

2025 Housing Supply Gap Report



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Introduction

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Key takeaways

- In 2024, new-home construction outpaced household formations for the first time since 2016. Despite this notable progress, the housing gap persists, totaling 3.8 million.

Home completions reached the highest level in nearly two decades due to an increase in both single- and multi-family construction.

An estimated 1.6 million expected Gen Z and millennial households did not form in 2024 due to various factors, including a lack of affordable housing.

- The South has the largest housing gap by number of units (1.15 million), but the smallest gap relative to total construction in the research period. The Northeast has the largest scaled housing gap, followed by the Midwest and the West.
- At a 2024 rate of construction relative to household formations and pent-up demand, it would take 7.5 years to close the housing gap.

Regionally, if 2024 trends continue, the South would be able to close the housing supply gap in three years, while the West would take 6.5 years, the Midwest would take 41 years, and the Northeast would not make any improvement in the gap.

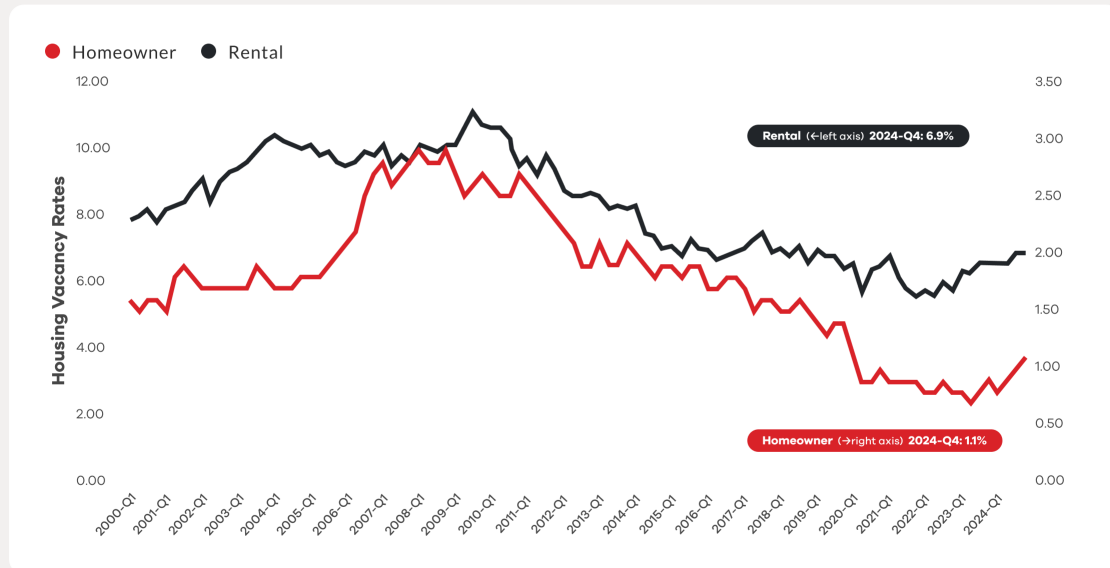
The oft-discussed housing supply gap tipped the housing market off-balance over the past 12 years. Home prices started to rise in earnest in 2012, and continued to do so through 2024, suggesting that housing demand has outpaced supply over this time.



One noticeable impact of the supply gap is lower vacancy rates. Homeowner vacancy hit a historic low of 0.7% in the second quarter of 2023. Though it has recovered somewhat, reaching 1.1% in the fourth quarter of 2024, it is still well below the historic norm. Rental vacancy has fared slightly better of late due to climbing multifamily inventory, and at 6.9%, is closer to historic norms.

