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# The U.S Housing Affordability Crisis

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The issue of housing affordability has become a substantial concern in society, impacting individuals, families, and communities across the globe. As housing expenses continue to ascend, the ideal of owning a home or finding attainable rental opportunities has become increasingly challenging for many. From observing the multifaceted realm of this affordability concern and the potential consequences it poses for individuals and the broader economy, the ambiguity of this issue becomes clear.

Housing affordability refers to the ability of individuals or households to secure sufficient housing without exaggerated financial burdens. Factors such as stagnant income growth, proliferating housing prices, growing interest rates, and limited housing supply have collectively exacerbated the problem; thus, leading to a condition where a significant portion of the population struggles to access housing options.

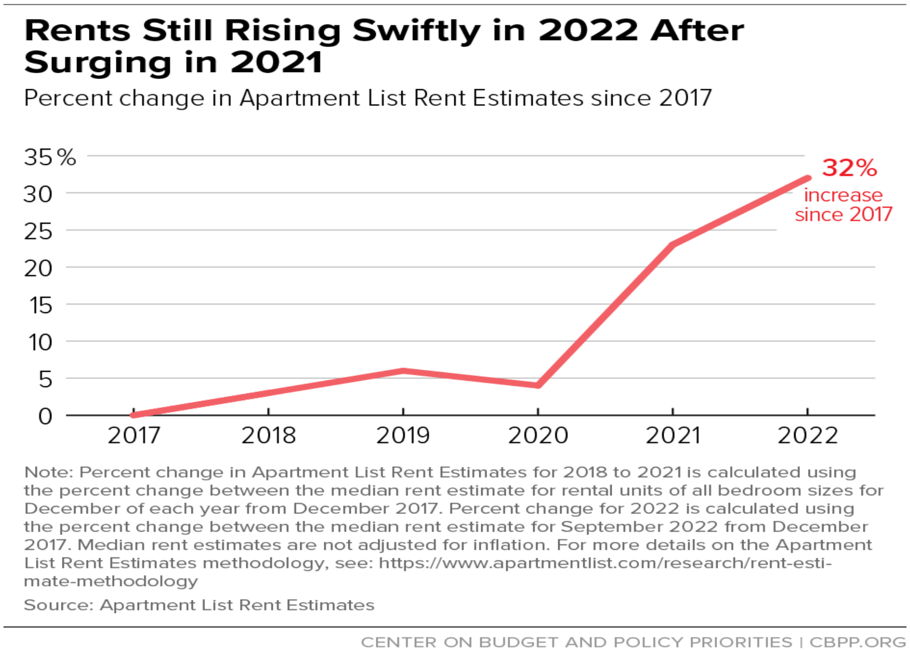
Far-reaching reverberations have been caused by this affair. For individuals and families, the decrease in housing affordability impacts overall financial stability, quality of life, and prospects. On a larger scale, it influences socioeconomic disparities, migration patterns, and urban development. Understanding the underlying economic drivers of this issue is crucial to cultivating effective policies and interventions to help.

By investigating the interplay between income, housing prices, government policies, and other such socio-economic factors, strategies to subdue the burden of housing expenses and facilitate equitable access to housing opportunities become transparent. Therefore, by understanding the importance of the housing affordability crisis, its causes and effects, what is being done, and what is expected in the future, a comprehensive overview of this issue and solutions can be provided.

**What’s the issue?**

Before getting into why housing costs so much, it is important to see the actual statistics to grasp just how detrimental it is. Between 2010 and 2019, the average rent cost increased by 36%; an average inflation rate of 2.90% per year. Major US cities saw a rise of over 50% during the same time. However, the median income of citizens only rose by 27%, with 39% in the major cities. This grave disparity is attributed to the fact that more and more people are finding it more difficult to afford things– since renters simply can’t keep up with the radically increasing costs of these homes.




