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Why buying a house in the US is so hard right now
<https://www.youtube.com/watch/Exza1UYxXXM>

00:00:01.209 When you buy a home in the US,
00:00:02.877 there is a basic promise:
00:00:04.587 that home values will go up over time.
00:00:08.383 And that is what you're seeing on this chart.
00:00:11.433 Let's adjust it for inflation...
00:00:13.555 ok...
00:00:14.431 jerkier, but still basically goes up.
00:00:16.683 The story goes like this:
00:00:18.351 Money, by itself, loses value over time -that's inflation.
00:00:22.647 But if you own your home in the US,
00:00:25.900 you own an asset that is appreciating in value.
00:00:29.738 Buying it probably required you to save a bunch of money,
00:00:32.406 and also borrow a lot of money,
00:00:34.200 which you need to pay back over time;
00:00:36.036 as opposed to renting your home,
00:00:37.328 which basically just requires rent.
00:00:39.873 But: now you own it.
00:00:42.250 It could be collateral, if you ever need money,
00:00:44.627 like to start a business
00:00:45.462 or to send your kids to college...
00:00:47.130 One day you might sell it for more than you bought it...
00:00:49.507 But also: stability.
00:00:51.384 Peace of mind.
00:00:53.094 "So that you may maintain your place in society."
00:00:56.473 You get it.
00:00:57.682 If we look at the middle 60%
00:00:59.684 of the US population in terms of wealth, the middle class,
00:01:02.645 the bulk of the wealth held by that group
00:01:05.230 is made up of the homes they live in.
00:01:08.485 It's a big part of why we think of homeownership
00:01:10.361 as the ticket to financial stability in the US:
00:01:13.615 to securing, and then building, your own wealth.
00:01:17.410 But the barriers to buying a home in
00:01:19.329 the US are getting higher.
00:01:21.498 So, how much higher, exactly?
00:01:24.125 And if you can't buy a home,
00:01:26.503 what does that mean for your future?
00:01:35.470 So first, let's go back to the median US
00:01:37.514 housing price over the past 50 years, up to 2022.
00:01:41.309 And now add income onto it.

00:01:45.271 Yeah.
00:01:46.189 Median wages have not kept pace
00:01:49.692 with the increase in the cost of housing.
00:01:52.570 This is Mechele Dickerson.
00:01:53.738 She studies...
00:01:54.823 Why it's become so hard for lower-income
00:01:57.700 and middle-income people to become
00:02:00.578 and remain middle class now.
00:02:03.706 Let's go back about 50 years
00:02:04.833 and look at a couple whose household income is
00:02:06.668 exactly the national US median at that time:
00:02:09.211 In 1972 money, about \$10,000.
00:02:12.590 Imagine, right.
00:02:13.758 They want to buy a house.
00:02:15.218 The median US home price at that time was about \$29,000.
00:02:18.638 That is about three times their income.
00:02:21.766 Before the 1980s, it was possible for a young person
00:02:26.020 to graduate from high school, find a job that was a full time,
00:02:31.151 40-hour-a-week job with benefits
00:02:34.320 that paid them enough for them to be able to buy a home.
00:02:38.241 Now let's go 50 years forward and run those numbers for 2022:
00:02:41.119 median income, median home price.
00:02:43.621 This house is more than six times this household's income.
00:02:47.500 So that is what we're looking at
00:02:50.295 when we go back to that chart of income and housing prices --
00:02:52.714 again, adjusted for inflation --
00:02:54.549 and compare this gap, to this gap.
00:02:59.762 Now, as for the home prices themselves.
00:03:02.056 Let's zoom in to make that data easier to see...
00:03:04.350 bring it up to date...
00:03:05.768 You can see that the prices are starting
00:03:07.187 to go down a little bit in 2023.
00:03:09.189 But part of why they got so high in the first place
00:03:12.650 is a lack of supply.
00:03:15.028 This chart shows what's called the "homeowner vacancy rate"
00:03:17.530 over about 70 years.
00:03:18.531 It's the percent of homes in the US
00:03:20.533 that are actually for sale.
00:03:22.076 And it's currently the lowest
00:03:23.703 since we started collecting data.
00:03:25.955 And that is partly the result of restrictive "zoning laws":
00:03:30.168 locally-set rules, all across the US,
00:03:32.295 that regulate things like where homes can and can't be built,
00:03:36.299 how many units a building can have in it,

