

The Large Unmet Demand for Housing

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*The views expressed are mine alone and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System

Housing supply has responded weakly to increasing demand.

- **strong demand**

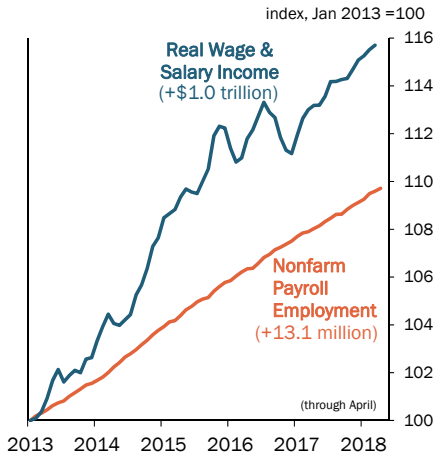
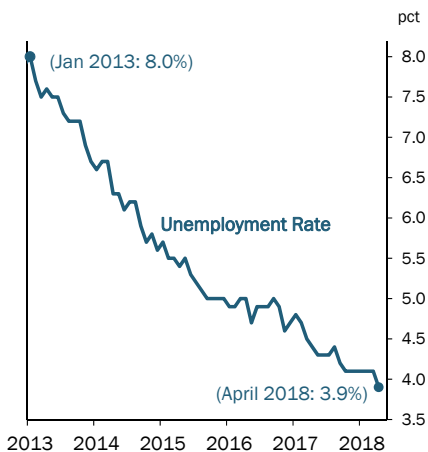
- ▶ improving economic conditions → desire to consume more housing
 - ▶ to upgrade from “starter” SF homes
 - ▶ to move from apartments to SF homes
 - ▶ to form households

- **weak supply response:** SF construction is very low by historical standards

- ▶ two main constraints:
 - ▶ scarce construction workers
 - ▶ limited undeveloped land in desired locations
- ▶ limits existing homes and apartments for sale and rent
 - ▶ self-reinforcing 

- → **elevated rent and price increases**

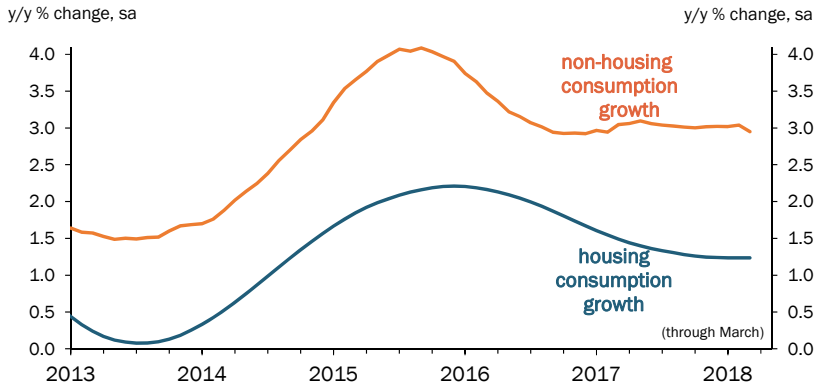
Economic conditions have improved considerably over recent years.



Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Haver Analytics

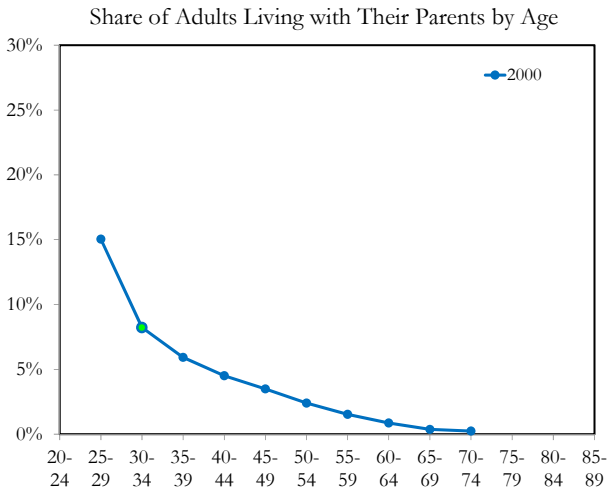
Housing consumption has responded more sluggishly than consumption of everything else.

