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# Navigating the 2025 Housing Market: Trends and Insights for the Year Ahead

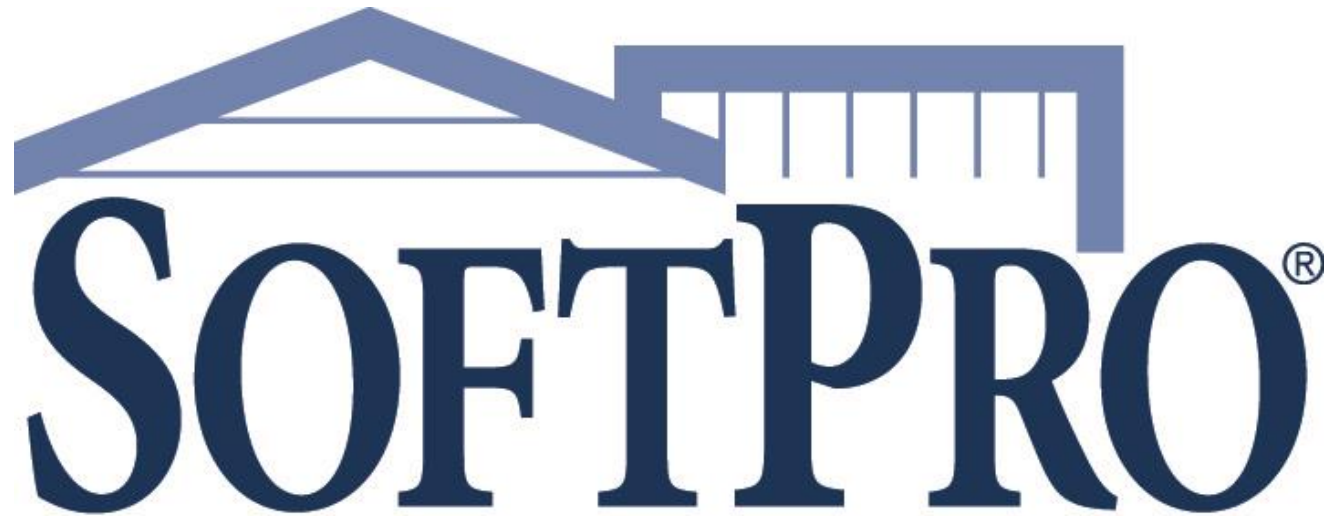
January 2025



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The background of the slide is a dark blue financial chart. The top half features a candlestick chart with green and red bars, showing price fluctuations. The bottom half features a line chart with a jagged, fluctuating line. Faint labels like 'Dec' and '2009' are visible on the chart.

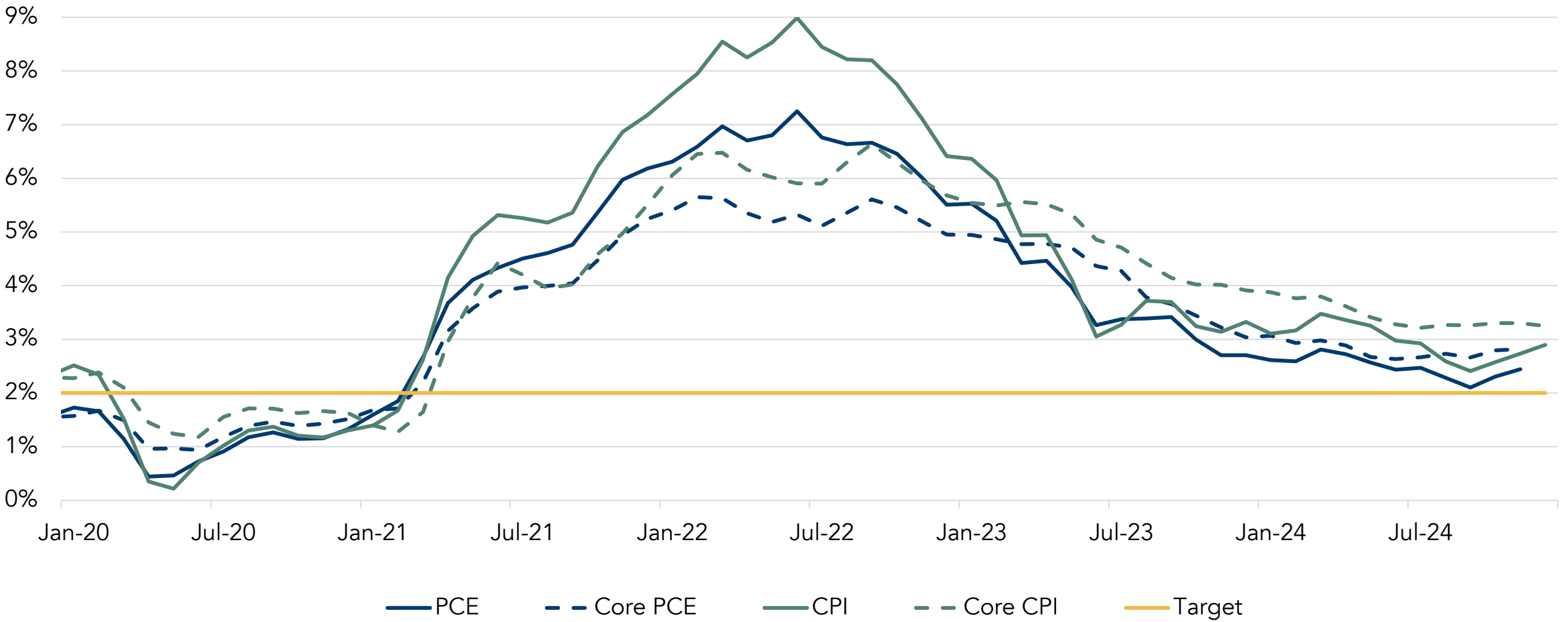
# What's the Fed to Do?



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# Inflation Makes Progress Towards the Fed's 2 Percent Target

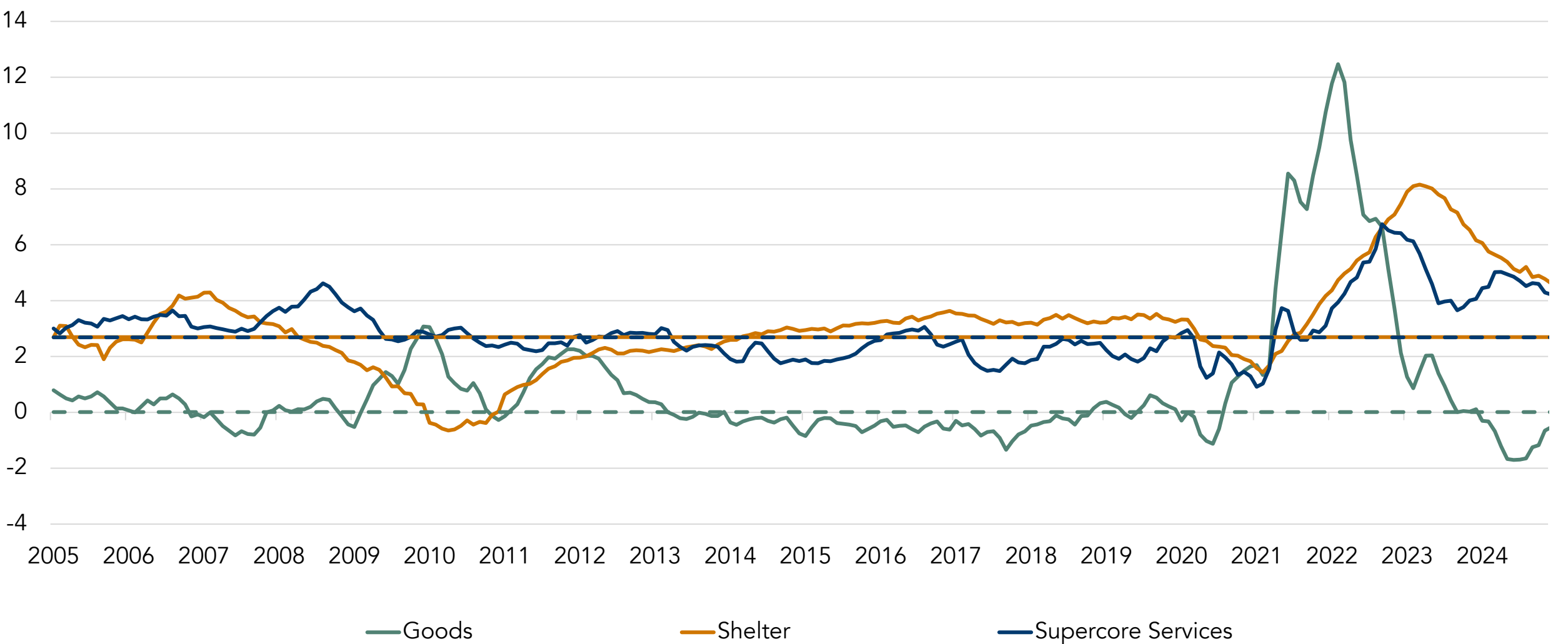
Annual Change in Personal Consumption Expenditures (PCE), Core PCE, Consumer Price Index (CPI), and Core CPI



Source: BLS, BEA, Nov. 2024  
\*CPI data is from Dec., PCE from Nov.

# Reasons for the “Final Mile” Holdup?

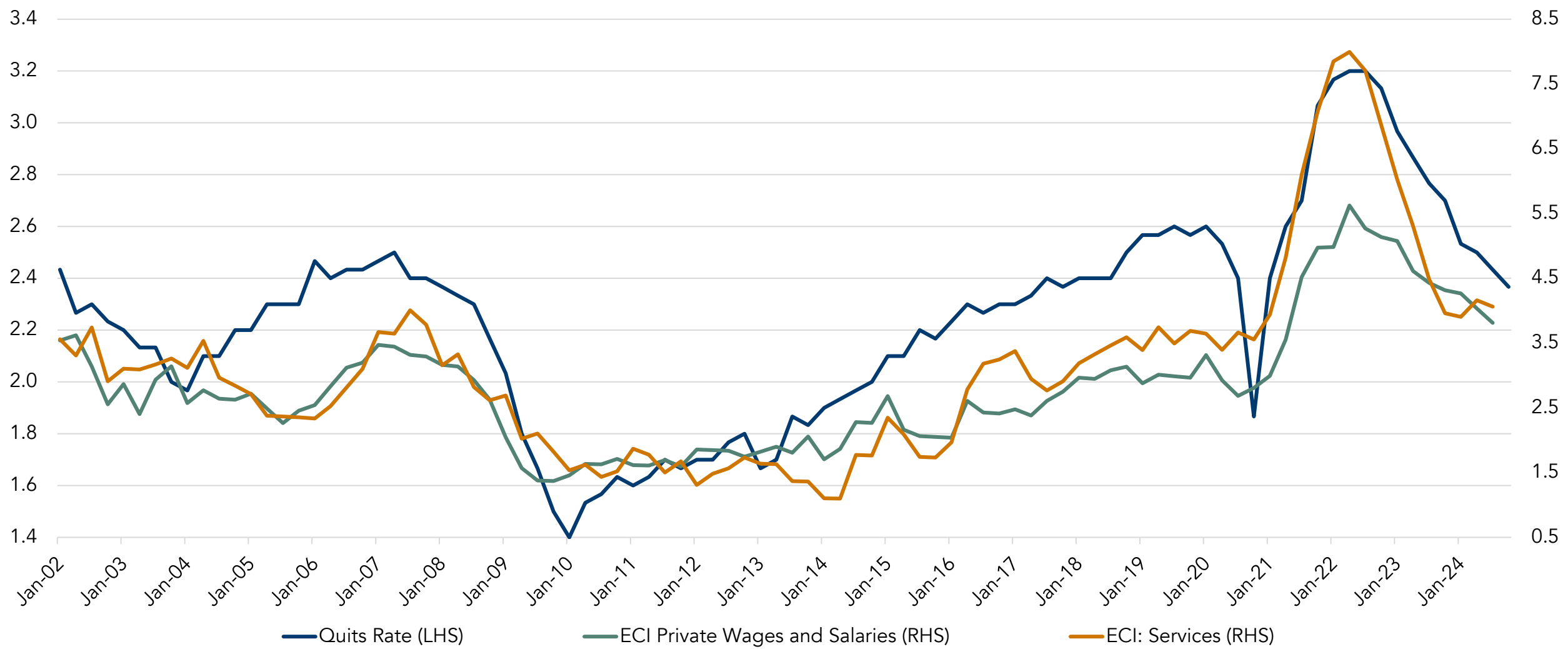
Supercore Services (Core Services ex-Shelter), Core Goods, Shelter Inflation (% Change Year-over-Year), Averages (Horizontal Lines)



Source: Bureau of Labor Statistics, FRED, P. Skrzypczyński Calculations, Dec. 2024

# Is Wage Growth Set to Slow?

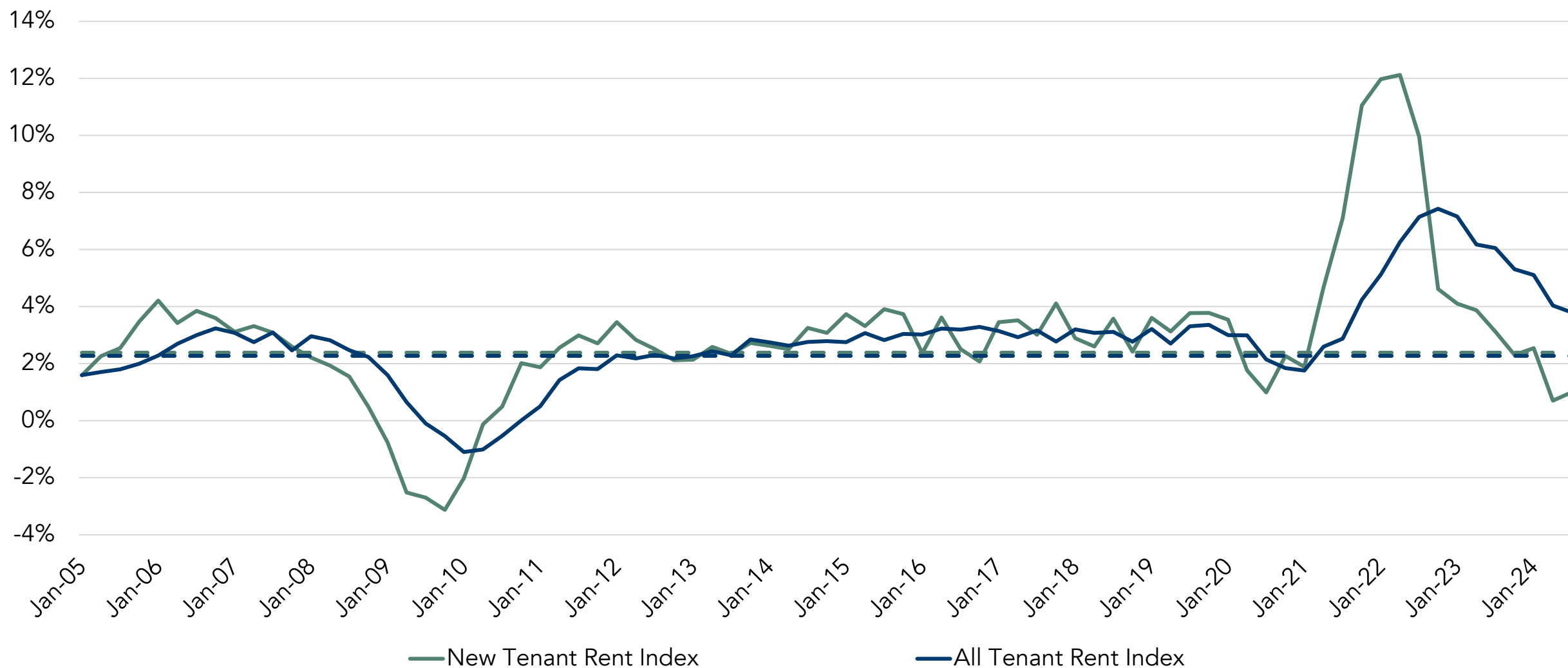
Quits Rate (Private Sector, Advanced Two Quarters, % SA) and ECI Private Wages and Salaries (YoY Growth, % SA)



