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A Long-Term View on the Costs of Shelter

Remarks by

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at

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Thank you for the opportunity to speak to you.[1] My interest in access to affordable housing spans several decades. During my career, I have worked on housing and mortgage market reform and promoted access to credit for low- and moderate-income (LMI) households. I've seen firsthand what public–private partnerships in low-income communities can mean for improving affordable housing, from the South Bronx, to the South Side of Chicago, to the Mississippi Delta, to South Central L.A., and places in between. Now at the Federal Reserve Board, I oversee our Division of Consumer and Community Affairs and participate in rate-setting decisions that affect the economy. By pursuing maximum employment and stable prices, the Federal Reserve seeks to create the stable macroeconomic environment necessary for households to maintain purchasing power, earn reliable incomes, access housing, and, ultimately, build capital through homeownership and other forms of investment.

The Economic Outlook

Before I turn to my thoughts about housing, I want to spend a few moments sharing my views on the broader economy and monetary policy. As you know, the Federal Reserve has what we call a dual mandate, which is to achieve maximum employment and stable prices.

Our economy has experienced a series of shocks over the past year and half: the imposition of tariffs, the conflict in the Middle East and continued disruptions from Russia's war on Ukraine, and, more recently, a surge in investment demand to support the artificial intelligence (AI) buildout. These shocks have contributed to upward price pressures.

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[1] The views expressed here are my own and are not necessarily those of my colleagues on the Federal Open Market Committee (FOMC) or the Federal Reserve Board.

Economic growth is strong and the labor market is solid, but inflation is above our 2 percent target and not clearly trending toward target in a timely way. Moreover, risks to achieving our inflation target have increased, while risks to the labor market have receded. We needed to recalibrate monetary policy to reflect the balance of risks to our mandate goals. The FOMC took important action to that end last week by increasing the policy rate, which I supported. In my view, given changes to the economy, we were out of position, and we made an adjustment in the right direction. In my base case, further policy adjustments are likely to be needed to ensure inflation comes down to target in a timely fashion. We want to support sustainable, durable growth in support of maximum employment, and price stability is crucial to that.

The Costs of Shelter Today

Let's return to the main topic. By a variety of measures, high rents and high home prices, relative to income and savings, have made shelter increasingly unaffordable for many Americans for a number of years. I'll begin with homeownership and then turn to renting.

The Federal Reserve Bank of Atlanta maintains a Home Ownership Affordability Monitor (Monitor) that includes an affordability index, in which a value below 100 indicates a median-income family would not be able to afford a median-priced home given the current mortgage rate. According to the Monitor, homes were, on average, affordable after the housing price crash of 2006 until the COVID-19 pandemic hit, when the affordability index fell sustainably below the threshold of 100 and kept falling to a value of 68 in July 2026, the lowest in 21 years.[2] Real, constant-quality house prices are

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[2] According to the Monitor, if the annual cost of homeownership exceeds a 30 percent share of the annual median household income, homeownership is considered unaffordable. If the annual cost of

at a record high in many places around the country.[3] Another obvious factor that affects the cost of buying a home is mortgage rates. Mortgage rates are high relative to the pre-pandemic level. This combination of high prices and high rates puts homeownership out of reach for many families. Some ask what the role of the Fed is when it comes to mortgage rates. Our short-term policy rates affect longer-term borrowing rates, including those for mortgages, but many other things affect mortgage rates as well. As I noted earlier, the Fed pursues its mandate to foster maximum employment and stable prices. Mortgage rates are generally lower when inflation is lower, and we are working toward that goal.

With respect to the rental market, affordability is also a problem for many households. In 1980, 55 percent of rental housing units rented for $1,000 or less.[4] Adjusting for inflation, that $1,000 would be about $3,500 today, but only 20 percent of homes rent for less than that price.[5] Today, about one-half of all renters are cost burdened, meaning they pay 30 percent or more of their income on rent, and about one-fourth of renters dedicate at least half of their income to rent.[6] It's true that, on a quality-

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homeownership is below a 30 percent share of the annual median household income, homeownership is considered affordable. Alternatively, the Monitor allows the user to view affordability using an affordability index, where an index value of 100 or above indicates a median-income family could afford a median-priced home; a value below 100 indicates a median-income family would not be able to afford a median-priced home given the current interest rate. See Federal Reserve Bank of Atlanta (2026), "Home Ownership Affordability Monitor," webpage, https://www.atlantafed.org/research-and-data/data/home-ownership-affordability-monitor.

