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The Role of Housing in the Affordability “Crisis”

By Tirzah Duren



Executive Summary

The popular narrative of an affordability crisis in the United States is an easy talking point, but upon further inspection, the data tells a more complicated and mixed story. Broadly, inflation-adjusted income and purchasing power have improved across the board, when compared to prior generations, which casts skepticism on current concerns. However, a deeper look at the data reveals narrow categories where costs have risen and could fuel feelings of economic discontent.

Housing, in particular, is an outlier from an overall positive trend. As one of the largest and least flexible components of household budgets, increases in housing costs have an outsized impact on how financial strain is experienced. This rising cost is not the result of broad economic decline, but of supply constraints driven by restrictive zoning, regulatory barriers, and limited new construction.

Many policy responses focus on reducing out-of-pocket costs through subsidies and rental assistance, or by limiting who can purchase and invest in housing, but these approaches do not lower the underlying market price of housing. To address affordability, there is a broad agreement that expanding supply and reducing barriers to building are necessary to stem high prices.

Addressing the cost of housing is key to improving how Americans experience affordability.

Introduction

The idea that Americans are facing a broad affordability crisis has become a defining feature of the current economic narrative.¹ From think tank reports² to political talking points,³ the claim is often presented as self-evident: households are struggling to keep up with the rising cost of living. Yet a closer look at the data tells a more nuanced story. Inflation-adjusted incomes and overall consumption have increased, and purchasing power remains near historic highs.

This disconnect raises an important question. If Americans are, on average, better off, why does the perception of economic strain persist? The answer is not found in a broad-based decline in affordability, but in the uneven behavior of specific spending categories. While most goods and services have remained stable or become more affordable over time, a small number of essential, high-cost sectors have moved in the opposite direction.

Among these, housing stands out. Understanding what is driving housing costs is essential to making sense of the current affordability debate. More importantly, it is critical for identifying which policy solutions address the root of the problem and which simply attempt to manage its symptoms.

Broad Cost of Living Crisis Isn't Supported by Data

In December, *The Economist* ran a headline declaring that “America’s affordability crisis is (mostly) a mirage.”⁴ According to the data from the Census Bureau, this claim rings true; inflation-adjusted median household income was at an all-time high as of 2024.⁵ This finding was replicated in a 2026 report by the Congressional Research Service.⁶ However, research from respected organizations, such as the Brookings Institutions, continue to drive the idea that the middle class, which serves as a mental proxy for the average American, is struggling to afford necessities.⁷

New research from Stephen J. Rose and Scott Winship at the American Enterprise Institute acts as a counterbalance to the negative narratives.⁸ The authors argue that a key problem with research on the middle class involves malleable definitions.

¹ “Half of Americans struggle to afford groceries and gas, exclusive poll finds,” *The Guardian*, July, 2026, <https://www.theguardian.com/business/2026/jul/07/cost-of-living-poll-groceries-gas>.

² *The American Affordability Tracker*. Washington, DC: Urban Institute, 2026.

³ Progressive Caucus, “PROGRESSIVE CAUCUS ANNOUNCES ‘NEW AFFORDABILITY AGENDA,’” press release April 29, 2026, <https://imcwire.com/how-to-cite-a-press-release-chicago-style/?srsltid=AfmBOorXEmanVXtEdw2cKIFh6M7IMPYVH6S5XfgwSbUy1nLAIYXja5QI>.

⁴ “America’s affordability crisis is (mostly) a mirage,” *The Economist*, December 30, 2025, <https://www.economist.com/briefing/2025/12/30/americas-affordability-crisis-is-mostly-a-mirage>.

⁵ U.S. Census Bureau, Real Median Household Income in the United States [MEHOUNUSA672N], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MEHOUNUSA672N>, July 27, 2026.

⁶ Congress.gov. “Is ‘Affordability’ An Attainable Policy Goal?” July 27, 2026. <https://www.congress.gov/crs-product/IF13189>.

⁷ Stephens, Hannah and Andre M. Perry Rose. *In every corner of the country, the middle class struggles with affordability*. Washington, DC: Brookings, 2025.

⁸ Rose, Stephen J. and Scott Winship. *The Middle Class Is Shrinking Because of a Booming Upper-Middle Class*. Washington, DC: American Enterprise Institute, 2026.

In the paper, these authors highlight the challenges to measuring how the middle class is performing economically, namely using a fixed definition for an evolving economy. In one of the studies they highlighted, the definition pegs the term “middle class” to the median income. Defining the middle class based on median income is misleading because it only measures people’s position relative to others. Since the median is always the middle point, this kind of definition doesn’t show generalized improvements in living standards. Even if everyone’s income doubled, the middle class would look unchanged because the whole distribution would just shift upward together.

