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Exploring the Affordable Housing Shortage's Impact on American Workers, Jobs, and the Economy

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OVERVIEW

The United States has underbuilt housing by millions of homes over the past 15 years. In fact, the decade immediately after the Great Recession saw less housing construction than during any previous decade since the 1960s.[1] A housing supply inadequate to meet demand affects not just major coastal cities but also communities of all types across America. The housing shortage directly hurts families by raising their housing costs to unaffordable levels. And it has broad national implications—limiting labor mobility, productivity, economic growth, and opportunity.

This report offers an overview of the housing supply shortage and affordability crisis, including a summary of recent research demonstrating the impact of an underbuilt housing stock on American workers and labor markets. The report closes by reviewing potential federal policy solutions to eliminate barriers to and incentivize housing construction and preservation, the benefits of which would extend economy wide.

THE LINK BETWEEN INADEQUATE SUPPLY AND RISING COSTS

Historically, housing construction tended to closely match population growth, even in high-demand areas. Job seekers and their families could move to places with good-paying jobs, and businesses could attract and retain workers of different skill levels.[2] But between the 1960s and 1990s, local governments implemented stricter land use restrictions for numerous reasons, including to limit density, preserve open space, and protect home values, particularly along the coasts. Consequently, the ability to construct housing to meet demand was hindered. Economists have found that in these places, greater economic productivity has led to higher housing prices rather than more housing.[3,4]

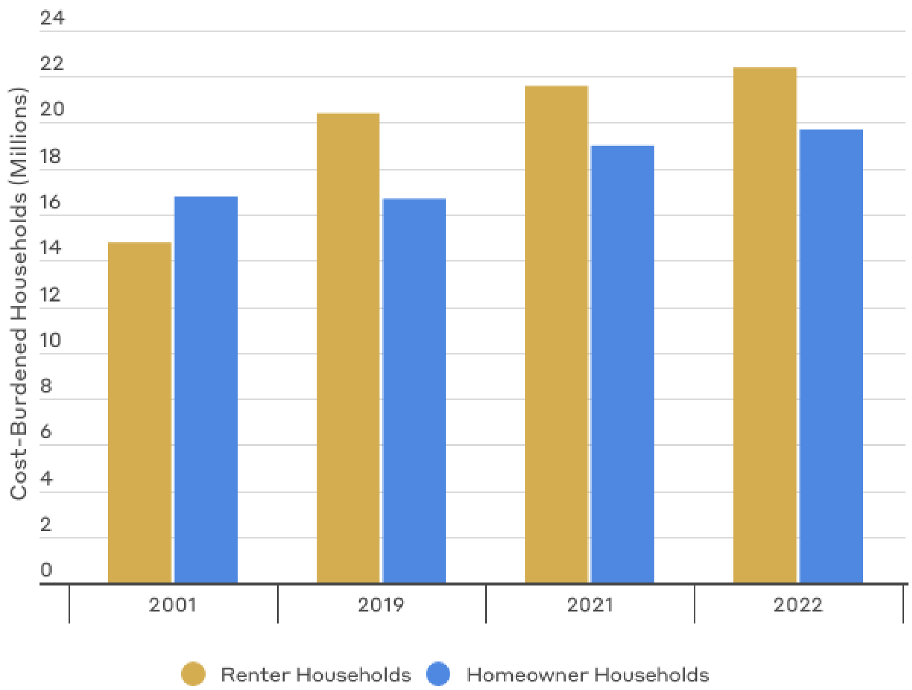
During the Great Recession of 2007–2009, construction employment losses hit the homebuilding industry hard, leaving hundreds of thousands of job openings in the field that remain unfilled today. Most recently, the COVID-19 pandemic and supply chain disruptions led to widespread homebuilding material shortages, which also raised construction costs, further impeding housing construction. Each of these factors contributed to the underbuilding of housing across the country in recent years.

According to various estimates, the United States has a shortage of between 1.5 million and 5.5 million housing units. New research shows a growing percentage of suburban, small town, and rural counties across the country cannot meet their residents' housing needs, as there is simply not enough housing available for renters and homebuyers.[5] Although some states have recently seen an increase in new housing construction to meet demand, many others have seen troubling declines in annual new permits.

