

# HOUSING AFFORDABILITY

AMERICA'S SHORT-TERM CRISIS  
AND LONG-TERM PROBLEM



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## AMERICA'S SHORT-TERM CRISIS AND LONG-TERM PROBLEM

Authored by S. T. Karnick

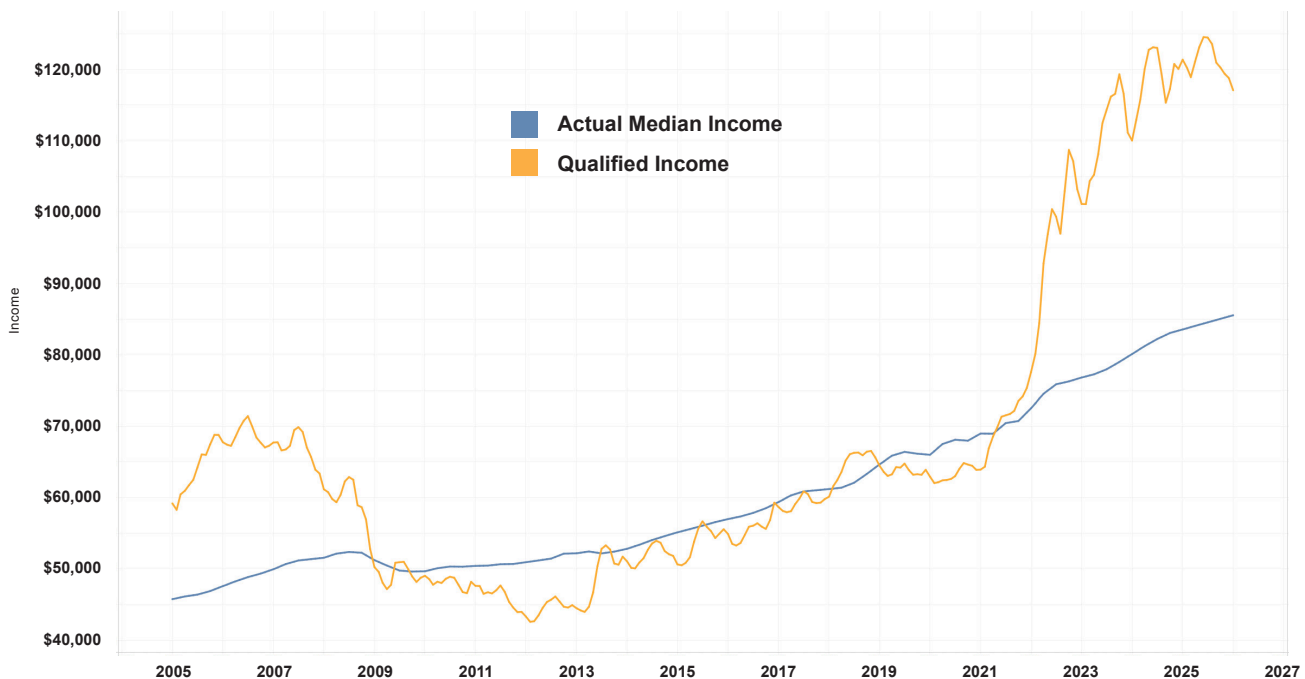


### INTRODUCTION

A steep rise in inflation since 2021 has triggered an affordability crisis, and especially a housing affordability crisis, in the United States. A new poll by The Heartland Institute's Glenn C. Haskins Emerging Issues Center and Rasmussen Reports finds "Seventy-four percent of young Americans, including 70% of self-identified conservatives, believe the 'cost of housing in America has reached a crisis level.' More than half (56%) of self-identified conservatives would support a congressional proposal to expand government housing and impose a nationwide rent freeze."<sup>1</sup>

These proposed solutions will succeed only if the diagnosis is correct. To diagnose the problem, we must ascertain what is driving up housing prices as a percentage of real incomes. The reality is that monetary inflation in the early 2020s aggravated a long-term housing affordability crunch and turned it into a housing crisis. Reducing inflation will alleviate the short-term crisis. The nation must then turn to the long-term problem: a stagnant supply of housing.

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**FIGURE 1: HOMEOWNERSHIP COST VERSUS MEDIAN INCOME, UNITED STATES**

Source: *Federal Reserve Bank of Atlanta*

## THE HOUSING AFFORDABILITY GAP

Housing costs crossed the line into unaffordable territory in the United States in May 2021 (see Figs. 1 and 2).<sup>2</sup>

Other factors raised the cost of owning a home even further in this time of high price inflation: increases in utilities costs, homeowners' insurance, property taxes, repairs, renovations for work at home, association fees, and more.

The steep rise in housing prices that began in 2021 was acute, and it has yet to recede. Those with the least wealth feel the effects most powerfully, of course. Americans aged 35 to 45, when first-time homebuying rises the most, have found more difficulty in buying a house than prior demographic groups have experienced.

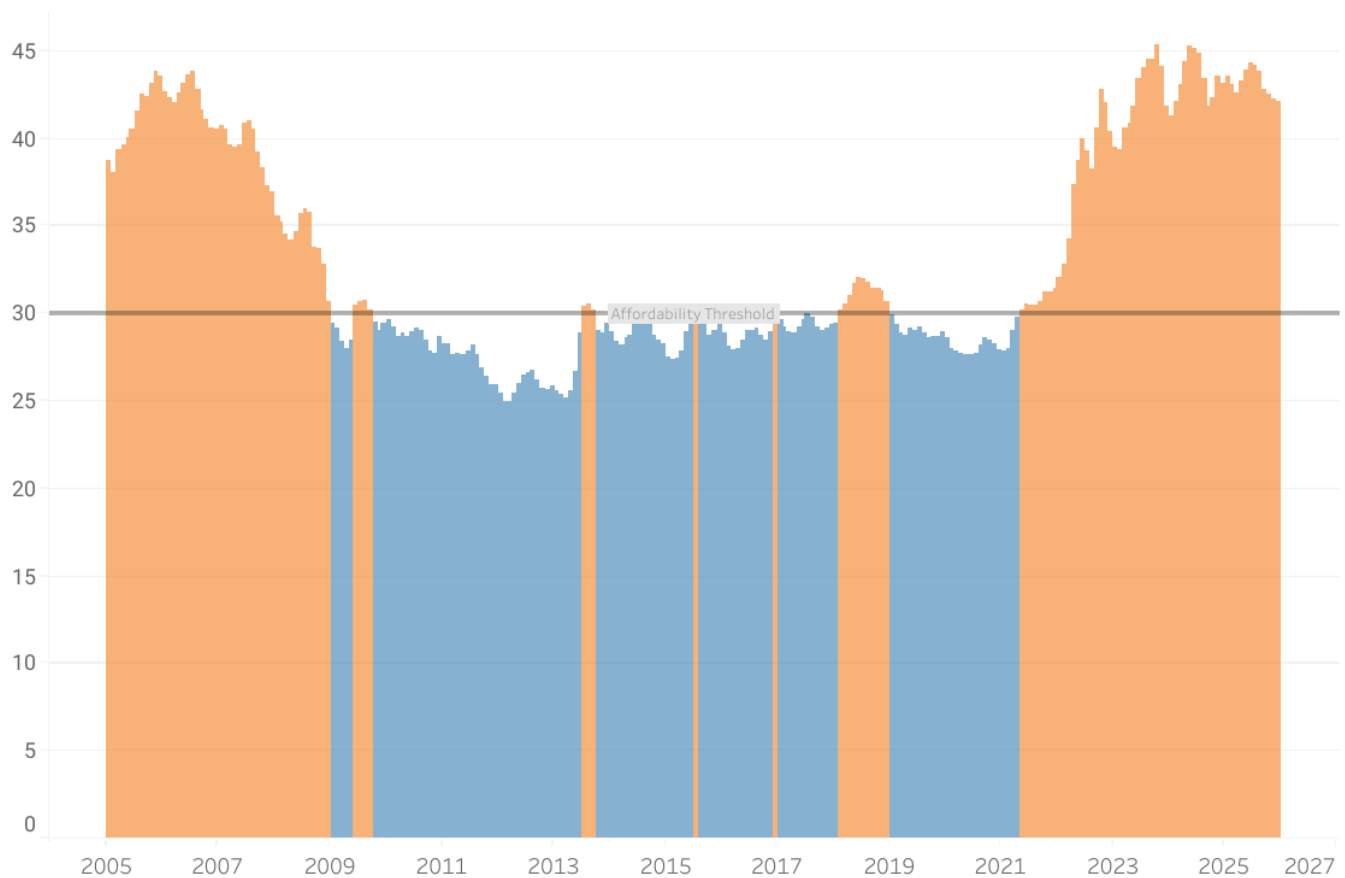
The percentage of first-time home buyers in the United States has collapsed since 2021, notes real-estate analyst David Bitton at Doorloop:<sup>3</sup>

