



Forest Economic Advisors

UNLOCKING AFFORDABLE HOUSING THROUGH NHIA—THE NEIGHBORHOOD HOMES INVESTMENT ACT

UNLOCKING AFFORDABLE HOUSING THROUGH THE NEIGHBORHOOD HOMES INVESTMENT ACT (NHIA)

The United States has a structural housing deficit of roughly four to five million units, a shortfall that has eroded affordability, constrained economic mobility, and undermined community stability. Despite favorable demographics and recent monetary easing, construction has failed to keep pace with demand due to persistent structural barriers such as high costs, regulatory hurdles, labor shortages, and limited participation by smaller builders. The Neighborhood Homes Investment Act (NHIA) offers a pragmatic, market-based solution by bridging the “value gap” between construction costs and market home prices in low-income communities. Through a targeted federal tax credit that leverages private capital, the NHIA would make it financially viable to build or rehabilitate approximately 500,000 affordable, owner-occupied homes over the next decade, while generating substantial fiscal and employment gains in a variety of industries. The program’s design ensures that benefits flow to working- and middle-class households and the neighborhoods most in need—revitalizing communities, expanding the housing stock, and strengthening a variety of industries, including the wood products sector.

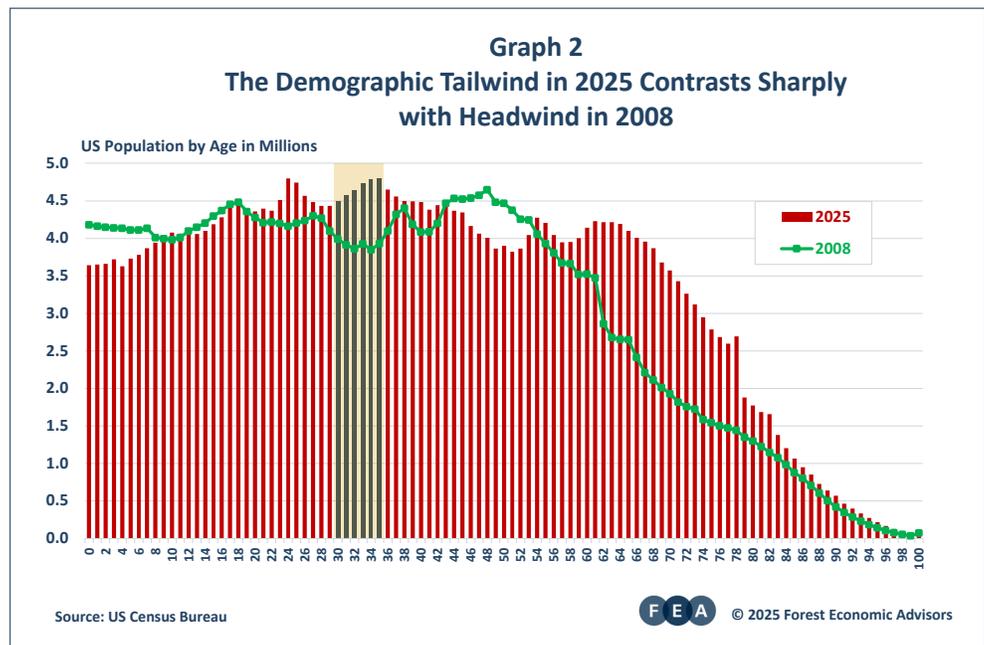
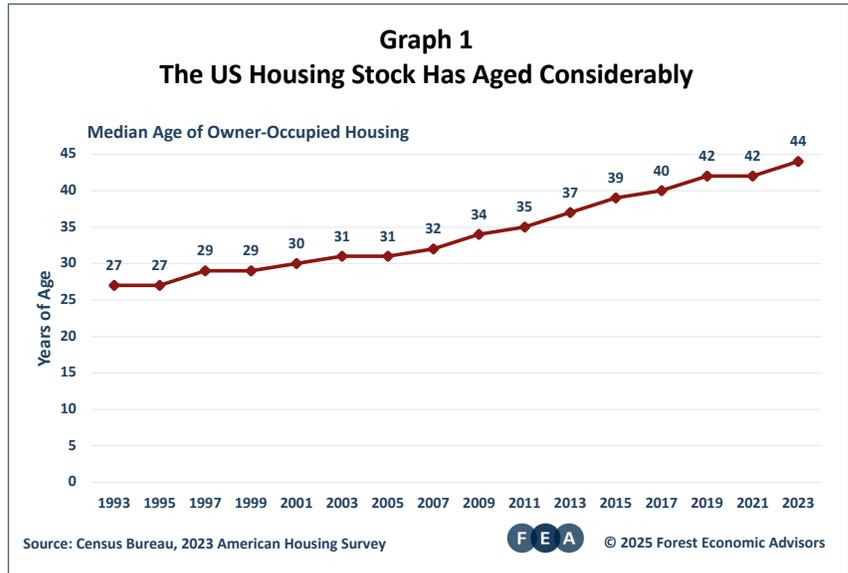
Section 1

