March 2025

The Persistence of Post-Pandemic Shelter Inflation and the Housing Affordability Crisis

By Ira Regmi

Roosevelt Institute

About the Author

Ira Regmi is the program manager for the macroeconomic analysis team at the Roosevelt Institute. Their work has focused on inflation, corporate profiteering, and full employment. They have researched and reported on the gendered and racial dynamics of employment and the intersection of macroeconomic indicators and marginalized communities. Prior to working at Roosevelt, Regmi worked on corporate finance issues and international development. They hold a master's in international affairs from Columbia University and bachelor's degree in economics from Delhi University.

Acknowledgments

The author is grateful to Hannah Groch-Begley for her invaluable guidance and feedback on this paper. They also thank Stephen Nuñez and Michael Madowitz for their thoughtful comments and Paul Williams for graciously reviewing this brief. Additionally, Joseph Polatino and Brian McCabe provided crucial insights. Finally, they appreciate Aastha Uprety, Katherine De Chant, and Claire Greilich for their excellent editorial support and Suzanne Kahn for her review. Any errors, omissions, or other inaccuracies are the author's alone.

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Introduction

The United States faces a severe housing affordability crisis as a key component of post-pandemic inflation, with shelter costs now dominating overall price pressures. While other inflationary factors have eased, shelter inflation remains stubbornly high. Shelter costs play an outsized role in inflation measurements, making up roughly 36 percent of the consumer price index (CPI)—the largest share of any category. This reflects shelter's fundamental role in household budgets, consuming up to 40 percent of expenses in major metropolitan areas such as New York and San Francisco (DiNapoli and Jain 2024).

This paper examines shelter inflation's complex dynamics through a monetary policy lens, analyzing its distinct trajectory during and after the COVID-19 pandemic. Section 1 traces shelter inflation's post-pandemic path through three phases, showing how it began rising in March 2021, peaked later than overall inflation, and has declined more slowly than other sectors.

Section 2 investigates the gaps between different measures of shelter inflation, particularly the significant delay between CPI shelter measurements and actual market rents. This section explores how various indices track rental market changes and what these measurement differences mean for economic policy. Section 3 addresses key issues in the CPI shelter component, focusing on the challenges of measuring owners' equivalent rent (OER)—the amount owners estimate they could charge to rent out their current residence.

Section 4 analyzes how Federal Reserve interest rate decisions affect housing costs through multiple channels, examining both immediate and long-term effects on housing supply, construction starts, and rental markets. Section 5 documents the current housing affordability crisis, showing how rising homeownership costs have forced many Americans into renting, with rental units now constituting about 35 percent of total occupied housing (US Census Bureau 2023). Throughout, this paper illuminates how shelter inflation has evolved since the pandemic, its measurement challenges, and its broader implications for housing affordability and monetary policy.

1. The Trajectory of Shelter Inflation Since the COVID-19 Pandemic

The consumer price index (CPI) is an aggregate macroeconomic indicator that underpins Social Security cost-of-living adjustments, is utilized in financial contracts, and influences the personal consumption expenditures (PCE) price index, which guides the inflation objectives of the Federal Open Market Committee (FOMC) (US BLS 2011). Shelter inflation, especially rent inflation, has been a critical part of the broader inflation landscape after the COVID-19 pandemic. Shelter carries a substantial weight—about 36 percent—in influencing the overall consumer price index (US BLS 2024a). This is the largest weight assigned to any single category in the CPI, reflecting shelter's significant portion of average household expenditure: 34 percent[1] nationwide and about 40 percent in cities such as New York and San Francisco (DiNapoli and Jain 2024). Due to this high weight, even small fluctuations in shelter prices can significantly impact the aggregate CPI indicator. This impact became particularly evident after 2023, as shelter costs continued to dominate the aggregate CPI while other components subsided.

