

Factors Driving America's Affordability Crisis

Jon Lanzaro-Fisher

SLAS 6013: Qualifying Seminar

Dr. Alexander Dawoody

Spring 2025

Abstract

The housing affordability crisis in the United States has gotten increasingly worse since the 2008 financial crisis. In many cases, the unaffordability of homes is driven by three main factors: housing supply shortages; rising costs of home ownership and rentals; and policy constraints at multiple levels of government across the United States. This paper will provide an overview of how these factors are continuing to drive an increase in housing costs and put a continued limitation on supply. Furthermore, it will examine the ways in which federal, state, and local governments and other key housing stakeholders can implement changes to these factors to ensure development of more housing units and decrease the costs of housing across the country.

Table of Contents

Abstract..... 2

Introduction..... 4

Literature Review..... 6

Housing Supply Shortages6

 Zoning Policy Implications in Housing Development7

 Labor Shortages Implications in Housing Development8

The Rising Cost of Homeownership and Rentals.....10

 Impacts of Short-Term Investors on the Housing Market.....10

 Human Decision Making’s Impact on the Housing Market.....11

Policy Constraints within Housing.....14

 Monetary Policy’s Impact on the Housing Market.....14

 Federal Government Policy’s Impact on the Housing Market15

 Zoning Law and Local Policy’s Impact on the Housing Market16

Analysis..... 17

Application of Institutional Theory on Housing Supply18

Application of Behavioral Economic Theory and Regret Theory on Housing Supply20

Application of Game Theory on Housing Supply.....21

Ethical Implications..... 23

Policy Recommendations..... 25

Summary 28

References..... 31

Introduction

Throughout the United States, housing affordability has been a focal point of federal, state, and local elections as the costs of home ownership and even renting has skyrocketed over the last two decades. This crisis has been exacerbated by the COVID-19 pandemic, which resulted in the massive movement of Americans to different areas of the country with the opportunity to work remotely being expanded. While in the past, policy discussions related to this issue have been focused primarily on specific cities, such as Los Angeles or New York City, or specific states, such as California or Florida, the issue is now discussed at the federal level, with both political candidates from the 2024 presidential election making it a major policy talking point (Boyce & Ndikumana, 2024).

While there is an indefinite number of factors that contribute to the housing affordability crisis in the United States, this phenomenon is primarily being defined by three major factors: housing supply shortages; rising costs of home ownership and rentals; and policy constraints. All three of these factors, while considered as separate influences on housing affordability throughout this paper, are deeply intertwined and have driven the housing market across the country to be “deeply unaffordable” (Mosley, 2024).

The first factor, housing supply shortages, has been a driving force behind housing affordability for Americans, with the country being short roughly four million houses as of December 2024 (Mosley, 2024). This also includes a major shortfall in apartment units, stemming from the housing disruption that took place during the 2008 Financial Crisis. This has resulted in some Americans paying more than \$1 million for homes that are considered “starter homes” and many rent prices eating up more than 30% renter's income. Furthermore, labor

Factors Driving America's Housing Affordability Crisis

shortages in the construction industry, also a factor stemming from the 2008 Financial Crisis, have led to additional challenges in new construction (Badger, 2022).

The second factor, the rising cost of home ownership and rentals, touches almost all Americans, especially those that feel the secondhand impacts of migration and new construction costs in rental prices. As America has grown and changed since the housing crisis, additional players, such as institutional investors, are now purchasing homes, and small-scale investors, looking to run Airbnb's, have emerged within the housing markets to offer competition for properties like never seen before (Badger, 2022). On the other side of the equation, renters have also seen rental rates increase more than income, with the average rent increase being 30.4% between 2019 to 2023 (Brooks, 2024). Many of these increases have been driven my migration related to the COVID-19 pandemic and the lack of new supply entering the market (Brooks, 2024).

The third factor, policy constraints, have varied over the last decade as the United States Government's policy has changed across different administrations and the Federal Reserve's approach to the economy. From an interest rate perspective, home loan interest rates have varied wildly over the last decade, with the average rate on a 30-year mortgage being comfortably below 3% during the throws of the pandemic and then topping out at close to 8% in 2024 (Wamsley, 2024). Further instability or extreme variability in rates may change consumer sentiment in purchasing a home and impact the further cost of constructing new homes.

While the above literature provides a high-level overview of the current state of housing affordability within the United States, this paper will provide an in-depth analysis of these factors and other theories that provide insights into the complex set of circumstances influencing this subject. This paper will also provide specific examples of housing policies on the federal,

Factors Driving America's Housing Affordability Crisis

state, and localized level to show how each of these three factors have contributed to the affordability crisis in the United States.

Literature Review

The modern housing affordability crisis, with roots dating back to the 2008 Financial Crisis, has far-reaching implications for most Americans. When even looking at the issue from a political point of view, where American's are often divided by party, this issue has bipartisan support, with 77% of all likely voters believing that there is a need to build new homes and rentals. Furthermore, 76% of those likely voters also said that the affordability crisis in the United States is getting worse (Radosevich & Turner, 2024). While there may be a political divide on how to best address the crisis, the impacts are being widely felt by Americans and the solutions to the issue will take years of policy changes and large investments from federal, state, and local governments in tandem with private industry to address. The below review will provide an in-depth analysis of pertinent literature related to the three factors that are prevalent in the housing affordability crisis in the United States: housing supply shortages; rising costs of home ownership and rentals; and policy constraints.

Housing Supply Shortages

Across the United States, the availability of housing is having a direct impact on the increasing cost to own a home. This can easily be seen by looking at the inventory of available homes for sale across the United States between 2016 and 2022, in which available inventory fell from an average of 1.5 million listings at any given time to roughly 400 thousand (Schaeffer, 2022). Furthermore, the construction of new homes is still well below pre-2008 financial crisis levels. As an example, 2005 saw roughly 2.07 million privately owned, new build homes start during that year and that number was only roughly 1.35 million in 2024 (DeSilver, 2024).

