Special Edition: Economic Insight
Housing Market Update

August 2025

STIFEL

Executive Summary

The U.S. housing sector has faced many challenges in recent years, including elevated mortgage rates, low inventories, and high prices. While a quick reversal in housing market trends is not expected, some recent metrics have shown slight improvement that could offer relief to potential home buyers.

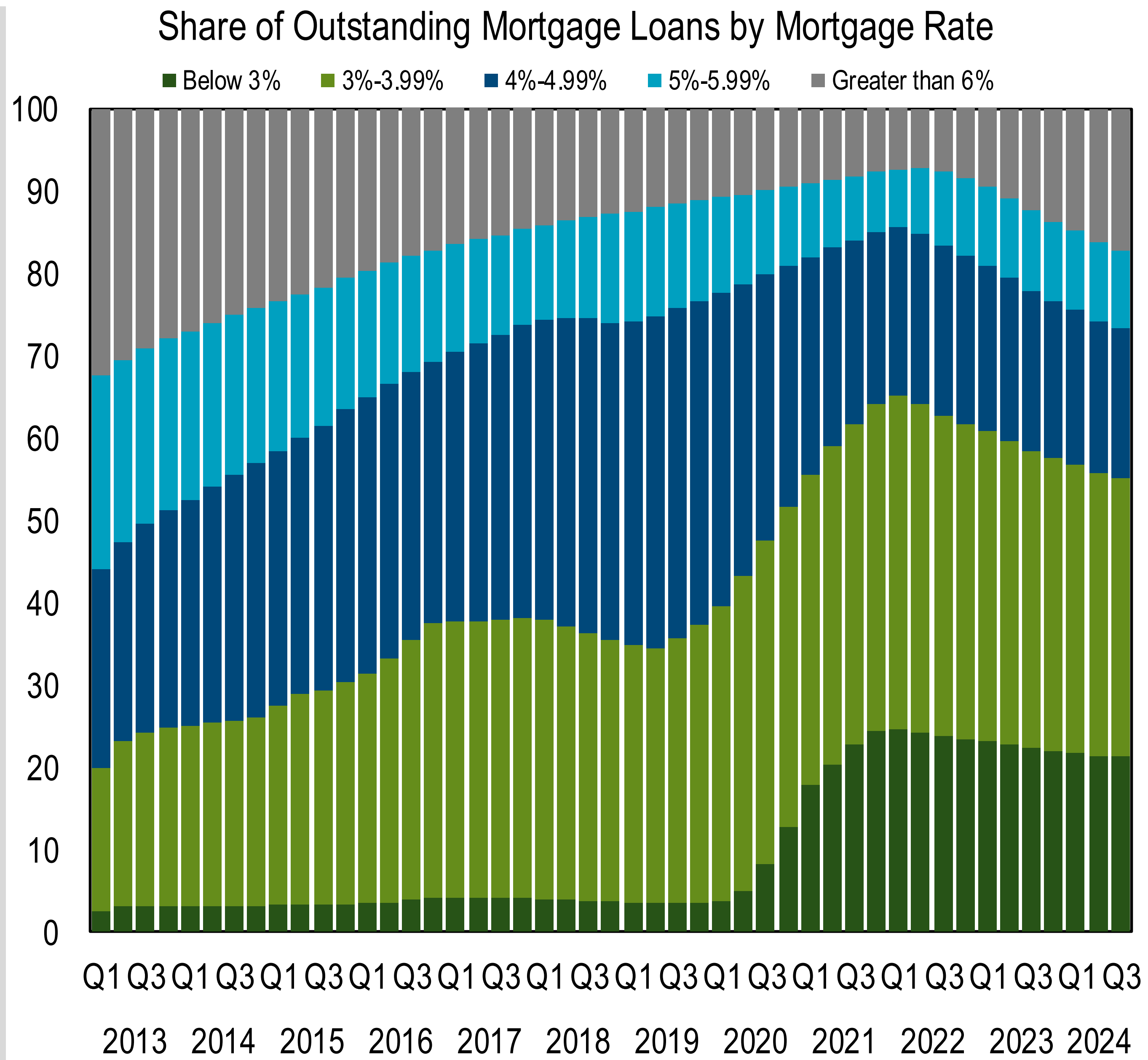
This week, we take a closer look at the U.S. housing market.

Still Notable Lock-In, Lock-Out Effect, but Conditions Starting to Ease

Mortgage rates increased substantially from 2021 to 2022 as the Federal Reserve began a tightening cycle to tamp down rising inflation. The 30-year mortgage rate climbed from 3.33% at the end of 2021 to 6.58% in the final week of 2022.

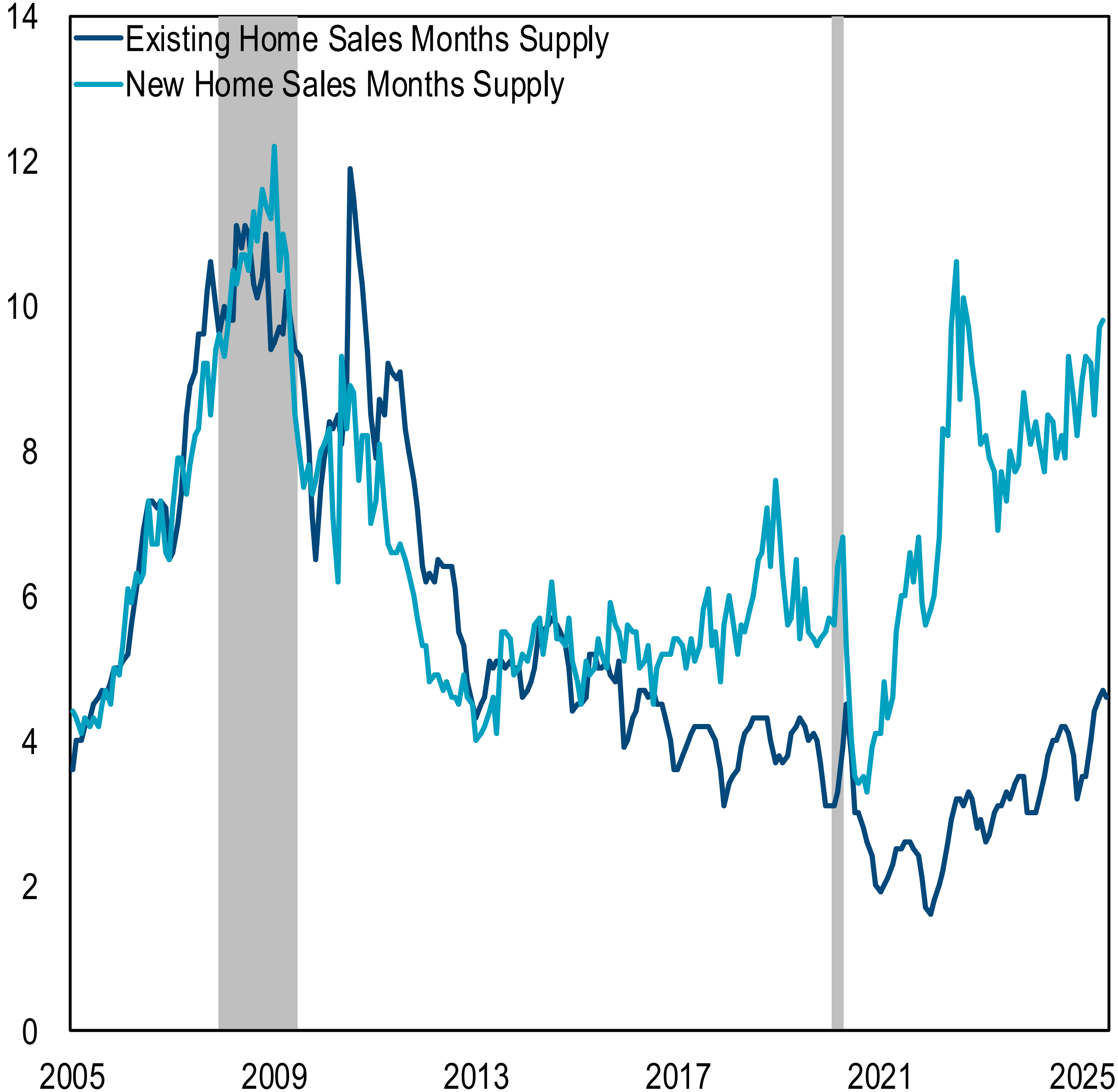
Higher borrowing costs have disrupted the U.S. housing market, creating a sizable barrier to enter and exit homeownership and leading to a lock-in and lock-out effect.

