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A Long Wait for a U.S. Housing Recovery

What has held back U.S. home construction
and what it means for timberland investors

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Introduction

A healthy housing market is important for a healthy timber market. More than 70% of the softwood lumber consumed in the United States is used to build new homes or repair and remodel existing homes. Lumber is also the leading product from U.S. timber harvests by both volume and value. For that reason, forest owners and investors are concerned that U.S. residential construction has yet to achieve a meaningful recovery in the almost two decades since the Global Financial Crisis (GFC) began.

Housing starts peaked at 2.1 million in 2005 and, since 2007, have rarely exceeded 1.4 million. The sole exception was a brief “false dawn” during the COVID-19 pandemic, when starts reached 1.6 million in 2021. That upturn proved short-lived: starts have since declined 15%, returning to pre-pandemic levels.

This paper examines three related questions. First, why has home construction remained subdued for so long with no clear recovery in sight? Although the housing sector has many moving parts, a small number of key drivers explain the prolonged weakness.

Second, what conditions are needed to produce a sustained housing upcycle? Third, what role does housing play in timberland investment performance, and how should investors account for an uncertain housing outlook in their portfolio strategies?

What held back home construction

Since the GFC, three economic forces have constrained housing in succession: first, an excess supply of homes; next, a shortage of skilled residential construction labor; and, most recently, elevated interest rates that have reduced home affordability.

#1 The Housing Bubble Left Excess Home Inventory

In the early to mid-2000s, U.S. homebuilding surged well beyond the pace supported by demographic growth. At its 2006 peak, builders completed 2.0 million homes, compared with an annual average of 1.4 million since records began in 1968 (Figure 1). This overbuilding preceded the subprime mortgage crisis and contributed to the conditions that culminated in the GFC.

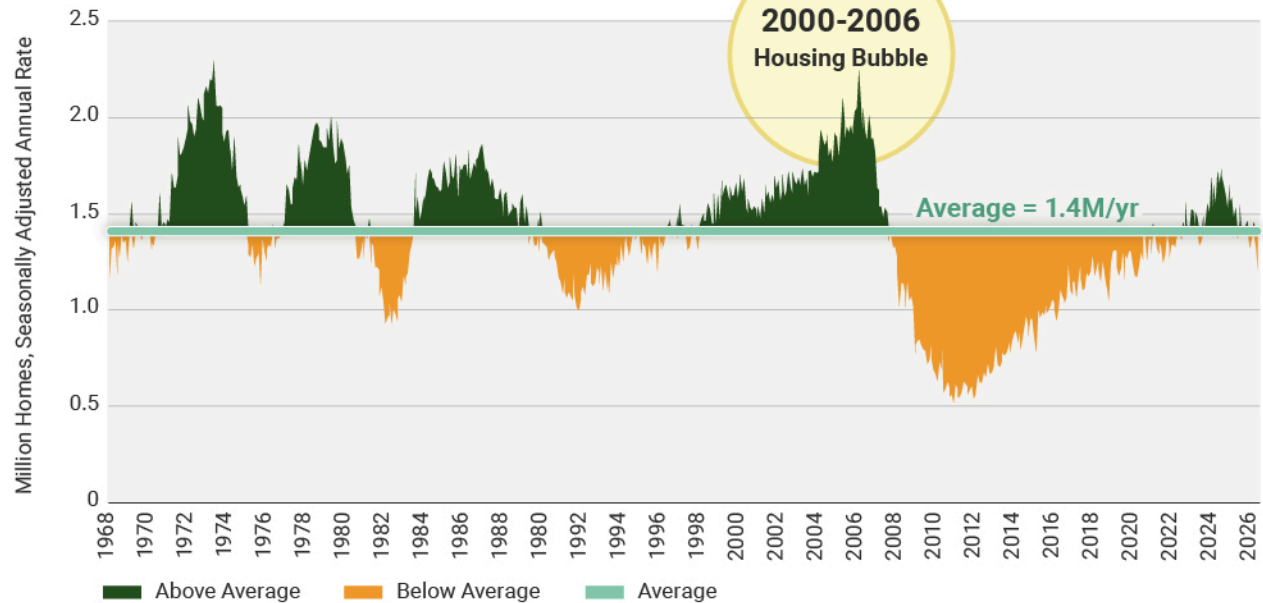
When the housing bubble collapsed in 2007, the market was left with an estimated surplus of 2 million homes.¹ Absorbing that excess inventory took several years and suppressed demand for new construction throughout the adjustment.

¹ Forest Economic Advisors, *Timber Quarterly Forecast 2026 Q2*, p. 23.