The US Has a Structural Shortfall of Housing Units

The US housing market is suffering from a chronic and widening shortage of homes. This structural deficit has persisted for over a decade and now acts as a substantial constraint on economic mobility, community stability, and long-term growth. Multiple indicators point to a supply shortfall on the order of four to five million units, according to demographic analysis from Forest Economic Advisors (FEA), with other research organizations offering similar estimates¹.

The roots of this deficit stretch back to the long recovery following the Global Financial Crisis (GFC). Homebuilding collapsed after 2008 and remained far below demographic demand for much of the 2010s. By the time activity revived, cumulative underbuilding had created a supply hole too large to fill quickly.

Not only is the housing stock underbuilt, but it is also old. The median age of owner-occupied homes as of 2023 was 44 years (Graph 1). Nearly half of US homes were built before 1980, and only 11% have been constructed since 2010. Much of the existing stock is smaller than what today's households need—about 60% of single-family homes are under 2,000 square feet—limiting adaptability for growing families, aging adults, and modern energy standards.



1 Other organizations also show a substantial underbuild. e.g.,

- i) Zillow—4.5M units in 2024
- ii) Wharton Professor Ben Keys—4M units in 2024.
- iii) National Association of Realtors—5.5M units in 2021
- iv) Freddie Mac—3.7M in 2024Q3
- v) National Low Income Housing Coalition—7.1M in 2025

Demographic trends further underscore the need for new construction. As of mid-2025, the most common ages in the US are 34 and 35 years (Graph 2), representing the prime homebuying demographic. Millennials and early Gen Zers—now forming households at high rates—drive demand for starter homes. However, supply has not kept pace, creating a bottleneck that inflates prices and restricts access. The combination of an underbuilt, aging housing stock and a solid demographic tailwind signals a critical need for increased construction. Without intervention, this shortfall will continue to strain the economy, limit mobility, and hinder wealth-building opportunities through homeownership.

Section 2

Federal Reserve Rate Cuts Will Not Be Sufficient to Kickstart Home Construction

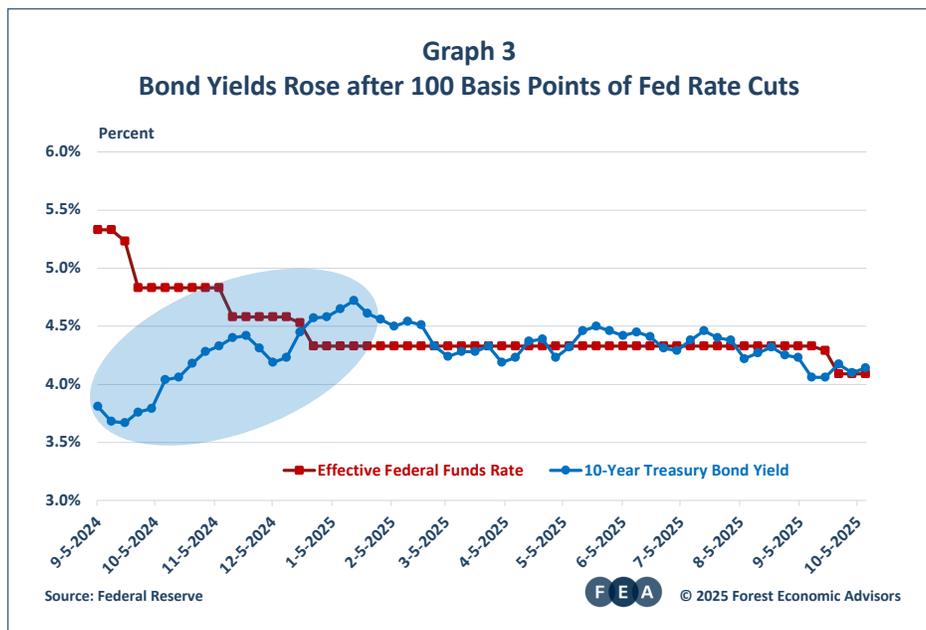
Recent monetary easing offers limited relief for the housing shortage. In September 2025, the Federal Reserve began cutting short-term interest rates and signaled additional reductions ahead. While lower policy rates are usually good news for borrowers, the transmission to mortgage markets is neither automatic nor guaranteed.