This plays into the term "cost-burdened," a reference to households that spend more than 30% of their income on rent and utilities. 46% of all US renters are cost-burdened, denoting that almost half of the renting population is spending more money on these basic housing needs than on essentials such as transportation, healthcare, and food. For these cities like Los Angeles, the numbers are staggeringly larger, with 48% of the already 73% cost-burdened population being "severely cost-burdened," meaning more than half of their income goes towards housing.

Just looking at the past two years alone, this trend has evolved to rise to an 18% average, a high spike from the previous 2.90%. In Cincinnati, Seattle, and Austin, rents have increased by more than 30%. Even in formerly inexpensive locations like Nashville, the average rent is now $2,140, up 32% from the previous year.

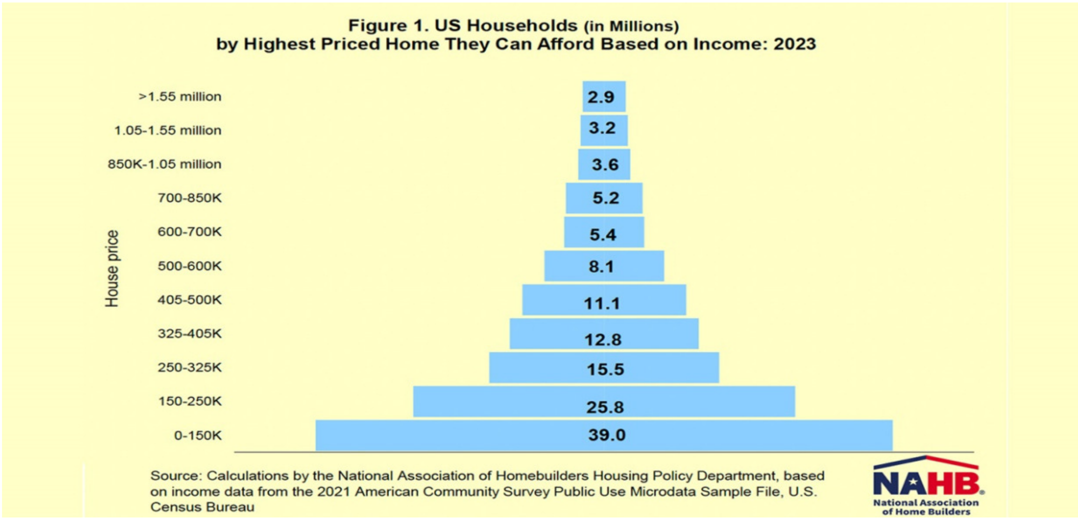
Of the 331.9 million people in the US, only around 36% rent, so what is happening to the other 64% of the population who are homebuyers? To look on the bright side, there is recent good news: the pandemic's two-year intense buying frenzy has caused the once-hot US property market to begin cooling.

The annual growth of the housing market price reached double digits once the pandemic struck, rising by 15% between 2021 and 2022 and 12% between 2020 and 2021. Now, in June 2023, the 30-year fixed mortgage rate on average throughout the country is beginning to drop slightly.

However, that positivity is to be taken with a grain of salt. The average home was worth $126,000 at the turn of the century; now, the amount has reached a record high of $259,000—a 106% growth in just 20 years. Again, this does not even take into account areas where home prices are insanely high, just the average for the country.

This growth may seem positive since it seems good when your home grows in value; however, that is not quite the case. High housing costs only help banks and individuals who own numerous homes since they force borrowers to take out larger mortgages for longer terms of time, which increases the banks' interest payments.




According to the National Association of Home Builders' "housing affordability pyramid" for 2023, 64.8 million out of 132.5 million households cannot afford a $250,000 home.

Although housing costs aren't as high as they were in June 2022, data indicates that regions continue to play a substantial role in whether housing costs decline or rise. For instance, prices increased in the Northeast and Midwest in May while decreasing in the West. Additionally, even though the median existing-home sales price decreased, experts do not anticipate significant nationwide price drops any time soon.

