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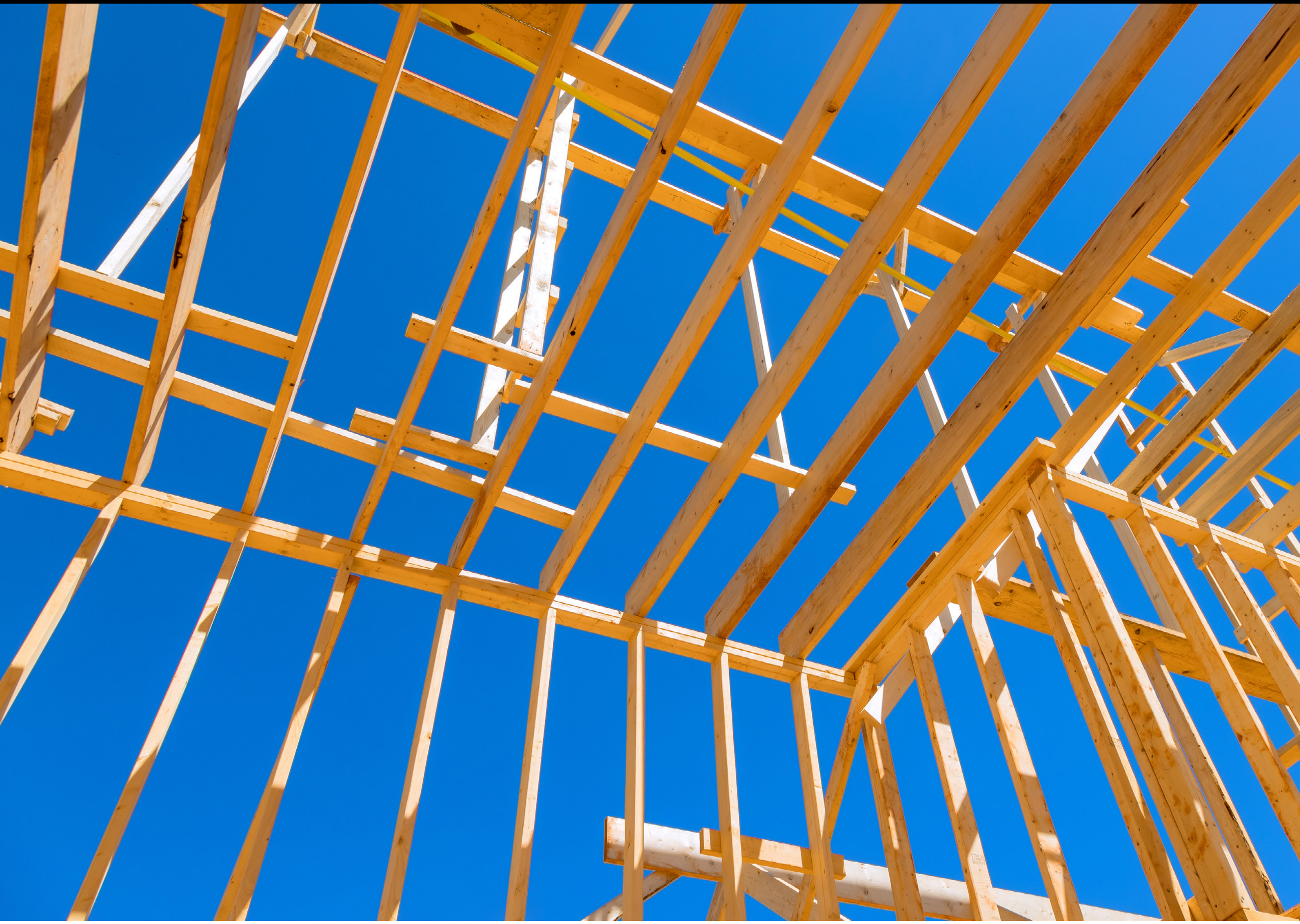

Implications of a Persistent Slowing in Housing Demand

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If construction remains elevated, supply growth could outpace demand growth, pushing home prices lower

Executive Summary

This paper examines recent and emerging shifts in U.S. housing demand and supply. We argue that the post-financial crisis narrative of a persistent housing shortage may no longer accurately describe market conditions over the decades ahead.

Following the financial crisis, millennial household formation drove strong demand that outpaced construction, and home prices rose steadily. Estimates of the national housing shortfall ranged from 1.5 million to 7.3 million units. The pandemic intensified these demand pressures. Historically low mortgage rates boosted demand sharply, pushing home prices and rents higher. Builders responded by accelerating construction, particularly in multifamily housing and in the South and West. However, the mortgage rate lock-in effect constrained existing home inventory, keeping prices elevated even as rates rose.

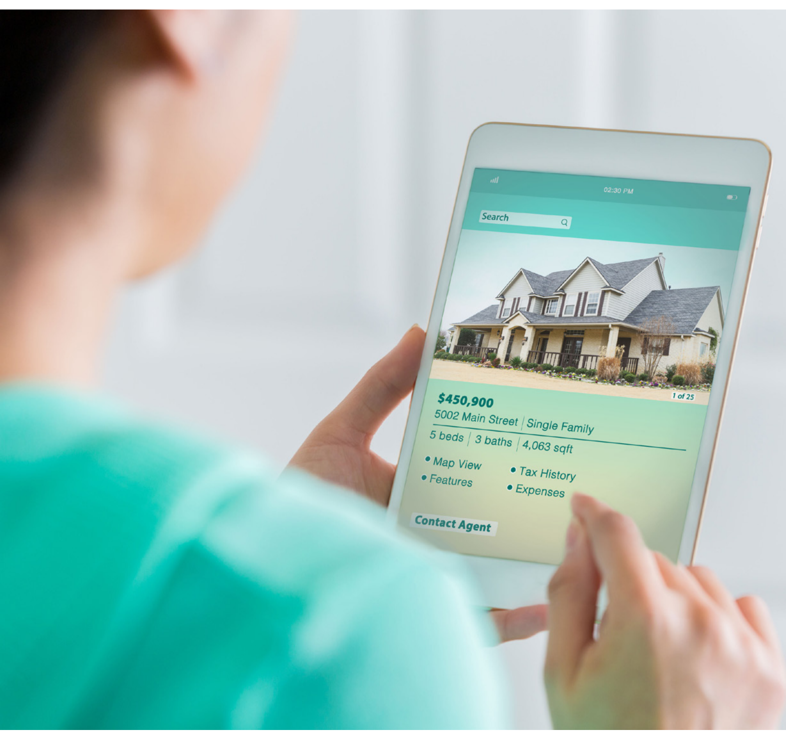
By 2025, demographic conditions shifted. Demand cooled at the same time that new supply hit the market. In the recent period, vacancy rates climbed, rent growth stalled, and for-sale inventories rose. These trends were most pronounced in Sun Belt markets. Housing remains expensive relative to income, but affordability is improving as income growth outpaces price and rent gains in many markets.

Looking ahead, demographic trends are weakening the foundations of housing demand. Household formation is expected to slow over the next decade due to population aging, low fertility rates, smaller younger adult cohorts, and reduced immigration. Aging Baby Boomers are unlikely to flood the market with inventory, but home transfers will moderately add to supply over time. If construction remains elevated, supply growth could outpace demand growth, pushing home prices lower. These trends carry meaningful implications for homeowners and the mortgage industry, including risks to origination volumes, borrower equity, and credit performance.

Introduction

Demand and supply drive the housing market, as is the case in any other market. Changes in either demand or supply can have lasting impacts and move the market out of balance. In the case of housing, shifts in demand impact the market faster than supply. Construction takes time so the addition of new units lags the price signals generated by changes in demand.

The focus of housing policy discussions since the financial crisis has been centered on addressing the housing shortage. After the financial crisis, housing demand increased dramatically, driven by the millennial generation entering the housing market. This resulted in a shortage of housing that persisted over time as homebuilders were not building enough to keep up with growing demand. Estimates of the housing shortage ranged from a shortfall of between 1.5 million and 7.3 million housing units.[1] Policymakers had to decide where to expand inventories and for whom. The difficult part was understanding how to increase housing inventories given the wide-ranging estimates of the shortfall. Households may be in undesirable locations, in unaffordable units, or in units that do not match their family composition — all of which complicate how we measure and address a shortage.



House prices grew year-over-year since 2012 given the increased demand for housing. House price growth was exacerbated further during the pandemic period (2020–2022) due to significant increases in demand over a short period stimulated by record low mortgage rates. The FHFA national home price index grew by double digits over that period and nearly every market in the country saw rapid home price gains. National home prices increased 55 percent between 2020 and 2025, and annual rent growth ran in double digits over much of the same period.

