Rethinking the Housing Crisis: What Abundance Can't Fix

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Abstract

The common sense of U.S. policy makers is that building more housing makes housing cheaper. Presenting evidence from 21 cities over the last 10 years, I show that this has overwhelmingly not been the case and detail why simply building more housing does not solve underlying issues of power dynamics and speculation.

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Essay:

In the third quarter of 2025, median home prices in the U.S. hit a record high at $375,000 leaving housing unaffordable for many Americans. The trend of high housing prices has increasingly burdened both renters and buyers as prices at both the low and high end of the market have rapidly outpaced wage growth over the last three decades. So how did the American housing market get here and how do we move forward?

Since the welfare reforms of the 1990s, American housing policy has shifted its focus away from public housing and towards a supply-oriented, public-private approach (Schwartz, 2021). From low-income housing tax credits (LIHTC) and affordable housing trust funds (HTFs) to upzoning initiatives, leveraging public policy to incentivize private development has been the centerpiece of American housing policy. Recently as the housing crisis has accelerated, supply side policies have been further amplified into the public sphere by Klein and Thompson in their recent book *Abundance*. Housing abundancers' primary claim is that rising housing prices are driven by the immense difficulty of building new housing. From overly-cumbersome environmental reviews to historic preservation boards, Klein points to the power of local regulatory constraints as the primary driver of rising housing prices.

While Klein's book points out important structural limitations of the American political economy, it also relies upon a very simple assumption: building more houses makes housing cheaper. This logic follows the basic intuitions of an introductory micro-economics course. From this, a model of price change over time can be depicted quite easily: increasing demand should increase prices, while increasing supply should lead to price decreases.

Change in price of a home in market m

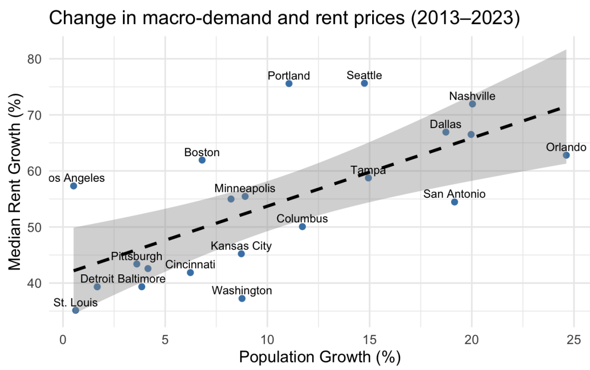
$$\Delta price_m = \Delta demand_m - \Delta supply_m$$

Following Econ 101, policy makers who want to decrease housing prices are left with two options: One, to decrease demand by making homes less desirable (what sound-minded politician would ever suggest that?), or two, simply increase supply by building more housing. So, there we have it; we have arrived at the abundance solution; the best way to decrease prices is building more housing.

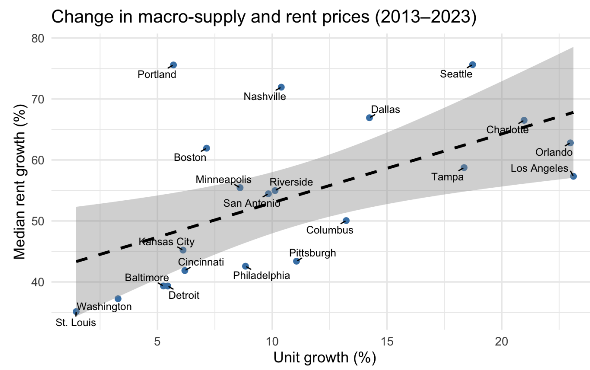
But ever since reading abundance, as an observer of my own city's housing market in Nashville, Tennessee, I have begun to wonder how much this was truly the case. Nashville would be considered an abundancers' dream with both low regulatory boundaries and rapid housing stock growth. Yet in reality, these characteristics have coupled with both rapid housing price increases and the worst gentrification in the nation between 2010 and 2020.

This lived experience led me to ask the question: over the last ten years, how well has this basic supply and demand model held up in reality?

To answer this question, I powered up R and took a look for myself. Sampling the top 35 metropolitan statistical areas in the U.S. (contingent on data availability, only $\approx \frac{21}{35}$ cities meet criteria), I looked at American Community Survey data on median rent prices, population, and number of units between 2013 and 2023. Using population change in a given city between 2013-2023 as a proxy for macro demand and units at a proxy for macro supply, we can chart out how changes in supply and demand have affected rent prices over the last 10 years.



