# Know the Market to Find the Path Home for the Most Vulnerable

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The National Low Income Housing Coalition has published its 2026 edition of *The Gap: A Shortage of Affordable Homes*, estimating a shortfall of 7.2 million affordable and available rental homes for the nation's 11 million extremely low-income (ELI) renter households. The measure has clear advantages: it is intuitive and direct, it meshes with HUD policy, and it draws attention to the people most hurt by our housing shortage. The question is whether this is the right way to measure the problem, and whether a better measure would point to better solutions.

*The Gap* uses this finding as the basis for a broad expansion of federal housing subsidies — for vouchers, homebuilding, the Low-Income Housing Tax Credit (LIHTC) and other subsidies — aimed at the nation's housing crisis as a whole. There are three major problems with this approach:

1. Affordable and available ELI rentals is a poor predictor of bad housing outcomes.
2. Most low-income workers are excluded by *The Gap*'s affordable and available measure.
3. Better measures of the shortage point to better solutions.

It is for these reasons and more that the AEI Housing Center uses **median home price-to-income as our primary measure of the housing shortage**, and therefore the "affordable" housing shortage.[1] If you want to understand the housing situation for the people who are most vulnerable, you need to start by looking at the middle.

## Affordable and Available ELI Rentals Is a Poor Predictor of Bad Housing Outcomes

In areas with a housing shortage, we expect to see the effects of that shortage: people overburdened with housing costs, overcrowded in too-small housing, or failing to find housing entirely. As part of the Good Neighbors Market Intelligence project, the AEI Housing Center reviewed over 50 different possible measures of the housing shortage to determine the extent to which they predicted homelessness across Continua of Care

[1] https://heat.aeihousingcenter.org/toolkit/housing_shortage. An additional technical benefit of using price-to-income is that the housing shortage can be aggregated up from counties to the state using this measure, as opposed to the PUMA limit in the microdata used for available and affordable homes. As housing shortages are local in nature, aggregating state-level shortages from their constituent counties allows for more accurate and precise estimates. You need to know the market to find their path home.

(CoCs) in the United States. Median home price-to-income was the single most predictive measure of homelessness.

We can then evaluate *The Gap*'s "affordable and available" measure of housing shortage by the same criteria. *The Gap* measures homes affordable and available for Extremely Low-Income (ELI), Very Low-Income (VLI), and Low-Income (LI) households, focusing primarily on the ELI measure. A unit is "affordable" if its rent and utilities do not exceed 30% of the area's 4-person ELI income threshold. An affordable unit is "available" if it is either occupied by an ELI renter household or vacant and listed at an affordable rent. If there are more ELI renter households than there are affordable and available homes, *The Gap* identifies a shortage.

However, *The Gap*'s measure is a weaker predictor than median price-to-income on every outcome a housing shortage should produce: essentially no predictive power on homelessness, modest explanatory power on overcrowding, and meaningful but still lower explanatory power on housing cost burden. These outcomes disproportionately fall on low-income people; if *The Gap*'s measure captured real shortage conditions for this population, it should at least match broader measures like median price-to-income. It does not.

Starting with homelessness, we replicate *The Gap*'s measure of shortage, then run the same test we use on other potential measures of the housing shortage.[2] We can see in Table 1 below that median home price-to-income ratio explains 76% of the variation in homelessness rates, which reproduces our findings in Good Neighbors Market Intelligence. We then test the measure of affordable and available homes and find almost no predictive power (6% for ELI) in any of the three income groups.

[2] Our replication of ELI affordable and available units per 100 ELI renters correlates at 0.88 against NLIHC's published values for the 50 CBSAs in *The Gap*'s Appendix B and 0.86 against NLIHC's published values at the state level. Conducting the same tests limited to the 50 CBSAs that *The Gap* publishes for its published values yields higher $R^2$ for price-to-income and lower values for the per-100 measures across each outcome discussed.