To address this shortcoming, the authors instead link their class definitions to the poverty line. The poverty line is calculated by multiplying the average estimates of the cost of food by three, since historically food spending usually equaled a third of the household budget.⁹

The poverty line also has shortcomings: the average family today doesn’t spend a third of their budget on food, and while the measurement is adjusted for inflation, it doesn’t capture regional fluctuations or differences in non-food trends. However, for studying the middle class, the poverty line is superior to definitions based on median income because it allows for a comparison of income growth across time and income groups, and sheds light on how current generations compare economically to previous ones.

Under the Rose and Winship definition, the core middle class contains households that earn 250 percent to under 500 percent of the poverty guideline.¹⁰ Using this methodology, the authors argue that yes, the share of households in the middle class has shrunk, but so too has the share of households below middle class. The cause of the decreasing middle is actually a positive trend towards the upper middle class and the rich.

While the trend is positive, an alternative explanation for the narrative of economic decline is that the change is relative rather than absolute. If the gap between the top and bottom income groups grew, it could contribute to feelings of falling behind. However, even that story falls flat. The Gini Index, which measures inequality, has increased since the 1980’s, but remained fairly stable since 2006, with exceptions following the 2008 crisis and the Covid-19 pandemic.¹¹

Another way to look at inequality is by comparing the 90th percentile of income to the 10th percentile of income. However, once again, this further undermines the claim that inequality is driving the narrative. Research from the Federal Reserve shows that the ratio of the top ten percent and the bottom ten percent of weekly earners has been relatively unchanged for the last few years, but since its peak in 2012, has declined, meaning the bottom has gained more than the top.¹²

⁹ “What is the federal poverty level?,” USA Facts, February 6, 2026, <https://usafacts.org/explainers/what-is-the-federal-poverty-level/country/united-states/>.

¹⁰ Rose and Winship, *The Middle Class Is Shrinking Because of a Booming Upper-Middle Class*.

¹¹ World Bank, GINI Index for the United States [SIPOVGINIUSA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/SIPOVGINIUSA>, July 27, 2026.

¹² O'Trakoun, John, “Rising Inequality at the Bottom: Low-Wage Workers Falling Behind Their Closest Peers,” *Federal Reserve Bank of Richmond*, February 24, 2026, https://www.richmondfed.org/research/national_economy/macro_minute/2026/rising_inequality_at_bottom_low-wage_workers_falling_behind_peers.

Even if you were to focus only on inequality for essential spending, as Conrad Lodziak argues in his book *Myth of Consumerism*, the trend is still the same.¹³ Using data from the Consumer Expenditure Survey, and defining essential consumption as spending on housing, transportation, healthcare, and food,¹⁴ in ascending order, the change in share of spending for essential goods and services was 6 percent, 4 percent, 4 percent, 4 percent, and -1 percent (Table 1). Even with the slight increases for all quintiles except the top, this doesn't seem drastic enough to drive the narrative of an affordability crisis.

Growth in Percentage of Spending on Essential Goods & Services

Table 1



Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
6%	4%	4%	4%	-1%

U.S. Bureau of Labor Statistics, "Consumer Expenditure Survey, 1984–2024: Quintiles of Income Before Taxes," tabular data, accessed May 15, 2026, <https://www.bls.gov/cex/>.

Another lens with which to analyze affordability is the Minimal Quality of Life Index (MQL) from the Ludwig Institute for Shared Economic Prosperity.¹⁵ The goal of this index is to highlight the “resources needed to secure a foothold on the bottom rung of the American Dream and climb it over time.”

Comparing median income from the American Community Survey,¹⁶ categorized by family type, to the estimated amount needed for MQL shows a marginal improvement, rather than a decline in affordability (Table 2).¹⁷ The exact categories didn't translate identically; in such instances, the MQL comparison with the highest estimate was used.¹⁸

¹³ Conrad Lodziak, *The Myth of Consumerism* (London: Pluto Press, 2002).

¹⁴ U.S. Bureau of Labor Statistics, "Consumer Expenditure Survey, 1984–2024: Quintiles of Income Before Taxes," tabular data, accessed May 15, 2026, <https://www.bls.gov/cex/>.

¹⁵ *Beyond Survival: Analyzing the True Cost of Economic Well-Being*. Washington, DC: Ludwig Institute for Shared Economic Prosperity, 2025.

¹⁶ U.S. Census Bureau, "Median Income in the Past 12 Months (in 2024 Inflation-Adjusted Dollars)," *American Community Survey, ACS 1-Year Estimates Subject Tables, Table S1903*, accessed on June 2, 2026, <https://data.census.gov/table/ACSST1Y2024.S1903?t=Income+and+Poverty&g=010XX00US>.

¹⁷ While the median income has weaknesses when trying to measure the middle class, due to its being the exact middle of incomes, it is useful here to show how the share of household who fall below the MQL estimates has changed.

¹⁸ Methodological Note: The MQL categories distinguish among married households with no children, one child, two children, and three children, and repeat these categories for single-parent households. By contrast, Census data does not differentiate households by the number of children and, for single-parent households, reports separate median incomes for male- and female-headed households. To provide a conservative comparison, this analysis uses the lower median income for female-headed households. Similarly, because the Census groups all households with children together, the MQL estimate for households with three children was used for comparison. These assumptions were intentionally selected to maximize the likelihood of finding a decline in affordability. As a result, the estimated decline in affordability presented here is likely overstated rather than understated.

