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When will the housing market crash? Economists don't foresee it in 2025

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Is a housing market crash looming? Probably not.

Experts overwhelmingly say that the housing market isn't going to crash anytime soon.

- The last housing crash helped cause today's lack of supply, which is what's keeping prices from falling.
- Mortgage rates, however, may ease in 2025. This would help make homeownership more affordable.

Thanks to elevated mortgage rates and high home prices, it's been a tough couple of years for homebuyers.

Home prices are up year over year, and many 2025 housing forecasts expect them to keep trending higher — though likely at a slower pace than in recent years.

The challenging housing market has many would-be buyers wondering if home prices will ever go down, or if they might crash in the near future.

Will the housing market crash in 2025? And if it does, will that make homes more affordable for first-time homebuyers?

Is the housing market going to crash in 2025?

Though many Americans believe a crash is imminent, economists who study housing market conditions generally don't think the housing market is going to crash in 2025 or beyond unless the economic outlook changes.

Some areas may experience a smaller housing market correction, which is less dramatic than a crash and can happen when home prices rise too quickly and buying a home becomes unaffordable for a large portion of the population.

Expert forecasts

The latest housing market predictions from some of the top industry groups believe home prices will increase this year.

Fannie Mae estimates that home prices will increase 4.1% in 2025 and 2% in 2026. It also predicts that home sales will increase by 2.5% in 2025 after ending 2024 down 0.2%.
The Mortgage Bankers Association forecasts that home prices will have gone up 1.3% by the end of 2025 and that prices could rise 0.3% in 2026.

The National Association of Realtors says median home prices could rise 3% in 2025 and another 4% in 2026

Economic indicators to watch

These forecasts could change if the economy shows signs of weakening.

In their latest Summary of Economic Projections, released in March, Federal Reserve officials predicted that the unemployment rate could tick up to 4.4% this year before inching back down to 4.2% over the longer run.

If unemployment rises more than this, we could experience a downturn, which may lead to a housing market correction where prices go down a little bit. But even then, prices might not drop enough to make a big difference in affordability.

Another indicator of housing market stress is an increase in foreclosure activity. But in a recent report, real estate data firm ATTOM said that foreclosures were up just 9% year over year in March.

Are we in a housing bubble?

A housing bubble happens when home prices rise rapidly over a short period of time due to an unsustainable rise in demand.

Some people think our current market is a bubble because home prices have gone up so much in the last few years. But the key to a housing bubble is that it isn't rooted in the fundamentals of what typically drives home values.

Prices have gone up so much in recent years because homebuyer demand surged when mortgage rates dropped to historic lows in 2020 and 2021, while supply remained tight. Note

The housing bubble and the Great Recession

In the early 2000s, lax mortgage lending standards helped create a housing bubble by making it too easy to get a mortgage. This artificially drove up demand, leading to higher home prices. But when this housing bubble burst, many homeowners found themselves underwater on their mortgages and unable to make their monthly payments — ultimately leading to the 2008 financial crisis and the Great Recession.

Nowadays, homeowners are in a much better spot to weather a housing market correction. Lending standards are tighter now, and owners have a lot of equity in their homes to cushion them from the impact of a drop in value. Note

Understanding housing market dynamics

Why are economists so sure that home prices won't crash?

"[There's] just simply not enough supply," Lawrence Yun, chief economist at the National Association of Realtors, says. "So the economics of supply and demand, if there's a shortage, prices simply cannot crash."

The U.S. is between 2.3 million and 6.5 million units short of a healthy housing supply, according to Realtor.com. Even if something happened that caused a lot of homebuyers to drop out of the market, demand likely still couldn't drop low enough to push prices down significantly.

Current state of the housing market

Note

While it's perhaps understandable that some hopeful buyers feel their only chance to become homeowners is for the market to crash, they might not realize that the last crash is part of how we got into this situation in the first place.

How the last housing market crash helped create today's conditions

In the mid-2000s, many lenders were offering mortgages to high-risk borrowers without asking for proper documentation. At the same time, home builders were rapidly building new homes to meet increasing demand.

"Home builders were producing right and left, so much home construction," Yun says. "It was one of the most active supply-producing situations. So we had an oversupply."

When the housing market crashed, it destroyed the home-building industry. Many companies went bankrupt, and a lot of builders permanently left for jobs in other industries.

In the years that followed the recession, the industry struggled to recover, and few homes were built as a result. Now, more than a decade after the end of the Great Recession, homebuyers are still feeling the effects of the last crash.

Demand from first-time and millennial homebuyers

So there's not enough supply, but where is the demand coming from? Even though homebuying demand has eased somewhat in response to higher mortgage rates, there are still a lot of buyers interested in purchasing a home, especially first-time homebuyers.

According to NAR, 24% of 2024 homebuyers were first-timers. And millennials, many of whom have never owned a home before, have finally surpassed baby boomers as the largest demographic of homebuyers, making up 38% of the market.

As more first-time homebuyers come onto the market, it only exacerbates our supply issue. And Gen Z, another large generation, is now starting to look for homes, too. However, as baby boomers move into nursing homes or pass away, the homes they leave behind should help add to the housing supply in the future — a phenomenon dubbed the "silver tsunami." So we may soon get some relief thanks to the addition of that supply.

Home price trends

Home prices have been increasing. According to NAR, existing home prices rose 2.7% year over year in March, reaching $403,700.

Mortgage rates and the housing market

In April, average 30-year mortgage rates were around 6.71%, according to Zillow data. Current rates are similar to where they were a year ago, keeping homebuying demand low.