In addition to the overall shortage of available housing, the existing types of homes for rent or sale do not always match families' needs or budgets. The number of single-family homes for sale annually has been decreasing since 2000, especially after the housing market crash and financial crisis of 2007–2009.[6] The scarcity of existing homes for purchase disproportionately affects first-time and lower-income prospective buyers, as these homes are often smaller and priced to meet the budgets of first-time buyers. Conversely, new homes are typically larger and more expensive than existing houses, though high interest rates and limited inventory have narrowed the gap lately.[7] At the same time, the supply of affordable rental units for low-income families has been dwindling in recent years. Between 2019 and 2022, the number of low-rent homes (those with rents below $600 per month) plummeted by more than 500,000 units.[8] With increased costs of debt and equity in today's housing market, it has become more challenging for developers to make multifamily housing developments financially feasible without charging higher rents.[9]

Without enough housing to meet demand, housing costs for renters and homeowners alike have increased.[10] Between 2020 and 2023, rents increased by nearly 24%, while home sale prices were 38% higher.[11] Combined with higher mortgage interest rates and a constrained inventory of homes listed for sale, many renters and homebuyers across the income spectrum face housing costs that exceed their ability to pay. New research shows 42 million U.S. households now allocate more than one-third of their income toward housing costs, the highest level since 2011.[12]

Cost-Burdened U.S. Renters and Homeowners



Note: "Cost burdened" refers to households paying 30% or more of income on housing costs.

Sources: U.S. Census Bureau, Harvard Joint Center for Housing Studies

LABOR MOBILITY, EMPLOYMENT, AND ECONOMIC GROWTH TRENDS

Taken together, the inadequate housing supply and the resulting high costs lead to housing instability and reduced options for millions of households nationwide. Although the impact of unaffordable housing on individuals and families—from rising homelessness and evictions to challenges finding and buying housing—is well-known, the supply shortage and affordability crisis also have significant effects on labor markets, with implications in markets across the country and to the country's overall productivity.[13,14]

Below are key takeaways of the housing shortage as it affects communities, employers, working families, and the nation's economic health.

High housing costs make it harder for Americans to move to areas with better-paying jobs and higher quality schools.

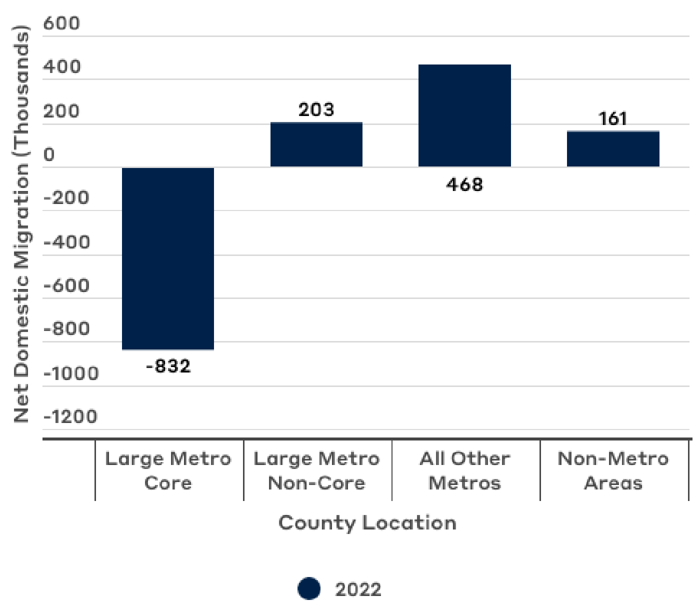
Over the past 35 years, U.S. households have moved from lower-income areas to higher-income areas at much lower rates, disrupting a century-old pattern. Research shows that the increase in housing costs relative to people's incomes is partly to blame for the trend.[15] This is particularly true for lower-skilled workers and in places with land use regulations that limit new housing supply.[16] National migration data support the academic research, revealing a shift in families moving from the nation's largest cities to smaller metro and nonmetro areas, which often have more affordable housing options.[17]

In part due to the pandemic, the number of households with flexibility to work remotely and live farther from the office tripled between 2019 and 2021. This shift amplified existing migration patterns, particularly with families moving to areas in the South and Mountain West, regions known for historically offering more affordable homes and access to outdoor space.[18] In 2022, the South's population continued to grow while the Northeast and Midwest lost residents.

