Thursday, March 28, 2024 / Buy a house? In this economy?

[HALF SECOND OF SILENCE]

[BILLBOARD]

SCORING <Tech Tonic>

*<CLIP> TIKTOK: Listen, I’m 24 and I still live at home. Like what. For sure. Are you kidding me? My man and I, we “attempted” to move out. ‘Yeah, that’ll be $1600 for a studio apartment, not including groceries (fades)’*

NOEL KING (host): Last fall, the National Association of Realtors released data showing that housing affordability had fallen to its lowest point since the 1980s for reasons of Economy, comma American.

*<CLIP> WSJ REPORTER NICOLE FRIEDMAN: There just aren't a lot of home sales going on. And there's really kind of a standoff right now between buyers and sellers.*

NOEL: Standoff leads to another kind of standoff.

*<CLIP> TIKTOK: It’s always fun being 40 years old and having to live with your parents again. And I know it’s all my fault.*

NOEL: Sir, I don’t know your life. But Today on Today, Explained: it might NOT be your fault. Our housing reality bites, the American Dream is in your childhood bedroom.

Coming up: how we got here. And some provocative advice on how to deal.

[THEME]

*<CLIP> “THE WIZARD OF OZ” (1939): Think to yourself: There’s no place like home. There’s no place like home. There’s no place like –*

NOEL: *Today, Explained*. Nicole Friedman started reporting on housing for *The Wall Street Journal* in 2020. It was a wild time on the beat: pandemic-fueled frenzy buying. Bidding wars. Itty-bitty interest rates. And now?

NICOLE FRIEDMAN (Wall Street Journal housing reporter): That has all changed.

NOEL: Hmm.

NICOLE: And what really changed was that mortgage rates went up rapidly in 2022.

*<CLIP> FED CHAIR JEROME POWELL: We’ve raised interest rates by a total of 5 percentage points in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time.*

NICOLE: And so when it was – just a couple of years ago – easy to get a mortgage for 3% interest rate, now interest rates are closer to 7%. And that made it much less affordable to buy a house. And so a lot of potential buyers just backed out of the market.

NOEL: Nicole, we have a very young audience, and I want you to tell us about something that I never knew about or I never realized at all until I got a mortgage when I was 40, which is: Interest rates actually mean something.

NICOLE: <laughs>

NOEL: So if I don't know about mortgages, I might think 3%, 7%. That's not a big deal. What does an interest rate, a higher interest rate, actually mean for a person getting a 3% and a person getting a 7%?

NICOLE: At a 3% interest rate versus a 7% rate, that can be a difference of hundreds of dollars a month, even maybe $1,000 a month difference, in what you're paying every single month. And so that's really, for many people, the difference between being able to buy a home at all or not, or being able to buy a home of a certain size or in a certain neighborhood versus just not being able to afford it.

NOEL: Right. Because also: It's not like you get a raise because interest rates are gone up.

NICOLE: Absolutely. And that's why we talk a lot about affordability. And you know, the benchmark for “affordable” is that you really shouldn't be spending more than 30% of your income on your housing payment.One index that tracks housing affordability from the National Association of Realtors shows that in October, home buying affordability fell to the lowest level since the 80s. So even though there's times in the past when mortgage rates have been much higher than they are today, it's really the combination of rates and prices and incomes that means that affordability is still worse.

*<CLIP> NASHVILLE REAL ESTATE AGENT KATE NELSON: And so like, the first houses I sold in that neighborhood were in the low 80s –   
TODAY, EXPLAINED EDITOR JOLIE MYERS: And now they’re selling for?   
NELSON: Well – easily over a million dollars.*

NOEL: Okay, so there's a third piece of this that is also super interesting, which is: if interest rates are high and fewer people are buying. It seems like that should mean the people selling have got to lower the prices of the houses. You have fewer buyers. Okay, we have to compromise. We're just going to make less money on this house. And yet, I haven't seen a bunch of stories saying home prices in America are super low since interest rates went up and the competition waned. What is that about?

NICOLE: We think about just classic economics. There are two things in setting a price: There's demand and there's supply. A lot of home sellers are also buyers. They’re people who are going to sell a home so that they can buy a home. And these people said, ‘Wait a minute, my current home, I have a great mortgage rate. I have a 3% rate. I have a low payment. If I go back out onto the market, I'm paying a higher price for that home because prices have risen in the last couple of years and I'm paying a higher mortgage rate. I cannot afford to sell my home and buy a different one. I'm just going to stay put.’

