



Statement before the House Committee on Financial Services

Building Capacity: Reducing Government Roadblocks to Housing Supply

**Unlocking Housing Supply:
Federal Tools to Support State Reforms Without Federal Overreach**

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Chairman Hill and Ranking Member Waters, and distinguished Members of the Committee, thank you for the opportunity to testify today.

Executive Summary:

Housing unaffordability is real, and it is worsening: home prices have been rising far faster than incomes for years. Lower-income households are increasingly priced out of homeownership—stunting family formation and economic growth (see Appendix 9 for more detail). Depending on methodology, the most credible estimates put the national shortage between 4 and 8 million homes.

The causes are straightforward:

- Buildable land has become scarce and homebuilding more expensive. Local rules often ban multiple homes on a parcel, mandate large lots, and put more land off limits.
- Regulations at every level of government add cost and complexity.
- Demand has been artificially boosted against a restricted supply.
- Federal monetary policy made it worse. The Fed kept rates too low for too long, fueling a historic price boom, then slammed on the brakes—doubling mortgage rates (see Appendix 7).

Today's first-time buyers face both record-high prices and record-high rates—a dual burden created in large part by the Federal Reserve—leaving many lower-income households stuck renting instead of climbing the first rung of the housing ladder.

The problem is fixable with the right policies, but we must focus on solutions that truly move the needle while avoiding costly unintended consequences. The answer is to build more homes on smaller lots. Because land is costly, smaller lots mean smaller, more attainable homes—reducing costs and increasing the supply of family-sized starter homes. Since 2000, the country has built about 12 million homes; had we built them on slightly smaller lots instead, we would have roughly 9 million more homes today, and those homes would be priced about 15-20 percent lower.

Zoning and land use are fundamentally state and local responsibilities, and many states—including Texas, California, Montana, Oregon, and Washington—have already begun to address these issues.

I applaud Congress and the sponsors of the ROAD to Housing Act of 2025 for recognizing the urgency of housing affordability. However, ROAD is too federal, too subsidy-driven, and too apartment centric. We need a greater focus on family sized starter homes. It is important that the federal government not override or micromanage these state-led reforms.

At the same time, the federal government does have powerful levers—several of which fall squarely within this Committee's jurisdiction—that can (1) spur more new homes, (2) unlock existing homes, and (3) avoid counterproductive approaches so we do not repeat past mistakes.

How this committee could incentivize more housing construction:

- HUD should offer a bounty for states when they plat smaller lots, paying for results when they achieve this plain and simple goal.
 - The bounty should be funded from already existing HUD grants and programs to states.
 - It should be structured as a performance incentive within HUD programs. Reward outcomes by directly addressing the causes of the affordability crisis.
 - Keep the program simple and targeted—focused on lot size and supply, without layering on new affordability mandates.

- HUD should expand the supply of starter homes by adopting targeted mortgage insurance pricing reductions and underwriting changes.
 - This would materially add to the supply of affordable, family-sized starter homes and be especially beneficial for working class households looking to buy their first home.
- Freeing up federal land – HUD/Interior task force
 - HUD’s collaboration with Department of the Interior on facilitating the sale of federal Bureau of Land Management land. Auctioning off just 0.3% of such lands could be enough for 1 million housing units over a decade when coupled with smaller lots while resulting in revenue for the federal government. These efforts have been ongoing since March 2025 and at the AEI Housing Center, we have identified the land most suitable for sale. These efforts should be sped up.
- Pass the ROAD Act provision updating the definition of manufactured housing to allow removal of temporary chassis after installation.
 - This would lower costs for manufactured housing.
- Implement ROAD’s ‘Unlocking Housing Supply Through Streamlined and Modernized Reviews Act’ (NEPA reform)
 - Speeds up the review process, which will lower costs to build.
- Reduce energy rules and related regulations
 - Rolling back, rather than delaying energy standards, would improve affordability, especially for working-class households.

There are several additional ideas, outside this Committee’s direct jurisdiction, that would further incentivize more housing construction:

- Tax profits from newly built, for-sale developments as a long-term capital gain, not income.
- Lower or eliminate tariffs on construction materials and opening more areas in national forests for logging, which would bring down the cost of materials, a key construction input.

How this committee could unlock existing homes:

- HUD should phase out FHA’s Home Retention options that keep delinquent borrowers with equity in their homes.
 - These borrowers could right-size their finances while walking away with on average over \$100,000 in cash, while reducing risk to taxpayers.

There are several additional ideas, outside this Committee’s direct jurisdiction, that would further unlock existing homes:

- Exempt from federal income tax the rental income earned from newly rented rooms in owner-occupied single-family homes.
 - Millions of spare bedrooms sit unused; a tax exemption would encourage more homeowners to rent them out, expanding lower-cost housing options.
- Exempt from federal income tax all capital gains on the sale of a primary residence owned by someone 65+ for at least two years.
 - Many seniors exceed the current exclusion and hold onto homes—often waiting for the step-up in basis at death. A full exemption would remove this barrier and encourage downsizing, freeing up housing supply.
- End tax deductions for mortgage interest on second homes.
 - This deduction does not promote homeownership, in fact, it subtracts. This may lead to some owners selling or not buying a second home.
- Adopt a credible plan to lower the debt and fiscal deficit.

- Reducing runaway federal deficit spending would ease pressure on long-term Treasury rates, which are a key driver of mortgage rates.

How this committee could avoid counterproductive approaches so we do not repeat past mistakes:

- Federal involvement in state and local zoning decisions, as proposed in several ROAD Act provisions, is counterproductive.
 - It risks poisoning the bipartisan momentum underway in many states and reducing the urgency for states to act on their own. It also pushes policy toward subsidized housing, shifts authority from markets to bureaucrats, and invites federal micromanagement. A better approach is for Washington to step back and reward states based on outcomes rather than dictate local zoning decisions.
- Before expanding federal housing programs, HUD should conduct a full forensic audit.
 - Congressional housing subsidies—over \$100 billion annually across HUD, Treasury (including LIHTC), and USDA—have long been layered, inconsistent, and poorly scrutinized. Many projects rely on multiple subsidies, only to need new ones years later. As Secretary Turner signaled in his confirmation hearing, fiscal transparency is essential and you should hold him to it.
 - The federal government’s record on housing supply interventions is poor.
- Do not allow Fannie and Freddie to finance construction loans.
 - Under their federal charters, Fannie and Freddie have very limited authority to support homebuilders and subsidizing buyers of new homes would likely raise prices. Policy should focus on shrinking their footprint, not expanding it.
- Do not introduce 50-year mortgages and other demand side policies.
 - Longer-term mortgages would push prices higher. We have tried 40-year mortgages—and their close cousin, interest-only loans—before, and it did not end well.
 - We cannot fix a supply problem by focusing on the demand side; we will only bid up the price of the same limited number of homes.
- Do not ban corporate or institutional investors with large holdings of single-family rentals.
 - Their emergence was not a cause, but rather a reaction, to government regulatory failures. The market share of institutional investors is less than 1% nationally.
 - The solution is not to ban institutional investors but to allow more housing to be built, which institutional investors do support.
- Do not blame homebuilders for lack of housing construction.
 - While it is true that builders have access to land sufficient for about 2.5 million lots, only around a third of them are actually owned by builders, while only about 10% of this land is already platted and/or permitted.
 - Large builders have expanded their market share, but this ignores the fact that they outperform the rest of builders in terms of key affordability metrics and are competing with existing home listings.

In conclusion, each level of government should focus on what is properly within its purview to expand supply. The [Strong Foundations Playbooks](#), released by the AEI Housing Center and the U.S. Chamber of Commerce, provide practical, customized paths to affordability (see Appendices 1 and 11). States and localities now need to implement these reforms at scale. Across the nation, by focusing on four key plays—smaller lots, by-right zoning, simpler rules, and lower costs—we could add up to 1.6 million additional homes a year.

Our 30 case studies (see Appendix 2) show that builders can overcome labor shortages and higher interest rates, but they cannot overcome restrictive government regulations. If we legalize homebuilding—by allowing more, smaller lots—builders will deliver the attainable homes American families need.

Supporting Policy Details:

How this committee could incentivize more housing construction:

- 1) HUD should offer a bounty to states that legalize and plat smaller lots, paying for results when they achieve this plain and simple goal.**

Our [research](#) shows smaller lots are essential to improving affordability: land is expensive, and allowing smaller lots enables smaller, more attainable starter homes. This [would expand](#) homeownership opportunities and support family formation, especially for middle- and working-class households.

A per-lot bounty would give states a strong incentive to reform, and they could use the funds however they choose—whether for infrastructure upgrades, passing the money through to localities, or other priorities. We propose \$25,000 for each new single-family detached home built on lots up to 5,000 square feet, and for each attached home on lots up to 2,000 square feet, when those lots are newly subdivided or multiple homes are built on that lot after the effective date. Additional bonuses could apply to homes platted near new manufacturing or technology sites, or on federal land sold for housing. The program should be kept simple and targeted—focused on lot size and supply, without layering on new affordability mandates.

At an average bounty of \$37,500 per lot, the program would cost roughly \$9 billion annually and help produce about 240,000 family-sized homes a year. The bounty should be funded through existing HUD grants and programs to states, without creating new federal spending streams.

Similar federal bounty schemes (such as seat belt laws, Race to the Top in education, Medicaid expansion) provide a clear precedent for this approach.

- 2) HUD should expand the supply of starter homes by adopting targeted mortgage insurance pricing reductions and underwriting changes.**

The Secretary of Housing and Urban Development should take all sustainable steps to increase the production and purchase of family-sized starter homes through the following actions:

- Target FHA support to true starter homes.

Investigate limiting FHA 1–4 unit loans for new construction to homes ≤1,800 sq. ft., which is sufficient for four bedrooms and aligns the program with its mission of supporting modest, attainable housing.

- Streamline condo approvals for small infill projects.

Align FHA’s condominium certification process with Fannie Mae’s standards, which generally exempt 2–4 unit infill condo projects from large-project review requirements. Lenders would continue to ensure properties are safe, sound, and structurally secure.

- Offer improved MIP pricing for small new-construction homes.

For new construction of homes <1,800 sq. ft., FHA should adopt builder-paid upfront MIPs and a 0% annual premium:

- 30-year: 3% upfront
- 20-year: 2% upfront
- 15-year: 1.5% upfront

Together, these reforms would materially expand the supply of affordable, family-sized starter homes and especially benefit working-class first-time buyers. This policy would work best with an ample supply of smaller lots.

3) Freeing up federal land for starter home construction through the HUD and Department of Interior joint task force

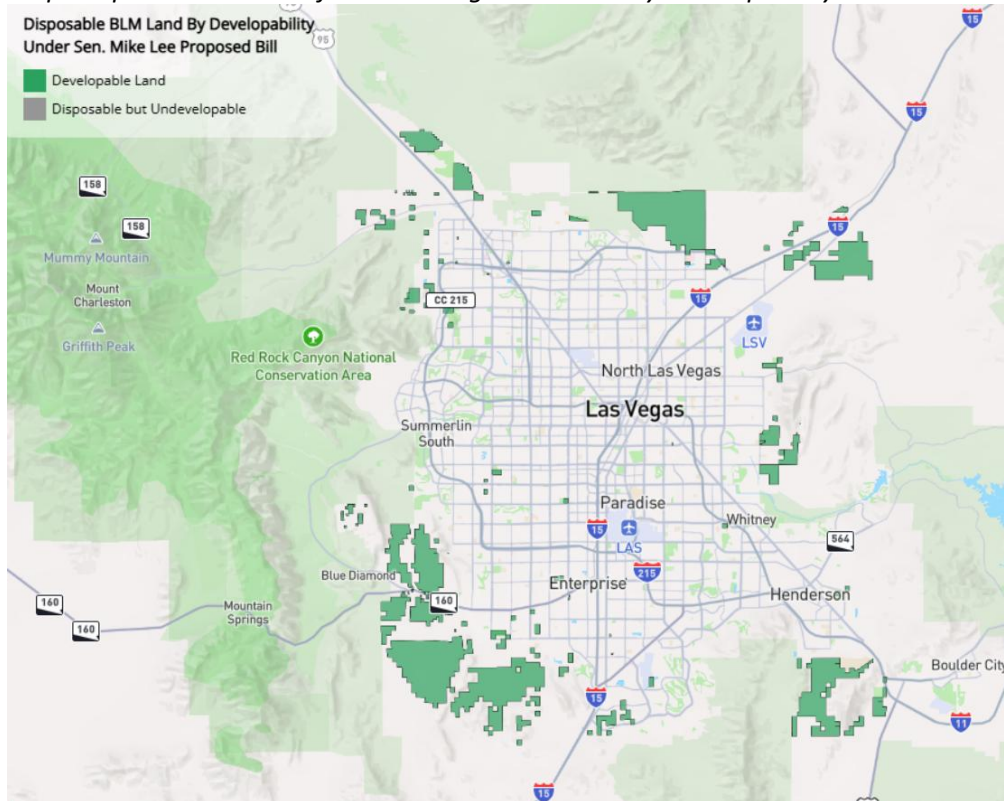
In March 2025, HUD created a task force with the Department of the Interior to identify and sell underutilized federal land. Despite the urgency of the housing shortage, no land has been sold yet. Auctioning off just 0.3% of federal Bureau of Land Management (BLM) land could be enough to build 1 million housing units over a decade while resulting in revenue for the federal government.

At the AEI Housing Center, we have identified the BLM land most suitable for sale, which could help speed up these efforts (see map below). Sen. Harry Reid set a [precedent](#) by freeing up federal land for the Las Vegas metro. These land sales have enabled 90,000 new homes in the region over the past 30 years, despite its slow pace of sales.

Infrastructure concerns can be overcome. Despite doubling its population over the past three decades, Las Vegas uses no more water now than it did in 1990. We have the technological capacity for expanding our western communities without draining the environment. Our proposal is designed to take advantage of existing infrastructure in an achievable and sustainable manner.

In addition, the sale of BLM land may yield \$1.2 trillion dollars in home sales and \$100 billion in proceeds from the land sales to the Treasury.

Map: Disposable Bureau of Land Management Land By Developability



Methodology: Land located within five miles of urban areas (defined as areas with at least 50 single-family homes on sewered lots of up to ¼ acre), with slopes of 15% or less, and excluding water bodies, protected federal lands, designated recreation areas, and parcels with valid existing rights (grazing, mining, etc.).

Source: BLM and AEI Housing Center.

For an interactive map of the entire United States:

https://aeihousingcenter.org/homesteading_2/analysis/reconciliation_bill/reconciliation_bill_2025-06-27_simple.html

Aerial view of Bureau of Land Management Land across the street from existing subdivisions: Las Vegas



Source: Google, BLM, and AEI Housing Center.

For more on this idea, see <https://www.aei.org/homesteading-2-dot-0/>.

4) Eliminate the chassis requirement for manufactured homes

Pass Section 301 (“Housing Supply Expansion Act”) in the ROAD Act, which updates the federal definition of manufactured housing to include units “with or without a permanent chassis.” The Housing Center recommends clarifying this language to: “on a chassis that is either permanent or temporary, and if temporary, is removed when the unit is installed at the place of occupancy.” This refinement would encourage innovation in manufactured housing design and deliver significant cost savings for consumers.

5) Reform of the National Environmental Policy Act of 1969 (NEPA)

Implement ROAD’s Section 208 (the “Unlocking Housing Supply Through Streamlined and Modernized Reviews Act”) that directly amends NEPA procedure and eliminates or shortens federal environmental reviews for certain housing-related projects. However, it’s important to point out that these reforms would generally not affect the construction of single-family starter homes, since NEPA applies only when there is a federal action—such as federal funding, insurance, or permitting—which most single-family starter homes do not involve.

6) Reduce energy rules and related regulations

HUD has [extended compliance](#) deadlines for new energy-efficiency standards, which National Association of Home Builder (NAHB) estimates add more than [\\$30,000](#) to the cost of a new home. Rolling these standards back—rather than merely delaying them—would meaningfully improve affordability, especially for working-class households. In addition, appliance efficiency rules have added over [\\$9,000](#) in household expenses per home, according to the Alliance for Consumers.

There are several additional ideas, outside this Committee's direct jurisdiction, that would further incentivize more housing construction:

7) Tax profits from newly built, for-sale developments as a long-term capital gain, not income.

Treating profits from homes sold directly to buyers as long-term capital gains would make more for-sale developments financially viable.

- Under current law, non-publicly traded homebuilders organized as LLCs can face tax rates up to 37% on profits from homes sold to individual buyers.
- The same project sold to a single investor as a rental community is taxed at just 21%, the corporate rate.
- This disparity gives a clear advantage to build-to-rent over build-to-own development, discouraging the construction of for-sale homes.

Correcting this imbalance would help expand the supply of affordable, family-sized starter homes and support working-class households seeking to buy their first home.

8) Miscellaneous other ideas

1. Reduce or eliminate tariffs on construction materials that add [thousands](#) of [dollars](#) to the cost of construction, which home builders pass on to consumers.
2. Expand responsible logging in national forests to increase domestic lumber supply. This would lower lumber costs – a key home construction input.
3. Eliminate Davis-Bacon prevailing wage requirements on residential construction, which raise labor costs for federally assisted projects.¹
4. Remove other unnecessary regulatory burdens, including select Occupational Safety and Health Administration (OSHA) requirements that increase costs without meaningfully improving safety.²

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.

How this committee could unlock existing homes:

1) HUD should phase out FHA's Home Retention options that keep delinquent borrowers with equity in their homes.

The [FHA's home retention](#) programs (partial claims in particular) have ballooned to over 1 million borrowers (but also the GSEs and VA) diverting federal resources toward keeping borrowers in place rather than enabling the housing market to clear and free up units. Because most delinquent borrowers hold substantial equity (on average \$126,000 even after accounting for arrearages and transfer taxes) and could sell, current policies trap homes that would otherwise return to the market, constraining supply and worsening affordability. By turning mortgage debt into a repeatedly tappable bailout mechanism, loss-mitigation programs slow necessary turnover, create risk for taxpayers, reduce mobility, and keep larger, family-sized homes off the market for prospective buyers.

These programs create an inherently unfair system in which borrowers who stop making payments remain in their homes and continue to benefit from home price appreciation, while would-be homeowners who play by the rules are stuck on the sidelines as homeownership moves further out of reach. For more see on this, see the analysis in Appendix 10.

There are several additional ideas, outside this Committee's direct jurisdiction, that would further unlock existing homes:

2) Exempt from federal income tax the rental income earned from newly rented rooms in owner-occupied single-family homes.

Tap into existing housing supply by exempting from federal income tax the rental income generated from newly rented rooms in primary, owner-occupied single-family homes. As household sizes have fallen, the number of spare bedrooms has surged to 32 million. These rooms already exist and represent an immediate, low-cost source of additional housing. This requires legislation.

3) Exempt from federal income tax all capital gains on the sale of a primary residence owned by someone 65+ for at least two years.

A full capital gains exemption for older homeowners would remove a major barrier to selling, encourage downsizing, and free up large family homes for younger households.

About 9 million seniors (31.6% of owners 65+) exceed the current capital gains exclusion, discouraging them from selling. Many also wait until death because their heirs receive a step-up in basis, eliminating the capital gains tax entirely—another strong incentive not to sell.

