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Principal Real Estate



America's housing opportunity: Beyond the supply gap

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EXECUTIVE SUMMARY

Three themes define the U.S. housing market today:

1. Rentership remains a cornerstone at approximately 35% of households,
2. The rental market extends well beyond apartments, and
3. The central challenge is not simply undersupply, but a mismatch between the types and locations of housing and where demand exists.

Rentership remains a cornerstone of housing

Since 1964, the U.S. homeownership rate according to the U.S. Census Bureau (as of 2Q 2025) has averaged 65.2%, peaking at 69.2% in 2004 and bottoming at 63% in 2016. Today, it sits near 65%, broadly in line with its long-term average. Looking ahead, we expect ownership and rentership to remain balanced: affordability barriers will continue to limit access to ownership, while demographic shifts (particularly among people aged 25–54 and 70+) should provide steady but modest support for demand. Over the long run, homeownership is therefore likely to remain anchored around 65%.

Rentership is broader than apartments

Apartments are only part of the rental story. According to National Multifamily Housing Council (NMHC), just 39% of renters live in buildings with five or more units, while a comparable share rent single-family homes. Another 17% occupy two-to-four-unit properties, and 4% live in manufactured housing. Regional and geographic differences are material: manufactured housing represents 13% of rentals in non-metropolitan areas, for example. Some demand is also understated in headline data. Independent living for seniors counts as rentership, but assisted living, nursing homes, and dormitories, which are significant sources of demand tied to aging and student populations, are excluded.

Yes, there is a housing shortage...but also mismatch

Headlines often cite a housing shortage of millions of units and while the underproduction is real, the framing is incomplete. First, the nationwide gap is almost entirely concentrated among extremely low-income households, but other income groups have adequate housing. The housing affordability challenges are especially acute in eight major metros, but many other markets remain affordable for the median earner. Second, the even greater issue is misalignment: our analysis of U.S. Census data for household formations (demand) and household completions (supply) from 2013 to 2023 at the state, CBSA and county level suggests that very few markets have an oversupply problem in aggregate, but rather many markets are challenged with undersupply. Since most new supply skews towards Class A units, it's possible that some markets that appear balanced have an oversupply of conventional Class A house, but an under-supply of affordable housing.

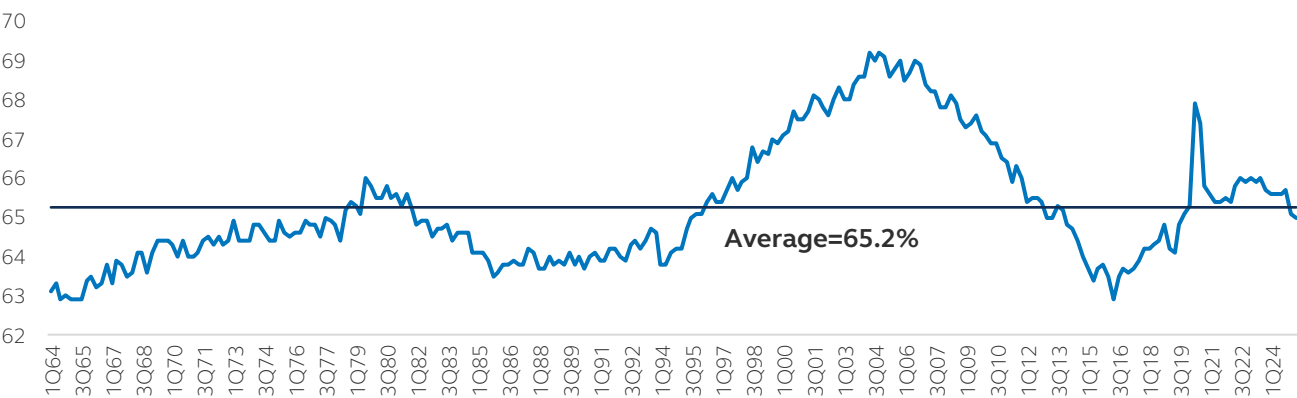
Bottom line

The U.S. rental market is highly fragmented. Regional variations in housing types, the split between multifamily and single-family rentals, and the role of manufactured housing all shape supply. The core challenge is not simply the number of homes, but whether they are in the right places, of the right type, and at prices households can afford. There is not an optimal nationwide solution making market and housing type selection critical. Addressing these dynamics therefore requires a holistic approach that spans the full rental spectrum—critical for policymakers, investors, and housing providers alike.

Understanding ownership vs rentership in the U.S. trends

Of the nearly 132 million occupied units nationwide (U.S. Census Bureau), about 65% are owner-occupied and 35% are rented as of 2Q 2025. While the homeownership rate peaked at 69.2% in 4Q 2004, likely an artifact of the housing boom that helped facilitate the Global Financial Crisis (GFC), it stands more than 400 basis points lower today despite recovering from a post-crisis low of roughly 63% in 2Q 2016. Looking forward, the rate of ownership vs rentership appears balanced given offsetting factors.

