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How Severe Is the Housing Shortage? It Depends on How You Define ‘Shortage’ Counting the homes we have is straightforward, yet counting the number we need is anything but



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The U.S. has roughly 142 million housing units. PHOTO: CHONA KASINGER FOR THE WALL STREET JOURNAL

How many new homes does the U.S. need to build to restore normalcy to the housing market?

While everyone seems to agree there's a housing shortage, there's little agreement on its magnitude. The National Low Income Housing Coalition says the U.S. has [a shortage of 7.3 million units](#), Realtor.com says 6.5 million, mortgage-finance company [Fannie Mae](#) says 4.4 million and Up for Growth, a policy group focused on the housing shortage, says [3.8 million units](#). John Burns Research & Consulting, a real-estate industry consultant, puts it at just 1.7 million.

Even in a country like the U.S. with around 142 million housing units, that's quite a range. The reason for the variability is that these estimates aren't all making the same claim. It's an example of how asking slightly different questions about the same problem can lead to significantly different answers.

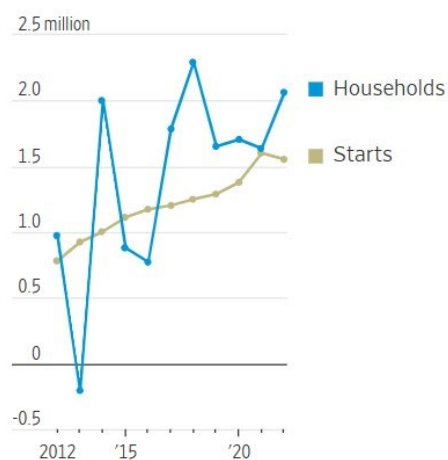
An economist would say that so long as prices are free to adjust, a true shortage doesn't exist: There are homes available to anyone willing to pay the going price. That's of little comfort to anyone who has been to an open house with a line snaking around the block, or searched in frustration just for something in somewhat decent shape in a somewhat decent location that meets their budget. To most people, if the homes available aren't affordable, that's a shortage.

"There's a sense that it feels right because housing is so expensive," said John Burns, the chief executive of John Burns Research & Consulting.

It's fairly straightforward to count the number of housing units in the U.S.—the Census Bureau does so as part of the decennial census. As recently as 2010, Census takers drove or walked every street in the country. In 2020, they used satellite imagery to make the task a bit easier.

The tricky part is figuring out how many homes there ought to be.

Household formations and housing starts



Source: Realtor.com

Realtor.com's approach is to compare new houses to new households. It puts new household formation since 2012 at 15.6 million and the number of single-family homes that began construction in that period at 9.03 million, yielding a gap of 6.5 million.

But wait: Not everyone lives or aspires to live in a single-family home. Apartments and condominiums are an important part of the U.S. housing stock, especially in major cities where prices are highest. Accounting for those units, the gap shrinks to 2.3 million, according to Realtor.com.

The National Low Income Housing Coalition begins by looking at rental units that it defines as affordable. The group finds only seven million homes affordable for people with extremely low incomes (defined as being either at or below the poverty line, or below 30% of the median income in their area). But 3.3 million of those homes are occupied by people who aren't extremely low income, leaving only 3.7 million affordable homes actually available to the lowest-income households.

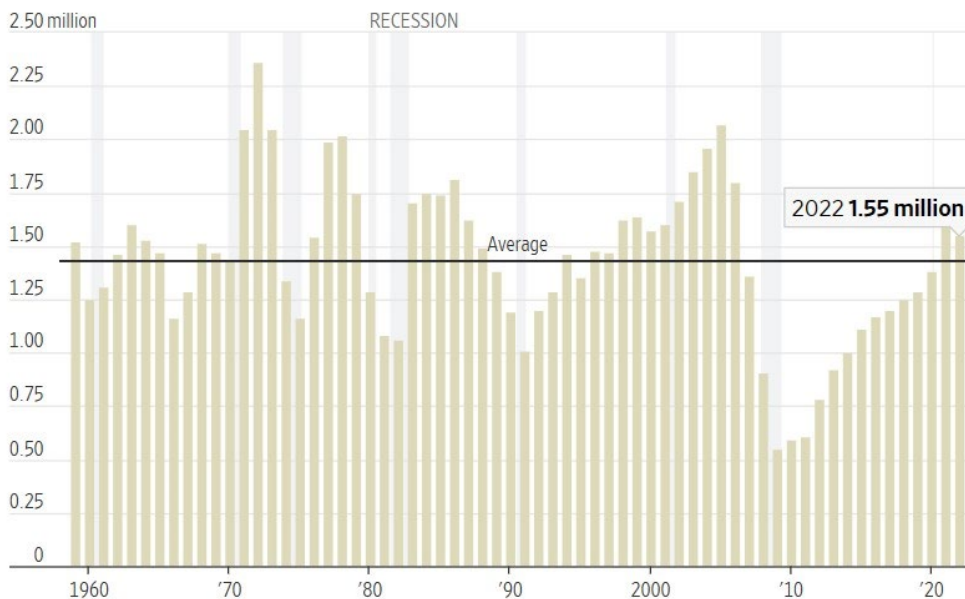
Since there are 11 million such households, and only 3.7 million affordable units, the NLIHC concludes a gap of 7.3 million units exists. That isn't the same as a shortage in the overall stock of homes. In fact, the group calculates there are more rental units than renters.

The NLIHC therefore cautions that raising the overall supply of homes won't necessarily address the shortfall of affordable homes. In theory, when new homes are built, "households with sufficient income move into the new housing, making available their previous and older housing to other households, who in turn leave behind even older units, and so on," a process called filtering, it says in a report. But in practice, it says, this chain often breaks down before the lowest-income households benefit. In weak markets, many properties will simply be abandoned or put to different use, while in strong markets, older units become targets for rehabilitation.

Fannie Mae also looks at affordability, but for renters and homeowners. The mortgage lender examines "affordable housing," for those earning as much as 60% of median income, and "workforce housing," for those earning 120%, and comes up with 4.4 million too few houses at these price points.

Lower construction over the past 10 years followed a period of heavy building during the early 2000s.

Housing starts



Source: Census Bureau

Fannie concludes in its report that the U.S. needs to not just build new units but also preserve existing units: "In most metros, the rehab of an existing unit to extend its useful life is cheaper than building a new unit."

Up for Growth, a Washington-based policy group focused on the housing shortage, estimates the total number of units needed as the number of households, plus the number of households that should have

formed but didn't because housing wasn't available, plus 5% to account for normal vacancy rates as housing units turn over.

Up for Growth assumes that people should have formed households at the same ages as they did in the year 2000. The fact that they haven't, the group concludes, reflects a shortage.

No doubt some people haven't formed a household for that reason, but many have other reasons: Since 2000, people spend more time in school, marry later and have children later, all factors that could delay household formation.

So while these estimates show something interesting about the state of housing, they might overstate the number of units that need to be built. John Burns Research & Consulting looks at demographics and vacancies, concluding that fewer households should have been formed than you would expect looking at the year 2000, and noting that housing vacancies were still elevated until the past few years—implying that many places in the U.S. were still overbuilt from the early 2000s housing boom. As a result, it thinks the shortage is 1.7 million, lower than most other estimates, but “still a big number,” Mr. Burns said.

If his number is right it's a reason for some optimism that today's shortages can be resolved with a few years of solid construction, rather than requiring an unprecedented and sustained housing boom.

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