If even 2 million of these larger homes return to the market over ten years, that would add 200,000 move-up homes annually. Because these homes already exist, they can boost supply immediately, especially for growing families. This would set off a beneficial chain of moves—seniors downsize, families move up, and entry-level homes are freed for first-time buyers—better aligning supply and demand across the market.

The revenue cost is likely minimal, since most of these capital gains would be erased anyway through the step-up in basis at inheritance.

4) Eliminate the mortgage interest tax deduction on second homes.

Subsidizing second homes does not increase the homeownership rate, as second homeowners already own a primary residence. In fact, it detracts from homeownership by promoting increased competition for a limited number of homes.

Congress should eliminate the mortgage interest tax deduction on new second home purchases and phase out the mortgage interest tax deduction on prior second homes over 5-10 years. This [may free up](#) to 750,000 housing units over 10 years for owner-occupancy. This is the equivalent to adding several months of housing production. While this approach has not been tested, it has little downside and does not cost any money. For more, see the op-ed "[End tax deductions for mortgage interest on second homes.](#)"

5) Adopt a credible plan to lower the debt and fiscal deficit.

Reducing runaway federal deficit spending would ease pressure on long-term Treasury rates, which are a key driver of mortgage rates. Because mortgage rates closely track the 10-year Treasury, lower deficits would help bring down borrowing costs for homebuyers. Lower rates would also reduce builders' and developers' cost of capital, enabling more projects to move forward and supporting greater housing supply.

How this committee could avoid counterproductive approaches so we do not repeat past mistakes:

1) Federal involvement in state and local zoning decisions, as proposed in several ROAD Act provisions, is counterproductive.

It risks poisoning the bipartisan momentum underway in many states and reducing the urgency for states to act on their own. It also pushes policy toward subsidized housing, shifts authority from markets to bureaucrats, and invites federal micromanagement. (For more, see Appendix 3.) A better approach is for Washington to step back and reward states based on outcomes rather than dictate local zoning decisions.

The ROAD Act contains several sections that are highly problematic. They include:

- Sec. 203
- Sec. 204
- Sec. 205
- Sec. 206
- Sec. 207
- Sec. 209
- Sec. 211
- Sec. 212
- Sec. 213

These bills are flawed for multiple reasons:

First, several sections direct HUD to provide “technical assistance,” publish “best practices,” and even develop a model state zoning code—crafted not by elected officials but by federal policy staff. This revives a century-old pattern in which Washington promoted zoning frameworks that entrenched single-family mandates and racial segregation. A new federal task force would also evaluate “best practices,” yet its composition all but guarantees dominance by advocates of subsidy-driven, government-centric solutions rather than market-based reforms that expand supply.

Second, one provision would create a federal fund for “innovative” housing solutions, but such programs historically funnel money into projects burdened by affordability mandates that markets reject. HUD’s own PRO Housing program, which awarded nearly \$85 million in FY23, overwhelmingly backed jurisdictions such as Seattle, Philadelphia, and Minneapolis—places where local policies have suppressed private development or hindered market-driven revitalization. These programs push subsidized strategies that crowd out private builders while failing to evaluate whether the underlying state or local reforms actually produced more housing. In short, they offer no evidence of effectiveness and ignore unintended consequences. For the entire analysis, Appendix 4.

Third, publishing federal zoning guidelines is unnecessary. Market-oriented research from groups like the AEI Housing Center and Mercatus already provides this information at no cost—and without expanding the federal bureaucracy. Instead of creating another bureaucratic layer, policymakers should leverage existing research to craft effective housing solutions. For more, see Appendix 6.

Fourth, these proposals distract from the core issue: the need to allow more homes to be built. From 2000 to 2024, the U.S. added over 12 million single-family homes—but zoning kept lots far larger than needed. Had the median lot size been 5,500 instead of 8,000 square feet, and had just 20% of new homes been townhouses, the nation would have 9 million more homes today and prices roughly 15% lower. That is not speculation—it is simple arithmetic.

This brings us to a key misconception: the housing shortage is not a market failure but a government regulatory failure. Actions by federal, state, and local governments — restrictive zoning laws, discretionary planning reviews, environmental requirements, and layers of regulation — have made land artificially scarce and homebuilding excessively costly. These government-imposed barriers have prevented private developers from producing enough homes to meet demand.

Fifth, states and localities are already developing tailored solutions that reflect their unique markets. A one-size-fits-all federal framework would undermine this progress, stifling flexibility and innovation. States acting as “laboratories of democracy” have produced the most promising reforms.

Sixth, the ROAD Act imports elements of progressive central planning—public land control, mandatory below-market units, transit-adjacent high-rises, and California-style housing needs assessments. California has used RHNA since 1969 (and mandated it since 1980), yet it remains one of the least affordable housing markets in the country—hardly a model to emulate.

Finally, what the ROAD Act omits is just as telling: there is no focus on producing more entry-level, owner-occupied homes in the places where families want to live and grow. For a party that emphasizes wealth-building and family formation, this is a glaring oversight.

2) Before expanding federal housing programs, HUD should conduct a full forensic audit.

Congressional housing subsidies—over \$100 billion annually across HUD, Treasury (including LIHTC), and USDA—are layered, inconsistent, and poorly scrutinized. Many projects receive multiple subsidies, only to need new ones years later. As Secretary Turner emphasized in his confirmation hearing, fiscal transparency is essential, and Congress should hold him to it.

Ultimately, Congress should require HUD to release data that would allow researchers to evaluate all subsidized housing programs, including public housing, section 8, section 236, and LIHTC. Such transparency is essential for rigorous cost-benefit analysis. Many properties are on their fourth or fifth round of federal subsidies, yet HUD does not track, on a parcel-by-parcel basis, the total development, renovation, and operating subsidies they have received over time.

HUD should be required to provide detailed information on each subsidized property’s physical condition, capital-needs plan, the funding needed to replace core building systems, and any history of fraud or abuse. This reform would cost nothing, yet would finally allow the federal government to expand programs that deliver results and wind down those that do not.

Similarly, before implementing the Neighborhood Homes Tax Credit, Congress should reckon with the long history of federally subsidized rehabilitation efforts that suffered from cost overruns, failed projects, and corruption. No such rehab program has ever been successfully scaled — making transparency and evaluation indispensable before creating another.

Several sections of the ROAD Act contain expansive “Affordable Housing” language that future administrations will exploit. Subsidy-driven programs are costly, complex, hostile to private development, and prone to mission creep, with new pilot repair and conversion programs likely becoming permanent. The LIHTC program illustrates this failure: it suffers from the six Cs — cost, complexity, corruption, cartel, centralization, and crowding-out—and rigorous evidence shows most LIHTC projects would have been built without subsidies. Portable housing vouchers are a better temporary alternative until supply increases. Efforts like expanding the Workforce Housing Tax Credit (WFHTC) and expansion of the existing Low-Income Housing Tax Credit (LIHTC) will similarly fail.

The federal government’s record on housing supply interventions is poor. Public housing has deteriorated under federal management, and FHA’s expansion into high-risk lending in the 1960s and 1970s devastated entire communities. LIHTC, created in 1986 to boost affordable housing, has done little to expand supply and often limits mobility while crowding out smaller builders. For more on this, see Appendices 5 and 8.

3) Allow Fannie and Freddie to finance construction loans

Under their federal charters, Fannie Mae and Freddie Mac have strictly limited authority in the primary market. They are designed to operate in the secondary mortgage market, not to provide direct construction loans or subsidize homebuilders—activities that would require an act of Congress to authorize. Expanding the GSEs into construction lending would blur the line between government and private capital markets, distort competition, and likely raise home prices by subsidizing demand rather than increasing supply.

Policy should focus on shrinking the GSEs' footprint, not expanding it, consistent with their mission and taxpayer protections. For more on how to achieve this, see the [Taxpayer and Home Buyer Protection Plan](#).

4) Introduce 50-year mortgages and other demand side policies.

Longer term mortgages would increase prices, we tried 40-year mortgages before and it didn't end well. We cannot fix a supply problem by focusing on the demand side, which includes:

- Reducing fees for smaller balance mortgages.
- Downpayment assistance
- First-Time Homebuyer Tax Credits
- Assumable mortgages
- Student Loan Forgiveness for Homebuyers
- Lowering underwriting standards
- Mortgage Interest Rate Buy-Downs
- Lower FHA mortgage insurance premiums (MIP)

Of this list, especially lower FHA MIPs is highly problematic. While it may seem beneficial in the short term, doing so now risks undermining the long-term stability of the Mutual Mortgage Insurance Fund (MMIF), especially amid rising housing-market uncertainties. FHA currently treats partial claims as fully collectible, which overstates the MMIF's true reserves, creates a misleading picture of fund strength, and encourages premature premium cuts. In reality, multiple HUD Inspector General reports show that FHA fails to collect on 25% to 50% of partial claims, and stagnating or declining home prices—particularly in lower-priced markets where FHA borrowers are concentrated—will further reduce the likelihood of repayment. A more responsible approach is to improve MMIF accounting by recognizing a loss at the moment a partial claim is executed and crediting funds back to the MMIF only when repayment actually occurs. For more on this, see Appendix 10.

Rather than lengthening mortgage terms, they should be reduced. An innovative new loan product ([LIFT Home](#)) offers the answer. By combining the shorter loan term of a 20-year mortgage with a reduced mortgage rate, this program fixes the mortgage payment at the rate of a traditional 30-year fixed-rate mortgage. It thus does not enhance buying power, which makes it ideally suited for any seller's market. It furthermore offers protection from default for the borrower, which creates a more stable housing finance system. The [Low-Income First-time \(LIFT\)](#) Home loan has already been introduced and it could be implemented expeditiously. The funds required to buy down the rate should be repurposed from other programs.

5) Do not ban corporate or institutional investors with large holdings of single-family rentals.

Their growth was a response—not a cause—of government regulatory failures that restricted housing supply, and their national market share remains below 1%. The solution is not to prohibit institutional investors, but to allow more housing to be built, which these investors generally support and help finance. (For more this topic, see our detailed analysis "[Institutional Investors in the U.S. Housing Market: Myths and Realities](#)".)

Likewise, junk fees, rent algorithms, Airbnb, foreign buyers, and vacant homes are not responsible for widespread housing unaffordability—the underlying issue is a chronic shortage of homes driven by land-use restrictions.

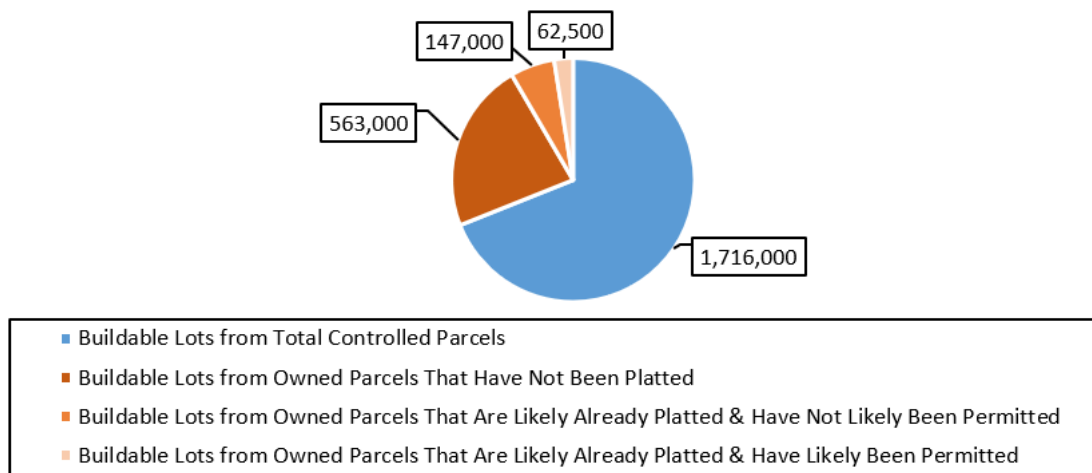
6) Do not blame homebuilders for lack of housing construction.

While it is true that builders have access to land sufficient for about 2.5 million lots, only around a third of them are actually owned by builders, while only about 10% of this land is already platted and/or permitted. Large builders have expanded their market share, but this ignores the fact that they outperform the rest of builders in terms of key affordability metrics and are competing with existing home listings. In most metros, the largest builders account for less than 5% of all home sales, making them too small a share of the market to drive widespread unaffordability.

Buildable Lots from Total Owned or Controlled Parcels

Current Estimate: 2.5 Million Buildable Lots

Source: First American, AEI Housing Center, Evercore



Source: Ed Pinto and Arthur Gailles.

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Appendix 1: Strong Foundations: A Playbook for Housing and Economic Growth

This is the first resource of its kind, providing over 6,600 communities (including 570+ metro areas, 1,000+ counties, 4,600+ cities and places, 360 HUD continuums of care, and 50 states) with free, customized data on affordability, housing supply, migration, homelessness, and much more.

America faces a housing crisis decades in the making. An estimated shortage of six million homes is driving up prices, limiting economic growth, hindering family formation and child rearing, and placing the American dream of homeownership further out of reach for working families. Across the political aisle, there is agreement that something must be done; the challenge is knowing where to start.

Using human intelligence, not AI, we analyzed tens of terabytes of data and over two dozen case studies to develop four “housing abundance plays”, each grounded in one simple principle: **smaller lots**. Smaller lots are the key to housing affordability and abundance because they unlock more homes on the same amount of land, lowering and costs and enabling builders to deliver starter homes at price points families can afford.

1. **Smaller lots in new residential subdivisions:** Our analysis of 12 million single-family homes built in subdivisions since 2000 shows that, with minimum lot sizes no larger than 1,200 square feet, the nation could add *414,400 new single-family homes each year*.
2. **Lot-splits and home type flexibilities resulting in smaller lots:** We examined 70 million single-family detached homes and found that legalizing lot splits, single-family 2-4s, five- to eight-unit multiplexes, and townhomes in existing single-family neighborhoods could add *482,000 new homes each year nationwide*.
3. **By-right residential development in commercial, light industrial, and mixed-use areas:** We analyzed 1.5 million multifamily units to discover how residential overlays could transform underused properties into vibrant, walkable communities and add *587,000 new homes annually*.
4. **Housing development on Bureau of Land Management (BLM) land:** Our analysis of over 170 million acres of BLM land identified 0.1% (110,000) of suitable land, upon which *146,000 homes could be built per year*, again using smaller lots.

Together the four plays could add more than **1.6 million homes per year nationwide**, all without costly subsidies or micromanagement. They are also what makes each playbook unique: because not every option is feasible everywhere, each community’s playbook recommends a specific set of these plays with expected outcomes, ensuring that each solution is tailored to its needs and capabilities.

Here is the link [Strong Foundations: A Playbook for Housing and Economic Growth](#).

The national playbook is attached in full in appendix 11.

Appendix 2: List of AEI Housing Center Housing Supply Case Studies

List of case studies that have quantified the supply response as a percent of the existing single-family housing stock in the same areas:

Area	Period Studied	Supply Response (per year)
Cherry Creek, CO	1970-2022	1.5%
Palisades Park, NJ	2000-2019	1.1%
Tokyo, Japan	1963-	1.5%
Seattle, WA	1994-2024	2.5%
McMansionization – nationally	1990-2024	Depending on the land share, we estimate that between 0.33% to 1.33% of economically viable single-family detached homes are converted to a McMansion each year. Similar percentages should apply to LTD infill conversion. ³

List of case studies other case studies that have quantified the impact of LTD supply additions, but not as a percent of the existing single-family housing stock in the same areas (from AEI Housing Center unless otherwise noted):

Area	Period Studied
California	2000-2022
Nashville, TN	2010-2023
Philadelphia, PA	1980-2024
Sarasota, FL	1980-2023
Anaheim, CA	2005-2023
Charlotte, NC	2000-2020
City of Denver, CO	2000-2021
Houston, TX	2005-2018
McMansionization in Los Angeles Metro, CA	1950-2020
San Jose Metro, CA	2012-2022
Minneapolis, MN	1900-2023
Phoenix, AZ	2000-2023
San Diego, CA ADU Construction	2021-2023
Utah	2000-2023

³ Note that if 1% of economically viable parcels are converted from a SF to 4 TH each year, the housing stock expands by 3% each year. If 0.5% are converted at a rate of 3:1, the housing stock expands by 1%.

List of other AEI Housing Center case studies:

Area	Period Studied
Fargo, ND	2000-2023
Filtering: Theory and Practice	1960-2022
Houston, TX Townhome Reforms	1998-2020
Institutional Landlords	2000-2021
Los Angeles, CA	1980-2024
Raleigh, NC	1960-2023
Short-Term Rentals	2015-2023
Single-Room Occupancy Units (SROs)	1910-2023
Traditional Housing Subsidy Programs and Inclusionary Zoning	2000-2023
Unleashing the Swarm	1990s-2023
Vienna, Austria	Pre-1919-2022

For the complete list, see <https://www.aei.org/housing-supply-case-studies/>.

Appendix 3: The ROAD Act Is a Dead End for Republicans

Tobias Peter is co-director of the [AEI Housing Center](#).

Published in The Hill on 09/20/25

Congress is advancing the ROAD to Housing Act of 2025, a sweeping 325-page bill hailed as the most comprehensive federal housing package in a decade. It spans forty sections—from zoning reform to housing counseling. But beneath its bipartisan veneer, conservatives should look closer: the ROAD Act runs counter to Republican priorities—local control, market-based solutions, fiscal discipline, and homeownership.

To be fair, Republicans secured a few narrow wins: targeted housing exemptions from environmental reviews, support for modular housing, and expanded use of private capital in public housing upkeep. But these gains are minor compared to what Democrats secured.

Start with the budget. The President’s FY2026 proposal rightly called for eliminating the HOME program and CDBG—two inefficient, poorly targeted programs. Yet the ROAD Act expands both. Senator Elizabeth Warren secured \$1 billion for her long-sought Innovation Fund, first proposed in her 2020 presidential campaign. Democrats walked away with billions more for “affordable housing” programs, which are costly, complex, and hostile to private development. The bill also launches pilot programs for home repairs and conversions that could easily become permanent.

The ROAD Act also pushes the federal government deeper into local zoning and land use decisions. Two sections instruct HUD to provide technical assistance to local governments and publish a set of “best practices” and a model state zoning code, crafted by unelected policy experts. It’s a modern echo of zoning practices first promoted by Washington over a century ago—policies that entrenched single-family zoning and racial segregation.

Predictably, the bill promotes staples of progressive planning: public land control, mandates for below-market units, and high-rise apartments near transit. HUD’s PRO Housing pilot shows where this leads. Seattle was rewarded for zoning mandates that cut owner-occupied, family-sized homes, replacing them with a handful of costly rentals subsidized by developers. Minneapolis got federal dollars for reforms that looked bold but delivered little. Now, the ROAD Act seeks to scale these failed frameworks nationwide.

What the bill doesn’t do is just as telling. Nowhere does it address how to build more entry-level, owner-occupied homes in places where families want to live and grow. For a party that claims to support wealth-building and family formation, that’s a glaring contradiction. Instead, the ROAD Act risks cementing a new generation of permanent renters, that can be drawn in rent control and “social housing.” This isn’t a roadmap to the American Dream—it’s a dead end of dependency.

Meanwhile, the bill directs taxpayer dollars into progressive advocacy networks. It expands housing counseling programs, mostly run by DEI-driven nonprofits. Its appraisal reform provisions mandate bias training and reporting requirements—opening the door to lawsuits, transaction delays, and added costs for buyers, all without addressing the real drivers of unaffordability.