The Fed directly influences short-term funding costs but not long-term rates such as the 30-year mortgage. Those are primarily driven by the 10-year Treasury yield, a metric that responds to expectations about inflation, fiscal policy, and

global capital flows. In late 2024, for example, the Fed cut its policy rate by 100 basis points (1%=100 basis points), yet the 10-year Treasury yield *rose* by nearly the same amount, and the average 30-year mortgage rate increased by about 75 basis points (Graph 3).

Absent a recession, mortgage rates are unlikely to fall below 5.5–5.75% sustainably. While such rates might spark a modest increase in construction, they are insufficient to address the structural shortfall. Most projections suggest mortgage rates will hover above 6% in the coming years. In a recession scenario, demand for new homes would likely collapse, further discouraging construction. Thus, relying solely on monetary policy to boost housing starts is inadequate.

The residential construction sector requires more than lower interest rates to overcome its various challenges. Structural barriers—including high construction costs, regulatory hurdles, and a focus on high-end homes by major builders—have limited supply growth. Federal Reserve rate cuts, while beneficial, cannot address these deeper issues. A targeted, supply-side intervention is needed to stimulate the construction of affordable homes and close the housing gap effectively.



Section 3

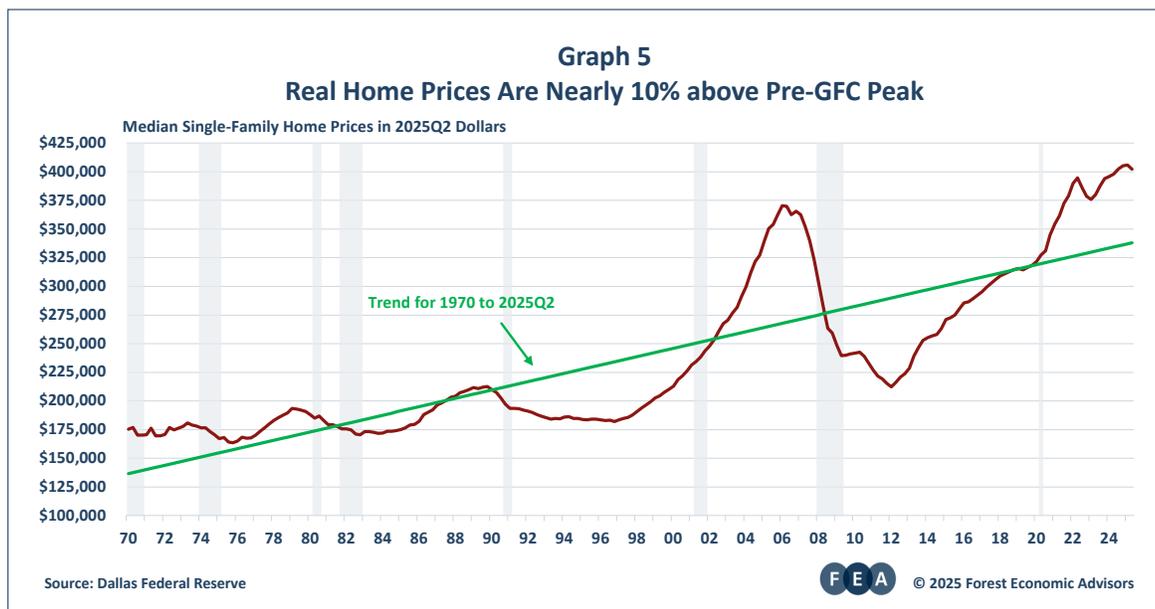
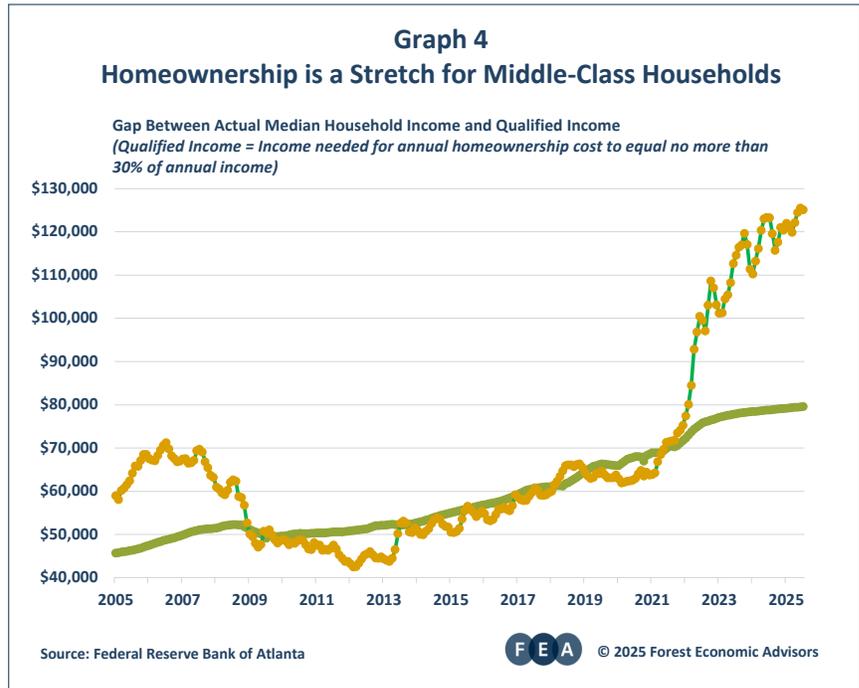
The US Housing Sector Has an Acute Affordability Crisis

The housing market’s most visible symptom is an affordability collapse that has outpaced income growth by a wide margin. According to the Atlanta Fed’s Home Ownership Affordability Monitor, the monthly payment on a median-priced home reached \$3,128 in July 2025, a 61% jump from early 2022—when mortgage rates first began rising.