Zoning Policy Implications in Housing Development

To begin to examine the wide-ranging impact of the shortage of supply in housing, we can study the underlying policies and factors that have led to the decrease in the supply of housing between 2005 and today. In most cases across the country, the housing market is heavily regulated by different laws that govern new construction and the sale of existing properties. This includes the use of zoning policy across the country that regulates which type of buildings can be built or what changes to existing buildings can take place at any given point. Across the country, zoning policy is often created and managed by both elected and non-elected officials that regulate zoning, either in the way of a zoning board or through some other type of governing body (i.e., mayorship, city councils, etc.). These legislative bodies have a major impact on housing availability and affordability within any given area as they can establish or change policies in place within their jurisdiction.

As an example of how zoning policy is impacting current availability and affordability within the United States, we can look at the housing market of San Francisco County, which is often looked at as one of the most unaffordable places to live within California and the United States (Wong, 2024). Based on a study done by the University of California Berkeley, more than 55% of California residents had stated that it would be “hard to get by” living within the city of San Francisco based on the affordability of homes (Wong, 2024). To address the issue of housing availability and relieve some of this pressure, the state mandated a “Housing Element” program that calls for the city to build more than 80,000 new homes within ten years (Wong, 2024).

To meet the requirements of the Housing Elements program, San Francisco proposed updating their zoning laws to increase the height limits that are currently set within San

Factors Driving America's Housing Affordability Crisis

Francisco residential areas (Mondros, 2024). If passed, residential areas that are predominantly single-family homes and smaller buildings will now exist next to larger buildings that can extend beyond eight stories or more (Mondros, 2024). While this plan would address some of the housing availability issues within the city, existing residents have had other opinions based on their own existing home values and status as current property owners. As such, a group of residents within San Francisco have rallied against the re-development of their neighborhoods, putting the development of the new 80,000 homes throughout the city at risk of missing state mandated requirements (Mondros, 2024).

While the outcome of the re-zoning within San Francisco is still outstanding, we can see how varying opinions between different stakeholders within a community or city can have a major impact on the availability and affordability of housing. In this case, existing residents of San Francisco might be able to pressure local governing bodies to limit the new construction and development of homes. This pressure may result in further failure to address the affordability crisis within the city and failure to meet requirements outlined within California's Housing Elements program.

Labor Shortages Implications in Housing Development

While zoning can provide a limitation on the size and scope of new housing, labor shortages are also making the construction of new homes take longer and cost more. While there are many causes impacting the labor shortage within the construction industry, policies in place related to immigration and the pipeline of skilled workers are predominantly affecting the rate and cost of new construction. While this issue is changing rapidly under the new Trump Administration, effects from both the first Trump Administration and the Biden Administration have continued to have an impact on available workers.

Factors Driving America's Housing Affordability Crisis

To better understand the underlying factors that are contributing to the labor shortage, we can examine the existing job market and the policies of legislative bodies and administrations that contribute to growth or contraction of construction. Across the United States, the construction industry has had roughly 228,000 unfilled vacancies since September 2024. Furthermore, 439,000 additional workers would be required to be hired throughout 2025 to keep up with the massive demand (Biron, 2025). As a result of this ongoing shortage, developers within the United States are falling behind on orders and seeing increased costs related to staffing and hiring.

As we examine the construction industry in the United States, many projects and organizations often rely heavily on foreign-born workers that are coming to the country for work and opportunity (Biron, 2025). They traditionally hold positions related to site preparation, traffic control, and other physical roles to support construction projects from start to finish. While the industry continues to see more workers coming to the United States for this type of work, recent changes in the presidential administration in the United States have made it more difficult for construction companies to hire and recruit talent and many immigrants within the construction industry are leaving or are being removed from the country by current immigration policies.

As the Trump Administration begins to dig in on their immigration policies and crackdown on illegal migrants, the Hispanic-heavy construction industry is weary and struggling to recruit workers as the administration threatens further immigration crackdown activities, such as workplace raids (Biron, 2025). While the effects of these policies are still being determined and are reaching almost every industry, the impacts of slow recruitment and loss of some

Factors Driving America's Housing Affordability Crisis

undocumented workers in the construction industry may result in project delays and a slower rate of new construction.

While the laws governing the construction industry may not change as often, the impact of a changing immigration policy will have far-reaching impacts on the availability of workers. In this case, the United States government is providing formal laws, policies, and rules that will further restrict worker availability as workers have concerns related to their own or their family's immigration status. Further ethical implications related to the use of illegal immigrants for labor will be covered at a later point in this paper.

The Rising Cost of Homeownership and Rentals

Prior to 2000, most single-family homes were purchased by families or individuals looking to live in them long-term. Since the expansion of technology and tech-based rental platforms, such as Airbnb and Vrbo, ownership of single-family homes has seen additional competition from non-traditional stakeholders. In many cases across the United States, a single house may see offers from families looking to buy their first home or any number of investors that are looking to turn the property into an investment for short term rental opportunities. In many cases, expansion of short-term rentals decreases the supply of available housing opportunities for traditional families or those that require housing. Furthermore, the increased competition for individual properties may result in higher prices paid by both individual buyers and investors and can have further pricing impacts on neighboring property values.

Impacts of Short-Term Investors on the Housing Market

As the effects of short-term rentals have been studied, results have shown that communities that have a higher number of Airbnb listings have led to an increase in housing prices and rental rates (Barron et al., 2020). As newer short-term rental investors enter a local

Factors Driving America's Housing Affordability Crisis

real estate market, each stakeholder that is within the market may experience different outcomes than previously had. As an example, residents may see some positive impacts from increased tourism related to an influx of new people, investments, and business, but they will now be competing with larger investors in their area for limited housing, resulting in possible bidding wars and higher costs when trying to purchase a home. Short-term real estate investors will experience a greater opportunity to earn money through new investments but may increase the values of other properties in the area, resulting in further price increases for the local community.

In communities where short-term housing has grown extensively, there is a likely chance that housing availability will shrink; prices of homes on the market will increase; and existing properties will increase in value based on the overall investments made by short-term property investors. While these changes may provide positive impacts to all three stakeholders, traditional homebuyers looking to purchase a new home may now be at a greater disadvantage as purchasing a home may become increasingly expensive and difficult to find. Furthermore, if many investors that hold long-term housing in the area decide to transition their properties to short-term rentals, the available rental supply in the area may decrease and pricing on remaining long-term properties may suffer larger price increases.