Figure 1.

U.S. Home Completions Above or Below the Historic Average



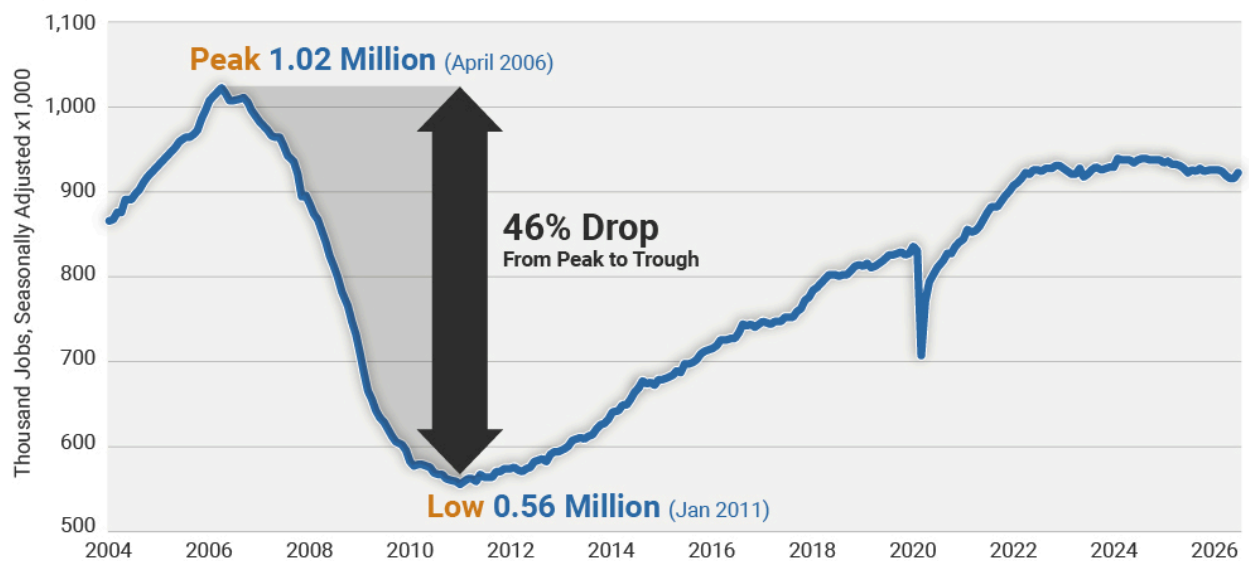
Source: U.S. Census Bureau; U.S. Department of Housing and Urban Development

#2 Labor Constraints Held Back Home Construction

After the GFC, labor became the next major headwind to a housing recovery. When the housing market collapsed, many small and medium-sized home builders went out of business, and many of the people they employed left the sector: electricians, plumbers, roofers, masons, carpenters, and the other trades that build new homes and repair or remodel existing ones. From a peak of 1.02 million in 2006, total employment in residential construction fell 46% to slightly above half a million in 2011 (Figure 2).

Figure 2.

