

**REBUILDING THE AMERICAN DREAM: POLICY AP-
PROACHES TO INCREASING THE SUPPLY OF
AFFORDABLE HOUSING**

HEARING
BEFORE THE
JOINT ECONOMIC COMMITTEE
OF THE
CONGRESS OF THE UNITED STATES
ONE HUNDRED EIGHTEENTH CONGRESS
SECOND SESSION

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JANUARY 17, 2024
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REBUILDING THE AMERICAN DREAM: POLICY APPROACHES TO INCREASING THE SUPPLY OF AFFORDABLE HOUSING

WEDNESDAY, JANUARY 17, 2024

UNITED STATES CONGRESS,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:29 p.m., in 216 Hart Senate Office Building, before the Joint Economic Committee, the Honorable Martin Heinrich, Chairman, presiding.

Members Present:

Senators: Heinrich, Klobuchar, Hassan, Welch, Fetterman, and Schmitt.

Representatives: Schweikert, Arrington, Ferguson, Beyer, Trone, and Porter.

Staff: Kobe Barthelemy, Matthew Cernicky, Sebi Devlin-Foltz, Ron Donado, Colleen Healy, Jeremy Johnson, Jessica Martinez, Michael Pearson, Alexander Schunk, Douglas Simons, and Garrett Wilbanks.

Chairman Heinrich. This hearing will come to order, and I would like to welcome everyone to today's Joint Economic Committee hearing, titled "Rebuilding the American Dream: Policy Approaches to Increasing the Supply of Affordable Housing."

Today's hearing will begin with five minute opening statements from myself, from Vice Chairman Schweikert and each of our four witnesses. We will then proceed to questions alternating between parties in the order of Member arrival. Members are reminded to please keep their questions to no more than five minutes, and now for opening statements.

OPENING STATEMENT OF HON. MARTIN HEINRICH, A U.S. SENATOR FROM NEW MEXICO, CHAIRMAN, JOINT ECONOMIC COMMITTEE

Chairman Heinrich. There is a serious housing crisis, in New Mexico and really all across this country, impacting people at all income levels in nearly every community. Whether they rent or own and whether they live in rural, suburban or urban areas, too many Americans cannot securely afford the place they call home.

Broad access to affordable, stable and safe housing helps ensure Americans economic well-being and social mobility. But the current housing shortage means the American dream of home ownership is out of reach for far too many. After the housing market collapsed

in 2008, new housing supply never recovered to keep up with demand, and the pandemic only compounded this crisis.

Exclusionary zoning adds to this problem, placing restrictions on where people can live and the types of housing they can live in, often enmeshed with discriminatory practices that have left a legacy of unequal opportunity.

At the same time, rents have been climbing over the past decade, and many lower income families are being priced out of their current neighborhoods. These same families are blocked from renting in higher income neighborhoods due to the absence of smaller, more affordable housing options. The Biden administration has taken historic steps to keep people in their homes, and to increase housing production.

They helped reduce the burden of housing costs during the pandemic, increased the supply of quality housing to their housing supply action plan, and took important steps to protect renters. The American Rescue Plan's State and Local Fiscal Recovery Funds also helped stimulate affordable housing construction and supports housing stability.

But more federal investment is needed to address the growing housing crisis and ensure fair and competitive markets for renters and homeowners. We need to increase the supply of safe, accessible and affordable homes. We need to lower rental costs and expand affordable home ownership so that families can build wealth and live safely in their communities.

The low income housing tax credit is one way that federal and state governments can help finance new building projects with affordable rental units. But that program is over-subscribed and in need of reform to make sure it reaches those most in need. The Bipartisan Affordable Housing Credit Improvement Act would increase the number of available credits to better meet demand, while changing program rules to make sure that more units are built to serve tribal communities, rural areas and other underserved groups.

I am a co-sponsor and strong supporter of this legislation, and in June I introduced the Delivering Essential Protection, Opportunity and Security for Tenants Act, also known as the DEPOSIT Act. This legislation would help low income renters overcome the barrier of security deposit payments when moving into new housing.

This legislation has also been introduced in the House, and we can also take note of state and local programs that have produced successful results. In my home state of New Mexico, local governments are leading efforts to finance additional affordable housing stock.

This past November, voters in Santa Fe approved a tax on home purchases that are over one million dollars, to increase revenue for the city's Affordable Housing Trust Fund. In Las Cruces, voters approved the issuance of a \$6 million general obligation bond to fund its Affordable Housing Trust Fund.

The initial investment could help leverage more than \$36 million in funding from state, federal and private sources, to create additional affordable housing units. These are important steps, but we need to do more at every level of government to meet the scale of

this crisis. I'm looking forward to hearing from our witnesses today on how we can replicate policies that work, and help create new approaches that will increase the quantity and available and affordable housing, and promote fair and competitive markets for both renters and homeowners.

Now I will turn it over to the Vice Chairman.

[The opening statement of Chairman Heinrich appears in the Submissions for the Record on page 34.]

OPENING STATEMENT OF HON. DAVID SCHWEIKERT, A U.S. REPRESENTATIVE FROM ARIZONA, VICE CHAIRMAN, JOINT ECONOMIC COMMITTEE

Vice Chairman Schweikert. Thank you Chairman Heinrich, and thank you for choosing this one. It's something that I think all of us are interested in.

One of the great discussions we're going to have, and I'm going to expect this from our witnesses, is this a financing issue or is it actually in many ways a supply of buildable opportunities? Whether it be taking down a former Motel 6 in parts of California where the neighbors shut it down, or things that have happened, you know, the famous story of in Berkeley, you know, one of the most progressive communities in America, not allowing affordable housing as neighbors, to even right here down the street here in Virginia, where the neighborhood, a very progressive voting one, had basically opposed.

For those of us in the west, we actually have lots of federal land but also state trust land. How much of that should be made available for future housing stock? And then there's the derivative of this, is what can we design in rules and regulations, particularly in a modernization of housing codes, construction codes, even into housing design, that we could update in a way to make more affordable but also improve the time-line.

In many of our communities, particularly for myself in Maricopa County, one of the biggest counties in America, when you want to build housing even if you have the land, it can take a couple of years just to get your entitlements. That is not something we're going to manage from the federal government.

But maybe there's some ways we can incentivize a much more one-stop process. The cities of Scottsdale and others have tried to build a model where come in it's one desk, one counter, one filing and you do it on one form to cut down, because of the cost of holding that money. Being someone who is in this business, sometimes we would acquire a piece of land and if you held it for three years before you got your entitlement, what did you have to make the pricing of the housing, just because of your legal, engineering and financing costs? So—Mr. Chairman, thank you for the hearing. But I look forward to an honest assessment, other than just subsidies coming from the federal government.

What do we do to help our brothers and sisters in the next generation of home ownership to develop the American Dream? And with that, I yield back.

Chairman Heinrich. Thank you Vice Chairman. Now I'd like to introduce our four distinguished witnesses. Ms. Jenn Lopez is an affordable housing consultant and the founder and president of

Project Moxie, an organization committed to the development of western regions in the U.S. She currently serves as board president for the Community Economic Defense Project, and was previously a board member at the Colorado Housing Finance Authority.

Prior to founding Project Moxie, Ms. Lopez led regional housing efforts in Southwest Colorado, and served as the state's first cabinet level Director of Homeless Initiatives for then Governor John Hickenlooper.

Dr. Jenny Schuetz is a senior fellow at Brookings Metro, a non-resident senior fellow at George Washington University's Center for Washington Area Studies, and an adjunct lecturer in Georgetown's Urban Planning Program. Dr. Schuetz previously served as a principal economist at the Board of Governors of the Federal Reserve System, an assistant professor at the University of Southern California, and a postdoctoral fellow at NYU Furman.

Mr. Tobias Peter is a senior fellow and co-director of the American Enterprise Institute's Housing Center. Prior to this role, Mr. Peter served as a regional—as a director of Research and Research Analysis for the Institute.

Dr. Salim Furth is a senior fellow, research fellow and director of the Urbanity Project at the Mercatus Center at George Mason University. Dr. Furth also worked at the Heritage Foundation as an assistant visiting professor at Amherst College, and as a contractor for the U.S. Department of Housing and Urban Development.

Ms. Lopez, we'll start with your testimony, and then we'll go down in the order of introductions. Welcome.

STATEMENT OF MS. JENN LOPEZ, AFFORDABLE HOUSING CONSULTANT, FOUNDER AND PRESIDENT OF PROJECT MOXIE, DURANGO, COLORADO

Ms. Lopez. Thank you Chair Heinrich and Members of the Committee. Thank you for the opportunity to testify today. My name is Jenn Lopez, and I'm president of Project Moxie, a consulting firm that helps non-profits, governments and private sector partners acquire, preserve and build affordable housing. I will be focusing on my work in the Southwest, and will conclude with policy considerations.

My experience in New Mexico began in 1997 as a graduate student at UNM, followed by my first job as a housing planner in Santa Fe. Over the past two decades, housing development in the Southwest has fallen behind the growing needs of families. Building activity slowed significantly after the Great Recession to ten percent over the last decade, a notable decline from the 30 percent average since the 1970's.

Factors contributing to the slowdown include builder and lender reluctance due to market conditions, a chronic labor shortage in the construction industry and a shift in the housing industry towards catering to higher income households. This imbalance is reflected in a 70 percent increase in rent in New Mexico since 2017, while wages have only gone up by 15 percent.

As market rate development has slowed, our industry's efforts to address supply at the local level have met with various obstacles. Throughout the Southwest, local land use policies pose significant

obstacles to increasing our housing supply. For example in Santa Fe, the Anchorum Health Foundation spearheaded the redevelopment of a motel in late spring of 2021. We are still awaiting final approvals from the local land use department.

This situation is not unique. In fact, Albuquerque, New Mexico recently initiated Housing Forward Albuquerque, aiming to allocate resources for the redevelopment of commercial properties, while also eliminating land use barriers for affordable housing development.

The competition within the private market for scarce resources and a shift towards higher end real estate products limits our ability to compete in the market to generate or maintain a supply of affordable housing. These challenges are particularly pronounced in Northern New Mexico, where private developers are acquiring real estate and reducing sites for affordable projects.

Moreover, preserving existing housing become impossible when competing against private investors, when our communities lack sufficient funding. In the past year, collaborative effort, including representatives from the New Mexico delegation, worked diligently to safeguard a USDA-funded rental community named La Vista Del Rio. This is in Espanola. Due to the structure of the USDA program, the property owner was permitted to sell this community to private investors without incurring penalties.

This marked the second instance of a USDA property being sold to investors, displacing over 100 households and a permanent loss of 145 affordable units. Access to tax credits and federal funding would have facilitated preservation and redevelopment of these properties.

The challenge lies in the insufficient availability of federal funds, posing a significant obstacle to scaling affordable supply to meet the needs of tens of thousands of cost-burdened New Mexicans. The stark reality is that if the market cannot provide affordable housing in New Mexico, renowned for its lower building costs, then accomplishing this feat anywhere is unlikely.

In 2023, the New Mexico Mortgage Finance Authority, as the state allocating agencies, financed 1,415 new affordable rental units. At this current rate, we are meeting less than one percent of the need. Since 2018, Maryann Chavez-Lopez, the local housing authority director in Socorro, has tirelessly lobbied for resources for a 30 unit project, and submitted multiple applications for tax credits.

Further delays ensued when gap funding was inadequately. Finally the project closed in financing last month, and it set to open in 2025, but it's taken eight years to get to that point. Our industry knows how to increase housing supply, but we cannot be successful without increasing federal resources and land use reform at the local level.

I'd like to pivot to some promising policy work in Colorado. In 2021, Colorado passed HB21-1271, providing grants to local governments willing to remove land use barriers to affordable housing. Another example is Colorado's Proposition 123, a voter referendum that established a \$300 million housing trust fund that provides flexible funds complementing existing federal dollars.

For a local community to access funds, they must commit to increasing their housing stock by nine percent, and implement fast track approvals. This incentive-based approach has changed land use reform conversations throughout Colorado.

In summary, our industry can swiftly scale our efforts. However, we need the federal government to significantly increase federal resources, and consider ways to support local land use reform. I urge you to consider pairing these two practices to bolster the economy. When we provide affordable housing, we house our local workforce, create jobs and stabilize our communities. On behalf of our New Mexico and Colorado communities, we appreciate your consideration of these solutions.

[The statement of Ms. Lopez appears in the Submissions for the Record on page 37.]

Chairman Heinrich. Dr. Schuetz.

**STATEMENT OF DR. JENNY SCHUETZ, SENIOR FELLOW,
BROOKINGS METRO, WASHINGTON, D.C.**

Dr. Schuetz. Chair Heinrich, Vice Chair Schweikert and Members of the Committee, thank you for the opportunity to be here today. My name is Jenny Schuetz. I'm a senior fellow at Brookings Metro.

U.S. housing markets currently face four major challenges. First, the U.S. is experiencing a persistent and widespread housing shortage. Over the past several decades, housing supply has become less responsive to changes in demand.

Population and job growth have not led to proportional growth in the number of homes, while prices and rents have increased faster than household incomes. Researchers estimate a shortage of nearly four million homes nationwide.

Second, the stock of existing homes is aging and needs substantial renovation to remain safe and habitable. As the number of older adults increases, there is a growing need to retrofit existing homes with accessibility features. Many older homes were not built to withstand current and future climate stresses.

Third, low income households cannot afford market rate housing without financial support. The poorest 20 percent of households spent more than half their income on housing, leaving too little cash to pay for food and other necessities. In 2023, more than 650,000 people were experiencing homelessness.

Finally, the combination of high housing prices and high mortgage rates are making it difficult for renter households to purchase their first home. The situation is particularly acute for younger adults, because they earn lower wages and have had less time to accumulate savings.

Tight housing supply and rising costs are not just a problem for impacted families. Building too few homes makes it harder for employers to attract and retain workers. Poor quality or unstable housing harms families' physical and mental health, especially for children.

Relaxing overly-strict regulations could increase housing supply and improve affordability. America's housing shortage is not simply the result of market forces. Local governments across the U.S. have

adopted policies that make it difficult to build more homes where people want to live.

These laws have become more complex and restrictive over time, especially in high opportunity communities. Single family exclusive zoning is one of the most common practices. More than three-quarters of lands in U.S. cities and suburbs is reserved exclusively for single family detached homes, meaning that rowhouses, duplexes and apartment buildings of all sizes are simply illegal to build.

This rule creates challenges both for affordability and for expanding housing supply. Single family homes with yards require more land per home than other structures, and therefore are more expensive to rent or buy. Additionally, many low density communities that were developed in previous decades are now built out under their current zoning. They have no remaining undeveloped land.

Rules such as large minimum lot sizes are especially problematic for the construction of small starter homes, that accommodated first-time homebuyers in previous generations. Limitations on manufactured and modular housing are particularly relevant in rural areas, where these homes have traditionally been an important source of moderately-priced housing.

The past several years have been an unprecedented amount of housing policy experimentation, often with bipartisan support. Cities including Albuquerque, Minneapolis and Raleigh have passed reforms aimed at legalizing missing middle housing types. State legislators from Massachusetts to Montana to Utah have passed statewide laws aimed at increasing the diversity of housing options.

The federal government could support healthier housing markets through four channels. First, HUD should coordinate and disseminate research on effective policy solutions, such as evaluating the outcomes of recent state and local zoning efforts. Second, HUD should leverage relationships with other federal agencies and the real estate industry to monitor real time data on the health of U.S. housing markets.

Third, HUD can encourage regional collaboration among housing authorities to preserve and expand affordable housing where it is most needed. Fourth, HUD should build up its triage and rapid response capacity to be better prepared for the next housing crisis.

Housing affordability has become increasingly urgent for many Americans over the past decade. Cities and states across the U.S. are experimenting with policy reforms, to increase housing supply and create more diverse options. The federal government can better support the work of state and local partners, as well as the real estate industry through strategically targeted efforts.

Thank you again for the opportunity to testify and I look forward to your questions.

[The statement of Dr. Schuetz appears in the Submissions for the Record on page 40.]

Chairman Heinrich. Mr. Peter.

STATEMENT OF MR. TOBIAS PETER, CO-DIRECTOR OF THE HOUSING CENTER, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, D.C.

Mr. Peter. Chair Heinrich and Vice Chair Schweikert, and distinguished Members of the Committee, thank you for the opportunity to testify today. Housing affordability issues are real for many Americans. In this election year, Congress is feeling the urge to increase the supply of affordable housing. Before taking any action though, it should first consider a couple of misconceptions.

Misconception No. 1. The housing supply shortage is a market failure. Not true. It is rather a government, regulatory failure. Actions of all levels of government, from the implementation of restrictive zoning laws to introduction of discretionary reviews in planning and rise of environmental laws and other regulations have made land scarce and homebuilding expensive.

This has restricted private developers from building enough housing to keep up with demand. As a result, today's housing shortage is estimated to be in the millions.

Misconception No. 2. The federal government can fix, or at least ameliorate, the shortage. Again, not true. The federal government has a poor track record in housing supply interventions. For example, the low income housing tax credit (LIHTC) established in 1986 to combat lack of affordable housing has done next to nothing to increase the supply of housing. According to one study, almost all LIHTC development would have been built by private developers without any subsidies.

If that's not enough, LIHTC also limits social mobility and the program is corruption-prone and complex, thus crowding out many smaller builders.

Misconception No. 3. The only way to add affordable housing is through subsidies and government programs. Not true. The root cause is government regulatory failure, and no amount of money can fix that. The literature is clear that the most effective way to add affordable housing is to build a lot of market rate housing, which helps tamp down home price and rent depreciation.

As new market rate housing is built, high income households will move into these new units, freeing up their now vacant lower-priced unit. This process known as filtering repeats itself further down the price ladder, as commonly seen in the new and used car market.

The true policy solution lies in zoning and land use reform at the state and local level. Such reforms would unleash the market forces to provide hundreds of thousands of new units without subsidies each year.

Misconception No. 4. Institutional investors, junk fees, rent pricing algorithms, air bnb, foreign buyers of vacant homes are responsible for widespread housing unaffordability. Not true. While these entities make easy scapegoats, they are at best symptoms of the supply-demand imbalance, not the root cause.

Misconception No. 5. Government can make housing affordable through various demand subsidies, such as looser lending policies, low mortgage premium or down payment assistance. Again, not true. Such practices increase demand against severely limited sup-

ply. This benefits those that own homes or the select few that receive the subsidy, but it raises housing costs for all.

Having dispelled these misconceptions, the solution to today's housing shortage becomes clear. First, the federal government needs to stay out. Congress is considering expanding the LIHTC program and creating the middle income housing tax credit, which would expand LIHTC to middle income households.

Such a massive expansion of the state would ultimately waste taxpayer money, crowd out more private builders and worst of all, it would do precious little to address the nation's housing supply shortage. It would also be bad policy for Congress or the administration to expand lending subsidies that would raise the cost of housing for all.

Second, zoning and land use policies are state and local issues and need to be tackled at these levels of government. Numerous case studies from around the country have shown that the formula for successful housing reforms is simple. Roll back government regulatory failures by allowing greater density in lots of areas, and make the rules simple and the process by right.

These actions will unleash the ingenuity of the American people by allowing builders of all sizes to build abundant, market rate housing over time. Fortunately, this is already happening, entirely without federal involvement. In 2023, Washington, Montana, Vermont followed Oregon and California in passing statewide reforms that allow moderate high density in the form of cost-effective ADUs, duplexes, triplexes and townhouses.

The federal government can amplify this trend by auctioning off under-utilized federal land without any strings attached for private market rate developers. As Senator Lee has pointed out, there are plenty of opportunities, particularly out west. More land means more building, which will translate into more filtering and greater housing affordability.

On the other hand, federal involvement to influence or even speed up state and local reform movements will result in complex, one-size-fits-all solutions that would therefore perpetuate the housing supply problem. To be clear, housing unaffordability is a self-inflicted wound stemming from a government regulatory failure. Supply reform requires no taxpayer subsidies, and if properly implemented, they have shown to work.

If more states and cities sign on, such reforms could provide hundreds of thousands of new homes each year, which would allow more Americans, even those of lesser means, to access their own American Dream. Thank you.

[The statement of Mr. Peter appears in the Submissions for the Record on page 47.]

Chairman Heinrich. Dr. Furth.

STATEMENT OF DR. SALIM FURTH, SENIOR FELLOW AND DIRECTOR, URBANITY PROJECT, MERCATUS CENTER, ARLINGTON, VIRGINIA

Dr. Furth. Good afternoon Chairman Heinrich, Vice Chairman Schweikert and Committee Members. Thank you for the opportunity to address you today. My name is Salim Furth, and I'm a

senior research fellow at the Mercatus Center at George Mason University, where I am co-director of the Urbanity Project.

Today, I offer a snapshot of housing affordability trends, and then detail how state legislatures are aggressively tackling the long-term causes of high prices. But much work remains to be done. It's a difficult era for renters. From 2000 to 2011, the share of income spent on rent rose from 25 to 31 percent, and it has remained high since.

Homebuyers are in better shape. As of 2022, the average brand new homeowner household spent less than 22 percent of its income on housing costs. Of course, the national trends conceal large, growing differences across regions. Home prices in the most expensive states are about 3.8 times higher than in the least expensive.

A pandemic-era preferences and policies contributed to a sharp increase in home prices and rents. The most important is that we spent more time at home. During COVID, roommates split up, families carved out home offices and parents opted to home school. The increase in demand for residential space appears to be permanent, so people will spend more on housing going forward.

The second recent shock was the sequence of interest rate movements. Mortgage rates tanked in 2020, and then spiked in 2022. Low rates allowed sellers to raise prices and homeowners like me refinanced. But when interest rates spiked, it did not have an equal and opposite effect on prices.

The low rates become golden handcuffs. The resulting lack of inventory for sale has kept prices high. Finally, housing was not exempt from economy-wide inflation, which has amounted to about 16 percent since January 2020.

As valuable as it is to understand recent fluctuations, long-term trends are even more important. To understand why, let's compare the Los Angeles and Oklahoma City Metro areas. Home prices in both cities are about 40 percent higher today than in January 2020.

That increase, however, was added to a base price of 683,000 in LA, but just 162,000 in OKC. As a result, the four-year increase alone amounts to three median household incomes in LA, but just one in OKC. So what explains the fourfold difference in baseline prices? Economists believe that the biggest factor is that OKC has allowed enough housing to be built to meet demand, while LA has not.

As a result, material living standards are higher in OKC even though nominal income is lower. The scarcity of housing in restrictive, high wage cities has deepened every decade. Through most of American history, large numbers of people have migrated from low to high wage places. No more. Now, Americans move to cities with attainable, modern housing.

Now the good news. State legislatures have taken seriously the role of local regulation and begun the long road to reform. California's efforts have received the most press, but some other states have gone further. In both Vermont and Montana, the governor and key legislators made zoning reform a top priority.

Local newspapers and organizations led a public conversation about the reach of zoning. The legislative leaders convened stakeholders, formally in Montana, informally in Vermont, and hashed

out consensus reforms to make it significantly easier to build housing.

For example, both states now allow duplexes everywhere in most towns, and both created new exemptions from state environmental review. In both states, these ambitious, extensive limitations of local regulatory authority received super-majority support from legislators in both parties.

And in both states, lawmakers are not done. They have promised to continue reforms in their upcoming session. Important strides have been made in many other states, including Oregon, Rhode Island, Utah, Washington and Wisconsin. In several other states, including Arizona and Colorado, reform efforts fell just short in 2023 because legislators in both parties were hesitant to limit city power.

Unlike many issues, this one cuts across lines. Legislators from both sides recognize the need for more housing, and legislators from both sides would prefer not to preempt local governments. For 50 years, the pendulum has swung too far to a local authority to restrict housing construction.

State legislators are now moving back toward balance, restoring the individual freedom to build and, we hope, durably increasing the supply of housing. Thank you.

[The statement of Dr. Furth appears in the Submissions for the Record on page 105.]

Chairman Heinrich. Thank you all. You know, I am a little bit struck by the fact that there is more—there are a number of disagreements here on how to move forward. But I think I heard all of you say that reforming exclusionary zoning is going to be key to solving this crisis. Do any of you disagree with that?

We'll just go down the line here. We'll start with Dr. Furth and go across to Ms. Lopez. Tell me what you think is most effective to incentivize that, and you're talking to someone who used to be the Land Use chair of the City Council.

So I know how contentious zoning changes can be. Liquor licenses, zoning changes. It gets, it gets very sporty in those council meetings. So how can we incentivize this, given the fact that all of you seem to agree that this reform is a key driver of how we address this crisis? Dr. Furth.

Dr. Furth. Thank you. I think that's best done at the state level, and that's going to be a mix of preemption, where you simply say there are things that should be allowed everywhere. For instance, there's no reason any city should be spending its time calculating parking spaces for developers. They can figure that out on their own. Let's just get the cities out of that business.

Then there's other things where you say hey, every city should have at least some zoning for multi-family housing. Maybe it doesn't need to be everywhere in the jurisdiction. Maybe we want to keep commercial and multi-family separate.

But at a minimum, there should be a place and Vermont actually has passed this into law. There's got to be a place in your town that allows for multi-family housing. Then there's—and so then there's a mix of state incentives there. I don't think the federal government has great tools for this.

Chairman Heinrich. Mr. Peter.

Mr. Peter. Yeah, I agree with Salim. I mean this is best done at the state and local level, probably at the state level is best. What we found in our research is that framing really matters at the local level. And of course, the NIMBYs are a group that need to be overcome. But if you frame the issue properly, we have found that this removing exclusionary zoning has been successful in California. They've passed reform in Washington, Oregon, Vermont, Montana and the list goes on and on.

But if you frame it around where are your kids and grandkids going to live, that seems to have an impact because older Americans are now realizing their kids, if they move across country, where they can afford a home, but if they're only going to see them once or twice per year, that's a real down side.

So that, the framing is very important. At the same time what we found is that the incentives are really aligned here. You can pull in a lot of groups that would benefit from it. Just to name a few, builders, realtors, bankers. More homes to build, mortgages to originate, loans to sell.

It's good for the environment because you are replacing—

Chairman Heinrich. I'm going to run out of time, so I'm going to keep going down the dais here. Dr. Schuetz.

Dr. Schuetz. I think it's helpful to think about localities in kind of two different buckets. There's a bucket of localities that don't want to change their zoning, they like it the way it is. The voters are not going to get on board, and so those are going to be the really hard places to change.

But there are actually a substantial number of local governments that know housing supply is a problem. They know that affordability is an issue voters care about. They want to do better, but they don't know exactly what to do. If you look at the list of zoning rules, figuring out which ones do you need to change to make it more effective to build, what are the kinds of structures that developers want to build in your community but can't, and how you get them there.

That's not always an obvious question. So I think one of the things actually the federal government is best suited to do is start doing some evaluation of the reforms that we're seeing, understand what kinds of policy changes are helpful in particular kinds of markets, and then provide that information that local governments that want to do better and just need the information. The other thing that local governments are struggling with is how to do community engagement in a way that doesn't privilege the voices of a few NIMBYs over often a very broad swath of people, including business interests, who would really like to have more housing.

And that's again something localities are starting to experiment with surveys and polls that tap into a much wider range of voters, figuring out how to do that and again, helping local governments do that better is something we could definitely do.

Chairman Heinrich. Great. Ms. Lopez.

Ms. Lopez. We've been talking about this since the 90's or even earlier, and at UNM we had a lot of conversations about this. But I finally have hope. The reason I have hope is that we're seeing some action in Colorado and I think New Mexico is interested in

following suit, and what's getting people excited about actually changing things is incentives.

So the state is going to fund housing. It does it, it always has. So adding the incentives of if you do these things, you get access to infrastructure money. Infrastructure is huge right now, right? We have old and aging infrastructure and then we have areas that are growing that just can't afford to do it.

So we're tying it to infrastructure. In Prop 123 we're tying it to just new pots of money, very exciting pots of money. Workforce, housing, homeless money, and we're saying look, we're not going to prescribe how you do this. We're going to tell you what the goal is. It's outcome-driven.

We want you to increase your base number of units and then I think what's really important is local communities need technical assistance. They're already overburdened, so if we can create best practices. I love collecting them and then help them implement. I think you get a long way there. So we're very excited about what's happening.

Chairman Heinrich. Great. Thank you all. Vice Chairman.

Vice Chairman Schweikert. Thank you, Mr. Chairman. I was just sort of looking up how many—being from Maricopa County, I accept it's a very large county, but you know, we get 100,000 new residents a year, you know, 300 plus a day. And first up, there's the demographic migration issue.

You know, what happens when you drive through parts of rural Kansas and it's been depopulated, and come to the Phoenix-Scottsdale area and, you know, you have bidding wars on homes as people are moving from California and those things.

So I want to make sure we're all being intellectually honest here. It's a housing stock issue but it's also a housing stock issue in regards to where there's jobs and people are choosing to live. And that's not going to be taken care of through a financing mechanism. It's going to become actually those are desirable areas as long as they have housing stock that's affordable.

I do have a couple of unusual questions, just because it's in front of mind. Do any of you have a specialty in sort of taxation and housing, because we've had a running debate, and I'll just jump on this because we've been talking about it.

Before getting elected, I actually ran some partnerships that bought lots of houses, and we've had a running discussion with some of our tax people being on Ways and Means. Here's the tax benefits you get as a homeowner. You get to deduct your interest, you get the once in a lifetime, you know, per person those things.

But if I'm a corporate entity, LLC, partnership, I get to component depreciate. I get to have a 1031 exchange and those things. Has anyone—have any of you ever seen a study where there's been actually a parity discussion on tax benefits compared to being the individual compared to being a corporate entity?

That's a little ethereal, and if not, I'm going to turn to my Chairman here and say why don't we try something bipartisan with our brilliant staff. Maybe we'd get the Democrat and Republican staff to assign someone and say take a run at this. It's an interesting question, and I've never actually seen it other than the numbers we've been trying to do.

Questions, and this is—let's do the same thing. Let's go from Ms. Lopez down the line. Give me something that's been successful at a community level, preferably in my case, unlike someone who has more rural America, you know, rural-suburban—myself, I'm all urban—that's been successful incentivizing a community to update its zoning practices? What's worked? What have you seen work? Ms. Lopez.

Ms. Lopez. So I just spoke about the state one. So local, I'm going to give an example from Santa Fe that goes back to the 90's, and I wish I could replicate it all the places I work. It was sort of an incentive and more of an action. They were very proactive.

So back in the 90's, the City Council bought their own—a failed subdivision, and what they did is they took care of the cost of land, zoning and infrastructure in one fell swoop. It's called tier contenta. It's a best practice and they also leverage private builders.

They said look government, let's do what we're good at. Let's lay the foundation to make it more market friendly solution to housing, and then get out of the way. What happened was they built hundreds, probably 1,500 homes over the last 16–17 years, mixed income. Now they're best practice. We love to see folks of all incomes living in the neighborhood.

So that's a package, but I think it's a really powerful one, and it illustrates how local government can be an engine and create opportunity.

Vice Chairman Schweikert. Doctor.

Dr. Schuetz. One example at the state level that I'm watching, along with my colleague Dr. Furth, is the new program in Massachusetts that requires all localities that have a commuter rail station or a T station to allow some multi-family.

