Remarks by Assistant Secretary for Economic Policy (P.D.O.) Eric Van Nostrand on Housing Affordability: Economics and Policy Approaches

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As Prepared for Delivery

It is a pleasure to be here today to discuss the economics of housing affordability and the Biden Administration's approach. As Secretary Yellen's chief economist, my responsibility is to consider the granular data underlying the structural challenges our economy faces and identify lessons to inform the policymaking process. Today, I'll apply that lens to the housing market. The pandemic radically changed the role that housing plays in Americans' lives and a macroeconomic environment that has left renters and homeowners alike grappling with new challenges. It is important to understand what the evidence is telling us as we work to deliver on President Biden's vision of a more affordable housing market for the broadest range of Americans.

I will offer three key conclusions:

- First, the long-standing structural challenge of housing affordability is both deep and broad. Sixty percent of families making between $20,000 and $50,000 are spending more than 30 percent of their income on housing expenses. And since 2000, typical housing prices and rents have grown faster than incomes in nearly 90 percent of American counties.
- Second, our aging population has driven soaring household demand in recent decades, and available housing supply has failed to catch up. We estimate that there are 4 to 6 million "missing" housing units relative to the age and housing profile of the population in 2000.
- Third, the Administration has called on Congress to deliver more than $175 billion to help expand U.S. household supply. At Treasury, we are supporting the construction of affordable rental housing through the Low-Income Housing Tax Credit (LIHTC) and enabling State and local governments to use funds from the American Rescue Plan to construct affordable housing.

Let me begin with some context. In the immediate response to the pandemic, economists focused on maintaining demand to ensure our labor market and household incomes stayed afloat. But three years into the recovery, labor markets are healthy and American demand remains strong, even as inflation has fallen significantly. Today, the Administration is focused on the supply side: expanding our economy's productive capacity to ensure our growth over the medium and long term. Secretary Yellen has called this strategy "modern supply-side economics," recognizing that we can expand our ability to produce while addressing some of our most important social challenges like climate change and income inequality. We have seen this approach through landmark legislation like the Inflation Reduction Act (IRA), the CHIPS Act, and the Bipartisan Infrastructure Law. Each of these laws is designed to invest in our long-term growth by expanding aggregate supply.

Housing is an essential component of aggregate supply. Stable housing that Americans can comfortably afford is an essential element of the American promise, and a baseline necessity. A well-functioning housing market contributes to our medium- and long-run growth in several ways. It allows workers to live closest to the high-quality jobs where they are most productive, which is particularly important given the resurgence of American manufacturing. Moreover, there is an abundance of evidence that stable housing provides benefits to children that increase their future long-term success.

And yet, one does not need to be an economist to recognize that housing has become increasingly unaffordable. Over the last few decades, house prices and rents have risen more than incomes, and those trends were exacerbated during the pandemic and as interest rates rose. Moreover, the burden of higher housing costs are not equally shared. Black and Hispanic households tend to spend a higher share of their income on housing expenses than white households. Specifically, in 2022, 57 and 54 percent of renting households with a Black or Hispanic head, respectively, spent more than 30 percent of their income on housing expenses, as opposed to only 45 percent of renting households with a white head.[1] And almost 90 percent of families with annual incomes below $20,000 spend more than 30 percent of their incomes on housing expenses. Sixty percent of families with incomes between $20,000 and $50,000 do the same—these Americans are on the brink of being priced out of a basic human need.

To a certain extent, housing costs are rising for a simple reason: housing supply has not kept up with rising housing demand. But this is not a simple story of construction falling short of population growth. In fact, the growth in the housing supply has slightly exceeded overall population growth. Rather, it is a demographic story: our country's aging population has driven overall housing demand to grow faster than the population, and the construction of new housing supply has failed to catch up to that.

This dynamic has created a shortage of millions of housing units that has accumulated over decades. Addressing a shortage of this magnitude will rely on strengthening Federal housing policy—a priority for the Biden-Harris Administration—and, importantly, ongoing and innovative work by State and local governments.

RISING HOUSING COSTS

Let us take a close look at the aggregate increases in housing costs we have all observed. Since the turn of the century, both average rents and median home prices have risen faster than overall inflation (as measured by the Consumer Price Index) and faster than median household income.[2]

And in the three years after the pandemic began, house prices experienced sharper increases than during any other three-year period since 2000—even including the housing boom of the mid-2000s. And since March 2020, average rents, as measured by the Consumer Price Index, have risen over 20 percent, contributing to broader inflationary pressures.

These long-term trends are playing out across the country: although some places in the United States have experienced greater housing cost increases than others, most areas have experienced some. Housing costs rose in rural and urban areas, and for both single-family and multi-family units.[3]

To underscore how widespread the growth of home prices and rents have been, we compared median rent growth and median house price growth to median household income growth within counties between 2000 to 2020. We found that:

- Median house prices increased more than median income in 88% of counties, covering **95% of the population.**
- Median rents increased more than median income in 88% of counties, covering **97% of the population.**

Seeing such widespread evidence of home price and rent increases indicates that there is not just a location-based mismatch between areas with more demand and areas with excess supply—we have a nationwide challenge with respect to housing supply.