Source: U.S. BLS, First American Calculation, Q3 2024

# Rent Deceleration

Yearly Growth in New Tenant and All Tenant Index



Source: Bureau of Labor Statistics, Q3 2024

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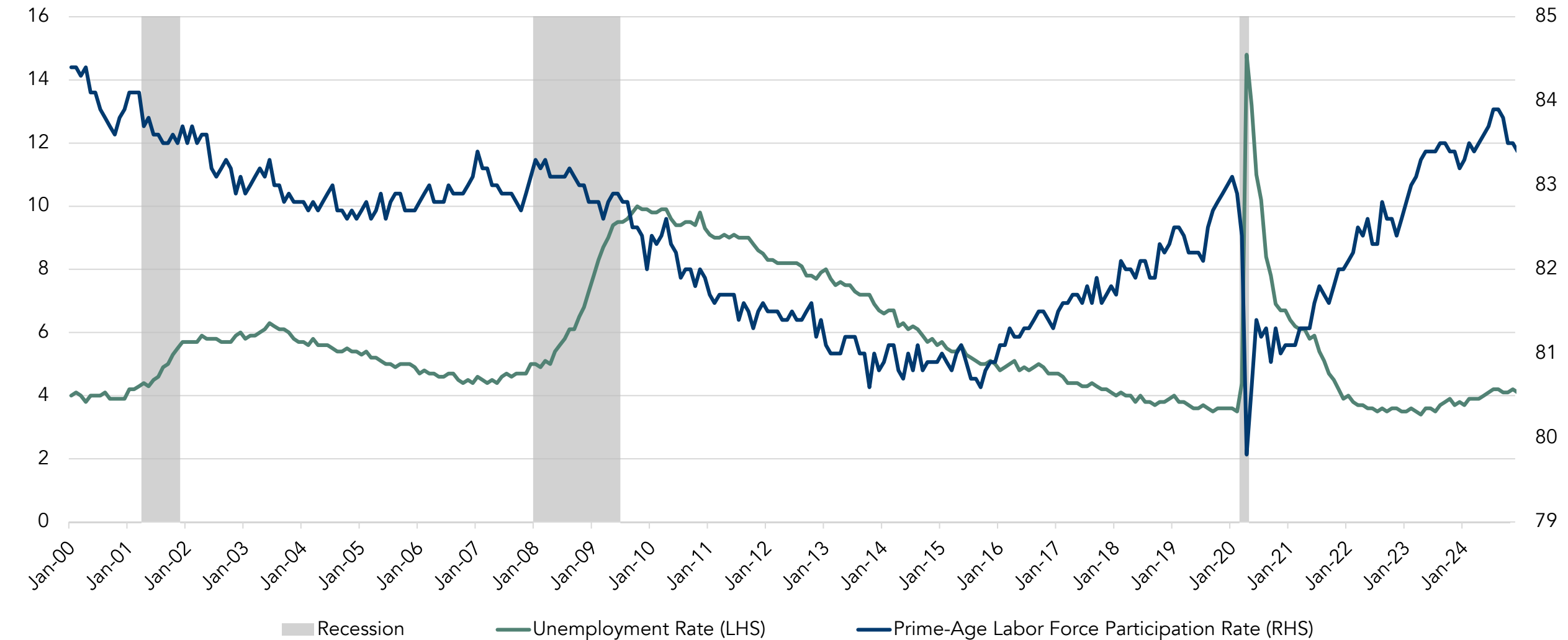
### Cross Hairs are Averages





# Two Measures of Full Employment

Unemployment Rate and Prime-Age Labor Force Participation Rate (% , SA)



Source: U.S. Bureau of Labor Statistics, Dec. 2024



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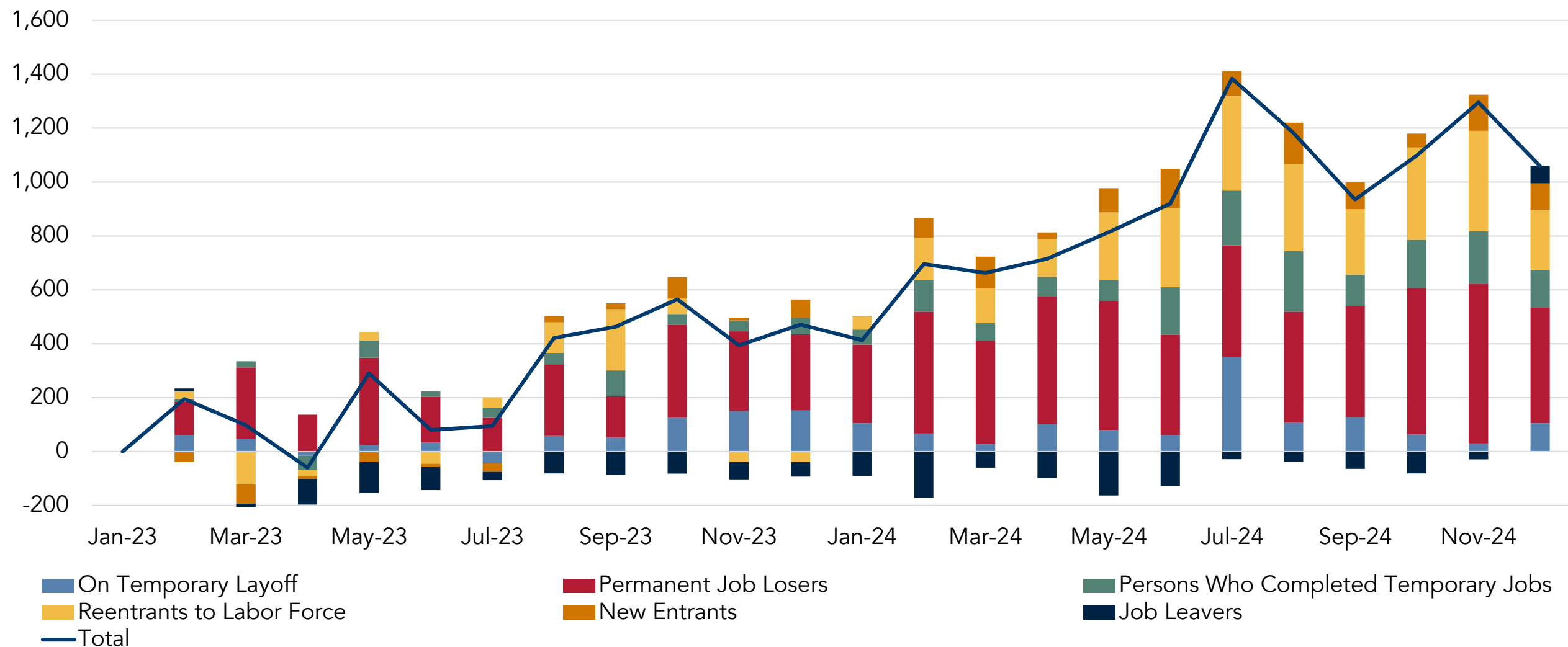
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# Most of the Rise in Unemployment is Driven by Job Losers Failing to Find New Work

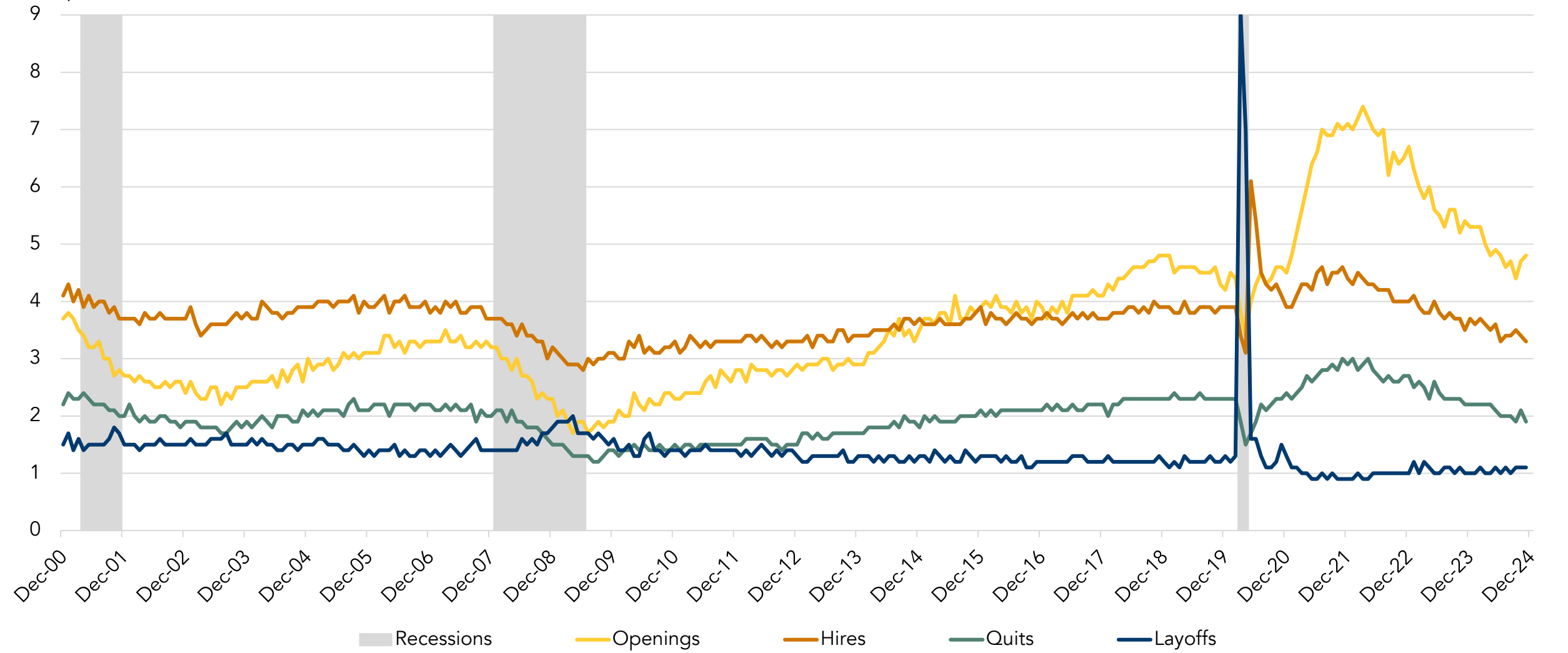
Change in Unemployment Since January 2023, Thousands



Source: Bureau of Labor Statistics, Dec. 2024

# The Great Resignation Turns Into The Great Stay

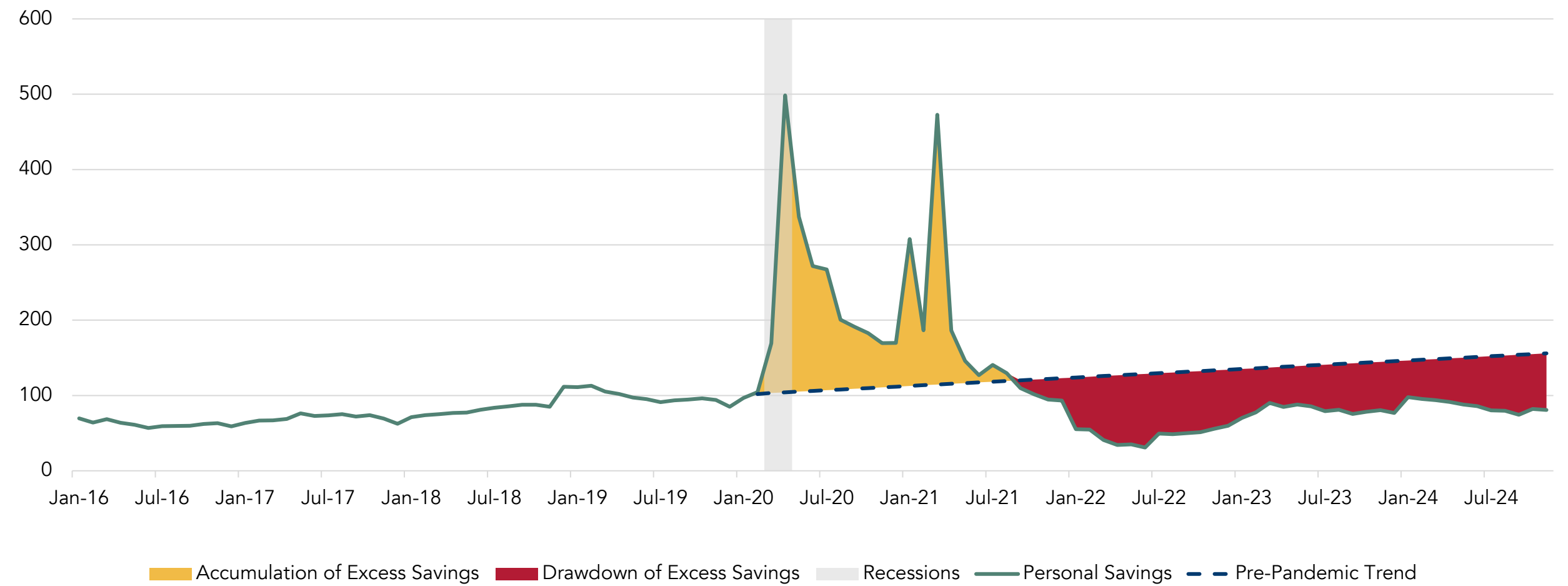
Job Openings, Hires, Quits and Layoffs: Total Nonfarm, Rate, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, Nov. 2024

# Aggregate Excess Savings Have Been Depleted

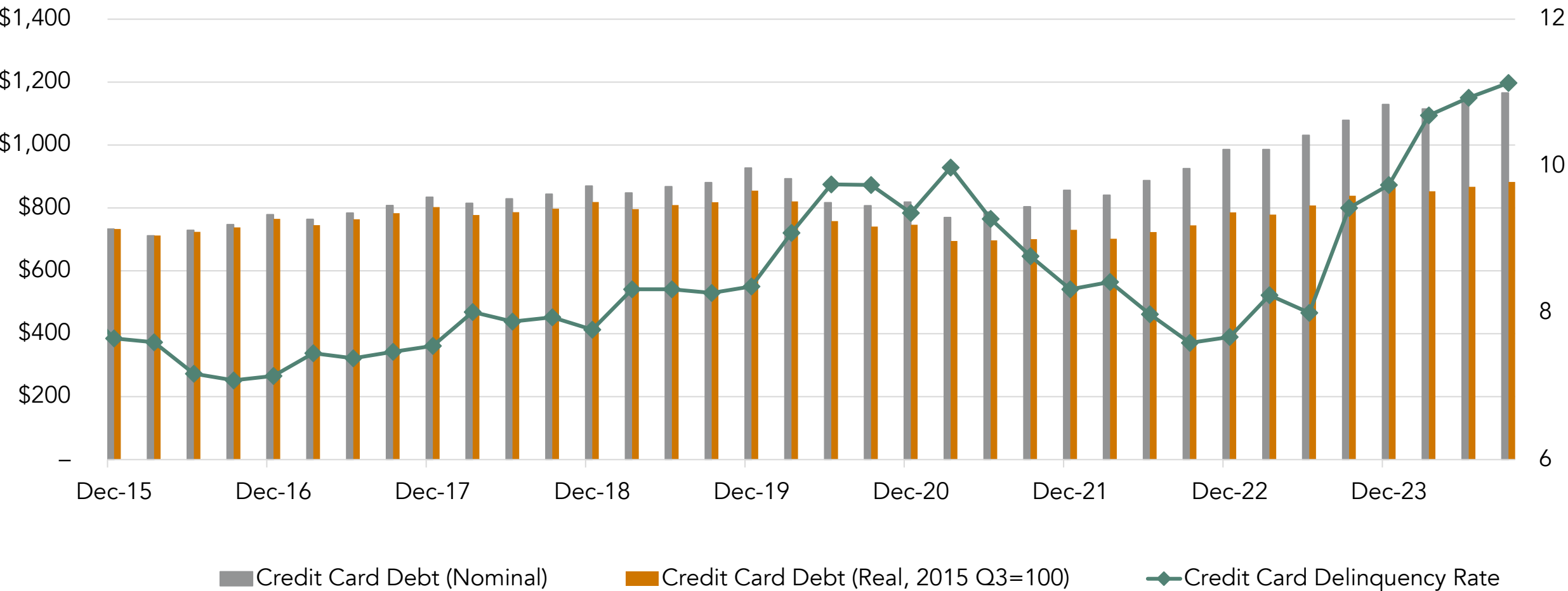
Aggregate Personal Savings Versus Pre-Pandemic Trend (\$, Billions)



Source: U.S. Bureau of Economic Analysis, FRBSF, First American Calculations, Nov. 2024

# Credit Card Debt is Rising, as Are Delinquency Rates

Credit Card Debt (USD in Billions, Left Axis), Credit Card Delinquency Rate (Right Axis, in Percent)



Source: New York Fed Consumer Credit Panel/Equifax, Bureau of Labor Statistics, First American Calculations, Q3 2024

