Markets with the Most Pent-up Housing Demand

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

End-of-year recap
2023: The "bottom-out" year

This year has left many people feeling disappointed. After a year marked by a market slowdown, anticipation was high that 2023 would usher in a turning point for both the economy and the housing market. Nevertheless, despite a cooling inflationary environment, the economy faced additional challenges as the Federal Reserve implemented multiple interest-rate hikes throughout 2023. These rate increases - amounting to a cumulative one percentage point – exerted further pressure on every kind of borrowing.

Consequently, mortgage rates surpassed the 7.5 percent threshold for the first time after 23 years, pushing down housing affordability to record lows. While consumer prices continue to increase fast, Americans must spend more than 30% of their income to purchase a home. Buyers must earn over $110,000 if they don't want to exceed their budget. In the meantime, the challenges for potential first-time buyers extend beyond mortgage rates as rents continue to rise. This exacerbates difficulties in saving for a down payment, particularly considering that one in two renters already faces cost burdens.

With many buyers forced out of the market, the housing market continued its second consecutive year of slowdown in 2023. Existing-home sales dipped below the 4-million-unit mark, reaching levels last seen in 2010. However, despite a reduced number of buyers, home prices kept increasing. The reason is obvious: there simply weren't enough homes available for sale. Although housing inventory rose to above the 1.1 million homes available for sale in 2023, data shows that these additional homes weren't enough to accommodate housing demand, albeit lower than the previous year.

But this isn't a new issue. The current housing shortfall has been accumulating over decades. After the mid-2000s housing boom, the U.S. has consistently underbuilt compared to the historical average. Furthermore, with mortgage rates hovering around 7 percent for most of the year, fewer homeowners opted to list their homes in 2023. This rate is nearly 1.7 percentage points higher than the average rate in 2022. Consequently, this long-standing underbuilding issue and the rate lock-in effect continued to keep housing inventory low throughout the year.

3.79 million
from 4.4 million (2022)
Existing-Home Sales
(as of October 2023)

$391,800
from $378,800 (October 2022)
Median Existing-Home Price
(as of October 2023)

1.2 million
from 1.2 million (October 2022)
Housing Inventory
(as of October 2023)

$108,430
from $98,060 (October 2022)
Qualifying Income
(as of October 2023)

$99,110
from $97,050 (October 2022)
Median Family Income
(as of October 2023)

91.4
from 99.0 (October 2022)
Housing Affordability Index (HAI)
(as of October 2023)

Outlook
2024: A better year for homebuyers

Following two years of subdued activity, the housing market is expected to grow in 2024. Several signs point to an imminent market recovery.

Firstly, the Federal Reserve has halted its interest rate hikes. Although interest rates continue to be substantially higher than pre-pandemic, the Federal Reserve hasn't raised its rates since last August. In the meantime, history shows that inflation and interest rates tend to move in the same direction but with lags. Central banks usually lower interest rates when inflation falls to stimulate the economy. But, while inflation has been moving down since August 2022, interest rates have yet to follow the same downward trajectory. Thus, if inflation continues its downward trend, rates may start moving down as soon as in the first quarter of 2024.

But lower interest rates translate to lower mortgage rates. Mortgage rates have potentially peaked in 2023. After reaching 7.8 percent in the last week of October, rates are finally moving down. Even though mortgage rates continue to be notably higher than the previous years, every 0.2 percent decrease in mortgage rates enables approximately 950,000 households to re-enter the home-buying market. Thus, the decline in mortgage rates is expected to draw more buyers, including those returning to the market, consequently bolstering demand for housing. Data shows that with rates near 6.6 percent, the average American family can afford to purchase the median-priced home without allocating more than 30 percent of its income. Are rates going to move down that low in 2024? Yes, the National Association of REALTORS® expects rates to approach that level sometime in the second half of 2024. If this happens, it is estimated that nearly 4.5 million households will once again be able to afford the median-priced home.

These lower mortgage rates will also ease the rate lock-in effect by enticing more existing homeowners to re-enter the market and list their homes. These pent-up sellers are expected to increase inventory next year. In addition, single-family construction is poised to grow after experiencing a few years of decline. Nevertheless, even with this increase, the housing supply will continue to remain tight in 2024, further fueling home price appreciation.