**Why is this so bad?**

The housing affordability crisis is closely linked to rising rates of homelessness as more people face evictions and housing instability. The National Alliance to End Homelessness conducted a 2018 study comparing the home costs of cities to their homelessness rates. According to the case studyist Joy Moses, "When housing prices force typical households to spend more than 32 percent of their income on rent, those communities begin to experience rapid increases in homelessness." Again, referring to the aforementioned "cost-burdened" issue and its pronounced implications for people who do not follow these guidelines. To further investigate this, researchers compared the cities of Los Angeles and Houston.

Housing costs in Los Angeles are far above the breaking point. Residents with median wages "pay more than 45% of their incomes on rent". The city and county had one of the worst rates of homelessness in California, as well as the second-highest number of homeless people in the nation. For L.A. County and other such areas, **"**only 15 percent of Americans live in such areas, but those areas account for 47 percent of the homeless population."

Houston, however, tells a different story. The city's rate of homelessness is far less than what would be expected; the link between affordability and homelessness is weaker than in places like L.A. This is confusing since the state of California dedicated 14 billion dollars to homeless solutions, around the same amount per homeless person as the 2.8 billion Texas uses. Although the city's cost-burdened rates are similar, Texas can significantly decrease its homeless population year over year, unlike L.A.—but why?

The simple answer is—surprise—the affordability of the states. Moreover, suggesting that Houston's initiatives are far more successful because housing is less expensive and more accessible there Once more reinforcing the broad consequences of passing the affordability threshold.

In addition to the increasing homelessness rate, high housing costs also impede labor mobility and economic productivity, as workers may be reluctant to relocate for better job opportunities. Moreover, the real estate market instability caused by soaring housing prices can lead to housing bubbles and economic downturns.

Adding to this problem, gentrification resulting from rising property values can also displace long-time residents, disrupting communities and social networks. In essence, addressing the housing affordability crisis is essential for promoting financial stability, reducing inequality, and fostering inclusive and prosperous communities, and without doing so, the consequences will continue to deepen.

**What's the cause of this?**

The question still remains as to why housing is such an increasingly difficult issue, especially in the United States. The cause can be broken down into five pertinent factors: rising construction costs, the financialization of housing, wage stagnation, regulatory barriers, zoning restrictions, and a supply and demand imbalance.

For one, the expanding home affordability dilemma has been greatly aggravated by the rising cost of construction. These costs, including the price of labor and materials, have increased as a result of several causes, an example being the increased labor costs from a lack of skilled personnel. This inevitably causes a shortage in the field, which also drives up wages. Additionally, many legal drivers contribute to this increase, such as a variety of environmental regulations, tariffs, and trade difficulties. Lumber, steel, fuel, and iron are all needed for the vast majority of construction projects, and all of these have suffered significant price rises recently. Iron and steel prices increased by 14% and crude oil prices by 49% in just one year. However, that isn't the extent of this drastic price increase.

According to Forbes writer and policyholder Chip Merlin, "Lumber prices have risen by 73% since April of last year. This change has led the average price of a single-family home to increase by approximately $36,000. Just as recently as May 5, 2021, reporting that lumber prices hit $1,600 per thousand board feet for the first time in history."

In addition to this, the costs involved in acquiring land for development have increased, especially in locations where there is a shortage of available land. Housing becomes even less accessible to a huge portion of the population as construction prices rise and are thus passed on to prospective homeowners and renters.

