Housing Costs: Challenges and Opportunities

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Good afternoon and thank you for joining us in Kansas City today.

One of my favorite parts of this job is talking with 10th District business leaders and community leaders about the challenges they face and the opportunities they see. These conversations not only add a personal touch to economic data but often reveal things that are missing from the statistics. One issue that comes up frequently is housing and especially concerns about housing affordability.

For many households, high housing costs are making it difficult to buy a first home, build equity and save for the future. This increases demand for rental units while simultaneously raising costs to build multi-family housing. High prices and rents can make it hard to move to a new community for job opportunities. For businesses, a lack of affordable housing makes it harder to attract and retain workers. And for communities, the ability to provide housing is increasingly important for supporting broader economic development.

Housing affordability is often discussed in terms of house prices and mortgage rates, because those are the factors that we confront directly when buying a home. But these are downstream from what I want to focus on today: the cost of providing housing. Building a home requires skilled workers, materials, financing, and time. All of these things have become more expensive in recent years. At the same time, the basic process of building a home has barely changed for decades, despite technological advances that have transformed how we supply nearly every other type of good and service. The question is therefore: If we've found ways to make automobiles, appliances, and other manufactured products more efficiently over time, why has it been so difficult to do the same with housing?

Today, I'll discuss some of the factors that have increased housing costs, including demographics, labor availability, material costs, and regulation. I'll also consider how growing competition for capital, particularly from the enormous investment taking place in artificial intelligence, is increasing the cost of funding for home builders. And finally, I'll discuss opportunities to improve productivity in the housing sector through changes in land-use regulation, factory-built housing, and AI itself. My central point is straightforward: Over time, making housing more affordable will require finding ways to produce it more efficiently.

Cost Challenges

Let me begin with the affordability challenge. Over the past several years, we've seen a substantial increase in the cost of homeownership. Prices rose sharply during the pandemic and while home price growth has moderated in many markets, prices remain elevated relative to household incomes. At the same time, mortgage rates have increased considerably from their unusually low levels between the global finance crisis and onset of Covid-19. Research from the Kansas City Fed illustrates the magnitude of this double whammy on housing costs. Between 2018 and 2024, the average share of household income required to purchase a median-priced home increased from 23 to 33 percent in metropolitan areas. Even outside of cities, the cost rose significantly, with the share of income required to purchase a median-priced house rising from 19 to 26 percent. These are meaningful changes, particularly for younger households, often with lower incomes, trying to buy their first home.

Importantly, this isn't just a story about the traditionally expensive coastal housing markets. We are experiencing it here in the middle of the country as well. In parts of Colorado, strong demand for housing and high land values have driven up prices for years. In metropolitan areas like Kansas City and Omaha, builders face higher construction costs. And in smaller communities across the 10th District, it can be difficult to find enough skilled workers to build homes even though the cost of land may be relatively low. In some rural communities, the cost of constructing a new home can even exceed its expected market value, which creates challenges for financing and can discourage construction even when there is demand for additional housing.

In short, communities face a wide array of challenges that point to a common problem: Housing production is costly.

One important contributor to high prices is the cost of labor. Homebuilding requires a wide range of skilled workers who must coordinate their labor. Concrete workers must lay a foundation before carpenters can frame a house before plumbers and electricians can do their jobs, etc. When one part of that process is delayed it affects the entire project. And finding enough skilled workers has become a persistent challenge, in part because of demographic trends affecting labor markets in general.

First, like the country as a whole, construction workers are getting older. The average age of construction workers has risen from 39 to 42 since 2000, and the share of workers over 55 has more than doubled to 22 percent. Across the 10th District, aging in the construction sector is

equally acute. As experienced workers retire, builders must recruit and train replacements. Lower expected immigration rates exacerbate this problem because residential construction has historically relied on a substantial number of foreign-born workers.

Second, homebuilders compete for workers with other industries. Following the housing market collapse of 2007, residential construction employment fell dramatically and took many years to recover, despite improved housing demand. More recently, investments in manufacturing, energy development, and infrastructure projects all create demand for skilled tradespeople who are often the same workers needed to build homes. For example, since the AI buildout began in earnest, we have seen the real wages of electricians grow significantly faster than other workers, especially over the last year.

Finally, construction is inherently local. A shortage of electricians in western Nebraska cannot necessarily be solved by an abundance of electricians even a hundred miles away. Moving workers to where they are needed requires housing for them, which creates a circular problem. Communities need construction workers to build housing, but without enough housing they cannot attract them in the first place.

Labor isn't the only cost pressure facing builders. The materials required to build a home have also become substantially more expensive. Lumber, steel, copper, concrete, insulation, and other inputs have seen significant price increases in recent years. Some of those reflect supply chain disruptions and others are due to competing demand, transportation costs, and tariffs. These costs amount to the lion's share of the cost of building a new home, and their effects can be particularly significant in rural communities with high transportation costs. Ultimately, to bring down the cost of housing we need to find a way to produce homes with less labor and fewer materials than before. Or in other words, we need to increase productivity in housing construction.

Zoning and regulation are factors affecting housing affordability that can be alleviated through policy rather than productivity. To be sure, zoning restrictions, building codes, and environmental rules serve important purposes. They manage land use, ensure safety, and reduce environmental externalities. But these types of regulations can limit housing supply and increase construction costs. For example, the National Association of Home Builders reports that the share of construction costs incurred due to permit and impact fees increased from 1.9 percent in

1998 to 3.3 percent in 2024. This is a considerable increase even before considering the cost of time lost during the zoning process.

