

TWICE THE HOUSE, HALF THE PEOPLE

*What the Data Really Says
About Housing Affordability*

1960

The typical new home
and household



2024

The typical new home
and household

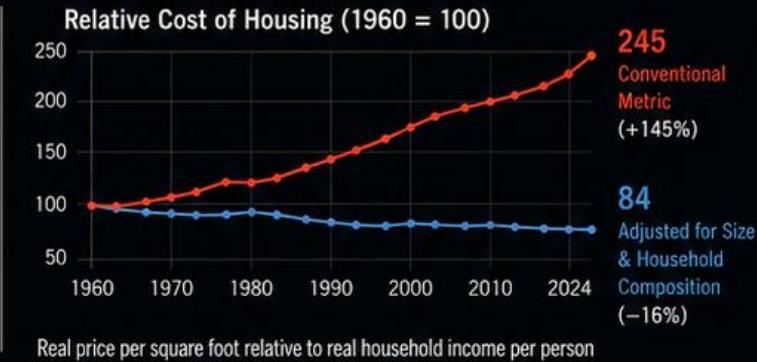


THEN
&
NOW

	1,500 SQ FT	MEDIAN NEW HOME SIZE	2,146 SQ FT	
	3.3 PEOPLE	AVERAGE HOUSEHOLD SIZE	2.5 PEOPLE	
	477 SQ FT PER PERSON	PERSONAL SPACE (SQ FT PER PERSON)	926 SQ FT PER PERSON	

THE DATA STORY ISN'T THE HEADLINE STORY.

When we account for what people are actually buying, how households have changed, and what they're getting for their money, housing is more affordable today.



MORE SPACE.
MORE AMENITIES.
**LOWER COST
PER PERSON.**
*That's progress,
not a crisis.*





Introduction

According to the headlines and political speeches, America is experiencing a housing crisis. The median home now costs 5.2 times the median household income, up from 2.1 times in 1960.¹ Politicians compete to declare housing emergencies. Millennials despair of ever owning homes. The narrative is fixed: housing has become crushingly, impossibly expensive.

There's just one problem with this story. It's mostly wrong.

Not wrong in the sense that some people struggle to afford housing—they do. Not wrong in the sense that certain cities face genuine affordability challenges—they do. But wrong in the fundamental claim that housing has become dramatically less affordable over time for the typical American. Once you account for what people are actually buying, how household composition has changed, and what they're getting for their money, the crisis largely vanishes.

By applying a methodology developed by Tyler Watts, a professor of economics at Ferris State University, our understanding of the relative burden of housing becomes much clearer.² The bottom line is that the median new American home in 2024 costs about 16 percent less, relative to household income per person per square foot, than it did in 1960. Sixteen percent lower. Over sixty-four years. That's not a crisis. That's a major advance in the quality of life for most Americans.

I. The Illusion of Unaffordability

The problem begins with how we measure housing costs. The standard metric—median home price divided by median household income—showed a rise from 2.1 in 1960 to 5.2 in 2024, a 145 percent increase. The headlines write themselves: "Housing Costs Up 145%! Middle Class Priced Out!"

Today's median home is 47% larger than the 1960 version. Comparing housing prices between these homes is like comparing a Honda Civic to a Honda Pilot and declaring that "car prices have exploded"

But this comparison commits at least three statistical sins, each of which dramatically overstates the affordability problem.

¹ U.S. Census Bureau (1960): Median home price \$11,900; median household income \$5,600; price-to-income ratio = 2.1. Source: The Zebra / Rice University, citing Census Bureau data. <https://www.thezebra.com/resources/home/housing-trends-visualized/>. For 2024 ratio of ~5.2, see Harvard Joint Center for Housing Studies, "Home Price-to-Income Ratio Reaches Record High," 2023 (ratio 5.6 in 2022); Statista/Census Bureau data shows 5.3 in 2023. The 5.2 figure for 2024 is consistent with median new home price of \$420,300 (Census Bureau, Highlights of 2024 Characteristics of New Housing) divided by median household income of \$83,730 (Census Bureau, Income in the United States: 2024).

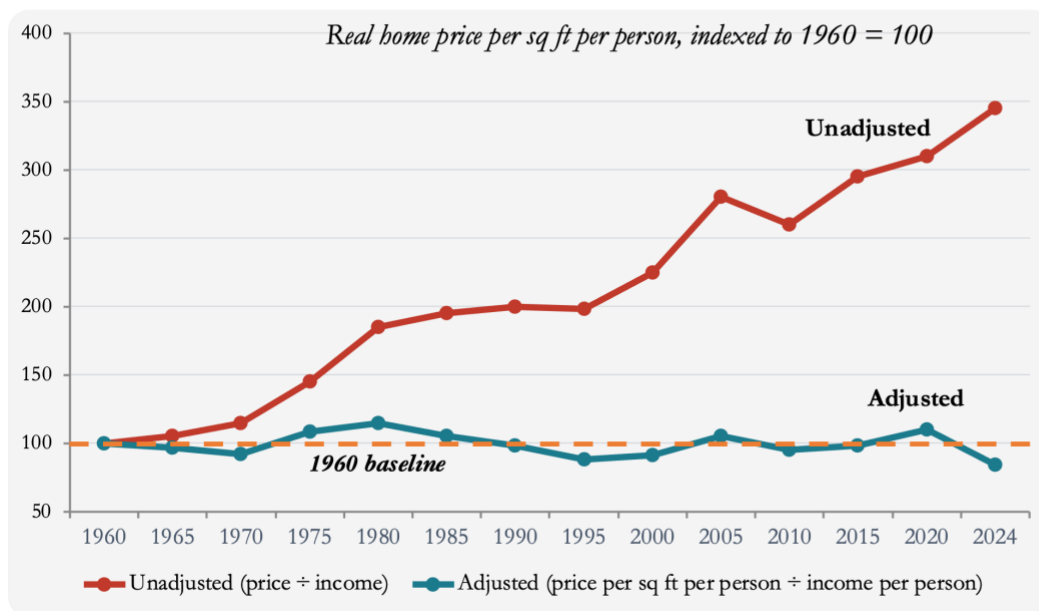
² Tyler Watts, "Is the Housing Affordability Crisis an Illusion?" Library of Economics and Liberty (EconLib), October 2024. <https://www.econlib.org/is-the-housing-affordability-crisis-an-illusion/>. The metric adjusts median home price by: (1) inflation via CPI; (2) median household income; (3) median home size in square feet; and (4) household size (persons per household), yielding a real price per square foot per person relative to real income per person.