Builders responded to these pandemic price signals. In the multifamily sector, developers ramped up building, and the number of multifamily units under construction reached a peak in 2023 to levels not seen since the early 1970s. Single-family homebuilders also picked up the pace, particularly in states like Florida and Texas, which have favorable long-term demand trends given faster than national job and population growth. A lock-in effect further suppressed the supply of existing homes for sale, as homeowners with extremely low mortgage rates chose to remain in their homes rather than list them for sale. This lack of existing inventory enabled home prices to keep rising even as mortgage rates shot up, again creating a price signal for builders.

1 deRitis, Cristian, Ira Goldstein, Maggie McCullough, Jim Parrott and Mark Zandi, 2025. Bringing the Housing Shortage Into Sharper Focus, Moody's Analytics.

However, the situation changed in 2025. Many of these projects began to be delivered from 2023 to 2025, coinciding with cooling demand as interest rates rose significantly and the job market softened. The lock-in effect is easing even as mortgage rates remain between 6 and 6.5 percent, well above the pandemic lows. The number of existing homes on the market is up about 30 percent compared to the prior year. Rental vacancy rates increased from a low of 5.6 percent in 2022 to 7.3 percent in 2025 and rents have flattened. In several markets in the South and West — Austin being a prominent example — many more units were delivered than could be rapidly absorbed. These Sun Belt markets continue to be destinations for domestic migration and should return to normal over time, but these rental markets are likely to be soft in the near term.

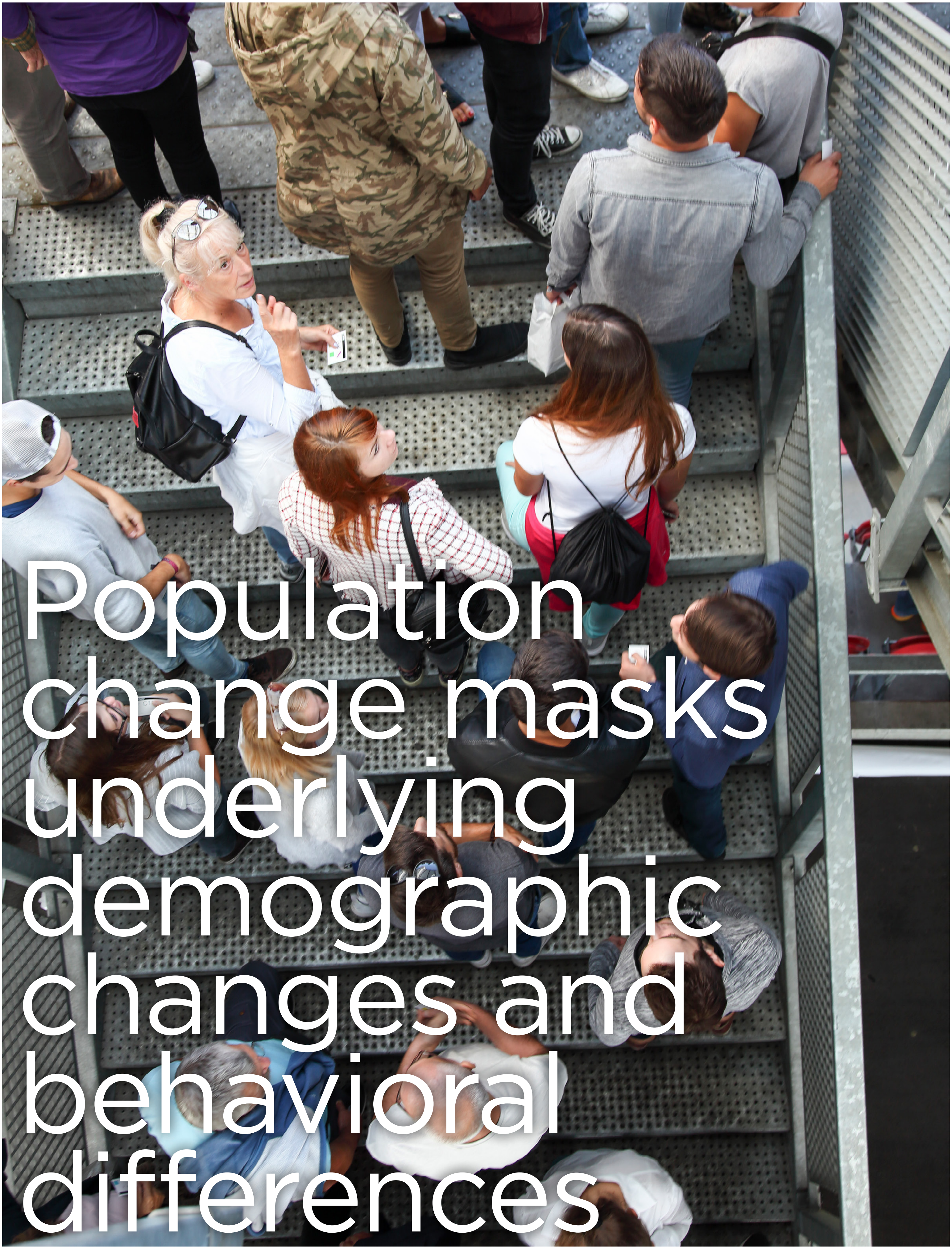
The national trends are driven primarily by construction activity in the South and West, where most home sales and construction take place. Home prices and rents have held up better in the Northeast and Midwest, regions where it is typically harder to build, but also regions that have seen much slower population and job growth. For the national picture, two themes are present concurrently. First, housing is expensive — home prices and rents remain high relative to income. Second, affordability is improving. As demand softens and oversupply grows in many markets, household incomes are growing faster than home prices and rents.

The demand picture is also shifting in ways that go beyond the current rate environment. Gen Z is now at peak rental age and moving towards first-time homebuying age, but this generation is smaller in numbers than the Millennial cohort. Over the past decades, young adult cohorts were augmented through international migration, but this is unlikely to be the case given the abrupt changes in immigration policy in 2025. Recent estimates suggest that net immigration may be negative for at least the next few years. The aging of the Baby Boomers will reduce housing demand further, with the oldest Baby Boomers having turned 80. Boomers will likely be adding to housing supply as they age further, but we do not expect a "silver tsunami" that would flood the market. With respect to younger cohorts, fertility rates continue to be well below the replacement rate and may be falling further. The expected net impact of these changes is that the U.S. population could stop growing absent positive net immigration, perhaps as soon as the early 2030s.

As such, the rate of household formation is slowing and is likely to be much slower over the next decade than it was in the last one. Slower household formation means less demand for housing, for both rental and for-sale units. This means that many units are now being delivered at a time when demand is not growing at the same pace, and our forecast is that this will persist over at least the medium term. After increasing 4 percent nationally in 2024, we are forecasting growth of only 1 percent this year and flat home prices over the next two years.

This paper takes a deep dive into these issues, presenting the most current data and our analysis of how these trends will impact the demand and supply of single-family and multifamily housing over the years ahead. The goal is to inform market participants that the underlying trends shaping demand have changed — and that these changes will impact the business landscape in the years ahead.

Population change masks underlying demographic changes and behavioral differences



Sizing the Demand for Housing

In this section we provide estimates of the demand for housing at a national level and how many additional housing units we will need to add to the housing stock in the coming decades.

The primary ingredients for estimation are based on Fisher and Woodwell (2015)[2] and McCue (2025)[3] that include the size and make-up of the U.S. population.

The overall population, a function of births, deaths, and net-immigration, is expected to grow over the coming decades, although with recent changes in immigration policy and lower fertility rates, estimates have been shifting downward. Indeed, the Congressional Budget Office's (CBO) January 2026 estimate of the population in 2035 is 6.8 million lower than its January 2025 estimate (357.3 million versus 364.1 million), and the overall population is only projected to increase from 349 million today to 364 million people in 2056.[4]

Figure 2.1, that depicts CBO's January 2025 and January 2026 projections of net immigration, shows that the effects of the 2025 Reconciliation Act (Public Law 119–21) will primarily be felt through 2030. The CBO projects that net-immigration will be approximately 970,000 people per year over the next decade and 1.22 million per year from 2036 to 2045.

McCue (2025) uses the Census Bureau's 2023 National Population Projection that includes a main-series projection for immigration as well as three alternatives (high, low, and zero-immigration level) to estimate net-immigration. The main-series estimates an average of 873,000 net-immigrants from 2025 to 2035. It then projects that the net immigration rate will average 910,000 per year from 2035 to 2045.[5]

Given that the CBO's and the Census' main-series 2025 to 2035 net-immigration numbers are in the same ballpark (despite the latter's estimates being produced prior to the 2025 changes in immigration policy), we focus on the Census' main-series estimate for the coming decade. For 2035 to 2045, we also report population growth based on the Census' main-series path, although since the CBO estimate, at 1.2 million, brings us approximately one-third of the way to the Census' high-series estimate of 1.5 million to 1.6 million per year, we will also report a number that reflects a blend of the Census' main- and high-series for the 2035 to 2045 period.