Employment in Residential Building Construction



Source: U.S. Bureau of Labor Statistics



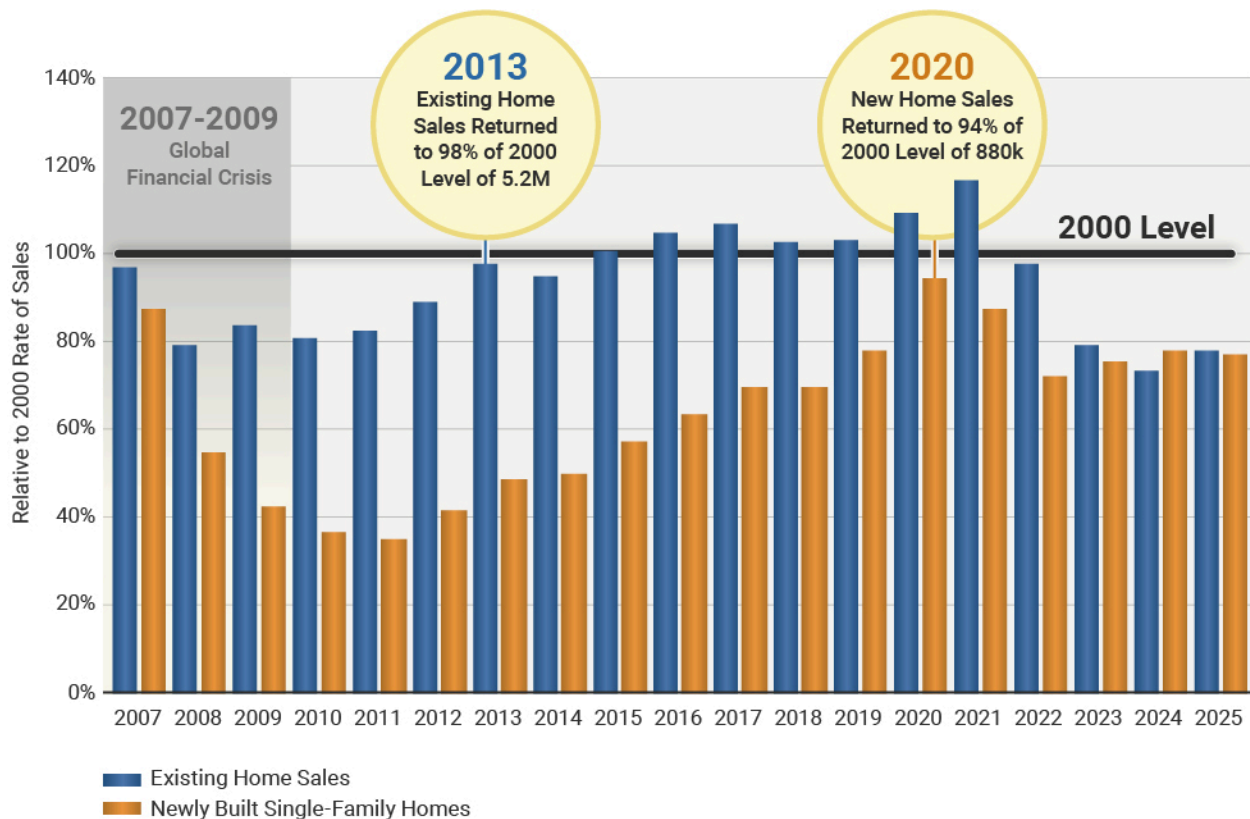
Many of those workers found better-paying jobs in industries such as oil and gas and commercial real estate construction, and they proved difficult to hire back. Recruiting and training a new generation of residential construction workers is a slow process. Without enough skilled labor, builders were limited in their ability to increase production even after demand for homes recovered.

Figure 3 illustrates the constraint. It tracks sales of existing homes and newly built single-family homes, indexed to 2000 levels. We chose 2000 as the benchmark because the housing market was healthy that year, just before the bubble began to form. Existing home sales were 5.2 million and new single-family home sales were 880,000. By comparison, 2026 sales were about 4.0 million and 630,000, respectively.

As Figure 3 shows, the market for existing homes recovered by 2013, four years after the GFC. New home sales stayed depressed and did not return to health until 2020, seven years after existing home sales recovered. Because a builder cannot sell a home it has not built, the lag in new home sales recovery suggests builders were limited in their ability to ramp up production, and labor was likely the key constraint.

Figure 3.

Sales of Existing Homes and New Single-Family Homes Relative to Pre-Housing Bubble Level (2000 = 100%)



Sources: National Association of Realtors (existing home sales); U.S. Census Bureau (new home sales)



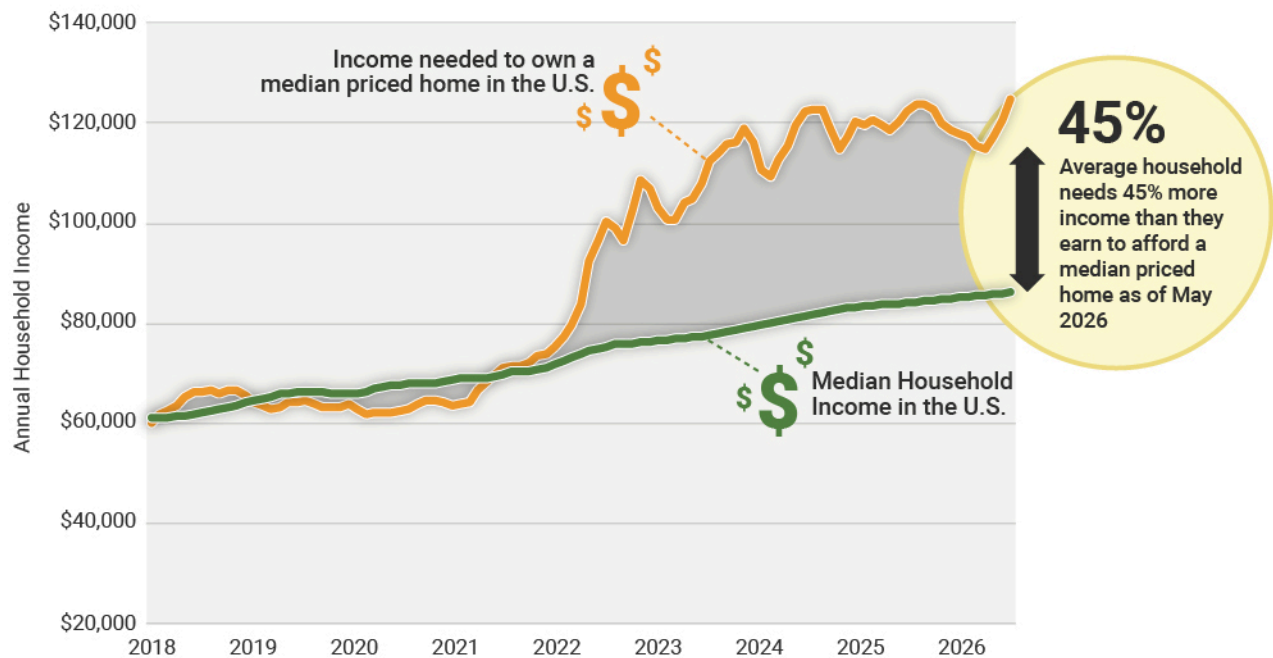
#3 Affordability has Worsened Since the Pandemic

