

**THE COSTS OF INACTION: ECONOMIC
RISKS FROM HOUSING UNAFFORDABILITY**

HEARING
BEFORE THE
COMMITTEE ON THE BUDGET
UNITED STATES SENATE
ONE HUNDRED EIGHTEENTH CONGRESS
SECOND SESSION

—————
September 25, 2024
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Printed for the use of the Committee on the Budget



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WEDNESDAY, SEPTEMBER 25, 2024

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THE COSTS OF INACTION: ECONOMIC RISKS FROM HOUSING UNAFFORDABILITY

WEDNESDAY, SEPTEMBER 25, 2024

COMMITTEE ON THE BUDGET,
U.S. SENATE,
Washington, DC.

The hearing was convened, pursuant to notice, at 9:58 a.m., in the Dirksen Senate Office Building, Room SD-608, Hon. Sheldon Whitehouse, Chairman of the Committee, presiding.

Present: Senators Whitehouse, Murray, Warner, Kaine, Van Hollen, Padilla, Reed, Grassley, Johnson, Braun and Kennedy.

Also present: Democratic Staff: Melissa Kaplan-Pistiner, General Counsel; Connor Jennings, Budget Analyst.

Republican Staff: Chris Conlin, Deputy Staff Director; Krisann Pearce, General Counsel; Ken Acuña, Professional Staff Member; Ryan Flynn, Budget Analyst.

Witnesses:

The Honorable Joseph Shekarchi, Speaker, Rhode Island House of Representatives

Mr. Paul E. Williams, Founder And Executive Director, Center for Public Enterprise

Ms. Greta Harris, President And CEO, Better Housing Coalition

Mr. Ed Pinto, Senior Fellow And Co-Director, AEI Housing Center

Mr. Jack Salmon, Director Of Policy Research, Philanthropy Roundtable

OPENING STATEMENT OF CHAIRMAN WHITEHOUSE ¹

Chairman WHITEHOUSE. Good morning, everyone. The hearing of the Senate Budget Committee will come to order. We will be discussing this morning an issue of concern to all Americans, namely housing.

Secure and affordable housing is a building block of financial well-being, being able to afford a home provides not just shelter, but community and stability. When families cannot afford housing, they face increased barriers to education and employment, they have worse physical and mental health outcomes, and they likely face generational poverty.

Unfortunately, families across America for paying the price for a housing market failure that was years in the making. Nationwide, the U.S. faces a shortage of four to seven million housing units available for sale or rent, which of course drives up cost.

¹Prepared statement of Chairman Whitehouse appears in the appendix on page 39.

Barriers to getting a mortgage are making it harder for first-time buyers to purchase a home. With fewer people able to purchase homes, demand in rental markets has soared, creating a shortage of available rental units, driving up costs. Helping families afford a safe, stable place to call home should be neither controversial nor partisan, and I will take a moment to recognize Ranking Member Grassley for his work in past years to do bipartisan housing work. And I thank him and congratulate him for that from the Finance Committee Chair.

Key to addressing the shortage of units and bringing down costs for families is, as my friend Speaker Shekarchi from Rhode Island would say, production, production, production. When Speaker Shekarchi took the gavel in 2021, he promised to become the housing speaker, a promise he has more than kept.

In just three years, he has shepherded over 30 bills into law to tackle Rhode Island's housing shortage. Coupled with historic budget investments, his legislation has addressed long-lagging housing production, expanded the state's housing supply and blunted upward pressure on rents and home purchase prices.

Nationally, there is evidence we are turning the corner in communities across the country. New construction is way up. Home prices are coming down, and the Fed is finally cutting interest rates, as many of us have repeatedly urged them to do, and that makes mortgages more affordable.

Construction of multi-family housing developments increased 22 percent in 2023, the highest annual increase in more than three decades. The pace of single family homebuilding climbed steadily throughout 2023, and has stayed elevated. Vacancy rates in professionally managed apartments rose to nearly six percent this year, more than twice the record low of 2.5 percent set in early 2022, which in turn stabilizes the rental market.

This is thanks in large part to important steps Congress and the Biden-Harris administration have taken to increase the housing supply, to protect renters and to ease cost burdens. More than \$18 billion of the American Rescue Plan's state and local fiscal recovery funds have gone towards expanding housing supply, investing in homeless services and providing nearly four million additional households with rent, mortgage and utility relief.

Senate appropriators, Chairman Murray present, continue to support housing programs like the home investment partnerships, community development block grants and housing choice vouchers. Last week, the Congressional Budget Office released a report on long-term projections for new housing starts, finding that the housing shortage will persist unless policymakers take decisive action.

Yesterday, I introduced new legislation to significantly expand our nation's supply of affordable housing by bolstering the low income housing tax credit. The Affordable Housing Construction Act would more than triple states' funding for affordable housing under the program, loosen financing requirements and extend the period during which housing must stay affordable.

With Congressman Panetta and Blumenauer, I have also introduced a \$15,000 first time homebuyer's tax credit for lower income Americans, refundable, advanceable and available for homebuyers at the time of purchase, to help make home ownership a reality for

more families. I thank Vice President Harris for her pledge of a \$25,000 similar credit.

Other proposals to make housing more affordable include Senator Wyden's Decent, Affordable, Safe Housing for all (DASH) Act, Senator Van Hollen's bipartisan Family Stability and Opportunity Vouchers Act, the Fair Housing Improvement Act led by Senators Kaine and Sanders, the Delivering Essential Protection, Opportunity, and Security for Tenants (DEPOSIT) Act led by Senators Luhan and Padilla, and Senator Padilla's Housing For All Act. We have a busy Budget Committee on the subject.

Vice President Harris also called for the construction of three million new housing units through historic expansion of the low income housing tax credit. Today's witnesses will hopefully point the way towards creative solutions to our nation's housing shortage. One thing we know for certain is that inaction is not an option.

As I turn to our Ranking Member, Senator Grassley, let me welcome Senator Reed, who has joined us. When it comes time for witness introductions, he will be helping with the introduction of our very dear friend, Speaker Shekarchi, and I want to thank the Committee for allowing Jack to participate in that. He will be staying through the Speaker's testimony, I understand. Chuck, over to you.

OPENING STATEMENT OF SENATOR GRASSLEY²

Senator GRASSLEY. I appreciate your calling of today's hearing on housing affordability. It is an issue that is central for Iowans and all Americans, something they care about deeply. It is very central to what both Republicans and Democrats call the American Dream. Over the past four years, Americans saw home prices and particularly rents skyrocket, as inflation ran rampant, thanks to the policies of this administration.

Thanks to Bidenflation, prices throughout the economy are up 20 percent since the start of administration. Even worse, housing prices have skyrocketed nearly 40 percent, and are currently at an all-time high according to Case-Shiller Home Price Index. Inflation has thankfully eased over the past year, largely due to action taken by the Fed.

But that should not be used as an excuse to once again open up the spending spigot, risking further inflation.

Unfortunately, that is exactly what some of the proposals out there do, and I refer particularly to Vice President Harris, touting the advocacy of hundreds of billions of dollars in demand-inducing housing subsidies.

Economists from across the political spectrum have noted how such policies would backfire by pushing up housing prices even further. Ed Pinto, who I have invited to testify, is going to quantify exactly how Vice President Harris' policies will make housing less affordable. In addition to calling for more subsidies, the Vice President has also touted plans to implement a version of rent control.

Rent control policies have been disastrous at the state and local levels, and it would be a huge mistake to adopt them at the federal level. And that is not just this Senator's point of view. We have Jason Furman, who served as President Obama's chief economist,

²Prepared statement of Senator Grassley appears in the appendix on page 41.

panned Harris' proposal saying "rent control has been about as disgraced as any economic policy in the toolkit. The idea that we would be reviving and expanding it will ultimately make our housing supply problems worse, not better."

Before we add new housing programs or expand existing ones, we should have a good look at the ones we already have currently. There are more than 100 federal housing programs. The Congressional Budget Office estimates that the federal government will spend over \$750 billion over the next ten years in housing assistance alone, and that does not include billions in additional housing programs and federal loan subsidies for mortgages provided by government agencies, which would include at least the Department of Agriculture, Defense and Veterans Affairs.

On top of that, the Tax Code includes incentives for home ownership, and the construction of low income housing, and the Chairman has referred to my efforts in that category. Instead of adding to the list of federal housing programs, Congress should focus on increasing the effectiveness of existing policies by eliminating duplication and complexity.

That is why at this Committee's previous housing hearing, I invited Bill Slover to testify. Mr. Slover provided a firsthand account of waste and inefficiency presently in our housing programs. Moreover, he highlighted the lack of accountability in the state housing agencies. Mr. Slover's testimony was consistent with what I have discovered as part of my oversight work.

For decades, I have conducted oversight of the Department of Housing and Urban Development and local housing agencies, and during that investigation we were able to expose rampant waste, fraud and abuse. Too often government overpays for poorly executed policies, and the maze of housing programs create inefficiencies.

And what I just said about my investigations applied to both Republican and Democrat administrations, not properly supervising from the federal level the oversight that they should have on these, because I found that the Department of Housing and Urban Development (HUD) does very little, if any oversight of housing authorities.

So they get away with lavish office spending on salaries, vehicles, parties and travel. Meanwhile, those less fortunate wait in line sometimes for years for actual housing assistance.

So we should be focusing on forcing HUD to do its job, but the majority is not doing that while HUD fritters away tons of taxpayer money. I also welcome Jack Salmon, who will refocus the debate on this Committee's fiscal policies with deficit, debt and interest expenses. I am sure the administration is counting on the Fed's recent interest rate cut to lower housing costs.

However, interest rates are but one of a host of factors driving housing costs. Moreover, lower interest rates may be fleeting if we do not do our job to rein in unprecedented debt and deficits. Thank you.

Chairman WHITEHOUSE. Thanks very much. Speaker Shekarchi and I came into politics together as young staffers for Governor Bruce Sundlun, a crucible experience that forged lasting friend-

ships. So I am personally thrilled to have him here today. Senator Reed, the senior senator in our delegation, will introduce him.

But as he does, let me point out that Jack has a position on the Appropriations Subcommittee on Transportation, Housing and Urban Development, and he is also the senior Democrat on the Banking Committee, which has authority over housing, and his work on housing has earned him, I think every housing award that housing organizations give around here, some of them twice. So he knows whereof he speaks, and over to you, Senator Reed.

STATEMENT OF SENATOR REED

Senator REED. Well, thank you very much, Chairman Whitehouse and thank you for your kind words. I am proud to join you today to welcome and introduce the Committee's first witness, Rhode Island Speaker of the House Joe Shekarchi.

When I first met Joe over 30-years ago, he was a fresh-faced lawyer at the very beginning of his career. But his intelligence and extreme competence were evident even then. Across the past three decades, Joe has become a respected member of the Rhode Island Bar, and a dedicated servant to hometown of Warwick, Rhode Island.

In 2012, Joe was elected to the Rhode Island State House of Representatives, and in 2021, his colleagues selected him to be their Speaker. Joe's accomplishments as Speaker are numerous, passing tax cuts for small businesses and families, enacting an historic pay equity law, and bringing thousands of new jobs to Rhode Island.

But nowhere has his work been more impactful or important than his efforts on housing. Indeed, when Joe became Speaker, he quickly focused on the significant housing shortage that was making housing unaffordable in Rhode Island. He understood that for over a decade, we had been underbuilding in Rhode Island. In fact, we were last in the country.

With far too few homes available, the costs were far in excess of what the family or any family could afford. Joe tackled Rhode Island's crisis head on. In less than four years as Speaker, working collaboratively with state leaders and various stakeholders, he has guided nearly 50-50 housing bills into law.

These include our state's first ever dedicated annual funding stream for affordable housing, creating a new cabinet level position for a Secretary of Housing, and new investments totaling hundreds of millions of dollars in housing supply and assistance. Each of these successes, on their own, would have been one of the state's most important housing accomplishments in recent memory.

Collectively, they are a giant leap toward ensuring every Rhode Island family can afford a safe, comfortable home. I'm glad we have Joe leading the charge for greater housing affordability in Rhode Island, and I'm very glad that Chairman Whitehouse has invited him to be here today, to share his deep insights and experience on housing policy with us and our colleagues.

Once again thank you, Senator Whitehouse, not only for your kind invitation but for your great leadership.

Thank you.

Chairman WHITEHOUSE. Thanks very much Senator Reed. Our second witness is Mr. Paul Williams, the founder and Executive Di-

rector of the Center for Public Enterprise, an organization focused on broadening public sector economic development capacity, particularly in housing. His organization provides technical assistance and guidance to state housing finance agencies across the country. Welcome, Mr. Williams.

And our next witness will be introduced by our esteemed colleague from Virginia, Senator Tim Kaine, whose timing is near perfect. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair, Ranking Member Grassley and thanks to all the witnesses for being here. I am very honored to introduce a long-time friend and neighbor, an admirable Richmonder and Virginian, Greta Harris. Greta is the president and Chief Executive Officer (CEO) of the Better Housing Coalition (BHC), and she's the pride of Danville, Virginia.

And then after getting a degree in Architecture at Virginia Tech and then graduate studies in Architecture and Urban Planning at Columbia, has become a passionate and successful advocate for affordable housing for a very long time. She served as vice president of an organization called the Local Initiative Support Corporation, which is a national non-profit that works in community and economic development. She led many—well, she led local offices in both southern and midwestern regions, and then she began her tenure as the CEO and president of the Better Housing Coalition in 2013.

Greta's impact on the BHC and affordable housing in the Richmond region has been absolutely remarkable, and her leadership has positioned the BHC to realize the same success in five years as it had over the previous 30-years combined. BHC is the largest non-profit provider—non-profit development corporation in Richmond, and they create high quality homes for low and moderate income residents, empowering them to reach their fullest potential.

Many of these homes are created in neighborhoods that I used to represent back in my time as a City Councilperson, and I have seen firsthand the tangible impact that Greta has had. The organization's portfolio includes an array of multi-family rental communities, rental units, single family homes.

Its services support 1,100 residents a year, and I am proud to have secured funding for two of HBC's upcoming affordable multi-family projects through the Congressionally directed spending process. I acknowledge the head of the Appropriations Committee as I comment upon that. That has been really great work.

For over two decades, Greta has been a true champion of affordable and accessible housing. She has won every award that anybody in Richmond gives. She is on numerous boards and has been a true success. So I am super-happy that Greta is able to be here today. And with that Mr. Chair, I will yield back.

Chairman WHITEHOUSE. Thank you very much, Senator Kaine. I will now turn to my distinguished Ranking Member to introduce his witnesses.

Senator GRASSLEY. Mr. Ed Pinto, a Senior Fellow and Co-Director of the Housing Center at the American Enterprise Institute (AEI). A focus of his work continues to be the role of federal housing policy and how it continues to create unwelcome distortions on the housing market.

More recently, his research has focused on using light touch density to increase the supply of naturally affordable and inclusionary housing. Before joining AEI, Mr. Pinto was the Executive Vice President and Chief Credit Officer for Fannie Mae until the late 1980's.

Our final witness, Mr. Jack Salmon, Director of Public Policy of the Philanthropy Roundtable. His work focuses on research, commentary and analysis of issues facing charitable sector and philanthropic freedom. Prior to joining the Roundtable, Mr. Salmon served as program manager and researcher at the Mercatus Center at George Mason University, where he oversaw policy relating to budgets, taxation, institution and economic policy. We welcome both of you.

Chairman WHITEHOUSE. And with that Mr. Speaker, you are recognized for five minutes, and your full statement will be made a part of the Committee record.

STATEMENT OF HON. JOSEPH SHEKARCHI, SPEAKER, RHODE ISLAND HOUSE OF REPRESENTATIVES³

Speaker SHEKARCHI. Good morning. Thank you, Senate Budget Committee Chair Senate Whitehouse, for inviting me to speak before you today, and thank you Senator Reed for the kind introduction. Thank you also to Ranking Member Senator Grassley, as well as all the distinguished Senate Budget Committee members.

I appreciate all of you taking the time to consider this critical issue, housing. My name is Joseph Shekarchi, and I am the Speaker of the Rhode Island House of Representatives, and I am passionate about housing. Serving the legislature of a small state is very hands-on. You become deeply aware of the wide variety of complex problems that your constituents face.

You eventually realize that many of the solutions to these problems are tightly interwoven and interconnected. During my time in the legislature, I have recognized a fundamental truth. Housing is the core issue. In fact, the housing crisis complicates almost all other challenges facing our communities.

If we do not solve the housing crisis, how can we improve our educational outcomes or shore up the job market? How can we ensure a proper health care workforce, grow our economy or lift our families out of poverty? Very simply we can do all the policy programming we want, but if a child does not have a safe place to sleep at night, what does it all mean?

When I became Speaker in 2021, I pledged to make housing my top priority. Let me quickly paint Rhode Island housing picture for you. Rhode Island is the smallest state in the nation, but we are very densely populated, with just over one million residents living in about 1,500 square miles of land.

We have some of the oldest housing stock in the country, and for too many years, Rhode Island has ranked dead last in the nation for new housing starts. The price of a single family home in Rhode Island has nearly doubled in five years. In 2019, the median home price in Rhode Island was about \$250,000. This year, the median price is \$494,000.

³Prepared statement of Hon. Shekarchi appears in the appendix on page 44.

These factors have created a perfect storm, bringing us to where we are now, in the midst of a severe housing shortage. It took many years to get where we are, and I am acutely aware of the scale and duration of effort required to get to a remedy. Rhode Island is not standing still. I am passionate about housing, and I have made it my top legislative priority.

Over the last four years, working with my colleagues in state government, we have passed almost 50 new housing laws. As a foundation to our legislative work, we have created two year-round study commissions comprised of legislators, housing advocates, planners, builders and other stakeholders. The work of these commissions have shaped much of our legislation.

We are listening to the experts, following the data and making real sustained progress. I am incredibly proud that each of the four comprehensive packages of housing legislation that we have passed in Rhode Island have enjoyed strong bipartisan support. In terms of our legislative housing policy, my mantra has been production, production and more production.

The legislation we have passed has focused on reducing barriers to development, eliminating red tape and redundancy. With the goal of increasing housing production, we have created the first ever permanent revenue stream for housing, development of affordable housing.

We have created and committed funding to a new cabinet level position of Secretary of Housing, as well as a new Department of Housing to coordinate our focus and our efforts. We created a dedicated court calendar for housing appeals. Developers complained that many communities were using the appeals process as a stalling mechanism. For developers, time is money. Cases were being delayed indefinitely, sometimes for years.

Reducing the backlog of pending appeals has already had a significant impact. We are not changing the rules for development. We are making the process clearer, more consistent and more streamlined. We are also looking to new and innovative solutions. We passed legislation making it easier for homeowners to develop Accessory Dwelling Units or ADUs, also known as in-law apartments.

ADUs are a great option for seniors wishing to age in place, for recent graduates looking for cost-effective housing, and for the disabled to live independently but in proximity to family members. ADUs offer gentle density by adding housing units to existing blueprints without changing the character of a neighborhood.

Rhode Island's legislation allows ADUs by right when meeting certain requirements, eliminating zoning approval and saving additional costs. I am incredibly proud of this legislation, which was a top priority of AARP nationally. Like ADUs, manufactured housing is also another option with lesser lead time and lower cost.

Rhode Island passed legislation to expand land available for siting of manufactured homes. I am also intrigued and curious about the Montgomery County, Maryland model for public housing. We have invited Maryland officials to present before our commissions, and we are working to determine how that model could work here. Additionally, we have proposed \$10 million for a pilot program. Rhode Island has enacted a first time homebuyer program,

which has funded using state fiscal recovery funds and including assistance for down payment.

It has been a huge success, resulting in participation of 1,672 homebuyers in Rhode Island, 46 percent of whom are minorities and 47 percent are female-headed households. Housing issues are not unique to Rhode Island. At a recent National Governors meeting, every single state listed housing as a top issue, and HUD estimates that the national shortage of housing units is more than six million homes.

There are many misunderstandings about what affordable housing is and what it looks like. Housing is considered affordable when it comes—costs no more than 30 percent of an individual’s family gross income. When housing prices soar, people at the lower end of the economic spectrum are disproportionately impacted.

The reality today is that working families are priced out of the housing market, not just for home ownership but also for renting. In Rhode Island, a household earning our state’s median income of \$74,000 would not be able to buy an affordable house in any of our cities and towns.

These families include our teachers, nurses, firefighters, health care aides. These workers are the backbone of our community, and they should be able to afford to live in the communities they serve. I respectfully request that Congress provide states with greater funding mechanisms and grant opportunities to develop more housing to foster public-private partnerships.

I would like to see further expansion of financial assistance for renters like rental vouchers, as well as a down payment support for first time homebuyers. Senator Whitehouse’s proposed legislation, the Affordable Housing Construction Act of 2024, would leverage federal tax credits to encourage investment in housing.

Rhode Island’s small size makes us the ideal partner for the federal government on housing issues. We are a nimble state. We have shown that we can quickly move on housing legislation. I come before you because we are ready in Rhode Island to act on this offer. We could become an incubator to pilot innovative, creative housing programs with the federal government.

As long as I am in the Office of Speaker of the House, I pledge that affordable housing will continue to be a core mission for me. I will bring my unshakable passion for the development of a modern policy that ensures every Rhode Islander has reliable access and a safe place to live.

I sincerely thank you for your time and consideration, and I would be happy to take any questions. Thank you.

Chairman WHITEHOUSE. Thank you Mr. Speaker for your many successes, and for being here today. Mr. Williams.

STATEMENT OF PAUL E. WILLIAMS, FOUNDER AND EXECUTIVE DIRECTOR, CENTER FOR PUBLIC ENTERPRISE⁴

Mr. WILLIAMS. Thank you Chairman Whitehouse, Ranking Member Grassley and Members of the Committee. As you know, housing affordability is critical for American families. Housing expenses are far and away the largest single item in most American house-

⁴Prepared statement of Mr. Williams appears in the appendix on page 48.

holds' budgets, taking up 20 percent, 30 percent or as high as 50 percent or more in severe cases of a family's household income.

Ensuring that housing costs remain stable and affordable helps those families by giving them more flexibility to invest in other necessities, and also to save for the future.

But housing affordability does not just help families. It also helps businesses thrive in the economy. When families have more income to spare, they can support more small businesses in their communities, and when more families can afford to live in a neighborhood, businesses have an easier time growing.

To promote housing affordability across the country, consensus among policymakers, economists, developers and advocates is clear. We need more housing supply. Bringing new housing supply online requires addressing zoning and land use issues, streamlining permitting and easing financing constraints.

My message to the Committee is that the federal government should help bring more stability to the housing investment cycle. Today, a lack of liquidity in the construction financing market has led to hundreds of thousands of would-be homes sitting on the shelf unbuilt.

Let me begin by sharing with you a key statistic from the Census Construction Survey. From 2000 to 2020, there is an annual average of about 50,000 multi-family homes that were authorized or permitted but never started construction, as you can see to the chart to my right. Over the past several years, that figure has dramatically increased, reaching a peak of 165,000 in early 2023, about three times more than the prior two decade average.

Today, that figure still sits at about 131,000, more than double the prior average. In other words, there are hundreds of thousands of homes that have received their permits to build, but they have not started building. What is going on here? Construction financing. My organization, Center for Public Enterprise, works closely with public agencies across the country, including many of our state housing finance agencies.