A common benchmark suggests that households should spend no more than 30% of their income on housing. To meet that standard, a buyer would need an annual income of about \$125,500—far above the \$79,600 median household income (Graph 4). The math simply does not work for most families.

Three factors drive affordability: mortgage rates, home prices, and income growth. While income growth has been solid, it is unevenly distributed and slowing. Wages for the bottom two income quartiles surged during the pandemic but grew by only 3.6% for the lowest quartile in the past year; this is compared to 4.2% for all workers. Meanwhile, home prices have remained

stubbornly high. Between July 2020 and June 2022, existing-home prices surged by 40% due to strong household formation and low mortgage rates. Despite higher rates since, prices have not declined significantly, remaining 9.5% above their pre-GFC peak and 19% above their long-term trend in real terms (Graph 5).



Young adults and lower-income citizens have increasingly been priced out of homeownership as more people chase after fewer homes. The percentage of young adults who still live at home has risen markedly over the past two decades. If the proportion of people aged 18 to 34 who live at home had remained the same as in 2004, there would have been about 1.5 million additional US households in 2024.

First-time homebuyers, whose median age has climbed to 38 from 31 a decade ago, face high prices and rates. Additionally, the “rate lock” effect that discourages homeowners with low-rate mortgages (2.5–4.0%) from selling has frozen the move-up market. Boomers seeking to downsize also struggle to find smaller homes, further constricting supply. These dynamics highlight the need for policies that boost affordable housing supply.