The data

Housing Vacancy Rates



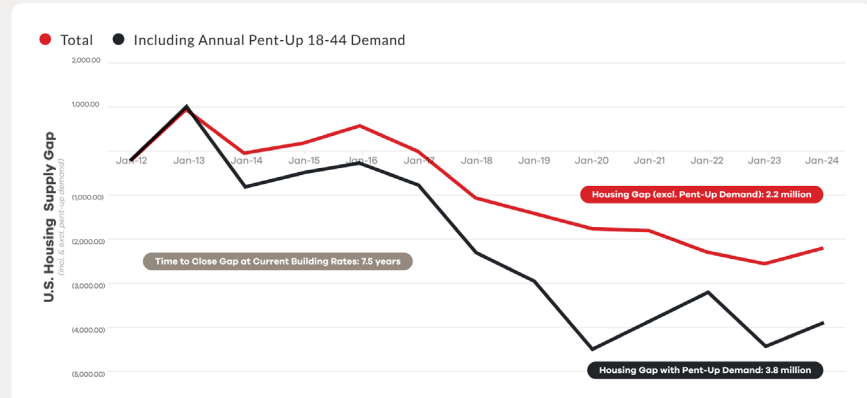
Source: U.S. Census Bureau

Zoning regulations and other housing restrictions have limited the degree to which new construction can relieve pressure on housing supply in many areas, exacerbating the issue. All told, the housing supply gap reached nearly 4 million homes in 2024.

Young households have been hit the hardest by the housing shortage as purchasing a home on a typical early- to mid-career salary has become increasingly infeasible. As a result, the headship rate, or rate at which the population forms households, has fallen for the 18–44 age range over the past decade-plus. These missing households are referred to as pent-up housing demand in this analysis.

The data

U.S. Housing Supply Gap



Source: Realtor.com Calculations

Measuring the gap

To measure the housing supply gap, we considered three things: new-home construction, household formations, and pent-up housing demand. New-home construction serves as the “supply” metric in our calculation and captures the number of new homes that were started in the U.S. in the reference period (starting in 2012). One aspect of the “demand” side of the equation is new household formations. In past estimations, we have leaned on just these two metrics—housing starts and household formations—to define the housing gap.

This year, we aimed to add some nuance to the demand side. Many households, especially young households, have not been formed due to supply and affordability issues over the past decade. Instead of living on their own, in households, these younger individuals choose to live with parents, other family, or other housemates. By comparing today’s millennial and Gen Z headship rates to those of similarly aged Americans in the early to mid-2010s, we can estimate “pent-up” housing demand and paint a more complete picture of the housing supply gap.

The data

U.S. Housing Starts By Type

Year	Yearly HH Formations (Dec-Dec)	Annual Housing Starts	HH vs Starts Deficit	Pent-up 18-44 Households	Deficit with Pent-up HHs
2012	973	781	-192	-30	-222
2013	-205	925	938	65	-1,003
2014	2,001	1,003	-60	-685	-745
2015	880	1,112	172	-653	-481
2016	771	1,174	574	-834	-260
2017	1,785	1,203	-8	-731	-739
2018	2,293	1,250	-1,051	-1,203	-2,254
2019	1,652	1,290	-1,413	-1,471	-2,884
2020	1,705	1,380	-1,738	-2,709	-4,447
2021	1,636	1,601	-1,773	-2,027	-3,800
2022	2,063	1,533	-2,284	-821	-3,105
2023	1,665	1,420	-2,529	-1,783	-4,312
2024	999	1,364	-2,164	-1,627	-3,790