And that was, you know, prompted both by the need for housing but also things like declining ridership on transits. You can kill two birds with one stone. We're still waiting to see how that's going to work out, and I will say that the best incentive to get local governments to update their zoning is when their voters show up and say housing is too expensive and we'd like you to do this.

But places that have done this have really had pressure from the voters, pressure from constituencies, and they really said this is something that actually can get them reelected the next time.

Vice Chairman Schweikert. Thank you.

Mr. Peter. So Seattle is one example. So Seattle in the 1990's, they convened a study and they were realizing home prices are getting out of sight, and we need to do something. So as a compromise, they set aside certain parts of the city, what they called urban villages, where they allowed townhouses to be built instead of just single family detached housing.

And over the last 20 years, they've actually built 18,000 new townhouses, two-thirds of those are owner-occupied. They are catered towards people earning about 80 to 100 percent, 120 percent of area median income. They are being purchased by younger and more diverse group of people, and it's been a great success.

It's been a great success, until in 2019 they became greedy, and they thought well, let's create an inclusionary zoning mandate,

where we provide a little bit more density in exchange for you to set aside a larger number for lower income people.

On the rental side, it did make a difference. But for these townhouses where they're selling them for homeowners, the permits fell off a total cliff, and then this speaks to the best practices that the federal government. The federal government had actually come out and said this policy has been a great success.

But in reality, they built hundreds of units, but it costs them thousands of units. So this is a danger of getting the federal government involved.

Vice Chairman Schweikert. Doctor, we're way over time, but can you give me something quick, of what in general should I look to?

Dr. Furth. Auburn, Maine is my favorite example. I got to work with the mayor there on a huge community-wide upzoning that absolutely involved elections. Going out there, pitching it to the voters and saying I have a vision of growing our community, and Maine's an aging state.

He said, you know, when was our town great? And they all said the 60's, the 70's. He said you know what we were doing then? We were growing. We were building housing units, we were adding jobs and they're trying to get back to that. Thank you.

Vice Chairman Schweikert. Okay, and Mr. Chairman, thank you, very patient. Another future question will be also starting to talk about national demographics and where this fits in. Thank you.

Chairman Heinrich. Representative Beyer.

Representative Beyer. Mr. Chairman, thank you very much, and thank you very much for doing this. Dr. Schuetz, I live right across the river, inside the Beltway. So the number one political issue in Alexandria and Arlington, Virginia last year was the missing middle. It tore the community apart. People that had worked together politically for years hated each other.

They ended up electing two members of the City Council, one that was for the missing middle, the other was against. Now in Alexandria this year, they just started last year in December I think, they eliminated single family home zoning. No more from now on. Once again, it's likely to be the centerpiece of this coming elections this year.

How do we avoid the backlash? How does this not happen in community after community all across the country, where the people that are already there and love their single family neighborhoods and their big lawns resist, and they're often, by the way, the ones that have the most political power?

Dr. Schuetz. Some of this is about how the issue gets framed, and if I had a magic wand I would actually wave it and say nobody can say eliminate single family zoning or end single family zoning, because for a lot of people that winds up being very confusing, and they think it means make it illegal to build single family homes, which is not what any of these policy changes do. Often the advocates want to present this as a big, radical change, when really what it means is we're going to legalize building ADUs and townhomes. Arlington and Alexandria have lots of beautiful townhome neighborhoods that people love. So a lot of this is re-

minding people that it's in fact re-legalizing things that are already in their community, and often some of the neighborhoods that people want to live in the most, and find very architecturally beautiful and very human scale. Good elected leaders will figure out the constituencies who are behind this, and also manage the engagement process.

Once the NIMBYs get a big microphone and start sharing their information, they can poison in the debate and make it hard to put out facts. There's often a lot of disinformation that gets shared around this. But this, you know, this takes strategy at the local level.

The constituencies look a little bit different in smaller communities that are worried about population loss, versus places that are worried about having too many people moving in.

Representative Beyer. Thank you very much. Ms. Lopez, Mr. Peter did a good job sort of blowing up a bunch of the myths. One of the myths was that he tried to explode was that LIHTC doesn't work. We now have a deal pending before the House and the Senate that would expand that child tax credit, R&D tax credit.

But they added an expansion of the LIHTC, which by the way typically has hundreds of Democrats and Republicans for it. Can you answer his concern that it's done nothing to improve housing over the years?

Ms. Lopez. Representative Beyer, I'd love to. So again, I've been working in this field for 24 years, and in my experience as a development consultant-developer, being on a housing finance authority, advocate, in Colorado alone the tax credit program's created 80,000 units of affordable housing.

That sounds very successful to me. I don't have the New Mexico numbers, but I would suspect 20 to 30 thousand, and we do it very efficiently. Most state agencies are allocating around, and they're giving us points to make sure that we're building the most efficient green product we possibly can.

But that product is going to be affordable for 30 years. They're managing to how much developer fee can be taken from the deal. They're managing—they're making sure that we're taking some debt. So this not all—we're leveraging private funding, both in equity and borrowing.

And so it really is a public-private partnership to get those deals done. I mean it's the most successful affordable housing development tool in the country that Reagan created. I mean he created it and it's how we get units on the ground. So thank you.

Representative Beyer. That Reagan heritage may be how we get Republican co-sponsors too.

Ms. Lopez. I think so.

Representative Beyer. Dr. Furth, George Mason University, I'm very proud of that. You—I'm impressed with the factoid that more Americans live alone than at any time in the country's history, and a greater percentage live alone than any time in our history.

During the pandemic, we saw lots of multi-generational households maybe went back. How can we use this notion of these one-person households to move housing in the correct direction?

Dr. Furth. Thank you Representative, and thanks for representing my workplace. It's a great question. This is where I think accessory dwelling units and other kinds of flexible housing can be really valuable, right? A lot of times a single person household is a stage of life, right? It's either early adulthood or maybe after retirement.

You might go through a period where you're, you know, retired and healthy, and then you might have a period where you're retired and would really like to live next to somebody who can help you out with moving heavy boxes or checking in on you daily.

A large home is not the best thing for that. In a lot of places, single family zoning functionally means you can't add a kitchen. That's really what it boils down to, is if you build another kitchen, you've broken the law. You can add a bathroom, you could add anything else, but you can't build another kitchen. Simply saying it's not local government's job to police stoves, it really is the stove.

That's where like if you put in the larger electrical outlet, that's when you—the moment you've broken the law. And simply getting government out of that business and saying you know, if somebody wants to break up their house and live on the first floor and let their nephew live on the top floor or rent it out, that's perfectly fine, and I think that would help a lot of people.

Chairman Heinrich. Representative Ferguson.

Representative Ferguson. Thank you Mr. Chairman, and thank you all for being here. I'm going to speak to you today and ask questions from the point of view of being a former mayor of a small town, and also as part of my past life, I was a very small homebuilder during that as well.

When we talk about housing affordability, I want to come back to the things that we've been discussing here. But I think we should address the elephant in the room, which is the cost of housing and the rapid rise in the increase in housing that's occurred over the last couple of years.

We've got to do things to drive down the cost of housing. That includes driving interest rates lower. Those interest rates are being driven right now by inflation, and the Fed's response to inflation. So how do we get that under control?

We have got to cut back on the federal spending and the borrowing, but we've also got to increase productivity. We need to be putting in pro-growth policies that drive the supply side of our equation. I also worry deeply about the Fed's new requirements in the Basel 3 section that I think is going to further restrict capital.

And quite candidly, we've got to do more to drive energy costs lower, so that we can get back to being energy independent. Owning a house costs energy. It's part of—it is part of the monthly equation and it's something that we've got to address.

Another issue that is driving up cost is the available workforce in the housing, in the construction industry. While we are facing a crisis in higher education on all fronts, we should be doing more to encourage people to utilize technical schools and technical education and apprenticeships, and to making all types of apprenticeships available, so that we can get more folks interested in the trades that we need so desperately.

I think that's really important. I also think we've got to be thinking about how to be innovative in the use of construction materials. Specifically one that I think makes a lot of sense is using mass timber or cross-laminated timber. I think that is something that we can build here in America, and I think making some of the green energy tax credits available for mass timber makes a lot of sense.

In order to do that, we've also got to increase education awareness at our architectural institutes. But we also have got to make sure that local communities, that zoning and planning allows for this, and also we've got to make sure that the inspectors and the permitting process allows for this as well.

And again, these are state and local issues, but we need to be thinking about how we can encourage that to take place. Once again, I want to go back to the energy piece of it. The higher our energy costs, the less affordable the home becomes across the board.

And again, I think driving down inflation, driving down interest rates, increasing workforce and increasing the supply side will make a huge difference in the overall cost of construction. It does not matter how this, you know, how this body looks at the best way to fund it, whether it's through government subsidies or strictly on the private sector.

They earn enough money at the current costs. So we've got to drive those costs down. I think, I think that's really important. I want to push back on one thing, Mr. Peter, that you said about LIHTC housing. As a former mayor, it does work. But it is not the solution. It has to be part of an overall development plan, and we should guard strongly against moving this into the middle class.

Housing affordability in the middle class is a function of construction costs, interest rates and really good-paying jobs. I find it really interesting that most of the examples that you've given are all around metropolitan areas.

You've talked about Oklahoma City, you've talked about Los Angeles. You've talked about, you know, Denver, Colorado, to other areas like that. So many of our fellow Americans live in rural areas, and I think that what we've got to do is we've got to rebalance the equation, both in terms of job production and in terms of incentives for—to make, to close the economic viability gap in rural America, because this place has done an amazing job of turning rural America into an inner city.

I do applaud the efforts for—that you talk about with zoning and planning. It is a tough, it is a tough row to hoe, no doubt. But if you get the community on board, Dr. Furth like you talked about, you can build something. You can change the ideology of a community, and you can begin to put things in place that make sense, that attract younger people to communities.

I go back to what worked through many towns throughout the south up until NAFTA, and that was these were mill villages that were built around the textile industry, where you had many small houses put together in a relatively dense area, and many families lived not just for a period of time but for generations, in these houses because these communities worked.

And finally, I'd like to touch on the fact that I think we ought to really make it a priority to protect agricultural land. Mr. Chair-

man, I think that that is something if through the local zoning and planning and through the state, I think we can protect that in economically, environmentally sensitive areas.

Things like conservation easements are a really good tool. They need some reforms. But they do help protect environmentally sensitive areas. So I know I've spent a lot of time talking. I love this topic.

Bottom line, so much of this has got to be done at the local level, but our job here in Congress is to make housing more affordable by ending the crushing inflation that is just crippling American families up and down the economic spectrum right now. With that, I yield back.

Chairman Heinrich. Representative Trone.

Representative Trone. Thank you Chairman, the staff for getting us here today to talk about a plan to preserve and expand affordable housing. Housing is a human right. Everyone deserves a roof over their head. Yet in America, so many families struggle to afford a home and 10 million renters, and I find it unbelievable, 25 percent of those renters spend over 50 percent of their income.

I mean that's impossible to save money to buy a home. It's impossible to save money for retirement, unexpected emergencies. It puts them in an unattainable, difficult position. So Dr. Deutsch (phonetic) and Ms. Lopez, you both highlighted the importance of federal action.

We just got some good news. The Ways and Means Committee said they hopefully have struck a bipartisan deal on child tax credits and the low housing income tax credit. What impact will expanding that housing tax credit have on the housing market, especially for these low income and middle income families? Lopez first.

Ms. Lopez. Thank you, Representative. What a wonderful question. I mean this legislation that is coming about right now immediately, it's going to create 200,000 rental homes for low income households across the nation. This is one of the biggest investment we've seen in 35 years. It cannot be understated how important these units are to preventing homelessness.

We've seen an incredible increase nationally to homelessness. The majority of that is a simple equation. I cannot afford my home. I'm going to be displaced. And so again, this is, this is going to be a game-changer for local communities, providing stability, creating housing for a local workforce and just helping people be active citizens participating in their local communities so they can change land use. So it's very important.

Representative Trone. Doctor.

Dr. Schuetz. I'd actually love to pick up one of the other pieces that's in the new bill, which is the expanded child tax credit. We know from some early evidence on the child tax credit from the previous year that many families with kids use that extra money to pay for their rent, to pay for their utility bills, to pay for necessities for their kids.

So one of the really great things is that providing cash to people allows them to balance changes in their expenditures across time. Housing vouchers are very effective at covering the rental part, but providing people with cash through the child tax credit or the

earned income tax credit allows them to balance when their expenses change from month to month. So that's fantastic.

Representative Trone. Strongly agree. In my district, Hagerstown, Maryland, we're increasing the development of manufactured homes, to boost affordable housing options. I'm proud of the work being done there. It could be a model perhaps for other communities. Dr. Deutsche, could you talk about removing zoning restrictions on manufactured homes or mobile homes, how they can benefit rural communities?

Dr. Schuetz. Manufactured and mobile homes are a really important part of the affordable housing stock in rural areas, and even in some urban areas that have relatively inexpensive land, places like Pittsburgh. Sometimes it's written into the zoning; sometimes it's actually a part of the building code; and sometimes there are issues with the financing, because mobile homes tend to be financed differently than stick-built homes.

But those are hugely important things to focus on in a lot of smaller communities, and it's great when communities start to tackle those barriers.

Representative Trone. Ms. Lopez, take a second and talk about the importance of financial incentives. You've hit it a couple of different times, and sometimes we don't have the full agreement on that. But how do we incentivize these developers to build these low income housing, affordable housing versus mid to upper income housing, when I think they're going to make more money? How important are these incentives?

Ms. Lopez. Thank you, Representative Trone. It's incentives and it's just the only way it's financially feasible. So I kind of want to separate those two things. When we talk about incentives, it's really local governments getting infrastructure and developers, they have to have profit. That's how it works, and we support that. But they cannot both deliver products if the costs are too high, interest rates are too high, when we're trying to create rental housing serving that costs 400 to 1,200 to 1,300 a month.

The economics don't work. There's a gap that has to be filled. So you know, we fill it with tax credits. We also fill it with an incredible, robust system of CDFIs across this country. We fill gap all the time with lower interest rates. We have a lot of great tools at the federal government level.

So I love the tax credit program and the CDFI program. But I need them all because my development partners say to me hey Jenn, this isn't financially feasible. I'm going to go next door and do something else.

Representative Trone. Just quickly, we're going to have a huge glut of empty office buildings throughout so many major cities. How do we pare that empty office building glut with—I was in a homeless shelter just two days ago, and you know, we've got so many hundreds of thousands of homeless.

I heard the statistic a minute ago, it's mind-boggling. You know, how do we pare that against low income housing, homelessness and try and figure how to connect those two dots together? You want to take a stab at that?

Ms. Lopez. I would, Representative Trone. Thank you so much. This is maybe the best topic of the day. I totally agree. Something

that we learned during the pandemic is when commercial spaces lost value when we went back home to work, when motels were down. We were able to quickly pivot those properties and repurpose them.

We saved lives. We created bridge programming. We are able to convert those into tax credit apartments. We had some zoning challenges, but I think one of the greatest incentives we had was the ARPA funds.

If we hadn't had the creativity and the resources of the ARPA funding, there's no way that the state could help its local government partners go out, acquire the property and take a little bit of risk to repurpose these. They were very successful. So that, that's another tool that I think is helpful.

Representative Trone. Thank you.

Ms. Lopez. Thank you.

Chairman Heinrich. Senator Hassan.

Senator Hassan. Thank you Mr. Chair and Vice Chair. I really appreciate the topic of today's hearing, and I want to start with a question to you, Dr. Schuetz. According to recent estimates by the New Hampshire Housing Finance Authority, my state needs more than 23,000 housing units right now. This is in a state of 1.4 million people, to address our housing shortage, and we need even more in coming decades.

So I'm focused along with a bunch of other people on bipartisan solutions to increase our country's supply of affordable housing. Doctor, can you expand on the options available to Congress to support the construction of new housing?

Dr. Schuetz. So Congress has somewhat limited options on the zoning reforms that we've been talking about. But it can play a really important role in helping communities learn what kinds of policy changes work and adopt those. Ms. Lopez brought up the issue of technical assistance. That's incredibly important, particularly in a lot of places like New England, where you have very small cities and towns.

They have one planner and asking that one planner to figure out what they're supposed to do and implement new, innovative programs is just very difficult. Technical assistance and making guidelines accessible is one of the most useful things the federal government could do.

Senator Hassan. Well that's excellent. I would also add that some of our local processes. It isn't necessarily just the laws or the rules. It's the processes themselves that are rooted in the 18th and 19th century, maybe could use some updating while still maintaining transparency and local control and oversight, which is also so important. So I appreciate that very much.

Ms. Lopez, I want to talk to you a little bit more about the low income housing tax credit. From my perspective, this is a key bipartisan tool for increasing the supply of housing in New Hampshire. Again, we've been talking about this in the latest bipartisan tax agreement that we have just announced the framework of.

But to follow up on the answers you've already given, can you elaborate on how LIHTC helps state housing authorities finance more affordable housing units, because I think that's a critical piece?

Ms. Lopez. So thank you, Senator Hassan. I'd be happy to. So again, the tax credits flow to the state agencies. The state agencies create priorities for how to award those credits, and this new credit legislation is powerful in that it not only gives us a bump, that 12 percent bump we need, 12-½ percent bump we need to get back to where we were in 2021; it also allows us—it decreases the amount of private activity bond we need to utilize, fully utilize the four percent tax credit.

That's a lot of jargon to say we have a lot more rocket juice to build housing and build it quickly and build it now. So that's power of the tax credit program and the reforms that are in place. One other comment I want to make, Section 8 is a huge, powerful tool as well. We don't have units to put our Section 8 vouchers in. So we will better deploy the existing federal resources we have. That's really powerful. So thank you.

Senator Hassan. Well thank you for that, and one last question to Dr. Schuetz again. I want to turn to the issue of rental housing that some of my colleagues have raised, because a recent academic study found that eviction threats are associated with worse health outcomes for renters. Safe, stable and affordable housing is really essential for health and well-being.

We know that a significant number of evictions occur when a tenant owes only a couple of hundred dollars or less, really small differences in a lot of our rental units.

To keep Granite Staters safely and stably housed, I've previously introduced the Prevent Evictions Act, to provide grants for landlord-tenant mediation programs which would reduce the number of small dollar evictions, which also just create a lot of turmoil and turnover not only for tenants but for landlords too. So can you discuss how insuring stable housing can complement public health efforts?

Dr. Schuetz. Absolutely. Going through being evicted and the instability that that provides in a family is really devastating, especially for families with kids who are a disproportionate share of people who wind up being evicted. Things like eviction prevention programs, providing mediation, access to short-term emergency funds. Again, the emergency rental assistance during the pandemic showed us that relatively small amounts of money can help some tenants.

That's not a solution for people who are perpetually behind on their rent. So having vouchers or some sort of long-term income support matters as well. But we can save some people from being evicted for relatively little money, and prevent landlords also from having to go through that.

Senator Hassan. Well I really appreciate that, and I also appreciate the comments about the expansion of the child tax credit, because again giving people that—we know that people spend that on essentials like rent, like food.

They also—sometimes it means they have a little bit of money left over to help their kids, for instance, participate in school programs, such an important thing. So thank you all very much for your work.

Chairman Heinrich. Representative Arrington.

Representative Arrington. Thank you, Mr. Chairman. Can you hear me? Yes, we are live. I think we've done a number on this economy if you look at the people who build the homes, or those who buy or rent those units of housing. We've had the worse combination on the supply and demand side to throw this system into a bit of chaos, especially for the consumer.

We've constrained supply with higher taxes and regulations. By "we" I say my Democrat friends and this administration, by paying people more than they would have made in their previous job while on unemployment insurance. Now I don't think that exists today in fairness. Repealing work requirements which—both of which created a labor shortage and I think once you take this employee retention credit away, you'll see that play out in a much bigger way on this economy.

And then of course energy costs have skyrocketed on account of the energy policies of this administration. Now I'm not mad necessarily. I'm just stating what I believe are the facts, and on the other side of the supply/demand you've got what was \$11 trillion in spending over the last few years, six trillion of which went to the national debt. That's another concern and another topic for another day.

But so you just—you have a real mess, and what is our first instinct? Let's subsidize it. Let's intervene with some, you know, blanket Washington policy, and look. I get it. There are instances probably where the Tax Code provides an incentive for a behavior that we either want but don't get because maybe there's a market failure, or we need to accelerate behavior because we think it's in the best interest of the public. There are times when that is appropriate.

I'm worried that the tax credit for low income housing is really treating the root causes of the high cost of low income housing, and it's just addressing the symptom, and we're actually enabling some of the supply side problems at the state and local level with zoning, environmental and other legal policy and otherwise regulatory barriers and costs and constraints.

Which is why I think, and I don't mean to pick on California, but I think that's why people are leaving California. They cannot afford to live in California, and I think a lot of that is self-inflicted. Now there are policy choices, and Californians have the sovereign freedom and right to choose their path, but they have to live with the consequences.

And half of the people leaving California end up in Texas, where the average price of homes, by the way, is about \$280,000 less, \$280,000 less. So policies have consequences. I mean at least they do at the state and local level.

And that's the interesting thing, Mr. Chairman. They have consequences at the state and local level because they have to pay for it. They have to balance their budget. What we'll do, whether this is good or bad or somewhere in between in terms of low income housing or whatever the federal fix, we'll have our children pay for it.

They'll be stuck with the bill. You saw where CBO miscalculated. They thought that the deficit last year would be 1.6 trillion. It was 2.6. They were a trillion dollars off. So I like the economic rational

trade-off and dynamic that exists at the state and local level, because it's real. It's not real up here.

So they can decide, Texas and California and others, how best to solve this problem. I guess here's my bottom line, Mr. Chairman, on the LIHTC for example. It may be better than other federal interventionist strategy, but I don't know that that credit is actually passed to the consumer with lower prices.

I think lawyers are getting it, landowners are getting it, and I bet you there are studies, and I know I've gone way over my—well, I'm six-seven seconds, eight seconds over my time. But I bet that there's studies, Dr. Furth and Mr. Peter, if the Chairman will indulge me, that suggest that that money that we want, all of us want to go to the renter to have more affordable housing, which we all want, but it doesn't really do that.

Chairman Heinrich. Is there a question mark in there?

Representative Arrington. That's the—yeah, I kind of—I say that with an inflection of a question mark at the end.

Chairman Heinrich. Mr. Peter, do you want to address that really quickly and then I'll—

Representative Arrington. Mr. Chairman, I hate when people—

(Simultaneous speaking.)

Chairman Heinrich. I'll ask Ms. Lopez to also address this.

Representative Arrington. Thank you, Chairman. I appreciate.

Mr. Peter. I'll do it real, real quick. So we have a huge housing supply shortage and, you know, four million all the way up to 20 million, whatever study you believe. Any time you increase demand against a limited supply, you're going to end up driving up prices or rents, and that's exactly the wrong approach that we need to do.

We need to do more. We need to loosen supply restrictions so we can get our supply and demand more in balance. And in order to do this, we need state and local reform.

Chairman Heinrich. Ms. Lopez, do you want to address that same issue?

Ms. Lopez. Sure. Thank you, Chair Heinrich. Sir, I agree with a lot of what you're saying, but I want to clarify about the tax credit program, because I can. So in the many years that I've done the program, how it works, right, once the credits are sold, we build the building. It's a regulated program. There's lots of involved partners or parties, making sure that we are serving the people we intend to serve.

And how we do that is there are income certifications every single year. Every year we look at that building, you know, who is being served and are they the right income. The only way we can serve that income is if the rent is low. So it's a very established program, heavily regulated, very low defaults.

And so I am very confident in saying that when we invest in a tax credit housing project, it's serving the people we want it to serve. So thank you.

Chairman Heinrich. Representative Porter.

Representative Porter. Thank you very much. America doesn't have enough affordable housing. I think that's something actually that the witnesses generally agree on, even if we disagree on the

solutions. So let me start by just making sure we all understand the scale and the magnitude of the problem.

So Dr. Schuetz, about how many homes do we need to solve the affordable housing shortage?

Dr. Schuetz. So the best estimates that we have at the moment suggest we need about four million total homes across the country. That's not specific to an individual income level. Those are a little bit harder to come up with.

Representative Porter. Okay. So four million's kind of the minimum? Some people have gone as high as six and seven million in their estimates. This is a four million family problem. This isn't one where we're going to just be able to tinker a little around the edges, which is one of Washington's favorite things to do.

One of my questions is we've heard about this new tax package, which I should say I have no idea if this is actually going to pass into law. We don't yet have the support of all the leaders we need, and Republican or Democratic side on it.

But what we're told is that this would be, and I think this is correct, the biggest investment in housing in 35 years. Is that correct, Ms. Lopez?

Ms. Lopez. That is correct. Thank you, Representative.

Representative Porter. Okay, and how this biggest investment. Remember, here's the problem. Four to seven million families that can't afford or don't have housing. That's the size of the problem. This biggest investment in 35 years. I'm so excited. How many affordable homes would it build?

Ms. Lopez. 200,000.

Representative Porter. Wait, say it again?

Ms. Lopez. 200,000.

Representative Porter. 200,000. So herein lies the problem. While I am grateful that my colleagues on both sides of the aisle are willing to do something, the biggest problem we have had in housing for 50 or 60 years is that folks in Washington don't do much of anything.

You don't have a four to seven million shortage in a year or two. You have it because we have an entire generation or two of career politicians who have failed to invest in housing. And what is happening today in this hearing is part of what always happens, which is the federal government blames the states, the states blame the counties, the counties blame the localities and then back up the chain we go.

How many times have you seen this movie? Raise your hand if you've seen this movie on housing. This isn't the answer. Housing, nothing is more determinative of a family's well-being financially in terms of their health, in terms of their physical safety, in terms of their kids' educational opportunity, in terms of their retirement, than housing.

And what we want to do today is try to figure out who to blame. What it means to me to be a leader is to step up and own the very biggest problem that American families are facing, and today, across the country not just in California although certainly there too, it's housing.

So tell me, Ms. Lopez, what could we do if we actually passed the Affordable Housing Credit Improvement Act, rather than doing a little? What would that full bill do if we passed that?

Ms. Lopez. Thank you Representative Porter, great queue up. We could build 200,000 dollars, 200,000, 200,000 homes in partnership with local and state government. Local and state governments are working every day to find resources.

Representative Porter. So Ms. Lopez, just to clarify.

Ms. Lopez. Oh yes.

Representative Porter. The full Affordable Housing Improvement Act. We're only doing a part of it in this tax package, right?

Ms. Lopez. You might have to give me that answer. I actually don't have that off the top of my head.

Representative Porter. So these credits, the bump, the 12-½ percent, are these permanent? No, they're temporary.

Ms. Lopez. No. Thank you.

Representative Porter. They're temporary, right? So we're doing the right thing, but only for a little bit of time. That's why we're only going to get 200,000 houses out of this.

Ms. Lopez. Thank you, yes.

Representative Porter. You see the desperation that your clients face battling each other over who's going to get these homes. It took us two generations of failure of investment to get this situation? We're not going to get out of it with 200,000 homes. And by the way, we're not going to get out of it with only federal government action. It is going to take states. It is going to take counties. But they need to be all in and engaging here, not tinkering at the margins.

So look, for people at home, I think it is so often the case in Washington that we can say well, this is Republicans' fault. My Democratic colleagues do this. Democrats blame Republicans. The Affordable Housing Credit Improvement Act, the full bill, do you know how many Democrats and Republicans sponsored that in the House by chance?

Ms. Lopez. I don't, but I know it's the most popular bill, and that's enough for me.

Representative Porter. Over—I have the exact numbers for you.

Ms. Lopez. Thank you.

Representative Porter. 104 Democratic co-sponsors. Do you think we have like a Republican who will sign on? No, no. We've got 103 Republican co-sponsors. So when a body where I am hard-pressed sometimes to find a single member who will agree, we've got 104 Democrats and a 103 Republicans. But this bill hasn't been on the floor. We haven't voted on it. In my five years in Congress, we have taken 2,686 votes, not one of them to pass the most effective federal policy we have on housing. I yield back.

Chairman Heinrich. Senator Klobuchar.

Senator Klobuchar. Thank you. Ms. Lopez, I was just out in rural Minnesota last Friday, a bunch of towns. Housing one of the number one things. Could you talk about the workforce shortage? It's part of why I have worked so much on apprenticeships and also on immigration reform, with the potential for visas, work permits,

whatever we can do to get there, as well as pathesis and CHIP. That would be helpful.

Ms. Lopez. Thank you so much. Yes, and I'm a huge fan of your work in Minnesota. We get calls weekly, monthly from developers saying okay, I'm coming to this part of the state. Tell me who the workforce—how do I find my contractors? Can you give me some leads? It's a constant issue.

So we absolutely have to pair all of this work with building the workforce on the ground. There's best practices all over the country. It's usually our community colleges that's our trades skills. So I think we can all agree that there's a win-win there.

Modulars is a good solution. You still need people to lay the groundwork and build those modular components in a factory, you know. So that is never going to be the solution. So workforce, we need it, and it's really difficult in rural areas. Some of our developers literally travel with their construction teams in order to take on jobs. So it's a big challenge.

Senator Klobuchar. It's very hard. No great nation has expanded with a shrinking workforce. We can try to be the first experiment, but I don't think we should. Mr. Peter, you were a foreign exchange student to one of my favorite mayors; is that correct?

Mr. Peter. Yes.

Senator Klobuchar. Excellent, and you've kept up contact with him, which I now know by text. Could you talk about—you've talked about in the past increasing density, the value of doing it along transit corridors? We are trying to do a lot in Minneapolis on this front. You have to get zoning changes, this is local, things like that. Could you talk about the value of that?

Mr. Peter. Sure. I mean yes. So Minneapolis already passed some reforms a couple of years ago, and to great fanfare. Unfortunately, I don't think Minneapolis did it right, and St. Paul now has followed suit, and I don't think they did it right either.

Senator Klobuchar. So how do you think we should do it right?

Mr. Peter. So they've—they basically in their zoning code, they removed the word "single family" and replaced it with "duplex" and "triplex." But they did not change the floor area ratio that goes along with it.

Senator Klobuchar. I see.

Mr. Peter. So if you have a lot of 6,000 square feet and the floor area ratio the maximum is 50 percent, you can build a structure of 3,000 square feet. But you know, with 3,000 square feet it's hard to build a triplex, for example, which each unit will only be 1,000 square feet.

So in conjunction—it's not just enough to get rid of single family detached zoning. You also need to put in place other reforms like parking reforms, like higher floor area ratio requirements.

Senator Klobuchar. Right.

Mr. Peter. So it should be looked at holistically, and at the same time, I don't think you necessarily look at transit corridors is the right solution either. I think if you make it more broad-based, you can get multiple benefits. If you only do it transit, you're going to get very expensive housing and you're going to get mostly rental housing.

If you do it more broad-based, where you allow townhouses, for example, these townhouses overwhelmingly tend to be owner occupied. So you can increase home ownership and you can open up opportunities for people to build wealth, because when they're home owners, they're going to pay down their mortgage.