*<CLIP> NBC NEWS: But with mortgage rates hovering just under 7%, more than double Allison and Larry’s current rate, a move would mean payments the couple can’t afford. Even if they were to purchase their current home today, they would be paying $500 more each month.   
LARRY: We couldn’t afford this house today.*

NICOLE: And that means that the supply of homes for sale is much, much lower than normal. And any buyer who's out on the market right now is probably noticing that, that there's not a lot of inventory to choose from. And that means that even though demand is down, supply is down, too. And so prices really haven't declined in most of the country.

NOEL: Nicole, crazy question. Are there ENOUGH houses?

NICOLE: Everybody basically agrees there are not enough homes because after the financial crisis, a lot of home builders went out of business, and the ones who were left in business were really, really financially scarred by the crisis. They were left with a lot of homes they couldn't sell and a lot of land they couldn't sell. And so builders became a lot more cautious, and the number of homes being built fell to a much lower level. And it's taken more than a decade for homebuilding activity to really catch back up.

NOEL: Hmm. Boomers – the Baby Boomer generation – gets a lot of crap for buying, you know, the the seven bedroom house with the big backyard for seven raspberries and, you know, 40 years later, still sitting on the house. Are the Boomers – God bless them, every one – are they really part of the problem, or should we leave the Boomers alone?

NICOLE: Well, every Boomer would tell you that they bought it for seven raspberries, but at a 15% mortgage rate.

NOEL: <laughs> My mom. Right there. Yeah.

NICOLE: <laughs> I don't think that boomers are the problem here. It is a change from past generations that the Baby Boomer generation is aging in place more than past generations, and they are often working longer. They're staying healthier longer. And so they are able to stay in their homes for longer, and that's their choice. And that's fine. But it does mean that kind of the typical cycle of how long somebody normally stays in their home before they sell it has gotten longer. People are staying in their home for longer. And so that does contribute to just less turnover and kind of this ladder of how people move through the housing market. You know, normally you buy a starter home and then you move up to a bigger home and maybe eventually you downsize to a smaller home. That ladder gets a little jammed up if people don't move as frequently. But I would also say, you know, one thing that's really jamming up the gears right now is those move-up buyers. And that's maybe more going to be kind of Generation X. These are people that are in starter homes that they bought within the last five, ten years. And they're looking for that next move up. But those people are so stuck in place that they just can't afford to make that move. Arguably, they're really the ones right now kind of jamming up the gears.

NOEL: What does it mean that it is starting to feel less and less accessible? This thing that once upon a time and for a long time was considered to be part of the American Dream. And now there's an entire generation, millennials, and Gen Z, hot on our heels, who feel like it just might never happen.

NICOLE: Yeah, I think it does feel frustrating to people. I think people do want to own homes, by and large.

NOEL: Mhmm.

NICOLE: There was a theory once upon a time that millennials didn't want to own homes. I think that's been proven wrong –

NOEL: We were just broke! We were just broke when they were saying that about us.

NICOLE: <laughs> Exactly. Yes. And that's now very clear, that Millennials are like prior generations. They do want to own homes. And I think people – partly it is a financial investment. Homeownership is a key way to build wealth and has been in this country an important way to build wealth. But it's also a very emotional thing. A lot of people want stability. They want a sense of ownership.

SCORING <Frogs Not Hopping>

NICOLE: They want to be able to paint their walls and redecorate their house, and they don't want to worry about the rent going up, or about their landlord deciding to sell the building and then not being able to stay.

SCORING BUMP

NICOLE: And right now, that gap between what it costs to rent and what it costs to own in a lot of places is pretty out of whack, that it's just much more expensive to buy right now than it typically is. And I think that people are kind of realizing that and trying to come to terms with, you know, what it means. But it's also a bigger question as a society, how much we want to prioritize homeownership and home-buying affordability.

NOEL: Nicole Friedman. She’s a housing reporter at The Wall Street Journal. We asked her where the housing market has gotten REALLY really nutty. She told us to try NASHVILLE, where, coincidentally, one of the most universally-popular – and sometimes unpopular – voices on housing makes his home. Coming up: Dave Ramsey.

SCORING OUT

[BREAK]

[BUMPER]

*<CLIP> “THE RAMSEY SHOW” INTRO*

NOEL: Today, Explained, we’re back.