The ROAD Act isn’t compromise—it’s a progressive housing agenda in bipartisan packaging. And it’s unnecessary. We don’t need to funnel taxpayer dollars into ideology and bureaucracy when the solution

is simple: let the market build more homes. From 2000 to 2024, the U.S. added over 12 million single-family homes—but zoning laws kept lots unnecessarily large. If the median lot size had been 5,500 instead of 8,000 square feet—and just 20% of new homes were townhouses—we’d have 9 million more homes today, with prices about 15% lower. That’s not speculation—it’s math.

States are already leading. In 2025, Texas gave builders the flexibility to use smaller lots in new subdivisions and convert underutilized commercial areas into housing—not mandates, just the freedom to respond to demand. Even California has made progress by streamlining infill development and environmental reviews. When states act, real reform follows. A heavy-handed federal approach—especially one tilted left—risks undermining that momentum, particularly in red states.

Instead of backing the ROAD Act, Republicans should pursue a two-tiered strategy rooted in markets and local control. Federally, the President’s executive order should prioritize selling just 0.05% of public land—enough for 1 million homes—while implementing ROAD’s few useful elements administratively, lowering energy mandates, easing housing regulations, and exempting key building materials from tariffs. At the state level, lawmakers should give builders in high-demand areas flexibility to use smaller lots. Texas has shown that pairing reform with grassroots support and rural exemptions can pass. The President should use the bully pulpit to promote this model and urge other states to follow.

The contrast couldn’t be clearer. The ROAD Act is a dead end for Republicans—and for the country. Past federal housing bills promised prosperity but delivered public housing failures, inflated prices, and dependency. This one would do the same—entrenching bureaucracy instead of expanding opportunity. Republicans should reject it.

Appendix 4: HUD's Housing Misfire: When Bureaucrats Know Better Than Markets

By [Edward J. Pinto](#) | [Tobias Peter](#)

October 11, 2024

Kamala Harris's proposal for a \$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 case in point is the Department of Housing and Urban Development's (HUD) Pathways to Removing Obstacles to Housing (PRO Housing), which awarded nearly \$85 million in funding in FY23 promoting policy failures. This program is tilted irretrievably towards "affordable housing," which means by subsidy or cross-subsidy.

HUD AWARDED \$85 MILLION TO 21 APPLICANTS THROUGH ROUND 1 OF THE PRO HOUSING COMPETITION

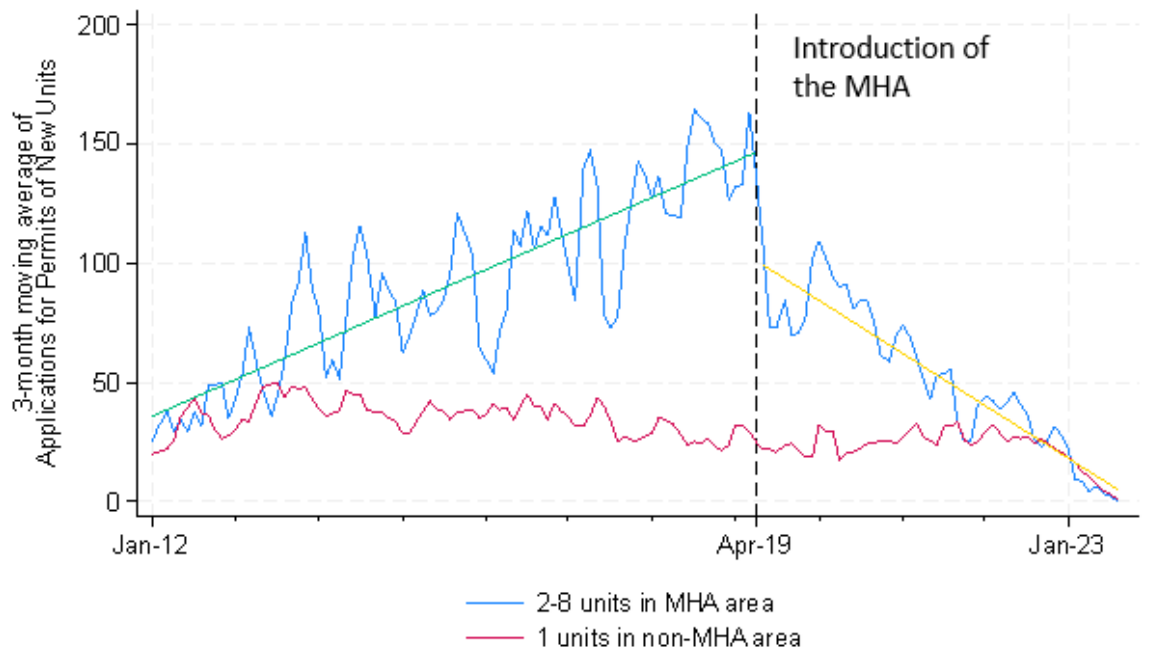


- PRO Housing provides first-of-its-kind funding to identify and remove barriers to housing production and preservation.
- The competition prioritizes communities that demonstrate an acute need for affordable housing.
- Successful applications demonstrated local actions — such as updates to land use policies, developer incentives, financing, and innovative strategies — to address barriers and boost housing supply.

Here are a few examples of cities that received grants in FY 2023:

- Seattle received \$5 million for its Mandatory Housing Affordability (MHA) program, which created hundreds of affordable units. However, HUD overlooked the thousands of units not built due to the constraints on small-scale townhome developers imposed by MHA regulations. After the imposition of the MHA program, townhome permits declined 80% over subsequent months.

Building Permit Applications: Pre- and Post-Mandatory Housing Affordability (MHA)



Source: City of Seattle, HUD, and AEI Housing Center, www.AEI.org/housing.

- Philadelphia was awarded \$3.3 million for its \$400 million bond program, the Neighborhood Preservation Initiative, despite the city reducing its successful tax abatement program that had revitalized the entire neighborhoods since 2000 without displacing residents. Instead of continuing this market-driven success, the city is now funding emergency repairs, down payment assistance, and security camera installations—drastically undermining the sustainable, long-term growth strategy that had proven effective for urban revitalization.
- Twin Cities received \$4 million for several municipalities that removed barriers to building 2–4-unit homes in single-family zoned areas. Yet, Minneapolis failed to increase the allowable floor area ratio, resulting in hardly any new 2–4-unit homes being built despite the change in zoning.

These are just three cases where HUD willfully ignores research to push its agenda of more subsidized affordable housing production and preservation that invariably [crowds out](#) private developers.

Appendix 5: Housing Subsidy Programs Need a DOGE Audit

Tobias Peter and Edward Pinto, co-directors of the American Enterprise Institute's Housing Center.

Published in The Washington Examiner on 02/24/25

The federal government spends upwards of \$100 billion per year on housing subsidies spread across numerous departments, including the Department of [Housing and Urban Development](#), the [Treasury Department](#) (including the low-income housing tax credit, or LIHTC, historic, and energy tax credits), and the [Department of Agriculture](#) (rural housing subsidies), to name the largest.

These programs and their predecessors have existed for decades, yet there has never been a comprehensive, government-wide forensic audit to determine where this money goes, whether it improves housing outcomes, or to identify “waste, fraud, and abuse.”

But that is about to change. The Department of Government Efficiency is now turning its [watchful eye](#) on HUD's sprawling network of subsidy programs. The audit must go beyond HUD, extending to non-HUD programs such as LIHTC and rural housing programs, which both operate as upfront capital subsidies and tenant assistance. Without this full accounting, taxpayers remain in the dark about whether these programs truly deliver on their promises or simply funnel billions into inefficiency and mismanagement.

A promising sign came when HUD Secretary Scott Turner called for a [proper accounting](#) of these subsidies during his confirmation hearing, insisting on fiscal transparency before expanding the programs further.

A proper forensic audit must go beyond surface-level reviews. It must trace every subsidy dollar from its initial disbursement to its ultimate effect on housing supply and affordability and be done site-by-site. Many housing projects are built with multiple layers of taxpayer-funded subsidies, only to be torn down and rebuilt with a new round of subsidies or to require additional government funding years later for rehabilitation while still receiving ongoing rent subsidies for tenants who cannot afford the units on their own.

Few examples illustrate the waste and inefficiency of the current system better than Andrews Terrace in Rochester, New York. Originally built in 1975 for \$20 million, this 22-story, 526-unit complex was designed to attract middle-income residents back to downtown Rochester. Over time, it transitioned into HUD Section 8 housing for elderly and disabled residents. Today, nearly all the units are reserved for residents earning up to 50% of the area median income.

Like many publicly subsidized housing projects, Andrews Terrace fell into [severe disrepair](#). Masonry deterioration forced the City of Rochester to revoke its certificate of occupancy, condemn the balconies, and impose sidewalk closures to protect pedestrians from falling debris. However, money was not put aside for such repairs.

To address these problems, Andrews Terrace is now [being rehabilitated](#) with funding cobbled together from various sources: LIHTC equity and construction loans, Fannie Mae financing, tax-exempt bonds, federal and state historic tax credits, state and local subsidies, and a new Section 8 contract providing tenants rent subsidies for another 20 years.

When factoring in Section 8 payments alongside the new \$335 million investment, the total taxpayer burden from 1975 to 2045 will likely exceed \$500 million — a staggering \$1 million per unit.

Even more shocking is that this rehabilitation project does not create a single new housing unit. Meanwhile, in Rochester, a new single-family home currently lists for an average of [\\$422,000](#) and an existing one for [\\$150,000](#) — a fraction of what taxpayers are spending per unit on this so-called affordable housing project.

Andrews Terrace is not an outlier — it's the norm under LIHTC, where so-called affordable housing is created by stacking multiple layers of federal, state, and local subsidies, only to then require rental subsidies for nearly half of the tenants. The true cost of these developments is nearly impossible to track, buried under a maze of financing mechanisms. In California, LIHTC projects now routinely cost \$1 million per unit to build, a shocking price tag that underscores just how inefficient and unsustainable this system has become, as even some on the left, such as Ezra Klein, [will admit](#).

This system suffers from what can be called the five C's of housing failure.

- **Crowding Out:** LIHTC often displaces private-market housing rather than adding to supply. [Studies](#) show that for every 100 LIHTC units built, up to 100 private units are lost.
- **Cost:** The average LIHTC unit costs taxpayers \$450,000, compared to \$0 for a private development that it replaces.
- **Complexity:** LIHTC requires [2,060 pages](#) of federal rules along with state-level red tape. The real winners? Lawyers and consultants.
- **Corruption:** A 2023 Government Accountability Office [report](#) found minimal federal oversight of LIHTC, leaving it [rampant for fraud](#).
- **Cartel:** A small group of specialized developers and nonprofit organizations has mastered the LIHTC system, profiting handsomely while shutting out competition.

We need DOGE to conduct a full forensic audit of all these housing subsidies. Only by shining a light on the true cost of these programs can we build the case for reform. As the saying goes, sunlight is the best disinfectant.

Appendix 6: Calling DOGE: HUD's Costly Hunt for Answers the Market Already Has

By [Tobias Peter](#)

January 21, 2025

The Department of Housing and Urban Development's (HUD) [new grant opportunity](#) of \$250,000–\$500,000 for research on “Increasing Missing Middle Housing Supply” highlights yet another instance of government inefficiency and waste. While the country clearly needs more middle or light-touch density (LTD) housing, such as accessory dwelling units (ADUs), duplexes, and townhomes, the answers HUD seeks with the research grant are already available—and at no cost—from market-oriented organizations like the AEI Housing Center or Mercatus.

Unfortunately, HUD's approach is likely to result in more bureaucracy, subsidies, and government intervention, rather than addressing the root causes of the problem. This stands in direct opposition to the principles championed by DOGE (the Division of Oversight for Government Efficiency), which emphasize deregulation and market-driven solutions. Ultimately, HUD's efforts will fall short unless it shifts focus to empowering market forces as the primary driver of housing affordability and supply.

The root cause of housing scarcity lies in government regulatory failures. [Restrictive zoning laws](#), originally implemented in the 1920s at the behest of the federal government, have effectively outlawed LTD housing types in many areas. Additionally, excessive regulations add layers of complexity and costs, further discouraging construction. According to the [National Association of Home Builders](#), regulatory costs account for a staggering 24% of total single-family building costs. Small-scale builders—who are key to producing LTD housing—are disproportionately affected, as they often lack the resources and staff needed to navigate the labyrinth of permitting and compliance processes. This regulatory environment stifles innovation and prevents the development of much-needed housing in areas where demand is highest.

When governments have addressed these barriers, the market has responded by building more housing. We, along with others, have documented this through numerous case studies that cover a diverse set of cities across the country—from high-cost cities like [Seattle](#) and [Denver](#) to middle-tier ones like [Houston](#) and [Nashville](#) to recovering ones like [Philadelphia](#). These examples demonstrate that when regulatory obstacles are removed, the private sector has the capacity to meet housing demand.

To unlock the full potential of market forces, governments should adopt what we call the Housing Abundance Success Sequence (HASS):

1. Increase Land Availability and Density:
 - Unlock underutilized land:
 - Release underutilized government-owned land for residential development.
 - Repurpose underutilized commercial/industrial zones by allowing residential mixed-use development thus transforming these areas into “Livable Urban Villages” that support walkability, jobs, and housing.
 - Use land more efficiently:
 - Allow smaller lot sizes and Light-touch Density (ADUs, -plexes, or townhomes) to increase the number of buildable lots, especially in single-family zones.
 - Allow greater density especially in walkable, amenity-rich areas.
 - Utilizing land at a higher and better use improves affordability.

2. Enable By-Right Zoning:
 - Allow development “by-right,” meaning homes that meet zoning requirements can proceed without discretionary reviews or special approvals, thereby reducing delays and uncertainty for developers.
3. Apply the KISS Principle (Keep It Simple, Stupid):
 - Simplify land-use rules, permitting processes, and regulatory standards.
 - Avoid excessive micromanagement and complex regulatory frameworks that stifle development and discourage small-scale builders and developers.

The primary focus for governments should be on getting their own house in order. Yet, HUD appears to have its priorities misplaced, fixating in its grant on a perceived lack of financing options for light-touch density (LTD)—a supposed market failure. However, as our case studies demonstrate, financing has consistently emerged to meet demand without the need for government intervention. For those skeptical of the private sector’s ability to address such needs, [Seattle](#) offers a compelling example. In that city, over 400 unique lenders arose to finance roughly 5,000 single-family-to-townhome conversions, with many specializing exclusively in these projects. Similarly, in California, nearly a quarter of new housing construction consists of ADUs, funded through a mix of private lenders specializing in [ADU loans](#), [shared equity agreements](#), and traditional construction financing.

These examples demonstrate that when barriers to housing development are removed, the market responds with increased light-touch density (LTD) construction. However, the reverse is also true: Imposing additional barriers undermines progress. Seattle’s Mandatory Housing Affordability (MHA) program, which incorporated inclusionary zoning (IZ) requirements, serves as a cautionary tale. After successfully building 20,000 townhomes over 25 years, the program forced builders in 2019 to either set aside units for lower-income residents or pay significant fees. The result? An 80% reduction in townhome permits, stifling housing production and halting progress.

IZ mandates [disproportionately harm](#) small-scale builders—the key drivers of LTD housing. These builders often lack the financial resources to absorb the costs of meeting income limits or paying hefty fees. Additionally, small-scale builders primarily construct owner-occupied housing for middle- and higher-income buyers, rather than rental units that IZ policies often target. As a result, these regulations create insurmountable obstacles for small builders.

Inexplicably, HUD’s Pathways to Removing Obstacles to Housing (PRO Housing) program, which claims to “supports communities who are actively taking steps to remove barriers to affordable housing” and offer best practices to others, awarded \$5 million in fiscal year 2023 to Seattle specifically for its IZ program. Additionally, HUD distributed an additional \$80 million to fund policies that are often ineffective or outright counterproductive, many of which also include IZ mandates.

HUD’s misplaced priorities highlight a broader issue: a pervasive distrust of market-based solutions among many bureaucrats, coupled with an overconfidence in government-driven interventions. Unfortunately, this grant will do little to shift that perspective. Market-oriented organizations, which champion proven deregulatory measures, are effectively excluded from the process because they refuse government funding. Instead, these grants overwhelmingly favor left-leaning organizations that advocate for subsidies, inclusionary zoning (IZ), and top-down planning—approaches that, far from solving housing challenges, often exacerbate them by increasing costs and stifling private-sector innovation.

Ultimately, all levels of government must focus on removing barriers that hinder housing production. At the federal level, efforts should focus on reducing unnecessary regulatory burdens, such as Occupational Safety and Health Administration (OSHA) rules, prevailing wage mandates, tariffs on building materials, and restrictions on logging. For instance, HUD's recent energy code changes, which may [add up to \\$31,000](#) to the cost of a new home, should be scrapped altogether.

Local governments should streamline permitting processes by enhancing efficiency within relevant departments or allowing third-party permitting. States should focus on injecting rigorous cost-benefit analysis into building codes, which are set by the [International Code Council](#) (ICC), an entity heavily influenced by special interests and environmental advocates. State and local leaders, including mayors and governors, must also elevate housing issues in their communities and build broad coalitions to implement effective solutions to increasing the housing supply.

While it may be too late to save taxpayer money on this particular grant, there is still hope. New HUD leadership or oversight from DOGE could redirect efforts toward stopping wasteful spending and reducing regulatory overreach. By embracing proven market-driven strategies, the government can finally remove the barriers it has imposed and allow the private sector to the housing Americans need.

Appendix 7: Powell's "We Could Have Stopped Sooner" Isn't Good Enough

Edward Pinto and Tobias Peter, co-directors of the American Enterprise Institute's Housing Center.

Published in Real Clear Markets on 10/27/25

When Jerome Powell recently [reflected](#) that "we could have—and perhaps should have—stopped asset purchases sooner," he understated one of the most consequential policy missteps of modern monetary history. His further claim that "the extent to which these [mortgage-backed securities] purchases disproportionately affected housing market conditions...is challenging to determine" simply doesn't hold up. The evidence is overwhelming: the Federal Reserve's massive pandemic-era MBS buying helped supercharge one of the largest housing booms on record.

From March 2020 through early 2022, the Fed [bought](#) more than \$1.3 trillion in agency mortgage-backed securities—despite evidence that the home prices were already rising rapidly. Under its Zero Interest Rate Policy (ZIRP) and Quantitative Easing (QE), mortgage rates plunged below 3%, and national home prices soared over 38%, adding roughly \$10 trillion in paper housing wealth. The Fed's balance sheet, doubled from about \$4 trillion to about \$8.5 trillion. If that's not "disproportionate," what is? Powell's defense—that "many factors" influence housing—ignores what his predecessors understood perfectly well. Former Chair Marriner Eccles [warned](#) in 1947 that when materials and labor are scarce, easy credit "produces a dangerously inflated market." William McChesney Martin, the Fed's longest-serving chair, famously [said](#) the central bank must remove "the punch bowl just as the party gets going." Powell's Fed, instead, kept refilling and spiking it.

By mid-2020, AEI Housing Center data showed home prices climbing at double-digit rates—long before inflation appeared. We [warned](#) then: Driven by ultra-low mortgage rates and limited supply, home price gains of 10% year-over-year are unsustainable. Still, the Fed kept [buying](#) \$40 billion in MBS each month until March 2022. As a result, home prices jumped in virtually all markets, with many increasing by over 20% a year, outpacing wages and feeding inflation. Powell now concedes the Fed "perhaps should have stopped sooner." That "perhaps" carries trillion-dollar consequences.