And also these townhouses are larger, so they're more family friendly versus in the transit corridors, you only get on average about a bedroom. Versus over here, with what we call light touch density, you get two-three bedrooms, which is more beneficial to families.

Senator Klobuchar. Thank you. Dr. Schuetz, if we could talk about algorithm, always fun, and what is going on right now with pricing tools that collect highly sensitive data from landlords. Senator Lee and I had a major hearing on this. We've done a lot on tech, and so could you talk about pricing tools and what could occur with price increases?

We're very concerned, a number of us, Democrats, Republicans, of just beyond housing, just what's going on with potential price fixing through people using other outside companies, that then get hooked into algorithms that actually result in price fixing. Go ahead.

Dr. Schuetz. Sure, thank you. We've seen in the last couple of years increasing use of these outside platforms, who manage the rent rolls for a large number of properties across different landlords, and they are collecting data because they collect data on the vacancy rates and on the rents and what the rents look like at turnover, and are sharing that potentially across multiple companies.

I will say this is an area that's still quite new and the data's mostly proprietary, so it's very hard to know what's going on. So this is an area where I feel like there's a lot to be learned still, and having more transparency in the data, in what they're collecting and how it's being used.

Some of this is really beneficial. So for instance, they're providing data that supplements the CPI rent index that provides more frequent updates. But this is just an area where I think knowing more about what's going on inside the black box would be very beneficial.

Senator Klobuchar. Uh-huh, very good. Thank you.

Chairman Heinrich. Senator Fetterman.

Senator Fetterman. Thank you Mr. Chairman, and what a jackpot. My colleague from Minnesota and Representative Porter, and I was even hoping that there would be a white board here to take it on. And the nicest student in D.C. right there, my colleague from Vermont. So I'm grateful for the opportunity.

And now homelessness is, it's really an issue. I think we can all agree on that. It's been me talking about that, and it's a crisis. And so Dr. Schuetz, you've all outlined that the decay of existing homes contributes to the housing shortage, right? You know, and we can't—we can't increase the supply if we are losing existing homes. Do we agree with that? And certainly it's the fastest we can build it.

And now I know that you're very familiar with the Whole Homes Repair Program, right? Now I want to net check. Senator Nikil

Saville, Saval in Pennsylvania, and he was my former colleague in Pennsylvania, and he is a senator. Now he, that's the brain of his, and he came up with this.

And Senator Saval is very, very left, you know, politically. And the Republican senators in our Senate are very, very right, but somehow they put this remarkable thing together and it's an amazing thing. You know, can you talk about that program, and do you think that that could be even a national model?

Dr. Schuetz. Yeah. We haven't talked much today about the quality and age of the existing stock, but that's a very close corollary with the lack of available homes. A lot of our homes are aging. They are not in great quality, and historically we haven't really provided programs and incentives or subsidies for people to maintain the quality of homes.

So every year some of the lowest-cost homes fall out of useability because they are so old and they become unsafe, or they become ripe for being bought and gut-rehabbed and become expensive. So maintaining the quality and habitability of existing older homes is really important. We have limited programs. The Department of Energy's Weatherization Assistance Program is the main one, and that only serves very targeted kinds of needs. So my understanding is that the Whole Home Repairs Program would provide more holistic funding, not just for things like weatherization and energy efficiency, but also for major repairs and for climate resilience.

So that would enable both homeowners and landlords of properties that serve low income tenants to maintain the house in better condition, and that's a really important part, because once those units are lost, we never get them back.

Senator Fetterman. Yeah, and I would just like to remind that a very term, very, very left state senator created this working with very, very conservative Republican members of the Senate. Both sides were excited about this. I mean that's a unicorn as far as I know. I've been around long enough to know that, and I really would love to see that expand on a national level, because it addresses a very significant issue, especially in states like mine in Pennsylvania.

Now pivoting over to this idea that, do you agree with the statement that there's just way too much red tape and zoning, and it really seems—it seems much too expensive that it, you know, to build these kind of homes. Can we make this more cost effective? And I'm not suggesting that we not use union kinds of work. But you know, it just seems like it's got to be able to make that work to the problem. Or anyone, I'm sorry.

Dr. Schuetz. Yes, and I think it's a good reminder that we want to look across the range of regulations. We've been talking a lot today about zoning, but we also want to look at things like building codes, at some of the environmental reviews which unfortunately in states like California often gets weaponized to block programs.

So just making sure that the regulations that are in place are about health and safety, and not just about creating process and making it longer and more difficult to build.

Senator Fetterman. Yeah. I think to your average person, it would be like why does it take so expensive when we have such a real problem of homelessness here? You know, I think we should

just arrive where we can address it and not make it any less safe, and just make it more efficient and make it more cost effective. I just have to believe there has to be an answer.

And lastly, you know, what kind of policies should we be tying to land use reform for these communities, the ones that are left behind?

Dr. Schuetz. So the——

Senator Fetterman. I'm not picking, but you know, whatever.

Dr. Schuetz. Sure. The affordability problem is hardest, and in places that have often very well-paid jobs. But it's also we're thinking about places where housing is affordable, but don't necessarily have economic opportunity.

One of the hopes of sort of broad-based zoning reform, as Tobias was saying, is that opening up the ability to build more homes in communities that have good jobs and have access to transit and good public schools, enables more economic mobility and more opportunity.

Senator Fetterman. Thank you. Thank you, Mr. Chairman.

Chairman Heinrich. Senator Welch.

Senator Welch. Thank you very much, Dr. Furth. Any time you want to come here and brag about Vermont, I hope you'll be invited. You're certainly welcome. I appreciate that.

Just a couple of things. One, there seems to be real consensus that the zoning, the local steps that can be taken only locally on zoning and regulatory review, there's a lot of action around the country on that, and Vermont certainly is doing it.

But there's a couple of things we haven't talked about that have become factors, and I'd like to get your opinion on it. In Vermont after COVID, a couple of things happened. Number one, an enormous number of people from out of Vermont came and bought a second home, and those are effectively beyond reach now for local folks.

Number two, a number of investors came to Vermont, bought up homes and turned them into air bnbs, and those are now off the books. And as much as we're aggressively doing all we can to build new affordable housing and dealing with local regulations, it takes a longer time in order to do that, and we've got a real crisis.

If you've got workers in ski areas, they live an hour and a half away. There's no chance that they can get a good place to live where, when I first went to Vermont, that was not a problem. But the third problem that is enormous is workforce. We just don't have the folks that are the electricians and the plumbers and the roofers and the drywall folks.

That is a huge problem, and then really finally on the market, if you're a contractor, you make a lot more money building a pretty luxury second home as opposed to affordable housing. And we haven't really talked about those factors that are a real dynamic that I suspect affects not just Vermont, but I'll bet a lot of other places as well.

I'll start with you, Ms. Lopez. What about those factors and what do we do?

Ms. Lopez. Just one comment on that, thank you. Thinking about the second home, it's all over the territories and states I work. And so the ways that we're kind of tackling this is we're

thinking about taxing those second homes so we can create funds to offset the impacts, the real impacts.

The other things we're doing is where we can get accessory dwelling units for the workforce, not only is it a change in zoning, it requires financing so that you can help that homebuyer provide that ADU, and then you want to have local residency requirements. So that's that piece. Ask your question again?

Senator Welch. That's how it's happening by the way, like with hospitals when they want to get workforce. You know, employers can't hire somebody because they—for someone a really good job, they really want to come to Vermont, and one of the partners comes and is unable to find a place to live.

Ms. Lopez. So we're seeing a lot of interest in employers, stepping in to help solve these issues. But I'm going to hand the workforce off to others, because that's not my expertise. Thank you.

Senator Welch. Yeah.

Dr. Schuetz. Yeah, it's come up a couple of times today that we don't have enough construction workers, and that's a real problem. Some of that goes back to the Great Recession. People who would have gone into construction trades as apprentices didn't because there weren't construction jobs.

We also had a slowdown on immigration, and that's one of the main sources of the construction workforce. The construction industry knows this, the homebuilders know this. But a push to get more kids in high school and people who are out of school and may be a little bit older to retrain.

Construction jobs are really well paid and if you're an electrician or a plumber, you're never going to not have a job. And so getting more people into these fields, getting them trained would help us provide good jobs for people, and would also help us build more homes.

Senator Welch. Mr. Peter wants to say something. By the way, this is an area where, you know, I know you put a lot of faith in the market, but this is where in terms of the market meeting the needs of every day people, I do believe it's a total market failure for a lot of reasons. But the market won't solve it, as I see it. But go ahead.

Mr. Peter. Yeah. Let me, let me give you an example from Montana, because we just—I just heard the governor of Montana speak on this workforce issue and they have massive problems out in Montana. But he—what he suggests, what they're doing is educational reimbursement credits for these trade jobs. The second thing that he mentioned is they looked at the amount of trained, the amount of tradesmen, the ratio of tradesmen to apprentices.

And in the old day, the old days was that you had two tradesmen for one apprentice. So now they flipped the ratio from now it only takes one tradesman for two apprentices. So over time, they're going to get a lot more tradesman through these small regulatory changes.

And then third thing that they've done out in Montana is they've attracted a modular homebuilder, and they have people that can pour the concrete, even in more rural areas, but they didn't have the people to build the homes. So hence, the modular housing coming in and they can assemble it on site, put a little bit of the

plumbing, the electricity and they can cross-train people, you know. But that seems to be working in Montana.

Senator Welch. Okay, thank you. My time is up, so I'm not going to be able to hear from you. I yield back, Mr. Chairman.

Chairman Heinrich. Vice Chairman, do you want to leave us with your closing thoughts?

Vice Chairman Schweikert. A couple of things, Mr. Chairman. I'd like to actually throw a couple of articles into the record, just for reference.

Chairman Heinrich. Without objection.

[The articles of Vice Chairman Schweikert appear in the Submissions for the Record on page 110.]

Vice Chairman Schweikert. Mr. Chairman, thank you for doing this. The reality we could all be—well, a couple of you already have done through your Ph.D. theses on this, on just portions of this. We have to deal with the reality of the demographic changes, migration, and we also—something we've been trying to have a conversation with the Joint Economic Republican economist is are we making policy that's prepared for the technology disruptions that are coming.

What will jobs look like in a few years, you know? And I hate to use the pop culture words, but whether it be AI, whether it be other types of technology, whether it be just the fact of the aging of America. We've had, seen some things in Arizona where a lot of our tradesmen retired, you know, and the next generation, you know, there wasn't that pipeline and yet you'd look at the demographics.

So thank you for doing this hearing. There's a lot for us to understand, and then there's one last request I have. I would—because it came up two times in opening statements. What federal land, if there's ever research or a map, if any of you know it, that would be available, particularly around urban or smaller communities, that would make a rational way to trade into development or actually have the federal government sell?

Because for many of us in the west, we have sort of leapfrogging type development, and then often that leapfrogging, the infrastructure cost is one of the drivers of why that underlying real estate is so expensive. And just from basic urban planning, it's an irrational way to do it.

And so I'm trying to think of the things we can do policy-wise as members of the federal side, that don't necessarily rely on additional subsidies, but actually would rely on better policy. With that, I yield back.

Chairman Heinrich. Well, I want to thank everyone who participated today, certainly my colleagues, our incredible witnesses. You know, one of the things that is always interesting out of these hearings is that you really do get some ideas for where there is some common ground.

There are always things that we disagree on, but I have to say I was really surprised that all four of our witnesses today agreed. Having some scars myself from my days as Land Use chair in the Albuquerque City Council, that reforming exclusionary zoning is a key part of this and works.

I think that's, that's a great lesson. The emphasis across the board on the dais here, on apprenticeships, also really interesting. We clearly need to make that workforce match up to the demands that we have today. And then this idea of tax treatment between investors versus actual homeowners is something, a question worth diving into.

So I want to thank everyone. Any additional questions for the record may be submitted after the hearing, and the record will remain open for three business days. The hearing is now adjourned. (Whereupon, at 4:05 p.m., the Committee adjourned.)

Joint Economic Committee

Joint Economic Committee
Opening Remarks for Hearing “Rebuilding the American Dream: Policy Approaches to
Increasing the Supply of Affordable Housing”
January 17, 2024

This hearing will come to order.

I would like to welcome everyone to today’s Joint Economic Committee hearing, titled “Rebuilding the American Dream: Policy Approaches to Increasing the Supply of Affordable Housing.”

Today’s hearing will begin with five-minute opening statements from myself, Vice Chairman Schweikert, and each of our four witnesses.

We will then proceed to questions, alternating between parties in the order of Member arrival. Members are reminded to keep their questions to no more than five minutes.

Now, for opening statements.

There is a serious housing crisis in New Mexico and across the country – impacting people at all income levels, in nearly every community.

Whether they rent or own, and whether they live in rural, suburban, or urban areas, too many Americans cannot securely afford the place they call home.

Broad access to affordable, stable and safe housing helps ensure Americans’ economic well-being and social mobility.

But the current housing shortage means the American dream of homeownership is out of reach for too many.

After the housing market collapse in 2008, new housing supply never recovered to keep up with demand. And the pandemic only compounded this crisis.

Exclusionary zoning adds to this problem – placing restrictions on where people can live and the types of housing they can live in, often enmeshed with discriminatory practices that have left a legacy of unequal opportunity.

At the same time, rents have been climbing over the past decade and many lower-income families are being priced out of their current neighborhoods.

These same families are blocked from renting in higher income neighborhoods due to the absence of smaller, more affordable housing options.

The Biden Administration has taken historic steps to keep people in their homes and increase housing production.

They helped reduce the burden of housing costs during the COVID-19 pandemic, increased the supply of quality housing through their Housing Supply Action Plan, and took important steps to protect renters.

The American Rescue Plan's State and Local Fiscal Recovery Funds also helped stimulate affordable housing construction and support housing stability.

But more federal investment is needed to address the growing housing crisis and ensure fair and competitive markets for renters and homeowners.

We need to increase the supply of safe, accessible, and affordable homes.

We need to lower rental housing costs, and expand affordable home ownership so that families can build wealth and live safely in their communities.

The Low-Income Housing Tax Credit is one way that federal and state governments can help finance new building projects with affordable rent units.

But that program is oversubscribed and in need of reform to make sure it reaches those most in need.

The bipartisan Affordable Housing Credit Improvement Act would increase the number of available credits to better meet demand, while changing program rules to make sure that more units are built to serve Tribal communities, rural areas, and other at-risk and underserved groups.

I am a cosponsor and strong supporter of this bill.

And in June, I introduced the Delivering Essential Protection, Opportunity and Security for Tenants Act, also known as the DEPOSIT Act.

My legislation would help low-income renters overcome the barrier of security deposit payments when moving into new housing.

This legislation has also been introduced in the House.

We can also take note of state and local programs that have produced successful results.

In my home state of New Mexico, local governments are leading efforts to finance affordable housing stock.

This past November, voters in Santa Fe approved a tax on home purchases that are over \$1 million, to increase revenue for the city's Affordable Housing Trust Fund.

And in Las Cruces, voters approved the issuance of a \$6 million general obligation bond to fund its Affordable Housing Trust Fund. This initial investment could help leverage more than \$36 million in funding from state, federal, and private sources to create additional affordable housing units.

These are important steps, but we need to do more at every level of government to meet this crisis head on.

I'm looking forward to hearing more from our witnesses today about how we can replicate policies that work, and help create new approaches that will increase the quantity of available affordable housing and promote fair and competitive markets for both renters and homeowners.

I will now turn to Vice Chairman Schweikert for his opening statement.

Joint Economic Committee
Rebuilding the American Dream: Policy Approaches to Increasing the Supply of Affordable Housing

Written Testimony by Jenn Lopez

Jan 17, 2024

Introduction

Chair Heinrich and members of the Committee, thank you for the opportunity to testify today. My name is Jenn Lopez and I'm President and Founder of Project Moxie, a consulting firm that helps nonprofits, governments, and private sector partners acquire, preserve, and build affordable housing. I will be focusing on my work in the Southwest over the last several years; highlighting real world examples of challenges to developing and preserving affordable housing. I will conclude with federal housing policy considerations.

My experience in New Mexico began in 1997 as a graduate student at the University of New Mexico. After focusing on community development, I took my first job as a housing planner in Santa Fe in 2000. For the last two decades I have had the opportunity to work throughout New Mexico and Colorado to increase affordable housing supply.

Over the past two decades, housing development in the Southwest, particularly in New Mexico, has fallen behind the growing needs of families. Building activity slowed significantly after the Great Recession, with housing stock increasing by only 10% from 2011 to 2019, a notable decline from the 30% average since the 1970s. Factors contributing to this slowdown include builder and lender reluctance due to market conditions, a chronic labor shortage in the construction industry, and a shift in the housing industry towards catering to higher-income households.¹This imbalance is reflected in a substantial 70% increase in rent in New Mexico since 2017, while wages have only grown by 15%.²

As market rate development has slowed; our industry's efforts to address supply at the local level have been met with various obstacles including burdensome land use regulations, intense competition with market rate players, and insufficient federal funding to undertake projects.

Throughout the Southwest, local land use policies pose significant obstacles to increasing our affordable housing supply. Even when the focus is on redeveloping existing commercial properties, the local regulatory processes can extend the timeline and increase project costs by hundreds of thousands of dollars. For example, in Santa Fe, the Anchorum Health Foundation

¹ "2023 New Mexico Housing Needs Assessment. Prepared by the New Mexico Mortgage Finance Authority."

² "Spotlight: Homelessness Supports and Affordable Housing, May 23, 2023. Program Evaluation Unit, Legislative Finance Committee, New Mexico."

spearheaded the redevelopment of a motel in late spring of 2021, yet we are still awaiting final approvals from the local land use department. This situation is not unique; in fact, Albuquerque, New Mexico, recently initiated *Housing Forward Albuquerque*, aiming to allocate resources for the redevelopment of commercial properties while also eliminating land use barriers to affordable housing development.

The competition within the private market for scarce resources and a shift towards higher-end real estate products limits our ability to compete in the market to generate or maintain a supply of affordable housing.

This challenge is particularly pronounced in Northern New Mexico, where private developers are acquiring valuable real estate and reducing the availability of sites for affordable projects. Moreover, preserving existing housing becomes impossible when competing against private investors when our communities lack sufficient funding or capacity.

In the past year, a collaborative effort involving stakeholders, including representatives from the New Mexico Delegation, worked diligently to safeguard a USDA-funded rental community named La Vista Del Rio in Espanola. Due to the structure of the USDA program, the property owner was permitted to sell this community to private investors without incurring penalties. Regrettably, this marked the second instance of a USDA property being sold to investors in less than 15 months in Espanola, resulting in the displacement of over 100 households and a permanent loss of 145 affordable units. Access to tax credits and federal funding sources would have facilitated preservation and redevelopment of these properties.

Ultimately, the challenge lies in the insufficient availability of federal funds posing a significant obstacle to scaling affordable supply to meet the needs of the tens of thousands of cost burdened New Mexicans.

Without a doubt, the stark reality is that if the market cannot provide affordable housing in New Mexico, renowned for its lower building costs, then accomplishing this feat anywhere is unlikely. In 2023 the New Mexico Mortgage Finance Authority (MFA), as the state allocating agency, financed 1,415 new affordable rental units.³ At this current rate, we are meeting less than 1% of the current need.

In practical terms, this translates to communities like Socorro enduring prolonged waits before they can embark on affordable housing development. Since 2018, Maryann Chavez-Lopez has tirelessly lobbied for resources for a 30-unit project, invested her own limited funds and submitted multiple applications for tax credits. Further delays ensued when gap funding was

³ "2023 New Mexico Housing Needs Assessment. Prepared by the New Mexico Mortgage Finance Authority."

inadequate. Finally, the project closed on financing last month and is set to open its doors in 2025, marking an eight-year journey since its inception in 2018.

Local governments throughout New Mexico are stepping up with new resources to facilitate production as quickly as possible and better deploy federal resources. In Las Cruces, their recent housing investment strategy is committing 16 million in city funds to create 633 affordable rental units over the next few years.

Our industry knows how to increase housing supply, but we cannot be successful without increasing federal resources and providing incentives for land use reform at the local government level.

I'd like to pivot to some promising policy work in Colorado. Governor Polis and the State legislature have been piloting ways to package land use reform, funding, and technical assistance to increase housing supply. For instance, in 2021 Colorado passed HB21-1271 that provides grants to local governments willing to remove land use barriers to affordable housing. This legislation also provides technical assistance to local governments to help implement these initiatives.

Another example is Colorado's Proposition 123. This voter referendum in 2022 established a 300-million-dollar housing trust fund that provides more flexible uses and complements existing federal resources. For a local community to access funding, they must commit to increasing their housing stock by 9% and implement fast-track approvals by 2026. We are in the early days of this initiative, but most communities opted into this program. This incentive-based approach has changed land use reform conversations throughout Colorado. What has often been discussed theoretically for years is now becoming an actionable priority for local governments.

In summary, our industry can swiftly scale our efforts; however, the pivotal factor is the federal government significantly increasing federal resources and considering ways to support local land use reforms. I urge you to consider pairing these practices to bolster our overall economy. When we provide affordable housing, we house our local workforce, create jobs; and stabilize our communities. On behalf of our New Mexico communities; we appreciate your consideration of these suggested solutions.

**United States Congress
Joint Economic Committee**

Written testimony for hearing on “Rebuilding the American Dream: Policy Approaches to Increasing the Supply of Affordable Housing”

Jenny Schuetz

January 17, 2024

Chair Heinrich, Vice Chair Schweikert, and members of the Committee, thank you for the opportunity to testify on the critically important issue of policy approaches to increase the supply of affordable housing. It is an honor to be here before you today. I am grateful for your leadership and attention to this issue.

My name is Jenny Schuetz. I am a senior fellow at Brookings Metro. The views expressed in my testimony are my personal views and do not reflect the views of Brookings, other scholars, officers, or trustees.

My testimony will address several aspects of housing supply and affordability, including:

- Four major challenges facing U.S. housing markets today
- The role of zoning and land use regulation
- Opportunities for federal engagement to encourage housing supply

US housing markets face four major challenges

American families, the real estate industry, and policymakers are confronting four urgent challenges stemming from both the supply and demand sides of the markets.

First, the U.S. is experiencing a persistent and widespread housing shortage. Over the past several decades, housing supply has become less responsive to changes in demand; growth in population and jobs has not led to proportional growth in the number of homes, while prices and rents have increased faster than household incomes.¹ Researchers estimate a shortage of nearly 4 million homes for the country overall.² Regions with strong labor markets—such as coastal California, Greater Boston, New York City, and South Florida—have built too little housing for

¹ Jared Bernstein, Jeffrey Zhang, Ryan Cummings, and Matthew Maury. 2021. Alleviating supply constraints in the housing market. White House Council of Economic Advisors. <https://www.whitehouse.gov/cea/written-materials/2021/09/01/alleviating-supply-constraints-in-the-housing-market/> Edward Glaeser and Joseph Gyourko. 2018. The Economic Implications of Housing Supply. *Journal of Economic Perspectives* 32(1): 3-30. Knut Are Aastveit, Bruno Albuquerque, and Andrew Anundsen. 2023. Changing Supply Elasticities and Regional Housing Booms. *Journal of Money, Credit and Banking* 55(7): 1749-783.

² Sam Khater, Len Kiefer, and Venkataramana Yanamandra. 2021. Housing Supply: A growing deficit. Freddie Mac Research note. <https://www.freddiemac.com/research/insight/20210507-housing-supply>. Up for Growth 2023. Housing Underproduction in the U.S. <https://upforgrowth.org/apply-the-vision/2023-housing-underproduction/>

more than 30 years.³ The increasing prevalence of hybrid and remote work since the COVID-19 pandemic has exacerbated housing shortages in previously affordable regions, including Columbus, Ohio; Nashville, Tenn.; and Salt Lake City.⁴

Some reasons for the housing shortage are well understood, such as excessively strict land use regulations that limit new development and a decline in the construction workforce.⁵ One piece of the puzzle that requires further study is that the construction industry has seen declining productivity growth over the past several decades—an outlier among industries in the U.S. economy.⁶

The second supply-side problem is that the stock of existing homes is aging and in need of substantial renovation or replacement.⁷ The median U.S. home is over 40 years old. Like all capital assets, buildings depreciate over time and require ongoing investment to remain safe and habitable. As the number of older adults and people with disabilities increases, there is a growing need to retrofit existing homes with accessibility features, such as no-step entry and grab bars.⁸ Many older homes were not built to withstand current and future climate stresses, such as higher intensity rainfall, sea level rise, extreme heat, and wildfires.⁹

On the demand side, households are grappling with two types of affordability challenges. Low-income households cannot afford market rate housing, leading to high rates of housing cost burdens and housing instability.¹⁰ The poorest 20% of households spend more than half their income on housing, leaving too little cash to pay for food, clothes, transportation, and other necessities.¹¹ In January 2023, more than 650,000 people were experiencing homelessness—the

³ Chang-Tai Hsieh and Enrico Moretti. 2019. "Housing Constraints and Spatial Misallocation." *American Economic Journal: Macroeconomics* 11(2): 1-39; Jenny Schuetz. 2022. *Fixer Upper: How to repair America's broken housing systems*. Brookings Institution Press.

⁴ John Mondragon and Johannes Wieland. 2022. *Housing Demand and Remote Work*. NBER working paper 30041.

⁵ Joseph Gyourko and Raven Molloy. 2014. *Regulation and Housing Supply*. National Bureau of Economic Research working paper, U.S. Department of Housing and Urban Development, 2021, *Eliminating Regulatory Barriers to Affordable Housing: Federal, State, Local, and Tribal Opportunities*. Andrew Paciorek. 2015. *Where are the construction workers?* FEDS Notes. Washington DC: Board of Governors of the Federal Reserve System.

⁶ Daniel Garcia and Raven Molloy. 2023. *Can Measurement Error Explain Slow Productivity Growth in Construction?* FEDS paper 2023-052. Washington DC: Board of Governors of the Federal Reserve System. Austen Goolsbee and Chad Syverson. 2023. *The strange and awful path of productivity in the U.S. construction sector*. NBER working paper 30845.

⁷ Carlos Martin. 2023. *Despite a pandemic remodeling boom, aging US homes require additional investment*. Harvard University, Joint Center for Housing Studies brief.

⁸ U.S. Senate Special Committee on Aging. July 2023. "Laying the Foundation: Housing Accessibility and Affordability for Older Adults and People with Disabilities."

⁹ Claire Elise Thompson and Gabriela Aoun Angueira. 2023. *How to build homes that can fight climate change—and survive its effects*. Grist. Joseph Kane and Andy Kricun. 2022. *Seizing the water infrastructure moment nationally and locally*. Brookings Institution brief. U.S. Climate Resilience Toolkit. Buildings and Structures. <https://toolkit.climate.gov/topics/built-environment/buildings-and-structures>

¹⁰ Peyton Whitney. 2023. *Number of renters burdened by housing costs reached a record high in 2021*. Harvard University, Joint Center for Housing Studies brief.

¹¹ Jeff Larrimore and Jenny Schuetz. 2017. *Assessing the severity of rent burden on low-income families*. FEDS Notes. Washington DC: Board of Governors of the Federal Reserve System.

highest number since the U.S. Department of Housing and Urban Development (HUD) began its annual point-in-time count, and a 12% increase from 2022.¹²

Finally, the historically unusual combination of high housing prices and high mortgage interest rates are making it difficult for renter households who are trying to purchase their first home.¹³ Median home prices have risen nearly 30% from the beginning of 2020 to the third quarter of 2023, while mortgage rates rose from about 3.5% in January 2020 to a peak around 7.75% in November 2023.¹⁴ Together, these trends mean that households need substantially higher incomes to afford the monthly mortgage payments for a typical home. The decreasing affordability of first-time homeownership is particularly acute for younger adults, because they earn lower wages and have had less time to accumulate savings.¹⁵ Mortgage rates will likely decline over the next year, but the size and timing of rate decreases are uncertain.

Tight housing supply and rising housing costs are not just problems for individual families—they also create harmful spillover effects on surrounding communities and regional economies. Building too few homes to accommodate demand—especially in regions with the most productive labor markets—makes it harder for employers to attract and retain workers.¹⁶ Poor quality housing, high cost burdens, and housing instability are harmful to families’ physical and mental health, with repercussions for public health systems, worker productivity, and children’s development.¹⁷ Homeownership has traditionally been the primary mechanism for middle class households to build wealth, so raising barriers to entry can have long-lasting impacts on the financial well-being of families and communities.¹⁸

Reducing regulatory barriers to new development, especially for smaller homes, could help increase housing supply and improve affordability

America’s housing shortage is not simply the result of market forces. Local governments across the U.S. have adopted policies that make it difficult to build more homes where people want to live.¹⁹ Policies such as zoning laws and building codes have been used for over 100 years to regulate what kinds of structures can be built in which locations.²⁰ However, these laws have become more complex and restrictive over time, especially in high-opportunity communities that have the strongest demand for more housing.

¹² U.S. Department of Housing and Urban Development. 2023. Annual Homelessness Assessment Report: By the numbers.

¹³ Daniel McCue. 2023. Home prices and interest rates still rising, shutting out more potential homebuyers.

¹⁴ Federal Reserve Bank of St. Louis. 2024. FRED Economic data.

¹⁵ Samantha Fields. 2023. First-time homebuyers are older these days. Marketplace.

¹⁶ Hsieh and Moretti 2019.

¹⁷ Jens Ludwig, Greg Duncan, Lisa Gennetian, Lawrence Katz, Ronald Kessler, Jeffrey Kling, and Lisa Sanbonmatsu. 2013. Long-term neighborhood effects on low-income families: Evidence from Moving to Opportunity. *American Economic Review* 103(3): 226-231. Sandra Newman and Scott Holupka. 2021. Effects of Assisted Housing on Children’s Healthy Development. *Housing Policy Debate* 33(1).

¹⁸ Schuetz. 2022. *Fixer Upper*, chapter 5.

¹⁹ Hsieh and Moretti 2019; Gyourko and Molloy 2014; Schuetz 2022.

²⁰ Sonia Hirt. 2015. *Zoned in the USA: The origins and implications of American land-use regulation*. Cornell University Press.

Single-family-exclusive zoning is one of the most common—and most problematic—zoning practices. More than three-quarters of land in U.S. cities and suburbs is reserved exclusively for single-family detached homes, meaning that rowhouses, duplexes, and apartment buildings of all sizes are simply illegal to build.²¹ This rule creates challenges for both affordability and expanding housing supply. Single-family homes with yards require more land per home than other structures, and therefore are more expensive to buy or rent. In job- and amenity-rich places with expensive land, allowing multiple homes on a single lot, as shown in Figure 1, could substantially reduce per-unit development costs.²²

Figure 1: Legalizing more homes per lot can expand housing supply



Source: Schuetz (2022), *Fixer Upper*, chapter 2.

