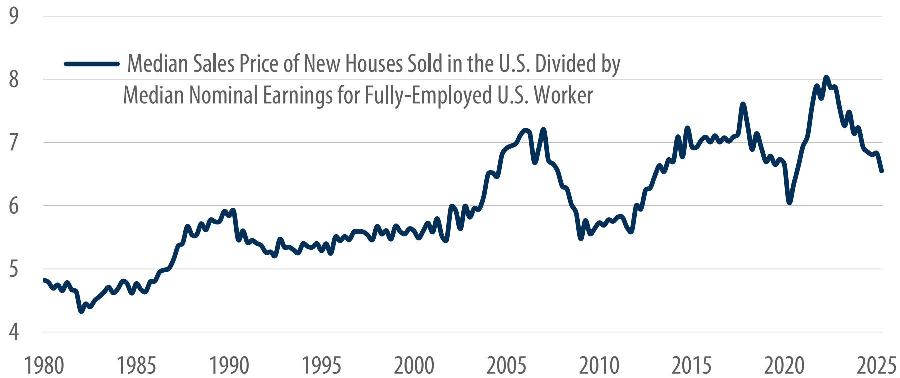
Is the American Dream Unattainable?

Housing in America is becoming increasingly out of reach. Home prices have surged far faster than household incomes, mortgage rates remain stuck in the mid-6% range—roughly double what buyers faced before 2022—and the ongoing costs of ownership keep rising. Higher property-tax bills added yet another burden in 2024, tacking on hundreds of dollars a year for the typical owner. Beneath these affordability pressures lies a deeper supply problem: Freddie Mac estimated last Fall that the U.S. is short some 3.7 million homes, a gap built up over years of underbuilding. Regulatory hurdles make matters worse, with the NAHB calculating that red tape alone accounts for nearly one-quarter of a new home's price. In short, government policy, financing costs, and supply bottlenecks have all converged to squeeze buyers. In this week's "Three on Thursday" we highlight three key metrics of housing affordability—and the picture isn't pretty. View the three charts below for more information.

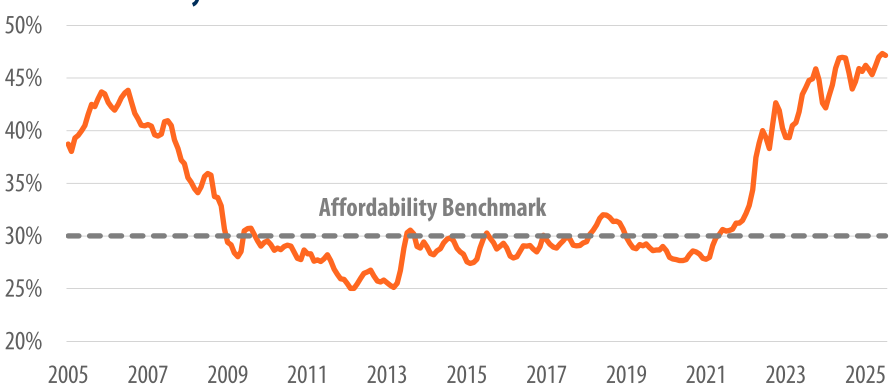
U.S. Median Home to Income Ratio



Source: Census Bureau, HUD, Bureau of Labor Statistics, First Trust Advisors. Quarterly data Q1 1980 – Q2 2025.

Looking back over the past 45 years reveals a striking divergence between wages and home prices. Since 1980, median earnings for a full-time U.S. worker (age 16 and older) have risen 386%, while the median sales price of a new home has surged 556%. Put simply, paychecks have not kept pace with the cost of purchasing a house. In 1980, the median home cost about 4.8 times the median income. That ratio surged in the wake of COVID, reaching a peak of 8.0 soon after the Federal Reserve began hiking interest rates from artificially low levels in the second quarter of 2022. Although the measure has since eased—standing at 6.6 as of the second quarter of 2025—homes today remain significantly less affordable compared with historical norms.

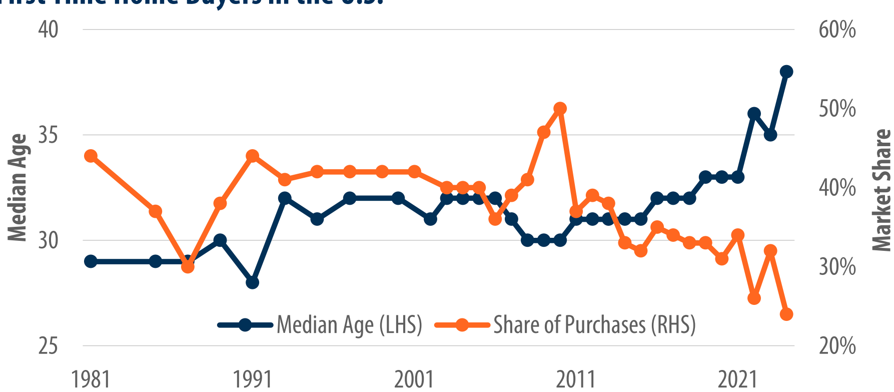
Median Home Payment as a Share of Median Household Income in the U.S.



Source: Federal Reserve Bank of Atlanta, First Trust Advisors. Monthly data 1/2005 – 7/2025.

The Federal Reserve Bank of Atlanta's Home Ownership Affordability Monitor (HOAM) tracks how much of a median household's income is required to afford the median-priced home nationwide. The index incorporates mortgage rates, monthly principal and interest, as well as taxes, property insurance, and private mortgage insurance. For more than a decade—from 2009 through 2022—the share of income required hovered near or below 30%, the U.S. Department of Housing and Urban Development's benchmark for affordability. But conditions have deteriorated sharply. HOAM now shows the worst affordability on record going back to 2005: as of July, a median-income household must devote 47% of its income to own a median-priced home.

First Time Home Buyers in the U.S.



Source: National Association of Realtors, First Trust Advisors. Annual data 1981-2024.

As affordability declines, the "American dream" of homeownership is slipping further out of reach. In the 1980s, the typical first-time buyer was in their 20s. By 2024, that median age had climbed to 38 — the highest on record — after holding near 30 for decades. The shift accelerated after COVID, when inflation and surging home prices sidelined Millennials and Gen Z. First-time buyers made up just 24% of purchases in 2024, the lowest share since records began in 1981.