# Homebuyers need to earn 80% more than they did in 2020 to afford a home in today's market

The new salary required to comfortably afford a typical home is $106,000, well above the median income, according to Zillow.

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Home prices are up 42% since 2020, but because both rates and borrowing costs have skyrocketed, you need to earn 80% more to comfortably afford a home in today’s market.

Median incomes have risen just 23% over the past four years, leaving many people out of the running for homeownership.

In 2020, a household earning $59,000 a year could afford a typical home priced at about $240,815. At the time, that income level was less than the US median income of $66,000, meaning more than half of American households had sufficient cash flow to purchase a home without overextending their budgets.

Today, those shopping for a home need to earn $106,000 annually to afford a median-priced home for $342,941.

That's $47,000 more than they needed to earn in 2020 to afford a home and well above today's average income of $81,000.

These findings from a new Zillow analysis revealed how tough breaking into homeownership has become as the cost of purchasing a home has outpaced income growth edging out hopeful buyers from the market.

A point of concern: Barely a handful of major metros evaluated were affordable at the median income. The real estate firm defines affordability as spending no more than 30% of your income after offering a 10% down payment.

"Incomes needed to purchase a home are just much, much higher than the typical household income," said Orphe Divounguy, senior macroeconomist at Zillow, which conducted the analysis. "The increase in cost is pricing out many families that would like to get on the housing ladder."

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People attend an open house in Garden City, N.Y. (Getty Images) (Xinhua News Agency via Getty Images)

## Monthly payments nearly double

As home values and mortgage rates have climbed, the monthly mortgage payment on a typical US home nearly doubled over the past four years.

In fact, today's typical buyer would be facing a monthly mortgage payment that was 96% higher compared to 2020 levels, Zillow found. That's an average payment of $2,200 a month, with a 10% down payment.

The main difference is that mortgage rates ended January 2020 near 3.5%. So far this year, rates have hovered between 6.5% and 7%.

The dramatic uptick in both rates and home prices has put would-be buyers in a tough spot. Particularly, home values have been outpacing wage growth for over a year now.

For instance, Divounguy pointed out that last year buyers needed to earn an income of $97,000 to afford a typical home, up from $86,000 in 2022. That was $22,000 above last year's median household income of $75,000.

"The income needed to comfortably afford a typical home is now six figures," said Divounguy. "It's a big increase that's due to a combination of higher prices, mortgage rates and limited supply."

So far, neither mortgage rates nor home prices have shown signs of easing anytime soon.

Rates have surged closer to 7% at the end of this month, with economists from Fannie Mae now expecting rates to drop to 6% by the end of the year. Zillow also forecast home prices to increase by 0.9% over 2024 to an average of $349,611.

## 'Co-buying to tackle the affordability crunch'

A woman inspects listings at a real estate agency. (Credit: William West, AFP via Getty Images) (WILLIAM WEST via Getty Images)

The pressure of affordability has delayed younger buyers from purchasing their first home.

For a household making the median income, it would take 8.5 years before they would have enough saved to put 10% down, a year longer than it would have in 2020, Zillow found.

First-time homebuyers are also getting slightly older.

“Traditional measures of affordability are at 30-year lows, and that will impact the age of first-time homebuyers,” Doug Duncan, chief economist at Fannie Mae, told Yahoo Finance. “It means they will have to marshal more resources before they can enter the purchase market, which typically takes them longer.”

The average age of entry-level buyers moved up to 36, Fannie Mae found, up from 31 just five years ago. To save up for a down payment, more and more buyers are resorting to "house hacking" — defined by Zillow as renting out part of a home or an entire property to save money.

Meanwhile, some 21% of those who purchased last year reported getting financial help from friends or family, according to Zillow.

“Buyers are co-buying to tackle the affordability crunch,” said Divounguy. “We’re also seeing that buyers are getting help from friends, and half of first-time buyers got help from family and friends in the form of a gift or loan in order to make up for their down payment.”

## What homebuyers need to earn to afford a home

Even folks in the most affordable metropolitan areas need to earn more in 2024 to purchase a home comfortably.

Pittsburgh was the most affordable metro area, where buyers need an average household income of at least $58,232 to purchase a median-priced home. This was followed by Memphis, which required an income of $69,976, Cleveland ($70,048), and Birmingham ($74,338), according to Zillow.

Out of the 50 US markets, only three major metros were affordable to those making an average income of $81,000: Pittsburgh, St. Louis, and Detroit.

By contrast, there are seven markets among major metros where would-be buyers need to earn $200,000 or more to afford a typical home. The top four were all in California — with San Jose taking the lead at ($454,296), followed by San Francisco ($330,864), Los Angeles ($279,250), and San Diego ($273,613).

Next came Seattle ($213,984), followed by New York City ($213,615), and Boston ($205,253).

“In this environment, buyers should really get their finances in order first,” Divounguy said. “You’ll want to start the search process early, get your credit right, and that can save you thousands over the course of the loan.”

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