The fertility rate in the U.S. has been decreasing steadily and fell below 1.6 births per woman in 2025 according to the CBO's January 2026 data. It is expected to continue to decrease and is projected to average 1.56 over the next decade, and 1.53 from 2036 to 2045. Moreover, given an aging population, the CBO now projects that deaths will exceed births in 2030, three years earlier than it projected in its January 2025 demographic outlook. In other words, without immigration the U.S. population would shrink, according to the CBO, beginning in just four-years' time (2030).

U.S. annual population growth decreased from 2.77 million from 2000 to 2010 to 2.17 million from 2010 to 2020 and continues to fall. Using the main series for immigration and the Census Bureau's 2023 National Population Projection, McCue (2025) projects the annual population growth will total only

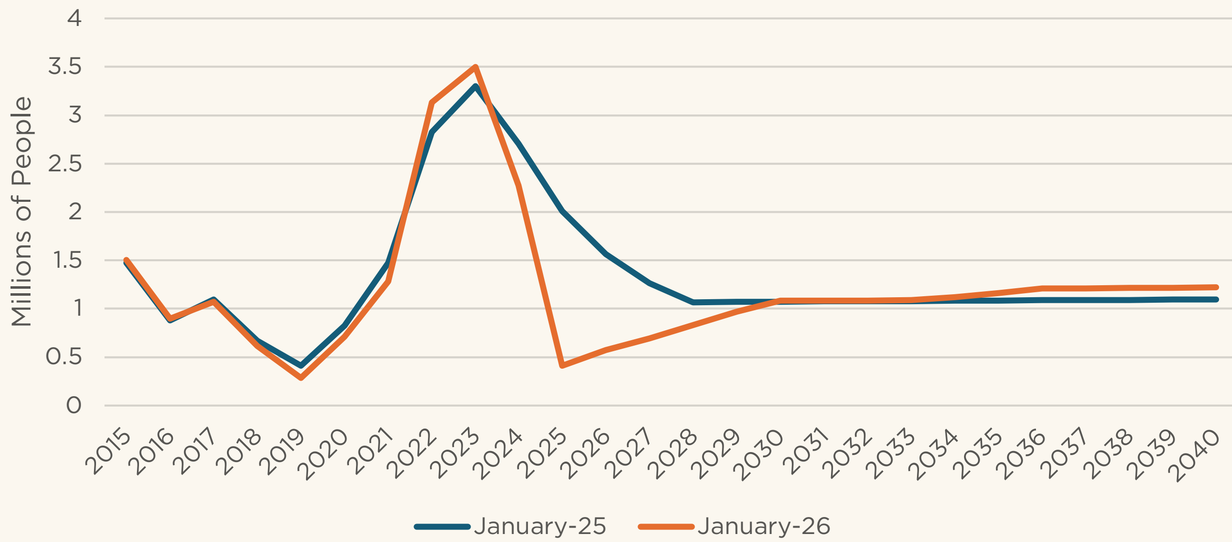
2 Fisher, Lynn and Jamie Woodwell. 2015. Housing Demand: Demographics and the Numbers Behind the Coming Multi-Million Increase in Households, Mortgage Bankers Association.

3 McCue, Daniel. 2025. Household and New Housing Unit Demand Projections for 2025–2035 and 2035–2045, Joint Center for Housing Studies of Harvard University.

4 Congressional Budget Office. 2026. The Demographic Outlook, 2026 to 2056. The CBO's population forecast has population growth decelerating over the next 30 years, so that the population in 2050 will be 363.9 million and 364.1 million in 2056. That is, an average yearly growth of less than 40,000, or in percentage terms, a 0.001 percent growth rate (i.e., essentially flat).

5 In a note from December 2025 McCue also does calculations using the Census' low-immigration level which projects net immigration of 420,000 per year over 2025-2035. As we discuss later in this section, using low immigration series instead of the main-series would lower total projected household growth by about 20 percent for the years 2025–2035.

FIGURE 2.1: NET IMMIGRATION IN CBO'S JANUARY 2025 AND JANUARY 2026 PROJECTIONS



1.29 million from 2025 to 2035. Interestingly, "only 1.29 million" is 40 percent higher than the CBO's more recent estimate of 0.92 million annual growth in population.[6]

From 2035 to 2045, McCue's average base-series increase in population is 0.76 million per year. The CBO's comparable number of 0.56 million reflects higher immigration but lower natural change. If we were to adjust the JCHS projection to reflect the CBO's immigration estimate (i.e., the blended estimate mentioned above), we would have an average annual increase of 1.1 million from 2035 to 2045.

Overall population change over the next two decades masks underlying demographic changes and behavioral differences across groups that will shape housing demand. Fisher and Woodwell (2015) adapt Paciorek's (2016)[7] model and look at three main dimensions — sex, age, and race/ethnicity — to get specific population and household formation projections. This allows for granular and flexible projections as the demographic makeup of the United States evolves. The importance of this approach is underlined by Gary Engelhardt's Research Institute for Housing America (RIHA) reports from 2022 and 2024 that emphasize the age dimension and analyze, among other things, how the aging of Baby Boomers will affect housing markets and when their homes will filter down to younger cohorts.[8]

McCue also calculates headship rates (the ratios of households-to-people) by age and race/ethnicity. Aggregating across all groups, he finds that the pace of household growth is projected to slow. Figure 2.2 replicates the analysis in McCue (2025) and shows that there will be 8.6 million additional household added from 2025 to 2035 and 5.1 million from 2035 to 2045, using the Census' main series for immigration.[9]

The final step is to move from growth in the number of households to the baseline demand for additional housing units. McCue includes in this calculation obsolescence (i.e., projected units to replace stock demolished or removed), additional vacant units needed to maintain a healthy level of vacancies in a growing housing market, and demand for second homes. It can be argued that McCue ignores other

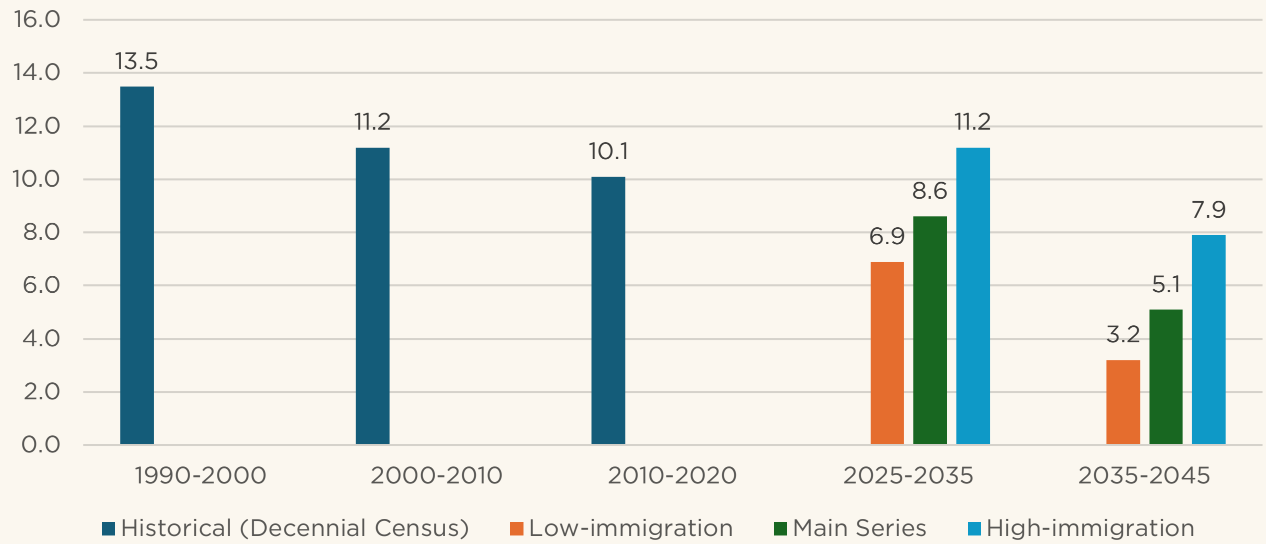
6 The range of estimates suggests the difficulty in projecting population and household growth. Indeed, this will be a theme in this paper. For example, we also see a very wide range in the estimate of the shortage of housing units in the U.S.

7 Paciorek, Andrew. 2016. "The Long and the Short of Household Formation," Real Estate Economics.

8 Engelhardt, Gary. 2022. Who Will Buy the Baby Boomers' Homes When They Leave Them? Research Institute for Housing America. (Updated in 2024 with post-Covid data).