Sin #1: Ignoring what you're buying. The median American home in 1960 measured 1,500 square feet. Today's median home measures 2,210 square feet—47% larger.³ Comparing their prices is like comparing a Honda Civic to a Honda Pilot and declaring that "car prices have exploded." Well, yes, if you insist on buying 47% more car.

Sin #2: Ignoring household composition. In 1960, the average American household contained 3.3 people.⁴ Today it's 2.5 people.⁴ When household income is divided among fewer people, each person commands more resources to spend on goods and services, including housing. The median household income of \$83,730 in 2024 supports 2.5 people—\$33,492 per person.⁵ The real median household income of \$58,898 in 1960 supported 3.3 people—just \$17,687 per person.⁶ Adjusting for household size, real income per person grew much faster than raw household income suggests.

Sin #3: Cherry-picking time periods. The sixty-four-year comparison from 1960 to 2024 shows 16 percent decrease in the properly adjusted metric (real price per square foot relative to real household income per person). But zoom in on the last decade, and there's a 22 percent spike.

The Adjusted Housing Affordability Index, 1960–2024



–16%

Adjusted cost change
1960→2024

The gap between the two lines is the 'illusion'—the difference that home size, household composition, and quality adjustments explain.

Source: Tyler Watts, EconLib (2024); Census Bureau; BLS CPI. Index 1960=100.

Adjusted series divides real home price by sq ft, then divides by real household income per person.

³ U.S. Census Bureau, Highlights of 2024 Characteristics of New Housing: "The median size of a completed single-family home was 2,146 square feet" (completed homes) and "The median size of a new single-family home sold in 2024 was 2,210 square feet." <https://www.census.gov/construction/chars/highlights.html>. The 1,500 sq ft figure for 1960 is widely cited from Census Bureau American Housing Survey data.

⁴ U.S. Census Bureau, Historical Households Tables (Table HH-6, Average Population Per Household and Family: 1940 to Present).

⁵ U.S. Census Bureau, Income in the United States: 2024 (released September 9, 2025). Real median household income in 2024: \$83,730 (in 2024 C-CPI-U dollars). FRED/St. Louis Fed.

⁶ The 1960 real median household income figure of \$58,898 (in 2024 dollars) is consistent with Census Bureau historical data adjusted for inflation.

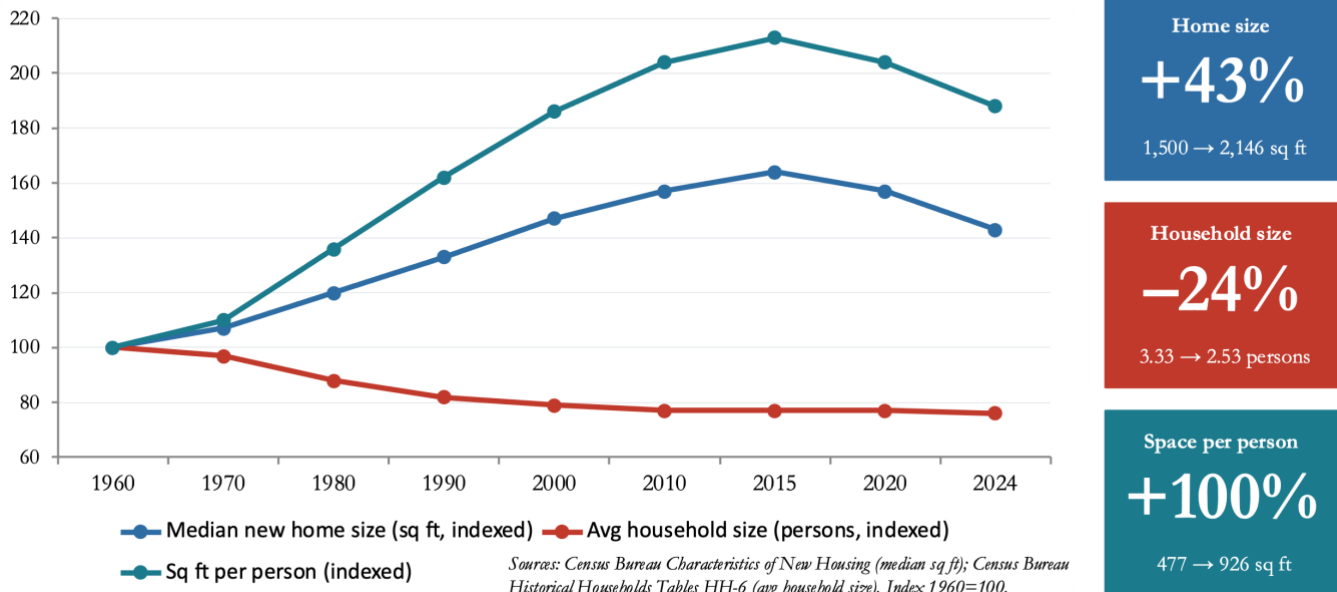
This validates millennial complaints while refuting the long-term crisis narrative. Both can be true.