Median Income Compared to MQL Estimates

Table 2



2024			2010	
	MQL estimate	Census median	MQL estimate	Census median
Couple no kids	\$75,445.00	\$112,334.00	\$46,796.53	\$69,486.00
Couple with kids (took highest estimate for 3 kids)	\$131,819.00	\$132,959.00	\$84,995.40	\$77,443.00
Single no kids (took lowest of sexes)	\$47,141.00	\$68,928.00	\$29,033.76	\$40,521.00
Single kids (took lowest of household types and highest estimate)	\$115,535.00	\$41,305.00	\$73,536.61	\$23,184.00

U.S. Census Bureau, "Median Income in the Past 12 Months (in 2024 Inflation-Adjusted Dollars)," American Community Survey, ACS 1-Year Estimates Subject Tables, Table S1903, accessed on June 2, 2026, https://data.census.gov/table/ACSST1Y2024.S1903?_t=Income+and+Poverty&g=010XX00US.

In 2024, there was one category where the median income did not meet the MQL estimates. In this example, the difference was significant, with the female-headed household with children reaching roughly 36 percent of the MQL estimate. However, in comparison to 2010, this number represents an improvement. In 2010, the median income for single-headed households with kids was only 32 percent of the MQL estimate and the median income for couples with kids was also below the estimate, although the gap was less severe, with the median income for this group equaling 91 percent of the MQL estimate.

Across all these approaches to affordability, the one constant is that the picture is overall one of improvement. For the limited areas that saw some decline, such as essential category spending, the change is not significant enough to drive the drastic increase in the affordability crisis narrative.

Housing and Healthcare Are the Outliers to the Positive Trend

When discussing affordability, the focus should be on what consumers can purchase with their resources. Data from the Consumer Expenditure survey helps paint that picture by tracking household spending across a diverse set of spending categories from 1984 to 2024 (Table 3).¹⁹

Once adjusted for inflation, consumer spending has increased across all income groups, but the growth varies.

¹⁹ U.S. Bureau of Labor Statistics, "Consumer Expenditure Survey, 1984–2024: Quintiles of Income Before Taxes."



Spending Increase (2024 dollars)

Table 3

Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
7%	16%	14%	14%	19%

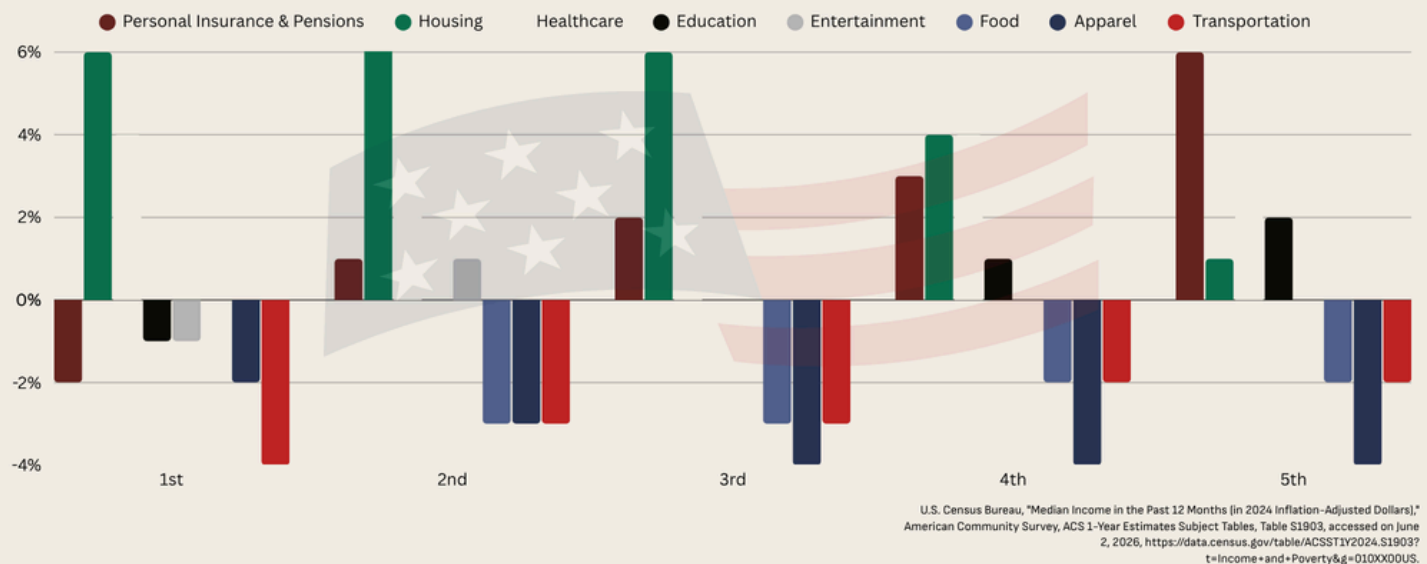
U.S. Bureau of Labor Statistics, "Consumer Expenditure Survey, 1984–2024: Quintiles of Income Before Taxes."