9 While we move forward with these numbers, we note that under the Census' low immigration series the 2025–2035 number drops by 20 percent to approximately 6.9 million. Also, incorporating the blended CBO/Census immigration estimate, the 2035–2045 growth is 6.0 million households. Note however that this latter calculation is illustrative only and adds one-third of the difference between the high and main series to the main series estimate shown in the figure. It does not use Dan McCue's carefully constructed age and race/ethnicity building blocks.

FIGURE 2.2: THE PACE OF HOUSEHOLD GROWTH IS PROJECTED TO SLOW CHANGE IN HOUSEHOLDS (MILLIONS)



sources of demand such as demand from foreign purchasers[10] and households[11] combining smaller apartment units into larger ones, but we believe that these would only add small increments to those presented in Figure 2.3.[12]

FIGURE 2.3: BASELINE DEMAND FOR ADDITIONAL HOUSING UNITS (THOUSANDS)

	2025-2035	2035-2045
Projected Household Growth	8,590	5,070
Projected Additional Vacant Unit Demand	310	190
Vacant Units for Rent or Sale Second Homes	200	90
Projected Units to Replace Stock Demolished or Removed	2,230	2,670
Projected Total Baseline Demand for New Units	11,340	8,020

Source: JCHS

Note: Based on U.S. Census 2023 National Population Projections, Main-Series Projection.

In summary, the national demand for additional housing units is projected to be lower over the next two decades than earlier projected (e.g., by Fisher and Woodwell (2015)) primarily because of lower expected birth rates and lower net-immigration. From 2025 to 2035 the average demand is approximately 1.13 million units per year, and from 2035 to 2045 it is 802,000 units per year.

In the next section we compare these projections to the current and expected trends in single-family and multifamily construction.

10 See Foreign investors dominate weak U.S. housing market amid affordability concerns | Fox Business.

11 See How 100,000 Apartments in New York City Disappeared — The New York Times.

12 Adapted from Figures 13 and 14 in McCue (2025).

We estimate a growth in supply of between 10.8 million and 14.9 million units from 2026 to 2035

Estimates of the Supply of Housing

We estimate the future supply of housing at the national level. As of the first quarter of 2026, the Census Bureau estimated the existing stock of housing was 149.0 million. The size of the future stock of housing can be estimated based on expected completions and assumptions regarding demolitions.

We assume three potential paths for future completions. We first assume a path where the level of completions is equal to average completions per year between 1968 and 2024. Next, we consider a low path and a high path where the level of completions is equal to the 25th and 75th percentile of completions over the same period.

Figures 3.1 and 3.2 report annual completions for single-family and multifamily properties, respectively. The solid lines report the time series, and the dashed lines report the three estimates of future completions. Notably, single-family completions have been near the time-series average since 2022. In contrast, multifamily completions exceeded the series average since 2023. Estimates of annual completions (in thousands) are combined for single-family and multifamily to get 1,353 (average), 1,094 (25th percentile), and 1,590 (75th percentile).

Next, we account for the fact that not all new units will be owner-occupied or occupied at all. We assume that 4.6 percent of new inventory will be purchased as second homes (NAHB). We also assume a natural vacancy rate of 12.5 percent, which is the average vacancy rate from 2001–2025 (Census/FRED).[13]

Finally, we account for significant changes to the existing stock of housing. First, we assume that 0.5 percent of the existing stock will be lost in each decade, where lost is defined as removed from the housing stock entirely. Second, we account for a significant change in the number of units that will filter down due to aging. Engelhardt (2022) shows an additional 250,000 units per year are expected to filter down to new households between 2025 and 2035 because of the aging of the Baby Boomers.

13 The natural vacancy rate defined above is the ratio of all the vacant units in the Census' housing market inventory relative to the total number of units. Note that this differs from the Census' definitions of vacancy rates in the Current Population Survey/Housing Vacancy Survey that defines the rental vacancy rate as the proportion of the rental inventory which is vacant for rent and the homeowner vacancy rate as the proportion of the homeowner inventory which is vacant for sale. Note that if we were to use a lower vacancy rate that is closer to the Current Population Survey/Housing Vacancy Survey published rates, then we would generate significantly larger estimates of the net supply change over the next two decades. As such, the vacancy rate assumption we use is conversative in nature.

FIGURE 3.1. SINGLE-FAMILY COMPLETIONS, 1969–PRESENT (SEASONALLY ADJUSTED ANNUAL RATE)

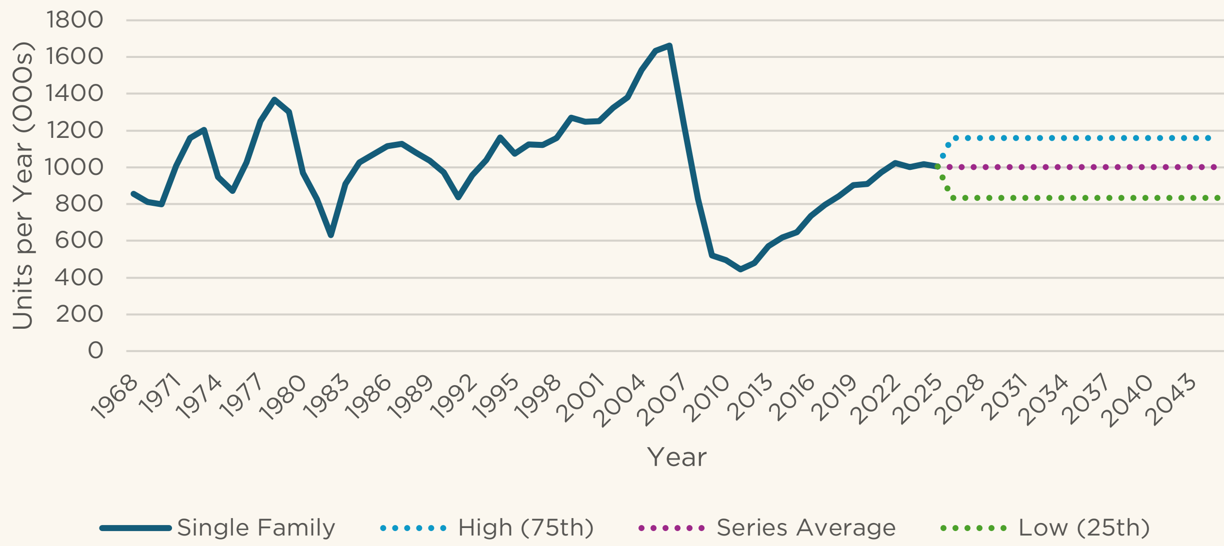


FIGURE 3.2. MULTIFAMILY COMPLETIONS, 1968–PRESENT (SEASONALLY ADJUSTED ANNUAL RATE)

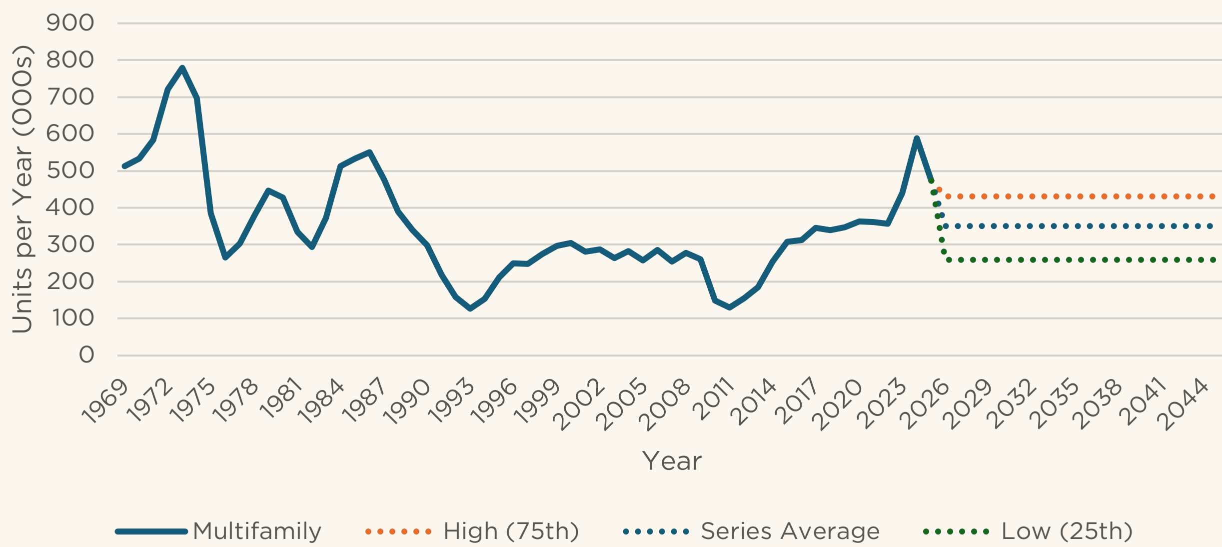


TABLE 3.3. ESTIMATES OF GROWTH IN HOUSING STOCK, 2026–2045 (THOUSANDS)

	LOW		MEDIUM		HIGH	
	2026-2035	2026-2045	2026-2035	2026-2045	2026-2035	2026-2045
Units Added	10,943	21,885	13,530	27,060	15,898	31,795
Vacancy (12.5%)	1,368	2,736	1,691	3,382	1,987	3,974
Second Homes (4.6%)	503	1,007	622	1,245	731	1,463
Net Added	9,071	18,143	11,216	22,432	13,179	26,358
Excess Supply from Aging	2,500	2,500	2,500	2,500	2,500	2,500
Loss in Existing Inventory (0.5%)	741	1,482	741	1,482	741	1,482
Net Supply Change	**10,568**	**18,635**	**12,651**	**22,801**	**14,556**	**26,613**

We estimate a growth in supply of between 10.6 million and 14.6 million units from 2026 to 2035. The detailed estimates are reported in Table 3.3. In Section 2, our estimated change in demand from 2026 to 2035 falls between the low estimate and the series average estimate. This suggests that the growth in supply could exceed the growth in demand by 2035 depending on the trajectory of supply. This relationship holds through 2045, all else equal.