All measured in thousands

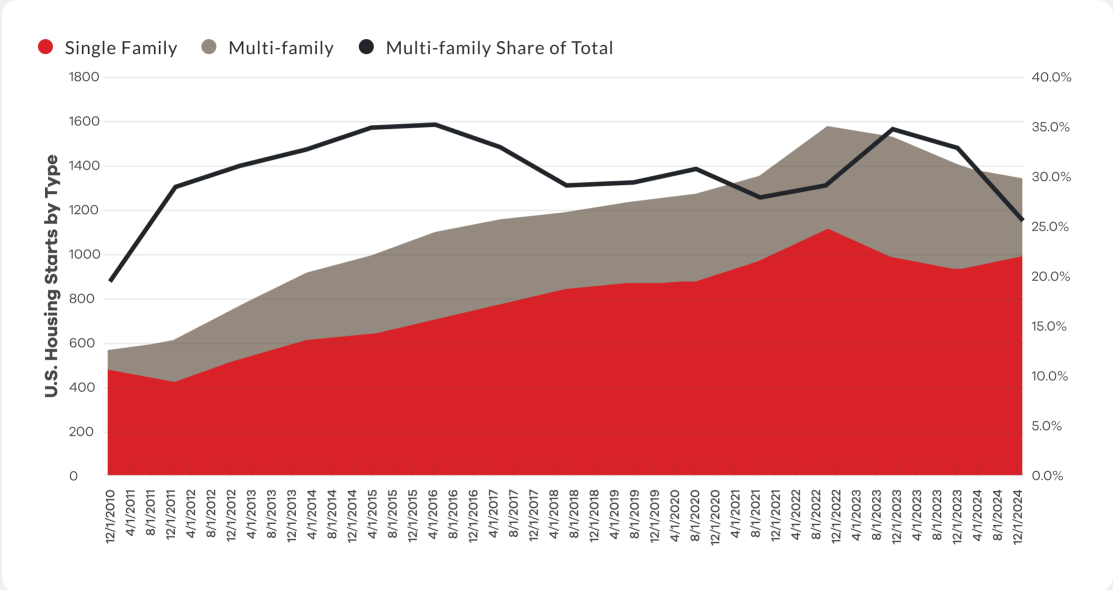
Although the supply gap improved in 2024, it is still the third-largest annual gap since 2012, behind 2020 and 2023. The improvement compared with 2023 was due to a combination of lower household formations, lower pent-up demand, and higher new-construction activity, especially in the single-family segment. The largest single-year gap in the period of the analysis was in 2020, though it was more of a blip than a trend due to the COVID-19 pandemic.

Strong new construction meets weak household formation in 2024

In 2024, just under 1 million households were formed, the lowest annual rate since 2016. In the same period, 1.36 million homes were started, outpacing household formations by almost 400,000 homes. Despite this impressive showing by new construction, the housing gap persisted due to the magnitude of the historical gap and ongoing pent-up household demand.

The data

U.S. Housing Starts By Type



Source: U.S. Census Bureau and Realtor.com Calculations

Total housing starts were at their lowest level since 2020 last year, due to a slowdown in multifamily construction. Though building activity cooled in the multifamily segment, 2024 brought the second-highest level of single-family housing starts since 2007, as builders stepped up to fill the gap created by scarce existing-home inventory. Only in 2021—when builders were catching up from early-pandemic delays and hustling to fill low rate-induced housing demand—were single-family housing starts higher since the mid-2000s boom.

Multifamily housing starts fell to their lowest level since 2017 in 2024 after a few years of strong activity. Builders pulled back on multifamily activity, largely in the high-density segment, in response to a build-up in rental supply post-pandemic. Despite strong rental inventory, rents have not fallen considerably in much of the country as the challenging state of the for-sale markets has driven more households to rentals.



New-construction outlook

Homebuilder sentiment ebbed and flowed throughout 2024, but remained below levels seen both during and before the pandemic. Sentiment peaked in the spring, reaching an index of 51, which generally signals a positive view of the market. However, sentiment dipped in the summer before leveling out in the mid-40s in the fall and winter.

As existing-home supply climbed across the country, and buyer demand remained constrained, builder sentiment settled in the not-too-hot, not-too-cold range. However, builder enthusiasm is likely to be tested by policy uncertainty that affects their costs of materials and labor. In recent months, builder concerns about these policies have dampened the Housing Market Index, particularly the component measuring views on expected sales conditions. If these concerns are sustained, this could mean a slower pace of single-family homebuilding ahead.