While more than 83% of homeowners still have a mortgage rate below 6%, this is down from a record 93% in the second quarter of 2022, and the lowest share since Q4 2016, as some homeowners can no longer stay put.



Source: FHFA/Redfin

Inventories Starting to Rise, Although Remain Below Pre-Pandemic Levels



Source: Census Bureau/National Association of Realtors

While the supply of available housing stock is still below the pre-pandemic levels, the slight easing in lock-in/lock-out effect has led to a rise in active listings more recently.

According to Realtor.com, the total number of active listings jumped 25% in July from this time last year, marking the 21st consecutive month of inventory growth.

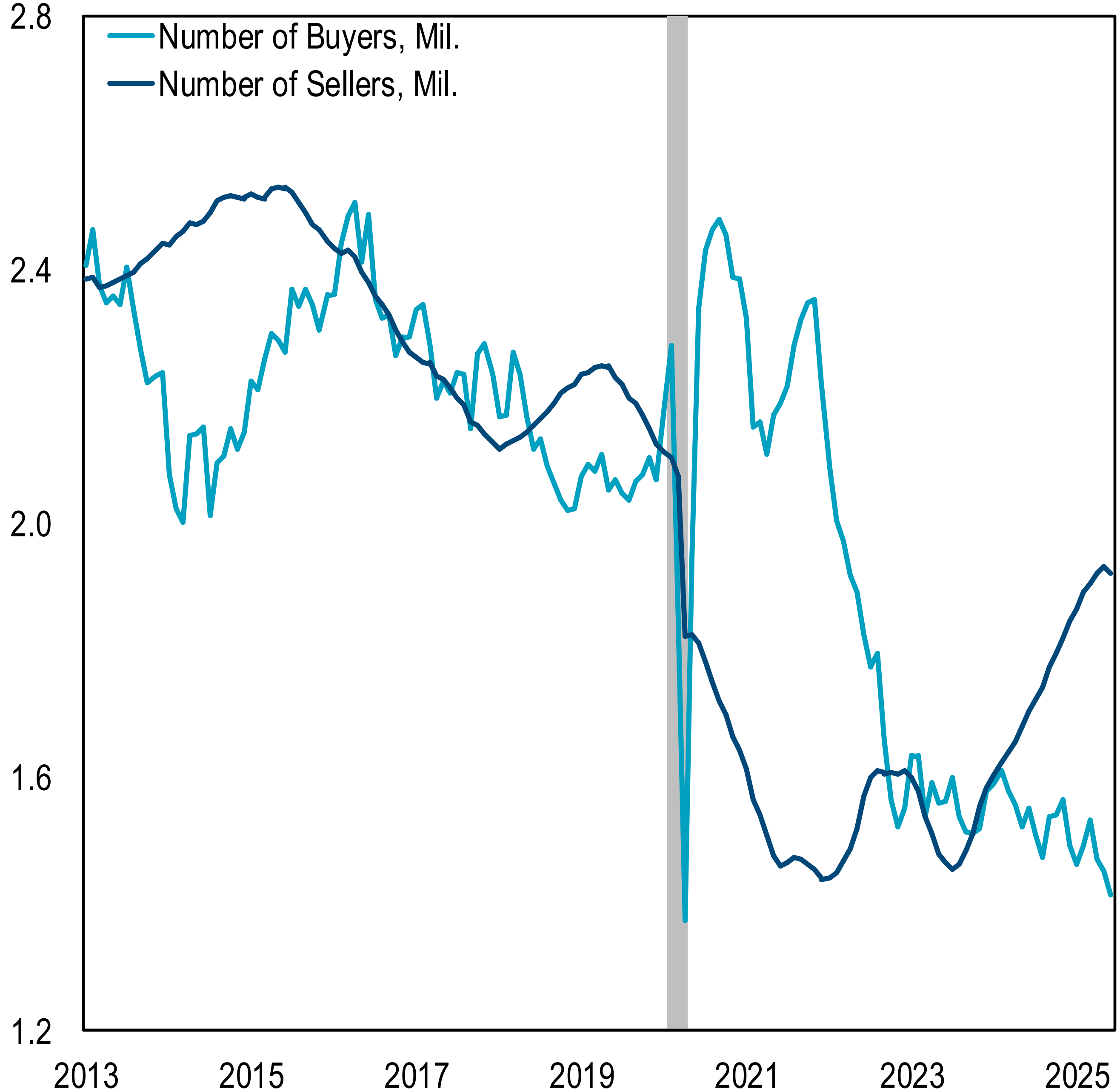
Meanwhile, the months supply of existing homes has risen from 3.5 months at the start of the year to 4.6 months as of July, near the highest level since mid-2016.

Additionally, the number of new homes for sale has increased 3.0% since the start of the year to 511,000 as of June, the highest since 2007. At this level, it would take 9.8 months to clear the national inventory, the highest since September 2022.

