

Expanding Opportunities for the Construction of Starter Homes and Workforce Housing in the United States

EMILY HAMILTON

Senior Research Fellow, Urbanity Project, Mercatus Center at George Mason University

Subcommittee on Housing and Insurance of the US House Committee on Financial Services
Building Our Future: Increasing Housing Supply in America

March 4, 2025

Thank you, Chair Flood, Ranking Member Cleaver, and members of the subcommittee. I am Emily Hamilton, a senior research fellow at the Mercatus Center at George Mason University, where I am codirector of the Urbanity Project.

Housing affordability is a serious and growing problem for too many Americans. While the share of households that are renters has remained relatively steady for several decades, the share of income that the median renter spends on rent has increased by 25 percent since 1980. The increase is even sharper for households with children and for those living in the country's regions with some of the highest-paying jobs.¹ Outdated land use and building regulations contribute significantly to the undersupply of housing and housing affordability challenges.

Land use and building regulations are predominantly implemented at the state and local levels. At the federal level, policymakers can support housing reform by providing leadership on reforming the rules that are standing in the way of badly needed housing. Federal policymakers can use their platforms to aid knowledge sharing on best practices in land use and building regulations, and, in a few cases, federal policymakers can reform specific federal rules that are driving up the cost of housing construction.

Federal policymakers can support and supplement state and local reform efforts to improve the feasibility of building starter homes and workforce rental housing by

1. reforming zoning,
2. expanding opportunities for siting manufactured housing, and
3. introducing improved analysis into the building-code development process.

¹ Emily Hamilton, "Zoning Out American Families," *Discourse*, February 23, 2023.

Zoning Reform

New data are creating opportunities for evaluating zoning across the country, and one estimate finds that 75 percent of the land where US cities allow residential development is limited exclusively to detached single-family housing.² Housing types, such as townhouses or apartment buildings, that allow buyers or renters to share a piece of expensive land across multiple households are allowed on only a small share of land.

Just as importantly, localities almost always require that each single-family house sit on a large yard. Minimum lot size requirements vary widely across the country. In the West, the typical new house sits on a lot less than 7,000 square feet, while in the Northeast, the typical new house sits on a lot about three times as large.³ In places where land is expensive, either due to particularly high demand for housing or due to high agricultural land value, these rules place a high floor on the cost of building a new house.

There are many successful examples of zoning reform that have addressed this issue and improved housing supply and affordability. For example, in 1998, Houston policymakers reduced minimum lot size requirements from 5,000 square feet to 1,400 square feet in the city center, and in 2013 it expanded the successful policy to cover the entire city. As a result of this policy change, 80,000 houses have been built on small lots that would not have been approved for this use prior to the rule change.⁴

Minimum lot size requirements also have indirect effects on starter-home construction. Because few buyers want a small, basic house that is nonetheless expensive due to land costs, minimum lot size requirements incentivize builders to provide large, expensive houses. In Houston, we see that minimum lot size reform has made the construction of smaller houses profitable, with smaller lots improving affordability both directly and indirectly.⁵ As figure 1 on the next page shows, among large Sun Belt metros, Houston has the lowest ratio of house prices to incomes, reflecting its relative openness to starter-home construction.

While Houston is notable for its reforms that make single-family construction less expensive, localities from Minneapolis, MN, to New Rochelle, NY, have seen reforms that have expanded opportunities for multifamily construction leading to large increases in workforce housing supply.⁶ Congress could encourage this type of reform and lead by example by repealing the Height of Buildings Act that applies to Washington, DC, squeezing apartments out of the city's central business district. It could also facilitate knowledge sharing of policies proven to make workforce-housing construction feasible by directing the Department of Housing and Urban Development (HUD) to publish model policies that facilitate new, less-expensive housing construction.

² Emily Badger and Quoc Trung Bui, "Cities Start to Question an American Ideal: A House with a Yard on Every Lot," *The New York Times*, June 18, 2019.