■ Section 4

Demand-Side Stimulus Insufficient: Builders Urgently Need to Increase the Supply of Housing Units

Most federal housing policies in recent decades have focused on stimulating demand—through mortgage-interest deductions, down-payment assistance, or first-time-buyer incentives. While well-intentioned, such measures raise purchasing power without increasing supply, often driving prices higher in constrained markets.

What is needed now is a supply-side strategy that empowers builders to produce more affordable homes. Several barriers must be addressed:

A. Market concentration

The solution is unlikely to come from the larger homebuilding firms that have gained substantial market share in the years since the GFC. These firms will have little interest in expanding supply to the extent that it lowers home prices and their margins. New entrants—especially smaller regional builders, nonprofits, and community developers—are needed to deliver affordability at scale.

B. Regulatory burdens

Restrictive zoning, lengthy permitting, and environmental compliance delays add months or years to project timelines. Streamlining these processes—particularly for infill and rehabilitation projects—would reduce costs and expand participation.

C. Labor and skills shortages

While current construction employment is adequate for today’s depressed building levels, a sustained increase toward 1.5 million starts per year will strain the available workforce. Apprenticeships, vocational training, and immigration policies that support skilled trades are essential to sustain higher output.

D. Productivity stagnation

Construction productivity has barely improved in 30 years. Wider adoption of innovative methods—offsite modular assembly, mass timber systems, and digital project management—could reduce costs and cycle times, but these require upfront capital and policy support.

These issues are complex and local, making rapid progress difficult. However, federal incentives can catalyze action by reducing the financial risk of producing affordable homes. That is precisely the gap the NHIA seeks to fill.

■ Section 5

NHIA Has Potential to Deliver Fast Results at a Relatively Low Cost

Most of the constraints outlined in Section 4—regulatory hurdles, labor shortages, and low productivity—require long-term solutions, often at the state or local level. However, the federal government can take a productive role in incentivizing builders to build more affordable homes by closing the gap between construction costs and the market value of new, affordable homes.

The NHIA’s tax credit reduces financial risks for builders, making projects in lower-income communities viable. This approach is cost-effective, as it leverages private investment to achieve public goals. Unlike broader monetary policies, the NHIA directly targets supply-side barriers, encouraging new entrants to enter homebuilding sector. This is essential for scaling construction to address the shortfall of four to five million units identified by FEA.

By focusing on affordability, the NHIA can deliver results quickly. Its structure incentivizes projects that align with market needs, particularly for first-time and moderate-income buyers. The Act’s emphasis on distressed communities also ensures that benefits reach areas with the greatest need, fostering economic revitalization. Properly implemented, the NHIA can catalyze significant housing production at a fraction of the cost of broader stimulus programs, making it a practical and efficient tool for addressing the housing crisis.

■ Section 6

NHIA Will Increase Housing Supply through Targeted Incentives

The NHIA directly addresses a key barrier to expanding the US housing stock: the value gap between construction or rehabilitation costs and affordable home prices in distressed areas. In many urban, suburban, and rural neighborhoods, building or renovating modest homes is financially unviable because costs exceed potential sale prices. The NHIA’s tax credit—covering up to 35% of eligible development costs—bridges this gap, incentivizing builders, nonprofits, and homeowners to undertake projects that would otherwise be unprofitable.

According to analysis by the National Council of State Housing Agencies (NCSHA) over a 10-year horizon, the program is expected to support the construction or substantial rehab of about 500,000 affordable homes, catalyze \$125B in total development, create 861,000 construction-related jobs, and generate \$28B in federal, state, and local tax revenue. By aligning private capital with public priorities, the NHIA maximizes efficiency, leveraging modest federal investment to drive significant economic activity.

The program’s design ensures affordability and stability. Eligible buyers must have incomes at or below 140% of the area median income (AMI), and home-sale prices are capped at four times AMI. To prevent speculative flipping, homeowners must occupy their homes for at least five years or face a recapture penalty. This structure promotes sustainable homeownership, benefiting moderate-income households and fostering long-term community stability. The NHIA’s targeted approach makes it a powerful tool for increasing housing supply where it is most needed, delivering measurable results without excessive fiscal burden.

