Federal Reserve Says Homes Are 25% Overvalued - Housing Market Review

In addition to tracking inflationary pressures and wage growth, the Federal Reserve also tracks asset valuations to try to identify excessive increases. The Fed's Financial Stability Report assesses the stability of the US financial system by also analyzing asset valuations, borrowings by businesses and households, leverage and funding risks.

A model used in valuing residential home values found that homes are now 25% overvalued, just below the 28% peak in 2007. Using the Labor Department's measure of rent, home prices are 19% overvalued using private measures of market rents.The Fed also follows the S&P CoreLogic Case-Shiller U.S. national home price index, which tracks U.S. home prices nationwide. The index is up 51% since the end of 2019, an extraordinary rise relative to historical data.

Another factor that is closely followed is the cost to rent versus owning. According to the Labor Department, the owner-equivalent rent is up 24% since 2019, meaning that the cost to purchase a home has risen more than the cost to rent since 2019.

Sources: Federal Reserve Board of Governors

Case-Shiller U.S. National Home Price Index

Nov 2019 - Apr 2024