Revising zoning to allow more diverse structure types and smaller homes is also necessary to expand housing capacity in high-demand cities and inner-ring suburbs. Many communities that were developed as low-density, single-family neighborhoods in previous decades when land was less expensive are now “built out” under their current zoning—they have no remaining undeveloped land. To expand housing supply in those communities, local governments need to update their zoning in one of two ways: allow somewhat higher density in single-family residential neighborhoods or reallocate commercial and industrial land for housing.²³

In addition to legalizing a wider range of housing types, local governments could undertake a variety of policy changes that would increase housing supply and improve affordability. These include reducing minimum lot sizes, increasing building height limits, and reducing off-street parking requirements.²⁴ Additionally, states and localities often impose complex discretionary development processes—such as requiring multiple public hearings or lengthy environmental reviews—that make new housing more expensive.²⁵ Making the development process shorter,

²¹ Emily Badger and Quoctrung Bui. 2019. Cities start to question an American ideal: A house with a yard on every lot. *New York Times*.

²² Sarah Crump et al. 2020. Fixing Greater Boston’s housing crisis starts with legalizing apartments near transit. *Brookings Institution* brief. Edward Pinto, Tobias Peter, and Emily Hamilton. 2022. *Light Touch Density*. American Enterprise Institute Housing Center.

²³ Leah Brooks and Jenny Schuetz. 2023. Does housing growth in Washington DC reflect land use policy changes? *Cityscape* 25(2): 203-224.

²⁴ Nolan Gray and Salim Furth. 2019. Do minimum lot sizes limit housing supply in Texas? *George Mason University Mercatus Center* working paper. Hannah Hoyt and Jenny Schuetz. 2020. Parking requirements and foundations are driving up the cost of multifamily housing. *Brookings Institution* brief.

²⁵ Amy Dain. 2019. The state of zoning for multifamily housing in Greater Boston, *Housing Toolbox*. Barbour, Elisa and Michael Teitz. 2005. *CEQA Reform: Issues and Options*. Public Policy Institute of California.

simpler, and more transparent would reduce the “soft costs” of construction, which can amount to 20% to 30% of total development costs.²⁶

Restrictive regulations are especially problematic for the construction of small “starter homes” that accommodated first-time homebuyers in previous generations. In 1973, a typical new single-family home was 1,660 square feet; by 2020, new homes averaged nearly 2,500 square feet.²⁷ Some of this likely reflects changes in consumer preferences—few households today would choose to buy a three-bedroom home with only one bathroom, for instance. But regulations such as minimum lot sizes, minimum home sizes, and off-street parking requirements make it difficult to build small homes in most communities.

The past several years have seen an unprecedented amount of housing policy experimentation, with state and local governments across the U.S. taking actions intended to boost housing production and improve affordability. In 2018, Minneapolis passed a historic comprehensive plan that legalized duplexes and triplexes in all residential neighborhoods.²⁸ Other local governments, including Albuquerque, N.M.; Anchorage, Alaska; and Raleigh, N.C. have passed similar reforms aimed at legalizing “missing middle” housing types, such as accessory dwelling units, rowhouses, and small multifamily buildings.²⁹ State legislators from Massachusetts to Montana to Utah have passed statewide laws aimed at increasing the diversity of housing options and encouraging development of apartments near transit stations and in commercial corridors.³⁰ Notably, local and state pro-housing policies have been adopted through bipartisan efforts in a wide range of housing market types.

It is important to note that the types of regulations that currently limit housing supply—and therefore, what policy changes would help—differ across places. Single-family-exclusive zoning with a two-acre minimum lot size in Greenwich, Conn. will severely constrain new development, relative to what developers would choose to build in the absence of such rules. But a similar policy in exurban or rural communities with less expensive land will have far less impact on the size and type of homes that are built. Limitations on manufactured and modular housing are particularly relevant in rural areas, where manufactured homes have traditionally been an important source of moderately priced housing.

²⁶ Hannah Hoyt and Jenny Schuetz. 2020. Flexible zoning and streamlined procedures can make housing more affordable. Brookings Institution brief.

²⁷ Goulsbee and Syverson. 2023.

²⁸ Henry Grabar. 2018. Minneapolis confronts its history of housing segregation. Slate.

²⁹ James Brasuell. 2023. With new ADU rules, Anchorage leading U.S. zoning reform efforts. Planetizen. James Brasuell. 2023. Albuquerque posed to legalize accessory dwelling units. Planetizen. Raleigh Department of Planning. <https://raleighnc.gov/planning/zoning-reform-creating-opportunities-more-housing-types>.

³⁰ Tim Reardon, Rachel Heller, and Jesse Kanson-Benanav. 2021. Bold guidance for MBTA communities. Boston Globe. Emily Hamilton. 2023. Four elements of a successful housing task force: Lessons from the Montana Miracle. George Mason University, Mercatus Center brief. Katie McKellar. 2023. What are Utah lawmakers doing to address Utah’s housing crisis? Deseret News.

The federal government has several policy levers to support healthier housing markets

While state and local governments have the primary responsibility for regulating housing production, HUD and other federal agencies can provide essential support for better functioning housing markets through four channels.

First, HUD should coordinate and disseminate research on effective policy solutions. Commissioning, funding, and coordinating well-targeted research efforts across universities, think tanks, industry, and practitioners falls squarely within HUD's jurisdiction. Key areas of research include the reasons behind declining construction productivity, the effectiveness of recent state and local zoning reform efforts, and the impacts of local affordable housing programs, such as inclusionary zoning and rent stabilization.³¹

Second, HUD should leverage relationships with other federal agencies and the real estate industry to monitor real-time data on the health of U.S. housing markets. Housing market indicators collected by federal statistical agencies have tended to focus more on aggregate supply measures than on household well-being. Much of the best real-time information—especially on rental markets—comes from private sector sources.³² HUD should play an essential role in assembling housing market metrics from across all these sources and sharing updates with key stakeholders.

Third, HUD can encourage regional collaboration among housing authorities to preserve and expand affordable housing. Most of HUD's programs now focus on housing authorities or agencies within a single political jurisdiction, which contributes to fragmented efforts to address affordability. However, waivers of existing rules in programs such as the Rental Assistance Demonstration and Moving to Work can foster consortia-based solutions and encourage collaboration across multiple public housing authorities, nonprofit and private property owners, and essential service providers.

Fourth, HUD should build up its triage and rapid response capacity. In the past 15 years, two different crises have emerged to roil housing markets: the foreclosure crisis of 2007 to 2009 and rental instability caused by COVID-19. In both instances, HUD was pushed into reacting after the crisis occurred, without having contingency plans in place. To be better prepared for the next housing crisis, HUD should build a small in-house team that monitors signs of impending distress, in coordination with other relevant agencies.

All these tasks fall well within HUD's mission and would be relatively inexpensive in the context of the agency's overall budget. To coordinate some activities that are outside the agency's traditional portfolio of subsidy programs, HUD may need to hire some staff members with expertise on housing supply and market analysis.

³¹ Jenny Schuetz. 2022. Are new housing policy reforms working? We need better research to find out. Brookings Institution brief.

³² See, for instance, Zillow's Observed Rent Index and RealPage's Market Analytics.

Conclusion

Housing affordability has become increasingly urgent for many Americans over the past decade due to insufficient production, aging homes, and rising costs. Across the U.S., an increasing number of cities and states are experimenting with changes to zoning and related regulations, intending to increase housing supply and create more diverse housing options, especially in high-opportunity communities. The federal government can better support the efforts of state and local partners, as well as the real estate industry, through strategically targeted efforts.

Thank you again for the opportunity to testify here today on this important issue. I look forward to answering your questions.



Statement before the Joint Economic Committee

Rebuilding the American Dream: Policy Approaches to Increasing Supply of Affordable Housing

Achieving Housing Abundance through State and Local Land Use and Zoning Reform

How to Overcome Government Regulatory Failures to Enable the Market to Increase the Supply of Affordable Housing

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Senior Fellow, American Enterprise Institute

January 17, 2024

The American Enterprise Institute (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed in this testimony are those of the author.

Chair Heinrich and Vice Chair Schweikert, and distinguished Members of the committee, thank you for the opportunity to testify today.

Executive Summary

Housing affordability issues are real for many Americans.

As home prices and more recently mortgage rates have risen dramatically, many people can no longer afford to buy a home and have no choice but to remain renters. Since rents have also gone up, renters are feeling increasingly financially stretched. These increasing pressures have led to an increase in displacement and homelessness.

In this election year, Congress is feeling the urge to increase the supply of affordable housing.

Before taking any action, it should first consider a couple of misconceptions:

Misconception 1: The housing supply shortage is a market failure. Not true, it is rather a government regulatory failure.

Actions of all levels of government – from the implementation of restrictive zoning laws, the introduction of discretionary reviews in planning, and the rise of environmental laws and other regulations --- have made land scarce and homebuilding expensive. This has restricted private developers from building enough housing to keep up with demand. Today's housing shortage is estimated to be in the millions.

Misconception 2: The federal government can fix – or at least ameliorate - this shortage. Not true.

The federal government's track record in housing supply interventions is poor. Just consider how public housing, which is overseen and regulated by the Department of Housing and Urban Development (HUD), is crumbling. Or how the Federal Housing Administration's (FHA) expansion into high-risk single-family and multifamily insured lending ended up devastating whole communities during the late-1960s and early-1970s.

Likewise, the Low-Income Housing Tax Credit (LIHTC), established in 1986 to combat the lack of affordable housing, has done next to nothing to increase the supply of housing. According to one study, almost all LIHTC development would have been built by the market without any subsidies.¹

If that's not enough, LIHTC also limits social mobility and the program is corruption-prone and complex, thus crowding out many smaller builders.

Misconception 3: The only way to add affordable housing is through subsidies and government programs. Not true.

The root cause is government regulatory failure – and no amount of money can fix that. The true policy solution lies at the state and local level. The literature is clear that the most effective way to add

¹ Eriksen, Michael D., and Stuart S. Rosenthal. "Crowd out Effects of Place-Based Subsidized Rental Housing: New Evidence from the LIHTC Program." *Journal of Public Economics* 94, no. 11–12 (2010): 953–66. <https://doi.org/10.1016/j.jpubeco.2010.07.002>.

affordable housing is to build a lot of market-rate housing, which decreases the cost of both rented and owned homes. Removing this red tape could provide hundreds of thousands of new homes each year.

More supply helps tamp down the house price and rent appreciation of existing homes. As new market-rate housing is built, higher-income households will move into the new units, freeing up their now vacant lower-priced unit. This process—known as filtering-- repeats itself further down the home price ladder, as commonly seen in the new and used car market.

In the case of housing, new construction has not met demand, leading to a breakdown of the filtering process – or even a reversal, where lower income households are selling their older homes to higher income households. No wonder there is so little affordable housing available.

Misconception 4: institutional investors, junk fees, rent pricing algorithms, AirBnb, foreign buyers, or vacant homes are responsible for widespread housing unaffordability. Not true.

While these entities make easy scapegoats, they are at best symptoms of the supply-demand imbalance. To put it bluntly, housing was unaffordable even before many of these entities were established.

Misconception 5: Government can make housing affordable through various demand subsidies. Not true.

Such practices come in many forms -- looser lending policies, lower mortgage premia, downpayment assistance, deeper vouchers, etc. What these policies have in common is that they increase demand against a severely limited supply. This benefits those that own homes or those that receive the subsidy, but it raises housing costs for all.

Having dispelled these misconceptions, the solution to today's housing shortage becomes clear:

- 1) The federal government needs to stay out.

Congress will soon consider two bipartisan bills to address high rental costs: an expansion of LIHTC and the creation of the Workforce Housing Tax Credit (WFHTC). Both programs would offer generous federal government subsidies for building new apartments. The WFHTC would extend eligibility for tenants earning below the area median. On a combined basis the two credits would expand eligibility to about three quarters of the nation's renters. Such a massive expansion of the state would waste taxpayer money, crowd out more private builders, and deter many families from advancing economically. Worst of all, it would do precious little to address the nation's housing supply problem. It would be bad policy for Congress to pass these bills.

On the lending side, the federal government also needs to abstain from the disproven notion of making housing more affordable through subsidies.

- 2) Zoning and land use policies are state and local issues and need to be tackled at these levels of government.

As numerous case studies from around the country have shown, the formula for successful housing reforms is simple:

- Enable by-right zoning,
- Allow greater density in lots of areas particularly around walkable and amenity-rich areas,

- Follow the KISS (Keep-It-Simple-Stupid) principle instead of micromanaging the process, and
- Complement high-rise Transit-oriented Development with Light-touch Density to provide naturally affordable (defined as unsubsidized housing with market-rate rents or prices) homes and wealth building homeownership opportunities with minimal changes to the built environment.

These actions will unleash the ingenuity of the American people by allowing builders of all sizes to build abundant market-rate housing over time. Fortunately, this is already happening – and entirely without federal involvement. In 2023 alone, Washington, Montana, and Vermont followed Oregon (2019) and California (2021) in passing statewide reforms that allow moderately higher density in the form of cost-effective duplexes, triplexes, and townhouses.²

The federal government could amplify this trend by auctioning off underutilized federal land without any strings attached for private market-rate development. As Sen. Lee has pointed out, there are plenty of opportunities, particularly out West. More land means more building, which will translate into more filtering and less affordability pressures.

On the other hand, federal involvement to influence state and local reform movements would result in complex, one-size-fits all solutions that violate the KISS principle and therefore perpetuate the housing supply problem.

Housing unaffordability is a self-inflicted wound, stemming from a government regulatory failure that perpetuates a massive supply-demand imbalance. This has resulted in higher home prices and rents relative to incomes. State and local supply reforms require no taxpayer subsidies and in the few areas where they have been implemented, they have been found to work. If more states and cities sign on, such reforms could provide hundreds of thousands of new homes each year and thus allow more Americans to access their own American Dream.

**

² Harnessing Tailwinds on State and Local Land-Use Reform: A Bipartisan Playbook - Gov. Gianforte (MT):
https://www.youtube.com/watch?v=E8DdGJAX-s&ab_channel=AmericanEnterpriseInstitute;
<https://tcf.org/content/report/a-bipartisan-vision-for-the-benefits-of-middle-housing-the-case-of-oregon/>;²
<https://www.aei.org/california-housing-conference/>

1. Housing affordability issues are real for many Americans.

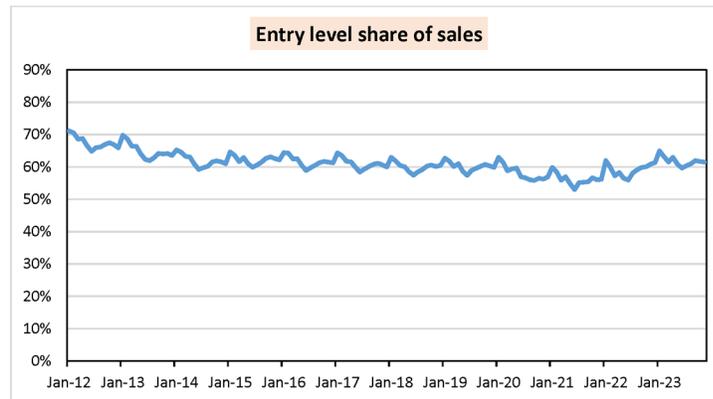
As home prices and more recently mortgage rates have risen drastically, many people can no longer afford to buy a home and have no choice but to remain renters. Since rents have also gone up, renters are feeling increasingly financially stretched. These increasing pressures have led to an increase in displacement and homelessness.

Due to rapid home price appreciation, potential homebuyers are getting crowded out of the market. While borrowers with incomes of \$75,000 to \$100,000 have the option to buy a lower-priced home, low-income Americans may be squeezed out of the market entirely.³

Here are a couple examples that illustrate the crowding out.

Example 1:

- The entry-level share of home sales, where most first-time homebuyers fall, has declined from 71% in Jan. 2012 to 61% in Sep. 2023.



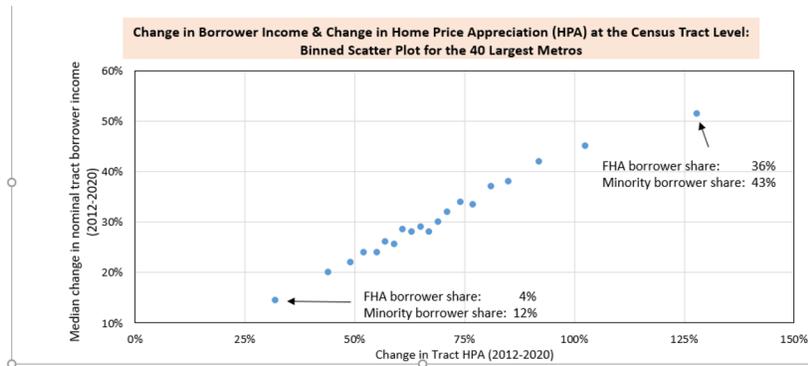
Source: AEI Housing Center.

Example 2:

- At the same time, the incomes of entry level buyers have risen much faster than wages. For census tracts with the fastest home price appreciation (HPA) (+125% from 2012-2020), we observe borrower income growth (+50%) that is twice the rate of national income growth (~27%).
 - Unfortunately, it is highly implausible that the incomes for these neighborhoods have gone up that fast. Instead, it is more likely that more-affluent households are buying in these neighborhoods.

³ <https://www.wsj.com/articles/in-covid-19-housing-market-the-middle-class-is-getting-priced-out-11644246000?mod=mhp>

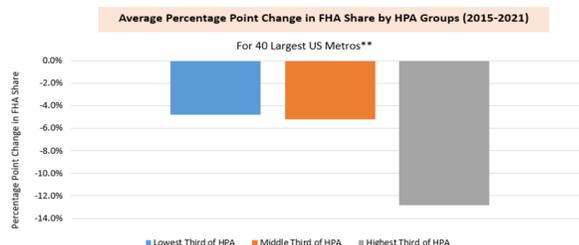
- For example:
 - In 2012, the borrowers purchasing in census tract A had a median income of \$40,000.
 - By 2020, these borrowers should be making \$51,000 according to wage statistics from the Atlanta Fed.
 - However in 2020, we observe that the borrowers now purchasing in census tract A have a median income of \$61,000.
 - Had the borrowers from 2012 not purchased in 2012, but rather tried to purchase in 2020, their income would not have sufficed to compete with the higher income borrowers that actually purchased in 2020.
- The census tracts with the fastest HPA also had the highest share of FHA purchase loans (an indicator for lower-income) and minority borrowers.



Note: Tracts are weighted by their respective loan counts. Binned scatter plot accounts for differences in metros. FHA and minority borrower shares are for 2020. HPA stands for constant-quality home price appreciation
Source: HMDA and AEI Housing Center, www.AEI.org/housing.

Example 3:

- The top one-third of large metros with the highest growth in HPA have seen a 13 percentage point reduction in FHA purchase loan share compared to a 6 percentage point reduction for the two-thirds of metros with lower levels of HPA.
- Since FHA is a proxy for lower-income and minority borrowers, this trend is indicative of substantial crowding out of low-income and minority potential homebuyers.



* FHA purchase share is used as a proxy for lower income, minority, first-time, and first-generation borrowers

****Metro Cities in Lowest Third HPA Category:** Baltimore, MD; Chicago, IL; Cincinnati, OH; Cleveland, OH; Houston, TX; Kansas City, MO; New York, NY; Philadelphia, PA; Pittsburgh, PA; Raleigh, NC; San Antonio, TX; St. Louis, MO; Virginia Beach, VA; Washington, DC.

Metro Cities in the Middle Third HPA Category: Austin, TX; Boston, MA; Cape Coral, FL; Charlotte, NC; Columbus, OH; Dallas, TX; Detroit, MI; Indianapolis, IN; Jacksonville, FL; Los Angeles, CA; Miami, FL; Minneapolis, MN; North Port, FL.

Metro Cities in Highest Third HPA Category: Atlanta, GA; Denver, CO; Las Vegas, NV; Nashville, TN; Orlando, FL; Phoenix, AZ; Portland, OR; Riverside, CA; Sacramento, CA; San Diego, CA; San Francisco, CA; Seattle, WA; Tampa, FL.

Source: American Community Survey, Public Records, and AEI Housing Center, www.AEI.org/housing

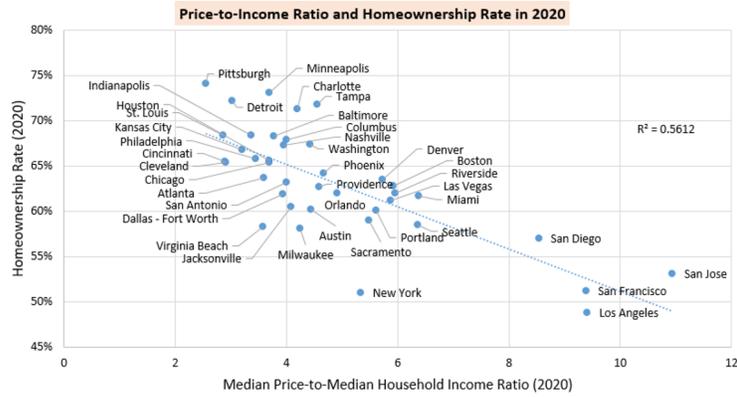
25

The rapid home price appreciation, which has far outpaced market fundamentals, is primarily affecting lower-income, first-time, and first-generation home buyers.

With increased competition for fewer and fewer affordable homes, potential entry-level buyers are increasingly outbid by individuals with slightly deeper pockets, who experience similar competition but higher up the price spectrum. These trends are indicative of the crowding out of potential low-income and minority homebuyers, driven by federal monetary and housing policies. (More on this below.) It is a violation of the Fair Housing Act.

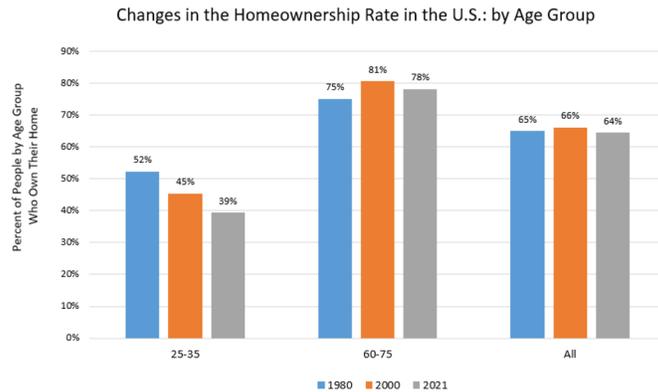
When would-be buyers are crowded out of the market, it creates problems downstream. The higher the prices are relative to income, the lower the homeownership rate is:

- If potential buyers can no longer afford homeownership, they continue to rent, which lowers the homeownership rate.
 - There is already a noticeable correlation between home prices to income and the homeownership rate for the largest metros.



Note: Data are for the largest 40 metros based on the number of households.
 Source: Harvard Joint Center for Housing Studies, Census Bureau, and AEI Housing Center, www.AEI.org/housing.

- Compared to 1980, the homeownership rate for households aged 25-35 has dropped from 52% to 39%, while the overall rate has barely changed.



Note: Homeownership is defined as reporting that the property is owned by either the respondent or their spouse.
 Source: 1980 and 2000 Census, and the 2021 (5-year) ACS data and AEI Housing Center, www.AEI.org/housing.

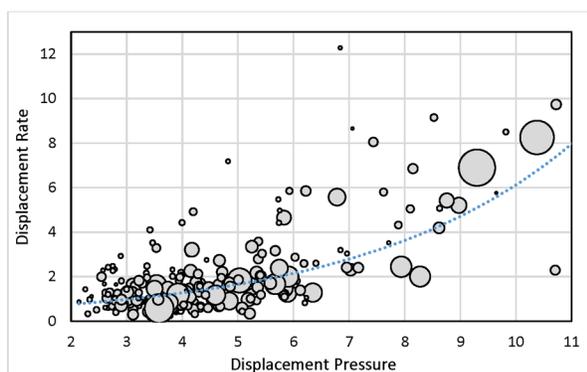
- With more borrowers being crowded out of homeownership, there is additional demand for rentals, which increases rents.
 - According to [Zillow](https://www.zillow.com/research/september-2023-rent-report-33159/), rent appreciation peaked in March 2022 at 16% year-over-year.⁴ This is up substantially from an average of around 4% year-over-year before the

⁴ <https://www.zillow.com/research/september-2023-rent-report-33159/>

pandemic. While rental increases have recently moderated back to their pre-pandemic average, rent levels today remain 30% above their December 2019 level. This is far greater than the 21% increase in wages over the same time.

- All these trends increase displacement pressure and signal higher rates of homelessness in the future.⁵ As my colleague Ed Pinto [has pointed out](#):
 “Point-In-Time (PIT) homeless and housing inventory counts (HIC) conducted in January 2023. The key finding was that homelessness reached a record high as the 2023 annual count increased 12% and 18% respectively from 2022 and 2017. The average rate of homelessness per 1000 population in 2023 was 20. ... We found that areas with a displacement pressure ratio of 3.0 had an expected displacement ratio of 1.0 per 1000, but where the displacement pressure ratio is 7.0, the displacement rate was four times higher.”⁶

Figure: Relationship between the median home price to median income ratio (displacement pressure) and the homeless per 1,000 people (displacement rate) at the Continuums of Care level: 2019



Note: Circles indicate the size of the CoC's population. Across 369 Continuums of Care (CoCs), we find a R^2 of .78 between Point-in-Time homeless counts per 1,000 people and the median price-to-income ratio (89% for CoCs with more than 1 million population), substantially higher than any of the other variables.

Source: Census, HUD, and AEI Housing Center.

⁵ Out of a total of 54 variables tested, the single best predictor out of homelessness is the median price-to-income ratio. Across 369 Continuums of Care (CoCs), we find a correlation of 78% between Point-in-Time homeless counts per 1,000 people and the median price-to-income ratio (89% for CoCs with more than 1 million population), substantially higher than any of the other variable. Displacement rate is the number of persons per 1,000 residents that experience homelessness at a Point in Time (PIT). The rate for 2021 is an average of 2020 and 2022 due to interruptions in the count from the pandemic. Displacement pressure is the ratio between median home price and median income. The higher the ratio is, the higher the pressure is. Since 2012, price-to-income ratio has shot up from 3.35 to 4.29 in 2022.

⁶

<https://www.realeclearmarkets.com/articles/2023/12/27/hud-homeless-count-fails-to-connect-dots-on-supply-and-displacement-1000856.html>

2. In this election year, Congress is feeling the urge to increase the supply of affordable housing. Before taking any action, it should first consider a couple of misconceptions:

Misconception 1: The housing supply shortage is a market failure. Not true, it is a government regulatory failure.

Actions of all levels of government – from the implementation of restrictive zoning laws, the introduction of discretionary reviews in planning, and the rise of environmental laws and other regulations --- have made land scarce and homebuilding expensive. This has restricted private developers from building enough housing to keep up with demand. Today's housing shortage is estimated to be in the millions.⁷

Housing unaffordability is a self-inflicted wound. It stems not from a market failure, but from a government regulatory failure that has created a massive supply-demand imbalance that has driven home prices and rents higher.

The main culprits that have restricted supply to keep up with demand are:

- The federal government's implementations of single-family detached zoning for nefarious purposes in the 1920s.
- The rise of the Not-In-My-Backyard (NIMBY) movement in the 1950s.
- The rise of the environmental movement in the 1970s.

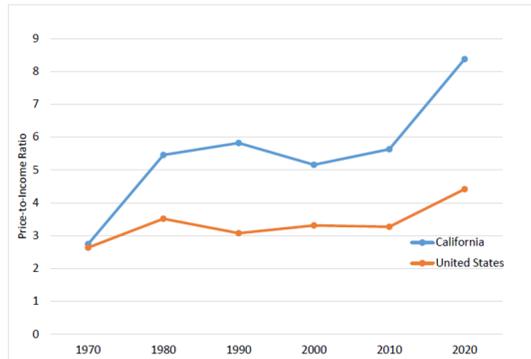
These actions replaced private property rights with communal rights and infringed on the market's ability to respond to price signals. (For more, see appendix 1.)

Nowhere is this more noticeable than in California, which has been at the forefront of many of the trends covered. What is often forgotten is that housing was not always unaffordable in California.⁸ In 1970, the price-to-income ratio for California was largely affordable while being on par with the rest of the country (2.6). Yet by 2020, the price-to-income ratio in California was nearly double the level of the entire country (8.4 relative to 4.4 for the US).

⁷ See for example, Kingsella, Mike, Kolachalam, Anjali, and Leah MacArthur. "Housing Underproduction in the U.S. 2023." 2023., Khater, Sam. "One of the Most Important Challenges our Industry will Face: The Significant Shortage of Starter Homes." Freddie Mac: Perspectives, 23 Apr. 2021., or Corinth, Kevin, and Hugo Dante. "The Understated 'Housing Shortage' in the United States." IZA Working Paper, 2022.

⁸ We calculate the ratio of these numbers, using median house prices as a numerator and median household incomes as the denominator. We use national median existing single-family homes prices from the National Association of Realtors and California Association of Realtors from [this source for 1970, 1980, 1990, and 2000](#). For 2010 and 2020, we average monthly median home values from the California Association of Realtors' [historical dataset](#), while we found 2020 median home values from the National Association of Realtors' [most recent monthly report](#) and estimate 2010 values [from this data visualization](#). We use median household income for California and the United States from the [US Census](#) for 1990, 2000, 2010, and [2020](#). We find 1980 median household incomes from table B.79 from NHGIS. We use median national household incomes from 1970 [Census data](#). For California, we are missing median household incomes in 1970, thus we impute household income using the ratio (1.03) of US-California household incomes in 1980.

Figure: Median Price-to-Median Income Ratios for California and the United States



Source: National Association of Realtors, California Association of Realtors, US Census, AEI Housing Center.

The conditions that have made California housing prices so high are spreading elsewhere. Across the country, the proliferation of land use regulations prevents the market from building more housing – particularly in high-demand places with well-paying jobs.

Additionally, the building industry has not fully recovered from the devastation of the Great Financial Crisis, thus further dampening housing construction. Then over the past couple of years, the Fed’s rate policies first kept rates too low for too long before reversing course abruptly. Since many people refinanced during this period of low mortgage rates, many homeowners are locked-in, unwilling or unable to move. This effect has likely removed 100,000s of units from the market for years to come.

Despite all this, one thing is certain: Federal efforts to build more affordable housing have fallen flat for decades. This issue is not because of a lack of funds. (More on this below.) To achieve broad-based affordability, we need to unleash the private sector. Supply reforms in areas where they have been properly implemented have shown to result in meaningful supply additions. (More on this below).

Misconception 2: The federal government can fix – or at least ameliorate - this shortage. Not true.

The federal government’s track record in housing supply interventions is poor. Just consider how public housing, which is overseen and regulated by the Department of Housing and Urban Development (HUD), is crumbling. Or how the Federal Housing Administration’s (FHA) expansion into high-risk single-family and multifamily insured lending ended up devastating whole communities during the late-1960s and early-1970s. (For more, see appendix 2.)

Likewise, the Low-Income Housing Tax Credit (LIHTC), which was established in 1986 to combat the lack of affordable housing, has done little to increase the supply of housing. Passed by Congress in 1986, LIHTC subsidizes expensive housing made affordable with massive subsidies. For example in California, it

now routinely costs [1 million](#) dollars to build just one unit.⁹ Given the amount of money at stake, it should come as no surprise that the program is also [complex and corruption](#) prone.