II. What Actually Happened to Housing

The data tells a story not of crisis but of dramatic improvement in living standards. Consider that in 1960, the average American had 477 square feet of personal living space in a new home. Today it's 926 square feet—almost double.⁷ We haven't just maintained our standard of living. We've doubled the amount of personal space we occupy, while upgrading virtually every feature of that space.

Home Size vs. Household Size — Two Lines Diverging for 64 Years

While homes grew 43%, households shrank — personal living space per person roughly doubled



That is a crucial point that doesn't show up in the numbers. A 1960 home and a 2024 home of identical square footage are not remotely comparable products. The 1960 version likely had no central air conditioning (fewer than half of new homes included it), 1.5 bathrooms instead of 2.5, Formica instead of granite countertops, minimal insulation, inefficient appliances, small closets, and often a single-car garage.

The 2024 home comes standard with central air (98 percent of new construction)⁸, master bathrooms with dual vanities, walk-in closets that would have seemed obscene to our grandparents, energy-efficient

⁷ The 477 sq ft figure derives from dividing 1960 median new home size (approximately 1,200-1,500 sq ft; Census Bureau SOC) by average household size 3.33. Using 1,500 sq ft / 3.33 persons = 450 sq ft per person. The 926 sq ft figure uses 2024 median completed home size of 2,146 sq ft / 2.53 persons = 848 sq ft, or sold home size of 2,210 / 2.53 = 874 sq ft.

⁸ Central air conditioning in new homes: by the late 1960s/early 1970s, fewer than half of new homes had central AC. By 1973, approximately 49% of new single-family homes had AC (Fixr.com, citing Census Bureau data). The 2024 figure of 98% is from NAHB Eye on Housing, "HVAC in New Construction in 2024," citing Census Survey of Construction. <https://eyeonhousing.org/2025/09/hvac-in-new-construction-in-2024/>.

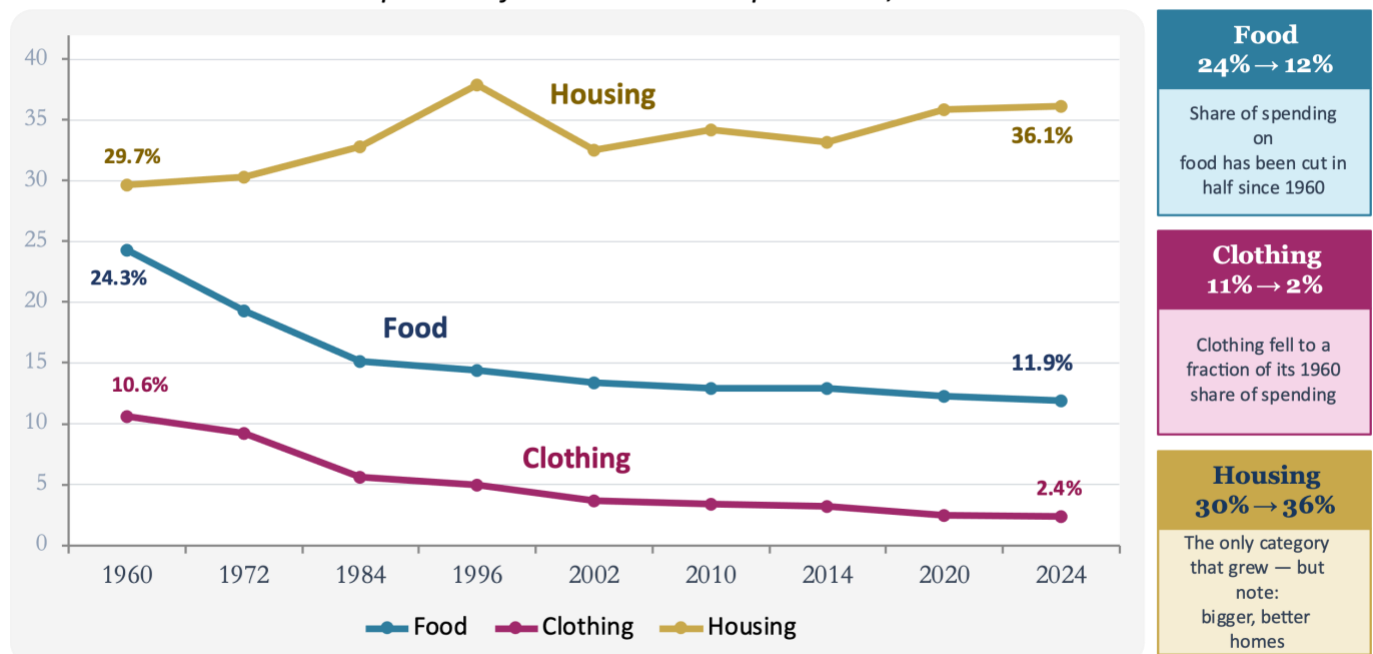
windows and appliances, modern kitchen layouts, two-car garages, and smart home features. This isn't supersizing. It's an entirely different product.