Net Domestic Migration (Thousands)

Region	2019	2020	2021	2022
Northeast	**-305**	**-315**	**-278**	**-461**
New England	-47	-44	23	-57
Middle Atlantic	-258	-271	-302	-404
Midwest	**-167**	**-208**	**-182**	**-174**
East North Central	-139	-171	-176	-146
West North Central	-28	-36	-7	-28
South	**422**	**504**	**723**	**868**
South Atlantic	281	304	437	524
East South Central	37	45	77	115
West South Central	104	154	208	229
West	**50**	**19**	**-262**	**-233**
Mountain	221	223	215	152
Pacific	-172	-204	-477	-385

Net Migration by County Type



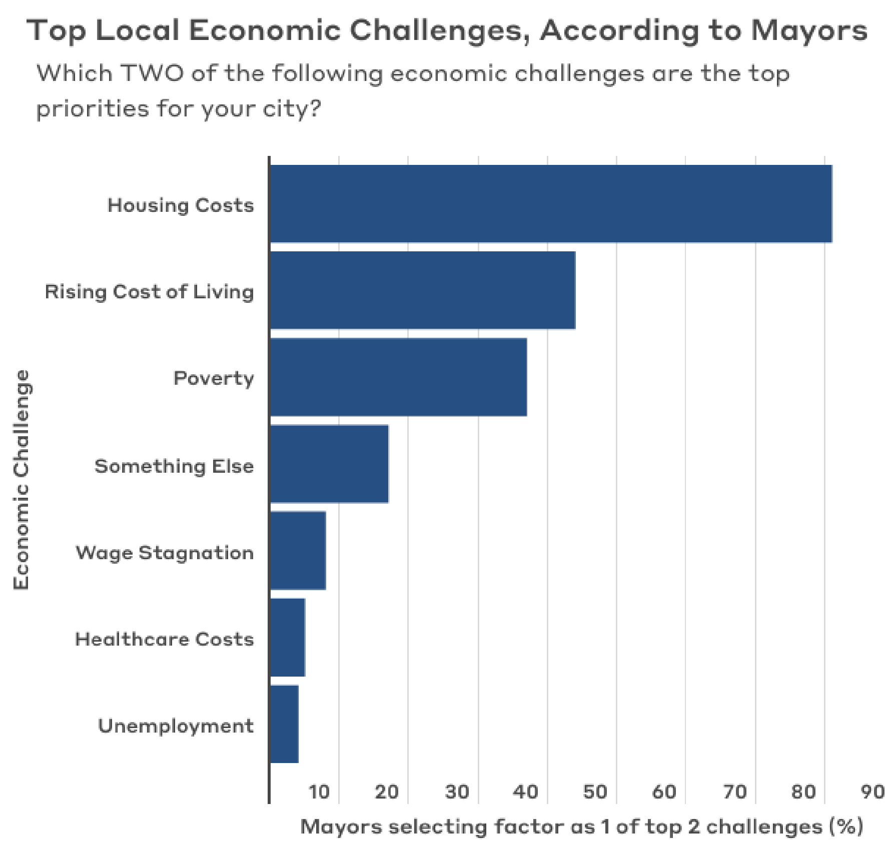
Note: Large metro areas have at least 1 million residents. Core counties have the largest city in the metro area or a city with at least 250,000 residents. None-core counties include all other counties in large metro areas.

Source: Joint Center for Housing Studies of Harvard University

Despite these migration patterns, the overall rate of movement within the United States has fallen, dropping from an average of almost 20% annually between 1948 and 1980 to less than 9% in 2022.[19,20] In addition to non-monetary factors, such as the desire to remain near established social networks and familial trends like the rise of two-earner households (which makes relocating more logistically complicated), the cost of housing discourages families from moving to areas with better job opportunities.[21] This trend is particularly pronounced among adults with no college experience who are even more reluctant to relocate.[22]

Without enough affordable housing, local economies suffer.

Economists argue that a widening geographic divide between jobs and workers dampens economic growth, a reality felt by local leaders in metro areas nationwide. According to a 2022 survey of mayors, affordable housing frequently tops the charts as a challenge to economic health, with 81% of those surveyed listing housing costs as one of their top two local priorities.[23]



Source: Boston University Initiative on Cities

The inadequate supply of homes to match the demand for housing near jobs and centers of employment ultimately leads to price increases. An analysis of 15 metropolitan areas over the past decade showed that most of these areas had a poor "housing-jobs fit," meaning that more low-wage jobs were available than affordable rental units and that the concentrations of those jobs were not commonly near affordable housing stock.[24] As of January 2024, the United States has almost 8.8 million job vacancies.[25]

In the face of limited supply, some employers take it upon themselves to support workers' housing needs.