But since LIHTC funds are allocated to every state, largely based on population, the program attracts bipartisan support despite it doing next to nothing to increase the supply of housing. According to [one study](#), almost all LIHTC development would have been built by the market without any subsidies.¹⁰

If that's not enough, LIHTC also limits social mobility by creating the perverse incentive for families to maintain incomes below the threshold in order to qualify for an apartment. This undermines the job prospects of parents and the long-run success of children.

In addition, LIHTC has serious design flaws:

- LIHTC is [costly, complex, and corruption prone](#).¹¹ It builds expensive housing only made affordable by layering on subsidy upon subsidy. As the [LA Times](#) reports, "Affordable housing in California now routinely tops \$1 million per apartment to build."¹²
- LIHTC requires other subsidies, primarily the federal housing voucher program. The dirty secret of LIHTC is that its subsidized rents are often still so high. For 2021 [HUD](#) reported that over 50 percent of LIHTC households reporting were also receiving rental assistance.
- LIHTC requires multiple layers of generous federal, state and local subsidies, the [complexity](#) of which caters to specialized and generally larger developers, along with legions of consultants to navigate the red tape of the various subsidy programs.¹³
- LIHTC benefits Fannie Mae and Freddie Mac, who are the largest financiers of LIHTC projects.
- The LIHTC program has worked to reinforce racial discrimination. The City of Chicago reported that "since 2000, the majority of Chicago's LIHTC developments have been new construction located in high-poverty, majority Black areas, with a quarter located in higher-income "opportunity" areas."¹⁴
- LIHTC also limits social mobility by creating the perverse incentive for families to maintain incomes below the threshold to qualify for an apartment. This undermines the job prospects of parents and the long-run success of children.
- LIHTC fails to make housing more affordable and does little to nothing to increase the supply of housing. Instead, it simply [crowds](#) out the construction of market-rate housing for other middle-class families who do not receive the benefit, putting even more upward pressure on the rents

⁹ <https://www.latimes.com/homeless-housing/story/2022-06-20/california-affordable-housing-cost-1-million-apartment>

¹⁰ Eriksen, Michael D., and Stuart S. Rosenthal. "Crowd out Effects of Place-Based Subsidized Rental Housing: New Evidence from the LIHTC Program." *Journal of Public Economics* 94, no. 11–12 (2010): 953–66. <https://doi.org/10.1016/j.jpube.2010.07.002>.

¹¹ <https://www.cato.org/tax-budget-bulletin/low-income-housing-tax-credit-costly-complex-corruption-prone>

¹² <https://www.latimes.com/homeless-housing/story/2022-06-20/california-affordable-housing-cost-1-million-apartment>

¹³ <https://www.aei.org/research-products/testimony/the-cost-of-complexity-in-low-income-housing-assistance/>

¹⁴ <https://www.chicago.gov/city/en/depts/doh/provdrs/developers/news/2021/march/the-chicago-department-of-housing-announces-new-racial-equity-fo.html>

they are forced to pay.¹⁵ According to [one study](#), almost all LIHTC development is accompanied by a commensurate decrease in the construction of market-rate housing.¹⁶ This particularly hurts smaller, naturally affordable multifamily housing developers as they are pushed out of the market because they can't handle the red tape.

What is undeniable is that many of the housing problems we face today have occurred, not in spite of federal policies, but because of them.¹⁷ This should serve as a warning for future proposals.

Misconception 3: The only way to add to affordable housing is through subsidies and government programs. Not true.

The literature is clear that the most effective way to add affordable housing is to build a lot of market-rate housing, which decreases the cost of both rented and owned homes. Building supply at middle price points is both naturally affordable and inclusionary. (More on this below.) More supply helps tamp down the house price and rent appreciation of existing homes.

Rigorous research conclusively shows the fallacy of [supply skeptics'](#) view that adding more supply does not slow home prices and rent growth.¹⁸ An [imbalance](#) between the supply of homes and employment-driven demand is the main cause of metro home price appreciation (HPA).¹⁹ Greater levels of new construction helps keep HPA more in line with income growth. If a metro adds lots of new employees, it also needs to add lots of new housing, and if you get behind, catch up by building more housing.

Our research has furthermore demonstrated that faster rates of new home construction can help tamp down metro home price appreciation. This is particularly true, and important, for faster-growing metros. The evidence is clear: Building more housing reins in home price increases, thus decreasing housing pressures on residents. (See next figure.)

¹⁵ Corinth, Kevin, and Amelia Irvine. "Jue Insight: The Effect of Relaxing Local Housing Market Regulations on Federal Rental Assistance Programs." *Journal of Urban Economics* 136 (2023): 103572. <https://doi.org/10.1016/j.jue.2023.103572>.

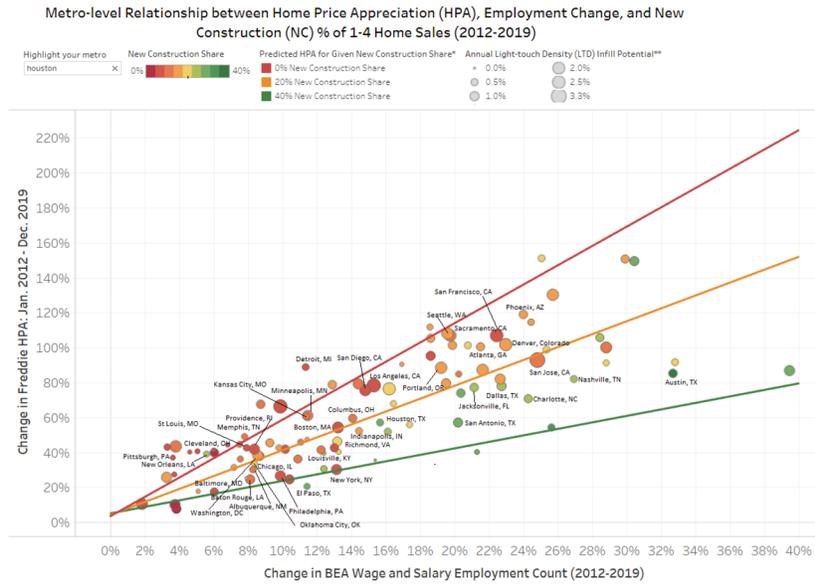
¹⁶ Eriksen, Michael D., and Stuart S. Rosenthal. "Crowd out Effects of Place-Based Subsidized Rental Housing: New Evidence from the LIHTC Program." *Journal of Public Economics* 94, no. 11–12 (2010): 953–66. <https://doi.org/10.1016/j.jpubeco.2010.07.002>.

¹⁷ While our research has found no evidence of systemic racism on the part of residential real estate appraisers or FHA's lenders, we have found evidence of vestiges of separate but equal policies promoted by the federal government and of ongoing federal policies that put low-income households in harm's way.

¹⁸ Been, Vicki and Ellen, Ingrid Gould and O'Regan, Katherine M., *Supply Skepticism Revisited* (November 10, 2023). NYU Law and Economics Research Paper Forthcoming, Available at SSRN: <https://ssrn.com/abstract=4629628> or <http://dx.doi.org/10.2139/ssrn.4629628>

¹⁹ https://heat.aeihousingcenter.org/toolkit/supply_demand

Figure: Metro-level Relationship between Home Price Appreciation (HPA), Employment Change, and New Construction (NC) % of 1-4 Home Sales (2012-2019)



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

As new market-rate housing is built, higher-income households will move into the new units, freeing up their now vacant lower-priced unit. This process—known as filtering-- repeats itself further down the home price ladder, as commonly seen in the new and used car market.

In the case of housing, new construction has not met demand, leading to a breakdown of the filtering process – or even a reversal, where lower income households are selling their older homes to higher income households. No wonder there is so little affordable housing available.

Recently, “the battle cry of the low-income housing advocates has become that you can’t build your way to affordability... [Sightline Institute](#) has tackled that notion directly. Not only can you build your way to affordable housing, in fact, building more supply may be the only effective way to reduce the pressure that is driving up rents and producing displacement. There’s ample evidence for this position, but there’s still the strong sense that addressing our housing problem by building more high-end housing is a cynical and ineffective kind of “trickle down” economics. ... When there isn’t enough supply, demand from higher income households floods down to older housing stock, driving up rents and reducing housing options for those with lesser means.”²⁰ ([City Observatory](#))

²⁰ <https://cityobservatory.org/the-end-of-the-housing-supply-debate-maybe/>

On this point of “trickle down” economics or filtering, Richard Ratcliff (1949:321) observed, “[i]t is not economically feasible to build and operate new rental properties under a rent scale that is within the reach of low-income families.”²¹ However, a healthy market will provide market-rate low-income housing through a process known as “filtering,” and new housing construction can contribute to broad-based housing affordability without needing to provide publicly funded affordable housing.

Filtering works in four ways to keep home prices naturally affordable and displacement pressures low:

1. Under normal circumstances, homes move down in quality and value as they age (Ratcliff, 1949: 321).
2. On average, a homebuyer has a lower income than the sellers of the same home up and down the price range. This gap is wider and the buyer’s income relative to the Area Median Income (AMI) is lower when more of the supply is affordable.
3. Naturally affordable homes contribute the most to the filtering process, as they quickly free up units for lower-income households. Units added at the highest price points require more households to move up before freeing an affordable unit; on the other hand, units at moderate price points require fewer households to move up before freeing an affordable unit.
4. As more supply is built, home price appreciation decelerates and rises at a rate more in line with wage growth. In turn, this relationship allows more filtering to occur, as the expanded stock of homes is more naturally affordable than if no additional stock was available.

This process can be better illustrated by looking at a market with a lot of filtering: the car market. With few barriers to increasing new car supply, additional cars can be built quickly at various price points in response to increased demand.²² Although a lower-income household cannot afford a new Mercedes due to the high cost, they may be able to afford a 15-year-old Mercedes or a 5-year-old Chevrolet, which sell at a fraction of the new Mercedes. The new and used car market has naturally affordable options for households of all different economic means. In a functioning market, with new supply added at various price points, filtering ensures that households of virtually all incomes can afford a serviceable car and easily change cars as they move up the economic ladder.

If car manufacturers could only legally build Ferraris, fewer new cars would be sold because fewer people could afford the high-priced Ferraris. With fewer cars being added to the market, the prices of existing cars would skyrocket. People willing to upgrade to a newer car would struggle to find a seller. The filtering-down of used cars would slow to a trickle. Cars that would otherwise be demolished would remain on the roads because they would become more valuable. The hypothetical case of only allowing the manufacturing of Ferraris is not dissimilar to the housing market, in which single-family detached (SFD) zoning and discretionary review have all but outlawed the production of naturally affordable housing.

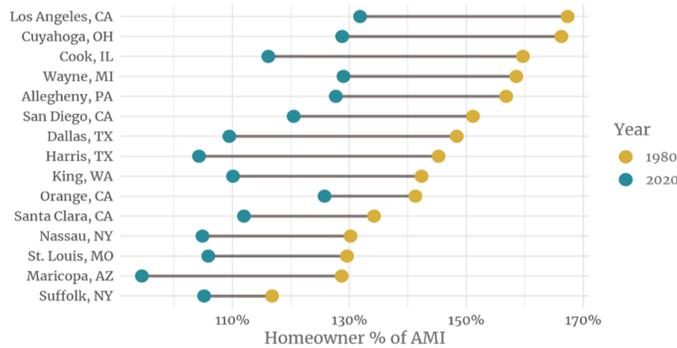
To observe filtering effects, the income of occupant households can be calculated relative to their county median income in both 1980 and 2020 for single-family attached and detached homes built from

²¹ The lack of new low-rent housing is essentially the result of the inherently costly nature of housing.

²²<https://www.kbb.com/cars-for-sale/new/washington-dc?searchRadius=75>; This filtering car market did not work during the [COVID-19 pandemic](#), as a chip shortage constrained new car construction, increasing the price of the existing used car stock.

1960 through 1979 for 100 counties. Filtering can be tracked over time because most of these homes still exist. The next Figure shows that for the 15 largest counties (by 1980 single-family units) across the board, housing built for relatively affluent households filtered down to less-affluent households by 2020, and housing built for households closer to the area median income filtered down to lower-income households.

Figure: Single-Family Detached & Attached Units Build 1960–1979



AMI = County Area Median Income of Households.
 Note: Data show the top 15 tracked counties by number of single-family units in 1980.
 Sources: AEI Housing Center; IPUMS; U.S. Census Bureau

Zoning, and SFD zoning in particular, artificially limits the highest and best use of the land. (More on this below). Additional units cannot be built on already developed, high-demand land; thus, home prices rise, and the filtering process breaks down. This process worsens when existing housing units are converted to McMansions.

Although newly built market-rate housing may not be affordable to many people with low incomes, an abundance of moderately priced new housing has been shown to enable greater homeownership opportunities for moderate-income, younger, and more diverse borrowers through filtering. (See the evidence on Seattle in appendix 1). Furthermore, the additional supply can keep home price appreciation more in line with wage growth. The evidence is clear: Freed from governmental regulatory failures, markets can provide abundant housing for everyone through filtering.

Light-touch Density (LTD) is a straightforward solution to most of the country’s housing issues. It represents the low-hanging fruit in zoning reform, as it allows for modestly higher density than SFD zoning in many different ways, providing options for a jurisdiction to implement at least one.

For urban areas or nearby suburbs already built up, replacing SFD units with more LTD units or adding more LTD units to existing single-family units increases the units per acre, creating more naturally affordable units. The following are ways to increase the housing stock in infill areas:

- Existing single-family detached units can add a junior accessory dwelling unit (JADU) within the existing structure or build a separate freestanding detached or attached ADU on the same lot.²³
- Older infill units can be torn down and replaced with a new duplex, triplex, fourplex, townhome, small multifamily structure, or cottage court.
- Single land parcels can be divided into two, and an additional single-family unit or multiplex unit could be built on the new parcel and sold off separately.

Builders can construct more affordable LTD units in outer suburbs or undeveloped areas—also called greenfield land by:

- Increasing the allowed density of undeveloped land.
- Adding additional floors or reducing the size of units in a planned apartment building to enable the land to be used more efficiently, decreasing the price point for each unit on both greenfield and infill projects.

Implementing these LTD zoning reforms would align market incentives with the need for more housing, resulting in greater housing supply at lower price points for both renters and owners, thus relieving displacement pressures. LTD represents a gradual return to the housing typographies that were present before the widespread implementation of SFD zoning.²⁴

On the basis of multiple case studies and conditions favorable to LTD, approximately 2 to 3 percent of eligible units could be converted annually to LTD. This could add between 260,000 (at a density of up to two units per lot) and 930,000 (at up to eight units per lot) net new units per year nationwide over the next 30 to 40 years.²⁵ The conversion to more LTD homes within a neighborhood is slow and takes place over decades because a homeowner generally needs to sell before a builder can come in and convert a home.

Whether called LTD, missing middle, or gentle density, 2023 demonstrated bipartisan support for adding naturally affordable housing choices, reinforcing a growing [tailwind](#) of legislative accomplishments.²⁶ We need to build on these successes and convince more to follow suit.

²³ With either a JADU or an ADU, the original structure is left intact and the JADU or ADU is sold in combination with the main structure. The gross living area (GLA) of the JADU or the ADU can vary from small to large and is not a defining attribute unless GLA is set by statute or ordinance.

²⁴ The share of LTD as a percentage of the national housing stock has shrunk drastically over time as local zoning ordinances enacted by municipal governments prohibited their construction on much or all of their land starting in 1920. From 1940 to 2018, the combined share of single-family attached units (SFA) and two- to four-unit structures as a share of all one- to four-unit structures declined from 26.5 percent in 1940 to 18.4 percent in 2019; had the 1940 percentage of LTD housing remained unchanged, the nation's housing supply would have increased by some 8 million units.

²⁵ These estimates resulted from evaluating every single-family residential property in the United States for its potential for LTD. For older residential properties on lots of sufficient size, an estimate is first made for an existing structure value, allowing an estimate of the current land share. For properties with a high enough land share, calculations are made to determine if a teardown and subsequent reconstruction of two to eight units (of varying sizes) on the same lots is feasible by assuming the construction cost per square foot of gross living area by using new single-family detached housing units built in the same area over the past 7–10 years. For more on the methodology, see appendix A.

²⁶ Washington State, [Montana](#), and Vermont joined [Oregon](#) (2019) and [California](#) (2021) in implementing LTD. Austin, TX; St. Paul, MN; Charlotte, NC; Arlington, VA; Alexandria, VA and many other cities also took steps to

LTD needs to be combined with Light-touch Processing and Light-touch Permitting following the “Keep it Simple and Short” (KISS) approach.

The economics of housing construction favor moderately higher density and by-right LTD. These policies would allow for higher and better land use, unleashing what Strong Towns calls a “[swarm](#)” of property owners, small-scale builders, and local contractors to take on small-scale LTD conversion projects.²⁷ Evidence from AEI Housing Center case studies indicates that small-scale builders, many of whom are disproportionately minority-owned, carry out the majority of these LTD projects. To achieve this result, here are the lessons learned.

- What is required?
 - By-right approval of LTD housing
 - Simple rules regarding the number of units, floor-area ratio, and height restrictions permitted in a given lot.
- What helps?
 - Relaxing parking requirements
 - Instituting shot clocks, which can accelerate the timelines in slow-moving areas and create more dependable schedules for builders and homeowners attempting to plan for future construction. (Shot clocks are deadlines for a municipality to act on a plan. If a deadline is missed, the petitioner can assume the plan is approved.)
 - Preapproved design standards
- What hurts?
 - Low maximum floor-area ratio requirements
 - High minimum lot size requirements
 - Outsized parking or other requirements that increase construction costs or de facto prevent building LTD entirely.
 - Income limits and affordable housing fees and mandates
 - Rental bans
 - Owner-occupancy requirements
 - Rent controls
 - Inclusionary zoning
 - Impact fees
 - Anything not required for single-family homes

Among the “5 Ls” of construction-- land, laws, lumber, lending, labor-- land use laws are by far the biggest impediment to the private sector’s ability to build more naturally affordable and inclusionary housing.

Our findings from various case studies across the country and other places demonstrate that LTD, when implemented by-right and following the KISS principle, can produce a significant supply response entirely through market forces. We estimate that each year LTD can add around 2% to the housing stock.

unleash the private market. <https://www.aei.org/events/harnessing-tailwinds-on-state-and-local-land-use-reform-a-bipartisan-playbook/>

²⁷ <https://www.strongtowns.org/journal/2021/2/3/unleash-the-swarm>

Table 1. Light-Touch Density Case Studies

Case Study	Study Topic	Finding(s)
Seattle	Housing outcomes in the Lowrise Multifamily (allows for LTD) vs. SFD zone	LTD added ~3% to housing stock per year. LTD units are naturally affordable.
	The effect of a 2019 inclusionary zoning requirement on townhome development	Requirement halted most LTD development.
Palisades Park	Housing outcomes in Palisades Park vs. surrounding boroughs	LTD added ~2% to housing stock per year, which supported population growth. Lower property taxes and greater economic vibrancy resulted. Although legally permissible, procedural barriers such as greater lot size regulations stymie LTD.
Houston	Housing outcomes after Houston reduced the minimum lot size requirements within the I-610 Inner Loop	LTD added ~2% to housing stock per year. LTD units are naturally affordable.
Charlotte	Micro-level analysis of housing types in the R-22 vs. R-5 zone	Greater housing type diversity from LTD leads to lower-priced homes and greater economic diversity of residents.
Tokyo, Japan	Housing affordability and supply in Tokyo vs. other major global metropolitan areas Tokyo's zoning code	LTD added ~2% to the housing stock.
		A market and property rights-based system governs land use and zoning, with minimal opportunity for interference from local homeowners, neighborhood groups, or elected officials.
Relationship Between Density, Gross Living Area (GLA), and Price	More than 500 counties in the largest 200 metropolitan areas	For single-family detached and attached homes built between 2000 and 2022, the greater the as-built density (number of units built per acre), the lower the GLA and home price. These reductions in price stem from the smaller GLA and lot size.
Rent by Structure Type and Year Built	50 states and the District of Columbia	LTD units are naturally affordable and inclusionary. Recently built (2010–21) LTD structures between 2 and 4 units have rents significantly lower than recently built 20+ units or single-family units, respectively.
Filtering	Homebuyer income as a percentage of seller income for more than 600,000 sales	Homebuyers tend to have lower incomes than sellers. Metropolitan areas with more economical homes tend to show greater levels of filtering down. Many of the metropolitan areas with modest filtering have high home values.
	Income of occupant households relative to their county median income in both 1980 and 2020 for single-family attached and detached homes built from 1960–79 for 100 counties	Across the board, older housing built for relatively affluent households had filtered down to less affluent households by 2020, and housing built for households closer to the area median income had filtered down to lower-income households.

Source: AEI Housing Center

Misconception 4: Institutional investors, junk fees, rent pricing algorithms, AirBnb, foreign buyers, or vacant homes are responsible for widespread housing unaffordability. Not true.

Governments at all levels should stop deflecting from their own policy mistakes by blaming the private sector for the market distortions they have created. While these entities make easy scapegoats, they are at best symptoms of the supply-demand imbalance.

The government regulatory failure described has been decades in the making. Institutional investors, junk fees, rent pricing algorithms, Airbnb, foreign buyers, or vacant homes are not responsible for widespread housing unaffordability. Housing was already unaffordable even before many of these entities were created. Furthermore, affordability has significantly worsened since the pandemic across the entire country, yet these entities are only present in a few markets or affect subsets of certain markets. (See appendix 3 for more.)

Misconception 5: Government can make housing affordable through various demand subsidies. Not true.

Such practices come in many forms -- looser lending policies, lower mortgage premia, downpayment assistance, deeper vouchers, etc. What these policies have in common is that they increase demand against a severely limited supply. This benefits those that own homes or those that receive the subsidy, but it raises housing costs for all.

The housing market is becoming less affordable because of misguided policies that boost demand. Such policies invariably encounter the paradox of accessible lending: When supply is constrained, credit easing and easy money will get capitalized into prices, making entry-level homes less, not more, affordable.

Credit easing or easy money merely permits one borrower to bid up the price against other potential borrowers for a scarce good.²⁸ Thus, much of the credit easing or easy money that federal policies provide are quickly capitalized into higher home prices. This is especially pertinent for entry-level homes, which are perennially in short supply. This puts upward pressure on home prices, does not expand access, and is dangerous-- concepts we have had to learn and relearn.

Consider just a few examples that should be discontinued or severely curtailed:

Federal housing policies:

- Foreclosure-prone affordable housing policies began in 1954, when Congress authorized FHA to insure the low downpayment, 30-year loan to buy an existing home, which primarily targeted low-income and minority borrowers.
 - These policies have subsidized debt by providing excessive leverage.
 - Coupled with the supply shortage, the increased demand from additional leverage has fueled unsustainable lending and higher home prices.
 - This is the paradox of accessible lending: When supply is constrained, credit easing will make entry-level homes less affordable.

²⁸ Fed Chairman Marriner Eccles, Federal Reserve Bulletin, The Current Inflation Problem, 1947, https://fraser.stlouisfed.org/files/docs/publications/FRB/1940s/frb_121947.pdf

- During the Financial Crisis, these policies contributed to 12 million foreclosures and other forced dispositions, which were proportionally higher in low-income and minority neighborhoods.
- These policies have not built generational wealth and despite the government's efforts over the last 60 years, homeownership today stands at about the same level as in 1964.
- Repeated FHA mortgage insurance premium cuts (2015 & 2023)
 - Our [research](#) on the 2015 cut estimates that home prices rose broadly, particularly for about 500,000 non-FHA borrowers first-time homebuyers. Each of these non-FHA homebuyers paid approximately \$6,200 extra per house, a total extra payment of about \$3.1 billion. From a cost-benefit perspective, this averages to an incredible \$180,000 for each of the roughly 17,000 new FHA first-time buyers!²⁹
 - Despite the damning evidence, the FHA undertook another MIP cut in 2023 during an even more constrained housing market. As expected, FHA's once again share ballooned, as it poached business for other governmental agencies.

Furthermore, the administration has implemented or is considering a plethora of far-reaching changes to the housing finance system that will reshape housing finance and that will have many unintended consequences. (For more examples, see appendix 4.)

Federal Reserve policies:

The Fed's easy monetary policy during a seller's market has contributed to rapidly rising home prices and inflation.

- Quantitative Easing (QE) 3 announced in September 2012 coincides with the start of the current housing boom.
- QE4 announced in March 2020: While justified at the beginning of the pandemic, it became quickly clear that the housing and labor markets did not need the massive support. The Fed is finally, albeit belatedly and slowly, unwinding the GSE asset purchases.
- Artificially low interest rates: All else equal a 1 ppt. drop in the mortgage rates translate into a 9% increase in buying power. Since all borrowers see a decrease in monthly housing costs from the lower interest rate, most of buying power gets capitalized into higher home prices, thus benefitting the home seller, not the buyer. In addition, lower rates attract new buyers into the market (second or investment homebuyers, renters, etc.), thus also increasing the pool of potential buyers.

For more on the Fed's policies, see Appendix 5.

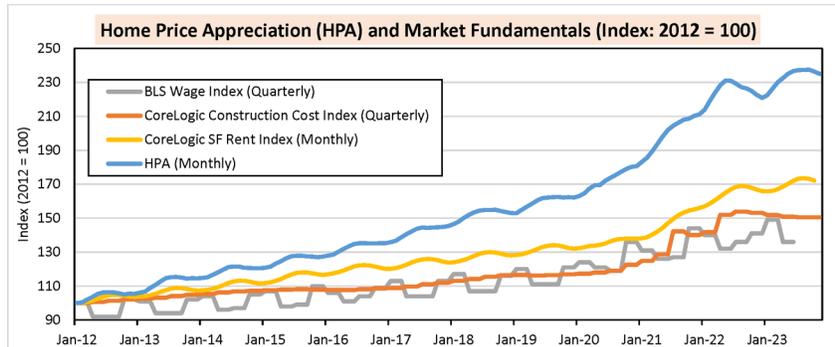
Policies by the federal government and Federal Reserve have been the culprit for crowding lower-income Americans out of the housing market. Ill-advised government policies and interventions have broken the housing ladder by inflating home prices. This has had a disparate impact on low-income and minority households that want to purchase at the entry-level.

Here are some examples on the effects of the single-family housing boom, which started in 2012, and had already manifested itself long before the worst excesses of the pandemic:

²⁹ <https://www.aei.org/wp-content/uploads/2018/01/Davis-Oliner-Peter-Pinto-Jan-2018-AEI-WP-rev.pdf>

- Since 2012, home price appreciation has far outpaced the growth in market fundamentals (wages, construction cost, rents).

Figure 5: Home Price Appreciation (HPA) and Market Fundamentals (Index: 2012=100)



Note: Data are for the entire country. Wage data come from the Quarterly Census of Employment Wages (QCEW). Source: CoreLogic, BLS, and AEI Housing Center, www.AEI.org/housing.

- Since 2012, home prices have appreciated 135%. Entry-level prices are up slightly more (144%).
- Home price appreciation (HPA) has further accelerated in the aftermath of the pandemic.
 - Since Jan. 2020 prices are up 44%.
- Affordability has been worsening with the median price to median income ratio increasing from 3.35 in 2012 to 4.29 in 2022.³⁰

Because of this boom, home prices levels will be higher for years, which means that all subsequent buyers have to match that level.

³⁰ <https://www.aei.org/wp-content/uploads/2018/01/Davis-Oliner-Peter-Pinto-Jan-2018-AEI-WP-rev.pdf>

3. **Having dispelled these misconceptions, the solution to today's housing shortage becomes clear.**

1) **The federal government needs to stay out.**

The federal government has a poor track record with housing reform, and there is little that the federal government can or should do that would not make the situation worse or violate the 10th amendment. Since there is no quick fix, it is best to give states and cities time to work out their supply shortages through reforms that unleash the free market through zoning and land use reforms. The good news is that many jurisdictions are moving in the right direction and the pace is quickening.

On the lending side, the federal government also needs to abstain from the disproven notion of making housing more affordable through subsidies (the paradox of accessible lending).

What federal entities should do:

- **Congress should not expand, but eliminate the Low-Income Housing Tax Credit (LIHTC)**

For the reasons outlined above.

- **Congress should not establish the Workforce Housing Tax Credit (WFHTC)**

Despite ample research on the impact of LIHTC, policymakers are seeking to make a bad situation worse by expanding it to middle-income tenants as well. The WFHTC bill proposes to tackle the affordability problems by extending government subsidies further up the income distribution, by offering tax credits to apartment builders who promise to charge their tenants "affordable" rents. It would operate almost exactly like the LIHTC, but instead of restricting the benefits to families with incomes below 60% of the area median, it would make all families with incomes below 100% of the area median eligible. We estimate that up to 76% of renters will qualify, rather than 53% under LIHTC.

Affordable housing programs only work by layering multiple generous rounds of federal, state, and local subsidies on top of each other. But that's not all: The dirty secret of LIHTC is that its subsidized rents are often still so high. For 2021 HUD reported that over 50 percent of LIHTC households reporting were also receiving rental assistance.³¹ The WFHTC would give new impetus to expand all these programs along with growing the quasi-governmental mortgage giants, Fannie Mae and Freddie Mac, who happen to be largest financiers of LIHTC projects. It would be bad policy for Congress to pass this bill.

- **Congress should open federal land for housing development and reduce housing construction costs.**
 - Senator Mike Lee's [Helping Open Underutilized Space to Ensure Shelter Act of 2022 \(HOUSES Act\)](#) is a "unique way to alleviate the housing shortage without interfering with state and local decision-making, by allowing states to purchase certain general public lands for the purpose of developing new housing," according to a Joint Economic Committee

³¹ <https://www.huduser.gov/portal/Datasets/lihtc/2021-LIHTC-Tenant-Tables.pdf>

report on the legislation.³² Hugo Dante and Kevin Corinth estimate that the HOUSES Act could lead to the construction of 2.7 million more homes in the United States, which would go a long way to close the supply shortage.

