Written Testimony of

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"Nowhere to Live: Profits, Disinvestment, and The American Housing Crisis"

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Chairman Neal, Ranking Member Brady, Members of the Committee: Thank you for inviting me to testify at this hearing.

I am the Managing Director of the Joint Center for Housing Studies of Harvard University and a Lecturer in the Department of Urban Planning and Design at Harvard's Graduate School of Design. I am also a member of the Board of Directors of Freddie Mac. Through its research, education, and public outreach programs, the Joint Center for Housing Studies' mission is to advance understanding of housing issues and to help leaders in government, business, and the civic sectors make decisions that effectively address the needs of cities and communities. For more than three decades we have published the annual report *The State of the Nation's Housing* and I am very pleased to have the opportunity to share the work of our Center with the Committee today.

Introduction

A few weeks ago, my Center released The *State of the Nation's Housing 2022*.[1] In my testimony today I will draw heavily from this report to describe today's housing market conditions, how we got here, the consequences for the nation's families and individuals, and what steps are needed to alleviate the nation's worsening housing affordability challenges.

I will begin by describing the main finding of this year's report, which is that record-setting increases in home prices and rents have exacerbated longstanding housing affordability challenges. A major reason for this rapid rise in housing costs is a shortage of new housing supply—particularly modest-cost housing—that has been in the making for a number of years. Even before the pandemic, new supply was failing to keep pace with increases in housing demand, but the onset of the pandemic boosted demand and created double-digit growth in single-family home prices across the country. Meanwhile, similarly strong demand and tight conditions in the rental market have pushed up rents at near record pace. The result has been worsening housing affordability for both would-be homebuyers and renters.

As my Center's research has documented, the consequences of high housing cost burdens for the lowest-income households are significant, reducing spending on food and healthcare and increasing housing instability. The growing obstacles to buying a home also lock out millions of renters from the benefits of homeownership, including protection from rising housing costs and the opportunity to build wealth.

These challenges also fall disproportionately on people of color, who experience both higher housing costs burdens and significantly lower homeownership rates relative to white households. Addressing these problems is thus an important matter for racial justice.

The nature of these challenges points to two broad categories of solutions. First, there is clear need

[1] Unless otherwise noted, information cited in this testimony is from Joint Center for Housing Studies. The State of the Nation's Housing 2022. Harvard University, 2022. Available at:https://www.jchs.harvard.edu/state-nations-housusing-2022

for efforts to expand the supply of modestly priced homes, both for sale and for rent, to alleviate the severe housing shortage that is a key contributor to the current affordability crisis. But additional supply by itself will not address affordability challenges for the lowest-income households or put homeownership within reach for many moderate-income households. For this reason, well-designed demand side programs are also needed to ensure access to the opportunities to rent and own good quality homes.

In my testimony to follow I will further describe and illuminate the conditions of today's housing market and challenges.

Record-Setting Gains in Home Prices and Rents

Through the first part of 2022, the costs of both owner-occupied and rental housing have been climbing at a record pace. Home price appreciation nationwide hit 20.6 percent in March 2022 according to the Case-Shiller Index—the largest jump in three decades of recordkeeping—topping the 20.0 rate just set in August 2021 (Figure 1). And the pace has yet to slow, hitting 20.4 percent as of April. The runup has been widespread, with 67 of the top 100 housing markets experiencing record-high appreciation rates at some point last year according to data from the Federal Housing Finance Administration (FHFA). Even in the other 33 major markets, the increases were at least 9 percent.

Meanwhile, according to data from CoStar, rents for apartments in professionally managed properties were up 12 percent nationally in the first quarter of 2022 from a year earlier (Figure 1). This was the largest year-over-year increase in two decades and more than three times the 3.2 percent average annual rise in the five years preceding the pandemic. Data from RealPage demonstrates that these increases occurred in markets across the country, with 116 out of 150 markets posting increases of at least 10 percent and most showing gains of at least 3 percent.