00:03:38.968 and how densely housing can be built.
00:03:41.804 It leads to fewer homes getting built,
00:03:43.598 which leads to fewer homes to buy.
00:03:46.851 As for the homes that are for sale,
00:03:48.353 that's what we're looking at here.
00:03:50.438 This chart splits all homes on the market
00:03:52.023 in the US into tiers by price.
00:03:53.858 So these are the lower cost homes, and these are the higher cost homes.
00:03:56.653 And it tracks over time
00:03:58.112 what percentage of the market each tier represents.
00:04:01.199 You can see that over the past few years, homes that cost
00:04:03.493 less than \$200,000 have made up less
00:04:05.954 and less of what's available, and homes
00:04:07.914 above half a million, or even \$1,000,000,
00:04:09.999 are representing a greater
00:04:11.292 and greater share of what's for sale.
00:04:13.670 So: housing in the US is scarce, and it's expensive.
00:04:16.755 But we're actually missing
00:04:18.882 a really important piece of the story here.
00:04:21.261 And we'll talk about that after this quick message.
00:04:26.015 Student loans can really make you sweat.
00:04:28.434 Only one in three students understand
00:04:30.603 the financial terms of their loans.
00:04:32.146 And nearly half of federal student loan borrowers
00:04:34.607 don't know how much they owe or who they owe it to.
00:04:37.485 So how can borrowers go from confused to confident?
00:04:42.699 It might sound obvious, but research shows a strong connection
00:04:45.743 between financial literacy
00:04:47.078 and successful student debt management.
00:04:49.122 So let's build out a financial literacy toolkit.
00:04:52.333 First thing to consider is the numbers.
00:04:54.294 Find out how much you owe and what your interest rate is.
00:04:57.046 Prioritize paying off the loans
00:04:58.631 with the highest interest rate first.
00:05:00.550 Second is to learn the terminology.
00:05:02.885 This helps you understand what your options are.
00:05:05.221 For example, auto debit is when you set up
00:05:07.390 automatic monthly payments,
00:05:08.683 which may reduce your interest rate by 0.25%.
00:05:11.561 Bonus tip:
00:05:12.478 Call your lender and see if you can have your payments
00:05:14.605 go directly towards your principal, which is the amount of money you borrowed,
00:05:18.318 so you can pay off your loans faster.
00:05:20.236 Look into refinancing.

00:05:21.529 That's combining loans into one with a new lender
00:05:24.240 potentially also getting a lower interest rate.
00:05:26.617 Find out if you qualify for student loan forgiveness.
00:05:29.287 That way you can have
00:05:30.246 some or all of your federal loans lifted.
00:05:32.665 And the last thing in the toolkit: Making the plan.
00:05:35.418 Follow through on the approach that works for you.
00:05:37.962 Maybe you qualify for the SAVE plan.
00:05:40.465 Or maybe you can make even higher monthly payments
00:05:42.592 to prevent more interest from accruing.
00:05:46.179 Make a plan that fits within your financial goals.
00:05:48.931 By understanding your student loans,
00:05:50.767 you can take charge of them.
00:05:52.060 Learn more at secret.com/moneymoves.
00:05:56.606 OK. Let's revisit the two parts of a home purchase.
00:05:59.901 First, you pay some percentage of the cost of the home up front.
00:06:02.987 Maybe 5%, maybe 20%: the down payment.
00:06:06.366 And the rest of the money you will need to borrow.
00:06:08.326 This is the mortgage.
00:06:10.078 You'll pay that back in monthly payments.
00:06:12.955 But the size of those payments can vary a lot
00:06:15.666 depending on the interest rate of the loan.
00:06:19.003 This chart shows the average interest rate
00:06:21.047 of a common type of mortgage over the past 50 years.
00:06:23.800 In the long term, it's mostly been going down.
00:06:27.762 A lower mortgage interest rate means lower monthly payments.
00:06:31.015 So: while this chart, of housing prices,
00:06:34.268 told a story of it getting harder to buy a house over time,
00:06:37.897 the interest rate chart seems to tell a different story:
00:06:41.234 of very high and burdensome interest rates at one point,
00:06:44.028 and mostly lower and lower interest rates over time.
00:06:46.823 So now the story is slightly more complicated,
00:06:48.908 and if we look at them on the same timeline,
00:06:51.244 they seem to kind of go in opposite directions.
00:06:54.205 Until they don't.
00:06:56.707 Let's just look at the recent past.
00:06:59.127 In 2020, a pandemic was happening
00:07:01.254 and lots of people suddenly wanted to move,
00:07:03.673 and home prices started to shoot up.
00:07:06.217 In 2022, as the US government tried to slow down inflation,
00:07:09.971 interest rates began to shoot up.
00:07:11.973 And now they're both still pretty high.
00:07:14.267 And not only that: Because a lot of current homeowners
00:07:16.686 have mortgage interest rates down in this range --