Companies need employees of all skills and income levels to fulfill their needs, and they are not shielded from the effects of expensive housing. Businesses in expensive areas pay higher compensation, have difficulty recruiting employees, and lose qualified workers because of the affordable housing shortage. For instance, the cost to a San Francisco-based employer hiring a cafeteria cook is $18,000 more than for an employer in Houston hiring for the same position. In the Greater Boston area, surveyed businesses reported difficulty recruiting qualified candidates for job openings, and almost two-thirds cited home prices and rental costs as a contributing factor. Even employers in higher-wage sectors like finance and tech are having trouble recruiting workers if they are in areas with high housing costs.

Businesses situated in various locales, spanning from resort towns with expensive housing stock to rural areas with limited infrastructure and inventory, have begun to incorporate housing into their recruitment and retention strategies. For instance, an employer in one of Nebraska's priciest housing markets needed more workers to accommodate a recent expansion, so it built employee housing on company-owned land next to its manufacturing center. Similarly, outside Austin, TX, Elon Musk is developing an entire town for employees of three of his nearby companies. Given the significant gap in housing supply, employer-assisted housing may help some workers remain employed and affordably housed, but without more expansive housing construction efforts, the supply gap will remain.

Lower-wage workers face high housing costs, high transportation costs, or both.

Low-wage hourly workers, who make up more than 40% of the total workforce, bear the brunt of high housing costs, and their employers feel the impact as well.[26] Without affordable housing nearby, workers can be forced to endure lengthy commutes or multiple bus rides to get to work, and long commutes are a strong predictor of job attrition for these workers.[27] Those who opt to pay high rents to live closer to their jobs may still face housing insecurity and even be forced to move. Survey findings indicate that after experiencing a forced move, low-income workers were more likely to lose their jobs, perpetuating a cycle of family instability.[28] Despite the increasing feasibility of remote work for white-collar employees, lower-wage and essential workers across various sectors—health care, construction, agriculture, hospitality, and retail—remain tied to their local housing markets.

If our nation had adequate housing to meet demand, U.S. productivity and the economy could grow significantly.

Housing-supply constraints that cause challenges locally for workers, their families, and their employers also extend beyond the cities and towns in which they are located. One study found commuting time over one year cost the United States $87 billion in lost productivity. If "productive" metro areas—those places where a high value of goods and services is produced relative to the number of jobs there—were to increase the diversity and abundance of their housing stock, labor markets across the country could benefit.[29] According to academic research, if three of the nation's productive job markets had adequate housing—New York City, San Francisco, and San Jose, CA—U.S. real GDP could be 3.7% higher.[30] Job seekers with varying levels of experience and expertise could afford housing near employment that matched their skillsets, and local workforces would be more diverse.

LOOKING AHEAD: POLICY CONSIDERATIONS

States and localities are acting to remove barriers to housing by reforming zoning and land use laws allowing, for instance, housing development that includes greater density and a wider variety of unit types. These efforts may offer lessons and encourage other jurisdictions to follow suit. Although local factors most directly affect housing development, Congress can take steps to encourage greater affordable housing supply. The Affordable Housing Credit Improvement Act, a widely supported bicameral bipartisan proposal to strengthen the Low-Income Housing Tax Credit (LIHTC), has the potential to finance more than 2 million affordable rental homes over the next 10 years. The LIHTC provisions included in the recently unveiled Tax Relief for American Families and Workers Act of 2024 aim to finance an additional 200,000 rental homes over the next two years. The Neighborhood Homes Investment Act could revitalize distressed neighborhoods by spurring construction and rehabilitation of homes for low- and moderate-income homeowners, an important tool to preserve the nation's existing housing stock. Another potential tool to encourage the development of affordable housing is the Yes In My Backyard Act, which would support transparency in the development process for Community Development Block Grant recipients and work to remove discriminatory and exclusionary land use policies.

Americans agree that the housing supply shortage deserves a federal response in the near term. A bipartisan majority of adults (75%) surveyed said passing legislation to increase the supply of affordable homes to help address high housing costs should be a priority for Congress this year. A more abundant, diverse housing stock stands to benefit American families, support more American jobs, and help grow the U.S. economy.

Endnotes

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