*Figure 1: Home price-to-income ratio vs. homelessness rate at the CoC level.*

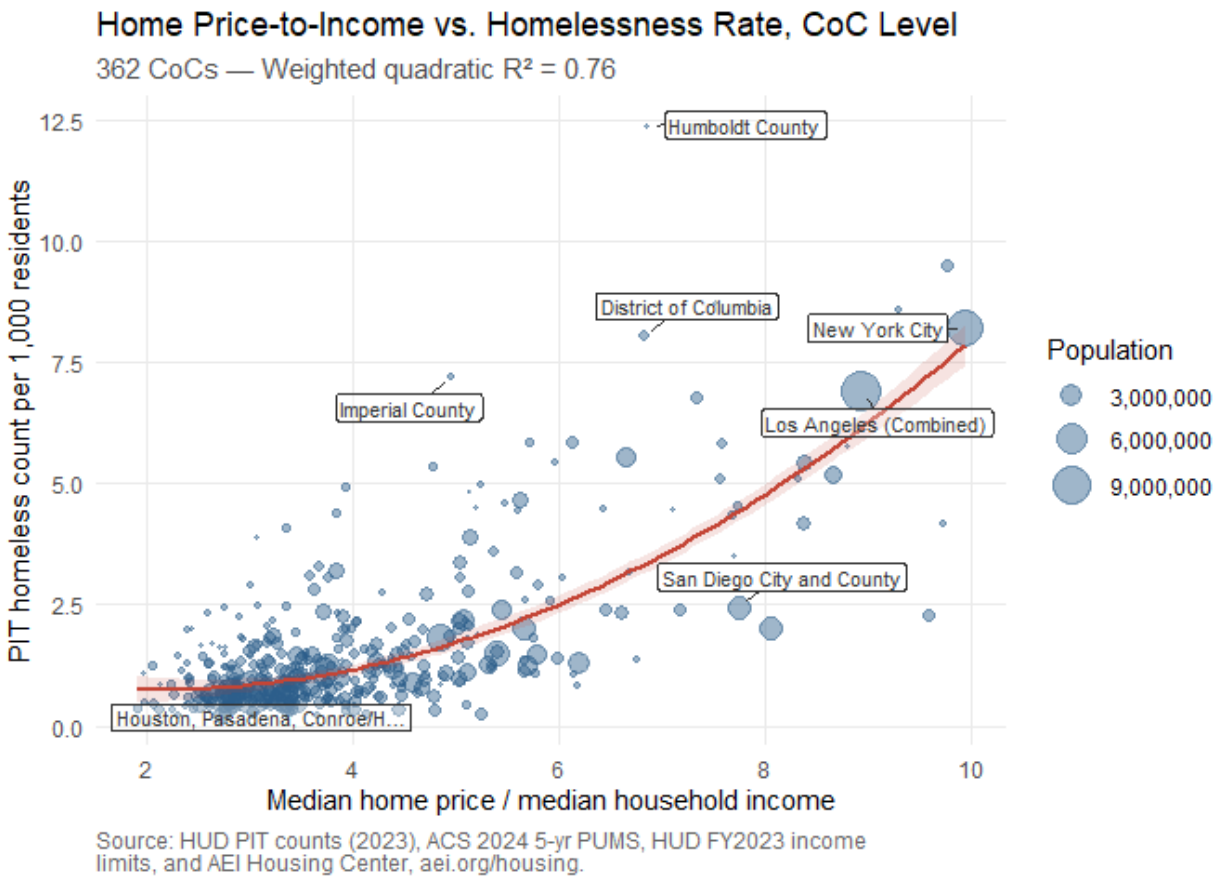


*Figure 2: ELI-affordable units per 100 ELI renters vs. homelessness rate at the CoC level.*

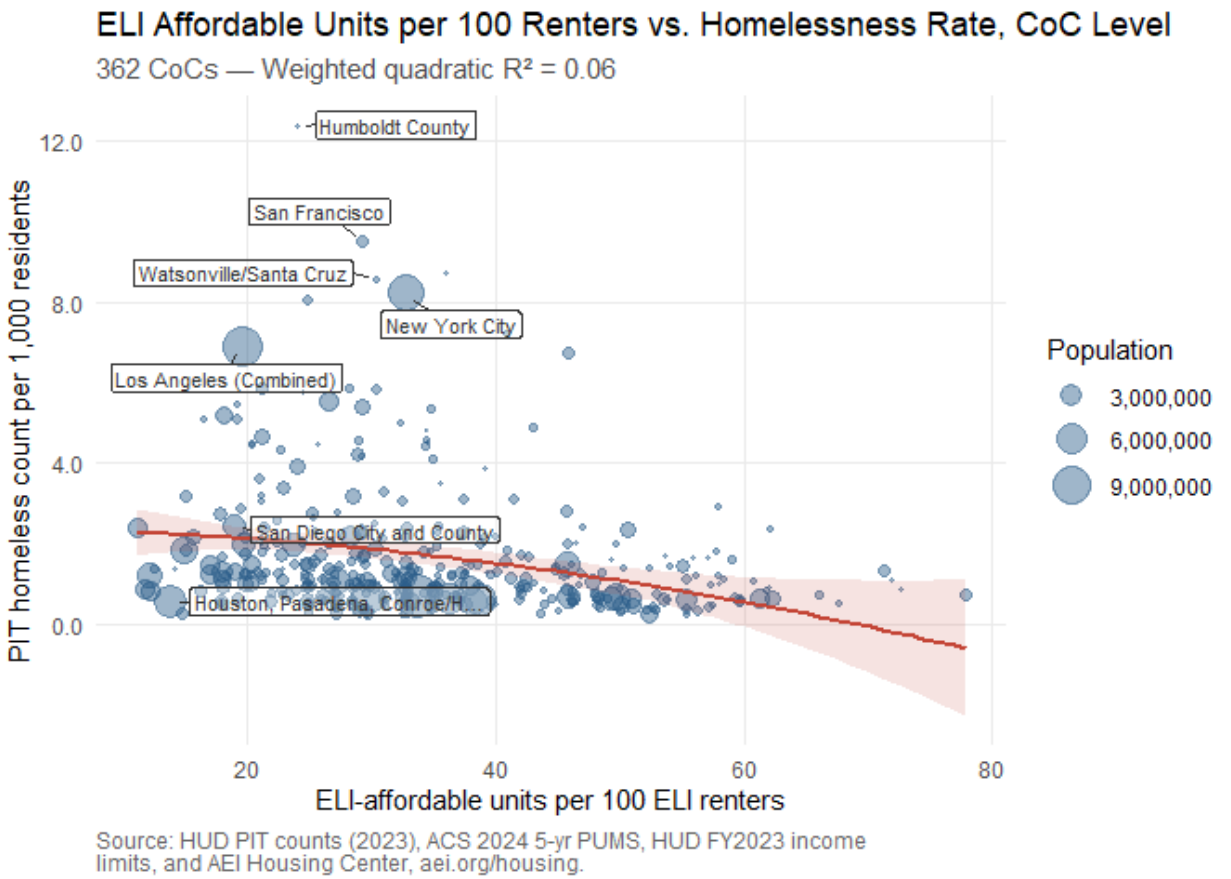



*Table 1: CoC-level predictors of homelessness rate (weighted $R^2$).*

| Predictor | Weighted quadratic $R^2$ | Weighted linear $R^2$ |
|---|---|---|
| Price-to-income ratio | 0.76 | 0.70 |
| ≤LI units per 100 renters (cumulative) | 0.09 | 0.08 |
| Rent-to-income ratio | 0.08 | 0.08 |
| ≤VLI units per 100 renters (cumulative) | 0.07 | 0.07 |
| ELI units per 100 renters | 0.06 | 0.05 |

*Source: HUD PIT counts (2023), ACS 2024 5-yr PUMS, HUD FY2023 income limits, and AEI Housing Center, aei.org/housing.*