EXHIBIT 1: Percentage of owner-occupied homes



Source: U.S. Census Bureau, 2Q 2025

First, affordability constraints: Owning a home is out of reach for many households as home prices have greatly outpaced that of household incomes, according to the Joint Center for Housing Studies of Harvard University. They estimate in [The State of the Nation's Housing 2025](#) report that the price to income ratio hit 5.0 in 2024, well above the pre-pandemic reading of 4.1 in 2019 and an average of 3.2 in the 1990s. Last year, this ratio was 5.0 or higher in 39 of the country's 100 largest markets and below 3.0 in a record low of just three markets (Akron, McAllen, and Toledo).

As a result, in numerous markets, renting remains the more affordable option. John Burns Research & Consulting estimates the monthly cost gap between owning an entry-level home versus renting at \$1,682 for apartments and \$1,109 for single-family rentals. Furthermore, Green Street reports that the average mortgage-to-rent ratio across the top 50 U.S. markets is 1.9 in 2025, ranging from 1.1 in New York to 4.0 in San Jose. This affordability gap is expected to limit rental-to-ownership transitions, capping growth in owner-occupied households.

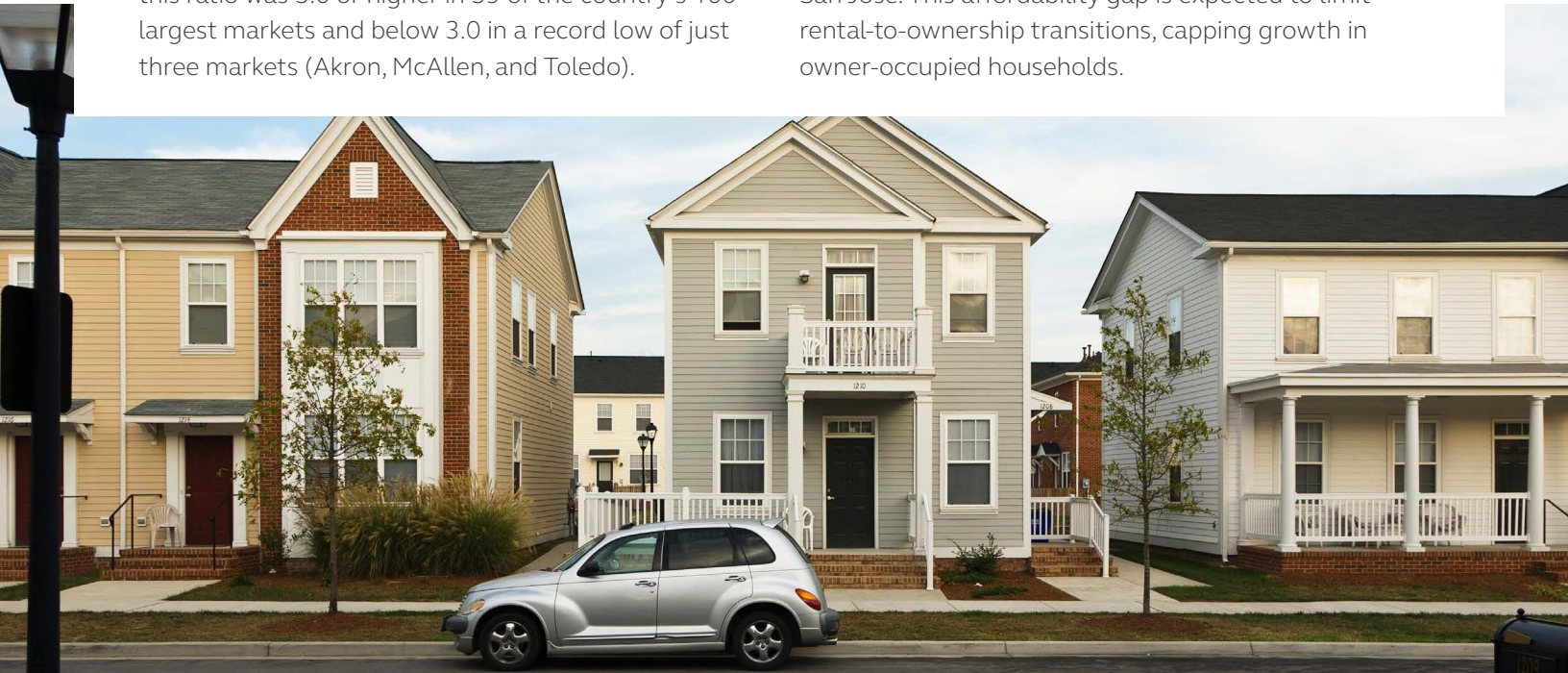
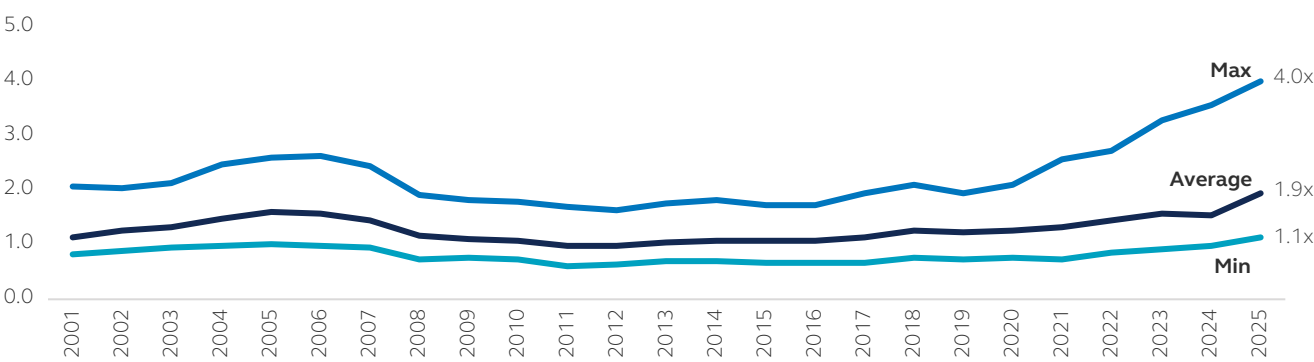


