Indianapolis Neighborhood Housing Partnership

RESEARCH BRIEF

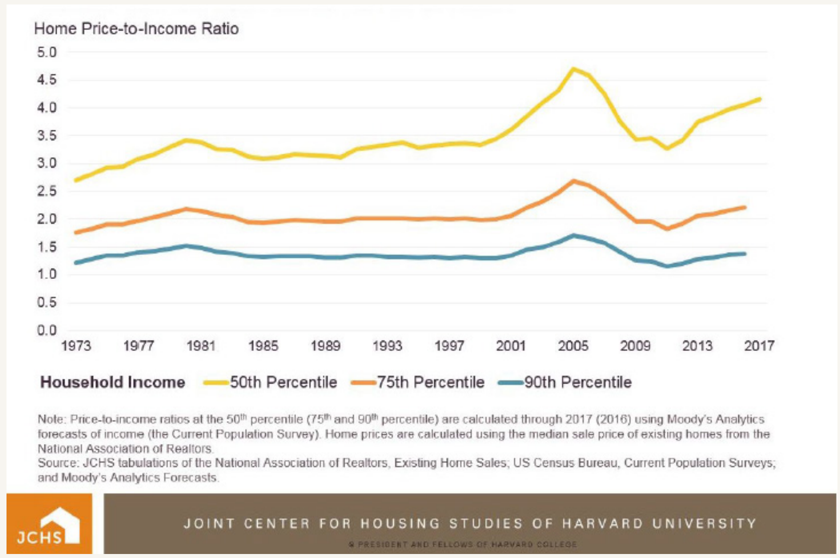
Change in Housing Prices Relative to Incomes

SEPTEMBER 2021

STATE OF THE RESEARCH

A good rule of thumb, in most parts of the country, is that a homebuyer can afford a home that costs 2.6 years of the household's income (i.e., a household earning $100,000 could comfortably afford a $260,000 home). Increasingly, however, median housing prices are increasing at a faster rate than incomes, and few areas have median housing prices that are affordable to the median income homebuyer. This trend began in the latter half of the 20th century—with housing prices ranging between 3.0 and 3.5 times the median income—and accelerated in the years prior to the housing crisis. Following a reset after the recession of the late 2000s, the trend has continued over most of the previous decade (see Figure 1). A recent Joint Center for Housing Studies at Harvard University report projects 2020 will be the fifth year in a row that the median home price was more than four times the median household income.

FIG 1. NATIONAL HOME PRICE TO INCOME RATIO:
(1937 to 2017)



BACKGROUND

A number economic factors influence housing prices and incomes; both are impacted by macro-economic considerations (e.g., monetary policy) and micro-economic considerations (e.g., supply and demand). The Joint Center for Housing Studies at Harvard University, which produces an annual *State of the Nation's Housing* report, notes the following factors influencing the current upward trajectory of housing prices: tight supply coupled with robust demand driven by a combination of low interest rates, millennials aging into their homebuying years, underproduction of new housing, and disruptions attributable to COVID-19. The same report notes communities of color seeing especially rapid growth in home prices.

Wages are similarly influenced by a number of factors. Wages –and changes in wages—are influenced by the type of job (e.g., front line versus management), industry sector, the supply and demand for workers, driven in part by supply and demand for the products and services produced by a particular sector of the economy. Additionally, beyond the wages paid to employees in the form of "take home pay", many employees receive a total compensation package—including insurance, retirement benefits, paid time off, and other "perks". While these additional benefits may not directly enable a worker to expand his or her purchasing power, changes in the costs of benefits influence the degree to which employers may or may not be able to increase a worker's take home pay.

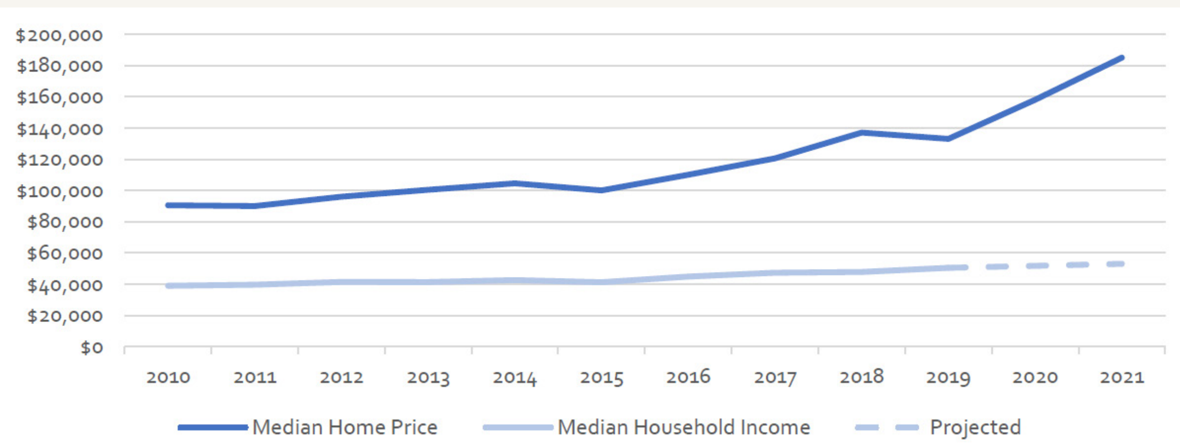
Generally, in calculating housing prices and incomes, housing prices are derived from market-driven transactions that have occurred over a period of time and income is derived from surveys conducted by the US Census Bureau. The survey-derived income data, unless otherwise specified, generally reflects the pre-tax wages/salary of the survey respondent (i.e., changes in the cost/value of benefits plans are not calculated within the price-to-income ratios).

