Discussion of:

America's Housing Affordability Crisis and the Decline of Housing Supply

by Edward Glaeser and Joseph Gyourko

Raven Molloy

Federal Reserve Board of Governors

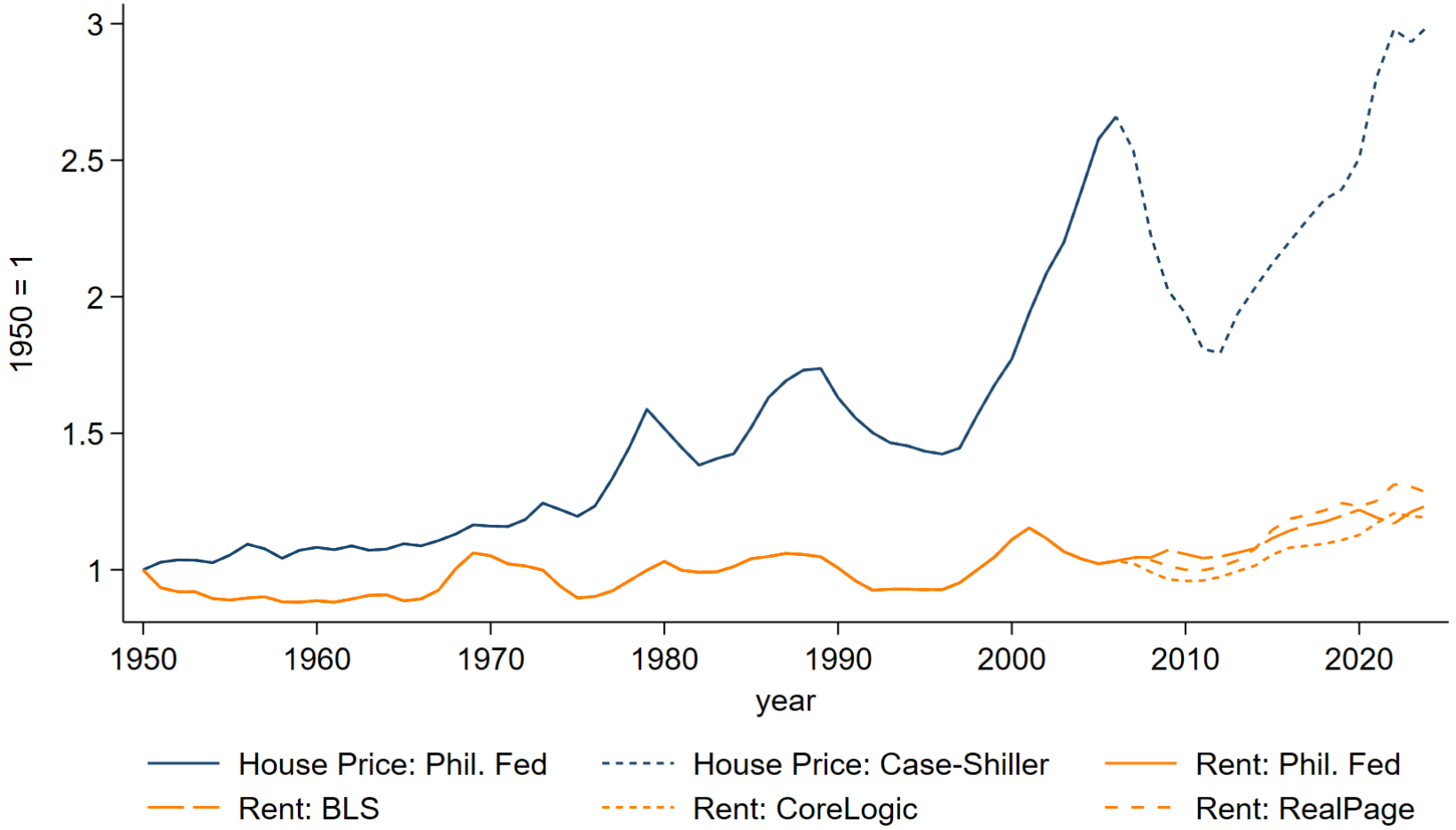
Key contributions

- The US housing market has changed since 2000:
  - Formerly fast-growing metro areas have slowed. The set of inelastic locations is no longer limited to a handful of cities, as in Glaeser and Gyourko (2003).
- Declines in supply elasticity are not because we are running out of land and cities are becoming denser.
- Theoretical point: over time, housing supply regulations adjust in response to changes in local demand. Therefore, these regulations will be correlated with local amenities, making them inappropriate instruments for house prices.