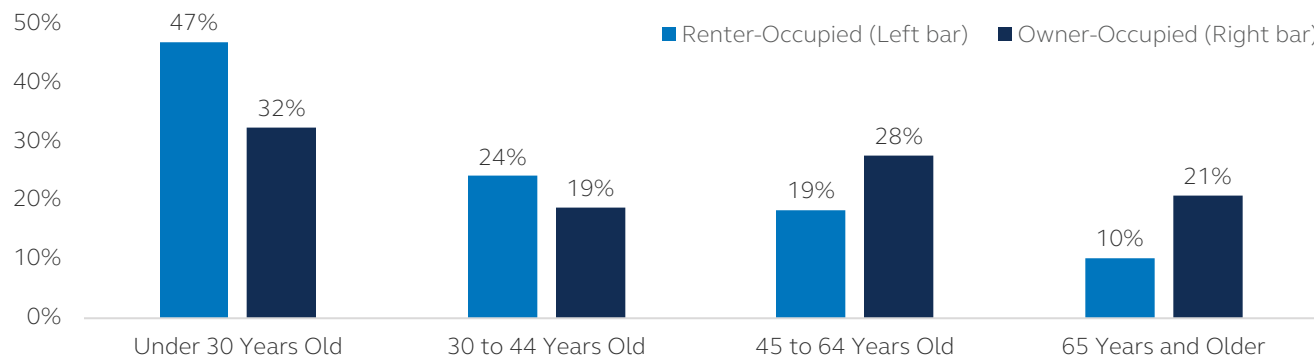
EXHIBIT 2: Mortgage to rent ratio in top 50 markets



Source: Green Street, 2Q 2025.

Second, shifting demographics. The U.S. population is growing in the 25-54 and +70 age groups, which could modestly increase demand for ownership according to John Burns Research & Consulting. Meanwhile, America’s 18-and-under population is projected to decline sharply through 2028, and the previously fast-growing 20–24-year-old renter segment is expected to stabilize. Indeed, an analysis of age distribution of renter-occupied vs owner-occupied housing from the NMHC shows that 47% of people under 30-years old rent compared to 32% for ownership and the rentership percentage steadily declines as the age cohort rises.

EXHIBIT 3: Age distribution of renter-occupied vs. owner-occupied housing



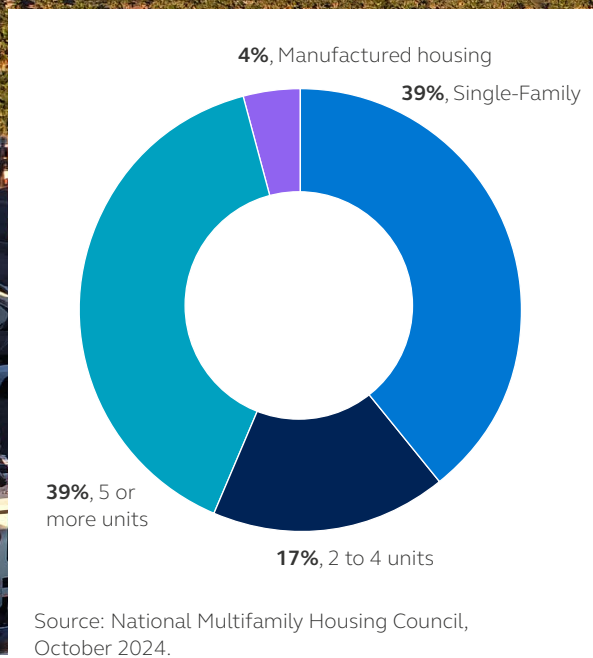
Source: National Multifamily Housing Council, October 2024.

The bottom line is that affordability pressures are boosting demand for rentership, but demographic shifts may tilt preferences toward ownership. On net, we expect the homeownership rate to remain near its long-term average of 65%, but if we are wrong, it is likely lower instead of higher.

The rentership market is more than just apartments

According to the NMHC, 39% of renters live in apartments (defined as buildings with five or more units), roughly the same share that rents single-family homes. Another 17% reside in buildings with 2–4 units, and about 4% live in manufactured housing.

EXHIBIT 4: What type of structure do renters live in?