Human Decision Making's Impact on the Housing Market

Another way that we can examine the underlying factors related to the rising costs of housing ownership and rentals is by reviewing the impacts of human decision making using on the housing market. In recent years, the many stakeholders within the housing market have been quick to purchase housing to satisfy short-term desires and wants, even when it may not provide a long-term benefit. This can be seen in two different, but impactful ways: resistance from

Factors Driving America's Housing Affordability Crisis

existing homeowners to allow new housing development projects and the impacts of homeowners that are purchasing properties due to incessant increases to housing prices.

To begin to look at the resistance from existing homeowners that is taking place across the United States, we can look at NIMBYism. NIMBY, standing for “Not in My Backyard”, is a movement in which existing homeowners and property owners provide resistance to new development if the development may hurt the resale value of their existing home or property (Demsas, 2025). Furthermore, a varying number of personal values may result in further resistance from property owners when there may be an expansion of development within their neighborhood.

As discussed earlier in this paper, the recent passing of housing affordability and availability laws within San Francisco and California can provide an excellent example of NIMBYism. In the prior example discussed, homeowners throughout the city of San Francisco are leading a resistance to updates in zoning policy within their neighborhoods (Mondras, 2024). In many cases, the influx of new housing development can bring about long-term, positive impacts to their neighborhood, including increased tax revenues, further investment and development, and possibly addressing underlying factors related to homelessness, which is a major issue in the city of San Francisco.

In this case, homeowners are resistant to development as they say the multi-story buildings will take away from the view of the existing skyline. As cited in the article, a resident who is leading the resistance of new development of tall buildings for housing stated, “If you want to live in a city that has tall towers, there are plenty of places in this country to go” (Mondras, 2024). While the issue of rezoning in San Francisco is still being decided, residents may be choosing to make decisions that may benefit themselves, and their property value, in the

Factors Driving America's Housing Affordability Crisis

short term, but may not look to provide the most long-term beneficial impacts for themselves and their community.

Now, we can look at the impact of homeowners that are purchasing properties due to incessant increases in housing prices. While there is an abundance of information on this topic stemming from the 2008 financial crisis, we can also examine the last decade to understand how Americans are currently approaching the housing market. To start, we can assess the change in median home prices from August 2019 to August 2023. During this time, the median home price increased from \$278,000 to \$407,100, a 46% increase over a four-year period (Egan & Bahney, 2023). As surging home prices are seen across the country, many Americans are experiencing an irrational exuberance, a scenario in which fear of being priced out of the market or missing out on cheaper housing prices, are driving them to purchase homes that they otherwise would not purchase (Egan & Bahney, 2023). In this case, the limited supply of housing available for purchase has continued to keep prices high, even when interest rates remain at historic highs (Egan & Bahney, 2023). As many Americans are rushing to purchase homes, even when they may be out of their price range or not in line with their overall expectations, many fear that they may one day regret not taking advantage of the present-day opportunities (Shiller, 2022).

As the housing supply continues to be tight, many Americans will continue to purchase housing, even at the heightened cost based on the fear of missing out or eventually being priced out of the market. As more Americans are purchasing with this thought process, the supply of housing will continue to shrink, resulting in prices possibly being driven higher. Overall, the rising costs of housing and rentals, driven up by resistance to change in existing communities; fear of impacts on existing homeowner's property values; and American's fear of missing out on

Factors Driving America's Housing Affordability Crisis

the existing housing inventory are contributing to an expanded housing shortage and increased costs across the United States.

Policy Constraints within Housing

While many of the factors that are influencing housing affordability discussed so far in this paper have been related to development of new properties and the human decision-making process, fiscal and monetary policy on federal, state, and local government levels are also having a major impact. In most cases, there are formal, regulating government bodies, such as the Federal Reserve, the federal government, or local zoning boards, that make decisions having downstream impacts on the cost or availability of new housing developments. In the case of the Federal Reserve, which can increase or decrease interest rates based on economic conditions, downstream effects include a higher or lower borrowing costs related to a home purchase. In the case of the Federal Government, regulations, such as tariffs, can have an impact on the costs of imported goods utilized to build new housing. In the case of local zoning boards, downstream impacts may result in a limitation to or an opportunity to increase available housing, resulting in further changes in housing affordability.

Monetary Policy's Impact on the Housing Market

To begin, we can examine the formal monetary policy practices utilized by the Federal Reserve to adjust interest rates based on the current state of the United States economy. The Federal Reserve, which oversees the monetary policy of the United States, with goals related to keeping inflation within a 2% rate, can adjust benchmark interest rates (Erickson & Saphir, 2025). As the Federal Reserve adjusts interest rates downward or upward to influence the economy, the downstream effects can be found across the housing market.

Factors Driving America's Housing Affordability Crisis

From a homeowner's standpoint, higher rates have a direct impact on the cost of borrowing money for a mortgage. As an example, we can look at December 2024, when the Federal Reserve decided to cut federal fund interest rates by .25% from a range of 4.5%-4.75% to 4.25%-4.5%. This decrease in federal fund interest rates from the Federal Reserve can result in the decrease of mortgage rates overall (Leicht, 2024). Furthermore, as Americans follow the existing trends of the interest rates set by the Federal Reserve, they may be more likely to act on home purchasing if future trends are less favorable than the existing environment.

In addition to impacting mortgage rates for Americans that are looking to purchase homes, a higher interest rate may result in delayed or cancelled investments from developers looking to build additional homes or apartment buildings. While this impact can further restrict the supply of available houses, it can also impact the availability of future available rental units, which may have an upward effect on rental prices across the United States and in major urban areas, such as New York or California.