Eventually, the surplus of homes was absorbed, and the home construction workforce climbed back to its historic levels. But just as the housing sector was primed for a sustained recovery, it faced a third setback: falling affordability. The cause traces back to the COVID-19 pandemic of 2020–2022.

Figure 4 shows the affordability gap. It compares the household income needed to buy a median-priced home with the actual median household income in the U.S. Through 2021, the average household could afford a typical home. After the pandemic, the cost of owning a home rose well above what many households could afford. By May 2026, the median household needed 45% more income than it earned to afford a median-priced home, according to the Federal Reserve Bank of Atlanta's Home Ownership Affordability Monitor.

Figure 4.

Home Affordability Gap: Income Needed to Own a Median Priced Home Compared to Actual Median Household Income



Income requirement assumes home ownership costs cannot exceed 30% of a household's annual income.

Source: Federal Reserve Bank of Atlanta *Home Ownership Affordability Monitor*.

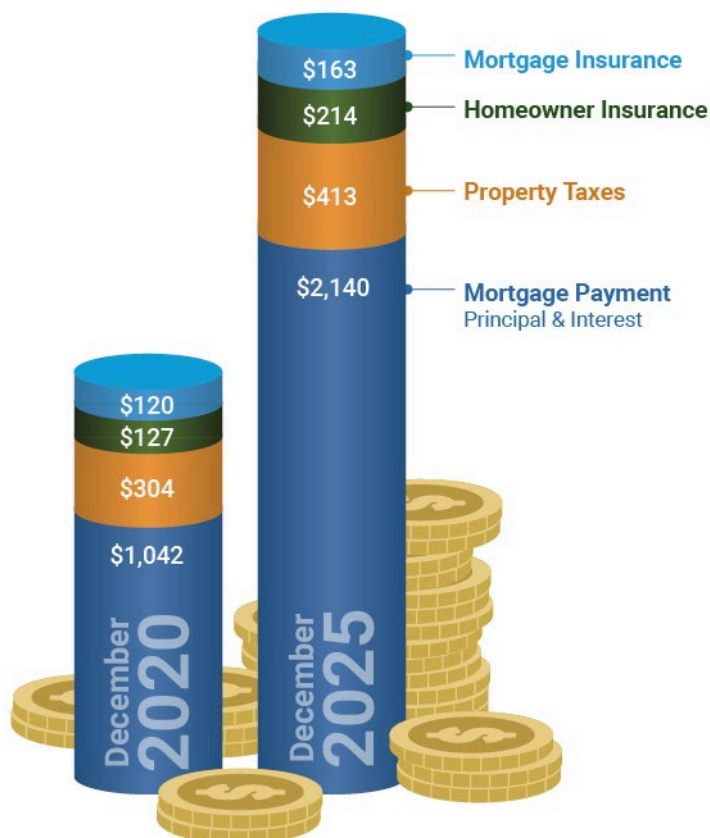
Several factors made homes significantly less affordable. During the pandemic, a surge of people moved out of urban centers to the suburbs and exurbs. That wave of demand pushed home prices sharply higher, and prices remain elevated today. Supply chain disruptions also substantially raised the cost of materials to build a home.