Regional supply patterns vary. The [America's Rental Housing 2024](#) report from Harvard's Joint Center for Housing Studies shows that in 2021, one-third of rentals in the Northeast were in large multifamily buildings, compared with 26% in the West, 22% in the Midwest, and 21% in the South. By contrast, single-family homes made up just 19% of rentals in the Northeast, versus about one-third across the other regions.

The picture becomes even more nuanced when looking at rental stock across urban, suburban, and non-metropolitan areas. The America's Rental Housing 2024 report from Harvard's Joint Center for Housing Studies highlights the differences:

- **Geography of rentals:** In 2021, 40% of occupied rentals were in urban areas, 48% in suburban areas, and 11% in non-metropolitan communities.
- **Share of housing stock:** Renting was far more common in urban areas, where 51% of homes were rentals, compared to 30% in suburban areas and 28% in non-metropolitan areas. Nearly three-quarters of urban rentals were multifamily units, versus 59% in suburbs and 41% outside metro areas.
- **Housing types:** Suburban and non-metropolitan areas leaned much more heavily on single-family and manufactured homes. About half of rentals in non-metro areas were single-family homes, compared to 36% in suburban and 26% in urban neighborhoods. Manufactured housing made up 13% of rentals in non-metro communities, just 5% in suburbs, and only 1% in cities. Notably, while non-metropolitan areas represented just 11% of total rental units, they accounted for a full one-third of the nation's manufactured housing supply.

Housing types

Conventional apartments

- Market-rate multifamily rental units without rent restrictions or subsidies.
- Rents are determined by local supply and demand.
- Typically target middle- to upper-income renters.

Affordable apartments

- Housing reserved for lower-income households, usually supported by government programs (e.g., LIHTC in the U.S.).
- Rents are capped, often tied to a percentage of Area Median Income (AMI).
- Includes both new development and rehabilitated units.

Essential housing

- Rental housing affordable to households earning roughly 60%–120% of AMI.
- Designed for essential workers who earn too much for subsidized housing but struggle with market rents.
- Generally not subsidized, though sometimes supported through policy incentives.

Manufactured housing (formerly known as mobile homes)

- Factory-built homes constructed to HUD Code standards (since 1976).
- Typically located in manufactured housing communities where land is leased, or on individually owned lots.
- Among the most affordable unsubsidized housing options in the U.S.

Student housing

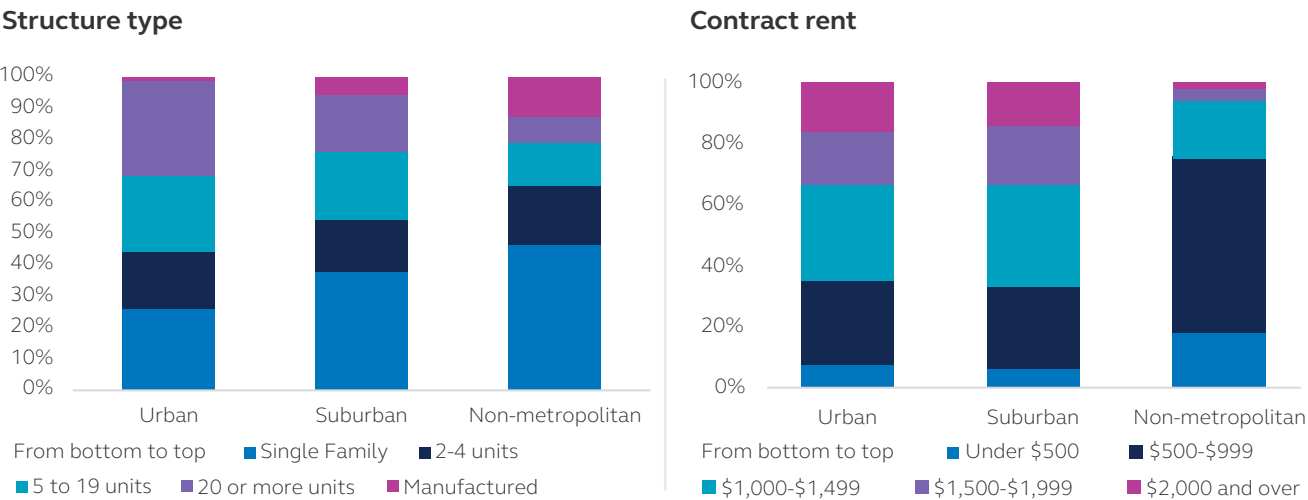
- Purpose-built or adapted rental housing designed to serve college and university students.
- Often located near campuses, sometimes with dedicated amenities (study rooms, furnished units, group spaces).
- Leasing is typically by the bed (not by the unit) with units furnished, requires parental guarantees, with annual turnover aligned to the academic calendar.

Senior housing

- Residential communities designed for older adults, typically 55+ or 65+.
- Includes a spectrum of care models: independent living, assisted living, memory care, and continuing care retirement communities (CCRCs).
- Combines housing with varying levels of services (meals, housekeeping, medical, wellness).

