Financialization and the Future of Housing: Structural Drivers of America's Affordability Crisis

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Executive Summary

Financial and housing markets in America have become increasingly interrelated and volatile, often serving as barriers to economic stability for young people, low-income families, and communities of color. Home prices have outpaced wages, and rents are at all-time highs. Corporate investment in residential real estate has changed entire neighborhoods. Interest rates and financial market policy dictate who gets a mortgage, and by how much. Together, these factors have created a national housing affordability crisis of cost burdens, displacement, and inequitable access to homeownership. This brief unpacks some underlying structural causes and offers policy proposals to restore fairness and a sustainable, affordable housing market.

Background

Historically, housing markets in America were the product of largely local actors, local conditions, and local dynamics. Composed of individual homeowners, community banks, neighborhood landlords, and other small players, residential housing markets operated on local supply and demand and a multitude of small property sales. Over the last thirty years, housing has been increasingly financialized. Beginning in the 1990s and sharply accelerating after the 2008 financial crash, large corporations and private capital began buying many homes in large numbers, converting them into rental units for families and consolidating ownership of entire communities. Structural features of these markets—the huge financial instruments of mortgage-backed securities and related products—chained neighborhood housing markets into global financial flows, making prices more susceptible to shocks and speculation. After the foreclosure crisis, hedge funds and investment firms used this financialization of housing to buy distressed homes for pennies on the dollar, leading to fewer housing opportunities for families and long-term supply shortages. Adding to the financialization is the fact that the U.S. underbuilt millions of homes in the last decade, creating a structural shortage of housing that continues to push prices upward.

Current Conditions: Affordability, Ownership Barriers, and Market Volatility

The U.S. currently faces one of the worst crises of housing affordability in history. Home prices have outdistanced median income by more than six times, and regular avenues to homeownership are closed to many first-time buyers. Rent is through the roof, with almost half of renters spending over 30% of their income on keeping a home. Starter homes, the first step of the housing ladder for a young couple, are just a tiny blip of industry new construction today. Increasing costs of living eat into young adults' incomes, who have next to no money saved to buy their first home and few avenues toward attaining housing stability.

A bull finance market has worsened the crisis a little. After a decade of historically low interest rates and with inflation lingering in the air, the Fed increased its rates significantly, and mortgage rates rocketed from about 2.7 percent in 2021 to about 7–8 percent in 2023–2024, which makes homeowning so much more expensive every month. It substantially dampens supply, because people who already own a house with a lower rate won't want to sell their home and give up their lower mortgage rate. Making sure interest rates stay high makes distressed assets slightly more ripe for harvesters, but also makes it less profitable to build more housing, since making loans more costly to developers stifles them and lessens the pool of housing this crowd of reapers can run at to try to score a hit and catch rent from renters.

By 2025, the data showed signs that were both negative and positive. Fully 21 percent of homes sold had been purchased by a first-time buyer; young people are being shut out of the market. Rates returned to 6.9 percent and flitted around the 6.2 percent territory by late 2025, a steep jet in the mortgage heavens that slowed buying trips to the hospitable (but treacherous) land of homes for sale. The whole thing is slowing, it feels, and the advent of new homebuyers is collapsing, with mortgage rates peaking around 6.9 percent. The inventory is very tight, which is no good, and prices have slowed a little bit, but have not substantially dipped downward for first-generation or low-income buyers. All signs indicate policy is needed: the market won't fix itself quickly enough to let housing settle back into an affordable state again.

One of the newer dynamics shaping housing markets in 2024–2025 is climate-related insurance instability. Over the last two years, State Farm, Farmers, and Allstate have pulled away from writing new homeowner policies in portions of California, Florida, and the greater Gulf Coast, where the risk of wildfires and hurricanes is too costly to insure against. In several states, insurance premiums have risen between 30–300 percent, and some homes are no longer insurable. Because mortgage lenders require proof of insurance, many homes in climate-vulnerable areas are effectively unsellable on the private market. "Homeowners who can't find affordable homeowners insurance are left renting, struggling to sell their homes, or selling their properties to investors," increasing displacement by pushing low-income families into even more precarious or climate-exposed housing. This insurance crisis is a new structural pressure on housing affordability and an additional financial barrier for young and first-generation homebuyers, especially in rapidly gentrifying neighborhoods.