The result was predictable: Artificially low rates inflated demand, tight supply channeled that demand into prices, and renters and first-time buyers were priced out. The Fed's policies not only stoked overall inflation—Fed researchers later [estimated](#) that house price growth accounted for roughly one-third of core CPI gains—but also deepened wealth inequality by transferring gains to existing homeowners. After the housing-driven Great Financial Crisis, the Fed should have known better. As Marriner Eccles warned Congress in 1947, "If [expanded credit] calls forth more production it will be desirable. If it only permits one borrower to bid against another would-be buyer for scarce goods & thus adds to upward pressure on prices, it is dangerous." With supply extremely tight, easy credit again inflated prices, not home construction. As pandemic stimulus amplified demand, the Fed kept buying QE and ZIRP going—an explicit credit boost to housing. The Fed's original mistake has now been compounded. Three percent mortgage holders won't sell, freezing supply and turning a rate-fueled boom into a new stalemate born of the same easy money.

In short, Powell's "we couldn't tell" defense is really a failure to understand market dynamics and follow the data. Real-time mortgage, home-price, supply, and credit data existed—and warned of overheating long before 2022. The Fed ignored it. The lesson is clear: MBS purchases should be used sparingly and only to restore market liquidity, not to goose demand. Monetary policy that treats housing as just

another asset class will keep distorting the market—and make future “perhaps we should have” apologies ring hollow. Easy money amid scarce supply only lifts prices. The Fed forgot that lesson—and Americans are paying the price.

Appendix 8: The federal government's track record on housing bills is poor

Many housing task forces and congressional actions have had many negative outcomes. This might serve as a warning for many of today's proposed policies.

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

Likewise, the Low-Income Housing Tax Credit (LIHTC), established in 1986 to combat the lack of affordable housing, has done next to nothing to increase the supply of housing. According to one study, almost all LIHTC development would have been built by the market without any subsidies. If that's not enough, LIHTC also limits social mobility and the program is corruption-prone and complex, thus crowding out many smaller builders.

The federal government systematically implemented discriminatory policies that led to housing segregation. For example:

- the U.S. Commerce Department's role in implementing a zoning regime designed to keep Black and ethnic minorities out of single-family detached neighborhoods (see Chapter 1, [AEI Light Touch Density E-Book](#)),
- the 1949 Housing Act which resulted in the high-rise public housing and urban renewal programs, both of which worked to the great detriment of Black households and neighborhoods,
- the 1967 Presidential Task Force on Housing and Urban Development (headed by HUD Secretary Weaver), which proposed a 10-year housing program to eliminate all substandard housing in the U.S., which program was enacted in the 1968 Housing and Urban Development Act, the consequences of which led to HUD and FHA destroying many American cities, especially Black neighborhoods ([Cities Destroyed Cash: The FHA Scandal at HUD](#)),
- the Tax Reform Act of 1986, which created the Low Income Housing Tax Credit, which has perpetuated racial segregation ([Chicago tax credit program mostly produces affordable housing in poor black areas, March 15, 2021](#)),
- the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, which granted HUD the authority to set affordable housing mandates for Fannie Mae and Freddie Mac, and
- HUD's 1995 National Homeownership Strategy: Partners in the American Dream, which led to over 10 million foreclosures and did much to create the wealth disparities Blacks now face. All of these failures may be traced to HUD, or its predecessor agencies responsible for federal housing policy.

The core misconception is that affordable housing requires more subsidies. Not true. The problem is a government-created supply shortage, driven by restrictive zoning, discretionary planning reviews, environmental rules, and regulatory delays that make land scarce and construction expensive. Only state and local reforms—not new federal spending—can fix this. The evidence is clear: building more market-rate housing lowers rents and prices across the board through filtering, as higher-income households move into new units and free up existing ones.

For further reading, see for example:

On housing programs:

- [Housing Subsidy Programs Need a DOGE Audit](#)
- [Low-Income Housing Tax Credit: A Massive Expenditure of Public Funds, But a Failure at Addressing the Root Cause](#)
- [Harris's Housing Plan and the Five C's That Will Derail It](#)
- [The Government Cannot Solve America's Housing Crisis](#)
- [Kamala Harris's Housing Plan Would Be Worse Than Doing Nothing](#)
- [Addressing the Flaws in Moody's Projections on the American Housing and Economic Mobility Act of 2024 and a Market-Driven Alternative](#)

About expanding the LIHTC program to include Workforce/Middle-Income Housing:

- [Congress, Don't Legislate a Takeover of the Nation's Rental Housing Market](#)
- [The Workforce/Middle-Income Housing Tax Credit](#) (event page)

How to solve the housing shortage through deregulation that will unleash market forces:

- [Achieving Housing Abundance Through State and Local Land Use and Zoning Reform](#)
 - [A Follow-Up on My Recent Testimony to the Joint Economic Committee on Policy Approaches to Increasing the Supply of Affordable Housing](#)
- [Market-Oriented Reform Principles and Policies That Would Help the Housing Market](#)
- [Expanding Housing Supply with Light-Touch Density](#)
- [Government Policies Are Responsible for the American Housing Crisis that is Crowding Lower Income Households Out of the Housing Market](#)
- [How the Federal Government's Policies Are Crowding out Lower Income Americans out of the Housing Market](#)

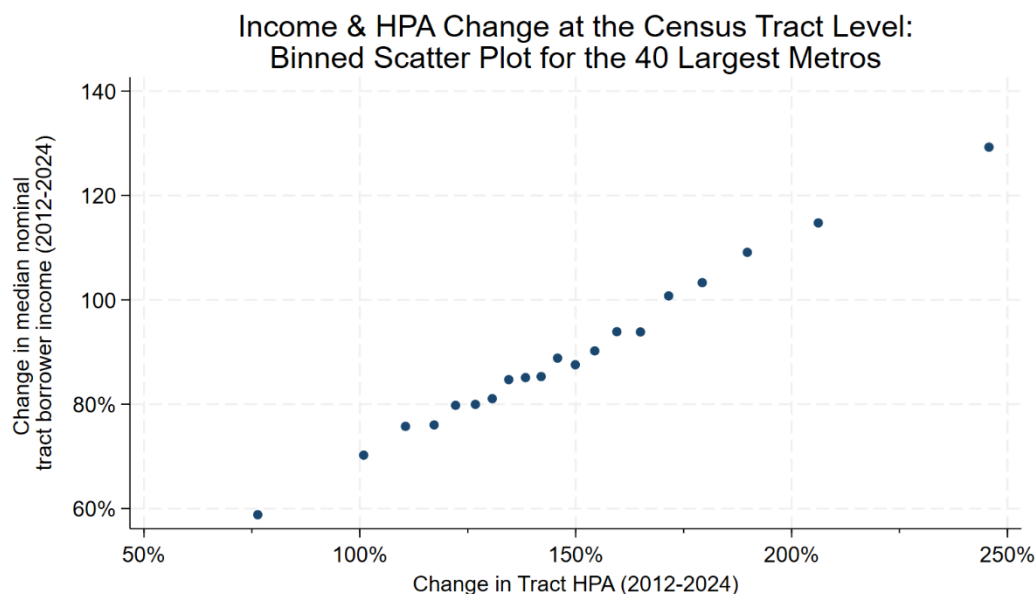
Appendix 9: The crowding out of low- and moderate-income borrowers and the breakdown of filtering

As new construction has failed to keep pace with demand, the normal filtering process has broken down—and in some markets even reversed—with higher-income households purchasing older homes once occupied by lower-income families. Federal housing and monetary policies, including the Fed’s prolonged period of ultra-low interest rates during a seller’s market, have fueled rapid home price appreciation and intensified competition for a shrinking supply of affordable homes.

As prices rise faster than incomes, lower-income and minority households are increasingly pushed to the sidelines, unable to compete with higher-income buyers moving down the price ladder. The result is clear: federal policy-driven price inflation, combined with a chronic lack of new supply, is crowding out entry-level buyers and limiting access to areas of opportunity.

Importantly, the housing shortage is not a market failure—it is a government regulatory failure, rooted in land-use restrictions that prevent enough housing from being built. The evidence is overwhelming that the most effective way to expand affordability is to build substantial amounts of market-rate housing, which lowers prices and rents across the board.

More supply also restores the filtering process: as higher-income households move into new homes, they vacate lower-priced units, which then become available to middle- and lower-income families—just as occurs in the new and used car markets. Removing regulatory barriers could unlock hundreds of thousands of additional homes each year and put homeownership back within reach for many households.



Note: Tracts are weighted by their respective loan counts. Binned scatter plot accounts for differences in metros. FHA and minority borrower shares are for 2024. HPA stands for constant-quality home price appreciation.

Source: HMDA and AEI Housing Center, www.AEI.org/housing.

Appendix 10: Research into various home retention programs

(see next page)



AEI Housing Center

[AEI.org/housing](https://www.aei.org/housing) | October 30, 2025

The Future of Loss Mitigation

Tobias Peter

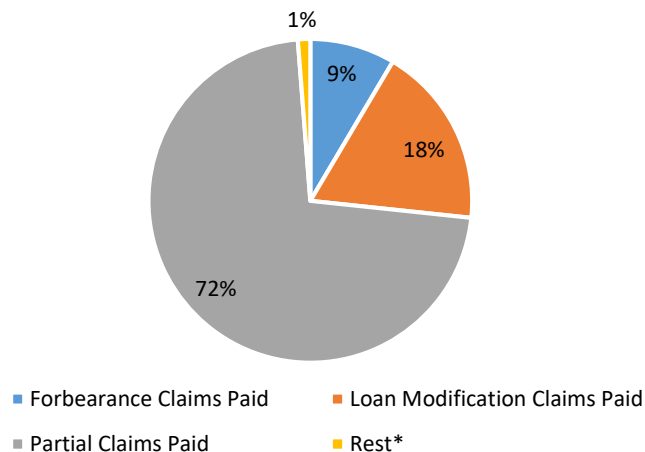
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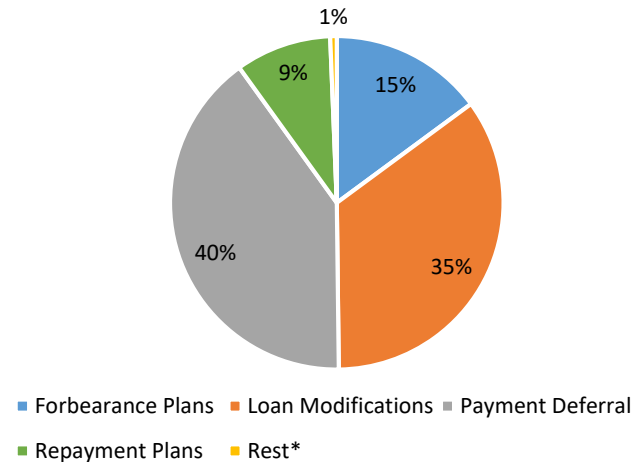
Loss Mitigation Uptake

- In the past year alone, the [Federal Housing Administration](#) had over 610,000 loans benefit from loss mitigation—about 8% of its entire portfolio. Partial claims account for 75% of this total - left chart.
 - Per [HUD](#), as of Sep. 2024, over one million borrowers with FHA-insured mortgages have utilized partial claims – out of a book of 8 million loans or about 13%.
 - We hear that the total today may be up to 1.8m partial claims, with some borrowers having multiple claims.
- **Fannie Mae and Freddie Mac added another 209,000 loss mitigation cases.**
 - The majority are payment deferrals (40%) and loan modifications (35%) – right chart.
- The [Department of Veteran Affairs](#) has budgeted for 40,000 VA Servicing Purchase (VASP) Program loans, but servicers expected that the actual total will be higher. This program has now ended and replaced with a partial claims program.
- **The central question is: With the pandemic behind us, unemployment under 4% and a strong economy, why do so many borrowers continue to need help?**

**FHA Loss Mitigation - Incentive Claims Paid:
October 2024 - September 2025**



**GSE Loss Mitigation Completed:
July 2024 - June 2025**

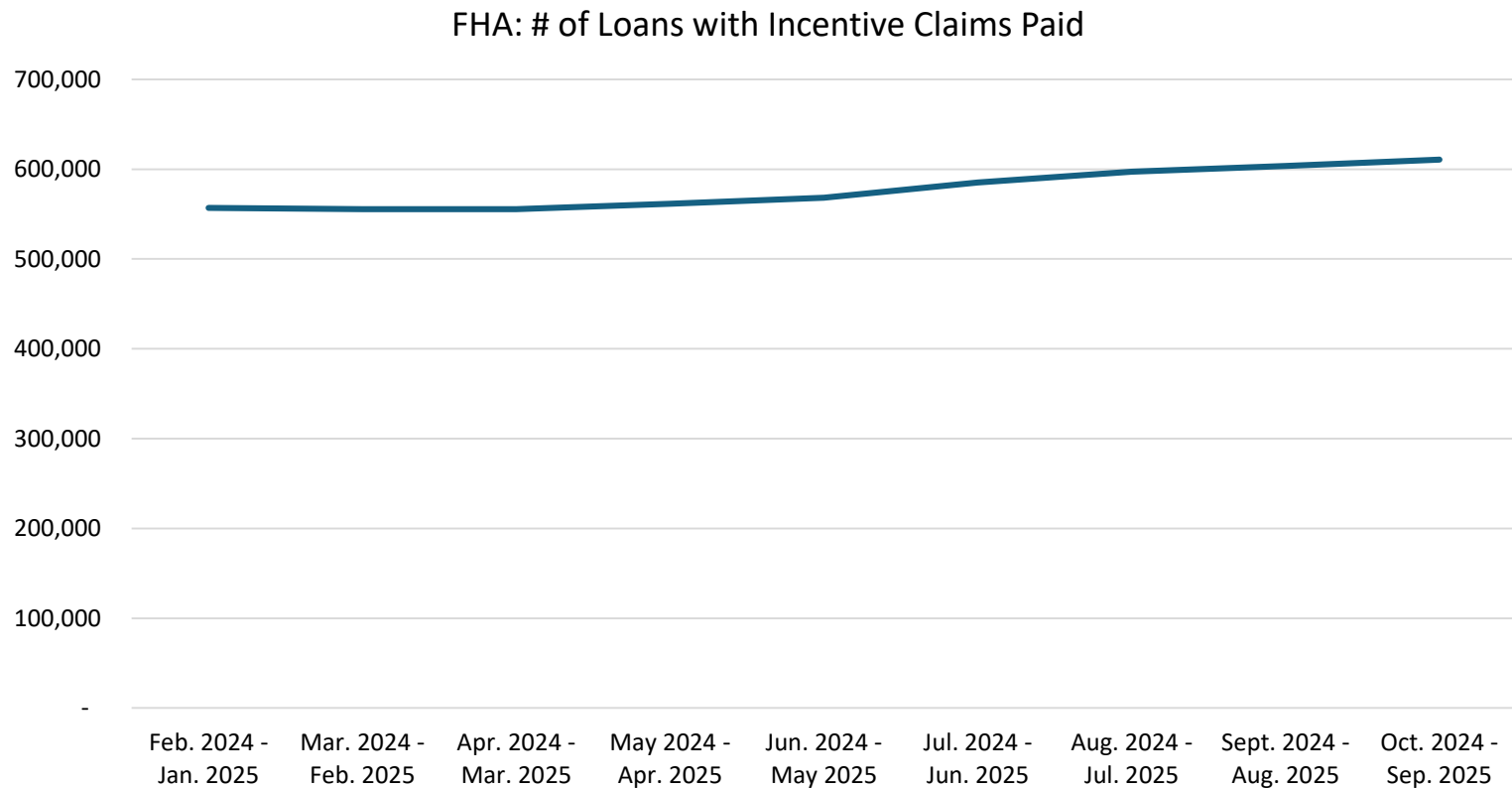


* For FHA loans, “Rest” includes HAMP Loan Modification Claims Paid, HAMP Partial Claims Paid, Deed-in-Lieu Claims Paid, Pre-Foreclosure Sale Claims Paid, and Total Conveyance Claims Paid; for GSE loans, Rest includes Charge-offs-in-lieu, Short Sales, and Deeds-in-lieu.

Source: FHA Neighborhood Watch, FHFA Foreclosure Prevention & Refinance Report, and AEI Housing Center, www.AEI.org/housing.

FHA Total Incentive Claims Paid Have Been on the Rise

- Each month, FHA publishes a running yearly total of loans that received one of the various loss mitigation efforts.
- Up until mid-2025, these totals were around 550k, but they have risen to over 600k over the last couple months.
 - This means that more borrowers are entering these programs than are leaving them and that that pace is quickening.



Source: FHA Neighborhood Watch and AEI Housing Center, www.AEI.org/housing.

FHA Failing to Track and Collect Partial Claims

- **Key Issue:**
 - HUD's Office of Inspector General (OIG) has repeatedly found that FHA's partial claim program lacks adequate tracking, controls, and collections—costing taxpayers billions.
- **OIG Findings (2008–2021):**
 - 2008: NSC lacked policies & follow-up procedures; 29 of 48 loans had servicing deficiencies.
 - 2015: Weak payment controls → \$22M unsupported + \$104K ineligible claims.
 - 2016: HUD failed to collect ~\$21.5M in due partial claims; 27% of sampled loans uncollected.
 - 2018: Missed \$6.8M in surplus proceeds; \$6M in partial claims untracked.
 - 2019: OIG reopened prior recommendations due to unaddressed deficiencies.
 - 2021: Partial claims lose lien priority, increasing nonrecovery risk; prior audit recs still pending.
- **Recent Developments:**
 - Jan 2025: HUD issued draft Mortgagee Letter on Partial Claim recording & payoff.
 - Apr 2025: OIG launched new audit on NSC Partial Claims Tracking & Collection.
- **Fiscal Impact:**
 - ~1.3M partial claims since 2020; average \$27,000 per claim.
 - If 25% uncollected → ~\$6.75B taxpayer exposure (excl. pre-2020 claims).
- **Bottom Line:**
 - Years of OIG warnings indicate systemic failures in FHA's partial claim management. Evidence suggests these issues remain unresolved.

Note: Table refers to the maximum number of allowable days between the due date of the last paid installment and foreclosure sale date.
Source: HUD and AEI Housing Center, www.AEI.org/housing.

Serious delinquent borrowers have lots of equity, but they may not know it

- **For borrowers in serious delinquency, there's a simpler, common-sense option: selling the home.**
 - Of all serious delinquent GSE, FHA, and VA borrowers in June 2025, about 94% would hold positive equity after selling their homes — even after accounting for arrearages and transaction costs.
 - This is because most of these borrowers purchased their homes years ago and have benefited from home price appreciation, along with a steady principal pay down through amortization.
 - Among those with positive equity, the average cash they could walk away with is \$149,000.
 - Recent data from Auction.com show that even after a foreclosure, over half of borrowers walk away with more than \$50,000.

	Avg. Home Value at Origination	Avg. Tenure (in Years)	Avg. Home Price Appreciation since Origination	% with Positive Equity	Avg. Total Equity After Hypothetical Home Sale*
GSE	\$341,000	5.2	51%	98%	\$218,000
FHA	\$239,000	4.8	57%	95%	\$126,000
VA	\$289,000	3.8	46%	82%	\$109,000
GSE+FHA+VA combined	\$275,000	4.8	54%	94%	\$149,000

* For borrowers with positive equity.

