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Gen RE

Housing affordability is at a 40 year low—and 7% mortgage rates only tell half the story

Story by Shaina Mishkin 2026-9-29

Mortgage rates climbed above 7% last week, further worsening America's housing affordability crisis. By some measures, buying a home today hasn't been this financially challenging since the late 1980s.

In August, when mortgage rates averaged about 6.8% and the median single-family home sold for \$435,000, principal and interest payments totaled 27% of household income, according to calculations that the National Association of Realtors shared with *Barron's*. The trade group considers a ratio of 25% or less affordable.

The median buyer has been stretching for nearly four years, notwithstanding a few temporary declines below the 25% threshold, according to NAR's data. This marks the longest period of unaffordability since the late '80s, and stands in marked contrast to the decade following the financial crisis, when the ratio of principal and interest to household income typically was in the midteens.

What's more, today's 7% mortgage feels like a bigger burden than the 7% of yore. In August 2001, for example, the average mortgage rate was 7.1%. Yet, principal and interest payments on a then-median \$160,700 single-family home ate up only 22.6% of household income.

Homes became much less affordable starting in 2022, in the aftermath of the Covid pandemic. Don't blame wages; the median family today earns about 38% more than at the end of 2019, NAR's data show. The problem is home sale prices, which have risen by 57% since 2019. Add a three-percentage-point increase in mortgage rates since December 2019, and principal and interest payments are 119% higher since then.

NAR's housing-cost-to-income calculation doesn't consider other necessary housing expenses, such as property taxes, home insurance, and maintenance costs, that have also grown in recent years. The cost of property insurance has risen 80% since the start of 2020 for the average single-family mortgage holder, according to a September report from ICE Mortgage Technology.

Altogether, the data illustrate why it is so hard to thaw a frozen housing market, whose latest woes date to the pandemic's start in 2020. Mortgage rates plunged that year, dropping below 3% as interest rates hovered near zero. Then home sales—and prices—soared as many Americans sought safe and comfortable lockdown quarters.

Mortgage rates began rising again in 2022, after the Federal Reserve raised interest rates sharply to offset spiraling inflation. The result has been a relatively immobilized housing market in which first-time buyers feel squeezed and existing homeowners see little reason to move.

To be sure, things could always be worse—and they were back in the early 1980s, when the federal-funds rate approached 20% as then-Fed Chairman Paul Volcker sought to stifle double-digit inflation. When mortgage rates peaked at 16.4% in November 1981, buying a home cost a whopping 44% of household income.

"Affordability remains a major challenge," says Nadia Evangelou, the National Association of Realtors' director of real estate research. "But historically, this isn't the toughest market buyers have faced."

Let's hope it stays that way.

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