Looking across different spending categories shows what area of spending is most impacting household budgets (Figure 1).²⁰ Overall increases in expenditures as a percentage of total spending remained low, ranging from negative to 1 percent for most categories across income groups. Two spending categories are clear deviations: housing and healthcare.

Change in Household Expenditures as a Share of Total Spending, by Quintile 1984-2024 (2024 dollars)

Figure 1



Spending on personal insurance and pensions grew for the top three quintiles and on education as well. However, growth in insurance and pensions is less concerning and will be excluded from this analysis, as it is primarily driven by pension contributions, which add to financial stability and are usually voluntary. Likewise, education was a marginal increase, 1 to 2 percent, and represents an investment in future earnings.

²⁰ Ibid.

For consumers, certain line items can make the overall rosy picture a bit harder to see. This is due to the fact that the areas of consumer spending which have increased are large line items in the family budget. When major cost drivers such as housing and healthcare continue to climb, it disproportionately chips away at overall gains.

Between 1984 and 2024, inflation-adjusted average spending increased by 18 percent. This increase was primarily driven by housing, which contributed to 50 percent of growth, and healthcare, which contributed to 25 percent.²¹

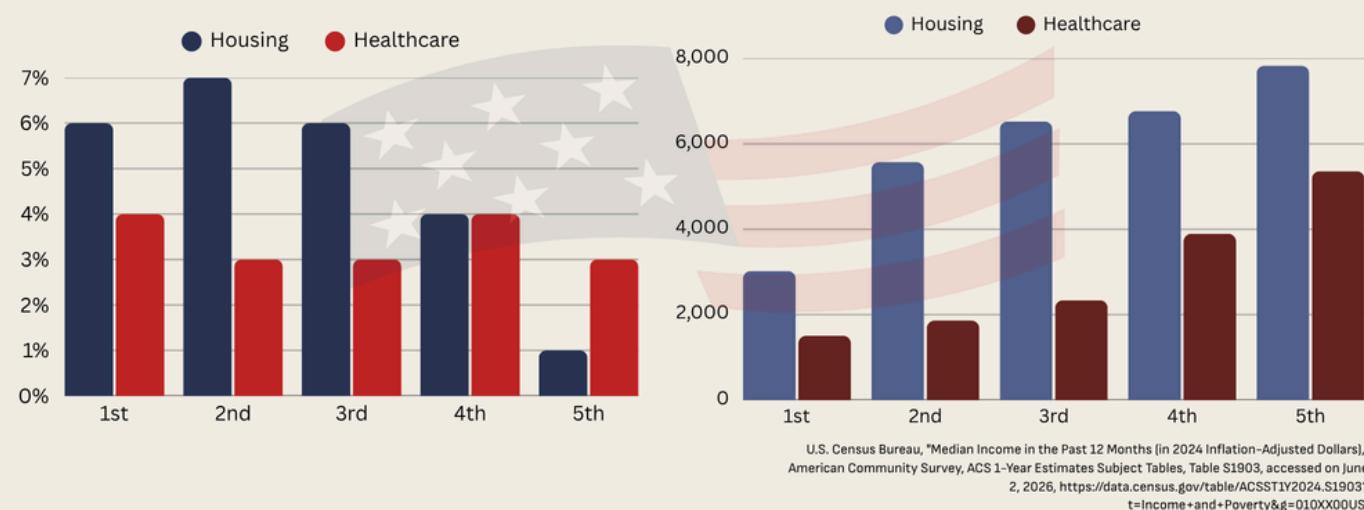
In 1984, housing, food, and transportation were the largest line items in consumer spending across all categories, with shares ranging from 13 to 35 percent depending on the category and quintile. In 2024, the pattern largely holds.²² The main change is that housing takes a larger share across all income quintiles, while food and transportation have largely shrunk, with the exception of food which maintained the same share in the first quintile.

Healthcare follows a similar pattern to housing. In 1984, healthcare accounted for between 3 and 7 percent of household spending, depending on income level.²³ By 2024, that share had risen to between 6 and 10 percent. For the lowest income quintile, increases in healthcare spending alone account for roughly 70 percent of the total growth in expenditures over this period.

While housing and healthcare have grown as a percentage of spending, housing tends to outpace the growth in healthcare, and even in the income quintiles where it doesn't, the 5th quintile had a 1 percent growth in housing and a 3 percent growth in healthcare; the total spending on each category makes it clear that housing has the largest shift for household budgets (Figure 2).²⁴

Change in Household Expenditures as a Share of Total Spending, by Quintile 1984-2024
(2024 dollars)

Figure 2



²¹ Ibid.

