

THE GROWING GAP

BETWEEN HOME PRICES AND CAPITAL GAINS LIMITS

*Mapping Capital Gains Exposure
Across U.S. Housing Markets*



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Executive Summary

Meeting housing demand in the United States requires both new construction and the efficient circulation of existing homes. While new housing supply is essential for long-term market balance, the majority of housing transactions — approximately 85 percent — involve existing homes. While new home construction typically takes several years from planning to completion, near-term changes in housing availability depend primarily on existing homeowners' ability to sell.

As a result, policies and market conditions that influence homeowners' mobility play a critical role in addressing housing shortages, especially in the short- and medium-term. One such policy is the federal capital gains tax exclusion for the sale of a primary residence. The federal capital gains tax exclusion for the sale of a primary residence — \$250,000 for single filers and \$500,000 for married filers — was established in 1997 and has not changed since then. Over the same period, U.S. home prices have increased substantially, rising by about three and a half times at the national level, and even faster in many metropolitan areas.

Consequently, a growing number of homeowners now have capital gains exceeding the current exclusion thresholds. Based on homeowner tenure patterns and historical home price appreciation, an estimated **25.4 million homeowners now hold gains exceeding \$250,000, while about 8.0 million homeowners hold gains exceeding \$500,000.**

When the current capital gains limits — \$250,000 for single homeowners and \$500,000 for married homeowners — are applied, we estimate that about **13.1 million homeowners — 15 percent of all owner-occupied households — already have gains above these thresholds.**

Capital gains exposure varies widely across states and metro areas. In high-cost markets, exposure is already widespread under current conditions. In some fast-growing post-2010 markets, exposure remains lower today but increases rapidly as prices continue to rise. Scenario analysis shows that if home prices were to increase by an additional 30 percent, more than 27 million households — just over 30 percent of homeowners — would exceed the exclusion threshold.

At the local level, capital gains exposure can influence homeowner mobility and housing turnover, particularly among long-tenured and single homeowners. While this report does not evaluate specific policy changes, it documents the scale, distribution, and local dynamics of capital gains exposure in today's housing market and highlights its relevance for housing supply and mobility.

Introduction

Addressing housing shortages in the United States requires attention to both the creation of new housing and the effective use of the existing housing stock. While new construction is critical to long-term supply, it accounts for only a relatively small share of total housing transactions. Roughly 85 percent of home sales each year involve existing homes rather than newly built units. Because new housing takes years to plan, obtain permits, and complete, near-term changes in housing availability depend primarily on turnover in the existing housing stock.

For this reason, homeowner mobility plays a central role in housing market dynamics. When existing homeowners are able to sell and move in response to life changes — such as job relocation, household size adjustments, or retirement — the housing market can better reallocate homes across different types of demand. Respectively, when selling becomes financially or structurally difficult, inventory tightens even in the absence of strong speculative activity.

The federal capital gains tax exclusion for the sale of a primary residence was established under the Taxpayer Relief Act of 1997. Under current law, homeowners may exclude up to \$250,000 in capital gains if filing as a single taxpayer, or up to \$500,000 if filing jointly, provided ownership and occupancy requirements are met. These thresholds have remained unchanged since their adoption.

Since the late 1990s, the U.S. housing market has experienced substantial price growth. National home values have

increased by roughly three and a half times, with significantly higher growth in many metropolitan areas. While household incomes and overall inflation have also risen, home price appreciation has exceeded both in many markets.