We can also expand the test to other housing outcomes we would expect to see in the case of a housing shortage: overcrowding and housing cost burden.[3] In both cases, median home price-to-income outperforms affordable and available homes, though the latter measure performs best on housing cost burden.[4]

*Table 2: Weighted quadratic $R^2$ by outcome and predictor, CoC level.*

| Outcome | Price-to-income $R^2$ | ELI-affordable per 100 $R^2$ |
|---|---|---|
| Homelessness | 0.76 | 0.06 |
| Overcrowding | 0.52 | 0.24 |
| Housing cost burden (≥30%) | 0.55 | 0.38 |
| Severe housing cost burden (≥50%) | 0.48 | 0.29 |

*Source: ACS 2024 5-yr PUMS, HUD FY2023 income limits, HUD PIT counts (2023), and AEI Housing Center, aei.org/housing.*

These measures reflect a core weakness of *The Gap*'s measure of affordable and available homes: it applies only to renters, ignoring anybody who lives in an owned home. But by looking at low-income *workers*, we can see the other half of the picture, which is invisible in *The Gap*.

## Most Low-Income Workers Are Excluded by *The Gap*'s Affordable and Available Measure

We turn here to ELI persons, rather than households. This allows us to see how ELI persons navigate the housing market.[5] LI persons are also measured to confirm that the trends

[3] Overcrowding is defined as more than one person per room. Housing cost burden is defined as housing costs greater than 30% of monthly income (50% for severe). Housing costs are gross rent for renters and selected monthly owner costs (principal, interest, taxes, insurance, and utilities) for owners with a mortgage. Households who own their home outright are excluded from the measure of housing cost burden.

[4] The relatively high performance of affordable and available homes on housing cost burden is partially mechanical: the shortage measure is based in part on rent burden (housing cost burden for renters) for a given income group.

[5] An ELI person is a person aged 25 or older whose individual total income is at or below the 1-person HUD Extremely Low Income limit (30% AMI), and who lives in a household where no member's personal income exceeds the HUD Low Income limit (80% AMI) for the household's size. A prime-age ELI worker is an ELI person who is also a worker (≥20 hrs/wk, aged 25–64). VLI and LI persons and workers match the same criteria, but with the income bar raised to the 1-person 50% AMI and 80% AMI limits, respectively.

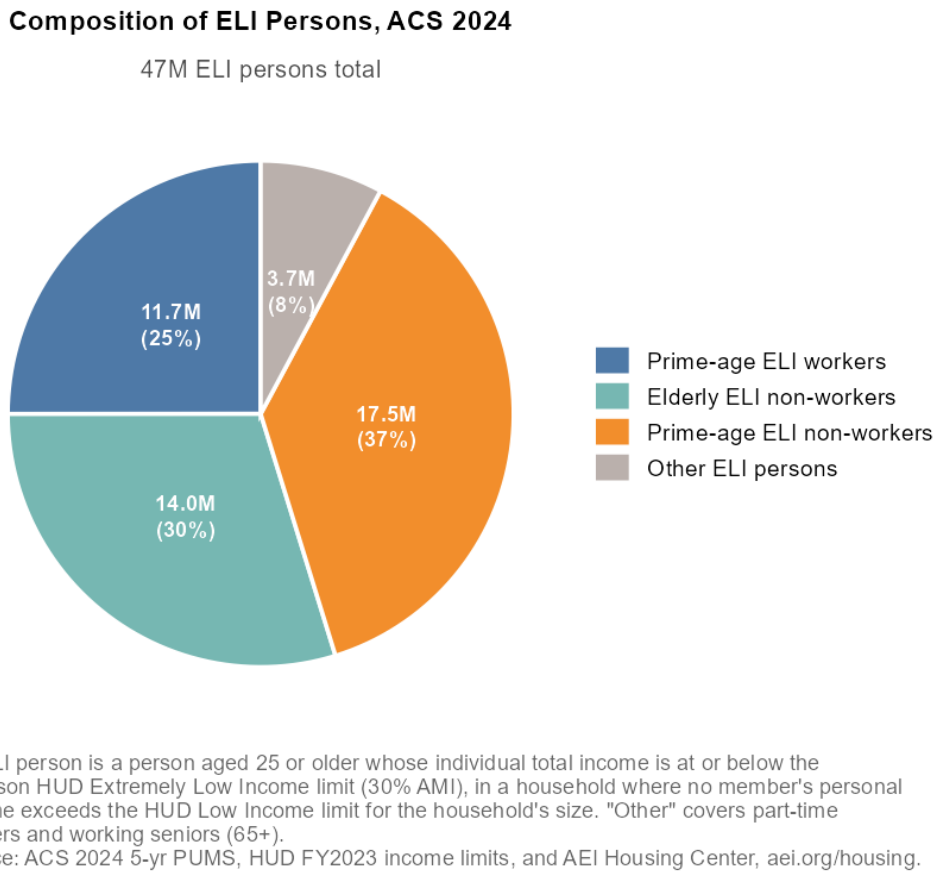
we're seeing also exist at a broader definition of low income. To understand how ELI persons navigate the housing market, we break them into three major groups: prime-age ELI workers, prime-age ELI non-workers, and elderly ELI non-workers.[6] Prime-age ELI workers receive special attention, as they are the clearest case in which low individual earnings can translate into housing outcomes through agency in the housing market: work, household formation, tenure, and location choice.

- **Prime-age ELI workers**: ELI persons aged 25–64 who work at least 20 hours per week. There are 11.7 million prime-age ELI workers, who live in households containing 34 million people.
- **Elderly ELI non-workers**: ELI persons aged 65 and over who do not work. There are 14.0 million elderly ELI non-workers, who live in households containing 27 million people.
- **Prime-age ELI non-workers**: ELI persons aged 25–64 who do not work.[7] There are 17.5 million prime-age ELI non-workers, who live in households containing 49 million people. Of these, 33% and 25% respectively are living with a spouse who works or with other working adults.