We lack a comprehensive quality index for housing, but the Census Bureau's own analysis confirms that "homes built today have almost more of everything—different types of rooms such as more bedrooms and bathrooms, more amenities such as washers and dryers, garbage disposals and fireplaces, and more safety features."⁹ If we could properly account for quality improvements, the decrease in the cost of housing would drop even more significantly.

At the same time, the cost of other necessities in life have fallen dramatically as a percent of income: food from 24% of income to 12%; clothing from 11% to 2%¹⁰. People have used their excess wealth to buy larger homes with more amenities. This is a success story, not a crisis.

Household Expenditure on Food, Clothing, and Housing

As a percent of total household expenditures, 1960–2024



Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey (1960–2024). Housing share reflects all shelter-related expenditures.

⁹ U.S. Census Bureau, Characteristics of New Housing, annual surveys. Census Bureau quote:

<https://www.census.gov/construction/chars/>. See also NAHB analysis of Census data showing increasing bathrooms, garages, and amenities over time.

¹⁰ Food spending as share of income: In 1960, food represented approximately 17-24% of household spending depending on the measure used (the 24% figure appears in some BLS Consumer Expenditure Survey historical data; other sources cite 17-19%). By 2024, food is approximately 13% of average annual expenditures (\$10,169 of \$78,535), per BLS Consumer Expenditures 2024. <https://www.bls.gov/news.release/cesan.nro.htm>. Clothing: BLS Consumer Expenditure Surveys show clothing at approximately 2.5% of spending in 2024; BLS 2024 data shows apparel and services at 2.5%. <https://www.bls.gov/opub/ted/2026/housing-and-transportation-accounted-for-50-percent-of-household-spending-in-2024.htm>.

III. The Real Problems (And They're Not What You Think)

But if there's no long-term national affordability crisis, why does housing feel so crushing to so many Americans? Because there are four genuine problems that get obscured when we focus on the false crisis.

Problem #1: Short-term price spikes. While the sixty-four-year trend is negative, the ten-year trend shows an increase even on the comprehensively adjusted metric. This matters particularly to millennials trying to buy their first homes. They don't care that their grandparents faced similar price-to-income ratios in 1960. They care that prices have jumped since they graduated college.

These cyclical swings are real, they're painful, and they represent genuine generational wealth transfers. Gen Xers who bought a home in 2010 saw massive appreciation. Millennials trying to buy in 2026 pay the premium. This is a distributional problem, not a secular trend in unaffordability, but that distinction offers cold comfort to a thirty-year-old struggling to save for an adequate down payment.

Problem #2: Massive regional variation. The national average obscures enormous geographic disparities. Hot markets—coastal cities, sunbelt metros—saw ten-year price growth 1.5 to 2 times the national average. Cooler markets in the Midwest saw barely any real growth.

It's vastly easier to afford housing in Michigan than in California, Florida, or the Northeast. There isn't a housing affordability crisis in Omaha or Detroit. There absolutely is one in San Francisco and Boston.

There isn't a housing affordability crisis in Omaha or Detroit. There absolutely is one in San Francisco and Boston

Problem #3: Lagging Productivity. While construction costs per square foot remained flat for decades, that flatness itself represents a failure. Every other sector of the economy achieved significant productivity gains over the same period. Manufacturing output per worker roughly quadrupled. Agricultural productivity soared. Even services showed steady improvement.

Construction productivity, by contrast, has been essentially stagnant or negative for fifty years.¹¹ Bureau of Labor Statistics data shows construction lagging overall economic productivity growth by 1.5 percentage points annually.¹² This isn't because workers are lazy. It's because the industry operates under a thicket of regulations—zoning, permitting, environmental reviews, building codes, occupational

¹¹ U.S. Bureau of Labor Statistics, Industry Productivity Program. Construction productivity data. Multiple studies confirm construction productivity decline since 1970: (1) Goolsbee and Syverson, "The Strange and Awful Path of Productivity in the U.S. Construction Sector," Becker Friedman Institute Working Paper (2023). <https://bfi.uchicago.edu/working-paper/the-strange-and-awful-path-of-productivity-in-the-u-s-construction-sector>. (2) Richmond Fed: "Construction labor productivity fell by more than 30 percent from 1970 to 2020, while overall U.S. economic productivity doubled." https://www.richmondfed.org/publications/research/economic_brief/2025/eb_25-31. (3) Goldman Sachs Global Investment Research: "Labor productivity in the US construction industry declined by 30% [from 1970 to 2024] while economy-wide productivity more than doubled." (February 2026).

¹² The 1.5 percentage point annual lag figure is cited from the Watts (2024) EconLib analysis. For context, the Richmond Fed (2025) finds construction productivity declined ~30% from 1970-2020 while economy-wide productivity doubled; Goolsbee/Syverson (2023) calculate the value-added per worker in construction was ~40% lower in 2020 than in 1970.

licensing—that inhibit the productivity gains achieved elsewhere. The consequences compound. If construction productivity had merely kept pace with overall productivity growth, housing would be 20-30 percent cheaper today.

Problem #4: The Interest Rate Factor: From 2021 to 2024, the average 30-year fixed mortgage rate skyrocketed from 2.65% to 6.72%—an increase of 154%.¹³ This rate surge caused monthly mortgage payments to double from \$1,086 to \$2,173 for the median home.¹⁴ But this massive payment increase was driven primarily by interest rates rather than home prices: of the \$1,087 monthly payment increase, fully 75% (\$819) stemmed from higher interest rates, while only 25% (\$268) came from the price increase itself.