Rent levels also differ sharply by region and geography, reflecting variations in housing stock, household incomes, and demand. In 2021, 45% of rentals in the West and 34% in the Northeast had monthly rents of at least \$1,500, compared with 19% in the South and 10% in the Midwest. Urban and suburban areas likewise had higher shares of units renting for at least \$1,500 (25% and 26%, respectively) than non-metropolitan areas (4%). By contrast, lower-cost rentals were concentrated outside metropolitan areas, where 53% of units rented for under \$600, compared with 15% in suburbs and 17% in cities. Overall, non-metropolitan communities accounted for just over one-quarter of the nation's stock of units renting below \$600.

EXHIBIT 5: The rental stock varies widely across markets, with low-rent units more common in non-metropolitan areas



Notes: Only occupied rental units are depicted. Manufactured housing includes other structures such as boats and RVs. Contract rents exclude utility costs. Urban and suburban tracts fall within metropolitan statistical areas. Non-metropolitan tracts fall outside of metropolitan areas.
Source: Joint Center for Housing Studies, U.S. Census Bureau, 2021 American Community Survey 5-Year Estimates

It’s worth noting that independent living senior apartments are generally included in rental household counts. However, assisted living, nursing homes, and continuing care facilities are excluded, as the U.S. Census classifies them as “group quarters” rather than housing units. Similarly, on-campus dormitories and residence halls are treated as group quarters, while off-campus apartments or houses rented by students are counted in rentership statistics. In other words, rentership demand driven by seniors housing and student housing could be greater than the headlines suggest.

Bottom line, these patterns underscore that the U.S. rental market is far from uniform. Regional differences in building types, the balance between multifamily and single-family stock, and the prevalence of manufactured housing all shape the supply side, while rent levels reflect both geography and local economic conditions. Understanding these variations is critical for policymakers, investors, and housing providers, as strategies that work in one region or market type may not translate directly to another.

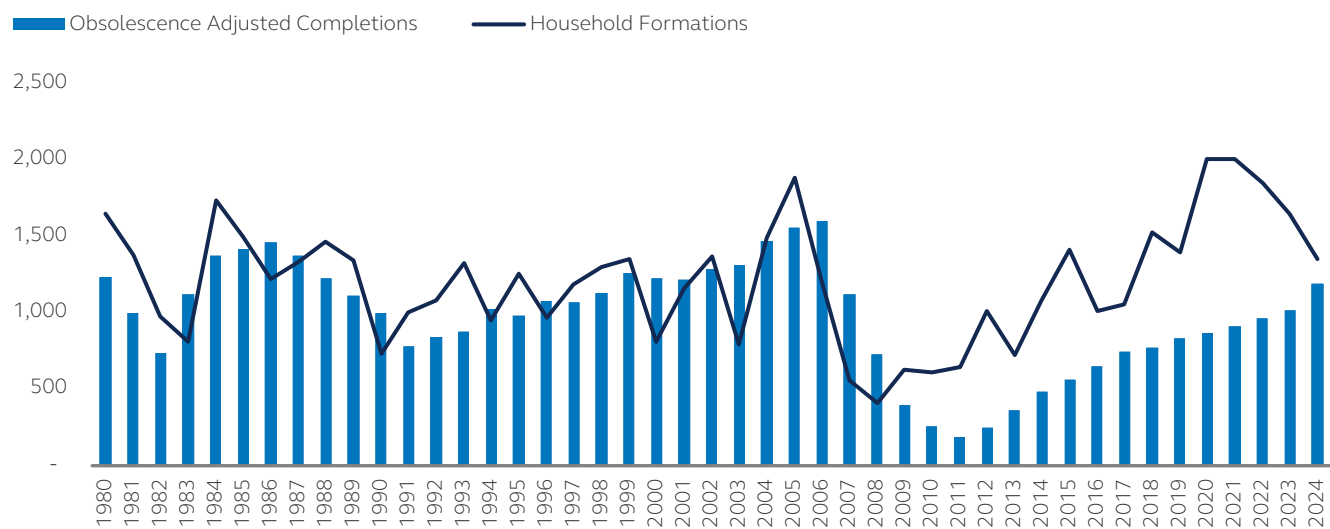
The U.S. housing challenge is a misalignment more so than a shortage

The headline reads that the U.S. is currently experiencing a significant housing shortage, with [The Brookings Institution](#) estimating a shortfall of 4.9 million housing units in 2023 relative to mid-2000s.

The easy answer is that there has been a persistent underproduction of housing units relative to growth in the U.S. population, especially since the early 2000s. This is driven by: 1) Zoning laws and land-use regulation in many areas have limited the ability to build new housing and 2) Rising material and labor costs have made new construction expensive.

This is mathematically true as an analysis of household formations relative to single-family and multifamily completions (adjusted for obsolescence of approximately 0.3% of stock every year as per the Urban Land Institute) shows a significant undersupply has developed since the beginning of 2009. By comparison, formations and obsolescence adjusted completion moved in much closer lock step from 1980 to 2008.