[6] There are roughly 4 million (8% of total) ELI persons who fit into none of the above categories, such as part-time workers (1–19 hrs/wk) and working seniors aged 65 and older.

[7] An ELI non-worker is an ELI person with zero work hours whose individual total income is at or below the 1-person HUD Extremely Low Income limit (30% AMI), in a household where no member's personal income exceeds the HUD Low Income limit (80% AMI) for the household's size. Persons working part-time (1–19 hrs/wk) fall in neither the worker nor non-worker bucket.

*Figure 3: Composition of ELI persons by group, ACS 2024.*




*The Gap* focuses on the 11 million ELI renter households nationwide, equating to roughly 23 million people. By contrast, there are 11.7 million prime-age ELI workers, who live in households containing 34 million people — 11 million more people than are living in ELI renter households.

Adding the two non-worker groups, there are 43 million prime-age ELI workers, prime-age ELI non-workers, and elderly ELI non-workers combined, living in households containing 94 million people whose own incomes are at most low income. That is 71 million more people than are captured by *The Gap*'s ELI renter household frame. In other words, *The Gap* excludes most prime-age ELI workers and persons from an analysis of the needs of extremely low-income people.

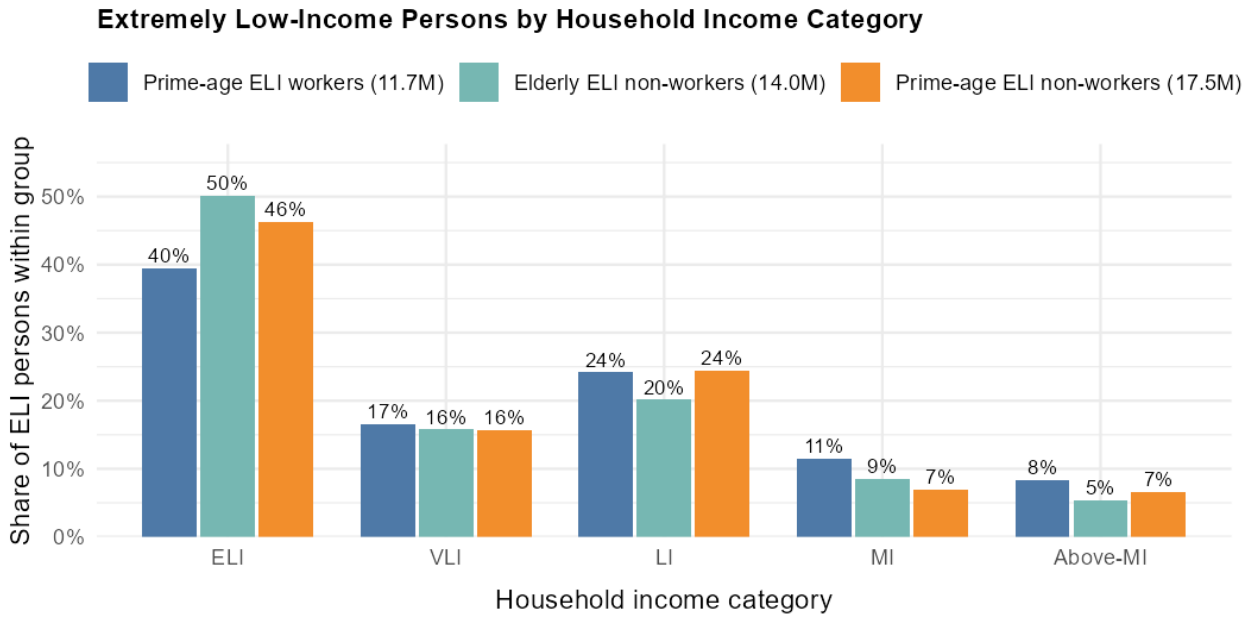
There are two reasons why most prime-age ELI workers do not live in ELI households, both important for understanding how people with low incomes, whether by choice or necessity, act to shape their housing destinies.

**Household formation.** Less than half of prime-age ELI persons live in ELI households, because they tend to pair up with other workers to afford housing. Most commonly, this

happens with marriage, but also by living with extended family, and even friends and roommates.

Take a practical example: in Houston, Texas, a prime-age ELI worker makes, at most, $19,600. By definition, that makes that person part of an ELI household. But if two such workers get married and move into the same house, their combined income of up to $39,200 far exceeds the 2-person ELI threshold of $22,400 and even the 2-person VLI threshold of $37,300. That's sensible as an absolute poverty measure, but if we only look at ELI households, we erase such people from our analysis. More importantly, we ignore a key component of how the housing market works: people joining together to make families and navigate the housing market together. As we'll see when we look at solutions, when we erase such people from our analysis, it blinds us to living choices low-income people make.

*Figure 4: ELI persons by household income category.*




An ELI person is a person aged 25 or older whose individual total income is at or below the 1-person HUD Extremely Low Income limit (30% AMI), in a household where no member's personal income exceeds the HUD Low Income limit for the household's size. Excludes 3.7M Other ELI persons (part-time workers and working seniors aged 65+) who do not fit any of the three groups shown.
Source: ACS 2024 5-yr PUMS, HUD FY2023 income limits, and AEI Housing Center, aei.org/housing.

**Tenure.** The second reason low-income workers are rarely in ELI households is that *The Gap*'s ELI measure counts only renter households. HUD's underlying definition of "extremely low income" includes owner-occupied households too, but *The Gap* restricts its analysis to renters — every headline figure in the 2026 edition, including the 11 million

ELI renter households referenced earlier, refers to renter households only.[8] But half of low-income workers live in owned homes. They do so in a variety of ways, including owning the home themselves or with their spouse, living with their family, or renting a room from the person who owns and lives in the house. It makes sense to use ELI as a measure of renters, given its genesis in federal funding for rental subsidies, but the measure leaves out most people with low incomes.