²² Ibid.

²³ Ibid.

²⁴ Ibid.

This shift matters. Housing is not only a large expense but also a relatively inelastic one, meaning increases are more acutely felt and harder to offset through substitution. As a result, even in the context of rising overall purchasing power, relatively small percentage increases in the largest sectors of household spending can disproportionately shape perceptions of financial strain.

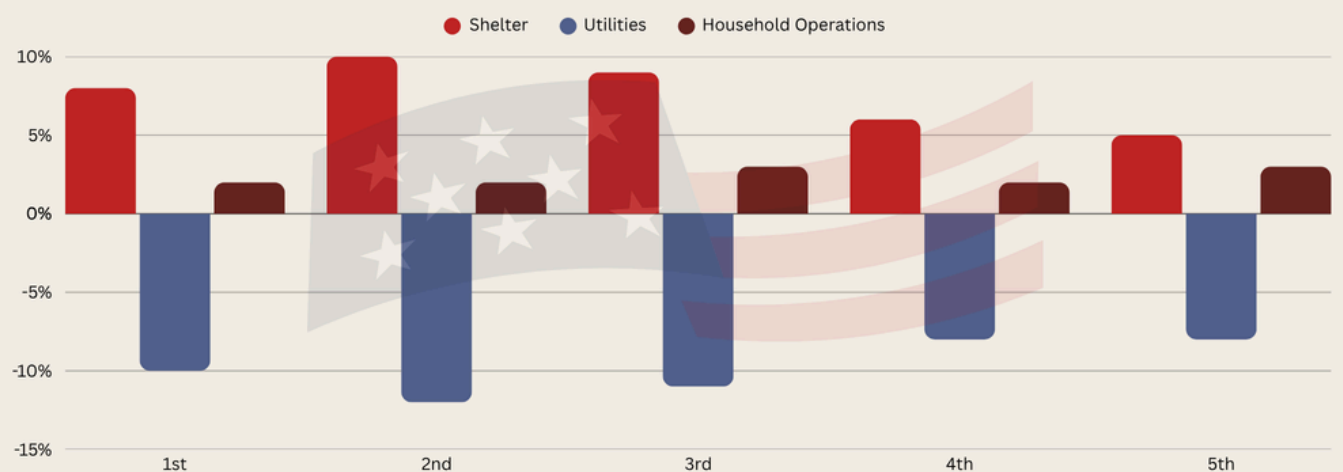
The key insight is not that all goods and services are becoming less affordable, or that people are worse off. Rather, the category experiencing the most significant cost growth—housing in terms of growth and total cost—is essential, inelastic, and budget-dominant. As housing takes up a larger share of household resources, it exerts an outsized influence on how affordability is experienced, regardless of broader gains in income or consumption.

Deep Dive Into Housing Trends

Housing is the spending category that best reflects the current narrative on affordability. But even within this category, not all cost drivers are equal. In the Consumer Expenditure Survey, housing is further divided into three parts: shelter, utilities, and household expenses.²⁵ Across income quintiles, shelter grew the most as a share of housing spending and is the biggest share at roughly 70 percent across the board (Figure 3).

Change in Housing Expenditures as a Share of Total Spending by Quintile 1984-2024
(2024 dollars)

Figure 3



U.S. Census Bureau, "Median Income in the Past 12 Months (in 2024 Inflation-Adjusted Dollars)," American Community Survey, ACS 1-Year Estimates Subject Tables, Table S1903, accessed on June 2, 2026, <https://data.census.gov/table/ACSST1Y2024.S1903?t=Income+and+Poverty&g=010XX00US>.