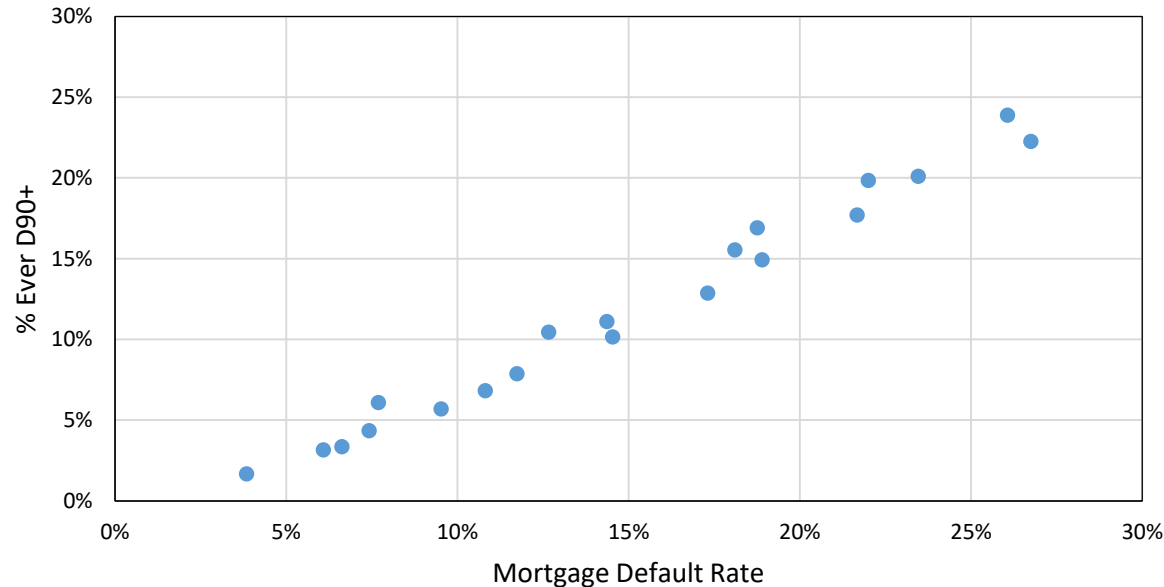
Note: Analysis is for the outstanding book as of June 2025. The current equity position is calculated as the difference between the estimated current home value and the unpaid principal balance. We estimate the current home value by adjusting the original loan amount and loan-to-value (LTV) ratio using ZIP-level changes from the FHFA Home Price Index. From this, we subtract all missed interest payments — inferred from the loan term, note rate, loan age, and original loan amount — as well as assumed transaction costs equal to 7% of the current home value. The data exclude any equity that a borrower may have extracted previously through a home equity loan or a HELOC. Data are limited to loans that are in serious delinquency as of June 2025. This analysis is confirmed by FHFA's Foreclosure Prevention & Refinance Report, which shows that as of 2024:Q3, 88% of loans that went through loan modification had a Mark-to-Market (MTM) LTV ≤80% at loan modification.

Source: McDash, FHFA, and AEI Housing Center, www.AEI.org/housing.

Higher defaults rate are correlated with loan characteristics at origination

- Ganong and Noel (2022) find that that 70% of US homeowners who defaulted between 2008 and 2015 were driven solely by negative life events (i.e., cash flow defaults), while 24% were driven by the interaction between negative life events and negative equity (i.e., double-trigger defaults).
- This is largely predictable using risk factors at origination and it highlights the inherent vulnerability of high-leverage lending strategies.

Stressed Mortgage Default Rate at Origination & Eventual Serious Delinquency Rate for GSE First-Time Buyers



Share of First-time Buyers with Less than 1 Months' Reserves

FHA	79%
GSE	38%
VA	54%

Note: After subtracting out gifts, closing costs, and down payment.

Note: Chart is a binned scatter plot with 20 bins. Each bin contains the same amount of loans. The Mortgage Default Rate (MDR) takes all risk factors (credit score, CLTV, DTI, term, etc.) into account. It serves as a reliable predictor of a borrower's likelihood of default under adverse economic conditions. Although the specific stress events—such as the Great Financial Crisis (used to calibrate the MDR) and the COVID-19 pandemic (which affected recent loan performance)—differ in nature, the underlying relationship between the MDR and actual delinquency outcomes remains consistent. Higher MDR values consistently correspond to higher observed delinquency rates.

Source: Fannie Mae, Freddie Mac, ICE, and AEI Housing Center, www.AEI.org/housing.

Home retention or not - What's in the borrower's best interest?

Benefits of staying in the home:

- Moving is costly (transaction costs, uprooting life, and time).
- Ongoing home price appreciation.

On the other hand:

- Borrower may redefault depleting equity further.
- Selling might provide the opportunity to walk away with more cash.
- Selling might create the opportunity to right-size one's finances.

There are many uncertainties on the horizon:

- Home prices may not continue to go up.
 - For the next few years, home prices may be stagnating and could in some markets decline by 20% or more (peak to trough; see for example Cape Coral).
 - The low end of these markets, where FHA buyers are, could decline even more. Such instances make it less likely that FHA will collect at all.
- Inflation, unemployment, etc.

But there should be other considerations as well. Such as:

- What's in the taxpayer's best interest?
- Is fair to keep people in their homes that don't make mortgage payments when there are others wanting to buy?
- Are there the unintended consequences?

Loss mitigation relief and retention programs are fraught with moral hazard and unintended consequences

- **Turns mortgage lending into an entitlement program with enormous moral hazard.**
 - FHA and the GSEs treat the UPB as an account that the borrower can draw down as if a mortgage was a bank account.
 - A borrower can get multiple bites at the apple risk turning mortgage lending into a permanent bailout pipeline.
 - A 20-30% payment reduction may be too little or too much.
 - The VA Servicing Program (now ended) lowered the rate to 2.5% -- a huge benefit to anyone with high rates.
 - May leave little money for home maintenance.
 - Auto enrollment with no or little documentation required makes relief options easy to claim, including people who may not need help. The idea that most serious delinquent borrowers today need a government bailout is belied by the facts.
 - Some cite low foreclosure rates to justify even riskier lending. That's madness.
 - Increased risk of political interference, leading to expanding benefits and growing financial liabilities over time.
- **Kicks the can down the road and increases costs.**
 - The longer we wait, the greater the eventual losses will be.
 - Proponents argue that loss mitigation avoids the cost of foreclosure. But we've heard this before —federalizing student loans was supposed to save money and help fund Obamacare. Instead, we got ballooning balances, widespread defaults, and massive taxpayer-funded bailouts costing hundreds of billions of dollars.
- **Not necessarily effective / high rates of recidivism:**
 - GSE data show that about a quarter to one-third of loan mods redefault.
 - FHA servicer data show that 25% of FHA loans that came out of loss mitigation became 90+ days delinquent again.
- **Inherently unfair:**
 - Many aspiring first-time buyers are on the outside looking in. As they sit on the sidelines, home prices climb — putting homeownership further out of their reach, while delinquent borrowers, who could have sold their homes at a profit, continue to live in potentially appreciating homes that they no longer can afford thanks to government largess.
 - FHA is not properly tracking second liens from partial claims. The partial claim amount then becomes a gift to the borrower for not paying their mortgage for some time.
 - This socializes borrower losses and privatizes their gains. In a classic heads I win, tails the taxpayer loses as borrowers can walk away when prices drop.
- **Investors and services are generally made whole.**
 - Unwinding these programs may cause short-term pain, but consider the alternative. When the system cracks—as high re-default rates suggest it eventually will—servicers will be the first to be blamed, even if they didn't create the problem.

Home retention has become a band-aid for repeated government failures

The CFPB undermined its own safeguards. Dodd-Frank capped debt payments at 43% of income, but the CFPB widened the credit box anyway.

- In the [past year](#), more than one in four government-backed purchase loans went to borrowers devoting at least half their income to debt.
- These borrowers, often with low credit scores and [little savings](#), are barely able to stay afloat even in good times.

The Fed's pandemic-era money printing and the Biden administration's runaway spending.

- The result: inflation, shrinking household budgets, and high mortgage rates that have rendered traditional modifications ineffective.

In [2014](#), the Consumer Financial Protection Bureau (CFPB) required mortgage servicers to exhaust every possible loss mitigation option —loan modifications, forbearance, repayment plans, or short sales— before foreclosing on government-backed loans, which are about three quarters of all loans originated today.

- The intent was clear: Make foreclosure so slow and costly that servicers would avoid it entirely.
- As a result, foreclosure timelines, already long, have been lengthening adding costs.

A two-month foreclosure moratorium under the CARES Act [stretched](#) to nearly 17, and loss mitigation expanded dramatically. Borrowers on government-backed loans could [defer](#) missed payments to the end of the loan, often with reduced monthly payments and without interest.

- People got out of the habit of making regular mortgage payments.

Instead of expanding home retention programs, we should undo some of the policies that necessitate them.

Foreclosure timelines have been lengthening – which adds costs

- **Federal Housing Finance Agency (FHFA)**
 - Ed DeMarco introduced a 25 basis point fee in 2014, which applied to mortgages in certain states because foreclosure laws and timelines in those states resulted in significantly higher carrying costs for Fannie Mae and Freddie Mac compared to the national average.
 - FHFA under new leadership reversed the policy in May 2014.
- **Consumer Financial Protection Bureau's (CFPB)**
 - In 2014, the CFPB's Reg X required mortgage servicers to exhaust every possible loss mitigation option before foreclosing on government-backed loans.
 - The intent was clear: Make foreclosure so slow and costly that servicers would avoid it entirely. The data show this.
 - This adds costs.

State	Method of Foreclosure	Foreclosure Timeline (in days)				
		1990	2013	2016	2019	2025
Simple Average (50 States + DC)	All	229	412	608	648	666
Simple Average (22 States + DC)	Judicial	281	531	757	797	815
Kansas	Judicial	300	330	480	540	540
Delaware	Judicial	180	460	960	720	720
New York	Judicial	390	820	1110	1740	1740
New York City	Judicial			1140	2190	2190
Simple Average (28 States)	Non-Judicial	180	304	470	508	524
Wyoming	Non-Judicial	180	270	360	360	360
Texas	Non-Judicial	120	270	390	390	480
California	Non-Judicial	210	330	480	480	600
Oregon	Non-Judicial	210	390	1050	960	690

Note: Table refers to the maximum number of allowable days between the due date of the last paid installment and foreclosure sale date.

Source: HUD, FHFA, Fannie Mae, CFPB, and AEI Housing Center, www.AEI.org/housing.

Policy recommendations

- 1) **Before putting a borrower into a home, the agencies should ensure the borrower has staying power:**
 - a. Require financial reserves of at least 2 months so that the borrower can ride out short-term income disruptions.
 - b. Lower maximum DTI threshold to 43% so that the borrowers can absorb a smaller permanent liquidity shock.
 - a. Today, about two-thirds of FHA home buyers have a total debt ratio in excess of 43% (pre-tax).
 - b. Implement, for example, DTI caps, residual income test, financial reserve requirements.
 - a. RHS shows that it is possible to limit DTIs.
 - b. Rather than lowering the DTI after a delinquency, set lower DTIs from the start.
 - c. Impose certain overlays on borrowers with lower credit scores (perhaps an additional months of reserves, etc.).
 - d. Inform borrowers of their likelihood to default under a stress and no-stress scenario (using the default rates of borrowers after the Great Financial Crisis and more recent time period)
 - e. Crowd in shorter loan terms as a way of ensuring wealth building (even though this won't insulate a borrower from liquidity shocks).
- 2) **Once a borrower is in the home, the agencies should:**
 - a. Proactively remind borrowers to get in touch with their servicers before they miss a payment.
 - b. Inform the borrower of rate and term refinance options when current mortgage rates are significantly below his current rate.
 - i. The agencies should lay out the benefits of refinancing into a shorter loan term, especially when the borrower can keep his current payment about stable.
 - c. The agencies should not allow cash-out refinances other than for:
 - i. home improvement or
 - ii. borrowers with an MTM LTV < 70% & a credit score of ≥ 690 .
- 3) **Once a borrower has missed a payment, the agencies should:**
 - a. Urge him to get in touch with his servicers.
 - b. Inform the borrower of all his options:
 - a. Sale: the current equity position using an internal AVM.
 - b. Stay in the home and access home retention programs under certain conditions:
 - i. He'll have to document the nature of his liquidity shock and in some cases, verify his income/credit score.
 - ii. Impact on his credit score from delinquency.
 - iii. He may re-default.
 - iv. His request may be denied.

Additional policy recommendations:

- 1. Limit the number of home retention options to one over the lifetime of the loan.**
- 2. Implement rigorous re-underwriting in case of loss mitigation:**
 - Pull a new credit file, which can be compared to the one at origination.
 - Require income documentation.
 - Recalculate DTI and rely on a residual income calculation
 - Deny the borrower's request if he would remain overleveraged.
- 3. Phase out loss mitigation programs for homeowners with lots of equity**
 - The government agencies should begin phasing out loss mitigation options for delinquent borrowers who are sitting on significant home equity.
- 4. Implement proper FHA Mutual Mortgage Insurance Fund (MMIF) accounting.**
 - FHA's practice of treating Partial Claims (PCs) as fully collectible overstates the MMIF's true reserves. This creates a misleading picture of fund strength and encourages premature premium cuts.
 - There are multiple reasons for this:
 - Per multiple HUD OIG reports, FHA doesn't collect on a quarter to half PCs.
 - A better alternative is to implement better accounting at the MMIF.
 - FHA should recognize an immediate loss to the MMIF at the time a PC is executed, rather than assuming full future repayment.
 - When the PCs are collected, they should be credited back to the MMIF.
- 5. Implement LIFT Home (Low Income First Time buyer program)**
 - Rate buydown with 20 year term that keeps monthly P&I equivalent to a 30-yr mortgage to build equity faster.

Appendix 11: Strong Foundations: A Playbook for Housing and Economic Growth (National)

(see next page)



U.S. Chamber of Commerce



Strong Foundations

A Playbook for Housing
and Economic Growth

National



Overview

Housing has long been a cornerstone of the American dream and the nation's economy, but a supply–demand imbalance has pushed the U.S. market into crisis, driving up prices and limiting workforce mobility. Addressing this shortage is essential to stabilize the market and sustain economic resilience, so the U.S. Chamber of Commerce and the AEI Housing Center* have released *Strong Foundations: A Playbook for Housing and Economic Growth*, a guide that gives state and local leaders actionable solutions. The playbook is backed by location specific data on affordability, net migration, and homeless displacement pressure. These data allow officials to make informed decisions to reinforce housing stability and spur growth.

We thank our data providers – First American, Intercontinental Exchange, U.S. Parcel Labs, Zoneomics, and Cotality – our analysis would be impossible without their data. We also acknowledge the use of data from Bureau of Labor Statistics, Bureau of Economic Analysis, SafeGraph, U.S. Census, Overture Maps, OpenStreetMap, ESRI Community Maps, Microsoft, Freddie Mac, U.S. Department of Housing and Urban Development, IRS, and the U.S. Geological Survey.

The Key to Housing Abundance

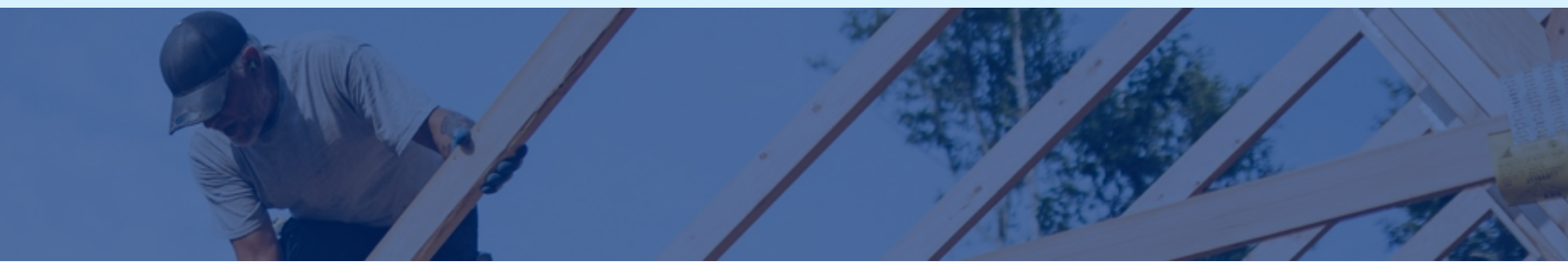
Small lots, small lots, small lots. Enabling small lots are essential to building more family-sized starter homes.

Key ways to unlock smaller lots and new housing supply

- **Lot size flexibility in new subdivisions:** allow the building of homes on small lots instead of only large lots. Small lots enable the construction of starter single-family homes and townhomes.
- **Home dwelling type and lot split flexibilities on existing lots:** allow the construction of a variety of dwelling types and sizes, including duplexes, triplexes, quadplexes, townhomes, and ADUs.
- **Flexibility to build homes near jobs:** allow for a residential overlay by-right in non-residential districts such as commercial/retail, bringing people closer to jobs and amenities.

Building in flexibility for lot size and density will help unleash new housing supply, restore affordability for buyers and renters alike, and reopen the path to ownership for working families.

* AEI Housing Center scholars Edward Pinto, Tobias Peter, and Arthur Gailles.



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Executive Summary

Options Communities Should Consider to Add Up to 1,629,400 Homes Annually in the Nation

While every community has differences in infrastructure such as road, schools, and sewer and water availability, and local laws vary, our Housing Playbook offers strategies to help add more housing supply to meet growing demand.

Option 1: Lot Size Flexibility in New Subdivisions

- Allow the option to build homes on small lots instead of only large ones. This enables the construction of starter single-family homes and townhomes. States, counties, and municipalities should consider establishing minimum lot sizes no larger than 1,200 square feet for lots in new residential subdivisions.

Projection: 414,400 additional single-family homes per year with a median value of \$454,000, which is 11% below today's median value of the nation's single-family homes built in new subdivisions from 2000-2024.

Option 2: Home Dwelling Type and Lot Split Flexibilities on Existing Lots

- States, counties, and municipalities should consider allowing duplexes, other multiplexes, townhomes, or accessory dwelling units (ADUs) on single-family lots and allow lot-splits by setting a minimum lot size of no more than 1,200 square feet for new lots.

Projection: 482,000 net new homes annually with a median value of \$486,000, which is 1.7% above today's median value of the nation's new SFD infill housing built from 2014-2024.

Option 3: Flexibility to Build Homes Near Jobs

- Allow for a residential overlay by-right in non-residential areas, which could include shopping areas or other appropriate commercial districts, bringing people closer to jobs and amenities.

Projection: 587,000 net new homes annually.