Housing markets are local, and changes in demand reflect households migrating into and out of specific markets

Matching the Demand for and Supply of Housing Units

The previous two sections examined *national* estimates of projected housing demand over the next two decades and the current and expected trends in the supply of single-family and multifamily homes. However, equilibrium in the housing market means ensuring there is enough of the *right* type of housing. A mismatch of supply and demand can be due to a multitude of factors like geographic location, renting versus owning, unit size relative to household composition, etc. A mismatch of any of these factors can lead to a mismatch of supply and demand in any location, a development that we are seeing in many parts of the country at present.

In this section, we discuss some of the factors that influence where — and what types of — housing units need to be added to keep future supply and demand in balance. We limit our discussion to four key considerations: the factors shaping the choice between renting and owning, the ways migration patterns influence where housing should be built, how geographic differences have driven recent housing decisions, and how shifting preferences across demographic cohorts inform the types of housing units that will be needed. Through this discussion we highlight the importance of focusing on both improving housing accessibility and ensuring long-term housing sustainability.[14] It is essential to recognize that policy decisions affecting today's housing supply must also account for tomorrow's housing needs.[15]

BUYING VERSUS RENTING A HOME

The decision to rent or purchase a home is of first order importance for many households. Prior research shows that age, income, employment opportunities, and housing costs play central roles in shaping this choice. Because these factors evolve over time, they help explain changes in the relationship between renting and owning across housing cycles. In many cases, rental and owner occupied housing are not close substitutes, making an understanding of tenure choice essential for determining the appropriate mix of housing supply.[16]

The choice to rent or buy is a function of distinct preferences on either side. Following Spader and Herbert (2016),[17] the decision to own a home reflects both the consumption and investment components of homeownership, while the choice to rent often stems from a desire to avoid the higher costs associated with owning, including maintenance and transaction costs. The user cost model is one approach to quantifying these differences. Homeownership continues to be viewed as a source of wealth accumulation and residential stability

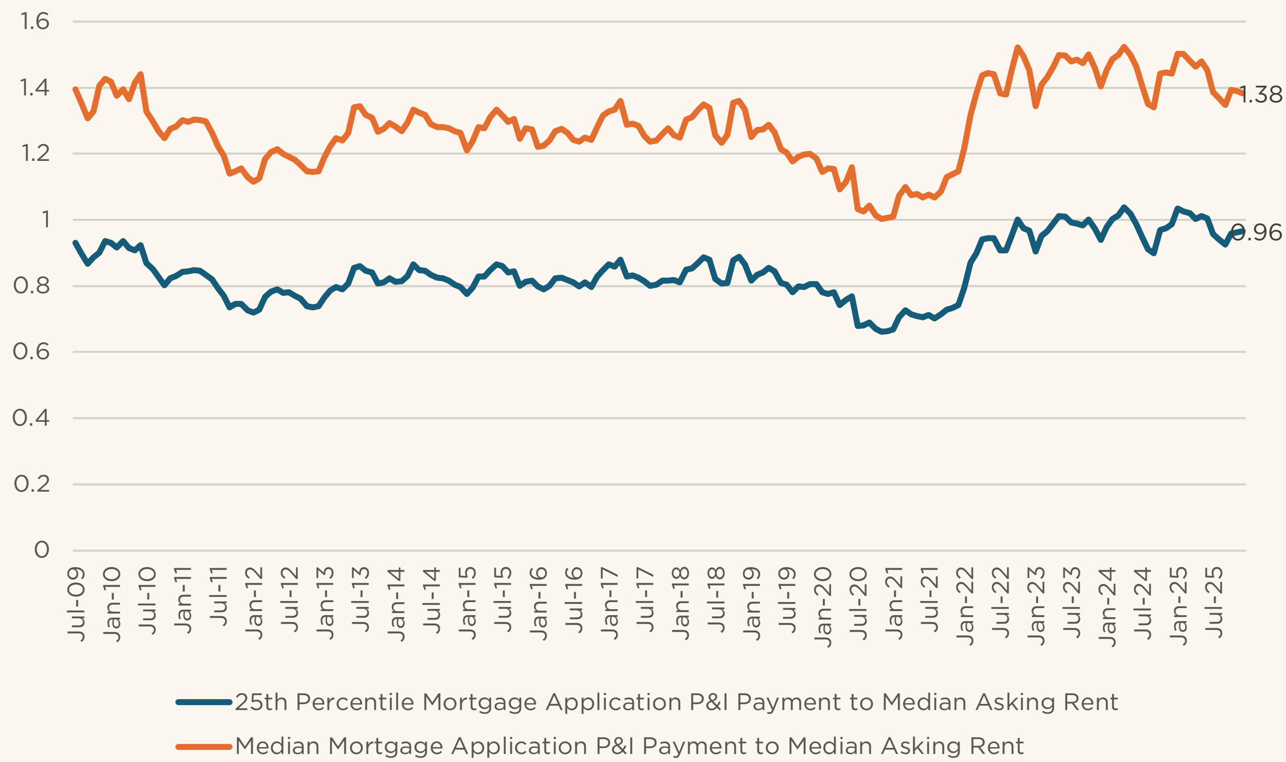
14 From a mortgage servicer's or investor's point of view this may seem obvious. However, many discussions on the lack of housing supply solely focus on building today. For an example of how to think about mortgage design and longer-term tenancy sustainability see: Tracy, Joe. 2024. Mortgage Design, Underwriting, and Interventions: Promoting Sustainable Homeownership, Research Institute for Housing America.

15 A cautionary example — that may seem to be the opposite of the dearth of housing in the United States — is in Japan where due to excess supply, because of a shrinking population, the number of vacant homes is soaring.

16 For an assessment of the underlying drivers of homeownership see, Gabriel, Stuart, and Stuart Rosenthal. 2011. Homeownership Boom and Bust 2000 to 2009: Where Will the Homeownership Rate Go from Here? Research Institute for Housing America.

17 Spader, Jonathan and Christopher Herbert. 2016. Waiting for Homeownership: Assessing the Future of Homeownership, 2015–2035," Joint Center for Housing Studies of Harvard University.

FIGURE 4.1: MORTGAGE PAYMENT TO RENT RATIO



— and one closely tied to economic growth and prosperity — but it is not always an obvious or attainable option for many households. Therefore, renting remains a viable alternative when the household's user cost calculus favors it.