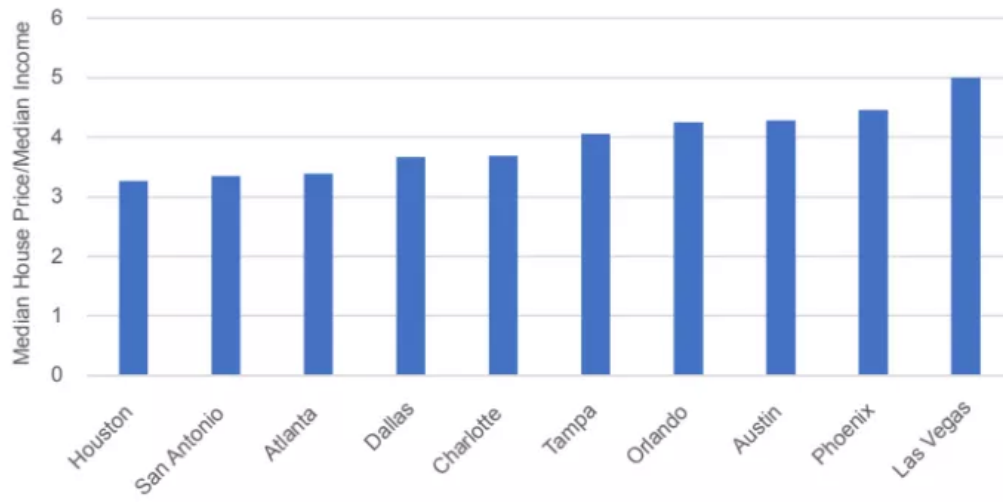
³ US Census Bureau, "Characteristics of New Housing, Lot Size, Single Family Completed," 2024, <https://www.census.gov/construction/chars/current.html>.

⁴ Emily Hamilton, "Learning from Houston Townhouse Reforms," (Mercatus Policy Brief, Mercatus Center at George Mason University, April 2023).

⁵ Mike Mei, "House Size and Household Size: The Distributional Effects of the Minimum Lot Size Regulation" (job market paper, University of Michigan, October 17, 2022), https://mikemei.com/uploads/1/3/7/2/137207430/mei_mike_2022_jmp.pdf.

⁶ Alex Horowitz and Ryan Canavan, "More Flexible Zoning Helps Contain Rising Rents," Pew, April 17, 2023.

FIGURE 1. Household median income as a multiple of median house price of metropolitan statistical areas



Source: Zillow Research, Housing Data (database), "ZHVI All Homes Time Series (\$)," accessed March 24, 2023, <https://www.zillow.com/research/data/>; and US Census Bureau, American Community Survey (database), accessed March 24, 2023, <https://www.census.gov/programs-surveys/acs>.

Expanding Opportunities for Siting Manufactured Housing

Manufactured housing built to the Department of Housing and Urban Development's code is the least expensive way to build a new home in the US today. The median income of the homebuyer of manufactured housing is \$57,000 compared to \$93,000 for site-built housing.⁷ In spite of the affordability advantages of manufactured housing, these homes have shrunk from about 20 percent of all new single-family houses prior to 2000 to just 9 percent of total new single-family houses today.⁸

The decline of manufactured housing as a share of all new housing has been driven in large part by increasingly scarce land being zoned for manufactured housing.⁹ As with the construction of small, site-built starter homes, manufactured housing requires inexpensive land to be a viable option. This means allowing manufactured housing to be placed on small lots. Localities can go further to make low-cost housing a viable option by addressing subdivision regulations that mandate wide streets and expensive finishes that drive up the cost of each home in a new subdivision.

Several states, including Nebraska, Montana, and Maryland, have adopted laws requiring localities to allow manufactured housing to be used on any lot where site-built housing would be allowed. While this is a promising step, policy barriers stand in the way of working Americans using manufactured housing. In addition to the literal exclusion of manufactured housing, many local zoning rules include

⁷ Karan Kaul and Daniel Pang, "The Role of Manufactured Housing in Increasing the Supply of Affordable Housing," The Urban Institute, July 2022.

⁸ Donald H. Layton, "Manufactured Housing Is a Good Source of Unsubsidized Affordable Housing—Except When It's Not: Key Facts and Figures, and Some Unusual Economics (Part 1)," NYU Furman Center, February 21, 2023.

⁹ Esther Sullivan, *Manufactured Insecurity: Mobile Home Parks and Americans' Tenuous Right to Place* (University of California Press, 2018).

aesthetic requirements that make manufactured housing infeasible to build, such as requirements for a specific roof pitch or bans on low-cost siding materials.