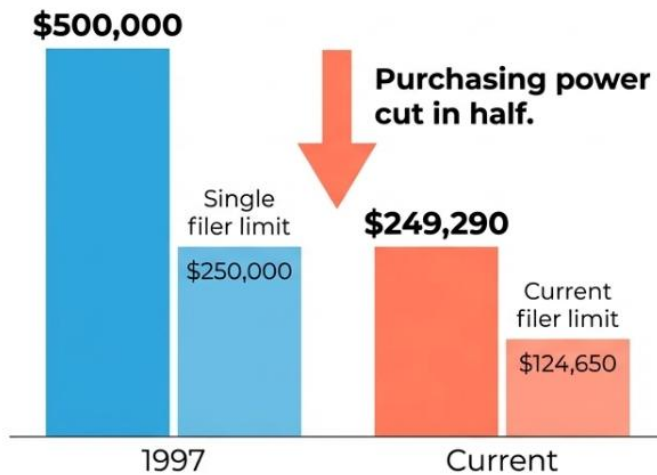
Specifically, using Consumer Price Index (CPI) data, consumer prices have doubled since 1997. Adjusted for inflation, the \$250,000 exclusion is equivalent to about \$124,650 in today's dollars, while the \$500,000 exclusion is equivalent to approximately \$249,290. In real terms, the purchasing power of the exclusion has been cut in half. If the exclusion had been indexed to inflation, it would stand today at approximately \$500,000 for single filers and \$1 million for married filers. Instead, the thresholds remain fixed at their original nominal levels.

At the same time, home prices have moved in the opposite direction. The median home price has increased from about \$126,100 in 1997 to \$414,300 today, more than tripling over the same period. In other words, while home values have risen substantially, the capital gains thresholds have effectively declined in real terms.

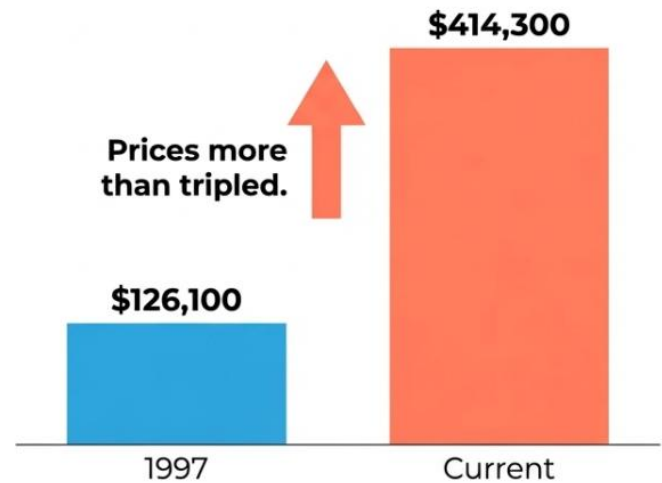
Introduction

Real Purchasing Power of the Capital Gains Tax Exclusion

Real Purchasing Power of the Exclusion
(Adjusted for CPI)



Median U.S. Home Price



As a result, a growing share of homeowners now holds unrealized capital gains that exceed the current exclusion thresholds. For these households, the potential tax implications of selling a home have become a relevant consideration in housing decisions, particularly for owners who purchased their homes many years ago.

This report examines how the fixed capital gains exclusion interacts with

long-term home price growth and homeowner tenure. It documents the current level of capital gains exposure among U.S. homeowners and evaluates how that exposure could change under different price growth scenarios. **The purpose is to provide a factual, data-driven assessment of the scale and distribution of exposure and to clarify how it may influence housing mobility and local market conditions.**

The capital gains exclusion was established in a housing market with lower prices, shorter ownership tenures, and less cumulative appreciation than exists today.

Data and Methodology

This analysis estimates capital gains exposure by linking homeowner tenure with historical home price appreciation. Ownership tenure is a key determinant of unrealized gains, as longer tenure generally implies a lower original purchase price relative to current market values.

Homeowner tenure distributions are derived from the American Community Survey (ACS), which provides nationally representative information on how long households have lived in their current residences. Homeowners are grouped into tenure cohorts to reflect differences in purchase timing.

Home price appreciation is estimated using the Federal Housing Finance Agency (FHFA) House Price Index. The index is applied to each tenure cohort to estimate cumulative price growth between the approximate year of purchase and current market conditions.