LOCAL DATA

Beyond the several anecdotes provided across press outlets, researchers are becoming increasingly interested For Marion County, data to evaluate the price-to-income ratio are supplied by the Metropolitan Indianapolis Board of Realtors (MIBOR, home prices) and the US Census Bureau's American Community Survey (income). The most recent annual data on median household income for Marion County are from 2019; thus, to assess the current price-to-income ratio, income had to be projected into the future based on past trends in wage growth. Median housing prices are available from MIBOR on a monthly basis; January figures from each year listed are used within this analysis.

Figure 2 shows a comparison of median housing prices to median household incomes in Marion County since 2010; median household incomes for 2020 and 2021 assume the average rate of change in incomes as experienced since 2010 (an increase of 5.8 percent every two years between 2010 and 2019). Even if the increase in income were twice what was projected, the increased income would not approach the change, over the same period, realized in median housing prices (growth of 39.1 percent).[1]

FIG 2. COMPARISON OF MEDIAN HOUSING PRICES TO MEDIAN HOUSEHOLD INCOMES: *Marion Co., Indiana (2010-2021)*

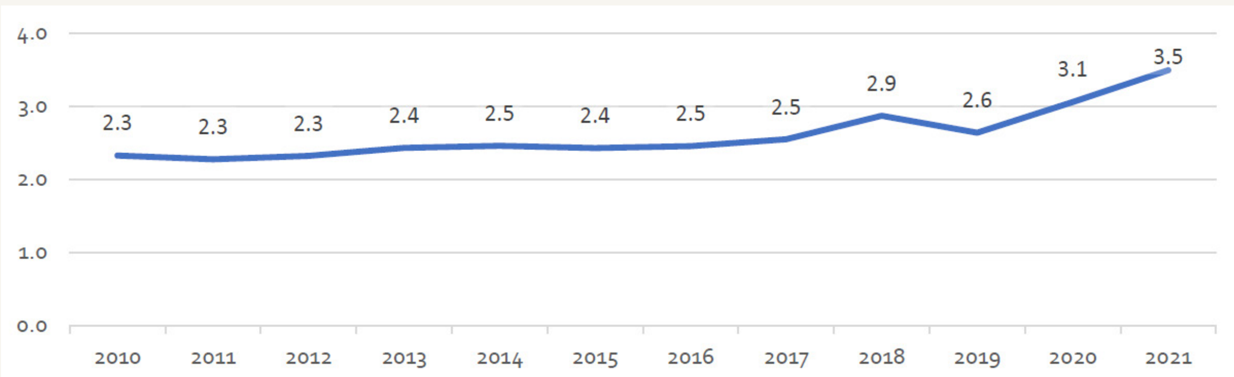


[1] It may be worth noting that the 39.1 percent two-year change in median sales prices for January 2021 is the highest of any month over the period examined. Nevertheless, the two-year change in housing prices is currently high relative to historical norms regardless of the month selected. For June 2021, the two-year change is 33.1 percent, and the 12-month moving average as of June 2021 is 26.3 percent. Any of those measures of change far outpace the most optimistic scenarios for wage and income growth over the same period.

Figure 2 shows a relatively sustained year-over-year increase in median housing prices since 2012, with increases of more than 9 percent in five of the last six years. The highest rates of year-over-year growth of any of the years examined were for 2020 and 2021, with median home prices increasing 18.8 and 17.1 percent, respectively.

Figure 3 shows the ratio of median housing prices to median household income, within Marion County, for the same period of time. From 2010 to 2017, the chart reinforces the notion of Indianapolis as a relatively affordable housing market, with the ratio below the standard of 2.6. However, since 2017, the ratio has increased markedly, suggesting the growing gap between incomes and housing prices—seen in national data—is likewise occurring locally.

FIG 3. RATIO OF MEDIAN SALES PRICES TO MEDIAN HOUSHOLD INCOME:
Marion Co., Indiana (2010-2021)



RELATED RESEARCH & COMMENTARY

The State of the Nation's Housing (Joint Center for Housing Studies of Harvard University): Available at https://www.jchs.harvard.edu/state-nations-housing-2021

MIBOR: Market Insights (MIBOR): Available at https://www.mibor.com/marketinsights

Wages aren't keeping pace with home-price growth, and it's putting a dent in the housing market (HousingWire): Available at https://www.housingwire.com/articles/49637-wages-arent-keeping-pace-with-home-price-growth-and-its-putting-a-dent-in-the-housing-market/

Gap between income growth and housing cost increases continues to grow (Kinder Institute for Urban Research at Rice University): Available at https://kinder.rice.edu/urbanedge/2019/07/25/gap-between-income-growth-and-housing-cost-increases-continues-grow

Price-to-Income Ratios are Nearing Historic Highs (Joint Center for Housing Studies of Harvard University): Available at https://www.jchs.harvard.edu/blog/price-to-income-ratios-are-nearing-historic-highs