This summer, we described this issue in a report which I have included as an addendum with my testimony, and provided several strategies for addressing it, including by enabling federal instrumentalities to provide countercyclical support to construction financing. That is, a tool that can be active in difficult financing environments, and scale back when financing becomes more forthcoming in the market.

A key issue in the way of more housing supply, in addition to zoning and permitting issues, is a lack of liquidity in housing construction finance. To give a pointed local example, in Massachusetts today there are more than 40,000 multi-family homes that have been permitted or authorized, but are stalled due to financing constraints.

The permits are in place, the housing demand is there, rental vacancy rates are below four percent, but the financing challenge remains. At some points in the business cycle, when loan to cost ratios are higher and products like mezzanine financing are more readily available, this issue is not so predominant.

But at other points in the business cycle, countercyclical tools are crucial to ensuring that these viable projects can move through the

pipeline, create good jobs and create high quality homes for American families. One of the difficulties that a cyclical investment cycle creates for housing affordability is a difficult trap that hampers our ability to provide supply that matches demand over the long run.

For many commodities like eggs or N-95 masks, a spike in consumer demand leads to producers making quick investments in new supply that can become available in a matter of weeks or months. Multi-family housing, on the other hand, takes not months but years to come online. From the time a housing demand spike begins to the time keys are in families' hands, often two or three years may have passed.

In economic parlance, the supply response of housing, particularly multi-family housing, has significantly lagged relative to the demand events. This dynamic magnifies the already-existing boom and bust shape of a business cycle.

If we are going to create the level of housing supply needed in the market to meet housing demand, we will need support of tools that can provide some smoothing to investment cycle, by providing construction financing liquidity throughout that cycle.

There are many ways to structure this support. In fact, many of our nation's housing finance agencies have begun to implement small but scalable local solutions to this problem. Montgomery County, Maryland's Housing Opportunities Commission has a tool called the Housing Production Fund. Massachusetts recently created a tool called the Momentum Fund, and municipalities in Georgia and Tennessee, in partnership with our organization, have recently created local investment vehicles to provide similar support for multi-family development.

To build on this local innovation across the country, policymakers could look to federal agencies that could support smoothing the housing investment cycle. The GSEs have a history of exploring construction financing tools, and could be authorized to create a new product that supports this type of financing in times of low liquidity, but pulls back in times when financing is more readily available.

Congress could explore options for supporting construction financing, such as through those GSEs, and with support such as through a letter to the Federal Housing Finance Agency on this topic. The success of these innovative local models is clear. Imagine the boom in construction that could occur if such a tool were available nationwide.

Such a tool could create stability not just for housing investment, but also for many things that depend on housing investment: good construction jobs, healthy housing supply, housing affordability for American families, and a stronger economy for everyone. Thank you for your time and your consideration. I am more than happy to follow up in greater detail with you and your staff should you be interested in exploring these topics further, and I am happy to answer any questions.

Chairman WHITEHOUSE. Thank you very much. Ms. Harris, welcome. The floor is yours.

**STATEMENT OF GRETA HARRIS, PRESIDENT AND CEO,
BETTER HOUSING COALITION⁵**

Ms. HARRIS. Mr. Chairman, Ranking Member Grassley, Members of the Committee and other distinguished guests, thank you for the opportunity to address an issue that touches the core of our economy and the well-being of millions of Americans, affordable housing.

My name is Greta J. Harris, and I lead the Better Housing Coalition, a NeighborWorks chartered organization and Central Virginia's largest affordable housing developer. We are honored to provide service-enriched quality rental housing for nearly 3,000 lower income individuals and seniors, while offering opportunities for home ownership.

Over the last 3½ decades, we have invested \$300 million into our community, with another \$300 million in our pipeline, ensuring that more of our neighbors have a good place to call home. America stands at a critical juncture. The lack of affordable housing is not just a challenge for lower income families; it is a systemic issue affecting nearly every facet of our society and economy, and the consequences of inaction ripple far beyond the housing market.

As housing costs outpace wages, today more than ten million Americans spend over half of their income on housing, leaving little for essentials like food, health care and education. This suppresses consumer demand and hampers economic growth. Businesses in both urban and rural areas struggle to attract and retain talent, because workers cannot afford to live nearby, thereby stifling business expansion, innovation and productivity.

The societal costs of unstable housing are also severe. Studies show that housing instability is linked to worse health outcomes, increased mental health issues and lower learning achievement for children. Families forced to move frequently disrupt their children's education, which has long-term consequences for their development and future economic mobility success.

Moreover, the brunt of the crisis falls hardest on vulnerable populations, communities of color, single parents, veterans and the elderly. For communities of color, this crisis deepens the racial wealth gap, perpetuating cycles of poverty. And homelessness, a growing manifestation of the housing crisis, comes at a steep social and economic cost.

A study from 2019 found that homelessness costs taxpayers upwards of \$35,000 per person per year, while providing permanent, supportive, affordable housing costs significantly less as a more humane solution. Affordable housing is also tied to environmental challenges. Housing shortages often push modest income families to the outskirts of cities, leading to urban sprawl, increased traffic and higher greenhouse gas emissions. Addressing this crisis is not an economic imperative, but also an environmental one.

The core truth is that affordable housing is a public good. It strengthens communities, supports families, empowers our economy by contributing 16 percent to the U.S. Gross Domestic Product (GDP). When we invest in affordable housing, we create jobs, spur

⁵Prepared statement of Ms. Harris appears in the appendix on page 67.

local economies and provide families with the stability they need to thrive.

At the Better Housing Coalition, we have seen lives transformed when families gain access to stable, quality, affordable homes. Households can begin to breathe, and then believe that their future can be better than their present. Individuals further their education, secure better jobs and even sometimes transition to home ownership, creating a cycle of positive economic and social outcomes.

The longer we wait to address this housing crisis, the more costly it will become. The question is not whether we can afford to act, but whether we can afford not to. We need a scalable, multi-pronged approach to this crisis, including investing in low income house tax credits, home ownership tax credits, community development financial institutions, expanding federal housing vouchers, funding housing trust funds, and strengthening intermediaries like NeighborWorks America, Housing Partnership Network and Local Initiatives Support Corporation (LISC), that build non-profit capacity to serve lower income households across the country.

We must also support local zoning reforms to remove barriers to building affordable homes and reduce NIMBY, Not In My Backyard opposition. We have many of the tools to address this housing crisis, but we need the political will to use them.

As you deliberate on future federal budgets, I really urge you to prioritize affordable housing. Not just because it is the right thing to do, but because our economy and our society depend on it. Thank you very much.

Chairman WHITEHOUSE. Thank you very much. My eyes are failing me. Mr. Pinto?

Mr. PINTO. Yes.

Chairman WHITEHOUSE. Over to you. Thanks.

Mr. PINTO. Thank you.

STATEMENT OF ED PINTO, SENIOR FELLOW AND CO-DIRECTOR, AMERICAN ENTERPRISE INSTITUTE HOUSING CENTER⁶

Mr. PINTO. Chairman Whitehouse, Ranking Member Grassley, Committee Members, thank you for the opportunity to testify on this most important topic. First of all, allow me to thank Senator Kaine, along with Senator Warner and Senator Van Hollen for your support of the Low Income First Time Homebuyers Act, LIFT Home. The LIFT Home is a concept I developed in 2015, and it uses 20-year loans to build wealth, rather than relying on 30-year loans, which would only increase demand.

So history offers a cautionary tale against inappropriate federal action in the housing market. From the 1930's to 2008, Congress passed and Presidents signed into law at least 43 urban renewal, housing and community development programs. Despite each program's lofty promises, these initiatives consistently failed in making housing more affordable, and a number were downright disasters.

⁶Prepared statement of Mr. Pinto appears in the appendix on page 69.

The root cause for housing affordability is a shortage of three to eight million housing units, which is fueling both unaffordability and a homeless crisis in many areas. Nationally we have had a seller's housing market since 2012, and we remain in a strong seller's market today, especially at the low price end.

Sellers markets provide upward price pressure, which worsens if demand is further stimulated. So I will start with what not to do. Vice President Harris' plan to provide \$25,000 in down payment assistance to four million first time buyers over four years is almost certain to lead to higher home prices, thereby more than eliminating the intended benefits.

Millions of program recipients would become price-setters in their neighborhood for all the buyers in those neighborhoods, other first-time buyers and repeat buyers. Our research shows that home prices in those neighborhoods that are affected would rise by 3.6 percentage points, that 77 percent of all home purchases made in the United States would be subject to this homebuyer tax, and this tax would total \$175 billion over four years, more than the \$100 billion cost of the program.

This would be a wealth transfer to existing homeowners, and really rewarding NIMBY opposition to added supply. Vice President Harris' proposal calls for the construction of three million new housing units over four years. History shows that this approach can lead to significant market distortions.

The Housing and Urban Development Act of 1968 provided easy credit terms and substantial subsidies, resulting in a 2½ million unit surge in housing starts by 1973. Only this boom dissipated by 1975, and left lasting scars on cities like Detroit, Chicago and Cleveland, they are still trying to recover from.

Similarly, the 1992 Congressional Government-Sponsored Enterprises (GSE) affordable housing goals, combined with President Clinton's National Home Ownership Strategy, led to an easing of credit and a run up to the great financial crisis. Housing starts increased by 3.7 million from 1992 to 2006, but then collapsed by 2009, leaving behind millions of foreclosures. We still have a persistent housing supply shortage dating to that crisis.

Without massive credit easing, the Harris proposal would incent—would only incent new construction that would have been built mostly in any event, and any incremental construction would be unevenly distributed, causing even more supply-demand imbalances. Most housing today gets built in the southern region of the United States, which includes the south and southwest, and it accounts for about 60 percent of all new construction.

That is where a lot of this new construction would go, because it is roughly shovel-ready. Harris' \$40 billion fund for local governments to explore innovative housing solutions will also funnel money into projects burdened by self-defeating government mandated affordability requirements, which HUD loves but markets abhor. The fundamental problem holding back housing construction, as has been mentioned here, is not insufficient subsidies but structural issues, restrictive zoning, land use rules and building codes.

This makes buildable land scarce and expensive, and increases construction costs. We need to increase that market rate housing

supply. The federal government has several levers it could use. First, a ten year plan to auction surplus federal lands for new market rate home construction could add 200,000 homes per year.

However, for this to be effective, the rules need to follow the “keep it short and simple” or KISS rule. And it also could generate about \$10 billion in revenue annually to the federal coffers. Eliminating the mortgage interest deduction for second homes would add to supply by turning second homes into primary residences, and reduce demand, freeing up these 700,000 homes over ten years.

Reducing regulatory costs that hold back builders is also crucial. Adopting a critical plan to reduce deficit spending could lower the ten year Treasury and mortgage rates by 75 to 100 basis points. Lastly, establishing accountability in expenditures for federal housing subsidy dollars, as Ranking Member Grassley said, is critically important.

In 1953, the National Association of Home Builders (NAHB) said public housing is not low cost housing. It is high cost housing offered for low rent. We currently have a revolving door of projects that go through subsidy, rehabbing, tearing down and rebuilding. These measures in combination with state and local efforts to deregulate land use and zoning could more effectively address housing affordability, all at no taxpayer cost, and without unintended consequences.

Thank you, and I look forward to the discussion of the hearing. Chairman WHITEHOUSE. Thank you very much, Mr. Pinto. Mr. Salmon.

**STATEMENT OF JACK SALMON, DIRECTOR OF POLICY
RESEARCH, PHILANTHROPY ROUNDTABLE ⁷**

Mr. SALMON. Chairman Whitehouse, Ranking Member Grassley and distinguished Members of the Committee, thank you for the opportunity to testify before you today. My name is Jack Salmon, and I am the Director of Policy Research at the Philanthropy Roundtable.

Philanthropy Roundtable is a mission-driven organization which believes that a strong private sector supported by a free enterprise system is the bedrock for the creation of private wealth that makes philanthropy possible.

In my remarks today, I will talk about the bigger picture, considering our nation’s fiscal condition, and why worsening this condition through yet more spending would be harmful to the long-term well-being of all Americans. I would also highlight the fact that the often overlooked charitable sector is rising to the challenge of addressing homelessness and housing affordability.

Proposals from the Harris campaign include plans such as a \$25,000 down payment for first-time homebuyers, which would add \$224 billion in new deficit spending. Attempts to address housing affordability by further subsidizing demand will be counterproductive and make housing affordability worse.

But more than this, such policies ignore the broader economic challenges we face, particularly the nation’s deteriorating fiscal situation. The nation’s fiscal situation has never been worse. Debt

⁷Prepared statement of Mr. Salmon appears in the appendix on page 71.

held by the public is now more than \$28 trillion, while total public debt outstanding is over \$35 trillion.

If economic growth is slower or interest rates are higher than baseline models currently forecast, then public debt could reach 217 percent of GDP in the coming 30 years. As our debt burden has continued to grow unabated, rising interest rates have spiked the cost of servicing this debt.

This means that policymakers have less fiscal space to commit spending towards their policy priorities. More than public spending crowdout, the higher public debt burden diminishes the economic potential of our broader economy. This should be especially concerning for those who care most about Americans at the lower end of the income distribution.

Lower rates of economic growth mean less revenue potential for governments to support those who need it most. But it also means less job creation, low wage growth and diminished living standards. Another way in which our spiral debt burden diminishes living standards is through inducing spikes in inflation. In recent years, we have experienced the largest spike in inflation in four decades. Prices today are 20 percent higher than they were at the start of 2021, while the cost of shelter is 23 percent higher.

An academic article published last year found that the American Rescue Plan fiscal stimulus was primarily responsible for the spike in inflation we have witnessed in recent years. The authors noted that due to unfunded spending, it may take until 2025 for inflation to retrench back to two percent target.

As economists at the Federal Reserve Bank of Dallas have pointed out in research published last year, high inflation disproportionately hurts low income households the most. Proposals by policymakers to further induce demand will only worsen the cost of living crisis that American families are already dealing with.

But it is not all doom and gloom. While most people know someone who has been impacted by either the homeless crisis or who struggle to find affordable housing, charities around the country have been doing inspiring work, alleviating homelessness by addressing the underlying causes, such as mental health, unemployment and addiction recovery.

Take for example Texas-based organization Mobile Loaves and Fishes, which helps the homeless by providing meals, housing and income opportunities to help those in crisis get back on their feet. Residents in the Community First Village have an opportunity to earn income by different onsite programs, instead of getting stuck in the never-ending cycle of poverty and homelessness.

Another example is Step Denver, a Colorado-based organization that works men through a Steps for Success program, which helps them end the cycle of addiction and become productive members of society. The program appears to be working. 82 percent of alumni are currently employed, and 89 percent live in stable housing.

The program has done so well that they have plans to expand to Colorado Springs, Phoenix, Albuquerque and other cities in the future. Finding a solution is not simply about providing affordable housing. It is about adequately addressing what created the problem in the first place.

Private philanthropy is already rising to the challenge of alleviating homelessness and affordable housing crises. But their work is undermined when government pursues anti-growth policies. Rather than subsidizing demand through increased government spending and redistribution, policymakers should focus on policies that induce economic growth, not more government debt.

Thank you, and I look forward to answering any questions you may have.

Chairman WHITEHOUSE. Very well. As I have said before, I think there is a strategy for dealing with spiraling government debt. Number one is avoiding shocks to the economy, a third of the debt is from shocks to the economy. So avoiding the carbon bubble, avoiding property values crash from climate risk cascading into insurance markets, into mortgage markets would be job one.

Reforming health care, so that we are no longer the most expensive health care system per capita, while providing mediocre life expectancy results would be another. Tax Code reform, so we are not sluicing so much money out the back door of the Tax Code to the already rich and powerful, and Budget Committee reform so we are focusing on that.

So let me just make that clear. I am also going to give up my time to Chairman Murray of the Appropriations Committee, who has important business elsewhere, and I will swap with her. So the order will be Murray, Grassley, Whitehouse and then on.

Senator GRASSLEY. I am going to swap with Johnson. He has got to go.

Chairman WHITEHOUSE. All right. Murray, Johnson, Whitehouse, Grassley. We got it. Chairman Murray.

STATEMENT OF SENATOR MURRAY

Senator MURRAY. Thank you, thank you. Thank you so much for your accommodation. The housing crisis is hitting everyone. I am from Washington state. I hear about it all the time. We have got a long way to go, a lot of people to house.

But to me, the bottom line is more affordable housing. In Washington state, we face a shortage of almost 172,000 affordable homes, meaning that for every ten extremely low income Washington state families, there is only three affordable homes.

So I really believe this is an all hands on deck crisis that requires every level of government to step up and do their part. On the Senate Appropriations Committee, I was really proud to help create the Pathways to Removing Obstacles to Housing Program or the Yes in My Backyard Program, as we originally referred to it, to help identify and remove barriers to producing and preserving affordable housing.

We were able to provide \$100 million for that program in fiscal year '24, even under the very difficult Fiscal Responsibility Act caps. That is in addition to other important investments the federal government is making to boost supply. The Home Program, low income housing tax credit.

But clearly the current levels of investment are not sufficient, and not moving quickly enough to meet really the urgency of this crisis. So Mr. Williams, let me start with you. What have been

some of the most effective federal interventions to address our housing shortage?

Mr. WILLIAMS. Thank you, Senator. I think our—the best way to measure our most effective programs is by looking at the number of units of supply that they have brought online. And so I think in recent decades, the low income housing tax credit program is responsible for the most production of new supply of affordable housing.

But in the every recent past, I am also very optimistic about the Pathways to Removing Obstacles Program, as it is kind of addressing the issue from a different angle, which is encouraging municipalities to remove some of the zoning and permitting obstacles that prevent new housing supply, affordable and market rate housing from being able to come online.

I understand that I believe Seattle in your state was—received a Pathways to Removing Obstacles award, and so I am optimistic that that will result in some changes in your state as well.

Senator MURRAY. Very good. Thank you very much, and Ms. Harris, I am curious what have you seen in building additional housing over the last decade? You have seen a lot. How could the federal government better support the kind of work that the Better Housing Coalition is doing?

Ms. HARRIS. Well Mr. Williams—thank you Senator. And Mr. Williams is correct, the low income housing tax credit program has been extremely effective in allowing us to produce more housing units and also preserve existing affordable housing units.

You know, the cost of a unit of housing, whether it is market rate or affordable is almost identical, and the only way that we are able to offer rents at 50, 60, 70 percent off of market rate rents is the capital stack that we use by holding our debt down to about 30 percent of the overall development cost versus a market rate development that is somewhere between 70 and 90 percent.

The low income housing tax credit equity allows us to do that, and then there is usually 15 to 20 percent left of gap financing that is needed. And we have used creative things like Capital Magnet Funds from the Community Development Financial Institutions (CDFI) Fund, American Rescue Plan Act (ARPA) dollars, in some cases Community Development Block Grants (CDBG) and philanthropy to be able to fill those holes and deliver quality housing options for families.

The one thing I would say, while we are cobbling together sometimes 12, 13, 14 sources of financing, that adds another 12 to 24 months to the delivery time, and the demand is so high, every time we open up a new community, we have four or five times the amount of applications that we have units to help families find quality housing.

Senator MURRAY. Thank you very much. Mr. Speaker, is it an honor to have you here. Thank you so much for joining us.

I am curious to ask you, because we have heard Donald Trump's Project 2025 agenda proposes leaving HUD's responsibilities to states and localities, without any federal funding or oversight, and proposes selling off the nation's public housing stock, which is a critical piece of our country's affordable housing priorities.

Here in Congress, we also saw the House Republicans put forward a 2025 budget that would slash HUD funding. So as you are watching all this from your seat, can you talk a little bit about how those kinds of proposals would affect your state's housing efforts?

Speaker SHEKARCHI. Thank you, Senator. It would have a disastrous effect, not only on Rhode Island but the rest of the country. Look, there is clearly some things that we can all agree on, which was we need some local zoning reform. But to privatize the public housing sector would exasperate an already-existing crisis we have and a shortage.

Where are the people who are living in these homes going to go? How are they going to afford to rent them or buy them? It is a very short-sighted solution to a very complex problem. We need both. We need federal subsidies and we need land use reform on a local level, and we need the federal government to step in because the states and the local communities cannot do it alone, Senator.

So it is a combination of an effort that would work, and you will see sustainable progress in affordable housing. Clearly, the biggest solution, how we get there we can differ, but is to create more housing. We need more housing at every single level. The market level of housing, the workforce housing, the low income housing and even homelessness needs more shelters.

So you can take your pick as to which one you want to fund or to what degree, but all of them need attention from the federal government, and they need to use local reforms to make it easier. The private sector will step up and the private sector is ready, willing and able to build in Rhode Island and probably throughout all 50 states.

This is not a red state issue or a blue state issue. This is an every state issue, and we—the private sector will do its part, but we need the federal government as well. We need both to partner, if you will.

Senator MURRAY. Thank you very much. I have heard the same from my governor and local officials, so I really appreciate that. Thank you.

Senator GRASSLEY. Could I have 30 seconds of personal privilege? I want to correct that Project 2025 is not a Trump program. It is a Heritage Foundation program, and they have been doing it for every new President since 1980.

I yield.

Senator JOHNSON. Thank you, Mr. Chairman—

Chairman WHITEHOUSE. And with that—

Senator JOHNSON [continuing]. And Mr. Ranking Member.

Chairman WHITEHOUSE [continuing]. Senator Johnson.

STATEMENT OF SENATOR JOHNSON

Senator JOHNSON. First of all Mr. Pinto, thank you for pointing out the insanity for throwing more federal dollars that we do not have, print dollars and how—at the housing situation you only drive up prices, making housing even more unaffordable. So thank you for that.

One of the things you pointed out and one of the reasons housing is so unaffordable is just the lack of permitting and, you know, that friction created. But also the fact that we are running a \$35 trillion

deficit. A dollar we held at the start of the Biden administration is now only worth 83 cents. That also has driven up housing.

I do not know if you have ever done a calculation in terms of how much is attributed to, you know, the actual inflation over the last three and a half years, versus the inability to permit these housing units.

Mr. PINTO. Thank you, Senator Johnson. So we did look at that and we looked at the total increase in housing. I do not have the numbers in front of me, but it was substantial, 30 plus percent over a number of years and it started right during the latter part of 2020 and extended. It continues, actually. House prices are continuing to go up about five and a half percent every year on cost and quality. They are not going down; they are actually going up, continue to go up.

And most of that increase we can attribute to actions from the deficit spending that occurred later in response to COVID-19, and secondly to the actions of the Fed, keeping interest rates below three percent for so long. That really lit a fire under the housing market.

Senator JOHNSON. So certainly a solution is not more deficit spending. That would exacerbate the problem. Mr. Salmon, I really appreciate the fact that you pointed a different way, you know, different programs that actually help people buy a house or afford a house.

We have got a great program in Milwaukee called the Acts Program. This is run by a Catholic priest. They are able to buy homes in foreclosure, very low value for 15 to 30 thousand dollar loans, you know. The individual owner fixed up that home and they have cut their rental payments from maybe \$800 payment to a mortgage payment of three to four hundred dollars a month. It works.

Another program I have got to tout is something I have been involved with four eight years called the Joseph Project. Four days of three hours a day training for people who were formerly incarcerated, alcohol and drug abusers that want to turn their lives around. We just instill them with the necessity of committing themselves to success and having the attitude, teach them how to interview, and we get them career type of jobs in manufacturing.

