



by ROD SMYTH

SUMMARY

- Low rates drove home prices above trend.
- Higher rates have not led to a housing slump...
- ...Due to favorable supply demand conditions.

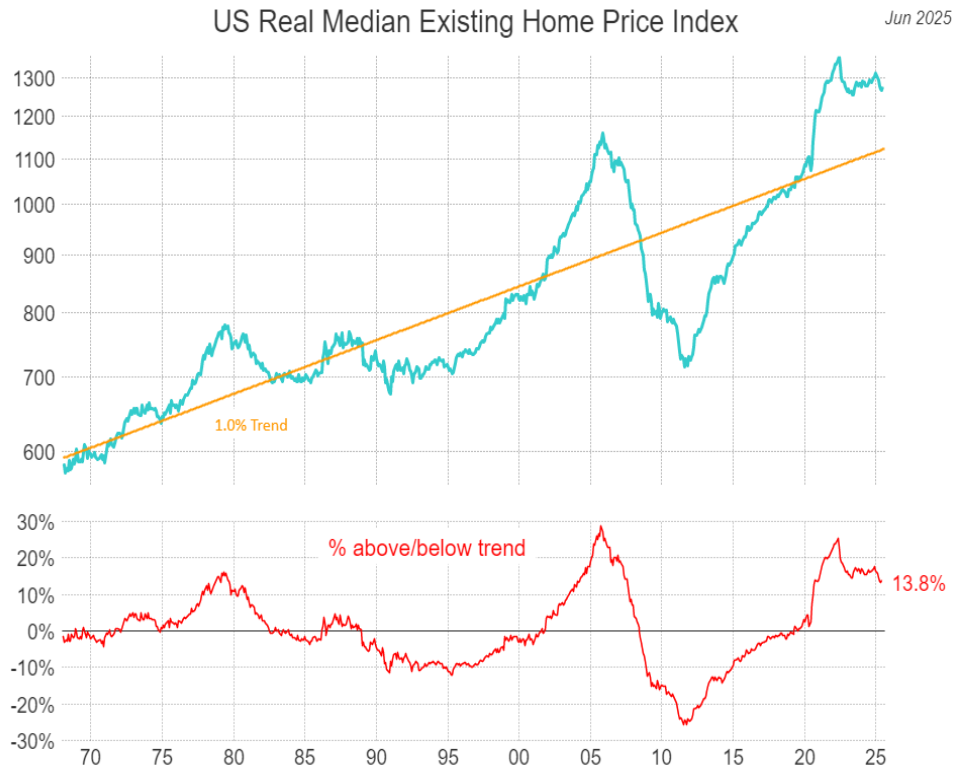
8.19.2025

Home Prices: Still 'Rusting' Not 'Busting'

Prices Have Held up Well, Despite Higher Rates and Low Affordability

Working Off the Excesses...Still 'Rusting' not 'Busting'

We last wrote about housing in [May 2023](#). We made the case then that, although home prices were as far above trend as they were before the price collapse of 2007-2011, a big decline was unlikely. We wrote, "Our outlook is for prices to 'rust', i.e., go through a long period of stagnation, not 'bust' like they did in 2008/9". That is still our view, and as you can see from the chart below, prices have generally been sideways since then.



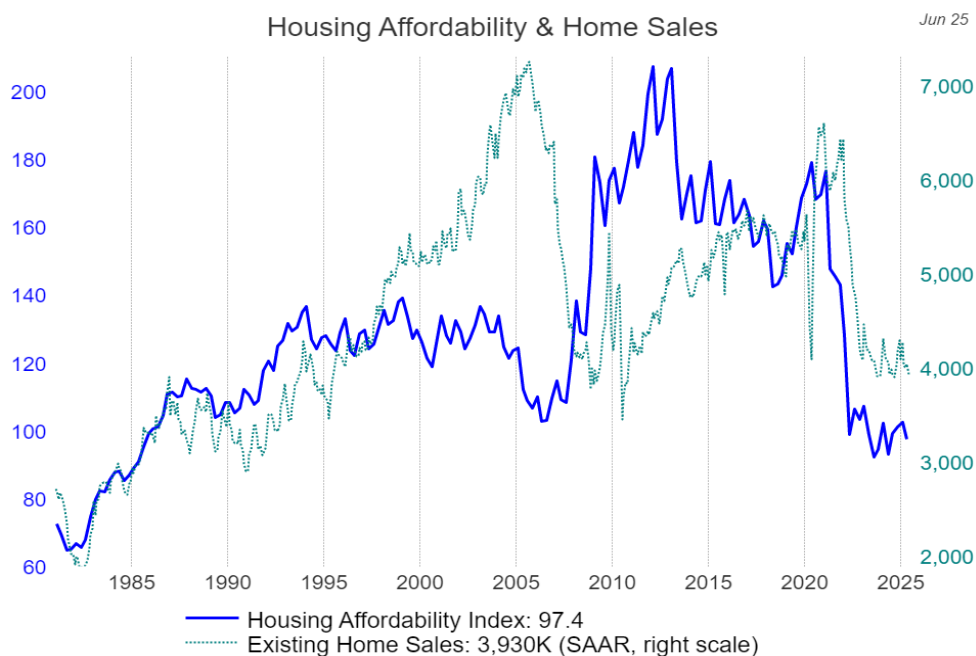
Source: LSEG Datastream, RiverFront; data monthly as of June 2025. Chart right shown for illustrative purposes only. Past performance is no indication of future results. You cannot invest directly in an index.

