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High mortgage rates are yet another factor making homes unaffordable for many Americans. (ILLUSTRATION BY LYNNE TUTTLE/BARRON'S; DREAMSTIME (3))

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How Trump's Policies Could Make the Housing Market Even More Unaffordable

Tariffs and worker deportations threaten to make home prices more expensive, pushing homeownership out of reach for millions.

By Shaina Mishkin Follow

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Donald Trump campaigned on bringing down the cost of living, including record-high house prices. But his administration is embracing policies that probably will make housing more expensive.

Take tariffs and the crackdown on migrants. Putting tariffs on Canadian lumber, drywall from Mexico, and imported appliances would raise home prices. And deporting millions of undocumented workers will hamstring a construction industry where just under a quarter of workers are undocumented immigrants, according to the left-leaning Center for American Progress.

“Anything that pushes the price of a home [or] build costs higher is going to be net detrimental for home buyers right now,” says Rick Palacios Jr., the director of research at real estate research firm John Burns Research and Consulting. “They are having a tough time as it is.”

The new Trump policies come at a precarious time for the housing industry. Home prices hover at record levels, largely because construction has failed to keep up with demand. The combination of high home prices and high mortgage rates has pushed homeownership out of reach for millions of Americans. In many parts of the country, including fire-prone California and hurricane-prone Florida, homeowners also face soaring insurance costs.

There are few reasons to think the picture for buyers will dramatically improve this year. “The spring selling season will be very challenging if we don’t see some relief on rates,” says Ivy Zelman, executive vice president of housing research firm Zelman & Associates. Mortgage rates have fallen to a recent 6.76%, but remain higher than many can afford.

To be sure, Trump’s drive to cut regulations and lower interest rates could spur both home building and housing demand. The president directed agencies to lower the cost of housing and increase the supply of homes in an executive order decrying the burden that regulatory requirements add to the cost of a house. Treasury Secretary Scott Bessent’s focus on lowering long-term yields could also be a boon for buyers if it brings down home financing costs.

The U.S. housing crisis is, in large part, a supply-and-demand problem. It would take three or more years of home building at current rates to meet the need for 3.7 million units, estimates Freddie Mac deputy chief economist Len Kiefer. The country has built only an average of one million single-family homes over the past five years, a trend that forecasters expect to continue in 2025.

“The only way that we are going to solve [high home prices] is to put more supply on the market,” says Jim Tobin, CEO of the National Association of Home Builders, or NAHB, noting that both presidential candidates ran on improving housing affordability. “Some of the actions we’ve seen after that are maybe running counter to that.”

Inflation hit every part of the economy in the wake of the Covid-19 pandemic, and home materials were whacked particularly hard: The cost of construction materials is up more than 30% since the pandemic began, according to the NAHB. As lockdowns snarled supply chains, builders faced significant shortages of nearly everything, from windows and doors to home appliances, right when buyer demand was reaching its zenith.

It could get worse. The threat of new tariffs, including those on Canada and Mexico, could complicate home building supply chains and ultimately drive up costs for buyers, the industry warns. “The cost of building is now just going to go up, and is ultimately going to be borne by the home buyer or renter,” says the NAHB’s Tobin.

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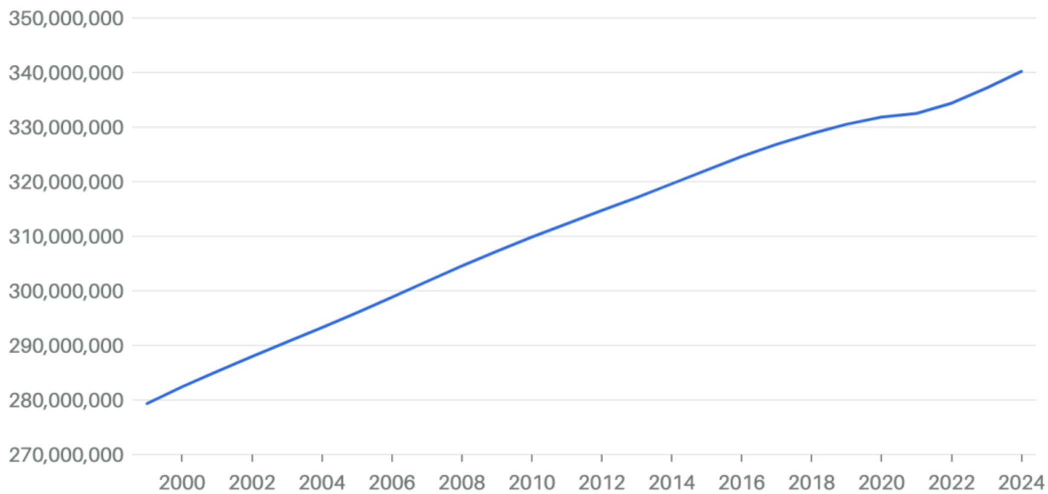
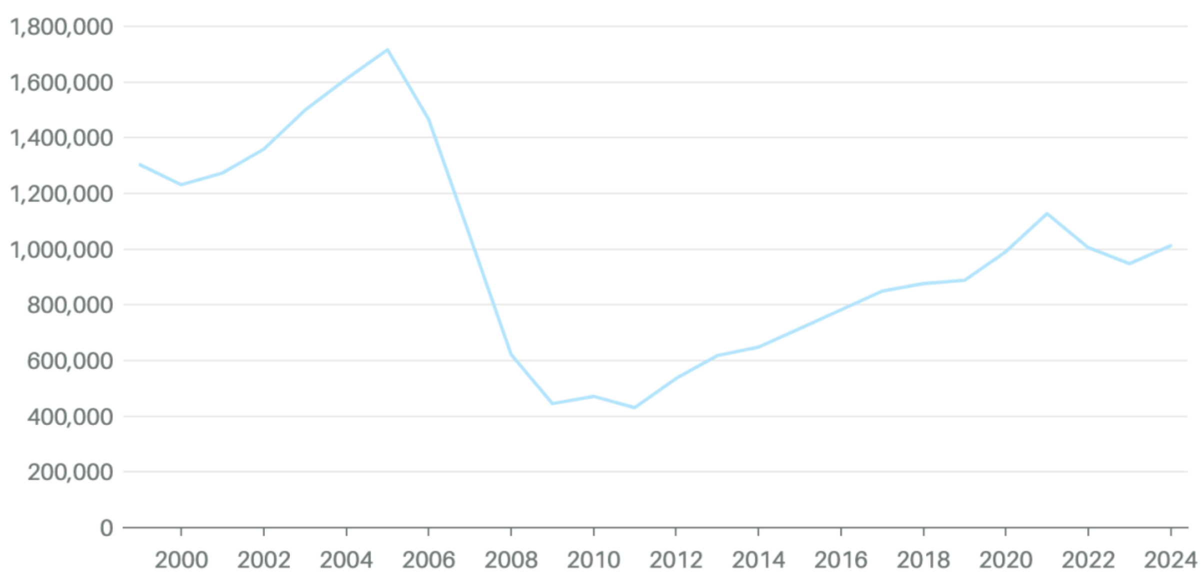
Tariffs on Canada and Mexico, which produce lumber and the gypsum used in drywall, are of particular concern—as are appliances from China. The president announced the tariffs in early February before postponing enforcement of those on Canada and Mexico to early March. Meanwhile, home builders are working on contingency plans to source from other countries or use different materials, says KBW analyst Jade Rahmani. "But no doubt there would be impact," he adds. New lumber tariffs could shrink builder margins by as much as three percentage points, Rahmani wrote recently.