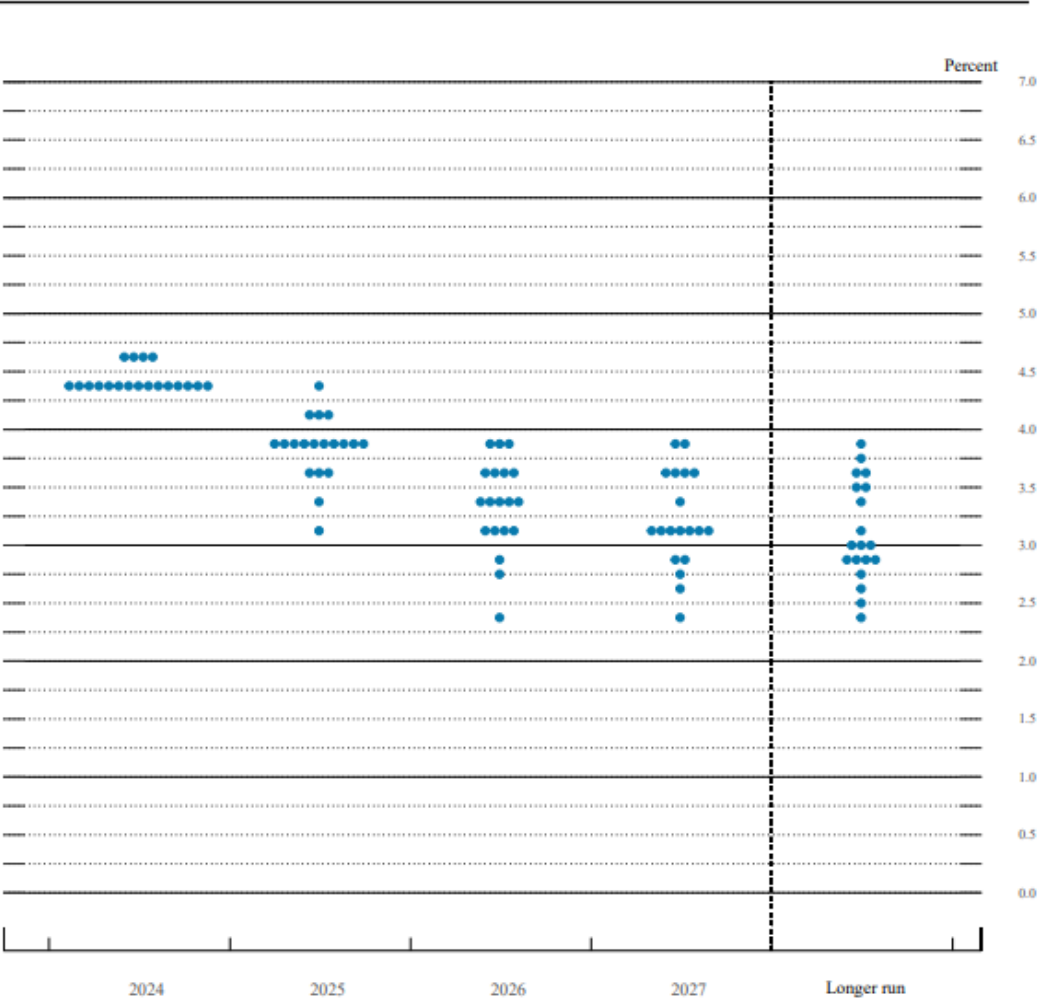
# The FOMC Cuts Rate and Signals More to Come

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents

Percent

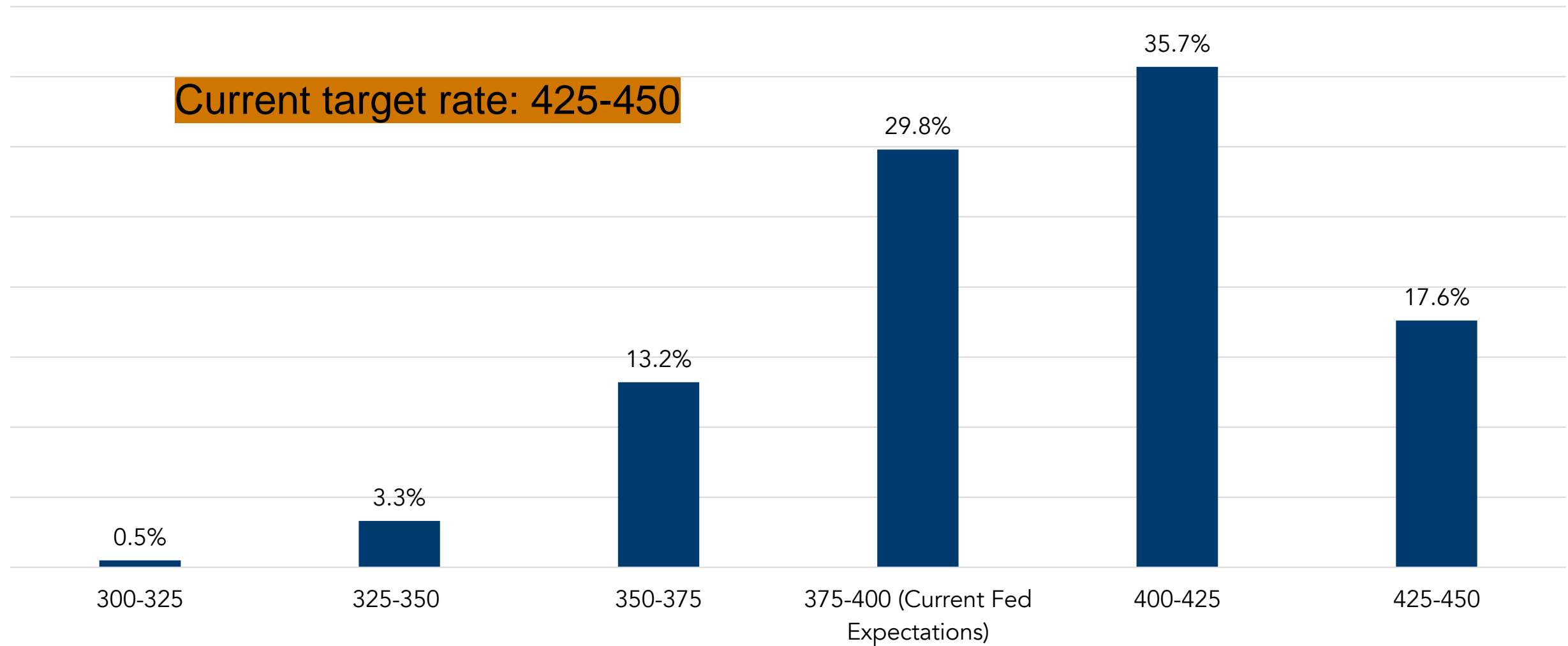
Variable	Median <sup>1</sup>				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.5	2.1	2.0	1.9	1.8
September projection	2.0	2.0	2.0	2.0	1.8
Unemployment rate	4.2	4.3	4.3	4.3	4.2
September projection	4.4	4.4	4.3	4.2	4.2
PCE inflation	2.4	2.5	2.1	2.0	2.0
September projection	2.3	2.1	2.0	2.0	2.0
Core PCE inflation <sup>4</sup>	2.8	2.5	2.2	2.0	
September projection	2.6	2.2	2.0	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.9	3.4	3.1	3.0
September projection	4.4	3.4	2.9	2.9	2.9

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



# The Market Expects Fewer Rate Cuts in 2025 than the Fed

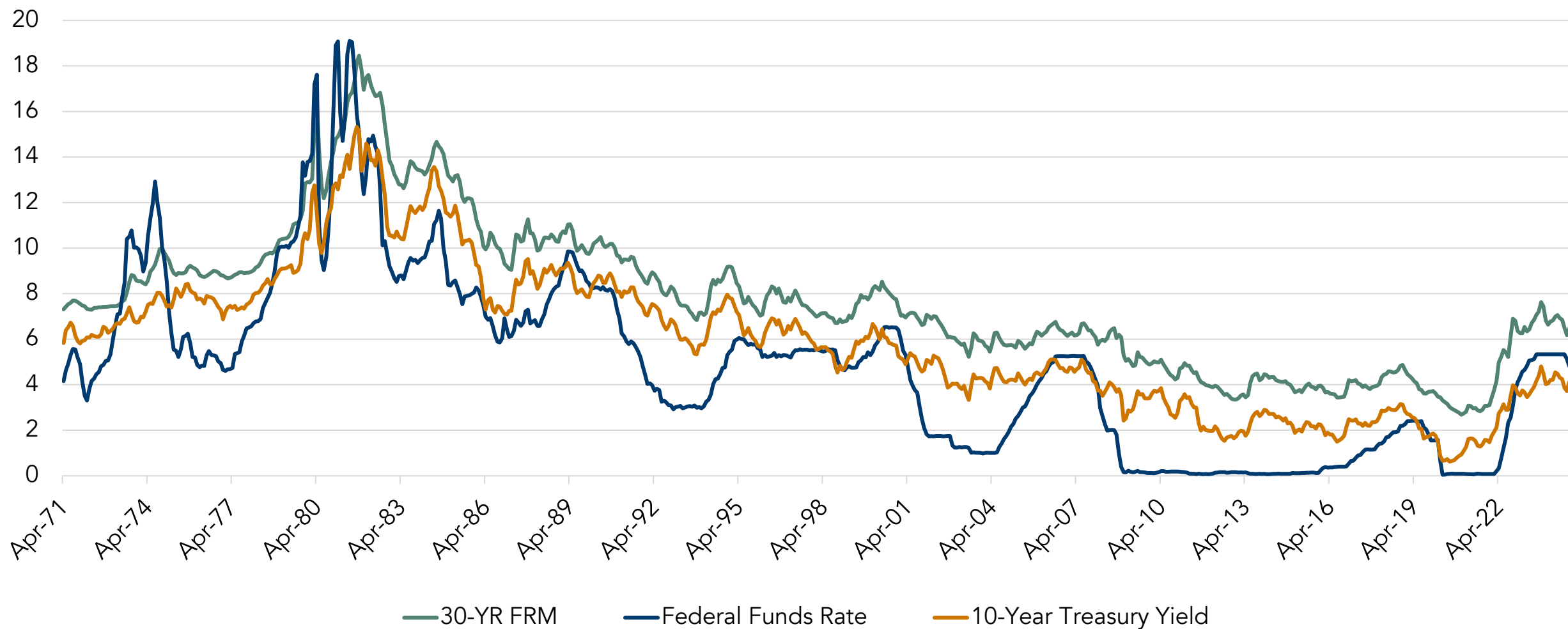
Share of Market Expectations (Y-Axis) of Number of Fed Fund Rate Cuts by Year End 2025 (X-axis)



Source: CME Fedwatch, Federal Reserve, Jan. 2025

# Mind the Gap Between Mortgage Rates and the 10-Year Treasury Yield

30-Year FRM, Federal Funds Effective Rate, Market Yield on 10-Year Treasury Securities (%)



Source: Freddie Mac, Board of Governors of the Federal Reserve System, Dec. 2024



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Date	Fannie Mae	MBA	Wells Fargo	Average
Q1 2025	6.6%	6.6%	6.65%	6.62%
Q2 2025	6.4%	6.5%	6.45%	6.45%
Q3 2025	6.3%	6.4%	6.25%	6.32%
Q4 2025	6.2%	6.4%	6.30%	6.30%

Source: Fannie Mae, MBA, Wells Fargo, 2025

## Takeaways:

1. Inflation has proven to be stickier than expected, but fundamentals have been and will remain disinflationary into early 2025
2. Stubborn inflation and a resilient labor market have reduced expectations for Fed rate cuts this year
3. The baseline expectation is two 25 bps rate cuts, bringing the target range to 3.75%-4.00% at year-end 2025
4. Mortgage rates are expected to remain above 6 percent, but there could be some decline from today's levels



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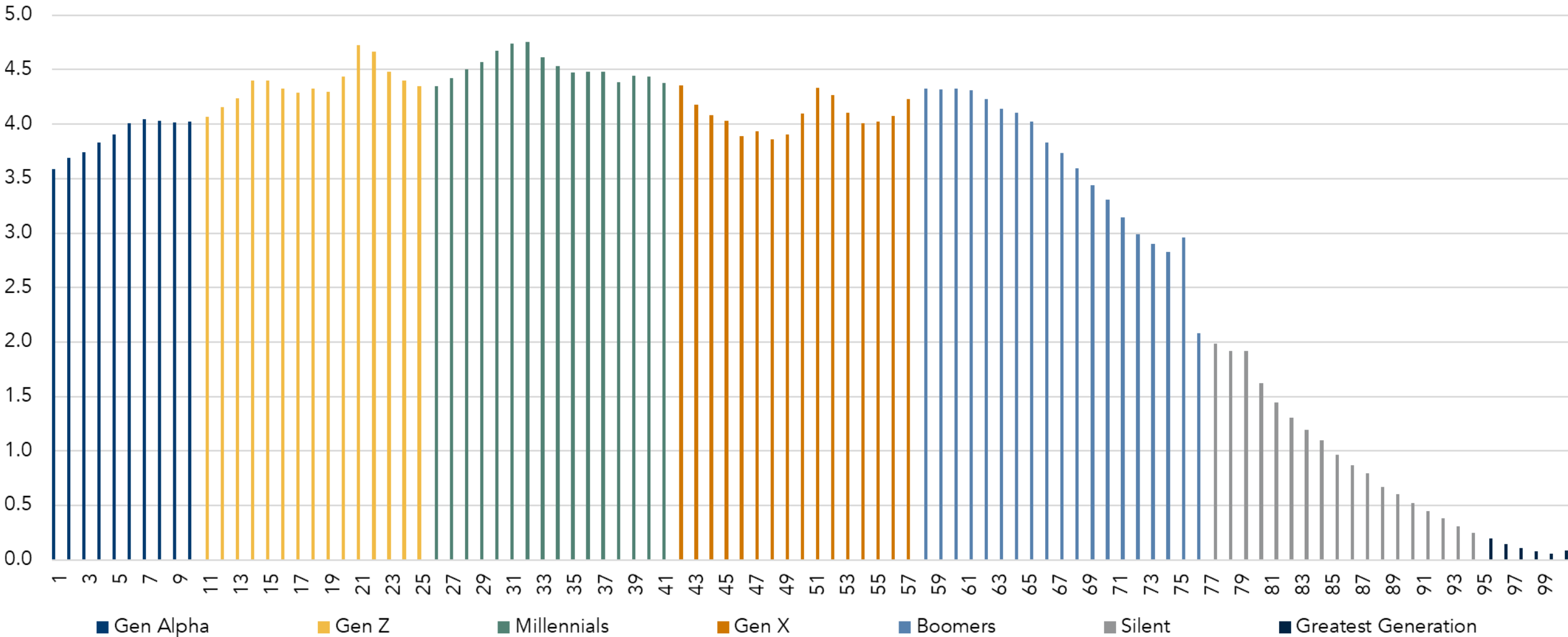
# The Long-Run Demographic Tailwind



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# Population by Age

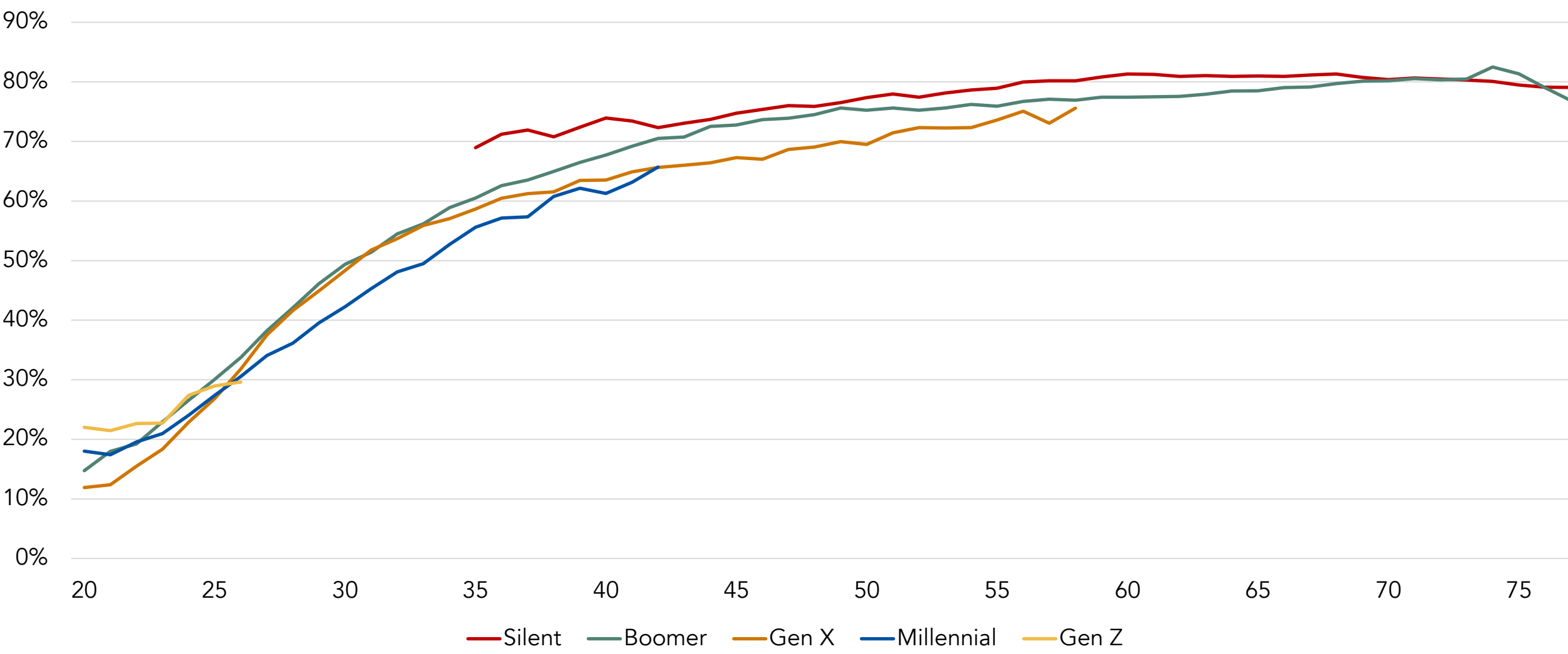
Population by Age (Millions)