Federal Government Policy's Impact on the Housing Market

Federal Government policy can also have major impacts to the cost of homeownership and rentals. As a recent example, we can look at the ongoing threat of tariffs by the Trump Administration on imports from many of our trading partners, including Canada, Mexico, the European Union, and China. In the case of property development, many raw materials, such as lumber, drywall products, and many home appliances are imported to the United States through these trading partners. As a result, tariffs can have significant downstream effects on new housing development, with the average cost of a building a new home projected to increase anywhere from \$7,500 to \$10,000 (Olick, 2025).

Factors Driving America's Housing Affordability Crisis

Even if tariffs on these countries do not fully materialize, the threat of tariffs have already driven the cost of key building materials up as producers in other countries try to price in the future impacts of this policy. As an example, lumber, which is heavily imported to the United States from Canada, have seen increased prices, even after tariffs were delayed in early February, with the pricing of some two-by-fours increasing by 13% (Olick, 2025). This policy uncertainty and the increased cost of required products may result in further delay or cancellation of housing development projects and increased costs for projects that are currently underway.

Zoning Law and Local Policy's Impact on the Housing Market

Lastly, zoning laws, set at the state or local level, have traditionally impacted the availability of certain housing development types within cities since the end of World War II. Traditionally, zoning laws are put in place to limit the type of development that can take place in an area and the size of such developments. As an example, a local zoning board may restrict a specific area of a town to manufacturing development projects or properties. In another, they may designate an area for single family homes, multifamily homes, or apartment buildings. Furthermore, they may incorporate additional restrictions on development projects, such as limiting the height of buildings or overall size (Meyersohn, 2023).

In cities where zoning is restrictive, often offering only single-family homes and limits on apartment or condo developments, there are often extreme limitations on housing availability, as more population dense type of housing cannot be developed. On the other hand, cities that have updated their zoning policy to allow development of multi-family homes and larger apartment buildings have seen positive impacts related to housing availability and affordability. As an example, cities such as Minneapolis, Minnesota, and Tysons Corner, Virginia, have implemented new zoning rules that have helped slow rent growth in their areas (Combs, 2025). While zoning

Factors Driving America's Housing Affordability Crisis

policy can vary widely between urban areas, the openness or restrictiveness of zoning rules in place can have an impact on the availability of housing within an area and can have downstream impacts to the price paid for a home or towards rent.

Across the United States, the organizations that govern housing have many different formal laws and regulations that govern the housing development or acquisition process. While each law or regulation set by different organizations may have a different goal as they are put in place, the housing market is governed by these organizations, either directly or indirectly. In this factor, we can see secondary effects of policies by the federal government related to interest rates or tariffs that impact the affordability and availability of housing due to their role on the cost of either purchasing or building a home. We also see firsthand effects from state or local governments that formally regulate what housing development projects can look like. In each case, these organizations create structural constraints on housing availability and affordability across the United States.

Analysis

Throughout this paper, we have covered factors that are currently impacting the affordability of housing across the United States. To further analyze these factor's impact on housing affordability, we can employ the use of multiple theories to these scenarios to understand the factors driving this crisis. In this section, we will discuss the three distinct perspectives related to the current affordability crisis occurring in the United States using four different applied theories including analyses that will look at the impact of policy constraints using Institutional Theory; the irrationality of housing decisions made across the country, especially as it's based on Behavioral Economic Theory and Regret Theory; and the market

Factors Driving America's Housing Affordability Crisis

dynamics in various industries across the country and the application of Game Theory in those environments.

Application of Institutional Theory on Housing Supply

To begin to examine the wide-ranging impact of the shortage of supply in housing, we can employ the view of Institutional Theory to better understand the decrease in supply of housing between 2005 and today. Institutional Theory, rooted in the thought that institutions are governed by the rules, norms, and values of the people that are within that society, can help us understand what underlying factors contributed to the massive decrease in new housing construction and the existing housing availability crisis. In this case, the housing market and all stakeholders involved in that market, are shaped by the behavior of the individuals and organizations that are within that society (Calderón-Hernández et al., 2020). For this analysis, the institution, known as the “United States housing market”, is governed by the rules, norms, and values of the people within the United States.

From a top level, institutions, such as federal, state, or local government shape the housing market throughout the country, even in small towns or large cities. As governments and other legislative bodies make decisions, downstream effects can be felt on every level of government below them and can further restrict or increase housing availability. The real-life effects of Institutional Policy can be examined in multiple recent examples including the examples of the Federal Reserve adjusting interest rates and the Trump Administration's approach to tariffs.

To start, we can examine the impacts of Federal Reserve policy over the last five years in the onset of the COVID-19 pandemic and a period of high inflation. While the Federal Reserve does not directly control mortgage rates, cuts to the Federal Reserve's key interest rates and their

Factors Driving America's Housing Affordability Crisis

outlook on inflation are major driving factors related to mortgage rates (Lewis, 2024). Over this period, rates have hit a new high in recent years, peaking at 6.84%, which will increase the cost of borrowing for any person looking to finance a home purchase (Lewis, 2024). In these cases, institutional policy decisions made directly by the Federal Reserve may have an impact on borrowing power and increase the costs of new homeowners who are already in a market with limited supply.

The federal government, as another institution, has also recently made formal policy decisions that are impacting the cost of new homes. The first and most widely looked at policy decision is the escalation of tariff threats with key trading partners, such as Mexico, Canada, and China. Specific to home building, roughly 8% of the total materials that are used to construct a new home are imported into the United States and would be under the threat of tariffs proposed by the Administration (Ryan, 2025). If the threat of tariffs come to fruition and remain in place for an extended period, effects can even reach renters, as builders may delay or cancel rental projects due to the increasing costs of development (Ryan, 2025).

In addition to the threat of tariffs, the federal government instituting a zero-tolerance policy for any illegal immigration will have further effects on the development of new housing. In recent analyses, 50% of ceiling and tile installers and 37% of roofers are undocumented, and construction sites and personnel are at higher risk of immigration raids, and the industry may see a heavy decrease in the available labor for new construction (Ryan, 2025). While the impacts of this specific policy decision are still being determined, policies, rules, and regulations set by institutions such as the Federal Government and the Federal Reserve will continue to shape housing market in many different forms.