The most important factor, however, is arguably the dramatic rise in interest rates. Heavy government spending combined with loose monetary policy produced an elevated inflationary environment, and the Federal Reserve responded by tightening monetary policy, raising short-term interest rates and pulling back on its long-dated fixed income holdings. In turn, home mortgage rates rose to their highest levels in two decades.

Figure 5.

Monthly Cost of Home Ownership for a Median Priced Home in the U.S.



Source: Federal Reserve Bank of Atlanta Home Ownership Affordability Monitor

The 30-year fixed-rate mortgage, the most common loan for home purchases in the U.S., rose from below 3% in 2021 to above 6% by late 2022. For many households, this effectively doubled the mortgage payment on a newly purchased home (Figure 5). The monthly mortgage payment on a median-priced home rose from \$1,042 in December 2020 to \$2,140 five years later.



History of Factors Preventing a Sustained Housing Recovery

A series of market forces held back home construction after the GFC. As Figure 6 shows, the leading factors, in sequence, were a housing surplus, a limited labor pool, and low home affordability driven largely by high interest rates. Housing is a multifaceted sector woven tightly into the economy, and other economic, market, and policy influences beyond these three were also at work, listed in the call-out box to the right.

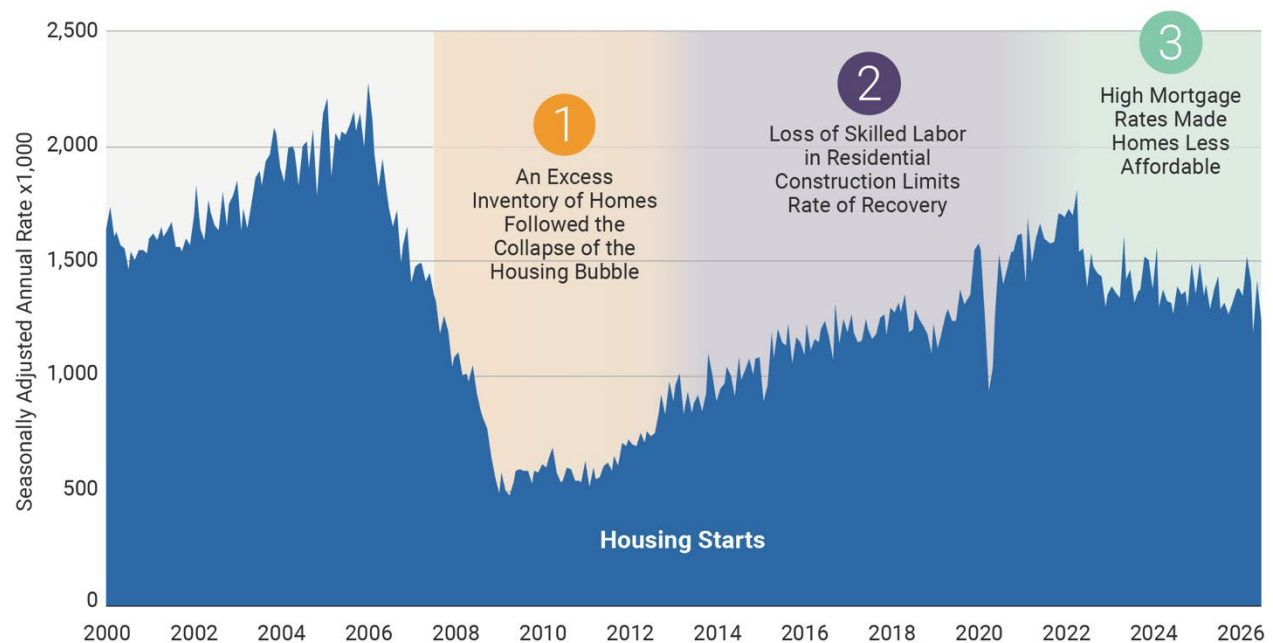
Other factors inhibiting a housing recovery

The housing market faces a host of other forces that have prevented a return to full health. Beyond the three leading factors, they include:

- Heavy regulatory barriers to home building in many municipalities, through permitting, zoning, and environmental restrictions
- Growing difficulty for builders in obtaining home development and land acquisition loans in a rising interest rate environment
- Heavy immigration enforcement, which reduces the available labor pool for home construction
- Declining consumer sentiment amid an uncertain job environment and persistently high inflation
- High levels of student loan debt among many college graduates

Figure 6.