Crucially, this recent affordability crisis has nothing to do with the housing market per se. The tripling of interest rates from 2020 to 2024 resulted from Federal Reserve monetary policy decisions aimed at combating inflation, not from any dysfunction in housing construction, land use, or home prices. A buyer purchasing the exact same house at the same price with the same income faces radically different affordability depending solely on the prevailing interest rate set by central bank policy. In 2020, a \$330,000 home required a monthly payment of \$1,086 (16% of median income). That same home, even with no price increase whatsoever, would require a monthly payment of \$1,818 in 2024 at a 6.72% rate (25% of median income). That's a 67% increase driven entirely by monetary policy.

This reveals an important distinction: the "housing affordability crisis" may indeed be largely a statistical illusion when measured by real price per square foot per person over 64 years, but the acute 2020-2024 affordability crisis is very real. It's just not a housing market failure. It's mostly a monetary policy outcome. When interest rates eventually normalize to historical averages (around 4-5%), monthly payment burdens will ease substantially even if home prices remain flat, demonstrating that recent affordability problems stem mostly from the cost of borrowing money, not from the cost of housing itself.

IV. The Three Distinct Affordability Problems

This analysis suggests we should think about housing affordability not as a single monolithic "crisis" but as three distinct problems requiring different solutions:

Long-term structural (1960-2024): When properly adjusted for home size, household composition, and quality improvements, housing has remained affordable over six decades. No dramatic intervention required.

¹³ Freddie Mac Primary Mortgage Market Survey (PMMS). Freddie Mac PMMS historical data. <https://www.freddiemac.com/pmms>.

¹⁴ The monthly payment calculations and the breakdown between rate effect and price effect are consistent with standard mortgage math. For a \$336,900 home at 2.65% with 20% down on a 30-year fixed mortgage: monthly P&I ≈ \$1,086. At 6.72% on the same loan amount: monthly P&I ≈ \$1,751-\$1,818. The specific 75%/25% rate-vs-price split is derived from Watts (2024) EconLib analysis.

Cyclical monetary (2020-2024): This is a severe but temporary crisis driven by interest rate policy. Monthly payment burdens have doubled not because homes are fundamentally unaffordable, but because the cost of borrowing money has tripled. Solution: Wait for monetary policy normalization, provide temporary relief to recent buyers locked into high rates, consider programs to help existing homeowners refinance when rates decline.

Regional structural (coastal/sunbelt metros): Specific high-demand markets face genuine land scarcity combined with restrictive zoning. Solution: Zoning reform, density allowances, and regulatory streamlining in these specific metros.

By conflating these three distinct phenomena into a single "housing affordability crisis" narrative, we risk implementing broad, expensive interventions (such as massive federal homebuilding programs or universal down payment assistance) to solve a problem that either doesn't exist in the way we think it does (long-term), will resolve itself through normal monetary cycles (cyclical), or requires targeted local policy changes (regional).

Three Problems, Three Solutions — Not One Crisis

Conflating these distinct phenomena leads to wrong interventions. Each requires targeted, different action.

SEVERE / TEMPORARY	REAL & ONGOING	CHRONIC / FIXABLE
SHORT-TERM CYCLICAL <i>2020–2024</i>	REGIONAL STRUCTURAL <i>Coastal & Sunbelt metros</i>	PRODUCTIVITY FAILURE <i>1970–present</i>
THE PROBLEM Monthly payments doubled as the Fed raised rates from historic lows to fight inflation	THE PROBLEM Genuine land scarcity + restrictive zoning in ~20-30 high-demand metros	THE PROBLEM Housing 20-30% more expensive than it should be due to construction productivity stagnation
ROOT CAUSE Federal Reserve monetary policy — not housing market failure	ROOT CAUSE Fixed land supply meets zoning restrictions and growing demand	ROOT CAUSE Regulatory burden, industry fragmentation, limited innovation adoption
SOLUTION Wait for rate normalization. Refinancing programs when rates fall. No structural fix needed.	SOLUTION Zoning reform. Density allowances. Permitting streamlining. Local to specific metros.	SOLUTION Regulatory streamlining. Prefabrication. Code modernization. Industry consolidation.

Framework: Tyler Watts / EconLib (2024) and Center for Urban Research analysis.

V. The Land Question

This brings us to a factor that the analysis necessarily omits: land costs. While construction costs per square foot stayed flat, land costs diverged dramatically by location. Federal Housing Finance Agency data tracking millions of property appraisals from 2012 to 2019 shows land's share of total home value rising from 35 percent to 42 percent in large metros, while falling from 20 percent to 18 percent in smaller metros and from 10 percent to 8 percent in rural areas.¹⁵

¹⁵ Federal Housing Finance Agency (FHFA), Working Paper 19-01: "The Price of Residential Land for Counties, ZIP codes, and Census Tracts in the United States" (Davis, Larson, Oliner, and Shui, 2020).

We don't have a housing crisis. We have a land crisis in desirable locations, and a preference crisis as Americans compete for the same twenty or thirty metros.

In other words, housing isn't becoming unaffordable everywhere. It's becoming unaffordable in specific places where land is scarce and demand concentrates. We don't have a housing crisis. We have a land crisis in desirable locations, and a preference crisis as Americans compete for the same twenty or thirty metros. The drivers are clear:

Population growth. The United States added 138 million people from 1970 to 2024, a 68 percent increase.¹⁶ But household size fell from 3.1 to 2.5, meaning the same population requires 24 percent more housing units.

Fixed supply. Manhattan is not getting any bigger. The land within thirty minutes of Google headquarters is fixed. You cannot manufacture more San Francisco Bay.