*Table 3: Extremely Low-Income Persons by Housing Tenure and Structure Type, Solo Measure*

| Structure type | Rented | Owned | % of rented | % of owned |
|---|---|---|---|---|
| Single-family detached | 5,638,235 | 20,408,360 | 27.3% | 77.6% |
| Single-family attached | 1,414,143 | 1,683,486 | 6.9% | 6.4% |
| 2–4 unit | 3,839,898 | 745,473 | 18.6% | 2.8% |
| 5–19 unit | 3,971,769 | 319,727 | 19.2% | 1.2% |
| 20–49 unit | 1,748,037 | 172,125 | 8.5% | 0.7% |
| 50+ unit | 2,926,569 | 287,890 | 14.2% | 1.1% |
| Mobile home | 1,054,110 | 2,613,738 | 5.1% | 9.9% |
| Other | 39,988 | 56,334 | 0.2% | 0.2% |
| Total | 20,632,749 | 26,287,133 | 100.0% | 100.0% |

*An ELI person is a person aged 25 or older whose individual total income is at or below the 1-person HUD Extremely Low Income limit (30% AMI), in a household where no member's personal income exceeds the HUD Low Income limit for the household's size. Source: ACS 2024 5-yr PUMS, HUD FY2023 income limits, and AEI Housing Center, aei.org/housing.*

[8] NLIHC, *The Gap: A Shortage of Affordable Homes*, 2026.

*Table 4: Extremely Low-Income Workers by Housing Tenure and Structure Type, Solo Measure*

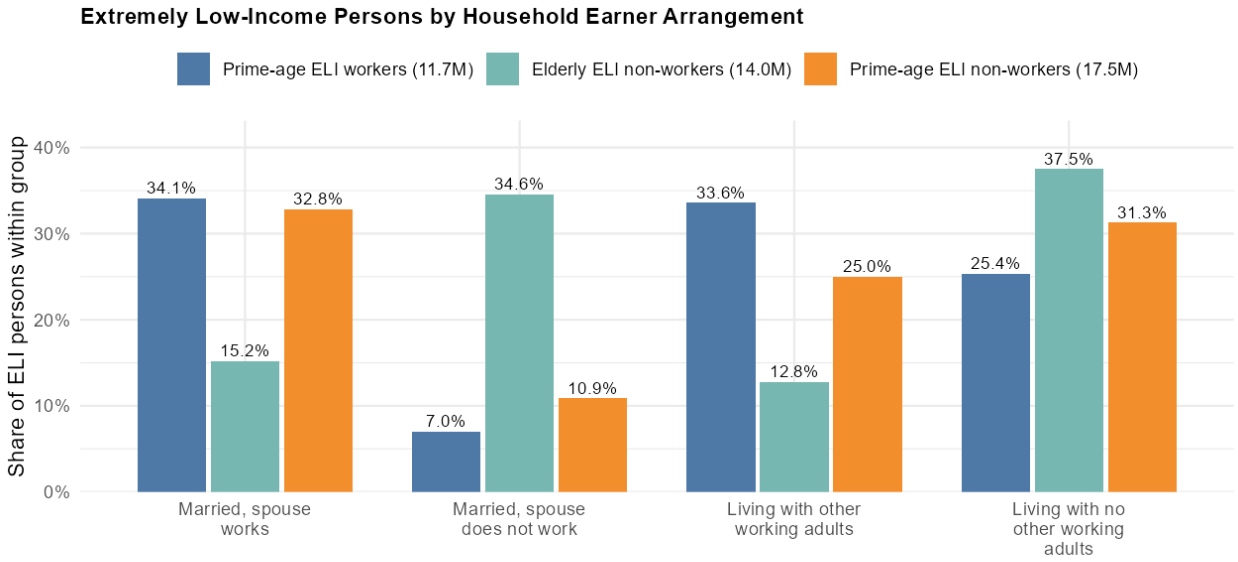
| Structure type | Rented | Owned | % of rented | % of owned |
|---|---|---|---|---|
| Single-family detached | 1,716,897 | 4,139,107 | 27.0% | 76.9% |
| Single-family attached | 489,505 | 401,143 | 7.7% | 7.5% |
| 2–4 unit | 1,275,174 | 168,917 | 20.1% | 3.1% |
| 5–19 unit | 1,387,718 | 72,134 | 21.8% | 1.3% |
| 20–49 unit | 511,217 | 32,866 | 8.0% | 0.6% |
| 50+ unit | 673,636 | 47,915 | 10.6% | 0.9% |
| Mobile home | 291,073 | 506,552 | 4.6% | 9.4% |
| Other | 8,401 | 10,495 | 0.1% | 0.2% |
| Total | 6,353,621 | 5,379,129 | 100.0% | 100.0% |

*Workers (≥20 hrs/wk, aged 25–64) whose individual total income is at or below the 1-person HUD Extremely Low Income limit (30% AMI), in households where no member's personal income exceeds the HUD Low Income limit (80% AMI) for the household's size. Source: ACS 2024 5-yr PUMS, HUD FY2023 income limits, and AEI Housing Center, aei.org/housing.*

**How ELI Persons Actually Navigate Housing**

We can see the process of agency by looking at the homeownership market. 46% of extremely low-income workers live in owned homes and 58% live in single-family homes. How do they do so? In the vast majority of cases, it is by living with other adults. 82% of extremely low-income workers live with another adult, and 67% live with another earner in the household. Typically, this is a family member — a spouse, sibling, parent, or adult child — but can also include non-family arrangements like roommates.