HOUSING DEMAND AND SUPPLY

How did we get here? In the United States, the changing demographic characteristics of the population are one major factor that have stoked soaring housing demand over the past few decades, well in excess of the additional supply we constructed.

The share of the U.S. population aged 55 and over grew from 20 percent in 2000 to 30 percent in 2023. Older people typically live in smaller households, so as the population ages, the demand for homes rises. When the supply of homes is constrained, we do not necessarily see an increase in housing demand through an increase in household formation. Instead, we observe that young adults live longer in their parents' houses, and more families and roommates choose to share housing rather than set out on their own—reflecting a rising number of "missing households." Some of these missing households represent "unsatisfied demand," as they would have wished to start their own households if affordable housing had been available to them.

To quantify this effect, Treasury economists compared the age distribution of the population in 2000 and 2020. We estimated how many housing units would be demanded today if Americans of a given age had the same probability of living on their own (or being the head of a household) as they did in 2000. Our analysis found that total housing demand—which includes our estimate of unsatisfied demand—grew by 26 percent (from 105 million to 133 million housing units) from 2000 to 2020. During this same period, the housing stock—or the number of housing units counted by Census—only grew by 19 percent. Meanwhile, overall population growth was only 17 percent. So the price pressures in housing have not arisen because *population* has outpaced supply, but because housing *demand*, which accounts for the age distribution of the population, has outpaced supply.

Our methodology measuring unsatisfied demand suggests that there is a current housing shortage of 4 to 6 million units, relative to 20 years ago. Other forecasters, using other methodologies, find shortages within the range of 2 to 7 million homes.

POLICY RESPONSE

Federal housing policy is crucial in addressing the shortage of safe and affordable housing in our country. Indeed, in its latest budget, the Biden Administration has called on Congress to invest more than $175 billion to help grow housing supply. And as Deputy Secretary Adeyemo recently wrote, Treasury is not waiting for Congress to act.

First, Treasury is supporting the construction of affordable rental housing across the United States through the Low-Income Housing Tax Credit, the largest source of financing for affordable housing in the country—building on important policy changes that enable the creation of more financially stable, mixed-income LIHTC developments.

Second, Treasury enabled State and local governments to use money from the American Rescue Plan to make investments in housing supply. The American Rescue Plan's State and Local Fiscal Recovery Funds (SLFRF) program is driving investments at every level of government to create new and improve existing affordable housing stock. The Treasury Department has encouraged jurisdictions to use their SLFRF funds to support housing stability and the construction and preservation of new affordable housing. In the summer of 2022, the Department expanded the flexibility for recipients to use their SLFRF funds to invest in long-term affordable housing projects. In the approximately one year following that announcement, governments increased their funds budgeted in this area by more than 50%. In March, the Department updated the SLFRF guidance to enable states and localities with remaining resources to use those funds on more eligible housing projects.

Third, through a new agreement with the Department of Housing and Urban Development (HUD) announced in March, the Treasury Department is indefinitely extending the Federal Financing Bank's (FFB) financing support for a risk-sharing initiative between HUD and State and local housing finance agencies. This will dramatically lower the cost of capital for certain low-risk housing developments. Prior iterations of this FFB program, which was restarted by the Biden Administration in 2021, leveraged nearly $5 billion for the development or substantial rehabilitation of 42,000 affordable rental homes for low-income families, seniors, and persons with disabilities. We estimate that tens of thousands of additional affordable homes will be created or preserved through this initiative over the next decade.

State and local governments also have an important role to play in housing policy. As many economists have noted,[4] land use and zoning regulations can contribute to elevated housing costs and have broader consequences for trends in inequality and productivity. As I noted previously, the Administration is committed to providing incentives for State and local governments to help reverse these trends.

CONCLUSION

There are no quick fixes to the long-standing structural decline in housing affordability, but the Administration is committed to doing all it can. It is driven by demographic changes and has materialized across the entire country in recent decades, exacerbated by the pandemic. That is why it is such an important focus for President Biden and Secretary Yellen. I am also encouraged that there is a bipartisan acknowledgement of the importance of housing supply. Understanding the economic forces at play—the wide geographical distribution of the long-standing affordability challenge and the demographic shifts at the heart of rising housing demand—is critical. The lessons I discussed today—that the challenge is geographically broad and driven by our specific demographics—underscores the importance of Federal action in partnership with State and local governments. Increasing the supply of housing can help produce a similarly broad improvement, helping some of the most vulnerable Americans in some of the most vulnerable parts of our country.

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[1] More Than 42 Million US Households Were Cost Burdened in 2022 | Joint Center for Housing Studies (harvard.edu)

[2] Average rent data from the Consumer Price Index. Median home price data from Census and U.S. Department of Housing and Urban Development. Median household income from Census.

[3] For multi-family rental price index, see Freddie Mac. For single-family home price index, see S&P CoreLogic Case-Shiller Home Price Index.

[4] E.g., Jason Furman, Barriers to Shared Growth: Land Use Regulation and Economic Rents PDF (2015).