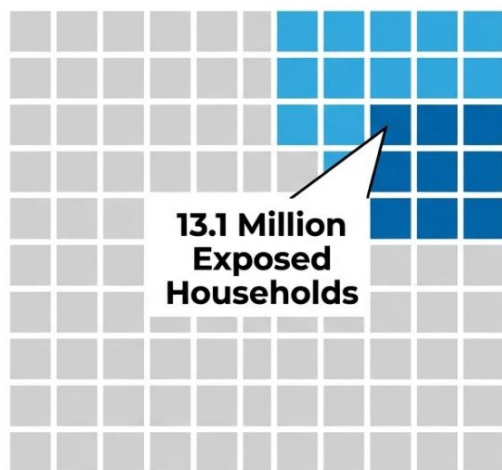
Estimated unrealized gains are then compared with the statutory exclusion thresholds of \$250,000 for single filers and \$500,000 for married filers. Homes with estimated gains above these thresholds are classified as exposed to potential capital gains taxation upon sale.

These estimates are conservative. The analysis does not assume luxury housing, does not include second homes or investor-owned properties, and does not adjust for capital improvements that could increase cost basis. The focus is on broad, structural exposure resulting from long-term price growth interacting with fixed exclusion limits.

National Capital Gains Exposure

Under Current Conditions

Under current price levels, approximately **13.1 million homeowner households have unrealized capital gains that exceed the applicable exclusion threshold. This represents about 15 percent of all owner-occupied households nationwide.**



Exposure is not limited to households that purchased high-priced homes. In many cases, exposure reflects long-term ownership in markets that have appreciated steadily. Homes that were affordable or moderately priced at the time of purchase may now carry substantial unrealized gains due to cumulative appreciation.

Single filers account for roughly 58 percent of exposed households. Because the exclusion threshold for single taxpayers is half that of married filers, single homeowners tend to reach exposure sooner, particularly in markets with moderate-to-high appreciation. This group includes many older homeowners who have aged in place following widowhood or divorce.

For affected households, the potential tax liability associated with selling a home can represent a significant share of housing equity. In some cases, this reduces the net proceeds available for a future purchase, relocation, or retirement planning.

Filing status plays a significant role in determining when households cross the exclusion threshold.

How Capital Gains Exposure Influences Housing Decisions

Capital gains taxes differ from other housing-related costs because they are incurred at the point of sale. This makes them particularly influential in decisions about whether and when to move.

As unrealized gains exceed the exclusion threshold, homeowners may delay selling in order to avoid triggering a tax liability. This behavior does not necessarily indicate a preference to remain in the home indefinitely. Rather, it reflects a financial calculation that selling would reduce available equity after taxes.

This dynamic is especially relevant for long-tenured homeowners. Many own homes that no longer match their household size or accessibility needs, yet the financial cost of selling can discourage downsizing. In such cases, capital gains exposure becomes one of several factors influencing mobility, alongside mortgage rates, housing availability, and local affordability.

National Capital Gains Exposure

Sensitivity to Future Home Price Growth

Because the capital gains exclusion thresholds are fixed, exposure increases as home prices rise. Additional price growth expands the number of households whose unrealized gains exceed the exclusion limits.

To illustrate this sensitivity, the analysis considers three scenarios: **10 percent, 20 percent, and 30 percent increases** in home prices relative to current levels. These scenarios are not forecasts but are intended to show how exposure would change if prices continue to rise.