### First-Time Buyers Under Pressure

- **2021:** First-time buyers ~**34%** of purchases.
- **2022:** Down to **26%**.
- **2025:** Just **21%** – a **record low**.

This collapse shows rising down payments, high monthly costs, and strict underwriting are keeping new homebuyers out of the market.

The average age of a first-time U.S. homebuyer is now 40, a record high, and it costs a first-time homebuyer an average of \$150,000 in missed equity compared with buying at age 30.<sup>4</sup> That makes everything less affordable for such households. Unaffordable housing has created a general affordability crisis for young adults in nearly all areas of life in the United States.

**FIGURE 2: HOMEOWNERSHIP COST AS SHARE OF MEDIAN INCOME, UNITED STATES**

Source: *Federal Reserve Bank of Atlanta*

## INFLATION-ADJUSTED HOUSING PRICES

The Case-Shiller Index illustrates real (inflation-adjusted) housing prices against a baseline of the year 2000. Prices rose rapidly during the pandemic (see Fig. 3).<sup>5</sup>

The rises in housing prices per square foot after 2022 have not been unusually high, however, as overall price inflation has moderated (see Fig. 4).<sup>6</sup>

The price of housing per square foot began rising rapidly in 2020 and has not come back down. Higher housing prices were not primarily caused by increases in the size of houses built. In fact, builders have been reducing the average size of new houses since the 2022-2023 inflation burst, *Fortune* magazine reported.<sup>7</sup> Dollar devaluation through inflation was the big factor in the rapid increase in prices per square foot, as we shall see later in this paper.

## AVERAGE INTEREST RATE ON A 30-YEAR MORTGAGE

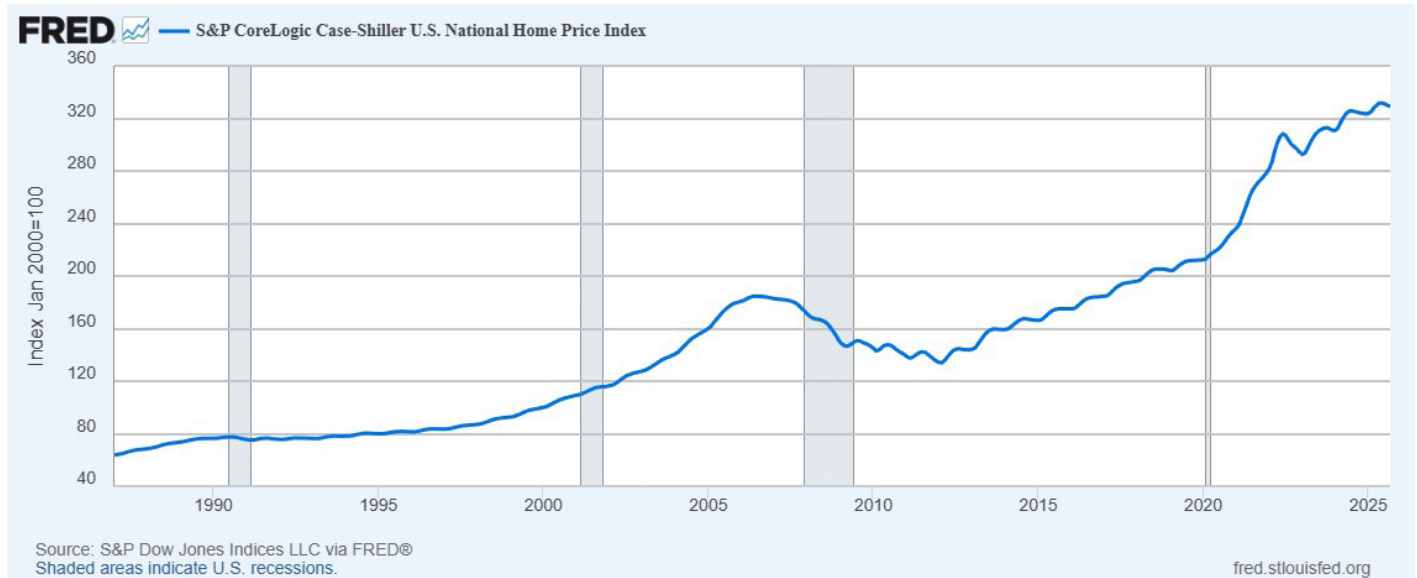
Most American homeowners take out a mortgage to pay for their home: 62 percent of U.S. homeowners had mortgages in 2021, according to the U.S. Census Bureau.<sup>8</sup> As a result, mortgage interest rates have a powerful effect on the ability to buy a house. The Federal Reserve's hikes in the federal funds rate, intended to fight inflation, pushed up consumer interest rates after 2021, including mortgage rates (see Fig. 5).<sup>9</sup>

The increase in mortgage interest rates in early 2022 was extraordinarily rapid and has persisted (see Fig. 6).<sup>10</sup>

The average interest rate on a fixed-rate 30-year mortgage is within historical norms, though it rose rapidly during the Biden administration and has yet to return to the historically low rates of the dozen years after the Great Recession.

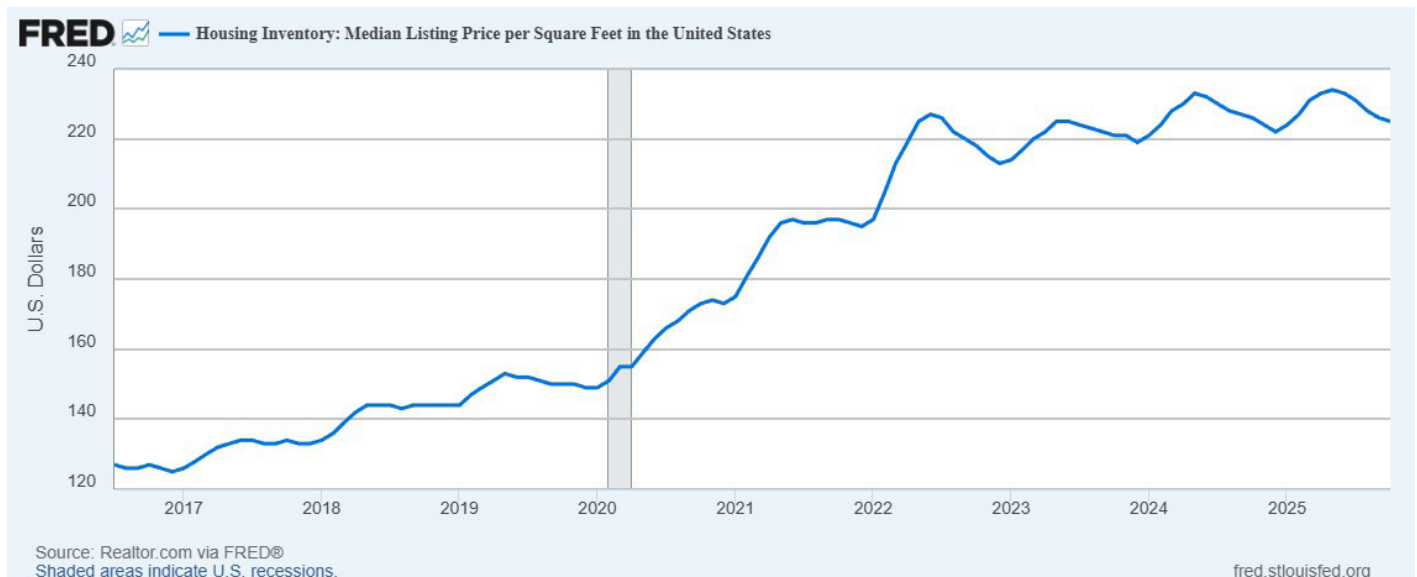
Higher mortgage interest rates increase housing costs, which is especially burdensome for young people, who generally have lower incomes than they will enjoy in later years.