*Figure 5: Extremely low-income persons by household earner arrangement.*




An ELI person is a person aged 25 or older whose individual total income is at or below the 1-person HUD Extremely Low Income limit (30% AMI), in a household where no member's personal income exceeds the HUD Low Income limit for the household's size. Excludes 3.7M Other ELI persons (part-time workers and working seniors aged 65+) who do not fit any of the three groups shown. Source: ACS 2024 5-yr PUMS, HUD FY2023 income limits, and AEI Housing Center, aei.org/housing.

*Table 5: Extremely Low-Income Persons by Living Arrangement (by ELI Group)*

| Group | Living arrangement | Persons | Share | Median HH income | Modal HH category |
|---|---|---|---|---|---|
| Prime-age ELI workers | Married, spouse works | 3,997,150 | 34.1% | $57,461 | Above ELI |
| Prime-age ELI workers | Married, spouse does not work | 819,563 | 7.0% | $17,499 | ELI |
| Prime-age ELI workers | Living with other working adults | 3,938,977 | 33.6% | $58,675 | Above ELI |
| Prime-age ELI workers | Living with no other working adults | 2,977,060 | 25.4% | $15,000 | ELI |
| Prime-age ELI workers | Total | 11,732,750 | 100.0% | $41,999 | Above ELI |
| Elderly ELI non-workers | Married, spouse works | 2,121,846 | 15.2% | $62,800 | Above ELI |
| Elderly ELI non-workers | Married, spouse does not work | 4,826,863 | 34.6% | $30,586 | Above ELI |

| | | | | | |
|---|---|---|---|---|---|
| Elderly ELI non-workers | Living with other working adults | 1,782,600 | 12.8% | $61,763 | Above ELI |
| Elderly ELI non-workers | Living with no other working adults | 5,239,176 | 37.5% | $13,360 | ELI |
| Elderly ELI non-workers | Total | 13,970,485 | 100.0% | $26,046 | ELI |
| Prime-age ELI non-workers | Married, spouse works | 5,758,546 | 32.8% | $51,469 | Above ELI |
| Prime-age ELI non-workers | Married, spouse does not work | 1,903,361 | 10.9% | $16,032 | ELI |
| Prime-age ELI non-workers | Living with other working adults | 4,388,233 | 25.0% | $51,400 | Above ELI |
| Prime-age ELI non-workers | Living with no other working adults | 5,481,560 | 31.3% | $11,323 | ELI |
| Prime-age ELI non-workers | Total | 17,531,700 | 100.0% | $32,914 | Above ELI |

*An ELI person is a person aged 25 or older whose individual total income is at or below the 1-person HUD Extremely Low Income limit (30% AMI), in a household where no member's personal income exceeds the HUD Low Income limit for the household's size. Source: ACS 2024 5-yr PUMS, HUD FY2023 income limits, and AEI Housing Center, aei.org/housing.*

Family formation is key to understanding how the majority of low-income people navigate the housing market and the world in general. If we use the HUD ELI standard to measure family income, it is rare that two working spouses will meet that standard, even if each of them has an income underneath the ELI standard for their household. In fact, 81% of married prime-age ELI workers in multi-earner households wind up in a *non-ELI* household — their combined earnings push the household above the ELI threshold. Excluding those people from our analysis misses an incredibly important point — one of the most common paths out of ELI status is marriage, not because it increases anyone's wage, but because it combines two incomes into one household, they can achieve significant economies of scale in housing, transportation, utilities, entertainment, food, and other expenses.

This type of agency is not limited to workers. 33 percent of prime-age ELI non-workers live with a working spouse, and more than half live with another working adult. A majority of each of these groups lives with a family member. More broadly, families are a key mechanism for avoiding poverty and providing support to low-income people.

That isn't to say that families are, or should be, the only such mechanism. But it is a primary mechanism ELI and LI workers use to take control of their housing options, and it is rendered invisible in *The Gap*. Further, it is an indicator of the direction from which we can look at safety mechanisms for low-income people, starting at the most local first — the person, then the family, then neighbors (think roomers), then the city, then the state and

federal government. Our data suggest that most low-income people are already trying to solve their housing problems at the first three levels. The correct next step is to fix the city and state housing restrictions that curb agency and rob low-income families of choice.

## Better Measures of the Shortage Point to Better Solutions

Seniors who can't work, people with severe disabilities, and single caregivers with extremely low incomes have real needs, and *The Gap* is correct in noting that markets alone may not meet them. We do not deny that targeted subsidies have a role in serving some households. But unaffordable housing affects all income groups in the United States, and that, too, affects ELI households. When subsidies designed for them are spread to VLI and LI households because those groups can't find market-rate housing either, ELI households get less.

We can see this in the current federal subsidy data in Table 6. Weighting across Housing Choice Vouchers (HCV), public housing, project-based Section 8, and the LIHTC tax expenditure, roughly one quarter of the $71 billion in annual federal housing-assistance dollars flow to households above the ELI threshold.[9][10][11] To the extent any meaningful share of these programs serves non-ELI households, it does so because markets have failed to build (or have been prevented from building) homes those families can afford to live in.

*Table 6: Federal rental assistance programs by ELI targeting*

| Program | Annual spend (≈) | ELI share of recipients | Non-ELI share |
|---|---|---|---|
| Housing Choice Vouchers | $32 B | 79% | 21% |
| Public Housing | $8.5 B | 74% | 26% |
| Project-Based Section 8 | $16 B | 82% | 18% |
| LIHTC (tax expenditure) | $14 B | ~57% | ~43% |

[9] HUD PD&R, *2023 LIHTC Tenant Tables by State*, Table 9, "Total Annual Household Income Relative to Derived Area Median Gross Income." Matched tenant-property sample; California did not submit 2023 data. https://www.huduser.gov/portal/datasets/lihtc/tenant.html

[10] HUD, *A Picture of Subsidized Households*, U.S. Totals, December 2025 snapshot. https://www.huduser.gov/portal/datasets/assthsg.html

[11] Weighted composite of HUD *Picture of Subsidized Households* 2025 (HCV, public housing, project-based Section 8) and HUD PD&R *2023 LIHTC Tenant Tables*, with program-level spending weights drawn from HUD's FY2025 Budget in Brief and JCT's 2024 LIHTC tax-expenditure estimate. Non-ELI share ≈ 25% when dollars are weighted across the four programs.