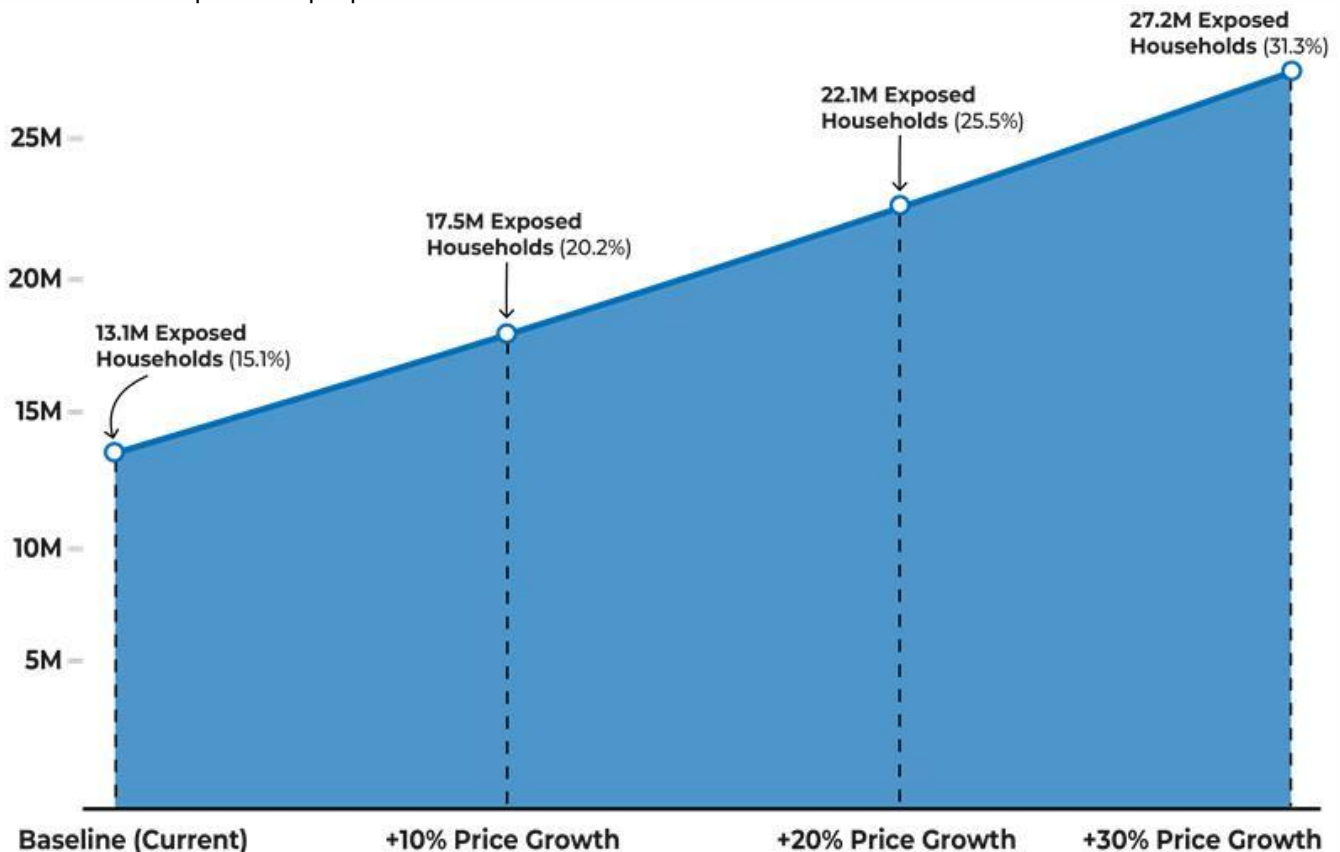
With a 10 percent price increase, total exposure rises to roughly **17.5 million homeowners**. A **20 percent increase** raises exposure to approximately **22.1 million homeowners**, extending capital gains exposure more broadly across regions. A **30 percent increase** would expose about **27.2 million homeowners**, or just over 30 percent of all homeowners.

With fixed thresholds, each additional dollar of home price growth expands capital gains exposure.

Number of Homeowners Exposed in Future Home Price Growth

A 30% increase in home prices effectively doubles the exposed population to over

27 million households.