The data

Homebuilder Sentiment



Source: NAHB HMI

The data

New Homes As Share Of Total Inventory

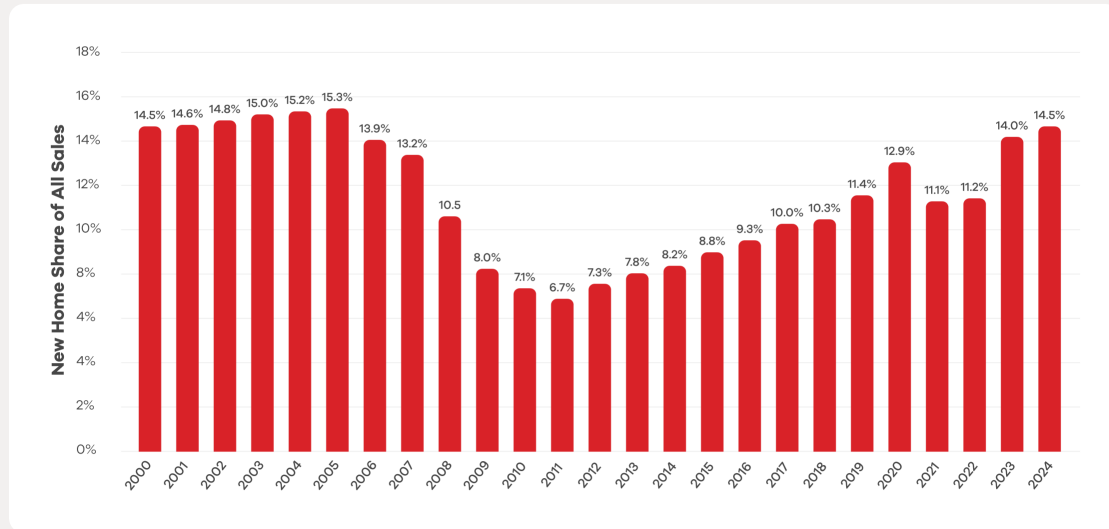


Source: Realtor.com Calculations, U.S. Census Bureau

Both multi- and single-family new construction provided much needed relief valves for the housing market as factors like the **mortgage rate lock-in effect** kept existing for-sale inventory low. Higher mortgage rates and home prices have challenged homebuyers, and sales have been slower. While existing-home sales are near 30-year lows, new-home sales have slowed to a pace seen just before the pandemic.

The data

New Home Share Of All Sales



Source: National Associations of Realtors, Census Bureau, Realtor.com Calculations

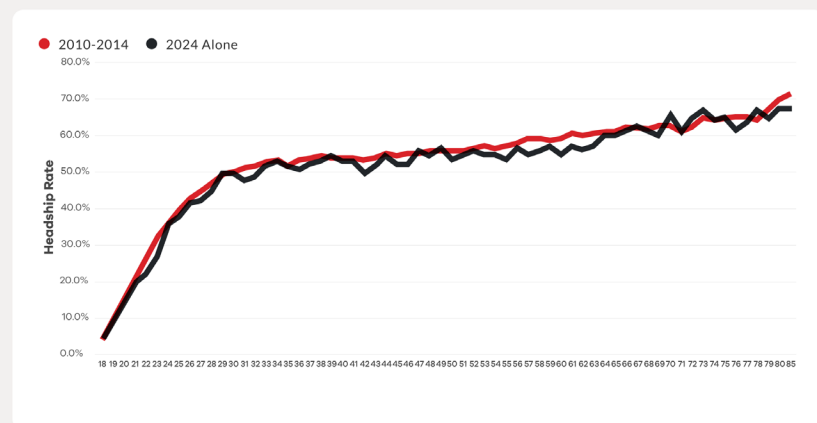
As builders have focused on **smaller, more affordable construction** and offered more incentives, such as **mortgage rate buydowns**, new construction has fared better. New construction picked up as a share of overall inventory during the pandemic and remained elevated through 2024 as existing for-sale inventory remained relatively scarce. Similarly, new homes in 2024 comprised the highest share of all homes sold since 2005.

Pent-up housing demand from young households

The housing market has been less than hospitable to young first-time buyers and renters over the past decade. With housing costs rising and available inventory falling, many would-be young households chose instead to live with parents or other family or take on roommates. We measure this pent-up demand by looking at a headship rate, which is the ratio of the number of households headed by individuals within an age group to the total population size of that age group. Headship rates increase very quickly from age 18, when headship is less than 10%, to 30, when headship reaches about 50%. We benchmarked on a 2010–14 average headship rate by age, since we are generally looking at shifts in housing supply starting in 2012.