Price increases with demand (expected)



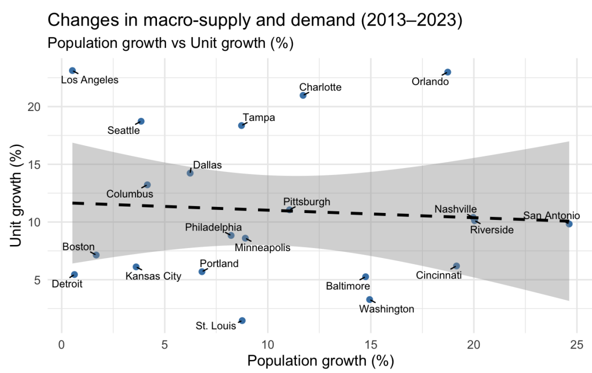
Price increases with supply (unexpected)

To begin with, we notice that cities across the board had massive increases in rental prices. Though I use gross data (not inflation adjusted), we see that even in the market with the lowest price increases (St. Louis) growth in housing prices exceeded average wage growth by a scale of roughly three times. Looking at trends across cities, we begin to see a macro demand story much to the liking of an Econ 101 student. Generally, as changes in demand increase, we observe an increase in median rent prices.

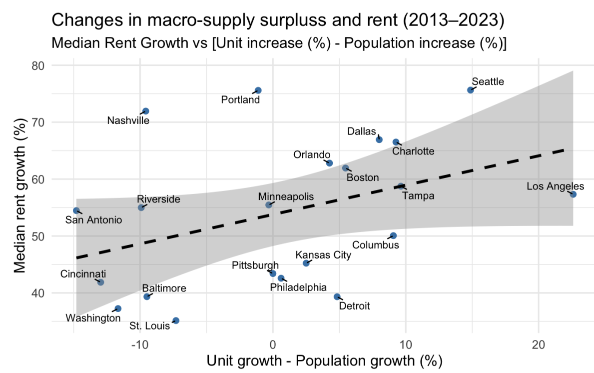
However, looking at changes in macro supply, we begin to see a story that may be a little confusing to an onlooking Econ 101 student. As the percent of units added (supply) increases, rent prices increase as well. One potential explanation of this trend could just be proof of a basic economics principle: what if this is only the case because of a correlation between supply and demand growth?

This turns out not to be the case, as growth in supply and demand do not appear to be correlated at the macro level. In fact, misalignment between supply and demand is evidence of the exact problem that Klein and others have warned us about. Because of regulatory variation in American cities, supply is not able to meet demand and thus is not as correlated as an economist may wish it was. But in fact, this variation across regulatory regimes provides us with the perfect opportunity to compare housing price trends in cities where supply has and has not aligned with demand over the past ten years.

We can explore this effect by looking at 'surplus supply' — the growth in number of units minus the growth in population. This simple statistic tells us if more or less housing units have been built relative to the number of people who moved to a given city, allowing us to assess the effect of supply while somewhat 'controlling for' demand. Basic Econ theory would tell us that when 'surplus supply' increases, prices should decrease, meaning that our onlooking Econ 101 friend would expect to observe a strict downward slope in the relation between rent prices and surplus supply.



Supply and demand are not correlated



Price increases with surplus supply (unexpected)

In reality, however, what we observe is the exact opposite. Cities with a larger surplus supply tend to have had larger increases in housing prices (a slightly positive slope). We notice that this relationship is true even (*and more frequently*) in cities that experienced over 10% more growth in supply (units) than demand (population). A few of the most illuminating examples are cities such as Tampa-bay, Charlotte, Seattle, and Los Angeles. These cities experienced between $10-25\%$ more growth in supply than growth in demand and yet still experienced median rent price increases between roughly $60-75\%$.

All in all, these basic statistics tell us a very important story. At the macro level, between 2013 and 2023, change in supply characteristics explain little variation in the growth of rent prices. This by no means disproves supply and demand as a theory, but shows us that it is only that: *a theory*. It is a strong heuristic for teaching pricing, but unlike for instance, the laws of physics, it is not a universal principle of nature that applies in all cases at all times.

We all know that if there is no supply of affordable housing then there cannot be affordable housing all together. However, these basic statistics demonstrate that added supply is at minimum a necessary but insufficient condition for a city to promote affordable housing. Unlike in, for instance, Adam Smith's pin factory where producing more pins makes pins

Reasons for *Supply Skepticism*

Claim	**Summary**	**Source**
Market segmentation	Generally, buyers and renters do not operate in the same marketplace. Housing in different market segments do not act as substitute goods.	Solari et al. (2025)
Power relations	Housing markets have power dynamics, renters are always price takers and never price setters.	Desmond and Wilmers (2019)
Housing financialization & induced demand	Financial assets rely on not only supply and demand but also speculation. Speculative assets are subject to both booms and busts, putting affordability and wealth generation in constant tension.	Albers (2016) Albers (2019) Socoloff (2020) Kohl (2021)

cheaper, there are reasons why it may not be the case that simply building more houses will make housing more affordable. To elaborate this point, I will focus on just a few key characteristics that set housing markets apart when it comes to determining prices.