**FIGURE 3: CASE-SHILLER U.S. NATIONAL HOME PRICE INDEX, 1987-PRESENT**



Source: *Federal Reserve Bank of St. Louis*

**FIGURE 4: MEDIAN HOUSING PRICE PER SQUARE FOOT, UNITED STATES**



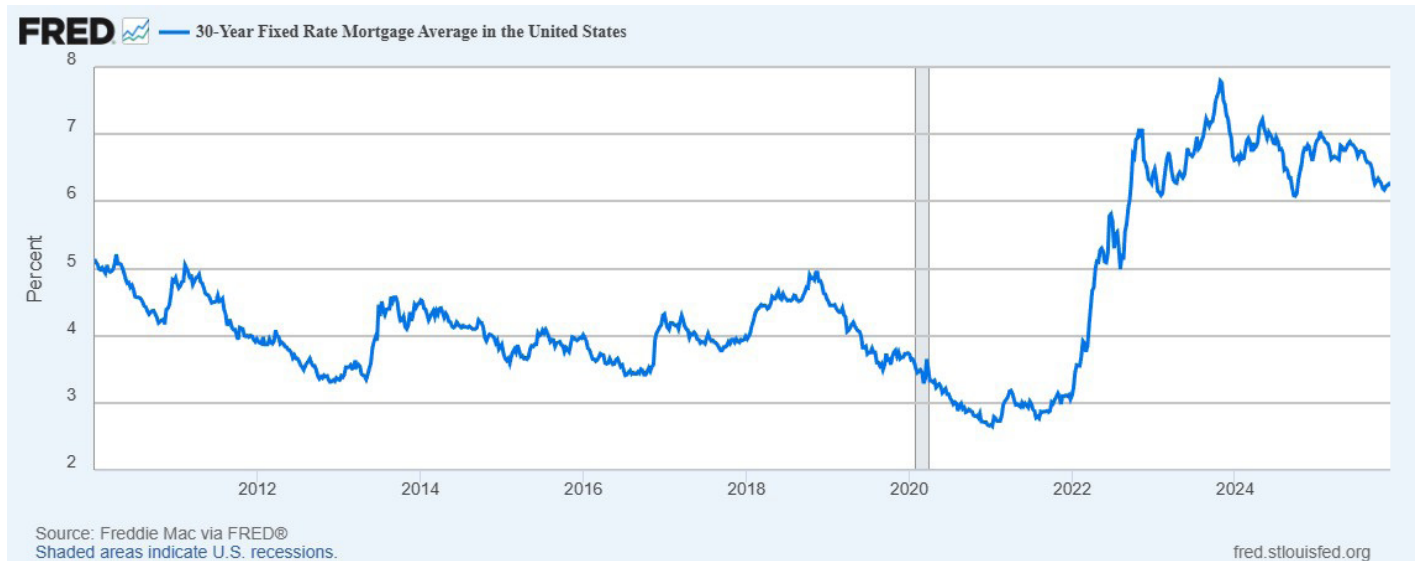
Source: *Federal Reserve Bank of St. Louis*

**FIGURE 5: AVERAGE INTEREST RATE, 30-YEAR FIXED RATE MORTGAGE, UNITED STATES, 1970-PRESENT**

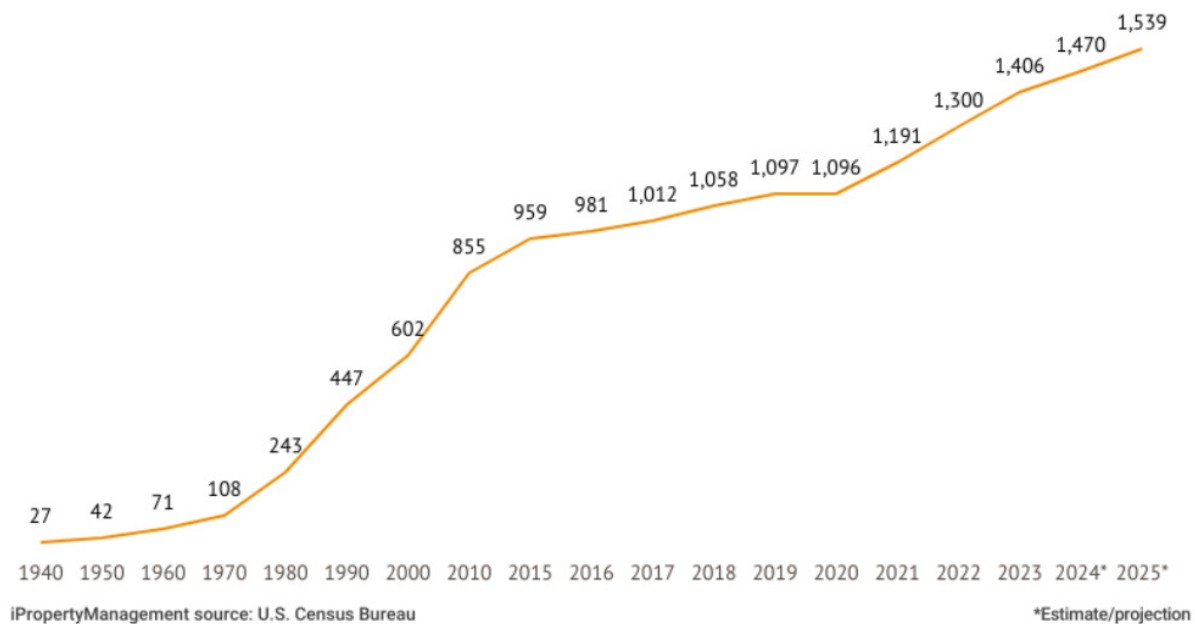


Source: *Federal Reserve Bank of St. Louis*

**FIGURE 6: AVERAGE INTEREST RATE, 30-YEAR FIXED RATE MORTGAGE, UNITED STATES, 2011-PRESENT**



Source: *Federal Reserve Bank of St. Louis*

**FIGURE 7: HISTORICAL MEDIAN MONTHLY RENT, UNITED STATES (IN U.S. DOLLARS)**

Source: *iProperty Management*

## RISING RENTS

The average rent paid in the United States in early 2026 was \$1,698 per month, a 29.8 percent increase over five years, after a 31 percent increase from 2019 to 2025 (see Fig. 7).<sup>11</sup> Zillow's methodology showed the average monthly rent in the United States to be \$1,995 in February 2026, *iProperty Management* reported in that month.<sup>12</sup>

Those who cannot afford a down payment, monthly mortgage payments, and all the other expenses of owning a home must rent. An increase in the number of renters raises rent prices, absent a corresponding rise in the supply of housing.