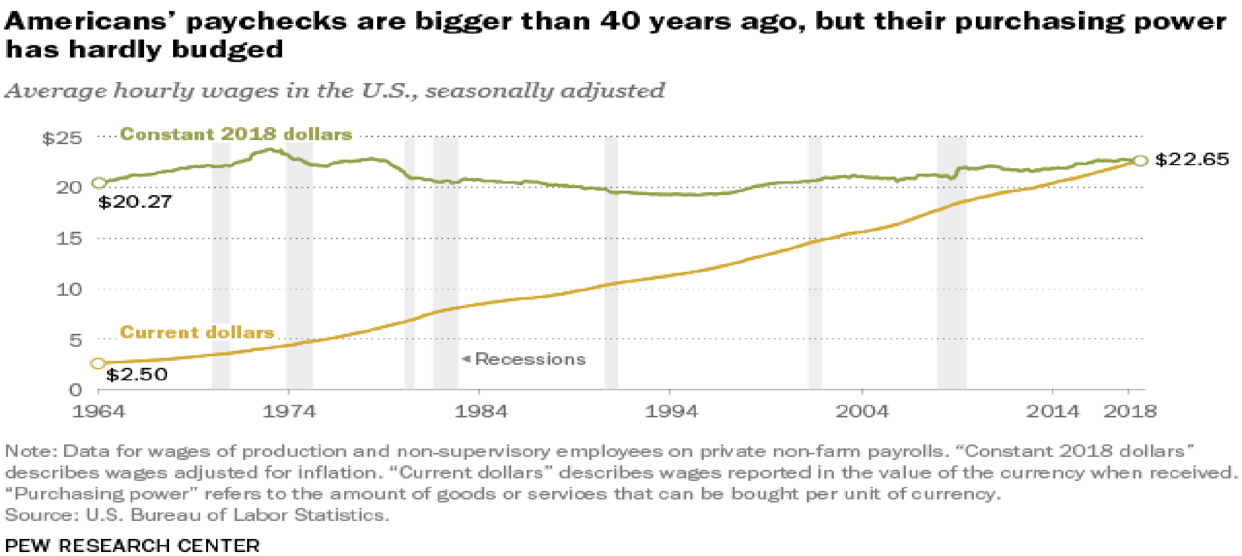
Another significant factor contributing to the affordability dilemma is the financialization of housing, which refers to housing being treated as a commodity—a tool used to gain wealth and investment—rather than a social good. The shift of housing from a place to create a home to an investment has stemmed from its origins in the 2008 financial crisis. Thus, residential properties are now seen as desirable investment assets by large institutional investors and private equity companies. Since these organizations are buying an increasing number of properties as investments, this tendency has boosted competition in the housing market. In consequence, decreasing the number of homes available to normal tenants and homebuyers as a result of such acquisitions. Correspondingly, corporate landlords, who are less influenced by regional economic conditions, can also charge higher rents, putting a greater burden on renters' capacity to afford housing.

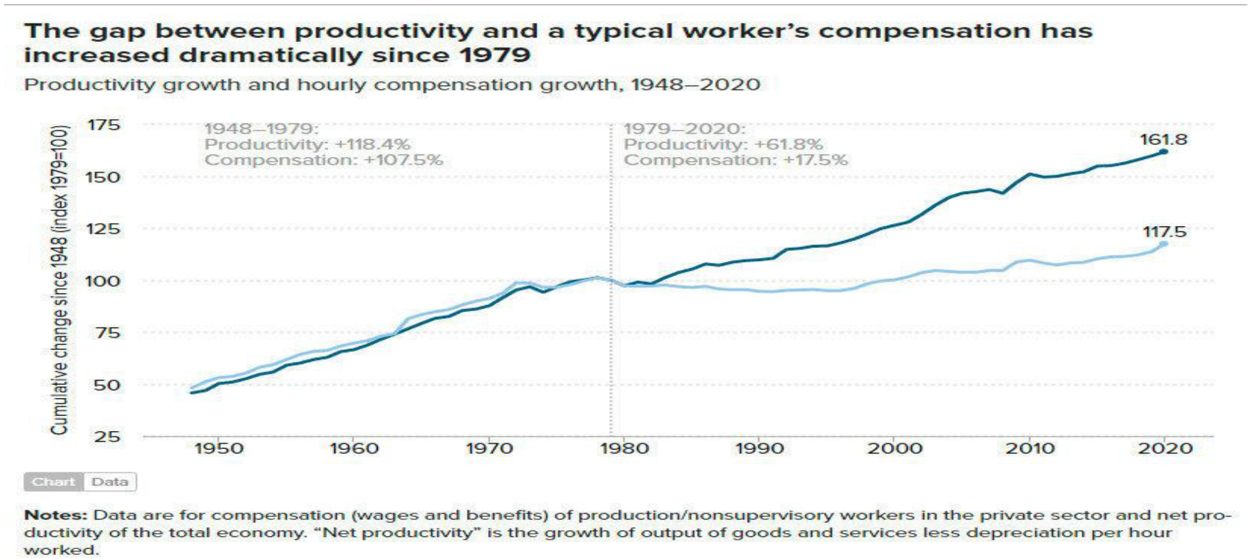
With roots stemming from the last two causes, the disparity between rising housing costs and stagnant wages has also contributed to the affordability problem. According to Northwestern University, "U.S. workers have grappled with wage stagnation for several decades. Since the 1970s, growth in "real wages" (that is, the value of the dollars paid to employees after being adjusted for inflation) has slowed compared to overall economic productivity."