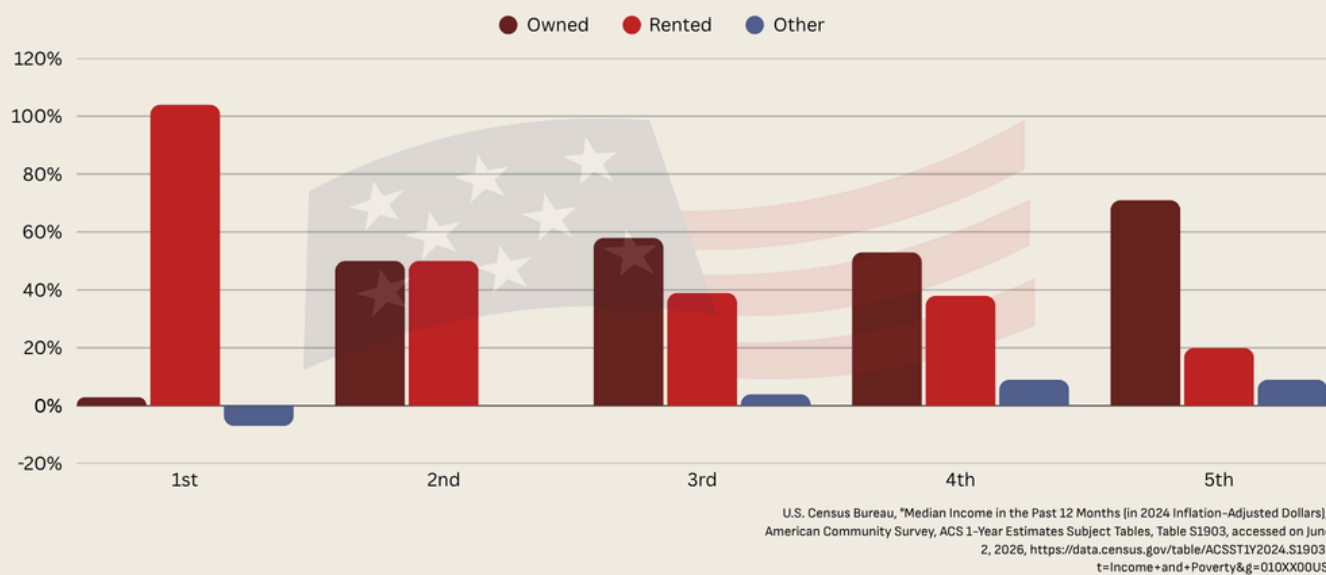
The spending category of shelter is further divided into additional groups that focus on owned dwellings, rented dwellings, and other lodging, which includes vacation homes (Figure 4).²⁶ Whether rental or owned dwellings are driving the growth in this category depends on the income quintile. For the lowest income quintile, rental expenses have grown the most in the housing category. The second quintile is balanced between owned and rented housing, and from the middle quintile upward, owned dwellings grew the most.

²⁵ Ibid.

²⁶ Ibid.

Share of Spending Growth for Shelter by Type and Quintile 1984-2024 (2024 dollars)

Figure 4



What this breakdown means is that addressing rental prices is essential for addressing cost-of-living concerns for those with the lowest income. However, for the rest of America, reducing the cost of owning a home is still essential. From a policy point of view, this is good news. While consumers may view rental and owned dwellings as two different products, they are part of the same market. Whether housing is listed as for rent or for sale often varies dependent on broader economic conditions. For consumers in the lowest quintile, this means the same policy solutions that will alleviate strain for them are the same solutions that will help others across the income spectrum.

Policy Approach for Addressing Cost of Living

Housing is the primary area where the data supports the cost-of-living crisis narrative that has dominated political conversations in 2026. Luckily for lawmakers, addressing housing costs, for both those who rent and purchase, is possible.

A paper looking at housing rents and sale prices, from 1970 to 2003, found that the costs were linked and also worked to balance each other.²⁷ When the difference between the cost of renting and buying was large, rents would grow faster than average, and buying prices would grow slower than average to close this gap.

²⁷ Gallin, Joshua. "The long-run relationship between house prices and rents." *Real Estate Economics* 36, no. 4 (2008): 635-658.

Another study found a similar and interchangeable relationship between rental and home-buying markets.²⁸ Looking at data from 1995 to 2006, the authors concluded that changes in interest rates affect both rents and home prices because they influence whether people choose to rent or buy. When interest rates fall, more people enter the home-buying market, increasing demand and driving up home prices. At the same time, lower returns on savings prompt many investors to enter the rental market and become landlords to increase returns.

This shift between homes for sale and for rent is mirrored in research from the St. Louis Federal Reserve on the single-family housing market.²⁹ The findings show growth in single family rentals following the 2008 housing crash and subsequent interest rate drops, with ownership increasing once the market began to recover.

This interconnectedness is critical because it demonstrates that rental and owner-occupied housing cannot be analyzed in isolation. Instead, they function as a single, integrated housing market, with properties shifting between rental and owner-occupied uses as interest rates and other market conditions change. As a result, policies affecting one segment of the market inevitably influence the other.

Barriers to Housing

Much of housing research, including some cited in the previous section, focuses on how interest rates affect housing. This factor influences the cost by determining the total price for a mortgage and demand. However, attempting to manipulate interest rates would not only cause larger distortion in the economy; it wouldn't lower the underlying cost of building a house, which is the core cost of a mortgage. To truly address housing costs, they need to be cheaper and easier to build.

In the article, "The Economic Implications of Housing Supply," authors Edward Glaeser and Joseph Gyourko found that housing regulations act as a tax on new construction and increase the cost of housing.³⁰ An additional paper by Vicki Been, Ingrid Gould Ellen, and Katherine O'Regan finds that adding new homes to the market moderates price increases.³¹ Taken together, these papers confirm the growing consensus that making housing easier to construct will increase the supply and bring down costs.

²⁸ Kamila Sommer, Sullivan, Paul, and Verbrugge, Randal. "The equilibrium effect of fundamentals on house prices and rents." *Journal of Monetary Economics* 60, no. 7 (2013): 854–870.