Source: U.S. Census Bureau, First American Calculations, 2022

# Millennials Catching Up, Boomers Winding Down

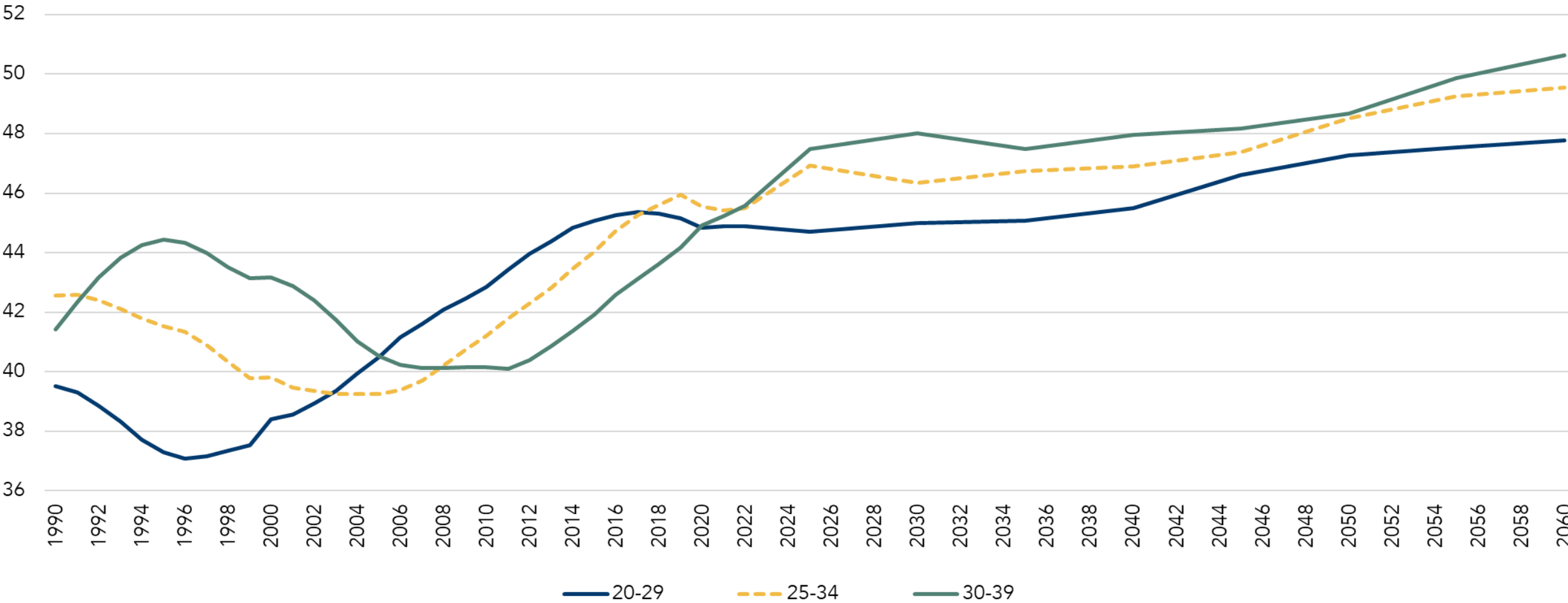
Homeownership Rates by Age and Generational Cohort



Source: First American Calculations; IPUMS CPS ASEC, 2023

# Young Population

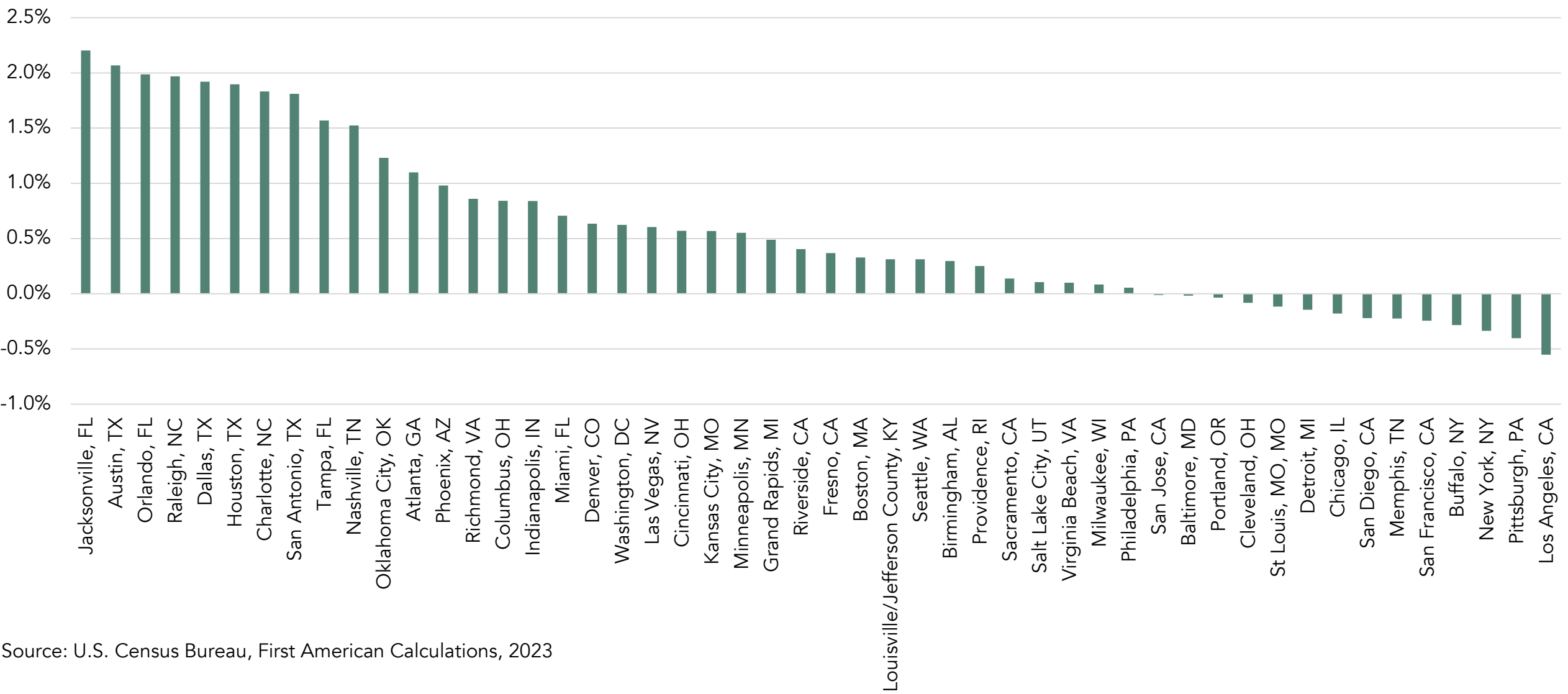
U.S. Vintage Population Estimates and Projections (Millions)



Source: U.S. Census Bureau, 2022

# Sunbelt Markets Experience Strongest Population Growth

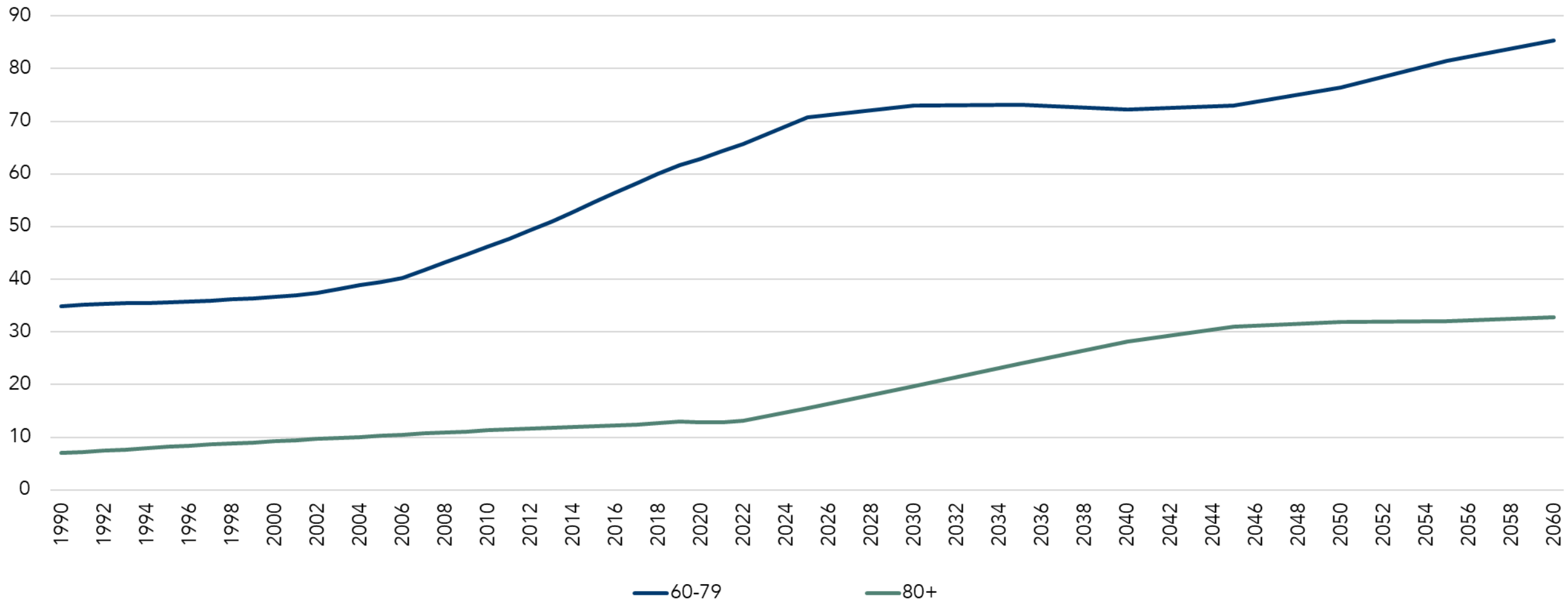
2022-2023 Annual Population Growth, %



Source: U.S. Census Bureau, First American Calculations, 2023

# Older Population

U.S. Vintage Population Estimates and Projections (Millions)



Source: U.S. Census Bureau, 2022



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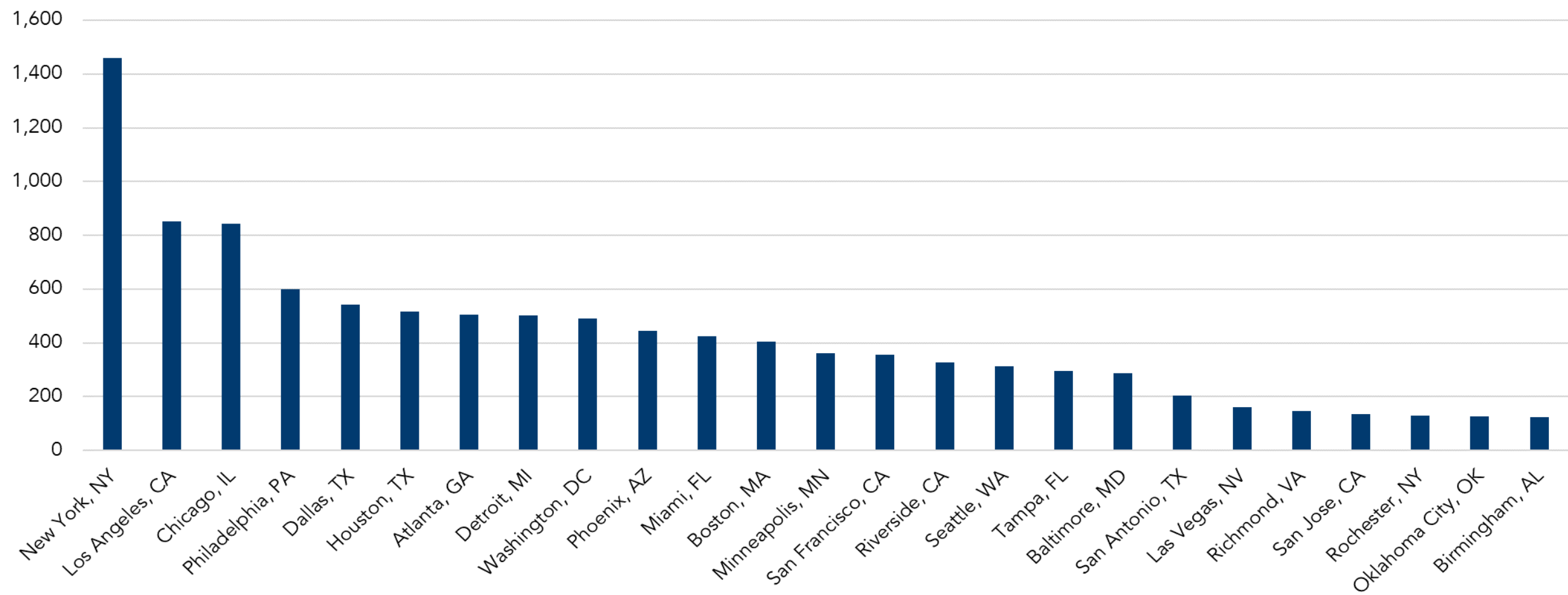


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# Adequate Housing Units in Prime Locations

Single-Family Housing Units of Adequate Quality Owned by Households Aged 60 and Over (Thousands)



Source: U.S. Census Bureau, 2021

## Takeaways:

1. The demographics for home buying will remain very favorable in the coming years
2. Over the next decade, as baby boomers age out of homeownership, the housing shortage may narrow and eventually disappear
3. Many of the homes being sold by baby boomers will need some work
4. Given the highly sought-after locations of these housing units, there will likely be buyers willing to spend the money needed for updating and remodeling





