



# Hibbs Brief

Hibbs Institute for Business & Economic Research

## Housing Affordability: How Big is This Problem in Tyler?

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In this issue of the **Hibbs Brief**, we discuss how the surge in housing prices during the past three years and the slow income growth have affected buyers' affordability in the United States. We also include a brief analysis of this situation in the Tyler Metropolitan Statistical Area (MSA).

### Housing Costs Increased Nationwide

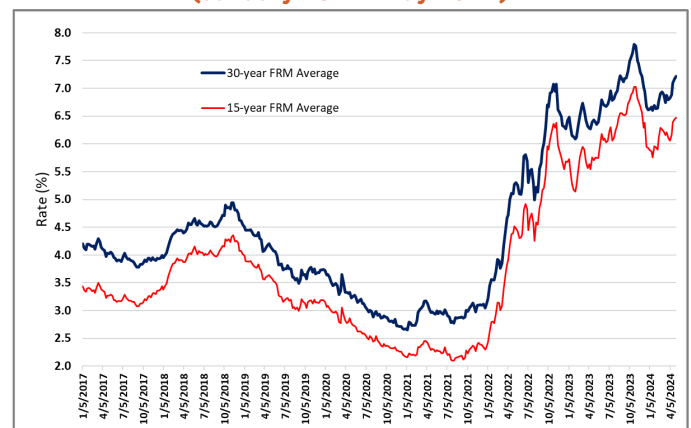
In March 2020, the Federal Reserve Bank (Fed) lowered the federal funds rate, commonly known as interest rates, to stimulate the economy.<sup>1</sup> The interest rate reduction was unprecedented, reaching its lowest point ever (0-0.25%). This measure not only successfully promoted economic growth and the subsequent recovery from the recession generated by the COVID-19 pandemic but also caused other effects on the economy. One important effect was the increase in prices of consumer goods and services and a boost in home prices.

Home prices in the nation experienced a substantial increase due to the large number of buyers willing to take advantage of low mortgage rates (as a result of the decrease in the interest rates).<sup>2</sup> The 30-year fixed rate mortgage average laid around 3%<sup>3</sup> for several months and even reached historically low levels below 2.7% in November and December 2021 (**Figure 1**). Given the large volume of buyers, prices gradually increased during the following two years or so. The median sale price of all residential housing increased 45.8% from its pre-pandemic levels in February 2020 (\$294,035) to its maximum level in June 2022 (\$428,688).<sup>4</sup>

### Housing Affordability in the United States

With the prices of almost everything rising (houses remarkably), while salaries grew at a slower pace during the past three years, consumers lowered their purchasing

**Figure 1. Fixed Rate Mortgage Average in the U.S., 30-Year and 15-Year (January 2017 – May 2024)**



Source: Freddie Mac.

power substantially. This situation hit the housing market by making homes more difficult to afford. Although the housing shortage was present in the U.S. for more than a decade, the pandemic's effects exacerbated the problem by fueling a homebuying boom. A combination of limited housing and a large number of buyers pushed a meteoric rise in housing prices that eventually resulted in a housing affordability problem.<sup>5</sup> The last nail in the coffin was the significant increase in mortgage rates that climbed to nearly 8% in the fourth quarter of 2023.<sup>6</sup>

A common way to assess the magnitude of the housing affordability problem is by measuring the gap between the median household income and the income needed to afford a home. This gap reached a maximum in October 2023, when the 30-year mortgage rates approached 8%. While buyers needed to earn an annual income of \$120,500 to afford a typical home (median-priced), the household income in the nation was \$79,689 — a 51% difference (an all-time high). Although this gap has decreased since last October due to a slight downward movement of the