We have serviced well over three—you know, we have transformed the lives of well over 3,000 people, and I use that figure. I don't have the exact figure, but it is well over 3,000 people compared to what Ms. Harris talks about in her testimony. She said they have served 3,000 low income individuals and seniors at a cost of \$300 million.

I do not know the exact amount, but the Joseph Project is all, you know, privately funded. I will say over eight years, probably less than \$2 million. But we will just put it at \$3 million. That is a thousand dollars per individual saved, and again I think it is way under that, because we have transformed more than 3,000 lives, and I think we have spent way less three million, compared to \$100,000 in a government program.

Again, government programs, again a lot of the solution here is, you know, more federal—more federal funding. Well, we do not have the money. It is just more deficit spending. That is going to just drive inflation. It is just going to continue to decrease the

value of the dollar. Do you want to kind of speak to the difference of approach, and how much more effective helping people get a job is, so they can provide for themselves, reduce the permitting friction and stop spending money we do not have?

Mr. SALMON. Sure. Thank you for the question, and I—and I would like to hear more about those examples you mentioned, because I am interested in uplifting these sorts of stories. We do not hear enough about these sorts of stories around the country.

But you are absolutely correct. The approach is very different from government. Government often takes a top-down approach to these sorts of issues. And so it does not really—it is not as effective at tackling the underlying issues. When it comes to issues like homelessness as you mentioned, these things are often driven by different types of issues.

Whether it is detachment from the labor market, you know, that they cannot find a stable job, or they have addiction problems or mental health issues. And so philanthropy is better at specifically targeting these issues and helping these people get back on their feet, get stable jobs, to live independently, to have that self-responsibility and that pride and that dignity.

And I think philanthropy is doing a much better job of this in examples all over the country. I mentioned a couple in my opening, but we have so many at the Roundtable.

Senator JOHNSON. So again I have—you know, contact us. I would love to tell you about both those programs. I do want to point out that the low income housing subsidy has actually impaired the Acts Program because those individuals, those tax credits are buying up those foreclosed homes. They are putting hundreds of thousands of dollars into them, and so it is no longer available for low income individuals.

They are taking those homes out of that program and, you know again, providing housing to people who can afford the housing and taking away from people who cannot. It is again, unintended consequence, but it is the real consequence of again, another federal government program that we cannot afford. Thank you, Mr. Chairman. Thank you, Senator Grassley.

Chairman WHITEHOUSE. Thanks very much, Senator Johnson. Speaker Shekarchi, no one has done more to focus on the Rhode Island housing crisis than you have. Among all the different measures that you have pushed forward, what do you see as your favorite success story that we should know about in this Committee?

Speaker SHEKARCHI. I think the—we have done a tremendous amount of area that we are seeing in increasing building permit with land use reforms, making it easier for developers, streamlining the process. We have not substituted state-control, you know, for local control. All the decisions on any land use projects are still being made locally.

But we have made the process easier. We cut down the hearing and the permitting. Instead of three hearings, there is two. Instead of two hearing, there is one. We have created a land use calendar in the Superior Court in Rhode Island, which if there is a dispute between neighbors or a community or a competitor, it gets an expedited review through the court system. So those have been very successful.

In addition to that, we have made substantial reforms, the ADU legislation. A lot of the bills that we passed we have delayed implementation so they started for the most part, the bulk of them, January 1st of 2024. So it is hard to quantify the exact successes, but overall you are seeing an increase of building permits. You are seeing an opportunity where we have a revenue stream, and we have a Department of Housing focusing on it.

We have the single largest bond in the history of Rhode Island before the voters in November, which I will predict—I do not like to predict elections, but will pass overwhelmingly. \$120 million, of which \$10 million there is a home ownership component in there, which we—I talked about in my testimony earlier, Senator, which has been a huge success in Rhode Island.

It allows the middle class, the lower middle class, the workers that we talked about to attain ownership and start to create generational wealth. In addition to that, we are studying and looking at the Montgomery County, Maryland, and there is an allocation in our bond to start a public housing developer.

As I said earlier to Senator Murray, there is enough of a problem here that we could attack it many different ways, from land use reform, from regulatory approvals, creating more planners in the system. The housing situation, the crisis that we have developed in Rhode Island is 30-years in the making, and we can look at this from a lot of different ways and attack it.

But certainly, the efforts that you have proposed in your Act, the low income tax credits, the tax credits for home ownership are all a vital and important tool, and they will be successful. It has been proven time and again, it is the way to go.

Chairman WHITEHOUSE. You mentioned home ownership as the gateway to future wealth, intergenerational wealth, and I would like to ask you and Mr. Williams and Ms. Harris, just to quickly, in two minutes, expand on how first time home ownership changes a family's economic trajectory?

Speaker SHEKARCHI. I will start briefly and turn it over to them. But it is—it gives people a sense of community. It gives them a sense of pride. They are building equity in their home. They are putting roots down. They are more committed to their community, and they can start planning to raise a family. They are selecting homes in areas that have good school systems. We are creating an opportunity for the American Dream, for the people of Rhode Island or people across this country to have the opportunity to have a sense of community.

They become more productive. They live and they work in their communities, and it creates an opportunity for them to start affording, with the tax write-offs for interest income, the opportunities to build wealth so they can support college educations and a good lifestyle for their family.

Chairman WHITEHOUSE. Mr. Williams, you agree on that trajectory shift?

Mr. WILLIAMS. I do. I also think Ms. Harris is more poised to speak to this—

Chairman WHITEHOUSE. Let us turn to you, Ms. Harris, because you live this every day in Virginia.

Ms. HARRIS. I do. Thank you, Senator. And you know, in America, most wealth creation is through equity appreciation and through home ownership. And we have seen that, you know, our goal is not to get people into home ownership, but to keep them there. Because the benefit ultimately comes through longevity of that—owning that asset.

And when we do, just as the Speaker of the House to my right said, you know, people can use that equity for retirement, to help their kids go to college, to start a business and to be able to breathe a little bit more easily.

I would also say that with the costs, rising costs of home ownership, having critical down payment and closing cost assistance is critical, and to be able to ensure that people are not house poor once they get into the house, that they are able to live their best lives and still be able to see an asset grow to their benefit.

Chairman WHITEHOUSE. Well, thank you very much. Let me turn to Senator Grassley, and I think it will be Senator Kaine after that.

Senator GRASSLEY. Mr. Pinto, when President Biden was still running for President, his campaign released a plan in July that promised to build two million homes in five years. Two months later, the Harris campaign proposed roughly the same plan, but now promised to build three million homes, and now do that in four years instead of five years.

Mr. Pinto, the homebuilding industry already builds over a million homes each year. Is the industry able to roughly double its production and meet these expectations? In addition to whether or not the housing supply increase is attainable, what is the impact of the housing market on the economy of the Harris plan, to offer subsidies of \$25,000 down payment windfall?

Mr. PINTO. Thank you, Senator Grassley. So in 2023, there were about 1.4 million building permits or excuse me, housing starts for both single family and multi-family, and if you think about the three million over four years, you would be starting out at a smaller number. You would probably end in the fourth year without about a million.

So you would be taking the \$1.4 million up to about \$2.4 million at the end of four years. That is commensurate with the increase, as I said in my testimony, that occurred from 1969 after the 1968 Housing Act was passed, to 1972.

And the results of running things up so quickly with all the subsidies that accompanied it and the loose lending, was disastrous. So I think that is one scenario. The temptation will be to then loosen lending at the same time, which will lead to disastrous results.

In terms of the homebuilders being able to handle that, I think it would be very difficult. But again what happens when you throw all that money at it, you end up with a lot of corruption. There is a book that was written that I keep on my bookshelf in about 1972 or 1973 by a reporter from Detroit called "Cities Destroyed for Cash."

The scandal at Federal Housing Administration (FHA) and it was just documenting the corruption that occurred at FHA during these programs. The 235 program is the specific program that was largely involved. In terms of the down payment assistance, as I mentioned, there would first of all be an increase of 3.6 percent in

all of the areas that these first time buyers receiving this assistance would be price-setters.

How do we know that? Well, we studied other times that the federal government has made changes that allows us to measure this impact. In particular in 2015, when FHA lowered its mortgage insurance premium from 135 basis points to 85 basis points, we had a similar experiment.

Certain people, FHA borrowers, were getting extra buying power. The other people in the market did not, because they were not affected by the decline in the premium. We then could study the impact on home prices, and we found that that impact was substantial and it was widespread, that again this price-setter impact occurred.

We also know then we can calculate what the total cost that would be spent on the—due to the increase in home prices, and that is the \$175 billion that I mentioned. That is more than the cost of the program. That money is going directly to existing homebuyers. That would perpetuate a practice that Congress has had of providing demand supply—demand side subsidies, which then go directly to benefit the existing homebuyers, not the first time buyers they are intended to help.

Senator GRASSLEY. Mr. Salmon, you testified that this nation's fiscal situation is very bad. We will pay more interest payments on our national debt than the cost of all housing assistance over the next ten years. Vice President Harris proposed to increase federal spending, which means the national debt will continue to grow. So for you, would piling on even more federal spending drive up interest rates and make the goal of home ownership even less attainable?

Mr. SALMON. Thank you, Senator Grassley. So more government spending deficits and debt will make this situation worse. We know from the economic literature on debt and economic growth that more debt impacts living standards in several ways, one of which is crowding out private investment, which means low wage growth, it means less job creation.

One of which you mentioned is higher interest rates. About one percent increase in the debt ratio is correlated with about a three or four basis point increase in interest rates. And of course these interest rates have a causal effect on mortgage rates, so that drives up the cost of home ownership in that respect.

Another way is through higher future distortionary taxes, which are not good for economic growth and development, and then finally the one that we have become familiar with in recent years is inflation. We essentially inflate away the debt. At the same time, we inflate away the purchasing power of American families to save.

Senator GRASSLEY. Thank you. I yield back.

Chairman WHITEHOUSE. Thanks very much, Senator Grassley. We now turn to Senator Kaine, followed by Senator Braun.

STATEMENT OF SENATOR KAINE

Senator KAINE. Thank you for 17 years before I was in elected office, I was a fair housing attorney in Richmond, and this is a topic that means a lot to me. There are differences of opinion around this table and at the witness table. But there are some

common themes that I hear emerging, and it is good to just put a pin in the things are common.

I am intrigued with the Rhode Island ADU legislation, and I think others on the panel, including Mr. Pinto, may have written about similar strategies, and you see this happening in other states and in other localities. I think that is something that has merit.

I think the idea of the use of surplus public land, whether it is federal or state or local, to bring down costs by, you know, reducing the land portion for construction I think has a lot of merit, and I see many states and localities exploring that strategy.

I think the LIFT bill, Mr. Pinto, that you mentioned that I have filed together with Senators Van Hollen, Warner and Warnock to develop a 20-year mortgage product to allow people to develop equity faster. I think that is a positive and can be bipartisan.

And another one I will mention, the Bipartisan Infrastructure bill had a lot of funding for wastewater and utility extensions, and a lot of my rural communities in Virginia, they are using those dollars to extend utility service to land where they can then build workforce housing. But because the Infrastructure bill is paying for the utility extension, that also has a way of bringing down costs for the workforce housing that is built.

So there are a number of strategies that I think can be bipartisan. Here is one that should be bipartisan; it is the low income housing tax credit. I was disappointed when we had a vote here in the Senate not long ago on an overwhelmingly bipartisan House proposal, that would have increased the low income housing tax credit, that would have strengthened the child tax credit, and that would have restored the corporate R&D tax credit that in my view was sort of mangled by the Trump tax reform of 2017.

That passed the House in an overwhelmingly bipartisan vote, but when we pulled it up for a vote here in the Senate, it failed, largely on partisan grounds with Democrats supporting it and Republicans opposing it.

Ms. HARRIS, when you were asked a question like what can the federal government do, the first thing you said was the low income housing tax credit. I think you said that you have about 3,100 units that you were involved in in the Richmond Metro Area. How many of those projects relied significantly on the low income housing tax credit to, you know, get built?

Ms. HARRIS. 100 percent.

Senator KAINE. 100 percent.

Ms. HARRIS. Of all of our communities, and in Virginia, we are over-subscribed every year 4 to 1 on four applications for tax credit developments, with only enough tax credits at the state level to be allocate for one project.

So if the federal government were to increase the amount of allocation that went out to the states, we would be able to produce or preserve more quality, affordable housing.

Senator KAINE. I think I met you once at one of those projects that was about to open, right near Greater Mount Zion Church in Richmond.

Ms. HARRIS. Yes, uh-huh.

Senator Kaine. And you were saying the same thing. It is about to open, but already you are significantly over-subscribed in terms of the number of people that wanted to move in?

Ms. HARRIS. That was a 75 unit relatively small development for us, and we had 400 applications in about three weeks for those 75 affordable units.

Senator Kaine. And just, you know, for the folks who might be here or watching this who aren't like super-familiar with the Low-Income Housing Tax Credit (LIHTC), Congress sets this allocation. It gets allocated to states. The Virginia agency that are sort of the allocators for Virginia housing, the terms of the financing are so favorable that developers who want to build low and moderate income housing really want to LIHTC for the reason that you described.

They compete very hard for that. You know, sometimes we need to think of a new program, but if you have one that works, you know, why you know, turn yourself into a pretzel to come up with something new. Why not just take the one that works and do more in Virginia? Just, you know, kind of order of magnitude.

Since 1990, LIHTC has financed construction or rehab of 115,000 units, and it is so powerful the opportunity to expand the LIHTC in the way that we have before us, because of this bipartisan House action, I think is very palpable.

Last thing, I do not have time really to get an answer, but I just want to—maybe I will ask this for the record. In cities, there is a tremendous move now toward people working remotely, which is leaving a lot of office space, commercial real estate vacant. Richmond experienced beginning in the 1990's a lot of frankly white flight to the suburbs of companies and offices, that left a lot of vacancies in Richmond in office space.

And we began to convert office to residential about 1995. 30-years later, the downtown, which probably had hundreds of residents when I moved to Richmond, has tens of thousands of residents living in converted commercial and office space. So I am going to ask a question for the record of all of you.

As other cities grapple with the new telework phenomenon and the commercial and office space has higher vacancy rates, what are things that could be done at the state, local or federal level that could enhance conversions and create new housing in these spaces? And I will put that in for the record. I thank you, Mr. Chair and yield back.

Chairman WHITEHOUSE. Terrific, Senator Kaine. Thank you. That is a really interesting question, and we are seeing that same issue in Rhode Island, including with our perhaps most iconic downtown Providence building, which we call the Superman building, because it resembles the building in the Superman comic strips. Senator Braun.

STATEMENT OF SENATOR BRAUN

Senator BRAUN. Thank you, Mr. Chairman. I have been coming to the Budget Committee sessions since I have been here, and I wish we had spent more time on the budgeting mechanics. I want to throw a few tidbits out there so the American public understands what we are doing here.

I do not think we have done a budget that we have adhered to in over 25 years. I think that would have been in the late 90's, and every time we have had a little bit of gumption to discipline ourselves, it seems like we are most enterprising at how to undo it. We have never generated more than 18 percent of our GDP in federal revenues.

High taxes, you generate a little more out of the gate; you lessen economic growth as it goes on. Lower taxes, you starve a little bit of revenue into the Treasury, but you generally gain ground over time because the underlying economy is healthier.

We have now evolved into a place that borrows 30 cents on every dollar we spend. That means that when I got here almost six years ago, that was offset with a trillion dollars borrowing annually. But since we have grown the federal government to nearly 25 percent of our GDP, it is now a trillion dollars every six months.

And here we are talking about affordable housing in the context of what the federal government might do. I can guarantee you, we will be borrowing every penny of it, because we do not offset it. We do not ever raise revenues because that is painful politically, and when this is your business plan for the country, I would be scared to death for our kids and grandkids in terms of how they are going to sort it out.

What are the consequences? Well, if you pay attention to the news, which many people will not hear because it would be a narrative against the practice over the last 25 years, our largest creditor in the world, Japan, an ally, just unloaded one-third of its portfolio. Well, you could say well, maybe they needed the money. They didn't have it to lend. I have got a feeling it has more to do with even a place like China, maybe our second largest creditor, have been reducing their exposure.

That is kind of listen to the market. See what others are doing that have to enable you to run these chronic structural deficits. There is no good ending to that. When you have got Jamie Dimon, the biggest private banker in the world saying that his main concern is deficits and cumulative debt, you have got Jerome Powell, that is finally now on record as saying it.

I would say we ought to start listening to it here, and before we are offering up more from the federal government that has knocked nothing out of the park when it comes to spending money and effecting results, I think there probably ought to be a different approach.

This may be my last time to harp about it. I am not going to let the subject just go away. We owe it to our kids and grandkids that we do not keep doing more of the same, digging the hole even deeper. I would like each panelist to tell me what you think on this particular subject. We will start over on the end.

Should we be enterprising through the federal government when everything we do will be more borrowed money behind it, digging the hole even deeper, or should we rely on maybe state governments and entrepreneurs to maybe have a little better chance at trying to do what is probably not going to involve borrowing more money through the federal government? We will start over there.

Speaker SHEKARCHI. Thank you, Senator. Respectfully, I think you need to do both. I really do. I think you—

Senator BRAUN. So you are willing to borrow more money?

Speaker SHEKARCHI. Yes, I am sir.

Senator BRAUN [continuing]. In a place that is not really given us results in the past?

Speaker SHEKARCHI. That is correct.

Senator BRAUN. Okay.

Speaker SHEKARCHI. And let me explain to you why. Because that is a choice, a policy decision that this honorable body, the Senate as a whole and the Congress as a whole has to make. The argument about spending and the deficits is very real one and a very valid one.

But that argument should not be limited to just housing. You can make that argument for tax cuts for the wealthy. You can make that argument for a lot of spending that the federal government does.

So I appreciate that, and I am fiscally concerned with these runaway deficits. But the pain of fixing that—

Senator BRAUN. So you are for doing both, and I understand, and I want to get to the other panelists, so they have a chance to weigh in.

Speaker SHEKARCHI. Okay, certainly.

Senator BRAUN. Mr. Williams.

Mr. WILLIAMS. Thank you, Senator. Yeah. I believe that the federal government, state government and private enterprise all have an interest in well-designed programs that create economic growth across the country and across states.

Senator BRAUN. And you are still confident that we can keep borrowing more money, because whatever we do here to help, it would be 100 percent fiscal financed by debt, not by raising revenues to pay for it. You are okay with that too?

Mr. WILLIAMS. I am okay with well-designed programs that promote economic growth.

Senator BRAUN. Okay, thank you. Ms. Harris.

Ms. HARRIS. Thank you, Senator. I think it is a combination. As the previous two witnesses have said, if left to its own devices, the market is not equitable, and it serves certain portions of our society and not all.

And so there is a role for government to play, even if there is—it impacts the deficit. It could be offset by other cuts, to be able to ensure that all Americans have an opportunity to thrive.

Senator BRAUN. And you would err on the side of the federal government doing it, as opposed to the state governments?

Ms. HARRIS. Federal, state and local.

Senator BRAUN. Okay.

Ms. HARRIS. The size of the crisis is such that all levels of government need to participate.

Senator BRAUN. Thank you. Mr. Pinto.

Mr. PINTO. The federal government should not spend any more money. I have suggested they sell off some land and actually bring some money in. So that would be my suggestion, and rely on state, local and private sector. We have put out numerous proposals on how to meet the housing supply shortage over a ten year period through zoning and land use changes, changes that would cost no money at the state, local or federal level. And would bring in a

grassroots explosion of participants from the bottom up rather than top down.

Senator BRAUN. Mr. Salmon.

Mr. SALMON. Yes. So state governments, local, private enterprise, but I am going to have to add philanthropy as well to that list, should keep doing more on this front. No, the federal government should not engage in more spending deficits and debt. You mentioned some good points about the foreign buyers of our debt, and they are losing the appetite.

The fact that investors are losing an appetite for our debt now and that is already spiking interest rates, when they are going to have to buy another \$114 trillion in Treasuries in next 30-years, we should be very worried.

Senator BRAUN. Thank you, Mr. Chairman.

Chairman WHITEHOUSE. Thank you very much, Senator Braun. Senator Warner.

STATEMENT OF SENATOR WARNER

Senator WARNER. Thank you, Mr. Chairman. Thank you for holding this hearing, and I will get right at it. I have got a couple of different questions. You know, one of the things I wanted to talk about is home ownership. We all know, you know, racial wealth gap in this country in many ways is due to the failure to have true equality in terms of home ownership.

And so I have been thinking on some issues and I am going to bring this to Mr. Pinto, because I understand he, you raised this in your testimony and you—and you may have been one of the original thinkers on this. So I want to give you full credit, because so far I have only got Democrats signed on the bill.

So I am going to ask you to help me recruit somebody like Senator Kennedy or someone else. This notion that—the notion of the LIFT Act, which we had put out, was to say, you know, if you are a first generation, first time homebuyer within certain income strata and you qualify for a 30-year mortgage and we can meet—you can meet those terms, what we would provide is a 20-year mortgage that would in effect allow doubling of the amount of equity in the first ten years on a mortgage.

You know, I am supportive of things like down payment assistance and others. But this notion of how you incent home ownership and to try to have a governmental program that supports that. Mr. Pinto, I know you raised some of this in your comments. If you could take it away and talk about this, and I am anxious after the hearing to see if we can put our heads together and see if we can make this a much more bipartisan approach.

Mr. PINTO. Well, thank you. Thank you, Senator Warner, for those words. Yes, I came up with this concept around 2015. We have tried numerous ways to try to get it implemented, including going to Federal Housing Finance Agency (FHFA), including FHA and we have not had any success.

The one way to do it is to have FHFA, which has instructed Fannie Mae and Freddie Mac to establish about eight or ten billion dollars in cross-subsidies that they use. And those subsidies go to make loans more risky rather than less. And so you could put people into these 20-year mortgages through LIFT Home, put them

into a safer mortgage and then build wealth over time, and use money that is already being used for other purposes within the GSE system.

FHA, on the other hand, could—they do not have a 20-year interest rate. They have a 30-year interest rate.

I do not even know that they have 15-year interest rate. If they do, it is very minimal, excuse me not interest rate, a loan term. And so FHA could establish a 20-year rate. There are ways and tools. We have suggested many to FHA of how they could do that.

That again would allow homebuyers to get a 20-year loan at basically the same—

Senator WARNER. And again I think—and I appreciate it and I look forward to talking on it. I will not—the economist that first cited this idea to me only about three years ago, I am going to make sure he recognizes that you did the original work on this and we will figure out a way to pursue that.

Mr. PINTO. Thank you.

Senator WARNER. John Kennedy, I have got my eyes on you, and others on the other side, because I do think this is a tool that we have not used in the toolbox. I want to move along quickly.

Ms. Harris, I appreciate all that you do in our Commonwealth. I have been a huge advocate of CDFIs as part of the financial network, and again bipartisan. We actually got \$12 billion under President Trump and Senator Crapo is a great partner. We have got a broad Community Development Financial Institutions Fund (CDFI) Caucus now in the Senate.

One of the things we have—since we have been able to put a number of—actually through government assistance deposits into the—I am sorry, Tier 1 capital into CDFIs, we need long-term patient capital as deposits. We have got a couple of tax provisions that we are going to take up in the Finance Committee.