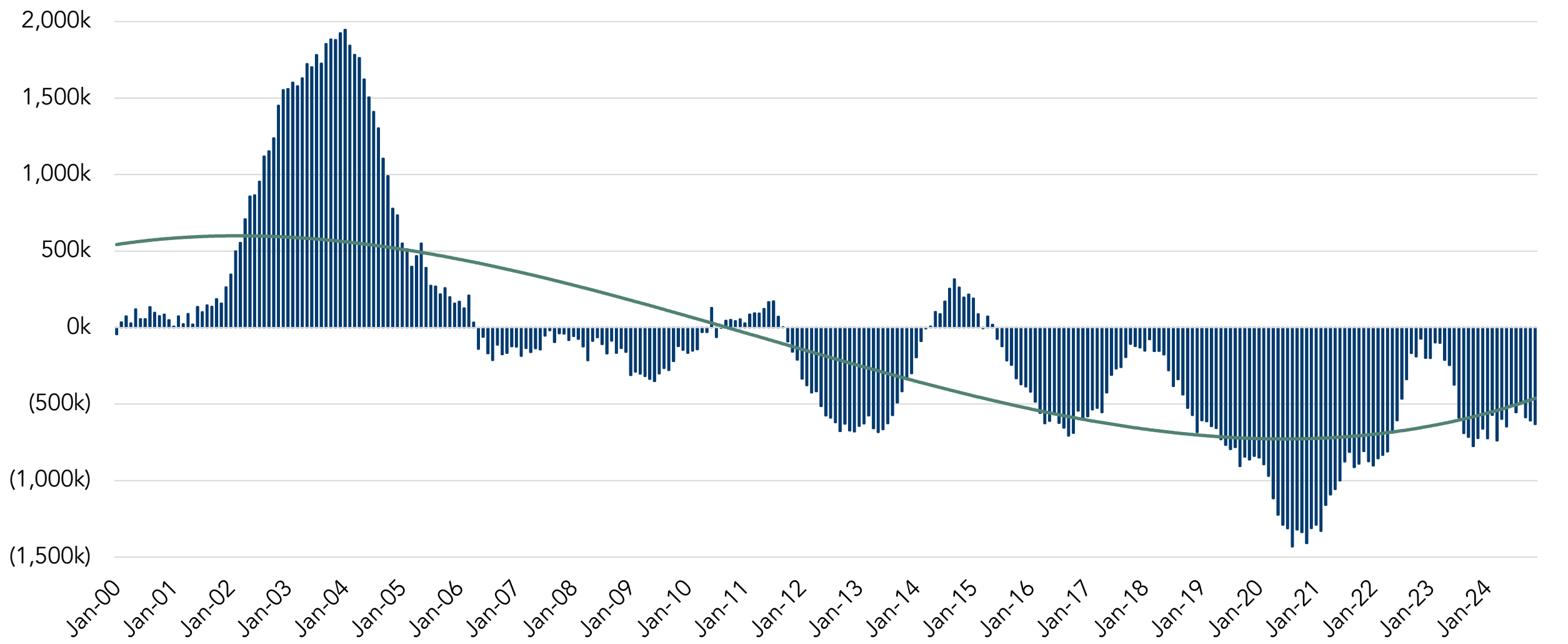
You Can't Buy What's Not For Sale



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# Building the Housing Debt

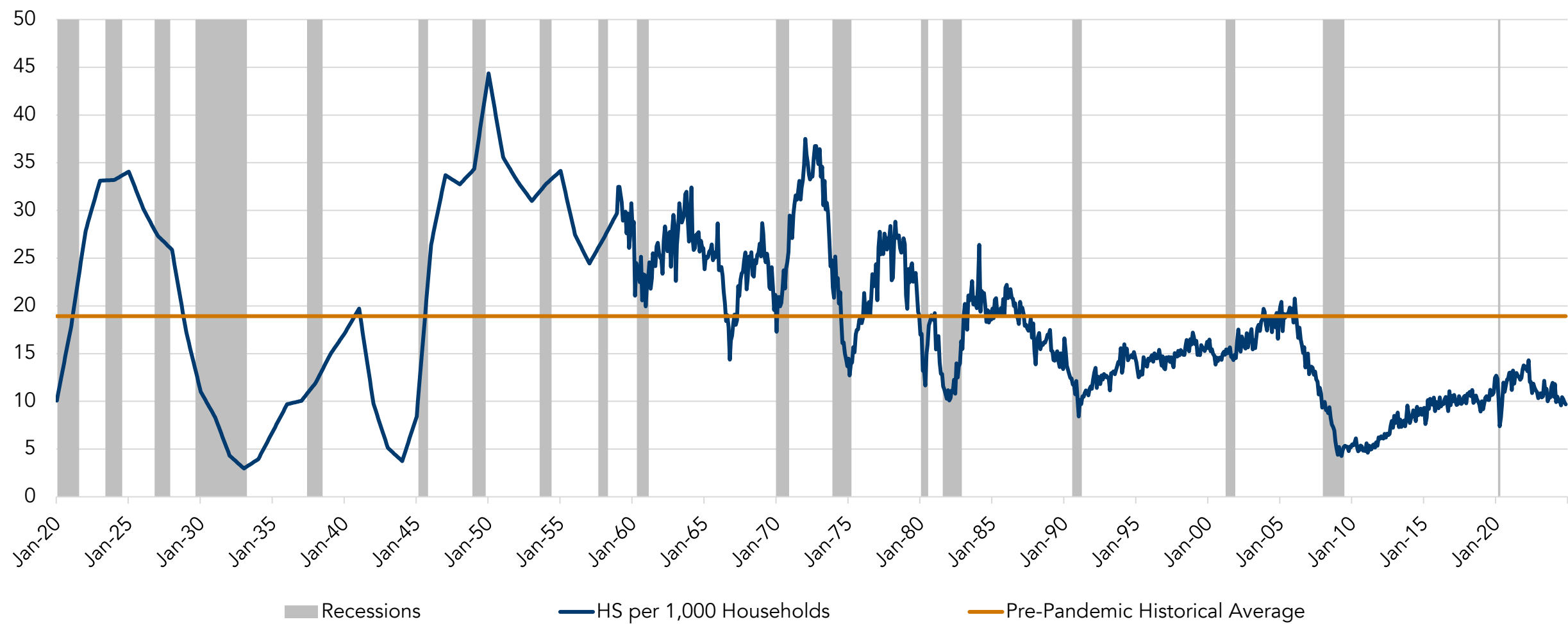
Difference Between New Housing Units Completed (SAAR) and New Household Formation (2-Year Moving Average)



Source: Census Bureau, HUD (obsolescence rate of 0.31% of existing stock), Nov. 2024  
\*Household formation are imputed for the months of Oct. and Nov.

# The Big Building Short

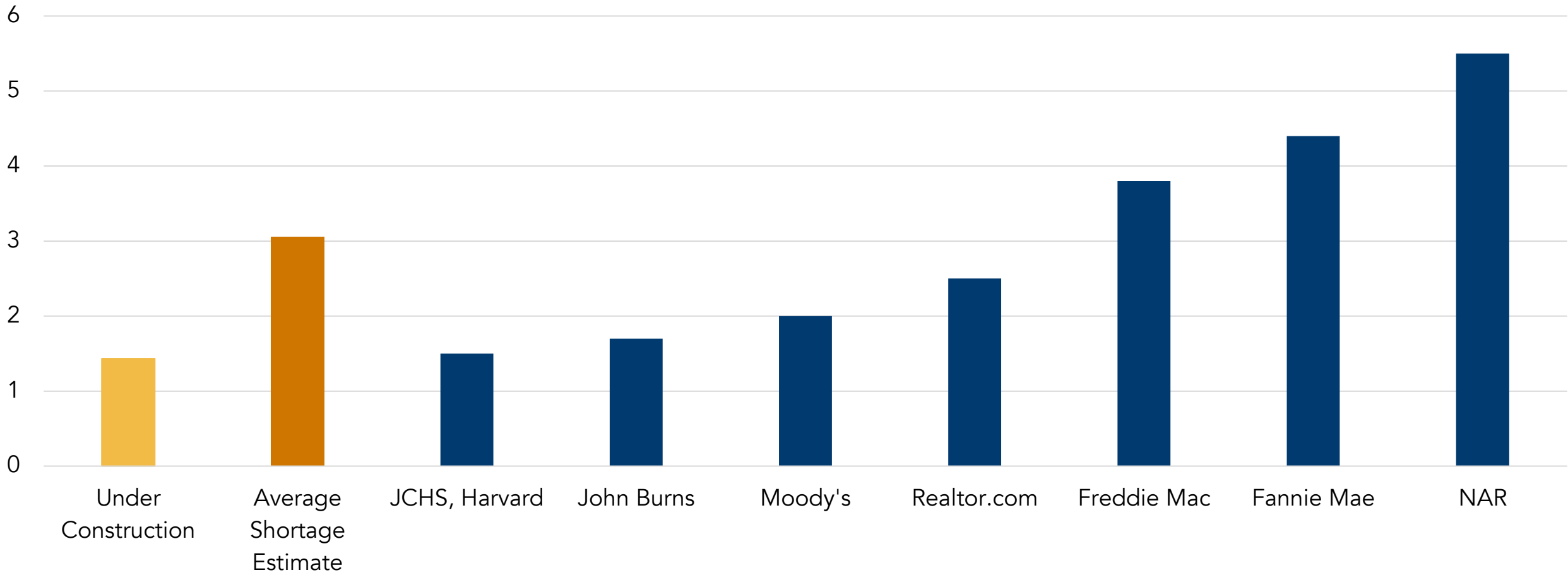
Housing Starts Per 1,000 Households



Source: U.S. Census Bureau, First American Calculations, FRED, Nov. 2024

# Housing Units Currently Under Construction Will Ease, but Likely not Eliminate, the Housing Shortage

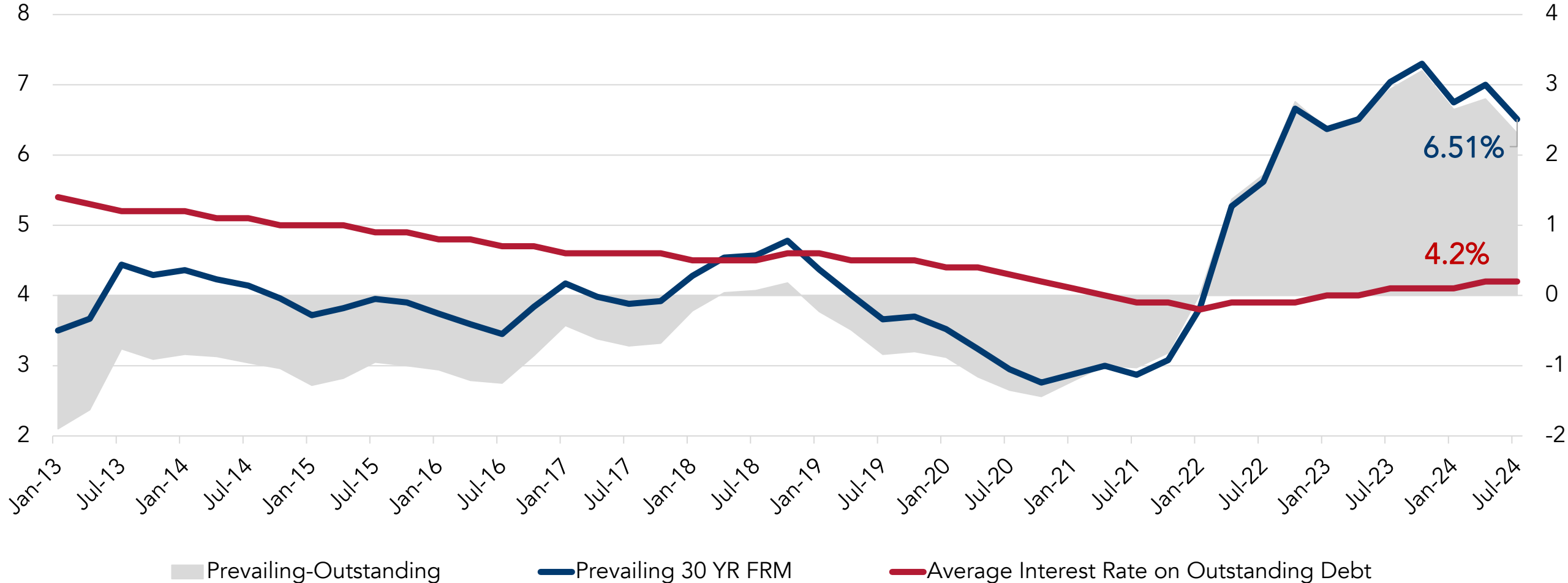
Current Housing Deficit Estimates by Firm, Under Construction Housing (Apartments plus Homes), Millions of Housing Units



Source: U.S. Census Bureau, HUD, Freddie Mac, Fannie Mae, Harvard, NAR, John Burns, Moody's, Realtor.com

# Rates on Existing Mortgages (Homeowners) vs. New Mortgages (Homebuyers)

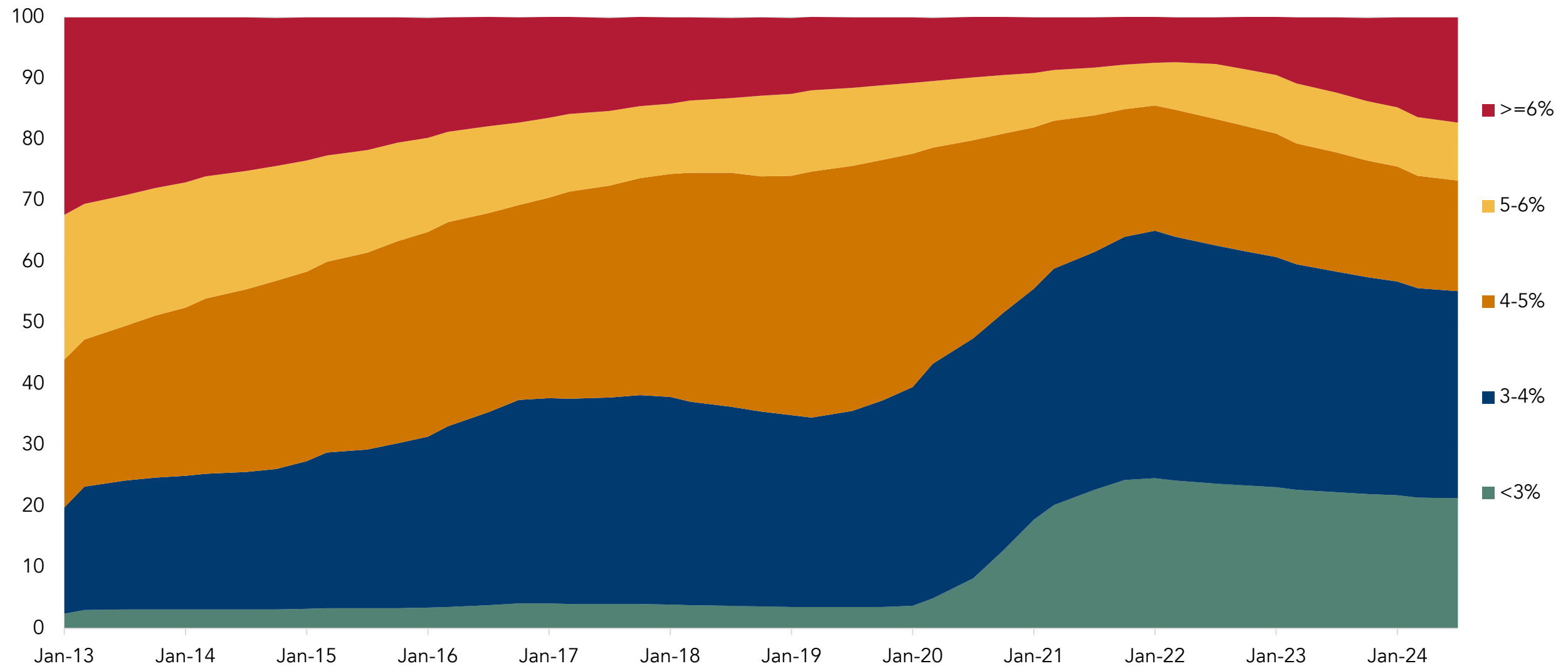
Prevailing 30-YR FRM (Left-Axis), Average Interest Rate on Outstanding Debt(Left-Axis), Difference Between Prevailing and Outstanding (Right-Axis), %



Source: Freddie Mac, NMDb, First American Calculations, Q3 2024

# 83 Percent of Mortgaged Homes Have a Rate Below 6 Percent

Percent Share of Outstanding Residential Mortgages by Interest Rate at Origination



Source: NMDb, First American Calculations, Q3 2024



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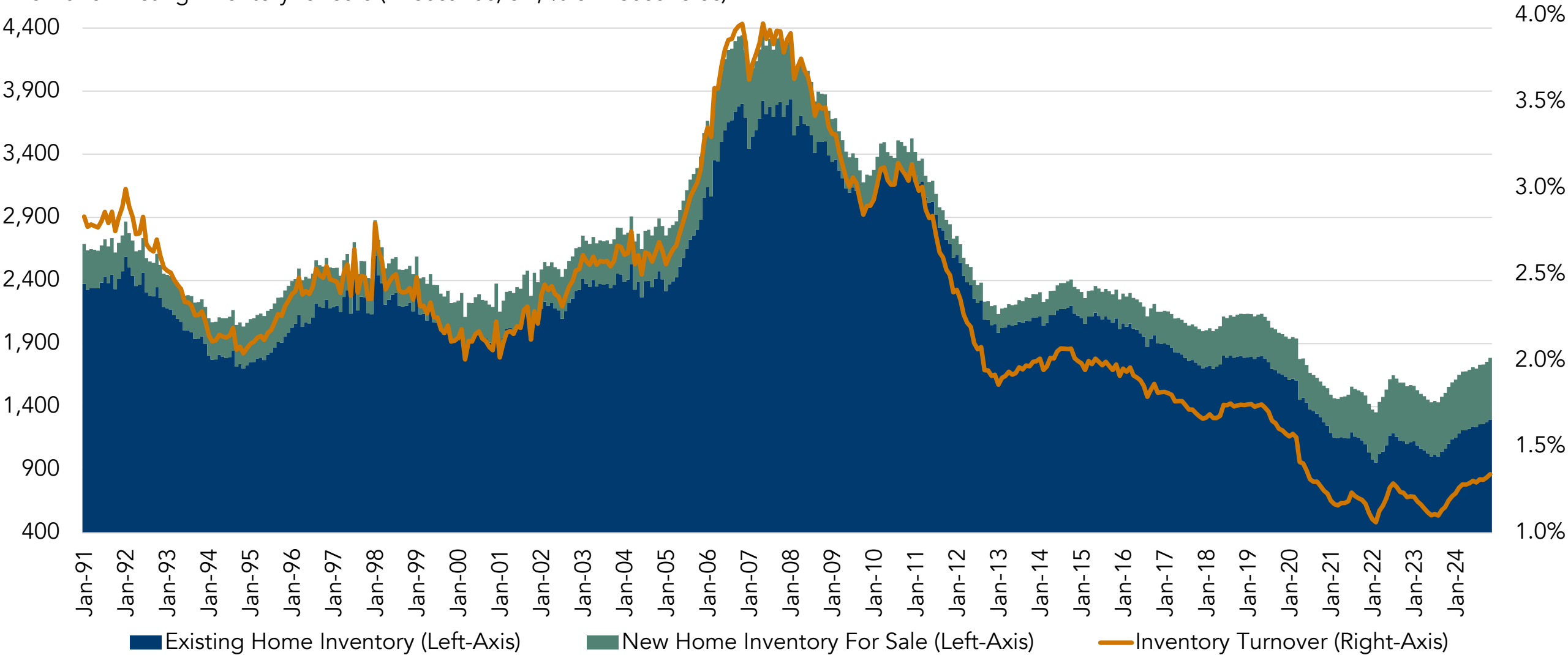