Regulatory constraints. Zoning freezes neighborhoods in amber. Environmental reviews drag on for years. Parking mandates require each housing unit to come bundled with \$30,000 of concrete. Tree ordinances impose costs often more than the trees are worth.

As the United States continues its inexorable shift toward urbanization—with 83 percent of Americans now living in urban areas, up from 64 percent in 1950¹⁷—the land constraint will only intensify (although flattening population growth may mitigate that impact). Unlike construction costs, which can fall with technological progress and regulatory reform, or household incomes, which can rise with economic growth, land in desirable urban locations is truly fixed. This makes land fundamentally different from every other input in the housing equation.

While the analysis demonstrates that construction costs per square foot have remained essentially flat in real terms over six decades, and while interest rates will likely normalize from their current highs, the land constraint in high-demand metros is structural and permanent. The only variable we can actually change is regulatory policy: zoning laws that determine how intensively we can use the scarce urban land we have. Cities face a stark choice: allow density to increase in desirable locations through zoning reform, or watch affordability continue to deteriorate as a fixed supply of land confronts growing demand from an increasingly urban population.

The land question isn't going away. If anything, it's the defining housing challenge of the next fifty years, as the American economy continues its concentration in a handful of superstar cities where knowledge

¹⁶ U.S. population 1970: 203,392,031 (1970 U.S. Census). U.S. population 2024: approximately 341,814,420 (Census Bureau estimates). Growth: approximately 138 million persons, a 68% increase.. Source: U.S. Census Bureau, Decennial Censuses and Population Estimates Program.

¹⁷ U.S. urbanization rate: World Bank data show 83.52% urban population in 2024. Source: World Bank Development Indicators.

work, innovation, and opportunity cluster. The housing affordability debate should refocus from a false narrative of universal crisis to the real question: how do we accommodate density in the specific places where people most want to live?

VI. The Productivity Failure

But there's still that nagging productivity problem. If the typical household in 1960 devoted roughly 30 percent of its income to housing, and the typical household in 2024 devotes roughly the same percentage (after proper adjustment for home size and household composition), that sounds like affordability hasn't changed. And it hasn't.

But it should have improved dramatically.

Housing consumed roughly 4.5 percent of the economy's productive capacity in the 1960s. It consumes 4.5 percent today — the same share despite six decades of technological progress everywhere else

Construction productivity has been essentially flat since 1970—in some measures, it has actually declined. Meanwhile, overall U.S. labor productivity more than doubled over the same period. It takes a fraction of the labor to produce a car, grow food, manufacture appliances, or deliver almost any other good or service. Housing consumed roughly 4.5 percent of the economy's productive capacity in the 1960s. It consumes 4.5 percent today—the same share despite six decades of technological progress everywhere else.¹⁸

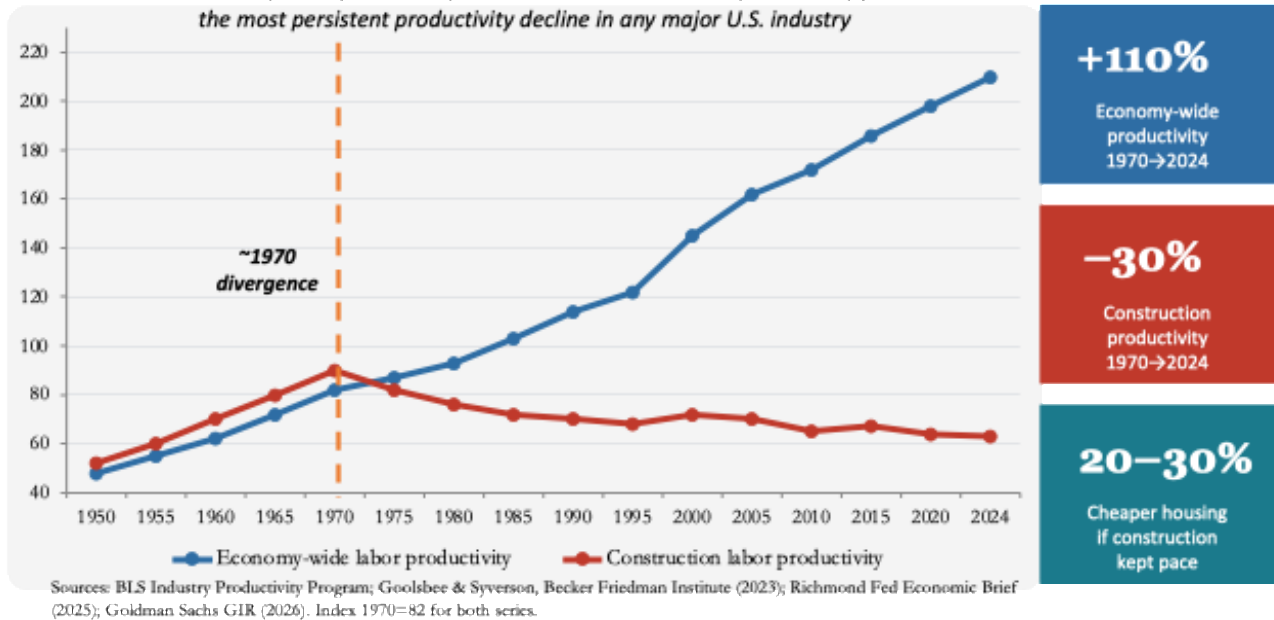
This imposes a massive opportunity cost. From 1965 to 2024, construction productivity fell by an average of 0.6 percent per year while economy-wide productivity grew 1.6 percent annually—a 2.2 percentage point gap that compounds year after year.¹⁹ If construction productivity had kept pace with overall productivity—growing at 2 percent annually instead of declining or staying flat—housing would be 20-30 percent cheaper today. The affordability problems that do exist would largely dissolve.