But if you can spend a moment talking about—talking about the value of CDFIs, particularly as we think about, you know, low and moderate income housing, how we can better utilize that tool?

Ms. HARRIS. So we have been working with CDFIs, Senator Warner, for close to 30-years now, and the below-market flexible capital that they are able to offer our organization allows us to be creative in how we acquire properties, land for future development.

We have utilized a variety of the tools that come through the CDFI program, including new markets tax credits to promote home ownership. It is a little squirrely the way we have to make it work, but we are able to have an additional subsidy to work with families just over the income limits at 80 percent Area Median Income (AMI) that CDBG and Home Resources sort of cap out at that level.

And we have used the Capital Magnet Fund to be able to be creative in structuring new rental communities throughout the Richmond region.

Senator WARNER. I appreciate that, and one of the other things that we are also trying to work on is the secondary market, because the almost bespoke nature of some of these loans, it is really important. Mr. Chairman, if I can get one quick question in to Mr. Williams?

Chairman WHITEHOUSE. It had better be very quick, because you are already well over your time, and we have two Senators waiting that you are holding up.

Senator WARNER. I would love to hear you talk briefly about LIHTC. We have got to make sure the GSEs, because of some of their tax provisions, are now able to access. They have been very active in LIHTC because of that tax provision. We have to get that fixed very quickly, Mr. Williams. The Chairman's been very lenient.

Mr. WILLIAMS. Yes, yes. I am familiar with this issue with the multi-investor pools that the GSEs participate in to support low income housing tax credit properties, especially in rural communities, where you need those multi-investor pools for the tax credits to function.

And I know you have some legislation that you have introduced to address this issue, and I know that the National Council of State Housing Agencies, who we work with, is very supportive of that work and thankful that this is on the way to being addressed.

Senator WARNER. Thank you, Mr. Chairman.

Chairman WHITEHOUSE. Thanks very much. Senator Kennedy, over to you.

STATEMENT OF SENATOR KENNEDY

Senator KENNEDY. Thank you, Mr. Speaker, and Senator Warner, I appreciate your comments. Very perceptive. Thank you. Let me say first Mr. Speaker, I have served with a lot of Speakers of the House back in Louisiana. God bless you, you know. You have got an automatic place in heaven.

Speaker SHEKARCHI. Thank you.

Senator KENNEDY. I would not have your job for all the money in the world.

Speaker SHEKARCHI. I could say the same about yours, Senator.

Senator KENNEDY. Well, no. You have got to herd all these free-range chickens that wonder off and go catch them, and sometimes you can catch some and sometimes you cannot.

Speaker SHEKARCHI. It is very true, thank you.

Senator KENNEDY. Thank you for your service. Mr. Williams, if the price of electricity goes up, does that make a house more expensive?

Mr. WILLIAMS. Not in a direct sense, but I mean electricity is an input to a lot of things, both on the construction side and the—

Senator KENNEDY. Well, it makes home ownership more expensive?

Mr. WILLIAMS. Sure, yes.

Senator KENNEDY. All right. If property taxes go up, does that make home ownership more expensive?

Mr. WILLIAMS. It sure does.

Senator KENNEDY. If homeowners insurance goes up, does that make home ownership more expensive?

Mr. WILLIAMS. Indeed.

Senator KENNEDY. If interest rates, particularly mortgage rates go up, does that—does that increase the cost of home ownership?

Mr. WILLIAMS. It does.

Senator KENNEDY. A lot, right?

Mr. WILLIAMS. Depends on a lot of factors, but sure, it could.

Senator KENNEDY. If the—I mean when you own a home, you are going to have repairs. If the—if the cost of home maintenance and repairs goes up, does that make home ownership more expensive?

Mr. WILLIAMS. Indeed.

Senator KENNEDY. Okay. If you—whether you agree with it or not, if you admit 10 to 12 foreign nationals, illegal into your country, all of whom need housing, does that make the cost of home ownership go up?

Mr. WILLIAMS. You know, I think that all of these questions and all of these inputs to housing costs—

Senator KENNEDY. Yeah, but what about first, about illegal immigration? Does that make—does that increase demand for housing and make the cost of home ownership go up?

Mr. WILLIAMS. I think that is a distributional question. I think the question we are here to talk about today is bringing—

Senator KENNEDY. Yeah. But does it make the cost of home ownership go up?

Mr. WILLIAMS. We are here to talk about housing supply today and creating jobs.

Senator KENNEDY. No. We are here to talk about home ownership and cost of owning a home. You are a bright man. Does that make the cost of home ownership go up when you increase demand that much?

Mr. WILLIAMS. I think that is a distributional question.

Senator KENNEDY. You do not want to admit it, do you?

Mr. WILLIAMS. I think that is a distributional question and the problem that we are facing is housing supply.

Senator KENNEDY. With all due respect, I think you are being disingenuous. Let me ask you Mr. Pinto, if you admit—if you increase immigration by 11 million people, does that increase the cost of home ownership?

Mr. PINTO. Senator, yes. We have tried to figure out what that impact is.

Senator KENNEDY. I mean duh.

Mr. PINTO. Yeah. But the federal government does not publish where they are distributing these individuals around the country, so we cannot do the kinds of experiments that we normally do.

Senator KENNEDY. Well, it causes home ownership to go up in some places.

Mr. PINTO. Certainly, certainly. But we cannot figure out exactly what it is. We would love to—

Senator KENNEDY. I am not here to play games. I am here to try to get some answers.

Mr. PINTO. But if you could get more data, that would be great.

Senator KENNEDY. I am sorry?

Mr. PINTO. If you could get the data released by the federal government as to where—

Senator KENNEDY. I will give you some data. Mortgage rates are up 123 percent. Premiums for homeowners are up 16 percent. The average electricity bill in America is up 28 percent. That affects the cost of home ownership. No wonder people cannot buy a home.

This dollar, thanks to President Biden and Vice President Harris' inflation, they have been inflation machines. This dollar was worth

a dollar when President Biden and Vice President Harris took office. It is worth 75 cents today. That is the fundamental problem with home ownership.

The other problem is government regulation. HUD and the United States Department of Agriculture (USDA) recently adopted the International Energy Conservation Code. Do any of you know that that is? Okay. Well, I am not going to ask you because it is going to take time.

They have recently adopted the International Energy Conservation Code put out by the International Code Council, and the Biden-Harris administration just said, they just told HUD and the USDA to adopt it. So if you want a HUD or USDA loan or access to the housing assistance, you have got to build a home that complies with the—with the International Energy Conservation Code.

You know how much it is going to add to the price of a new home? \$31,835. Are you kidding me? You know how much energy you are going to save?

Chairman WHITEHOUSE. Senator Kennedy, you are well into Senator Padilla's time now.

Senator KENNEDY. \$657. We need to start with the basics, folks. It is inflation that is killing our people, and it this crazy whack job regulation.

Chairman WHITEHOUSE. Senator Kennedy, you are well into Senator Padilla's time now.

Senator KENNEDY. I am sorry, Senator.

Chairman WHITEHOUSE. That is all right. Senator Padilla.

STATEMENT OF SENATOR PADILLA

Senator PADILLA. Thank you Mr. Chair, and Senator Kennedy, I would happily give you 75 cents for that dollar bill in your hands. This is the Budget Committee, so let us make some smart investments here. Look I—I do have a couple of questions I want to get to, but I do want to follow up on some of the questions, some of the issues that my colleague raised, beyond just the supply side of the housing conversation, which is the emphasis of the hearing today.

If we are going to go down the road of the impact of significant numbers of migrants that have come to the United States over the years, not just the impact on supply and demand and the cost of housing, the request for more data. But I think if we want to do so intellectually honestly, we also need to consider and incorporate how existing homeowners equity in their homes has gone up, because of the impact of supply and demand.

When home prices are higher, existing homeowners have that wealth in their nest egg known as home ownership. I think that should be recognized and considered as well. If we are going to consider the impact of immigrants in the housing market, let us consider the impact of migrants in the workforce, because a lot of contractors I have talked to have been working hard, working feverishly, working desperately in recent years to find more and more workers to keep up with the number of construction jobs that are available.

So migrants fill those very important workforce spots without which the cost of construction would be much higher if it was more

of a shortage of folks working in construction. And I can go on and on and on. So again, happy to entertain the conversation, happy to work with my colleagues to obtain more insightful data. But let us be intellectual honest and comprehensive in our thinking and analysis.

That being said, the shortage of affordable housing is not a new issue, as you all I imagine would agree. But the magnitude of the crisis that we are facing today certainly impacts nearly every American, in urban area, in rural areas and everywhere in between. In red states and blue states and everywhere in between, while disproportionately impacting low income families and communities of color. The data is the data.

That is why I was proud to introduce last Congress and in this Congress my Housing For All Act, which is a bill that calls for a strategic surge in federal funding, investments in existing programs to reduce housing insecurity and increase funding for innovative, locally developed solutions that cities across California and other states have successfully utilized. So proven to work programs developed bottom up.

We know that our local and state partners are doing innovative things on the ground to try to solve housing insecurity every single day, but they need the federal government to step up, to do its part, to treat the crisis with the funding and seriousness that it deserves.

Speaker Shekarchi, how does the lack of federal investment limit the supply of housing and the ability of state and local governments to deal with this crisis?

Speaker SHEKARCHI. Thank you, Senator. It is a significant issue. The lack of or the limited amount of federal assistance means that it is just fewer homes, and it exasperates the problem. We need the federal government to be involved in this space, and I understand the budgetary pressures on the federal budget. I understand that.

But you can make that argument about budgetary pressures on every single issue, from defense spending to corporate tax cuts to every issue that you face, which is a myriad of issues and I respect and understand that. But housing is an immediate problem. It is families.

As I said earlier in my testimony, it affects everybody. We can make all the policy programs we want to affect outcomes, health care, all kinds of things, etcetera. But if you do not have a home to go home to, a sustainable home, your education outcomes are poorer, your health outcomes are poorer.

The federal government has a critical and important role to play, and it must play that role. This is not—I try to emphasize this—this is not a blue state or a red state issue. This is an every state issue. Governors at the National Governors Association met earlier this year. It was a top issue for all 50 governors. We need the federal government to partner. We need the states to play a role in this, we need our local communities, either the county government or our cities and towns, whether it is land use reform—

Senator PADILLA. Thank you, thank you. I hate to cut you off, but I have got to get one more topic in here, and I will thank you for being so articulate, and I will work with you to communicate your position to your United States Senators.

Speaker SHEKARCHI. Thank you.

Senator PADILLA. The topic of GSEs came up a little while ago. Government-sponsored enterprises play a central role in the modern mortgage market, by purchasing loans from financial institutions, GSEs such as Fannie Mae and Freddie Mac enable lenders to offer lower interest rates, thereby expanding home ownership opportunities while leveling the playing field for lenders of all sizes.

The system was created to stimulate lending in response to the Great Depression. But today we face a different crisis, lack of housing supply. As you know, construction is highly sensitive to economic conditions, with lasting effects. We saw this in California during the 2008 financial crisis and more recently during the pandemic, when rates of new housing construction dropped significantly.

I know Senator Warner brought up the topic of GSEs in the context of the investor pools. My question is different. When we acknowledge that construction loans are consistently given at higher rates, much higher rates than traditional mortgages, sometimes as high as 14 percent, that is what led me to secure language in the recent spending bill to study the idea of establishing a secondary market for construction loans, to help drive down the cost of construction of new housing to help address the affordability concern.

Mr. Williams, I see your head nodding. How would a secondary market help incentivize new construction, while also being a stabilizer during economic downturns?

Mr. WILLIAMS. Thank you, Senator. Yes, my organization Center for Public Enterprise has also done work on this same topic, and it is not just that construction interest rates have gone up. Also construction loan, loan to costs have gone down. So you are no longer able to get a mortgage for 65 percent of your construction project. It may now come down to 50 percent.

What remains needs to be filled with equity investment, which is also particularly expensive. So one thing that we have explored is whether the GSEs can support construction financing by providing a secondary market for mezzanine investments that can come in at a, you know, a portion of the total project cost and bring down the total cost of capital in a lot of these projects. We believe that there is hundreds of thousands of stalled multi-family units across the country that are stalled due to these financing constraints, and this is a way that the GSEs could explore addressing that issue and working—

Senator PADILLA. I look forward to working on this with you. Thank you very much. Thank you Mr. Chairman.

Chairman WHITEHOUSE. Senator Van Hollen.

STATEMENT OF SENATOR VAN HOLLEN

Senator VAN HOLLEN. Thank you, Mr. Chairman. I thank all of you for your testimony. I have been trying to follow the discussion from C-SPAN, and thank all of you for the points that you have made, you know. Clearly, we have an affordable housing crisis. We have a shortage of housing supply, and we are all here to try to learn more about what we can do to address those issues.

So Mr. Williams, I was pleased to see that you participated in the ground-breaking of the Hillendale Gateway, you know, Project

in Montgomery County, Maryland, a project that is a 463-unit affordable housing complex, that uses the HOCs, the Housing Opportunity Commission's Housing Production Fund in some innovative ways.

So I know it has been mentioned, but if you could go a little bit in-depth as to what that model means, whether you see it as something that we can emulate in other places around the country?

Mr. WILLIAMS. Thank you Senator, yes, and it was pleasure to be at the ground-breaking event in Montgomery County last week.

It is a fantastic project, and the Housing Opportunity Commission's Housing Production Fund is a very unique and innovative model that is allowing a local housing agency to bring additional supply online that otherwise would not be possible with the allocation of subsidies that they have.

So this is totally outside of the allocations they get from the federal government. It is something that they are able to do on their own, and that is what is so exciting about it. So what it does is it provides a short-term construction loan at low cost from their revolving loan fund, into a project, and it replaces what would be loan capacity and tax credit equity in a conventional affordable housing development.

Now they are obviously not able to get the same level of affordability that a conventional low income housing tax credit property can get. But they get that housing built on a mixed income basis. And so they are really interested in building these kind of mixed income communities, using their own revolving funds, and we have actually seen uptake of this model across the country.

Georgia, Tennessee, Chicago and many other states and localities are exploring creating—those states have created programs and many others are exploring creating programs modeled after Montgomery County's innovation here. I think what I was talking about with Senator Padilla just a moment ago, the GSEs providing this kind of mezzanine construction financing is something that can support it outside of the housing agency realm.

But for housing agencies, I think there is opportunities to support local governments to—in the capitalization of these revolving loan funds that are really directed at expanding housing supply.

Senator VAN HOLLEN. Right. So you anticipated my next question, is what can we do here at the federal level to incentivize what seems to be a good model, and so what are some of the vehicles you think that we could look at?

Mr. WILLIAMS. Yeah. I think there are opportunities to support innovation at HUD, to provide those kinds of support to local jurisdictions that want to create these revolving loan funds.

At this point, they are really becoming a tested and proven model for allowing local agencies to expand their housing supply significantly, and I think also pushing for agencies like FHFA to become more comfortable with kind of construction financing and, you know, even secondary markets for those construction loans or mezzanine loans, is something that would be really helpful.

You know, I think something like a letter to FHFA that there is bipartisan interest in exploring these ideas would prove beneficial.

Senator VAN HOLLEN. I appreciate that, and I think it is important that people hear the revolving loan fund, because these are in-

vestments made by these, in this case, Montgomery County, in partnership with the private sector, and then the County gets its return back and it stays in what is I think is a \$100 million fund, is that right?

Mr. WILLIAMS. That is right. It is a \$100 million fund and it revolves quite quickly, and the fund plus interest is returned to the County.

Senator VAN HOLLEN. If I could ask you about another approach that Montgomery County, Maryland has taken for some time now toward more affordable housing, which is an inclusionary zoning process, and we have a process whereby if someone wants to develop, you know, a whole bunch of new houses, perhaps that should include some moderately priced dwelling units.

Do you see that also as an important model, and to what extent is that something we should try to further incentivize?

Mr. WILLIAMS. Yeah. I believe the Moderately Priced Dwelling Unit (MPDU) program, moderately priced dwelling units was created back in the 1970's, and Montgomery County again was a kind of innovator and early leader. Those kinds of inclusionary programs have now been adopted by many jurisdictions around the country, and in fact to go back to the Housing Opportunities Commission, they include MPDU units in these mixed income projects that they are building with their production fund.

Senator VAN HOLLEN. Good. I do not know, Mr. Speaker, if you want to—I know you have worked on these areas a long time. What do you think of two, two approaches, especially the more recent approach that we see through the Housing Production Fund?

Speaker SHEKARCHI. Thank you, Senator. I congratulate Mr. Williams and State of Maryland as well, because they are on the forefront. And we in Rhode Island are looking at it very seriously. We have made a commitment to study the public housing option. We have created a fund with—and a bond to do that, up to \$10 million.

We have done a due diligence study, a feasibility study if you will. So we are looking at all creative ways. There is no monopoly on good ideas, and we need to look outside the box. This is an all hands on problem. I know that term gets used a lot, but this is a significant problem that affects every facet of life, of every facet of government assistance that we give as a government to our citizens.

So we need to look creatively and outside the box. I do not necessarily disagree with a lot that was said, but I just think the emphasis should be on working together. You do not have to pit one segment or one program against another, and we do not—we should not look at past failures as a way to absolve our responsibility of getting the job done.

If there has been a program that has failed, we need to ask why has it failed, what could we do to make an improvement, is it worth it, or let us look at a new program and see. The problem is not going away.

Chairman WHITEHOUSE. Those are good words to end on. The bat signal has gone up on the floor for me to get over to the floor on an budget matter.

Speaker SHEKARCHI. Thank you. Thank you, Senator.

Chairman WHITEHOUSE. I thank the witnesses for being here. Please, we have one question for the record from Senator Kaine. Others are due by noon tomorrow. When they come in, if the witnesses would be kind enough to respond within seven days, that would be helpful.

With no further business before the Committee, the hearing is adjourned.

[Whereupon, at 11:55 a.m., Wednesday, September 25, 2024 the hearing was adjourned.]

**Opening Statement of Chairman Whitehouse
Senate Budget Committee Hearing: "The Costs of Inaction: Economic Risks from Housing
Unaffordability"
September 25, 2024**

Ranking Member Grassley, members of the committee, witnesses, and guests: welcome.

This morning, the Budget Committee will be discussing an issue that is of concern to all Americans: housing.

Secure and affordable housing is a building block of financial well-being. Being able to afford a home provides not just shelter, but community and stability.

When families cannot afford housing, they face increased barriers to education and employment, they have worse physical and mental health outcomes, and they likely face generational poverty.

Unfortunately, families across America are paying the price for a housing market failure that was years in the making. Nationwide, the U.S. faces a shortage of four to seven million housing units available for sale or rent, which has driven up costs.

Barriers to getting a mortgage are making it harder for first-time buyers to purchase a home. With fewer people able to purchase homes, demand in rental markets has soared, creating a shortage of available rental units and driving up costs.

Helping families afford a safe, stable place to call home should be neither controversial nor partisan.

Key to addressing the shortage of units and bringing down costs for families is, as my friend Speaker Shekarchi from Rhode Island would say, “production, production, production.”

When Speaker Shekarchi took the gavel in 2021, he promised to become the “Housing Speaker,” a promise he has more than kept. In just three years, he has shepherded over 30 bills into law to tackle my home state's housing shortage. Coupled with historic budget investments, his legislation has addressed long-lagging housing production, expanded the state housing supply, and blunted upward pressure on rents and home purchase prices.

Nationally, there is evidence we are turning the corner in communities across the country.

New construction is way up, home prices are coming down, and the Fed is *finally* cutting interest rates—as I have repeatedly urged it to do—making mortgages more affordable.

Construction of multifamily housing developments increased 22 percent in 2023, the highest annual increase in more than three decades. The pace of single-family homebuilding climbed steadily throughout 2023 and has stayed elevated. Vacancy rates in professionally managed apartments rose to nearly 6 percent this year—more than twice the record low of 2.5 percent, set in early 2022— which is stabilizing the rental market

This is thanks in large part to important steps Congress and the Biden-Harris administration have taken to increase the housing supply, protect renters, and ease cost burdens.

More than \$18 billion of the American Rescue Plan's State and Local Fiscal Recovery Funds have gone towards expanding housing supply, investing in homeless services, and providing nearly four million additional households with rent, mortgage, and utility relief.

Senate appropriators continue to support housing programs like the HOME Investment Partnerships, Community Development Block Grants, and Housing Choice Vouchers.

Last week, the Congressional Budget Office released a report on long-term projections for new housing starts, finding that the housing shortage will continue unless policymakers take decisive action.

Yesterday, I introduced new legislation to significantly expand our nation's supply of affordable housing by bolstering the Low-Income Housing Tax Credit. My Affordable Housing Construction Act would more than triple states' funding for affordable housing under the program; loosen financing requirements; and extend the period during which housing must stay affordable.

With Congressmen Panetta and Blumenauer, I've also introduced a \$15,000 first-time homebuyers tax credit for lower-income Americans—refundable, advanceable, and available for homebuyers at the time of purchase—to make homeownership a reality for more families. Vice President Harris has pledged a \$25,000 credit.

Other proposals to make housing more affordable include Senator Wyden's DASH Act; Senator Van Hollen's bipartisan Family Stability and Opportunity Vouchers Act; The Fair Housing Improvement Act, led by Senators Kaine and Sanders; the DEPOSIT Act, led by Senators Luján and Padilla, among others; and Senator Padilla's Housing For All Act.

Vice President Harris also called for the construction of three million new housing units through a historic expansion of the Low-Income Housing Tax Credit.

Americans across the country are paying the price for decades of disinvestment in our nation's housing supply—a burden neither families nor our economy can continue to bear. Today's witnesses will hopefully point the way towards creative solutions to our nation's housing shortage.

One thing we know for certain: inaction is not an option.



UNITED STATES SENATE
BUDGET COMMITTEE
 RANKING MEMBER CHUCK GRASSLEY

Opening Statement by Senator Chuck Grassley of Iowa
 Ranking Member, Senate Budget Committee
 Hearing titled, "The Costs of Inaction: Economic Risks from Housing Affordability"
 Wednesday, September 25, 2024

Mr. Chairman,

[Housing affordability] is an issue central for Iowans and all Americans, something they care about deeply. It's very central to what both Republicans and Democrats call the "American Dream."

Over the past four years, Americans saw home prices and, particularly, rents skyrocket as inflation ran rampant thanks to the policies of this administration.

Thanks to Bidenflation, prices throughout the economy are up 20 percent since the start of the administration. Even worse, housing prices have skyrocketed nearly 40 percent and are currently at an all-time high, according to the Case-Shiller National Home Price Index.

Inflation has thankfully eased over the past year, largely due to actions taken by the [Federal Reserve]. But that shouldn't be used as an excuse to once again open up the spending spigot, risking further inflation.

Unfortunately, that's exactly what some of the proposals out there do, and I refer particularly to Vice President Harris touting the advocacy of hundreds of billions of dollars in demand-inducing housing subsidies.

Economists from across the political spectrum have noted how such policies would backfire by pushing up housing prices even further.

We have Ed Pinto, who I've invited to testify, [who] will tell us. He's going to quantify exactly how Vice President Harris' policies will make housing less affordable.

In addition to calling for more subsidies, the Vice President has also been touting plans to implement a version of rent control.

Rent control policies have been disastrous at the state and local levels, and it would be a huge mistake to adopt them at the federal level.