Financialization & Our Communities

Financialization is deeply changing who owns our homes and how communities experience them. Private corporate investors that once owned only a small share of single-family rental properties now own portfolios totaling hundreds of thousands of homes, representing as much as one-third of home purchases in major metro areas. When neighborhoods are more than 75 percent held by corporate landlords, rents rise faster, evictions go up, and maintenance takes a dive. Communities of color targeted by predatory lending, appraisal bias, and discrimination in access to credit disproportionately suffer. With a white homeownership rate of about 72 percent versus 44 percent Black homeownership, this racial gap has grown to become a large part of the wealth divide in the country. Young people have been forced into adulthood before they are ready. Gen Z, most in their mid-20s and early 30s, are gripped by a housing market that explicitly denies them a place. Student loans, low wages, and rapidly increasing rents with no family wealth behind them, especially LGBTQ youth, youth of color, and youth in poverty, tend to find it impossible to save enough money to buy a house.

Demographic Impacts & Intergenerational Inequality

Housing instability does not hit every part of the population equally. The affordability crisis has led to a generational divide in access to wealth, stability, and economic security. Younger adults now face housing costs that are out of line with wages, even accounting for inflation. The average age of a first-time buyer is now in the mid-thirties, indicating the emergence of a “new normal” path to homeownership that is both delayed and curtailed. In the absence of affordable homes, younger generations find it nearly impossible to build wealth, start a family, or lay down a long-term financial foundation. These impacts are compounded for communities of color that are already saddled with the legacy of redlining, discriminatory lending, racially motivated appraisal bias, and other forms of racially motivated disinvestment. Black homeownership currently sits at its lowest in generations, nearly 25 percentage points behind white households. Latino and immigrant households additionally face the prospect of credit-score systems that penalize the lack of generational wealth access and long credit histories in the U.S. The churn of eviction and homelessness hits LGBTQ youth hardest, who, lacking family support or institutional protection, constitute some of the highest per-capita groups of evictees and homeless individuals in the country. Each of these demographic realities makes the housing crisis worse, compounding inequality and closing off access to upward mobility.

The Rental Market Crisis: Corporate Landlords, Evictions, and Rent Burdens

While homeownership is treated as the principal policy focus of the crisis, the majority of the country's low-income families and young adults live in rented homes, but the rental market has become increasingly inhospitable. Rents in nearly every major metropolitan area have risen faster than wages, pushing the average rent burden beyond the historically "affordable" threshold of 30 percent of income, often upwards of 50 percent for low-income tenants in many cities. A consolidation of the rental market by a small group of large-scale corporate landlords, who own tens of thousands of rental units and rely on higher rents and tenant turnover to profit, has intensified this pressure. These firms employ algorithmic pricing tools that drive "local" rents higher across wide geographies. Studies suggest that eviction rates are significantly higher in neighborhoods dominated by corporate landlords, and that their business models of escalating rents and aggressive fee structures are rewarded. Maintenance of living conditions in corporate-owned rental stock is often deferred or negligently undertaken, leaving tenants less protected and with limited recourse against negligent landlords. While the rental crisis is an independent matter of concern, it directly fuels the homeownership crisis behind it. Insufferably high rents prevent households from saving for a down payment, solidifying barriers to social mobility on one hand, while fostering chronic housing insecurity on the other. Without strong protections for renters, broader efforts to achieve housing affordability are doomed.

The effects on tenants are profound. Studies show that eviction rates are significantly higher in neighborhoods dominated by institutional landlords, where operating models reward rapid turnover, aggressive fee structures, and swift eviction filings rather than long-term tenancy.

Corporate owners are also more likely to impose ancillary charges—application fees, maintenance fees, late-payment penalties, "smart home" add-ons—that quietly raise total housing costs. At the same time, maintenance in corporate-controlled rental stock is often deferred or handled inadequately, as cost-cutting strategies prioritize investor returns over habitability. Tenants face mold, pests, plumbing failures, and unsafe building conditions with little recourse, especially in states with weak tenant rights or underfunded code enforcement.

Importantly, the rental crisis is not separate from the homeownership crisis—it is the bottleneck that makes homeownership inaccessible. When households devote half their income to rent, saving for a down payment becomes virtually impossible. Rising rents, stagnant wages, and escalating fees trap families in a cycle of permanent renting, preventing wealth accumulation and deepening long-term inequality. High rents also displace families into less desirable areas with weaker schools, limited transit, and fewer job opportunities, compounding generational disadvantage. These structural pressures collectively form a rental market designed for instability rather than security. Without strong tenant protections, limits on exploitative pricing practices, and accountability for corporate landlords, broader efforts to achieve housing affordability will fall short. The health of the entire housing system—homeownership pathways, neighborhood stability, and the economic futures of young and low-income Americans—depends on repairing the rental market, not merely expanding supply or lowering mortgage rates.