²⁹ Charles S. Gascon and Fu, Lillian. *The Role of Single-Family Rentals in the U.S. Housing Market*, St. Louis: Federal Reserve, 2025, <https://www.stlouisfed.org/on-the-economy/2025/oct/role-single-family-rentals-us-housing-market>.

³⁰ Glaeser, Edward, and Joseph Gyourko. "The Economic Implications of Housing Supply." *Journal of Economic Perspectives* 32, no. 1 (2018): 3–30.

³¹ Been, Vicki, Ingrid Gould Ellen, and Katherine O'Regan. "Supply skepticism: Housing supply and affordability." *Housing Policy Debate* 29, no. 1 (2019): 25–40.

Across a wide range of housing policy proposals, there is a clear throughline on what drives the market cost of housing. The strongest areas of agreement focus on supply-side constraints. Organizations including Pew Research,³² the Bipartisan Policy Center,³³ the Urban Institute,³⁴ the Congressional Joint Economic Committee,³⁵ and the Center for American Progress³⁶ all identify restrictive zoning, limits on density, and permitting as primary drivers of high housing costs. These constraints limit the quantity of housing that can be built and push market prices higher by keeping supply artificially scarce relative to demand.

There is also broad consensus around reforms designed to lower the underlying cost of housing by enabling more types of construction. Pew Research emphasizes expanding lower-cost housing options such as accessory dwelling units, microapartments, and manufactured housing.³⁷ The Bipartisan Policy Center,³⁸ Urban Institute,³⁹ and Center for American Progress similarly call for legalizing more housing types.⁴⁰

Across these proposals, the common mechanism is increasing supply to reduce per-unit costs.

Several organizations also highlight the role of land and capital in shaping market prices. The Bipartisan Policy Center⁴¹ and Urban Institute⁴² emphasize deploying public land for housing and improving access to development capital, while the Urban Institute,⁴³ Economic Security Project,⁴⁴ and the Joint Economic Committee⁴⁵ point to the need for expanded and more efficient housing finance. These proposals aim to reduce input costs and financing barriers that ultimately feed higher housing costs.

By contrast, consensus on a separate set of policies focuses on mitigating housing costs for specific populations rather than lowering prices across the market. The Center on Budget and Policy Priorities,⁴⁷ National Alliance to End Homelessness,⁴⁸ Urban Institute,⁴⁹ and Bipartisan Policy Center⁵⁰ all support expanding rental assistance and vouchers. While these policies can reduce out-of-pocket costs for recipients, they do not address the structural drivers of market prices and, absent supply expansion, do little to reduce overall housing costs.

³² Horowitz, Alex and Tara Roche. *5 Policies to Help Curb Housing Costs Immediately*. Washington, DC: Pew, 2025.

³³ *Ten Actions Cities Can Take to Improve Housing Affordability*. Washington, DC: Bipartisan Policy Center, 2022.

³⁴ *Policy Solutions for an Affordable Future*. Washington, DC: Urban Institute, 2026.

³⁵ *Rebuilding the American Dream: Policy Approached to Increasing Housing Supply in the U.S.* Washington, DC: Joint Economic Committee Democrats, 2024.

³⁶ Bernstein, Jared, Michael Negron, and Natalie Baker. *Build, Baby, Build: A Plan To Lower Housing Costs for All*. Washington, DC: Center for American Progress, 2025.

³⁷ Horowitz and Roche. *5 Policies to Help Curb*.

³⁸ *Ten Actions Cities Can Take*.

³⁹ *Policy Solutions for an Affordable Future*.

⁴⁰ Bernstein, Negron, and Baker. *Build, Baby, Build*.

⁴¹ *Ten Actions Cities Can Take*.

⁴² *Policy Solutions for an Affordable Future*.

⁴³ *Policy Solutions for an Affordable Future*.

⁴⁴ Chao, Becky, Mike Konczal, and Ned Resnikoff. *Solving America's Housing Crisis: Fixing Broken Markets and Broken Incomes*. New York, New York: Economic Security Project, 2026.

⁴⁵ *Rebuilding the American Dream*.

⁴⁶ Bailey, Anna, Peggy Bailey, and Erik Gartland. *Policymakers Can Solve Homelessness by Scaling Up Proven Solutions: Rental Assistance and Supportive Services*. Washington DC: Center on Budget and Policy Priorities, 2025.

⁴⁷ *Improving Access to Affordable Housing*. Washington DC: National Alliance to end Homelessness, <https://endhomelessness.org/improve-access-to-affordable-housing/>.

⁴⁸ *Policy Solutions for an Affordable Future*.

⁴⁹ *Ten Actions Cities Can Take*.

⁵⁰ Diamond, Rebecca, Tim McQuade, and Franklin Qian. "The effects of rent control expansion on tenants, landlords, and inequality: Evidence from San Francisco." *American Economic Review* 109, no. 9 (2019): 3365–3394.

Taken together, the consensus suggests that durable reductions in housing costs depend on policies that expand supply and reduce the regulatory and financial barriers to building. While targeted assistance may help specific households, organizations across the ideological spectrum implicitly recognize that without addressing these underlying constraints, affordability challenges will persist at the market level.

