

The New Economics of Housing

Housing recovery without rates to the rescue

Key takeaways from Mark Fleming, SVP and Chief Economist, First American Financial Corporation

The big idea: this isn't a crash. It's a new normal we haven't seen in almost a quarter of a century. For about 20 years, falling mortgage rates fueled home sales. That tailwind is gone, so today's market runs on what has always been underneath it: life events and pent-up demand.

7.5% to 8%

Mark's mortgage rate outlook for the next 6 to 12 months, regardless of the Fed

~4 million

Existing home sales in each of 2023, 2024 and 2025. Likely the life-event "floor"

764,000

Housing units the U.S. is still undersupplied (Q2 2026)

60%+

First-time buyer share of agency (Fannie and Freddie) purchase loans

\$13 trillion

Homeowner equity, and the reason Mark says this is not a bubble

5 to 7 years

Mark's estimate for how long it takes to regain lost affordability

Rates and the Fed

- **Hikes, not cuts.** Fed funds is 3.75% to 4.00%. As of October 19, markets priced 75% odds of a hike by December, and most expect about a full point of hikes in total by late summer 2027. In April, markets expected cuts.
- **Sticky inflation.** Headline CPI was 3.74% in September, driven by service-sector wages plus tariffs and an Iran-related food and energy spike. The overall price level is up about a third in four years.
- **"Low hire, low fire" jobs market.** Stable, but if the Fed squeezes too hard, layoffs rise. Real wages have fallen six months in a row, and the top use of Buy Now, Pay Later is now groceries.
- **Mortgage rates near 7.5%.** The Fed's 2025 cuts didn't bring them down. Investor worries about U.S. debt and heavy AI-company bond issuance keep upward pressure on rates. Mark's reminder: 6% to 7% is historically normal. Sub-3% was the anomaly.

Housing Demand

- **First-time buyers aren't disappearing.** Four independent sources put the median first-time buyer at about 32 (NAR's 40 is the outlier), and first-timers are over 60% of agency purchase loans, partly because repeat buyers are locked in.

- **"Shadow homeowners."** Hundreds of thousands of owner-ready young adults ages 25 to 34 are living with parents, held back by affordability and down payments.
- **Later, not never.** Each generation buys later, largely because women are pursuing more education first, and single women are the fastest-growing first-time buyer segment. Millennials have now caught up to Gen X.
- **The "Silver Housing Handoff."** About 60 million Gen X and Boomer households age out while about 80 million younger households form over the next 30 years. Slow, steady turnover, not a tsunami.

Supply and Lock-In

- **About 2 million missing sales a year.** At a normal turnover rate (about 4.5% of homes), we'd see about 5.5 million existing sales. We're near 4 million. New single-family starts run 600,000 to 700,000 below normal.
- **Still undersupplied** by 764,000 units (Q2 2026), down from close to 2 million at the worst point.
- **Lock-in is easing.** More outstanding mortgages are now at 6% or higher (about 22%) than under 3% (about 19%).
- **Life events are the floor.** Marriage, babies, divorce, job changes and aging don't wait on rates. Add "lock-in fatigue": sooner or later people move for life, not rate math.

New Construction

- **New is often cheaper than resale.** August national medians: \$393,700 new vs. \$429,100 existing. Builders are building smaller homes on smaller lots, especially in the Sun Belt.
- **Buydown caution.** Buying a 7% rate down to 5.5% is worth about \$50,000 on a \$400,000 home. It keeps the price inflated, so a buyer may later resell into a market that values the home closer to \$350,000 to \$365,000. Mark's advice: buy at the true comp price when possible.
- **Building lowers prices.** High-permit markets have flat or falling prices, while low-building markets like Hartford and Milwaukee are still up 5% to 6%.

Affordability

- **2021 is the wrong benchmark.** Thanks to 3% mortgages, it was "crazy, overly affordable," which fueled bidding wars. First American's Real House Price Index adjusts prices for income and rates.
- **Slowly improving.** Prices have flattened and incomes keep growing. Restoring affordability takes a 20% to 30% price drop, a dramatic rate drop, a 20% income jump, or time. Mark's bet: time, about 5 to 7 years.
- **What 7.5% does:** a typical household can afford about \$358,000, roughly \$36,000 short of the median new home and \$71,000 short of the median existing home.

Phoenix Spotlight

- **Younger than its reputation.** Despite the retirement stereotype, Phoenix is attracting young households, helped by its relative affordability.
- **Affordability is improving faster here** than nationally because prices dipped modestly. Real house prices are down about 4% year over year. Mark expects a small ripple from the recent rate jump.
- **Builders serve every price point.** New construction is about 20% of all sales (about 25% in the low-medium tier), above national levels, with roughly 19 single-family permits per 1,000 households.
- **Low turnover.** New listings are roughly 17% and closed sales roughly 35% below 2018 to 2019 levels.
- **Renters:** about 22% of homes for sale are affordable to the median renter (national: about 33%). Rents are down about 4.5% year over year, but more apartments are being absorbed than delivered.

What It Means for Your Clients

- **Rates aren't coming to the rescue.** Clients waiting for a big rate drop may be waiting a long time. Mark sees 7.5% to 8% near term, and 6% to 7% as normal.
- **Follow the life events.** Marriage, babies, divorce, job changes and downsizing keep homes changing hands in any rate environment.
- **Shop new construction with eyes open.** New can cost less than resale. Compare a price reduction against a rate buydown before you write.
- **No bubble.** With \$13 trillion in equity, a wave of forced sales isn't in the cards for most markets.

Quick Hits from the Q&A

- **Elections** historically have no meaningful impact on home sales.
- **AI** lowers the cost of matching buyers and homes, and should lift productivity and jobs over time.
- **Risk pockets** are markets with lots of low-down-payment VA loans, like Tampa Bay and Florida's Gulf Coast.
- **Savers win** for now: money markets and 10-year Treasuries pay around 5% at very low risk.

In Mark's Words

"A 6 to 7% mortgage rate is absolutely normal... What was abnormal was the pandemic period."

ON RATES

"Life events keep happening, and they don't rely on rates."

ON THE MARKET FLOOR

"It's not a sexy labor market, but it is a stable labor market."

ON JOBS

Source: Mark Fleming, SVP and Chief Economist, First American Financial Corporation, "The New Economics of Housing," presented for Navi Title in Phoenix, October 21, 2026. Data cited in the presentation includes BLS, BEA, CME FedWatch, Freddie Mac, Census Bureau, NAR, National Mortgage Database, AEI Housing Center, CoStar, Zillow and First American Data & Analytics. Phoenix figures marked "roughly" are read from the charts. More from Mark: the REconomy Podcast and FirstAm.com/Economics.