[3] See Benjamin J. Keys and Vincent Reina (2025), "Improving Housing Affordability," in Melissa S. Kearney and Luke Pardue, eds., *Advancing America's Prosperity* (Washington: Aspen Institute), pp. 130–66, https://www.economicstrategygroup.org/wp-content/uploads/2025/11/Keys-Reina-AESG-Housing-1.pdf.

[4] This figure includes U.S. Census rental housing stock—that is, housing units that are renter occupied or available for rent.

[5] Keys and Reina, "Improving Housing Affordability" (see note 3).

[6] See Joint Center for Housing Studies of Harvard University (2026), *America's Rental Housing 2026* (Cambridge, Mass.: JCHS), https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2026.pdf.

adjusted basis, the rent increases track improvements in housing quality and amenities, but that is little comfort for someone who cannot afford the high rent burden that follows. Families need affordable shelter.

One side of the affordability challenge is income and savings and to what extent wages and salaries keep pace with housing costs. Over the past two decades, inflation-adjusted household incomes have risen far more slowly than home prices: Between 2000 and 2024, real median household income increased roughly 17 percent, while real U.S. house prices increased approximately 70 percent.[7] Lagging incomes compound the challenge of accumulating enough cash to get through the upfront costs of both buying and renting. According to the Federal Reserve's *Report on the Economic Well-Being of U.S. Households,* 68 percent of prospective first-time buyers in 2024 said they could not afford a down payment.[8] Renters face a similar cash flow barrier when moving into a new place: Upfront costs can include the first month's rent, security deposit, application fees, and sometimes the last month's rent. Fannie Mae found that affording the upfront

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[7] See Melissa Kollar and Zach Scherer (2025), *Income in the United States: 2024* (Washington: U.S. Census Bureau, September), Table A-1: Income Summary Measures by Selected Characteristics: 2023 and 2024, p. 15, https://www2.census.gov/library/publications/2025/demo/p60-286.pdf; and Federal Housing Finance Agency (n.d.), "Purchase-Only House Price Index®," U.S. national house-price index, 2000–2024, https://www.fhfa.gov/data/hpi. The income series is adjusted using the Census Bureau's Chained Consumer Price Index for All Urban Consumers; the real house price change is calculated by adjusting the Federal Housing Finance Agency's (FHFA) national house price index for consumer price inflation over the same period. The FHFA index measures changes in single-family house prices and is not a median-price measure. The comparison is intended to illustrate the relative change in household purchasing power and house prices.

[8] See Board of Governors of the Federal Reserve System (2025), "Housing," in *Report on the Economic Well-Being of U.S. Households in 2024*, (Washington: Board of Governors, May), https://www.federalreserve.gov/publications/2025-economic-well-being-of-us-households-in-2024-housing.htm; and National Association of REALTORS® (2024), "First-Time Home Buyers Shrink to Historic Low of 24% as Buyer Age Hits Record High," press release, November 4, https://www.nar.realtor/press-releases/first-time-home-buyers-shrink-to-historic-low-of-24-as-buyer-age-hits-record-high.

costs of renting is a leading financial pain point when renting or moving into a new rental home.[9]

Inadequate Supply of Housing Drives Home Prices

The other side of the affordability challenge is housing costs. And let me focus for a while on homeownership. A major force driving high home prices is a shortage of supply relative to demand. Housing production has remained below historical rates for many years.

It is challenging to arrive at a precise estimate of the housing shortage. But estimates put the U.S. housing supply shortfall at roughly 2 million to 5.5 million units, depending on the methodology used and accounting for regional differences.[10] Against a U.S. housing stock of roughly 150 million units, these estimates imply a shortfall of approximately 1 percent to 4 percent of the total stock.[11] While relatively small as a share of the nation's housing stock, the deficit can have an outsized effect on homeownership affordability because housing markets require a certain level of vacancy and available inventory to function efficiently.

Factors Driving the Housing Shortage

I would cite four major factors driving the housing shortage.