Policies to Avoid

Expanding housing supply takes time, particularly in the face of a calcified Congress and the need for reforms at the state and local levels, where many restrictive land-use policies originate. This reality often leaves policymakers searching for quick fixes. Unfortunately, many of the most politically attractive solutions are also the most likely to backfire.

Rent control is perhaps the clearest example. Its appeal is obvious: capping rents appears to provide immediate relief to tenants facing rising housing costs. Yet, decades of economic research suggest that while rent control benefits a subset of incumbent renters, it often does so at the expense of the broader housing market.

A frequently cited study published in the *American Economic Review* examined the expansion of rent control in San Francisco following a 1994 policy change.⁵¹ The authors found that tenants living in rent-controlled units were less likely to move, reducing displacement among existing residents. However, the policy also changed landlord incentives. Property owners responded by converting rental units to other uses, removing units from the rental market, and shifting investment toward exempt properties. The result was a reduction in the supply of rental housing and higher rents for units outside the rent-control system. In other words, rent control protected current tenants but made housing less affordable for future renters.

Beyond regulating rents, policymakers are increasingly focused on regulating who provides housing. Institutional investors have emerged as a convenient political target, with many blaming large investment firms for rising housing costs.

Earlier this year, the Federal Trade Commission sought public comment on the effects of mega single-family rental investors—companies that own more than 1,000 rental homes.⁵² Similarly, Senators Elizabeth Warren and Tim Scott introduced the 21st Century ROAD to Housing Act, which, among other provisions, prohibits institutional investors from purchasing single-family homes.⁵³ This bill became law in July 2026.

⁵¹ Diamond, Rebecca, Tim McQuade, and Franklin Qian. "The effects of rent control expansion on tenants, landlords, and inequality: Evidence from San Francisco." *American Economic Review* 109, no. 9 (2019): 3365–3394.

⁵² Federal Trade Commission, "FTC Seeks Public Comment on Single-Family Rental Home Mega Investors Study," press release January 15, 2025, <https://www.ftc.gov/news-events/news/press-releases/2025/01/ftc-seeks-public-comment-single-family-rental-home-mega-investors-study>.

⁵³ 21st Century ROAD to Housing Act, Pub. L. No. 119–101, 140 Stat. 846 (2026).

While large landlords make an appealing scapegoat, the evidence suggests the story is considerably more nuanced.

There is little doubt that institutional investors are reshaping portions of the housing market. Research from the Philadelphia Federal Reserve finds that their expansion has contributed to lower homeownership rates in some markets.⁵⁴ Likewise, researchers at New York University's Stern School of Business find that institutional investors can increase home prices and reduce the availability of homes for purchase.⁵⁵

However, as we have already established, housing, whether for sale or rent, is part of the same market. It is unsurprising that these same studies also identify meaningful benefits in the rental market. The Philadelphia Fed found that institutional investment boosted demand for construction labor and reduced rental vacancy rates. The New York University study similarly concluded that institutional investors expanded the supply of rental housing and, importantly, helped moderate rental prices.

These findings illustrate a broader lesson. Policies that target symptoms rather than underlying supply constraints risk producing unintended consequences while leaving affordability largely unchanged. Increasing housing supply remains the most durable solution to rising housing costs. Equally important, policymakers must resist politically convenient scapegoats and avoid expending valuable political capital on measures that do little to address the structural causes of the housing shortage.

Conclusion

The broader affordability narrative is not without basis, but it is often misdiagnosed. The data does not support a generalized decline in purchasing power or a widespread erosion of living standards. Instead, it points to a more concentrated challenge. A small number of essential and high-cost sectors, most notably housing, are responsible for shaping how affordability is experienced.

In housing, the evidence is clear. Costs are rising not because of a failure of markets, but because of constraints placed on them. Restrictive zoning, regulatory delays, and limits on development reduce the supply of housing and drive prices upward. This dynamic affects both renters and prospective homeowners, who are ultimately competing within the same constrained market.

Policy responses that focus on subsidies, rental assistance, or targeted relief may ease the burden for some households, but they do not change the underlying price of housing. Without addressing the structural barriers that limit supply and increase development costs, these approaches leave the core problem intact.

If the goal is to reduce the actual market cost of housing, the path forward is relatively clear and, notably, widely agreed upon. Expanding supply, lowering regulatory barriers, and improving access to land and capital are not ideological positions but economic ones. Until these constraints are addressed, affordability will remain an issue not because Americans are broadly worse off, but because one of the largest and least flexible components of their budgets continues to move in the wrong direction.

⁵⁴ Lambie-Hanson, Lauren, Wenli Li, and Michael Slonkosky. "Institutional investors and the US housing recovery." (2019).

⁵⁵ Coven, Joshua. "The impact of institutional investors on homeownership and neighborhood access." Available at SSRN 4554831 (2025).