(housing consumption \equiv estimated rental value of all occupied housing units)



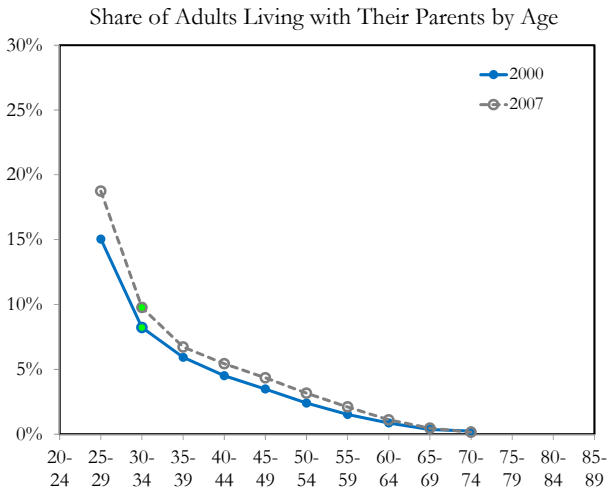
Sources: Bureau of Economic Analysis, Haver Analytics

Adults who moved in with their parents are not yet moving out.



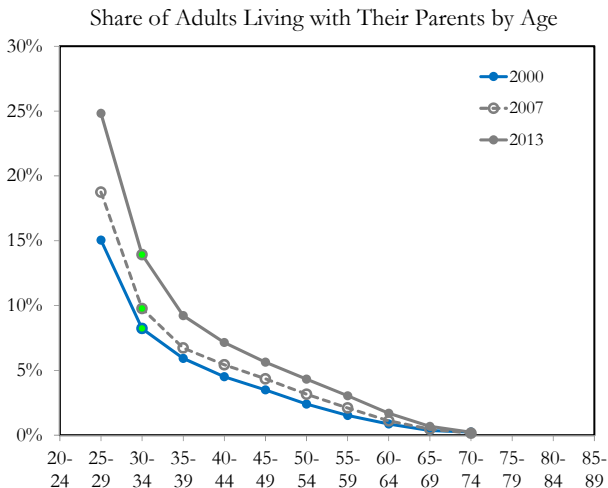
Adults who moved in with their parents are not yet moving out.

- 1980-2007: gradual upward trend



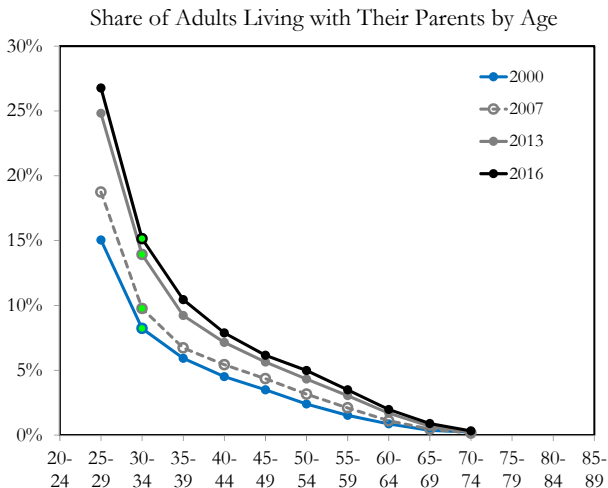
Adults who moved in with their parents are not yet moving out.