U.S. Housing Starts and the Three Primary Factors That Held Back a Full Recovery in Home Construction



Source: U.S. Census Bureau



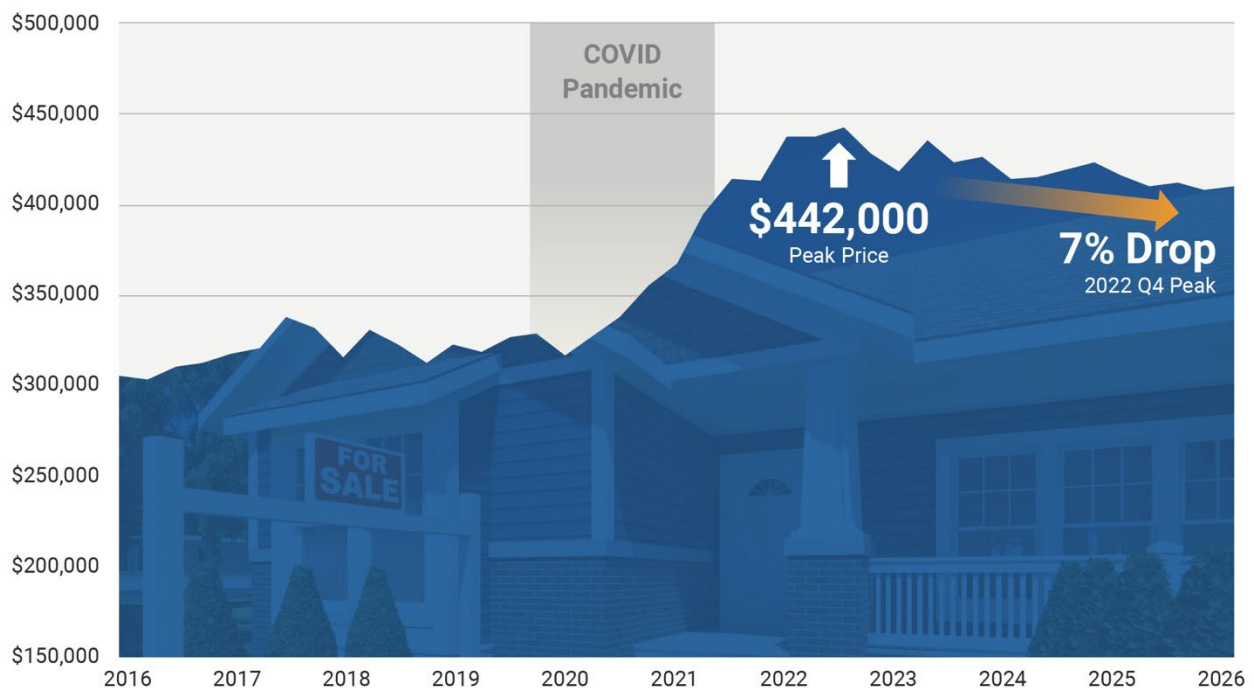
Conditions for a Housing Recovery

For the housing market to recover, homes need to become more affordable. There are three ways to get there: lower home prices, higher incomes, and lower interest rates.

Lower Home Prices

Facing lackluster demand for new homes, builders are trying to attract buyers by lowering prices however they can: building smaller homes, offering fewer amenities, and using smaller lots. As of the second quarter of 2026, the median price of new homes sold was 7% below its pandemic-era high of \$442,000 (Figure 7). As a result, the premium buyers once paid for a newly built home over an existing one has effectively been eliminated, and new homes are now competitively priced.

Figure 7.
Median Sales Price of New Homes Sold in the U.S.



Source: U.S. Census Bureau

Existing homes are also getting more affordable in real terms. Nominal (observed) prices have not fallen, but they are rising more slowly than inflation since May 2025. In July 2026, the S&P Cotality Case-Shiller Home Price Index was up 1.9% from a year earlier, well below the 3.35% inflation rate of the Consumer Price Index over the same period.

If home prices keep rising more slowly than inflation, existing homes will steadily become cheaper in real terms. That should support more home sales, which matters for lumber demand because a lot of home renovation and repair activity is often performed before a home is put onto the market or soon after purchase by the new homeowner.