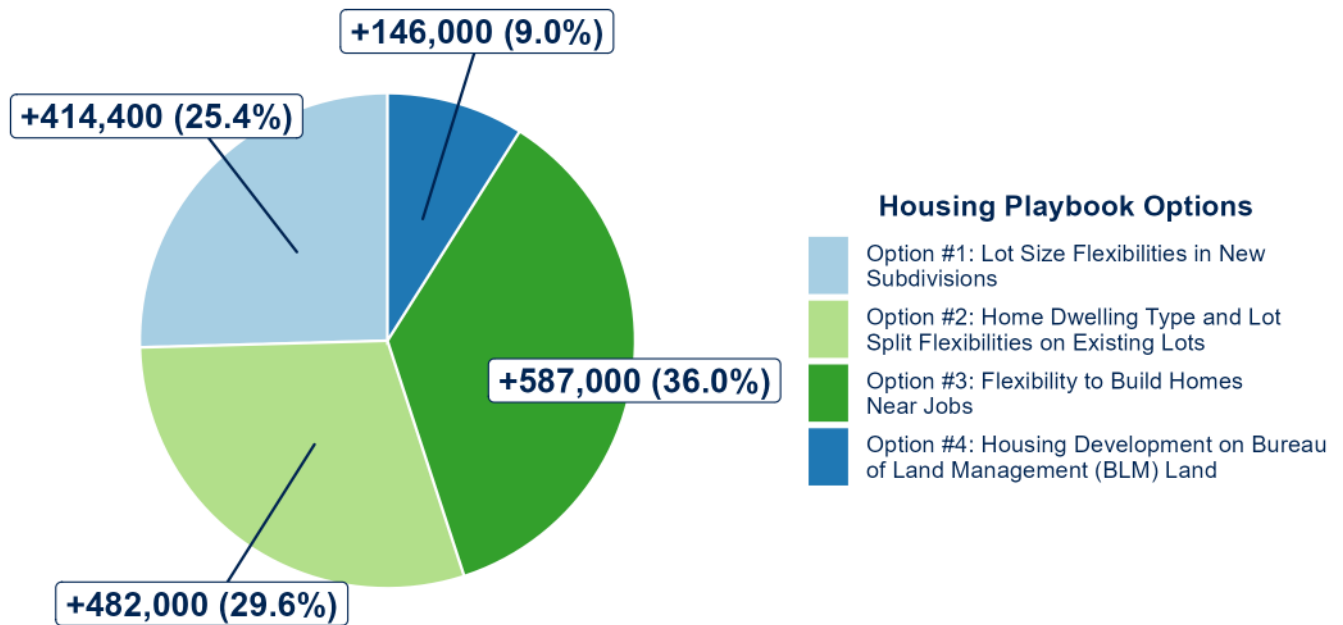
Option 4: Housing Development on Bureau of Land Management (BLM) Land

- Request sale of developable BLM land for residential use through public auction (Homesteading 2.0). Focus on by-right development of small-lot single-family detached homes and townhomes.

Projection: 146,000 homes annually, using just 230 sq. mi. of land out of BLM's 267,000 sq. mi. nationwide portfolio.

How the Nation Could Add 1,629,400 Homes Per Year

*Following the AEI Housing Success Playbook Would Increase New Homes by 125%**



* Compared to new homes built from 2010-2023.

Source: 2023 5-year ACS and AEI Housing Center, <https://heat.aeihousingcenter.org/toolkit/playbook>.

Impact of the Housing Shortage

Recent studies estimate that the national housing shortage ranges from around 4 to 8 million homes. In this shortage analysis, we use the mid-point of about 6 million homes.¹ The map below shows where that shortage lies.

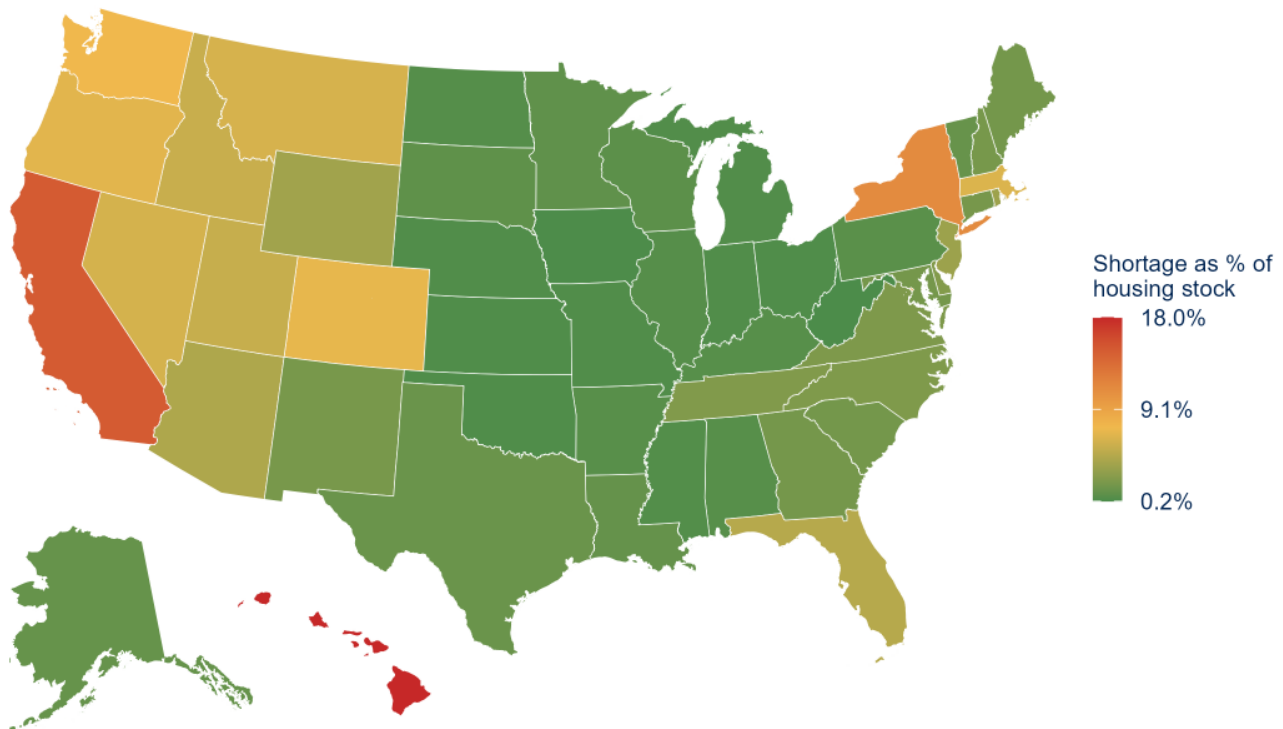
The nation is short **6.0 million** homes—roughly **4.1%** of its entire housing stock. That shortage is an invisible hand squeezing families out of home ownership, pushing rents higher, and forcing workers to commute farther from jobs and schools. Every year we fail to close it, prices climb faster than wages, overcrowding worsens, and the dream of a starter home slips further away.

Fixing the nation's housing shortage would:

- Bring home price growth in alignment with wage growth.
- Give renting families a path to home ownership.
- Relieve upward pressure on homelessness and displacement.

U.S. Housing Shortage by State in 2023

National shortage: 6.0 million homes



Source: 2023 1-Year American Community Survey (ACS) and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/housing_shortage.

¹ We assume a national housing shortage of 6 million homes - a midpoint between various studies estimating a shortage of between 4 and 8 million (see for example: [Up for Growth](#), [Zillow](#), [Realtor.com](#), [McKinsey](#)). We then allocate that shortage to counties (or cities) using the ratio of median home price to income.

Why Allow for Lot Size and Location Flexibility?

This gives owners the right to build homes that most people can afford—whether in new neighborhoods, existing communities, or near jobs. It increases supply and affordability by allowing people to build starter homes on **smaller lots in new residential subdivisions**, and by **allowing duplexes, triplexes, fourplexes, townhomes, or ADUs** on single-family lots. It also refers to location – allowing **homes near jobs** and amenities in commercial and other non-residential areas.

It creates more affordable starter homes by using land more efficiently. This approach reduces sprawl, infrastructure costs, and energy use. By building smaller homes on smaller lots, we can significantly increase the supply of lower-priced, family-sized homes while freeing up existing housing stock.

It creates more workforce housing since single-family detached homes and townhomes average about 3.5 and 2.8 bedrooms respectively and are suitable for raising a family and naturally affordable shared living arrangements (42% of renters live in single-family homes).

What is the flexibility to build homes near jobs?

Legalizing single-family, multifamily, and mixed-use residential by right in all commercial, industrial, and mixed-use areas. This allows people to live near their jobs and amenities if they choose.

By-right housing can transform underused commercial and industrial properties into owner-occupied and rental homes, helping cities make better use of land and infrastructure. Combined with small lots, this helps give people of all incomes greater choice in where and how they choose to live.

The Housing Affordability Trifecta: Why Smaller Lots Mean Lower Home Prices

- **Smaller lots** → lower land costs
- **Smaller homes** with standard finishes → more affordable per home
- **More townhomes** → efficient land use, lower cost per square foot



Diving Deeper: Option 1: Lot Size Flexibility in New Subdivisions

Home values for single-family detached (SFD) and single-family attached (SFA) homes in new subdivisions vary significantly based on homes per acre (lot size). **As lot sizes shrink, home prices typically go down.**

From 2000-2024, **9.4% of new homes built in residential subdivisions in the nation have been townhomes (SFA)**—a form that uses land more efficiently, **requiring only 25% of the land** needed for a typical detached home (SFD).

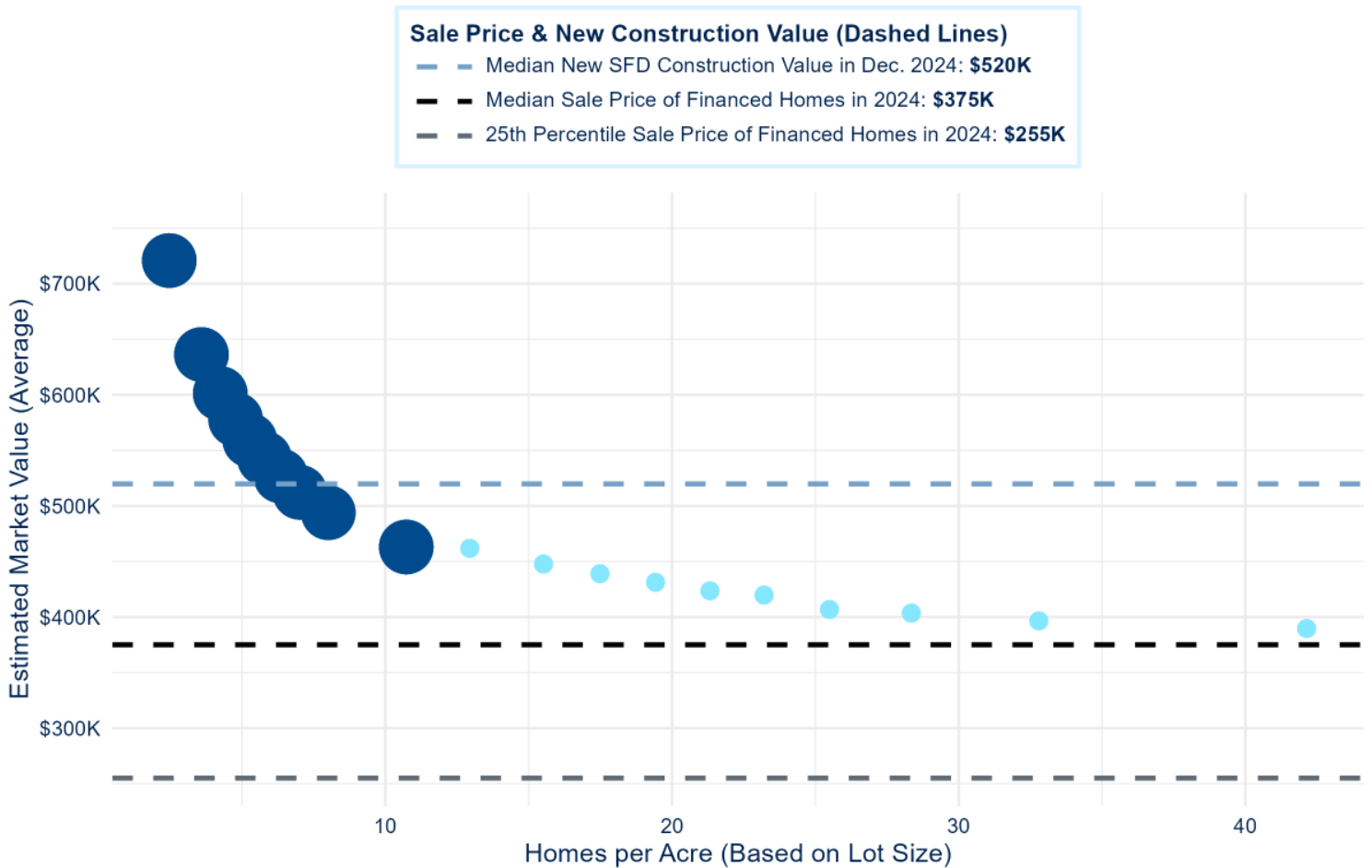
The impact of restrictive zoning is clear in home prices: In the nation, the median price of a newly built SFD home in a subdivision is \$520,000—well above the median sale price of financed homes at \$375,000.

Allowing smaller-lot subdivisions and more homes in existing single-family areas would enable the construction of more homes at lower price points—helping to add supply and close the gap between what is built and what most working families can afford.² To achieve this outcome, the nation should set a minimum lot size of no more than 1,200 sq.ft. for newly constructed single-family homes.

² For more details, see [As-Built & New Residential Subdivisions](#).

New Residential Subdivisions (2000-2024): Lot Size and Market Value in the Nation

Hypothetical Estimates for Single Family Detached (SFD) and Attached (SFA)



Note: There were 10,739,500 new SFD and 1,118,600 new SFA homes built in residential subdivisions from 2000-2024. Dots are sized by the ratio of SFD-to-SFA homes built. The chart shows the hypothetical case assuming that SFAs were built in the same locations as SFDs, and illustrates the expected influence that legalizing by-right residential zoning and lot size variations would have on SFD and SFA home affordability.
 Source: First American, HMDA 2024, and AEI Housing Center, <https://heat.aeihousingcenter.org/toolkit/playbook>.

A common misconception is that developers prefer building big homes on large lots because it yields higher profits. In reality, local zoning codes and minimum lot size requirements often dictate the size of a home—not market preferences.

Consider a simple thought experiment: a builder would earn far more profit by mass marketing one hundred \$300,000 townhomes on 1/20-acre lots than by building five \$1 million custom homes on one-acre lots. Clearly, **total profit would be higher selling \$30 million worth of townhomes compared to \$5 million worth of homes.**

New Residential Subdivisions (2000-2024): Lot Size and Home Value Scenarios for the Nation

	SFDs Built (Actual)	SFDs Built at Slightly Smaller Lots (Estimated)			SFAs Built		Mix of SFDs and SFAs on the Same Land (Estimated)	
	At Median	At 7th Decile	At 8th Decile	At 9th Decile	At Median		80% at 5.5 homes/acre (median SFD) and 20% at 22.3 (median SFA)	80% at 8 homes/acre (9th decile SFD) and 20% at 22.3 (median SFA)
					Actual	Hypo		
Density (Homes/Acre)	5.5	6.3	7	8	22.3	22.3	8.9	10.9
Homes Built in Residential Subdivisions (2000-2024)	10,739,500	12,336,200	13,628,100	15,560,700	1,118,600	NA	17,243,600	21,100,600
Owner Occupied	9,206,000	10,574,800	11,682,200	13,338,900	716,100	NA	12,903,100	16,209,300
Extra Homes								
Cumulative	NA	1,596,700	2,888,700	4,821,200	NA	NA	6,504,100	10,361,100
Per Year	NA	63,900	115,500	192,800	NA	NA	260,200	414,400
Home Value in 2024								
Median	\$520,000	\$497,000	\$483,000	\$466,000	\$445,000	\$406,000	\$497,000	\$454,000
25th Percentile	\$446,000	\$426,000	\$414,000	\$400,000	\$401,000	\$366,000	\$430,000	\$393,000
Living Area in Sq. Ft.	2,300	2,130	2,050	1,960	1,720	1,670	2,190	1,910

Source: First American and AEI Housing Center, <https://heat.aeihousingcenter.org/toolkit/playbook>.

- If single-family detached homes had been built at 8 homes per acre (instead of 5.5), the nation could have added **193,000 more homes per year (4.8 million over 2000-2024).**
- If 80% of single-family detached homes had been built at 8 homes per acre and the remaining 20% had been converted to townhomes at 22.3 homes per acre, the nation could have added **414,400 more homes per year (10.4 million homes over 2000-2024).**

These two changes alone would have increased the number of family-sized residences built from 2000-2024 by 87% – from 11.9 million to 22.2 million.

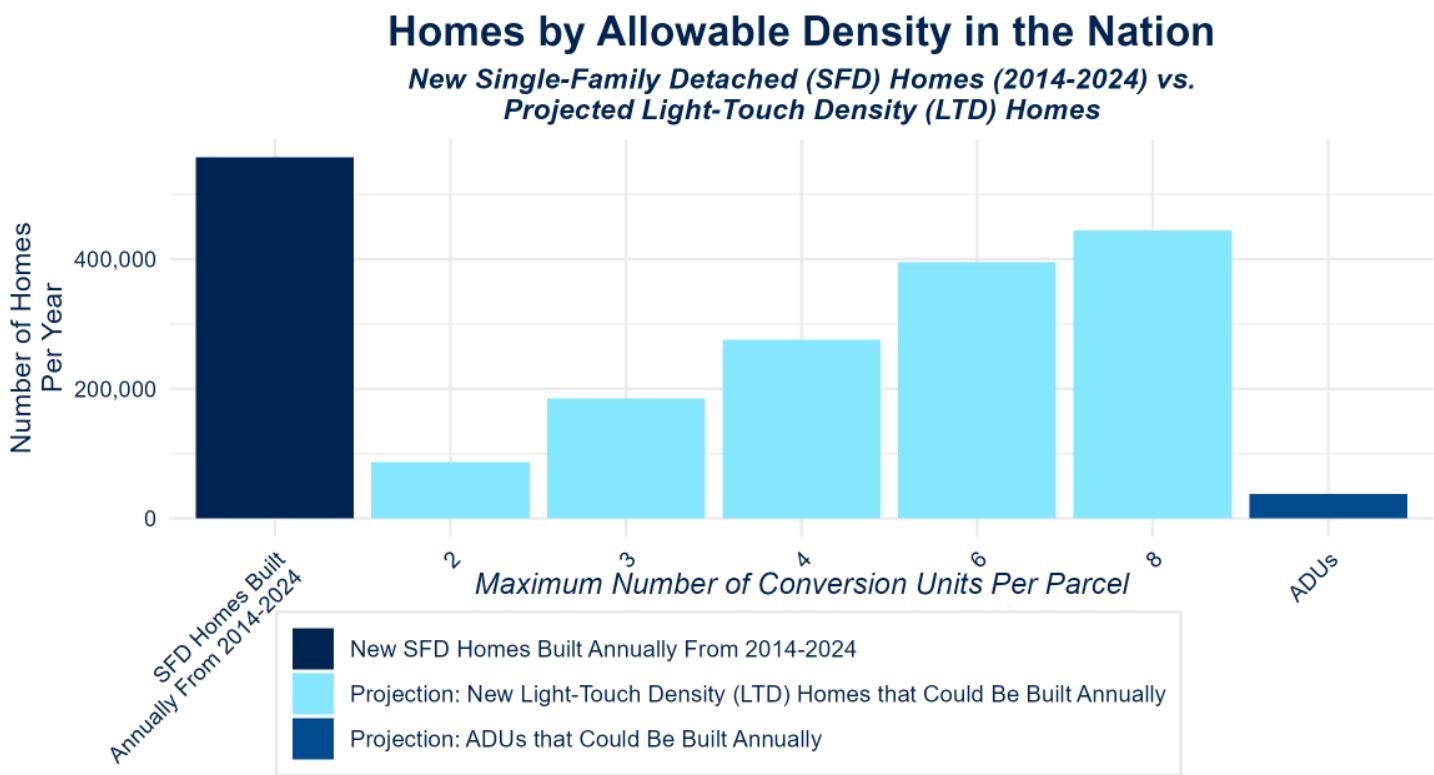
Going forward, building 80% of SFD homes at 8 homes per acre and converting the other 20% to townhomes at 22.3 homes per acre would increase the nation's recent single family permit levels by 42% – **from 994,000 to 1.4 million homes per year.**

Diving Deeper: Option 2: Home Dwelling Type and Lot Split Flexibilities on Existing Lots

Allowing home dwelling type and lot split flexibilities on existing lots in single-family neighborhoods in the nation could add 482,000 homes per year, or an increase of about 87% over the current rate of SFD construction in the nation.

