Keeping Up With the Joneses

The Structural Forces Behind the Housing Crisis and Why We Must Overbuild to Restore Affordability

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NATION CELEBRATES V-E DAY

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"THE BOYS ARE COMING HOME!"

The war was over. In August 1945, the United States erupted in celebration. Newspaper headlines across the country echoed a collective cultural rallying cry: *"The boys are coming home!"* With over 16 million Americans having served in World War II, the end of the conflict unleashed a tidal wave of pent-up domestic energy and aspiration. Millions of servicemen and women began returning from the largest military mobilization in U.S. history, ready to restart their lives. Their homecoming didn't just mark the end of war, it ignited the greatest housing boom the nation had ever seen.

Fast forward to today. The housing market in the United States has undergone profound transformations over the past century, shaped by economic cycles, government policies and shifting social dynamics. **Today, the country faces a housing shortage of approximately 3.5 million homes helping drive a significant affordability issue.**[1] This crisis stems from a combination of underbuilding, financial upheavals and mismatched economic incentives. This paper begins at the end of WW II, not just with the return of the troops, but with the government's bold response to a housing crisis. To understand how we might overcome today's shortage, we must first look back. By understanding how we met yesterday's housing needs, we can begin to answer the question today: Can we do it again?

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The Last Time We Built Our Way Out

During the war, restrictions had virtually frozen residential construction for nearly four years. Materials were rationed. Labor was scarce. Housing starts plummeted from a prewar average of roughly 500,000 annually to just 142,000 in 1944.[2] By the time peace was declared, America faced a critical housing shortage.

[1] Freddie Mac. *Economic, Housing and Mortgage Market Outlook Spotlight: Housing Supply*. November 2024.
[2] U.S. Census Bureau, "Housing Starts per 1,000 Households, 1920–2008.

At the same time, Operation Magic Carpet was underway, bringing home more than eight million soldiers from 55 theaters of war across four continents at a staggering pace of 250,000 a day. Their return laid the demographic groundwork for the Baby Boom, which would begin just months later. These servicemen and women, many eager to marry, start families and build stable lives, came home to a market wholly unprepared for their arrival. Cities were overcrowded. Rents soared. Multiple families shared single rooms. With housing inventory already limited and a surge in births on the horizon, demand for new homes exploded. The nation had won the war abroad, but now faced a growing crisis at home.

In response, and with fears of another Great Depression and widespread economic instability similar to the aftereffects of the 1929 stock market crash, the federal government acted. Chief among these efforts was the Servicemen's Readjustment Act of 1944, commonly known as the GI Bill of Rights. This legislation offered returning veterans federally guaranteed home loans that required no down payment and featured low interest rates and long repayment periods. By 1955, 4.3 million home loans worth $33 billion had been granted to veterans, who were responsible for buying 20 percent of all new homes built after the war.[3] The GI Bill didn't just make homeownership possible, it transformed it into a middle-class norm.

> "The nation had won the war abroad, but now faced a growing crisis at home."

Simultaneously, the Federal Housing Administration (FHA), established a decade earlier by the National Housing Act of 1934 to stabilize the housing market during the Great Depression, played a pivotal role. The FHA insured long-term, fixed-rate mortgages issued by private lenders. After the war, it expanded access to home financing for nonveterans, standardizing underwriting criteria and construction norms that developers eagerly followed.

These two policies, combined with surging demand and the innovation of mass production techniques in homebuilding, unleashed a housing boom of unprecedented scale. Developers like William Levitt turned farmland into suburban communities almost overnight. Levittown, the postwar suburb built by Levitt in Long Island, New York, became the blueprint for mass-produced housing across America. With assembly-line efficiency, Levitt's company could construct as many as 30 homes a day. Each was modest, affordable and nearly identical. These neighborhoods offered not just shelter but the iconic lifestyle so often portrayed on shows like *"Leave It to Beaver"*– single-family homes with manicured lawns, driveways and space for a television and a backyard grill. In 1948, fewer than one percent of American households had a TV. By 1953, more than half did.[4] Widespread suburban homeownership was a reality. The American suburb was born, along with the consumer demand it inspired for washing machines, blenders, refrigerators, dining room tables, ovens and a car for the garage. By 1950, annual housing starts exceeded 1.9 million – more than double the prewar norm.[5] In just a few short years, the U.S. transitioned from scarcity to surplus, building not just homes but a new version of the American Dream.