## HIGHER COST, SAME SIZE APARTMENT

As supply stays relatively constant and demand increases, prices per square foot rise. U.S. apartment prices per square foot have risen rapidly since 2021 (see Fig. 8).<sup>13</sup>

Rent prices were not rising because of an increase in the size of rental apartments. Dollar devaluation via inflation pushed

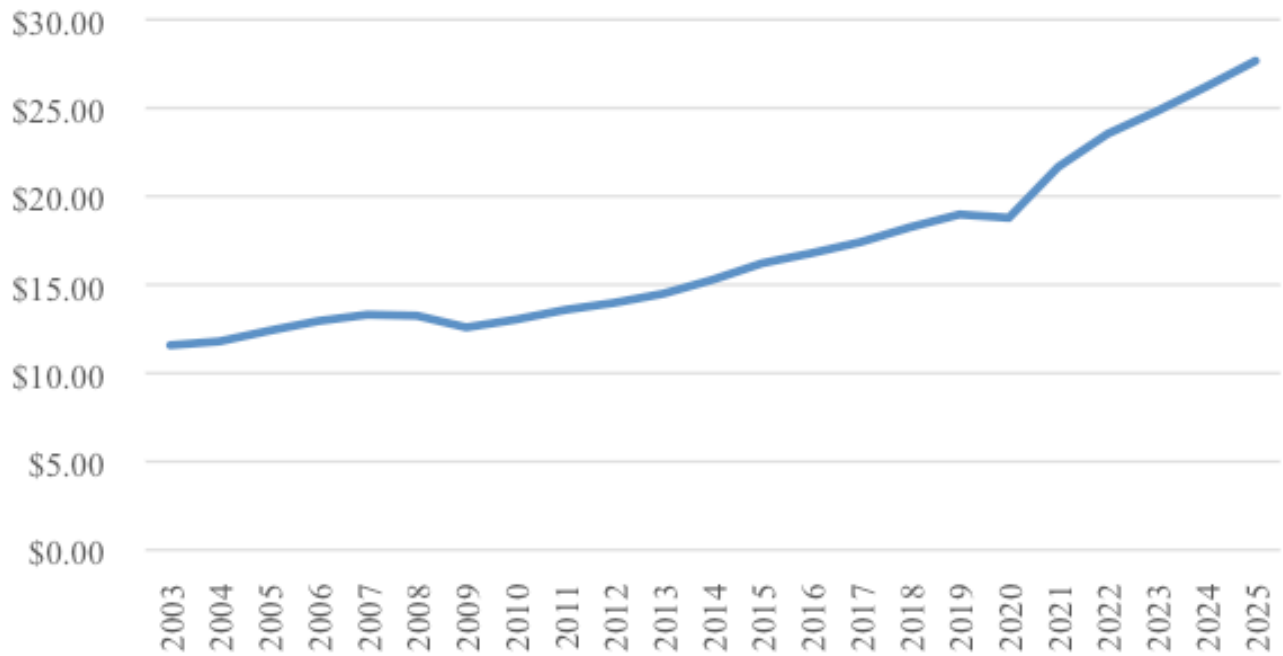
rent costs up without providing better accommodations for the renters (unless you believe landlords made those same-sized apartments much more luxurious in other ways, during a time of high inflation).

## HISTORICAL HOMEOWNERSHIP RATE

As housing prices rose starting in 2021, the percentage of Americans living in self-owned (though generally mortgaged) homes remained steady. The homeownership rate in the United States was 65.7 percent in October of 2025, in the middle of the range where the rate has been for the past 60-plus years (see Fig. 9).<sup>14</sup>

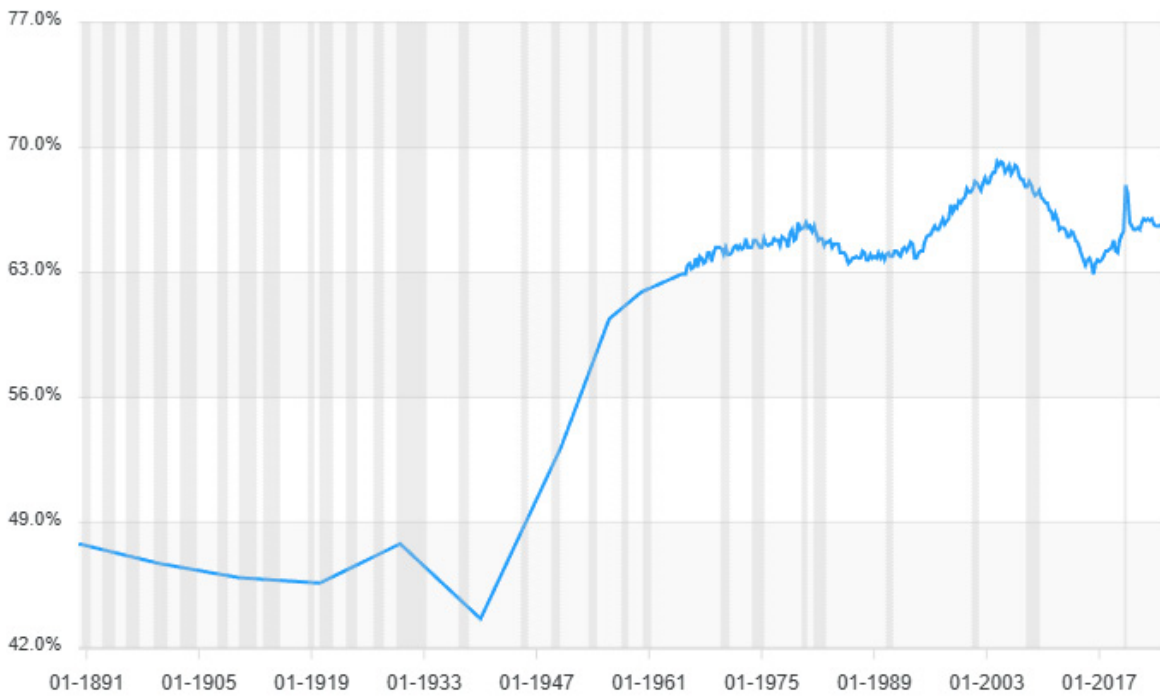
The overall rate of homeownership in the United States has stayed within a narrow range since the mid-1960s. The Great Recession of 2007 to 2009 pushed down the homeownership rate severely, and the pandemic of 2020 had a similar though less pronounced and shorter-duration effect after a swift uptick in the homeownership rate.