- 1980-2007: gradual upward trend
- 2007-2013: business cycle spike

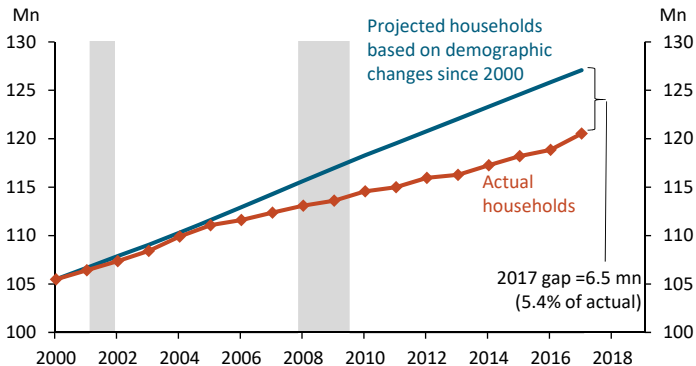


Adults who moved in with their parents are not yet moving out.

- 1980-2007: gradual upward trend
- 2007-2013: business cycle spike
- 2013-2016: no reversal



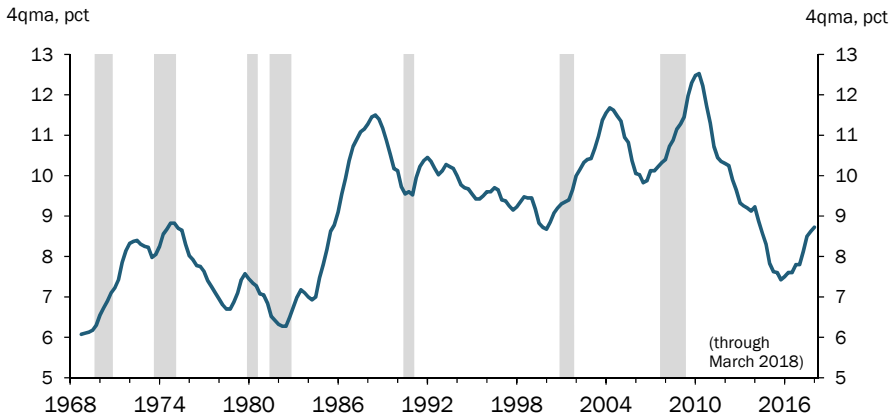
And the number of households has been falling increasingly below trend.



Sources: Census Bureau, Haver Analytics, Author's Calculations

Household formation requires vacant existing housing units...

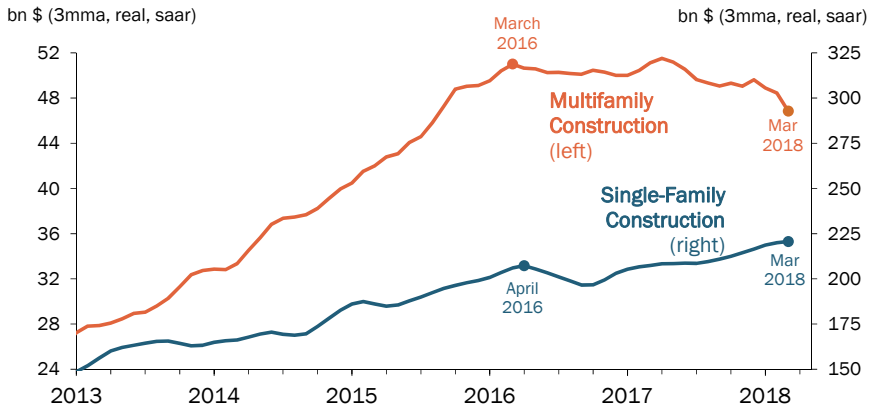
- But rental apartment vacancy is close to its lowest since 1984