2024 NAR Forecast

4.71 million
Existing-Home Sales
in 2024

$389,500
Median Existing-Home Price
in 2024

6.3%
30-Year Fixed Mortgage Rate
in 2024

1.48 million
Housing Starts
in 2024

1.04 million
Single-Family Housing Starts
in 2024

440,000
Multifamily Housing Starts
in 2024

Markets with the Most Pent-Up Housing Demand

Since all real estate is local, the National Association of REALTORS® identified which markets will experience stronger activity in the new year. In identifying these markets, NAR considered a variety of indicators that it views to be influential to a metro area's market, including:

1. More "returning" buyers than at the national level.
Lower mortgage rates will improve housing affordability, enticing a greater number of buyers back into the market in 2024. The influx of these "returning" buyers is expected to stimulate activity in the housing market. NAR calculated and compared the number of households able to afford the median-priced home at 7.5% versus a 6.5% mortgage rate across the 100 largest metro areas. Then, the share of "returning" buyers" was computed by comparing these "returning" buyers with the total number of households in each metro area. A share of "returning" buyers exceeding the national level indicates stronger market activity. *Hence, areas with a share of "returning" buyers higher than the national level are expected to outperform.*

2. Home price appreciation lower than the national level
NAR computed the home price growth for the 100 largest metro areas to identify those most affected by slower activity in 2023. While these areas appear to be more susceptible to market changes, they will likely also undergo significant price appreciation due to the pent-up demand in 2024.

3. More renters who can afford to buy the median-priced home than the national level
Homeownership rate trends depend on the ability of renters to become homeowners. Among all renters, NAR computed how many of them can afford to buy the typical home, assuming a 10% down payment. *Areas with a higher share of renters who can afford to buy the median-priced home compared to nationwide indicate higher home-buying activity in those areas.*

4. More potential sellers than the national level
In anticipation of lower mortgage rates, many existing homeowners didn't list their homes in 2023, reluctant to give up their 3 percent rate. But, with lower mortgage rates, these pent-up sellers are expected to boost activity in the market in 2024.
NAR computed the number of homeowners staying in their homes for a duration equal to or exceeding the average tenure within each metro area, aiming to identify potential sellers.

National indicators

4.0
Proportion of households who can once again afford to buy a home if rates fall to 6.5%

4.8%
Home price appreciation (Q3 2023-Q3 2022)

21.2%
Proportion of renters with financial capacity to purchase a home

40.9%
Proportion of homeowners staying in their home for a duration equal to or exceeding the average tenure (potential sellers)

Markets with the Most Pent-Up Housing Demand

Thus, areas with most homeowners who have surpassed the average tenure are more likely to experience stronger activity with slowing mortgage rates in 2024.

5. A larger decrease in remote workers than at the national level
The surge of remote work has increased the demand for housing and altered preferences for housing locations. Respectively, as an increasing number of companies shift away from telework, a drop in remote work is also expected to increase demand as people need to be back to their offices. *Areas with a larger drop of remote workers than the national level may experience stronger housing demand.*

6. More affordable listings for first-time buyers than at the national level.
After computing the maximum price of housing that first-time buyers can afford, NAR identified the areas with the most affordable listings. *Areas with more affordable listings for first-time buyers than the national level are expected to outperform*

7. Stronger job growth than the national level
A robust job market typically bolsters housing demand as household incomes continue to grow. *Thus, areas with stronger job growth than the national level typically experience higher homebuying activity than other areas.*

8. Faster income growth than the national level
Rising incomes enable people to afford to purchase a home, increasing housing demand. *Thus, housing demand is expected to be stronger in areas where people's income rises faster than the national level.*

9. Most high-earner millennial renters moving into the area
While first-time buyers make up one in three sales, the arrival of high-earner renters from other states is poised to boost housing activity in the area.

10. Lower violent crime rate than the national level
Research has shown that people purchase homes in areas that provide a secure and stable environment for their families.
Thus, areas with a low violent crime rate are considered more attractive to buyers.