Even the Consumer Price Index for rent of primary residence, which covers the entire rental stock and is slow to register changing conditions, was up 4.8 percent in the year ending April 2022. This increase is more than double the 1.8 percent rise in April 2021 (the smallest uptick since the pandemic began) and the largest change since March 1987. The latest reading also surpasses the 3.7 percent average annual increase in rents in 2015–2019.

Tight Market Conditions a Key Driver of Rising Housing Prices

Historically tight housing supply is a key driver of these rapid increases in costs. Heading into the pandemic the supply of existing homes for sale had been at historic lows, with only 1.4 million homes available for sale at the start of 2020 compared to an average of 2.0 million from 2013-2019 (Figure 2). This represented just 3.1 months of supply, well below the 6 month supply considered to be representative of a balanced market. With demand jumping during the pandemic, the inventory of homes steadily fell to 850,000 by the start of 2022, representing just 1.6 months of supply, both new record lows.

The rental market was similarly tight at the outset of the pandemic, and has since become even tighter. The Census Bureau's Housing Vacancy Survey, which provides the broadest gauge of the market, showed a vacancy rate of 6.6 percent at the start of 2020, the lowest rate since the early 1980s. By the end of 2021 this rate had fallen to 5.6 percent. Although edging up to 5.8 percent in the first quarter of 2022, the rate remained a full percentage point below 2019 levels.

Trends in the professionally managed apartment market demonstrated more volatility during the pandemic but have also tightened since the end of 2020. Rental vacancy rates reported by CoStar edged up by a full percentage point over the course of 2020 before beginning to fall. The rate reached an all-time low of just 4.8 percent in the third quarter of 2021 and held at just 5.0 percent in the first quarter of 2022 (Figure 3). By comparison, the vacancy rate for these professionally managed apartments averaged 6.1 percent annually in the five years preceding the pandemic.

The most dramatic turnaround was in prime urban areas (the highest-cost and highest-density neighborhoods) where vacancy rates plunged from a record high of 9.7 percent in the third quarter of 2020 to just 5.9 percent in the first quarter of 2022 (Figure 5-3). This latest reading is 0.9 percentage point lower than the pre-pandemic average. Even so, conditions in other urban and suburban areas are even tighter. The rental vacancy rate in other urban neighborhoods stood at just 4.6 percent in early 2022 (0.9 percentage point below the 2015–2019 annual average) while that in suburban markets was at 4.8 percent (a full 1.5 percentage points below the 2015–2019 average).

Indeed, tight rental markets are evident across the country. According to RealPage data for 150 markets, the number of metros with vacancy rates below 2 percent jumped from just 10 in the first quarter of 2021 to 56 in the first quarter of 2022. At the same time, the number of markets where vacancy rates were falling in early 2022 surged to an astounding 144, up from 101 in early 2021.

Surging Housing Demand

These tight housing market conditions in part reflect surging demand that was apparent even before the pandemic. Indeed, annual household growth had jumped from 1.2 million per year in the four years prior to 2018 to 1.8 million per year in 2018-2019. The pandemic brought only a modest slowdown in this pace, with growth averaging 1.6 million a year over 2020-2022. Much of this increase has been among millennials who delayed living on their own while in their 20s and early 30s. Indeed, the accelerated growth in new households aged 35-44 helped to lift overall household growth by an additional 400,000 over the past five years.

The pandemic added impetus to this demographically-driven demand for single family homes. The sharp increase in people working and attending school from home put a premium on indoor space, while the need to socially distance increased the appeal of outdoor space. For those who stayed fully employed, greatly reduced household spending also boosted personal savings, which nearly tripled in the year following March 2020.[2] The buying power of these households was further aided by historically low interest rates intended to prop up the economy in the face of the dramatic slowdown brought on by the pandemic.

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[2] US Department of Commerce, Bureau of Economic Analysis, National Income and Products Accounts. Available at: https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&1921=survey&1903=76

The growing presence of investors in the single-family market further added to demand. According to data from CoreLogic, the share of homes purchased by investors averaged 28 percent per month in the first quarter of 2022, up from 19 percent a year earlier and well above the 16 percent share averaged in 2017–2019 (Figure 4). Investors with large portfolios (at least 100 properties) drove much of this growth, nearly doubling their share of investor purchases from 14 percent in September 2020 to 26 percent in September 2021. Investors have focused primarily on markets in the South and West. In the fourth quarter of 2021, the highest investor share of home sales was posted in Atlanta (41 percent), followed closely by San Jose (38 percent), Phoenix (36 percent), and Las Vegas (36 percent). The investor share was lowest at 14 percent in several markets in the Northeast, including Albany, Buffalo, Pittsburgh, and Rochester.