Sources: Census Bureau, Haver Analytics

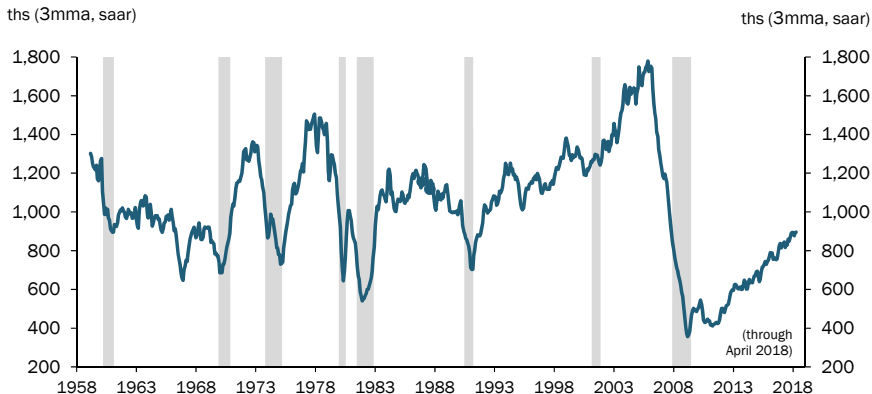
...or newly constructed housing units.

- But home construction has been flat since early 2016



Sources: Census Bureau, Haver Analytics

The level of single-family starts remains very low.

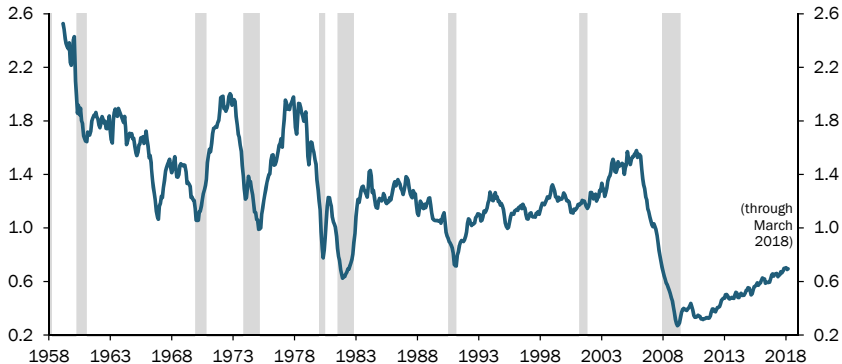


Sources: Census Bureau, Haver Analytics

The level of single-family starts relative to the number of U.S. households remains even lower.

Percent of U.S. households (3mma, saar)

Percent of U.S. households, (3mma, saar)

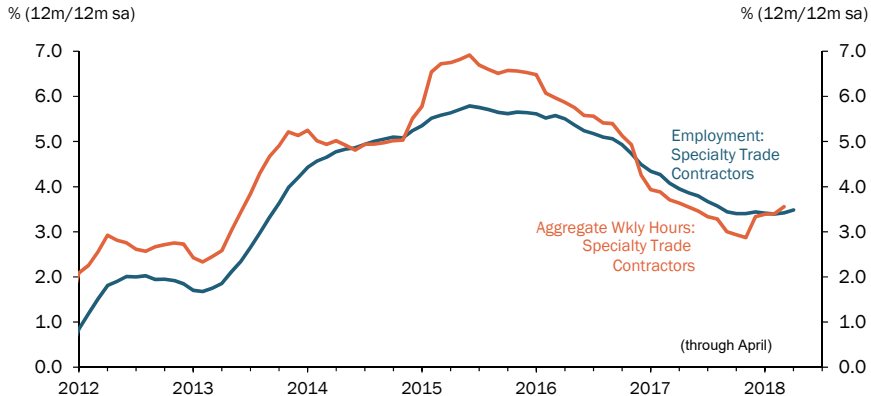


Sources: Census Bureau, Haver Analytics

What is holding down single-family construction?


- Shortage of construction workers
- Limited undeveloped land in desired locations
 - ▶ Suburbanization may have reached its geographic limit in some metropolitan areas.

Construction employment growth has been slowing.

