

Is Housing Unaffordable? Why Isn't It More Affordable?

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Public concern over the affordability of housing arises from two factors. First, housing is the single largest expenditure item in the budgets of most families and individuals. The average household devotes roughly one-quarter of income to housing expenditures, while poor and near-poor households commonly devote half of their incomes to housing. These high proportions suggest that small percentage changes in housing prices and rents will have large impacts on nonhousing consumption and household well-being.

Second, many large U.S. metropolitan areas have experienced recent and well-publicized increases in housing prices and rents. For example, between 1995 and 2002, the median home price increased by 65 percent (in nominal terms) in the San Francisco Bay Area, 62 percent in Boston, 54 percent in San Diego and 49 percent in Denver. The comparable changes in rents for a standard two-bedroom apartment are 76 percent for San Francisco, 61 percent for Boston, 49 percent for San Diego and 62 percent for Denver. While these metropolitan areas represent the extremes, median home prices and rents increased considerably in nearly all of the largest metropolitan areas.

Housing affordability is regularly raised as a major policy concern, most recently by the bipartisan Millennial Housing Commission (2002). But economists are wary, even uncomfortable, with the rhetoric of “affordability,” which jumbles together in a single term a number of disparate issues: the distribution of housing prices, the distribution of housing quality, the distribution of income, the ability of households to borrow, public policies affecting housing markets, conditions affecting the supply of new or refurbished housing, and the choices that people make

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