Sources: HUD *Picture of Subsidized Households* 2025; HUD PD&R *2023 LIHTC Tenant Tables* (Table 9); HUD FY2025 *Budget in Brief*; JCT *Estimates of Federal Tax Expenditures for Fiscal Years 2024–2028*. See footnotes below.

The housing policy solution to this problem is to improve the affordability of housing options facing low-income people, both directly and indirectly. Building more housing at prices the median consumer can afford has three effects — first, to make housing immediately more affordable for working and middle-class families. Second, to facilitate navigating the market through family formation. Third, to allow the rest of the housing to filter down to people with lower incomes. Allowing the market to provide housing for them makes the federal government's job easier, and would allow more of the current subsidies to go to low-income families — giving them more opportunities to express their own agency and preferences.

**The Unintended Consequences of Subsidy-First Solutions**

*The Gap* endorses a dramatic expansion of federal rental subsidies for ELI households, including 250,000 new vouchers, $445 billion for the Housing Trust Fund, and expansion of LIHTC. NLIHC is certainly correct that at least some ELI households need assistance — there are people who cannot work, who are isolated, or who otherwise cannot afford housing on any market. For such people, portable housing vouchers are likely a least-bad solution, avoiding the cost, corruption, and complexity that infects, for example, LIHTC housing.

However, expanding subsidies as the primary response to the ELI shortage can have three counterproductive effects. First, they can create a lock-in effect. Housing subsidies based on income criteria can disincentivize marriage and family formation by de facto penalizing people with ELI incomes who marry and combine their incomes. It also creates a disincentive for people to increase their incomes, as their subsidy income would correspondingly decrease. This is the general welfare-cliff problem that the Congressional Budget Office (CBO) has documented across the stack of means-tested programs, where some low-income families' effective marginal tax rates reach as high as 75 percent via welfare phase-outs.[12] Second, about half of all housing vouchers are directly or indirectly site-based, which imposes its own set of lock-in effects.

The largest problem with subsidies as the primary housing solution, however, is that they risk making housing less affordable, rather than more. The genesis of the housing supply shortage is the failure of cities around the country to allow more housing to be built. This functions as a supply constraint, driving prices higher. If we increase demand by throwing more money into a housing system that doesn't provide sufficient supply, the net effect is

[12] Congressional Budget Office, *Effective Marginal Tax Rates for Low- and Moderate-Income Workers in 2016*, November 2015. https://www.cbo.gov/publication/50923. Most recent version as of April 2026.

to raise prices.[13] This means that ELI people would benefit less than expected, and that the next groups of low-income households (VLI and LI) would suffer from higher home prices as well, having been made relatively poorer without the benefit of subsidies.

As a nation, we have run a natural experiment on the differences between these two approaches, and seen their results. Since 2000, California and Texas have seen parallel increases in housing demand. In response, Texas and its cities have enabled its markets to build more housing. California has increased its subsidies while stifling its markets. We've now had nearly a quarter century of evidence on these policies, and the results are in:

- **Housing Construction.** Texas built about 200,000 homes annually from 2000-2024 (~10 units per 1,000 residents in 2000); California built roughly 91,000 (~2.7 per 1,000). In other words, since 2000, Texas has built at nearly 4 times California's per-capita rate.
- **Homelessness rate (January 2024 Point-in-Time (PIT) count).** California had 187,084 people experiencing homelessness, a rate of **4.8 per 1,000** population — roughly double the national rate of 2.3. Texas had 27,987, a rate of **0.9 per 1,000**. California alone accounted for 44% of all individuals experiencing chronic homelessness in the country.[14]
- **Net domestic migration.** Between 2020 and 2024, California lost roughly 1.47 million more residents to other states than it gained from them, while Texas was consistently among the top three states gaining from domestic migration.[15]
- **Population change, 2023–24.** California's net domestic loss in that single year was around 240,000 people; Texas's net domestic gain was roughly 85,000.[16]

Figure 6 plots employment growth against home price appreciation for U.S. metros over 2012–2019 and shows the same pattern at the metro level: places that built housing

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[13] Susin, S., "Rent vouchers and the price of low-income housing," *Journal of Public Economics* 83(1), 2002, pp. 109–152. https://www.sciencedirect.com/science/article/abs/pii/S0047272701000810