The data

U.S. Headship Rate By Age



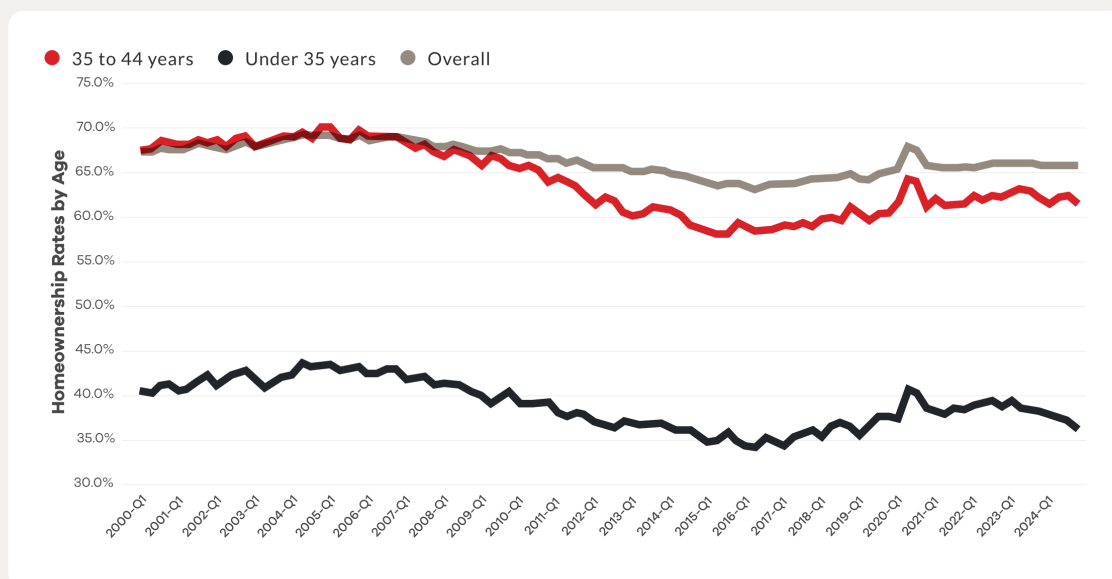
Source: Realtor.com Calculation with IPUMS CPS Microdata

Based on this target headship rate, there were roughly 1.63 million “pent-up” millennial and Gen Z households in 2024. That is to say, there were 1.63 million fewer households in the 18–44 age group than would be expected, based on 2010 to 2014 headship rates. Recent data from NAR supports this finding, as it shows that the median age of first-time buyers reached 38 in 2024, the highest age in the data’s history. Moreover, the share of 18- to 44-year-olds living with their parents was an average 2.4 percentage points higher by age in 2024 compared with the 2010–14 reference period.

Falling headship is the product of various factors, including shifting cultural norms and affordability, which are intertwined to some degree. The typical 18- to 44-year-old today would not be able to afford the median-price starter home in the U.S. The minimum recommended income to purchase a starter would be roughly \$94,000 given today’s prices and mortgage rates. This income level is roughly on par with the 35- to 44-year-old’s typical household income, but well above incomes for younger households.

The data

Homeownership Rates By Age



Source: U.S. Census Bureau

As a result, these would-be buyers or renters continue living at home, or with roommates, waiting until they can afford to form their own household. Were housing more abundant and affordable, these households may have formed, boosting the number of annual household formations.

Headship rates include both renters and buyers and captures the rate at which the population heads a household. More affordable rental inventory can help improve headship rates by enabling people to move out on their own and head a household via renting. Renting is a strong option for many households in today’s market, as it remains more affordable to rent than to buy a starter home in 48 of the 50 largest U.S. metro areas. Pent-up demand from young households was at its second-lowest level since 2019 last year, due in part to abundant, and often affordable, rental inventory. The homeownership rate for Americans aged 18 to 44 fell annually in 2024 as more households opted to rent.

