue on the current trends, the mortgage payment on a median-valued home could approach the 2005 level of 25.6% of income.

Fig. 1 | Two Measures of Home Affordability [1991–2021]



<sup>1</sup> Assumes a down payment of 5%, a 30-year mortgage with a 3% interest rate, and private mortgage insurance.



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### ► Local affordability

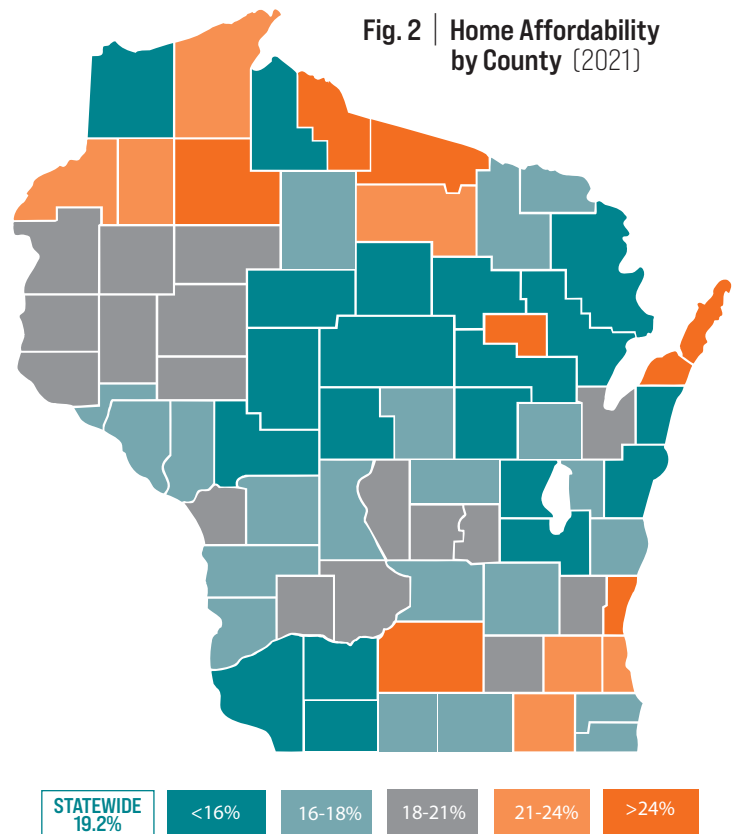
State figures provide a big picture view of the housing market. However, home prices and incomes, and thus affordability, vary from county to county. Figure 2 shows relatively wide differences by county in the second affordability measure (mortgage payment relative to income). A map of the first measure, price-to-income ratios, generates a similar picture.

In 2021, housing was most “affordable” in Ashland, Clark, Fond du Lac, Lafayette, Langlade, Manitowoc and Waupaca counties. In each, the mortgage payment on the median-priced home was less than 14% of household income in that county. In another 13 mostly rural counties, payments were under 16% of income.

At the other end of the spectrum, seven counties had home prices that were the most “unaffordable” to most county residents. In those, mortgage payments on the median home were more than 24% of income. These included a mix of urban (Dane and Ozaukee) and rural (Door, Iron, Menominee, Sawyer and Vilas) counties.

There are many factors that affect home prices in a particular county. If the number of families looking to buy exceeds the number of homes for sale, prices will rise. This may be a factor driving prices in northern Wisconsin. Figures from the 2020 census show significant migration into these counties, driving demand for housing. If incomes of families moving in are higher than local incomes, that may help drive prices out of reach for current residents.

Fig. 2 | Home Affordability by County (2021)



### ► More to come

The housing market is very complex. This article provides a broad overview of that market at the state and county level. However, there are many factors on both the demand and supply sides of the market that are not discussed here. The research staff at Forward Analytics is working on a more in-depth study of housing that will explore this topic in depth. Look for that study in late summer. ■

Forward Analytics is a Wisconsin-based research organization that provides state and local policymakers with nonpartisan analysis of issues affecting the state.