The first is that land is a finite resource, and its development is heavily shaped by state and local government policies. Over several decades, the accumulation of local land

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[9] See Jonathan Gross (2024), "Fannie Mae Research Identifies Challenges Faced by Today's Renters," *Perspectives Blog,* February 1, https://www.fanniemae.com/research-and-insights/perspectives/research-identifies-renter-challenges.
[10] Freddie Mac estimated a 3.7 million unit shortage as of the third quarter of 2024, while the National Association of REALTORS® estimated a 5.5 million unit shortage.
[11] See U.S. Census Bureau (2026), "Housing Inventory Estimate: Total Housing Units in the United States," Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/etotalusq176n (accessed September 21, 2026).

use, zoning, permitting, and building regulations has shaped where housing can be built, how densely it can be developed, and what types of housing are permitted. Land use regulations mandating lower density, such as single-family-home-only construction and minimum lot sizes, have become more widespread, especially in suburban areas, with the effect of limiting supply and supporting home price appreciation.[12] This can exacerbate housing shortages and lead to higher prices around urban centers. Other local regulatory barriers, including processes for obtaining construction permits, have become stricter, adding to the time and expense of homebuilding and, at the margin, likely limiting supply.[13] Because many of these rules are applied at the local level, variations in rules have also increased, limiting the economies of scale for developers. Land use regulation is a local issue, and it involves many benefits such as attention to school capacity and infrastructure investments, as well as costs. One of those costs is likely higher home prices that make homeownership less affordable for new buyers.

Low construction activity has become more widespread across geographies over time and is not confined to cities where historically it has been difficult to build, such as New York, San Francisco, Boston, and Washington, D.C. Land use and other regulatory restrictions are a factor in the slowdown in home construction in traditionally high-growth Sunbelt markets, such as Atlanta, Phoenix, and Miami.[14] Decades of fast growth and change there have led communities understandably to try to slow things down.

[12] See Nathaniel Baum-Snow and Gilles Duranton (2025), "Housing Supply and Housing Affordability," NBER Working Paper Series 33694 (Cambridge, Mass.: National Bureau of Economic Research, April), https://doi.org/10.3386/w33694.
[13] Keys and Reina, "Improving Housing Affordability" (see note 3).
[14] See Edward Glaeser and Joseph Gyourko (2025), "America's Housing Supply Problem: The Closing of the Suburban Frontier?" *Brookings Papers on Economic Activity,* Spring, pp. 375–425, https://www.brookings.edu/wp-content/uploads/2025/03/BPEA-SP25_WEB_Glaeser_Gyourko.pdf.

The second factor—which is, in part, tied to the first—is the lower rate of productivity growth in the construction sector relative to other sectors of the economy. Bureau of Labor Statistics (BLS) data show that construction productivity, including home construction, has exhibited little long-run growth since 1987.[15] Less strong productivity growth translates to higher costs, all other things being equal. This puts pressure on profit margins and makes it more difficult to build more affordable homes. This lower rate of productivity growth may be related to the labor-intensive nature of construction relative to many other industries. Many of the physical processes such as pouring foundations, framing walls, installing structural systems, and finishing interiors are not replaceable with machines or AI, for example—at least not yet.

Construction has adopted technologies such as computer-aided design, building information modeling, and digital project management, but these tools often improve coordination and information management without fundamentally changing how homes are physically built. As technology evolves, there may be opportunities for improvements in housing construction that have not yet been realized.

A third factor that has probably exacerbated the housing shortage in the past nearly 20 years was the damage to the homebuilding business wrought by the bursting of the housing bubble and the Great Recession. Home construction was very slow to recover, particularly in markets experiencing severe housing price busts.[16] From 2007

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[15] See Bureau of Labor Statistics (2025), "Construction Labor Productivity," webpage, https://www.bls.gov/productivity/highlights/construction-labor-productivity.htm; and Leo Sveikauskas, Samuel Rowe, James Mildenberger, Jennifer Price, and Arthur Young (2014), "Productivity Growth in Construction," BLS Working Paper 478 (Washington: Bureau of Labor Statistics, October), https://www.bls.gov/osmr/research-papers/2014/pdf/ec140090.pdf.
[16] See Thao Le (2025), "The Scarring of the Great Recession on Construction Labor and Housing Supply," *Real Estate Economics,* vol. 25 (May), pp. 543–73.

through 2012, the number of new homebuilders fell by half, from 98,000 to 49,000.[17] One remarkable statistic is that after the housing bust, more than 30 percent of construction workers left the industry and another 25 percent either dropped out of the labor force or turned to informal work.[18] That is a huge, generational loss of skill and manpower that likely affected homebuilding for years afterward.