National indicators

-11.6%
Percentage change of remote workers (2022-2021)

24.5%
Share of affordable listings for first-time buyers (October 2023)

2.0%
Job growth (September 2023)

3.5%
Wage growth (September 2023)

2.6%
Proportion of renter movers with an income higher than $100K moving from a different state

369.8
Violent crime rate (2022)

Markets with the Most Pent-Up Housing Demand

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1. Austin-Round Rock-Georgetown, TX
2. Dallas-Fort Worth-Arlington, TX
3. Dayton-Kettering, OH
4. Durham-Chapel Hill, NC
5. Harrisburg-Carlisle, PA
6. Houston-The Woodlands-Sugar Land, TX
7. Nashville-Davidson--Murfreesboro--Franklin, TN
8. Philadelphia-Camden-Wilmington, PA-NJ-DE-MD
9. Portland-South Portland, ME
10. Washington-Arlington-Alexandria, DC-VA-MD-WV

Markets with the Most Pent-Up Housing Demand

Selection criteria of the top 10 markets: Among the 100 largest metro areas, all the following top 10 markets have a larger pool of "returning" buyers than the national level, indicating a strong pent-up demand for next year. In addition, these markets outperform based on at least half of the aforementioned indicators.

Alphabetically, the top 10 markets are:

1. Austin-Round Rock-Georgetown, TX

This region boasts one of the largest pools of "returning" buyers. If interest rates drop to 6.5% in 2024, 5.1% of all households will once again have the means to afford the median-priced home. Despite ongoing housing cost challenges, a notable trend is emerging as many Millennials earning over $100,000 are relocating from other states to this market. While prices seem to be very sensitive to market changes, the influx of these high-earner Millennial renters, coupled with the presence of "returning" buyers, is anticipated to fuel growth in the local housing market. According to the Austin Board of REALTORS®, home sales activity has already shown a positive turnaround.

2. Dallas-Fort Worth-Arlington, TX

Among the 100 largest metro areas, Dallas had the second fastest-growing job market. The local economy was able to create more than 4% additional jobs compared to the previous year. With 22% of renters able to afford to buy the median-priced home, housing activity will increase in this area as mortgage rates will fall in 2024.

3. Dayton-Kettering, OH

Dayton is not only affordable but also offers many affordable options to first-time buyers. These buyers can afford to purchase more than half of the listings in this market. Furthermore, a strong job market in this area will allow more renters to make the transition to homeownership next year.

4. Durham-Chapel Hill, NC

The Research Triangle could not be left off the list. The Durham metro area leads with the highest share of "retuning" buyers, accounting for 6% of the households that can afford again to buy a home. This area is lacking affordable listings for first-time buyers, but wage growth has been tremendous with average earnings rising by 13 percentage points from last year.

5. Harrisburg-Carlisle, PA

While this area is already affordable for more than 30% of the renters, it's also attracting high-earner renters from other states. In the meantime, with the anticipated decline in mortgage rates next year, both inventory and buying activity are expected to grow further in this area as existing homeowners sell their homes. Notably, 42% of homeowners have already surpassed the average tenure of 15 years for this area.

6. Houston-The Woodlands-Sugar Land, TX

Yet the third area of the Texas Triangle had made it to the list. Affordability and strong job and wage growth in Houston will boost activity in this market in 2024. While housing affordability for renters in Houston surpasses that of most markets across the country, the noteworthy aspect is the fourfold increase in wages, outpacing the national level.

7. Nashville-Davidson-Murfreesboro-Franklin, TN

The anticipated resurgence of "returning" buyers will also drive market growth in Nashville next year. In the meantime, a strong job market attracts many Millennial renters earning more than $100K. Nevertheless, this area faces a severe housing shortage of listings at the price range that first-time buyers can afford to purchase.

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8. Philadelphia-Camden-Wilmington, PA-NJ-DE-MD

This market is set to experience a boost, driven by pent-up demand from buyers and sellers, as the rate lock-in effect begins to ease next year. Forty-four percent of homeowners have surpassed the 17-year mark, representing the average tenure in this area. As for first-time buyers, their affordable purchase options are twice as plentiful compared to most of the areas across the country.

9. Portland-South Portland, ME

Following San Jose, Portland attracted the most Millennial renters who earn more than $100K. This area had the lowest violent crime rate among the 100 largest metro areas. However, fewer than 10% of the listings are within reach for first-time buyers. But, given that about 42% of the homeowners have exceeded the average tenure, there's potential for an increase in inventory from these rate lock-in sellers as they list their homes in the market.