**FIGURE 8: U.S. APARTMENTS, AVERAGE ANNUAL RENT PER SQUARE FOOT, 2003-PRESENT**

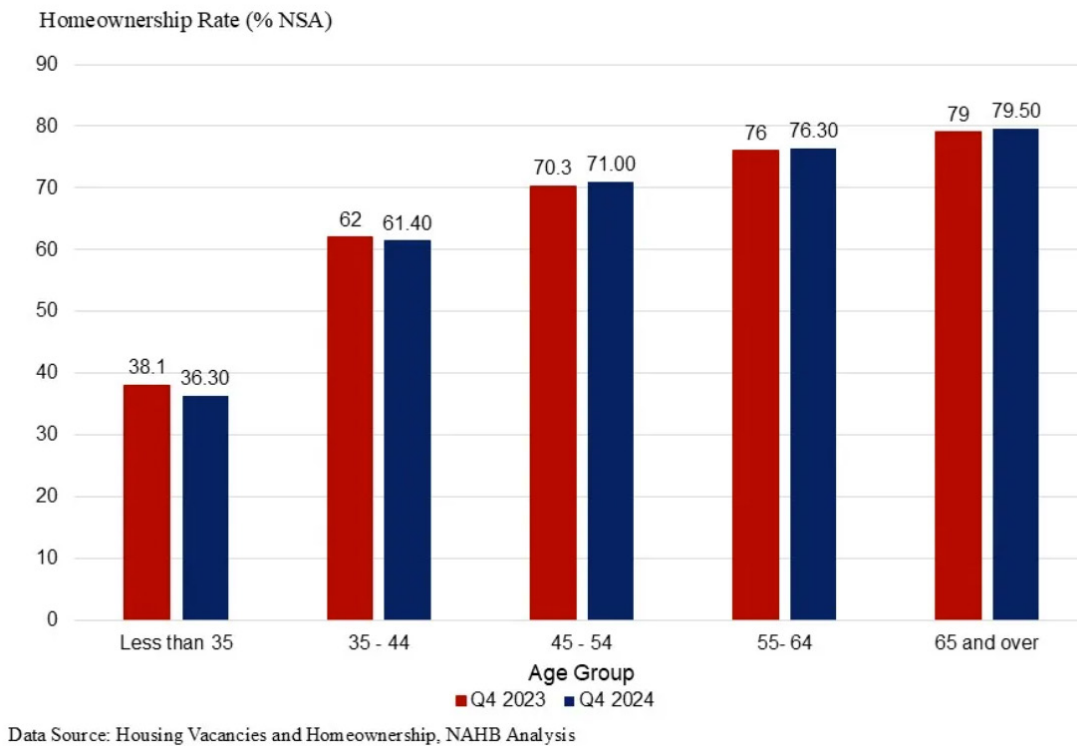


Source: author-created chart from *iProperty Management* data

**FIGURE 9: HISTORICAL HOMEOWNERSHIP RATE IN THE UNITED STATES, 1890-PRESENT**



Source: *DQYDJ.com*

**FIGURE 10: HOMEOWNERSHIP BY AGE OF HOUSEHOLDER**

Source: *Eye on Housing*

Those who already owned homes (including those who had mortgages, which were generally at very low interest rates, as Fig. 5 illustrates) did not experience a rise in housing costs after the pandemic. The price increases and mortgage-rate hikes affected new buyers and those seeking to refinance.

This disparity hit young people the hardest. People's income and wealth generally rise as they age.<sup>15</sup> As a result, homeownership is higher among older age groups (see Fig. 10).

The homeownership rate for Americans under age 35 decreased to 36.3 percent in the last quarter of 2024. That was the lowest since the third quarter of 2019, according to the Census Bureau's Housing Vacancy Survey (HVS), *Eye on Housing* reported in 2025.

The homeownership rate increases very rapidly as people move from age 35 to 45. Any difficulties in buying a house will generally be seen there first.

## HOUSING SUPPLY GROWTH

On the supply side, expansion of U.S. housing has been poor since the Great Recession (see Fig. 11).<sup>16</sup>

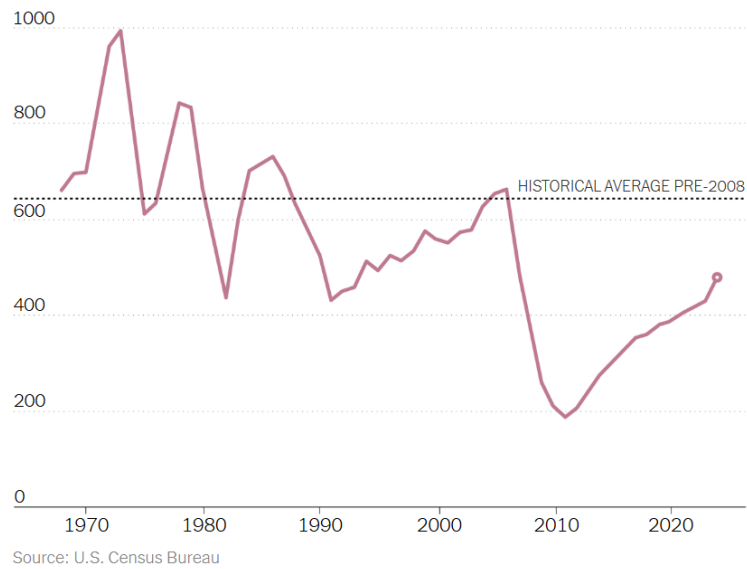
Building of new residences crashed after the 2008 housing crisis and has yet to return to its historical average. The supply of housing in the United States is much lower than it would be if the construction rate had been near normal or higher.

## U.S. POPULATION GROWTH

A rapidly rising population has put pressure on all resources in the United States since the year 2000, including housing (see Fig. 12).<sup>17</sup>

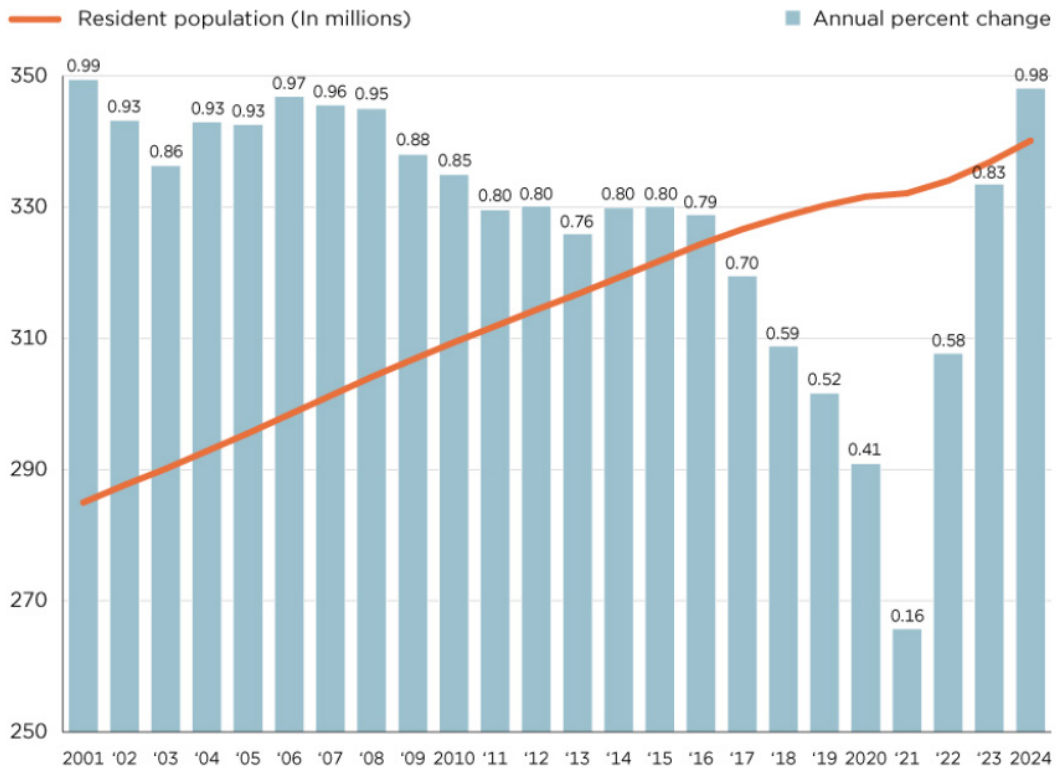
During the past quarter-century, the U.S. population has grown by 22 percent, from 281 million in 2000 to about 343 million in 2025, an increase of approximately 62 million.

