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ABOUT

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An Assessment of the American Housing and Economic Mobility Act of 2025

The U.S. is struggling with a severe affordable housing crisis. There is not enough housing for sale or rent in many communities nationwide. This means families must pay more for their housing, renters have less to get by on at the end of the month, homeownership is out of reach for too many, and those of modest means are forced to live farther from their jobs. This has significant economic and social repercussions. The American Housing and Economic Mobility Act of 2025 would help address this housing crisis.

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BY MARK ZANDI

The U.S. is struggling with a severe affordable housing crisis.[1] There is not enough housing for sale or rent in many communities nationwide. This means families must pay more for their housing, renters have less to get by on at the end of the month, homeownership is out of reach for too many, and those of modest means are forced to live farther from their jobs. This has significant economic and social repercussions. The American Housing and Economic Mobility Act of 2025 would help address this housing crisis.

AFFORDABLE HOUSING CRISIS

Homebuilding collapsed during the Global Financial Crisis and housing crash from 2007 to 2011 and has struggled to recover. Construction of high-end homes and apartments has rebounded much more strongly; there is now an oversupply in some urban areas across the country. However, the construction of affordable housing—homes reasonably priced for lower-income households to rent or own—has been much slower to recover and continues to lag demand.

The worsening affordable housing shortage is evident in the low number of vacant housing units. The percent of the housing stock for rent and sale that is unoccupied has fallen sharply since the housing crash to a near 30-plus-year low. The shortfall in affordable housing is close to an estimated 2.6 million homes, equal to almost two years of new housing starts at their current pace (see Chart 1).[2] And this shortage is unlikely to ease soon, since the annual supply of affordable new housing units continues to lag the trend for new-housing demand.[3]

The undersupply is concentrated in the lower end of the housing market, particularly in areas of the country that offer significant economic opportunity, driving up house prices and rents for low- and moderate-income families precisely where they want to live (see Chart 2).4 Prices for homes sold in the bottom third are up more than 50% since the pandemic hit five years ago, compared with 42% for those in the top third (see Chart 3). And rents for families who rent because they cannot afford to own, rather than by choice, have increased nearly 25% over the past five years.

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1 See "Overcoming the Nation's Daunting Housing Supply Shortage," Jim Parrott and Mark Zandi, Urban Institute and Moody's Analytics white paper, March 2021.

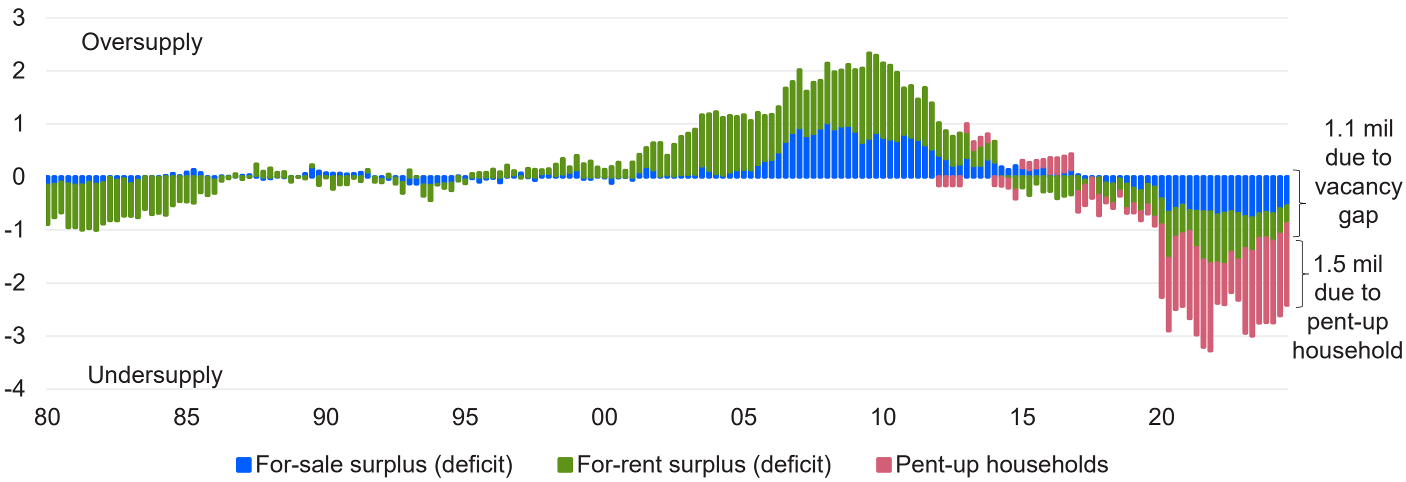
2 This includes the shortfall caused by the difference between the actual vacancy rate for homes for rent and sale and the equilibrium vacancy rate, which comes to 1.1 million homes, and an estimated 1.5 million pent-up households. The equilibrium vacancy rate is that rate consistent with stable real house price and rent growth. Pent-up households are those households that are unable to form, as the costs of renting and homeownership are prohibitively high, and include adults living longer with their parents and those that have no choice but to find one or more roommates.