While zoning is a key barrier to the viability of manufactured housing, recent changes to HUD's code for manufactured housing have improved opportunities to use these homes in new configurations as duplexes, triplexes, or fourplexes in places where local rules make these less-expensive options possible.¹⁰ Congressional reform could go further and eliminate the current permanent steel chassis requirement for manufactured housing. Manufactured housing without a permanent chassis would both reduce construction costs and create improved opportunities for multistory configurations that may be particularly desirable in higher-cost markets.

Introducing Economic Analysis into the Building Code Development Process

While HUD's code provides the most economical way to build new housing today, most new housing is built according to a state or local building code. In the US, these codes are based on model codes published by the International Code Council (ICC), a nonprofit organization. Their basic codes are the International Residential Code (IRC), which applies to one- and two-unit housing structures, and the International Building Code, which applies to larger multifamily buildings. Both the complexity of these codes and their compliance costs have ballooned in recent years, particularly for the International Building Code. A 2022 survey found that building-code changes adopted since 2012 make up 11 percent of the cost of new buildings.¹¹

Unlike many zoning regulations, building code rules serve important health and safety purposes. However, the model codes that provide the foundation of US building codes are not based on the rigorous analysis that is crucial for achieving safety objectives in a cost-effective manner. To take one example, the IBC requires two means of egress from all multifamily buildings over three stories. This requirement has been a feature of US building codes since well before sprinkler requirements and other fire-safety improvements have drastically reduced the risk of fire deaths in multifamily buildings, and many countries that allow taller apartment buildings to have a single staircase have better fire safety outcomes than the US.

Pro-housing Yes In My Backyard (YIMBY) advocates have begun supporting a reform that allows taller apartment buildings to be built with a single-staircase.¹² This is an important reform that could open up opportunities for less-expensive, higher-quality apartments.¹³ Additionally, some state and local policymakers are considering allowing more than two units to be built under the International Residential Code, which offers substantial cost savings relative to building under the International Building Code.¹⁴

¹⁰ Andrew Justus and Alex Armlovich, "Two Big Developments in Manufactured Housing Reform: New Rules, New Bill," Niskanen Center, October 21, 2024.

¹¹ Paul Emrath and Caitlin Sugrue Walter, "Regulation: 40.6 Percent of the Cost of Multifamily Development," National Association of Home Builders and the National Multifamily Housing Council, 2022.

¹² Stephen Smith, "Reform Efforts Across North America," *Reform Trackers*, Center for Building in North America, last accessed February 27, 2025, <https://www.centerforbuilding.org/trackers>.

¹³ Sean Jursnick and Peter LiFari, "The Single-Stair Solution: A Path to More Affordable, Diverse, and Sustainable Housing," (Mercatus Policy Brief, Mercatus Center at George Mason University, February 2025).

¹⁴ Daniel Herriges, "A Trailblazing Reform Supports Small-Scale Development in Memphis," *Strong Towns*, January 26, 2022.

While these discrete reforms could make important improvements in workforce-housing availability, the underlying problem is that US building codes need to be based on better reasoning. Whereas federal agencies are required to provide rigorous benefit-cost analysis for significant rules, the ICC uses no such process. The lack of analysis in the code development process allows rule changes to be made based on emotion rather than science.¹⁵

Americans deserve building codes that achieve high safety standards while remaining cost effective. HUD could help by identifying cost-saving measures in new ICC model codes, making it feasible for states or localities to adopt just these rules and not new codes in their entirety, which may have cost-increasing requirements.¹⁶ HUD could also publish model codes for areas where state or local policymakers are expressing interest in reform, such as a code for single-stair multifamily buildings up to six stories and a version of the IRC that covers more than two units.

Conclusion

While the heavy lifting in zoning and building-code reform must come from state and local governments, Congress can aid these efforts. Members can point to successful reforms in their districts or elsewhere, encouraging state and local policymakers in their states to learn from these successes. Congress could go further by directing HUD to publish best practices in zoning and building codes to support starter homes and workforce housing. In specific areas, such as the Height of Buildings Act and the steel chassis requirement for manufactured housing, Congress could act directly to repeal regulations that are standing in the way of more housing at better prices.

¹⁵ Emily Hamilton, "Reforming US Building Codes," *Regulation*, Winter 2024-2025.

¹⁶ Salim Furth and Charles Gardner, "Boosting Housing Affordability: Practical Suggestions for Congress and the White House," (Mercatus Policy Brief, Mercatus Center at George Mason University, April 2023).