S.C. METRO AREA HOUSE PRICES: THE “PRICED OUT” EFFECT

NAHB Economics recently released its 2016 “Priced Out” Estimates showing that, statewide, a $1,000 increase in the median new home price (triggered, for example, by additional regulation) will leave 3,311 households priced out of the market. This means that 3,311 S.C. families could qualify for a mortgage on the median-priced new home before, but not after, the price increases.

The number of priced-out households varies across both state and metropolitan area. The differences are largely driven by the size of the population and the affordability of new homes. Among all the states, California registers the largest priced out effect where a $1,000 new home price increase pushes 15,328 households out of the market, followed by Texas (13,674), and Pennsylvania (9,374).

The initial affordability of new homes is an important element in determining the size of the priced out effect. On a percentage basis, priced out effects are higher in areas where new homes are more affordable. For example, in Chicago-Naperville-Elgin, where 33% of households are capable of buying a median-priced new home, a $1,000 price increase leads to 5,148 households priced out of the market. In New York-Newark-Jersey City, which has an even larger population, only 13% of households can afford the median-priced new home, and 4,054 of them are squeezed out of the market if the price increases by $1,000.

The NAHB estimates also show the number of households priced out of the new home market when interest rates rise. For example, in 2016, around 965,000 households nationwide would be priced out of the market for the median-priced new home if mortgage rates increased from 4.00% to 4.25%. The priced-out model also generates the housing affordability pyramid, which shows that as the price of a home increases, the number of households in each tier that are able to afford it, decreases.

A Brief Explanation of the Housing Affordability Pyramid.

At the base of the market for housing in the U.S. is a large number of households with relatively modest incomes. The homes that these households can afford are also relatively modest. Based on conventional assumptions and underwriting standards, it takes an income of about $25,216 to purchase a $100,000 home. In 2016, about 24.5 million households in the U.S. are estimated to have incomes lower than that threshold and, therefore, can only afford to buy homes priced under $100,000. These 24.5 million households form the bottom step of the pyramid. Of the remaining 94 million who can afford a home priced at $100,000, 20.8 million can only afford to pay a top price of somewhere between $100,000 and $175,000 (the second step on the pyramid). This trend continues up the pyramid of house prices. Each step represents a maximum affordable price range for fewer and fewer households. Although it’s certainly possible to find households at the high end of the market (please see chart), there are many more households at the low end where affordability is a major concern. Increased development costs can easily price these households out of the market for a new home. Note: The peak of the pyramid shows a very small share of households able to afford homes priced above \$1.55 million. It's possible to have more million dollar homes than this in the U.S., because many households would have initially purchased homes at lower prices which subsequently appreciated. The pyramid is based on an income threshold and a 10 percent down payment assumption. Households at the high end of the market may be more likely to have equity in a previously owned home or other accumulated wealth for a larger down payment. Finally, to preserve confidentiality, the Census Bureau suppresses some detail that makes it difficult to estimate the number of households at the top end of the income distribution with precision.