3 Total supply equals new single- and multifamily units and manufactured homes. Trend housing demand equals household formations, new homes needed to replace those that become obsolete, and second and vacation homes. Trend new housing demand abstracts from the near-term temporary ups and downs in demand due to the vagaries of the business cycle.

4 See "Housing Constraints and Spatial Misallocation," Chang-Tai Hsieh and Enrico Moretti, American Economic Journal: Macroeconomics 2019.

Chart 1: Housing Is Seriously Undersupplied…

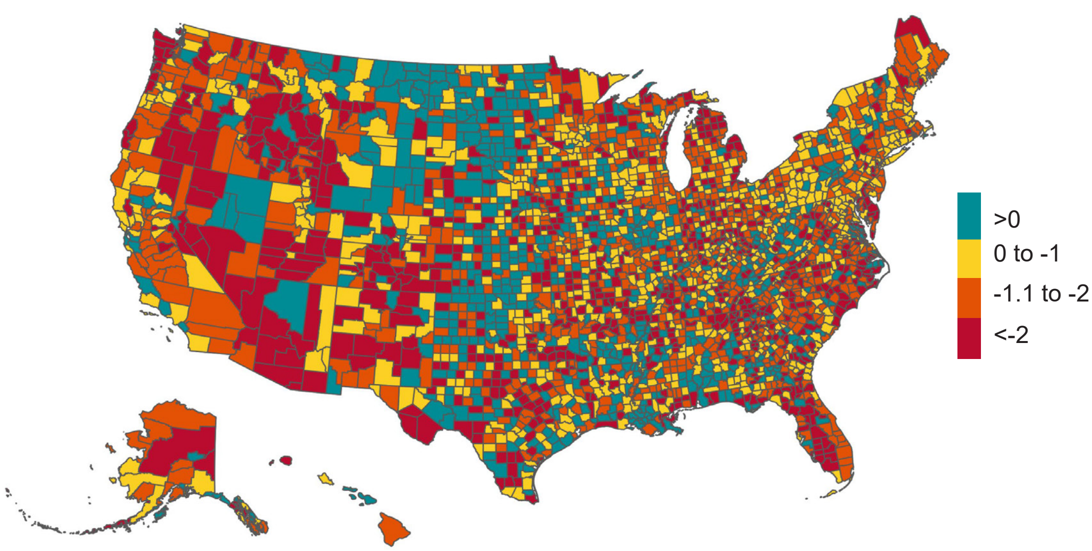
Over/undersupply of housing units, mil



Sources: Census Bureau, Moody's Analytics

Chart 2: …From Coast to Coast

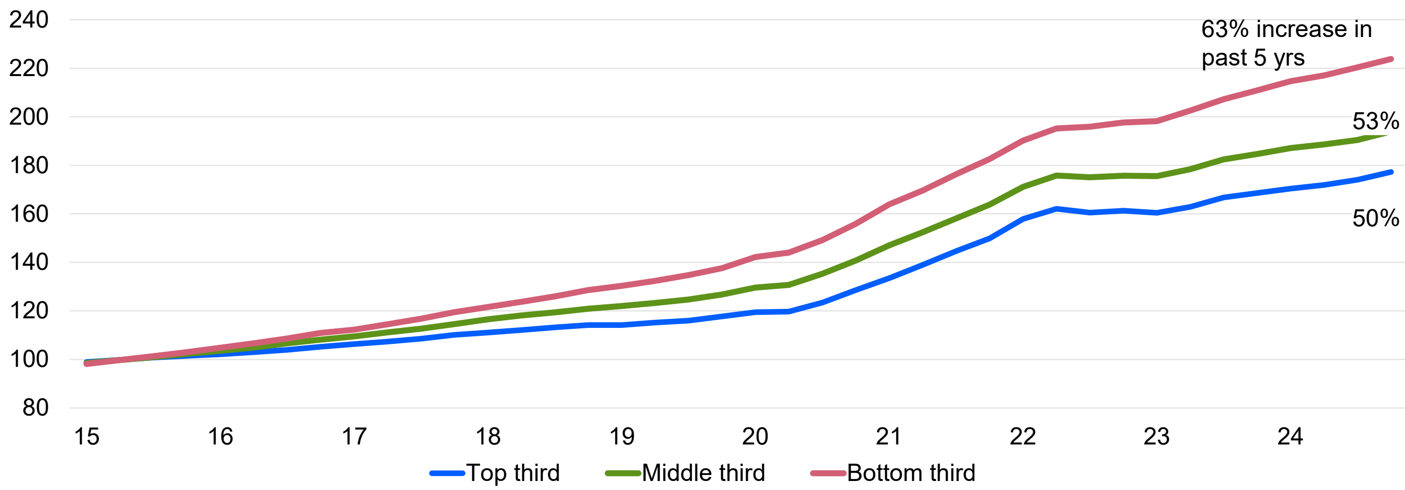
Over/undersupply as a share of the housing stock, %