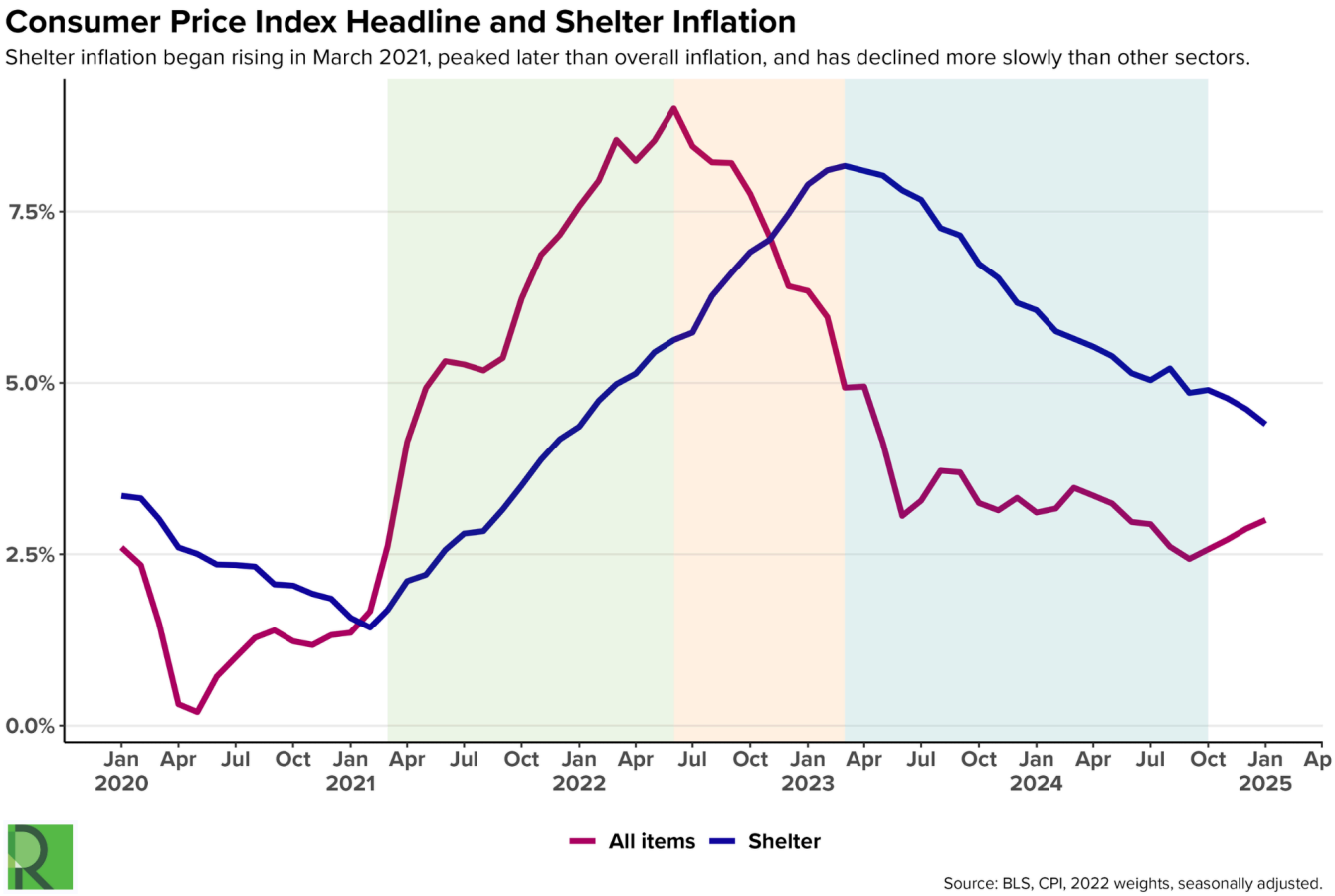
From January 2015 to January 2020, rental housing costs grew at an average annual rate of 3.7 percent. Since the pandemic, this average has increased to 5 percent as of September 2024. In June 2024, core CPI inflation was 3.3 percent, with shelter costs accounting for 2.3 percentage points—over two-thirds of the total. Had shelter inflation remained at pre-pandemic levels, core CPI inflation would be approximately 2.4 percent, about one percentage point lower (McKay and Mehrotra 2024).

The overall trajectory of shelter inflation in the post-pandemic period can be best described through three key moments. First, shelter inflation began rising in March 2021, lagging a few months behind the overall inflation rate but still well before the excessive inflation we witnessed later that year. Second, shelter inflation reached its peak much later than overall inflation, hitting 8.2 percent in March 2023 compared to the overall CPI inflation peak of 9.0 percent in June 2022. At that earlier point in June 2022, shelter inflation stood at 5.6 percent and was still climbing steadily. Third, shelter inflation decelerated more gradually than other sectors, which experienced faster adjustments. A year after its peak, shelter inflation had only slowed to 5.6 percent. For context, inflation in all items excluding shelter had plummeted from its June 2022 peak of 10.8 percent to a mere 0.7 percent by June 2023.

This brief breaks down the trajectory of shelter inflation in the aftermath of the COVID-19 pandemic into three different phases based on its independent trajectory as well as its movement relative to the overall aggregate inflation.

[1] The Department of Housing and Urban Development defines affordable housing as "housing on which the occupant is paying no more than 30 percent of gross income for housing costs, including utilities" (US HUD 2011).

Figure 1



The first leg of this trajectory (see Figure 1, shaded in green), the initial rise in shelter inflation coinciding with a rise in aggregate inflation, started in March 2021 and ended in June 2022, when overall inflation peaked. Inflation in shelter during this phase can mostly be explained by rapid changes in living preferences as a result of the COVID-19 pandemic. An increase in the rate of second-home ownership, as households experienced a collective preference for larger multifamily homes and location changes due to the pandemic (Anderson 2022), raised the demand for housing. In addition, migration from high-cost metro areas to lower-cost metro areas increased housing demand and therefore prices in these areas, especially in the Southern US, where the average cost of renting was lower than the national average (Williams 2022). While some of these pandemic-induced demand pattern changes have reverted to pre-pandemic trends, housing adjustments take time and create price shifts.