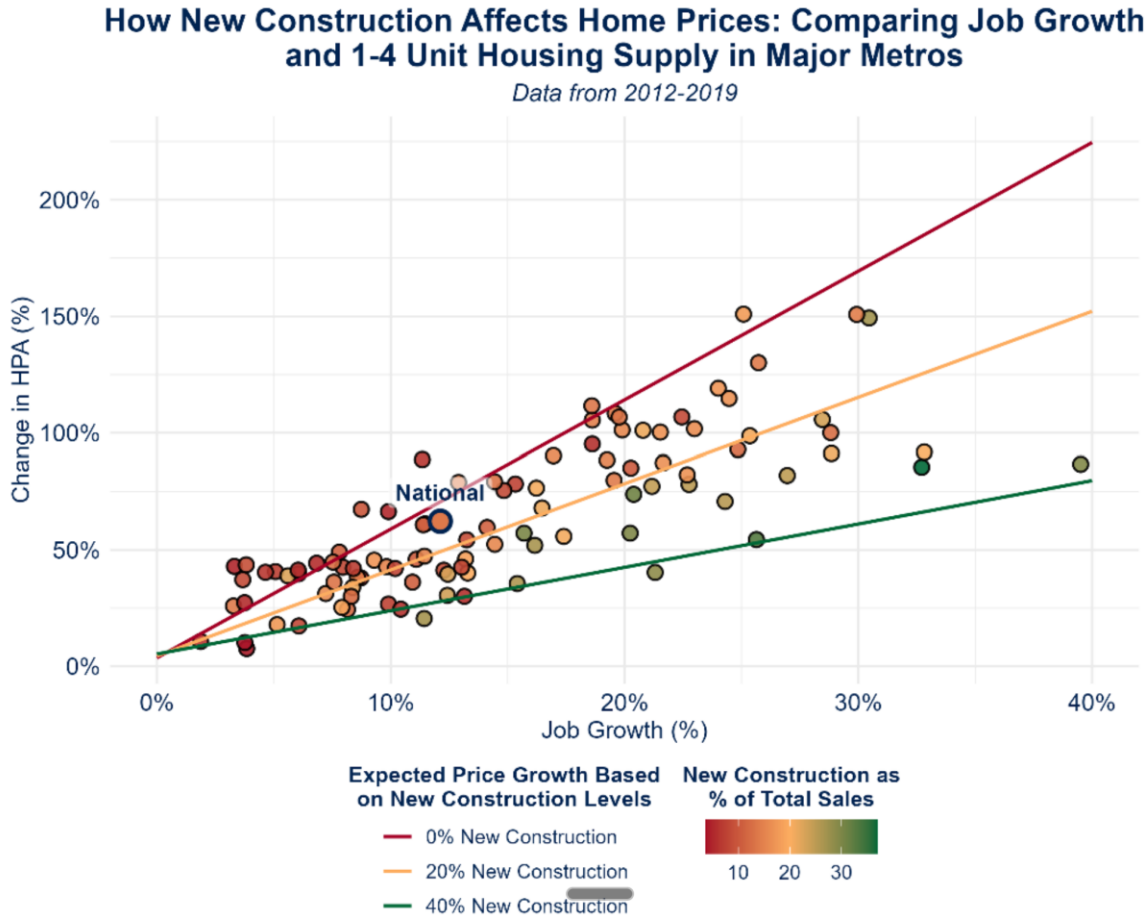
[14] HUD Office of Community Planning and Development, *The 2024 Annual Homelessness Assessment Report (AHAR) to Congress, Part 1: Point-in-Time Estimates of Homelessness in the U.S.*, December 2024. https://www.huduser.gov/portal/datasets/ahar.html

[15] U.S. Census Bureau, Vintage 2024 Population Estimates, state-level components of change. https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-total.html

[16] U.S. Census Bureau, Vintage 2024 Population Estimates, state-level components of change. https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-total.html

broadly kept prices in check even as they gained jobs; places that restricted supply saw prices rise fastest.[17]

*Figure 6: How new construction affects home prices: comparing job growth and 1–4 unit housing supply in major metros, 2012–2019.*




*Source: Freddie Mac, BEA, and AEI Housing Center*

The evidence shows that the priority between supply and subsidies should be reversed: fix supply first, then target subsidies to the people who remain unable to afford housing in a functional market.

**The Supply Solution**

The solution to overly expensive housing is, simply, to build more housing, particularly in the markets with the highest shortage, properly measured. We recommend doing so

[17] Peter, T., Pinto, E., and Gailes, A., *Strong Foundations: A Playbook for Housing and Economic Growth* (AEI Housing Center, 2024), National Playbook edition. https://aeihousingcenter.org/playbook/

through three simple, effective options aimed at adding supply at the middle of the housing market:

- **Lot size flexibility in new subdivisions** — setting minimum lot sizes at no more than 1,200 square feet enables starter homes and townhomes at a median price 12% below today's. Projection: **518,600 additional single-family homes per year**.[18]
- **Home dwelling type and lot split flexibilities on existing lots** — allowing duplexes, triplexes, townhomes, and accessory dwelling units (ADUs) on single-family lots. Projection: **502,000 net new homes per year**.[19]
- **Flexibility to build homes near jobs** — allowing residential development by-right in commercial and industrial zones. Projection: **512,000 net new homes per year**.[20]

These are strategies that actually work to build new, naturally affordable housing for middle-class and working families. Together, these market-based solutions could resolve the nation's housing shortage within the next decade. The AEI Housing Center *Strong Foundations* Playbook contains the full housing supply framework for every major city in the nation.[21]

The states are already leading the way. In 2026 alone, 25 state legislatures have one or more bills pending, enacted, or passed that have total or partial alignment with AEI Housing Center Playbook Options 1-3.

*The Gap* identifies a real crisis facing ELI renters. But even for that population, the measure it uses doesn't predict the outcomes we'd expect from a genuine shortage — homelessness, overcrowding, or housing cost burden. The population it studies excludes most people with low incomes, and the solutions it proposes risk making the crisis worse for the very people it aims to help.

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[18] Peter, T., Pinto, E., and Gailes, A., *Strong Foundations: A Playbook for Housing and Economic Growth* (AEI Housing Center, 2024), National Playbook edition. https://aeihousingcenter.org/playbook/

[19] Peter, T., Pinto, E., and Gailes, A., *Strong Foundations: A Playbook for Housing and Economic Growth* (AEI Housing Center, 2024), National Playbook edition. https://aeihousingcenter.org/playbook/

[20] Peter, T., Pinto, E., and Gailes, A., *Strong Foundations: A Playbook for Housing and Economic Growth* (AEI Housing Center, 2024), National Playbook edition. https://aeihousingcenter.org/playbook/

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*The Gap* itself recommends zoning reform, and on this we agree. But it claims that such reform "will not address the housing needs of the lowest-income renters" and treats subsidies as the first-order solution. Our data shows otherwise: most people earning ELI-level wages already find housing through the market, owned and rented homes, in single-family homes, through household formation, with and without vouchers. The priority should be reversed: fix supply first, through market initiatives that make housing affordable for all. This expands choice and agency for low-income families, and makes it easier to target subsidies to the fewer people who will need them.