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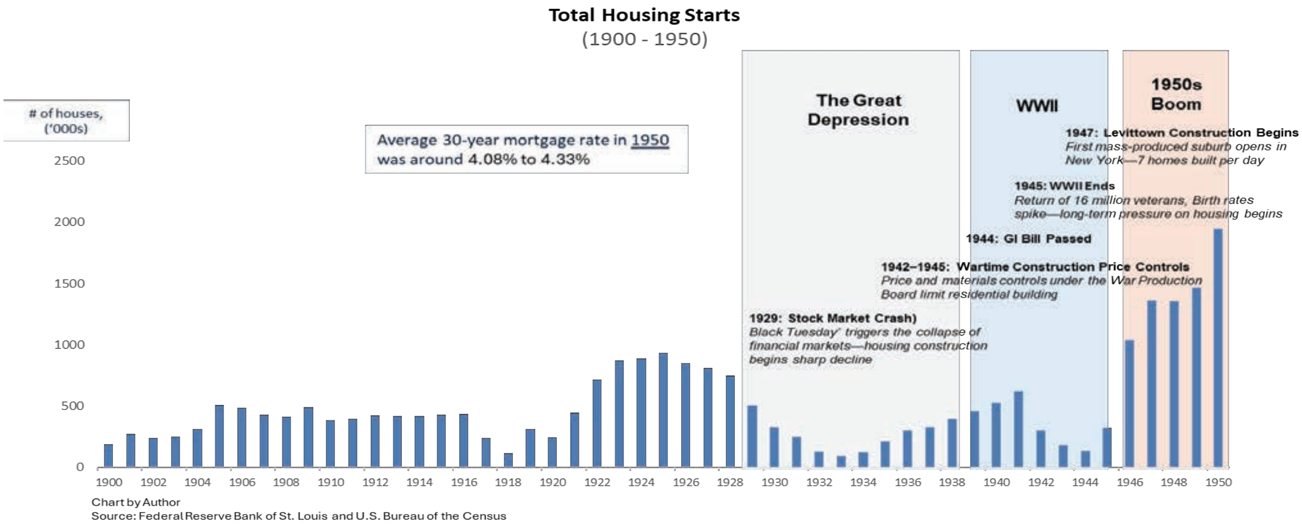
[3] U.S. Department of Defense. "75 Years of the GI Bill: How Transformative It's Been." January 9, 2019.
[4] *Media & Culture: Mass Communication in a Digital Age*, 10th ed., Macmillan Learning, Chapter 6.
[5] U.S. Census Bureau, "Housing Starts per 1,000 Households, 1920–2008."

Housing Starts from 1900 Into the Boom of the 1950s



In the decades following the postwar boom, the U.S. housing market cycled through periods of stability, inflation and retrenchment. The 1960s and 1970s saw strong but uneven building levels, supported by federal investment and suburban expansion. The 1980s and 1990s brought waves of deregulation and regional housing slumps, but overall production kept pace with household formation. By the early 2000s, however, easy credit, speculative investment and subprime lending pushed housing starts to unsustainable highs, peaking at more than two million in 2005.

Then came the crash. And everything changed.

When the Rafters Gave Way and Have Yet to Be Rebuilt

The Great Financial Crisis of 2008 was rooted in the housing market but fueled by a broader system of financial risk-taking. In the years leading up to the collapse, demand for higher-yield investments, combined with lax regulatory oversight, drove banks to issue increasingly risky loans known as subprime mortgages. These loans were bundled into mortgage-backed securities (MBS) and sold to investors around the world. In 2006 alone, $1.2 trillion in MBS were issued through private-label securitization, most of which carried no government guarantee and were heavily composed of subprime debt. For more, see the Stewart white paper *Trying to Unwind in a Dry Market: Has the Federal Reserve Painted Itself Into a Corner?* At the same time, federal housing policies, including Affordable Housing Goals set for Fannie Mae and Freddie Mac, created additional pressure to purchase low- and moderate-income loans. This fueled demand for riskier products and inflated housing prices even further. Eventually, home prices stopped rising – not because of a slowdown in need, but because they had become detached from economic fundamentals. Prices had been driven by speculative demand and easy credit, not wage growth or sustainable affordability. Millions of buyers, many with subprime or no-documentation loans, had entered the market not to live in homes, but to flip them. When interest rates rose and adjustable-rate mortgages reset in 2006, demand softened and investors began to retreat.

