The Hidden Costs of Homeownership Are Skyrocketing

Rising insurance premiums, property taxes and maintenance costs show little sign of abating

By Nicole Friedman

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Darren Gondry has owned his four-bedroom home near a golf course in Louisville, Ky., since 2004. He and his wife, Lori Gondry, paid off their primary mortgage in 2021.

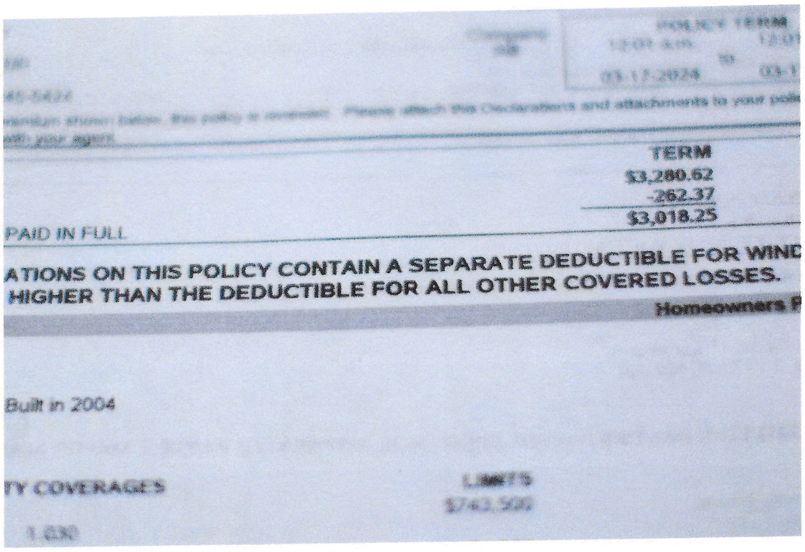
That hasn't stopped other bills associated with homeownership from piling up. Their home insurance costs have risen 63% in two years. Their property taxes, utility costs and homeowners' association fees have risen in recent years, too.

"I was so sticker-shocked," Gondry said of the mounting home-cost increases. "I fear they're here to stay."

Homeownership affordability fell to its lowest level since the 1980s last year as mortgage rates reached a 23-year high and home prices set new records.

Borrowing costs have eased somewhat this year, with the average rate for a 30-year home loan down about a percentage point since October. But other prices related to homeownership keep rising and show little sign of abating.

Property taxes and home-maintenance costs are climbing in much of the country. Non-mortgage costs including property taxes, maintenance, utilities and insurance make up more than half of homeowners' overall costs, according to a 2022 analysis by Fannie Mae economists.



Insurance bills addressed to the Gondrys. PHOTO: MORGAN HORNSBY FOR THE WALL STREET JOURNAL

Worst of all, home insurance premiums are soaring. Rates rose by more than 10% on average in 19 states in 2023 after a series of big payouts related to floods, storms, wildfires and other natural disasters across the U.S., according to an Insurance Information Institute analysis of data from S&P Global Market Intelligence. More Americans also moved to disaster-prone areas in recent years, increasing the exposure to these events.

Escalating costs on multiple fronts mean that many first-time buyers will continue to find homeownership a financial stretch.

Consumer prices rose 3.5% in March from a year earlier, the Labor Department said Wednesday. The stronger-than-expected inflation data could prompt Federal Reserve officials to hold rates at their current level for longer, which could also keep mortgage rates from declining.

The tens of millions of American homeowners who have locked in mortgage rates below 4% still have to contend with these other costs. And since insurance premiums, tax bills and maintenance costs can change each year, it's hard for homeowners to budget how much more they will be paying even a few years from now.

Skipping repairs

Plenty of homeowners are having to stretch financially to meet these home-related expenses. Nearly one in five said they couldn't afford a $500 emergency repair without going into credit-card debt, according to a February online survey of 1,000 homeowners by tech company Clever Real Estate, while 42% said they've skipped home repairs or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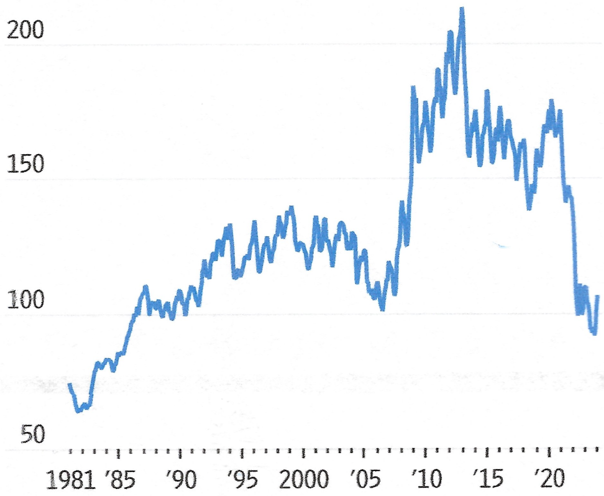
reach of many Americans have shifted dramatically from four decades ago.