The second phase (see Figure 1, shaded in orange), where the aggregate inflation measure began to slow down but shelter inflation continued to rise rapidly, occurred between June 2022 and March 2023. By mid-2023, shelter inflation remained among the dominant drivers of the overall inflation rate, stubbornly refusing to fall at a pace similar to other components. While some primary drivers of inflation in 2022 adjusted

much faster, housing costs remained elevated. For instance, energy prices, which peaked at 41.6 percent inflation in June 2022, were already experiencing disinflation—or a fall in prices—by June 2023. Though energy prices are volatile and saw increases again, they reached a high of only 3.5 percent inflation in May 2024. Similarly, automobile prices (new and used vehicles), which fueled much of the inflation in 2022, also showed signs of disinflation a year after peaking at 23.7 percent inflation in February 2022. This phase stands out particularly in shelter inflation's relation to the trajectory of the overall inflation, reflecting the idea that supply shocks and sectoral forces rather than macroeconomic events were driving inflation.

Supply chain disruptions due to the COVID-19 pandemic and subsequent price gouging by large corporations were among the primary causes of the inflation, especially as the economy fluctuated rapidly between increased demands for goods in the early days and increased demand for services as the economy reopened in April 2021. The sudden appearance of strong supply shocks allowed corporations to maintain high prices and rake in record profits by artificially maintaining high prices (Weber and Wasner 2023; Weber et al. 2024). During the first half of 2021, vehicle prices accounted for almost the whole rise in inflation. For much of 2022, it was mostly energy prices. As we saw in Figure 1, shelter prices began to accelerate in February 2021, quickly surpassed pre-pandemic levels by October 2021, and continued to rise even as other pressures on overall inflation, such as those from supply chain issues and corporate profits, began to settle.

The third phase of the trajectory (see Figure 1, shaded in blue), where shelter inflation underwent a gradual decline, began in April 2023. Shelter inflation has not yet returned to pre-pandemic levels, though multiple studies indicate it will eventually; research suggests that CPI inflation will catch up with market rents, but predictions vary on the timing. Due to a market rent–shelter inflation gap of about 6 percent observed in March 2024, some studies predicted continued growth in CPI shelter inflation. Such a large divergence was expected to lead to a 1.6 percentage point increase in CPI shelter inflation over the next 12 months compared to a no-gap scenario, though the gap is expected to close quickly (Cotton 2024). Some researchers projected shelter inflation would return to pre-pandemic levels by the end of 2024 (Jordà and Yalcin 2024), and some forecast convergence between market rents (rents that adjust in real time or monthly) and contract rents (rents that adjust over a designated contract period) by the end of 2025 (McKay and Mehrotra 2024).

The delay in shelter inflation catching up to pre-pandemic levels and the divergence of contract rents from market rents stem from several factors. A primary issue is the mismatch between housing supply and demand. While this imbalance has persisted since the 2008 financial crisis, the gap between new household formation (a proxy for housing demand) and completed housing construction has increased rapidly since 2020 (Jordà and Yalcin 2024). The pace of shelter inflation's return to pre-pandemic levels depends heavily on current housing construction and completion timelines. Though

the construction sector responded to rising market rents—with the number of units under construction increasing by 35 percent from January to April 2022 (US Census Bureau 2022)—it remains unclear whether these projects will be completed on schedule or effectively close the supply-demand gap in areas where shelter inflation has been most elevated.

Another factor contributing to shelter inflation's prolonged run is the presence of significant measurement lags and delays. These measurement issues create a substantial gap between real-time market conditions and reported figures. The Bureau of Labor Statistics (BLS) methodology for collecting rental data involves sampling units on a semiannual basis, with only a portion of the total sample being updated each month. This sampling approach, while systematic, inevitably creates a delay between when rent changes occur in the market and when they are captured in the official statistics. Additionally, the practice of including both new and existing leases in the calculations compounds this lag effect, as existing leases typically change more slowly than market rates for new rentals. These methodological constraints, which are explained in detail below, result in a delayed reflection of real-market conditions, causing shelter inflation data to consistently trail behind actual market trends by several months. This lag effect becomes particularly pronounced during periods of rapid market changes, such as those observed during and after the pandemic.