Home Sales Have Fallen with Affordability

In some ways, the resilience in house prices is remarkable as mortgage rates have risen from 2.6% in 2021 to just under 6.6% today. The Housing Affordability Index (solid blue line in Chart, top of next page) measures US income and interest rates to determine if a median-income family could qualify for a mortgage on a median-priced home. To interpret the indices, a value of 100 means that a family with the US median income has exactly

enough to qualify for a traditional 30-year fixed-rate mortgage on a median-priced home. The higher the index in blue, the more affordable the median home is. This suggests homes are just 'affordable', but significantly less so than before the rise in rates in '21. We think this partially explains why home sales (dotted green line) have fallen. Another reason for falling sales is likely because homeowners who financed before the big rate rise are now 'locked in' to their low rates.

Source: LSEG Datastream, RiverFront; data monthly as of June 2025. Chart right shown for illustrative purposes only. Past performance is no indication of future results. You cannot invest directly in an index.



Rust not Bust: There is a Shortage of Supply

Having risen so far above trend, it is reasonable to ask if a sharp price decline, such as occurred during the 2008 to 2011 housing bust, is coming. In our view, if such a decline was going to happen, it would have been during the sharp rise in rates. Mitigating price declines in our view is a shortage of inventory, considerably less leverage and speculation than in prior bubbles, and household balance sheets that are normal by historical standards. Many homeowners refinanced their mortgages as rates fell to record low levels. This means they are unaffected by the rise in rates, as long as they don't sell. Furthermore, according to Ned Davis Research, the number of months' supply of existing homes is currently 4.5 months, above its' all time low in 2022, but below the average of 6 and well below the 11 months seen during the housing crisis in 2008.

Demand is Supported by Demographics

The second structural factor that may lead to a 'rust, not bust' dynamic, is on the demand side; the 'millennial' generation are now in their household formation years. The oldest millennials are turning 44 and the youngest are turning 29. According to the US Census Bureau there are 74 million millennials, and they make up 22% of the US population as well as 35% of the workforce. Millennials are getting married later but household formation has picked up over the last five years, providing a source of structural demand.

When you combine these factors, the likelihood of a sustained period of house price stagnation seems high, but a collapse in house prices seems unlikely to us.

Some Final Advice on Buying a House Versus Renting

Buying a home is more than a pure financial decision. Unlike a stock portfolio which is purely an investment, you get to live in your house! This means there are all kinds of intangible emotional factors involved in buying a home. Since we all need somewhere to live, the choice is buying or renting and owning a home just feels different. Ownership involves maintenance costs, insurance and tax implications, but also allows you to add value to your home by improving it. The advantage of renting is flexibility, and a lack of repair costs... but rents are hard to predict and can rise rapidly. Generally, the longer you plan to live in a home, the more advantageous it is to buy.

Given our views on home prices, we suggest the decision be based on personal preferences, not on the expectation of further significant price increases in the next few years. As our chart on page one shows, home prices increase on a long-term trend

basis of only roughly one percent over inflation and can have big price swings. This suggests that the main financial advantage of home ownership from current level is likely to be the 'forced savings' process of increasing your ownership stake by paying off a mortgage over time.

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Definitions:

The Housing Affordability Index measures whether a typical family earns enough income to qualify for a mortgage loan on a typical home. A value of 100 indicates that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. This index is crucial for understanding housing market dynamics and the financial health of families in relation to homeownership.

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