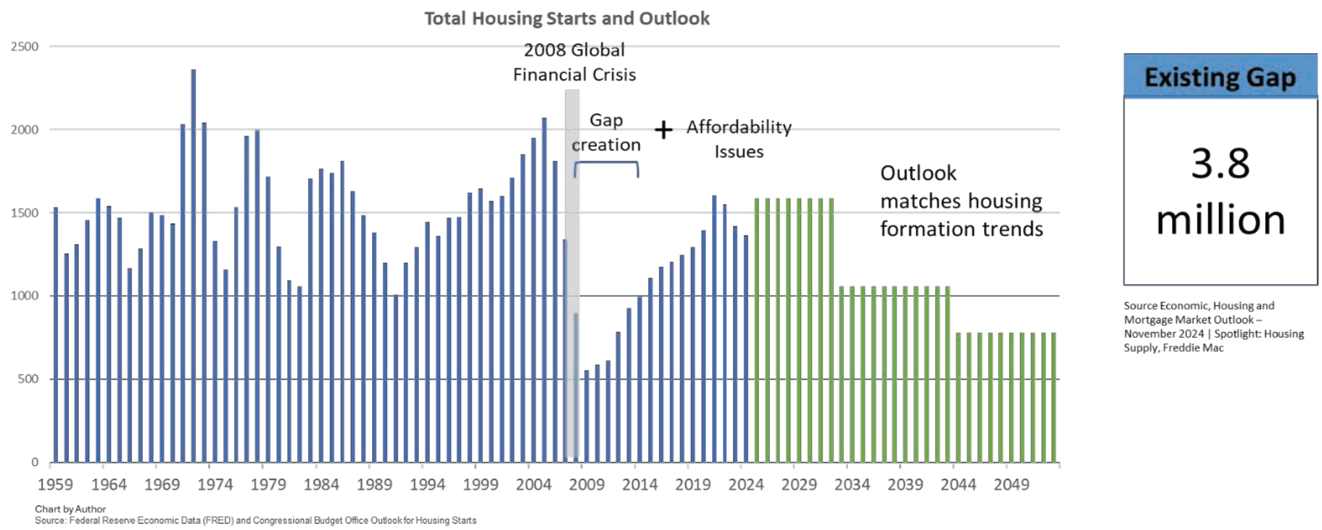
> "In 2006 alone, $1.2 trillion in MBS were issued through private-label securitization, most of which carried no government guarantee and were heavily composed of subprime debt."

With too much supply and too few qualified buyers, prices plateaued and then began to fall. As defaults surged and home values collapsed, the financial structure built on those mortgages unraveled. Credit markets froze. Major financial institutions failed. And the U.S. housing market, along with the global economy, plunged into the deepest recession since the 1930s.

As a result, following the 2008 financial crisis, U.S. homebuilding collapsed and never fully recovered. Housing starts fell from more than two million in 2005 to just 550,000 in 2009 **and remained well below historical norms for more than a decade**. From 2009 to 2019, housing starts averaged fewer than one million units per year, far below the 1.5 to two million new households formed annually.[6] Restrictive zoning, rising construction costs and labor shortages slowed production. As a result, builders increasingly focused on high-margin, luxury developments, leaving affordable and entry-level housing behind.