00:07:18.688 the 3%, 4%, 5% zone --
00:07:20.565 it means that, since selling their home might mean
00:07:22.942 having to buy a new one at an interest rate up here,
00:07:27.029 fewer people are selling their homes.
00:07:29.490 It helps keep this, that homeowner vacancy rate, low.
00:07:32.785 And it keeps home prices high.
00:07:36.080 And by the way, all these barriers to homebuying
00:07:38.291 are exacerbated for people of color, who are more likely
00:07:41.878 to be denied mortgage loans, regardless of income.
00:07:45.423 The website Zillow
00:07:46.215 looks at several of the factors we've talked about,
00:07:47.925 including home prices, income, mortgage rates,
00:07:50.428 and it calculates the monthly burden
00:07:52.513 on the average new homeowner.
00:07:54.098 According to them, that burden is close
00:07:56.851 to the highest on record.
00:08:00.730 There are lots more factors at play
00:08:03.524 here, but overall,
00:08:04.650 especially if you're a young person in the US, it is natural
00:08:07.528 to feel discouraged by the housing market.
00:08:10.281 And the question then becomes,
00:08:11.782 can you still somehow have this, without this?
00:08:14.952 Can you find some kind of financial stability,
00:08:16.662 even if you continue to rent where you live?
00:08:19.916 Well, let's start with the obvious:
00:08:21.209 This is not even always going up.
00:08:24.462 Just for one example, this is the 2008 housing crisis,
00:08:26.923 which was a disaster for home values.
00:08:29.592 Now, they've obviously gone way back up,
00:08:31.511 but we can look at other kinds of investment
00:08:33.596 over that time period, too.
00:08:35.139 Here's a common stock market index.
00:08:36.807 It also went down, and then up.
00:08:39.309 Now, that is an extremely imprecise comparison
00:08:41.102 between two very different ways to invest.
00:08:42.855 But you could also chart
00:08:44.440 several kinds of investments this way,
00:08:45.775 and they would all go up sometimes, down sometimes,
00:08:49.278 hopefully up in the long term, but in the short term,
00:08:52.365 you do not ever know what is coming next.
00:08:55.076 A home is a pretty unique kind of purchase.
00:08:58.246 It's a necessity, that you buy at great cost.
00:09:01.874 But if you look at it as a long-term investment,
00:09:04.752 it's not actually that special.

00:09:07.213 If you want the stable investment,
00:09:09.298 you go out and invest in a nice,
00:09:11.092 you know, government bond mutual fund.
00:09:13.970 You don't have to worry about that.
00:09:14.887 It is most likely, you know, going to go up.
00:09:16.889 And if it doesn't go up this month, over time, it will.
00:09:19.642 One thing charts like this show is that the conditions
00:09:22.979 for buying a home change.
00:09:26.107 Recently, they've been kind of bad.
00:09:27.650 They might not always be.
00:09:29.819 But: if you're looking for long-term investments to grow your wealth,
00:09:33.406 even if you rent your home,
00:09:35.449 a house is not your only option.