

EXECUTIVE SUMMARY

Improving Housing Affordability

by Benjamin J. Keys and Vincent Reina

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Introduction

Housing affordability in the United States has become a major challenge for Americans and a key policy priority for US policymakers. In this paper, Benjamin Keys and Vincent Reina assess the drivers of the housing affordability challenge, concluding that inadequate supply, barriers to homeownership such as tight credit standards, and the lack of a meaningful housing safety net have made affordable housing increasingly out of reach for many Americans. The authors then propose specific policy solutions to expand supply, improve access to homeownership, and strengthen the housing safety net.

Facts about affordability

Keys and Reina point out that the current housing context in the US is unprecedented across multiple dimensions:

Median rent has increased dramatically since 1980. Since 1980, median rent in the United States has nearly doubled in real terms, rising from under \$950 per month (in 2023 dollars) to \$1,700 in 2023. Meanwhile, the share of affordable rental units has collapsed: Units renting for under \$1,000, which comprised more than half the nation's housing stock in 1980, fell to just over 20 percent in 2023.

Households are spending a higher share of their income on rent than they did in 1980. Looking at rents relative to income paints a similar picture. The share of renters who are "rent burdened," spending more than 30 percent of their income on housing, has risen from 35 percent in 1980 to 48 percent in 2023. The share of "severely rent-burdened" renters, spending more than 50 percent of their income on rent, has risen from 16 percent in 1980 to 24 percent in 2023.

Homeownership is less attainable than it was 30 years ago. The ratio of median sales price to median income has increased from 2.4:1 in 1990 to 5:1 in 2023, surpassing the prior high at the peak of the housing boom in the first decade of the 2000s. Homeownership strains have been exacerbated more recently, due to the combination of high home prices (driven in part by the COVID-induced increase in housing demand) and high mortgage rates: In just over 10 percent of the 98 most expensive metro areas

could the median-income household afford the median-priced home, down from 70 percent in 2020.

First-time homebuyers are getting older. As homebuyers need more resources to buy their first houses, the age of first-time homebuyers has risen, and first-time homebuyers are playing a reduced role in the housing market. The median age of first-time homebuyers has risen from 29 in 1980 to 38 in 2024. From 2010 to 2024, the share of all housing purchases made by first-time buyers fell from 50 percent to 24 percent.

Drivers of the housing affordability challenge

The lack of adequate housing supply that has persisted for well over a decade is a product of multiple factors, including barriers that make building difficult even during economically favorable conditions, barriers to homeownership such as tight credit standards, and the absence of a comprehensive housing safety net.

Challenges in building housing. Local land-use and zoning restrictions have sharply limited housing supply. Even in historically high-growth areas, existing structures and poorly configured empty lots have further slowed the growth of new housing, as vacant land has run out. Lengthy permitting processes, uncertainty, and high fixed development costs further push up costs for builders, incentivizing the construction of high-priced luxury units and leaving the low-cost segment undersupplied. As a result, construction rates have fallen, costs have climbed, and affordable-housing availability has diminished, even in markets once known for large-scale building.

Barriers to homeownership. Homeownership has become increasingly difficult due to tighter credit standards, high levels of student-loan debt, and disproportionately high denial rates for minority households. First-time homeowners rely heavily on high-LTV, fixed-rate, 30-year mortgages, and lending standards to obtain these mortgages have increased since the global financial crisis: Average FICO scores for newly originated purchase mortgages have increased from 705 in 2006 to 740 in 2022.

At the same time, younger generations are entering the housing market at a time when older people are both living longer and are more likely to remain in their homes, which

were often purchased with low-interest mortgages. As a result, fewer existing units are entering the market, driving up home prices absent the production of new housing units.

A lack of a housing entitlement program. The United States has never had a housing safety net for renters or owners, and the existing assistance leaves many eligible recipients without support. For every one household that receives a housing choice voucher, as many as four other households are eligible. Public housing represents less than 2 percent of units, and the Low Income Housing Tax Credit produces only about 110,000 units annually, often at rents too high for the lowest-income families to afford. Rental and ownership safety nets are limited, cyclical, and insufficient, leaving households highly exposed during downturns.

Barriers to financing construction and repairs. Developers and owners both face barriers when trying to finance new development, which affects the supply of new units being built, and rehabilitation, which affects the ability of units to stay in the housing stock. Since 2015, tighter credit standards have constrained developers, landlords of small properties, and homeowners seeking to rehabilitate aging housing stock. These financing challenges prevent needed new construction and accelerate the exit of lower-cost units from the market, worsening affordability problems.