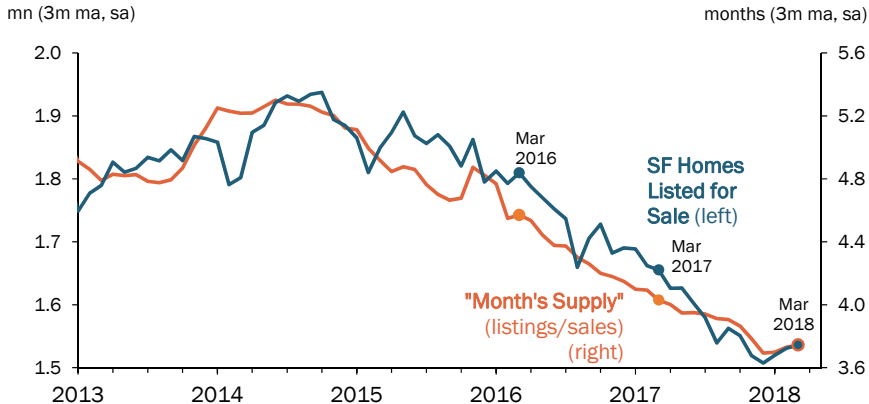


Sources: Bureau of Labor Statistics, Haver Analytics

Low single-family construction limits the housing upgrade cycle and household formation.

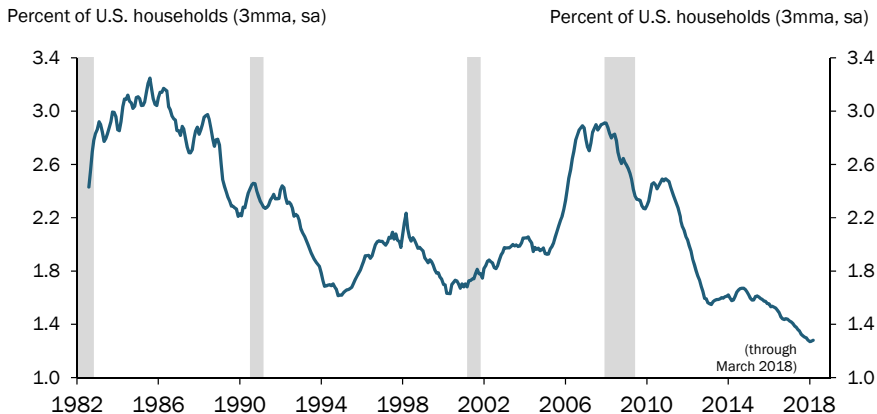
- household in existing SF wishing to upgrade to newly-constructed SF
 - ▶ stay in current house, don't list
- household in existing SF wishing to upgrade to different existing SF
 - ▶ stay in current house, don't list
 - ▶ self-reinforcing 
- household in MF wishing to upgrade to SF
 - ▶ stay in current apartment, don't free up
- Young adults wishing to form a household
 - ▶ continue to live with parents or roommates

The number of existing SF listings is very low and falling.



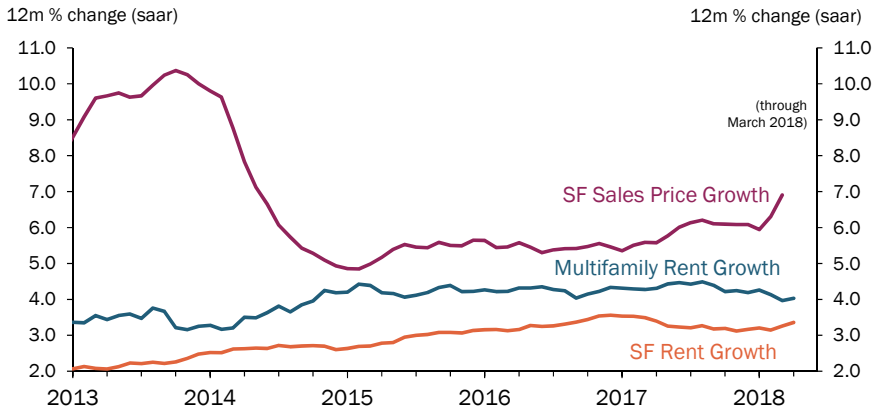
Sources: National Association of Realtors, Haver Analytics

The number of existing SF listings relative to the number of U.S. households is at its lowest since at least the early 1980s.