Rates are expected to go down slightly in 2025, but it's unclear if they'll drop enough to improve affordability for borrowers.

Impact of the Fed

The Federal Reserve lowered the federal funds rate three times in 2024. Where mortgage rates go this year depends in part on whether the Fed continues cutting rates, and by how much. Inflation has been coming down, but tariffs could push it back up. If that happens, the Fed may not cut as much or at all this year.

If mortgage rates stay elevated as a result of an extended pause in Fed cuts, home prices may not rise as quickly as they have in previous years.

Predicting a housing market crash

Housing market crashes or real estate corrections typically happen when there's an imbalance of supply and demand. But there are a lot of things that can cause this imbalance, which makes crashes hard to predict.

How low demand can cause a housing market crash

A sudden drop in homebuying demand can lead to a housing market crash. This can happen if a lot of would-be buyers lose their jobs during a recession, and are no longer able to afford to buy a house. If no one is buying houses, then home values plummet.

Lower demand also typically occurs when mortgage rates are high. This alone often won't be enough to cause a crash in prices. But if supply is also relatively high, a moderate drop in demand could cause home prices to go down.

How an increase in supply can cause a housing market crash

Though it might be hard to envision in the current market, it's possible to have an oversupply of homes. This can happen if builders construct too many homes in a given area, or if an economic downturn causes many owners to lose their homes to foreclosure. In this scenario, not only would a lot of new homes be released onto the market, but the economic conditions could also prevent other buyers from purchasing those homes.

Shifts in supply or demand don't always mean a crash is imminent. We could get a housing market correction where prices plateau or dip without crashing.

What a housing market crash would mean for homebuyers and sellers

Housing market crash impact on buyers

Anything is possible, and nobody has a crystal ball to see for certain what will happen in the housing market in the coming months and years. If the market were to crash, would that make it easier to buy a home?

It's possible, but it depends on what caused the crash in the first place. If it's anything like the last crash, where many workers lost their jobs, taking advantage of lower home prices won't be possible for many homebuyers. And given the current supply conditions, it's highly unlikely that we'd see prices fall significantly without there being a larger economic fallout.

Housing market crash impact on sellers

In recent years, the housing market has been good for homeowners and sellers. Limited supply has boosted their home values and given them the upper hand in home sale negotiations. But a housing crash would likely shift some of that power to the buyers. This means sellers would need to be more open to offering concessions to buyers or lowering their prices.

A crash would also impact your home's value and potentially make it difficult to move if you end up underwater on your mortgage.

Preparing for a potential housing market crash

Right now, you probably don't need to be preparing for the housing market to crash.

But if you're wondering what you can do now to put yourself in a good spot if a crash were to occur sometime in the future, here are some ways you can prepare:

- Keep an emergency fund
- Don't buy more house than you can afford
- Get a fixed-rate mortgage, so you don't have to worry about your payment going up
- Increase your down payment so you have some equity in your home

How to buy a home in a challenging market

Instead of hoping for lower prices, here are some things you can do to achieve your homeownership dreams in 2025.

Expand your search

If you can't afford to buy in your current city, consider looking elsewhere. Talk to a local real estate agent to find out if you can find more affordability a few towns over. Many times, average home prices can differ quite a bit from one ZIP code to the next. Just be sure to also consider other factors before you move to a new area, such as your commute to work and whether you want to be in a certain school district.

If you live in a high-cost metro area, moving out of the city can make homeownership significantly more affordable.

"For those who have some flexibility to go further out into the suburbs, exurbs, or even smaller towns, the next county, there's better affordability," Yun says.

Wait for mortgage rates to fall

The one good spot of news for homebuyers is that mortgage rates are expected to go down a bit in 2025. While Yun says we're unlikely to see a return to the historic lows borrowers enjoyed in 2020 and 2021, the latest forecasts suggest 30-year fixed rates could inch down throughout the next couple of years.

Lower mortgage rates mean more people will be able to afford to buy a home. As rates fall, you could potentially save hundreds of dollars a month on your mortgage payment.

Get as much help as you can

Mortgage lenders are increasingly offering incentives to entice prospective borrowers, and many of the best mortgage lenders for first-time buyers offer things like down payment assistance or interest-rate buydowns to help borrowers get into a home.

Make sure you're taking advantage of all the assistance available to you. Look for no down payment mortgages and down payment grants offered by lenders, as well as down payment assistance offered by your state or municipality.

Housing market crash FAQs

When will the housing market crash?

The housing market is unlikely to crash in the near future, since supply is still so low in many areas.

What is a housing bubble?

A housing bubble is an artificial, rapid increase in home prices. Housing bubbles eventually pop because the factors leading to them are unsustainable.

When will the housing market crash again?

It's hard to say when the housing market will crash again. The last time a housing market crash happened was during the 2008 financial crisis. But housing experts generally agree that we don't currently have the ingredients for another crash.

Why did the housing market crash in 2008?

The housing market crashed in 2008 in part due to lax mortgage lending standards that made it easy for unqualified borrowers to get a mortgage. When the housing bubble burst, many of these homeowners couldn't afford to keep their homes, leading to a crash in prices.

What happens in a housing market crash?

When the housing market crashes, home prices drop a lot. This can put a lot of homeowners underwater on their mortgages, where they owe more than their home is worth.

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Today — what part of home ownership market most likely to be "underwater" economically with their homes?

Answer — those that bought or re-fi'd 2023-24 period
2022 buyers are on the margin of insolvency.