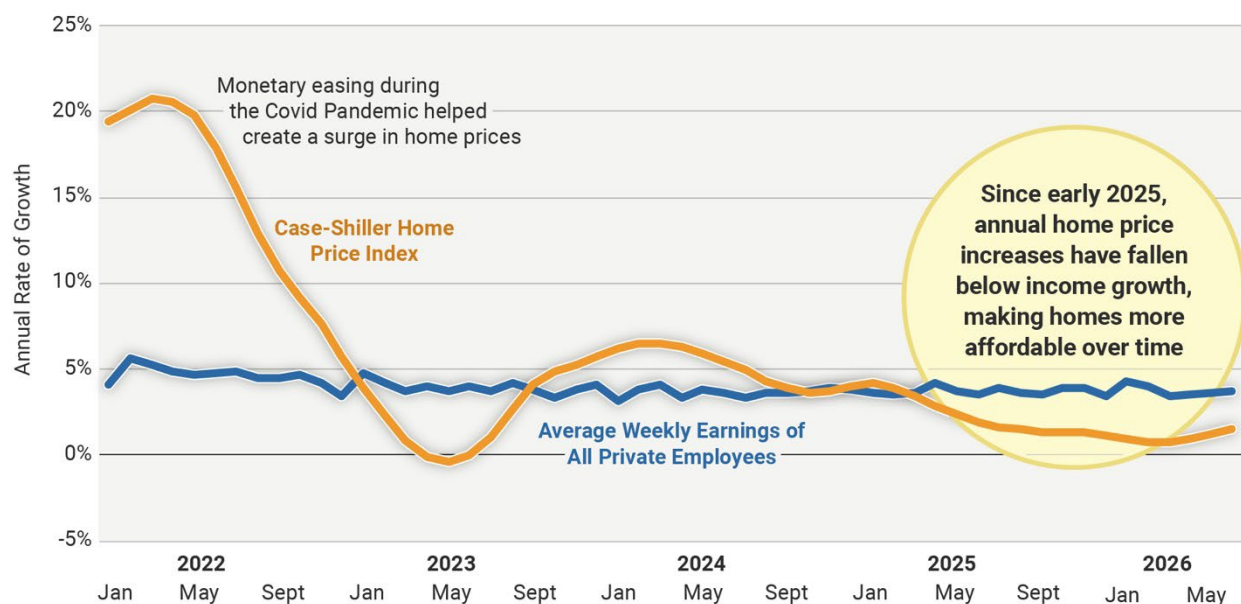


Rising Incomes

Affordability also improves when incomes rise faster than home prices. That was not the case before or during the pandemic, but it is now. Average earnings in the U.S. have grown above 3.5% a year for the past several years (Figure 8), while home price growth, as measured by the Case-Shiller Index, has retreated from its double-digit pandemic pace. Since March 2025, home prices have risen more slowly than household earnings.

Figure 8.

Trailing 12-Month Rate of Weekly Earnings Growth and Home Price Appreciation



Sources: U.S. Bureau of Labor Statistics, S&P Dow Jones Indices

Lower Interest Rates

The third lever is lower mortgage rates, and here the outlook is clouded. Rising government debt across many industrialized economies has pushed up long-term government bond yields globally, conflicts in the Middle East and Eastern Europe have led to high energy prices, and the U.S. economy faces tariffs and trade policy actions enacted by the current administration. Together, these have led to persistently elevated inflation and limited the Federal Reserve's options to cut rates, so mortgage rates are unlikely to decline significantly in the near future.

Outlook: Slow improvement in affordability

On balance, the outlook for home affordability is mixed but skewed toward the positive. Of the three levers, lower (real) home prices and rising incomes, if sustained, can improve affordability over the medium and long term, while persistently high interest rates work against it. The interest rate environment could turn quickly for the better, however, should energy prices retreat and trade friction between the U.S. and its major trading partners subside.



Home Construction's Role in Timberland Investments

We now have a clearer picture of what caused housing's two-decade slump: an oversupply of homes after the GFC, a shortage of construction labor, and, most recently, a sharp drop in affordability. Current trends suggest affordability will keep improving, but a full recovery isn't guaranteed. That leads to the question investors care about most: does the health of the housing market affect returns from a forest investment?

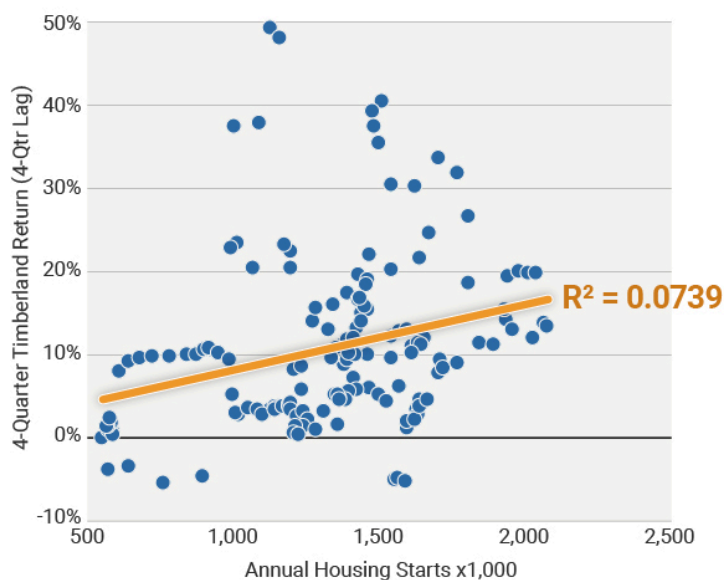
One way to test the relationship is to track housing starts against timberland returns. Price signals take time to move from home construction back through the lumber markets to timber prices, so we compared each year's housing starts with timberland returns in the following year. Figure 9 shows the resulting scatter chart, with a linear regression line fitted to quantify the relationship.