Other important market dynamics

The authors note a series of other dynamics compounding existing issues, including the prolonged downcycle in housing production since the foreclosure crisis, gaps in permitting and completion, and the nation's aging housing stock. Historically, housing production has been highly cyclical, but the depth and duration of the downcycle following the foreclosure crisis exceeded those of any prior cycle, dramatically exacerbating any existing housing shortfall and leaving supply far below what demographic trends called for. Permitting fell to historic lows in 2009, and even the 2021 peak was well below prior highs, especially when benchmarked against today's larger population. Furthermore, permitting is consistently higher than both construction starts and completions, reflecting bottlenecks in financing and construction pipelines. As the housing stock continues to age, there is an increasing need to preserve and repair existing stock while continuing to expand and add to the nation's housing supply.

Policy proposals to improve housing affordability

Keys and Reina provide three key policy proposals to address housing affordability.

Make it easier to build. Policymakers at every level of government can take meaningful steps to accelerate production, reduce barriers, and incentivize smart and sensible additional density. Local zoning regulations have inhibited development and should be reviewed and reformed, with some low-hanging fruit being to reduce minimum lot size and minimum parking requirements and to allow accessory dwelling units and more dense building opportunities near public transit. The federal government can help ensure that the financing exists to construct new housing—particularly in the multifamily housing market. The federal government could expand multifamily financing through a loan system that approximates the system in place for single-family lending. Applying these tools countercyclically, with automatic stabilizers that increase financing incentives when certain macroeconomic triggers are reached, would also dampen the cyclicity of housing construction.

Address barriers to home ownership. The tax code can be reformed to reduce barriers to homeownership. The current tax deduction on mortgage interest is highly regressive and poorly structured to incentivize homeownership. Congress could transition the mortgage interest deduction into a targeted first-time buyer credit. Importantly, however, stimulating demand alone may simply drive up housing costs. Thus, any reforms need to balance this consideration with the gains for new entrants to the housing market. On the supply side, policymakers could examine a tax on imputed rent to encourage empty nesters to downsize their large homes or create new financing options that make existing mortgages assumable or portable. Finally, new tax-credit programs (such as the Neighborhood Homes Tax Credit) that subsidize the development of for-sale housing have been proposed and are worth pursuing.

Create a stronger housing safety net. The United States lacks a comprehensive housing safety net, comparable to the safety net in place for unemployment insurance or nutrition assistance, with far fewer rental subsidies available than households eligible for them. A stronger housing safety net would ensure that affordable shelter exists when households face a negative income shock. Importantly, this support can innovate on existing models,

including by expanding tools that have been found to increase housing stability—tools such as direct rental assistance to tenants and national emergency-rental assistance.

ABOUT THE AUTHORS

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Ben Keys is the Rowan Family Foundation Professor of Real Estate and Finance at the University of Pennsylvania's Wharton School and a Research Associate of the National Bureau of Economic Research. Keys's research has been published in such journals as the Quarterly Journal of Economics, American Economic Review, and Econometrica, and has been profiled in the Economist, Wall Street Journal, and New York Times. His recent research has focused on climate risk, housing, mortgage, and insurance markets, among other topics. Before joining Wharton, Keys taught at the University of Chicago and worked as a staff economist at the Board of Governors of the Federal Reserve System. Keys holds a B.A. in economics and political science from Swarthmore College and an M.A. and Ph.D. in economics from the University of Michigan.

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Vincent Reina is a professor in the Department of City and Regional Planning at the University of Pennsylvania, with a secondary appointment as Professor of Real Estate in the Wharton School of Business. Reina is the Founder and Faculty Director of the Housing Initiative at Penn and is currently a Stoneleigh Foundation Fellow and Editor in Chief of the peer-reviewed journal Housing Policy Debate. His research focuses on urban economics, housing policy, and community and economic development, and has been published in various peer-reviewed journals.

In 2022-2024 Reina served as the Senior Advisor for Housing and Urban Policy in the White House Domestic Policy Council, where he worked to address the nation's housing affordability and supply challenges, affirmatively further fair housing, increase access to homeownership, and advance community investment. Reina was also previously a Visiting Scholar at the Federal Reserve Bank of Philadelphia, a Lincoln Institute for Land Policy Scholar, and a Coro fellow.