My single comment

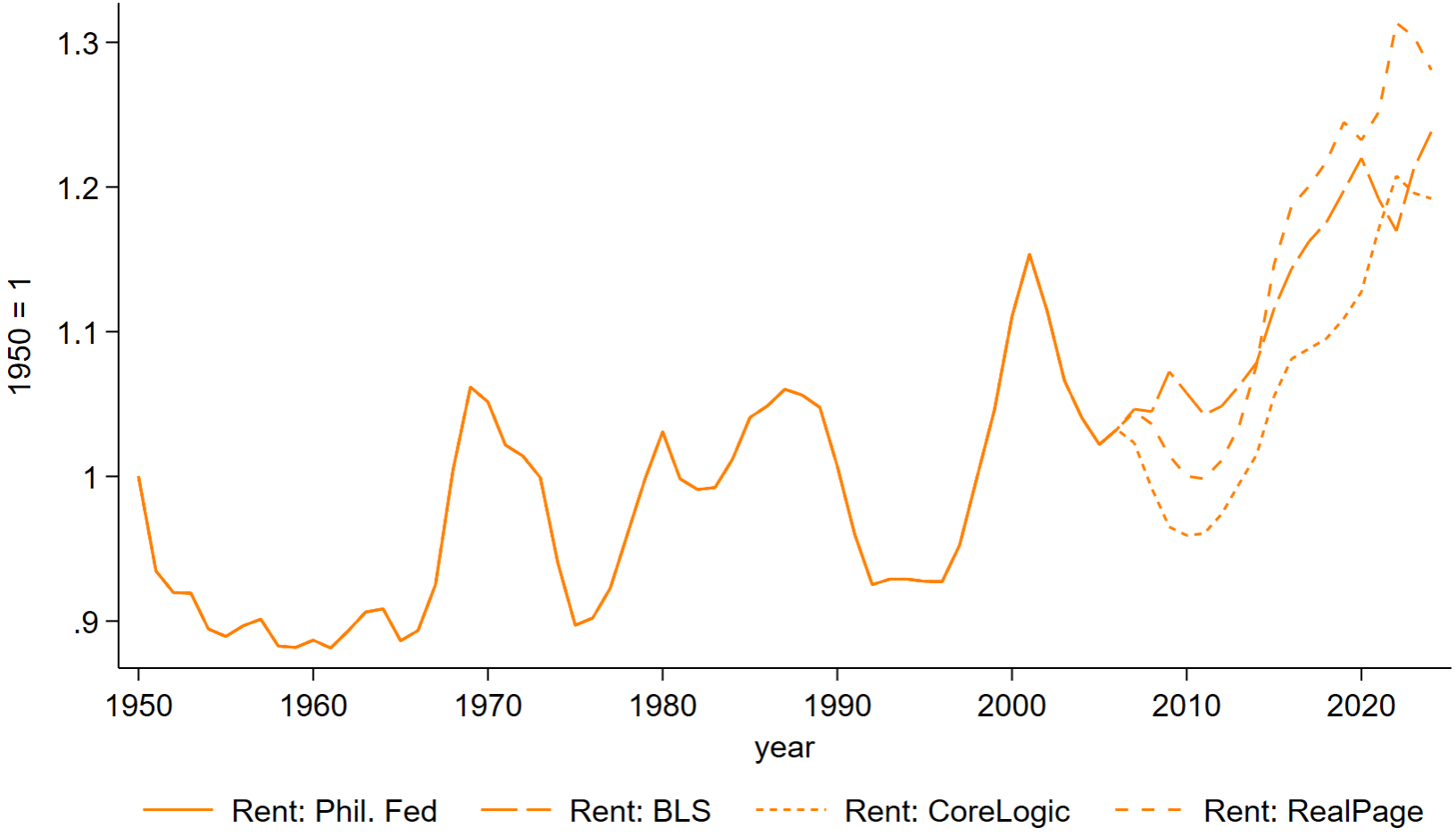
- Clarify what is meant by an “affordability crisis”
- Paper focuses on house prices, which reflect the cost to purchase a home
    - Many reasons why we should care about homeownership: wealth building, the security of living in one’s own property, access to neighborhoods with desirable amenities, etc.
- Alternate aspect of affordability: the price of shelter
    - Humans need shelter for survival. Shelter is a large fraction of family expenditures. Price of shelter is the housing component of inflation—house prices are irrelevant for US inflation.
- Is the US experiencing a crisis of shelter affordability?