This imbalance between supply and demand quietly compounded over time. By the time demand surged in 2020 – fueled by a combination of ultra-low interest rates, pandemic-era lifestyle shifts and a wave of millennials entering the market – **the country had already accumulated a housing shortfall of approximately 3.8 million homes**.[7]

Housing Inventory Gap Creation: 2008 Global Financial Crisis and Building Slowdown



The current forecast for housing starts, according to the Congressional Budget Office, merely matches today's household formation rate of 1.5 million units per year. **To close the existing gap, we would need to overbuild well above that level for several consecutive years.** At present, there appears to be no large-scale effort to mass produce homes.

Exacerbating the shortage is the so-called "lock-in effect": homeowners' reluctance to sell due to the financial shock of giving up a low mortgage rate for a much higher one. This dynamic first emerged after the Global Financial Crisis, when the Federal Reserve kept interest rates near zero to stabilize the economy. It intensified dramatically during the COVID-19 pandemic, as mortgage rates fell to historic lows and millions of homeowners refinanced or bought homes with rates under three percent. As of early 2025, 73 percent of all outstanding mortgages have rates below five percent, and 21 percent are below three percent. While that's down from 86 percent in the spring of 2022, the vast majority of mortgage holders remain financially disincentivized to move, further tightening already limited housing inventory.

[6] Congressional Budget Office. "Projected Housing Starts and Household Formations." 2022.
[7] Freddie Mac. *Economic, Housing and Mortgage Market Outlook – November 2024: Spotlight on Housing Supply.*

The math on monthly mortgage costs makes it clear: moving from a four percent mortgage to a seven percent mortgage simply does not make financial sense. So instead of trading up, downsizing or relocating, homeowners are sitting tight. The result? Even fewer listings in an already underbuilt market. The looming question with the lock-in effect is whether life events, the so-called Four Ds: death, divorce, diapers and diamonds, will be enough to put more housing inventory on the market. Probably not, and certainly not enough to make any material dent in the 3.8 million housing inventory gap.

Put simply, the U.S. faces a structural shortfall: a 3.8 million home gap created by years of underbuilding, restrictive zoning, labor shortages, supply constraints and now a lock-in effect that keeps inventory stuck in place.

The "Lock-in Effect"

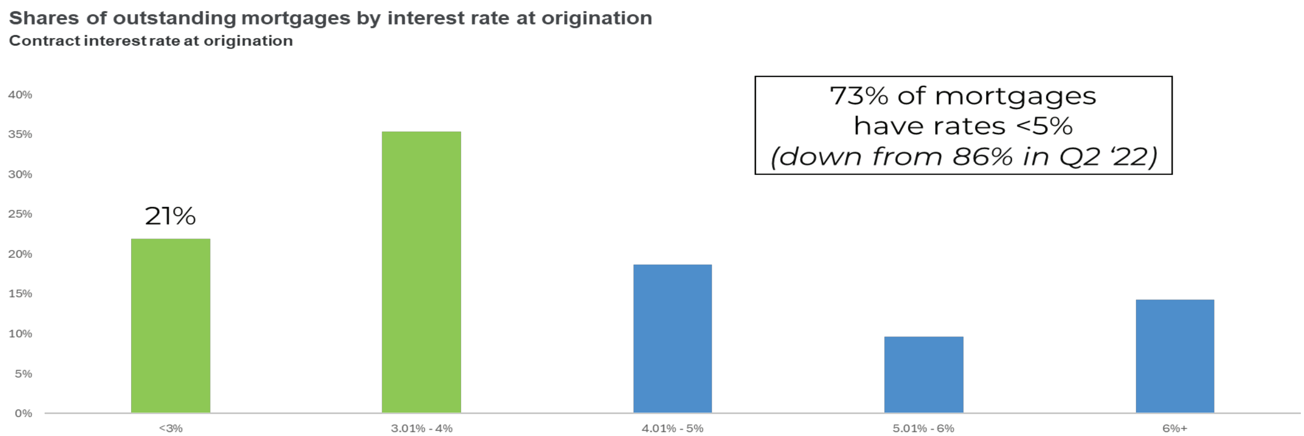


Chart by Author
Source: Freddie Mac; Economic, Housing and Mortgage Market Outlook

Priced Out: When Supply Fails, Affordability Falls

This inventory gap is driving home prices skyward at an alarming rate. Home prices have risen faster in the past few years than at any point in modern history, including the early 2000s housing boom. Since the start of the COVID-19 pandemic, the average U.S. home price has climbed from \$280,000 in early 2020 to today's \$414,000 as of April 2025,[8] which is a 48 percent increase.