State-Level Patterns

Capital gains exposure varies significantly across states, reflecting differences in home price growth, homeowner tenure, and overall market size.

In absolute terms, the largest housing markets account for the highest number of homeowners with substantial unrealized gains. **California** stands out, driven by both its large homeowner base and decades of strong price appreciation. Other large states, such as Texas, Florida, and New York, also show sizable numbers of homeowners with gains above \$250,000 simply due to the scale of their housing markets.

Looking at exposure as a **share of homeowners**, states with sustained long-term home price growth tend to have the highest concentration of homeowners above the capital gains thresholds. Markets along the **West Coast and parts of the Northeast** — where home prices have appreciated steadily over many years — show the highest shares of homeowners with gains exceeding both \$250,000 and \$500,000.

In contrast, many states in the **Midwest and parts of the South** still show lower exposure levels today. In these markets, home price growth has historically been more moderate, and a smaller share of homeowners currently exceeds the exclusion thresholds.

That said, even in these lower-cost markets, the trend is moving in the same direction.

When updated to reflect 2025 home price levels, capital gains exposure increases across nearly all states. This increase is not limited to traditionally high-cost markets. States that experienced strong price growth in the past decade — such as **Idaho, Utah, Arizona, and Nevada** — show some of the fastest increases in the share of homeowners approaching the thresholds.

This highlights an important point: **capital gains exposure is not just about where prices are highest today, but also about when homeowners purchased their homes.** States with a large number of long-tenured homeowners — particularly those who bought before the major price increases of the 2000s and post-2012 period — are more likely to see higher exposure.

Overall, the state-level patterns confirm the broader national finding. Capital gains exposure is a long-tenure and long-term appreciation story, and it is becoming more widespread as home prices continue to rise.

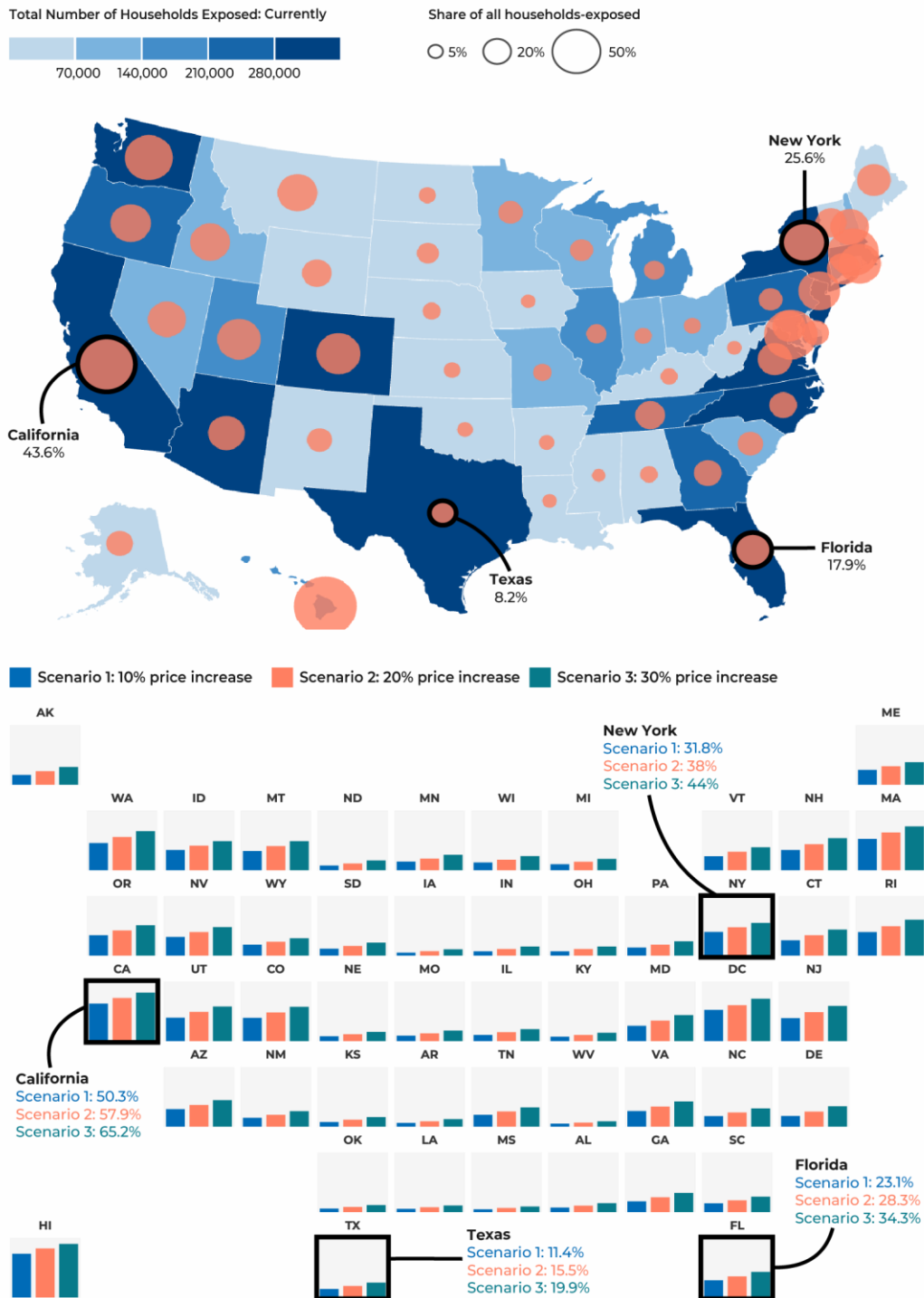
Capital gains exposure is no longer limited to the highest-cost markets. As home prices rise, more states are seeing a growing share of homeowners approach or exceed the exclusion thresholds.