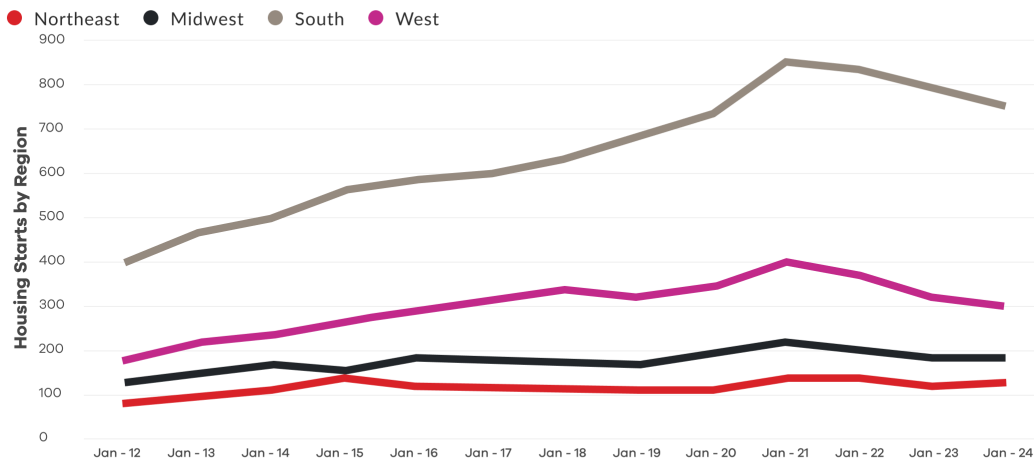
Regional differences in supply gap

Supply conditions vary greatly regionally. Supply and demand are not distributed evenly across the whole U.S., so we drilled down a bit deeper to understand the dynamics regionally.

The South led the regions in housing starts (751K) by a wide margin in 2024, followed by the West (303K), the Midwest (185K), and the Northeast (125K).

The data

Housing Starts By Region



Source: Census New Residential Construction

The household formation trend followed the same order in 2024. Much of the difference in starts and formation is due to the relative sizes of the regional markets. However, in terms of pent-up demand, the Northeast sees the second-most “missing” young households behind the West, a testament to the degree of unaffordability and under-supply in this region. Further, the size of the pent-up demand from missing young households grew larger in the Northeast in 2024 as both **rents** and **housing prices** climbed in this region.

These dynamics play out such that, relative to construction since 2012, the Northeast saw the largest housing supply gap in 2024 while the South saw the smallest. The **latest listing data from Realtor.com** shows that patterns in existing for-sale homes amplify this trend as inventory levels were still well below pre-pandemic levels in February in the Northeast, while many Southern metros boast more homes for sale than in 2017–19.



2024	Northeast	Midwest	South	West
Household Formations (Ths.)	-28	191	552	283
Housing Starts (Ths.)	125	184.4	751.2	302.8
Pent-Up Demand (Ths.)	580	195	660	268
Supply Gap (Ths.)	-1,044	-843	-1,150	-830
Annual % Improvement	1.2% larger	2.4% smaller	24.9% smaller	13.4% smaller
Years to Close Gap	Growing	41 years	3 years	6.5 years

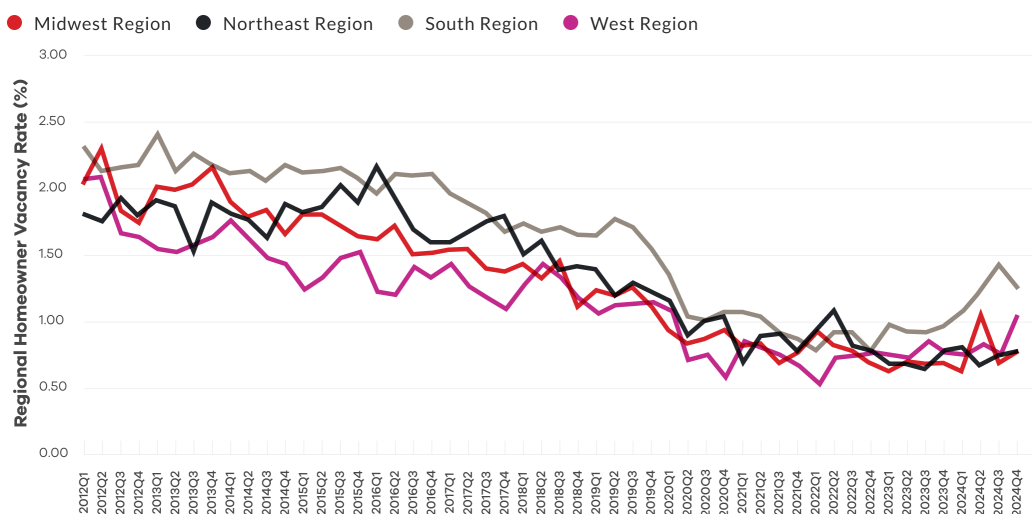
The relatively significant housing supply gap in the Northeast has led to tight housing conditions, including tough buyer competition and climbing home prices. The Midwest saw the second-largest relative gap in 2024, and was the only region to see household formations outpace housing starts in the year. The Midwest has likewise faced tight inventory conditions as buyers take advantage of the region's highly appealing affordability.