The Number of Home Sellers is Starting to Rebound after Sharp Drop in 2020

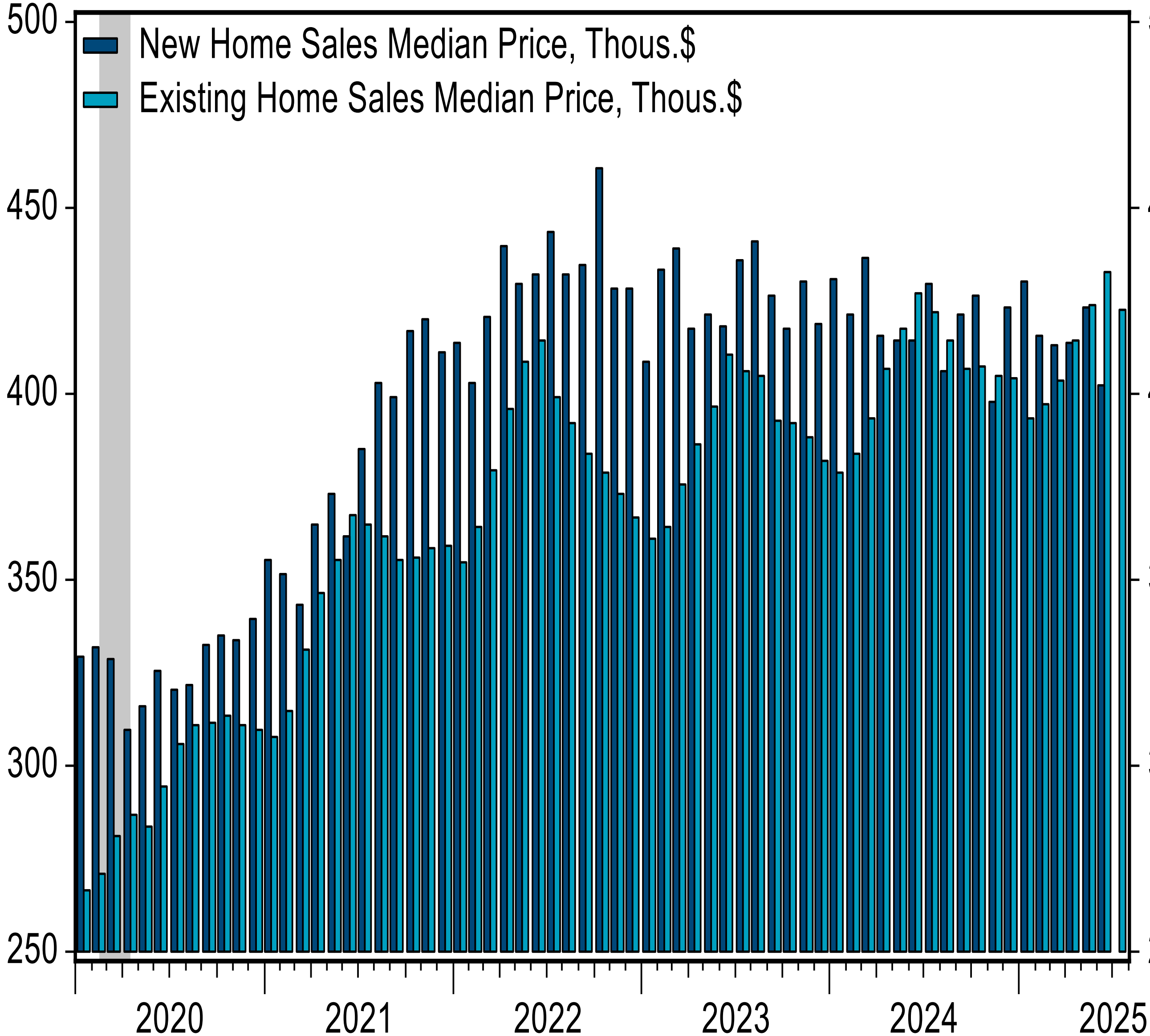
A significantly higher number of home sellers in relation to buyers is contributing to the elevated number of available homes. The number of sellers climbed from 1.6 million at the start of 2024 to 1.9 million as of June, the highest since March 2020.

With the number of sellers outnumbering buyers by 500,000, or 36%, it remains a seller's market with the number of buyers down 50,000 since to start of the year to 1.4 million.



Source: Redfin

Some Easing of Home Prices, Yet Still Elevated from Five Years Ago



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

The pace of home price growth has slowed significantly from the peak pace in 2021. New home price growth, for example, has fallen nearly 7% so far this year, compared to a 16% increase in 2021, while existing home prices have risen over 7% so far in 2025, a slowdown from the 17% rise in 2021.

Since February 2020, the median new home price has risen 21% to $401,800, but this is lower than the peak of $460,300 reached in October 2022.

The median existing home price, meanwhile, has jumped over 50% in the past five years to $422,400 as of July after notching a record high of $432,700 in June.

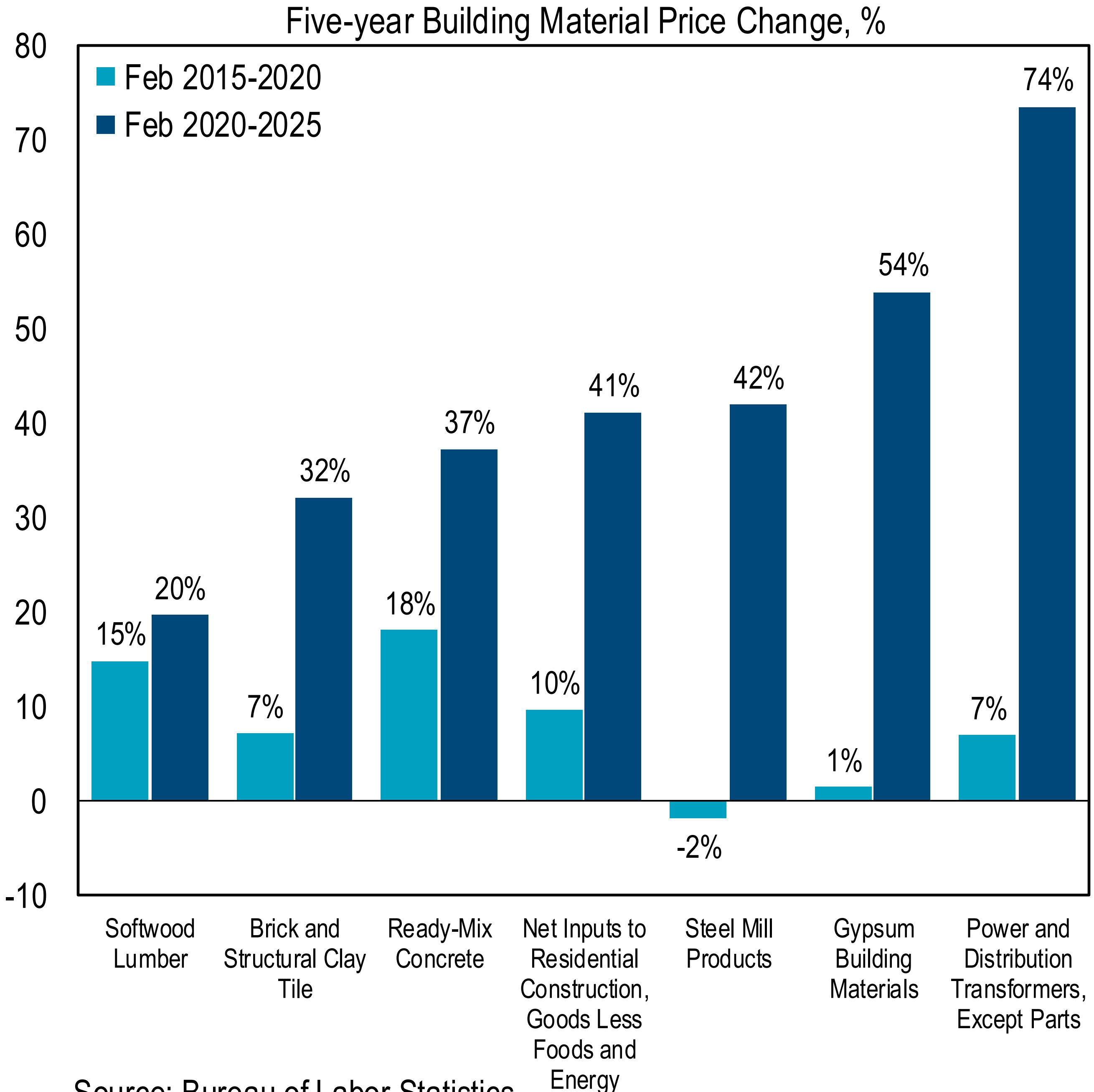
Substantial Rise in Building Material Prices Since 2020

In addition to still elevated borrowing costs and home prices, the cost of building materials has increased substantially over the past five years.