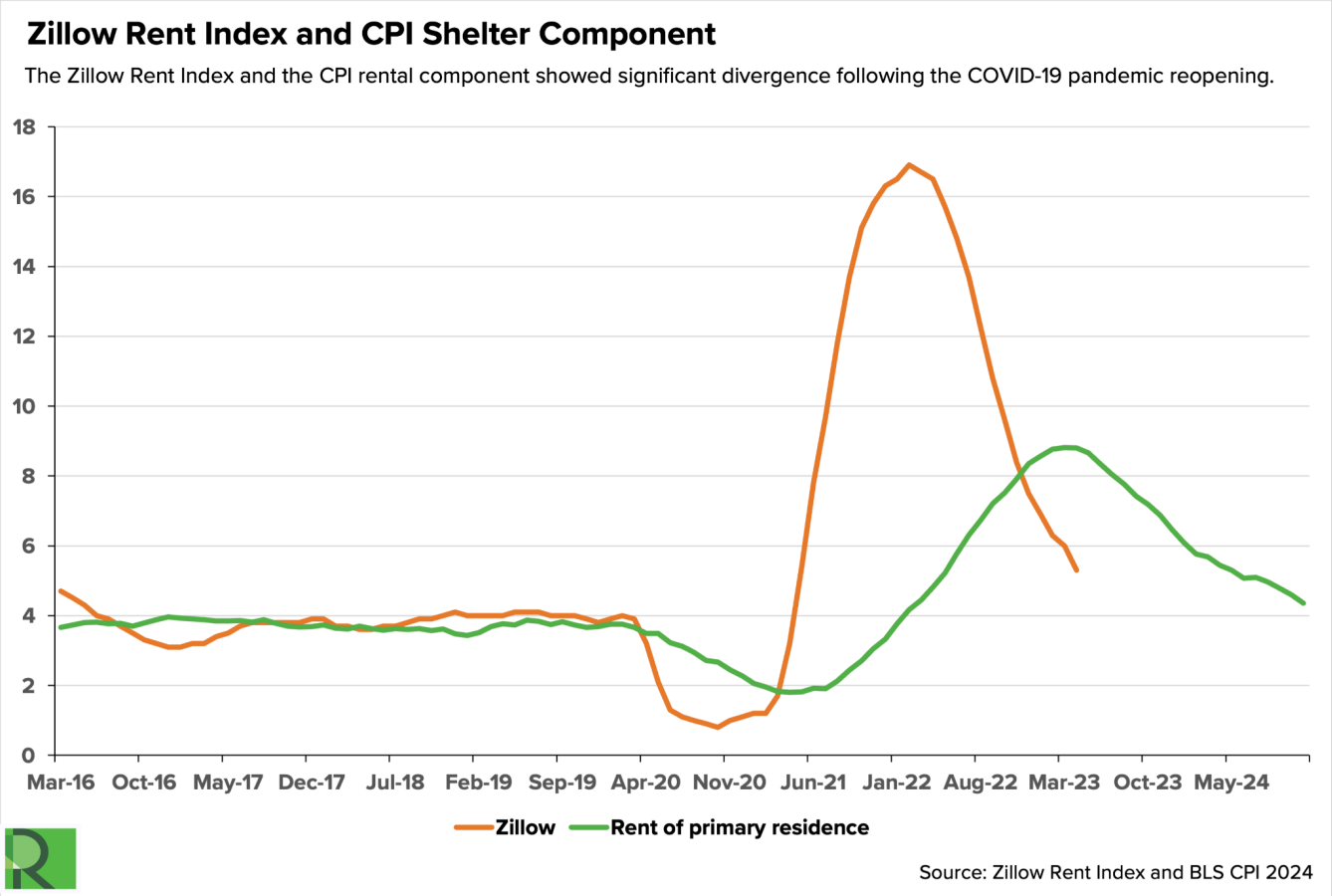
2. Divergence Across Measures of Shelter Inflation

While the trajectory and especially the timing of the CPI shelter inflation is hard to predict with precision, certain measurement issues cause CPI shelter inflation to operate with a lag. One important reason for this lag is that market rent reflects only the rents paid by new tenants, whereas the CPI shelter metric captures rents paid by new and existing tenants alike (Cotton 2024). Most of the samples used in the CPI are contract rents, usually fixed-lease agreements that only change once a year, which represent the amount renters are currently paying regardless of when they signed a lease. Contract rents differ from spot rents, which represent the amount renters would pay to sign a new lease today, and are less likely to represent market rents that prevail in the market at a certain time. The BLS shelter index lags behind actual rental market conditions because it combines both current rents and historical lease rates. This lag creates two potential misrepresentations: It may understate inflation when current market rents are rising rapidly, and conversely, it may overstate inflation when it catches up to previous rent increases that have already stabilized.

CPI data often eventually catches up with market rents, albeit with a significant lag. As leases expire and new leases are signed reflecting market rents, the CPI gets closer to reflecting market rents. The rate at which this catch-up occurs depends on the pace at which contract rents catch up to market rents. Generally, shelter prices do not see dramatic changes, which is why even the slow-adjusting CPI measure does not diverge

from market rents too widely for too long. However, in the post-pandemic period, rents saw a rapid increase, which created a huge uptick in the spot market, and a big divergence opened up between the two measures (see Figure 2).

Figure 2



Historically, when there have been large shifts in market rent, shelter inflation in CPI takes a long time to catch up. For instance, during the Great Recession, it took about six years for CPI rent to catch up with market rents. However, some studies have suggested that the pace at which the CPI shelter indicators catch up might be faster now than in pre-pandemic times due to lifestyle changes related to remote work (Cotton 2024).