Roots of the Crisis

Every crisis has some roots. In this one, one root draws from restrictions of zoning and land-use rules such as single-family zoning, minimum lot sizes, the tenor of permitting, etc., that make it almost impossible to build enough, especially higher-density, lower-cost housing both socially and structurally in so many markets. At the same time, costs of homebuilding such as land, skilled labor, materials, etc. remain significantly above pre-2020 levels, limiting the amount of new construction going on across the country. In addition, areas that do draw demand as more remote work increases demand in suburban and rural communities already employ bid-up prices beyond what limited new construction is being attempted. Even besides mortgage rates, investor activity, and credit tightening, one of the greatest underlying causes of the pertinacious affordability crisis is the fact that wages have not kept up with rising home prices. Over the last half-dozen years, home values have shot up much faster than household income, leaving families who should be able to buy a home comfortably priced out. Although higher mortgage rates have marginally depressed demand, they've also kept existing homeowners from selling and made the financing of new construction more expensive. A recovery in affordability fundamentally has to rest on adding significant new housing supply—because, absent more homes, prices can't stabilize in a sustainable way.

Ultimately, zoning and land-use reform to allow new multifamilyism and mixed-use density for working families—the "missing middle"—becomes essential. Expanding affordable housing programs, a long overdue strengthening of the Low-Income Housing Tax Credit, and investment in public housing modernization are all crucial. Restoring some balance between large corporate investors and regular families seeking stable homes (capping large property owners, implementing vacancy taxes, reducing bulk buying) and expanding community land trusts and limited-equity cooperatives for permanent affordability are keys to preventing displacement from affordable homes.

Climate pressures for 2024–2025 make this urgency acute. As insurers turn away from risky states and push premiums through the roof, policymakers must strengthen insurance regulation, create public reinsurance backstops, and subsidize climate-resilient home upgrades—fire-resistant roofs, flood barriers, heat-mitigation retrofits—so that homes are insurable and mortgageable. To stabilize the housing market, we're going to need to make substantial investments in stormwater systems, wildfire buffers, elevated transit corridors, coastal protections, and other types of infrastructure.

But we need to invest in renter quality of life, too: stronger tenant protections, just-cause eviction standards, expanded rental assistance, localized rent stabilization, and reforms that allow renters to build credit from rental payments. For those who want to leave renting behind, the obvious follow-on solution is down-payment assistance, credit-scoring reforms that encompass rental payments, and specialized mortgage products for first-generation homebuyers.

States and cities can even experiment with anti-speculation taxes or "flipping taxes" that land in the affordable housing pot, or expand shared-equity homeownership models that would enable long-term affordability alongside a viable pathway for families to build wealth. And there's no way around it: we must carefully re-examine how we think about and govern the entire housing market. We must bring in stronger oversight of financial institutions and the systemic risk extrapolated by mortgage-backed securities, and do all of this without harming the ability of banks, credit unions, and community-oriented lenders to lend. Since it is youth who are the most "locked out of housing" today, federal and state homeownership incentives for this generation would be first-generation homebuyer tax credits, rental matched-savings programs, or capped-rate starter mortgages for 35-year-olds and younger. Youth burning the midnight oil now need to foil the flames of predatory housing markets later. That effort is worth the commitment.

The Rental Market Crisis: Corporate Landlords, Evictions, and Rent Burdens

While homeownership is the policy ideal of the crisis we are seeing, the great majority of low-income families and young people across America rent—and our rental landscape has been turned hostile. Rents in all major metros outrun wages and force the average rent burden above the historically “affordable” cap of 30% of income to more than 50% of the income of low-income tenants in many cities. The feed trough of the market is being consolidated into corporate hands, with a handful of big landlords controlling the ways in and out of tens of thousands of rental units in a web of higher rent and more rapid turnover in order to make a profit. Some of them are national firms that use programmatic pricing tools for increasing “local” rents at scale across regions, and evictions tend to be higher in the markets where there are higher levels of corporate landlording whose business models are rewarded for high rent and fees. The living conditions that tend to the stock of apartments owned by corporate landlords are often deliberately run into the ground, giving existing tenants fewer protections and leaving tenants with nothing resembling justice against their negligent landlord.