State-Level Patterns

Capital Gains Exposure Varies Significantly Across States

California stands out driven by both its large homeowner base and decades of strong price appreciation. Other large states, such as Texas, Florida, and New

York, also show sizable numbers of homeowners with gains above \$250,000, simply due to the scale of their housing markets.



State-Level Patterns

STATE	CURRENTLY	SCENARIO 1: 10% PRICE INCREASE	SCENARIO 2: 20% PRICE INCREASE	SCENARIO 3: 30% PRICE INCREASE
Alabama	4.0%	5.9%	8.5%	11.8%
Alaska	9.3%	13.1%	18.1%	23.7%
Arizona	17.4%	23.3%	29.1%	35.4%
Arkansas	3.1%	4.8%	6.9%	9.9%
California	43.6%	50.3%	57.9%	65.2%
Colorado	24.7%	31.2%	38.4%	46.1%
Connecticut	14.5%	20.5%	27.4%	35.0%
Delaware	9.3%	14.3%	20.1%	27.3%
District of Columbia	36.2%	42.0%	48.2%	57.0%
Florida	17.9%	23.1%	28.3%	34.3%
Georgia	10.0%	14.3%	19.8%	25.7%
Hawaii	51.3%	58.7%	65.9%	72.0%
Idaho	20.4%	27.0%	32.8%	39.0%
Illinois	5.4%	8.2%	12.0%	16.1%
Indiana	3.8%	5.8%	8.8%	12.1%
Iowa	2.7%	4.0%	5.9%	8.5%
Kansas	3.6%	6.1%	9.2%	12.6%
Kentucky	3.8%	5.9%	8.3%	11.2%
Louisiana	2.8%	4.2%	6.4%	8.7%
Maine	14.9%	19.9%	24.8%	30.1%
Maryland	14.4%	20.5%	27.5%	35.0%
Massachusetts	33.1%	42.1%	50.6%	58.9%
Michigan	5.5%	7.9%	11.3%	15.1%
Minnesota	7.7%	11.4%	15.5%	20.6%
Mississippi	2.4%	3.6%	5.3%	7.4%
Missouri	4.5%	7.2%	10.4%	14.1%