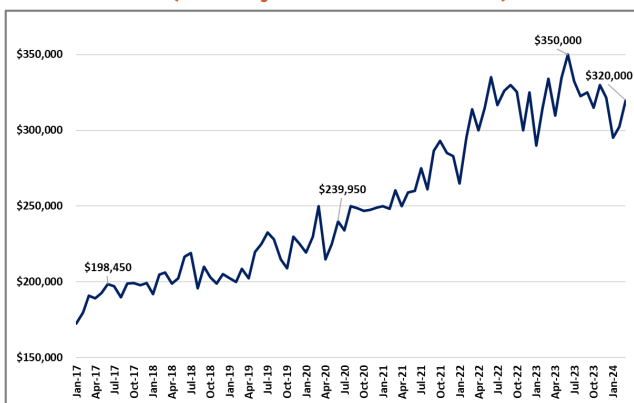
mortgage rates from 7.79% (October 26, 2023) to 6.82% (April 4, 2024), household incomes are not moving up enough to erode the gap. Today, housing affordability remains near its lowest as housing costs grow much faster than income.<sup>5</sup>

This substantial increase in housing costs has particularly impacted young Americans. Gen Zers and millennials are experiencing severe financial difficulties, with home prices up nearly 40% from before the pandemic and slow-growing wages. It is so difficult to afford a house that many are living with their parents or accepting family money to help fund their down payment. According to a survey conducted to Gen Zers and millennials, 43% of surveyed individuals assert that they are not likely to purchase a home in the near future because houses are too expensive; 34% say they cannot save for the down payment; 29% state that they cannot afford mortgage payments; and 29% say that mortgage rates are too high.<sup>7</sup>

### Housing Affordability in Tyler

The post-pandemic national surge in housing prices was also experienced in the Tyler MSA. Although home prices showed an upward trend before the pandemic due to Tyler’s growing economy and attractiveness, this trend steepened after the pandemic. Tyler’s median sale prices in June (for an objective comparison) increased 21% from 2017 to 2020 (3-year period before the pandemic), compared to 46% from 2020 to 2023 (3-year period after the pandemic). See **Figure 2**. Since June 2023, when home prices reached a peak (\$350,000), median sale prices have decreased in the Tyler MSA. In March (the most recent value available), median sale prices were \$320,000. This phenomenon reflects a seasonal effect, but it could also show a change in the market (a larger supply of houses, a lower number of buyers or both).<sup>8</sup>

**Figure 2. Median Sale Prices in Tyler MSA (January 2017 – March 2024)**

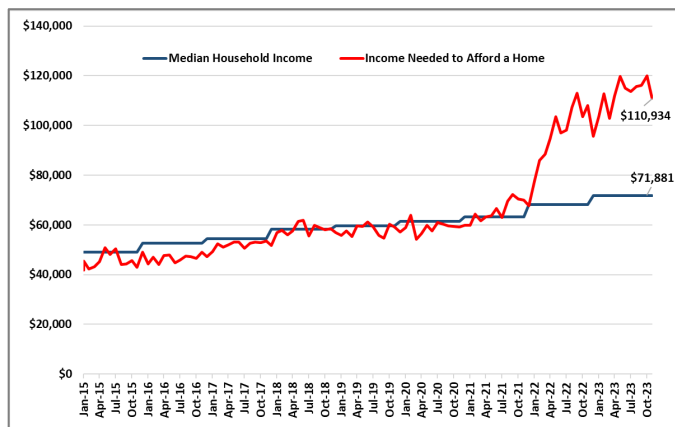


Source: Redfin.

With home prices substantially higher than in 2020, salaries experiencing moderate growth over the same period, and the prices of other goods and services that keep growing, the buyer’s housing affordability is at challenge.

The **Hibbs Institute** has conducted some estimates to measure a potential gap between the median household income and the income needed to afford a home.<sup>9</sup> This gap represents the magnitude of a housing affordability issue in the Tyler MSA (**Figure 3**). Although home prices have consistently increased, median household income in Tyler MSA used to be enough to purchase a median-priced house from 2015 through 2021. Yet, the substantial increase in prices combined with higher mortgage rates experienced in 2022 and 2023 has widened the gap between home prices and people’s income. Although home prices have moderately decreased in 2024, Tyler is facing a housing affordability problem. In December 2023, the estimated income needed to afford a home is 54.3% higher than the median household income in the Tyler MSA.<sup>10</sup>

**Figure 3. Median Household Income and Income Needed to Afford a Home in Tyler MSA (January 2015 – December 2023)**



Source: Hibbs Institute’s estimates using U.S. Census Bureau, Bureau of Labor Statistics and Redfin statistics.

