The Lack of Housing is Rooted in 5 Key Supply-Side Headwinds

The lack of skilled labor, local land use policies that restrict home and apartment construction, lumber price volatility and elevated building material prices, high lending costs for builders, and high regulatory burdens are the main drivers of low housing supply and high home prices. Implementing policies to alleviate these supply-side bottlenecks would increase home construction output and lower inflation. If action on these issues is delayed, housing costs, which are more than one-half of the Consumer Price Index, will continue to be persistent drivers of inflation due to a lack of attainable housing supply.

Labor

Residential construction faces a persistent labor shortage, which has resulted in higher costs and longer construction times. In any given month, there is a shortage of roughly 200,000 to 400,000 construction workers and home builders will need to add 2.2 million new workers over the next three years just to keep up with demand. Policymakers can help by supporting funding for building and construction trades education and providing more placement services to job seekers. Adopting sensible immigration policies that preserve and expand existing temporary work visa programs while also creating new market-based visa programs to accurately match demand with available labor is also necessary to ease the ongoing labor shortage in home building.

Land

Low lot supplies are due to a reduced number of land development companies, as well as tighter rules regarding land use and zoning for housing and land development. This is particularly true as housing demand shifts further to the suburbs and less densely populated areas as telecommuting increases. Localities need to rework their zoning plans to increase density and allow more flexibility for developers, such as reducing minimum lot sizes, allowing more accessory dwelling units, minimizing parking requirements and promoting missing middle housing (townhomes and duplexes). Opening areas where residential development has not been previously allowed, prioritizing development around existing or planned transit stations and incentivizing mixed-use development will also serve to increase supply and lower overall housing costs.

Lumber and Materials

Lumber price volatility and access to and cost of other building materials have also acted as a headwind for home construction. For example, lumber prices peaked in May 2021 at over $1,500 per thousand board feet, adding tens of thousands of dollars to the cost of a typical newly built home. Historically, lumber prices have averaged in the $350-$450 range per thousand board feet. Part of the reason for large lumber price volatility stems from tariffs on Canadian lumber, which distorts market prices, and the fact that the U.S. only produces roughly two-thirds of the lumber needed to meet domestic demand.

In the four years between October 2020 and October 2024, building material prices have jumped 33%, more than 50% higher than the overall inflation rate. Of particular note, the price of distribution transformers has soared 73%, and with wait time for transformers taking up to two years. Providing resources and placing a priority on the production of transformers and other needed building products could help reduce costs and increase the construction of new homes. Policymakers must also be aware that tariffs on Canadian lumber and other building materials act as a tax on American builders, home buyers and renters.

Lending

Access to builder and developer financing is also a key ingredient for boosting housing supply. Discussions of housing and lending are often exclusively focused on mortgage financing, but a buyer cannot buy a home if financing for its construction is not secured. Typically, small and regional builders rely on debt financing from banks. Such acquisition, development and construction (AD&C) lending remains tight. Fannie Mae, Freddie Mac and the Federal Home Loan Banks should be encouraged to support a secondary market for AD&C financing that would expand financing options so that builders can increase the housing supply.

Laws and Regulations

NAHB analysis finds that nearly 25% of the price of a typical newly-built single-family home is due to regulatory burdens imposed by state, local and federal governments and that these regulatory burdens account for more than 40% of the cost of a typical multifamily development. To rein in excessive regulatory costs, Congress must reassert its oversight authority over the agencies' rulemaking agendas and any efforts to further regulate the housing industry must be subject to greater public scrutiny, based on sound data, and consider the true cost to the industry and the consumer.

Policymakers seeking to improve supply and reduce affordability challenges must work to reduce regulatory and other supply-side costs that ultimately price out thousands of households from homeownership and rental housing. Moreover, government officials should seek to avoid adding new cost burdens to a market that is already undersupplied.