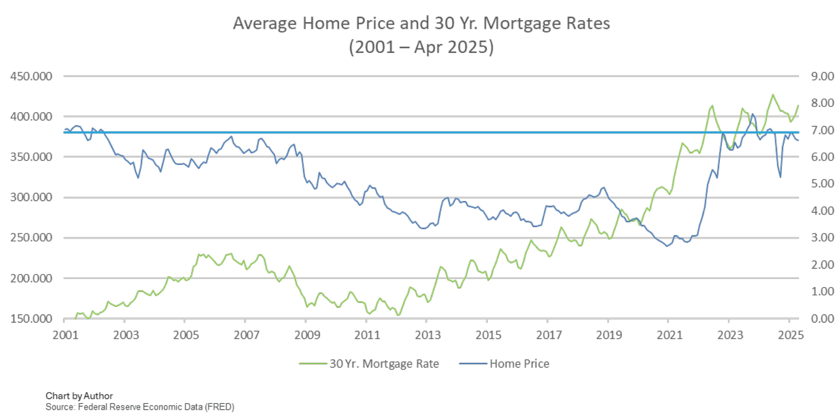
A perfect storm of COVID-era forces fueled the spike. When the pandemic hit, the Federal Reserve slashed interest rates, pushing 30-year mortgage rates below three percent, the lowest in history. That move sparked a massive surge in demand, especially from first-time buyers and remote workers fleeing cities in search of space. At the same time, construction slowed due to labor and material shortages. Many existing homeowners also chose to stay put, locking in historically low rates and contributing to what is now known as the lock-in effect. This imbalance intensified as institutional investors entered the market aggressively, further reducing available inventory and pushing prices even higher. In short, a flood of cheap credit and high demand collided with a historic housing shortage, and prices soared. While the rapid rise in interest rates has dampened transaction volume, they haven't pulled prices back.

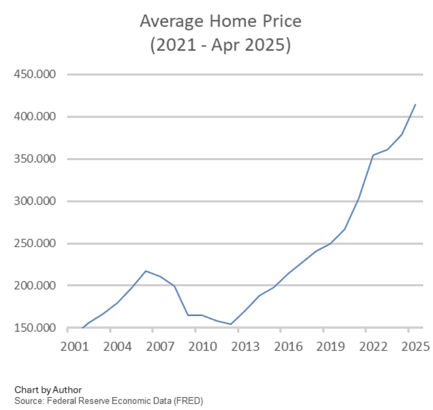
"In short, a flood of cheap credit and high demand collided with a historic housing shortage, and prices soared."

[8] National Association of Realtors. National Sales Price of Existing Homes. April 2025
[9] Freddie Mac. "Primary Mortgage Market Survey." May 2025

In fact, the current 30-year mortgage rate of 6.86 percent as of May 22, 2025,[9] is nearly identical to what it was in 2001, when it stood at 7.03 percent. But in that time, the median home price has surged from $141,000 to $414,000 – a 193 percent increase. In other words, while the cost of borrowing is roughly the same, buyers today must borrow nearly three times as much to purchase a typical home. That puts homeownership dramatically further out of reach for the average household. Interest rates are not driving elevated home prices. Affordability isn't just about rates – it's about the amount you have to borrow. And today, that number is far beyond what incomes have kept up with.

Average Home Price vs. 30-Year Mortgage Rates (2001–2025)





While home prices have nearly tripled since 2001, wage growth hasn't kept pace. In 2001, the median household income in the U.S. was approximately $42,000. Today, it's around $77,000 – roughly an 83 percent increase.[10] However, over that same period, the average home price has risen by more than 190 percent, and the cost to finance that home has surged. Today, the median sale price for a single-family home in the United States is $414,000, which is 5.5 times higher than the median household income of $75,000. That is the highest ratio on record, dating back to the early 1970s.[11] In 2001, a 30-year fixed-rate mortgage on a $141,000 home at seven percent resulted in a monthly principal and interest payment of roughly $940. In 2025, purchasing a $414,000 home at a similar interest rate requires a monthly payment of about $2,750, almost three times the cost, despite nearly identical borrowing terms.