Sources: Census Bureau, Moody's Analytics

Chart 3: House Prices Are Up More for Affordable Homes

Existing-home prices, 2015=100



Sources: NAR, FHFA, Moody's Analytics

Rising rents leave more and more renters with little to live on. More than half of renters must devote more than 30% of their incomes to rent, and nearly a fourth spend more than half their monthly income on rent, leaving barely enough to cover food, clothing and healthcare, let alone for building wealth, saving up a down payment, or even saving for emergencies. The typical renter saves less than $500 a year, not enough to cover a run-of-the-mill financial emergency. And the rise in house prices is putting the economic opportunity of homeownership out of reach for more and more families, particularly those of color. Fewer than half of Black and Hispanic households own their own home—a homeownership rate that has not budged in more than a quarter century.

The housing shortfall is not just depressing savings and increasing the wealth gap. It also is forcing those at the bottom of the economic ladder to live farther away from those at the top and, more importantly, farther from economic opportunity. The most desirable cities are becoming affordable only to the wealthy, while many of those of more modest means are forced into longer commutes, creating more traffic, more environmental strain, and greater social division.

HOMEBUILDING CONSTRAINTS

Homebuilders have steadily increased production of new housing since the housing crash. During the worst of the downturn more than a decade ago, builders put up only 600,000 homes per year. Housing completions today are close to 1.6 million units. Yet much of the increase in homebuilding has been at the higher end of the housing market. Demand by higher-income and wealthy households has been much stronger, and the higher house prices and rents that builders can charge these households have been a strong incentive to build more.

Construction of more affordable housing—homes that low- and moderate-income households can afford to rent or buy—has been much slower to increase. The story is one of demand and profit margins. Low- and moderate-income households were much slower to recover from the financial crisis and got hit hard by the pandemic and the resulting surge in inflation. The margins that builders could get from building affordable housing have been too low to incent the investment, with pricing too low to adequately clear the high fixed costs of building.

The economics of building affordable housing should improve with the skyrocketing house prices and rents finally creating a wide enough profit margin to justify more investment. But the fact is that the economics of building affordable housing remain precarious and appear to require pricing that is not affordable for many potential homebuyers and renters, especially at today's high mortgage rates. The affordability crisis is acute.

Meanwhile, the constraints on building affordable housing units, including building materials and labor, lending and land, remain significant. These are key inputs into building a home, and all have been in short supply since the financial crisis, driving up their costs and reducing builders' profit margins and their incentive to put up more homes, particularly lower-priced housing with lower margins.[5]

Homebuilders have also struggled in recent years to develop and maintain a consistent labor force, reflecting the difficulty that many trades face in attracting high school graduates into careers requiring specialized skills. To attract workers, builders have had to significantly increase wages, adding to their costs. The recent surge in immigration has eased some of the labor market pressures, but this will likely prove temporary.

As the cost of materials and labor has gone up, builders' access to financing has gone down. Bank acquisition development and construction lending is an especially important source of financing for smaller builders who often do not have ready access to other funding.[6] Yet banks have been pulling back on making these loans since the 2023 banking crisis and show few signs of expanding them again. The retreat has been strongest for smaller banks that cater to smaller builders. This constrains supply at the lower end of the housing market, where smaller builders often focus.