And that's not just this Senator's point of view.

We have Jason Furman, who served as President Obama's chief economist, [and who] panned Vice President Harris' proposal, saying, "Rent control has been about as disgraced as any economic policy in the tool kit. The idea that we would be reviving and expanding it will ultimately make our housing supply problems worse, not better."

Before we add new housing programs or expand existing ones, we should take a good hard look at the ones we already have.

Currently, there are more than 100 federal housing programs. The Congressional Budget Office estimates the federal government will spend over \$750 billion over the next 10 years in housing assistance alone.

And that doesn't include billions in additional housing programs and federal loan subsidies for mortgages offered by government agencies, which would include, at least, the Departments of Agriculture, Defense and Veterans Affairs.

On top of that, the tax code includes incentives for home ownership and the construction of low-income housing. The chairman has referred to my efforts in that category.

Instead of adding to the list of federal housing programs, Congress should focus on increasing the effectiveness of existing policies by eliminating duplication and complexity.

That's why at this committee's previous housing hearing, I invited Bill Slover to testify.

Mr. Slover provided a firsthand account of waste and inefficiencies presently in our housing programs. Moreover, he highlighted the lack of accountability in the state housing agencies.

Mr. Slover's testimony was consistent with what I've discovered as part of my oversight work.

For decades, I've conducted oversight of the Department of Housing and Urban Development (HUD) and local housing agencies. During that investigation we were able to expose rampant waste, fraud and abuse.

Too often, government overpays for poorly executed policies, and the maze of housing programs creates inefficiencies.

What I just said about my investigation applies to both Republican and Democrat administrations not properly supervising, from the federal level, the oversight they should have on these.

I found that HUD does very little, if any, oversight of housing authorities. So, they get away with lavish office spending on salaries, vehicles, parties and travel. Meanwhile, those less fortunate wait in line, sometimes for years, for actual housing assistance.

So, we should be focusing on forcing HUD to do its job. But the majority isn't doing that, while HUD fritters away tons of taxpayer money.

I also welcome Jack Salmon, who will refocus the debate on this [country's] fiscal problems with debts, deficits and interest expenses.

I'm sure the administration is counting on the Fed's recent interest rate cut to lower housing costs. However, interest rates are but one of a host of factors driving housing costs.

Moreover, lower interest rates may be fleeting if we don't do our job to rein in unprecedented debt and deficits.

Thank you.



U.S. Senate Testimony of Rhode Island House Speaker K. Joseph Shekarchi
Before the United States Senate Committee on the Budget
“The Costs of Inaction: Economic Risks from Housing Unaffordability”
Wednesday, September 25 – 10:00am

Good morning, and thank you to the Senate Budget Committee Chair, my Senator, Sheldon Whitehouse, for inviting me to speak before you today. Thank you also to Ranking Member Senator Chuck Grassley, as well as all of the distinguished Senate Budget Committee members.

I appreciate all of you taking the time to consider the critical issue of housing.

My name is Joseph Shekarchi, I am the Speaker of the Rhode Island House of Representatives, and I am passionate about housing.

Serving in the legislature of a small state is very hands-on. You become deeply aware of the wide variety of complex problems that your constituents face. You eventually realize that many of the solutions to these problems are tightly interwoven and interconnected.

During my time in the legislature, I have recognized a fundamental truth: Housing is THE core issue. In fact, the housing crisis complicates almost all other challenges facing our communities.

If we don't solve the housing crisis, how can we improve our educational outcomes or shore up the job market? How can we ensure a proper healthcare workforce, grow our economy, or lift our families out of poverty?

Very simply: We can do all the policy programming we want, but if a child doesn't have a safe place to sleep at night, what does all it mean?

When I became Speaker in 2021, I pledged to make housing my top priority.

Let me quickly paint the Rhode Island housing picture for you:

- Rhode Island is the smallest state in the nation, but we are very densely populated, with just over one million residents living in about 1,500 square miles of land.
- We have some of the oldest housing stock in the country. And for too many years, Rhode Island has ranked dead last in the nation for new housing starts.
- Rhode Island is the midst of an “age wave” –
 - Over 31 percent of Rhode Island residents are age 55 or older – higher than the national average
 - By 2030, it is estimated that one in four Rhode Islanders will be 65 or older
- One in ten Rhode Island residents are college students. Our population of college and graduate students require housing options beyond dorms, and if we want students to stay in-state after graduation, we need to ensure there are affordable housing options for entry-level workers.

- The price of a single-family home in Rhode Island has nearly doubled in just five years. In 2019, the median home price in Rhode Island was about \$250,000. This year, the median price was \$494,000.

These factors have created a perfect storm, bringing us to where we are now: in the midst of a severe housing shortage. It took many years to get to where we are, and I am acutely aware of the scale and duration of effort required to get to a remedy.

Rhode Island is not standing still. I am passionate about housing, and I have made it my top legislative priority.

Over the last four years, working with my colleagues in state government, we have passed almost 50 new housing laws.

As a foundation to our legislative work, we created two year-round study commissions comprised of legislators, housing advocates, planners, builders, and other stakeholders.

The work of these commissions has shaped much of our legislation. We are listening to the experts, following the data, and making real, sustained progress.

I am incredibly proud that each of the four comprehensive packages of housing legislation we have passed have enjoyed bi-partisan support.

In terms of legislative housing policy, my mantra has been PRODUCTION, PRODUCTION, AND MORE PRODUCTION!

The legislation we've passed has focused on reducing barriers to development, eliminating red tape and redundancy with the goal of increasing housing production:

- We created Rhode Island's first-ever permanent revenue stream for the development of affordable housing.
- We created and committed funding for a new, cabinet-level position for a Secretary of Housing, as well as a new state Department of Housing to coordinate and focus all of our efforts.
- We created a dedicated court calendar for housing appeals. Developers complained that some communities were using the appeals process as a stalling mechanism. For developers, time is money. Cases were being delayed indefinitely, sometimes for years. Reducing the backlog of pending appeals has already had a significant impact. We are not changing the rules for development; we are making the process clearer, more consistent, and more streamlined.

We are also looking at new and innovative solutions:

- We passed legislation making it easier for homeowners to develop Accessory Dwelling Units (or ADUs). Also known as "in-law apartments," ADUs are a great option for seniors wishing to age in place, for recent graduates looking for cost-effective housing, and for disabled individuals to live independently in proximity to family members. ADUs offer "gentle density" by adding additional housing units to existing blueprints without

changing the character of a neighborhood. Rhode Island's legislation allows ADUs by right when meeting certain requirements, eliminating zoning approval and additional costs. I am incredibly proud of this legislation, which was a top priority for AARP nationally.

- Like ADUs, manufactured housing is another option with a lesser lead-time and lower cost. Rhode Island passed legislation to expand land available for siting manufactured homes.
- I am intrigued by the Montgomery County Maryland model for public housing. We invited Maryland officials to present before our commissions, and we are working to determine how that model could work here. Additionally, we have appropriated \$10 million for a pilot program.
- Rhode Island also enacted a first-time homebuyer program, which was funded using State Fiscal Recovery Funds, and included assistance for down payment and closing costs. It was a success, resulting in the participation of 1,672 homebuyers, 46 percent of whom are minorities and 47 percent of whom are female-headed households.

Housing issues are not unique to Rhode Island: At a recent National Governors Meeting, every single state listed housing as its top issue, and HUD estimates that the national shortage of housing units is more than six million homes.

There are many misunderstandings about what "affordable housing" is and what it looks like. Housing is considered affordable when it costs no more than 30 percent of an individual or family's gross income.

When housing costs soar, people at the lower end of the income spectrum are disproportionately impacted.

The reality today is that working families are priced out of the housing market, not just for homeownership, but also for renting.

In Rhode Island, a household earning our state's median income of about \$74,000 would not be able to buy a home affordably in any of our cities and towns.

These families include our teachers, nurses, firefighters, health care aides. These workers are the backbone of our community. They should be able to afford to live in the communities they serve.

I respectfully request that Congress provide states with greater funding mechanisms and grant opportunities to develop more housing and to foster public private partnerships.

I would also like to see further expansion of financial assistance for renters, like rental vouchers, as well as down payment support for first-time homebuyers.

Senator Whitehouse's proposed legislation, The Affordable Housing Construction Act of 2024, would leverage federal tax credits to encourage investment in housing.

Rhode Island's small size makes us the ideal partner for the federal government on housing issues. We are a nimble state and have shown that we can quickly move housing legislation. I stand before you because we are ready in Rhode Island to act on this offer: we could become an incubator to pilot innovative, creative housing programs.

As long as I am in office as the Speaker of the House, I pledge that affordable housing will continue to be a core mission for me. I will bring my unshakeable passion to the development of modern policy that ensures every Rhode Islander has reliable access to a safe place to live.

I sincerely thank you for your time and consideration.

I am happy to take any questions.

Center for
Public Enterprise

September 25, 2024

To

The Honorable Sheldon Whitehouse, Chairman
Committee on Budget
United State Senate

Washington, DC 20510

The Honorable Charles Grassley, Ranking Member
Committee on Budget
United States Senate

Washington, DC 20510

From

Paul E. Williams
Executive Director
Center for Public Enterprise
Brooklyn, NY 11237

Dear Chairman, Ranking Member, and Members of the Committee,

Thank you, Chairman Whitehouse, Ranking Member Grassley, and Members of the Committee.

Housing affordability is so important for American families. Housing costs are far and away the largest single item in most American households' budgets, taking up 20%, 30%, or as much as 50% or higher in severe cases of a family's household income. Ensuring that housing costs remain stable and affordable helps those families by giving them more flexibility to invest in other necessities and to save for the future. But housing affordability doesn't just help families—it also helps businesses thrive in the economy: when families have more income to spare, they support more small businesses in their communities. And when more families can afford to live in a neighborhood, businesses have an easier time finding workers to hire who live nearby.

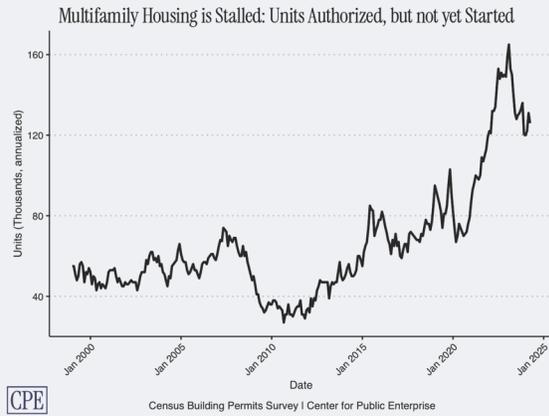
To promote housing affordability across the country, consensus among policymakers, economists, developers, and advocates is clear: we need more housing supply.

Bringing new housing supply online requires addressing zoning and land issues, streamlining permitting, and easing financing constraints.

My message to the committee is that the federal government should help bring more stability to the housing investment cycle. Today, a lack of liquidity in the construction financing market has led to hundreds of thousands of would-be homes sitting on the shelf, unbuilt.

Let me begin by sharing with you a key statistic from the Census construction survey:: From 2000 to 2020, there was an annual average of about 50,000 multi-family homes that were authorized, or permitted, but never started construction.

Putting the public
sector back to work.



Over the past several years, that figure has dramatically increased, reaching a peak of 165,000 in early 2023—about three times more than the prior two-decade average. Today, that figure still sits at 131,000, more than double that prior average. In other words, there are hundreds of thousands of homes that have the permits to build apartment buildings, but they haven't started building. So what's going on here? Barriers to financing.

My organization, Center for Public Enterprise, works closely with public agencies across the country, including many of our state housing finance agencies. This summer, we described this issue in a report, which I include with my testimony, and provided several strategies for addressing it, including by enabling federal instrumentalities to provide countercyclical support to construction financing: that is, a tool that can be active in difficult financing environments, and scale back when financing becomes available. One key issue in the way of more housing supply is a lack of liquidity in the housing construction industry.

To give a pointed local example, in Massachusetts today, there are more than 40,000 multi-family homes that have been permitted or authorized, but are stalled due to financing constraints, more than half of which are in the Boston area. The permits are in place, the housing demand is there—rental vacancy rates in Boston are below 4%—but the financing challenge remains.

At some points in the business cycle, when loan-to-cost ratios are higher and mezzanine financing is more readily available, this issue is not so predominant. But in troughs of the business cycle, countercyclical tools are crucial to ensuring these viable projects can move through the pipeline and create good jobs and high quality homes for families. One of the difficulties that a cyclical investment cycle creates for housing affordability is a difficult trap that hampers our ability to provide supply that matches demand over the long run.

For many commodities, like eggs or N95 masks, a spike in consumer demand leads producers to make investments in new supply that can become available in a matter of months. Housing, on the other hand, takes not months, but years to come online. From the time a demand spike begins to the time keys are in families' hands, often two or three years may have passed. In economic parlance, the supply response of housing—particularly multi-family housing—is significantly lagged relative to demand events. This dynamic magnifies the already existing boom-and-bust shape of the business cycle. If we are going to create the level of housing supply needed in the market to meet housing demand, we will need the support of tools that can smooth this investment cycle by providing construction financing liquidity throughout the cycle.

There are many ways to structure this support. In fact, many of our nation's housing finance agencies have begun to implement small, but scalable, local solutions to this problem. Montgomery County, Maryland's Housing Opportunities Commission has a tool called the Housing Production Fund that provides mezzanine construction financing to mixed-income multi-family housing developments. Massachusetts recently created a tool called the Momentum Fund to provide small construction equity investments to private multi-family projects. Municipalities in Georgia and Tennessee, in partnership with our organization, recently created local investment vehicles to provide similar support for multi-family development.

To build on this local innovation across the country, policymakers could look to federal agencies that can support smoothing the housing investment cycle. Fannie Mae has a history of exploring construction financing tools and could be authorized to offer a new product that supports this type of financing in times of low liquidity, but pulls back in times when financing is more readily available.

Congress could explore options for supporting construction financing, such as through the government-sponsored enterprises, who may already have the authority to support housing affordability in this way. For example, a letter to the Federal Housing Finance Agency on this topic could go a long way in encouraging FHFA and the GSEs to explore how their existing tools could be used to better promote housing affordability and construction financing. The success of these innovative, local models is clear—imagine the boom in construction that could occur if such tools were available nationwide.

Center for
Public Enterprise

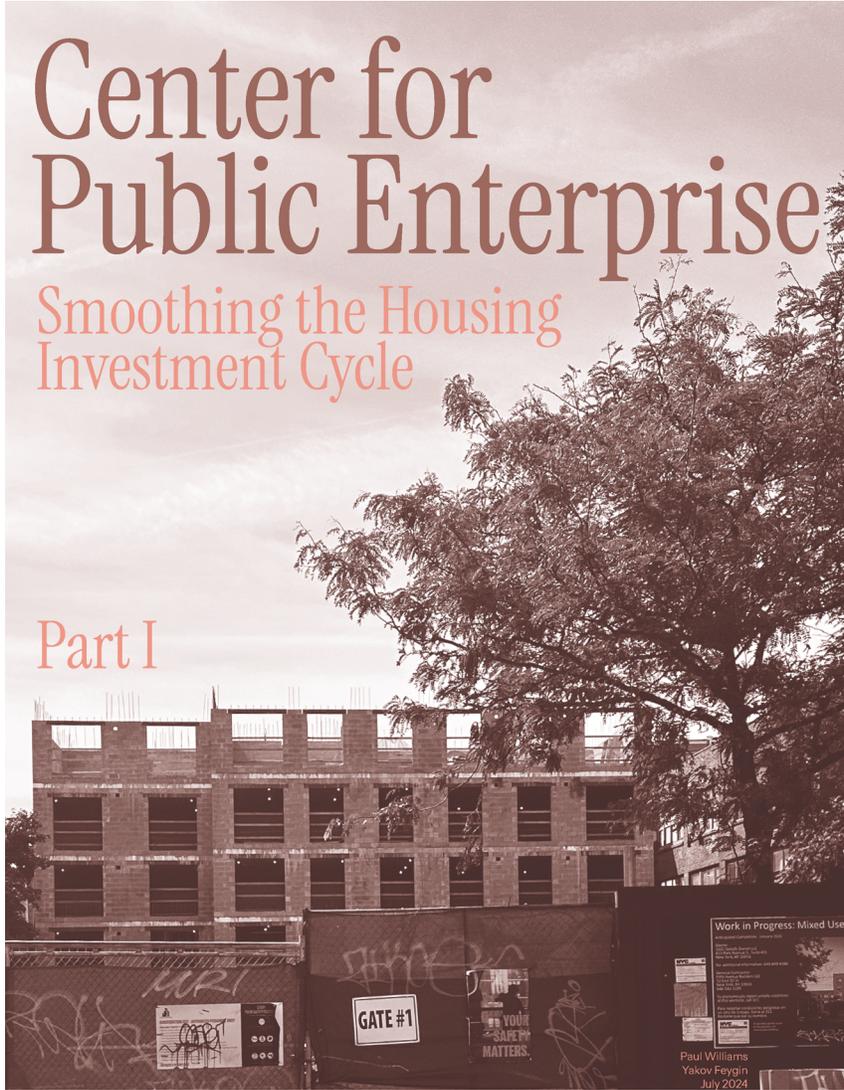
Such a tool could create stability not just for housing investment, but also for many things that depend on housing investment: good construction jobs, healthy housing supply, housing affordability for American families, and a stronger economy for everyone.

Thank you for your time and your consideration. I am more than happy to follow up in greater detail with you and your staff should you be interested in exploring these topics further.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul E. Williams", with a long horizontal flourish extending to the right.

Paul E. Williams
Executive Director
Center for Public Enterprise



Center for Public Enterprise

Smoothing the Housing
Investment Cycle

Part I

GATE #1

Work in Progress: Mixed Use
Paul Williams
Yakov Feygin
July 2024

Smoothing the Housing Investment Cycle with a National Construction Lending Program

Part I

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Executive Summary

In this report we propose the creation of a national construction fund to help expand the stock of new multifamily housing, particularly during high interest rate environments. The multifamily housing sector finds itself trapped in a vicious cycle: rising rent and housing costs induce the Federal Reserve to raise interest rates, thereby shrinking the supply of financing for housing, in turn contributing to higher housing prices. Financing bottlenecks cause otherwise economically viable units to sit unbuilt or delayed, contributing to our national housing shortage and affordability crisis.

A national construction fund would provide enough lower-cost construction financing to allow multi-family developers to clear upfront equity investment hurdles and continue developing projects in higher interest rate environments. Thousands of permitted, ready-to-build units that are stuck in limbo would finally enter construction, ensuring that housing supply becomes available as the economy picks up steam and preventing housing costs from continuing to spiral upward.

This report highlights:

- the connection between the business cycle, housing supply, and housing costs;
- the financing gaps that developers face in high-rate environments; and
- considerations and options for policymakers in designing and implementing a national construction fund that can fill those gaps, including the proper instrumentalities to host the fund, eligible lenders, risk management, fund sizing, and further incentives to increase affordability.

This is the first in a series of reports detailing the creation and operation of a national construction fund and other measures to smooth the housing investment cycle.

Introduction

For any given apartment construction project, there are countless factors tipping the scales of project viability in one direction or the other: the cost of land or materials; the rents that can be charged; the cost of capital; the project's debt to equity ratio; timelines for milestones, like securing permitting; and on and on. These factors fall into one of a few categories: economic, regulatory, and financial. Economic factors, like the cost of materials and labor or the rents that a market can support, closely follow measures of wages and inflation. Regulatory factors, like zoning and permitting, can delay projects—sometimes indefinitely—increasing cost.

Financial factors rise and fall with importance throughout the business cycle. Today, the high cost of financing is a [major challenge](#) for new apartment construction projects. As a result, the Census estimate of the annual number of stalled apartment construction projects put the figure at more than double the two-decade average from 2000–2020—a troubling—and predictable—spike.

A national secondary market for construction financing could allow lenders, like state housing finance agencies and banks, to provide the investment capital needed to get multifamily housing projects built and keys in families' hands. Those housing finance agencies and banks could write mezzanine construction loans, knowing that a national housing construction fund at the back-end has the ability to buy those loans. The size of the investments needed to get typical multifamily housing projects moving is small: mezzanine loans covering less than 20 percent of project costs could bring average costs of capital down significantly, allowing shovels to get into the ground.

The housing market is stuck in a vicious cycle—high consumer demand relative to housing stock creates housing shortages that drive up prices. Today's high interest rates are especially painful for multifamily housing starts, leading to the stalling of projects for which there is *structural* demand, demonstrated by record low vacancy rates. High interest rates can also lower effective demand for housing by hurting household finances and lowering new household formation. But when demand returns, new housing that should have been built has not been, starting another price cycle.

A national housing construction fund could not only reduce the burden of today's higher rates on housing production, but also create an economic environment where housing production achieves a degree of insulation from the business cycle factors that are not indicative of housing demand, **leading to an economy where housing production is smoother and more stable across time.**

Housing Market Background

Following the Great Recession, the U.S. construction sector fell into a deep housing investment slump from which it has still not recovered. This slump deepened the structural supply shortage across the country.

In many jurisdictions, local permitting and zoning processes delay new apartment construction projects, or prevent them from happening at all. For those projects that do clear these planning hurdles, financing remains a challenge. In fact, the Census tracks housing developments that receive permitting approval but do not begin construction. Since the pandemic, the number of apartments in this limbo state has rapidly spiked from about 60,000 to more than 120,000, now more than double the level of the prior 20-year average.

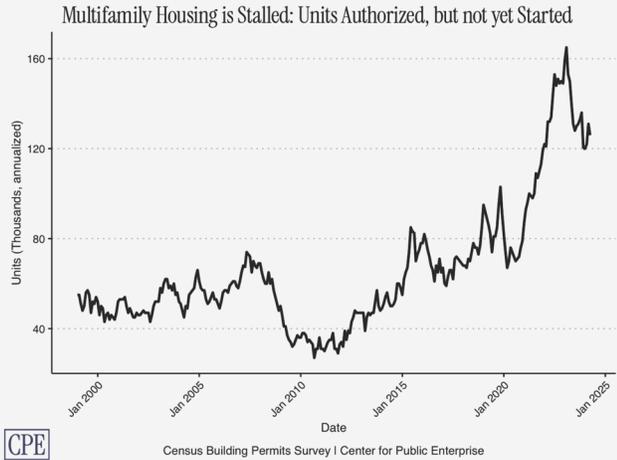


Figure 1: Census annualized estimate of apartment units that have been permitted but have not begun construction.

The United States is facing a housing affordability crisis caused by the lack of housing supply, especially in high-demand areas. High demand for housing relative to its supply has driven up both the cost of housing and, in turn, other goods and services. Higher prices—including for housing—have prompted the Federal Reserve to raise its interest rates and implicitly try to lower the demand for housing. However, higher rates have

done little to lower housing prices. The labor market's resilience in the face of rising interest rates is only [exacerbating](#) the housing supply problem.

First, high interest rates decrease the inventory of existing housing. Homeowners are nervous to give up on their lower-rate mortgages in a high-rate environment. Second, high rates hurt the only thing that can solve the problem of high housing costs—the building of more, denser housing—by making it more difficult to finance construction.

Housing [has been called](#) the linchpin of the business cycle. It is one of the most rate-sensitive sectors of the economy, and one whose costs contribute the most to the broader price level. American housing policy is geared toward supporting the low, stable cost of mortgages but has not worked to support the production of housing—especially the production of the sort of multifamily housing that is necessary to lower price pressures in high-demand urban markets.