- This federal land should be auctioned off to developers, with the stipulation that market-rate housing must be built. This would particularly help the Western U.S. as the federal government owns large swaths of land there. The passage of the [Southern Nevada Public Land Management Act](#), which enabled the Bureau of Land Management to sell off federal lands around Clark County, NV starting in 1998, provides a legislative blueprint of how this could be done. This [precedent](#) was set by Sen. Harry Reid, who freed up federal land for the Las Vegas metro.
- **Congress should lower or do away with tariffs on construction materials that add [thousands of dollars](#) to the cost of construction, which home builders pass on to consumers.**³³
- **The administration should not restrict logging on national forests, as this would keep or further inflate lumber costs.**³⁴ Instead, it should open more areas for logging.
- **Congress should eliminate Davis-Bacon prevailing wage requirements on residential construction.** The Associated Builders and Contractors [summarized](#) the impact of prevailing wages:
 - “The Congressional Budget Office estimates that repealing the 1930s-era Davis-Bacon Act would save the federal government \$24.3 billion in spending between 2023 and 2032. [A May 2022 study](#) found that the Davis-Bacon Act costs taxpayers an extra \$21 billion a year, increases the price tag of construction projects by at least 7.2% and inflates construction workforce wages by 20.2%, compared to local market averages, if the DOL calculated prevailing wages using modern and scientific methodology via the U.S. Bureau of Labor Statistics.”³⁵
 - The Turner Center at the University of California Berkeley [found that](#) “projects with prevailing wage requirements cost an average of \$30 more per square foot than those without wage requirements, after controlling for whether or not a project was affordable, as well as project size, region, construction type, and the year construction started.”³⁶
- **Congress should eliminate the [mortgage interest tax deduction on second homes](#), which subsidizes the purchase of second homes, thus increasing demand for limited housing supply.**³⁷
 - A conservative estimate is that over 10 years about 600,000 second homes, or 10% of the outstanding stock, would convert to use by a primary resident. Of new construction sales, perhaps 150,000 units over 10 years would be sold as primary, instead of a secondary

³² <https://www.jec.senate.gov/public/index.cfm/republicans/2022/8/the-houses-act-addressing-the-national-housing-shortage-by-building-on-federal-land>

³³ <https://www.americanactionforum.org/insight/tariffs-are-increasing-homebuilding-costs/>; <https://www.pwsc.com/how-are-new-home-builders-affected-by-tariffs/>

³⁴ <https://www.washingtonpost.com/climate-environment/2023/12/19/old-growth-logging-forest-service>

³⁵ <https://www.abc.org/News-Media/Newsline/dol-increases-costs-for-contractors-and-taxpayers-with-davis-bacon-final-rule>

³⁶ <https://turnercenter.berkeley.edu/research-and-policy/hard-construction-costs-apartments-california/>

³⁷ <https://www.wsj.com/articles/to-spur-homeownership-stop-subsidizing-it-1512432498>

residence. In total, this small policy change may add the equivalent of a full year of new home construction over 10 years.³⁸

- **Congress or the administration should not establish grants for localities that reform their zoning and land use policies.**
 - The devil is always in the details. Where incentives fail, mandates follow. The federal government's solutions to zoning reform will almost invariably have a bias towards heavy-handed government interventions and suffer from poor analysis. It could undo all the progress that some states and cities are making.
 - These proposed solutions will tilt heavily towards expensive and small rental units made affordable by layer upon layer of subsidies and do little to promote naturally affordable, family-sized for sale homes, that will increase homeownership and intergenerational wealth building.
 - It is also highly likely that federal grants will have strings attached, such as an income-based occupancy requirement.
 - A [recent example](#) is an assessment and recommendation published in HUD's clearinghouse for innovative state and local strategies that reduce the impact of regulations and promote affordable housing.³⁹ HUD analyzed Seattle's Mandatory Housing Affordability (MHA) fund and concluded it should be implemented by other cities. HUD's assessment ignores historical context and unintended consequences, thereby presenting a one-sided picture. While HUD singles out the "success" of the MHA to create hundreds of new affordable units since its inception in 2019, it ignores the thousands of units that were not built because of it. In that sense, the MHA has undone decades of progress from Seattle's prior upzoning reforms that freed the market from government regulations. (For more, see appendix 4.)
- **Congress should stop pouring tens of billions of dollars into deteriorating public housing, in a futile effort to get public housing right.**
 - Place-based housing subsidies like public housing and LIHTC perpetuate income and racial segregation, and all too often, deteriorate into poorly maintained projects.
- **Congress should not provide tens of billions in subsidies to rehabilitate millions of homes.**
 - The history of subsidized rehabilitation programs is rife with cost overruns, failed efforts, and corruption. Such a program has also never successfully scaled.
- **On the demand side, Congress and the administration should avoid programs that boost demand against a limited supply.**
 - There is a growing consensus that the solution to make housing more affordable is to increase supply, not to ease credit, increase government subsidies, or suppress interest

³⁸ <https://fred.stlouisfed.org/series/HSN1F>

³⁹ <https://thehill.com/opinion/4389523-to-fix-their-housing-shortage-in-2024-cities-and-states-should-turn-to-market/>

rates. Even a few progressive think tanks and cities have come around to this view.⁴⁰ In order to stop the price spiral that is pricing lower-income Americans out of the housing market and driving up rents, we need to foremost address housing supply and stop demand boosters.

- Unfortunately, the federal government has not yet learned this lesson as both the federal government and Federal Reserve have implemented plenty of demand boosters over the last couple of years and is considering many more. (For a list, see appendix 5).
- **All levels of government should consider reducing regulatory barriers on builders.**
 - According to [two studies](#) by the National Association of Home Builders (NAHB), “Regulations imposed by all levels of government account for \$93,870, or 23.8% of the current average sales price (\$397,300) of a new single-family home” and they account “for an average of 40.6 percent of multifamily development costs.”⁴¹
 - These studies don’t break out the cost by entity, but they highlight how some federal policies can affect these higher costs:
 - “State and local jurisdictions adopt and enforce building codes, but federal policymakers are also active in the development of international model codes, and they promote the adoption of certain code editions. For example, the U.S. Department of Energy encourages states to adopt the most stringent versions of the model energy codes. Various policy groups, industry organizations and individual companies also advocate for code changes that promote specific goals. These changes do not always balance the needs of housing affordability and have the potential to drive up construction costs without improving building safety or integrity.”
 - According to the NAHB, changes to building codes over the last 10 years alone have added about 11.1% to the cost of multifamily buildings and over 6% to the cost of single-family homes.
 - In regard to complying with Occupational Safety and Health Administration (OSHA) requirements, the single-family report points to:
 - “particular standards for attempting to regulate risks that don’t really exist in residential construction (e.g. beryllium), imposing costs significantly greater than needed to ensure worker safety (e.g. silica) or accomplishing little beyond driving up recordkeeping costs (e.g. Volks rule).”
 - These regulations don’t apply to construction but according to the NAHB, OSHA standards add about 2.7% to the cost of multifamily buildings and over 1% to the cost of single-family homes. This leaves room to lower costs by cutting some of the red tape.

⁴⁰ See for example <https://cityobservatory.org/the-end-of-the-housing-supply-debate-maybe/> and <https://www.sightline.org/2017/09/21/yes-you-can-build-your-way-to-affordable-housing/>.

⁴¹ <https://www.nahb.org/blog/2021/05/regulatory-costs-add-a-whopping-93870-to-new-home-prices/>; <https://www.nahb.org/news-and-economics/press-releases/2022/06/new-research-shows-regulations-account-for-40-point-6-percent-of-apartment-development-costs>

2) Zoning and land use policies are state and local issues and need to be tackled at these levels of government.

As numerous case studies from around the country have shown, the formula for successful housing reforms is simple:

- Enable by-right zoning,
- Allow greater density in lots of areas particularly around walkable and amenity-rich areas,
- Follow the KISS (Keep it Simple Stupid) principle instead of micromanaging the process, and
- Complement high-rise Transit-oriented Development with Light-touch Density to provide naturally affordable homes and wealth building homeownership opportunities with minimal changes to the built environment.

These actions will unleash the ingenuity of the American people by allowing builders of all sizes to build abundant market-rate housing over time. Fortunately, this is already happening – and entirely without federal involvement. In 2023 alone, Washington, [Montana](#), and Vermont followed [Oregon](#) (2019) and [California](#) (2021) in passing statewide reforms that allow moderately higher density in the form of cost-effective duplexes, triplexes, and townhouses.⁴²

What state and local entities should do:

- **Follow the formula for successful housing reform as outlines above.**
 - Zoning codes and land use regulations limit what types of housing can be built and where, thus making land artificially scarce and expensive.
 - Removing this red tape could unleash the ingenuity of the American people by allowing builders of all sizes –not just those that can navigate the bureaucracy -- to get to work.
- **Study housing reform recommendations and adapt those most applicable to their jurisdiction.**
 - The Mercatus Center’s Salim Furth and Emily Hamilton have compiled an excellent list of recommendations for [state housing reforms](#). The list outlines a menu of useful options such as direct limits on local regulation, streamlining procedures, fiscal innovations, and updating construction standards.⁴³
- **Take a look at regulations that impede the construction industry or increase construction costs.**
 - This appears to be happening. Montana offers one example of a state that is already finding creative ways to deal with their housing and labor shortages. For example, at a joint AEI-Progressive Policy Institute event entitled “[Harnessing Tailwinds on State and Local Land-Use Reform: A Bipartisan Playbook](#),” Gov. Greg Gianforte of Montana delivered the keynote

⁴² Harnessing Tailwinds on State and Local Land-Use Reform: A Bipartisan Playbook - Gov. Gianforte (MT): https://www.youtube.com/watch?v=E8DdGLJAx-s&ab_channel=AmericanEnterpriseInstitute; <https://tcf.org/content/report/a-bipartisan-vision-for-the-benefits-of-middle-housing-the-case-of-oregon/>;⁴² <https://www.aei.org/california-housing-conference/>

⁴³ <https://www.mercatus.org/research/policy-briefs/housing-reform-states-menu-options-2023>

on the “Montana Miracle”—the successful passage of light-touch density and other market-oriented, supply-stimulating policies during 2023’s legislative session.⁴⁴

- Governor Gianforte overviewed Montana’s latest efforts to expand the state’s construction workforce through workforce education and regulatory reform. Per Montana law, companies that sponsor an employee’s trade education are eligible to receive a 50% educational reimbursement. In addition, the journeyman to apprentice ratio changed from 2:1 to 1:2, which will increase the number of carpenters, plumbers, and electricians needed to build more housing. Then to address the lack of development specifically in rural and frontier areas, a modular housing company, Dvele, was recruited. With the additional tradesman and the capacity for modular housing construction, areas that do not have local construction companies – even in remote areas – can build new housing supply.
- The state was also busy removing red tape with significant reforms to zoning and land-use regulations. First, ADUs and duplexes are allowed across the state, a potential boon to Light-touch Density construction. Second, land-use regulations were reformed to speed up the permitting process. Third, by-right zoning was legalized in 10 of Montana’s largest cities and counties to eliminate the uncertainty of individual development projects. Fourth, standards for design review must now be objective, standardized, and necessary to protect public health and safety.
- When asked about any help from the federal government, the governor responded that the state had it covered. This shows that the states as the laboratories of democracy are finding creative ways to address housing and labor shortages, even without – or particularly because of a lack of – the federal government’s involvement.
- Once a developer has secured the land, regulations from all levels of government – some useful without a doubt, but not all—add [sizeable costs](#) to build. Add laws that limit returns like eviction restrictions or outright bans, or rent control, and it’s no wonder that many private projects don’t pencil out.
- **Beware of federal involvement to influence state and local reform movements.**
 - This would result in complex, one-size-fits all solutions that violate the KISS principle and therefore perpetuate the housing supply problem.

Housing unaffordability is a self-inflicted wound, stemming from a government regulatory failure that perpetuates a massive supply-demand imbalance. This has resulted in higher home prices and rents relative to incomes. State and local supply reforms require no taxpayer subsidies and in the few areas where they have been implemented, they have been found to work. If more states and cities sign on, such reforms could provide hundreds of thousands of new homes each year and thus allow more Americans to access their own American Dream.

⁴⁴ <https://www.aei.org/events/harnessing-tailwinds-on-state-and-local-land-use-reform-a-bipartisan-playbook/>

Appendices:**Appendix 1: To Solve the Affordability Problem, Restore the Market Using Light-Touch Density**

The overarching goal of policymakers should be to break the primacy of housing planners and return to market principles that largely governed land use before the implementation of widespread SFD zoning and excessive regulation. The tool to achieve this goal is light-touch density zoning, and the following section outlines how and why it leads to more abundant, naturally affordable, and inclusive housing.

What is light-touch density (LTD)?

Light-touch density (LTD) represents the low-hanging fruit in zoning reform, as it allows for modestly higher density than SFD zoning in many different ways, providing options for a jurisdiction to implement at least one.

For urban areas or nearby suburbs already built up, replacing SFD units with more LTD units or adding more LTD units to existing single-family units increases the units per acre, creating more naturally affordable units. The following are ways to increase the housing stock in infill areas:

- Existing single-family detached units can add a junior accessory dwelling unit (JADU) within the existing structure or build a separate freestanding detached or attached ADU on the same lot.⁴⁵
- Older infill units can be torn down and replaced with a new duplex, triplex, fourplex, townhome, small multifamily structure, or cottage court.
- Single land parcels can be divided into two, and an additional single-family unit or multiplex unit could be built on the new parcel and sold off separately.

Builders can construct more affordable LTD units in outer suburbs or undeveloped areas—also called greenfield land:

- Increase the allowed density of undeveloped land.
- For both greenfield and infill projects, add additional floors or reduce the size of units in a planned apartment building to enable the land to be used more efficiently, decreasing the price point for each unit.

Implementing these LTD zoning reforms would align market incentives with the need for more housing, resulting in greater housing supply at lower price points for both renters and owners, thus relieving displacement pressures. LTD represents a gradual return to the housing typographies that were present before the widespread implementation of SFD zoning.⁴⁶

⁴⁵ With either a JADU or an ADU, the original structure is left intact and the JADU or ADU is sold in combination with the main structure. The gross living area (GLA) of the JADU or the ADU can vary from small to large and is not a defining attribute unless GLA is set by statute or ordinance.

⁴⁶ The share of LTD as a percentage of the national housing stock has shrunk drastically over time as local zoning ordinances enacted by municipal governments prohibited their construction on much or all of their land starting in 1920. From 1940 to 2018, the combined share of single-family attached units (SFA) and two- to four-unit structures as a share of all one- to four-unit structures declined from 26.5 percent in 1940 to 18.4 percent in 2019; had the 1940 percentage of LTD housing remained unchanged, the nation's housing supply would have increased by some 8 million units.

On the basis of multiple case studies and conditions favorable to LTD, approximately 2 to 3 percent of eligible units could be converted annually to LTD, which could add between 260,000 (at a density of up to two units per lot) and 930,000 (at up to eight units per lot) net new units per year nationwide over the next 30 to 40 years.⁴⁷ The conversion within a neighborhood is slow and takes place over decades (as seen in Figure 2) because a homeowner generally needs to sell before a builder can come in and convert a home.

Figure 2: An Illustration of Neighborhoods with Light Touch Density



Source: AEI Housing Center

How Light-Touch Density (LTD) Works when Properly Implemented

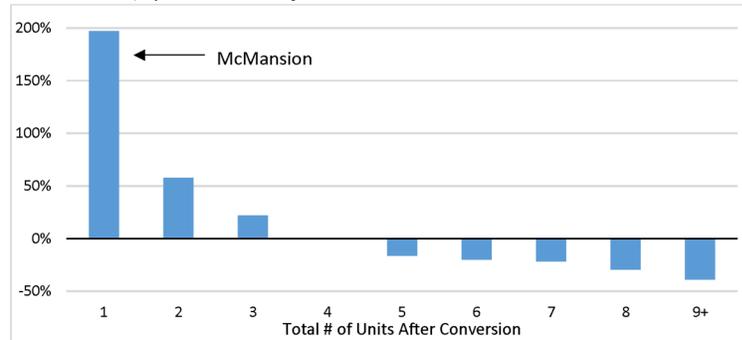
The conversion of older housing stock to newer, more plentiful housing stock releases housing price pressures and decreases displacement pressures. Freed from single-family detached (SFD) zoning and discretionary reviews, such conversion will occur naturally because builder incentives align with the market demand for more moderately priced housing.

A case study from Seattle, which allows LTD in Lowrise Multifamily (LRM) zones, demonstrates that homebuilders will always choose to maximize their profit, which, in this case, includes building moderately priced housing at a greater density. Figure 4 compares the median price of the property that the builder bought and eventually sold for approximately 12,000 conversions at various levels of total units after the conversion. When the builder built a McMansion, presumably because zoning limited the highest and best use, the sales price was almost 200 percent of the original unit price that the builder purchased. At higher units after conversion, that premium drops until the price change level is 0 percent

⁴⁷ These estimates resulted from evaluating every single-family residential property in the United States for its potential for LTD. For older residential properties on lots of sufficient size, an estimate is first made for an existing structure value, allowing an estimate of the current land share. For properties with a high enough land share, calculations are made to determine if a teardown and subsequent reconstruction of two to eight units (of varying sizes) on the same lots is feasible by assuming the construction cost per square foot of gross living area by using new single-family detached housing units built in the same area over the past 7–10 years. For more on the methodology, see appendix A.

at four units, and each unit sells at roughly the same price as the original purchase price. For additional units, the median price of the new units is lower than for the existing unit that the builder replaced. Not only does converting single units to multiple units create more net housing, but the price of housing for each unit goes down as more units are built.

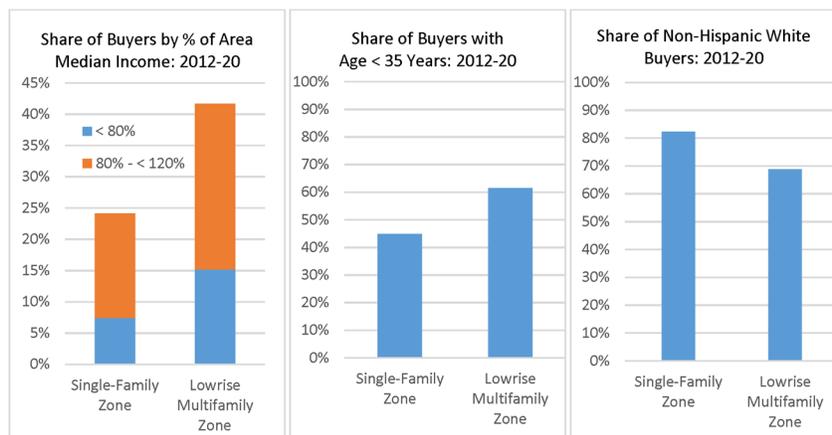
Figure 4: Conversion Properties: Median Price Change Between the Unit Replaced and the Median of the New Units Built, by Total Number of New Units



Notes: A conversion is defined as the act of tearing down an existing single-family detached structure and replacing it with a new structure of varying unit totals. Data pertain to more than 3,000 conversions identified in Seattle, which resulted in approximately 12,000 new units from the mid-1990s onward. Source: AEI Housing Center

The additional moderately priced units also open up greater homeownership opportunities for a wider group of households. Seattle's experience shows that across income levels, age ranges, and racial/ethnic backgrounds, a more diverse group of people can purchase homes in its Lowrise Multifamily zone than in the SFD zone (see Figure 5).

Figure 5: Seattle's LTD Zone Enables Homeownership for a Wider Group of Households



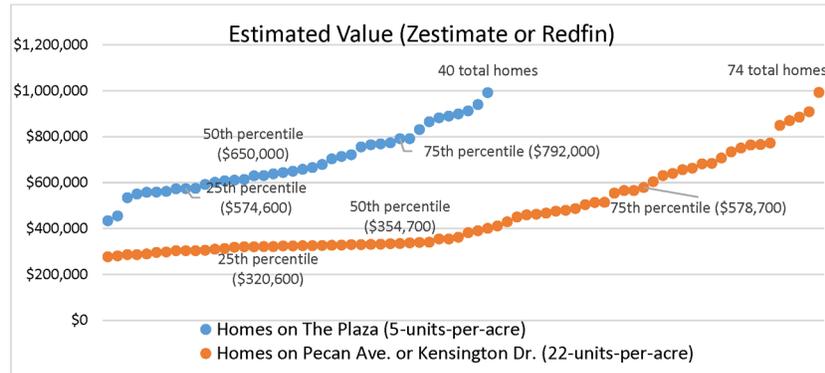
Source: AEI Housing Center

Converting neighborhoods to LTD zoning restores and expands inclusivity because neighborhoods can have various unit types, tenures, and price points in their housing, opening up homeownership opportunities to a wider breadth of buyers. Another example of this process is demonstrated by the Charlotte, North Carolina case study, in which the housing types and socioeconomic backgrounds of people living in two different zoning regimes in the same neighborhood are examined. Both Pecan Avenue and Kensington Drive are zoned for 22 units per acre, or LTD, whereas The Plaza is zoned for 5 units per acre, or SFD.

As a result of the increased density, Pecan and Kensington housing units range from smaller SFD homes on smaller lots to ADUs, duplexes, townhouses, and condominiums. The as-built density for the Pecan and Kensington housing is approximately 11 units per acre, one-half of what is allowed and approximately double the as-built density of The Plaza. The median-priced home on Pecan and Kensington (\$354,700) is below the lowest-priced home on The Plaza (approximately \$410,000). The most expensive homes on both streets are approximately \$1 million, but the least expensive unit on Pecan and Kensington is \$277,000. The housing type diversity enabled by LTD allows a greater range of price points, particularly at the middle and low end. There are more housing units at more affordable prices on Pecan and Kensington, with 39 units valued at less than \$400,000, making the street ideal for first-time buyers (see Figure 6).

According to U.S. Census Bureau data, a greater share of renters and younger residents live on Pecan Avenue and Kensington Drive which suggests that the increased density increases housing access to a wider range of incomes, particularly younger individuals and families with less financial wherewithal. Generally, these groups are among the first to be priced out of lower-density neighborhoods; however, the R-22 MF zoning restored these streets to the pre-1920s status quo, when LTD was intermixed with SFD homes.

Figure 6: Charlotte: R-22 MF Zoning Offers a Wide Range of Price Points Compared with R5-Zoning



Note: Every dot is a house on Pecan Avenue, Kensington Drive, or The Plaza, ordered by estimated value by Zillow or Redfin.

Sources: AEI Housing Center; Zillow, and Redfin.

The positive effect of more housing supply is reflected in the data on housing prices. AEI Housing Center research finds that a 1-percentage-point increase in total units from 2010 to 2020 was associated with a 10-point decrease in cumulative Home Price Appreciation from 2012 to 2019 in high-employment metropolitan areas.⁴⁸ A literature review on the effects of new market-rate housing on rents found that in five out of six studies, this new supply decreased rents for residents across the income spectrum (Pennington, 2021; Phillips, Manville, and Lense, 2021).

How to Implement Light-Touch Density

A “Keep it Simple and Short” (KISS) Approach to Housing

As previously discussed, the economics of housing construction favor moderately higher density and by-right LTD. These policies would allow for higher and better land use, unleashing what Strong Towns calls a “swarm” of property owners, small-scale builders, and local contractors to take on small-scale LTD conversion projects. Evidence from the case studies indicates that small-scale builders, many of whom are disproportionately minority-owned, carry out the majority of these LTD projects. To achieve this result, here are the lessons learned.

What is required?

- By-right approval of LTD housing
- Simple rules regarding the number of units, floor-area ratio, and height restrictions permitted in a given lot.

⁴⁸ The results were cross-validated using a regression approach, different construction data sources, and various cut-points of employment growth and time periods. Across these different variations, similar results with slightly different magnitudes emerged.

What helps?

- Relaxing parking requirements (Harrison, 2023)
- Instituting shot clocks, which can accelerate the timelines in [slow-moving areas](#) and create more dependable schedules for builders and homeowners attempting to plan for future construction
- Preapproved design standards

What hurts?

- Low maximum floor-area ratio requirements
- High minimum lot size requirements
- Outsized parking or other requirements that increase construction costs or de facto prevent building LTD entirely.
- Income limits and affordable housing fees and mandates
- Rental bans
- Owner-occupancy requirements
- Rent controls.
- Inclusionary zoning
- Impact fees
- Anything not required for single-family homes.

LTD successfully unleashed a swarm of developers in Seattle’s LRM zone, in Palisades Park, and in Houston because of the simplicity of the rules, which removed discretionary approval and allowed builders to move forward with projects quickly.

Pro-housing legislators continue trying to ease Senate Bill (S.B.) 9 permitting statewide after the successful passage of S.B. 9 in California, allowing up to four units in areas previously zoned only for single-family homes. A recently introduced S.B. 9 cleanup bill called S.B. 450 would standardize local measures, holding S.B. 9 units to the same codes and design standards as SFD units, simplifying the standards and streamlining S.B. 9 conversations.

California also experienced success with accessory dwelling unit (ADU) legislation in 2016 (S.B. 1069 and Assembly Bill [A.B.] 2299), which made ADU construction by-right, added a 120-day shot clock for cities to approve or deny the project,⁴⁹ and eliminated parking requirements near transit while creating a one-per-unit parking maximum elsewhere. Localities have streamlined their permitting processes since California removed restrictions in 2016 regarding building ADUs. For example, as of March 2023, Los Angeles had [66 preapproved ADU designs](#) compatible with [neighborhood character](#), minimizing risks to homeowners and builders because they knew that this design was approved.⁵⁰

As a result, ADU permits increased statewide from 2,000 in 2016 to 19,000 in 2021. In 2021, one in four housing units added in Los Angeles was an ADU, indicating that LTD policies have the potential to affect filtering and affordability greatly.⁵¹ Increasing density through these channels gives renters more options, particularly in resource-rich areas. UC Berkeley research on ADU construction showed that ADU rents in California were naturally affordable to two-person households (Chapple, Ganetsos, and Lopez,

⁴⁹ Both [Texas](#) and [North Carolina](#) passed shot clock bills in 2019 that mandated the review of new housing within 30 days or 15 business days, respectively.

⁵⁰ [South Bend](#) has a variety of preapproved designs for LTD projects ready for construction.

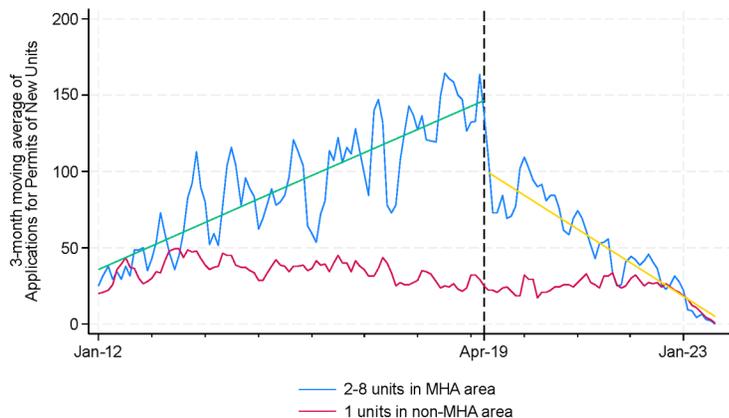
⁵¹ The [Los Angeles City Government](#) created a helpful map on ADU development across the area.

2021). A more holistic pro-housing framework, such as the model LTD bill, would scale this ADU model for duplexes, townhomes, and condominiums across the United States.

On the other hand, although Seattle experienced immense success building thousands of needed townhomes, implementing the Mandatory Housing Affordability (MHA) program in April 2019 attached either income limits or a hefty fine to small-scale townhome projects.⁵² The predictable result is that builders have often completely forgone applying for new townhome projects. Whereas permits averaged about 125 units per month in the 2 years before the MHA took effect, they averaged approximately 50 between 2020 and 2022 (Figure 8). This reduction in permitting means that thousands fewer townhomes have and will be built. The restrictions, which are not tied to SFD units, hurt LTD development, and block meaningful pathways to homeownership.

These circuitous affordable housing requirements tilt the scale squarely in favor of professionalized, deep-pocketed firms with attorneys who can make sense of rules that even Seattle officials admit are “large in scope and complex.”⁵³ The result is that small-scale, local, and often demographically diverse developers, contractors, and architects who primarily build LTD units often are left out.

Figure 8. Permit Applications for Seattle Townhome and Single-Family Projects, 2012–23



Sources: City of Seattle and AEI Housing Center

⁵² The MHA program attached onerous restrictions for building townhouses and other multifamily housing units—but not single-family detached units—with the goal of creating 6,000 new subsidized housing units through 2025. Builders were given a choice between designating a certain number of units as income-restricted or opting out by paying a hefty fee, yet the sale price of income-restricted units as outlined by MHA largely only covers the cost of the land without any structure cost. Paying the fee is not much better. A recent survey by the [Master Builders Association of King and Snohomish Counties](#) finds that the upfront fee can be as high as \$130,000 for an average four-unit townhome project. Often, neither option is financially feasible.

⁵³ https://seattle.gov/Documents/Departments/HALA/Policy/Directors_Report_MHA_Citywide.pdf

The Colorado LTD bill, [S.B. 23-213⁵⁴](#)—which ultimately failed—emphasized “developing a menu of affordability strategies,” or implementing income-based subsidies and income restrictions that have already worsened affordability woes. California’s A.B. 68, which expands by-right zoning in walkable-oriented development areas, also has affordability requirements. Adding such requirements creates complexity and renders many projects infeasible because builders cannot profit. As demonstrated in Seattle, these costly requirements can be the death knell for small-scale development projects.

No study examining the impact of Inclusionary Zoning (IZ) has concluded that it expands housing supply or “contributes to broadly lower prices (Hamilton, 2021).” One study focusing on the impact of various policies on housing affordability asks, “Can relaxed IZ substitute for land-use regulations?” and concludes that, on the whole, no (Kulka, Sood, and Chiumenti, 2022). Work by the Manhattan Institute finds that IZ drives up market rents, reduces housing construction, and negatively affects the overall health of the housing market (Harris, 2021). The California Legislative Analyst’s Office (LAO) found that displacement was lowest in communities that built more housing, and that the relationship was not dependent on inclusionary zoning regimes (Taylor, 2016).

In other cases, such as in Oahu, Hawaii, regulations legally allow duplexes but make them practically impossible to build, hindering LTD development. Although both a duplex and a detached two-family dwelling are allowed in R-3.5, R-5, and R-7.5 zones in Oahu, any parcel with a two-family dwelling requires significantly more land than a detached single-family dwelling, making these types of structures practically not buildable in these residential zones (See Table 2).⁵⁵ As a result, few-to-no LTD-style units are built, perpetuating the reliance on SFD units that are not naturally affordable to many Oahu residents.

Table 2: Oahu’s Residential Districts Development Standards

Development Standard		District				
		R-3.5	R-5	R-7.5	R-10	R-20
Minimum lot area (square feet)	One-family dwelling, detached, and other uses	3,500	5,000	7,500	10,000	20,000
	Two-family dwelling, detached	7,000	7,500	14,000	Use not permitted	Use not permitted
	Duplex	3,500	3,750	7,000	Use not permitted	Use not permitted
Minimum lot width and depth (feet)		30 per duplex unit, 50 for other uses		35 per duplex unit, 65 for other uses	65 for dwellings, 100 for other uses	100
Yards (feet):	Front	10 for dwellings, 30 for other uses				
	Side and rear	5 for dwellings ¹ , 15 for other uses		5 for dwellings, 15 for other uses		
Maximum building area		50 percent of the zoning lot				
Maximum height (feet) ²		25-30				
Height setbacks		per Sec. 21-3.70-1(c)				

¹ For duplex lots, 5 feet for any portion of any structure not located on the common property line; the required side yard is zero feet for that portion of the lot containing the common wall.

² Heights above the minima of the given range may require height setbacks or may be subject to other requirements. See the appropriate section for the zoning district for additional development standards concerning height.
(Added by Ord. 99-12)

Sources: Oahu City Government; AEI Housing Center

⁵⁴ <https://leg.colorado.gov/bills/sb23-213>

⁵⁵ For example, in R-7.5, the median lot square footage is approximately 7,500 square feet, yet a duplex (two units) or a two-family dwelling effectively requires 14,000 square feet.