This rental crisis is deeply implicated in the homeownership crisis behind it. Infuriatingly high rent denies households the hard work of saving money for a down payment, and thus freezes social mobility on the one hand and drives chronic insecurity in family life on the other. Take effective tenant protections like rent control away, and general housing affordability initiatives are doomed. But it is important to note that while rent control is often seen as a lifeline for tenants, economists consistently warn that strict or poorly designed rent caps can discourage new construction, accelerate the deterioration of existing units, and push landlords to convert rentals into condos or short-term rentals. Big cities with hard caps on rent, like old-regime San Francisco or New York, have seen reduced supply of housing and misallocation of units over time. These harms are real and dangerous for the market. Research also shows that well-intentioned policies regarding rent control can produce significant unintended consequences. A major example is rent control. A 2018/2019 NBER working paper by Rebecca

Diamond, Timothy McQuade, and Franklin Qian on San Francisco's rent control expansion found that the policy led landlords to remove units from the rental market through condo conversion, owner move-ins, and other channels, reducing the supply of rental housing by about 15%. The reduction in supply eventually led to a city-wide increase in rent because demand remained the same and supply was further weakened by rent control. Short-term rental platforms like Airbnb are reshaping the rental market, turning long-term housing into temporary lodging. In cities where lots of multifamily buildings are rented in this manner, entire blocks of buildings are shoved into hotel form, eliminating all but a few apartments and driving the rents for them to even higher elevations.

Algorithmic screening tools represent yet another form of access blockage; many use rigid and opaque criteria to reject applicants. As with many of the algorithms in place today that purport to assess "risk," they use information such as credit scores, gaps in employment history, prior eviction filings, and income-to-rent ratios to determine whether or not to approve an applicant for a lease. The most problematic aspect of these tools is that they are designed to operate in a "black box" environment—decisions about whether to deny or approve the applicant occur in a matter of milliseconds, and there is little to no recourse available for the applicant. The design of these algorithms ultimately embeds existing social and economic inequities; Black and Latino renters, naturalized citizens, immigrants without long, United States–verifiable credit histories, and younger adults with little or no credit history disproportionately receive the "high risk" designation within screening algorithms. Furthermore, while the data points used to produce eviction filings may later be dismissed and/or resolved, by the time those algorithms are complete they create an unbreakable barrier to housing. Compounding this problem is the fact that many screening systems are based on outdated, incomplete, or incorrect data, and there is virtually no avenue open to a tenant to contest a data error that has been published by a screening service. As these systems exist within a regulatory grey area where neither fair credit laws nor housing-based regulatory agencies govern their use, tenants are left to navigate regulatory loopholes that allow for discriminatory outcomes without intention or knowledge. In addition, algorithmically denied access to low-income tenants does not merely create an inconvenience; the effects of an algorithmic denial are felt throughout the family unit, forcing families into lower-quality housing, informal rental situations, or overcrowded living facilities. When combined with larger structural restraints on rental housing—such as corporate consolidation, rampant or sky-high rents, the conversion of long-term housing units into short-term rentals, and the growth of algorithmically determined rental pricing—the rental market begins to function not as a ladder to homeownership but as a trap. Renting has now transitioned away from an intermediary step toward homeownership and has become a much longer and/or permanent state of housing insecurity, exclusion, and disadvantage. Furthermore, because algorithms are built into the decision-making framework for tenant access to a limited pool of rentals, restrictions on access are becoming normalized and codified. If policymakers do not rein in both the economic concentration of rental housing and the unregulated use of algorithmic screening technologies, the issue of fairness in rental housing will continue to be unattainable. Restoring equity is insufficient; what is needed is a complete rebalancing of power in order to ensure that renters are not locked out of housing by technology, corporate policies, or opacity before they even have a chance to locate a home.

Conclusion

The ways in which financial markets and the housing market interact create ripples that extend themselves sector by sector, ultimately producing consequences and affecting individual people directly. These impacts fall most severely on the shoulders of young people and permanently under-resourced low-income communities of color who are still in the grips of inequitable opportunity structures. The housing darlings of developers, investors, and those seeking financial profit over people's core need to live somewhere just can't survive in perpetuity. Reorientation toward people and not profit will require that we reimagine policy, invest earnest dollars, and return control of development to the community in the speculative gems called cities we call home. Housing is different than a box to tick off lists made of gold in the eyes of the beholder; it is our air, and the blessing of stable housing to breathe is deserving of holistic caring, planning, and leadership.

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