**FIGURE 11: TOTAL HOUSING UNITS BUILT PER 100,000 PEOPLE EACH YEAR, UNITED STATES**



Source: *The New York Times*

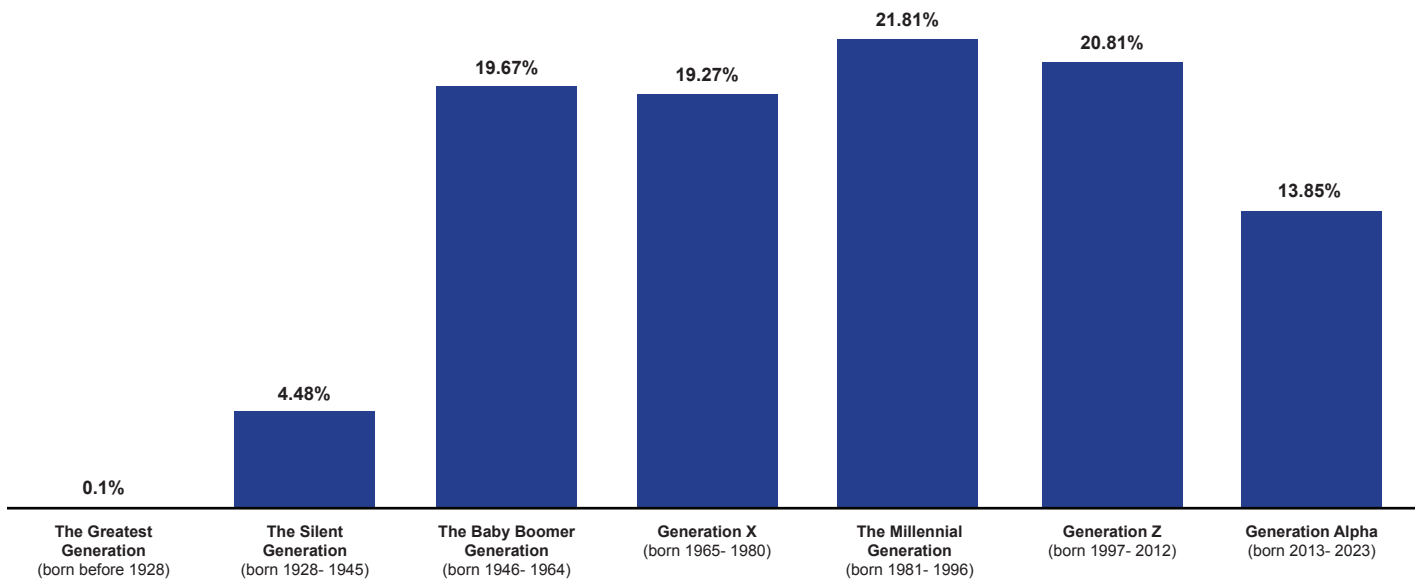
**FIGURE 12: ANNUAL CHANGE IN U.S. POPULATION, 2000-2024**



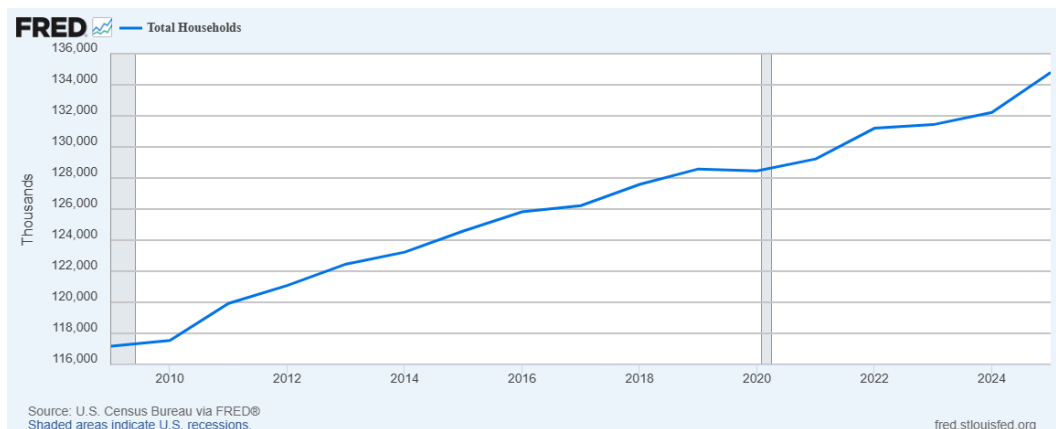
Note: In some cases, the labels for percent change may be identical, yet the bar heights might differ slightly. The difference is due to rounding.

Source: U.S. Census Bureau, Vintage 2024 Population Estimates, 2000-2010 and 2010-2020 Intercensal Estimates.

Source: Kristie Wilder, *U.S. Census Bureau*

**FIGURE 13: U.S. POPULATION DISTRIBUTION BY GENERATION, 2024**

Source: *Statista*

**FIGURE 14: NUMBER OF HOUSEHOLDS, UNITED STATES, 2010-2024**

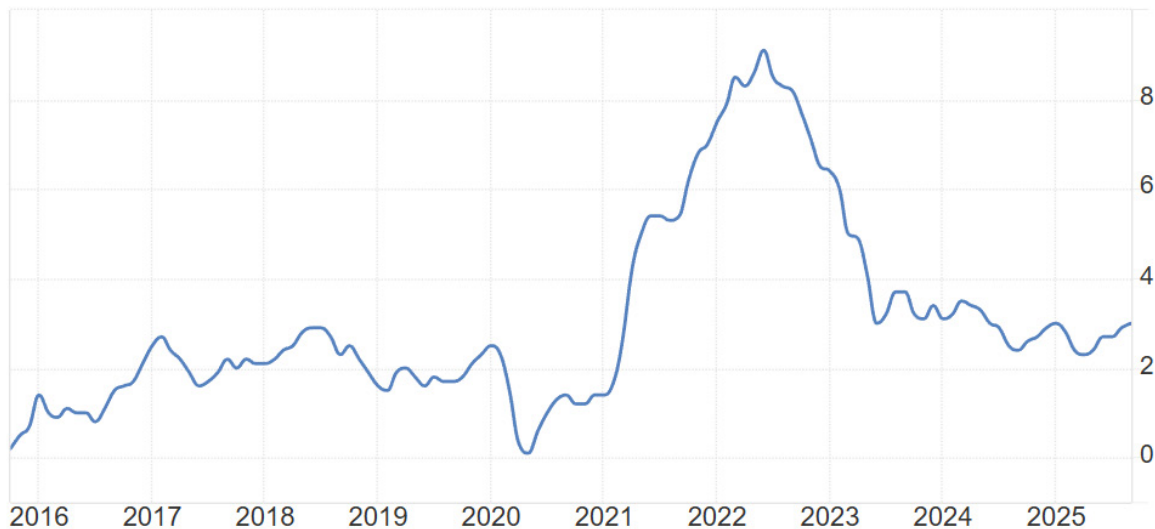
Source: *Federal Reserve Bank of St. Louis*

## DEMOGRAPHIC BULGE OF YOUNG ADULTS

The Millennial generation and Gen Z entered the workforce and housing markets in large numbers in the 2000s, a process that has accelerated since 2020 as members of Gen Z have begun to reach adulthood. “The millennials, at over 75 million strong, constitute America’s largest generation, eclipsing the postwar baby boomers,” wrote William H. Frey at the *Milliken Institute Review* in 2018. “Now all over 20, millennials make up nearly a quarter of the total population, 30 percent of the voting-age population, and almost two-fifths of the working-age population.”<sup>18</sup> Gen Z is almost as large as the Millennial cohort. Its members began reaching adulthood in 2018 (see Fig. 13).<sup>19</sup>

As a result of these demographic trends, the number of households in the United States has been increasing more rapidly than usual since the beginning of 2024, as Gen Z reaches adulthood (see Fig. 14).<sup>20</sup>

The movement of many young people into the housing market has put further upward pressure on prices since the Great Recession, as the chart indicates. The rise in inflation-adjusted prices reflects the unduly slow increases in supply since the Great Recession, compounded by the increase in demand caused by the demographic bulge and rapid increases in immigration from 2021 to 2024.

**FIGURE 15: UNITED STATES INFLATION RATE, 2016-2026**

Source: *Trading Economics*

### SHARP RISE IN INFLATION

Now let's explore what contributed to the recent overall price inflation in the United States. Inflation rose quickly during the first years of the Biden administration (see Fig. 15).<sup>21</sup>

In 2021, price inflation in the overall U.S. economy increased rapidly. The cause of this inflation is evident in the charts that follow.

