THREE ON THURSDAY

First Trust

FIRST TRUST ECONOMICS

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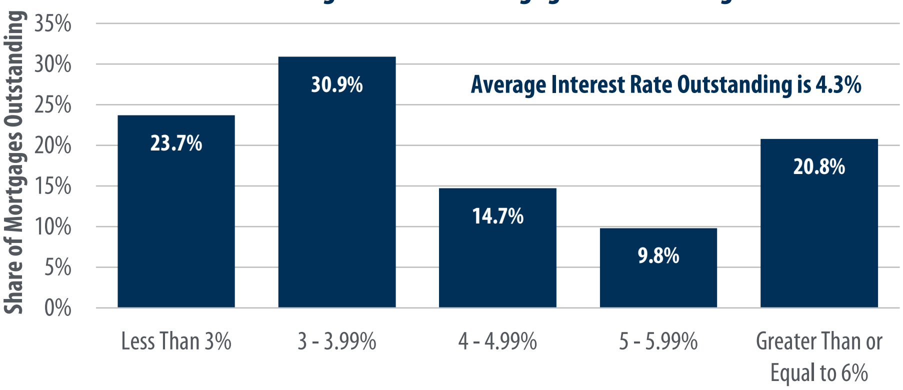
Has the Housing Market Collapse Arrived?

Home prices have cooled significantly this year. The Case-Shiller National Home Price Index is essentially flat in 2025 through April (latest data available) and up just 2.7% over the past 12 months. That's fueled renewed chatter among housing bears who've long predicted a crash. With mortgage rates still elevated and inventories ticking higher, some argue the long-awaited downturn is finally here. But is this really another 2000s-style housing bust? We don't think so. The data tell a different story—one of stabilization, not collapse. In fact, we think the more likely path is for home prices nationwide to remain flat to slightly higher over the next few years. In this week's "Three on Thursday," we break down the current housing landscape and why the crash narrative doesn't hold up. Below are three charts to help illustrate where things really stand.

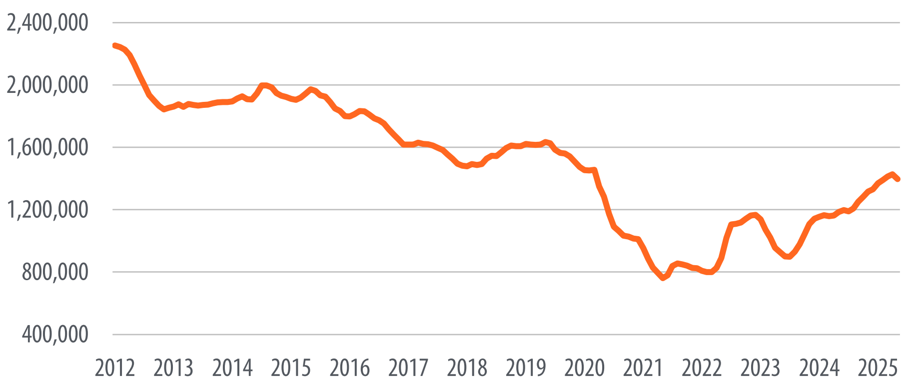
Contract Interest Rate at Origination for Mortgages Outstanding



Source: Federal Housing Finance Agency, First Trust Advisors. Data as of Q1 2025.

As of Q1 2025, 92.8% of outstanding mortgages are fixed-rate, leaving just 7.2% as adjustable-rate mortgage loans (ARMs). The vast majority of homeowners either bought or refinanced before rates surged in 2022, effectively locking in lower borrowing costs and creating what's now known as the "mortgage lock-in" effect. It's significant: over half (54%) of all mortgage debt is locked in at rates of under 4%, and the average rate across all mortgages is just 4.3%. With current 30-year fixed rates well above that, many homeowners see little incentive to sell—keeping existing inventory tight and turnover low.

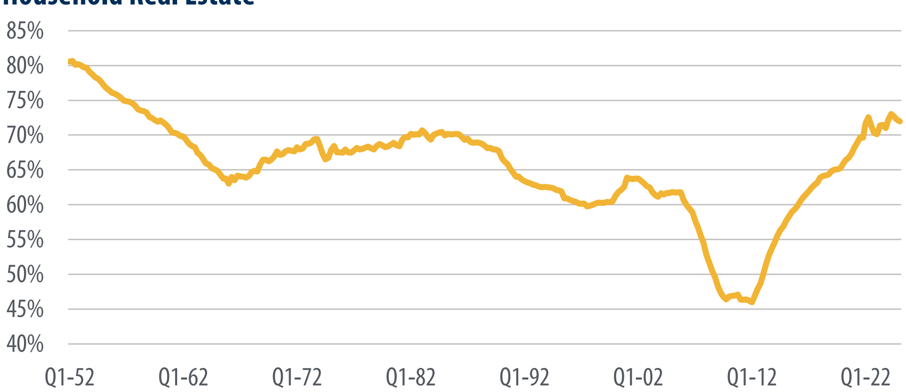
Residential Inventory Unit Level



Source: Redfin, First Trust Advisors. Monthly data 1/2012 - 5/2025.

A common concern lately is that housing inventory is "skyrocketing." While it's true that listings are up, the context matters. Inventories are rising—but from historically low levels. In reality, supply is still relatively scarce—just not as scarce as it was during the frenzied pandemic years. According to the latest data from May 2025, housing inventory is up 17.8% from a year ago, but still 14.5% below where it stood in May 2019. Even with softer demand due to higher interest rates, supply remains tight enough to keep the market relatively balanced. This doesn't look like a market flooded with excess—it looks like one slowly normalizing.

Household Owners' Equity in Real Estate as a Share of Overall Household Real Estate



Source: Federal Reserve Board, First Trust Advisors. Quarterly data from Q1 1952 - Q1 2025.

Thanks to a decade of steady price appreciation, larger down payments, and a housing market that remained resilient even through periods of volatility, American homeowners have hit a remarkable milestone: equity now accounts for 72% of total home values. That's one of the highest shares on record, dating back to 1960. This surge in equity reflects not just rising prices but also the financial strength of today's homeowners. Unlike the mid-2000s, when highly leveraged buyers and minimal down payments left the market vulnerable, today's owners are sitting on substantial cushions. The foundation of the housing market is much sturdier than in past cycles—making a broad collapse in prices far less likely.