Power and distribution transformers (used in connecting homes to a local utility's electric infrastructure) costs have risen substantially, up 74% in the last five years compared to just about a 7% gain the five years prior.

Meanwhile, the cost of gypsum, a primary input to drywall panels and cement, has increased more than 50% since 2020 due to supply chain issues, along with heightened demand from pandemic home improvement projects and new construction.

Additionally, steel mill products prices have jumped 42% in the last five years alone after posting a 2% drop from 2015-2020.



Source: Bureau of Labor Statistics

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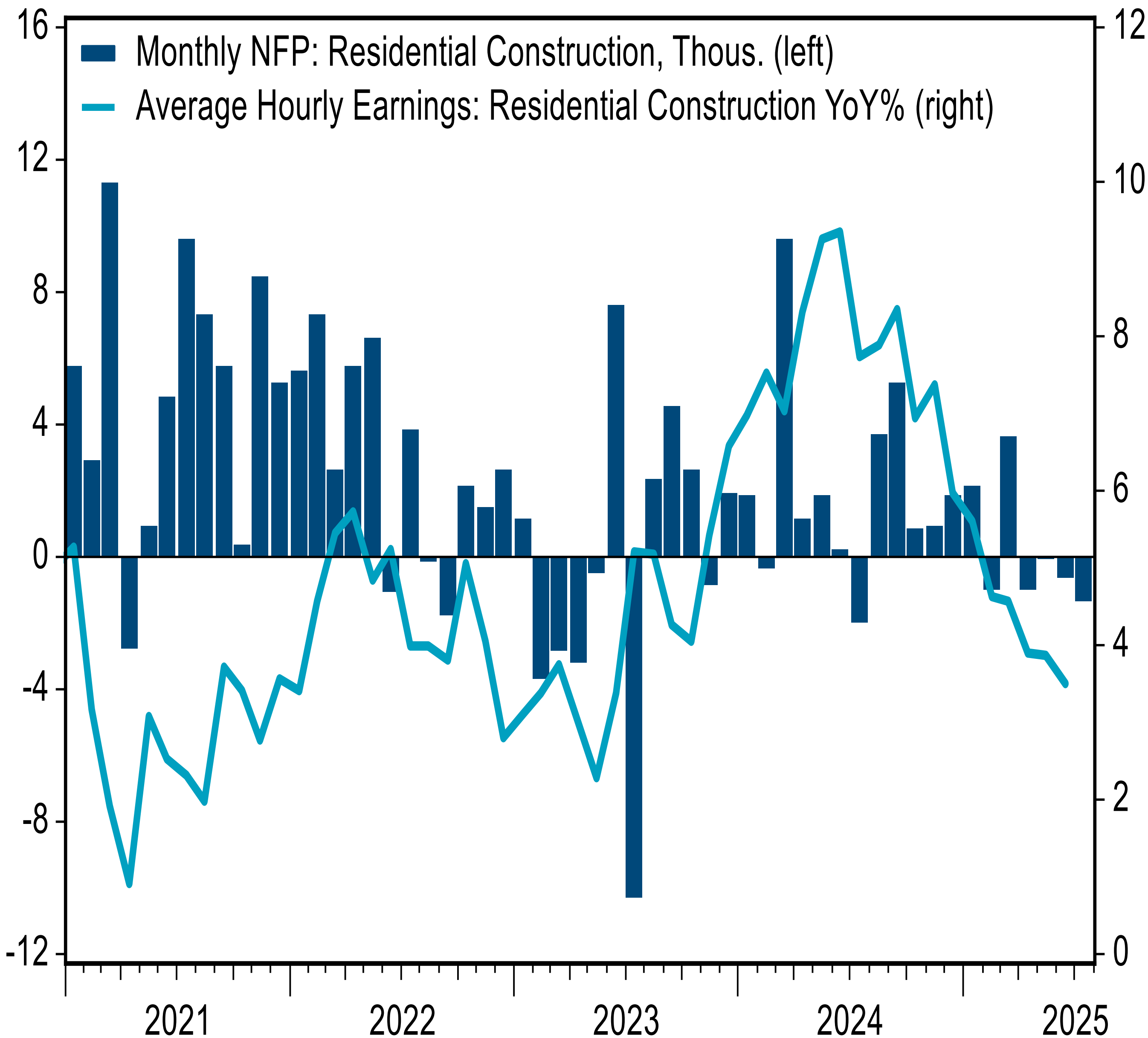
Hiring Slows in Residential Construction