These new homes are created through the legalization of home dwelling types or by splitting existing lots into smaller parcels. They can take the form of smaller lot SFD homes, townhomes, 2–8 home multiplexes, and ADUs in neighborhoods currently restricted to single-family detached homes.³ To achieve this outcome, the nation should set a minimum lot size of no more than 1,200 sq.ft. for new lots created through single-family lot splits.

This bar chart compares the number of new SFD homes built in the nation from 2014-2024 (shown in dark blue) to the potential number of homes that could be created by these flexibilities.

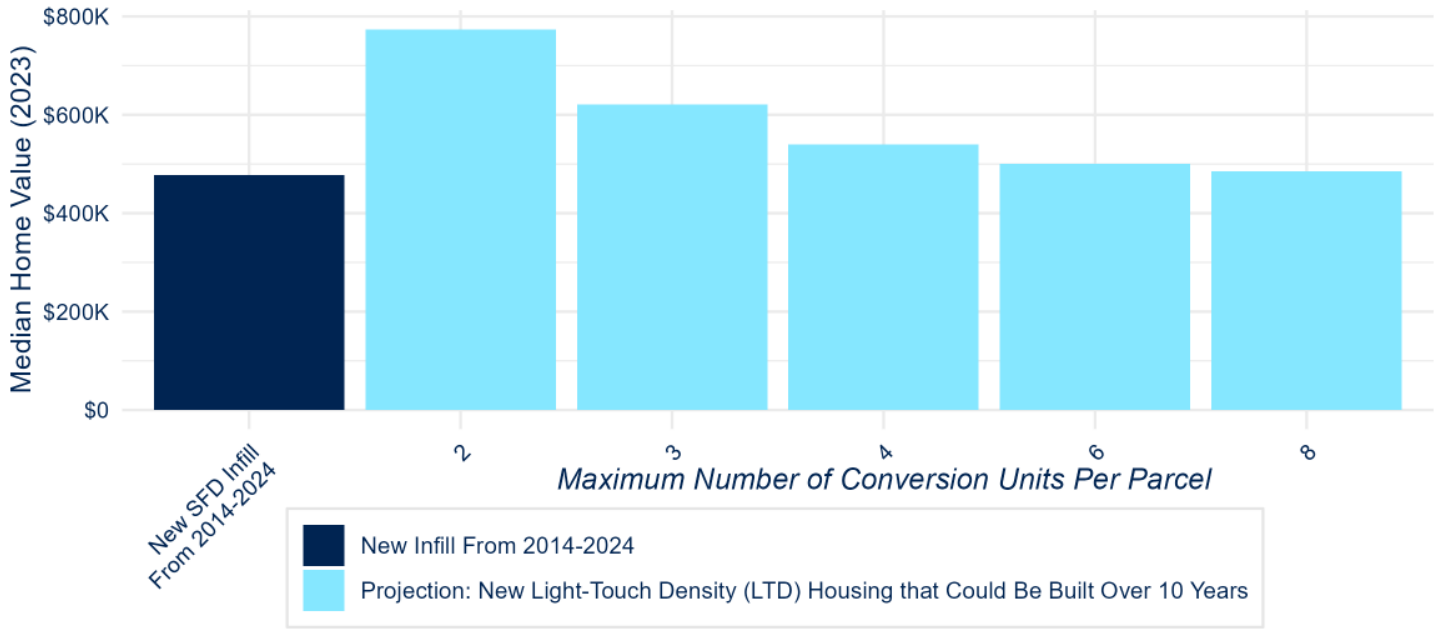


Source: First American and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/ltd_chart.

³ Projections for ADUs are given only in cases when they are the highest and best use of land. In areas with high land values, duplex, triplex, and townhome conversions are typically the higher and better land use. If both ADUs and small multiplexes make financial sense, we assume the option that produces the most homes on that lot. [Light-Touch Density: Housing Supply and Affordability Estimates](#).

Median Estimated Home Value in 2023 by Allowable Density in the Nation

New Single-Family Detached (SFD) Homes (2014-2024) vs. Projected Light-Touch Density (LTD) Units



Source: First American and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/ltd_chart.

Diving Deeper: Option 3: Flexibility to Build Homes Near Jobs

Legalizing housing in commercial and other areas by allowing single-family, multifamily, and mixed-use residential homes to be built by right in non-residential areas.⁴

This allows for the transformation of underused land into vibrant walkable neighborhoods, without the need to expand into undeveloped areas or invest in new infrastructure.

This policy is a win-win-win:

- Residents can live closer to jobs, shops, and other amenities. This can be especially helpful for service workers working nearby.
- Cities can expand their tax base without increasing tax rates.
- Local businesses can gain more foot traffic and new customers.

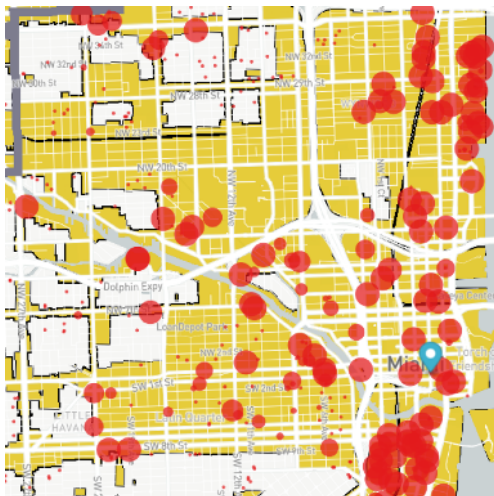
Residential overlays help solve housing shortages, reduce commutes, cut transportation and housing costs, and make better use of existing infrastructure — easing costs for families, reducing strain on public services, and supporting healthier, more livable communities.

Option 3's estimate for additional homes per year is based on the subject city's current level of home production in its current commercial, industrial, and mixed-use areas as compared to best-in-class cities that are similar in size.

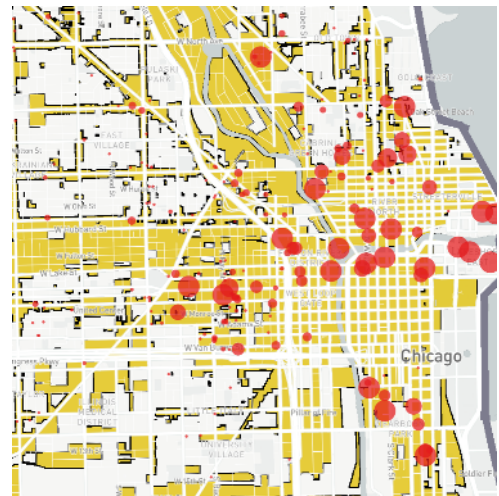
To explore residential overlay (Livable Urban Village) areas in your jurisdiction, click [here](#). Here are two successful examples:

*Livable Urban Village Successes and Opportunity: Miami built over 2,000 homes/year in residential overlay areas (yellow) from 2012-2024. Chicago only built 600/year, and has more opportunity to grow.*⁵

Miami



Chicago



Source: First American, Zoneomics, Overture Maps, OpenStreetMap, ESRI Community Maps, Microsoft, and AEI Housing Center.

⁴ The playbook does not include estimates for the supply benefits gained from adding more housing in adjacent residential areas within 1/4 mile of residential overlay areas as they are included in Option 2 estimates.

⁵ Note: Each dot represents a multi-family home built from 2010-2024, sized by the number of units in the property.

For more, see: [AEI Housing Center's Housing and Economic Analysis Toolkit \(HEAT\) Livable Urban Villages](#)

Diving Deeper: Option 4: Home Sweet Starter Home: The Sale of Public Land Across The Western U.S. for Residential Development

Home Sweet Starter Home is a housing initiative focused on the sale of land managed by the Bureau of Land Management (BLM) that is suitable for residential development, with a focus on small lot, starter homes. The BLM currently oversees more than 247 million acres across the United States. Making just 0.1% of that land (approximately 200 square miles) available for private sector development has the potential to add **over one million homes over 10 years**, helping to address the home shortage of approximately 2.8 million homes out West and accommodate for future economic growth.

Under the [Federal Land Policy and Management Act of 1976](#) (as amended), the BLM is directed to support economic growth, which includes making land that is suitable for residential use available for housing development and supporting infrastructure. This has not yet happened, therefore Home Sweet Starter Home leverages this authority to help address the nation's housing shortage.

Homesteading 2.0 - Making Housing Affordable Again

Homesteading 2.0 is a two-part initiative that has the potential to address the housing shortage in the West, both now and in the future. The first initiative, Home Sweet Starter Home, would add over one million homes over the next ten years. The second initiative, Freedom Cities, could add millions more over the next 40-50 years, while also adding the infrastructure and jobs needed to build new cities.

Home Sweet Starter Home (Homesteading 2.0 Initiative 1)

- Allows for up to 1.5 million homes over 10 years with less than 0.1% of BLM land (230 sq mi)
- Builds starter homes on small lots
- Targets land closest to city and sewer, where homes can be built immediately.

Freedom Cities (Homesteading 2.0 Initiative 2)

- Creates 20 new cities with less than 0.1% of BLM federal land (600 sq mi)
 - Each city can grow 20,000 – 200,000 single-family homes at full capacity
 - Build-out: 40–50 years
 - Sites are near water, airports, highways, and within metros.
-

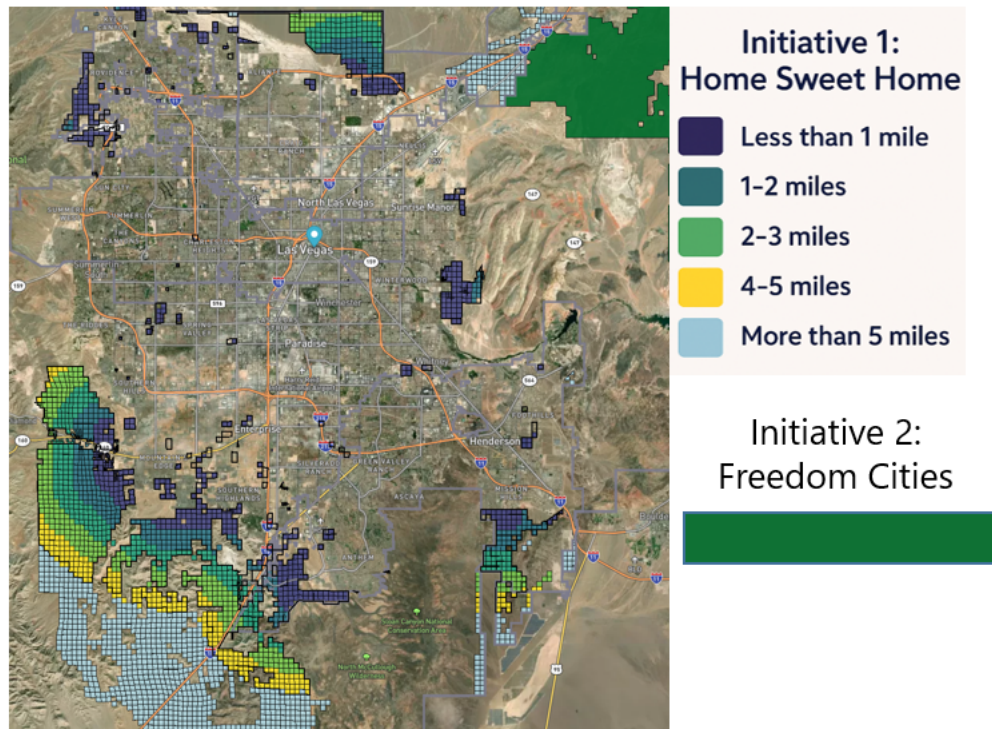
If implemented across the Western U.S., this initiative could support the construction of up to **1.5 million homes over the next 10 years**.

This approach would expand access to starter homes, particularly in states that are both among the least affordable and the fastest growing in the country.

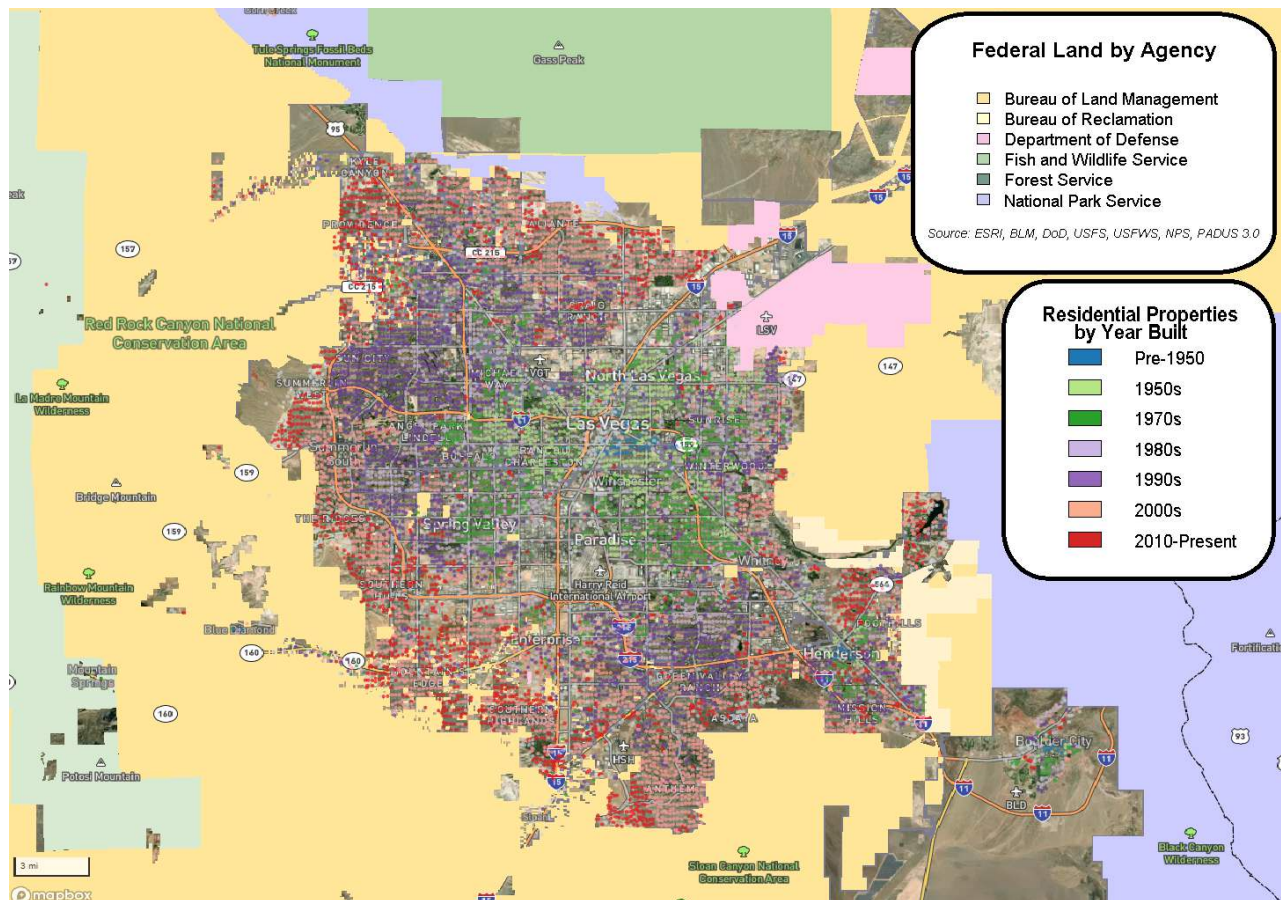
With a distribution of 80% single-family detached homes and 20% townhomes, roughly 80% of homes would be owner-occupied.

What's next? For this initiative to advance, the BLM would need to auction the designated land to the private sector. While federal action is required, strong local and state interest can help build momentum from the ground up. State and local leaders can engage with their local BLM offices to express support and explore potential opportunities.

Homesteading 2.0: Opportunity for new starter homes in the Las Vegas metropolitan area.



Federal Constraint: Like many metros in the West, Las Vegas's growth is constrained by federal land.



Source: BLM, AEI Housing Center, <https://www.aei.org/housing>. To see the rest of Homesteading 2.0, explore our Homesteading 2.0 interactive map: https://heat.aeihousingcenter.org/toolkit/homestead_map.

A Path to Housing Abundance: Implementation Strategy

The three most important things in addressing housing abundance and affordability: **“small lots, small lots, small lots.”** Smaller lots allow more homes to be built on the same amount of land. This reduces land costs, leads to smaller, but usually still family-sized homes, and promotes townhomes, which cost less to build than a similarly sized detached home. They also provide home-sharing opportunities for service workers.

Across the country—and around the world—[case studies](#) consistently reveal a formula for successful housing supply reform:

- **Allow small lot flexibility for new subdivisions, home dwelling type and lot split flexibilities on existing lots, and the flexibility to build homes near jobs** by adopting one or more of the reform options outlined above,
- **Enable by-right zoning**, so projects don’t get delayed or killed by discretionary reviews,
- **Follow the Keep it Short and Simple (KISS) principle** instead of micromanaging the process.

How Does the KISS Principle Unlock Housing Supply?

The KISS principle refers to eliminating unnecessary complexity in the homebuilding process. Simplicity brings certainty, lowers costs, and makes small-scale infill and larger-scale development both feasible and attractive. See *Full List of KISS Reforms to Consider* for more details.

Others Are Doing it, and Model Legislation Is Available

Several states—including Texas, California, Montana, Vermont, Oregon, and Washington—have recently enacted legislation to support housing abundance.

The key to successful reform lies in adhering to the Housing Abundance Success Sequence while avoiding unnecessary micromanagement. A range of legislative templates and model bills are readily available to guide this process. [Texas SB-15](#) (lot size flexibility for new residential subdivisions in larger cities) and [Texas SB-840](#) (residential and mixed-use housing on all commercial and light industrial land in larger cities) were enacted in mid-2025. Taken together, these two bills implement Playbook Options 1 and 3. Implementation of Option 1 and 2 can be accomplished through a single model bill: the [AEI Model Starter Homes Act](#), which sets minimum lot sizes for both residential subdivisions and home dwelling type and lot split flexibilities on existing lots. A second model bill, [AEI Model Multifamily and Mixed-Use Residential in Certain Zoning Classifications](#), covers Option 3. It would allow for a residential overlay by-right in commercial, industrial, and mixed use zones.