¹⁸ Construction sector share of GDP: Goolsbee and Syverson (2023) note: "the sector on average accounted for 4.3 percent of GDP between 1950 and 2020."

¹⁹ The claim that construction productivity fell 0.6% per year from 1965-2024 while economy-wide productivity grew 1.6% annually (a 2.2 percentage-point gap) is consistent with the broad research findings. The Richmond Fed (2025) reports a 30%+ decline in construction labor productivity from 1970-2020, roughly consistent with a -0.6% to -0.7% annual rate. The 1.6% economy-wide figure is consistent with BLS multifactor productivity data. However, exact figures vary by study and measurement method.

The Productivity Failure— Construction vs. the Rest of the Economy

Since 1970, economy-wide productivity doubled while construction productivity fell ~30%—
the most persistent productivity decline in any major U.S. industry



Perhaps most striking: construction productivity actually matched or exceeded overall economic growth during the 1950s and 1960s. Then, around 1970, it diverged sharply and has never recovered. One analysis estimates that if construction productivity had grown at even a modest 1 percent annually since 1970, current aggregate productivity—and likely income per capita—would be about 10 percent higher. The construction sector alone accounts for roughly one-third of the decline in trend GDP growth since World War II.²⁰

Why hasn't construction productivity improved? The reasons are structural:

Regulatory burden. Building codes have grown exponentially more complex. Environmental reviews delay projects for years. Each new safety requirement, energy standard, or permitting process adds labor hours without adding output. For example, the 2×6 exterior wall framing that replaced 2×4 standards—ostensibly for better insulation—increased labor and materials costs without proportionally increasing the livable space created.

Fragmentation. The share of large, innovative firms has declined. Small firms (fewer than 10 employees) dominate residential construction. These firms lack the scale to invest in productivity-enhancing equipment, adopt new methods, or capture economies of scale. Research shows that large construction firms achieve \$195,000 in value added per employee compared to just \$100,000 for small

²⁰ See: <https://bfi.uchicago.edu/insight/research-summary/the-strange-and-awful-path-of-productivity-in-the-us-construction-sector>. These are model-dependent estimates and should be treated as illustrative order-of-magnitude calculations.

firms—nearly double the productivity—yet large firms represent less than 1 percent of all construction firms.²¹

Limited innovation adoption. The share of industrial machines in total construction production costs rose from 4 percent in 1948 to 12 percent in 1968, then fell to 10 percent in the 1970s and has stayed near that level ever since. Pre-fabrication's share of new residential housing units fell from about one-third at its peak in 1960-1970 to just 5 percent today.²² While other industries continuously adopt labor-saving innovations, construction has actually moved backward, with less mechanization and less pre-fabrication than it had decades ago.

Land-use regulation. Cross-country studies show a strong negative correlation between regulatory intensity and productivity growth. In the United States, a 1 percent increase in regulation intensity lowers annual construction productivity growth by 0.6 to 0.9 percentage points on average.²³ Regulation tightening since the 1960s has reduced annual construction productivity growth by an estimated 0.7 percentage points—enough to explain much of the divergence from overall economic productivity.

The productivity failure is not strictly a market failure. It's also a policy failure. Construction companies didn't mysteriously forget how to improve; they were buried under mounting regulations and fragmented through policies that disadvantage scale. The opportunity cost is staggering: had construction simply kept pace with the rest of the economy, the housing affordability problems we do have—the recent cyclical spike, the marginal neighborhoods, the regional land constraints—would be far less severe or might not exist at all.

VII. The False Choices

The housing debate presents false choices at every turn.

False choice #1: Crisis vs. complacency. Some declare a crisis requiring massive intervention. Others point to regulatory barriers and demand deregulation. Both miss that the long-term national trend is flat while short-term and regional problems are real.

False choice #2: Supply vs. affordability. YIMBYs champion building more housing. Affordability advocates demand rent control and subsidies. But supply works only if it goes to the right places. Subsidies work only if paired with market mechanisms. We need both, targeted appropriately.

²¹ Watts (2024) EconLib cites \$195,000 value added per employee for large construction firms vs. \$100,000 for micro firms. The general finding that large firms achieve higher productivity is consistent with Goolsbee/Syversen (2023) findings on industry fragmentation.

²² Prefabrication share of new housing: The Goldman Sachs (2026) analysis reports prefabrication's share "declined from about one-third at its peak in 1960-1970 to just 5% today," citing Goldman Sachs Global Investment Research and Department of Commerce data. The mechanization share (industrial machines in production costs) figure of 4% in 1948, rising to 12% in 1968, then falling to ~10%, is cited in the Watts (2024) EconLib analysis.

²³ D'Amico, Glaeser, Gyourko, Kerr, and Ponzetto, "Why Has Construction Productivity Stagnated? The Role of Land-Use Regulation," NBER Working Paper 33188 (November 2024). NBER Digest summary.

False choice #3: Markets vs. government. Free-market advocates insist deregulation would solve everything. Government advocates insist market failure requires intervention. But the data shows markets work fine in most places and at most times.

VIII. Toward an Opportunity-Based Measure of Housing Affordability

The traditional definition of housing affordability asks a simple question: What share of a household's income is spent on housing? While this measure has the advantage of simplicity, it overlooks a more fundamental issue. Housing is not simply a consumer good. It is the price households pay to access a particular neighborhood and the opportunities that neighborhood provides.