*<AMBI> RAMSEY: Good to have y’all! Thanks for joining us in our home. <fade under>*

NOEL: With the man who gives the advice on housing you either love or hate.

DAVE RAMSEY (personal finance personality): Dave Ramsey. <laughs> What do I do? I own Ramsey Solutions. I'm the CEO, and I do a radio and YouTube and podcast show.

NOEL: Dave Ramsey started flipping houses in Tennessee when he was still wet behind the ears. He made a lot of money. He also held a LOT of debt. And when the bank called his mortgage notes in 1988, he declared bankruptcy.

DAVE: So I had the opportunity, at 28 years old, to start completely over. With a finance degree and all these letters and licenses after my name that said I was supposed to know something about money. Here I am, broken. I can't even keep the lights on in my own house with my kids. I'm scared. And I don't ever want to be that scared again.

NOEL: From this, he developed a fervent belief that debt is BAD. It enslaves people to banks. So, he turned some simple rules – “God’s and Gramma’s”, he says – into a personal finance empire with legions of devoted fans, myself included, 20 million of whom listen to him on 600-ish radio stations around the country while millions more listen to The Ramsey Show Podcast.

*<CLIP> RAMSEY, “THE RAMSEY SHOW”: Honey, you’re broke! You don’t buy a house when you’re broke. You are broke and in debt. You make $35k a year and have a three year old and you’re 24 years old! You don’t go buy a house right now. This house will be a curse to you.*

NOEL: Dave is pro-homeownership. His advice to young people is: get a modest mortgage and forge a life for yourself Now a lot of Millennials and Zoomers think his advice literally IS NOT APPLICABLE to the housing market we’ve got in 2024.

*<CLIP> TIKTOK: Dave Ramsey is getting called out AGAIN for his out-of-touch advice for home buyers. Is it even possible to follow his advice in this market? The math is NOT mathing.*

DAVE: Well, I've been doing this for about 35 years now. That's not a new argument.

NOEL: Really?

DAVE: Every generation that we've brought this information to had that exact same reaction. Because human nature is: ‘I want this to be easy. And it's not.’ That's human nature. I want this to be my way, and it's just not. And, um – the thing is this: You discover as you get old – <laughs> –

NOEL: <laughs>

DAVE: That happened to me. These principles: They do not change. You know, I always use the ridiculous example of the law of gravity. If you don't like it, it's okay. But 100% of the time it works. You know, 100% of the time you jump out the window, you're going to hit the sidewalk. A hundred – it's not an old fashioned way of looking at things. It just is the freaking law of gravity. And 100% of the time that you spend more than you make, it's not sustainable. Regardless of the reason.

NOEL: Yeah.

DAVE: ‘Oh, house prices are high. Daycare is high. Inflation. Wages haven't got –’ I don't care. 100% of the time that you spend more than you make, regardless of the reason, it's not sustainable. And that's not my fault.

NOEL: Right. It's not your fault. And also, what I hear you saying is, like, ‘Maybe the narrative is a little simplified.’ It's like, ‘Oh, Gen Z thinks Dave Ramsey isn't realistic.’ You're saying ‘No. People have been saying I'm not realistic since, like, I got on the air.’

DAVE: Yeah. Exactly. Since I was 32.

NOEL: Okay. Okay, so point for Gen Z. So, so Dave, you – one of the things that makes you special is you host a call-in show, which means you have your pulse on a lot of things, and you hear from a lot of people. And I'm wondering when people call you about buying homes in 2024. 2023, 2024. What's distinct? What's, like, the story of this time?

DAVE: The huge bump in pricing and values following the pandemic – followed by a huge jump in interest rates – has, has priced a bunch of people out of the market. And in expensive markets, it’s even worse. There's this hopelessness and kind of an anger. And so what's happened is some of the – there’s very little entry-level real estate in so many super expensive markets, and it's forcing a migration out of those markets for people that want to be a homeowner. And it's very wise to become a homeowner, but it's unwise to become a homeowner in a way that destroys your life. So I want people to have a house and win. I don't want them to have a house that's a curse.

NOEL: Tell me: you've got a couple of simple rules for home buyers. This is what you should have. This is what you should do. And you never change them. It's always the same. What are your rules for buying a home?

DAVE: So: we tell folks, don't buy a home until you're out of debt. Ooooh.

NOEL: Student loan debt paid off.

DAVE: Everything!

NOEL: Medical debt paid off. Car loan paid off.

DAVE: Oh, yeah.