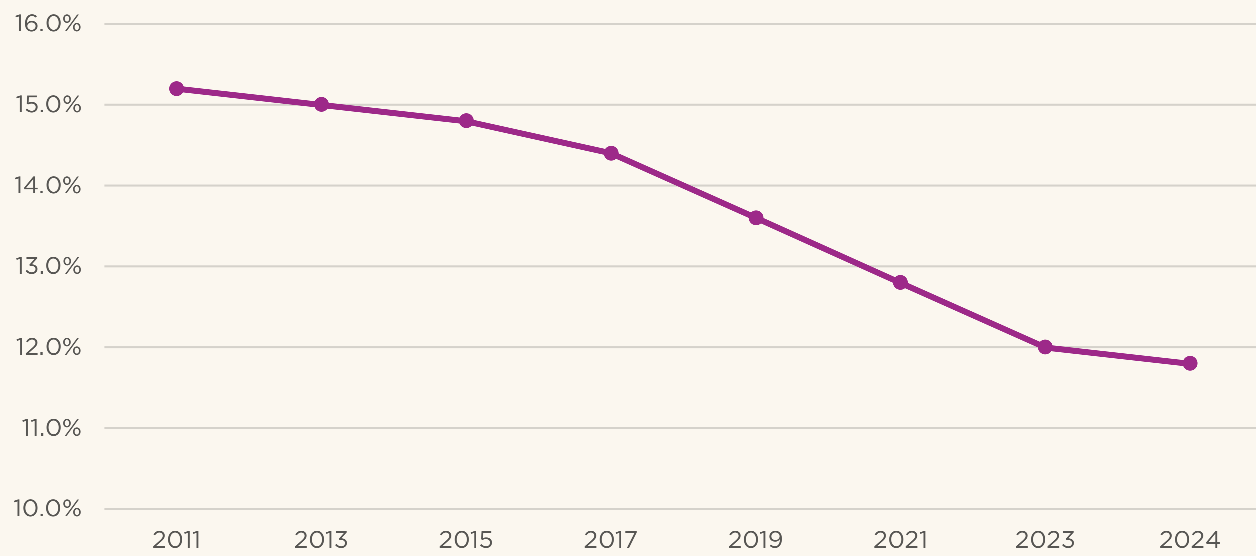
We illustrate the user-cost approach in Figure 4.1, which reports the median and 25th percentile mortgage payment relative to the median asking rent (orange and blue series respectively).[18] This serves as a measure of relative affordability between renting and buying: buying is more expensive when the ratio is above 1.0 and renting is more expensive when the ratio is below 1.0. The figure shows how the user-cost has evolved since 2009. The average mortgage payment-to-rent ratio was 1.27 from 2013 to 2019. It fell to as low as 1.0 during the pandemic then jumped to 1.45 following the doubling of interest rates in 2022. In other words, the rent-buy user-cost calculus changed for many households in mid-2022, pushing households toward renting.[19]

Over the next two to three decades, Baby Boomers — who own more than 40 percent of owner-occupied homes in the United States — are expected to exit the housing market. As these homes become available, they are likely to filter down to younger cohorts. Many of these households currently rent, implying a shift in relative demand away from rentals and toward owner-occupied housing. However, it remains uncertain whether these transitions, together with other structural forces, will be sufficient to bring the mortgage-payment-to-rent ratio back to the levels observed during the 2013 to 2019 period. This will depend on whether, for instance, the

18 MBA Research updates this data series quarterly through its Purchase Applications Payment Index (PAPI) releases. See, for example, [MBA's PAPI release in December 2025.] Note that the mortgage-payment in the figure includes principal and interest. It does not include other components of user-cost such as taxes, insurance and maintenance costs.

19 Figure 4.1 also includes the 25th percentile mortgage payment relative to the median rent (blue line). This series can be thought of as a proxy for first-time homebuyers who are purchasing starter homes. It also increased from around 0.8 prior to the pandemic to 1.0 following the increased interest rates in 2022.

FIGURE 4.2 HOUSEHOLD MOBILITY: SHARE OF HOUSEHOLDS THAT MOVED IN PAST YEAR



Boomer generation will supply more owned homes to the market than younger cohorts want to purchase and how these patterns evolve over the next two decades.[20]

HOMEOWNERSHIP AND MOVING DECISIONS

Housing markets are local, and changes in demand reflect households migrating into and out of specific markets. Accordingly, it is important to consider who is moving and the types of housing — such as single-family owner-occupied homes versus multifamily rentals — that best meet their needs.

To illustrate, Asquith (2021)[21] examines how housing and income or employment shocks influence the migration behavior of older homeowners and renters. His findings show that older homeowners are more likely than renters to reduce their labor force participation or retire early following an employment shock, in part because renters often need to remain employed to meet ongoing rent obligations. Homeowners also exhibit lower mobility across regions in response to negative local labor market shocks, as selling a home is typically more difficult and costly than ending a lease. Asquith also finds that migration across markets is shaped by differences in educational attainment and local housing costs. The study suggests that non college educated renters and homeowners are less likely to move after a labor market shock, while their college educated counterparts are more likely to relocate in pursuit of improved income opportunities.

Asquith also suggests that it is possible that much of the sorting across regions has already occurred, reducing current mobility rates. For example, workers may have already self selected into lower wage, lower cost cities or, alternatively, higher wage, higher cost markets. In addition, other factors, including the much discussed mortgage rate increase lock-in effect and boomers decisions to age-in-place have contributed to the decline in geographic mobility.[22] Indeed, as shown in Figure 4.2, the decline is secular with the share of households who moved in a given year decreasing from over 15.2 percent in 2011 to approximately 11.8 percent in 2025.

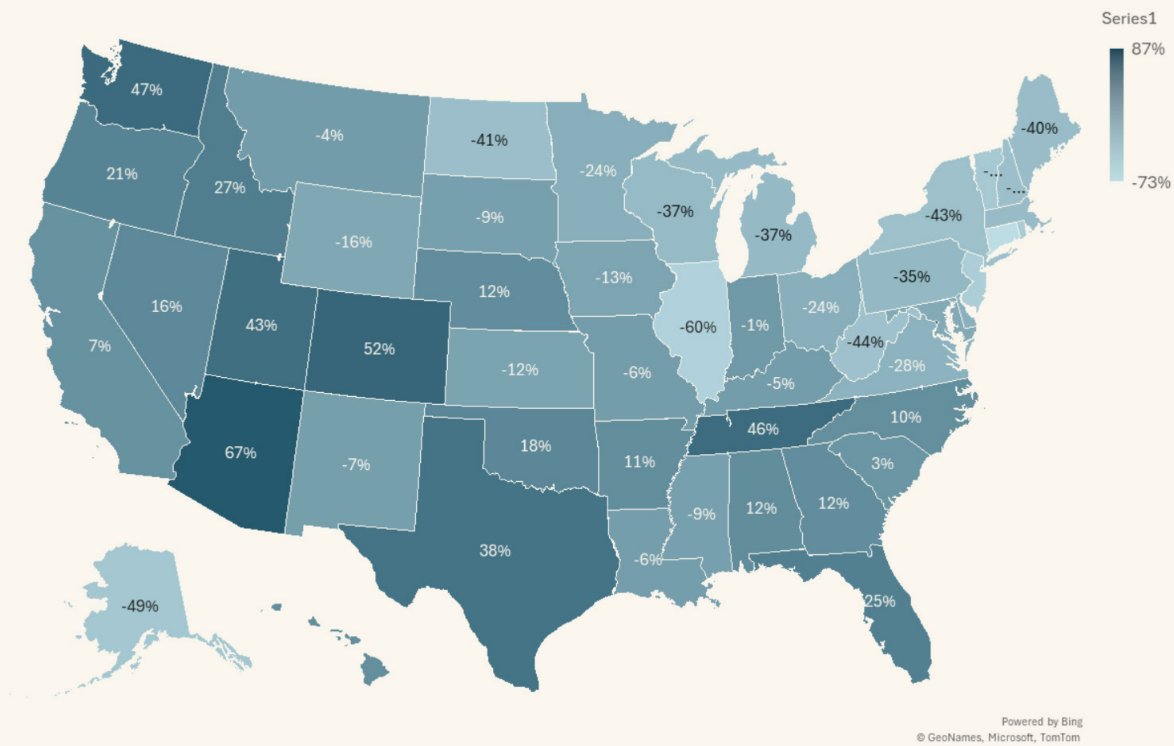
Should this decline continue, it may make it easier to match demand and supply in local markets. However, as we shall see in the next subsection, geographical differences are dynamic, and how they evolve will change the picture over future decades.

20 For a detailed discussion on this topic, see Gary Engelhardt's Research Institute for Housing America reports (Ibid.)

21 Asquith, Brian. 2021. Why Are Older Workers Moving Less While Working Longer? Research Institute for Housing America.

22 Additional factors for declining geographic mobility can be seen in a post from the Richmond Fed.

FIGURE 4.3 CHANGE IN ACTIVE HOME LISTINGS BETWEEN 2020 AND 2026



Source: Realtor.com

GEOGRAPHICAL DIFFERENCES IN HOUSING INVENTORY, HOUSE PRICES, INCOME GROWTH, EMPLOYMENT MARKET DYNAMICS, AND POPULATION GROWTH IMPACT HOUSING CHOICES