Application of Behavioral Economic Theory and Regret Theory on Housing Supply

In addition to the actual institutional policy impacts that are felt downstream, we can also examine the impact of irrational consumers when exploring purchasing in the housing market. As major events, such as the COVID-19 pandemic, have upended the way Americans operate, theories such as the Behavioral Economic Theory and Regret Theory can help us examine some of the human decisions that are driving up the prices of housing and decreasing availability of housing.

Using the example of changes to the housing market in the wake of the COVID-19 pandemic, we can look at the change in migration that took place at the onset of the pandemic when telework became normalized and many people from within cities moved to the suburbs to get more space. In Manhattan's Battery Park, house prices fell by 9.6% during the last three months of 2020, as many high-income earners moved out of the city and into the suburbs (Ramani & Bloom, 2021). On the other end, middle-class neighborhood housing prices within Suffolk County increased by 7.2% over the same period due to the surge in migration from the city (Ramani & Bloom, 2021).

While some of this migration may have been originally planned by some families prior to the pandemic, many made the decision with knowledge that eventually the pandemic would subside and some type of move would once again need to be made back to the city, either through a daily commute or a full move. Furthermore, many middle-class families that depended on affordable homes within the suburbs to commute to the city, were now competing for the same number of homes, at a higher price, and with people that had more money, resulting in many being priced out of the market. This process, which can be discussed as it relates to Behavioral Economic Theory, shows that many homeowners made irrational decisions for short

Factors Driving America's Housing Affordability Crisis

term gain during this time, which is now contributing to a long-term crisis in housing across many areas in the United States. This theory, which examines the irrationality of humans, explains the concept in which everyone may make decisions based on their own self-interests, usually with a focus on short-term benefits instead of a long-term point of view (Witynski).

In addition to the irrational behavior exhibited by many in the housing market, there is also a fear of missing out by many consumers due to the uncertain environment. In many cases, homeowners are continuing to make purchases of homes, even when the price of a home is out of control and interest rates are also high. In these cases, people looking to purchase a home may make a purchase, even if they are not fully comfortable with the home or fully invested because their situation in the future related to rates and prices is uncertain (Shiller, 2022). Regret Theory fully explains this, as most consumers are willing to take the risk to purchase a home now, so they do not feel regret in the future if the housing environment is even more unfavorable than it is now.

Application of Game Theory on Housing Supply

Lastly, the complexity of the housing market has changed in the most recent decade with the expansion of short-term rentals, which can have negative effects on the availability and affordability of housing. Prior to the last decade, many residents looking to buy a single-family property would only be in competition with other buyers that are looking to purchase their main home, secondary home, or for a possible rental. Now many neighborhoods across the United States, including many within popular cities, are seeing a greater increase in competition for single family homes with investors that are looking to maximize short-term rental opportunities.

To examine how the expansion of the short-term rental market has impacted the pricing of housing, we can employ the use of Game Theory to understand the underlying goals of

Factors Driving America's Housing Affordability Crisis

policymakers; short-term rental investors; and residents of specific communities. In this case, Game Theory, which can be defined as the study of ways in which interacting choices of economic agents produce outcomes with respect to the preferences of those agents, can help us understand the choices made by the housing stakeholders (Ross, 2006).

To better understand the application of game theory, we will create a hypothetical situation of each of the three “players” in this game compete for limited housing. Policymakers, as the governing body, may have goals related to bringing in additional investments into the city; winning reelection; or building affordable housing. Developers may have goals related to maximizing their return on investments, whether that be short-term or long-term, or increasing their portfolio of properties within an area. Residents may also have goals related to bringing further investments into their community; building or keeping affordable housing; or keeping the value of their home intact or increasing.

In the above “game” scenario, these three stakeholders, traditional homebuyers, and local governments, interact to either allow or restrict the availability of housing, long-term rentals, and short-term rentals. In this case, the goals of each stakeholder may vary, but each will most likely look to maximize their own profit or loss. In the case of investors, many may look to purchase properties within a cost that will allow them to rent out the home short-term on Airbnb or Vrbo successfully. This may allow them to spend more than the traditional homebuyer as they are utilizing the property to make money. In the case of the traditional homebuyer, many may have a goal of buying a home within a certain budget with an overall aim of spending as little as they can on an optimal property. In the case of the local government, many officials may seek to maximize investments into their local community and increase the tax base.

Factors Driving America's Housing Affordability Crisis

Depending on how the community is operating at any given time, some players within the housing market will end up in scenarios that are not optimal. In many cases across the United States, we are seeing this type of game play out in real time as investors, with large sums of money, are buying up single family homes or apartments with the goal of renting them out for short-term opportunities. As a result, there is a significant decrease in availability of homes, especially in markets that may be considered popular tourist or vacation destinations. Furthermore, as investors come into the community to purchase homes, they often drive up the purchase prices for surrounding homes, putting traditional homebuyers further out of reach of being able to make a home purchase (Barron et al., 2020).

In each of these cases, the housing market, under the strain of policy decisions at multiple levels of government; the irrationality of human decision making; and the market dynamics of the industry today, are causing significant strain on housing supply and driving up the cost of new and existing homes. As a result, all stakeholders are often paying more for homes and many Americans are continually being priced out of the market.

Ethical Implications

While there are hundreds of different policy decisions that can be made to ease the housing crisis in the United States, we must first look at some ethical implications related to housing policy. As an example, the United States, which embraces a form of capitalism, often looks to the market to provide a true balance within industries. In many cases across the country, housing has slowly become known as an investment as opposed to a fundamental right of American citizens. Furthermore, an overview of the interests of investors and the community needs to be considered and weighed when policy decisions are being made locally. Lastly, the

Factors Driving America's Housing Affordability Crisis

role of government can also be an ethical implication, as the government acts to balance the free market against the wellbeing of the local community.

To start, we can look at the expansion of housing as an investment opportunity across the United States as opposed to a right of all humans. As the environment has shifted in housing, especially with the expansion of short-term rentals and large-scale multi-family properties, financial institutions and pension funds are increasing their own investments in the industry (Farha, 2019). As a result, many institutions are seeing a greater profit based on increasing rents and increased prices of homes in different geographic areas (Farha, 2019). As prices continue to increase, low-to-middle income earners can be quickly priced out of markets as larger institutions and investment organizations reap the profits. In many cases, this profit driven behavior is resulting in a losing scenario for many Americans as those without large sums of money face a greater barrier to entry in the housing market than those who are flush with cash.