Other publicly available and private indices corroborate these time lags, even though the levels of prices vary across different sources. In January 2022, while the official CPI for rent was only 4.43 percent, the Zillow Observed Rent Index (ZORI) and the Marginal Rent Index (MRI) reported annualized inflation rates of 16.5 percent and 11.4 percent, respectively (Zillow Economic Research 2024; Penn State University n.d.). By December 2022, the CPI rent measure was 8.3 percent year-over-year and still rising whereas the ZORI was at 7.5 percent and had been falling since March 2022. If the Zillow readings had replaced the official CPI rent measures, the 12-month all-items CPI for May 2022

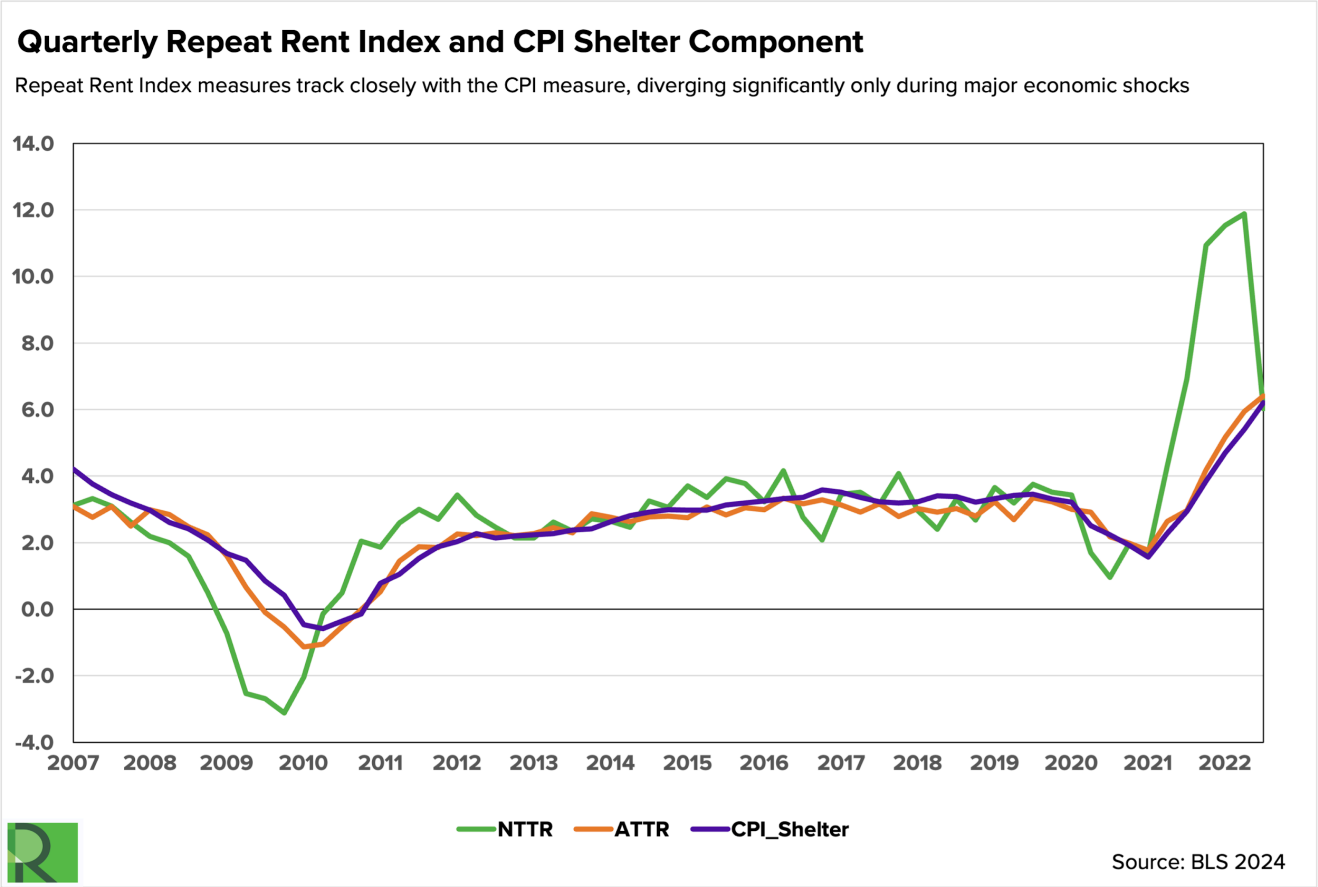
would have been more than 3 percentage points higher (Adams et al. 2022). When the CPI rent measure first started falling to 8.8 percent in April 2023, the ZORI was already down to 5.3 percent. These discrepancies exceed the historical CPI biases identified by the Boskin Commission—which found that the CPI was systematically overstating inflation by approximately 1.1 percentage points annually (Gordon 2006)—and are substantially larger than current biases documented in other studies.

Differences of this magnitude have significant implications for housing economics, monetary policy decisions, contract escalation, and GDP and welfare measurement. For instance, if ZORI had replaced the official CPI shelter inflation measures, real wage estimates would have fallen by nearly 5 percent between January 2021 and January 2022, compared to the 1.5 percent decrease reported. Additionally, Social Security cost-of-living adjustments would have been $17 billion higher in 2022 (Adams et al. 2022).