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# What's For Sale? A Historically Low 134 in Every 10,000 Homes

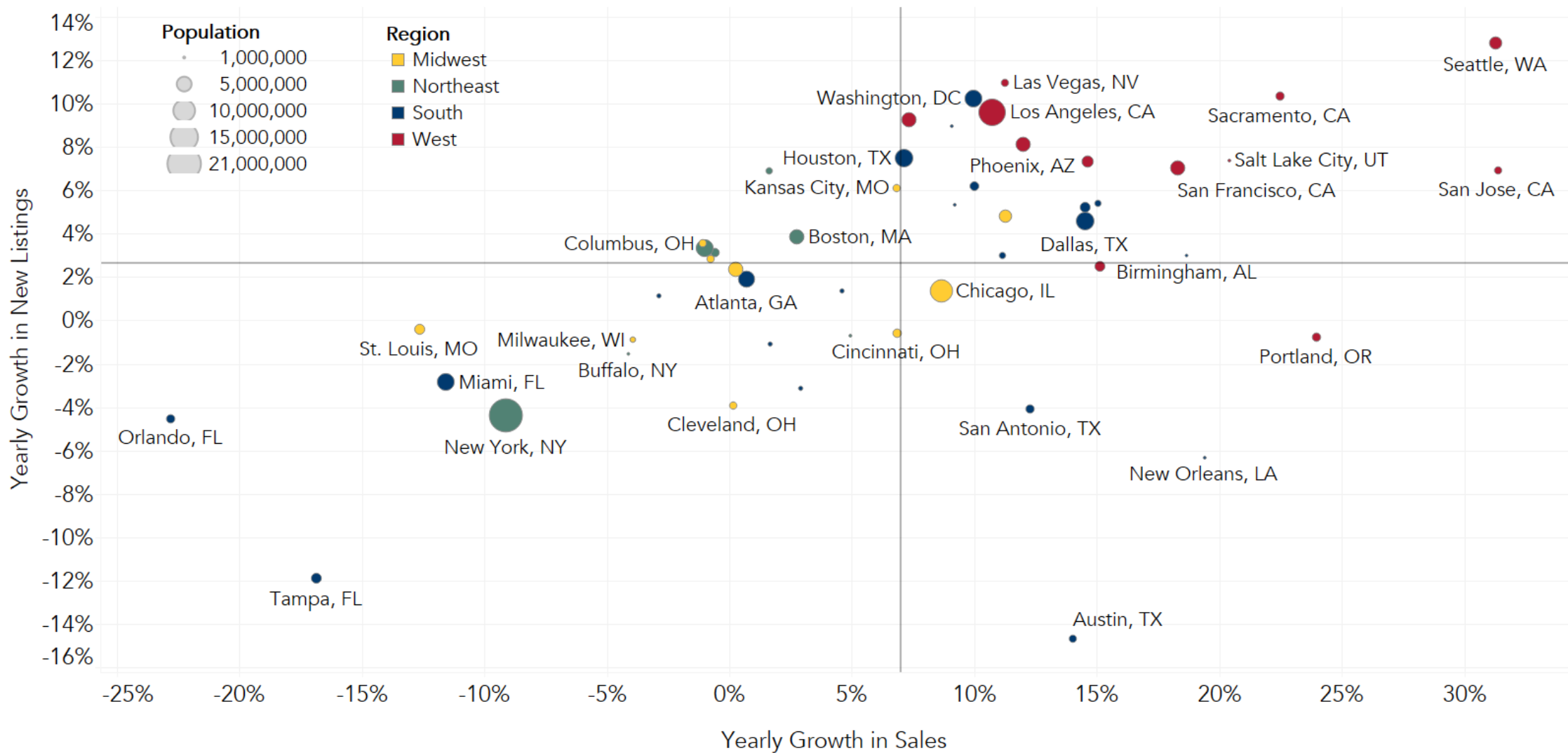
New and Existing Inventory for Sale (Thousands, SA, % of Households)



Source: NAR, Census, FRB St. Louis, First American Calculations, Nov. 2024

# You Can Only Buy What's For Sale

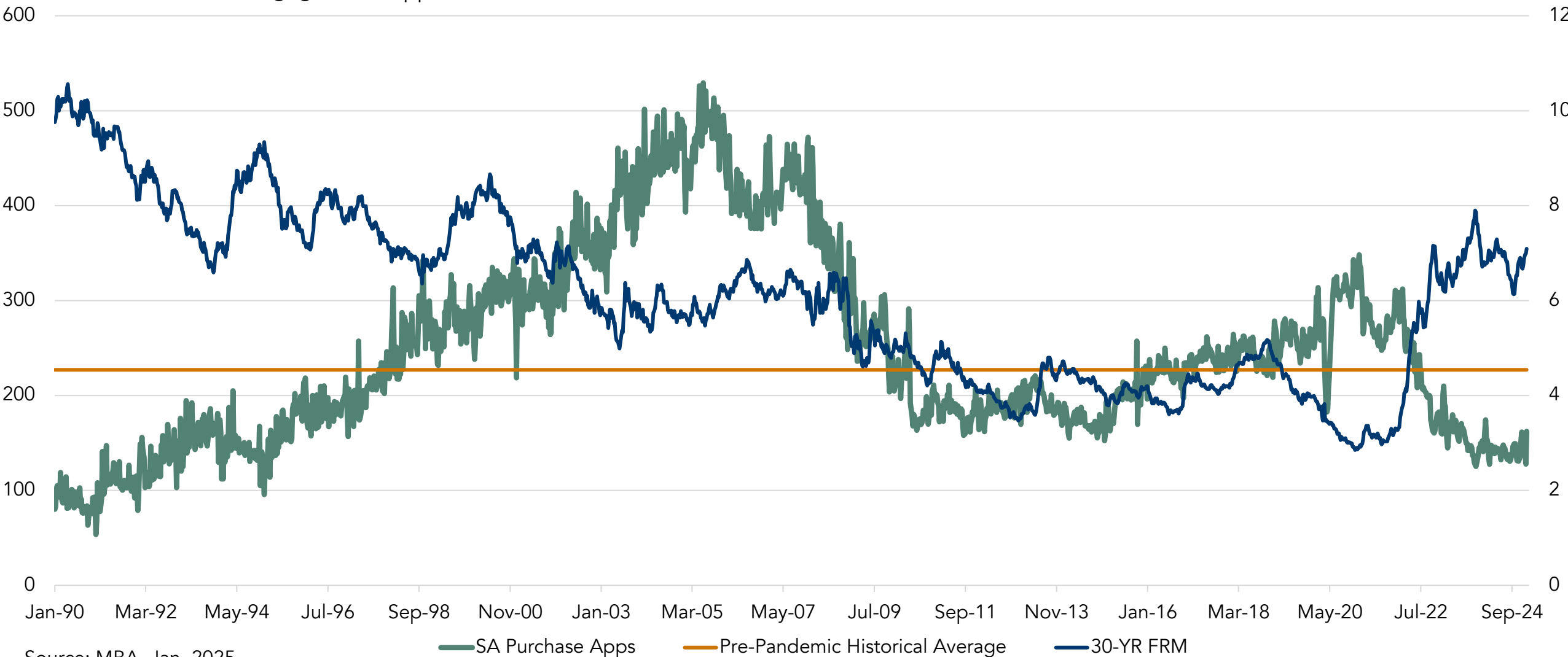
Yearly Growth in New Listings and Home Sales (%)



Source: First American Calculations, Zillow, Nov. 2024

# Purchase Applications At the Lowest Level Since the Early 1990s

MBA: Volume Index: Mortgage Loan Applications for Purchase (SA, Mar-16-90=100)



Source: MBA, Jan. 2025

SA Purchase Apps

Pre-Pandemic Historical Average

30-YR FRM



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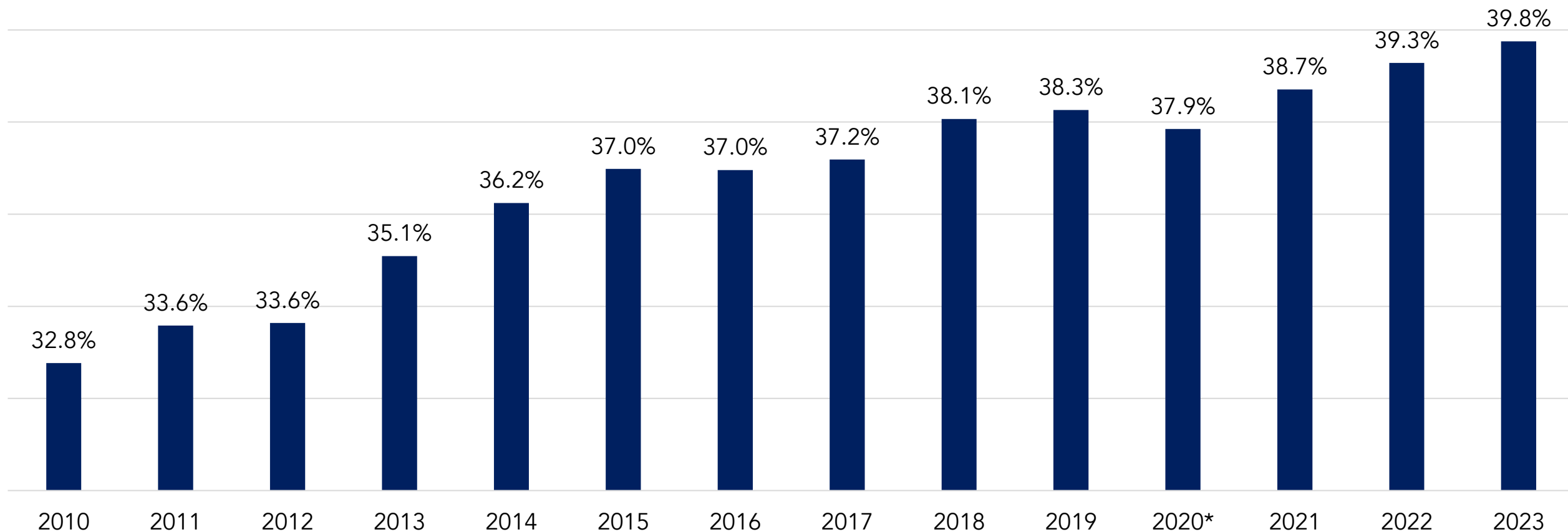
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# 40% of Owner-Occupied Housing is Free-and-Clear

Share of Owner-Occupied Housing Without a Mortgage



Source: American Community Survey 1-Year Estimates, First American Calculations, 2023

\*2020 uses the 5-Year Estimates



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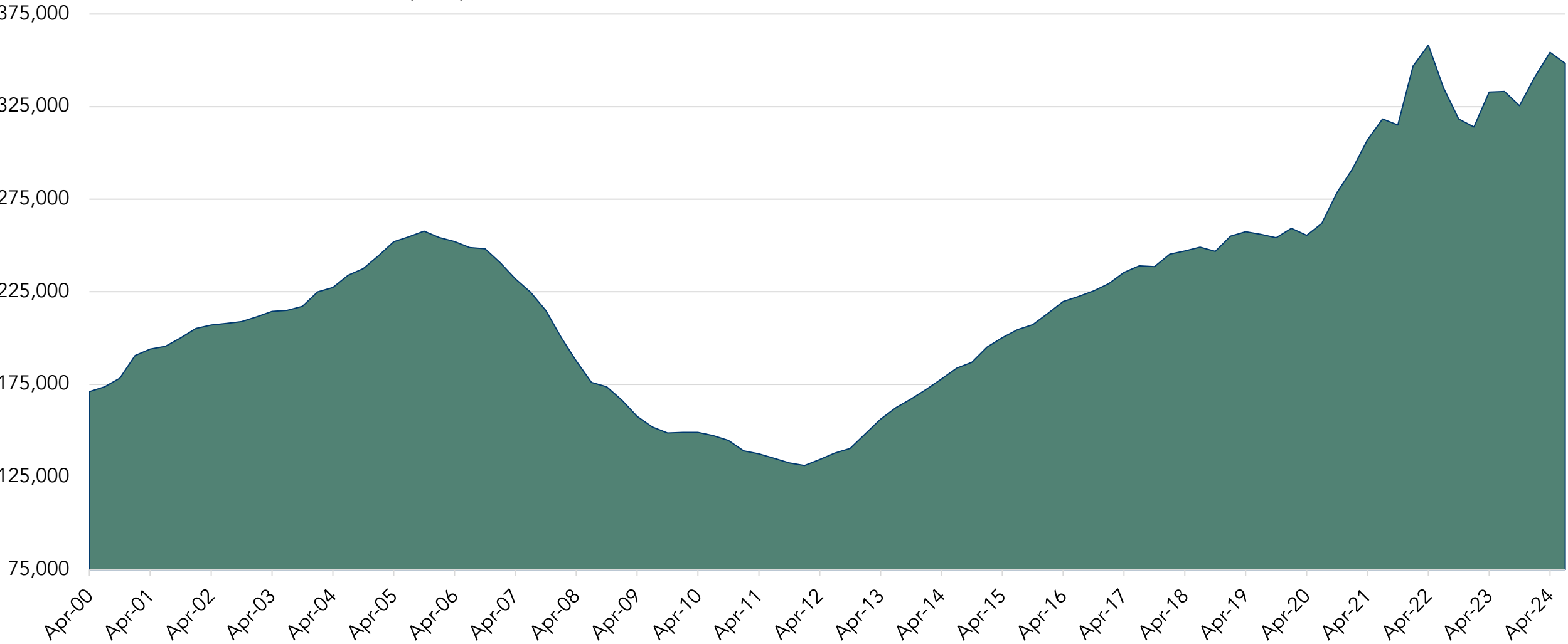
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# Homeowners Have an Average of \$348k in Equity

2021 Inflation-Adjusted Homeowner Equity per Owned Household



Source: First American Calculations, Board of Governors of the Federal Reserve System, Q3 2024

# Few Remain "In the Money" to Refinance

MBA: Volume Index: Mortgage Loan Applications for Refinance (SA, Mar-16-90=100)



Source: MBA, Jan. 2025



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## Takeaways:

1. More than a decade of underbuilding has contributed to a chronic housing shortage
2. The persistent rate lock-in effect has only exacerbated the housing shortage
3. Housing supply has increased in 34 of the top 50 markets we track on a year-over-year basis
4. Where housing inventory grows, sales follow
5. There are mitigating factor to the rate lock-in effect: the elevated share of free and clear homeowners and substantial equity



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If You Can't Find an Existing  
Home, Buy a New One