The gap between what homes cost and what Americans earn has never been wider. Affordability is no longer just a regional issue or a byproduct of interest rates. It is a structural, nationwide challenge.

"The gap between what homes cost and what Americans earn has never been wider."

The Homeownership Affordability Monitor (HOAM) Index, published by the Federal Reserve Bank of Atlanta, measures whether a median-income household can afford a median-priced home in a given area. A score of 100 means a household earning the median income can just afford a median-priced home, based on a 30-year mortgage, a 20 percent down payment and monthly housing costs capped at 30 percent of income. A score above 100 indicates relative affordability. And a score below 100 means buyers would be cost-burdened. As of August 2024, the most recent HOAM Index reading stood at 72.9 – well below the affordability threshold of 100 and near levels last seen during the Global Financial Crisis. In practical terms, this means the median-income household can now afford just 73 percent of the cost of a median-priced home under standard financing terms. Millions of Americans are priced out of homeownership, regardless of creditworthiness.

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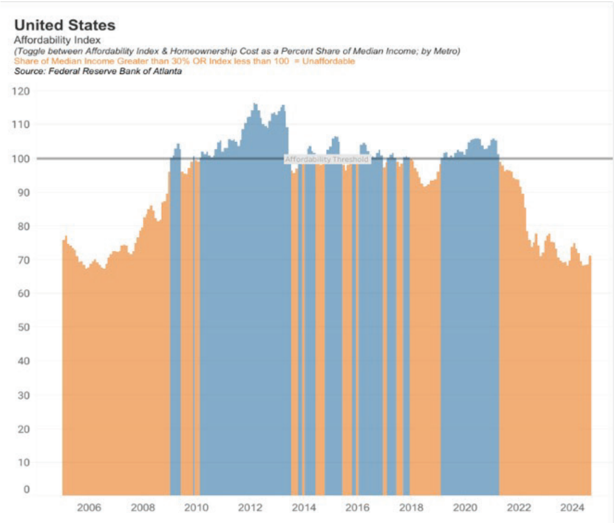
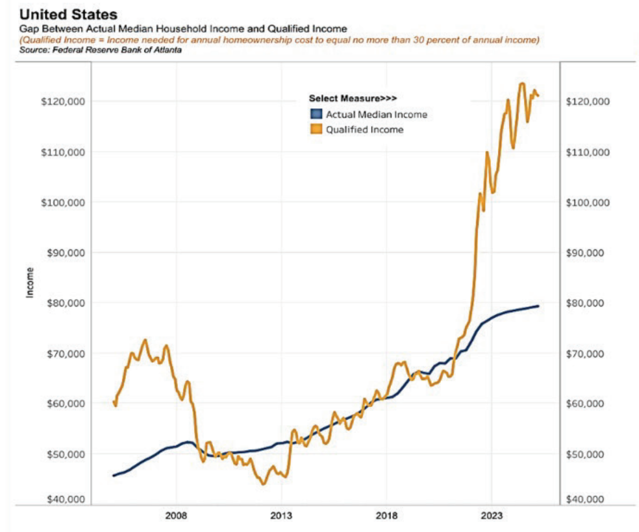
[10] U.S. Census Bureau. *Historical Income Tables: Households.*
[11] Joint Center for Housing Studies of Harvard University. *Home Price-to-Income Ratio Reaches Record High.* 2024.

Home ownership affordability



Source: Federal Reserve Bank of Atlanta



The problem becomes even more stark when comparing actual income to the income required to qualify for a home purchase. For most of the post–Global Financial Crisis era, the income required to stay within the standard affordability threshold, defined as spending no more than 30 percent of gross income on housing, remained below the national median household income. In other words, a typical household could afford a typical home.

