By Michael Chamernik, Associate Editor

HOME AFFORDABILITY

# OWNERS PAY MORE FOR A MORTGAGE

House payments continue to chew up more of homeowners' paychecks. According to a Zillow analysis of mortgage and rent affordability, the monthly mortgage payment for the typical U.S. home was $758 as of the end of last year, a $68 increase from 2015. In terms of payments as a share of the median household income, owners spent 15.8 percent of their earnings on their mortgage in 2016, up from 14.7 percent the year before.

While mortgage rates are creeping higher, increasing from around 3.5 percent in October 2016 to above 4 percent in February, the primary cause of the payment increase stems from home value appreciation. Zillow estimates that home appreciation accounts for $47 of the increase. Mortgage rates, however, are expected to steadily increase this year, and the Federal Reserve is slated to raise its key interest rate three or four times in 2017.

Several locales are more hamstrung than others, especially those in California's largest markets. Typically, homeowners in Los Angeles, San Francisco, and San Jose spend more than 40 percent of their income on mortgage payments. San Diego is only marginally better, at 35 percent.

Zillow's findings may represent the end of a relatively economically friendly era for homeowners, rather than a shift toward homes being unaffordable. The current 15.8 percent rate of income put toward a mortgage is significantly lower than the 21 percent average between 1985 and 2000. Except for the big California markets, homeowners in most cities around the country, from Phoenix to Chicago to Philadelphia, have mortgage payments that account for a smaller share of their income today than they did at the turn of the last century.

Rent affordability is slightly different, as the average renter today spends 29.2

percent of his or her income on housing, up from the 25.8 percent that renters paid in 1985 to 2000. Rents have remained flat over the last year, however. In 2015, typical renters spent 29.4 percent of their income on housing.

"On the rental side, rent appreciation has slowed lately, giving renters' incomes a chance to catch up, as many are already committing a larger share of their income to a monthly rental payment," Zillow chief economist Dr. Svenja Gudell said in a statement.



MARKETS

## TEXAS SETS SALES & PRICE RECORDS

Last year was the best year for residential real estate in Texas since … 2015.

Boosted by strong gains in home sales activity toward the end of the year, a record 324,924 homes were sold in Texas last year, according to the "2016 Texas Real Estate Year in Review Report" from the Texas Association of Realtors. The median sales price reached $210,000—also an all-time high.

Compared with 2015, the previous record year for both metrics, total sales increased 4.6 percent and the median price rose 7.7 percent.

"Last year's record home sales activity was fueled by the momentum of multiple years' strong job and population growth across the state, despite the fact that Texas job and economic growth began to slow in 2016," Vicki Fullerton, chairman of the Texas Association of Realtors, said in a statement.

This year isn't expected to be as strong, partly due to affordability concerns. Household incomes aren't rising as fast as home prices, a situation exacerbated by the inadequate pace of new-home construction due to labor shortages and regulatory obstacles. As of the end of December, the state had a little over three months of inventory—well short of the six months of inventory typical of a market with balanced supply and demand.

Homeowners in Texas also deal with some of the highest property taxes in the nation. The average effective property tax is 1.94 percent, according to SmartAsset's Property Tax Calculator. The rate varies by county: Fort Worth, at 2.32 percent, has the highest tax rate among the major cities, followed by Houston (2.26 percent), Dallas (2.17), El Paso (2.13 percent), San Antonio (2.10 percent), and Austin (1.97 percent).

"Rising home prices and skyrocketing property taxes are driving up the cost of homeownership at an alarming rate," Fullerton said in a statement.



REMODELING

## REMODELING SPENDING RISES

Residential remodeling spending by both homeowners and rental property owners reached $340 billion in 2015, surpassing the previous record of $318 billion set in 2007. Spending is expected to get even stronger, rising to an estimated 6 percent to $361 billion in 2016.

"Demographic Change and the Remodeling Outlook," the latest biennial report in the Improving America's Housing series from the Joint Center for Housing Studies of Harvard University, found that homeowner spending on improvements is expected to increase 2 percent annually through 2025, after adjusting for inflation—a rate below the pace of remodeling growth over the last two decades but near the expected expansion of the economy as a whole. Homeowner improvement spending is expected to increase to $270 billion in 2025, up from $220 billion in 2015.

Growth will be driven by older homeowners who upgrade their homes so that they can age in place. (A February report from Freddie Mac says that 43 million people age 55 and older wish to age in place, and the homes of 1.5 million older households today need some form of retrofitting.)

According to the Joint Center report, expenditures by owners age 55 and older are expected to account for more than three-quarters of market growth over the next decade. The group's share of aggregate improvement spending is slated to reach 56 percent by 2025, up from 31 percent in 2005.

Baby Boomers have led improvement spending for the last 20 years, but Gen Xers and Millennials will also be players in the markets. Gen Xers, according to the report, are in their prime remodeling years, and will finally undertake improvement projects that they put off due to the recession and economic downturn.

The number of younger households is expected to rise in the coming years. To accommodate their growing families, Millennials will need to update and customize their homes. Also, this generation of homeowners will be more comfortable with new technology and will be the main driver in the home automation market.

Residential remodeling spending is concentrated among the nation's largest markets. The report found that 25 major metros accounted for 45 percent, or $100 billion total, of owner home improvement spending in 2015.

The per-owner spending in these 25 metros was $3,400 in 2015, about 15 percent higher than the national average. The nation's five top-ranked remodeling markets in 2015 were New York City, San Francisco, Denver, Boston, and Washington, D.C. Homeowners in those cities average around $4,900 in home improvement expenditures.

Large metros have higher home values, meaning that owners have better access to home equity and are motivated to improve their investments.

Counting those who undertook improvement projects in 2015, homeowners spent an average of $19,796 on major kitchen remodels and $10,699 on major bathroom projects, according to the report. The average room addition cost owners $20,327, with new kitchens being the most expensive ($22,455). Outside attachments, including decks, porches, and garages, cost an average of $6,094.

The average roofing remodeling expenditure was $6,745 in 2015, while siding was $5,641, and windows and doors cost an average of $3,212. Insulation remodeling cost owners $1,450 on average, new flooring was $2,723, and HVAC systems went for $5,239. Disaster repairs cost owners $14,373, on average. **PB**