New Construction Lagging Demand Over the Past Decade

While the volume of new construction has been increasing at a solid pace in recent years, builders have struggled for many years to keep up with growing demand. The number of new homes coming on the market need to accommodate increases in households as well as replace homes lost due to demolition or conversion to other uses. Reflecting this fact, for much of the period from 1974 to 2010, new construction has, on average, been 30 percent higher than the growth in households (Figure 5). However, in the period since 2010, new construction has not even kept pace with household growth, producing an ever-tighter housing market.

New housing supply has also increasingly been concentrated in larger, more expensive homes. Since 2009 the share of new single-family homes under 1,800 square feet, the size of a traditional starter home, has fallen from 33 percent to just 24 percent in 2021.[3] Meanwhile, the share of homes of 3,000 square feet or more has increased by an equal percentage.

In the multifamily market, new apartments have increasingly been concentrated in larger buildings in prime urban locations, with the result that asking rents have risen sharply. According to the Survey of Market Absorption, the median asking rent for newly completed units averaged $1,740 in the four quarters of 2021, up 24 percent from the median in 2015.[4] Meanwhile, the share of newly completed units renting for less than $1,250 fell from 39 percent in 2015 to 15 percent in 2021, including a drop in the share of units renting for less than $850 from 9 percent to 2 percent.

New housing supply is also constrained by land use regulations that limit the type and density of housing that can be built in many communities. These restrictions have been increasing over time and the most highly constrained areas are marked by higher home prices and higher-income residents, thus contributing to segregation by income.[5] A recent comprehensive review of zoning practices in

[3] US Census Bureau, Survey of Construction available at: https://www.census.gov/construction/nrc/index.html.
[4] US Census Bureau, Survey of Market Absorption of New Multifamily Units, available at: https://www.census.gov/programs-surveys/soma.html
[5] See for example: Gyourko, Joseph, Jonathan S. Hartley, and Jacob Krimmel. "The local residential land use regulatory environment across US housing markets: Evidence from a new Wharton index." Journal of Urban Economics 124 (2021): 103337; and Been, Vicki, Ingrid Gould Ellen, and Katherine O'Regan. "Supply skepticism: Housing supply and affordability." Housing Policy Debate 29.1 (2019): 25-40..

Connecticut highlights two key ways that land use regulations limit the development of multifamily housing as well as smaller single-family homes.[6] This review found that the state allows single-family housing by right on fully 91 percent of land, but multifamily housing of four or more units on only 2 percent. In addition, fully 81 percent of zoned land requires 1 acre for a single-family home. Such large lot requirements both reduce the amount of housing that can be built and increase the cost of land.

Since the start of the pandemic, the challenge of building modest-cost housing has also been exacerbated by the availability and price of building materials. According to the National Association of Home Builders/Wells Fargo Housing Market Index, 91 percent of builders surveyed in December 2021 considered the availability of materials a significant issue, and 96 percent considered the price of materials a significant issue. Echoing these results, multifamily developers responding to a National Multifamily Housing Council Construction Survey in August–September were nearly unanimous in reporting that building materials prices had increased and that the lack of some materials had affected their operations.

Trends in Housing Affordability

The rapid increase in home prices and rents raises obvious concerns about housing affordability. But before turning to the impact of these recent trends, it is helpful to understand the longer run trends leading up to the pandemic.

On the rental market side, affordability deteriorated sharply during the 2000s with only modest recovery over the last ten years. From 2001 to 2011 the share of renters experiencing housing cost burdens (spending more than 30 percent of their income on housing) rose from 41.2 to 50.7 percent—a truly astounding increase in only a decade (Figure 6). As household incomes recovered from the Great Recession there was a slow but steady improvement in affordability, with the cost burden share declining to 46.3 percent by 2019.