EXHIBIT 6: Analysis of household formations relative to single-family and multifamily completions



Source: U.S. Census Bureau, Morgan Stanley, 2025

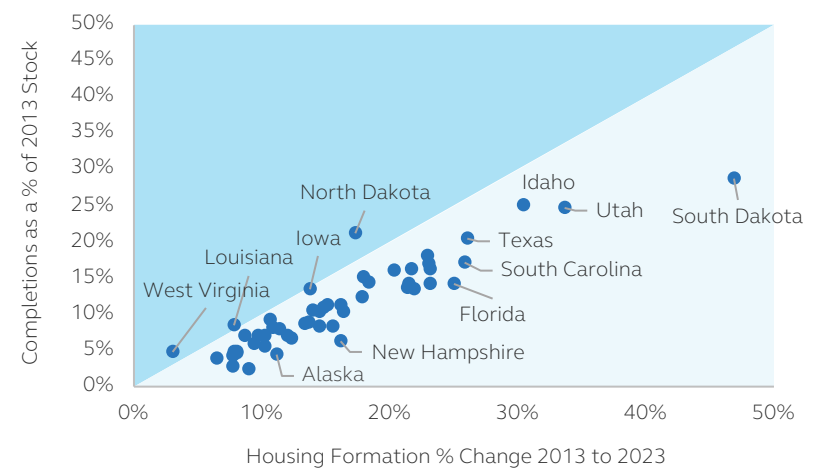
However, we believe this is an incomplete narrative because in the U.S. we have built too many houses of certain types in some markets and not enough houses of other types in other markets. As a starting point, it's useful to identify where housing construction (both ownership and rentership) has been most active over the past decade. To help answer this, we have dived deep into U.S. Census data. We first analyzed changes in household formations from 2013 to 2023 versus housing completions over the same period at the state level. Two important points:

1. We analyzed all housing completions (ownership and rentership) as focusing on one or the other may produce incomplete results. For instance, more apartments have been built than single-family homes recently, so focusing on only single-family homes may lead one to assume the supply vs. demand imbalance is greater than it appears. We estimated housing completions using U.S. Census data from the American Community Survey and the Building Permit Survey, adjusting permits to account for abandoned projects and housing obsolescence.
2. We analyzed household formations (based on changes in occupied housing from the U.S. census) instead of populations. Why? If a family of five (two parents and three children) moves to a new city, that's five people per population statistics but only one household. It's worth noting that college towns complicate the analysis as the Census Bureau's "usual residence" rule says people are counted in the population where they live and sleep most of the time (i.e., most of the year). Additionally, students that live in dorms are not considered part of household formations, but students that share an apartment or house off campus are considered a single household. We have not attempted to resolve this issue for the purposes of this report.

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What’s clear is that there is a high correlation between household formations and household completions, but most household completions have not kept up with household formations in most states. North Dakota is the notable exception where supply has outpaced demand.

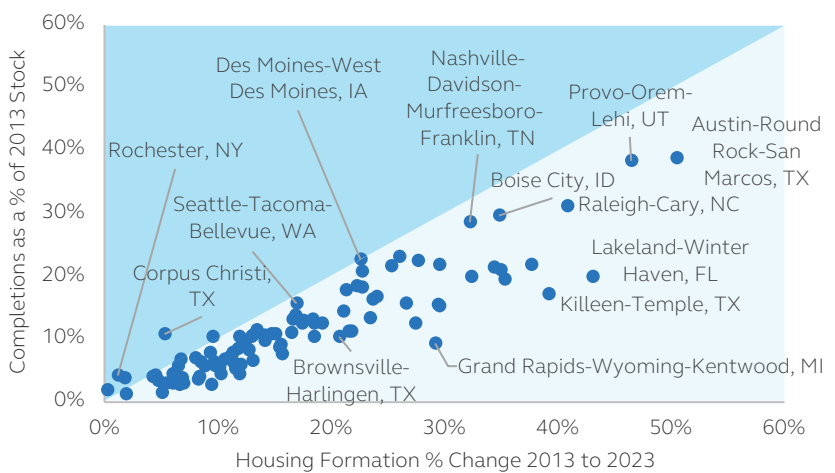
EXHIBIT 7: Housing formation percentage change 2013-2023 and completions as share of 2013 stock by state



Source: U.S. Census Bureau, 2024

However, housing is a local market, and we therefore also analyzed these same trends across the top 100 CBSA level. This not surprisingly tells a similar story, but the real issue begins to emerge in even greater detail – many markets have a significant undersupply of housing completions relative to household formation. Two of the notable exceptions where supply has outpaced demand (Corpus Christi and Baton Rouge) are also college towns.

EXHIBIT 8: Housing formation percentage change 2013-2023 and completions as share of 2013 stock by CBSA title