Source: Bureau of Labor Statistics/Haver Analytics

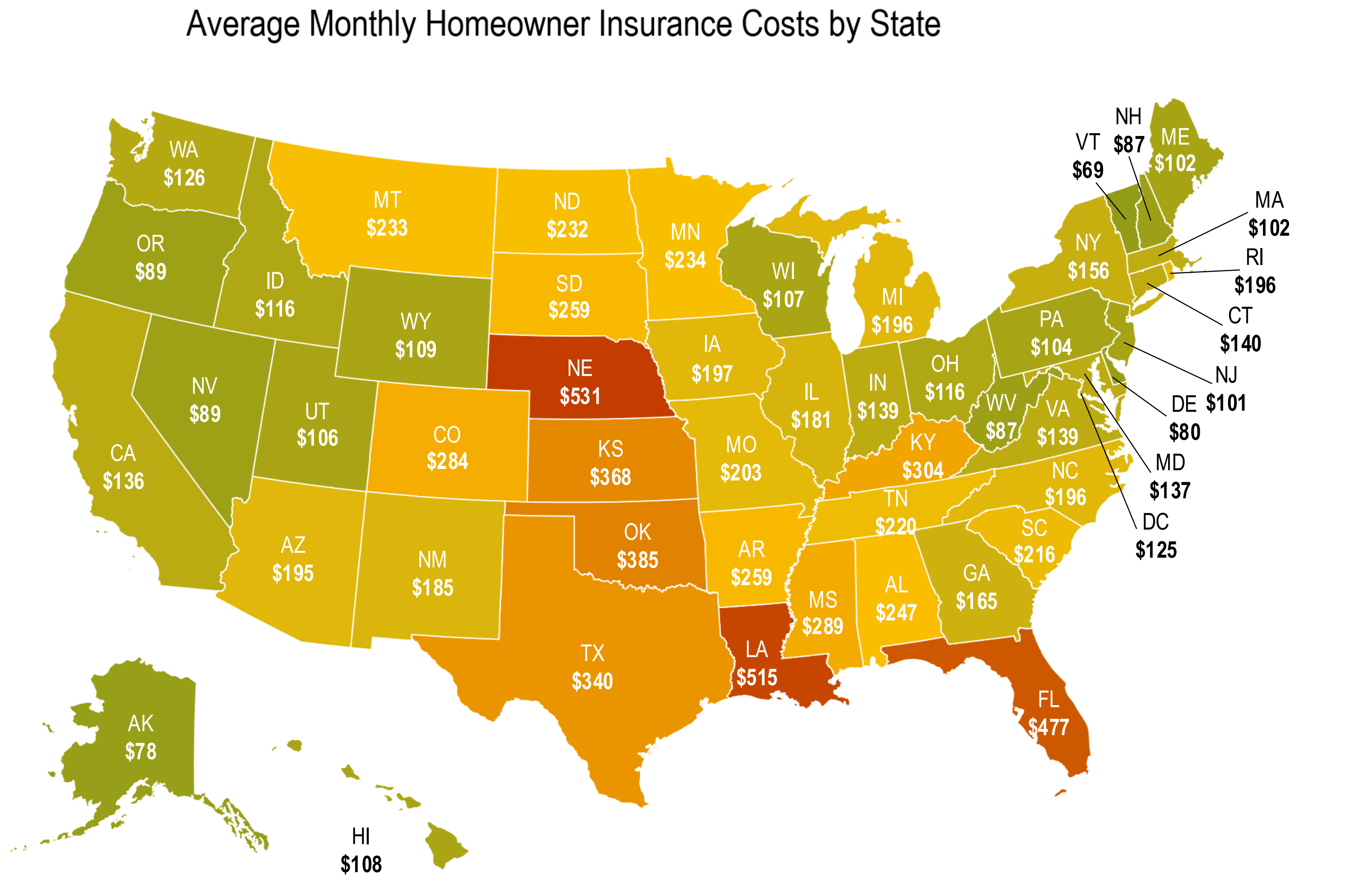
Since the start of the year, residential construction payrolls have risen by just 1,500, an average of about 200 positions per month, and contributing to an overall shortage of construction laborers.

According to a National Association of Home Builders (NAHB) survey, 65% of builders reported a shortage of workers performing finished carpentry, while 60% reported there was a labor shortage for bricklayers, and 59% noted a shortage of workers for framing crews.

Meanwhile, the cost of hiring skilled labor to fill positions in residential construction has risen sustainably, with average hourly earnings climbing nearly 30% since 2020.

As a result, lower availability of workers along with higher costs have led to nearly two additional months on average of construction time per home and could carry an economic impact of -$10.8 billion per year.

Homeowners Insurance Costs on the Rise



Vermont, Alaska, and Delaware have some of the most affordable insurance costs with monthly prices of $69, $78, and $80, respectively. These are well below the national average of $200 per month.

Insurance costs remain elevated in states more exposed to natural disasters with Nebraska, Louisiana, and Florida recording the highest prices at $531, $515, and $477 per month, respectively.

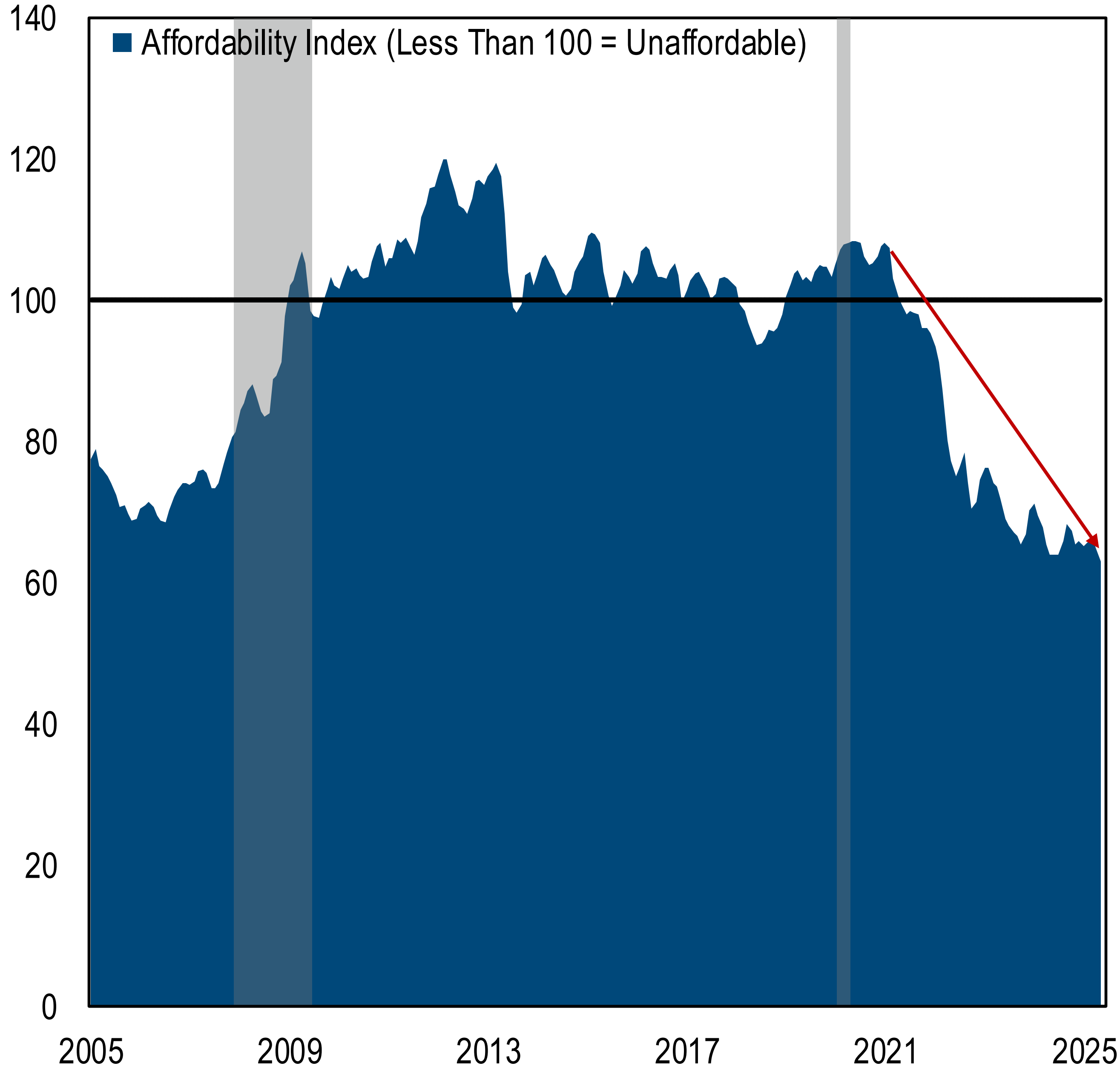
 Source: Bankrate/Stifel

Housing Affordability Remains Low

Despite an increase in inventories and easing of prices, with home prices still up over 40% since 2020 and interest rate still hovering near 7%, purchasing a home at this point remains unaffordable for most Americans.

