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# A Constructive Outlook

**The worst may be over for residential investment.**

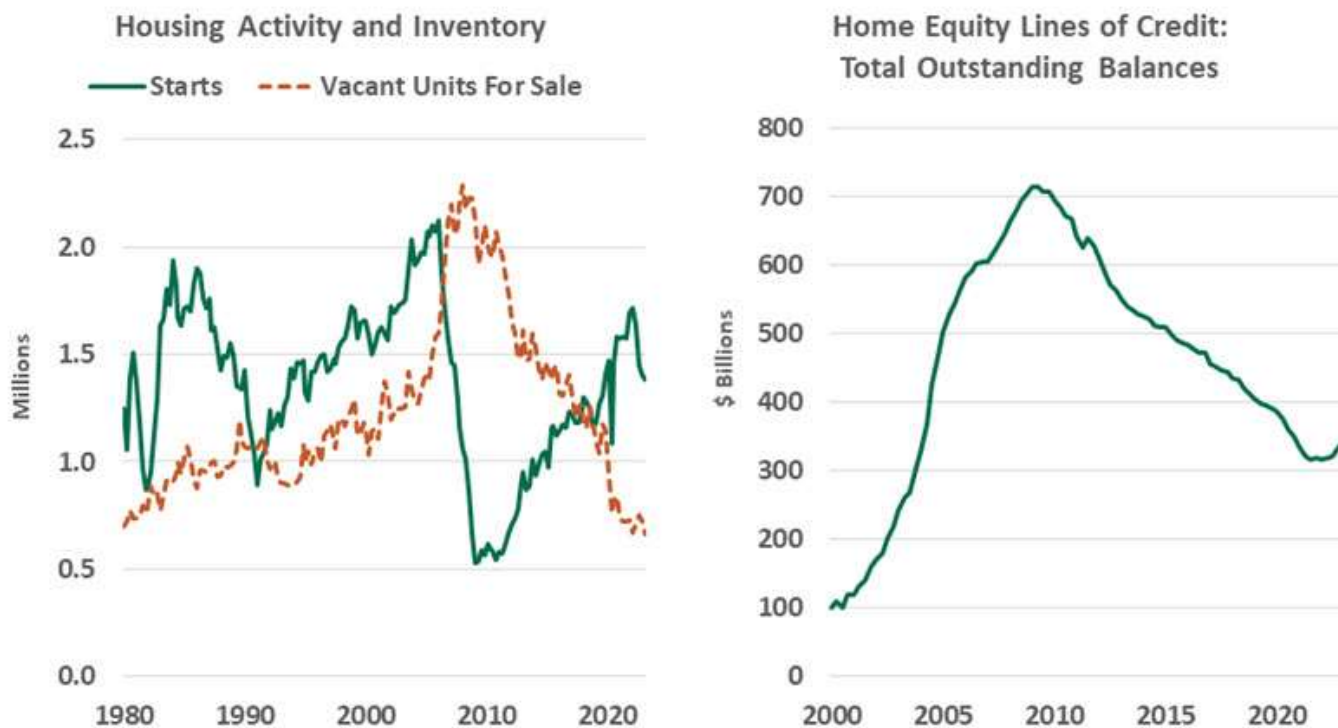


The global financial crisis cast a lingering shadow over residential investment. Since 2020, the rapid runup and subsequent flattening of house prices raised worries of another cycle of housing stress. But those concerns may be overdone. More construction is needed.

The pandemic surge in home demand demonstrated that the U.S. has an undersupply of housing. Today, the inventory of homes for sale is depleted, standing at a level last seen in 1980, despite a population that has grown 47% over the same interval. Construction has room to grow without repeating the excesses of the housing bubble. Through the pre-COVID cycle, housing starts barely returned to the levels of the 1990s.

The median homeowner stayed put in the pandemic era, refinancing into very low mortgage rates. Some have lucked into a carry trade, paying an interest rate on their seasoned mortgage

that is lower than the income offered by safe assets like **money market funds**. The higher interest rate on new mortgages renders those homeowners less likely to move. By staying put, they constrain inventories (supporting house prices), and they become customers for home renovation projects.



Source: Census Bureau, Equifax, FRBNY, Haver Analytics

In the start of 2023, home equity lines of credit (HELOCs) reversed their 12-year decline. In the housing bubble, lines of credit secured by homes were an easy way to realize a gain from rising home values. Through the prior cycle, with low rates, many homeowners preferred cash-out refinancing to HELOCs. Now, with unfavorable mortgage rates and high home values, homeowners are borrowing against their equity. Maintaining their locked-in low mortgage adds to incentives to modify their existing homes rather than move. Even if new home construction falls flat, builders can find work in renovations, and residential investment can grow again.

### Today's tight housing market stems from years of underinvestment.

After a difficult 2022, builders are now reporting **more buyer interest** and are starting new developments. The short down-and-up turn of housing may set a pattern for the current economic cycle. Last year's laggards, like construction and technology, are getting back on track this year. Stress will roll through **other sectors** in due course. With patience and perseverance, sector shocks can be contained and not spill over to a broader downturn.

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