Some scholars have claimed that the discrepancy between various measures of housing inflation is almost entirely explained by differences in rent growth for new tenants relative to the average rent growth for all tenants. Using the same microdata underlying official measures of CPI shelter inflation, Brian Adams et al. created two weighted repeat-rent indices: the new-tenant repeat-rent (NTRR) index, which uses leases from tenants who recently moved in, and the all-tenant repeat-rent (ATRR) index, which includes all tenants, regardless of how recently they moved in. Their findings indicate that the majority of the discrepancies between CPI rent and other measures are due to scope differences—specifically, the differences in rent increases for all tenants versus new tenants. For instance, in the second quarter of 2022, the ATRR index recorded a year-over-year inflation rate of 6.73 percent, while the NTRR inflation rate was 11.95 percent. In contrast, CPI rent inflation was at 5.14 percent (see Figure 3) (Adams et al. 2022). As shown in Figure 3, these measures track closely with the CPI measure, diverging significantly only during major economic shocks such as the Great Recession or the COVID-19 pandemic—similar to Zillow's data.

This lag creates two potential misrepresentations: It may understate inflation when current market rents are rising rapidly, and conversely, it may overstate inflation when it catches up to previous rent increases that have already stabilized.

Figure 3



Private indices such as Zillow and Apartment List seem to capture the real-time rental prices much better than the BLS, although they are riddled with the same issues of large fluctuations that often plague spot indices. The ZORI is a comprehensive measure of rental market trends, offering valuable insights into rental prices across various geographies and property types. Unlike other indices that might focus on more limited data sets, the ZORI leverages proprietary data from Zillow's extensive real estate listings, allowing for a more accurate reflection of current market conditions. By examining the median rent prices for both single-family homes and apartments, the ZORI provides a detailed snapshot of the rental landscape. One of the key strengths of the ZORI is its ability to track rent inflation trends over time and across different regions, but it has limitations such as data source bias, geographic limitations, data lag, exclusion of rent-controlled units, limited historical data, and potential overestimation in high-demand areas.

Drawing from the same microdata as the CPI, the NTRR index provides a granular view of rent changes specifically for new tenants. This can offer insights into how market conditions are evolving for individuals entering the rental market, as opposed to those who are renewing existing leases. The index can help identify trends such as the impact of supply and demand fluctuations, economic conditions, and regional variations on

new rental agreements. Unlike broader indices that might include a mix of new and existing rental agreements, the NTRR index specifically examines the rents paid by tenants who have recently signed new leases. This makes it a valuable tool for understanding the current dynamics of the rental market, as it reflects the most recent rental transactions.

There is ongoing debate about whether the CPI should change its method of measuring rents. Some economists have criticized the all-tenant approach, suggesting that the CPI should track new-tenant rents to better capture current market conditions (Ambrose et al. 2015, 2022). Evidence from the NTTR and ATTR studies have provided a better understanding of the origins of these significant time delays in CPI measures reflecting market rents. If we had considered marginal rents that more accurately reflected market conditions, the CPI would likely have looked substantially different, and we might have seen interest rate cuts sooner. However, while a more precise measure of market rents would offer a clearer real-time picture of price changes in the sector, adding clarity to the need for an intervention, it wouldn't address the fundamental reasons why interest rate adjustments are poorly suited to address a housing cost-of-living crisis.

3. Other Issues in the CPI Shelter Component

Housing represents one of the largest groups (about one-third) in the CPI, with shelter a key category that includes rent of primary residence, lodging away from home, and owners' equivalent rent (OER), among other components (US BLS 2024a). OER alone accounts for nearly 27 percent of the CPI weight, making it the largest component in the shelter category (US BLS 2024a). Since this measure primarily reflects continuing or contract rents and is only updated every six months, it's particularly susceptible to lags and delays—especially during major market shifts like those seen during the pandemic and its aftermath. Furthermore, the OER has become increasingly controversial due to several issues that limit its effectiveness as an accurate measure of actual living costs.

Specifically, the OER measures the change in the amount homeowners would pay to rent or would earn from renting their homes and is composed of samples from owners' primary residences and unsampled estimates of secondary homes (US BLS 2024b). The BLS uses average rents from the relevant housing sample unit and derived expenditure weights to arrive at the OER index. The weights for primary residence are derived by asking homeowners, "If someone were to rent your home today, how much do you think it would rent for monthly, unfurnished and without utilities?" The OER is meant to capture the implicit rent that homeowners would otherwise pay, thus in theory reflecting housing costs more comprehensively. In reality, the OER doesn't represent an actual out-of-pocket cost and presents several challenges in estimating the cost of living for shelter.

The only observable costs associated with homeownership are the price of the house, mortgages, maintenance, property taxes, and utilities. Since the cost of utilities are measured separately under household energy, what remains is the price of the house, mortgage, and maintenance—all of which more accurately depict the cost of owning an asset rather than the consumption of housing as a service. Firstly, the actual price of a house is irrelevant in determining the cost of living, as some components relate to housing as an asset rather than consumption. The same goes for mortgages, which are an observable cost point although justifiably excluded from the calculation of inflation costs, as they are more closely aligned with asset prices rather than living expenses.[2] In addition, the mortgage amount is a feature of various factors including the down payment made at the start of the loan and other socioeconomic factors that do not neatly line up with the imputed costs from average rents (Ozimek 2013). Therefore, housing's dual role as both a long-term financial asset and a provider of shelter services makes it difficult to accurately assess its current consumption cost.