State-Level Patterns

STATE	CURRENTLY	SCENARIO 1: 10% PRICE INCREASE	SCENARIO 2: 20% PRICE INCREASE	SCENARIO 3: 30% PRICE INCREASE
Montana	20.5%	25.7%	32.2%	38.9%
Nebraska	4.3%	6.5%	9.2%	12.4%
Nevada	18.7%	25.0%	31.6%	38.3%
New Hampshire	19.1%	27.1%	34.9%	43.1%
New Jersey	22.6%	30.9%	38.9%	47.2%
New Mexico	8.2%	11.6%	15.7%	20.6%
New York	25.6%	31.8%	38.0%	44.0%
North Carolina	9.8%	14.0%	18.8%	24.4%
North Dakota	3.8%	6.1%	8.8%	12.9%
Ohio	3.8%	5.8%	8.9%	12.2%
Oklahoma	3.2%	4.7%	6.7%	9.3%
Oregon	21.2%	27.4%	33.9%	40.8%
Pennsylvania	7.3%	10.8%	14.6%	19.1%
Rhode Island	23.0%	31.6%	39.5%	48.2%
South Carolina	8.3%	11.7%	15.8%	20.6%
South Dakota	6.2%	9.2%	13.0%	17.4%
Tennessee	11.5%	15.8%	20.3%	25.7%
Texas	8.2%	11.4%	15.5%	19.9%
Utah	24.4%	31.4%	39.2%	46.5%
Vermont	12.4%	18.7%	24.6%	30.7%
Virginia	15.2%	20.8%	26.9%	33.8%
Washington	29.9%	36.4%	44.5%	52.3%
West Virginia	2.8%	3.9%	5.3%	7.0%
Wisconsin	6.9%	10.2%	14.0%	18.8%
Wyoming	11.3%	14.7%	18.6%	23.3%

Metro-Level Patterns and Local Housing Market Effects

While national totals provide a sense of scale and benchmark, the effects of capital gains exposure are most clearly observed at the metropolitan level. Housing markets are local, shaped by labor markets, land-use constraints, migration patterns, and tenure structures.

In high-cost metropolitan areas such as **San Jose, San Diego, and Urban Honolulu**, exposure is already widespread under current conditions. **A majority of homeowners in these markets exceed the exclusion threshold.** Many purchased their homes decades ago at prices consistent with middle-income ownership at the time. Long-term appreciation, rather than recent price spikes, accounts for much of the current exposure.

A second group of metros — those that experienced strong post-2010 growth — illustrates how exposure can expand quickly even when current prices remain below coastal levels. Markets such as **Boise and Nashville** have relatively many homeowners who purchased before the recent price acceleration. As prices rise further, these tenure patterns make the markets particularly sensitive to additional appreciation.

Within metro areas, exposure often aligns with neighborhood tenure patterns. Established neighborhoods with long-tenured homeowners — often close to employment centers, transit, and schools — tend to show higher exposure than newer developments. This can explain low turnover in areas where demand is strongest and new construction opportunities are limited.

Capital gains exposure reflects when homeowners bought, not just where they live or how expensive the market appears today.

Metro Case Studies

San Jose–Sunnyvale–Santa Clara, CA

San Jose represents a market where exposure to capital gains has become common under current conditions. A majority of homeowners exceed the exclusion threshold, reflecting decades of appreciation rather than recent price spikes. For many households, selling a primary residence now routinely involves evaluating potential tax liability alongside market conditions.

Boise City, ID

Boise illustrates how capital gains exposure can expand quickly in markets that were once considered affordable. Many homeowners purchased before the rapid post-2010 appreciation. While current exposure levels remain lower than in coastal metros, additional price growth would substantially increase the share of exposed households.