That changed after the pandemic. Since 2022, the qualified income has surged and, as of as of August 2024, it stands at $119,640, which is 40.3 percent higher than the actual national median household income of $85,255.[12] This growing mismatch shows that millions of Americans are now priced out of the market, not because of creditworthiness or financial behavior, but because the math simply no longer works.[13]

While the scale of demand echoes the 1950s, the conditions today are fundamentally different. Land is more expensive. Labor is harder to find. Regulatory hurdles are steeper. And most importantly, there is no national housing strategy to meet the moment.

Why does all this matter?

Why should we need to overbuild housing to close the 3.8 million home gap? Why does affordability matter beyond the obvious human need for shelter?

Remember, the Federal Reserve has two mandates: sustainable employment and price stability, meaning low and stable inflation. Employment puts money in our pockets—purchasing power. Price stability ensures goods remain available and affordable. In essence, the Federal Reserve creates the conditions for consumption. We are a consumer society, a consumer republic. The Amazon truck has become the modern-day milkman, arriving each morning with fresh goods, right to the doorstep. To understand why this matters, we must circle back one last time to the postwar period.

> "The Amazon truck has become the modern-day milkman, arriving each morning with fresh goods, right to the doorstep."

[12] Federal Reserve Bank of Atlanta. *Introducing the Atlanta Fed's Home Ownership Affordability Monitor (HOAM) 2.0.* October 2024.
[13] Federal Reserve Bank of Atlanta. *Introducing the Atlanta Fed's Home Ownership Affordability Monitor (HOAM) 2.0.* October 2024.

From Keynes to Credit: How Policy Shapes the Mortgage Market

The rise of consumer capitalism in the United States was not an accident. It was a deliberate strategy, developed in response to the Great Depression and solidified during the postwar boom. After years of economic collapse and wartime austerity, policymakers and business leaders embraced a new economic order that emphasized not just production but mass consumption as the key to growth. Guided by Keynesian thinking, they believed that a healthy economy required a steady, large-scale flow of consumer spending to sustain demand, employment and national prosperity. In this vision, the American citizen was reimagined as a consumer whose purchases powered capitalism itself. As historian Lizabeth Cohen writes in A Consumer's Republic, "The good purchaser devoted to 'more, newer and better' was the good citizen." Consumerism became not just a byproduct of prosperity but a civic virtue, essential to economic stability and the American way of life.[14]

> "After years of economic collapse and wartime austerity, policymakers and business leaders embraced a new economic order that emphasized not just production but mass consumption as the key to growth."

During this period, companies thrived by investing in quality, innovation and worker well-being, believing that long-term success was rooted in stable employment, strong communities and durable goods. This model reinforced a form of capitalism in which corporate interests were aligned, at least in part, with national economic health and broad-based prosperity.

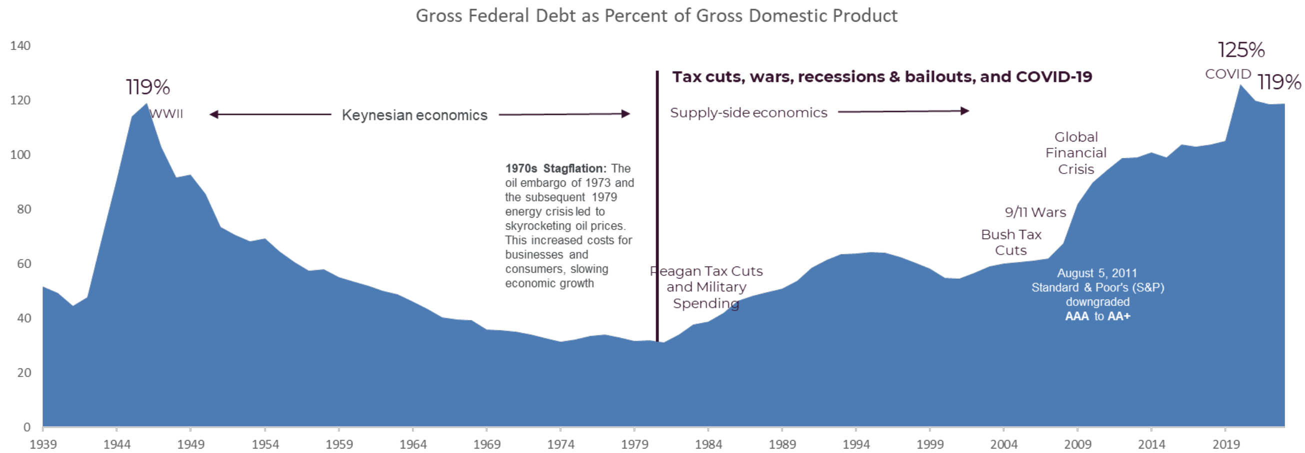
Out of this era emerged the foundational theory of a consumer-driven economy – one in which growth depended not just on what the nation produced, but on what its citizens consumed. This consumption-based model, rooted in Keynesian economics, defined mid-century policy. But in the early 1980s, a major shift occurred: the rise of supply-side economics. This approach emphasized tax cuts, shareholder value, and private capital as the path to growth, and is often associated with economist Milton Friedman. Over time, these policies helped fuel a new economic pattern – rising federal deficits and a growing national debt as a share of gross domestic product (GDP). This shift hasn't just reshaped fiscal policy. It has had a direct impact on the housing market. After declining throughout the mid-century Keynesian era, the national debt began climbing in the 1980s, driven by tax cuts and increased federal spending, aided by recessions, two wars and the global financial crisis. Today, the debt exceeds 120 percent of GDP. That level contributes to upward pressure on Treasury yields, and by extension, mortgage rates.