The problem of affordability has also been made worse by an increase in income disparity. Many people and families are struggling with housing cost constraints and insecurity as a result of the combination of housing costs rising faster than income growth and a lack of accessible home options.

The Economic Policy Institute's chart below analyzes the productivity-pay gap in the US. Wages first began stagnating in the early 1970s, but in 1979, the gap between US productivity and wages began to form a significant gap. Between 1979 and 2020, workers productivity has grown by 61.8 percent, while wages since then have only grown by 17.5 percent—over three times as fast.




In 1972, the average worker earned an average of $3.88 an hour, while in 2022, the average was $27.45. This seems like a large difference; however, when adjusted for inflation, wages have remained almost completely unchanged, only earning an adjusted $0.12 more than they did in 1972. This is only accounting for the average; when looking at lower-middle-class workers, the difference is even worse.

Many economic analyses and commentaries have addressed the issue of wage stagnation, but as may be expected, there is no consensus regarding its causes. The Pew Research Center explained, "One theory is that rising benefit costs, particularly employer-provided health insurance, may be constraining employers' ability or willingness to raise cash wages. According to BLS-generated compensation cost indices, total benefit costs for all civilian workers have risen an inflation-adjusted 22.5% since 2001 (when the data series began), versus 5.3% for wage and salary costs."

More explanations have been put forth, including the continual decline of labor unions, the nation's low educational attainment in comparison to other nations, noncompete agreements and other restrictions on job switching, a sizable pool of potential workers who are outside the officially defined labor force and are neither employed nor looking for work, as well as widespread employment declines in the manufacturing and production sectors and a resulting shift toward job growth in low-wage industries.

In addition to wage stagnation, the fourth cause behind this crisis is the stringent local land-use regulations and zoning restrictions that have significantly impeded efforts to address housing affordability challenges. Zoning laws that prioritize single-family homes or restrict the construction of multifamily housing and high-density developments have limited the supply of affordable housing options in many regions. Impact fees imposed on developers to fund infrastructure improvements have added to the aforementioned rising construction costs. Furthermore, mandating minimum parking requirements can increase expenses for developers and reduce the number of affordable units that can be built on a given site. Opposition from existing residents to new housing developments can lead to delays or the rejection of affordable housing projects. These regulatory barriers hinder the creation of much-needed affordable housing and perpetuate the affordability crisis.

Lastly, a continuous supply and demand imbalance complicates the US housing affordability dilemma. Population growth, urbanization, and low mortgage interest rates have all increased home demand. However, despite this rising demand, not enough affordable housing is being provided. Land shortages restrict the amount of land that may be used for new housing construction, especially in densely populated urban regions. The completion of new projects is additionally delayed by red tape and labor-intensive construction procedures, aggravating the shortfall.