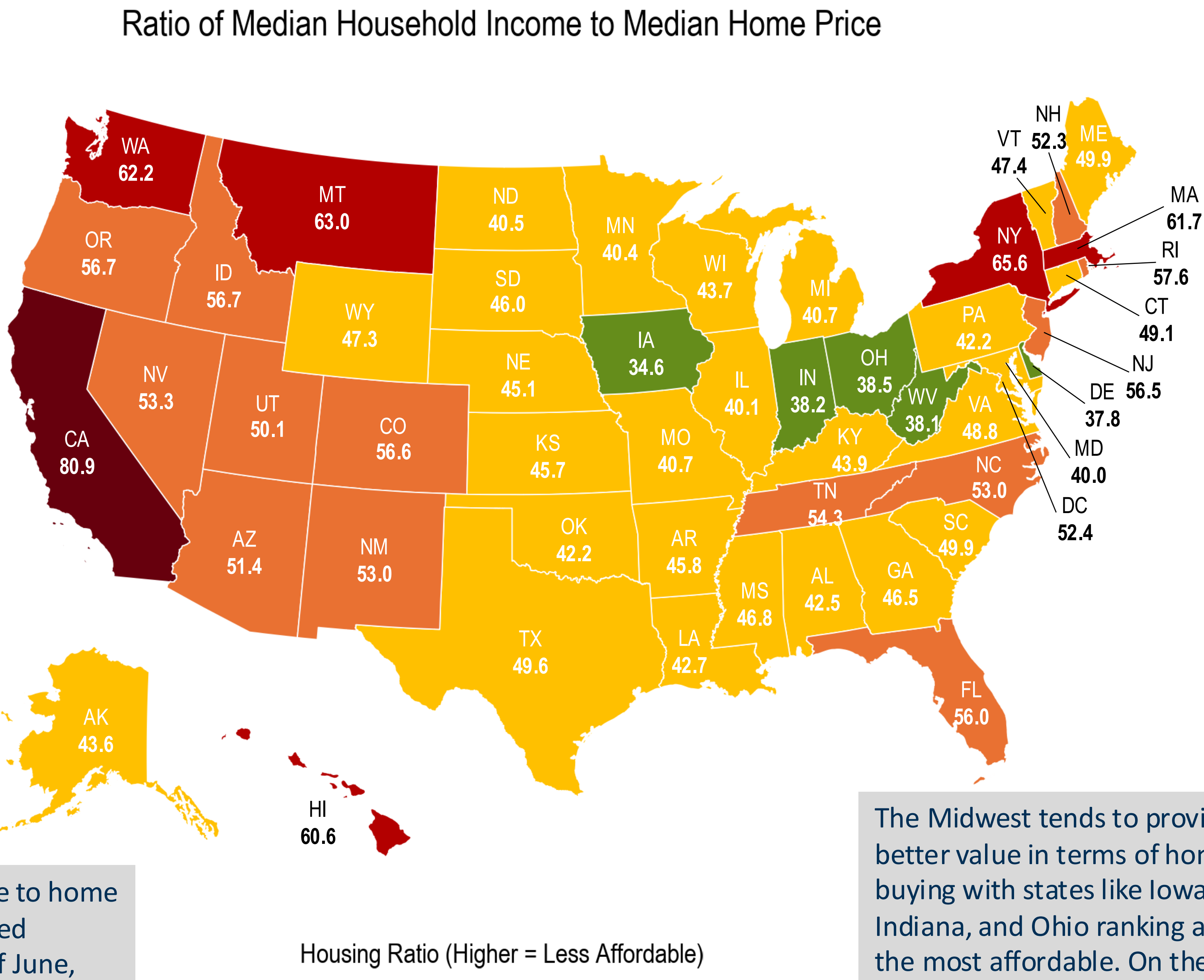
According to the Federal Reserve Bank of Atlanta's Affordability Index[1], affordability has dropped more than 38% from a reading of 108 in January 2021 to just 66 as of March 2025, the lowest level since data collection began in 2005.

[1]A reading below 100 means a family earning the median-income family is unable to afford a median-priced home given current interest rates.



Source: Federal Reserve Bank of Atlanta

Housing Affordability by State

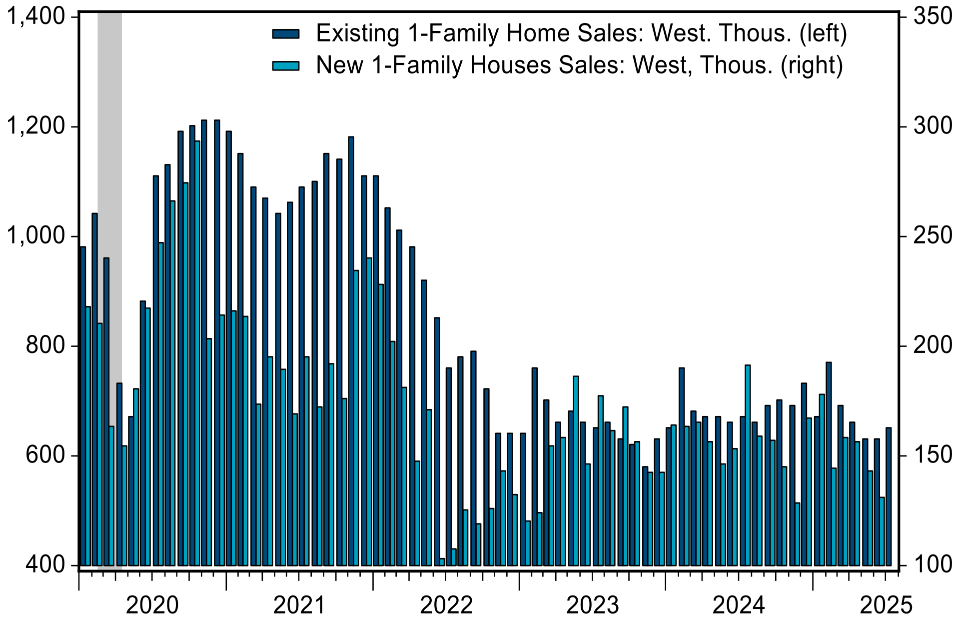


Historically, an income to home price ratio has averaged around 30%. Yet, as of June, only five states are near this level.