We can then bookend the conversation related to investor interest by looking at who may hold the "right" to housing within any given area. As a capitalist society, investors often act to maximize their return on investment, even if that puts long-term residents and local communities at a disadvantage in the housing market. In this case, there is an ethical dilemma surrounding who has the right greater right to housing: investors who seek to maximize their profit or the community's need to an affordable housing environment.

While the short-term housing industry is still relatively young, some cities have taken on the issue siding with either investors or residents. As an example, New York City has implemented strict laws pertaining to Airbnb's and other short-term rentals, severely limiting how these rentals can operate. In this case, New York implemented rules that require short-term housing to register with the City, and hosts must live in the property being rented (Hoover,

Factors Driving America's Housing Affordability Crisis

2023). Furthermore, greater limitations have been put in place to limit large-scale properties used for large groups, as short-term rentals are limited to two guests at a time (Hoover, 2023). Overall, New York City's posture has greatly limited the opportunities for short-term real estate investors and favored the interests of New York City residents.

Lastly, we can examine the ethical implications as federal, state, and local governments aim to balance the housing supply and provide opportunities for both investors and local residents. In many cases, zoning boards and other government entities can promote or limit further development, especially in the case of multi-family or large-scale housing projects. Using an example from the literature review section of this paper, we can examine the promotion of multi-family housing developments within San Francisco to expand housing availability and affordability within the city (Mondros, 2024). For San Francisco, the city is promoting a more affordable housing opportunity, which may also put existing homeowners at a disadvantage if their existing home value is affected. In this case, and dozens of other cases throughout the country, there is an ethical dilemma that many zoning boards and other policy makers face as they determine how involved to be in the housing market and if their policy decisions put any specific group of people at a disadvantage.

Policy Recommendations

Across federal, state, and local government, there are many different policy changes that can be enacted to promote housing availability and affordability. In this case, there would be a greater emphasis put on implementing policy changes that benefit local residents and low-to-middle income earners that have been priced out of different housing markets over the last decade. With this approach, a strong emphasis should be put on reforming zoning policy, especially in dense areas of population, to ensure sufficient housing supply. Additionally, further

Factors Driving America's Housing Affordability Crisis

regulation can be implemented to restrict short-term rentals and their impact on local communities. Lastly, multiple levels of government can provide incentives, such as tax breaks, to increase the number of housing units available and the affordability of housing. While there are some portions of these policies in place across the United States, a greater investment in them can rapidly provide positive impacts and increase affordability.

To start, zoning continues to hinder larger development projects in dense, urban areas. As a result, developers must often spend a great deal of money and time influencing policymakers to change zoning laws and often must cut through red tape to get designs approved and construction moving forward. Policies like this are at work in many different cities across the United States and have shown success. As an example, Minneapolis, Minnesota moved to reimagine their zoning policy to allow development of duplexes and Triplexes in areas previously not allowed. As a result, Minneapolis saw a 12% increase in housing supply from 2017 to 2022 and only saw an average rent increase of 1% during that time period. At the same time, Minnesota experienced only a 4% increase in housing supply and an average of 14% increase in rents during the same time frame (Combs, 2025). If this policy reform can be duplicated throughout large urban areas, such as New York or Los Angeles, that are experiencing severe housing shortages, housing availability and affordability can be within reach of hundreds of thousands of more Americans.

As we go a step further to examine the impact that short term rentals have had on local economies, there is evidence that a high concentration of short-term rentals have contributed to further rent increases in major cities (Miami Herald, 2024). In major urban area, such as Miami Beach, short term rentals account from anywhere between 11% to 20% of all of Miami Beach's homes (Miami Herald, 2024). In many cases as well, neighborhoods in which short term rentals are located are zoned as traditional residential neighborhoods and often lack the infrastructure

Factors Driving America's Housing Affordability Crisis

required that comes with the high traffic, garbage, and noise of short-term rentals (Miami Herald, 2024). With this massive expansion of short-term rentals, legislation that caps the total number of short-term rentals can ensure that housing availability within these areas is not further constrained. Furthermore, cities can implement a higher tax on short-term rentals that can provide funding towards critical infrastructure or future affordable housing development projects.

Lastly, all levels of government can work to spur the new construction of homes by offering subsidies or tax breaks to spur additional investments. From a federal level, the government can offer tax subsidies to construction firms that are investing in affordable housing and rental units. While not widely done in the United States previously, former Presidential Candidate Kamala Harris promoted a policy plan to create a \$40 billion federal innovation fund to spur affordable housing across the country and provide subsidies to companies that were building affordable housing units and rentals (Lee et al., 2024). Harris went further to offer policy recommendations that included additional tax incentives and down payment assistance for first time home buyers. If federal, state, and local governments provide incentives related to new construction and development, low-to-middle class prospective home buyers and renters may have access to greater availability of homes and possibly more affordable options.

While each of the three policy recommendations may have been implemented in smaller formats, they each also provide challenges, such as resistant locals, political divide, and limitations on available funding. In each case, further studies can be done to examine the impact of existing policies in varying urban environments so detailed and persuasive arguments can be made for each recommended policy change. Furthermore, it should be noted that some policy

Factors Driving America's Housing Affordability Crisis

recommendations may be more difficult to implement in certain areas, such as those that have experienced recent natural disasters or those that are experiencing severe economic upheaval.

Summary

Overall, the housing market within the United States has grown much more complex over the last two decades with the onset of the 2008 financial crisis and the COVID-19 pandemic starting in 2020. In each case, these global events led to significant changes in the housing market that restricted future supply and put a strain on housing today. Further factors, such as existing supply shortages; rising costs of homeownership and rentals; and existing policy constraints are putting a great strain on the housing market, pushing many to be unable to find affordable housing. While there are an indefinite number of factors that are contributing to this crisis, the main three discussed throughout this paper are having a larger impact and will continue to have a long-term negative effect on housing affordability.