The Center for American Progress conducted a 2019 study that showed only 37 affordable rental homes were available for every 100 low-income renter households. This was due to a lack of 7 million affordable housing units, which is a pre-pandemic statistic. Now, the figures are estimated to be staggeringly worse. The most economically fragile people experienced the highest levels of home precarity as a result of these market forces. Millions of Americans have been affected by eviction, homelessness, and housing instability; detrimentally impacting their financial situation, health, children's academic performances, food scarcity, and other areas. All of which has made it even more challenging for many Americans to purchase a home in their preferred neighborhood.

**What is being done?**

The problem of affordable housing cannot be solved by any single solution. Renters continue to confront high and rising costs, and there is a continued shortage of affordable rental housing. A comprehensive housing strategy, including the creation of new units, the preservation of existing affordable housing, and the expansion of rental assistance, will be necessary to close the housing affordability gap. Peggy Bailey, a researcher for The Center on Budget and Policy Priorities explained, "Expanding the Housing Choice Voucher program, as the House-passed Transportation-Housing and Urban Development (HUD) funding bill calls for, would most immediately help renters absorb cost increases. Such an expansion would help reach renters with the lowest incomes."

In addition, there are many long-term solutions that would help the country recover. Policymakers should pass significant new expansions to rental assistance with the intention of providing help to everyone who qualifies. Renter assistance, which can also be project-based to support the construction of new affordable housing units, gives people with low incomes additional options for where to live and the chance to break down social division.

Bailey also explained, "Policymakers at the federal, state, and local levels can further address the crisis in housing affordability by making additional capital investments in housing and taking related actions, including:

- Reducing the shortage of deeply affordable rental housing, implementing a housing developer-focused renters' tax credit, and reversing restrictive local zoning practices
- Preventing the loss of existing affordable housing
- Improving the Low-Income Housing Tax Credit program
- Investing in low-income communities' housing needs
- Removing barriers to homeownership
- Reforming project-based housing programs to encourage higher-quality housing."

**What can we expect?**

Forbes claims that even though 30-year mortgage rate weekly averages are lower than they were in the fall of 2022, if rates continue to fluctuate between 6.5% and 7% or break through 7% once more, it will be difficult to see a significant improvement in the housing market anytime soon, especially if the Fed keeps raising rates.

Housing industry specialists predict that rates will stay low for the remainder of 2023. Additionally, existing-home sales fell a staggering 18.9% from the previous year. Many predict that the supply of available homes will decrease this year and keep a lid on home sales. Despite a considerable decline in housing affordability over the previous three years, a lack of inventory is also keeping prices high.

However, some experts are choosing to reverse the narrative and concentrate on the evidence that the market is transitioning into a new stage. Lawrence Yun, chief economist at NAR, stated again in the Forbes Advisor that "The recovery has not taken place, but the housing recession is over."

**Conclusion:**

In essence, the housing affordability crisis is a now a pressing issue more then ever before– one that continues to affect individuals, families, and communities worldwide. The escalating housing expenses, coupled with stagnant income growth and limited housing supply, have made homeownership and affordable rentals increasingly out of reach for a significant portion of the population. In 2023, these matters became exacerbated, still being affected by the pandemic. The consequences of this crisis are far-reaching, not only leading to financial instability but also rising homelessness rates and economic productivity challenges.

Addressing this multifaceted issue requires a comprehensive and careful approach; policymakers must consider various strategies, including expanding rental assistance programs, preserving existing affordable housing, and incentivizing the construction of new affordable units. Additionally, measures like reducing restrictive zoning practices, preventing the loss of affordable housing, and investing in low-income communities' housing needs can also help to tackle the problem. Moreover, removing barriers to homeownership and implementing reforms in project-based housing programs are critical steps towards fostering more inclusive and equitable housing opportunities.

It is evident that the government, policymakers, and stakeholders must work together to address the housing affordability challenge now more than ever before. Society must work to ensure that housing becomes more available, stable, and affordable for all people and families by putting into place a combination of short-term and long-term solutions, thus promoting better and healthier communities. Only through concerted efforts can the country overcome this complex challenge and create a more equitable and sustainable housing landscape for future generations.

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