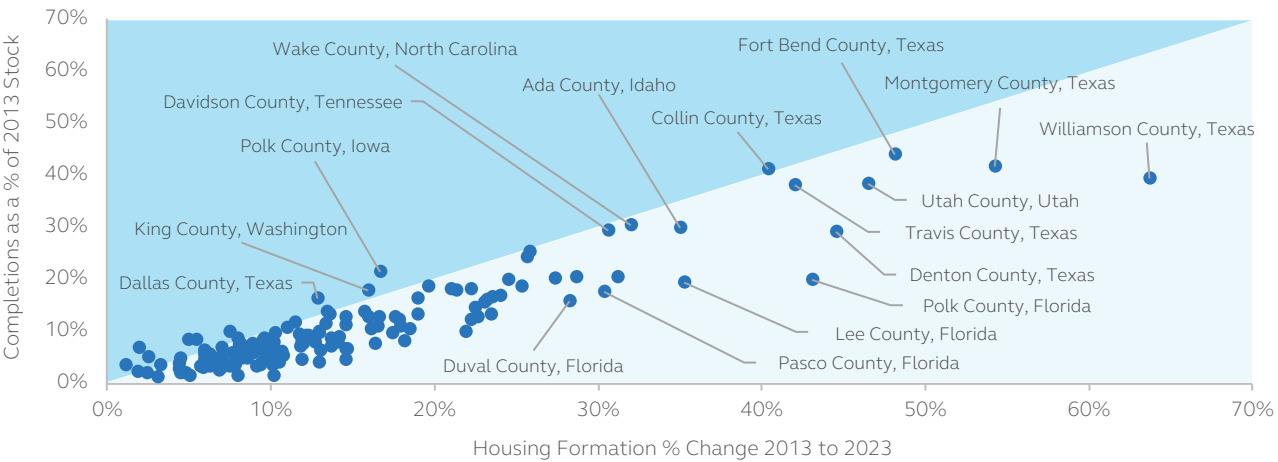


Source: U.S. Census Bureau, 2024



Finally, we analyzed these same trends at the county level. There are a few more counties that have slightly more supply than demand, but the real story is the number of counties that haven't kept up demand.

EXHIBIT 9: Housing formation percentage change 2013-2023 and completions as share of 2013 stock by county and state



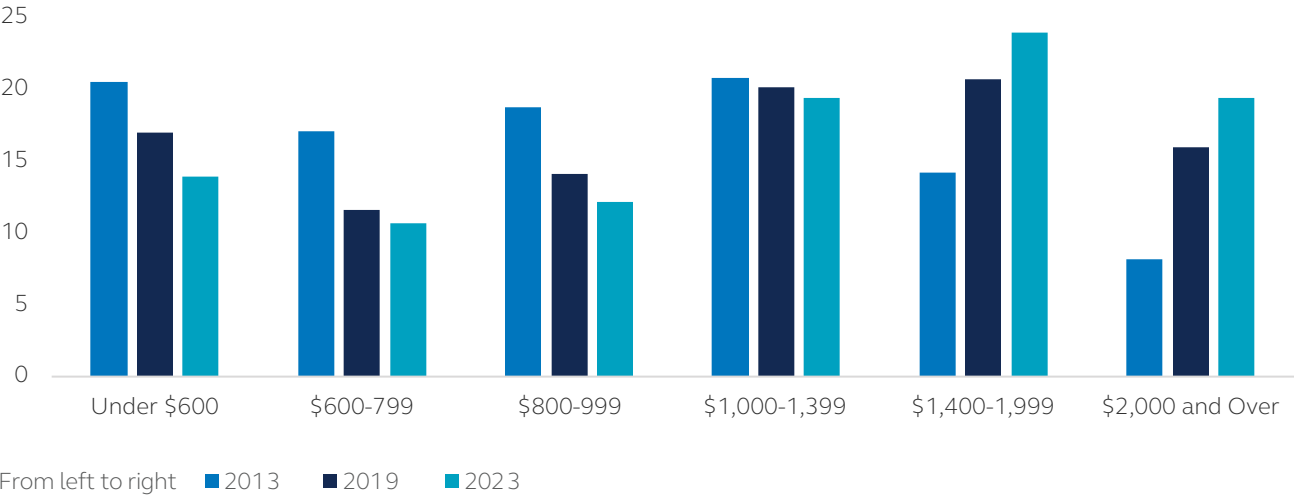
Source: U.S. Census Bureau, 2024

Beyond headlines: Understanding housing affordability

It may surprise some people to learn that the cost to build a Class A apartment isn't that different than Class B, C or even affordable (see [The cost of affordable housing: Does it pencil out?](#)). This is because the cost of land, labor, materials, and regulatory compliance are essentially the same whether the property will be considered Class A or B. That means a new building must command top-of-market rents to producing compelling returns. [The Housing Affordability Toolkit](#) produced by the NMHC provides a helpful analysis of the cost drivers of building apartments. Properties “filter down” the quality spectrum as they age without ongoing reinvestment in the property. As a result, the percentage of apartments at lower rent levels is steadily declining over time.

EXHIBIT 10: State–Share of Rental Units by Monthly Contract Rent: 2013, 2019, and 2023

Share of Rental Units by Monthly Contract Rent (Percent)



Source: Joint Center for Housing Studies, U.S. Census Bureau, American Community Survey 1-Year Estimates, 2024

The exception is essential housing and manufactured housing. Some developers target the essential housing space by building smaller, simpler properties with fewer amenities to keep rents lower. Furthermore, manufactured housing typically serves as essential housing in more rural areas. That’s exactly why only 4% of renters live in manufactured housing nationwide, but it rises to 13% of rentals in non-metropolitan areas.