Firstly, both housing supply and demand exist in a segmented marketplace. Looking for housing in our own lives, we are all aware that different types of housing are not always what our Econ friend would call a 'substitute good.' If I'm looking for a one-bedroom rental in Midtown, the number of available 4 bedrooms for sale in Green Hills does not affect my decision. Furthermore, in most cases, buyers and renters generally do not operate in the same marketplace. This means that just building housing of the type that 'the market most demands' (ie. what is perceived to be most profitable) may not necessarily result in the production of affordable housing (Solari et al., 2025).

Secondly, housing markets have power dynamics which can distort prices. In a somewhat recent paper, Desmond and Wilmers (2019) demonstrated that landlords extract relatively more rent from poorer market segments. For poorer renters who often have no choice but to rent, cartel-like systems of price fixing among landlords can emerge. Housing markets are particularly vulnerable because renters are always price takers (meaning they have no choice but to accept the market price), while landlords are price setters (landlords control the price that renters pay unilaterally) meaning that there is a power differential in the marketplace.

Lastly, and most importantly, housing has increasingly become a financial asset crucial to wealth generation. This is key because financial assets are not 'normal goods,' rather, their pricing additionally relies upon speculation (Albers, 2016; Albers, 2019; Socoloff, 2020; Kohl, 2021). This trend has continued to increase in recent years as housing and the system of debt which enables both its production and purchase has been further globalized as financing tools, such as adjustable-rate mortgages, mortgage-backed securities, and real estate investment trusts continue to play a key role in the housing market (Gotham, 2009).

One potential effect of speculation is that it can inadvertently increase the demand for housing at the same time as increasing the supply (an effect called induced demand). As investment in a community grows, belief in future property value may rise due to expected gains in amenities such as density and walkability. Raised expectations in land value often leads to increased property values and rents (for examples of this, look to Freemark (2023)'s literature review). The induced demand effect sheds light upon the ultimate contradiction of housing markets: making communities better to live in definitionally makes them more expensive (a pattern which can be fantastic for owners but nightmarish for renters).

Crucially, housing is not just any financial asset but is the main driver of wealth generation for American households. Therefore, the goal of affordable housing remains in constant tension with pressures for wealth generation from a politically powerful class of American entrepreneurs. Understanding housing as a financial asset paints a daunting picture for the future of housing affordability. If inducing as much supply as possible is our only tool, we are left with a view of affordability that remains contingent upon the ebbs and flows of the financial cycle.

Following Klein's vision of housing abundance to its ultimate conclusion, because housing remains a speculative asset, the best vision of affordability we are left with is through a crash of the housing market. Until we address financialization, regardless of how much housing is built, the market will remain locked in cycles of boom (wealth generation) and crash (potential for affordability). This is an insight that no right-minded politician would ever advocate for, but a reality of a world in which the place we call home exists simultaneously as a site of speculation. As I have shown, over the past ten years in some American cities supply has already broken above demand, yet prices remain climbing. Perhaps all we are waiting for now is the crash.

Understanding housing as a *financial asset* is crucial for policy makers concerned with affordability. We must learn that supply and demand are not the sole determinants of housing prices, but rather, they lay the foundation upon which a constellation of other factors operate. While the problem of market segment misalignment could theoretically be solved through a more targeted abundance framework (focusing specifically on affordable housing production); the issues of housing market power dynamics and housing speculation require different solutions. So where can we go from here, how do we deal with the contradiction of housing as a financial investment and housing as a fundamental need; one of which relies upon the appreciation of housing prices and the latter their affordability?

As Zohran Mamdani's recent win has shown, Americans are ready to embrace policy ideas that go beyond the already-tested and demonstrably lackluster framework of supply-side economics. Embracing a new housing agenda, however, does not have to launch us into a world unknown — rather, it provides us with the will and the humility to do what we so often fail to do: look to others for the answers we have not produced ourselves. Cities such as Vienna can be a stellar example of how social housing and decommodification can work to deliver mass affordability. Though social housing may seem beyond the pale of American politics to some, the consequences of settling for the unproven trickle-down logic of abundance housing could be dire. Mamdani's campaign demonstrated that ideas such as social housing and rent control are not only possible but also a politically popular policy alternative. Rethinking the housing crisis requires us to move beyond the Chicago School inspired economic thinking of the 1970s and instead move towards a vision of American housing policy which is equipped to deal with the increasingly strong forces of market power dynamics and housing speculation.

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