The most significant impediment to building more affordable housing is the availability and cost of land. There simply is not enough buildable land to meet the demand in many areas, and the costs associated with securing and developing the land that is available too often push builders' total costs above what they could get from the sale of an affordable property. The cost of land has soared to an estimated over half of the total price of the median-priced home nationwide and to more than two-thirds of the house price in high-opportunity areas such as Seattle and San Francisco.[7]

AMERICAN HOUSING ECONOMIC AND MOBILITY ACT

The American Housing Economic and Mobility Act provides just over $500 billion in federal support over the next decade to alleviate the shortage of affordable housing units (see Table 1). This is done through funds to incent localities to ease regulations and other building restrictions and provide down-payment assistance to lower-income first-time homebuyers living in low-income communities. Most significantly, the funds are to be used to scale up the Housing Trust

5 The National Association of Home Builder's Construction Cost Survey provides a good breakdown of the costs involved in building a typical single-family home.

6 This includes 1-4 family residential construction loans and land development loans from the FDIC.

7 We estimate land values and the land share of house prices across metropolitan areas based on data from the FHFA, CoreLogic, and the Engineering News Record. The FHFA land value methodology and estimates are available from "The Price of Residential Land for Counties, ZIP codes, and Census Tracts in the U.S." William Larson, Jessica Shui, Morris Davis and Stephen Oliner, FHFA Working Paper, November 2020.

Table 1: Economic Impact of American Housing and Economic Mobility Act of 2025

	Annual spending, $ bil			Additional affordable housing units			
	Housing Trust Fund	Capital Magnet	Total	Housing Trust Fund	Capital Magnet	Total	Additional jobs
2026	37.2	0.5	38.3	164,641	14,823	182,343	248,363
2027	43.1	1.1	44.8	186,962	32,665	222,447	302,349
2028	46.3	2.0	49.0	196,850	60,432	260,044	352,703
2029	47.9	3.6	52.2	199,722	104,554	306,984	418,133
2030	49.6	3.7	53.9	202,407	105,921	310,982	422,685
2031	51.2	3.8	55.7	204,909	107,194	314,705	426,841
2032	51.2	3.8	55.7	200,891	105,092	308,534	420,244
2033	51.2	3.8	55.7	196,952	103,031	302,484	411,135
2034	51.2	3.8	55.7	193,090	101,011	296,553	402,221
2035	51.2	3.8	55.7	189,304	99,030	290,738	394,335
2026-2035	480.0	30.0	516.5	1,935,726	833,752	2,795,813	

Note: Total includes the HTF, CMF, and various other smaller programs in the legislation.

Source: Moody's Analytics

Fund and Capital Magnet Fund. The plan is paid for by scaling back estate tax exemptions and other reforms.[8]

The HTF and CMF were established by the 2008 Housing Economic and Recovery Act, but funding began only a few years ago. Current combined funding is several hundred million dollars a year based on a fee charged on loans purchased by Fannie Mae and Freddie Mac. The HTF provides funds to state housing authorities for the development of affordable rental units. Housing authorities have flexibility in allocating these funds, since they have different objectives and goals based on the needs of the local population. The CMF provides funds to Community Development Financial Institutions and other non-profit developers for increasing the supply of affordable housing. CDFIs are mission-driven financial institutions that provide financing for development in underserved communities. The HTF and CMF have the flexibility necessary to significantly increase the supply of affordable housing in real estate markets encumbered by a range of complex and costly problems.

The American Housing and Economic Mobility Act is designed to be deficit neutral on a dynamic basis over the 10-year budget horizon. The costs of these affordable housing initiatives are paid by reforms to the estate tax, most importantly by rolling back estate tax exemptions to their 2009 levels.

HOUSING AND ECONOMIC IMPACT

The Moody's Analytics model of the U.S. economy is simulated to determine the impact of the expansion of the HTF and CTM in the American Housing and Economic Affordability Act on housing and the economy.

8 To be more precise, the American Housing and Economic Mobility Act of 2025 is deficit neutral over the 10-year budget horizon on a dynamic basis, which accounts for the benefit of the plan on the economy and thus on the government's finances.

Our simulation is based on several assumptions, including that the legislation becomes law later this year and is effective in calendar year 2026. We also assume there are no other fiscal policy changes other than what is in current law and that monetary policy is endogenously determined—the model is used to determine how the Federal Reserve manages short-term interest rates and its quantitative easing and tightening programs.

