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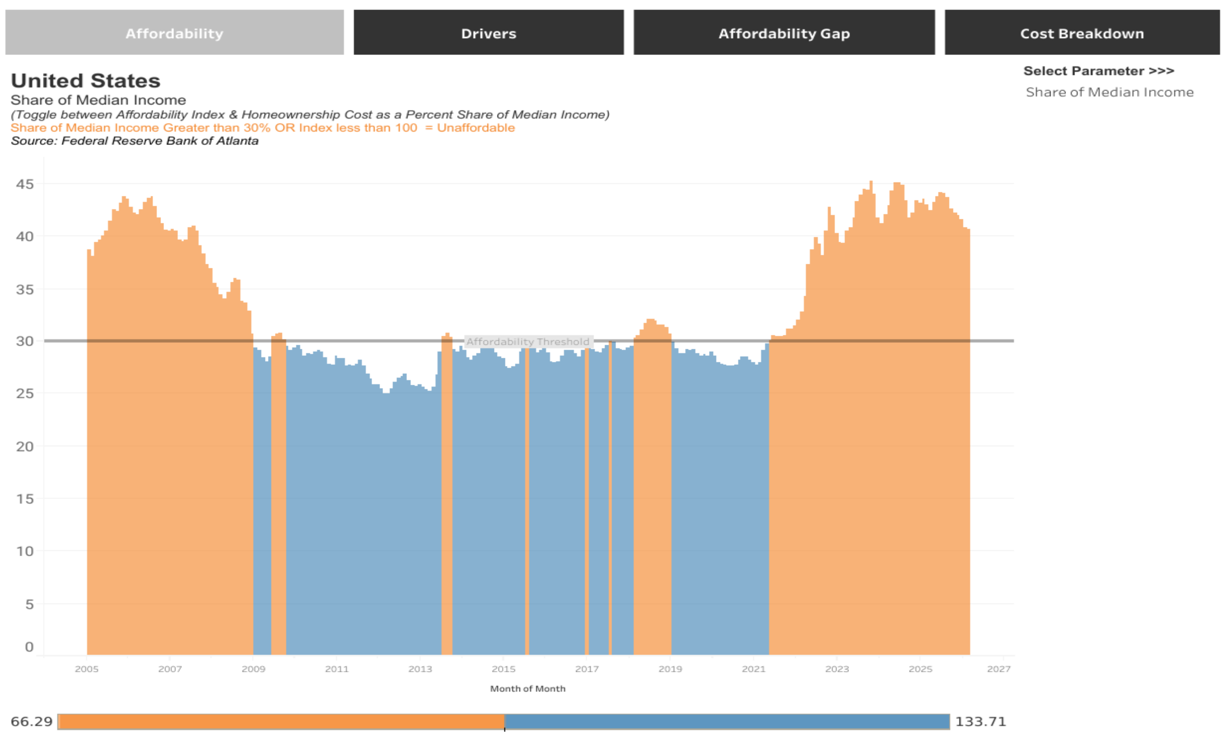
Views From the Stream

April 30, 2026

Housing:
The Laws Of Economics Win

In the early 1990s, I remember shopping for my first house. I was working on Wall Street and my former wife was a doctor. So, we were earning a good living. Despite this, given how expensive rentals were in NYC and the cost of living there combined with repaying my student loans, we scrimped and saved for the down payment for a house. Given Mortgage Rates of 9.5% - 10.0% at the time, we searched and searched for something we could afford. Eventually, we found a tiny house in Larchmont, NY for which we could make the numbers work. And we bought it.

Today's environment reminds me of that time. The cost of a home stands high relative to income:



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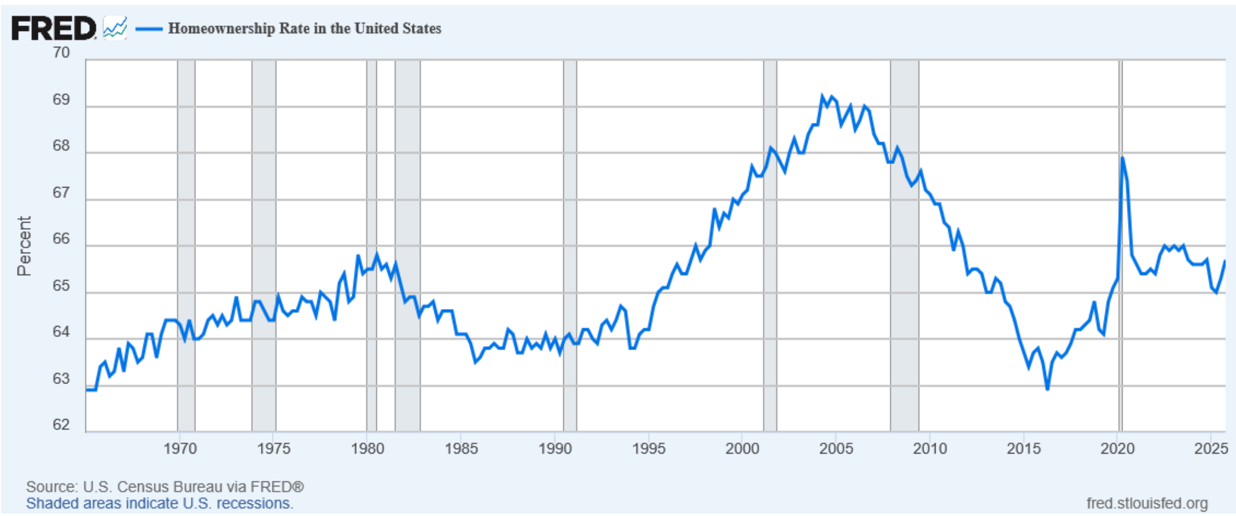
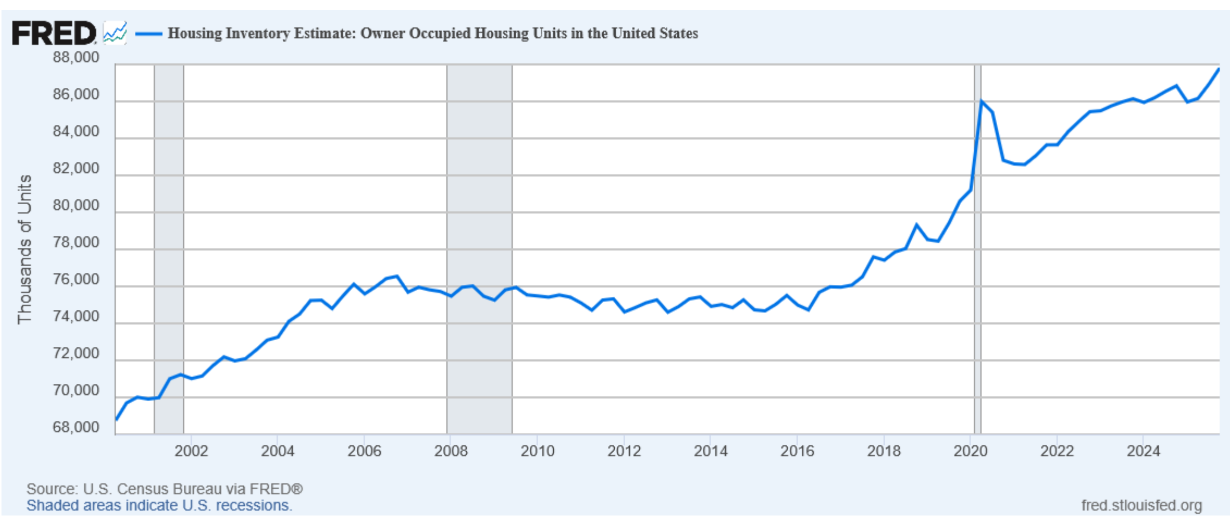
At 41% of Median Income, this ratio stood higher only from July 2005 to September 2006 or during the late 1980s. Despite this, Home Ownership stands at the upper end of long term averages, excluding the Housing Bubble:



In addition to the recovery in Home Ownership back to strong levels, the number of Home Owners, as measured by Households, continues to grow at a steady pace, rising from ~74.5 million in 2016 to almost 88 million today:



