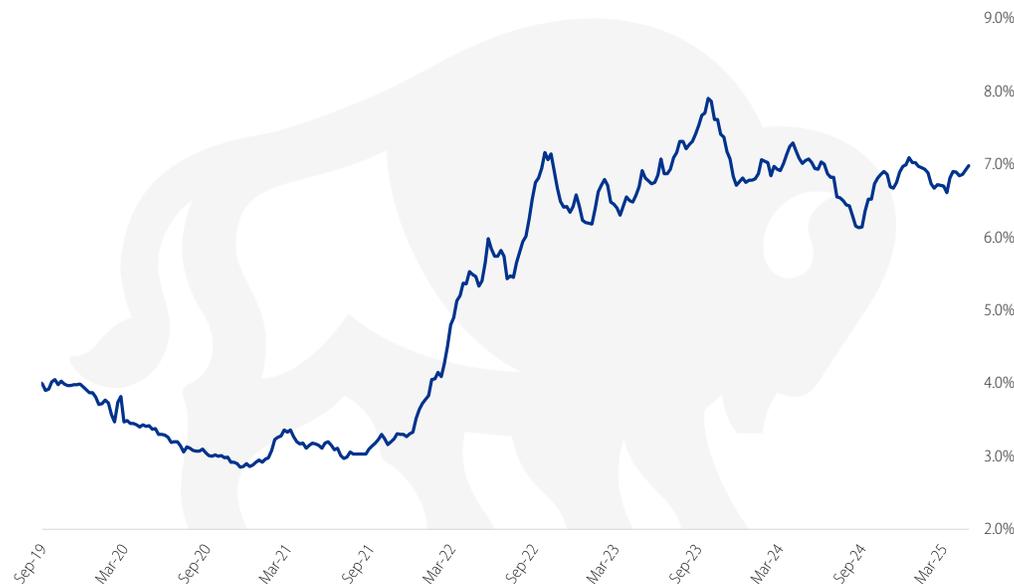


Housing Market Slows into Summer

The U.S. housing market has shifted from the rapid price gains of 2021 and 2022 into a slower, more uncertain phase. Nationwide, home prices rose 4.0% year-over-year through Q1 2025, according to the FHFA, a notable deceleration from the double-digit increases seen during the pandemic. On a quarterly basis, prices rose just 0.7% in Q1, signaling that while the market is still growing, momentum is clearly fading.

This cooling reflects a mix of affordability challenges, tighter credit conditions, changing demographics and supply-side issues. Thirty-year mortgage rates have stabilized just below 7%. Though lower than their 2023 peaks, they remain high enough to dampen demand and reinforce the “lock-in” effect, whereby homeowners with sub-5% mortgage rates are reluctant to sell, contributing to historically low turnover.

U.S. 30-Year Fixed Mortgage Contract Rate



Source: Mortgage Bankers Association

Despite these headwinds, home prices remain firm due to persistently tight supply. The U.S. still faces an estimated housing shortfall of 2.4 million units, with residential investment near all-time lows at just 3.5% of GDP. New and existing listings remain below pre-pandemic levels, and while there’s a modest backlog of permitted but unstarted units, housing starts and completions continue to trend downward. As a result, even modest demand continues to meet limited supply, helping to support home values.

New home sales have held up relatively well, rising from 676k in February to 743k in April (annualized). Builders are offering a range of incentives, such as mortgage rate buydowns, closing cost assistance, and design upgrades to attract entry-level buyers and keep deals moving. Meanwhile, existing home sales have flattened, slipping from

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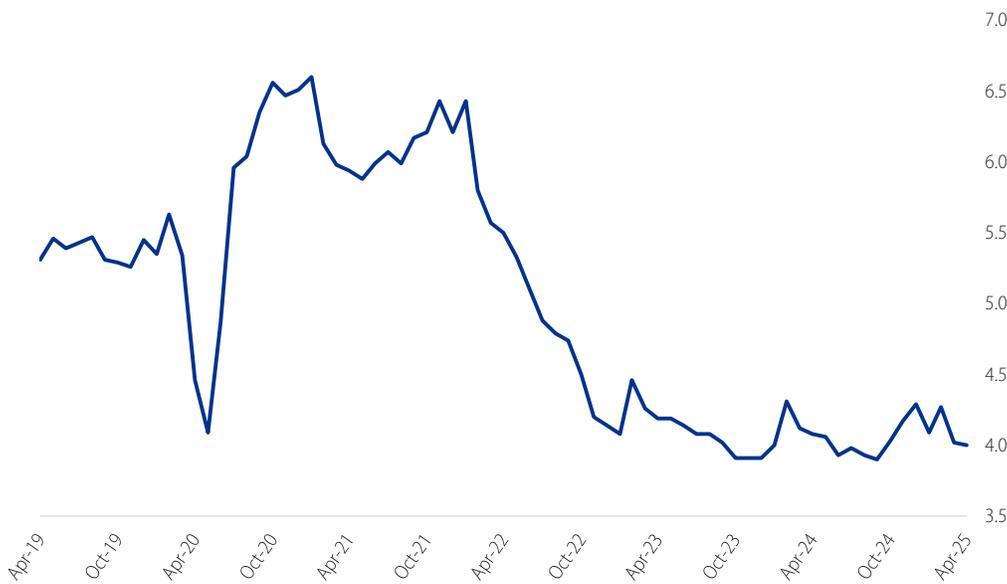
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4.26 million in February to 4.00 million in April, as many homeowners remain sidelined by higher financing costs and limited move-up options.

Affordability pressures are also reshaping consumer preferences. The average size of new homes has declined nearly 15% over the past decade, now averaging around 2,150 square feet, as buyers, especially first-time and younger households, adjust to tighter budgets. Multifamily construction has cooled, and apartment completions are expected to decline in the second half of the year, potentially putting upward pressure on rents in major metro areas. At the same time, a growing share of young adults, nearly 1 in 5 aged 25 to 34, are living with their parents, reflecting the broader affordability crisis and limited access to homeownership.

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Existing Home Sales (SAAR, \$ Millions)



In Texas, where population growth and inbound migration fueled a pandemic-era housing boom, momentum has shifted more sharply.

Source: National Association of Realtors

In Texas, where population growth and inbound migration fueled a pandemic-era housing boom, momentum has shifted more sharply. Home prices have declined year-over-year in Austin, Dallas–Fort Worth, and San Antonio. Inventories are rising, listings are staying on the market longer, and institutional investors have pulled back, particularly in build-to-rent subdivisions. Softness in the tech sector, especially in Austin, has also weighed on demand.

For local governments and public agencies, the market’s deceleration presents both challenges and opportunities. Slower appreciation and rising inventories could temper growth in property tax revenues, especially in municipalities that saw steep valuation increases during the pandemic. At the same time, a more balanced market may make it easier for public entities to acquire land or housing for workforce needs. Affordability remains a top concern, especially for school districts, healthcare systems, and other public-sector employers struggling to attract and retain talent.

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Despite the cooling, there are few signs of an outright collapse. Homeowners’ equity remains near all-time highs, around \$35 trillion, with average loan-to-value ratios near

26%. Foreclosure activity is subdued, and mortgage originations are rebounding among higher-credit borrowers. This is a market adjusting to higher rates and structural constraints, not in freefall. High construction costs and affordability challenges will likely limit new supply, while steady, if modest, household formation continues to support demand. For investors and public decision-makers, the current environment calls for flexibility, patience, and a clear understanding of regional differences. The housing market remains a key barometer of U.S. economic health, and while the pace has slowed, the sector continues to push ahead.

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