Housing affordability index



Note: Assuming 20% down payment and 30-year fixed-rate mortgage for median-priced existing home with median family income. Higher index number corresponds with greater affordability.
Source: National Association of Realtors

Mortgage rates today have more than doubled from the lows of three years ago, but they are still modest compared with the 1980s. The Federal Reserve pushed up short-term rates aggressively starting in the late 1970s in an effort to halt inflation. In 1981, the average rate on a 30-year fixed mortgage topped 18%—nearly three times today's rate.

As inflation came under control, mortgage rates came down. They dipped below 10% in 1986 and have remained in single digits since 1990.

During the early years of the pandemic, millions of Americans purchased homes or refinanced existing mortgages at historically low rates. The average rate for a 30-year fixed mortgage fell below 3% several times in 2020 and 2021.

But even many of those homeowners who locked in record-low rates haven't been able to dodge the other costs that continue to make homeownership less attainable for the typical American.

Home maintenance fees have risen. It cost an average of $6,663 a year to maintain a home in the fourth quarter of 2023, up 8.3% from a year earlier, according to home-improvement tech company Thumbtack. The index takes into account regular upkeep like gutter cleaning and lawn care along with occasional expenses like roof repair or maintenance.

Surging home insurance costs are hitting homeowners hardest of all.

Some insurers have stopped offering coverage in some states, leaving homeowners with fewer options. Homeowners with mortgages—which is about 60% of all owners—are required to purchase property insurance. In some cases, homeowners without mortgages are opting to go without home insurance. They plan to self-insure or move away if a disaster strikes.

Catastrophic weather events, rising labor and material costs and uncertainty about future losses are all pushing up home insurance prices—even in states less prone to hurricanes and wildfires. The average annual home insurance cost rose about 20% between 2021 and 2023 to $2,377, according to insurance-shopping site Insurify, which projects another 6% increase in 2024.

It's likely to be higher than that in several states. Insurify expects average home-insurance costs to rise by more than 10% in eight states this year, including Louisiana, Maine and Michigan.

"The insurance really is, I think, just as crippling, if not more so, than interest rates," said real-estate agent Kara Breithaupt in New Orleans, where floods and hurricanes have caused insurance costs to rise faster than in most of the U.S.

"When you're talking about a $500,000 property that has an $8,000 homeowners insurance premium and a $2,000 flood insurance premium, and property taxes on top of that, the carrying costs have exponentially increased," Breithaupt said.

These higher costs have forced some homeowners to sell, she said, but good luck finding a buyer. The typical home in the New Orleans metro area that went under contract in February had been on the market for 97 days, the slowest of any major metro area, according to real-estate brokerage Redfin.

'Two mortgages in one'

Steve Kissee listed two Louisiana houses for sale last year, an inherited property and a vacation home.

Two accepted offers for the inherited property fell through before closing. It finally sold in December but for about 17% below its initial listing price. Kissee said he had to offer the new owner a type of contract enabling the buyer to pay in installments, because the buyer couldn't qualify for a traditional mortgage due to the insurance costs.

The vacation home, on Lake Catherine Island in New Orleans, has been sitting on the market since August with no offers. He said the price to insure it is a big reason why.

Kissee is also struggling with insurance costs for his primary home in New Orleans. He received a renewal quote for wind and hail insurance last year for about $31,000, up from a $3,200 premium the year before. He switched to the state's insurer of last resort for about $7,900 after replacing his roof. His monthly payment for taxes and insurance is higher than the principal and interest payment on his mortgage, he said.

"It's kind of like having two mortgages in one," he said.

Insurers are also passing on more risk to consumers through higher deductibles, insurance agents say.

In Colorado, the 2021 Marshall Fire that swept through the suburbs between Denver and Boulder is still boosting insurance costs in that state. Insurance broker Michael McCarron said many of his clients' home-insurance bills are rising 20% to 40% a year.

"Affordability was always a problem—an increasing problem in the last three or four years—but now it's truly an availability problem," said McCarron, owner of Lakeside Insurance in Arvada, Colo.

Price increases could slow in 2025, he said, but he doesn't expect insurance costs to return to where they stood before the fire.

"This is the new normal," he said.