The Major Challenge of Inadequate U.S. Housing Supply

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MCLEAN, Va., Dec. 05, 2018 (GLOBE NEWSWIRE) -- After nearly a decade of low levels of building, housing stock is well short of what the United States needs. New research from Freddie Mac (OTCQB: FMCC) finds that if supply continues to fall short of demand, home prices and rents are likely to outpace income and household formation will fail to reach potential. Housing supply has been a major challenge facing the housing market in 2018 and will continue to be for years to come, according to its latest Insight.

“From 1968 to 2008, a span of 40 years, there was only one year in which fewer new housing units were built than in 2017—and this despite rising demand in a growing economy,” said Sam Khater, chief economist at Freddie Mac. “We estimate that over the next decade, young adults will add about 20 million households — and those households will need a place to live. Until construction ramps up, housing costs will likely continue rising above income, constricting household formation and preventing homeownership for millions of potential households.”

The U.S. population has become younger in recent years. Nearly 90 million residents were between 15 and 34 years old in the United States in 2016, 6 million more than those aged 35 to 54, according to the U.S. Census Bureau. With the median age of first-time home buyers at 31 years old, these young adults comprise a larger share of the first-time home buyer population and therefore drive demand higher.

According to Freddie Mac research, the current annual rate of construction is about 370,000 units below the level required by long-term housing demand. Freddie Mac baseline estimates show 1.62 million units are needed annually to meet the housing demand: 1.1 million to accommodate household growth; 300,000 units to replace depreciated existing stock; 100,000 to meet the demand for second homes; and 120,000 units to provide enough vacant homes to maintain an efficient marketplace.

Even the low Freddie Mac estimate (1.30 million units per year) exceeds the current rate of housing construction (1.25 million units in 2017) — meaning even under a low estimate, at least 50,000 American households each year can’t buy or rent a home because it hasn’t been built.

“Conventional wisdom suggests that the following factors would have an impact on household formation: housing costs, income, employment, education, marriage and children, race, and geography. Of these factors, we have identified housing costs to be the biggest impediment to household formation, followed by labor market outcomes,” added Khater.

For example, the U.S. construction industry is suffering from a shortage of skilled workers. The count of unfilled jobs in the construction industry reached post-Great Recession highs in 2018, according to the National Association of Home Builders.

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