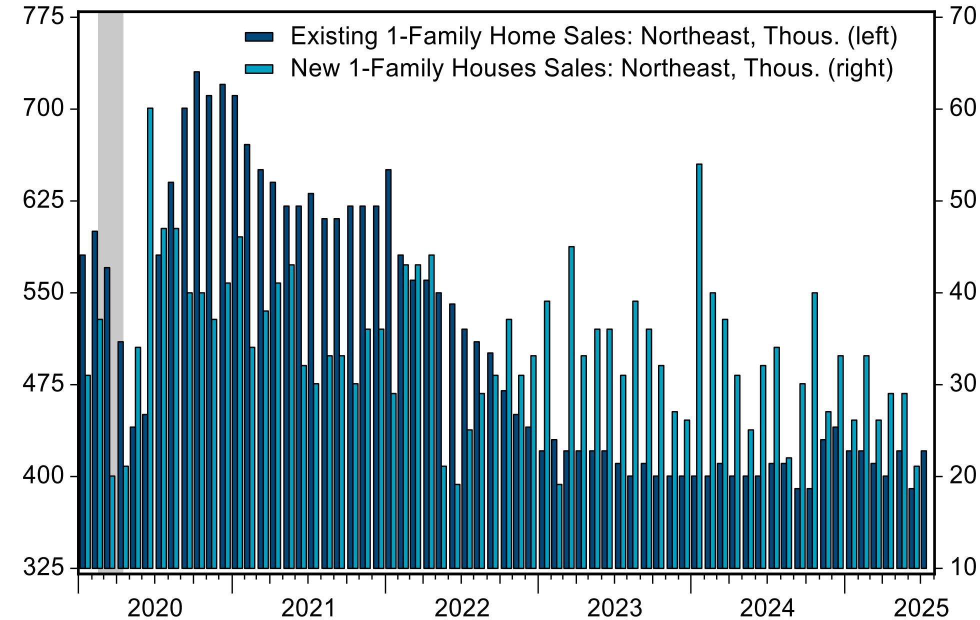
The Midwest tends to provide a better value in terms of home buying with states like Iowa, Indiana, and Ohio ranking among the most affordable. On the other hand, coastal states tend to be more expensive.

 Source: homebuyer.com/Stifel

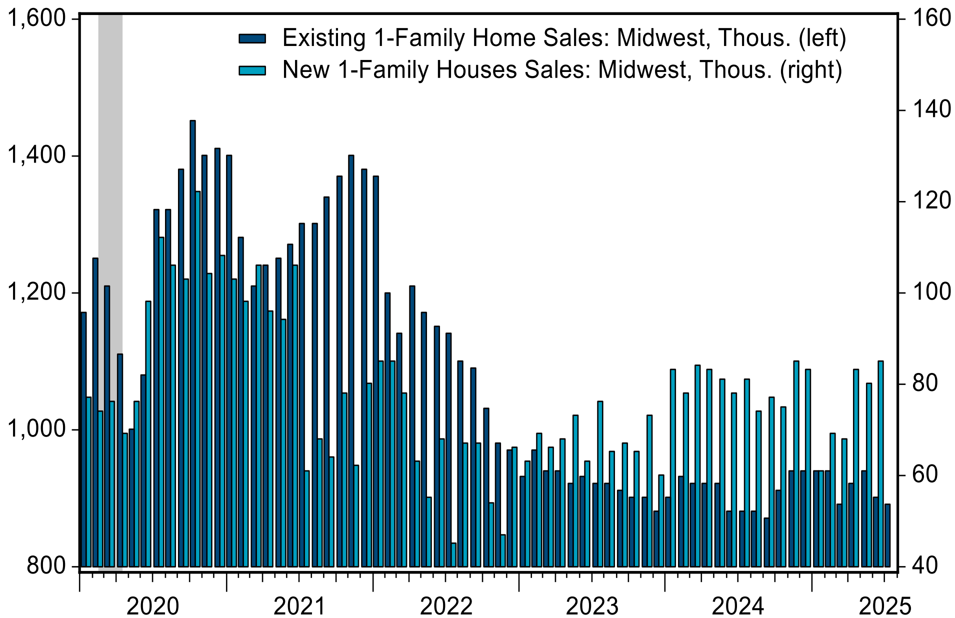
Affordability Constraints Translate into Muted Home Sales



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



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



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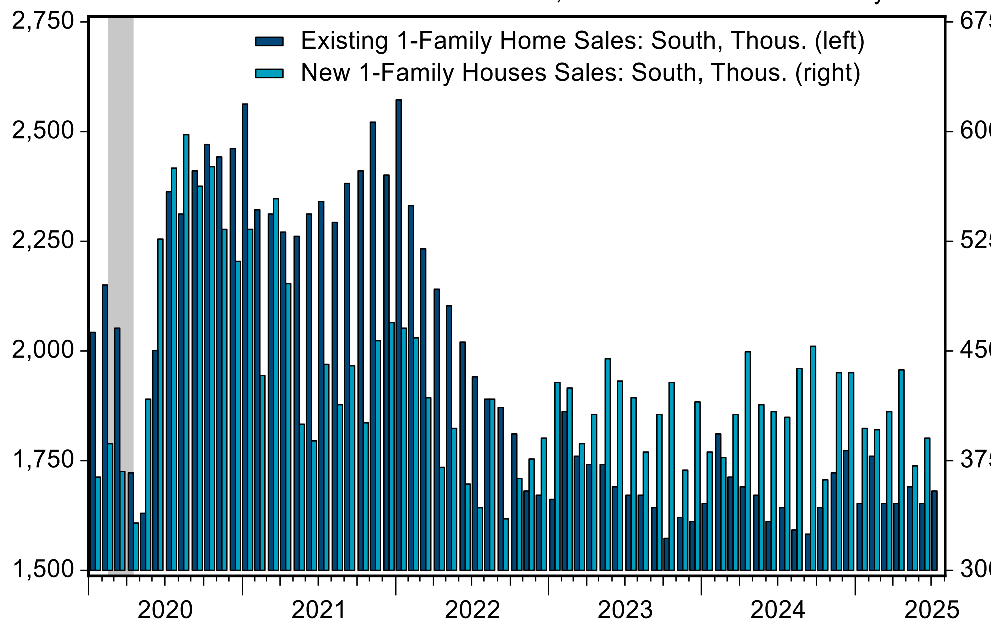