Moreover, using housing prices to estimate the cost of living for housing would contradict the cost-of-living theory, which posits that welfare is determined by the flow of services from durable goods, not their purchase price (Gillingham 1983). While for many durable goods with shorter lifespans the cost of service flow closely matches the purchase price, this isn't true for housing—a durable good typically lasting several decades. As previously noted, the market price of owner-occupied housing services isn't directly observable, compelling the BLS to employ rental equivalence as an alternative measure.

The rental equivalence measure, or the OER, was initially adopted due to its empirical equivalence to the cost derived from discounting the housing price to its present-day value using the user cost approach. This equivalence is rooted in a crucial theoretical assumption that rent and user cost are in equilibrium. However, real-world factors challenge this equivalence, and over the years the OER and the imputed present-day value of housing have diverged (Ozimek 2013). Property taxes, heterogeneity in the high-end housing market, and sticky rents are among the primary theoretical reasons for this ongoing divergence. Plus, considering that home ownership predominantly involves single-dwelling homes and renters are often compelled to accept whatever options the market presents, the process of estimating rental costs for an owned home is, at best, irrelevant and, at worst, potentially misleading. Because rental housing and owner-occupied housing are often situated in different localities and also vary in size, finding a rental equivalent for an owned home is exceptionally difficult, especially for larger single-family homes (National Academies 2022). Finally, deriving the OER weight using average rents also presents its own set of problems, as we saw in the earlier section on rents.

[2] Some economists have argued that including mortgage costs may more accurately reflect the cost of living for housing (Bolhuis et al. 2024).

4. The Impact of Interest Rates on Housing

In response to rapidly rising inflation, the Federal Reserve began hiking interest rates in March 2022, raising them 11 times to reach effective rates between 5.25 percent and 5.5 percent (Federal Reserve 2022, 2023). This monetary tightening strategy isn't new—it was most infamously employed in the 1980s by Paul Volcker, ultimately leading to two recessions due to overtightening (Stein and Regmi 2024). The approach involves adjusting interest rates and controlling the money supply to curb economic growth and, consequently, reduce inflation.

Several economists have recently argued against an overreliance on interest rate changes as a mechanism to curb inflation (Stiglitz and Regmi 2022), especially when inflation is driven by sector-specific forces—particularly shelter inflation (Weber and Wasner 2023). While establishing a strong correlation between higher interest rates and housing stock is challenging, a broad relationship has emerged in the long run whereby higher rates ultimately lead to lower housing supply. Already, the impact of high interest rates is evident in the slowdown of housing starts—the number of houses beginning construction. Recent data shows housing starts in July 2024 decreased to an annual rate of 1,238,000 units, a 6.8 percent decline from June's 1,329,000 and a 16 percent drop from July 2023's 1,473,000. Single-family housing starts experienced a particularly sharp decrease, falling 14.1 percent from June to 851,000 units in July 2024 (US Census Bureau 2025). This decline suggests developers are focusing on higher-margin housing projects, as evidenced by the increase in luxury rental options. This trend reinforces the idea that policies regulating private developer behavior along with other sector-specific measures may be more effective at controlling housing costs than broad macroeconomic measures such as interest rate hikes.

The short- to medium-term effects of interest rate hikes on housing are complex and multifaceted. In theory, raising interest rates can lower housing costs by cooling the labor market, reducing job growth, and potentially decreasing rent prices through higher unemployment. However, this approach disproportionately affects vulnerable populations. Additionally, construction industry layoffs lead to permanent losses of skilled workers and inhibit construction sector productivity for up to three years after large drops in employed persons (Howard et al. 2024).

Interest rates affect housing costs significantly through borrowing expenses. The impact on rental housing varies based on loan types, payment methods, and income status. Most directly, higher mortgage rates make home purchases more expensive, affecting overall affordability. For developers, increased construction loan costs and financing expenses make many projects unfeasible. These higher costs often get passed on to tenants in the rental market. While some economists believe interest rates have a long-term wealth effect on housing stock (Bernanke and Gertler 1995) through wealth erosion, this primarily affects homeowners rather than renters, who rely on income. In

the short term, renters typically don't borrow to pay rent, limiting the immediate impact through this channel.

Higher interest rates also disrupt the housing market through supply chain effects and land development pipelines (Williams and Feygin 2024). During rate-induced downturns, building material production often contracts, creating bottlenecks when demand returns. Higher rates also stall land development and entitlement processes, leading to future supply constraints.

Higher interest rates could theoretically reduce housing supply over time, resulting in costlier rental housing as the overall housing stock shrinks. In the medium term, rising rates discourage homeowners from selling their properties, as they would face lower selling prices and higher-rate mortgages compared to their existing ones. This pushes more potential buyers into the rental market, creating a cycle where housing shortages worsen and affordable rental options become scarcer. However, these effects typically take years to materialize—longer than the current post-pandemic inflation period. The precise relationship between monetary policy and rental housing prices remains empirically unclear.