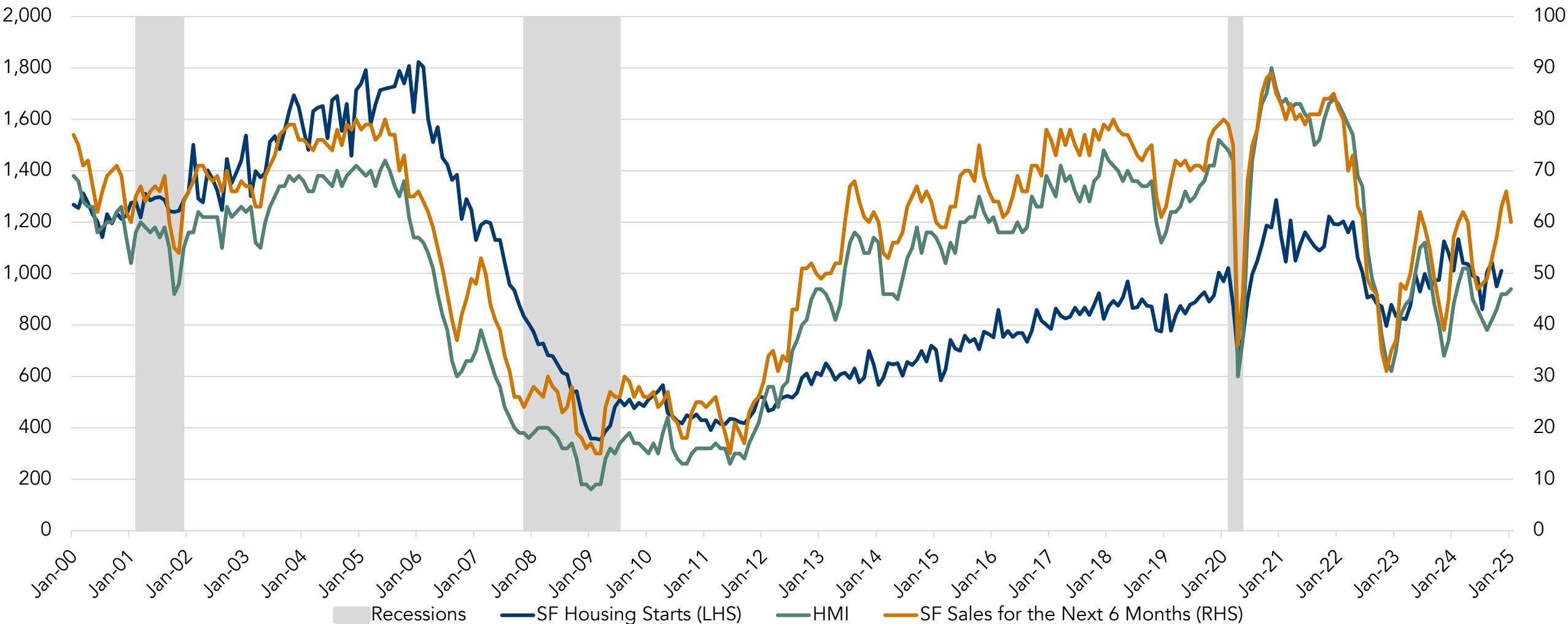


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# Builder Sentiment Inches Higher in January

NAHB/Wells Fargo SF HMI Index and SF Sales for the Next 6 Months (Data Through 1/2025),  
Privately Owned Housing Starts: 1-Unit Structures, Thousands of Units, Monthly (SAAR, Through 11/2024)



Source: NAHB/ Wells Fargo HMI, FRED, NBER, Jan. 2025

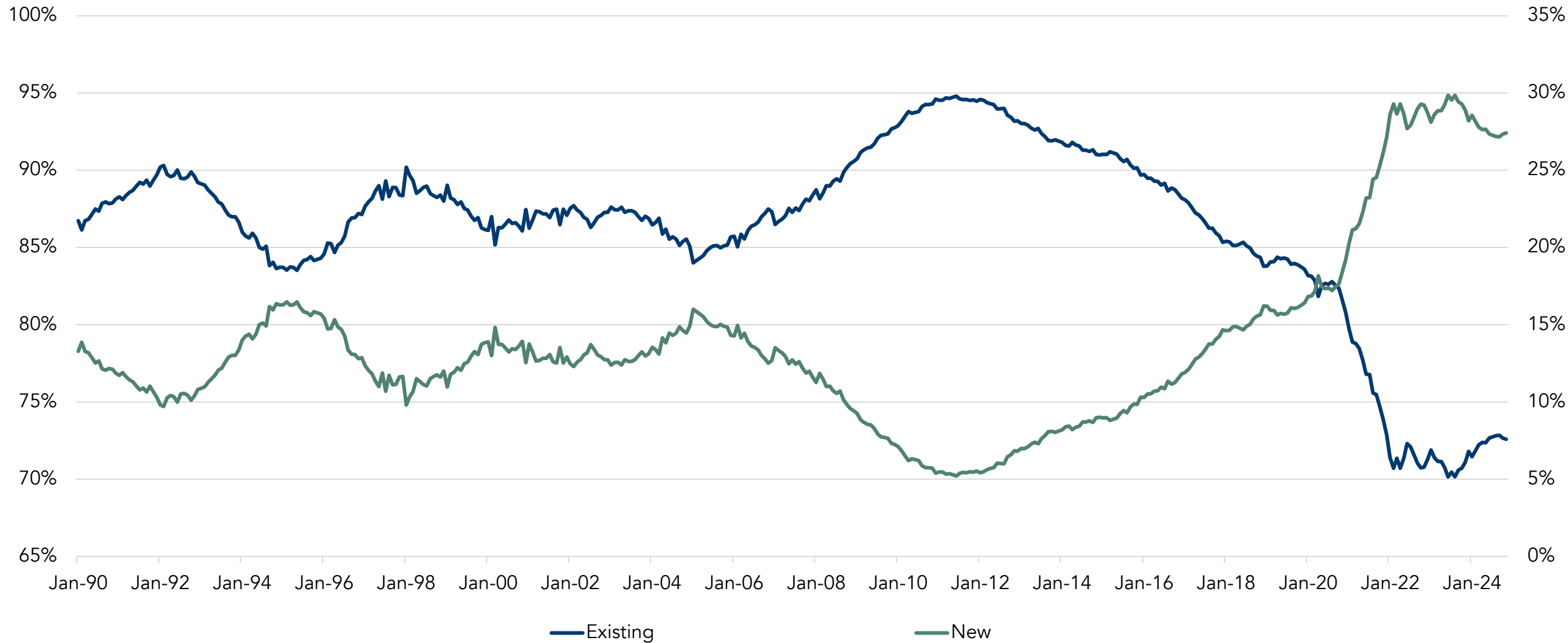
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# New Homes Make Up A Historically High Share of Overall Inventory

Existing and New Home Inventory as a Share of Total Inventory, %



Source: NAR, Census, FRB St. Louis, First American Calculations, Nov. 2024



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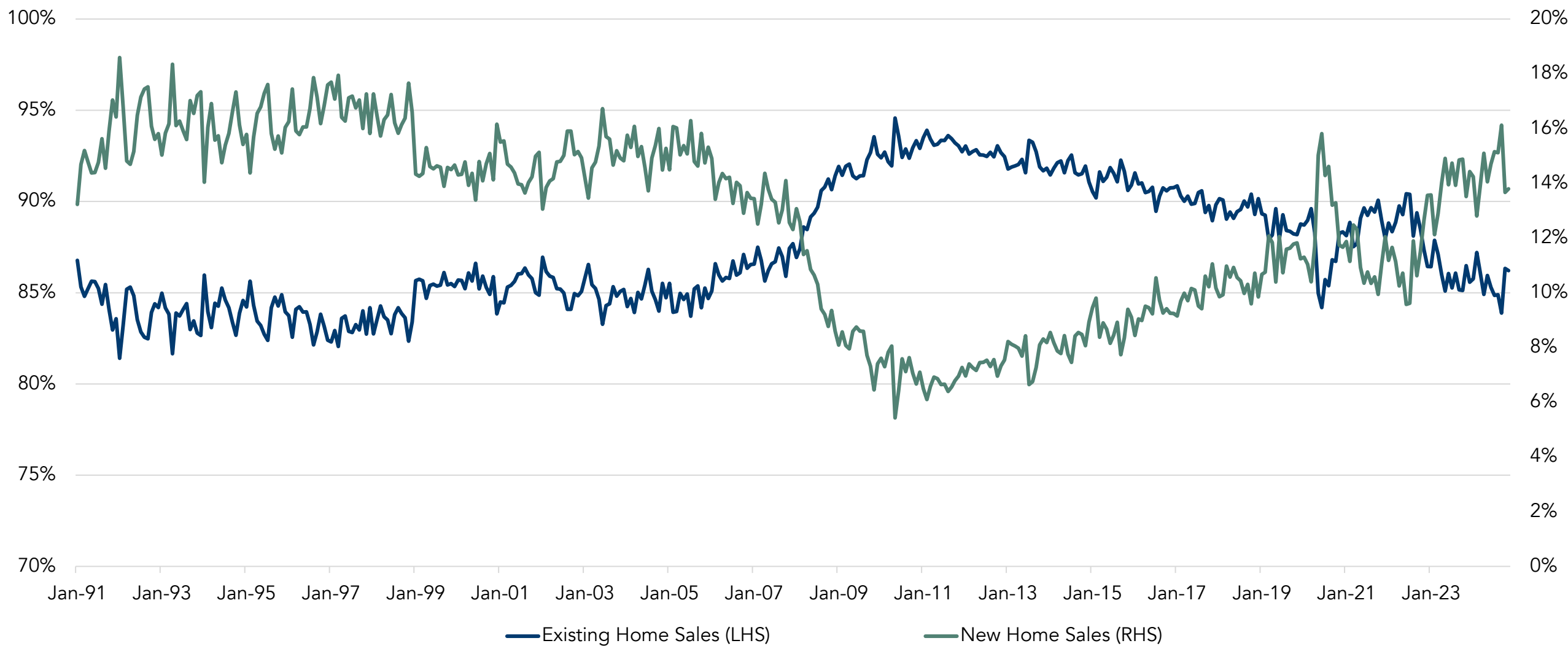
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# New Home Sales Make Up 14% of Total Sales

Existing and New Home Sales as a Share of Total Sales, %



Source: NAR, Census, FRB St. Louis, First American Calculations, Nov. 2024



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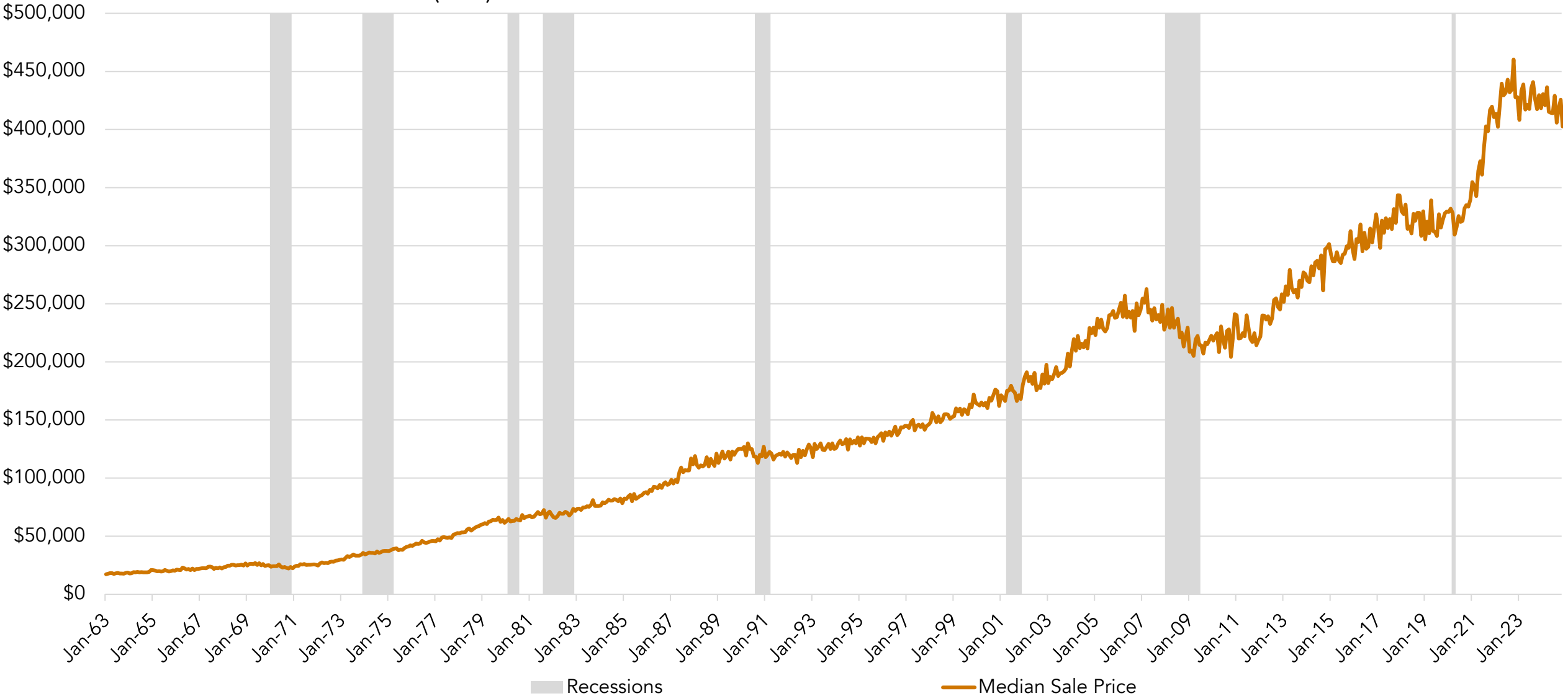
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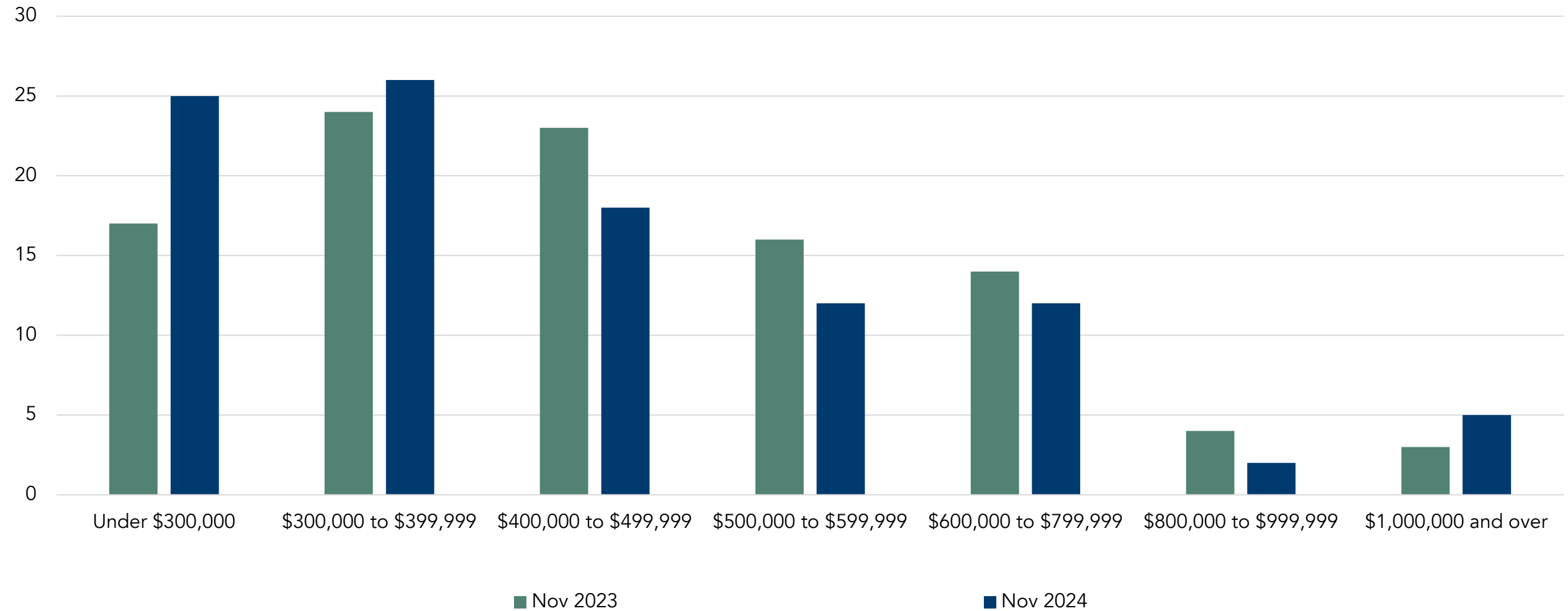
# New Home Prices Down 13 Percent From 2022 Peak

Median Sales Price for New Houses Sold (NSA)



# Share of New Homes Sold Below \$300k Rises

Share of New Houses Sold by Sales Price, %



Source: U.S. Census Bureau, First American Calculations, Nov. 2024



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# Size of a New Home is the Smallest Since 2010

New Privately Owned Housing Starts in the United States, Median Square Feet of Floor Area for One-Family Units



Source: U.S. Census Bureau, U.S. Department of Housing and Urban Development, Q3 2024



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## Takeaways:

1. Builders continue to face supply-side headwinds and higher financing costs that make it challenging to build new homes
2. Nevertheless, the new home market is expected to outperform the existing-home market due to builders' ability to offer incentives such as mortgage rate buydowns and the chronic shortage of existing homes for sale
3. Builders are changing the products offered to be smaller, more affordable homes



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Even if it is For Sale, Can You  
Afford it?