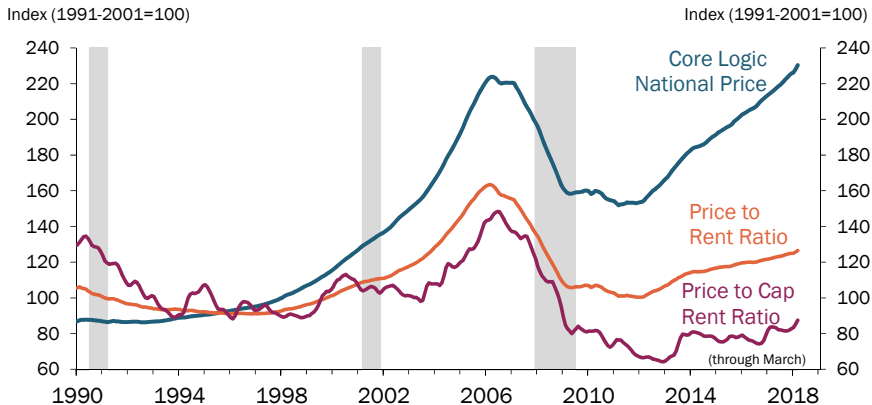
Sources: National Association of Realtors, Census Bureau, Haver Analytics

Limited construction, vacancies, and listings in the face of strong demand are keeping price and rent growth high.



Sources: CoreLogic, Bureau of Labor Statistics, Haver Analytics

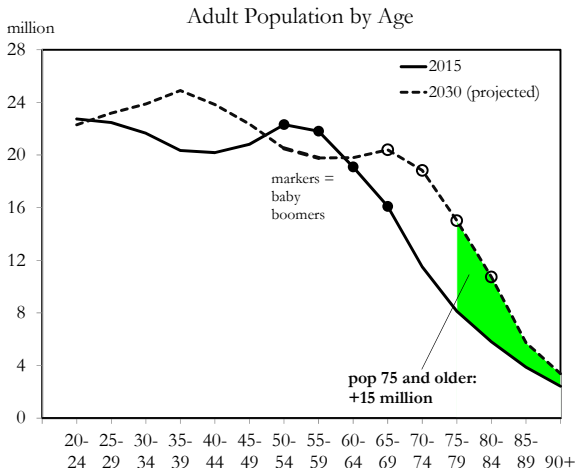
National home prices do not appear to be overvalued.



Sources: CoreLogic, Bureau of Labor Statistics, Freddie Mac, Haver Analytics

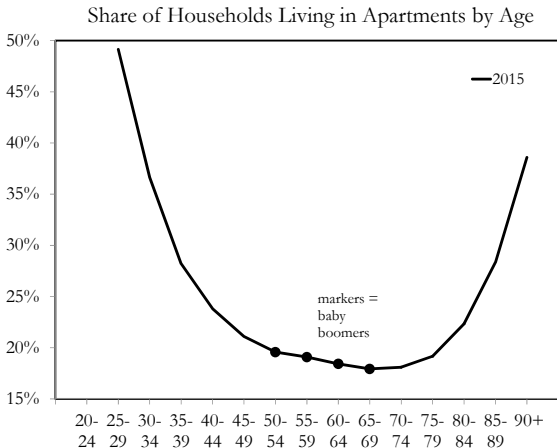
Where will baby boomers want to live? In what sort of housing?

- current versus different metro
- city versus suburbs
- single-family versus multifamily



Baby boomers will increasingly downsize from SF to MF.

- Downsizing to MF picks up at about age 75
- Will put downward pressure on SF prices



Sources: Census Bureau, Ruggles et al., author's calculations

Ride-hailing and self-driving cars will disproportionately benefit medium and large metropolitan areas.

- Numerous advantages to living and working in a metro area with large population and employment.
- Ride-hailing and self-driving cars lessen the broadly-construed costs of metropolitan size.
 - ▶ allow for longer-distance commutes
 - ▶ significantly lessen parking needs
 - ▶ complement businesses relocating from suburbs to city