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 ≡ 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.

Share of Adults Living with Their Parents by Age

Sources: Census Bureau, Ruggles et al., author's calculations
Adults who moved in with their parents are not yet moving out.

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

Source: Census Bureau, Ruggles et al., author's calculations
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.
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.
The level of single-family starts relative to the number of U.S. households remains even lower.

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 (through April)
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.
National home prices do not appear to be overvalued.
Where will baby boomers want to live? In what sort of housing?

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

![Adult Population by Age](image)

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