Real constant-quality rents have risen by much less than house prices



Sources: Federal Reserve Bank of Philadelphia Historical Housing Prices Project 1950-2006 (Lyons, Shertzer, Gray and Agorastos 2024); Case-Shiller Repeat Sales Price Index; BLS Rent of Primary Residence; CoreLogic Single-Family Rent Index; RealPage

Although they have risen by about 30 percent since the 1960s



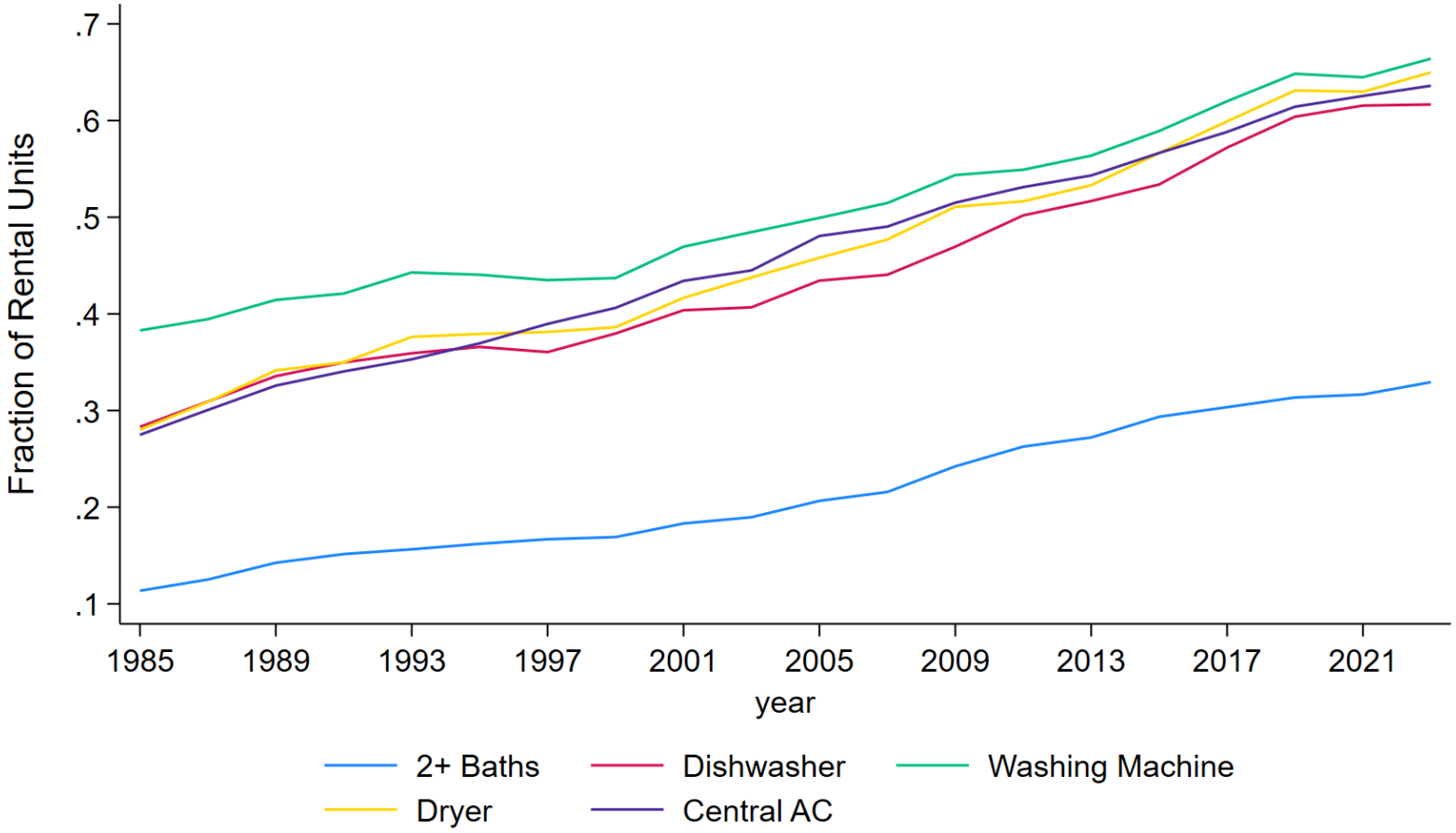
Sources: Federal Reserve Bank of Philadelphia Historical Housing Prices Project 1950-2006; BLS Rent of Primary Residence; CoreLogic Single-Family Rent Index; RealPage