LTD is the common denominator in zoning reform and has received widespread support. However, the devil is in the details. Following the “Keep It Simple and Short” (KISS) rule can unleash the potential of LTD.

Housing bills with more strings attached often fail in state legislatures. Gubernatorial-supported bills in New York and Colorado failed to garner support for proposed sweeping housing reforms that included elements of LTD because the wide-reaching nature of the bills ostracized potential supporters and galvanized detractors. In 2019, pro-housing California legislators proposed a transit-oriented development (TOD) measure called [S.B. 50](#)⁵⁶, which permitted high-density buildings near transit; it ultimately failed in the State Senate. California Yes In My Backyard (YIMBY) [chief executive Brian Hanlon](#) said, “S.B. 50 was a big bill that had something for everyone but also something for everyone to hate.”⁵⁷

By contrast, in 2021, California passed two LTD bills: S.B. 9 and S.B. 10.⁵⁸ As the [New York Times](#) summarized, “in housing legislation, smaller is better.” These LTD units are built more gradually while being compatible with residential neighborhoods relative to TOD and have the potential to make a meaningful dent in the housing affordability crisis. California shows that LTD, not TOD, represents the winning formula.⁵⁹

⁵⁶ <https://cayimby.org/sb-50/>

⁵⁷ See *The New York Times* article, “After Years of Failure, California Lawmakers Pave the Way for More Housing.” <https://www.nytimes.com/2021/08/26/business/california-duplex-senate-bill-9.html>

⁵⁸ [S.B. 9](#) allows for up to [two to four units of housing](#) in most areas previously zoned exclusively for single-family homes. Homeowners can add a second unit on their lot, split their lot and sell that land to another family, or build two units per lot by-right. Under [S.B. 10](#), cities can choose to authorize construction of up to 10 units on a single parcel without requiring an environmental review, at a height specified in the ordinance, if the parcel is in a transit-rich area or urban infill site.

⁵⁹ As of March 2023, California has an S.B. 9 cleanup bill, [S.B. 450](#), on its docket, which would ensure that S.B. 9 standards are the same as for new SFD developments and that applications be approved or denied within 60 days. These changes would restrict bad-faith local government actions taken to constrain S.B. 9 developments. S.B. 450 built upon previous ADU cleanup bills passed by the California legislature in 2016 that similarly incorporated LTD concepts.

Appendix 2:

Seventy years after the Housing Act of 1949, we are considering spending \$40 billion or more to try to get public housing right. But consider these observations made in 1954 by housing leaders of the National Association of Home Builders:

There are outstanding examples ... of federal programs that have hampered home building. The most glaring is public housing, subsidized at the expense of the taxpayer, yet normally failing to meet the needs or services of the community as well as they could be met through private industry.... Public housing is not low-cost housing. It is high-cost housing offered at low rent. And the low rent is possible only because of government subsidies charged to all taxpayers.... The initial construction cost of public housing projects, however, is not the worst cost.... [There] is an operational subsidy of nearly \$19,000 per apartment, which cost \$11,000 to build.⁶⁰

Fifty years have passed since the passage of the Housing and Community Development Act of 1968, the last time Congress provided subsidies to build or rehabilitate millions of homes. Today there are proposals to spend “five times in inflation-adjusted dollars than Congress authorized in the seminal Housing and Urban Development Act of 1968 to develop new affordable housing following widespread riots in the wake of Martin Luther King’s assassination.”⁶¹ This 1973 book’s title sums up devastation that followed the 1968 Act: *Cities Destroyed for Cash: The FHA Scandal at HUD*.⁶²

⁶⁰ *Housing ... U.S.A. : as industry leaders see it*, 1954, <https://catalog.princeton.edu/catalog/SCSB-3002043>

⁶¹ *How Biden hopes to fix the thorniest problem in housing*, Politico, April 10, 2021, <https://www.politico.com/news/2021/04/10/biden-housing-plan-480676#>

⁶² For example, the 1968 Act contributed to unprecedented levels of FHA foreclosures as documented in Boyer’s *Cities Destroyed for Cash: The FHA Scandal at HUD* (1973).

Appendix 3:

Vilifying institutional landlords and other entities distracts from the underlying issues facing the housing market.

Take institutional investors for example: These landlords are a symptom of the housing boom and bust cycle created by the government, rather than the cause for today's unaffordability.

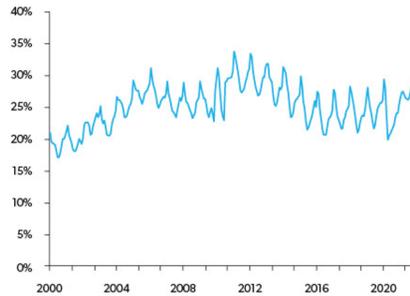
Institutional landlords, particularly on the multifamily side, are taking advantage of more liberal credit terms provided by Fannie Mae and Freddie Mac (the GSEs) than the private sector, which is a violation of their Charters, which stipulate that they shall adhere to the same lending standards as imposed by the private sector with the objective of purchasing loans "at such prices and on such terms as will reasonably prevent excessive use of the corporation's facilities."⁶³ They use their taxpayer guarantee and other advantages to greatly expand their business, while crowding out multifamily private investors. Since 2014 outstanding multifamily mortgage debt has doubled, with the GSEs accounting for most of the growth. At the same time they tout that they are supporting affordable rental housing, but in reality they create government profit seeking.

On the single-family side, they account for too small a share of purchases and of the housing stock nationally (according to [Freddie Mac](#), they account for around 2.5% of the purchase market, with the largest share being so-called mom-and-pop investors). Even in the few metros where their share is higher, it is not enough to move the price needle, especially at the low end of the market.

HousingWire's [Logan Mohtashami](#) citing numbers from John Burns Real Estate states that "The viral story saying Wall Street has bought 44% of the single-family homes this year is laughable. The 1000-plus block buyers accounted for just 0.4% of market share in [2023:]Q2".

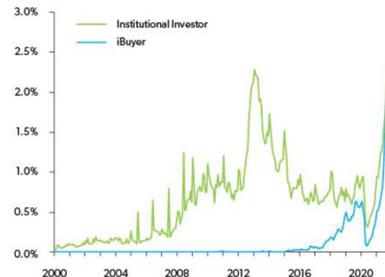
⁶³ For example, Fannie Mae charter stipulates that "... the operations of the corporation under this section shall be confined so far as practicable, to mortgages which are deemed by the corporation to be of such quality, type, and class as to meet, generally, the purchase standards imposed by private institutional mortgage investors. In the interest of assuring sound operation, the prices to be paid by the corporation for mortgages purchased in its secondary market operations under this section, should be established, from time to time, within the range of market prices for the particular class of mortgages involved, as determined by the corporation. The volume of the corporation's purchases and sales, and the establishment of the purchase prices, sale prices, and charges or fees, in its secondary market operations under this section, should be determined by the corporation from time to time, and such determinations should be consistent with the objectives that such purchases and sales should be effected only at such prices and on such terms as will reasonably prevent excessive use of the corporation's facilities,..." (Fannie Mae's Charter (12 U.S.C. 1719)).

Overall investor share of purchase market



Source: Freddie Mac Economics & Housing Research estimates based on public records data. Small investor = 1-9 properties, Mid-sized = 10-99 properties, and Institutional = 100+ properties purchased in the past 12 months. We identify second homes via mortgage riders in Black Knight data, so we miss all-cash second home purchases.

Large corporate buyer share of purchase market



Source: Freddie Mac Economics & Housing Research estimates based on public records data. Small investor = 1-9 properties, Mid-sized = 10-99 properties, and Institutional = 100+ properties purchased in the past 12 months. We identify second homes via mortgage riders in Black Knight data, so we miss all-cash second home purchases.

Or take short-term rentals (STR) such as AirBnB:

While there is some evidence that suggests that STRs contribute to slightly higher rents, the example of Hawaii, where home prices and rents have been far above the national average since at least the 1980s, disproves that they are the main contributor. In Hawaii, high prices and rents far predate the rise of STRs, which gained a hold in the early 2010s. Data from [insideairbnb](#) show that infrequently booked STRs earn about \$5,500 per year. At a rate of about \$300-500 per night, that means that these listings are used about 10-20 days of the year. If most STRs are infrequently booked, then it would also suggest that someone else is living in these homes for the rest of the year and it therefore seems unlikely that banning STRs would meaningfully increase the supply of housing.

The housing market is becoming less affordable, not because of institutional landlords, STRs, or other private entities, but due to misguided federal policies.

**

Op-ed on 12/10/23 in [The Hill](#).

New York City officials blame everyone but themselves for housing unaffordability

By implementing onerous requirements on Airbnb hosts, New York City is attempting to scapegoat short-term rental (STR) sites for the city's own failings. Rather than accounting for city policies that continue to drive its housing and hotel room shortage, officials have decided to target the city's 40,000 active listings, operated by—mostly smalltime—Airbnb hosts. In the end, the city will get neither the housing affordability nor housing supply it purports to be seeking, but it has handed yet another political win to the hotel workers' unions.

While the city has followed the examples of [Dallas](#), [Philadelphia](#), [New Orleans](#), [Los Angeles](#), and [Boston](#), the backstory to the passage of NYC's STR law, which requires STR hosts to register with the city and to be present during the guest's stay, is particularly egregious.

Consider that in 2010, the city, at the behest of the hotel workers' union, began its assault on hotels. The goal was to limit the construction of new, generally nonunion, hotels, to increase hotel room prices, which would particularly bolster higher-end union hotels. The [city first banned](#) and closed 55 youth hostels, before later imposing stringent requirements on building new hotels. Even the city predicted a hotel room shortage, and indeed not a single hotel permit has been issued since.

While the union certainly got its way with the city, it did not foresee the ingenuity of the free market. Once hotel rooms became scarce, STRs, with no union workers, started to fill the void. The hotel union needed to avoid the fate of NYC cabs, which had been dealt a near-fatal blow by the emergence of ride-sharing apps such as Uber and Lyft. Remember when in 2013 [NYC taxi medallions](#) were worth as much as \$1 million? Today, they sell for about a tenth.

It should come as no surprise that the hotel unions, true to form, would be the driving force behind the STR crackdown. After all, the [roughly 40,000](#) STR residential listings may only represent 1% of NYC's total housing stock – too small to have a significant impact on housing affordability (as [studies](#) have [shown](#)) – but they present a significant threat to the city's roughly 120,000 hotel rooms.

In its quest to rein in STRs, the union's effort was assisted by citizens concerned about loud noises and other disturbances from STRs, which supposedly justified sweeping action. If true, these legitimate concerns could and should be dealt with through nuisance laws, rather than outright bans. After all, homes are private, not communal, property.

However, elected officials were once again happy to do the bidding of the union and NIMBYs by falsely adopting housing affordability as the rallying cry. Of course, the inconvenient truth is that housing in high-cost places such as NYC was unaffordable long before STRs emerged about 15 years ago. Furthermore, [housing cost](#) rose 25-30% in the New York metropolitan area since the onset of the pandemic, while STR listings fell by [about half](#).

The ban will also not free up many units. Most STR hosts share their homes [infrequently](#), rather than full-time. On average, NYC's STR listings were rented out for 19 days and provided about \$2,200 of income per year. It used to be that cash-strapped residents could turn to STRs for a modicum of supplemental income. No more. Preliminary [data](#) indicate that after the ban, STR listings have dropped by almost 80% in New York City, boosting the profits of the city's hotels, which already charge among the [highest rates](#) in the [country](#).

While NYC's sledgehammer approach may play well with local unions and NIMBYs, in reality, the root cause for housing unaffordability is government regulatory failure. Home prices and rents are high because state and local laws have prevented more supply from being built while federal lending and monetary policies have juiced demand for this inadequate supply.

Ironically, it was NYC that pioneered the nation's [first zoning law](#). Today, its zoning regime has morphed into a bureaucratic monstrosity: the names of the various [zoning districts](#) alone run 16 pages long, the [residential district regulations](#) 283 pages, and the [entire document](#) 3448 pages. It is easy to see why building new housing has become so complex, costly, and rare. But rather than repeal laws that shackle

the market, NYC's bureaucrats now want [to bribe](#) 55 homeowners with \$400,000 each to build tiny houses in their backyard – as if that would make any difference.

The example of NYC's STR ban shows that the laws of supply, demand, and unintended consequences cannot be ignored. Yet, city officials in many places will embrace every opportunity to divert attention from their own policy failures by doubling down on yet more market distortions. Instead, the path to affordability and prosperity for all starts by cutting red tape and unleashing the free market system.

Mr. Peter is an American Enterprise Institute senior fellow and co-director of the AEI Housing Center.

Appendix 4:

Op-ed on 1/4/2024 in [The Hill](#).

To fix their housing shortage in 2024, cities and states should turn to market rather than heavy-handed regulatory solutions

States and cities considering housing supply reforms in the new year to combat worsening affordability should unleash the free market rather than rely on the Department for Housing and Urban Development (HUD) regulatory solutions. HUD's recommendations tilt towards heavy-handed government interventions that lack thorough analysis and proven results.

A particularly egregious example is HUD's latest [assessment](#) of Seattle's Mandatory Housing Affordability (MHA) fund, which looks past historical context and unintended consequences while presenting a one-sided picture. While HUD singles out the "success" of the MHA by highlighting the creation of hundreds of new affordable units since its inception in 2019, it leaves out the thousands of units that were not built because of MHA. In that sense, the MHA has undone decades of progress from Seattle's prior upzoning reforms that freed the market from government regulations.

To properly evaluate the MHA, one must go further back in time than the HUD assessment. The story begins in the mid-1990s when Seattle started to grapple with rising housing costs. As a political compromise that left most of the city restricted to single-family zoning, the city allowed moderately higher density around "urban villages" that comprised only about 16% of the city's residentially zoned land. The idea was simple: Increase supply within the urban villages by replacing older single-family detached residences with new generally four-unit townhomes.

The results were telling: Over the following two decades, mostly small-scale builders constructed 18,000 new townhomes – just imagine the potential had this policy been applied more broadly. While the new units were market-rate, they greatly expanded opportunities for homeownership and wealth building: From 2012-2020, 42% of townhome buyers had moderate incomes. Crucially, these new homes freed up older homes to those of more modest means through a process known as filtering.

Against this backdrop, Seattle's bureaucrats snatched defeat from the jaws of victory and decided that they could provide even more affordable housing than the market. They settled on a carrot and stick approach through the MHA. In exchange for moderately higher density, builders could either designate a certain number of units as income-restricted or opt out by paying a hefty fee. The city would then use the fee to fund affordable housing elsewhere.

The results, however, have been underwhelming. While it is true that the MHA has generated additional funds, it has not generated "a significant number of affordable housing units" as HUD claimed. Rather, the MHA has funded only a total of 1,178 affordable units over 4 years. At this pace, Seattle is on track to add about 3,000 affordable housing units over the next decade, far short of its goal of 20,000 affordable units and the at least 15,000 townhomes the market was on pace to build.

Even more telling is that, because of the MHA, Seattle is now building fewer housing units than before – although this is ignored by HUD. [Multiple studies](#) found major declines in permit activity over the four years following the implementation of MHA, which may have cost the city between 3,200 to 9,000 new units.

Fewer housing units also mean higher housing pressures for Seattle residents. Sure, there will be a few lucky ones that will live in the new affordable units, but primarily lower- and middle-income households will bear the brunt. Housing costs will rise and there will also be far fewer opportunities for homeownership and intergenerational wealth-building. By the end of 2022, MHA had only funded 30 for-sale condominiums.

But that is not all. Compared to large firms with big staff, small firms that primarily build townhomes cannot navigate the rules that the [city admits](#) are “large in scope and complex.” But the alternative of paying the MHA fee is not much better. A [survey](#) by the Master Builders Association of King and Snohomish Counties finds that for an average four-unit townhome project the up-front fee can be as high as \$130,000. No wonder that small-scale, local, and often demographically diverse builders are closing.

The case of Seattle offers two lessons: Implementing an affordability mandate was an utter failure, while allowing moderately higher density without strings attached was a clear success that should be expanded to more areas of the city. Seattle also offers a warning to those pondering the appropriate role of the federal government in state and local housing reform: It confirms that HUD’s distrust of market forces clouds its assessment of regulatory best practices. These efforts are better left to the competition of ideas and the laboratories of democracy.

As more states and cities contemplate housing regulatory reforms in 2024, let’s hope they follow the evidence, rather than HUD’s flawed recommendations.

Mr. Peter is an American Enterprise Institute senior fellow and co-director of the AEI Housing Center.

Appendix 5:

Federal housing policies have created more demand against a limited supply, which has pushed up home prices.

- Foreclosure-prone affordable housing policies began in 1954, when Congress authorized FHA to use the 30-year loan and have been primarily targeted at low-income and minority borrowers.
 - These policies have subsidized debt by providing excessive leverage.
 - Coupled with the supply shortage, the increased demand from additional leverage has fueled unsustainable lending and higher home prices.
 - This is the paradox of accessible lending: When supply is constrained, credit easing will make entry-level homes less affordable.
 - During the Financial Crisis, these policies contributed to 12 million foreclosures and other forced dispositions, which were proportionally higher in low-income and minority neighborhoods.
 - The foreclosure rate of 27% in low-income census tracts (defined as <80% of area median income) was 1.5 times as high as the 18% foreclosure rate in high-income census tracts (defined as ≥120% of area median income).
 - The foreclosure rate of 30% in census tracts with a Black and/or Hispanic share of households of at least 50% was twice as high as the 16% foreclosure rate in census tracts with a Black and/or Hispanic share of households of less than 10%.
 - These policies have not built generational wealth and despite the government’s efforts over the last 60 years, homeownership today stands at about the same level as in 1964.
 - Furthermore, Housing finance policy is on autopilot, creating harmful market distortions while failing to deliver meaningful results.
 - The GSEs continue to dominate lending with about 50% market share, with total government involvement at about 80%. This is not allowing the private sector to gain more than a foothold, much less grow.
 - GSE subsidies are not well targeted to helping low- and moderate-income, first-time buyers. The lion’s share of the benefit is going to existing middle- and increasingly upper income homeowners, as evidenced by conforming loan limits of almost \$1 million used by the GSEs.

Due to the legacies of the federal government’s promotion of racially biased zoning and its support for risky high-leverage mortgage loans, low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates.

We have examined one of these leverage policies, FHA’s mortgage insurance premium cut from 2015 in greater detail. At the time, the FHA [claimed](#) that the premium drop would result in 250,000 new first-time buyers over the next three years, and save each FHA buyer \$900 annually. In [research](#) by the AEI Housing Center, we along with our colleagues found that home prices went up by about 2.5% for FHA borrowers. These borrowers had to use part their newfound “wealth” — obtained by paying lower FHA insurance premiums — to pay for the higher house price.⁶⁴

⁶⁴ Davis, Oliner, Peter, and Pinto, *The impact of federal housing policy on housing demand and homeownership: Evidence from a quasi-experiment*, <http://www.aei.org/wp-content/uploads/2018/01/Oliner-homeownership-WP-Update.pdf?x91208>

Prices also went up for non-FHA buyers in neighborhoods with FHA insured sales. After all, it is one housing market, where borrowers, no matter the financing, compete for houses. This caused the non-FHA buyers, who did not receive the benefit of lower premiums, to largely offset the price increase by buying a home of lesser quality (perhaps a smaller home, a smaller lot, or in a different location) – they were the clear losers.

We estimate that about 500,000 of these non-FHA borrowers were first-time homebuyers. Each of these non-FHA homebuyers paid approximately \$6,200 extra per house, a total extra payment of about \$3.1 billion. From a cost-benefit perspective, this averages to an incredible \$180,000 for each of the roughly 17,000 new FHA first-time buyers!

The big winners were the realtors who received hundreds of millions of dollars in higher commissions from higher prices. Little wonder the National Association of Realtors [lobbied heavily](#) for the cut in 2015. The increase in commissions from the 2015 cut averaged about \$325 per sale. If you multiply that by over 1.22 million home sales in tracts with high FHA concentration in 2015, you get a windfall of almost \$400 million per year—not a bad return on the tiny fraction spent on lobbying.

Economic principles, ironically first described by Ernest Fisher, the FHA's first chief economist in the 1930s, gave us reasons to be doubtful of the FHA's predictions: liberalizing credit when the inventory of homes for sale is tight fails to bring in a lot of new buyers, and increased buying power in a sellers' market drives prices higher as buyers compete over a limited supply of houses. In 2015, the FHA ignored the fact that the nation was already two and one-half years into a seller's market — defined by the National Association of Realtors (NAR) as a market with less than a six month supply of homes for sale at the current selling pace.

We also found that even though FHA's loan volume increased substantially in the first year after the 2015 premium cut, only about 17,000 were new first-time buyers, far short of FHA's prediction. The rest were borrowers poached from other federal agencies or buyers who purchased homes unrelated to the premium drop.

Despite the damning evidence, the FHA undertook another MIP cut in 2023 during an even more constrained housing market.

Furthermore, the administration has implemented or is considering a plethora of far-reaching changes to the housing finance system that will reshape housing finance and that will have many unintended consequences. Examples include:

March 2023: FHFA announces mortgage pricing changes, which have generally decreased fees for borrowers with lower credit scores and increased fees for those with higher scores.

Missed in the debate about loan-level pricing adjustment (LLPAs) changes is that the Federal Housing Finance Agency already distorts the riskiness of loans it originates, and ultimately taxpayers are on the hook for those loans. Every year the FHFA shuffles up to \$6 billion from higher- to lower-quality borrowers. The recent changes are another progression in a series of steps under Director Sandra Thompson that have hollowed out the risk-based pricing structure erected after the 2008 financial crisis.

March 2023: FHFA announces deferral available to all borrowers with "eligible hardships."

“Eligible hardships” was conveniently not defined. Neither does it state how many times a borrower could take advantage of this option. While some argue that this policy worked well during the pandemic and prevented many foreclosures, it isn’t that simple. Borrowers who received forbearance also could have benefited from expanded unemployment coverage, the Paycheck Protection Program, student-loan payment waivers, other Covid benefits and the quick recovery from the economic contraction.

May & December 2023: FHA solicits comments on Payment Supplement Partial Claim.

Under the current proposal, our concerns are that a borrower becomes eligible simply by falling behind on their payments, with no requirement to demonstrate hardship. There is no friction in the process as the mortgagee is obligated to initiate the process started, without the borrower even requesting it. A borrower can re-up the Payment Supplement Partial Claim multiple times as long as sufficient Partial Claim funds are available. A borrower may claim the Partial Claim for up to 60 months (later revised to 36 months). After 36 months he or she is then eligible for another Partial Claim. While borrowers are no longer able to enter into serial Payment Supplement, they can still claim it for 3 out of 5 years and start over until funds run out.

Simply by not paying the mortgagee, a borrower can set him or herself up for up to 36 months of significantly reduced payments without having to put in any effort in receiving the assistance because he or she gets automatically notified from their mortgagee. No income documentation is required to determine the borrower’s Payment Supplement Partial Claim. A borrower receiving the benefit of a Partial Claim is provided an interest-free loan of 25% of their P&I for each month for the next 3 years. This policy is fraught with moral hazard both by mortgagors and mortgagees.

July 2021: House bill introduced to eliminating the use of credit scores in mortgage underwriting or create a government credit repository.

Some already have labeled credit scores racist. While these scores are predictive of defaults, they also represent an enormous hurdle to expanding credit to underserved communities, whose members typically have lower scores and thus require risk premiums. Doing away with credit scores would have unintended consequences, particularly for lower-income Americans, by raising the cost of credit for them.

June 2023: Recommendations of the PAVE working group on how to address racial bias in home valuations.

While, we agree that the appraisal industry needs to change, [PAVE’s recommendations came up short](#) because they do not 1) identify and address the root causes of the industry’s problems, 2) identify and address in a timely and comprehensive manner appraiser racial and ethnic bias and inaccuracies, and 3) avoid overreach and damaging unintended consequences.

May 2023: House and Senate bills introduced to lower underwriting standards for first respondents or teachers (HELPER Act).

While it is estimated that anywhere between 400,000 to 1 million Americans may qualify for the benefit, the more pressing question is where the required homes would come from. Studies have estimated that the country has a shortage of around 3.8 million to 20 million homes.

June 2023: The Downpayment Toward Equity Act of 2023 is introduced in the House.

Bill would provide up to \$25,000 cash grant for first-generation home buyers, which would get capitalized into higher home prices during the current seller's market.

2022 and 2023: Fannie Mae and Freddie Mac introduce and expand Special Purpose Credit Programs (SPCP).

The programs lower underwriting standards in minority census tracts, thus expanding leverage in a seller's market, which is most severe at lower price points. These efforts could result in greater home price appreciation and crowding out of lower-income people.

February 2023: FHA reduces its mortgage insurance premium.

FHA's 30 bps mortgage insurance premium (MIP) cut will expose taxpayers and not help prospective homebuyers. Rather than cutting the premium on 30-year loans, there are good reasons why FHA should have held on to its reserves. Given the current economic uncertainty, which could mean layoffs and delinquent FHA borrowers depleting their financial reserves. Given this uncertainty, FHA should keep its powder dry. For one, home prices are still at inflated levels due to the Fed's loose monetary stimulus. Moreover, while the market has strongly corrected in markets such as San Francisco or Seattle, home prices can still decline further, which would spell trouble for FHA borrowers.

September 2021: Fannie started to include rental payment history in its risk assessment processes, which increases demand for housing without addressing supply.

August 2021: FHFA proposes and subsequently passes new benchmark level for minority & low-income tracts home purchase in 2022-24.

FHFA proposed to raise the Low-Income Home Purchase Goals affordable housing goals for low-income 2022-2024 to 28%, up from the current 24% level. The risk of this approach becomes obvious when compared to the period before the last financial crisis when the affordable housing goals were last raised.

From 1996 to 2008, the Special Affordable Housing Goals for purchase loans were raised from 12% to 27%. At the same time, the GSE purchase stressed default rate increased from 11.7% to 21.5% in 2007, before lending standards were significantly tightened. The tight correlation between both lines becomes evident in the chart below.

Due to the ever-increasing Affordable Housing Goals, the GSEs were forced to lower their underwriting criteria in order to fulfill those goals. The result, of course, was a massive build-up of risk, which eventually ended in 12 million foreclosures and other forced dispositions, which were proportionally higher in low-income and minority neighborhoods.

By historical standards today's GSE mortgage risk looks fairly benign, but FHA's mortgage risk is about at the same level as in 2006. These loans are highly geographically concentrated and the GSEs will be forced to compete with FHA when the goals are raised.

Ongoing:

- 1) According to the [AEI Student Debt Forgiveness Tracker](#), the administration has already forgiven \$317 bn student loan debt during an overheated housing market, which would increase first-time buyer buying power and increase demand, which would result in higher home prices.⁶⁵
- 2) Foreclosures: After the experience of the Great Financial Crisis and the foreclosure moratorium of the pandemic, it appears that the administration is intent on making foreclosures as burdensome as possible for servicers. While this will certainly lead to unintended consequences, once achieved, progressives would point to low rates of foreclosures as evidence that the credit box can be expanded further.

Research from at least one think tank is pushing for looser underwriting relating to the Three Cs of Mortgage Credit (Credit, Capacity, and Collateral) under the guise of “closing the homeownership gap” and “rooting systemic racism out of mortgage underwriting”. The proposed policies largely mirror similar 1999 research by the same think tank to loosen the Three Cs lending standards. That research was funded by HUD and had devastating results.⁶⁶ Others, like the Underserved Mortgage Markets Coalition would push the GSEs into riskier loan types, and looser underwriting.⁶⁷

Ultimately, a mortgage finance system without payments, the threat of foreclosure or proper underwriting standards is ultimately an entitlement program. If such a program were established, it would be here to stay—and would most likely grow.

What progressives fail to understand is that access to credit isn’t the root cause holding back Americans, particularly those of color, from owning a home. Notwithstanding numerous attempts and enormous spending by the federal government, the black homeownership rate today is barely higher than in the 1970s. Instead, the U.S. is undersupplied by millions of homes, which makes buying a home more difficult. In addition, there are far-reaching shortcomings in educational outcomes, marital status and

⁶⁵ <https://www.aei.org/studentdebtforgivenesstracker/>

⁶⁶ For 2022, see” <https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting>. In April 1999 the Urban Institute released a report commissioned by HUD two years earlier. The report, entitled “A Study of the GSEs’ Single-Family Underwriting Guidelines”[1] advised: “Almost all the informants said their opinion of the GSEs has changed for the better since both Fannie Mae and Freddie Mac made substantive alterations to their guidelines and developed new affordable loan products with more flexible underwriting guidelines.” ... “Informants did express concerns about some of the GSEs’ practices. The GSEs’ guidelines, designed to identify creditworthy applicants, are more likely to disqualify borrowers with low incomes, limited wealth, and poor credit histories; applicants with these characteristics are disproportionately minorities.” By 2000, the GSEs had largely done away with down payments, raised debt ratios, entered the “A-minus” and “B” subprime market and re-entered the low doc/no doc market. <http://www.urban.org/publications/1000205.html>

⁶⁷ Policies advocated include a “substantially increase the number of purchased mortgage loans secured by manufactured real property,” that “Fannie and Freddie should revive their plans to begin to purchase chattel loans”, “offering exceptions for the income limits in the HNRs,” “targeted use of credit exceptions,” “instituting a 4% deferred second mortgage to cover closing costs and boosting the seller concession from 3% to 6%,” or that the “GSEs eliminate their loan-to-value limits to better align with FHA rules.” See <https://www.insidemortgagefinance.com/articles/223669-nonprofit-coalition-offers-blueprint-to-improve-fanniefreddie-dts-plans?v=preview>.

earnings that need to be addressed. These [socioeconomic factors](#) explain most of the gap in homeownership between black and white Americans.

The administration's recent actions to expand homeownership to underserved communities are both flawed and reminiscent of similar failed efforts, particularly those made in the runup to the 2008 financial crisis. Remember when in 1994 [Fannie Mae](#) committed to "transforming the nation's housing finance system to make it accessible to everyone"? To quote Yogi Berra, "It's like déjà vu all over again."

Each one of these above mentioned programs on its own seems innocuous. However, the accumulation and combination of them should raise alarms. With new leadership at federal agencies and regulators, a concerted effort to lower underwriting standards again – as happened during the 1990s and 2000s – seems to be underway.

Raising the Affordable Housing Goals requires lessening criteria on risk layering, otherwise the goals could not achieve much. At the same time, the effort to bring in higher-risk borrowers requires larger cross-subsidies, which required changes to the LLPAs. While lower-income Americans are being crowded out of the housing market, bringing them back by lowering underwriting standards through a concerted efforts by federal agencies and regulators is a recipe for disaster and risks creating more housing risk. This will put the exact people the policies are intended to help into harm's way.

Appendix 6:

While the outcomes for the housing market are outlined below, easy money also had effects on inflation.