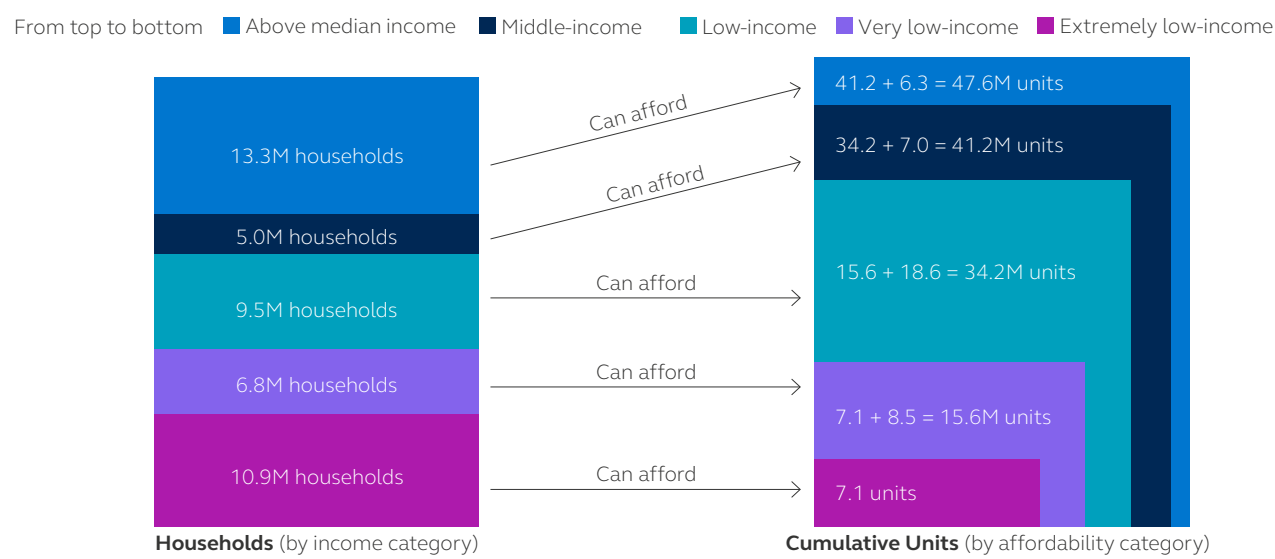
While the prevailing narrative is that the U.S. faces a shortage of affordable housing as a result, the reality is that the problem is concentrated among extremely low-income households. The [National Low Income Housing Coalition state in their report titled The Gap: A Shortage of Affordable Homes](#) that “the nation’s 10.9 million extremely low-income renter households⁽¹⁾ face a shortage of 7.1 million affordable and available rental homes, resulting in only 35 affordable and available homes for every 100 extremely low-income renter households”. By contrast, all other income groups have sufficient affordable rental housing available to meet their needs.

Middle-income renters: About 5 million households (81%–100% of AMI) can access the homes affordable to low-income renters plus 7 million higher-cost units, for a total of 41.2 million units.

Low-income renters: Roughly 9.5 million households (51%–80% of AMI) can access 15.6 million units available to extremely low- and very low-income renters, plus 18.6 million higher-cost rentals, totaling 34.2 million units.

Very low-income renters: Over 6.8 million households (50% of AMI or below) can access 7.1 million units affordable to extremely low-income renters plus 8.5 million additional units, totaling 15.6 million. Combined with extremely low-income households, 17.7 million renters compete for only 15.6 million units, creating a shortfall of roughly 2.1 million homes.

EXHIBIT 11: Rental units and renters in the U.S. matched by affordability and income categories, 2023 (in millions)



Source: National Low Income Housing Coalition, 2023 ACS PUMS
Note the numbers are rounded and therefore may not exactly add up to the final cumulative total of households and/or rental units.

Affordable housing challenges exist nationwide, impacting communities in every state, but they are especially acute in certain markets. According to Zillow, in eight major metros—San Francisco, San Jose, Los Angeles, Riverside, San Diego, Miami, New York, and Boston—renters now need six-figure incomes to comfortably afford rent. In six of these markets, the median household would spend over 30% of its income on a typical rental. San Jose and San Francisco are somewhat exceptions, where median households would spend 25% and 28% of income on rent, respectively. Despite significant rent increases over the past five years, many markets remain affordable for median earners. The most budget-friendly metros include Buffalo (\$55K income required), Oklahoma City (\$56K), and Louisville (\$57K), where median renters would spend 23% or less of their income on rent, providing more flexibility for financial stability.

⁽¹⁾ Using the standard definition of affordability utilized by the U.S. Department of Housing and Urban Development (HUD), which assumes households should spend no more than 30% of their income on housing.

CONCLUSION

The U.S. housing market is shaped less by an overall shortage of units and more by a persistent mismatch between the types and locations of housing and the evolving needs of households. Rentership, which accounts for roughly 35% of households, is a central feature, but it extends far beyond the traditional Class A apartments that dominate new construction, encompassing single-family rental homes, manufactured housing, and even senior as well as student living options. Across U.S. housing markets, some cities cater effectively to middle-income households but offer limited options for lower-income renters, while others prioritize affordability at the lower end, leaving fewer opportunities for the middle tier. This makes an optimal nationwide solution elusive and suggests that understanding local market dynamics is critical. Targeted policies and investments that align new supply with actual demand, both in terms of housing type and location, are essential to building a more balanced, accessible, and resilient housing system for all Americans.



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