Common measures of rent affordability have deteriorated considerably

	Median Rent/Income	Fraction of Renters Spending > 30% of Income on Rent
1950	0.17	0.20
1960	0.15	0.19
1970	0.15	0.21
1980	0.20	0.28
1990	0.21	0.31
2000	0.21	0.32
2010	0.25	0.41
2023	0.26	0.42

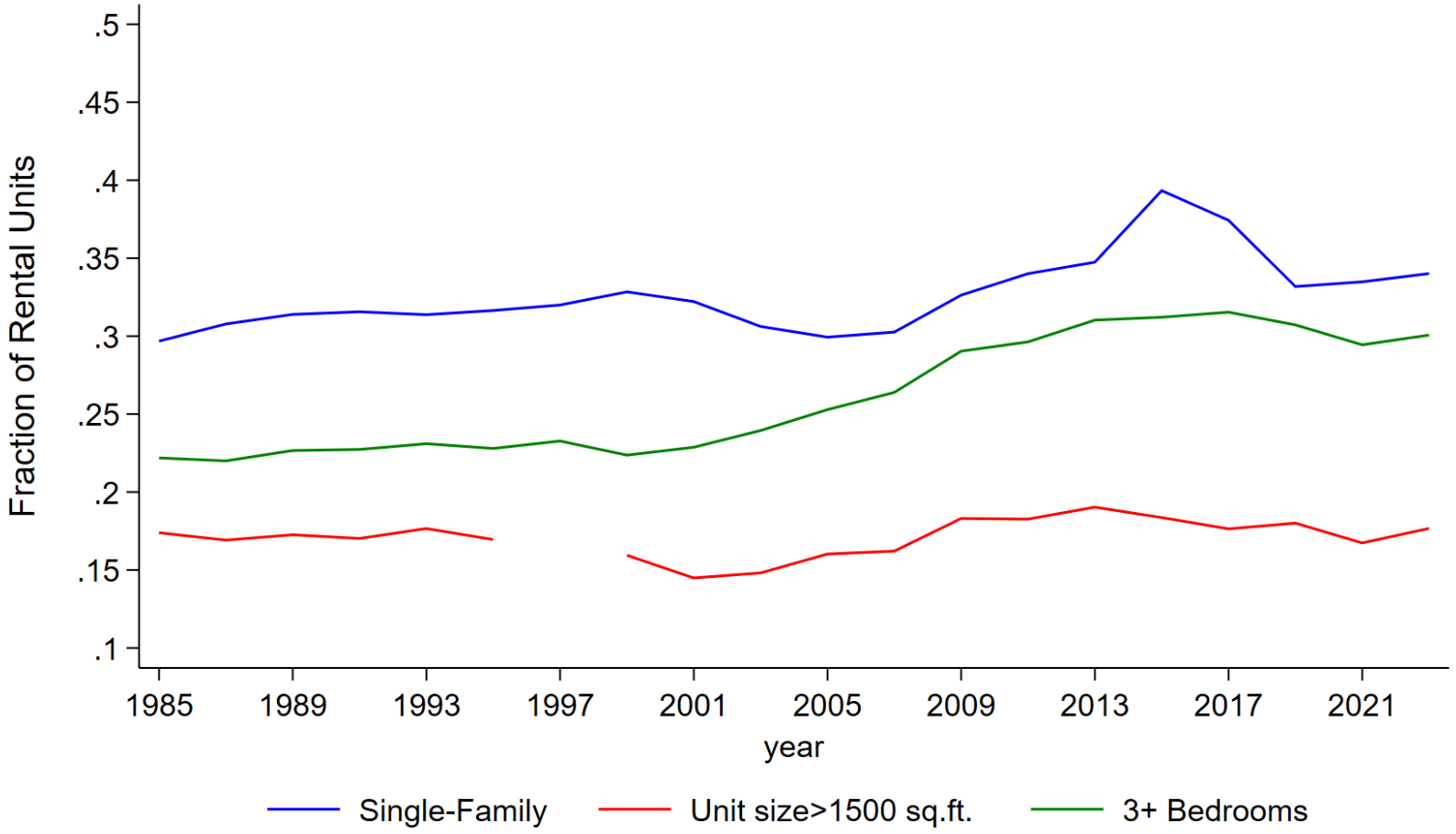
Sources: Decennial Census and American Community Survey through IPUMS;
1950 Census of Housing Report