When looking at the existing availability of housing, there is an extreme shortfall of over four million homes (Mosley, 2024). To examine the issue further, we can examine existing zoning laws and resistance from local communities are putting new construction projects at risk of being started, further delaying or constraining future housing. As discussed in this paper, a great example of this can be seen by examining California's Housing Elements program, which mandates the creation of 80,000 homes within ten years (Mondros, 2024). While the policy in would provide a great increase in the number of units available for rent or sale and may ease some of the affordability crisis, many existing San Francisco residents are fighting back against the idea of changing their zoning laws and communities to accommodate new homes (Mondros, 2024).

Factors Driving America's Housing Affordability Crisis

We can also look at the overall rising cost of homeownership and rentals across the United States. While there are many contributing factors to the rising cost of homeownership and rentals, one major driving factor can be attributed to the growing use of short-term rental properties, such as Airbnb or Vrbo. In the last decade, the increased purchase of single-family homes and properties by investors, as opposed to single family or traditional home buyers, has increased competition in a market that is seeing decreased construction (Barron et al., 2020). In each of these scenarios, additional interest in these properties has increased the cost of renting and owning within areas that have a heavy concentration of short-term rentals (Barron et al., 2020).

To exacerbate the rising cost of homeownership and rentals, the irrationality of human decision-making has led many homeowners and investors across the United States to limit further development of their neighborhoods in fear that it may decrease their property values. As cited throughout this paper, the resistance within San Francisco to updates in zoning policy may put further restrictions on housing developments in the city (Mondros, 2024). While the main goals of these property owners is to preserve their neighborhood as is, the additional investment may provide long-term, positive opportunities, including new jobs, cleaner neighborhoods, and a greater tax base (Mondros, 2024). While the long-term benefits are large, residents are continuing to defer new developments for the short-term value of their properties and neighborhoods.

Lastly, there are significant policy constraints that are currently impacting the affordability of housing across the United States. From a financial perspective, changes to the Federal Reserve's interest rates over the last five years have greatly changed the buying power of many Americans. At the onset of the COVID-19 pandemic, the Federal Reserve brought their

Factors Driving America's Housing Affordability Crisis

key interest rates to almost zero to offset the drastic decrease in economic activity, but were soon forced to raise rates, peaking at 6.84%, based on inflation in most recent years (Lewis, 2024).

While the Federal Reserve does not directly control mortgage interest rates, their key rates do influence the mortgage market (Lewis, 2024). Furthermore, policy decisions by the newly sworn in Trump Administration may have additional pricing impacts to the housing market. As changes to policies related to tariffs and to immigration are changed, costs of raw materials and the labor utilized to build new housing is increasing. With the change in immigration policies and tactics, the supply of labor is also being constrained as many that work in the construction industry are undocumented (Ryan, 2025).

There is no one decision that can fix the housing affordability crisis in the United States, but multiple different approaches can be taken to ease the crisis. To start, state and local governments can examine and change their current zoning laws to promote further development within dense urban areas. These same organizations can also examine the current laws and regulations that are governing short-term rentals. Changes to these policies may provide limitations to operations and provide greater tax bases that are not currently being realized. Lastly, all levels of government can provide greater incentives, such as tax breaks, to increase the number of housing units available for sale or rent in their communities. In each of these policy decisions, a greater emphasis should be put on low-to-middle income earners that have been repeatedly priced out of the market over the last decade.

References

As vacation rentals eat up housing in South Florida, controlling them might become harder.

Miami Herald. (2024, April 10).

<https://www.miamiherald.com/opinion/editorials/article287423650.html>

Badger, E. (2022, July 14). The housing shortage isn't just a coastal crisis

anymore. The New York Times. <https://www.nytimes.com/2022/07/14/upshot/housing-shortage.us.html#:~:text=Shortage%20percentages%20reflect%20estimated%20housing,enough%20housing%20for%20existing%20residents>

Barron, K., Kung, E., & Proserpio, D. (2020). The effect of home-sharing on house prices and rents: Evidence from airbnb. *Marketing Science*, 40(1), 23–47.

<https://doi.org/10.1287/mksc.2020.1227>

Biron, C. (2025, February 12). *Trump deportations send construction workers “back to the shadows.”* The Japan Times. <https://www.japantimes.co.jp/news/2025/02/12/world/crime-legal/trump-deportations-construction-workers/>

Boyce, J., & Ndikumana, L. (2024, October 12). The little-known factor driving up housing costs: Dirty money. <https://www.politico.com/news/magazine/2024/10/12/undocumented-workers-home-prices-00183126>

Brooks, K. (2024, May 8). Rents are rising faster than wages across the country, especially in these cities. CBS News. <https://www.cbsnews.com/news/rent-cost-us-2024-housing-national/>

Calderón-Hernández, G., Jiménez-Zapata, Y. A., & Serna-Gomez, H. M. (2020). Barriers to

Factors Driving America's Housing Affordability Crisis

university spin-off creation in an emerging context: An institutional theory of organizations approach. *Minerva*, 58(4), 625–650. <https://doi.org/10.1007/s11024-020-09407-4>

Combs, C. (2025, February 8). *Minneapolis tackles housing crisis with affordable housing and zoning*. Recorder. <https://spokesman-recorder.com/2025/02/08/minneapolis-affordable-housing/>

Cui, J. (2024, May 23). *The NBC News Home Buyer index: A new measure of the U.S. Housing Market*. NBCNews.com. <https://www.nbcnews.com/data-graphics/us-home-buyer-index-data-cost-availability-difficulty-rcna139257>

Demas, J. (2025, January 7). *The truth about NIMBYs*. The Atlantic. <https://www.theatlantic.com/podcasts/archive/2025/01/why-people-are-nimbys/681225/>

DeSilver, D. (2024, October 25). *A look at the state of affordable housing in the U.S.* Pew Research Center. <https://www.pewresearch.org/short-reads/2024/10/25/a-look-at-the-state-of-affordable-housing-in-the-us/>

Egan, M., & Bahney, A. (2023, October 11). *The housing market looks like a bubble, 2008 regulator says*. CNN. <https://www.cnn.com/2023/10/11/economy/housing-market-bubble-sheila-bair/index.html>

Erickson, B., & Saphir, A. (2025, March 4). *Fed's tools, goals under the microscope as US House Task Force gets underway*. Reuters. <https://www.reuters.com/world/us/feds-rules-toolkit-under-microscope-us-house-task-force-gets-underway-2025-03-04/>

Factors Driving America's Housing Affordability Crisis

Farha, L. (2019, March 22). *Housing is a human right, not just a commodity*. United Nations.