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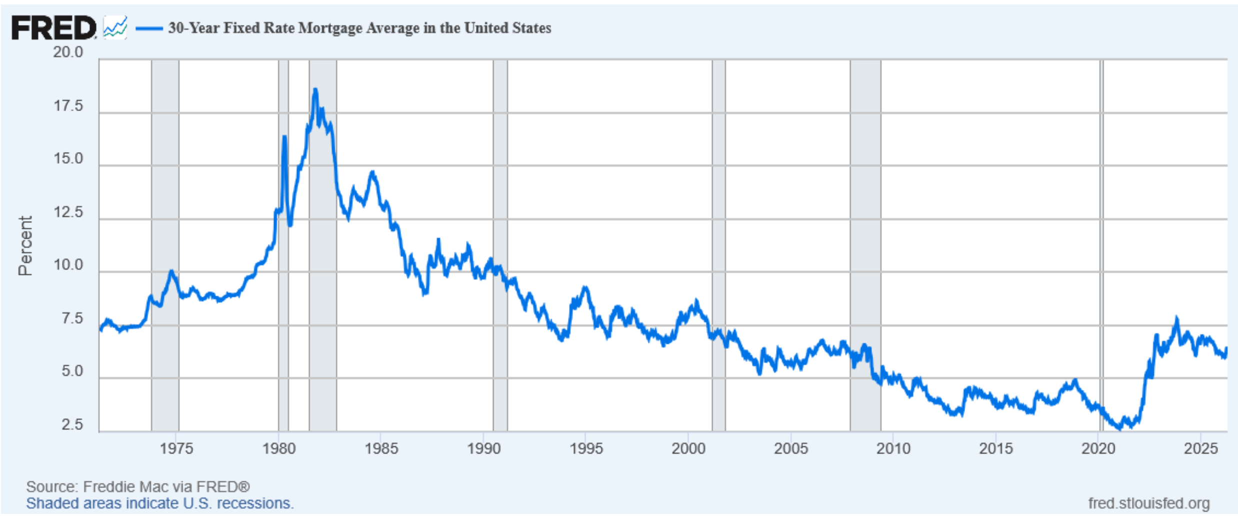
This data suggests there exist sufficient units to absorb the growing ranks of those aspiring to Home Ownership.

Despite this, the media and Congress continue to discuss a Housing Shortage. What they mean is Housing Affordability, as measured by the Atlanta Fed above, and current Mortgage Rates:



While Mortgage Rates did rise significantly over a short period of time from abnormally low levels in the 2019 – 2022 period, they merely returned to their pre-2008 levels and stand below the levels of the 1990s and 1980s. Thus, they do not appear abnormally high. And a few years of Home Prices moving sideways should cure any affordability issues as incomes catch up with Mortgage Rates.

Affordability usually is a combination of prices and mortgage rates. Of course there are exceptions. In places like Florida, where hurricanes can have an outsized impact on insurance costs, insurance costs can impact affordability significantly. For most Americans, however, Price and Mortgage Rates dominate. And Price began to adjust to the reality of incomes over the past few years:

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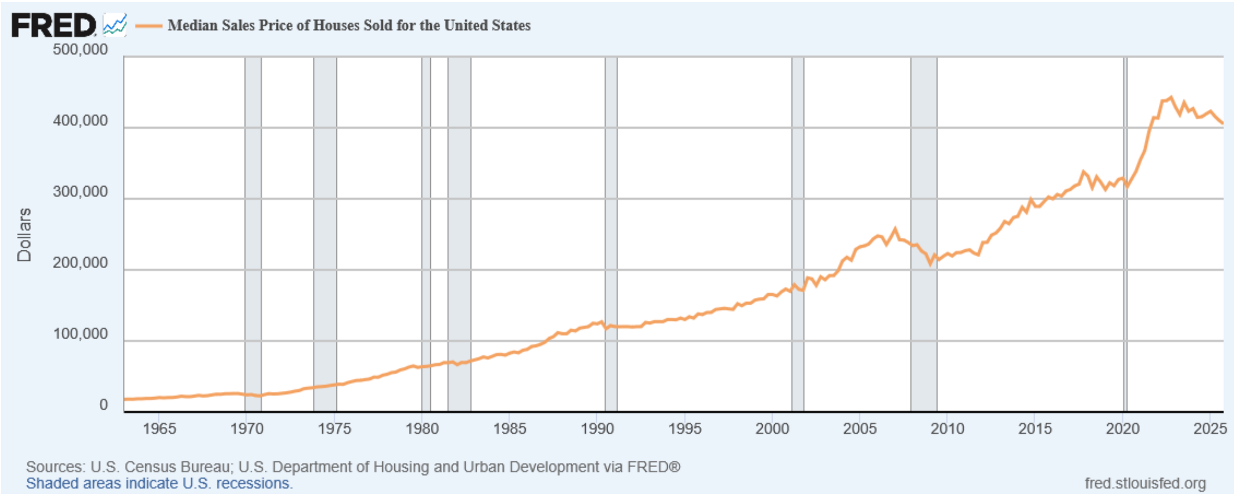
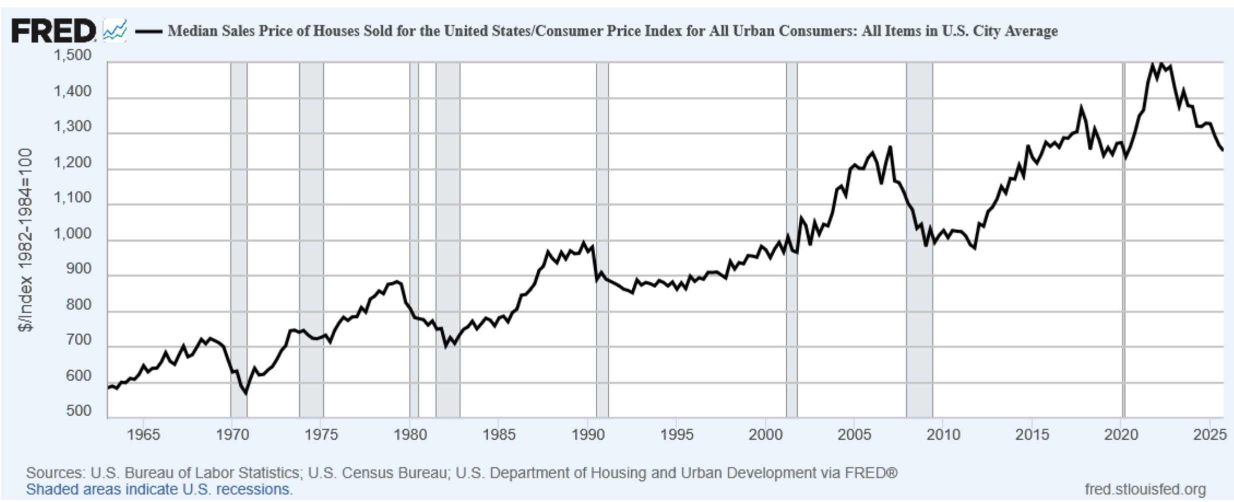


And, when Median Home Sales Prices are adjusted for Inflation, Real Sales Prices have returned to their pre-Pandemic levels:



Even the Case Shiller Index indicates Real Home Price Sales have flattened out over the past several years:

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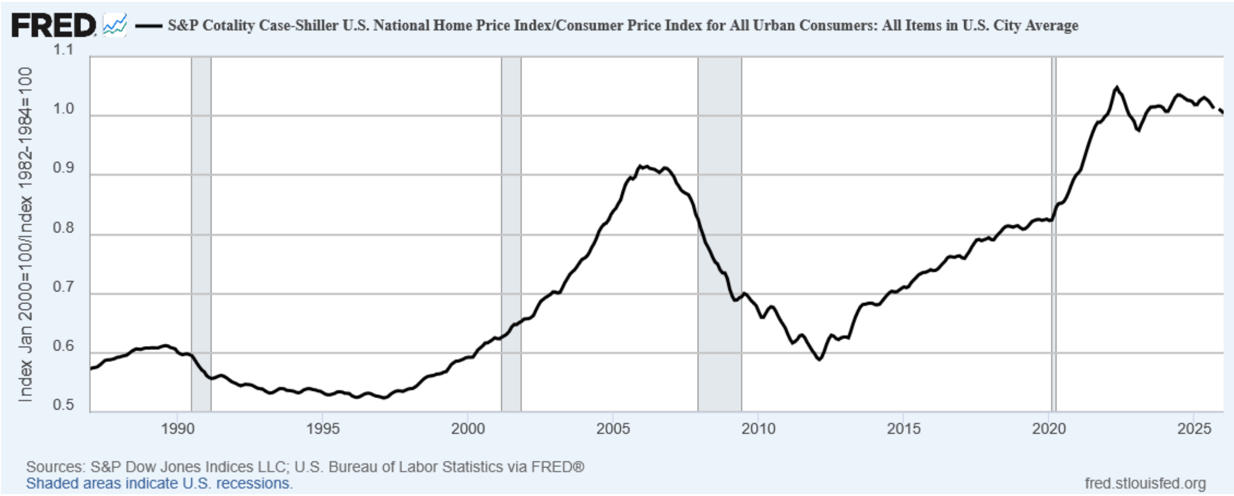
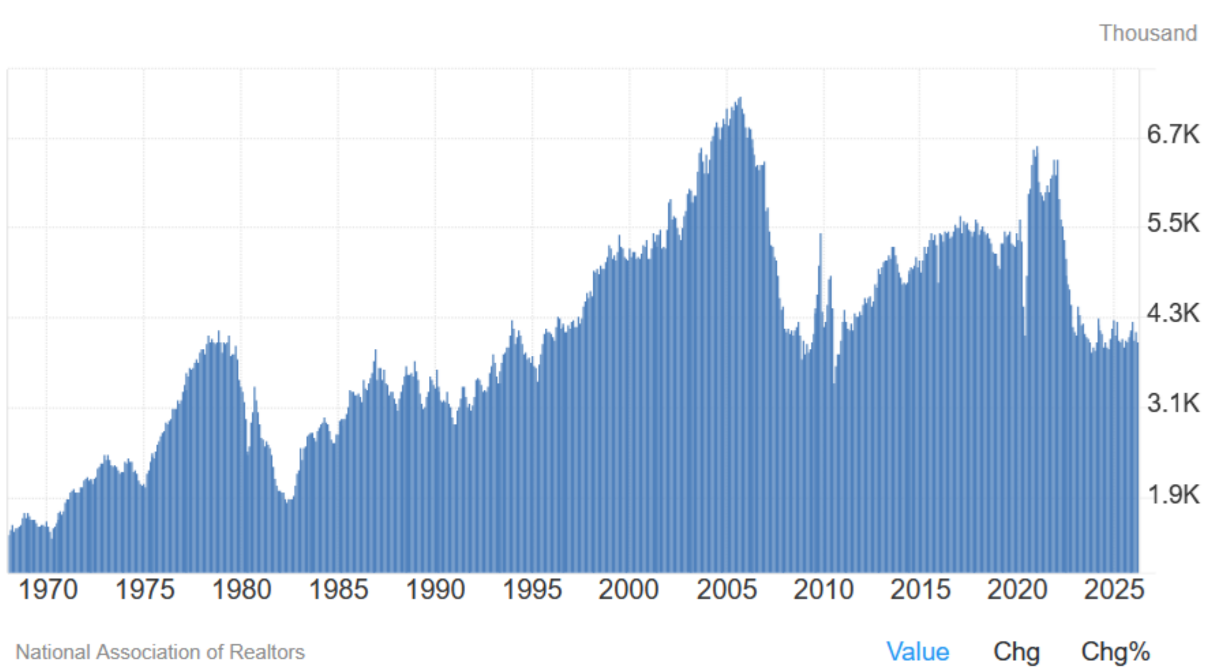


Thus, the Housing Market continues to adjust to the underlying economic reality. However, given the spike in Mortgage Rates, Existing Home Sales, after approaching levels last seen during the Housing Bubble, collapsed to post Bubble lows:



Data care of tradingeconomics.com.

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And they continue to run along at low rates. With incomes continuing to grow and housing prices flat, Affordability should improve over the next few years, driving Existing Home Turnover upward, with a lag. Interestingly, Data from Public Homebuilders indicates Unit Sales remain at high levels despite the rise in prices and interest rates. For most homebuilders, recently reported orders either remain flat or continue to grow. Some homebuilders reported strong orders, such as DR Horton whose orders rose 11% year over year for its new homes. This does not indicate a fundamental problem in the Housing Markets, but time needed for incomes to catch up with housing costs.

For young renters aspiring to buy homes, the Housing Market may appear expensive. But, as when I bought my first home, savings plus cutting back on other expenses should enable a new generation to buy despite low Home Affordability. Home Ownership rates stand consistent with this. And it appears the Housing Market continues to adjust to the reality of higher Mortgage Rates and the changing fundamental backdrop. With data indicating continued steady growth in Households Owning A Home, it appears The Laws of Economics continue to dominate.