More recently, a fourth factor is higher home prices related to the COVID-19 crisis and inflation. More demand for housing, given work from home and pandemic distancing, coupled with supply constraints for building materials and labor led to a large rise in inflation for the inputs to housing production after the pandemic. The cost of materials and other goods used to build homes rose sharply after 2020. According to the Census Bureau, the constant-quality price index for new single-family homes increased roughly 40 percent between 2020 and 2025.[19] Labor is a major component of housing construction costs, and a persistent shortage of skilled construction workers adds to cost pressures and constrains the pace at which new housing can be built.[20]

In addition to the factors that have raised the costs of building homes and, therefore, house prices, other aspects of purchasing a home have become more expensive

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[17] See Rose Quint (2015), "US Government: Number of Builders Declined 50% between 2007 and 2012," *National Association of Home Builders Economic Research Blog,* September 9, https://eyeonhousing.org/2015/09/us-government-number-of-builders-declined-50-between-2007-and-2012.

[18] See Hubert Janicki and Erika McEntarfer (2015), "Where Did All the Construction Workers Go?" *Research Matters* (blog), October 16, https://www.census.gov/newsroom/blogs/research-matters/2015/10/where-did-all-the-construction-workers-go.html.

[19] The constant-quality price index measures how much the cost of building a new single-family home has changed over time while holding the home's size and features constant so the change reflects construction costs rather than the changes in the type or quality of homes being built. See U.S. Census Bureau and U.S. Department of Housing and Urban Development (n.d.), "Survey of Construction (SOC)," webpage, https://www.census.gov/construction/soc/index.html.

[20] See Joint Center for Housing Studies of Harvard University (2023), *The State of the Nation's Housing 2023* (Cambridge, Mass.: JCHS), https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023_0.pdf

as well. Property taxes tend to rise with home prices. Home insurance costs have also risen significantly in recent years, in part reflecting higher costs of rebuilding.[21]

Another recent factor that has made homeownership less affordable is high mortgage interest rates, as I mentioned earlier. Many families benefited from very low mortgage rates before 2022; these households are now less likely to move given the high rates they would face. This lock-in effect reduces both demand and supply and thus housing market dynamism. About half of all mortgages still carry rates of 4 percent or lower, and nearly 80 percent have a rate below 6 percent.[22] In tight housing markets, the lock-in effect can raise home prices because the reduction in housing supply associated with fewer homeowners selling can outweigh the corresponding reduction in demand.[23]

So prospective homeowners face higher prices for homes, higher mortgage rates, higher home insurance costs, and higher property taxes.

Turning to shelter costs for renters. The inflationary period since the start of the pandemic has been extremely difficult. In August of this year, the consumer price index for rent of primary residence was 34 percent higher than it was in December 2019. Shelter cost inflation has eased considerably from its 2022–23 pace, but shelter prices are still rising at an annual rate of about 2¾ percent. While slower rent inflation should

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[21] See Joshua Blonz, Mallick Hossain, Benjamin J. Keys, Philip Mulder, and Joakim A. Weill (2026), "Pricing Protection: Credit Scores, Disaster Risk, and Home Insurance Affordability," NBER Working Paper Series 34848 (Cambridge, Mass.: National Bureau of Economic Research, February), https://www.nber.org/system/files/working_papers/w34848/w34848.pdf.
[22] The Board staff's calculations are based on the National Mortgage Database; data extend through 2026:Q2. See also Hannah Jones (2026), "The Slow Unlock Continues in Q1: 22.1% of Outstanding Mortgages Have a Rate of 6% or Higher," realtor.com, July 24, https://www.realtor.com/research/2026-q1-outstanding-mortgage-data.
[23] See Aditya Aladangady, Jacob Krimmel, and Tess Scharlemann (2024), "Locked In: Mobility, Market Tightness, and House Prices," Finance and Economics Discussion Series 2024-088 (Washington: Board of Governors of the Federal Reserve System, November; revised May 2025), https://doi.org/10.17016/FEDS.2024.088r1.

provide some relief over time, the higher level of rents remains a significant burden for many households, particularly lower-income renters.[24] As I noted at the outset, rent-to-income ratios have grown significantly, and while quality has improved, income-stressed households are spending much more of their hard-earned dollars on shelter costs.