NOEL: Ooh! Dave!

DAVE: Hey, people do it all the time, though. And here's what happens: if you move into a house. You got a car payment. You know, you got Sallie Mae around your neck. You've got credit card debt. As soon as you move in, the freaking roof is going to leak. The hot water heater is going to go out. 100% of the time. And you got no money. And so suddenly, homeownership has become a curse rather than a blessing. It's added stress, anxiety, panic attacks rather than diminished. And so then the second thing is: but don't put the house on 30, you're putting on 15 because we're gonna pay it off. And make the payment a reasonable percentage of your income. And so we tell folks, don't buy a home where the payment is more than a fourth of your take-home pay on a 15-year, fixed-rate mortgage. Well, you can qualify for almost double that on a 30. So if that's a $400,000 house, you can qualify for an $800,000 house. Which means I'm, like, the Grinch stole Christmas then. But the reason is because I want you to be a millionaire.

NOEL: One reason I think young people should give you a bit more credit, perhaps, is that there is like a distrust of the banks in our country that's been going on for a while.

DAVE: Yeah!

NOEL: And then the, you know, the banking crisis exacerbated it. I've talked to a lot of members of Gen Z who were like 13, 14 when that happened, their parents lost the houses or parents lost their jobs.

DAVE: Mhmm. Mhmm.

NOEL: And like you're essentially saying–

DAVE: Be free of them!

NOEL: You shouldn't trust the bank, right?

DAVE: Don’t trust ‘em.

NOEL: They're going to offer you a lot of money. Don't take it. And, to me, I think to me that like intuitively kind of makes sense. But I think, I think two people who are trying to figure out how to make that math work, they're like – but I can’t.

DAVE: Cuz I want it! $800,000 house is much nicer than a $400,000 house.

NOEL: Or–

DAVE: I don’t blame ya!

NOEL: Or – ‘I want to buy a house, but I don't. I mean, like, fundamentally like, I don't make enough money.’

DAVE: Today.

NOEL: ‘Today in, in the market that I'm in.’ And I think if you're in – I don't know, Peoria. Right. And houses you could get a house for 150 or 250 grand. That's one thing. But if you're in Nashville. I was looking last night on Zillow. I mean, it's – it's a really hot market here.

DAVE: Yeah, yeah.

NOEL. And yet your advice to people doesn't change. You don't say, ‘Okay, if you're in this really expensive market, I'm going to, I'm going to tweak that advice to a little bit.

DAVE: Because – I don't tweak the law. I don't control the law of gravity. When you tweak the advice, what you're saying is, is that math doesn't count. But all of the stuff that we teach has a delayed – it's delaying gratification. And by the way, if you go outside of Nashville – 50 miles – the numbers change dramatically.

NOEL: You're going to find cheaper stuff outside of the city as you would outside any city.

DAVE: Exactly. Most of the time.

NOEL: I feel like I've heard you on the show tell people like, ‘You should just move. You're in New York City. If you want to buy a house, you should just move out.’

DAVE: You know, you make $50,000 a year. And you live in L.A. –

NOEL: Right.

DAVE: – you can't buy a house. It's not mathematically – It's not EVER going to be mathematically possible in your lifetime.

NOEL: And this can be –

DAVE: So, you know, and this home, you're not going to live in LA making 50 grand.

NOEL: This can be a very hard thing to square, though, because the American Dream is built in part on the promise, the premise of homeownership and to to hear like, ‘Well, I'm a teacher and I work in LA, and my salary as a teacher in LA won't allow me to buy a home here.’ I mean, you're shaking your head –

DAVE: And it makes you mad, because we oughta honor teachers more than that. I don't disagree with the anger.

NOEL: Yeah, yeah.

DAVE: I don't disagree with the, the cognitive dissonance that gives us. But then there's the dadgum math. You know, that math just smacks you in the face and you go, I gotta deal with the math. And my family's all here. I grew up here. I love all these people. I don't want to leave. My grand – my mother is going to be mad if I take the grandkids away. I don't want my grandkids moving away from me. I understand. But you don't get to change the facts of mathematics because of how you feel.

NOEL: In the Uber, I was talking to my Uber driver. I told him what I was here to do, and he said, ‘Hey, my 20-year-old daughter just moved back in with me. She can't afford rent.’ And I was like, ‘Do you know other people who that's happening to?’ It's like, oh no, it's happening everybody. What's your take on the phenomenon of multi-generational housing? ‘I can't buy a house and maybe even rent is too expensive. So mom and dad are the option.’