The upward-sloping regression line indicates a positive relationship between housing starts and timberland returns, but the link is weak: an R-squared of 0.0739 means housing starts explain only 7.39% of the variability in timberland returns. The wide scatter of 1-year returns (dots on the chart) above and below the regression line is visual evidence of this. Strong home construction tends to go along with higher timberland returns but is not the dominant factor. The variation we see is the likely result of other market factors (see call out box on the right).

For a broader perspective, we checked whether low levels of home construction has hurt timberland's track record relative to other asset classes. Table 1 compares the 1-, 3-, 5-, 10-year, and since-inception returns of timberland with those of its real asset peers, real estate and farmland, and adds housing starts for each period in the right-most column. Timberland has performed well against other real assets across all periods, despite the headwind of lackluster housing starts. Nevertheless, we do not know how much better timberland returns would have been had housing starts exceeded the 1.34–1.44 million a year realized over those periods.

Figure 9.

Rolling 4-Quarter Timberland Returns Matched With 12-Month Housing Starts (1987-2026 Q2) with 4-Quarter Lag



Source: National Council of Real Estate Investment Fiduciaries (NCREIF), U.S. Census Bureau

Other Drivers of Timberland Return

Outside home construction activity, other economic and market factors that can affect timberland returns include:

- Imports of lumber and other wood products from Canada and overseas.
- Regional demographic trends that can affect rural land values
- Development of natural capital markets such as conservation easements, environmental mitigation banking credits, and recreational leases
- Exports markets for softwood and hardwood logs and lumber
- End-use demand for products made from wood pulp such as boxes, packaging, tissue, and diapers.



Table 1.

**Performance of Real Estate, Farmland and Timberland through 2026 Q2
Paired with Housing Starts of the Same Period**

Period Ending 2026 Q2	Real Estate	Farmland	Timberland	Annual Housing Starts (million)
1-Year	4.99%	-0.12%	4.42%	1.36
3-Year	1.22%	0.40%	6.50%	1.38
5-Year	3.36%	3.74%	8.50%	1.44
10-Year	4.76%	4.62%	5.54%	1.37
Since Index Inception	8.39% Since 1978	9.67% Since 1991	10.42% Since 1987	1.34

Sources: Real estate: NCREIF National Property Index; Farmland: NCREIF Farmland Index; Timberland: NCREIF Timberland Property Index; Housing Starts: U.S. Census Bureau

What This Means for Timberland Investors

Many timberland investors are concerned that weak housing starts have led to weak timber prices. Setting aside the COVID-19 pandemic of 2020–2022, the home building sector has not had a good year, or a good run of years, in close to two decades. But as Figure 9 showed, housing starts explain only a portion of timberland returns.

There is also good news on housing itself. Two of the three major factors that limited new home construction and home improvement have passed. The home surplus has become a shortage. The excess of homes left by the housing bubble has turned into a deficit, with estimates of pent-up demand ranging from 2 to 5 million homes. Freddie Mac, for example, calculated in 2024 that the housing shortfall had reached 3.7 million.² The shortfall of labor in home construction has also largely been eliminated. The remaining constraint is poor affordability, driven largely by high interest rates.

A strong recovery in home construction would be welcome, but no one can reliably forecast long-term interest rates, and so no one can predict when housing will recover. As a result, as with any asset class, we advise against trying to “time the market” by adjusting your timberland exposure to your expectations of the housing cycle. A timberland investment’s horizon is often measured in a decade or longer, so housing is likely to switch from a headwind to a tailwind at some point during the hold period. Investors who stay invested will be positioned to benefit when it does.

² Freddie Mac, “Housing Supply: Still Undersupplied by Millions of Units.” Nov. 26, 2024. (<https://www.freddiemac.com/research/insight/housing-supply-still-undersupplied>)



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