So far, I've been discussing shelter costs in aggregate terms. But LMI families face even greater challenges, both with homeownership and with affordable rental housing. And while increasing housing supply should help everyone somewhat, it is also the case that we need to focus with intentionality on the needs of low- and moderate-income households. These households have a hard time finding affordable rental housing and an even harder time finding their way to homeownership.

The Role of the Community Reinvestment Act, the Low-Income Housing Tax Credit, and Other Efforts

The Community Reinvestment Act (CRA), enacted in 1977, has promoted housing affordability by encouraging banks to serve LMI communities, expanding homeownership access, and supporting affordable housing and community development investments. The CRA is a cornerstone of U.S. affordable housing policy, and the Fed is responsible for administering the act for banks we supervise.

In 2024 alone, CRA-related incentives supported over $430 billion in loans and investments for homeownership, small businesses, and affordable housing in these areas. This leverage of private capital helps expand the supply of affordable rental housing, often in partnership with local community-based organizations and the public sector.[25]

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[24] BLS shelter data accessed via FRED; Joint Center for Housing Studies of Harvard University, *America's Rental Housing 2026* (see note 6).
[25] See National Association of Affordable Housing Lenders (n.d.), "Community Reinvestment Act," webpage, https://naahl.org/cra.

The CRA has expanded homeownership opportunities for LMI families, such as through down-payment assistance and partnership with community development financial institutions (CDFIs). More recently, many banks and nonbank mortgage providers have been using alternative cash flow underwriting to expand access to credit for prospective homebuyers.

Similarly, the CRA bolsters the effectiveness of the low-income housing tax credit (LIHTC), which has been a fundamental resource for financing affordable housing for 40 years. When banks invest in LIHTC developments, they not only receive tax credits but also earn CRA consideration for supporting housing in underserved areas. Together, the CRA creates the expectation to invest, and the LIHTC provides the tool to do it, leveraging private capital to build safe, stable, and affordable apartments that strengthen families and communities.[26] On average, the LIHTC creates 110,000 units of affordable housing per year, about 4 million apartments since its enactment.[27] More broadly, multifamily construction is a key component of any strategy to improve access to affordable housing for low- and moderate-income families.

On the demand side, housing vouchers have also been used to supplement the incomes of LMI renters, though the demand for vouchers far outstrips the supply. And vouchers can have a positive effect on supply as well by assuring builders of affordable housing that renters will have sufficient incomes to pay.

Recent legislation may also play a role in supporting housing accessibility. Congress recently passed bipartisan legislation that includes provisions for expanding

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[26] See Michael S. Barr (2026), "Developing Communities through Public–Private Partnerships," speech delivered at the 2026 National Community Investment Conference, Phoenix, Ariz., March 24, https://www.federalreserve.gov/newsevents/speech/barr20260324a.htm.

[27] Keys and Reina, "Improving Housing Affordability" (see note 3).

rental assistance, guidelines for addressing zoning barriers to production, homeownership counseling and financial literacy, commercial conversions to housing, and support for manufactured housing.[28]

Industry, government, and community development groups are also exploring how innovative building practices, such as modular housing, can lower costs and speed construction.

For those working directly in communities—developing affordable housing, counseling prospective homebuyers, managing emergency assistance programs, working with voucher recipients—the research discussed today reflects the daily realities you navigate: families that can find themselves priced out of neighborhoods and essential workers unable to find affordable housing near their jobs.

Collaboration between public and private sectors will continue to be important going forward. Private-sector innovation in construction methods, materials, and financing approaches can help lower development costs and expand what's feasible. Financial institutions, including CDFIs, support affordable housing development through lending and investment. Community development organizations bring irreplaceable knowledge of local needs, relationships with residents, and on-the-ground experience with what works and what doesn't in different contexts.

Progress on housing affordability will require action across all these fronts, with each institution and sector doing its part and working together. Earlier this year, I attended a Federal Reserve conference in which a panel of mayors from cities and towns in Arizona, Utah, and Tennessee, without regard to politics, discussed practical ways to

[28] See U.S. Congress (2026), "21st Century ROAD to Housing Act," H.R. 6644, 119th Cong., July 11.

invest in affordable housing and improve their communities. They are doing the practical hard work of talking with neighbors, cutting red tape, and investing in public–private partnerships. When I hear this type of commitment and skill, I am encouraged by local leaders' devotion to making a better future for their communities. That's the kind of practical approach that can help make a difference in advancing affordable housing all across the country. Thank you.