In the absence of further policy tools to lower the cost of housing production, we are left with monetary policy. But monetary policy is a broadsword, not a scalpel. To address price pressures, it attempts to reduce demand across the board by making it more difficult to finance business operations and, in turn, lower employment, wages, and, ultimately, consumer demand. If monetary policy is successful in reducing demand—often by inducing a recession—then eventually, interest rates normalize and, theoretically, demand comes back.

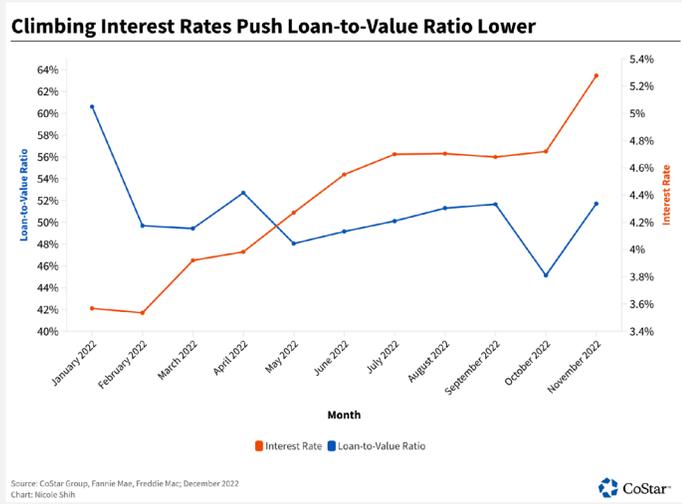
And herein lies the problem: housing stock, particularly multifamily housing, takes time to build—far more time than it takes to produce most other goods and services Americans use on a daily basis. When the economy comes back, the new units which should have been available for a resurgent consumer market are *not* available because construction did not occur during the trough of the cycle.

Moreover, the learned experience of builders leads to expectations of future monetary policy-induced recessions. As a result, they do not invest in expanding the long-term capacities—like training and holding onto skilled workers, or sustaining inventories and materials supply chains—necessary to drive the productivity gains that could facilitate rapidly responding to higher demand.

There are many barriers to housing construction that need to be addressed on the path to a resilient and affordable housing market, from zoning to construction codes to subsidy programs. But the core economic trap, which leaves housing stuck in the depths of the business cycles, needs something else. A national construction financing fund could smooth the investment cycle, and help build millions of homes.

The Hole in Multifamily Financing

Multifamily developers today face a troubling predicament: in addition to higher costs, the total availability of mortgages for multifamily developments is falling. Mortgages, which boast the lowest cost compared to any other piece of funding that goes into a project, are becoming harder to acquire due to higher interest rates and the caution they engender among traditional lenders. In better financial conditions, construction mortgages might cover two-thirds of a project's cost. In today's conditions, that loan-to-value ratio can be much lower, closer to just 50 percent (see **Figure 2**, below).



Source: CoStar Group, Fannie Mae, Freddie Mac, December 2022
Chart: Nicole Shih

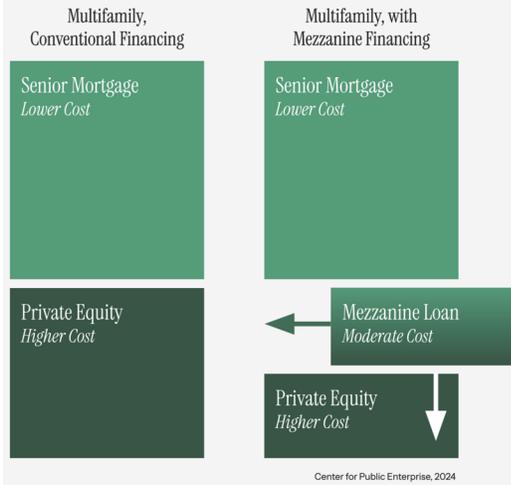


Figure 2: Salt in the wound: as interest rates have risen, loan-to-value ratios have fallen. This means that ever-larger financing gaps must be plugged with the highest-cost capital: equity. Source: [CoStar](#)

To finance new housing, developers must fill the gap with higher-cost equity financing. High cost, private equity and other non-traditional lenders have stepped into to cover the gaps left by the shallow mortgage market.

None of this is to speak of "hard costs," the cost of labor and materials. In 2021 and 2022, the cost of labor and materials in the residential construction industry was rising, due largely to supply chain challenges and increased construction activity straining the

supply of labor. The situation now is different: residential construction materials inflation has fallen for core items like lumber and steel. However, prices remain higher than pre-pandemic and can still be a challenge.



Center for Public Enterprise, 2024

Figure 3: Simplified capital stack: Conventional vs potential financing options. A mezzanine loan, spurred by the creation of a secondary market, replaces a portion of higher cost equity.

Over the past few years, the cost component that has changed the most, however, is financing costs. A 2024 [survey](#) of real estate developers revealed that 94 percent of North American builders see the cost of capital as a key issue causing concern. In 2023's survey, that number was only 69 percent.

In essence, this key problem faced by the multifamily construction industry is that **the ratio of low-cost to high-cost capital is too small**. Breaking this barrier is, in theory, quite simple: increase the ratio of available low-cost to high-cost capital. If lenders were willing to provide a relatively small piece of construction financing in a subordinated position, such as a mezzanine loan¹, the amount of equity needed comes down (see **Figure 3**, left).

Conventional lenders, like banks, and even most quasi-public [housing finance agencies](#), have not filled the gap and made these sorts of construction loans unprompted.

Some agencies, however, like the Housing Opportunities Commission of Montgomery County, Maryland, and Massachusetts' MassHousing, have recently begun to dip their toes in this space with construction lending programs, dubbed the [Housing Production Fund](#) (HPF) and [Momentum Fund](#), respectively. These programs provide sketches of a national model to accelerate housing development across the business cycles, and indeed, across the country.

The size of the investments needed to get many of today's multifamily housing projects moving is small: mezzanine loans covering even 10 to 20 percent of project costs could

¹ A mezzanine loan is a debt-equity instrument that sits in a middle, or "mezzanine" position in the capital stack: below the mortgage, but above the equity.

bring average capital costs down just enough to allow developers to get to closing—as demonstrated by some early transactions that have occurred or are in the pipeline using the local and state construction lending programs above. But with a nationwide housing construction fund, other agency lenders, as well as many private banks, would be far more willing to write mezzanine construction loans. Knowing that the housing construction fund at the back-end has the willingness to take those loans off their hands, such as by creating a secondary market for them, provides a needed level of certainty at the front-end.

An Affordable Housing Construction Fund

Accepting the premise that the housing shortage faces cyclical constraints, and that readily available construction financing would help to alleviate that issue, the question then becomes how to enable the availability of mezzanine construction financing to multifamily housing projects across the country. The following is a discussion of several important considerations regarding the stable operation of a housing construction fund, the proper placement of a program within a federal instrumentality, its relationship to lenders, and the sizing of a fund.

For a deeper discussion on these topics, follow along as we release supplementary reports in this series on housing investment.

Considerations on Instrumentalities

The federal government has a multitude of instrumentalities that are already engaged in various sorts of capital lending, from its interagency lender, the Treasury Department's Federal Financing Bank (FFB), to its more public-private partnership oriented instrumentalities, like the Loan Programs Office (LPO) at the Department of Energy, or its housing instrumentalities, Fannie Mae, Freddie Mac, Ginnie Mae, and the Federal Home Loan Banks (FHLBs).

Some of these lenders—these public banks, if you will—already provide or facilitate some similar types of loans. The Federal Financing Bank, for example, operates [a program](#) with the Department of Urban Development (HUD) and its Federal Housing Administration (FHA) where the FFB provides capital for FHA-insured multifamily loans to state housing finance agencies who participate in HUD's [Risk-Sharing Initiative](#). This initiative helps to support programs like Montgomery County's HPP.

Further, instrumentalities like Fannie Mae have authority within their charter to purchase various sorts of financing instruments to support housing construction.² In fact, several decades ago, Fannie Mae operated a pilot program for

² Freddie Mac's [charter](#) includes language that could make construction lending difficult, by specifically authorizing the instrumentality to provide "mortgage[s] on real estate ... upon which there is located a structure or structures" (emphasis added). However, Fannie Mae's charter does not include such limiting language.

construction-to-permanent financing in which Fannie purchased such loans that were insured by FHA, which Congress asked it to study.³ No program was ever implemented.

With a multitude of options, identifying the right agency or instrumentality to manage a housing construction fund becomes a matter of capacities: existing statutory authority, existing underwriting and risk management teams, and a large existing balance sheet all lend well to operating such a program.

<i>Instrumentality</i>	<i>Parent</i>	<i>Capacities</i>	<i>Considerations</i>
Fannie Mae	FHFA ⁴	<ul style="list-style-type: none"> • Enormous balance sheet totalling \$4.3 trillion, or 15% of GDP • Significant underwriting staff expertise • Significant experience providing multifamily financing 	In conservatorship.
Freddie Mac	FHFA ⁴	<ul style="list-style-type: none"> • Enormous balance sheet totalling \$3.2 trillion, or 11% of GDP • Significant underwriting staff expertise • Significant experience providing multifamily financing 	Freddie Mac's charter includes language that precludes construction lending. In conservatorship.
Ginnie Mae	HUD	<ul style="list-style-type: none"> • Enormous balance sheet totalling \$2.3 trillion, or 8% of GDP • Significant experience facilitating MBS backed by loans guaranteed or insured by the US government (FHA, PIH, VA, USDA)⁵ • Statutory relationship with HUD and FHA's mortgage insurance programs 	Backed by full faith and credit of the government.
Federal Financing Bank	Treasury	<ul style="list-style-type: none"> • Very large balance sheet totalling \$142 billion • Instrumentality of the Treasury • Prior experience providing multifamily construction financing through the FFB/Risk-Sharing Initiative 	Authorized only to provide lending to other federal agencies and instrumentalities (e.g. USDA, HUD).
HUD	N/A	<ul style="list-style-type: none"> • Significant underwriting staff expertise 	Agency, not GSE.

³ Pub. L. 102-550, title XIII, § 1393(a)(4)(C)

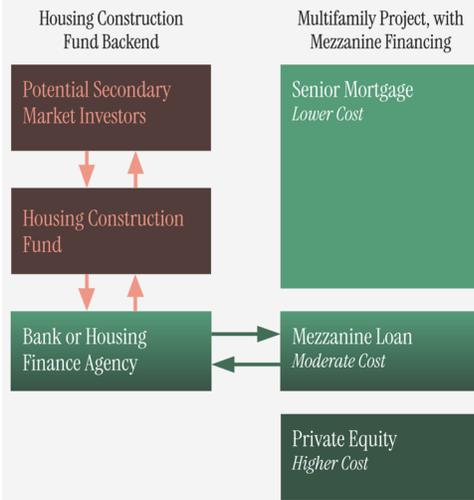
⁴ Fannie Mae and Freddie Mac are government sponsored enterprises and do not have a parent agency, but are regulated by the Federal Housing Finance Agency.

⁵ [The Differences Between Ginnie Mae and the GSEs.](#)

Considerations on Lenders

In order to move capital into projects, lenders must be willing to make the construction loans. With a housing construction fund on the back-end ready to buy those loans once they are made, lenders will have more willingness to write the loans (see **Figure 4** below).

But what types of entities can make construction loans in the first place? Largely banks. In addition to conventional banks, ranging from the very large to the small, like community credit unions, most states also have housing finance agencies which are well versed in multifamily lending practices, as well as in interactions with federal agencies, GSEs, and the FHA's mortgage insurance programs.



Center for Public Enterprise, 2024

Figure 4: Simplified financial diagram: A mezzanine loan, provided by a housing finance agency or bank, is sold back to the Housing Construction Fund. The Housing Construction Fund then has the option to sell those loans to the secondary market.

In many states, housing finance agencies (HFAs) operate both single-family homeownership loan programs and affordable and mixed-income multifamily housing programs. On the multifamily side, HFAs often run the state's Low-income Housing Tax Credit program and issue short- and long-term tax-exempt bonds to fund construction and permanent loans for supported affordable housing developments. Many of these agencies are quite sophisticated in their use of public financing tools to support housing development and are in the business of finding ways to make projects work—a difference they have with conventional banks.

As such, HFAs would make natural partners to a national housing construction fund. Indeed, as described briefly above, some HFAs have already launched or are considering similar mezzanine construction lending programs of their own. Many developers, however, have yet to partner with their state

housing finance agencies and might prefer working with a known, conventional bank lender.

From the point of view of the housing construction fund, who makes the loan is less relevant than what backs the loan. Whether it comes from a bank or an HFA, underwriting the risk depends far more on the housing project itself.

Risk Management

To maintain a sustainable and healthy housing construction fund, there must be clear guidelines for the type of loans and activities it can engage in. Just because a housing project is unable to secure financing does not mean that it is in need of support—some projects are bad investments for a reason.

Underwriters will assess a property's riskiness not just based on the previous creditworthiness of a borrower but based on expectations for the property's cash flows; its hard costs, such as construction and permitting; and the other sources of capital funding the project. In better times, when interest rates are lower and loan-to-value ratios are higher, low-cost housing construction fund loans would be less important: developers could secure adequate capital without the need for the housing construction fund. However, in economic environments with high rates and low loan-to-value ratios, lenders are nervous about entering into deals that already have very high costs attached, let alone to try to lower those costs. Viable projects thus get stuck in limbo.

We can use other criteria to holistically evaluate a project's bankability. Metrics like rental vacancy and market absorption can serve as guardrails for fund activities. These metrics account for a market's long-term need for more multi-family housing relative to the available supply. For example, in Massachusetts today, there are nearly 40,000 unbuilt apartments in stalled projects waiting on financing.⁶ The Census estimates that the rental vacancy rate in Massachusetts is 2.5 percent—one of the lowest rental vacancy rates in the country. But due to financing constraints, those units are sitting on the shelf, awaiting capital. That means that the added value of breaking through the financing constraints for multiple new multi-family housing in Massachusetts has a multiplier that compensates individual project risks.

⁶ [A 10,000-unit housing development at Suffolk Downs is on hold indefinitely. Here's why.](#) *The Boston Globe*, July 5, 2024. The 40,000 unit count includes roughly 20,000 stalled units outside of Boston using a MassHousing count, and another 23,000 within the City of Boston.

Size and Funding

While a housing construction fund that could reach all corners of the country would of course need to be large in size, there are helpful factors that make an efficacious funding request manageable. Because a fund is not providing high loan-to-value capital, its investments would be leveraging significant private capital. Mezzanine loans covering between 10 and 20 percent of total development cost would be enough in many cases to help projects clear investment hurdle rates.

A \$15 million mezzanine loan could facilitate \$100 million in total housing investment for a large project, for example. To be sure, making concrete estimates of housing production can be challenging because of the vast differences in development costs across the country. [Various](#) real estate [firms](#) peg the average national per-unit cost at anywhere from \$70,000 to \$300,000 per unit.

To make a ballpark estimate, we take a middle ground and call the average \$150,000 per unit. Then, if we conservatively estimate that the average mezzanine loan size is 20% of total development cost⁷, a picture begins to come into view. A \$10 billion housing construction fund could generate somewhere in the order of 300,000 units by leveraging \$40 billion in private capital. A \$50 billion housing construction fund could generate more than 1.5 million units by leveraging \$200 billion in private capital.

These estimates, by no means exhaustive in terms of the detail and variation embedded in the assumptions, are nonetheless useful as ballpark figures. It is also important to consider that it would take time for a program at large scale to garner interest and uptake from lenders and developers. But as we see from the Census estimates of units that have been authorized but not started, there have been more than 100,000 units stalled annually over the past several years, so the potential pipeline is significant.

Finding tens of billions of dollars for a housing construction fund is easier said than done. There are proposals that could generate those funds by selling a portion of the warrants to purchase Fannie Mae common stock that the Treasury Department holds. An action of this sort could generate funds without a request to the Congress, but would also be a major undertaking that would require approval from various regulatory bodies that oversee the GSEs. On the other hand, an appropriation would require no such regulatory approvals, but would require the consent of Congress. As a pay-for, the fund could be seeded by taxation or borrowing. Such a fund would be able to grow over time as proceeds from program activities—interest on the mezzanine loans—accrue.

⁷ The average loan size would in all likelihood be smaller than this, but using a high bar figure like 20% allows an estimate to factor in some additional transaction costs.

Affordability

Most federal multifamily housing financing programs come with rules around affordability that have supported mixed-income multifamily developments for decades. The 221(d)(4) and 223(f) programs at HUD, as well as the Treasury's Tax-Exempt Bond program, require that 20 percent of units are affordable at 50 percent of the Area Median Income. These requirements are distinct from some inclusionary zoning programs in that the affordability is financially supported by the interest rate and mortgage insurance cost savings to the developer.

A national housing construction fund could facilitate the same type of mixed-income developments that are standard across federal agencies and federally-supported instrumentalities. In addition, in situations where state housing finance agencies are providing capital for developments, additional public financing tools available to those agencies can generate more income-restricted affordability within those projects.

Conclusion

The volatility of the national housing market across a multitude of measures, from price inflation to the spikes and rapid falls in permits and investment, has shown us—hopefully for the last time—that we need federal tools to bring more stability to the housing investment cycle.

National housing researchers, including at Freddie Mac, [estimate](#) that the housing supply shortfall across the country is between 1 million and 5 million homes. There are many policy levers that must be pulled to get there. A financing lever with the ability to partially insulate housing investment from the volatility of the business cycle has been, until now, a missing piece among the existing array of tools and interventions. We hope that a housing construction fund, as outlined here, can fill that gap.

As we continue our work on housing supply issues by addressing these and other financing challenges, we will explore some of the topics addressed in this report in further detail, including risk management, fund and secondary market operations, and more considerations regarding instrumentality or agency management of a program. We invite you to follow our work on this and other topics on our website, publicenterprise.org.

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About the Center for Public Enterprise

Center for Public Enterprise is a 501(c)(3) nonprofit organization focused on expanding public sector capacity to deliver broad economic development. Our work focuses on various sectors of the economy, including housing, energy, and finance. For more information, visit our website at publicenterprise.org.

Senate Budget Committee:
The Impact of Inaction on Affordable Housing
Wednesday, September 25, 2024
Greta J. Harris, President & CEO

Thank you, Mr. Chairman, Ranking Member Grassley, members of the Committee, and distinguished guests, for this opportunity to address an issue that touches the core of our economy and the well-being of millions of Americans—affordable housing.

My name is Greta J. Harris, and I lead the Better Housing Coalition, Central Virginia's largest affordable housing developer. We are honored to provide service-enriched rental housing for nearly 3,000 lower-income individuals and seniors, while offering opportunities for home ownership. Over the last three and a half decades, we've invested \$300 million in our community, with another \$300 million in our pipeline, ensuring more of our neighbors have a good place to call home.

America stands at a critical juncture. The lack of affordable housing is not just a challenge for lower-income families—it's a systemic issue affecting nearly every facet of our society and economy. And the consequences of inaction ripple far beyond the housing market.

As housing costs outpace wages, today more than 10 million Americans spend over half of their income on housing, leaving little for essentials like food, healthcare and education. This suppresses consumer demand and hampers economic growth. Businesses in both urban and rural communities struggle to attract and retain talent because workers can't afford to live nearby thereby stifling business expansion, innovation, and productivity.

The societal costs of unstable housing are also severe. Studies show that housing instability is linked to worse health outcomes, increased mental health issues, and lower learning achievement for children. Families forced to move frequently disrupt their children's education, which has long-term consequences for their development and future economic mobility success.

Moreover, the brunt of this crisis falls hardest on vulnerable populations—people of color, single parents, veterans, and the elderly. For communities of color, this crisis deepens the racial wealth gap, perpetuating cycles of poverty. And homelessness, a growing manifestation of this crisis, comes at a steep social and economic cost. A 2019 study found that homelessness costs taxpayers upwards of \$35,000 per person per year, while providing permanent supportive housing costs significantly less as a more humane solution.

Speech to the Senate Budget Committee:
The Impact of Inaction on Affordable Housing
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Page 2.

Affordable housing is also tied to environmental challenges. Housing shortages often push modest income families to the outskirts of cities, leading to urban sprawl, increased traffic, and higher greenhouse gas emissions. Addressing this crisis is not only an economic imperative but also an environmental one.

The core truth is that affordable housing is a public good. It strengthens communities, supports families, and powers our economy by contributing 16% to the US GDP. When we invest in affordable housing, we create jobs, spur local economies, and provide families with the stability they need to thrive.

At the Better Housing Coalition, we've seen lives transformed when families gain access to stable, affordable homes. Households can begin to breathe and then believe that their future can be better than their present. Individuals further their education, secure better jobs, and even transition to homeownership, creating a cycle of positive economic and social outcomes.

The longer we wait to address this crisis, the more costly it becomes. The question is not whether we can afford to act, but whether we can afford *not* to.

We need a scalable, multi-pronged approach to this crisis including investing in: low-income housing tax credits, home ownership tax credits, Community Development Financial Institutions, expanding federal housing vouchers, funding housing trust funds and strengthening intermediaries like NeighborWorks America, Housing Partnership Network and LISC that build nonprofit capacity to serve lower income households across the country. We must also support local zoning reforms to remove barriers to building affordable homes and reduce NIMBY (Not in My Back Yard) opposition.

We have the tools to address this crisis, but we need the political will to use them. As you deliberate on future federal budgets, I urge you to prioritize affordable housing—not just because it's the right thing to do, but because our economy and society depend on it.

Thank you.

United States Senate Committee on the Budget

The Costs of Inaction: Economic Risks from Housing Unaffordability

September 25, 2024

Edward Pinto, Senior Fellow and Codirector, American Enterprise Institute Housing Center

Chairman Whitehouse, Ranking Member Grassley, and members, thank you for the opportunity to testify on this most important topic.

[History offers a cautionary](#) tale against inappropriate federal action in the housing market: From the 1930s to 2008, [Congress](#) passed and presidents signed into law at least 43 housing, urban renewal, and community development programs. Despite their lofty promises, these initiatives consistently failed in making housing more affordable, and a number were downright disasters.

The root cause for housing affordability is a shortage of 3-8 million housing units, which is fueling both unaffordability and a homeless crisis in many areas. Nationally we have had a sellers' housing market since 2012. We remain in a strong sellers' market as months' remaining inventory for August 2024 stood at 3.7 and 2.4 months respectively overall and for the low price tier. Sellers' markets provide upward price pressure, which worsens if demand is stimulated even more.