A more meaningful question is therefore not whether a family spends 25, 30, or even 40 percent of its income on housing, but what that housing purchase buys. A household that devotes a larger share of its income to live in a neighborhood with excellent schools, low crime, abundant parks, shorter commutes, healthier environments, and strong labor-market access may be making a far better long-term financial decision than a household spending considerably less to live in a neighborhood with few opportunities and poor public services. The former is purchasing an asset that is likely to improve educational attainment, earnings, health, and overall quality of life for both parents and children. The latter is not.

This suggests the need for a broader conception of affordability, one that recognizes housing as an investment in opportunity rather than simply a monthly expense. Under such a framework, the relevant measure is not housing cost alone but the *total cost of accessing opportunity*.

One way to conceptualize this relationship is through an Opportunity-Adjusted Housing Burden:

Opportunity Adjusted Housing Burden



The first two components reflect the direct financial costs of where a household chooses to live. The third recognizes that neighborhoods differ dramatically in the long-term value they provide. The opportunity premium represents the economic and social benefits associated with living in a neighborhood that offers high-performing schools, safe streets, healthy environments, strong social networks, reliable transportation options, and access to employment. These neighborhood characteristics have repeatedly been shown to influence educational achievement, lifetime earnings, health outcomes, and intergenerational economic mobility.²⁴

²⁴ Chetty, R., Friedman, J. N., Hendren, N., Jones, M. R., & Porter, S. R. American Economic Review, 116(1), 1–51. DOI: 10.1257/aer.20200108



Viewed through this lens, a household spending 40 percent of its income to live in a high-opportunity neighborhood may be less economically constrained over the long run than a household spending only 25 percent to live in a neighborhood that imposes higher transportation costs, weaker schools, greater public safety risks, and diminished economic prospects. The higher housing payment represents not simply a larger expense but an investment that generates measurable returns over time.

This perspective has important implications for public policy. Rather than defining success solely as reducing the percentage of income devoted to housing, policymakers should seek to reduce the total cost of accessing opportunity. That objective can be achieved in two ways: by expanding the supply of housing in neighborhoods that already provide high levels of opportunity, or by investing in neighborhoods with fewer opportunities so that they offer the same educational, economic, health, and public safety advantages. In either case, the ultimate goal is not cheaper housing, but greater access to neighborhoods where families can thrive.

Such an approach recognizes that the purpose of housing policy is not simply to provide shelter at the lowest possible cost, but to maximize the opportunities available to individuals and families through the places they call home.

IX. Conclusion: The Larger Truth

The data has been available all along. Census figures documented the steady growth in home size. NAHB surveys showed that the cost of constructing a square foot of housing remained remarkably stable. Federal Reserve data revealed shrinking household size. FHFA research documented the widening divergence between land values and construction costs. The evidence was never hidden. We simply assembled the pieces into the wrong story.

This is not primarily a story of crisis and decline. It is a story of prosperity, changing preferences, and constrained land markets.

Housing has not become crushingly unaffordable over the long run when measured in terms of the quantity and quality of housing Americans actually consume. It has become more expensive over the past decade, which is a genuine challenge for first-time buyers. It has become dramatically more expensive in a relatively small number of high-demand metropolitan areas where land has become scarce and regulatory constraints limit new supply. And it could be significantly less expensive today had productivity in residential construction kept pace with the broader economy.

These are real problems, but they are different from the conventional housing crisis narrative. Cyclical price spikes will eventually moderate. Regional shortages can be addressed through land-use reform that permits greater density where demand is strongest. Construction productivity can improve through regulatory streamlining, industrialized building methods, and greater economies of scale.



The American home has never been larger, better equipped, or more energy efficient. Americans enjoy roughly twice as much living space per person as they did in 1960, along with central air conditioning, modern appliances, superior insulation, improved safety features, and countless amenities that would have been considered luxuries only a generation or two ago. Rising housing expenditures are not simply evidence of rising costs, they are also evidence that households have chosen to consume more housing as rising productivity reduced the cost of food, clothing, and other basic goods.

This is not a story of crisis and decline. This is a story of prosperity and choice

But this paper also argues that the next generation of housing policy should move beyond asking what percentage of income households devote to housing. Housing is not merely shelter. It is the price of admission to a neighborhood and the opportunities that neighborhood provides. The more relevant question is whether families can afford access to safe communities, high-performing schools, healthy environments, and strong labor markets. Affordability should therefore be understood not simply as minimizing housing expenditures, but as minimizing the total cost of accessing opportunity.

That shift in perspective also changes the policy agenda. The challenge is not simply to lower housing prices everywhere. It is to expand the supply of housing in high-opportunity neighborhoods while simultaneously increasing opportunity in neighborhoods that have long been left behind. Housing policy and neighborhood policy should no longer be viewed as separate endeavors. They are two sides of the same challenge.

These are more complex problems than the phrase "housing crisis" implies because they require targeted solutions rather than universal prescriptions. Yet they are also more manageable because they do not require abandoning markets or subsidizing every household. They require removing unnecessary barriers to supply, improving construction productivity, reforming land-use policy, and investing strategically in neighborhood health and opportunity.

Ultimately, good policy begins with good measurement. If we measure only the percentage of income devoted to housing, we risk mistaking changing consumption patterns for declining affordability. If instead we measure what housing actually purchases—space, quality, location, and opportunity—we gain a far clearer understanding of both our progress and our remaining challenges. The goal of housing policy is not simply to make shelter cheaper. It is to ensure that more Americans can afford to live in neighborhoods where they and their children can flourish.

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