- Just since the beginning of the pandemic, the Fed's monetary policies have contributed over \$1 trillion in wealth effects available to be used for additional spending.⁶⁸
- Researchers at the Dallas Fed have found a "high correlations between current house price growth and future inflation of rent and [owners'-equivalent rent] OER" and predict rent and OER inflation to reach 6-7% by 2023, up from around 2% today.⁶⁹

Thus, higher inflation was foreseeable and we started to warn as early as July 2020 of an impending housing boom and indicia of higher price levels ahead.⁷⁰

The effects of the coronavirus pandemic were unprecedented in terms of widespread lockdowns, skyrocketing unemployment, and a financial market crash. The Federal Reserve took aggressive expansionary efforts in the form of zero interest rate policy (ZIRP) and quantitative easing (QE) to stabilize the economy, while Congress enacted massive fiscal stimulus. However, one of the results was a runaway home price boom.

It is now generally acknowledged that the Federal Reserve ended up overshooting by not recalibrating its policies in light of both overwhelming fiscal and housing market responses. Both of these fueled an explosion in aggregate demand, especially for goods and houses.

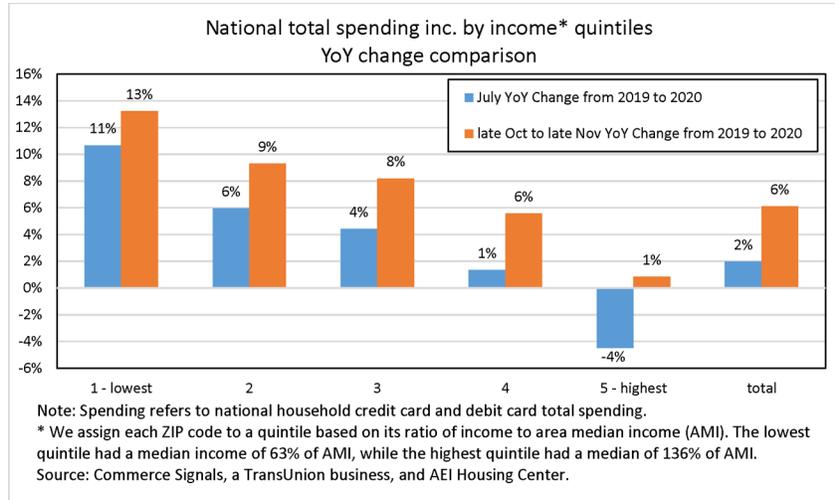
By the end of August 2020, near-real-time credit card data indicated that sales for July 2020 were up 2% on a year-over-year basis, indicating a recovery from the initial pandemic shock. By mid-December 2020, these same data indicated that sales for late October 2020 to late November 2020 were up 6% on a year-over-year basis, signaling a policy-induced acceleration of demand. Spending in the lowest two quintiles of zip codes by income was growing at 13% and 9% year-over-year, reflecting the especially large fiscal stimulus for lower-income households.⁷¹

⁶⁸ About \$420 billion (\$15 trillion in stock market valuation increase since end of 2019 x 2.8 cents per year in increased consumption), about \$180 billion (home equity gains over the last 18 months yields an average \$2,200 per household in additional consumption spending over the next couple years, or about \$180 billion of additional spending summed up across all homeowners, about \$280 billion/year from monthly payment savings on Rate and term refinances, and about 90 billion/year from equity extraction on cash out refinance loans. CITE CONFERENCE

⁶⁹ <https://www.dallasfed.org/research/economics/2021/0824>

⁷⁰ For the entire paper, see <https://www.aei.org/research-products/report/the-federal-reserves-housing-market-lessons-to-be-learned-once-again/>

⁷¹ In addition, stock and home prices were booming by late 2020. The ensuing wealth effect, which develops with a lag, should have been well known to the Fed.

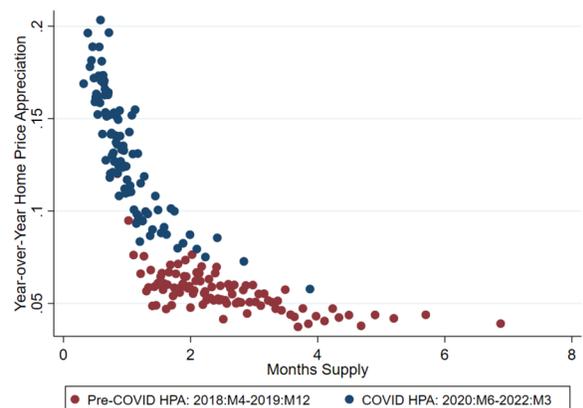


The Fed kept expansionary monetary policies in place for too long, which helped fuel both rampant consumer price inflation and home price appreciation (HPA).

Unprecedented monetary easing with existing inventory for sale already at multi-year lows was bound to have an outsized effect on HPA as available homes for sale continued to plummet, with inventory dropping from 3.2 months of sales in February 2020 to 2.0 months by February 2021.

Research presented by [Sam Khater](#) in October 2017 at the AEI Housing Conference found that at the metro level: "Price pressures rapidly increase as supply drops below 3 months." Just before the Fed started its pandemic credit easing, the national existing supply for February 2020 was already close to the 3-month inflection point. Within a year it would drop to 2 months and eventually drop to as low as 1.8 months. Credit easing during the pandemic, in concert with the already-low inventory, had the predictable effect of causing home prices to boom at a rapidly accelerating rate. Khater's research would indicate that the historical relationship between months' supply and home prices would be amplified due to the severely tightened supply that occurred during the pandemic. The moderate non-linear relationship between months' supply and home price appreciation before the pandemic became an exponential hockey stick during the pandemic. Below we show this relationship using a binned-scatterplot that combines each metro-month's year-over-year HPA and months' supply before the coronavirus pandemic in red (2018:M4-2019:M12) and during the pandemic in blue (2020:M6-2022:M3). Months' supply during the pandemic reached record-low levels, as the sellers' market of the past 10 years deepened. Real-time tracking of the housing market provided better evidence for these unprecedented times rather than relying on prior models.

Figure: Year-over-Year Home Price Appreciation and Months' Supply by Metro-Month



Source: AEI Housing Center

New data sources and innovative ways of tracking home prices and risk started to appear during the earliest days of the pandemic. As the pandemic took hold in the spring of 2020, the AEI Housing Center realized that market trends were moving so fast that data latencies of 3 months or more for the stressed MDR and HPA tracking metrics were no longer adequate. This meant that normal monthly updates needed to be replaced by weekly ones. New Center reports using real-time data from Optimal Blue were quickly developed. These were first dubbed “flash housing market indicators” and later “NowCasts”. By early [April 2020](#), the AEI Housing Center was using Optimal Blue data to monitor HPA and MDR on a weekly basis and project future HPA and MDR with a high degree of accuracy, but without the usual 3 month lag. By [July 2020](#), recent purchase contracts indicated that HPA had accelerated to 10% (Y-o-Y) and that the MDR was declining. This was a boom induced by low borrowing costs reflecting ZIRP and the heavy and lasting dose of QE, combined with a widespread desire for more space.

Using these broadly distributed real-time data, the Fed might have pivoted much sooner from its unprecedented levels of QE and ZIRP that contributed greatly to runaway consumer and housing inflation. Instead, in August 2020, the Fed doubled down when it “approved a major shift in how it sets interest rates by dropping its longstanding practice of pre-emptively lifting them to head off higher inflation, a move likely to leave U.S. borrowing costs very low for a long time.”⁷² Chair Powell stated: “We’ve really got to work to find every scrap of leverage in helping stabilize the economy.”⁷³ However, foreseeable consequences followed. As noted by the [Housing Center](#) a few days later: “The payment drop due to the lower mortgage rate is more than offset by the impact of the higher home price on

⁷² <https://www.wsj.com/articles/feds-powell-headlines-virtual-jackson-hole-economic-conference-11598486400?mod=mhp>

⁷³ Ibid.

principal, interest, mortgage insurance premiums, property taxes and home owners insurance, and closing costs, since all of these are related to home price and mortgage amount.”⁷⁴

This new era required increased real-time tracking of the housing market. This was clear from the data sources followed by AEI’s Housing Center. Here are some examples:

July 2020: “Driven by ultra-low mortgage rates and a limited supply, national home price appreciation accelerated to around 10%. This rate exceeds the rate before the pandemic, which may indicate the home price boom will likely continue due to low rates and heavy demand.”

August 2020: “Powell’s Fed has determined that inflation is now so benign that it no longer needs to raise interest rates as a precautionary action against inflationary excesses. Yet we have been feeling such excesses in capital assets, such as stocks and homes, for some time, and markets are applauding. This is perfectly foreseeable as lower interest rates get capitalized into higher asset prices.”

September 2020: “Low mortgage rates and continuing strong demand are adding yet more fuel to the current housing boom already 9 years in the making.”

October 2020: “America is running out of inventory. Buyers can’t buy houses that aren’t for sale, so they’re bidding up the prices of the relatively few on the market. That means price increases will keep racing until more inventory comes on. And new supply will come on slowly.”

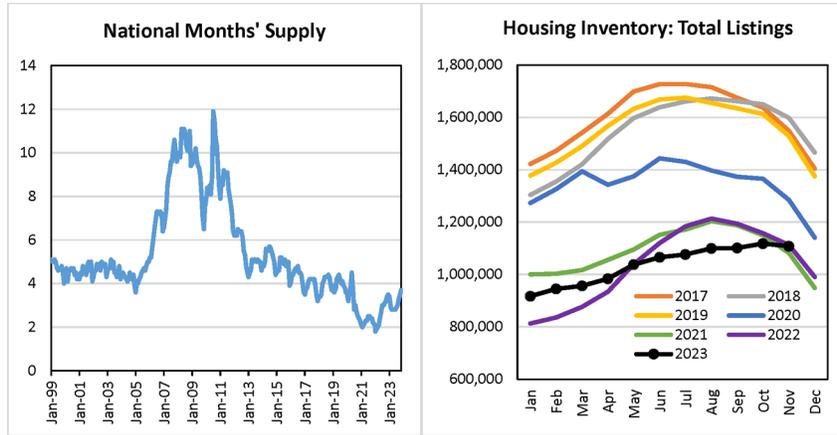
November 2020 : “Driven by ultra-low mortgage rates and a limited supply, national HPA is unsustainable and far exceeds the levels before the pandemic.”

The Federal Reserve’s actions to “spike the monetary punch bowl” through \$5 trillion in total asset purchases, including bloating its mortgage securities investments to \$2.7 trillion, and maintaining mortgage rates below 4 percent until March 2022 were in conflict with the data that from July 2020 already showed a skyrocketing housing market. Despite the evidence, the Fed did not stop MBS purchases that had buoyed its balance sheet and overheated the economy and housing market. Instead, the Fed continued to increase its assets until April 2022, despite large increases in HPA and these warning-signs of HPA and inflation to come.

Once it became clear the inflation was not transitory and in effect out of control, the Fed slammed the brakes on its expansionary monetary policies and reversed course through Quantitative Tightening (QT).

But this sharp reversal created other unintended consequences and distortions. With mortgage rates now approaching 8%, people have been unwilling to sell their homes because that would entail a higher rate mortgage. This so-called lock-in effect is one unintended consequence of the Fed’s misguided policies that first kept rates too low for too long before reversing abruptly and vehemently course. With homeowners unwilling or unable to move that has removed 100,000s of units from the market for years to come. Today supply remains at lows not even seen before the Great Financial Crisis and listings remain at around two-thirds of 2017-2019 levels.

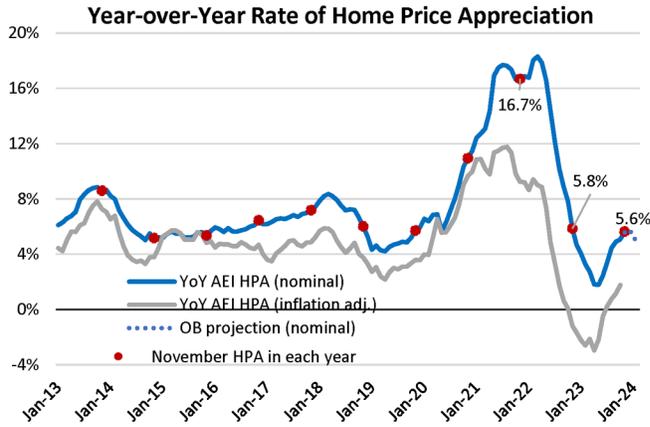
⁷⁴ <https://www.aei.org/research-products/report/the-feds-spiked-punch-bowl-ad-infinitum/>



Source: NAR

Source: Realtor.com, and AEI Housing Center, www.AEI.org/housing.

What remains is an unhealthy market, where –despite an affordability shock from higher rates- home prices continue to march higher, further hurting affordability particularly for entry-level buyers.



Note: Data are for the entire country. Data for November 2023 are preliminary.
 Source: AEI Housing Center, www.AEI.org/housing.

A Follow-up on My Recent Testimony to the Joint Economic Committee on Policy Approaches to Increasing the Supply of Affordable Housing

In my recent testimony on affordable housing supply, I highlighted the superiority of markets over government solutions and pointed out to the ineffectiveness of the Low-Income Housing Tax Credit (LIHTC), which offers generous tax credits for builders that rent units to tenants earning below 60% of area median income.

During the hearing's Q&A, I did not have time to elaborate on my ideas or refute some of the misstatements about the LIHTC program. I will do so here.

Our best hope for more affordable housing is to build more housing at the middle of the price range, rather than expand the LIHTC program.

Assume a simplified model of the housing market with three groups of people: upper, middle, and lower income people. Building new houses at low price points is impossible without subsidies. Building new houses at moderate price points is difficult because regulations at all levels of government have made building expensive. That only leaves developers the option to build houses at high price points with few buyers that can afford these homes.

As a result, the market builds:

- A few very expensive houses for upper income people,
- Hardly any moderately priced houses for middle income people, and
- A few houses for lower income people. These houses are expensive to build but they are made affordable through LIHTC subsidies and the use of housing vouchers.

Overall, the market builds too few homes and over time, a housing shortage develops.

Before concluding, however, that we need to spend more money on "affordable" housing, let's first consider another version of a simplified, yet functioning market: the car market. Just like new and existing homes, there are new and used cars. Some people own cars or homes, others lease or rent them.

In this market, the impact of regulations on car manufacturing is more limited (although with EV mandates that is certainly changing). Cars, unlike houses, are generally affordable to broad swaths of people.

In this functioning car market, we build:

- A few very expensive cars for upper income people,
- A lot of moderately priced cars for middle-income people, and No cars for lower income people.

In such a functioning market, no one would propose a tax credit for car manufacturers to build cars for lower income people. It is preposterous because of filtering – the concept where older used goods are passed down the income ladder as newer and more technologically advanced goods become available.

With cars, as middle-income people buy new cars, they sell their older, still serviceable cars to someone of lesser means, and so forth until everyone, including someone of low-income owns a serviceable, but not a new car.

The difference between the housing and car market is that car manufacturers are still able to build new cars at moderate price points allowing them to meet demand. Therefore, the root cause of housing unaffordability is government regulatory failure that has made land scarce and home building expensive.

Claims made during the hearing that I would have liked to refute:

Claim 1: LIHTC expansion could add up to 200,000 new “affordable” units per year, as a study by [Novogradac](#) claims. This is most definitely false.

- The study may not be objective as the methodology is short and the company conducting the research is one of the main beneficiaries of LIHTC. Its findings should therefore be taken with a grain of salt.
- The 200,000 new housing units are most certainly a significant overstatement. Credible [peer-reviewed research](#) has shown that LIHTC merely crowds out private developers. If the private sector would build the same number of units as LIHTC, then LIHTC does not add to supply, it merely wastes taxpayer money.
- To the extent that the private sector would build 200,000 market-rate units regardless, then LIHTC creates a select few winners that end up living in these units. Such an outcome is inherently unfair as everyone else, no less deserving of lower rents, has to pay higher ones.
- Furthermore, [data from](#) the Department of Housing and Urban Development (HUD) show that only about 50% of LIHTC developments are new constructions. The other 50% are rehabilitations, which don't add to the housing supply since they merely repurpose an existing unit.

Claim 2: Preserving an older unit is a good way to maintain affordable housing. It may actually be the opposite.

In a functioning market like the car market, no one is proposing that car manufacturers rehab 20-year old cars. Why? Because they are building plenty of moderately priced new cars so that other serviceable cars filter down to those of lesser means.

In housing, preserving an older unit may actually worsen the supply shortage because it ignores the opportunity cost of the land: Older homes often sit on land that could be better utilized. For example, a single-family detached unit built in 1940, sitting on a 10,000 sq. ft. lot, could be torn down and replaced with four townhomes that sell for the same price as the original unit. Preserving that old home foregoes the opportunity of creating three additional housing units and thus impedes the filtering process. The same logic applies to older apartment units that could be replaced with more dense units

Similarly, with apartment buildings, efforts aimed at preserving “affordable” housing can sometimes be misleading. Consider this case in Florida where Freddie Mac touted its preservation of low-income rentals, while the property owner bragged about the ability to raise rents. The details are as follows: The buyer/investor found a property that already provided workforce/low-income housing at well below 80% of area median income (AMI). Fannie Mae and Freddie Mac in order to provide financing require that tenants earn below 80% of AMI. Due to liberal lending terms, the buyer/investor is able to load up the property with debt. The buyer/investor then makes renovations to take advantage of what they call an “extraordinary value-add opportunity” to “significantly enhance revenue.” This allows a repositioning

to higher income tenants as the occupants of the building are still generally below 80% AMI. This way Freddie Mac gets to tout its "preservation success," while the owner brags about its profit enhancement.¹

**

I maintain that the root cause of the housing supply shortage is a government regulatory failure that has made land scarce and building expensive. If more states and cities roll back burdensome zoning and land use regulations, such reforms could provide hundreds of thousands of new homes each year and thus allow more Americans to access their own American Dream.

To read my entire testimony, see [here](#).

¹ For example, see a [Wall Street Journal](#) article on a 352-unit complex in the Tampa area that was purchased in the spring of 2018 by Bridge Investment Group. The development is named Plantation at Walden Lake, in Plant City, FL. The article states that "Freddie Mac, the country's largest backer of apartment loans, will offer low-cost loans to real-estate owners willing to keep their buildings affordable to middle-class families for years to come." Bridge Investment Group, the investor, said about its plans for this development that was 95% leased back in the spring of 2018: "Over the last three years, Mercury Investment implemented a multimillion dollar capital improvement program that included enhancements to the community's pool and other shared amenities, as well interior upgrades. The remaining renovated units present a significant value-add opportunity for the buyer. 'Plantation at Walden Lake's strong occupancy and potential for further renovation make it an extraordinary value-add opportunity,' said Elorza. 'Renovating the remaining units will help the property compete with newer communities nearby, and will significantly enhance revenue.'" <https://www.tampabaynewswire.com/2018/04/26/cushman-wakefield-negotiates-35-7m-sale-of-tampa-area-apartment-community-for-mercury-investment-67396>

HOUSING AFFORDABILITY: TRENDS, SHOCKS, AND STATE LEGISLATION

SALIM FURTH

Senior Research Fellow, Director of Urbanity Project, Mercatus Center at George Mason University

Joint Economic Committee, US Congress

Rebuilding the American Dream: Policy Approaches in Increasing the Supply of Affordable Housing

January 17, 2024

Good morning, Chairman Heinrich, Vice Chairman Schweikert, and members of the Joint Economic Committee. Thank you for the opportunity to address you today. My name is Salim Furth, and I am a senior research fellow at the Mercatus Center at George Mason University, where I am codirector of the Urbanity Project.

Today, I want to offer a snapshot of housing affordability trends and distinguish the short-term and long-term explanations for what we see. State legislatures are aggressively tackling the long-term causes of high prices, but much work remains to be done.

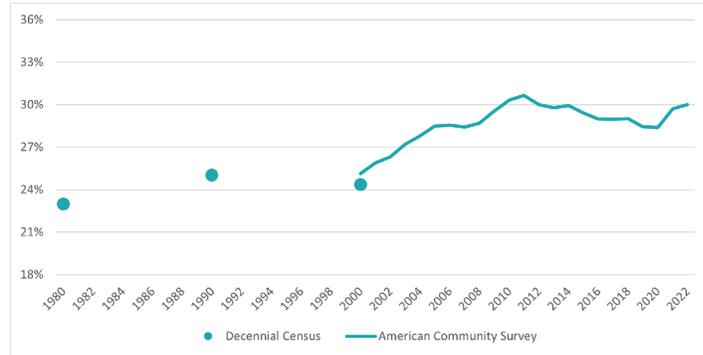
A LOOK AT RECENT TRENDS

The 21st century has been a difficult era for renters. While the 1980 to 2000 censuses showed that the median renter household paid 23 to 25 percent of its income in rent, that share rose briskly to a peak in 2011 and has remained high since, as shown in figure 1. In 2022, the median renter household spent 30 percent of its income on rent.

The good news is that we may see a bit of improvement in 2023 and 2024, because an ongoing surge in multifamily supply has caused asking rents to flatline or even fall.¹

¹ Lily Katz, "The Tide Turns for Renters As Asking Rents Post Biggest Decline in Over Three Years," Redfin, December 13, 2023, <https://www.redfin.com/news/redfin-rental-report-november-2023/>.

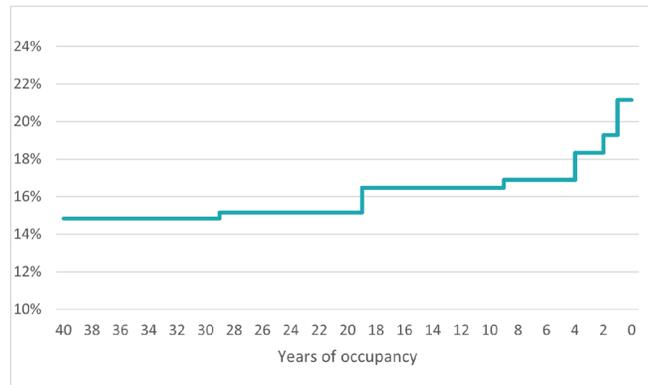
FIGURE 1: MEDIAN RENT BURDEN SINCE 1980



Source: IPUMS USA (database), University of Minnesota, accessed January 2024, www.ipums.org.

For homebuyers, the situation is more complicated. Typically, a mortgage becomes more affordable over time as one’s income grows. That pattern is clear in figure 2. Even for recent buyers, housing costs have usually been quite reasonable. The 2022 data show that median monthly housing costs—including mortgage, taxes, insurance, and utilities—are just 21 percent of income for the most recent buyers. However, those who bought in late 2022 and 2023 faced much higher interest rates and have not yet been included in published data. I expect the fresh data will show rising ownership costs for the newest cohort of buyers.

FIGURE 2: MEDIAN OWNERSHIP COST BURDEN BY YEARS OF OCCUPANCY

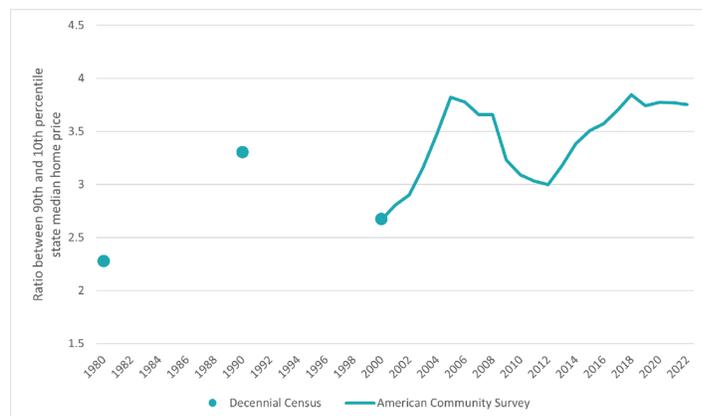


Source: IPUMS USA, University of Minnesota, accessed January 2024, www.ipums.org.

Note: The American Community Survey asks respondents how long they have lived in their current home, which is a good proxy for the year they purchased. The most recent buyers are at the right-hand side of the graph, having purchased in 2021 or 2022 and spent less than a year in their current homes at the time they were interviewed.

Of course, the national trends conceal large, growing differences across regions. Looking at state average home prices, the price difference between the most and least expensive states has varied quite a bit over time. Figure 3 shows one way to measure this difference. For the last several years, home prices in the most expensive states have been about 3.8 times higher than in the least expensive.

FIGURE 3: STATE HOUSING PRICES VARY WIDELY



Source: IPUMS USA, University of Minnesota, accessed January 2024, www.ipums.org.

Note: This shows the ratio between the 90th and 10th percentile state average owner-occupied home price. States are implicitly weighted by number of homeowner households.

RECENT SHOCKS: THE PANDEMIC, INTEREST RATES, AND INFLATION

Pandemic-era preferences and policies contributed to a sharp increase in home prices and rents. The most important and durable preference among Americans is spending more time at home than before.² During the pandemic, roommates split up, families carved out home offices, and more parents opted to homeschool. Work, school, and leisure at home are considered attractive options by more people today than in 2019.

Unlike most short-term changes, the sudden increase in demand for residential space appears to be permanent. That creates a double challenge for housing affordability: higher demand increases the price per square foot, while, at the same time, it takes more square footage to meet some households' rising standards for sufficient housing.

The second recent shock was the sequence of interest rate movements. Mortgage rates fell to all-time lows in 2020 and then zoomed to a multi-decade high in 2022. Low rates allowed home sellers to raise prices. And many homeowners, myself included, refinanced.

² William Gamber, James Graham, and Anirudh Yadavd, "Stuck at Home: Housing Demand during the COVID-19 Pandemic," *Journal of Housing Economics* 59 (March 2023): 101908.

But when interest rates shot up, it did not have an equal and opposite effect on home prices. The low rates on pre-2022 mortgages served as golden handcuffs.³ The number of Americans selling their home and buying a new one was already in decline; now even fewer are willing to sell.⁴ The resulting lack of inventory for sale has short-circuited what we might otherwise expect: interest rate increases cutting into prices.

Finally, housing was not exempt from economy-wide inflation, which has amounted to about 16 percent since January 2020.

LONG-TERM TRENDS: REGULATION AND HOUSING SUPPLY

As valuable as it is to understand the recent fluctuations, long-term trends are even more important. To understand why, let's compare the Los Angeles and Oklahoma City metro areas. Home prices in both cities are about 40 percent higher today than in January 2020.⁵ That increase, however, was added to a base price of \$683,000 in LA but just \$162,000 in OKC. As a result, the four-year increase alone amounts to three median household incomes in Los Angeles but just one in Oklahoma City.⁶

So, what explains the four-fold difference between Los Angeles and Oklahoma City prices? Economists believe the biggest factor is that Oklahoma City has allowed enough housing to be built to meet demand while Los Angeles has not.⁷ As a result, material consumption is higher in Oklahoma City than in Los Angeles, even though nominal income is substantially higher in the latter.⁸

Since 1970, if not earlier, the relative scarcity of housing in restrictive, high-wage cities, mostly along the coasts, has deepened every decade.⁹ This has hurt not only those who already live there, but the many Americans who would have liked to move to those cities of opportunity. Through most of American history, large numbers of people have migrated from low- to high-wage places. No more.

³ Julia Fonseca and Lu Liu, "Mortgage Lock-In, Mobility, and Labor Reallocation," Jacobs Levy Equity Management Center for Quantitative Financial Research Paper (Nov 2023).

⁴ Census data are only available through 2022; some private data indicate that moving fell further in 2023. United States Census Bureau, "CPS Historical Geographic Mobility/Migration Graphs" (dataset), August 10, 2023, <https://www.census.gov/library/visualizations/time-series/demo/historic.html> and North American Moving Services, "Where did Americans Move in 2023?" (dataset), accessed January 10, 2024, <https://www.northamerican.com/migration-map>.

⁵ Zillow, ZHVI Single-Family Homes Time Series, January 2020–November 2023. (database), accessed January 10, 2024, <https://www.zillow.com/research/data/>.

⁶ The 2022 median household incomes were \$87,743 in Los Angeles and \$66,301 in Oklahoma City. Data are from the American Community Survey on the US Census Bureau's Census Reporter database, <https://censusreporter.org/profiles/31000US36420-oklahoma-city-ok-metro-area/>.

⁷ Salim Furth, "Housing Supply in the 2010s" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, February 2019); Raven Molloy, "The Effect of Housing Supply Regulation on Housing Affordability: A Review," *Regional Science and Urban Economics* 80, issue C (2020); Greg Morrow, "The Homeowner Revolution: Democracy, Land Use and the Los Angeles Slow-Growth Movement, 1965–1992," (PhD diss., University of California, Los Angeles, 2013).

⁸ Rebecca Diamond and Enrico Moretti, "Where Is Standard of Living the Highest? Local Prices and the Geography of Consumption" (NBER Working Paper No. 29533, National Bureau of Economic Research, Cambridge, MA, December 2021).

⁹ Bernard J. Frieden, *The Environmental Protection Hustle* (Cambridge, MA: MIT Press: 1981).

Now, internal migration from the most-productive cities is negative.¹⁰ Americans instead are moving to cities with attainable, modern housing.¹¹

STATE LEGISLATIVE EFFORTS: ZONING REFORM

Now the good news: State legislatures have taken seriously the role of local regulation in constraining housing supply and have begun the long road of reform. California's efforts have received the most press, but some other states have gone further.

In both Vermont and Montana, the governor and a handful of key legislators have made zoning reform a top priority.¹² Local newspapers, research, and advocacy organizations led an inclusive, public conversation about the reach of zoning. The legislative leaders convened stakeholder groups—formally in Montana, informally in Vermont—and hashed out consensus reforms intended to make it significantly easier to build housing in both states. For example, both states now allow duplexes everywhere in most towns, and both created new exemptions from state environmental review.

In both states, these ambitious, extensive limitations of local regulatory authority received supermajority support from legislators in both parties. And in both states, lawmakers are not done: they have promised to continue reforms in their upcoming sessions.

Important strides have been made in many other states, including Oregon, Rhode Island, Utah, Washington, and Wisconsin.

In several other states including Arizona and Colorado, reform efforts fell just short in 2023, primarily because legislators—again, in both parties—were hesitant to limit city power. Unlike many issues in American politics, this one cuts across ideological lines: legislators from both sides recognize the need for more housing, and legislators from both sides would prefer not to preempt local governments.

For the past 50 years, the pendulum has swung too far toward local authority to restrict housing construction across much of the country, and we have seen the results of these policies. State legislators are now moving back toward balance, restoring the individual freedom to build, and—we hope—durably increasing the supply of housing.

¹⁰ Wendell Cox, "Metro Costs of Living and Domestic Migration: 2010-2020," *New Geography* (Feb 2022).

¹¹ Peter Ganong and Daniel Shoag, "Why Has Regional Income Convergence in the U.S. Declined?" *Journal of Urban Economics* 102, (November 2017): 76–90; Sam Khater and Kristine Yao, "In Pursuit of Affordable Housing: The Migration of Homebuyers within the U.S.—Before and After the Pandemic" (Freddie Mac Research Note, June 22, 2022).

¹² This section follows Eli Kahn and Salim Furth, "Breaking Ground: An Examination of Effective State Housing Reforms in 2023" (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, August 2023).

For the Record – 1-17-2024

Articles submitted for the record by Vice Chairman David Schweikert :

<https://www.governing.com/housing/social-counties-trying-to-house-homeless-face-nimby-pushback>

<https://slate.com/business/2023/05/housing-market-affordable-real-estate-single-family.html>

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