Before construction even begins, developers must receive approvals on zoning, environmental review, permitting, and inspections from several different agencies. This process can take months and has lengthened significantly over time. Research from the Atlanta Fed found that the median permitting time has increased by five months since the mid-2000s; it now takes longer to plan and permit multi-family housing than it does to actually build it.

This brings me back to the importance of improving productivity in home construction. Recent academic research suggests that restrictive regulation extends beyond the direct costs of acquiring approval to the efficiency of the construction sector in general. Restrictions on development can limit the size of projects and the firms that build them. Smaller projects make it more difficult to achieve economies of scale and smaller firms have less incentive or resources to invest in new technologies.

Importantly, the increase in zoning and permitting delays occurred during a period of low borrowing costs that likely alleviated their burden on developers, but rates have since climbed higher. The increase in long term real interest rates we have seen since 2022, and especially this year, makes lost time due to permitting even more expensive. Consider a developer who borrows $10 million dollars to acquire land and begin a housing project. An extra five months to zone and permit cost $250,000 when land acquisition loans had a 6 percent APR, but $415,000 now that those rates are closer to 10 percent (NAHB Survey on Acquisition, Development & Construction Financing 2026 Q2). Effectively, a higher rate environment makes it even more important to speed up the regulatory burden on home building.

Now, you may be thinking, “Yes, communities can reduce the zoning and permitting burden, but can’t the Federal Reserve help on interest rates?” That’s a fair question. On one hand, our price-stability mandate requires that we set the policy rate to control economy-wide inflation rather than favor one sector over others. However, the loans used to acquire land and build housing are often priced on longer term interest rates, which have risen much more than the policy rate that the Fed controls. Much of the recent increase in longer-term interest rates appears to reflect factors beyond monetary policy, such as the extraordinary expansion of investment in artificial intelligence. With global markets shifting capital to the AI buildout, and interest rates

moving up, a higher cost of building delays may be unavoidable, whereas the length of those delays is something that can be controlled by policy.

In summary, we face the challenge of building more homes with fewer workers, more expensive materials, and higher funding costs. Alternatively, we are presented with the opportunity of finding productivity gains in a sector that has trailed the rest of the economy for generations.

Opportunity Areas

I would now like to provide some areas where I see that opportunity at present.

One area of opportunity is bringing the production of housing closer to the processes that are widespread in other industries. Currently, most homes are still built largely on-site. Materials and workers are brought together at a particular location, where construction proceeds through the series of steps reliant on coordinating skilled tradespeople and hoping for good weather.

An alternative is factory-built housing, which I have recently seen up close when visiting a manufacturer in our district. At the facility, workers construct housing units in a factory before transporting them to building sites for final assembly. As a result, workers can specialize in particular tasks, equipment can be used repeatedly and automation can be leveraged as in any other manufacturing industry, and weather-related interruptions are significantly reduced. These are all textbook examples of productivity gains.

Of course, no one policy change is a silver bullet. Transportation and material costs are unavoidable even with factory-built housing. But perhaps the cost that has been most detrimental to manufactured housing is regulation, which affects construction costs more generally. This is my second area of opportunity and one that our guest Aaron Hedlund has been directly involved in at the national level.

Much of the discussion about zoning focuses on whether communities should allow more housing. Allowing more homes to be built on a given parcel can reduce land costs per unit, but this “gentle density” can also create opportunities for more efficient construction. For example, building several townhouses together allows contractors to use equipment and labor more efficiently with less downtime relocating across sites. Standardized designs, either manufactured or built onsite, can reduce architectural and engineering costs. And more predictable permitting can reduce delays and financing costs.

In fact, many states and communities are exploring these ideas by changing land-use rules to allow accessory dwelling units (ADUs) and duplexes across wider areas. In our own district, Colorado has taken strong measures to ease land-use, including legalizing ADUs, requiring local governments to permit for higher-density development, easing minimum parking requirements, and allowing organizations such as schools and public housing authorities to build on non-residentially zoned land. While it will take time to see how far these policy changes go and to measure their productivity effect, these measures aid in housing affordability.

For my final area of opportunity, I'd like to look at the potential of AI. As I have said, the buildout of data centers is causing competition for resources and is possibly raising the cost of housing construction. But the impetus for the AI buildout is its potential to change how businesses operate across the entire economy, including in construction.

Building a home is complicated. Architects, engineers, suppliers, contractors, lenders, and regulators all work together. Each of these partners must process large amounts of information and communicate with one another frequently. Any mistake along this line of communication can lead to an expensive delay. Bringing AI into the mix can help coordinate and avoid costly errors. Naturally, it can help with general tasks like materials ordering and labor scheduling, much like in any sector. However, it can also speed many housing-specific steps, from the initial design by architects to the application and processing of zoning permits.

For example, California has recently announced an initiative to provide AI-assisted plan-checking technology to Los Angeles city and county governments. The technology uses computer vision, machine learning, and automated rules to evaluate building plans against applicable requirements. The goal is to identify potential problems before applications are submitted, thereby reducing the number of times that plans have to be sent back to developers for revisions. Nationally, the Department of Housing and Urban Development has identified AI as a potential tool for expediting permitting. In our own district, smaller communities with limited staff may especially benefit from this technology.

To conclude, housing affordability is an ongoing challenge that, absent concerted efforts, could become even more challenging. The inputs to build housing are likely to get more expensive due to demographic trends and rising material costs. We must redouble our efforts to bend the trend in the housing sector's productivity upward by seeking new methods to build, allowing for efficiencies in scale, and leveraging new information technologies to their fullest

potential. I appreciate the opportunity to share my thoughts with you, and I'm excited to hear your views on how to move forward.