### The Housing Market this Summer

All the parties involved in the housing market have taken different options to keep up sales. While some buyers have increased the percentage of their monthly income to afford a house (30% or below is considered healthy), others (particularly young buyers) have used their parents’ money to help fund a down payment.<sup>7</sup> On the other hand, some banks have made business partnerships with builders to offer more attractive deals to buyers (e.g. temporary lower interest rates). Some realtors have also contributed to stimulating the market via decreasing their closing commissions.

Conversely, the housing inventory has increased consistently during the past 12 months, compared to the same month in the previous year (Table 1). With fewer buyers, a larger number of houses available is putting some pressure on sellers to lower their expectations. Given these factors, it may be the case that we will experience lower prices this summer. We will further explore housing prices in our future issues.

**Table 1. Year-Over-Year Housing Inventory in Tyler MSA (April 2023 – March 2024)**

	Year-Over-Year (%)
April 2023	31.9%
May 2023	36.7%
June 2023	53.1%
July 2023	56.1%
August 2023	58.2%
September 2023	70.7%
October 2023	91.6%
November 2023	94.7%
December 2023	129.6%
January 2024	80.6%
February 2024	71.7%
March 2024	40.3%

Source: Redfin.

## End Notes

<sup>1</sup> Congressional Research Service. The Federal Reserve’s Response to COVID-19: Policy Issues (February 8, 2021).

[https://case.house.gov/uploadedfiles/r46411\\_fed\\_reserve.pdf](https://case.house.gov/uploadedfiles/r46411_fed_reserve.pdf)

<sup>2</sup> Investopedia. How Interest Rates Affect the Housing Market (May 16, 2023).

<https://www.investopedia.com/mortgage/mortgage-rates/housing-market/>

<sup>3</sup> Freddie Mac. Primary Mortgage Market Survey (retrieved on May 14, 2024).

<https://www.freddiemac.com/pmms>

<sup>4</sup> Redfin. Data Center: Monthly Housing Market Data; All Residential not Seasonally Adjusted – National (retrieved on April 3, 2024).

<https://www.redfin.com/news/data-center/>

<sup>5</sup> Redfin. News: The Typical Household Earns Roughly \$30,000 Less Than Needed to Afford the Median-Priced Home-But That’s an Improvement From Last Year (March 26, 2024).

<https://www.redfin.com/news/income-needed-to-afford-home-february-2024/>

<sup>6</sup> Freddie Mac. Media Room: Mortgage Rates Continue to Climb Toward Eight Percent (October 26, 2023).

<https://freddiemac.gcs-web.com/news-releases/news-release-details/mortgage-rates-continue-climb-toward-eight-percent>

<sup>7</sup> Redfin. News: Nepo-Homebuyers: More Than One-Third of Gen Z and Millennial Homebuyers Plan to Use Family Money For Down Payment (March 27, 2024). <https://www.redfin.com/news/gen-z-millennial-down-payment-family-help/>

<sup>8</sup> Redfin. Data Center: Monthly Housing Market Data; All Residential not Seasonally Adjusted – Tyler MSA (retrieved on April 3, 2024).

<https://www.redfin.com/news/data-center/>

<sup>9</sup> The Hibbs Institute estimated the “Income Needed to Afford a Home” using 30-year mortgage rates (Freddie Mac), median prices of homes (Redfin), a down payment of 20%, a 30 year-period loan (360 monthly payments), a property tax rate of 1.410% in Smith County (SmartAsset.com), a 30% of monthly income (30% of below is considered a best-practice mortgage loan). Insurance fees are not included.

<sup>10</sup> U.S. Census Bureau. American Community Survey 1-year estimates, Table S1901: Median Households Income for Tyler MSA; year 2020 imputed by the Hibbs Institute. Year 2023 estimated by the Hibbs Institute using wage growth rates from the Bureau of Labor Statistics (BLS).

[https://data.census.gov/table/ACSST1Y2010.S1901?q=household%20income&q=040XX00US48\\_050XX00US48423](https://data.census.gov/table/ACSST1Y2010.S1901?q=household%20income&q=040XX00US48_050XX00US48423)

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