Rental housing has become nicer…



Source: American Housing Survey National Surveys

…although not much larger



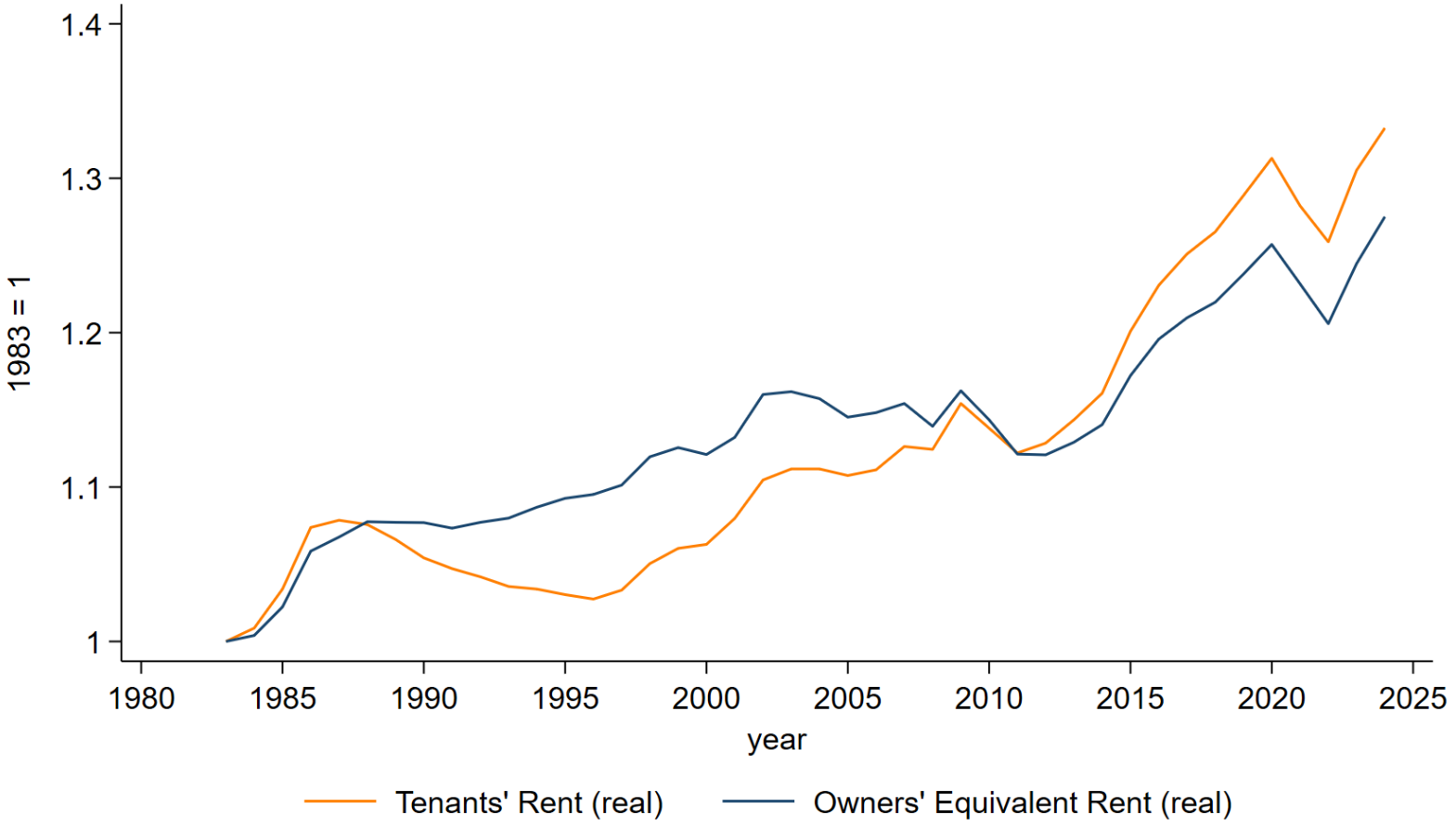
Source: American Housing Survey National Surveys

Controlling for housing quality, rent/income has not risen much since 1980

	Median Actual Rent / Income Ratio	Using Average Rent Growth and Average Family Income of Renters	Using Constant Quality Rent and Average Family Income of Renters
1980	0.20	0.20	0.20
1990	0.21	0.21	0.18
2000	0.21	0.21	0.17
2010	0.25	0.25	0.20
2023	0.26	0.26	0.19

