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Housing's Outlook for 2021

Single-family builder sentiment fell back to a level of 86 in December, according to the NAHB/Wells Fargo Housing Market Index (HMI), after achieving an all-time high of 90 in November. The dip was due to growing concerns over housing affordability in 2021. However, December's HMI was still the second highest on record.

Supply-side pressures, such as [resurgent lumber prices](#), limited lot supplies, supply-chain issues, and a persistent skilled labor deficit foreshadow higher costs and longer build times heading into next year. Moreover, on the demand side of the housing market, limited inventories of single-family homes have generated strong price gains in 2020.

The deployment of a vaccine, while representing good news for the overall economy, will place upward pressure on interest rates. In turn, the combination of higher prices and rising rates will price some households out of the housing market next year.

The NAHB forecast is for ongoing gains for single-family construction in 2021, though at a slower growth rate than in 2020. Remodeling will remain strong as people continue to upgrade existing homes. The multifamily construction market will experience weakness as rent growth slows and vacancy rates rise. However, the development market should stabilize by 2022.

Together, residential construction will remain a leading element of the recovering economy, as illustrated with recent labor market data: Residential construction added 15,400 net jobs in November and was one of only a few sectors of the economy to post a [year-over-year jobs gain](#) (26,000).

While the HMI fell back, the outlook for housing remains positive, as the overall economy is expected to record a solid gain for GDP growth in 2021. NAHB anticipates GDP growth to accelerate in the second half of the year, after a majority of the U.S. population has been vaccinated. This process will be the most important element of 2021, as it will allow hard-hit sectors in the service industries to begin to recover and diminish shutdown risks harming small businesses.



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A growing economy will be good for housing, but industry stakeholders should be aware it could also result in higher interest rates that could act as a headwind for more housing growth.

NAHB Chief Economist Robert Dietz provided this housing industry overview in the free, e-newsletter [Eye on the Economy](#).

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