Higher deficits require ever-larger Treasury issuance – the government's way of financing its debts. An increased supply of bonds pushes bond prices down and drives yields up, including mortgage rates. As the national debt grows and borrowing costs rise, the cost of homeownership increases, further weakening affordability.

What began as a pivot in economic theory now echoes through the affordability crisis Americans face today. This broader economic evolution, from demand-side stimulus to supply-side priorities, has left its mark not just on fiscal balances, but on the long-term interest rates that shape whether Americans can afford a home.

[14] Lizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in Postwar America* (Alfred A. Knopf, 2003).

Rise of the National Debt Levels



But we must return to the question: Why does all this matter? Because a growing GDP has long been the promise of American prosperity, essential to national well-being. It drives job creation, raises living standards, expands opportunity and fuels the innovation that brings better products, smarter technologies and more choices into our daily lives. And at the heart of that growth is real estate.

Real estate is the single largest component of the U.S. GDP and a cornerstone of middle-class wealth. Housing isn't just shelter – it's the foundation of our consumer economy, the spark that ignites spending and the engine that drives everything from manufacturing to services. It accounts for nearly 17 percent of GDP on paper, but when you consider everything it sets in motion, the true number is far greater.[15] Because when someone buys a home, they also buy a blender, a refrigerator, a dining room table, an oven, a bed, pillows, a car for the garage, a ladder for the outside and a ladder for the inside – you get the point. In this economy, nothing fuels growth like homeownership.

"In this economy, nothing fuels growth like homeownership."

[15] U.S. Bureau of Economic Analysis. "Gross Domestic Product by Industry: Real Estate."

Real Estate as Percent of the National Gross Domestic Product

And growth, of course, is the engine of it all. For nearly a century, we've built an economic model on the belief that if GDP keeps growing, life keeps improving. It's a system that has worked, but one that asks for more each year: more energy, more labor, more resources, more consumption.

Which leads to a deeper question: Can growth go on forever? Can we keep expanding, year after year, or is the 3.8 million home gap a warning sign that we may have our limits? For GDP to grow, we need three things: resources, labor and consumption. We've certainly proven we can consume. We may continue to have labor. But will we always have the resources? Can human ingenuity and technology—AI, automation, innovation—outpace depletion, just as they have before? Can we imagine a new kind of Levittown, scaled to today's challenges, but driven by the same urgency and vision?

One would like to think yes – that we can keep building. Not just the economy, but the homes that make that economy matter.

Unless otherwise noted, economic and housing market data are drawn from public sources including the U.S. Census Bureau, Freddie Mac, the National Association of Realtors, the Federal Reserve, and the U.S. Bureau of Economic Analysis.