What we should not do:

1. Vice President Harris's plan to provide up to \$25,000 in down payment assistance to 4 million first-time buyers over four years almost certain to lead to higher home prices, thereby, greatly diminishing the intended benefits. The millions of program recipients would become price setters for all buyers in the neighborhoods where the recipients buy. Our research shows that home prices would rise an additional 3.6 ppts., 77% of all home purchases would be subject to this home buyer "tax", and this tax would total \$175 billion over 4 years, more than the \$100 billion cost of the program. This would be a wealth transfer to existing homeowners—rewarding NIMBY opposition to added supply.
2. Harris's proposed tax incentive for building starter homes is intended to add to single-family supply. History shows that this approach can lead to significant market distortions. The Housing and Urban Development Act of 1968 provided easy credit terms and substantial subsidies, resulting in a surge of housing permits by 1971-1972, only for this boom to dissipate by 1975, leaving lasting scars on cities like Detroit, Chicago, and Cleveland. Similarly, the 1992 congressional GSE affordable housing goals combined with President Clinton's National Homeownership Strategy led to an easing of credit in the run-up to the Great Financial Crisis. Housing permits doubled from 1.1 million in 1992 to 2.2 million in 2005, but permits then collapsed by 73 percent in 2009, leaving behind millions of foreclosures and a persistent housing supply deficit that still afflicts us. Under the Harris proposal, most incented new construction would have been built in any event, and any incremental construction would be unevenly distributed, causing more supply/demand imbalances.
3. Harris's \$40 billion fund for local governments to explore "innovative" housing solutions will likely funnel money into projects burdened by self-defeating government-mandated

affordability requirements, which HUD loves but markets abhor. By further empowering federal bureaucrats, it will do more harm than good.

The fundamental problem holding back housing construction is not insufficient subsidies but structural issues—namely, restrictive zoning, land use rules, and building codes. This makes buildable land scarce and expensive, and increase construction costs.

We need to significantly increase market-rate housing supply. The federal government has several levers at its disposal to encourage this result:

1. A 10-year plan to auction surplus federal lands for new market-rate home construction could add 200,000 homes per year. However, for this to be effective, the rules need to follow the keep it short and simple or KISS rule. These sales could generate \$10 billion in annual receipts.
2. Eliminating the mortgage interest deduction for second homes would add to supply and reduce demand by freeing up 700,000 existing homes over the next decade for first-time buyers.
3. Reducing regulatory costs that hold back builders by increasing construction expenses is crucial—and indeed, this is an issue that Harris and Trump’s plans hope to address. On the federal level, many of these relate to restrictions on logging and excessive energy mandates, including an effort to phase out home use of natural gas.
4. Adopting a credible plan to reduce deficit spending and our national debt could lower the ten-year treasury (and mortgage rates along with it) by 75-100 bps.
5. Establishing accountability on the expenditure of federal housing subsidy dollars. In 1953, the NAHB noted: “Public housing is not low-cost housing. It is high-cost housing offered at low rent.... The average construction cost of each public housing unit built in 1949... was more than \$11,000. Contrast this to a maximum figure of \$8,100 per unit allowed private builders of rental apartments under the FHA mortgage insurance program... [In addition, there] is an operational subsidy of nearly \$19,000 per apartment, which cost \$11,000 to build.” Today, subsidized projects are all too often a revolving door of subsidizing, rehabbing, tearing down, and rebuilding. This committee should require HUD to document project by project this revolving door of waste.

These measures, in combination with state and local efforts to deregulate land use and zoning, can more effectively address the housing affordability crisis, all at no taxpayer cost and without unintended consequences.

Failure to act appropriately will lead to even greater unaffordability and diminished economic growth.



Economic Risks of More Demand-Inducing Deficit Spending

Jack Salmon
Director of Policy Research, Philanthropy Roundtable

U.S. Senate Committee on the Budget
 The Costs of Inaction: Economic Risks from Housing Unaffordability

September 25, 2024

Chair Whitehouse, Ranking Member Grassley, and distinguished members of the Committee, thank you for the opportunity to testify before you today. It is an honor to appear before this body to discuss such an important topic.

My name is Jack Salmon, and I am the Director of Policy Research at the Philanthropy Roundtable. Philanthropy Roundtable is a mission-driven organization which aims to foster excellence in philanthropy, protect philanthropic freedom and help donors advance liberty, opportunity and personal responsibility. A strong private sector, supported by a free enterprise system, is the bedrock for the creation of the private wealth that makes philanthropy possible.

In my remarks today I will talk about the bigger picture, considering our nation's fiscal condition, and why worsening this condition through yet more spending would be harmful to the long-term well-being of all Americans. I will also highlight the fact that the often-overlooked charitable sector is rising to the challenge of addressing homelessness and housing affordability.

Proposals from the Harris campaign include plans such as a \$25,000 downpayment for first time home buyers, which will add \$224 billion in new deficit spending.¹ Attempts to address housing affordability by further subsidizing demand will be counterproductive and make housing affordability worse. But more than this, such policies ignore the broader economic challenges we face, particularly the nation's deteriorating fiscal situation.

The nation's fiscal situation has never been worse. Debt held by the public is currently 100 percent of GDP and is forecast to reach 166 percent by 2054.² If economic growth is slower or interest rates are higher than baseline models forecast, then public debt could reach 217 percent of GDP over the coming 30 years. Debt held by the public is now more than \$28 trillion, while total public debt outstanding is over \$35 trillion.

¹ William McBride et al. Kamala Harris Tax Plan Ideas: Details and Analysis. The Tax Foundation. September 10, 2024. <https://taxfoundation.org/research/all/federal/kamala-harris-tax-plan-2024/>

² Congressional Budget Office (CBO). The Long-Term Budget Outlook: 2024 to 2054. March 20, 2024. <https://www.cbo.gov/publication/59711>



The Harm of Public Debt Crowd Out

As our debt burden has continued to grow unabated, rising interest rates have spiked the cost of servicing the debt. Three years ago, interest costs consumed 1.5 percent of the economy—today this figure is around 3.3 percent.³ In fiscal year 2024, if you combined all federal transport spending, federal education spending, and all veterans' benefits & services, it still wouldn't come close to the level of spending committed to paying interest on the debt.⁴ This means that policymakers have less fiscal space to commit spending towards their policy priorities.

But more than public spending crowd out, a higher public debt burden diminishes the economic growth potential of our broader economy. A survey of 65 academic articles published since 2010 find a broad economic consensus: that high levels of public debt have a negative impact on economic growth.⁵ Specifically, countries with public debt ratios above a level around 80 percent of GDP experience significant deleterious impacts on growth rates. This should be especially concerning for those who claim to care about Americans at the lower end of the income distribution. Lower rates of economic growth mean less revenue potential for governments to support those who need it most, but it also means less job creation, lower wage growth, and diminished living standards.⁶

Government Spending Crowds Out Private Sector Investments

When advocating for more spending, this administration has often made the case that more spending on new and expanded programs is an investment in future growth. However, such claims are misleading as unfettered growth in government spending crowds out private sector investments.

Many policymakers predicate such ideas on the economic assumption of large fiscal spending multipliers. A 2019 study by economist Valerie Ramey reviewed the estimates of studies with strong methodological approaches to find a range of estimates for spending multipliers. She finds that the bulk of estimates for average spending multipliers lie in a fairly narrow range of 0.6 to 1.0.⁷ When accounting for the future tax

³ Treasury.gov. Average Interest Rates on U.S. Treasury Securities.

<https://fiscaldata.treasury.gov/datasets/average-interest-rates-treasury-securities/average-interest-rates-on-u-s-treasury-securities>

⁴ U.S. Department of the Treasury. Monthly Treasury Statement. September 12, 2024.

<https://www.fiscal.treasury.gov/reports-statements/mts/current.html>

⁵ Jack Salmon. The Impact of Public Debt on Economic Growth. Cato Journal. 2021. *I have since updated the list from 40 studies to 65 studies (unpublished).

⁶ For employment effects see: Steven Kapsos. The Employment Intensity of Growth: Trends and Macroeconomic Determinants. Labor Markets in Asia. Palgrave Macmillan, London. 2006.

https://link.springer.com/chapter/10.1057/9780230627383_4 ; For effects on living standards see: John V.C. Nye. Standards of Living and Modern Economic Growth. Econlib.

<https://www.econlib.org/library/Enc/StandardsOfLivingandModernEconomicGrowth.html>

⁷ Valerie A. Ramey. Ten Years after the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research? Journal of Economic Perspectives 33, no. 2 (2019): 89–114.



increases required to fund the additional spending, the economists Robert Barro and Charles Redlick find that the multiplier likely turns negative.⁸

Not only does the empirical literature demonstrate that government spending crowds out private investment, but a review of the multiplier literature in relation to the fiscal position also reveals a significant negative relationship.⁹ As debt levels continue to grow, the multiplier effect of additional government spending will continue to fall, meaning the negative crowd out effects of additional government spending will worsen over time.

Irresponsible Spending Inflates Away Our Living Standards

Another way in which our spiraling debt burden diminishes living standards is through inducing spikes in inflation. In recent years we experienced the largest spike in inflation in 4 decades. Prices today are 20 percent higher than in January 2021, while the cost of shelter is 23 percent higher.¹⁰

The scale and size of fiscal stimulus spending in 2021 was far in excess of the projected output gap. For example, the American Rescue Plan (ARP) distributed \$1.9 trillion in stimulus spending to close an output gap that the Congressional Budget Office projected to be \$700 billion through 2023.¹¹ At the time, economists from across the political spectrum warned policymakers about going too big with this level of stimulus spending. Larry Summers warned that it would cause inflationary pressures to mount, while Jason Furman noted that ARP was “too big for the moment”.

An academic article published last year found that the ARP fiscal stimulus raised peak inflation by 3.1 percentage points, from 5.5 percent to 8.6 percent.¹² The authors noted, that due to unfunded spending, especially ARPA, it may take until 2025 for inflation to retrench to 2 percent target.

A recent study by European Central Bank economists concluded that the “evidence largely corresponds to the period when the pandemic fiscal packages were adopted and suggests that these transfers had long-lasting effects on inflation and contribute to explaining the persistence of core services inflation”.¹³

⁸ Robert Barro and Charles Redlick. Macroeconomic Effects From Government Purchases and Taxes. *The Quarterly Journal of Economics*. Vol 126 (1), February 2011, pp 51–102.

⁹ Veronique de Rugy and Jack Salmon. Declining Fiscal Multipliers and Inflationary Risks in the Shadow of Public Debt. Mercatus Center at George Mason University. August, 2022. <https://www.mercatus.org/research/policy-briefs/declining-fiscal-multipliers-and-inflationary-risks-shadow-public-debt#:~:text=As%20debt%20levels%20continue%20to,risk%20for%20future%20economic%20crises.>

¹⁰ Bureau of Labor Statistics. Consumer Price Index. <https://www.bls.gov/news.release/cpi.nr0.htm>

¹¹ Congressional Budget Office (CBO). An Overview of the Economic Outlook: 2021 to 2031. February 1, 2021. <https://www.cbo.gov/publication/56965>

¹² Bianchi et al. A Fiscal Theory of Persistent Inflation. *The Quarterly Journal of Economics*. Vol 138 (4), November, 2023, pp 2127–2179.

¹³ Maria Grazia Attinasi and Paola Di Casola. Post-pandemic US inflation: A tale of fiscal and monetary policy. Center for Economic Policy Research. September 17, 2024. <https://cepr.org/voxeu/columns/post-pandemic-us-inflation-tale-fiscal-and-monetary-policy>



As economists at the Federal Reserve Bank of Dallas pointed out in research published last year, high inflation disproportionately hurts low-income households the most.¹⁴ When prices increase, middle-income households often adjust by opting for lower-cost goods and switching to generic brands. Low-income households, however, lack this flexibility, as they are often already purchasing the least expensive options available.

Proposals by policymakers to further induce demand will only worsen the cost-of-living crisis that American families are already dealing with.

Rent Control Will Further Reduce the Supply of Affordable Rentals

President Biden has advocated imposing a 5 percent cap on rent increases—a policy position that has also been endorsed by Vice President Harris. Price controls are incredibly market distorting, in fact, a recent weighted survey of 44 economists found that 99 percent agree with the statement that widespread use of price controls creates substantial economic distortions.¹⁵ A second survey of 45 economists carried out in July found 85 percent disagreed with the notion that rent caps would make middle-income Americans better off, while just 2% agreed.¹⁶

It isn't just the opinions of economic experts that find price controls to be ineffective and market distorting. A meta-analysis of 112 empirical studies published in the *Journal of Housing Economics* earlier this year found that rent controls lead to lower supply of rental units, less new housing, and lower quality of existing rental units.¹⁷

A textbook study on the impact of rent controls on markets can be found by reviewing the experience of Argentina in recent years. In 2020, the Argentine government imposed rent price controls with the aim of increasing economic security. As a result, an estimated 45 percent of landlords stopped renting and instead sold their properties, while others moved to short-term rentals.¹⁸ This led to a significant shortage of rental properties and an unprecedented spike in rental prices.

Prices are signals that convey important information about supply, demand, and scarcity. Attempts to control or impose arbitrary caps on prices distort these signals and make shortages worse.

Private Philanthropy is Rising to the Challenge

¹⁴ Aparna Jayashankar and Anthony Murphy. High inflation disproportionately hurts low-income households. Federal Reserve Bank of Dallas. January 10, 2023. <https://www.dallasfed.org/research/economics/2023/0110>

¹⁵ Kent Clark Center (University of Chicago). Election Economic Policy Ideas. September 10, 2024. <https://www.kentclarkcenter.org/surveys/election-economic-policy-ideas/>

¹⁶ Kent Clark Center (University of Chicago). National Rent Caps. July 23, 2024. <https://www.kentclarkcenter.org/surveys/national-rent-caps/>

¹⁷ Kholodilin, Konstantin A. "Rent control effects through the lens of empirical research: An almost complete review of the literature." *Journal of Housing Economics* 63 (2024).

¹⁸ Jacobo, Alejandro D., and Konstantin A. Kholodilin. "One hundred years of rent control in Argentina: much ado about nothing." *Journal of Housing and the Built Environment* 37, no. 4 (2022), 1923-1970.



Most people know someone who has been impacted by either the homeless crisis or who struggle to find affordable housing. While government often attempts to fix social problems with a one-sized-fits-all approach, charities around the country have been doing inspiring work alleviating homelessness by addressing the underlying causes such as mental health, employment, and addiction recovery.

For example, Texas based organization, Mobile Loaves and Fishes, shows the strength of charities rising to the occasion to support their communities.¹⁹ Their volunteers help the homeless by providing meals, housing, and income opportunities to help those in crisis get back on their feet. Residents in the Community First! Village have an opportunity to earn income via different onsite programs, instead of getting stuck in the never-ending cycle of poverty and homelessness.

Another example is Step Denver, a Colorado-based organization that works men through a Steps for Success program based on four pillars: sobriety, work, accountability, and community.²⁰ The goal of the program is to help men end the cycle of addiction and become productive members of society. The program appears to be working. According to their statistics, 82% of alumni are currently employed and 89% live in stable housing. The program has done so well, they have plans to expand to Colorado Springs, Phoenix, Albuquerque, and other cities.

Finding a solution isn't simply about providing affordable housing. It's about adequately addressing what created the problem in the first place. And it starts with community-based programs that connect individuals with a strong support system and really gets to the root of the problem, whether it be addiction, employment, or mental health issues.

Rather than subsidizing demand through increased government spending and redistribution, policymakers should focus on policies that induce economic growth, not more public debt. Policymakers should also focus on alleviating regulatory burdens that stifle the much-needed supply of new housing across the country.

Private philanthropy is already rising to the challenge of alleviating homelessness and affordable housing crises, but their work is undermined when government pursues anti-growth policies. Policymakers should refrain from adding to the public debt burden that continues to be a serious drag on our nation's economic potential.

Thank you.

¹⁹ Mobile Loaves and Fishes. <https://mlf.org/>

²⁰ Step Denver. <https://stepdenver.org/program-overview/>

Question for the Record
from Senator Tim Kaine
for Speaker Shekarchi
The Costs of Inaction: Economic Risks from Housing Unaffordability
September 25th 2024
Senate Budget Committee

Question #1:

Across the country we are seeing cities and towns rethinking core downtown areas in light of changing work and living patterns. Some localities and developers have found success in converting underutilized or vacant office space into housing, despite the inherent challenges that often come with these conversions. Such conversions can lead to the development of much needed housing in areas that are close to jobs and transit.

What recommendations do you have for federal, state, or local policymakers to help overcome those challenges and break down barriers to office-to-residential conversions?

As noted, there are significant barriers to office to residential conversions—including local limitations by way of restrictive, low-density zoning, building code requirements, and the lack of tax incentives or programs offered to bridge the gap for the costs to convert. In Rhode Island, there has been a shift back to the demand to live in the urban core near transit and jobs from younger millennials and Gen Z. There is also a significant need for low- to moderate-income housing in these areas.

In Rhode Island, we tackled some of the barriers head-on. The General Assembly has passed two key provisions which we hope will spur the conversion into more units. The first was a bill to allow adaptive reuse by right in all zones. Through this legislation, the conversion of any commercial space, including offices, is by right in the local zoning district so long as the conversion contains at least 50% of the gross floor area as residential. Additionally, the law allows for high density in areas of public water and sewer where the project provides at least 20% low- to moderate-income housing. The legislation also provided for reduced parking requirements for these projects.

The second piece of legislation created a pilot program for transit-oriented development, which may overlap with some adaptive reuse projects. Rhode Island's Interim Secretary of Housing is working on implementing rules and regulations, as well as exploring funding sources for projects located within ¼ mile of transit hubs. To qualify, a municipality must allow high density development in these areas.

While these are two examples, we would advocate for state and local authorities to remove barriers and red tape to allow these conversions, and also allow for tax stabilization of these properties and/or tax increment financing. Grant programs should be explored for communities working toward these goals. Lastly, an examination of state building code requirements is needed to more efficiently and cost-effectively allow these conversions.

As I stated before you last week, Rhode Island stands ready to be your incubator for these options to be successfully developed and address the housing needs with these solutions together.

Mr. Paul Williams Response to Question for the Record
from Senator Tim Kaine
for Speaker Shekarchi, Mr. Paul Williams, Ms. Greta Harris, Mr. Ed Pinto, and Mr. Jack Salmon
The Costs of Inaction: Economic Risks from Housing Unaffordability
September 25, 2024
Senate Budget Committee

Question # 1:

Across the country we are seeing cities and towns rethinking core downtown areas in light of changing work and living patterns. Some localities and developers have found success in converting underutilized or vacant office space into housing, despite the inherent challenges that often come with these conversions. Such conversions can lead to the development of much needed housing in areas that are close to jobs and transit. **What recommendations do you have for federal, state, or local policymakers to help overcome those challenges and break down barriers to office-to-residential conversions?**

Answer:

Challenges in converting office spaces to residential use primarily stem from adaptation of the built layouts of the existing buildings, particularly regarding plumbing, which must go to each unit for residential as opposed to grouped areas for offices, and light and ventilation requirements, which are required on a per unit basis for housing but not for offices.

The primary ways to overcome these challenges are: 1) more funding to support the costly upgrades required; 2) more regulatory flexibility to allow innovative adaptive building layouts; and 3) focusing attention on properties which require the least amount of upgrades or regulatory flexibility.

With regards to the first solution, tools like TIFIA and RRIF from the DOT would benefit from significant additional support from multifamily underwriting professionals at HUD who can better and more quickly assess project proposals than DOT underwriting professionals who are used to reviewing transportation financial models, and/or with more flexible loan terms and structures. With regards to the second solution, proposals like those from [Pew Charitable Trusts to allow co-living arrangements](#) could facilitate more such conversions. With regards to the third solution, this is something that will be resolved with time as more developers contemplate these types of projects. And to the degree that the first and second items can provide support, the learning will come faster.



Question for the Record
from Senator Tim Kaine
for Speaker Shekarchi, Mr. Paul Williams, Ms. Greta Harris, Mr. Ed Pinto, and Mr. Jack Salmon
The Costs of Inaction: Economic Risks from Housing Unaffordability
September 25th, 2024
Senate Budget Committee

Question #1:

Across the country we are seeing cities and towns rethinking core downtown areas in light of changing work and living patterns. Some localities and developers have found success in converting underutilized or vacant office space into housing, despite the inherent challenges that often come with these conversions. Such conversions can lead to the development of much needed housing in areas that are close to jobs and transit. **What recommendations do you have for federal, state, or local policymakers to help overcome those challenges and break down barriers to office-to-residential conversions?**

**Ms. Greta Harris's Response to Senator Kaine's QFR
November 1st, 2024**

Necessity is the mother of invention and the housing industry is no exception. Developers across the country have been experimenting with varying building types and conversion opportunities to better meet the growing demand for housing at an affordable price.

As it relates to office conversions into housing, the overall development costs make this strategy rather limited to smaller household sizes and/or upper income households who can afford higher rents.

Older, more historic commercial buildings typically are narrow in their footprint which limits residential unit sizes and also limits rooms with windows. Taller structures require very expensive retrofits for mechanical and plumbing infrastructure. Newer high rise buildings that are larger with more of an open floor layout for bigger residential units have not seen a dramatic drop in sales prices...even though they may be experiencing higher than normal vacancies. So a converted structure would still need to rent at higher levels to accommodate the overall debt service.

Unless there are deep public subsidies/incentives from all levels of government to offset total development costs, this may not be the most efficient use of these types of structures for affordable housing. Some of the most successful examples of these types of conversions are typically serving market rate renters.

A better alternative could be non-performing or under-performing urban or suburban shopping centers. Generally, there is acreage that could accommodate both surface parking (a fraction of the price of structured parking) and mid-rise wood construction for reasonably priced development. And, infrastructure is already in place.

Local governments could facilitate by-right zoning in targeted commercial corridors, state government could incentivize mixed-income, mixed-use developments and the federal government could provide additional housing credits and housing vouchers to ensure more modest income households would be able to take full advantage of these new communities.

As the housing crisis drags on, additional experimentation and public/private partnerships will be needed to craft solutions that are commensurate with our country's needs.

Questions for the Record
 from Senator Charles E. Grassley for Mr. Ed Pinto
 “The Costs of Inaction: Economic Risks from Housing Affordability”
 September 25, 2024
 Senate Budget Committee

Question #1
 Mr. Pinto,

At the hearing, Senator Braun asked you whether the federal government should engage in increased deficit spending for the sake of more housing programs. In your response, you provided several options to increase the supply of market-rate housing at no cost to taxpayers or the unintended consequences associated with many government programs. Please expand on those options.

Answer: The fundamental problem holding back housing construction is not insufficient subsidies but structural issues—namely, restrictive zoning, land use rules, and building codes. This makes buildable land scarce and expensive, and increases construction costs.

*We need to significantly increase market-rate housing supply and reduce construction costs following these **Reform Principles**:*

- **Any action needs to create more supply with the aim of creating a lasting, rather than a temporary, solution.**
 - *The broad consensus among academics and think tanks is that the lack of supply, which is estimated in the millions of homes, is the root cause for housing unaffordability.*
- **Any action needs to free rather than hinder the market.**
 - *The housing deficit cannot be meaningfully reduced through increased government spending.*
- **Any action needs to focus on programs with a proven track record or a reasonable prospect of success.**
 - *Past and future programs need to be rigorously and independently evaluated on a cost-benefit basis before being implemented, continued, or expanded.*
- **Any action, while this housing shortage persists, must not create more housing demand.**
 - *Demand boosters are counterproductive, as the additional demand is capitalized into higher home prices, thus further worsening affordability pressures.*
- **Any action should create a safer and more stable housing finance system that promotes the interest of all Americans.**

The federal government has several levers at its disposal to encourage this result:

1. *A 10-year plan to auction surplus federal lands for new market-rate home construction could add 200,000 homes per year. However, for this to be effective, the rules need to follow the “keep it short and simple” or KISS rule. I estimate these sales could generate \$10 billion in annual receipts to the federal government. Please see [Senator Lee’s HOUSES Act](#).*

2. *Eliminating the mortgage interest deduction for second homes would add to supply and reduce demand by freeing up 700,000 existing homes over the next decade for primary occupants. Please see [Pinto op-ed in the Wall Street Journal](#).*
3. *Reducing regulatory costs that hold back builders by increasing construction costs is crucial. The National Association of Homebuilders estimates that regulations imposed by all levels of government account for **24%** of the current average sales price of a new single-family home and for **41%** of multifamily development costs. Federal regulations on workers safety, wages, appliances, manufactured housing chassis requirement, or logging either add significant costs to home building or cost taxpayers and homebuyers dearly.*

The federal government should review and reduce its contributions to higher costs by removing unnecessary regulatory burdens. Removing regulatory burdens does not cost any money or add to the deficit. As cost savings accrue to developers and builders, more home construction will be viable, leading to more supply. Crucially, these homes will be sold at lower price points.