The South and the West saw the housing gap improve most significantly in 2024, shrinking by 24.9% and 13.4%, respectively. The Midwest also saw the gap shrink in 2024, narrowing 2.4% in the year. However, the Northeast saw the gap grow by 1.2%, the only region to see growth in 2024. Assuming the 2024 regional annual improvement in the supply gap were to persist, the gap would close in three years in the South, in 6.5 years in the West, and in 41 years in the Midwest. The Northeast continues to see a growing gap.

These results are reflected in vacancy rates as well, with the South leading the regions with the highest homeowner (1.3%) vacancy rate in the fourth quarter of 2024. The West has the second-highest homeowner vacancy (1.1%), followed by the Midwest (0.9%) and the Northeast (0.8%).

The data

Regional Homeowner Vacancy Rate (%)

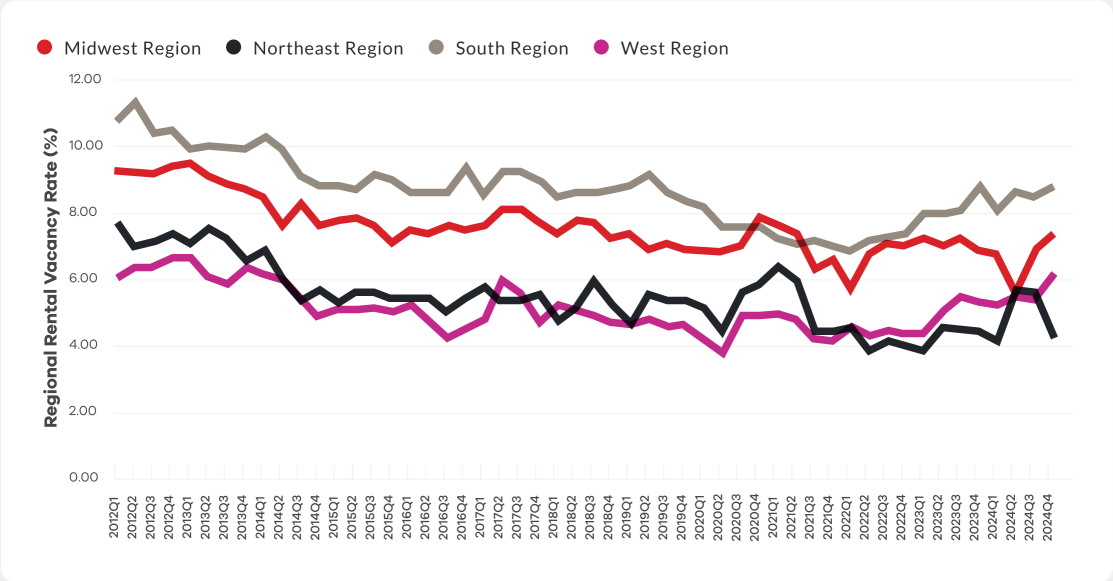


Source: U.S. Census Housing Vacancy Survey

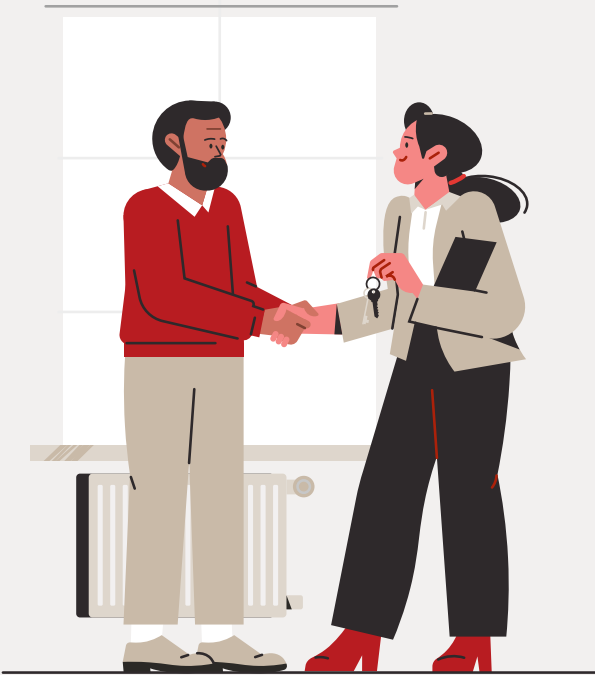
In terms of rental vacancy, the South also leads the regions (8.7%), followed by the Midwest (7.2%), the West (5.9%), and the Northeast (4.2%). As reflected across all of these measures, the Northeast is facing the most serious housing supply gap and suffering from still-climbing home prices as a result.

The data

Regional Rental Vacancy Rate (%)



Source: U.S. Census Housing Vacancy Survey



Moving forward

More than 1.6 million homes were completed in 2024, the highest level in nearly 20 years. The year's impressive level of home completions was due to both a sizable increase in multifamily completions and the highest single-family completions since 2007. The housing market made strides in terms of both new and existing inventory in 2024. However, total inventory remained below pre-pandemic levels, and the lack of affordability kept buyer demand constrained. Furthermore, multifamily starts slowed in 2024, foreshadowing a lower pace of new multifamily rental supply that will be completed in the near future.

Building new homes is a win for the housing market and especially essential for young households that have struggled to form in an era of high housing costs. More home supply means lower prices, which can bring higher home sales. However, builders face barriers such as zoning and permitting regulations, as well as rising material costs, which make building affordable homes relatively challenging. Nevertheless, affordable new-construction sales picked up in 2024, climbing from 43% of sales in 2023 to 46% in 2024, and **new-home prices fell annually in Q4 of 2024**. The recent improvement in new-construction affordability is due in part to **more smaller, affordable homes being built** and due to the flexibility builders have to offer buyers incentives.