<https://www.ohchr.org/en/stories/2019/03/housing-human-right-not-just-commodity>

Hoover, A. (2023, September 5). *The end of Airbnb in New York*. Wired.

<https://www.wired.com/story/airbnb-ban-new-york-city/>

Kelly, C. (2025, March 8). *Tariffs inflict pain on home builders when they can least afford it*.

Wall Street Journal. <https://www.wsj.com/economy/housing/trump-tariffs-home-construction-prices-housing-market-6549e974>

Lee, M., Luhby, T., & Delouya, S. (2024, August 16). *Harris to announce 4-year plan to lower*

housing costs. CNN. <https://www.cnn.com/2024/08/15/politics/kamala-harris-plan-housing-costs/index.html>

Leicht, A. (2024, December 18). *What the Fed's December rate cut means for mortgage interest*

rates. CBS News. <https://www.cbsnews.com/news/what-the-feds-december-rate-cut-means-for-mortgage-interest-rates/>

Lewis, C. (2024, December 19). *The Fed expects to cut rates more slowly in 2025. what that*

could mean for mortgages, debt and more. AP News. <https://apnews.com/article/federal-reserve-interest-rates-loans-consumers-borrowing-f2cc94978bb7909de9fe49a3280473dd>

Meyersohn, N. (2023, August 5). *The invisible laws that led to America's housing crisis*. CNN.

<https://www.cnn.com/2023/08/05/business/single-family-zoning-laws/index.html>

Mondros, S. (2024, June 7). *Angry San Francisco homeowners plot to kill city's rezoning plan*.

Factors Driving America's Housing Affordability Crisis

The San Francisco Standard. <https://sfstandard.com/2024/06/07/san-francisco-zoning-housing-element-united-neighborhoods/>

Mosley, T. (2024, December 11). The U.S. is facing a severe housing shortage. will trump's proposals help? NPR. <https://www.npr.org/2024/12/11/nx-s1-5223561/the-u-s-is-facing-a-severe-housing-shortage-will-trumps-proposals-help>

Olick, D. (2025, March 4). *Here's how tariffs will hit the U.S. Housing Market*. CNBC. <https://www.cnbc.com/2025/03/04/how-tariffs-will-hit-the-us-housing-market.html>

Radosevich, J., & Turner, D. (2024, October 9). Americans recognize housing affordability crisis, support new policies to fix the market and build more homes. Center for American Progress. <https://www.americanprogress.org/article/americans-recognize-housing-affordability-crisis-support-new-policies-to-fix-the-market-and-build-more-homes/>

Ramani, A., & Bloom, N. (2021, January). *The donut effect: How covid-19 shapes real estate*. Stanford Institute for Economic Policy Research (SIEPR). <https://siepr.stanford.edu/publications/policy-brief/donut-effect-how-covid-19-shapes-real-estate>

Ross, D. (2006, March 10). *Game Theory*. Stanford Encyclopedia of Philosophy. <https://plato.stanford.edu/archIves/spr2010/entries/game-theory/>

Schaeffer, K. (2022, March 23). *Key facts about housing affordability in the U.S.* Pew Research Center. <https://www.pewresearch.org/short-reads/2022/03/23/key-facts-about-housing-affordability-in-the-u-s/>.

Factors Driving America's Housing Affordability Crisis

Shiller, R. (2022, September 28). *Fomo helped drive up housing prices in the pandemic. what can we expect next?*. The New York Times.

<https://www.nytimes.com/2022/09/28/opinion/housing-prices-pandemic.html>

Wamsley, L. (2024, September 18). Here are 4 ways the Federal Reserve's big rate cut could change the housing market. NPR. [https://www.npr.org/2024/09/18/nx-s1-](https://www.npr.org/2024/09/18/nx-s1-5111859/federal-reserve-rate-cut-housing-home-prices-mortgages)

[5111859/federal-reserve-rate-cut-housing-home-prices-mortgages](https://www.npr.org/2024/09/18/nx-s1-5111859/federal-reserve-rate-cut-housing-home-prices-mortgages)

Witynski, M. (n.d.). *Behavioral Economics, explained*. University of Chicago News.

[https://news.uchicago.edu/explainer/what-is-behavioral-](https://news.uchicago.edu/explainer/what-is-behavioral-economics#:~:text=In%20behavioral%20economics%2C%20a%20%E2%80%9Cnudge,people%20for%20choosing%20unhealthy%20options.)

[economics#:~:text=In%20behavioral%20economics%2C%20a%20%E2%80%9Cnudge,people%20for%20choosing%20unhealthy%20options.](https://news.uchicago.edu/explainer/what-is-behavioral-economics#:~:text=In%20behavioral%20economics%2C%20a%20%E2%80%9Cnudge,people%20for%20choosing%20unhealthy%20options.)

Wong, G. (2024, June 7). New tool paints grimmer picture of SF housing crisis. San Francisco Examiner. [https://www.sfexaminer.com/news/housing/san-francisco-housing-crisis-](https://www.sfexaminer.com/news/housing/san-francisco-housing-crisis-looks-even-grimmer-in-new-tool/article_98fa2f2c-130d-11ef-8f42-13fa6b0f326f.html)

[looks-even-grimmer-in-new-tool/article_98fa2f2c-130d-11ef-8f42-13fa6b0f326f.html](https://www.sfexaminer.com/news/housing/san-francisco-housing-crisis-looks-even-grimmer-in-new-tool/article_98fa2f2c-130d-11ef-8f42-13fa6b0f326f.html)