Sources: National Association of Realtors, Census Bureau/Haver Analytics

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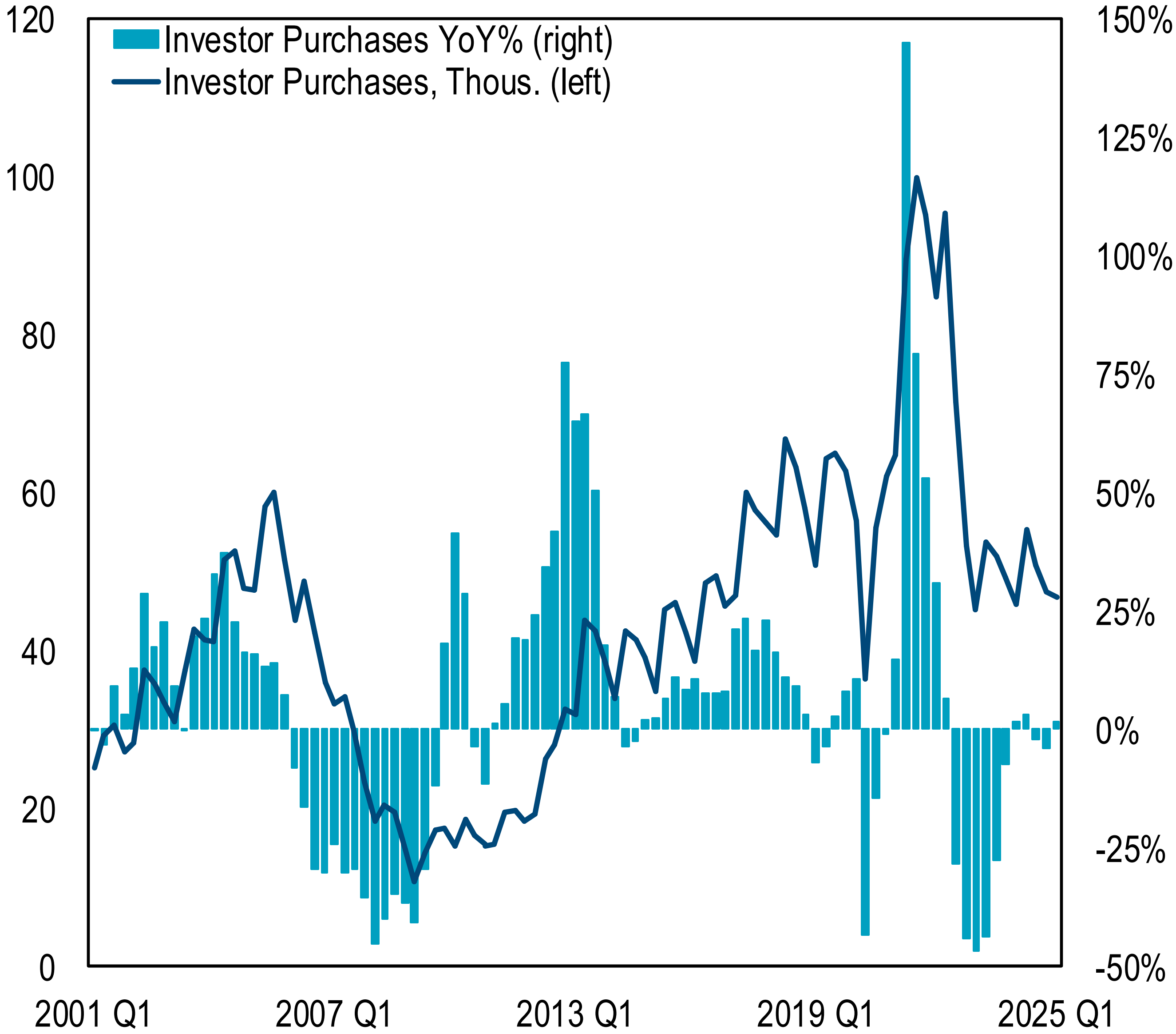
Investor Home Purchases Slow from Pandemic Pace



Source: Redfin

*Note: An investor is defined as any buyer whose name includes at least one of the following keywords: LLC, Inc, Trust, Corp, Homes.

In the second quarter of 2021, low interest rates and increased mobility pushed investor purchases of housing units up 145% to over 90,000.

Recently, investor purchases have moderated considerably as sale-price and rent growth have slowed and borrowing costs remain elevated. In the first quarter of 2025, investor purchases rose only 2% to 47,000 — well below the 2019 average of 60,000.

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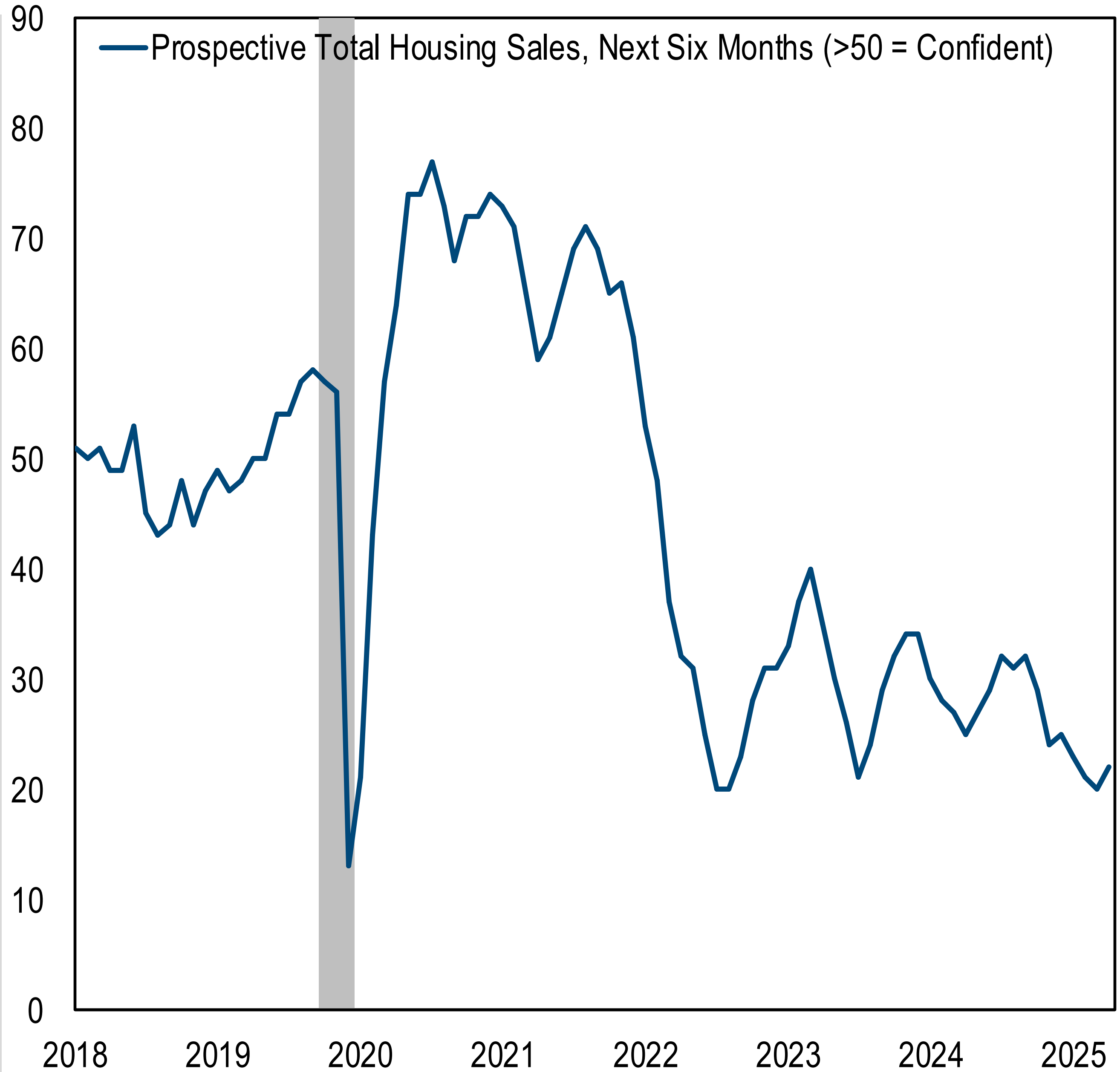
Outlook: Despite Increased Buyer Incentives, Still Sluggish Market Expected

Many contractors are offering sweeteners and sales incentives to attract buyers. According to the NAHB, 66% of builders used sales incentives in August, which include everything from mortgage-rate buydowns, free upgrades, and price reductions, the highest share since May 2020.

Meanwhile, a gauge of prospective buyer traffic in the next six months rose two points to a reading of 22 in August, the highest in three months, but still far below 50, indicating little confidence in expected sales growth and housing availability.

Additionally, the Mortgage Bankers Association expects mortgage rates to remain elevated at 6.4% by the end of 2026, offering minimal relief for prospective buyers who are holding out for lower borrowing rates.



Source: National Association of Home Builders

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