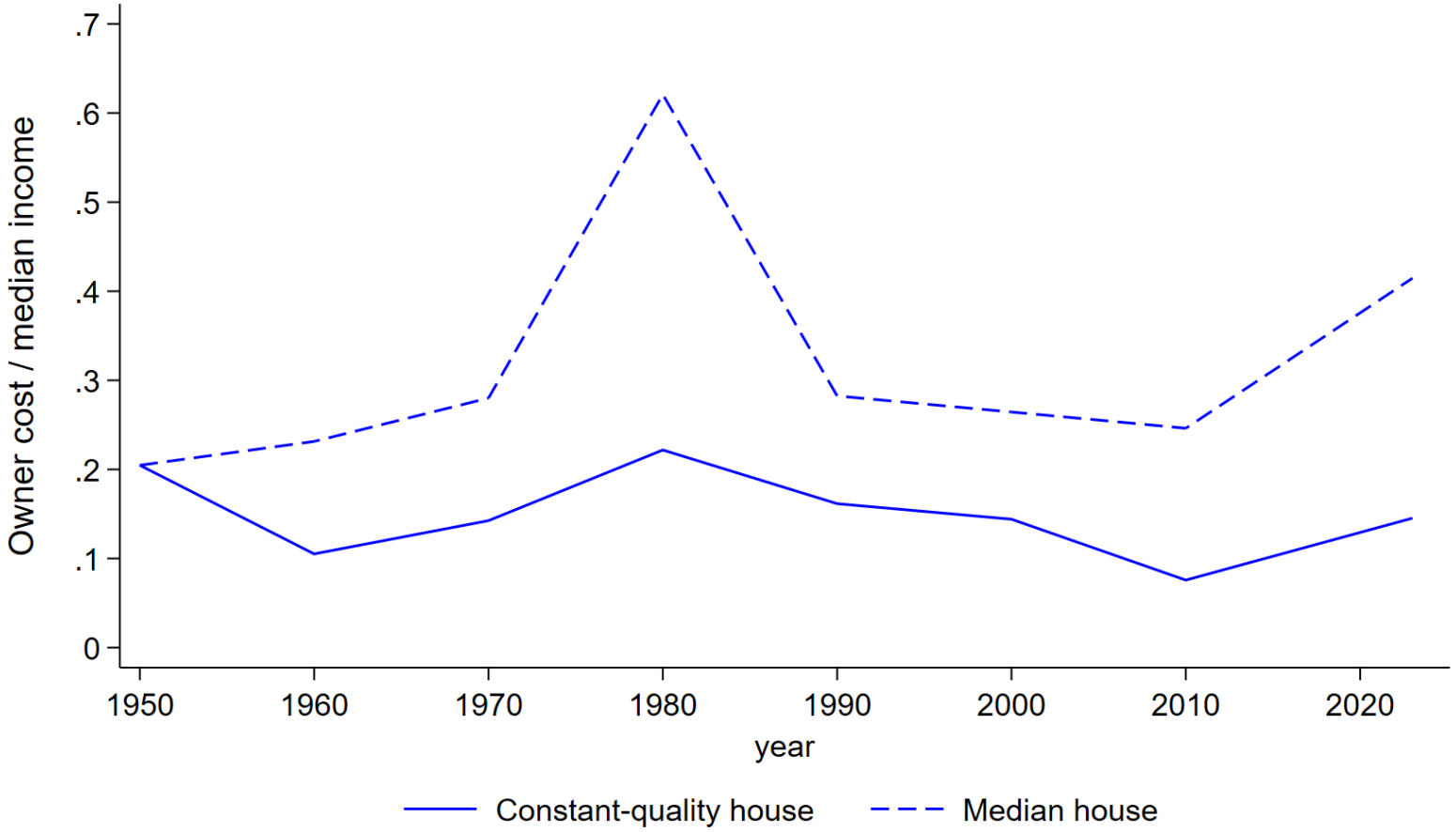
Sources: Decennial Census and American Community Survey through IPUMS;
BLS CPI for Rent of Primary Residence

Shelter prices for owner-occupants have risen at a slightly slower rate than for renters



Source: Bureau of Labor Statistics

Ownership costs of a constant-quality house have not risen relative to median income



Owner cost = mortgage rate*80% of house value + 1% maintenance + 1% property tax + homeowners insurance (1950-1960=0; 1970-2010=1%; 2023=2%)

Source: Federal Reserve Bank of Philadelphia Historical Housing Prices Project; Decennial Census and American Community Survey through IPUMS; 1950 Census of Housing Report; Freddie Mac Primary Mortgage Market Survey; Drehmann, Juselius and Quincy (2024)

A crisis of shelter affordability?

- The rise in shelter costs relative to income is due to changes in housing quality, not the quality-adjusted price of shelter.
- Supply constraints may be causing a shift in the types of homes built towards larger, higher quality homes.
- Future research should examine:
  - Reasons underlying the lack of lower-quality homes
  - Is the magnitude of the increase in the quality-adjusted price of shelter consistent with the large slowdown in the growth of housing supply?
  - Why the quality-adjusted price of housing has increased by so much more than the quality-adjusted price of shelter