### U.S. FEDERAL SPENDING AND ANNUAL BUDGET DEFICIT

Federal spending and the annual budget deficit rose significantly beginning in 2021 (see Fig. 16).<sup>22</sup> The huge increase in the federal deficit began with the onset of the pandemic, briefly returned to the already-high Obama-Trump trendline in late 2022, rose slightly above the pre-pandemic trend, and stayed there until mid-2025.

The pandemic effect on the federal budget was receding, and federal spending was heading back down to its recent historical trendline (see the yellow and dotted lines in Fig. 17) when control of the government changed in January 2021. President

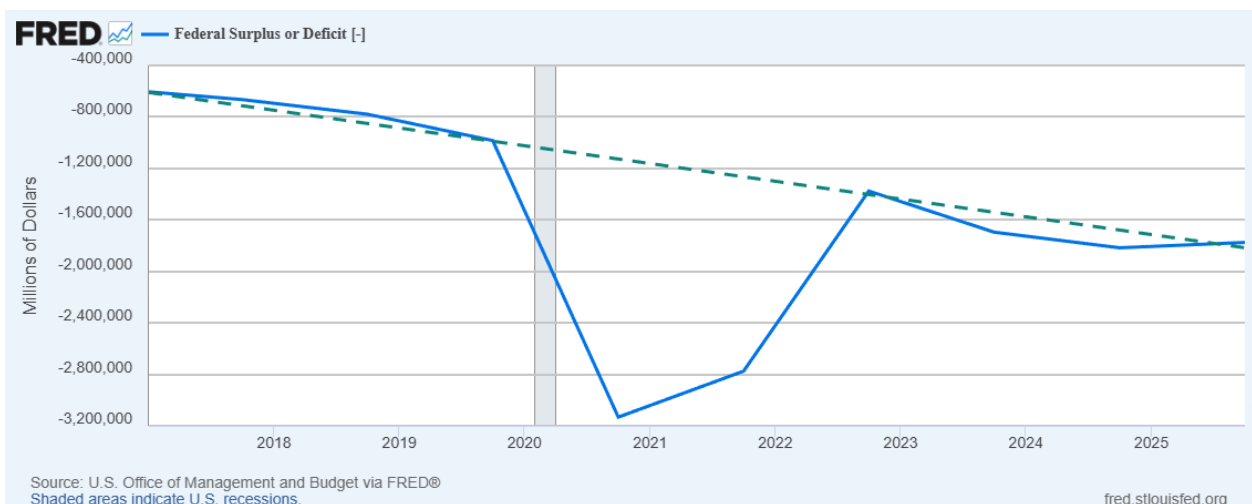
Joe Biden and the Congress immediately increased spending substantially, creating a new, much-higher, spending trend line.<sup>23</sup>

The federal budget reached a "new normal" of spending, more than \$1 trillion above the pre-pandemic trendline, when partisan control of the federal government changed in 2021. All of this was financed by increasing government debt.

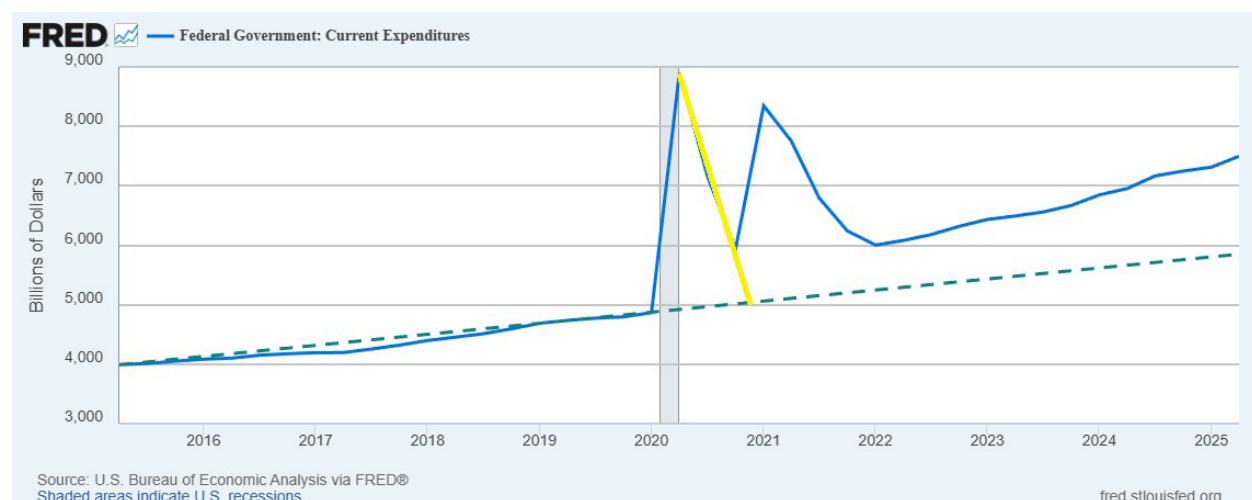
### CHANGES IN THE MONEY SUPPLY

The Federal Reserve inflated the money supply swiftly in 2021, on top of the initial pandemic increase (nearly doubling it), greatly expanding the number of dollars chasing goods, services, and investments in the United States (see Fig. 18).<sup>24</sup>

The Federal Reserve flooded the economy with new money during and after the pandemic, first to increase liquidity and then to monetize the massive and unnecessary increase in federal spending in 2021 and 2022. The tsunami of excess money inflated the prices of housing, other assets, and bare necessities, which have yet to come back down.

**FIGURE 16: EXPANDING FEDERAL BUDGET DEFICIT DURING THE PANDEMIC, WITH TRENDLINE**

Source: *Federal Reserve Bank of St. Louis*

**FIGURE 17: FEDERAL SPENDING BEFORE AND AFTER THE PANDEMIC, WITH TRENDLINES**

Source: *Federal Reserve Bank of St. Louis*, with author-generated yellow trend line

## RELATIONSHIP BETWEEN SPENDING AND INFLATION

Inflation began receding in mid-2022 after federal spending fell, and it stabilized after the majority in the U.S. House of Representatives changed from Democrats to Republicans in January 2023 (see Fig. 15). Effectively, President Biden's rapid, inflationary spending hikes were halted.<sup>25</sup>

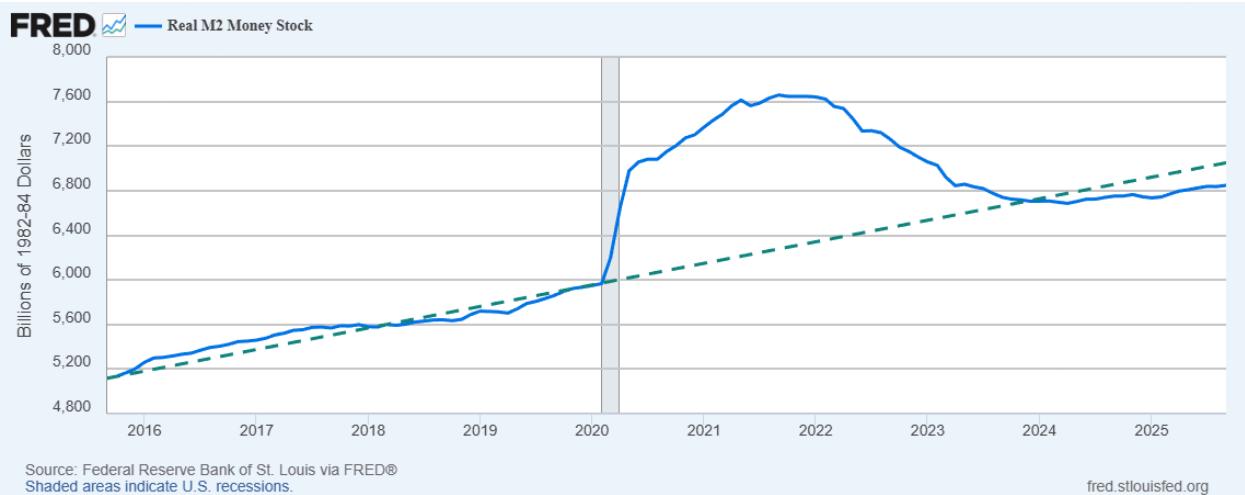
As increases in federal spending moved back toward the recent historical trendline, though at a higher absolute value than before (see Fig. 17), the Federal Reserve began shrinking the money supply in 2022 (see Fig. 18). Inflation has slowed,

though it remains above the Fed's target of 2 percent.