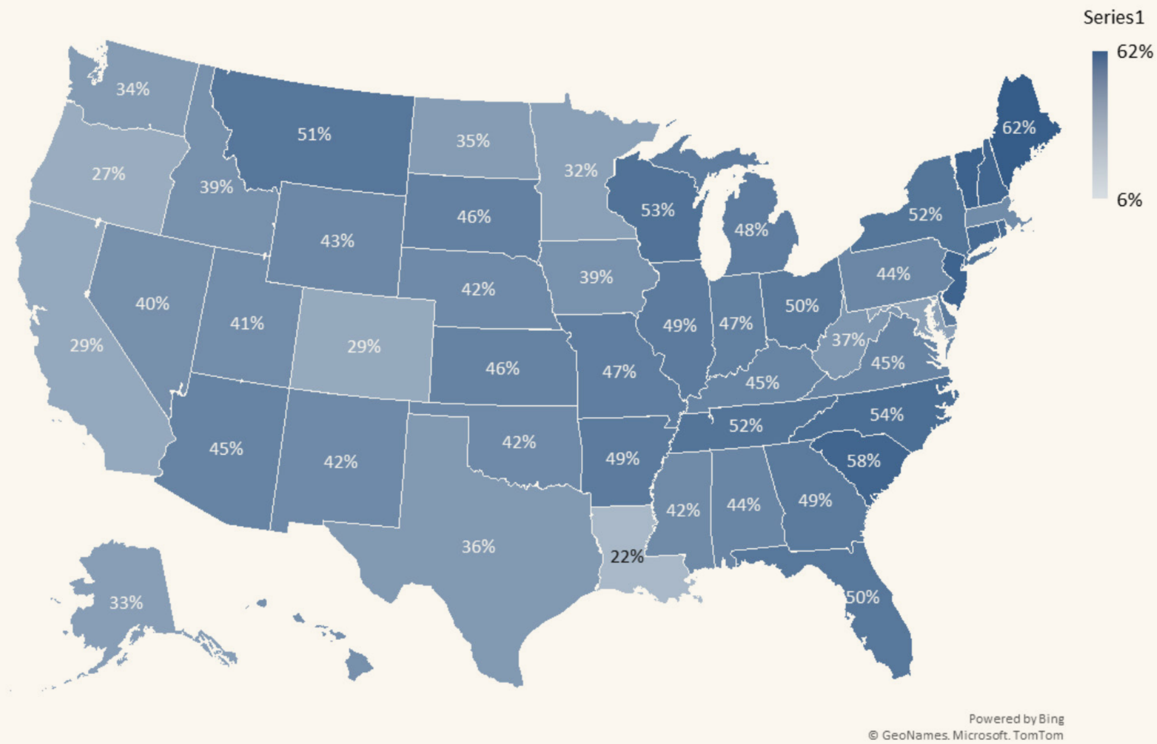
To gauge how housing supply has changed over the past few several years, we examine state-level trends in active listings. We use the active listing count as a measure of recent inventory conditions, as it reflects the number of homes for sale in any month. Data on active listings, as shown in Figure 4.3, reveals stark regional differences. Most states in the Northeast and Midwest have experienced persistently lower for-sale inventory over the past five years.

These inventory patterns are closely related to house price growth from 2020 to 2025, which has been stronger in the Northeast and Midwest than in the South and West (Figure 4.4). Sustained demand for homeownership, combined with listing levels that remain well below their 2020 levels, has continued to support house price growth in these regions, even though the pace of appreciation has moderated since the 2022 peak.

One way of observing how households responded to the varying price and inventory trends across markets is to study data on migration flows. We also have a good case study on how an external shock such as the 2020 COVID pandemic disrupted the housing market, impacting housing costs, migration patterns, and preferences. Using findings from Whitaker's analysis of migration flows, there has been significant movement in households between high-cost metro areas, large but affordable metro areas, midsized metro areas, and small and rural areas over the past 10 years.[23] He finds that in the pre-pandemic decade, there was net positive migration into affordable, large metro areas and midsized metro areas while there were net losses in migration from high-cost metro areas and small and rural metro areas.

23 Stephan D. Whitaker. 2024. Urban and Regional Migration Estimates. Federal Reserve Bank of Cleveland, Cleveland Fed District Data Brief.

FIGURE 4.4 PURCHASE-ONLY HOUSE PRICE CHANGE 2020 TO 2025



Source: Federal Housing Finance Agency

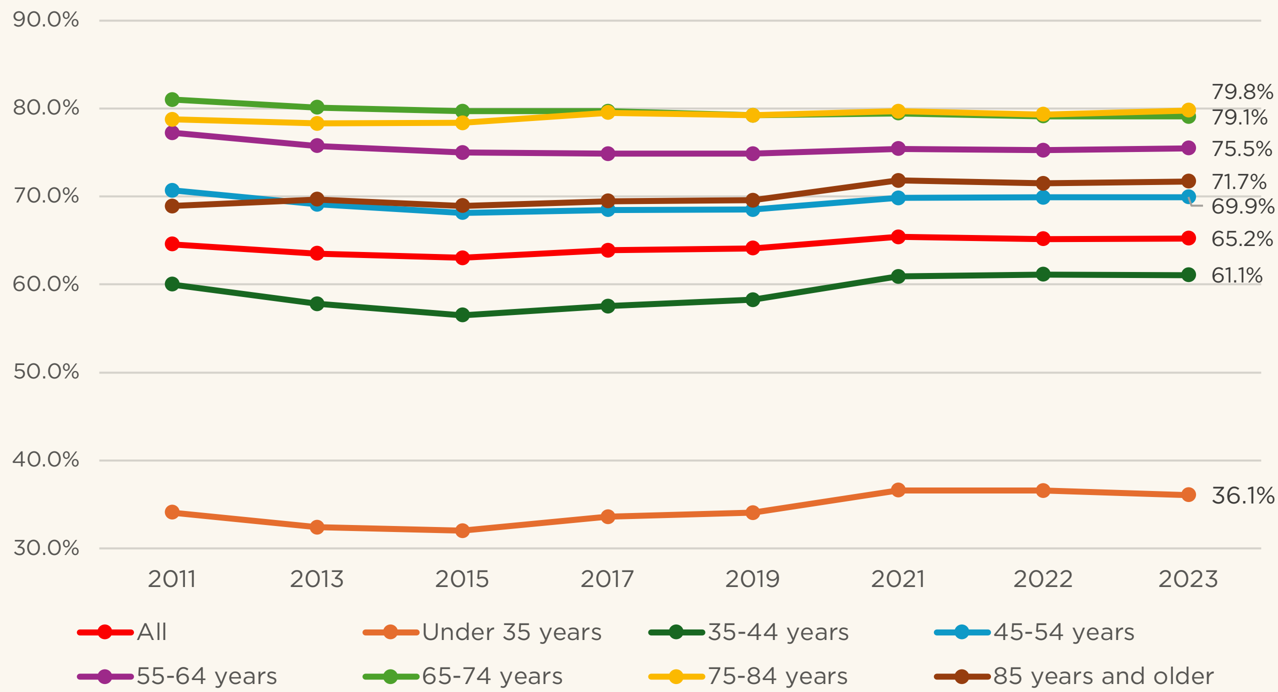
The pandemic accelerated some of these trends, particularly net migration losses in high-cost metros because of higher population density and physical proximity. As remote work and social distancing become more prevalent, people moved further away from urban centers, some even to the small and rural areas, which drove positive net migration into those areas starting in late 2020 and this growth trend continues. This was an opportunity for households to leave high-cost metros, especially as mortgage rates declined, for more affordable metros without having to find a new job where they were moving. Hybrid work arrangements also allowed workers to tolerate longer commutes.[24]

In the most recently available data, high-cost metros continue to see net losses in migration, although at a slower pace, as some companies recall workers back to the office. Deceleration in home price appreciation starting in 2022, along with increasing for-sale inventory and increasing rental vacancy rates in certain markets, have also contributed to this. The other metro types still show population inflows, but that pace of growth is slowing, potentially as some of the demand and supply imbalances discussed earlier start to normalize.

As discussed in an earlier section, we expect house price growth to slow and, in some cases, decline in markets where single-family construction has expanded meaningfully, including states such as Arizona, Texas, and Florida. In contrast, in states such as New York, New Jersey, and Massachusetts — where homebuilding continues to face significant constraints, including restrictive zoning, high permitting costs, and elevated labor expenses — we expect relatively strong house price growth to persist. Given the migration patterns observed of late, households continue to move to where housing is relatively more affordable, both for buyers and renters, as changes in life stage and housing needs necessitate moving.

24 For a complementary discussion on the demand for office space in a post-pandemic economy, see Woodwell, Jamie and Mike Fratantoni. 2022. "A Framework for Considering Office Demand in a Post-pandemic World," Mortgage Bankers Association.

FIGURE 4.5 HOMEOWNERSHIP RATE BY AGE OF HOUSEHOLDER



Source: American Community Survey 2024

CHANGING PREFERENCES ACROSS COHORTS IMPACT THE DEMAND FOR RENT VERSUS BUY

In this subsection, we return to the question of what types of housing units are most needed to expand the nation's housing supply by examining homeownership rates by age and race/ethnicity. Different demographic groups have distinct housing needs and preferences, and a detailed understanding of their distribution is essential for aligning new supply with demand.

Homeownership statistics show that younger age groups are more likely to rent or live with parents or non-relatives, with homeownership rates rising steadily as individuals age. This pattern reflects life-cycle dynamics, including household formation, changes in household size, and growing attachment to a particular location, all of which tend to increase demand for owner-occupied housing over time.