Another important assumption is that it will cost close to $230,000 to produce a typical affordable housing unit in 2026. This is consistent with the cost to produce a unit in a Low-Income Housing Tax Credit project. We expect that cost to increase at just over 2% per annum over the next decade, consistent with overall price inflation.

Given the magnitude of the increase in funding for the HTF and CMF, we assume it will take several years to get these programs up to full speed. Each will need some time to expand its infrastructure for evaluating uses of the increased funds and disbursing them effectively. The American Housing and Economic Mobility Act does not change current law as to how the HTF and CMF operate. Under current law, at least 70% of CMF funds must be used to support affordable housing projects, and no more than 10% of an affordable housing project's cost can come from the CMF. These and other rules under current law slow the disbursement of funds and are key to why it takes several years to ramp up production of affordable housing.

Under the legislation, our analysis shows that affordable housing construction increases by more than 180,000 units in 2026 and ramps up to 290,000 units annually by the end of the decade. Over the 10-year budget horizon through 2035, affordable housing production increases by more than 280,000 units per annum on average. This would more than fill the current shortfall in annual affordable housing construction and would largely quell the affordable housing crisis by the mid-2030s. The crisis should end even sooner if market forces continue to support more construction, which is likely if the American Housing and Economic Mobility Act eases regulatory restrictions on affordable homebuilding as anticipated.

Since the legislation significantly increases housing supply, it will have the added benefit of improving housing affordability, particularly for affordable rental homes. Without the legislation, rents are expected to increase approximately 4% per annum. With the legislation, rent growth will be near 3% per annum. A decade from now, affordable rents will be approximately 10% lower than they are today, or about $140 per month in today's dollars.

More housing construction will increase the economy's growth rate and the number of jobs as activity increases. In 2026, the increased housing construction will lift employment by nearly 250,000 jobs and by as much as 426,000 jobs at the peak of the impact by the early 2030s.

There is little impact on the economy and jobs from the scaling back of the estate tax exemptions and other reforms. The wealthy households that will pay more in estate taxes have substantial financial resources and will not significantly change their spending and saving behavior. Moreover, since the increased tax revenues pay for the expansion of the HTF and CMF and other programs, it ensures that the American Housing and Economic Mobility Act is deficit neutral, with no resulting impact on interest rates.

This simulation likely understates the economic benefit of the legislation, because it does not consider that the measure will facilitate the ability of low-income households to move closer to their employment or potential jobs. The housing shortage and erosion in affordability are constraining the ability of low-income households to take the record number of open job positions now available in places where housing is simply too expensive. Limited affordability is also forcing low-income workers to live farther away from their work, requiring long and costly commutes and reducing productivity.

CONCLUSIONS

A generation after the Global Financial Crisis and housing market crash, the nation's housing crisis continues to intensify. During the financial crisis, the problem was egregious mortgage lending and overbuilding. Today, the problem is a mounting lack of affordable housing. Low-income and minority households are struggling to make their rents and mortgage payments, suffering through increasingly long commutes, and unable to take better jobs because they cannot afford housing near the available work. The American Housing and Economic Mobility Act would help address these problems. It is fiscally responsible legislation that empowers programs already in place and shown effective in meeting the challenges of providing affordable housing to low-income households and underserved communities.

ABOUT THE AUTHOR

Mark Zandi is chief economist of Moody's Analytics, where he directs economic research. Moody's Analytics, a subsidiary of Moody's Corp., is a leading provider of economic research, data and analytical tools. Dr. Zandi is a cofounder of Economy.com, which Moody's purchased in 2005. Dr. Zandi is on the board of directors of MGIC, the largest private mortgage insurance company in the U.S., and is the lead director of PolicyMap, a data visualisation and analytics company, which is used by policymakers and commercial businesses. He is a trusted adviser to policymakers and an influential source of economic analysis for businesses, journalists and the public. Dr. Zandi frequently testifies before Congress and conducts regular briefings on the economy for corporate boards, trade associations, and policymakers at all levels. Dr. Zandi is the author of Paying the Price: Ending the Great Recession and Beginning a New American Century, which provides an assessment of the monetary and fiscal policy response to the Great Recession. His other book, Financial Shock: A 360º Look at the Subprime Mortgage Implosion, and How to Avoid the Next Financial Crisis, is described by The New York Times as the "clearest guide" to the financial crisis. Dr. Zandi is host of the Inside Economics podcast. Dr. Zandi earned his BS from the Wharton School at the University of Pennsylvania.

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Endnotes