FORWARD ANALYTICS SPOTLIGHT

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Is Home Affordability Out of Reach?

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While the American dream can mean different things to different people, it generally encompasses the ideas of upward social mobility and economic security. Historically, one of the gateways to the American Dream was home ownership. It allowed people to build equity and generational wealth. Unfortunately, in recent years, home affordability has declined significantly in Wisconsin and nationally, jeopardizing that key gateway for many in the Badger State.

There are many factors that affect a family's ability to buy a house.[1] The three most important are household income, home prices, and mortgage rates. These three measures can be combined to create a home affordability index. This index for the state and for each of the 72 counties is published each year in "The Green Book: A Book of County Facts" and available from the Wisconsin Counties Association.

The affordability index measures the annual cost of a 30-year mortgage on the median home price relative to median household income.[2] An index over 100 indicates that houses are relatively affordable, while an index below 100 indicates they are unaffordable.

AFFORDABILITY TRENDS

Looking back over the past 17 years, homes generally became more affordable following the Great Recession. As Figure 1 on the following page indicates, the statewide index peaked at 193.5 in 2012, meaning the median household had 93.5% more income than needed to afford the median-priced home.

After 2012, affordability gradually trended lower, accelerating the decline that began in 2022. In 2023, it dropped below 100 for the first time in at least 15 years. In 2024, with an index of 90.2, the median household had nearly 10% less income than was needed to afford the median-priced home.

What drove these changes in affordability? To answer that question, we analyze three time periods: the Great Recession and its aftermath (2008-2012), the ensuing nine years of low interest rates (2013-2021), and the most recent three years (2022-2024).

The Great Recession

From 2008 through 2012, during and immediately following the Great Recession, homes became significantly more affordable, with the index moving from 124.9 to 193.5. This made 2012 the most affordable year to buy a house since at least 2008. Increased affordability was driven by two factors. First, from the fall of 2007 through the end of 2008, the Federal Reserve (Fed) lowered the federal funds rate 10 times, reducing it from 5.25% to 0.25%. As this rate fell, mortgage rates declined. The average 30-year mortgage rate dropped almost 40%, from 6.06% in 2008 to 3.65% in 2012. At the same time, the price of the median home sold in Wisconsin fell 16.6% from $160,000 to $133,500.

The recession also reduced Wisconsin median household income to just over $51,000, a drop of about 2%. This would normally make a typical house less affordable. However, this relatively small drop in income was dwarfed by much larger declines in home prices and mortgage rates.

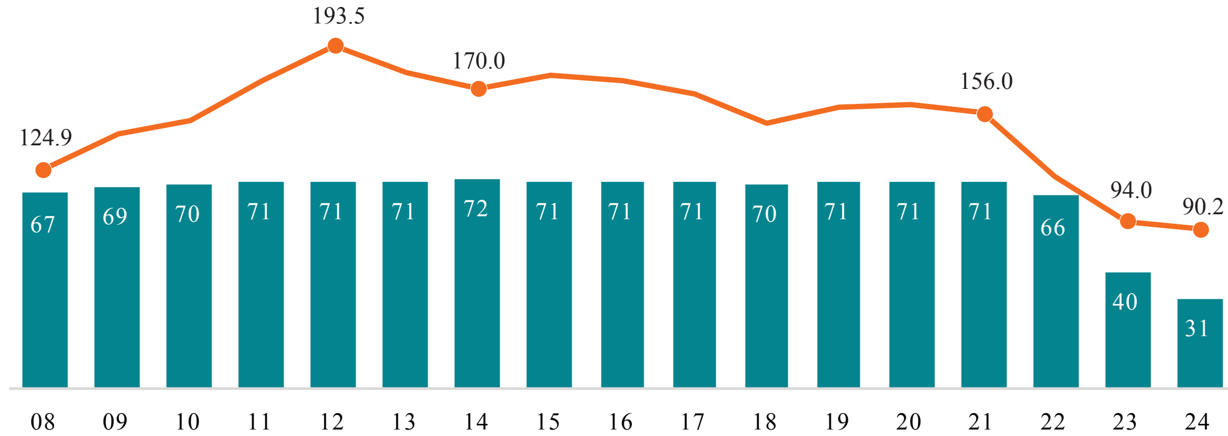
Low-Interest Years

In the nine years after 2012, home prices rose significantly, with the median price in Wisconsin jumping 80%, from $133,500 to $240,000. At the same time, household income increased just 31%. That decline in affordability was partially offset by relatively low mortgage rates, which reached 2.88% in 2021. While the affordability index declined, the

1 *Forward Analytics has written in depth about the cost of housing in "A Housing Hurdle: Demographics Drive Need for More Homes" which can be found here.*

2 *The index assumes a 10% downpayment. 30-year mortgage interest rates are published by the Federal Housing Finance Agency – Monthly Interest Rate Survey Transition Index.*

Figure 1: Housing Affordability Declining Statewide
Number of Counties Considered "Affordable" (Teal) and Statewide Index (Orange), 2008-2024



2021 figure of 156 indicated houses were still very affordable for the median household. This still meant, that on average, Wisconsinites had 56% more income than needed to afford the median-priced home.

Recent Years

With inflation on the rise in 2022, the Fed started increasing the federal funds rate in March of that year. Over the ensuing year and a half, rates were raised another nine times. Mortgage rates followed, climbing from 2.88% in 2021 to 6.77% in 2024. At the same time, the price of the median house in Wisconsin jumped almost 30% to $310,000. Those increases dwarfed the estimated 17% increase in median household income.

These factors led to the median home becoming unaffordable for the median household in 2023. In just two years, the index dropped from 156 to 94. It then continued to fall in 2024, reaching 90.2 – meaning a family earning the median income in Wisconsin had almost 10% less income than needed to afford the median-priced home.

Housing is Local

The statewide index is useful in highlighting the general trend in affordability. However, the index is more appropriately viewed at the local level because house prices and incomes vary by county. For example, in 2012, the median cost of a home in Waukesha County was double the cost in Adams County while the median household income was 72% higher.

A second reason that a local index is more appropriate is that Census Bureau figures nationally indicate that, of movers who remain in a given state, about two thirds move within the county in which they reside. For the most part, the county indices move in the same direction as the state index. However, the levels of affordability or unaffordability vary significantly.

From 2008 through 2022, home prices in most counties were considered "affordable" for most of their residents. In fact, all 72 counties had an index over 100 in 2014, making that year perhaps the most affordable time to purchase a house in the last 17 years.

In recent years, however, the market turned as indicated by the state index. In 2022, the median house in just six counties was unaffordable for its residents. That number rose to 32 in 2023 and to 41 in 2024.

WHAT'S NEXT?

Home sales in Wisconsin bucked the national trend in 2024. Nationally, home sales declined 1% to just over 4 million. In Wisconsin, however, sales rose 4.7% despite declining affordability. Yet, when the median home is unaffordable in most counties, there is likely to be a retrenchment on the horizon. One thing that could change that would be mortgage rates declining. And that was what was expected for a good part of last year.

Last fall, the Fed began to lower the federal funds rate. It cut the rate three times from September to December, reducing it from 5.25% to 4.25%. Again, there were expectations that mortgage rates would follow, helping to make homes more affordable.

Instead, mortgage rates have ticked up in each of the five months except one since the Fed began lowering its rate. With the cost of a median-priced home in 2024 increasing faster than the estimated median household income (9% and 5% in 2024, respectively), affordability may continue to worsen in 2025 and lead to a slowdown in home sales.