What are specific legislation/regulatory actions for Congress or the President to consider?

- a. *Eliminate Davis-Bacon prevailing wage requirements on residential construction.¹*
- b. *Eliminate other burdensome regulations such as some Occupational Safety and Health Administration (OSHA) requirements.*
- c. *Lower or eliminate tariffs on construction materials that add [thousands of dollars](#) to the cost of construction, which home builders pass on to consumers.²*
- d. *Eliminate the chassis requirement for manufactured homes as stipulated in the [ROAD Act](#).*
- e. *Open more areas in national forests for logging, rather than restricting it. This would lower rather than further inflate lumber costs – a key home construction input.*
- f. *Reduce onerous [federal energy standards on appliances](#) and building codes and refrain from implementing more onerous energy standards by the [Department of Energy](#) and by [HUD or USDA](#) that needlessly drive up the cost of housing.³*

The Alliance for Consumers has documented that Biden/Harris energy regulations have added [\\$9,166](#) in household expenses per home.

¹ The Associated Builders and Contractors [summarized](#) the impact of prevailing wages as follows: “[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.” The Turner Center at the University of California Berkley [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.”

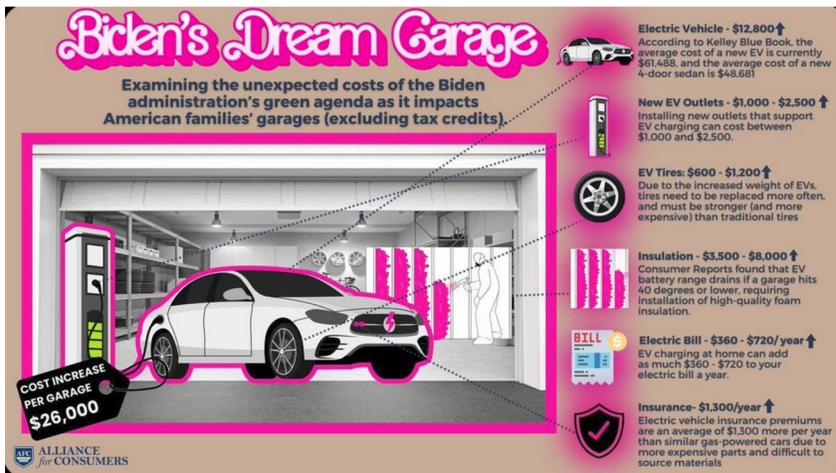
² The NAHB’s [single-family report](#) states that particular standards attempt to regulate certain risks that don’t exist in residential construction (e.g. beryllium), impos[e] costs significantly greater than needed to ensure worker safety (e.g. silica) or accomplishing little beyond driving up recordkeeping costs (e.g. Volks rule). According to the NAHB, OSHA standards add about 2.7% to the cost of multifamily and over 1% to the cost of single-family homes.

³ 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 terms of new home construction, the [National Association of Homebuilders](#) has noted that HUD's May 28, 2024 mandate that FHA- and USDA insured loan be [built to the 2021 International Energy Conservation Code can add up to \\$31,000 to the price of a new home](#). For the median FHA borrower, that is an 8.7% price increase and it will take up to [90 years to break even](#) on the added cost of the home.

Moreover, the Biden/Harris electric vehicle mandates will add [\\$26,000](#) in "garage costs." Note that the additional electric and insurance tack on an extra \$1,660-\$2,020 per year —further worsening affordability challenges.



There is a commonsense alternative to this route of driving up the cost of housing and energy. In the U.S., roughly 10-12% of homes in the nation's single-family detached housing stock were both built before 1980 and are economically viable for conversion to in-fill light-touch density (meaning townhomes and 2-8 plexes). At an annual conversion rate of about 2%, this would add 440,000 additional homes per year for decades.

Many of these homes were built before energy codes and modern materials like insulation and high-efficiency furnaces. At a conversion rate of 2% per year, legalizing LTD could not only add up to 440,000 additional homes per year, but replace energy inefficient homes with efficient ones. The Housing Affordability Institute found that new homes have improved energy efficiency, with a Home Energy Rating System (HERS®) score of 53, compared to 130 for homes built before 2006 and 150 for pre-1980 homes. This simple policy shift by state and local governments could significantly address housing and energy affordability.

4. *Adopting a credible plan to reduce deficit spending could lower the ten-year treasury (and mortgage rates along with it) by about 100 bps. On September 30, 2024, the US 10-year Treasury bond stood at 3.79%, while the 10-year German and Canadian 10-year bonds stood at 2.16% (163 basis points lower) and 2.95% (84 basis points lower) respectively.*

On the same date, the US 30-year mortgage rate stood at 6.24% (Mortgage News Daily). "Statistically speaking, the 10-year Treasury yield and mortgage rates have had a strong correlation of about 0.85 (1 being perfect) over the last decade according to Freddie Mac data. In other words, they move together around 85% of the time." <https://pricemortgage.com/10-year-treasury-mortgage-rates/> Therefore, the implied US 30-year mortgage rate with a credible deficit reduction plan would 5.25%, or about 100 basis points below today's rate.

Additionally, a credible plan to shrink/privatize Fannie and Freddie (F/F) would add additional downward pressure on Treasury rates, as F/F mortgage backed securities compete with US treasuries.

5. *Establishing accountability on the expenditure of federal housing subsidy dollars. In 1953, the NAHB noted: "Public housing is not low-cost housing. It is high-cost housing offered at low rent..." Today, subsidized projects are all too often a revolving door of subsidizing, rehabbing, tearing down, and rebuilding. This committee should require HUD to document project by project this revolving door of waste.*

These measures, in combination with state and local efforts to deregulate land use and zoning, can more effectively address the housing affordability crisis, all at no taxpayer cost and without unintended consequences.

Also, what is the most effective action the federal government could take to help working families afford a place to live?

Answer:

A 10-year federal plan to auction surplus federal lands for new market-rate home construction could add 200,000 homes per year. However, for this to be effective, the rules need to follow the "keep it short and simple" or KISS rule.

Question #2

During the hearing, Paul Williams from the Center for Public Enterprise pointed to the expense and risk associated with construction financing as a significant barrier to the building of multifamily and affordable housing projects. Mr. Williams called for the federal government to subsidize such financing so that builders could continue with their projects independent of prevailing market interest rates or fluctuations in the real estate market.

Are there any unintended consequences members of Congress should consider before pursuing such a policy?

Answer:

Over the decades, Congress has passed numerous financing and guaranty plans that have had the unintended consequences of putting taxpayers at risk and reducing affordability. Here are but a few:

- a) Federal student loan program*
- b) Federal Savings and Loan Insurance Corporation*
- c) Fannie Mae and Freddie Mac*
- d) National Flood Insurance Program*

These efforts share three common flaws, which have cost taxpayers dearly:

- 1. They all start out small, and tremendously over time.*
- 2. As political support grows, so does politically based pricing that ignores market price signals.*
- 3. The provision of liquidity at all times, irrespective of market conditions—in good times and bad.*

Adding a federal guaranty of construction financing for the building of multifamily and affordable housing projects would, over time, have the same unintended consequences, and suffer from the same three flaws.

Questions for the Record
from Senator Tim Kaine for all witnesses
“The Costs of Inaction: Economic Risks from Housing Affordability”
September 25, 2024
Senate Budget Committee

Question #1

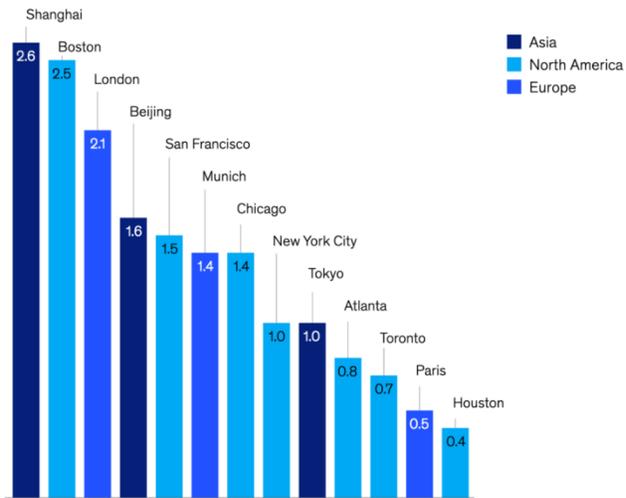
Across the country we are seeing cities and towns rethinking core downtown areas in light of changing work and living patterns. Some localities and developers have found success in converting underutilized or vacant office space into housing, despite the inherent challenges that often come with these conversions. Such conversions can lead to the development of much needed housing in areas that are close to jobs and transit. **What recommendations do you have for federal, state, and local policymakers to help overcome these challenges and break down barriers to office-to-residential conversions?**

Answer:

Studies have found that there would be minimal impact from converting office to housing. For example, McKinsey & Company found office conversions to be [“No quick housing fix.”](#)

If all excess office space were converted into residences, housing stock in superstar cities would grow by less than 3 percent.

Increase in housing stock if all excess office space were converted into residences by 2030,¹%



¹Excess office space means space projected to be vacant beyond what would result from the structural vacancy rate (defined as the average vacancy rate from 2014 to 2019). Source: McKinsey Global Institute analysis

McKinsey & Company

Additionally, a recent interactive by the Washington Post Editorial Board explained: [“Why it’s so hard to turn offices into homes”](#) It noted that vacant office space remains high in many cities, while office conversions as a percent of total office space is low,

CITY	▼ VACANT OFFICE SPACE	CONVERSIONS UNDERWAY OR PLANNED
San Francisco	27.3%	2.3%
Dallas	24.6%	1.9%
Chicago	24.3%	2.2%
Atlanta	23.9%	1.1%
Philadelphia	23.3%	0.8%
Salt Lake City	23.0%	0.7%
Washington, D.C.	20.9%	1.4%
Los Angeles	20.7%	0.7%
U.S. average	18.2%	1.4%
New York	15.6%	0.6%
Cleveland	15.5%	10.8%

Vacancy data are as of Q2 2023. Conversion data are as of Q3 2023. New York is for Manhattan only.

Source: CBRE

THE WASHINGTON POST

Reasons cited include:

1. *It's hard to do a conversion. Office buildings weren't constructed to be lived in.*
2. *They don't have the plumbing and electrical guts that homes require. Ceilings need to be high enough that these additions won't drop them below regulation height, which is typically at least seven feet.*
3. *There's also the issue of windows. If the building is very wide, apartments or rooms near the center won't have any. And well-placed windows won't matter much if they're blocked by neighboring buildings.*
 - a. *Buildings with inner courtyards or other shapes that allow for all areas to have natural light are better suited for conversion.*
 - b. *Some older offices are also good candidates. Built before central heating and cooling systems, they were constructed from the outset to maximize window access and air flow.*
4. *Location matters, too. Zoning laws mean some buildings have no parking — or too much — or can't legally be converted into homes.*
5. *But the largest hurdle is that office towers remain too expensive. The market has changed post-pandemic, but many sellers aren't prepared to slash prices enough — or to take a loss.*

Given these challenges, federal involvement in office-to-residential conversions would suffer from the same flaws and unintended consequences that consistently have put taxpayers at risk from federal guaranty and subsidy programs.

The Washington Post cited the potential for state and local governments to use tax abatement to spur, at low or no cost, the conversion of offices into apartments. The Center City District (CCD) of Philadelphia suffered from an overhang of abandoned and underutilized office buildings. Property owners and city council leaders met and in 1997 expanded an existing tax abatement program to a 10-year property tax abatement on the cost of conversion from office to residential a full [a full 10-years of property tax abatement on the cost of conversion from office to residential](#). It was successful in reducing the office space glut and increasing the residential population in the CCD. In 2000 the abatement was expanded to both new and renovated residential construction.

In 2006, the [New York Times](#) wrote:

- Philadelphia - AFTER years of losing population, the downtown region, known as Center City, is booming, with developments going up and old buildings being transformed into lofts and condominiums.
- The construction, fueled by tax breaks, has succeeded in halting the city's 40-year population decline.
- Center City, which has the nation's third largest downtown residential population, behind New York and Chicago, is experiencing its fifth straight year of increased housing starts, both new and rehabilitated units.
- Center City's population grew to 88,000 by the end of 2005 from 78,000 in 2000.
- Even more striking, the number of households rose by 24 percent.
- In the beginning, the abatement program was 100 percent responsible for getting things going.

[Study on 1997 commercial-to residential abatement success:](#)

The city was still experiencing building abandonment and decay in 1997 when the abatement was first expanded to a full decade. This revision encouraged Center City property owners to convert empty office space into residential units after a study by the Center City District recommended such a change. Through this expansion, the city hoped to repopulate the urban center, where historic commercial buildings had become mostly vacant above the ground floor. City leaders thought that repurposing this vacant space would help save the building stock from decay and revitalize the neighborhood by attracting more people to live there (Center City District 1996). Once the neighborhood became more vibrant and populated after business hours, the city could expect an improvement to public safety as well. In addition to these targeted goals, news coverage regarding this policy change indicates that the abatement extension was generally meant to address a glut of vacant office space, spur development, and increase tax revenue in the long run.

AEI Housing Center research confirmed that the 1997 abatement, along with a much broader expansion of the 10-year abatement in 2000, spurred a broad based [building — and population — boom](#), with positive overall impacts on tax revenues.

The abatement methodology for facilitating the conversion of offices into apartments has a number of advantages over traditional government approaches, and avoids the unintended consequences already noted above with federal subsidy programs:

- 1. In terms of cost, the appropriate comparison is not how much in abated property taxes on improvements the city did not collect over 10 years, but rather the property taxes the city did collect due to the tax abatement. Conceptually, the revenue potential on an improvement that never gets built is zero, so abating 100% of zero, costs nothing.*
- 2. This is a bottom up, rather than a top down approach, where administrators or politicians select targeted areas and project. Abated developments are selected for based on market feasibility, not political or administrative ones.*
- 3. Since each abated development has to pencil out with private financing, there is no incentive to pile on costs in order to get more subsidy dollars.*
- 4. It is a much simpler approach than traditional ones, both reducing costs and expanding the pool of eligible participants.*
- 5. For all of these reasons, the opportunities for corruption are near zero.*


Charles E. Grassley
United States Senator

Questions for the Record
from Senator Charles E. Grassley
for Mr. Jack Salmon
“The Costs of Inaction: Economic Risks from Housing Affordability”
September 25, 2024
Senate Budget Committee

Question #1

Mr. Salmon,

Your organization’s mission seeks to “advance liberty, opportunity and personal responsibility.” Can you discuss why it’s so important for the volunteer and philanthropy sectors to “help people help themselves” and provide some additional examples from the Roundtable’s work?

Question #2

During the hearing, the Honorable Joseph Shekarchi, Rhode Island House Speaker, discussed efforts he has engaged in to address housing supply and quality at the state level in Rhode Island. He mentioned how the small size of Rhode Island gives him flexibility to pursue a variety of policy options. At the same time, he expressed support for expanding the role of the federal government as a way to spur innovation at the state level and noted his desire for additional federal programs to enhance innovation in his state through innovative federal programs.

In your view, are proposals put forth at the hearing to expand the federal government’s role in the housing market more likely to increase or stifle innovation in the housing market? What impact would such proposals have on the charitable sectors role in this area?

Jack Salmon
Director of Policy Research, Philanthropy Roundtable

Response to questions for the record

September 26, 2024

Ranking Member Grassley. Thank you for your questions.

While government often attempts to solve social problems with a top-down approach that often involves allocating more deficit spending towards policy priorities, philanthropy tackles the root causes of social problems.

Take, for example, the issue of homelessness. At Philanthropy Roundtable we understand that an issue like homelessness is multifaceted. Our community of donors support charitable organizations who are solving the underlying drivers of homelessness—this includes connecting those detached from the labor market with jobs programs, treating those who enter homeless shelters, not as homeless, but as trainees with paid work initiatives, and providing a community of support for those with addiction problems seeking sobriety. These charitable initiatives align with our organizational mission, giving those in need the opportunity and personal responsibility to live independent lives with dignity.

Another example of a charitable organization doing inspiring work in providing opportunities to the less fortunate is Cristo Rey High School in Philadelphia, Pennsylvania. This private catholic school is funded by philanthropists and business leaders, with over 500 underserved students enrolled. The school boasts a 100% college acceptance rate—this success is in large part due to donors like the Philadelphia based Connelly Foundation. Investing in Cristo Rey was personal for Connelly Foundation founder John Connelly, who was forced to drop out of school in the sixth grade and grew up deeply aware of the educational opportunities he missed.

With respect to your second question, I think you raise an important issue here. First, expanding the federal government's role in housing is likely to make the affordability crisis worse. Without loosening stringent supply constraints at the state and local level, funneling more federal dollars into an already overheated housing market will almost certainly stifle any private innovations that could help remedy the problem. Prices are signals that convey important information about supply, demand, and scarcity. Distorting these market signals through more demand-inducing federal subsidies will lead to an inefficient allocation of resources.

Increased government involvement often leads to monopolistic practices or the establishment of bureaucracies that inhibit competition. When the government becomes a major player in the housing market, it can lead to reduced incentives for private developers to innovate, as they may rely on government programs rather than competing in an open market.

Finally, expanding the federal government's role in housing is likely to have a crowding out effect on private charitable solutions to these issues. When the government becomes monopolistic in its provision of affordable housing, it can diminish the perceived need for charitable organizations to fill this role, potentially leading to a reduction in donations and volunteer efforts aimed at addressing homelessness and housing affordability. Increased government involvement often results in funding and resources being allocated according to bureaucratic priorities rather than community needs. Charitable

organizations may find it challenging to compete for resources if government programs dominate the landscape, diverting funds away from innovative local solutions that non-profits might propose to address homelessness and affordable housing.

Finally, charitable organizations often focus on holistic support for individuals, providing not just housing but also services that address underlying issues such as addiction, mental health, or unemployment. A more bureaucratic government approach may overlook these crucial aspects, leading to less effective outcomes for those it aims to help.



Question for the Record
from Senator Tim Kaine
for Speaker Shekarchi, Mr. Paul Williams, Ms. Greta Harris, Mr. Ed Pinto, and Mr. Jack Salmon
The Costs of Inaction: Economic Risks from Housing Unaffordability
September 25th, 2024
Senate Budget Committee

Question #1:

Across the country we are seeing cities and towns rethinking core downtown areas in light of changing work and living patterns. Some localities and developers have found success in converting underutilized or vacant office space into housing, despite the inherent challenges that often come with these conversions. Such conversions can lead to the development of much needed housing in areas that are close to jobs and transit. **What recommendations do you have for federal, state, or local policymakers to help overcome those challenges and break down barriers to office-to-residential conversions?**

Jack Salmon
Director of Policy Research, Philanthropy Roundtable

Response to questions for the record

September 26, 2024

Thank you for this important question, Senator Kaine.

Allowing residential use in commercial zones has become a more common solution to the lack of housing in many U.S. cities, particularly since the COVID-19 pandemic and the subsequent uptick in remote work.

While I have not conducted my own independent research into this topic, scholars at the Mercatus Center at George Mason University have recently outlined best practices that state and local lawmakers can pursue.¹ The authors outline how policymakers can pursue legislation to allow residential housing in commercial zones (RICZ) or housing on land owned by religious and charitable organizations (often called “Yes in God’s Backyard,” or YIGBY).

The report recommends setting a base building intensity, allowing developers to exceed it by right, matching the site’s context, while certain commercial areas near industrial uses, military bases, and airports should be exempt. YIGBY should include all charitable nonprofits, not just religious groups. The base intensity should support detached homes, townhouses, and low-rise apartments, with flexible regulations that adapt to different urban densities. Restrictions like unit counts should be minimized in favor of setback and lot coverage limits, ensuring new buildings match the surrounding area. Building height should align with the tallest building within a quarter mile. Adaptive reuse of existing buildings should also be encouraged.

Finally, RICZ policies should allow cities to exempt up to 25% of commercial land poorly suited for residences, such as areas near heavy traffic. This partial opt-out can help cities separate housing from harmful environments, encourage city buy-in, and strengthen the effectiveness of zoning reform. Offering technical assistance or grants can further incentivize cities to comply.

¹ Furth, Salim, and Eli Khan. “Office Overhauls and “God’s Backyard”: Reforms for Housing in Commercial Zones and Faith Land.” Mercatus Policy Brief, May 2024. <https://www.mercatus.org/research/policy-briefs/office-overhauls-and-gods-backyard-reforms-housing-commercial-zones-and>.



September 25, 2024

The Honorable Sheldon Whitehouse
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

The Honorable Chuck Grassley
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Letter for the Record: Senate Committee on the Budget Hearing, “The Costs of Inaction: Economic Risks from Housing Unaffordability”

Dear Chairman Whitehouse and Ranking Member Grassley,

On behalf of the [J. Ronald Terwilliger Center for Housing Policy](#), thank you for convening this important hearing on housing affordability, an issue of profound importance to millions of Americans.

Unfortunately, households across the country face historically high housing costs due to inadequate housing supply and elevated mortgage rates. Over the past three years, average rents have risen by 19%, while home sale prices have increased by 22%. More than 42 million households, including half of all renters, are cost-burdened, spending more than 30% of their monthly income on housing alone. The more families spend on housing, the less they can spend on other necessities like food, child care, health care, and transportation. These difficult trade-offs can lead to negative consequences, including poorer health outcomes and lower academic achievement among children.

High housing costs and the nation’s shortage of affordable homes also negatively impact American workers and labor markets by making it more difficult for Americans to move to areas with better-paying jobs and higher-quality schools. If the country had adequate housing to meet demand, U.S. productivity and the economy would grow significantly. The deep connection between housing affordability and economic growth is highlighted in a recent Terwilliger Center [report](#), *Exploring the Affordable Housing Shortage’s Impact on American Workers, Jobs, & The Economy*, as well as in a [letter](#) by members of the Center’s Executive Council for Housing Affordability.

Prioritizing access to affordable housing will improve the lives of millions of Americans while enhancing upward economic mobility and strengthening our nation’s economy. The housing affordability crisis can be solved, but Congress must implement a comprehensive, bipartisan response, as outlined in Bipartisan Policy Center Action’s legislative proposal, the [American Housing Act](#). On behalf of the Center, I thank the committee for its work on this critical issue and stand ready to assist.



Sincerely,

Dennis Shea

Dennis Shea

Executive Director, J. Ronald Terwilliger Center for Housing Policy

Bipartisan Policy Center

