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REDFIN

Redfin Reports Buying a Home Just Got More Affordable for the First Time Since 2020

Buyers need to earn $115,000 to afford the typical U.S. home, down 1% year over year. Still, the typical household only earns $84,000—27% less than it needs.

SEATTLE--(BUSINESS WIRE)--

(NASDAQ: RDFN) — U.S. homebuyers need to earn an annual income of $115,454 to afford the median priced home ($433,101), according to a new report from Redfin (redfin.com), the technology-powered real estate brokerage. That's down 1.4% year over year—the first annual decline since June 2020, when mortgage rates set a new record low.

The income needed to afford a home fell because mortgage rates posted their first annual decline in three years. The average interest rate on a 30-year mortgage dropped to 6.5% in August from 7.07% a year earlier, and has since fallen further, now sitting at 6.09%.

This is based on a Redfin analysis of the estimated median U.S. household income and median monthly housing payments as of August 2024. References to the "median-priced" home in August refer to the median sale price of homes that were purchased during the month. Redfin considers a home affordable if a buyer taking out a mortgage spends no more than 30% of their income on their monthly housing payment.

"Housing affordability is improving for the first time in four years, so if you want to buy a home and can afford to, now could be a good time because it's unlikely to become markedly cheaper in the near future," said Redfin Senior Economist Elijah de la Campa. "Many house hunters are waiting to see if mortgage rates fall a lot further, but that probably won't happen anytime soon. That's because the Fed's latest interest rate cut and its plans for future cuts were highly anticipated, meaning they're already mostly priced into mortgage rates. When the Fed cuts short-term interest rates, long-term rates like mortgage rates don't always move down nearly as much."

Home prices also tend to go up over time, so waiting to buy likely means a higher price tag and down payment. It also may mean more competition because eventually, other buyers will realize rates probably won't come down substantially more and will jump into the market.

While housing affordability improved in August, the average American household still can't afford to buy a home. The typical household earns an estimated $83,853 per year, which is 27.4% less than the $115,454 they need to afford the typical house. A household on the median income would need to spend 41.3% of their earnings on housing to buy the median priced home. Any household that spends over 30% is considered "cost burdened." Less than one-third of home listings are affordable for the typical U.S. household, down from more

than half before the pandemic.

That's likely one reason many house hunters remain on the sidelines despite the drop in mortgage rates. Home prices are up 3% year over year and are just 2.1% below their all-time high, primarily because a shortage of homes for sale is keeping prices elevated. This is giving some buyers sticker shock. Other buyers are holding off because they're confused about the new [NAR rules](#) or are waiting to see how the presidential election shakes out.

February 2021 was the last month on record when the typical household earned enough to afford the median priced home. Back then, the median household income was $69,021, or 5.7% *more* than the $65,308 needed to afford the typical home.

Texas Is Home to Three of Five Metros That Saw Biggest Drops in Income Needed to Afford a Home

In Austin, TX, homebuyers need to earn an annual income of $133,346 to afford the median priced home, down 7.9% year over year—the largest decline among the 50 most populous U.S. metropolitan areas. Next came San Antonio (-7.1%), San Francisco (-6.2%), Oakland, CA (-5.5%) and Fort Worth, TX (-5.2%).

Those five metros saw bigger home-price declines than anywhere else in the nation last month, which is why they saw the largest improvements in affordability. San Antonio's median sale price fell 4.4% year over year—the biggest drop among the top 50 metros. In second place was Austin (-4.3%), followed by San Francisco (-2.2%), Fort Worth (-1.9%) and Oakland (-1.7%). Only three other major metros saw price declines: Jacksonville, FL, Nashville and Kansas City, MO.

Texas has been building more homes than any other state, which has put downward pressure on prices because it means homebuyers have more options to choose from. In Austin, the housing market has also lost steam because an influx of out-of-towners in recent years drove housing costs to unsustainable heights, leaving many buyers priced out.

East Coast Is Home to Four of Five Metros With Biggest Increases in Income Needed to Afford a Home

In Philadelphia, homebuyers need to earn an annual income of $82,447 to afford the median priced home, up 5.8% year over year—the steepest increase among the metros Redfin analyzed. Next came Chicago (5.4%), Nassau County, NY (4.6%), Providence, RI (2.6%) and New Brunswick, NJ (2.5%).

These metros have seen some of the biggest jumps in home prices, which is driving up the income needed to afford a home. Home prices in Nassau County jumped 10% year over year in August—a bigger increase than any other major metro. Also in the top five were Philadelphia (9.1%), Providence (7.8%) and New Brunswick (7.7%).

Many East Coast metros are dense and thus more supply-constrained than, say, Texas, which is one reason prices are rising.

To view the full report, including a chart, metro level data and a detailed methodology, please visit: https://www.redfin.com/news/income-needed-to-afford-home-drops-2024/

About Redfin

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