The decrease in overall inflation since 2023 has alleviated the major cause of the housing price increases of the 2020s, which has become apparent in prices falling slightly and slowly in the past year.<sup>26</sup> The price moderation occurred even as the number of households continued to rise at a higher rate than usual. Further decreases in inflation will continue to moderate housing prices.

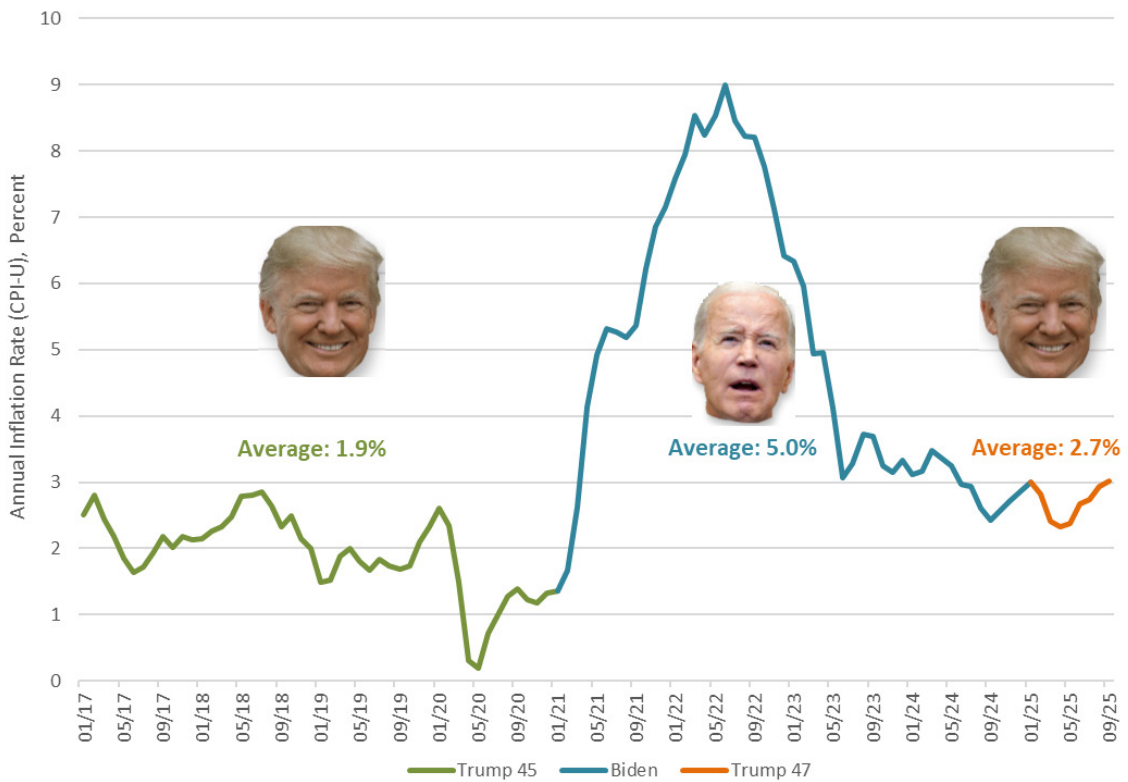
That will diminish the short-term crisis. Solving the long-term housing affordability problem requires measures to increase the supply of housing much more rapidly than has been the case since the Great Recession. We shall cover that issue in a coming *Policy Brief*.

**FIGURE 18: MONEY SUPPLY INCREASE SINCE 2015, WITH TRENDLINE**



Source: *Federal Reserve Bank of St. Louis*

**FIGURE 19: INFLATION BEFORE AND AFTER THE PANDEMIC**



Source: *Unleash Prosperity*

## CONCLUSION

Inflation has hit working people hard over the past few years. “Costs for goods and services are 25% above where they were in 2020,” *The Wall Street Journal* reported in November 2025.

The affordability crisis, especially in housing, is the outcome of a temporary but vicious bout of inflation caused by excessive spending during and after the COVID-19 pandemic. The right response in January 2021 would have been to decrease government spending immediately down to the prior trendline—or in fact well below that level, as President Warren G. Harding did in response to the severe depression of 1921 that President Woodrow Wilson left behind. Harding’s swift, decisive, and correct action halted the depression quickly and set off the economic boom of the “Roaring” 1920s.

The federal government did the opposite in 2021 and 2022, with the predictable effect. The Federal Reserve has slowed the spending-induced inflation by cutting the money supply significantly since mid-2022. However, inflation remains above the Fed’s goal of 2 percent.

The return to the pre-pandemic deficit-spending trendline instead of a much-needed reduction below that level is clearly the culprit for the persistent, above-average inflation. Reckless spending increases call for prudent decreases, not just a return to previous, baseline spending levels.

Inflation effects endure for many months after the initial monetary expansion. The central bank’s responses have a significant time lag of 12 to 18 months. At this writing in early 2026, we are now at the point when the spending-induced inflation should soon recede fully, absent any further fiscal interventions.

This, then, would be the very worst time to “solve” inflation-induced affordability problems through higher taxes, restrictions on investment in housing, and additional, more-intrusive regulations. Those policies would have the least positive effect possible because the time remaining in the inflation crisis is very short. In fact, they would impose all the natural negative effects of piling on more of what caused the problem in the first place.

The solution to the inflation-inflicted affordability problem is significant cuts in federal spending (though these appear to have little political support at present). Major reductions of federal regulation and increases in oil and gas drilling permits are also important, and those are in place with further reforms likely. They are not enough, however. Excessive federal

**As the facts and charts provided above illustrate, government overspending is a major obstacle to the normal expansion of the supply of goods and services. Significantly reducing the size of that enormous impediment to economic growth would end the affordability problem and allow the nation to turn toward expansion of the housing supply.**

spending and money printing is the root cause of rising prices.

Zoning, taxes, overregulation, and rent control are major local-level contributors to the long-term housing affordability problem. These impositions undermine property rights and present hurdles for new housing construction. This long-term problem was exacerbated into a crisis by the inflation that resulted from massive government overspending from 2020 to 2022.

Government spending, though far too high, has been on a more-normal (though still economically damaging) trendline since 2023, and the increases in the (inflation-spurring) annual federal budget deficit leveled off in 2025. Keeping the federal budget deficit under control in the years ahead will reinforce this solution to the short-term housing crisis.

The solution to the long-term housing problem is simple: build more houses. We will not get that, however, unless and until governments step aside and restore their respect for property rights. We will consider that issue in an upcoming *Policy Brief*.

Understandably, voters are unimpressed by number-heavy disputes about who is responsible for high housing prices. What young Americans want today is what any sensible person wants: economic growth and improvements in their personal material well-being. As the facts and charts provided above illustrate, government overspending is a major obstacle to the normal expansion of the supply of goods and services. Significantly reducing the size of that enormous impediment to economic growth would end the affordability problem and allow the nation to turn toward expansion of the housing supply.

## ENDNOTES

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1933 N. Meachem Road, Suite 550  
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