Boosting Housing Supply Keeps Home Prices in Check – Especially in High Job Growth Markets

In fast-growing metros, home prices tend to rise sharply when housing supply doesn't keep pace with job growth.⁶

This graphic shows that metros with high employment growth, but low new construction shares, experienced the steepest increases in home prices between 2012 and 2019 (before the pandemic).⁷

This trend is measured by home price appreciation (HPA)—the percentage increase in constant-quality home values over time. When demand for housing rises but new construction lags behind, prices appreciate faster.

Building more homes in high job-growth areas helps slow home price increases, making housing more naturally affordable. This highlights how boosting supply can relieve affordability pressures.

From 2012-2019, the nation had an **average employment growth of 12%, share of new home construction of 14%, and home price appreciation of 62%.**

How New Construction Affects Home Prices: Comparing Job Growth and 1-4 Unit Housing Supply in Major Metros

Data from 2012-2019



Source: Freddie Mac, Bureau of Economic Analysis (BEA), and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/supply_demand.

⁶ [AEI Housing Center's HEAT: Metro Supply & Demand](#).

⁷ Although more recent data are available, we use data through 2019 to avoid the atypical market disruptions caused by the pandemic. This approach allows us to better capture the relationship between home prices, new housing supply, and job growth under more typical, pre-pandemic conditions.

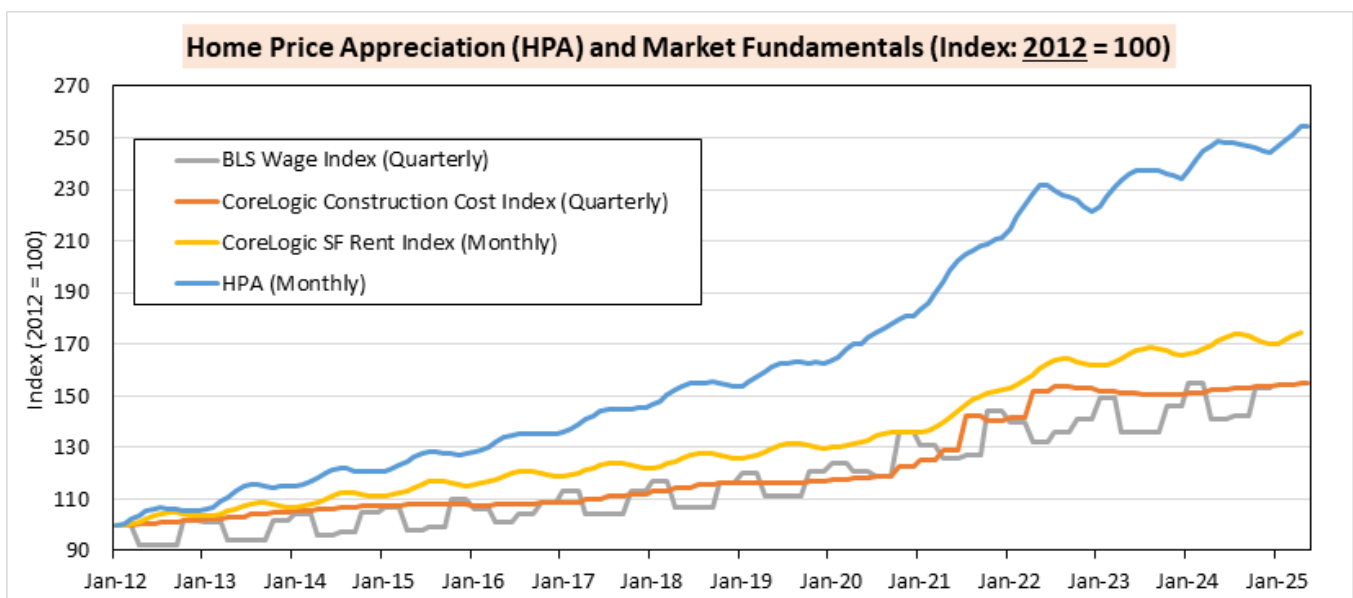
MSA	Job Growth	Home Price Growth	New Homes as % of 1-4 Unit Sales
National	12%	62%	14%

Source: Freddie Mac, Bureau of Economic Analysis (BEA), and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/supply_demand.

At the national level, home prices have become disconnected from fundamentals

- Home prices have nearly tripled since 2012, with many areas having risen much faster than incomes for decades.
- Wages, rents, and construction costs have risen much more slowly.

The growing disconnect between construction costs and home prices suggests the main force behind higher prices is regulation that makes land scarce and adds to building costs.



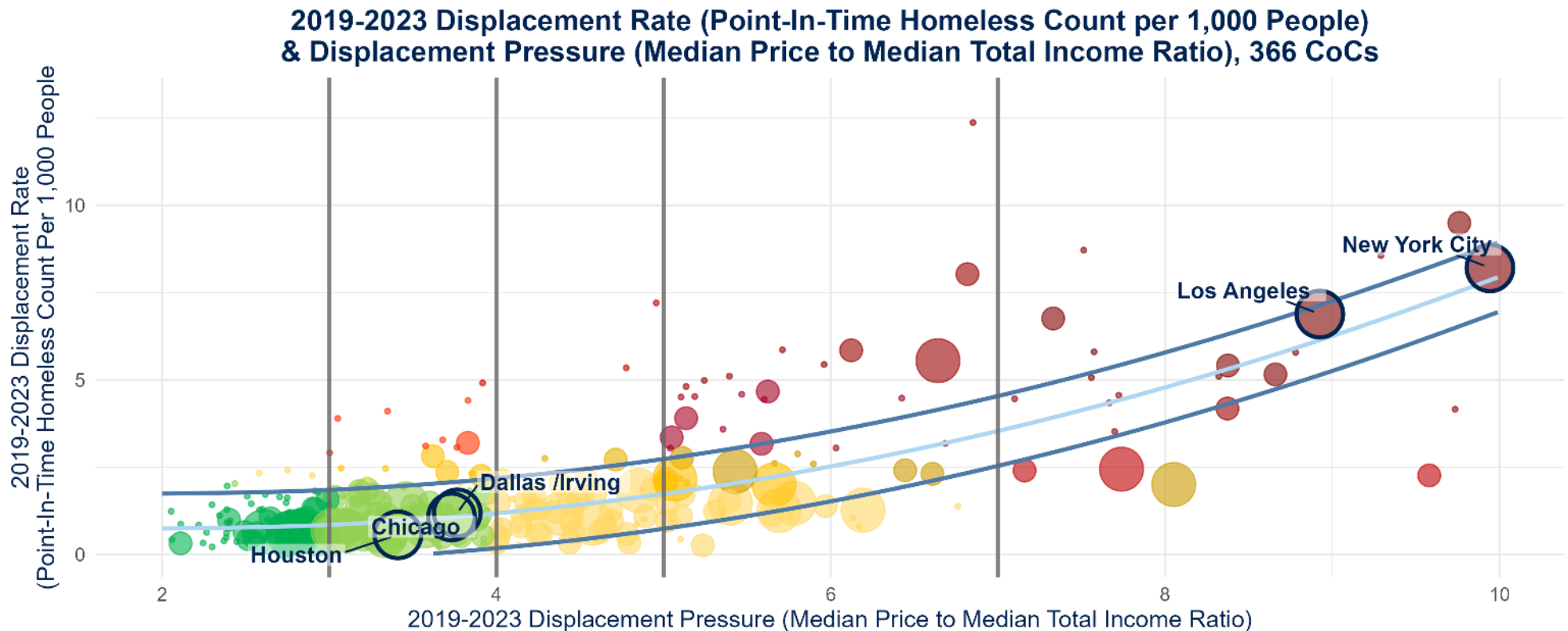
Source: Bureau of Labor Statistics (BLS), Cotality, and AEI Housing Center, <https://www.aei.org/housing>.

Rising Home Prices Drive Displacement and Homelessness

When home prices rise faster than incomes, displacement pressure increases—and with it the risk of homelessness. Communities that fail to keep housing supply in line with demand experience the steepest price hikes, making even modest apartments unaffordable and pushing out those on the margins.⁸

The solution is clear: **legalize and enable the construction of more homes in the middle price range** so that more older homes “filter down” to lower-income households over time. This is important as it provides more rapid rehousing opportunities for formerly homeless individuals and families.

The chart below shows that as housing becomes less affordable—measured by the ratio of home prices to income—homelessness tends to increase sharply, especially once that ratio exceeds 5.0. Communities that build too little housing face the highest displacement rates.



Note: The chart shows the New York, Los Angeles, Houston, Dallas, and Chicago CoCs.

Source: 2023 5-Year American Community Survey (ACS), HUD Annual Homeless Assessment Report (AHAR), and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/gni_toolkit.

⁸ Of 54 variables tested, the ratio of median home price to median income had the greatest explanatory power. [AEI Housing Center Good Neighbors Toolkit](#)

Institutional Investors Own Less Than 1% of U.S. Single-Family Homes

Despite drawing widespread public condemnation, **institutional investors play only a minor role in most single-family housing markets.**⁹ The data make this clear:

- Institutional investors—defined as those owning 100+ homes—make up just 1.0% of the national single-family housing stock.
- Nationally, mom and pop investors—defined as those owning less than 100 homes—own 12.4% of single-family housing stock. The vast majority of investor-owned homes are generally held by small, mom-and-pop landlords with portfolios of 2–9 homes.¹⁰
- In **96% of U.S. counties**, investor-owned homes account for less than 2% of all single-family homes.
- Just **14 metro areas**—including Atlanta, Dallas, Houston, Phoenix, Charlotte, and Tampa—account for half of all investor-owned homes nationwide.

Institutional investors capitalize on regulatory failures that have created a housing scarcity.

- They purchase homes in places where supply is constrained, betting on continued price and rent appreciation. Their focus is on markets with strong fundamentals, high demand, and limited new construction.
- They don't reduce housing supply; they shift homes from the owner occupied to the rental market. The total number of units remains the same.
- Most recently, low interest rates—especially during the pandemic—have fueled their activity.

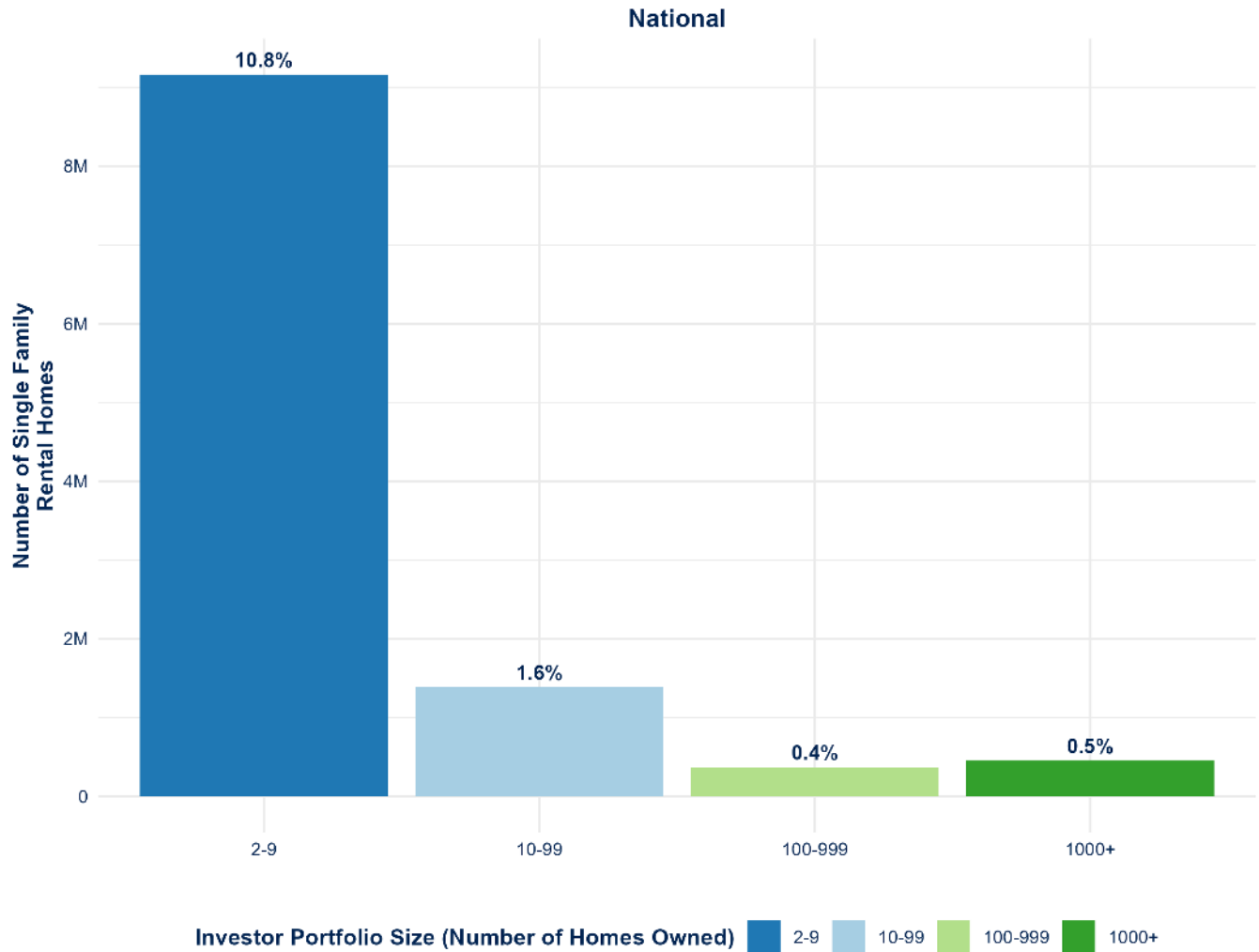
The bottom line: **Fix the supply problem, and investor influence will fade.**

⁹ [AEI Housing Center's HEAT: Investor Shares](#)

¹⁰ We define institutional investors as entities that own more than 100 units. Their combined shares are add to 1% (0.44% + 0.54%). According to the Census Bureau's American Community Survey (ACS), there are about 11.2 million long-term rental units in the US in 2023, about the same number of rental units in the Parcl Lab's data. However, Parcl Labs' definition of investor-owned homes includes second homes, since they track the count of properties owned by individuals or entities. According to the ACS, second homes account for about 4.5 million homes. Since we assume that most of these second homes are owned by small-scale investors, this can reduce their ownership share from 12.4% to 7.4%.

Investor-Owned Single-Family Rentals

Number and Share of Single-Family Rental Homes Owned in 2024



Note: Percentages represent the percent of the total single family stock held by investors in each portfolio size group in the nation.

Source: 2021 5-Year American Community Survey (ACS) Microdata, Parcel Labs, and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/investor_share.

Full List of KISS (Keep it Short and Simple) Reforms to Consider:

The KISS principle refers to eliminating unnecessary complexity in the homebuilding process. Simplicity brings certainty, lowers costs, and makes small-scale infill and larger-scale development both feasible and attractive.

- **Enable smaller lots by reducing minimum lots sizes and simplifying lot splits**
 - *Why?* Enables cost-effective infill development by reducing time and administrative hurdles.
- **Implement pre-approved design templates**
 - *Why?* Streamlines the permitting of ADUs and small-scale units like backyard cottages, giving builders and homeowners clarity and confidence.
- **Implement permitting “shot clocks” or allow third-party reviews**
 - *Why?* Permitting delays are a hidden tax on housing.
- **Clean up the zoning code**
 - Adjust standards so they are small lot friendly, like: Floor Area Ratios (FAR), setback and height limits, demolition fees, etc.
 - *Why?* It’s illogical to legalize townhomes, for example, but then cap building heights at 1.5 stories.
- **Reduce parking mandates**
 - *Why?* Parking takes up space and drives up costs. Let the market decide how much parking is needed; and if parking is really at a premium, charge for curbside parking rather than requiring costly off-street parking.
- **Lower or waive impact fees**
 - *Why?* Increased property tax revenue from more housing will offset lost upfront fees.
- **Align energy and building codes with affordability goals:**
 - Lower energy standards for small or infill projects.
 - Apply the International Residential Code (IRC) to 3–6 unit buildings (as Memphis and North Carolina have done).
 - Allow single-staircase designs in multifamily projects.
 - Allow modular or off-site construction.
 - *Why?* These changes allow more developments to pencil out without sacrificing safety or livability.
 - Reform condo defect liability laws.
 - *Why?* Reduce frivolous lawsuits and revive the construction of entry-level ownership housing.

Note: Many of these steps are included in the AEI Housing Center’s Light-touch Density [Model Bill](#).

What is Micromanagement – and Why Does It Kill Housing?

Micromanagement in housing policy refers to layering complexity, red tape, or contradictory regulations on the building process. These rules often sound reasonable in isolation but together make new housing financially or logistically impossible to deliver.

Common Micromanagement Pitfalls:

- **Spot upzoning**
 - *Why?* Delivers windfalls to a few rather than enabling broad affordability.
- **Reliance on subsidies to add new supply**
 - *Why?* Subsidy pipelines are slow, complex, costly, corruption-prone, and crowd out private development, especially by smaller builders. They are insufficient to meet demand on their own.
- **Inclusionary zoning & income limits**
 - *Why?* Shrinks profitability, inflates rents on market-rate units, narrows the eligible tenant pool, and adds compliance headaches, especially for smaller builders.
- **Special treatment for subsidized housing only**
 - *Why?* Creates an uneven playing field that discourages unsubsidized supply. Market-rate builders face all the red tape, while only subsidized projects are streamlined. To solve the shortage, reform must apply to all housing—not just subsidized.
- **Special programs to “jumpstart” housing construction**
 - *Why?* They’re politically driven, complex, expensive, corruption-prone, and hard to scale—distracting from broader reforms. If real needs exist, like financing for small builders, the market will respond, once it’s legal and feasible to build.
- **Permit caps**
 - *Why?* Artificially suppress supply and create political gatekeeping that deters investment.
- **Owner-occupancy mandates**
 - *Why?* Restrict the ability to build or finance ADUs and reduce flexibility for homeowners and builders.
- **Rent control**
 - *Why?* Reduces the return on investment, discourages new construction, and encourages condo conversions or disinvestment.
- **Uneven regulations**
 - *Why?* Requiring more of infill housing than single-family homes undermines housing diversity.
- **Open space and landscaping minimums**
 - *Why?* They reduce buildable area, drive up costs, and make small-scale or infill housing financially and physically unviable. They also ignore that trees regrow over time.
- **Prevailing wage requirements for small-scale projects**
 - *Why?* Applies large-project labor standards to small infill efforts, significantly raising construction costs unnecessarily.
- **Basement granny flat height limits**
 - *Why?* Blocks natural conversions of many existing basements.

- **Growth boundaries**

- *Why?* Artificially constrain land supply and increase land costs within the boundary, undermining affordability.

- **Housing needs assessments**

- *Why?* Top-down, bureaucratic exercises that drain resources and delay action—measuring the shortage and leaning on subsidies instead of enabling real solutions.

- **Exclusive focus on Transit Oriented Development**

- *Why?* Limits growth to narrow corridors while leaving most land off-limits. This results in small, high-cost units dominated by rentals, and in practice relies heavily on subsidies for affordability.

Find this playbook online

To read this playbook (and over 6,000 others for states, cities, metros, and more) online, visit <https://aei.usingcenter.org/playbook>, or scan the QR code below.



Background and Methodology

To read the background and methodology for this playbook, visit <https://www.aei.org/strong-foundations-a-playbook-for-housing-and-economic-growth-methodology/>, or scan the QR code below.