5. Persistence of Affordability Crisis in Housing

Ultimately, while various factors contributed to the period of runaway inflation and persistence we have witnessed in shelter costs, these explanations do not diminish the stark reality of a genuine and pressing affordability crisis in housing. The cost of homeownership has escalated dramatically, effectively pushing a significant portion of Americans out of the possibility of owning their own homes. This troubling trend is expected to persist, forcing an increasing number of Americans to rely on tenancy as their primary source of safe and stable housing. The shift in housing dynamics is particularly striking, with an increasing number of American adults now classified as renters and, notably, over half of this group being Black, Indigenous, and people of color (BIPOC).

Compounding this already challenging situation is the fact that rental affordability has become increasingly elusive. The financial strain on renters is severe and widespread, with approximately 22.4 million Americans allocating over half of their total income toward rent payments. This burden is not just theoretical but has real-world consequences, as evidenced by the alarming statistic that 10 million individuals are currently behind on their rent payments. The percentage of those behind on rent has increased since the pandemic. By 2021, 17 percent of renters were behind on rent payments compared to 10 percent in 2019 (Merchant and Troland 2023). By 2023, this number went up to 19 percent (Federal Reserve 2024). These figures underscore the depth and breadth of the housing crisis, highlighting the urgent need for comprehensive solutions to address both homeownership and rental affordability.

An analysis of 2022 census data conducted by researchers at Harvard University sheds light on a significant and concerning shift in the rental market over the past decade (JCHS 2024). The study reveals a substantial decrease in the number of affordable housing units available to renters. Specifically, homes renting for less than $600 per month (adjusted for inflation) have dramatically declined, dropping from 9.4 million units in 2012 to just 7.2 million in 2022. This represents a loss of over 2 million affordable housing options in a mere 10-year span. The trend continues in the slightly higher price range as well, with units renting between $600 and $799 per month experiencing a significant reduction from nearly 9 million to 5.8 million during the same period.

In stark contrast to the shrinking affordable housing market, the luxury rental sector has experienced remarkable growth. The number of homes renting for $2,000 or more per month has more than doubled, surging from 3.2 million units to 7.3 million units over the course of the decade. This polarization of the rental market underscores the widening gap between affordable and high-end housing options, further exacerbating the challenges faced by low- and middle-income renters (Sheffery and Hoff 2024).

Conclusion

Given this alarming scenario, affordable housing has become a critical policy priority. While housing-related work traditionally occurs at the local and state levels, there's growing recognition of the need for federal solutions. Monetary policy has proven less effective at curbing sector-specific inflation, especially in housing. Interest rate increases are blunt instruments that don't allow policymakers to precisely target different economic sectors—a limitation particularly evident in the post-pandemic economy's persistent shelter inflation. Indeed, some studies suggest that monetary policy should not attempt to influence shelter inflation but instead focus on controlling the cost of living in other consumption areas (Bianchi et al. 2024). Using monetary policy to influence housing supply is too slow to address inflation in real time (Mason 2022).

The affordability crisis persists, with inflation only making matters worse. As housing becomes increasingly out of reach for many Americans, policy is shifting toward a more comprehensive, national approach driven by two major imperatives: first, the urgent need to increase affordable housing supply to meet growing demand and alleviate shortages, and second, the pressing requirement to strengthen tenant protections against unfair practices and excessive costs.

Addressing the housing crisis requires a multifaceted approach to ensure safe and affordable housing for all. Expanding housing supply remains fundamental, requiring coordinated action across multiple policy domains. This expansion needs three key

strategies: First, policy and regulatory reform to allow higher-density development, streamline building permits, and implement inclusionary zoning policies. Second, community and infrastructure development, including support for YIMBY (Yes in My Backyard) initiatives, enhanced public transportation, and mixed-use communities (Kuttner 2024). Third, robust financial mechanisms to secure funding for affordable housing by establishing public developers to maintain steady housing production through market cycles, creating dedicated public funding streams that don't depend on market conditions, and implementing land banking and other anti-speculative measures to reduce price volatility (Williams and Feygin 2024).

Finally, housing policy must adopt an equity lens, focusing on extremely low-income communities while removing barriers that disproportionately affect people of color. Past discriminatory policies—including redlining and restrictive covenants—combined with ongoing exclusionary zoning and housing discrimination perpetuate residential segregation, limiting access to affordable and quality housing for minority communities. Equity-focused solutions such as expanded down payment assistance programs for Black homebuyers, reformed credit scoring systems incorporating rent payments, special purpose credit programs, housing counseling, financial education initiatives, and reforms addressing appraisal bias are essential (McCargo 2019).

In conclusion, addressing the housing affordability crisis demands a shift away from overreliance on monetary policy tools toward more targeted and comprehensive solutions. Interest rate adjustments are ineffective at managing sector-specific inflation, particularly in housing. Instead, a successful approach requires coordinated federal, state, and local policies that combine supply-side measures with strong tenant protections. By implementing regulatory reforms, developing community infrastructure, establishing sustainable funding mechanisms, and maintaining a strong focus on equity, policymakers can work toward ensuring safe, affordable housing access to all Americans.

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