Housing Lags Population Growth

Population has been steadily increasing in recent decades...



...but housing starts have been much more subdued.



Some in the industry hope that tariffs are a bargaining tactic and won't happen. "President Trump is a businessman; he is a former real estate developer," says Isaac Toledano, co-founder of the Florida luxury condo developer BH Group. "At the end of the day, I think that this is a negotiation tactic."

But even the threat of tariffs is disrupting the housing market. An indication of future construction, the NAHB's sentiment index, dropped in February by five points, its greatest decline since last May. "Uncertainty over the scale and scope of tariffs has builders further concerned about costs," says Robert Dietz, the trade group's chief economist.

"There is now more concern around deportation risk," says Zelman, the housing researcher. A quarter of home builder respondents to the firm's January survey said that the fear of immigration service raids resulted in higher levels of absenteeism among subcontractors, with the greatest impacts in Baton Rouge, La.; Chicago; Bakersfield, Calif.; San Antonio and Austin, Texas; Greensboro, N.C.; and Myrtle Beach, S.C.

Deportation risk initially may have a bigger impact on smaller builders who don't work with subcontractor companies that verify employment status, Zelman says, but it will take time to see the full extent of the impact. Rumors of raids alone could cause workers to stay home, she adds.

Builders who can't find labor to finish homes under construction will be hit hard. "The longer the house sits there and you're not turning your capital, that's a drain on your cash flows and returns," Zelman says. "You also would likely have to pay more for additional labor."

Risks exist outside of just home supply. Fannie Mae and Freddie Mac, two mortgage market giants that buy, securitize, and guarantee loans from lenders, have been under government conservatorship since the 2008-09 financial crisis. The first Trump administration sought to remove the companies from conservatorship but stopped short.

If the mortgage giants lose their implied government guarantees, mortgage rates would probably climb. "Our housing finance system, while it's probably not how you would have drawn it up on a whiteboard from scratch, is the envy of the world," says Bob Broeksmit, the CEO of the Mortgage Bankers Association. "Any responsible exit would be accompanied by a legislated explicit guarantee on the mortgage-backed securities of Fannie and Freddie so as not to jeopardize that system."

How—and whether—the administration releases the companies from conservatorship has yet to be seen. Bill Pulte, Trump's nominee to lead the Federal Housing Finance Agency—which regulates Fannie and Freddie—noted the risks at his confirmation hearing this past Thursday. "While their conservatorship should not be indefinite, any exit from conservatorship must be carefully planned to ensure the safety and soundness of the housing market without upward pressure on mortgage rates," he said.

Home purchases have already slowed because of high prices and a lack of resale inventory. Builders have been offering incentives to lure buyers, and investors are souring on the sector. The iShares U.S. Home Construction exchange-traded fund is down about 4.4% so far this year, compared with the S&P

500 index's 1.2% gain. **"**The worry in the stocks is that margins are going to compress," says BTIG analyst Carl Reichardt.

The recent pullback in home builders could be a good time to buy for the long term, analysts tell *Barron's*. There is still an underlying demographic demand for new houses in the long term that will pick up once home affordability improves. "Valuations today for the home builders are much more attractive than what they were five months ago," says Jeffrey Kolitch, who manages the $2.16 billion Baron Real Estate fund.

Public builders may be particularly well positioned to ride out the worries: Many have said on recent earnings calls that they haven't seen any disruption in labor so far from changes in immigration policy, citing their industry relationships. And larger builders are better able to control supply costs because of their relationships with suppliers and industries of scale. "The entire space could be looked at this point because it has underperformed the market so significantly," says KBW's Rahmani.

But the headwinds could weigh on new-home construction for months or even years. That could push up prices further and put homeownership even further out of reach for many Americans.

"Anything that makes home prices increase more than they would otherwise is concerning," says Broeksmit of the Mortgage Bankers Association. "We don't want a generation that has given up on homeownership."