

The U.S. Housing Underbuilding Gap

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Economists [have noted](#) widespread tight housing supply conditions in the United States currently, leading to high home prices and rents. The policy discussion surrounding low supply is often focused on the supply of units affordable to lower-income households given that higher-income households may have more choice even when prices and rents are rising. However, inventory, price, and construction data suggest that supply is relatively low in the aggregate—even at lower price and rent points. For a discussion of factors that could be contributing to low supply, see CRS Report R47617, *U.S. Housing Supply: Recent Trends and Policy Considerations*, by Lida R. Weinstock. This Insight presents data on residential construction over time to help quantify trends in overall supply and discusses estimates of the underbuilding gap by various organizations.

Residential Construction

There are several metrics to measure the level of housing construction, including new permits, starts, completions, units currently under construction, and private spending on construction. This Insight focuses on housing starts (the number of housing units that started being built in a given period) as a proxy for total residential construction.

Figure 1 below shows housing starts of all types divided by total population since 1980. Starts have always been somewhat cyclical in nature, but this cyclicity was particularly pronounced during the housing and financial crisis of 2007-2009. Combined housing starts fell quickly and by a large magnitude during this period, then rose at a much slower pace in the years after, never fully recovering to pre-2007 levels. After a period of recovery and an acceleration in the pace of starts during the COVID-19 pandemic, starts fell in 2022. Additionally, [rental and homeowner vacancy rates](#) have trended downward since the 2007-2009 crisis, indicating that lowered construction rates during this period were likely not a result of ample stock or waning demand.

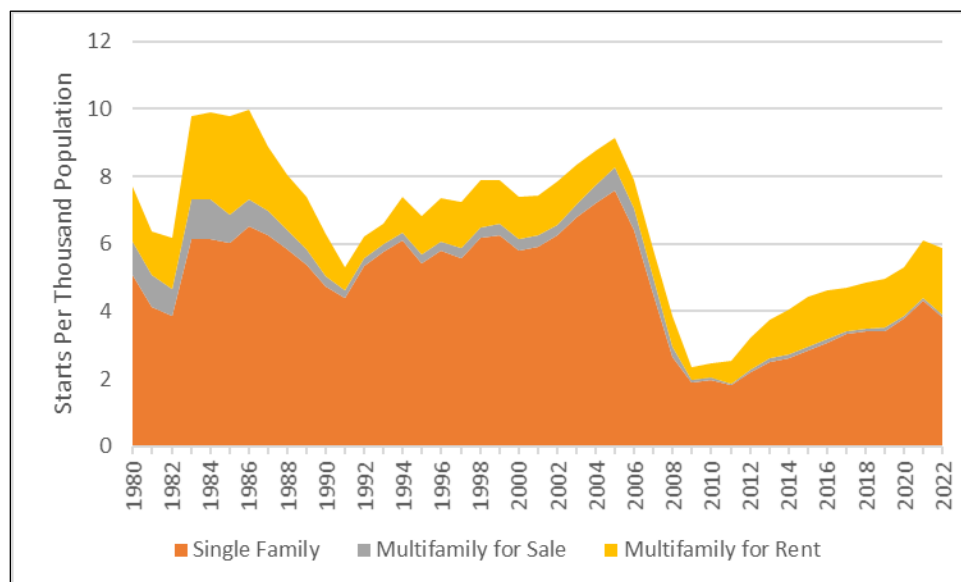
An additional facet to declining construction is declining construction of specific types of housing. For example, the [share of construction of “starter homes”](#)—in this case, defined as single family homes of 1,400 square feet or less—has been trending downward over the past several decades. This alone does not necessarily contribute to low supply of all units, but it may have negative consequences for specific demographic groups or specific local markets.

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Figure I. Ratio Housing Units Started to Population
1980-2022



Sources: CRS calculations based on Census Bureau, [New Residential Construction Historical Data](#), Housing Units Started by Purpose and Design; and Bureau of Labor Statistics (BLS), [Current Population Survey](#).

Notes: Single family data are not disaggregated by for sale versus rent. Figure based on BLS *civilian noninstitutional population* for those ages 16 and older. According to [Census](#), a housing unit is started when excavation begins for the footings or foundation of a building.

The Underbuilding Gap

Economists have referred to the difference between how many housing units currently exist and how many units *ought to* exist (based on historical trends or on estimates of demand, ideal vacancy rates, or household formation) by many different names, including the “housing supply gap,” “housing supply shortages,” the “demand-supply gap,” the “underbuilding gap,” and “housing underproduction.” While there may be subtle distinctions among the various terms, this Insight uses *underbuilding gap* as a catchall term for any gap between the current and “ideal” (as defined in any specific methodology) supply of housing units.

Housing economists across organizations have attempted to quantify the U.S. underbuilding gap through various methods. **Table 1** summarizes a few recent examples. Estimates vary widely (and are not always comparable based on time frames or types of housing considered) but are still sizable across methodologies and help quantify the extent of any aggregate supply issues. For comparison, on the lower end of estimates, there was a gap of 1.55 million units in 2021—despite an uptick in starts in 2021—at an average annual rate of 1.6 million that year (not population controlled). If correct, these estimates suggest that a lack of affordability will remain a long-term issue until the underbuilding gap shrinks, which is unlikely to occur without an acceleration in the rate of construction. The National Association of Realtors (NAR) estimates that an annual pace of 2 million units produced per year would be needed to fill the gap in the next 10 years.

Aggregate underbuilding gaps do not necessarily provide information on what type, size, or location of housing is underbuilt. Certain estimates, such as the National Low Income Housing Coalition affordable housing gap metric, provide information on the shortfall in certain types of housing. According to

this analysis, as of 2021 there was a gap of 7.3 million rental units affordable and available to renters with incomes at or below the federal poverty guideline or 30% of area median income, whichever was greater.

Table I. Selected Estimates of Aggregate Underbuilding Gaps

Source	Gap Estimate	Year	Data Sources	Methodology
Freddie Mac	3.8 million units	2020	Current Population Survey-Annual Social and Economic Supplement, Housing Vacancy Survey	Based on a comparison of current stock and a target stock calculated by dividing the target number of households by the target occupancy rate
National Association of Realtors (NAR)	5.5 million units	2020	Survey of Construction, Housing Vacancy Survey	Comparison of long term (1968-2000) average residential unit completions with completions from 2001 to 2020
Moody's Analytics	1.55 million units (650,000 for sale and 900,000 for rent)	2021	Census Bureau, Moody's Analytics	Comparison of current vacancy rate with target vacancy rate (defined as 4%)
Up for Growth	3.79 million units	2019	American Community Survey Public Use Microdata Sample	Difference between target number of housing units (calculated by multiplying the sum of households plus missing households by the sum of 1 plus the target vacancy rate) and existing units that are renter or owner occupied

Source: Freddie Mac, NAR, Moody's Analytics, Up for Growth.

Notes: Sources included in this table are [not all inclusive](#). For example, NAR includes alternative methodologies in its analysis as well as estimates for gaps for alternate time frames and types of units.

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