■ Section 7

Long-Term Impact on Affordable Housing Supply and Economic Stability

The NHIA complements existing federal programs such as the Low-Income Housing Tax Credit (LIHTC) that focuses on rental housing. By targeting owner-occupied homes in distressed neighborhoods, the NHIA fills a critical gap, promoting wealth-building and neighborhood stability. Homeownership is strongly correlated with reduced vacancy rates and increased community investment, making the NHIA a vital tool for long-term economic health.

The NHIA addresses three key economic challenges.

First, it expands affordable housing supply by making it financially feasible to build or rehabilitate entry-level homes; thus, the NHIA directly increases the stock of affordable units at a time when young households and first-time buyers are increasingly priced out of the market.

Second, it revitalizes distressed communities by directing investment to areas with high poverty and low home values, encouraging further development in local businesses, schools, and infrastructure.

Third, it strengthens the housing market's resilience by supporting moderately priced homes, a segment vulnerable to price volatility and financing constraints.

By fostering sustainable homeownership, the NHIA enhances household wealth-building and reduces economic disparities. Its focus on distressed areas ensures that benefits accrue to communities most in need, promoting equitable growth. Over time, these investments can stabilize housing markets, reduce pressure on prices, and support broader economic resilience, making the NHIA a cornerstone of a balanced housing policy.

■ Section 8

By Increasing the Construction of New Homes in the US, the NHIA Will Support the Wood Products Sector and Rural Communities in Which They Are Produced

Beyond its direct housing benefits, the NHIA would have measurable spillover effects on the wood-products industry that supplies framing lumber, structural panels, and other building materials.

Analysis by the National Council of State Housing Agencies projects that the NHIA would support the construction of 500,000 new or substantially rehabilitated homes over 20 years—roughly 50,000 units per year. To translate that into material demand, we made the following assumptions:

- The average NHIA-related home would measure 2,000 square feet, about 84% of the size of the average new US single-family home.
- Multi-unit structures (two to four units) would use higher wood volumes per square foot. Although these units would be smaller, they would tend to be built more vertically and thus would need floor supports.
- “Substantial rehabs” would require about 40% as much wood as new construction.
- New builds would account for 50–75% of total activity.

Based on these parameters, FEA estimates the NHIA could generate annual demand for the following:

- 412–500M board feet of lumber;
- 308–375M square feet of oriented-strand board (OSB) (7/16 basis); and
- 47–57M square feet of plywood (15/32 basis).

This increased demand will create jobs in the rural communities in which wood products are produced. Two new lumber sawmills would support approximately 300 full-time equivalent (FTE) jobs and 800–1,200 indirect jobs in surrounding areas. The additional OSB production equates to 80 FTEs and 250 indirect jobs, while plywood production adds 65 FTEs and 200 indirect jobs. This volume of wood products would require approximately 230–280M cubic feet of timber harvest demand per year, translating into roughly 230–280 additional logging jobs. It is clear that these benefits will bolster rural economies, where manufacturing and resource industries are often critical.

■ Conclusion

The United States faces a housing shortage that threatens long-term economic stability and social mobility. Traditional policy levers—monetary easing and demand-side subsidies—cannot close the gap between construction costs and achievable market prices in many communities.

The NHIA offers a pragmatic, data-driven solution. By leveraging private capital through a targeted tax credit, it makes affordable homebuilding feasible in markets in which that is currently not the case. The resulting gains—more owner-occupied homes, stronger neighborhoods, and revitalized domestic industries—represent a high return on public investment.

In short, the NHIA is a fiscally responsible, macroeconomically sound strategy for expanding America’s housing supply, restoring affordability, and sustaining the industries and communities that make such construction possible.



BRENDAN LOWNEY

PRINCIPAL, MACROECONOMICS

Brendan is a Principal of Forest Economic Advisors LLC, the premier source for North American wood products analysis and information. As Principal, Brendon develops and implements FEA’s business strategies.