Nashville–Davidson–Franklin, TN

Nashville combines strong population growth with a large share of long-tenured homeowners. As prices have risen, exposure has increased among households that purchased before recent growth. This dynamic can influence turnover in established neighborhoods even as new construction continues in surrounding areas.

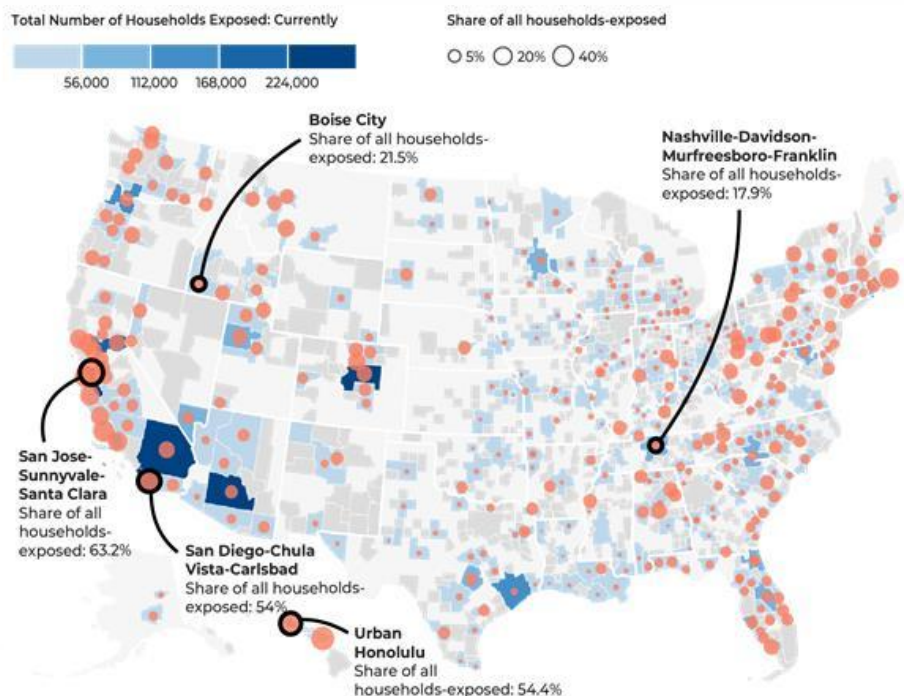
Metro-Level Patterns

Capital Gains Exposure by Metro Area

In high-cost metropolitan areas such as San Jose, San Diego, and Urban Honolulu, exposure is already widespread under current conditions. A majority of homeowners in these markets exceed the exclusion threshold.

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Top 10 Metro Areas by % price increase



Implications for Housing Supply and Mobility

Capital gains exposure influences housing supply indirectly by affecting turnover. When selling becomes financially costly, some homeowners delay listing their homes or choose not to sell at all. Over time, this reduces the effective supply of homes available for purchase, particularly in segments where turnover traditionally supports market balance.

These effects are most pronounced in markets with strong appreciation and long tenure but can emerge more broadly as prices rise. Reduced mobility can limit housing options for younger households and contribute to persistent inventory shortages, even in markets with active construction.

Conclusion

Housing supply depends not only on new construction, but also on the willingness of existing homeowners to move.

The capital gains exclusion thresholds established in 1997 were designed for a housing market that differs substantially from today's environment. Since then, home prices have increased far faster than the exclusion limits, and a growing share of homeowners now hold unrealized gains above those thresholds.

Under current conditions, approximately 13 million households face potential capital gains exposure, which would increase significantly with continued price growth. Exposure varies across regions, tenure groups, and filing status and can influence housing decisions at the local level.

Documenting the scale and distribution of capital gains exposure provides important context for understanding housing mobility and local market conditions. As housing markets continue to evolve, these dynamics will remain relevant for policymakers, housing professionals, and market participants.



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