Closing the housing supply gap would take a step change in new-construction activity. At the 2024 rate of improvement, it would take 7.5 years to close the current housing gap. Building more affordable housing, especially in areas with high demand and strong jobs growth, will be important to making homeownership accessible to Americans. **Homeownership is still part of the American dream**, and many households consider it important to growing wealth, especially for generations to come.



Data

- Household formations (<https://fred.stlouisfed.org/series/TTLHHM156N>)
- National and regional housing starts (<https://www.census.gov/construction/nrc/index.html>)
- Quarterly new-home sale prices (https://www.census.gov/construction/nrs/pdf/quarterly_sales.pdf)
- Homebuilder sentiment (HMI) (<https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index>)
- Homeowner vacancy rate (<https://www.census.gov/housing/hvs/index.html>)
- Housing starts vs. completions (<https://fred.stlouisfed.org/graph/?g=LCNQ>)
- Home completion time (https://www.census.gov/construction/nrc/pdf/avg_starttocomp.pdf)
- Headship data from IPUMS CPS Microdata: Sarah Flood, Miriam King, Rensae Rodgers, Steven Ruggles, J. Robert Warren, Daniel Backman, Annie Chen, Grace Cooper, Stephanie Richards, Megan Schouweiler, and Michael Westberry. IPUMS CPS: Version 12.0 [dataset]. Minneapolis, MN: IPUMS, 2024. <https://doi.org/10.18128/D030.V12.0>

Methodology

To arrive at yearly household formation, the increase in households between December in the previous year and the current year was calculated. This value was used as the number of household formations in the current year. Home starts, completions, and permits refer to the total homes metric in the census construction data, unless specifically referenced as single-family or multifamily, which includes both moderate- (2-4 units) and high-density (5-plus units) multifamily. HMI and vacancy data were pulled and displayed as stated in the data source.

To understand how long it would take to close the gap between household formations and housing starts, the assumption was made that each projected year would see the yearly average household formations and housing starts as the latest year (2024).

To calculate pent-up demand, the headship rate was calculated by single-year age using IPUMS CPS data. The “target” headship by age was set as the 2010 to 2014 average, and the resulting gap was calculated comparing target headship with actual households.



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