DAVE: Well, let's just look at the math of that. What that means is, if the person doesn't have an income that creates a sustainable life. In other generations, you would have done something different. I can’t make enough money doing this career. I don't know what the person did, the lady or–

NOEL: A dancer.

DAVE: Dancer. Okay.

NOEL: But working at a, working at a fast food chain that you and I have all heard of. I won't name it, but – yeah.

DAVE: Yeah, let's be, let's talk about economics for a second. I'll be mean. But in what generation in history in the last 50 years has working at fast food’s and being a dancer – with the rare, nuanced examples of Broadway or some situations in L.A. – have you been able to make a living? None. None.

NOEL: I think that's fair. But you've – you pay very close attention to this stuff. You've seen the trend. It isn't just the dancers and the fast food.

DAVE: No, it’s not. It’s not.

NOEL: It's kids who are college graduates…

DAVE: It's not a kid that's a college graduate with a degree in logistics that has the ability to make 120k. He's not living in his daddy's basement, okay? It's career choice and direction.

NOEL: But there's a belief now – Yes, and. But there's a belief now that moving back into your mom's house might be a good thing. More and more people are doing it. It keeps the family tight. It keeps them together. I've never heard you advise –

DAVE: Well, there are cultures that do that. I mean, the Hispanic culture's been doing that for as long as I've known anything about them. That's very normal for you to stay and take care of the elderly parents at home, too. All that. So it's like three gens [sic] in the house. That's not unusual at all. But in an Anglo-American household, it's not – it's not normal. And so you have to say, ‘Okay, what's the cause of it? Is there a systemic breakdown? Is [it that] all these numbers have, have pushed out the edges and marginalized all these folks? Or have their choices done it?’ Well, both.

NOEL: The sense I'm getting from you is you feel that adulting –

DAVE: Mhmm.

NOEL: I don't think the kids call it that anymore. They did when I was a kid – But adulting means being out on your own. Adulting means paying rent by yourself. It –

DAVE: It's good for you. And I've experienced that, with coaching young people on the air. And I've also experienced it with my own kids – we had one of ours (gladly. We love her. She's easy. She was not a problem). You know, when she left college, she was getting everything set up with a new job and all this. And she moved back in with us. But she will tell you, and I know I can tell you, her body language changed. The way she carried herself changed. Everything about her emotional growth and maturity changed when she had to pay her own light bill and buy our own milk. So it's an advantage to that person.

NOEL: But, but we have a situation. I'm just going to quote you a stat, which I'm sure you know, and you may even correct me, but so National Association of Realtors report shows that housing affordability has fallen to its lowest level since the 80s.

DAVE: I agree.

NOEL: Home prices up 40%. Millennials and Gen Z in student debt. I know you don't approve of student debt, but as you would say, it's a reality, right? It is a fact for millions of people. For someone who says, ‘I'm young, I'm in debt, I want to save money, and therefore I'm going to move back in with mom and dad.’ How do you feel about that scenario?

DAVE: If you want to do it, fine. You know, if you're a young single and you do that and you say, ‘Okay, part of my plan to be incredibly intense is: I'm going to give up my autonomy. I'm not doing it because I'm immature. I'm doing it because I'm mature. I'm not doing it as an escape mechanism. I'm doing it as a path to get to sustainability, and to get to a path that's actually taking me somewhere ten years from now.’ Sure. Have at it. I'm in. But ask yourself the question if you're if you're that person and you're going to do it: Am I escaping? Or am I using it as a path?

SCORING <Classic Rock Salt>

NOEL: Dave Ramsey, of Ramsey Solutions. Tomorrow on the show: More people are moving back in with their parents than at any other time in the modern era. We're gonna hang out with LAYLA in Nashville and talk about the trend that’s shaping her life and reshaping everything from mother-daughter stuff to dating.

SCORING BUMP

NOEL: Jolie Myers edited today’s show. Kim Eggleston and Laura Bullard fact-checked. David Herman engineered. And our producer is Amanda Lewellyn.

*<CLIP> RAMSEY STAFFER: There's no one more important than you. And you deserve a raise.  
TEX PRODUCER AMANDA LEWELLYN: Thank you so much.*

*<team laughs>*

NOEL: I’m Noel King. It’s Today, Explained.

SCORING OUT

[10 SECONDS OF SILENCE]