10. Washington-Arlington-Alexandria, DC-VA-MD-WV

While this area is recognized as having a high teleworking population, the proportion of remote workers witnessed a significant decline, plummeting by 21 percentage points in 2022. This decline in remote work is expected to drive increased demand in the market as people return to their offices. One in five listings falls within the budget range for first-time buyers.

Markets with the Most Pent-Up Housing Demand

	Austin-Round Rock-Georgetown, TX	Dallas-Fort Worth-Arlington, TX	Dayton-Kettering, OH	Durham-Chapel Hill, NC	Harrisburg-Carlisle, PA	Houston-The Woodlands-Sugar Land, TX	Nashville-Davidson--Murfreesboro--Franklin, TN	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	Portland-South Portland, ME	Washington-Arlington-Alexandria, DC-VA-MD-WV	United States
Share of “returning” buyers if mortgage rates drop to 6.5%	5.1%	4.9%	4.7%	5.6%	5.3%	4.3%	4.6%	4.7%	4.9%	4.8%	**4.0%**
Home price growth (Q3 2023-Q3 2022)	-7.7%	1.9%	9.1%	2.6%	8.5%	3.7%	0.7%	4.6%	12.3%	3.4%	**4.8%**
Share of renters who can afford to buy the median-priced home	18.9%	21.5%	30.6%	18.8%	32.1%	23.8%	13.8%	21.5%	20.2%	15.8%	**21.2%**
Share of homeowners staying in their home for more than the average tenure	35.7%	39.2%	40.5%	39.7%	42.2%	38.2%	37.3%	43.8%	41.9%	40.7%	**40.9%**
Change of the share of workers teleworking (2021-2022)	-7.6%	-5.7%	-9.8%	-19.0	-10.0%	-10.0%	-1.4%	-18.0%	-12.2%	-20.6%	**-11.6%**
Share of affordable listings that first-time buyers can afford to buy	14.0%	14.0%	52.0%	7.0%	42.0%	18.0%	5.0%	41.0%	9.0%	20.0%	**24.5%**
Job growth (Sep 2023)	3.3%	4.3%	2.5%	3.8%	3.5%	2.9%	3.2%	2.9%	2.0%	2,4%	**2.0%**
Wage growth (Sep 2023)	0.8%	2.5%	4.2%	12.6%	5.4%	13.0%	5.1%	1.9%	-0.5%	1.7%	**3.5%**
Share of high-earner millennial renters moving from different state	5.9%	2.3%	0.5%	1.4%	6.2%	1.6%	4.2%	4.0%	9.6%	6.4%	**2.6%**
Violent crime rate (2022)	349.6	349.2	351.7	444.8	222.0	585.2	556.4	418.9	100.4	204.7	**369.8**

Sources: NAR, U.S Census Bureau, U.S. Bureau of Labor Statistics, realtor.com®, FBI

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How these areas perform compared to the national level

Note:
X indicates that this area performs better than the national level

	Austin-Round Rock-Georgetown, TX	Dallas-Fort Worth-Arlington, TX	Dayton-Kettering, OH	Durham-Chapel Hill, NC	Harrisburg-Carlisle, PA	Houston-The Woodlands-Sugar Land, TX	Nashville-Davidson--Murfreesboro--Franklin, TN	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	Portland-South Portland, ME	Washington-Arlington-Alexandria, DC-VA-MD-WV
Share of "returning" buyers if mortgage rates drop to 6.5%	X	X	X	X	X	X	X	X	X	X
Home price growth (Q3 2023-Q3 2022)	X	X		X		X	X	X		X
Share of renters who can afford to buy the median-priced home		X	X		X	X		X		
Share of homeowners staying in their home for than the average tenure					X			X	X	
Change of the share of workers teleworking (2021-2022)				X				X	X	X
Share of affordable listings that first-time buyers can afford to buy			X		X			X		
Job growth (Sep 2023)	X	X	X	X	X	X	X	X		X
Wage growth (Sep 2023)			X	X	X	X	X			
Share of high-earner millennial renters moving from different state	X				X		X	X	X	X
Violent crime rate (2022)	X	X	X		X				X	X

Sources: NAR, U.S Census Bureau, U.S. Bureau of Labor Statistics, realtor.com®, FBI

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