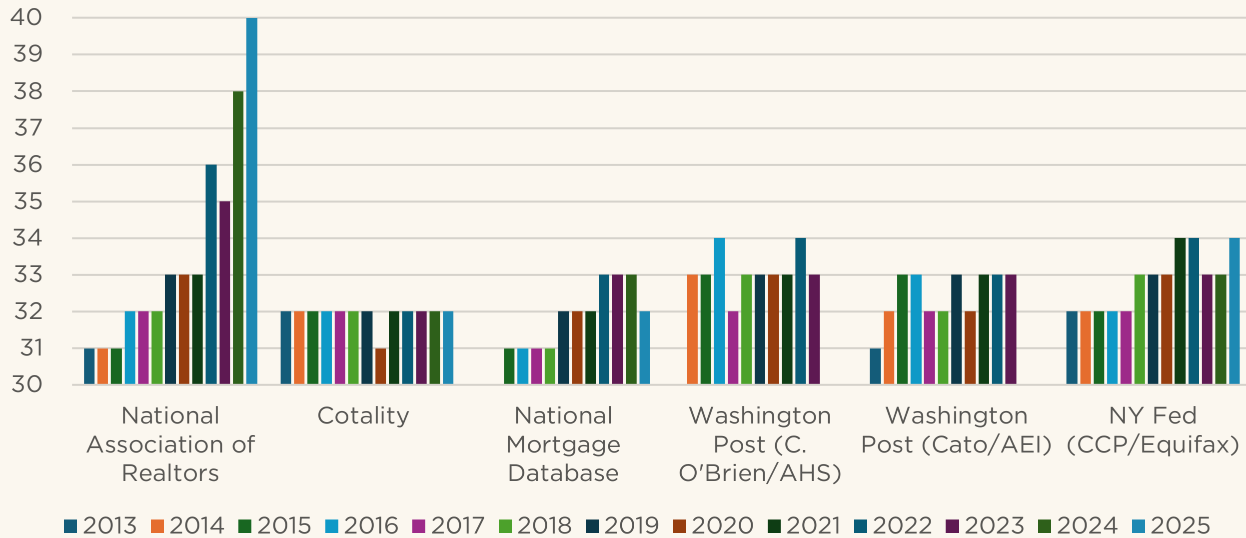
According to American Community Survey data from 2024, as shown in Figure 4.5, the U.S. homeownership rate was 65.3 percent, roughly in line with the rate from 2021 to 2023, but up from a low of 63.0 percent in 2015. Across age groups, the under 35-year-old group and 35–44-year-old groups remain below average with rates of 35.4 percent and 61.1 percent, respectively.

The homeownership rate hits 70 percent for the 45- to 54-year-old group and continues to increase sequentially with each older group hitting a peak of 79.8 percent for the 75-84 group. The homeownership rate falls back to 71.8 percent for the 85 and older age group, although that rate has gradually moved higher after 2019 as more people age in place and downsize at a slower pace.

The downward sloping homeownership rate for the youngest age group — decreasing from 36.6% in 2021 to 35.4% in 2024 — has raised the question as to whether the average age of first-time homebuyers is increasing. The National Association of Realtors' recent well-cited statistic that the age of first-time homebuyers had hit 40 continues to make headlines. However, as seen in Figure 4.6, other sources dispute that the age has increased in any meaningful way, and remains around 32–34 years old.

Homeownership rates by race and ethnic groups continue to show wide differences. As shown in Figure 4.7, for white households, the homeownership rate was 72.5 percent in

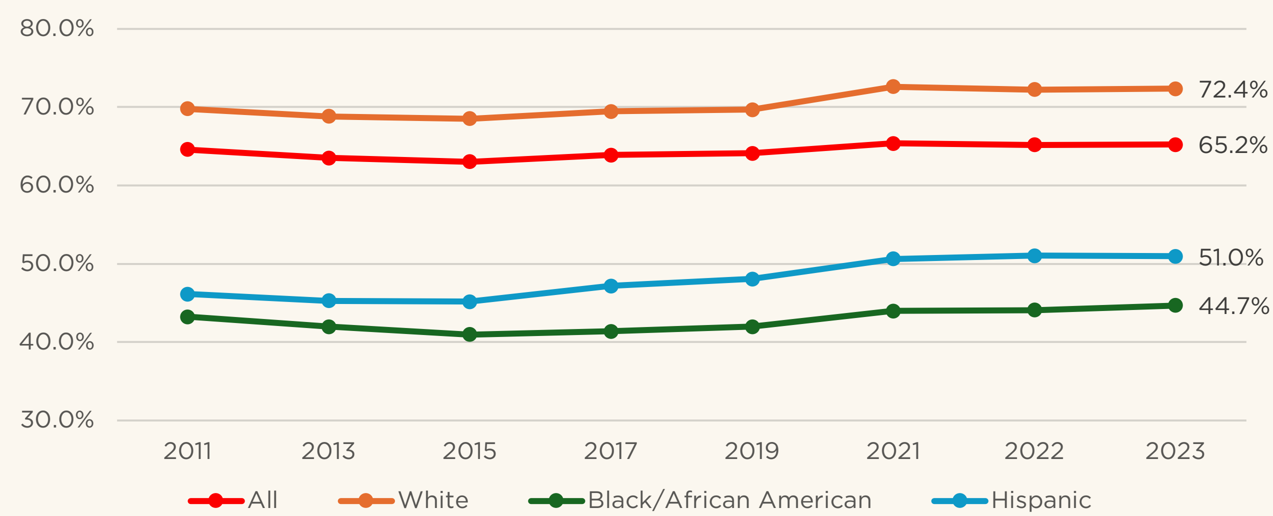
FIGURE 4.6 MEDIAN FIRST-TIME HOMEBUYER AGE BY YEAR



Sources: Cotality, FHFA National Mortgage Database, Federal Reserve Bank of New York, National Association of Realtors, *Washington Post*

Note: For further details see MBA's December 5, 2025 Chart of the Week

FIGURE 4.7 HOMEOWNERSHIP RATE BY RACE / ETHNICITY



Source: American Community Survey 2024

2024, above the national average of 65.3 percent. Hispanic households had a homeownership rate of 50.9 percent and Black/African American households had a homeownership rate of 45.1 percent. While both groups showed increases in their respective rates post-2019, the spread remains wide relative to White households.

There are multiple efforts to close this homeownership gap.[25] If successful, this will impact the demand for homeownership and renting for underserved people and communities.

25 For example, CONVERGENCE is a place-based set of initiatives to promote more sustainable, affordable homes for purchase and rental, with a focus on underserved people and communities.

The arithmetic has important implications for housing supply and whether shortages will remain in the decades ahead

Implications for Longer-run Forecasts

The demographic foundation underpinning housing demand is shifting in ways that have not yet fully registered in market forecasts or policy conversations. Household growth — the primary driver of long-run housing demand — is expected to slow over the next two decades due to the Boomer generation aging, birth rates remaining below replacement level, and the relatively smaller size of younger cohorts compared to their older predecessors. This equates to fewer new units needed compared to estimates that do not adequately account for population decline. That simple arithmetic has profound implications for how we think about housing supply adequacy — and calls into question whether the supply shortage that defined the post-2010 housing narrative will remain the right framework for the decade ahead.

We expect that the Boomer generation of homeowners will pass down their homes over the next two decades. Although Boomers account for roughly 40 percent of homeowners, research by Gary Engelhardt for the Research Institute for Housing America does not project that aging homeowner demographics will lead to excess supply. Because many older Americans are holding onto their homes longer, we expect that the beneficiaries of these homes will also be older. Beneficiaries will likely already be homeowners themselves when these homes transfer — suggesting a large share will flow into the broader market rather than simply changing hands within families.

If construction activity remains elevated, changing demographic trends could lead to a growing oversupply of housing in more markets. We expect household formation to slow materially, and the population base that would absorb new units is growing more slowly than the current pipeline suggests. The challenge is timing. Construction decisions made today reflect current price signals, which we do not believe have fully accounted for the demographic shifts already visible in the data. The demand picture may look materially different by the time those units are completed and delivered. We expect that this will lead to falling prices for both single-family and multifamily housing at the national level.

The potential for oversupply and falling prices is a concern for the mortgage industry. The most direct impact is on origination volume, as fewer households purchasing homes means fewer loans. For existing homeowners, falling prices would erode equity, limiting access to cash-out refinancing and increasing the likelihood of selling at a loss. We are also concerned that falling prices would push more of today's homebuyers underwater on their mortgages. Recent borrowers and those with low down payments are most vulnerable, as they have the least equity cushion to absorb a price decline. Underwater borrowers who experience an income shock are at the greatest risk of default, which suggests additional consequences for mortgage servicers due to the potential for advances, loss mitigation costs, and extended resolution timelines

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