

To Make Homes Affordable Again, Someone Has to Lose Out

Young Americans need home prices to fall. Existing owners don't want to take a hit. By Carol

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Trapped renters want home prices to fall so they can finally get onto the property ladder. Millions of existing owners want values to stay high. These and other conflicting interests make it hard for policymakers to give young Americans a leg up in a brutal housing market. Note

President Trump is heeding anger about housing affordability ahead of the midterm elections, and the administration has been drip-feeding ideas about how to tackle the issue.

A 50-year mortgage and a proposal to order Fannie Mae and Freddie Mac to buy billions of dollars of mortgage bonds to push down borrowing costs have been floated. Earlier this month, Trump suggested banning Wall Street investors from buying any more single-family homes. He is also expected to announce a plan at Davos to let Americans tap their 401(k)s for a down payment.

Policies that give home hunters extra buying power, such as a 50-year mortgage and lower rates, do nothing to address the underlying housing shortage and could even push prices higher.

If mortgage rates were to fall to, say, 4.5% without a pickup in new housing supply, home prices would increase by a tenth over the next three years, according to an analysis by the AEI Housing Center. Note

Evicting institutional landlords from the housing market won't move the needle, either. Wall Street investors own only 1% of U.S. family homes, though their share is higher in parts of the country such as Atlanta and Nashville, Tenn., based on data from John Burns Research & Consulting.

The reality of what would be needed to make homes affordable again is stark, and shows why there is no simple fix for housing markets.

According to an analysis by Realtor.com, one of three things would need to happen to bring affordability back to 2019 levels. The group defines that as when a buyer on a median household income spends around 20% of their monthly pay on the principal and interest payment for a median-priced home.

If home prices and mortgage rates remain stuck where they are today, a 56% increase in the median household income to \$132,000 is needed to return affordability to where it was six years ago. Wages are rising faster than home values, but it would still take around a decade to inflate incomes to this level. (1) - Note

(2) Or, mortgage rates would have to fall to 2.65% to give home hunters the same buying power they had in 2019, which is very unlikely outside of a major recession. Lower rates could also be counterproductive unless there is a corresponding increase in the housing supply, as cheaper borrowing costs would be capitalized into higher home prices. - Note

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The third way back to 2019 affordability is for home prices to fall 35%, based on the Realtor.com analysis. *Note*

Note
Yet policymakers will be hesitant to address the housing crisis with measures that harm values, such as subsidizing a gush of new supply. For 88 million U.S. households that already own their property, the housing market is a major success story. As of the third quarter of 2025, they were sitting on a near-record \$34.4 trillion of housing equity, an increase of nearly 90% since right before the pandemic, the latest data from the Federal Reserve show. *Note*

Trump acknowledged this tension in December. "You create a lot of housing all of a sudden, and it drives house prices down. So I want to take care of the people that have houses that have a value to their house that they never thought possible."

Builders are also reluctant to create a flood of new supply in case this dents prices and profits. Lennar's chairman said on the company's latest earnings call that "short supply can't be fixed by simply adding supply" since this approach would hurt Americans who have already bought.

Another reason the government can't pour cold water on home prices is the potential consequences for the wider economy. The wealth effect that has been propping up consumer spending is primarily driven by the stock-market boom, but high home prices are likely helping too.

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More owners are beginning to tap their equity, which could keep the U.S. economy humming a while longer. Home-equity loans are the fastest-growing category of consumer credit, although from a low base, according to Mark Zandi, chief economist at Moody's Analytics.

It is hard to come up with a national policy to boost housing supply, anyway: Land-use restrictions and zoning laws are set by more than 33,000 different local entities across the country. Things are beginning to move in places where the housing supply is especially crunched. Last week, New York state loosened environmental rules to try to speed up housing construction.

The Trump administration is trying to walk a fine line on housing. Frustration among young Americans who haven't been able to buy their own homes needs to be tackled in a way that doesn't puncture swollen housing equity.

For now, White House proposals are about grabbing headlines that may play well with voters. These won't change the fact that housing remains a zero-sum game.

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