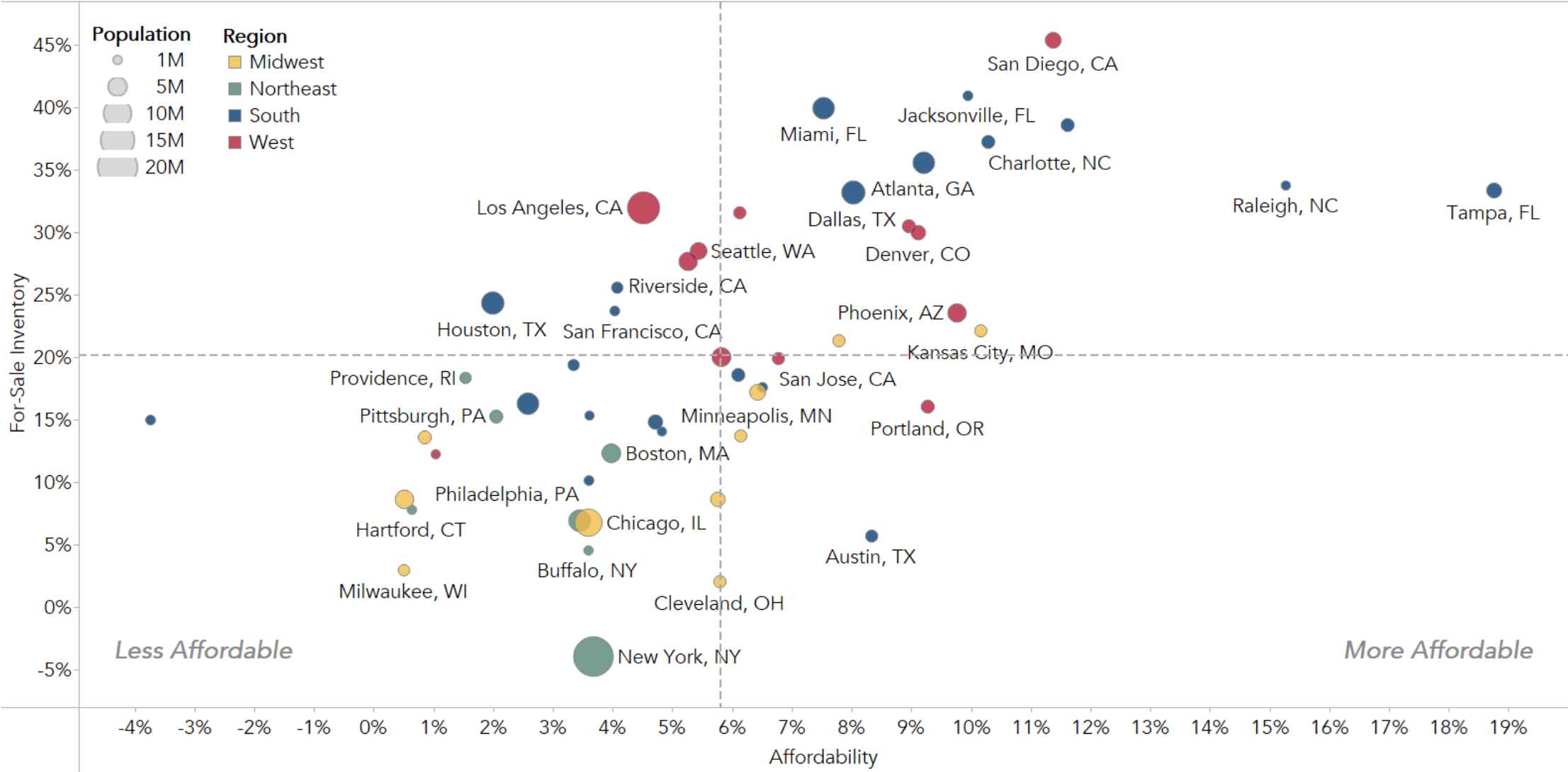


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# Inventory Trends Fuel Regional Affordability Divide

Additive Inverse of Real House Price Index and For-Sale Inventory (YoY, %) in Nov. 2024



Source: First American Calculations, Zillow, First American Data & Analytics, U.S. Census Bureau, Freddie Mac, Nov. 2024



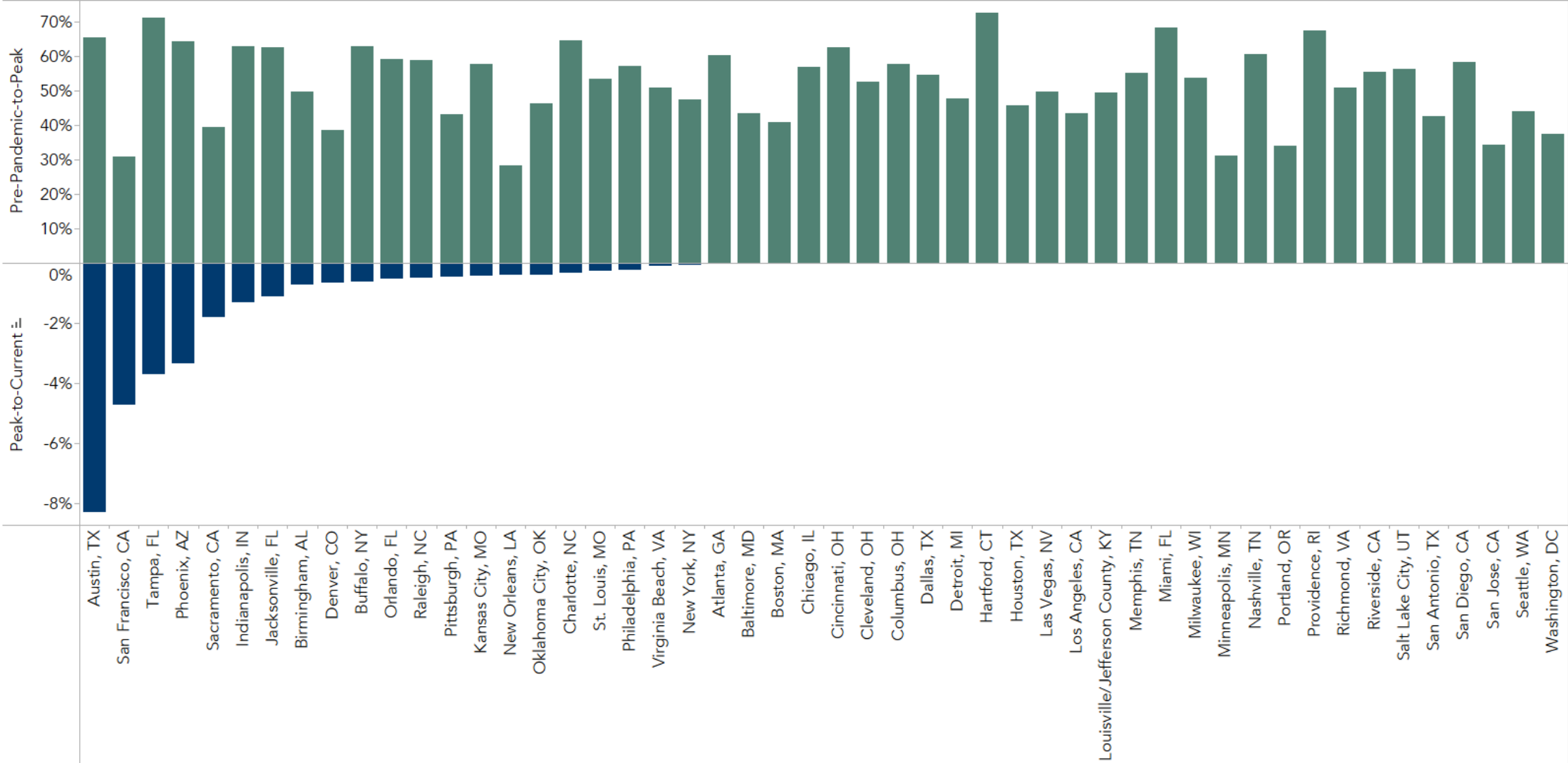
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# What Goes Up May Not Come All the Way Back Down

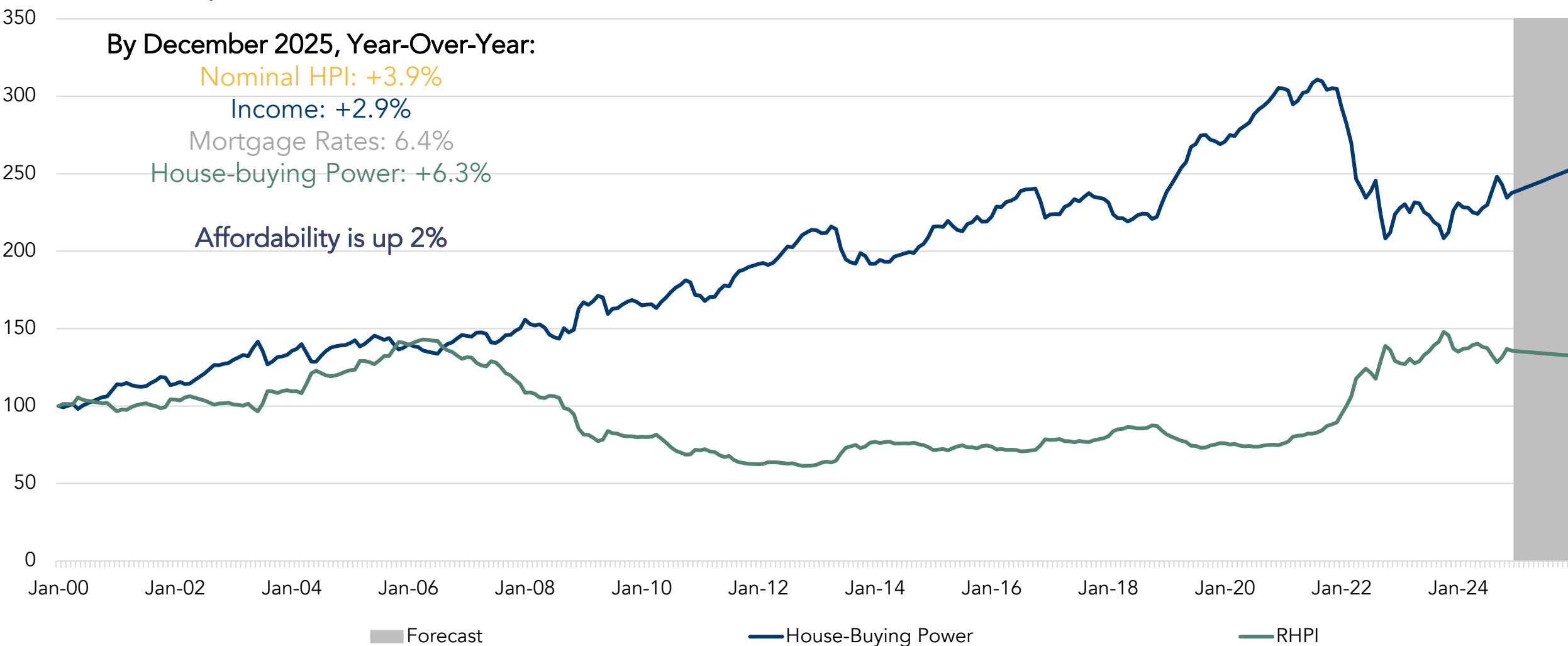
Nominal House Price Growth from February 2020 to Peak and Peak to November 2024



Source: First American Data & Analytics, First American Calculations, Nov. 2024  
\*Peak nominal house price dates vary by market

# The “Real” Measure of Affordability to Improve Modestly by the End of 2025

Index= 100, January 2000

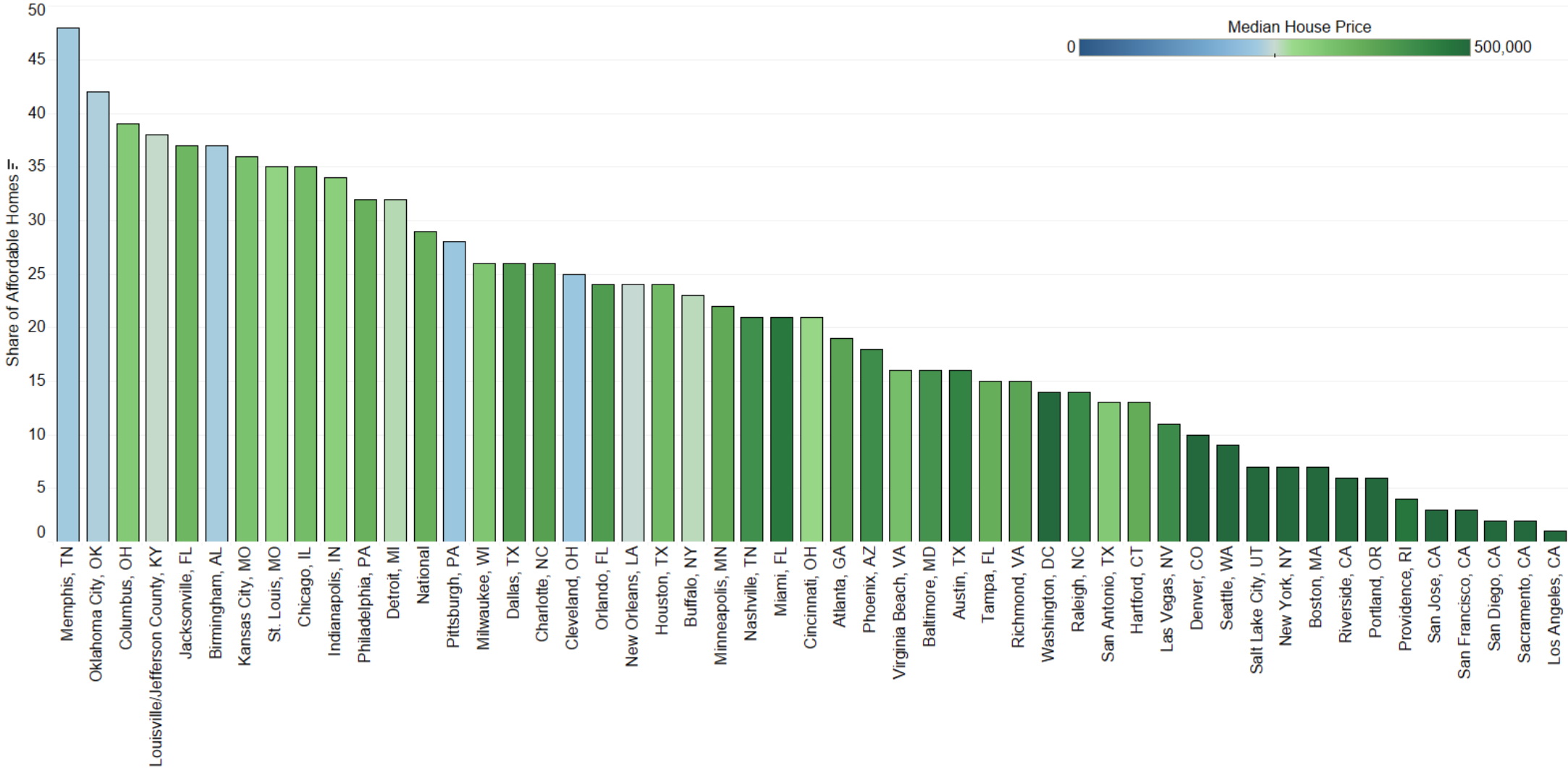


Source: First American Calculations, First American Data & Analytics, BLS, U.S. Census Bureau, Freddie Mac, Dec. 2024

\*Higher RHPI growth indicates falling affordability and vice versa

# Where Can Renters Find the Largest Supply of Affordable Homes?

Share of Affordable Homes for the Median Renter



Source: First American Data & Analytics, Freddie Mac, Census, IPUMS CPS, Q3 2024

## Takeaways:

1. If rates gradually decline, income growth remains positive, and house price growth stabilizes, affordability could improve modestly this year
2. Affordability trends will vary by market: the faster the inventory growth, the more affordable the market becomes
3. We find the strongest supply surges in Southern and Western markets, but more muted improvements in the Northeast and Midwest



## Five Predictions for 2025

1. Mortgage Rates will Remain Above 6 Percent, but Affordability will Improve Modestly
2. House Prices to Moderate, but Remain Positive Nationally
3. Inventory Will Improve But Remain Historically Low
4. Existing-Home Sales will Improve but Stay Below 'Normal' Levels
5. The New-Home Market will Remain a Bright Spot

**As always, location matters!**



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