However, this overall trend masked important differences by income (Figure 6). Cost burden rates among lowest-income renter households were already extremely high in 2001 and have edged up since. As of 2019 more than four out of five renters earning less than $25,000 were cost burdened, with a large majority of these households having severe cost burdens, spending more than 50 percent of their income on housing. Meanwhile, the cost-burdened share of renters with somewhat higher incomes increased significantly over this period. Among renters earning $25,000-$49,999 the share with cost burdens rose by 12.9 percentage points between 2001 and 2019, reaching 57.8 percent. The cost burden rate for those earning $50,000-$74,999 essentially doubled to reach 25.3 percent. Thus, over the past two decades housing cost burdens have become a much more common challenge for renters across the income spectrum.

[6] Information on the Connecticut Zoning Atlas is available here: https://www.desegregatect.org/atlas. For an analysis of the nature and impact of these zoning restrictions see Bronin, Sara C. "Zoning by a Thousand Cuts: The Prevalence and Nature of Incremental Regulatory Constraints on Housing." Cornell Journal of Law and Public Policy, Forthcoming (2021).

The most recently available measure of cost burdens is from the 2020 American Community Survey, covering the first year of the pandemic. Perhaps not surprisingly, given the sharp economic downturn early in the pandemic, the share of cost-burdened renters jumped sharply, up 2.6 percentage points in a single year, the largest annual increase since the start of the series in 2001. The increases were widespread across income groups, with the largest increases again among moderate-income renters.

The homeowner market has exhibited very different trends in the incidence of cost burdens over the last two decades. The share burdened rose rapidly during the housing boom of the early 2000s as homebuyers increasingly stretched their budgets to afford a home, reaching a peak of 30.4 percent in 2008. But over the next decade, the share of cost-burdened owners dropped steadily as the most financially stressed owners lost their homes to foreclosure and fewer first-time buyers—who are the most likely to be financially strained—entered the market. By 2019 the cost burden rate among homeowners had fallen fairly substantially to 21.2 percent. However, the string of declines ended in the first year of the pandemic as the share of homeowners with cost burdens increased by 1.0 percentage points, the first meaningful increase since the peak of the housing boom in 2006.

Importantly, racial inequalities in the housing market and the broader economy are clearly reflected in disparities in the incidence of housing cost burdens. Black households exhibit the highest cost burden rates in both the rental and homeowner markets, followed by Hispanic households (Figure 7). Compared to white households, the share of Black households with cost burdens is 11.7 percentage points higher for renters and 8.6 percentage points higher for owners. Hispanic households fare little better, with cost burdens rates that are 9.6 and 7.6 percentage points higher for renters and owners respectively. Asian, Native American, and Native Hawaiian/Pacific Islander renters also have cost burden rates that are 2-5 percentage points higher compared to white renters, although there is little difference among homeowners.

Homebuyer Affordability Deteriorates

Another key measure of housing affordability is the attainability of the purchase of a home. There are two key financial constraints for homebuying: having sufficient income to afford the monthly homeowner costs and having sufficient savings to meet downpayment and closing cost requirements. The sharp rise in home prices over the past two years have strained affordability in both of these areas, with the recent jump in interest rates dramatically impacting homebuyer affordability.

Over the past two decades, homebuyer affordability has experienced some significant swings. During the housing boom in the early 2000s, income gains were easily outpaced by the sharp rise in home prices, which pushed up the real monthly homeowner cost and made home purchase much less affordable (Figure 8). But in the initial years following the Great Recession, the monthly cost of homeownership steadily improved as both real house prices and interest rates fell. By 2012, the monthly homeowner cost was 36 percent lower than in 1990 and at its most affordable point in decades. As house prices recovered beginning in 2012, the monthly cost of a median price home rose but still remained below levels seen in the early 1990s. The jump in home prices between 2019 and 2021 did push monthly costs higher, although they remained below those at the peak of the housing boom.

But over the past year the combination of rapidly rising home prices and sharply higher interest rates have resulted in a substantial increase in monthly owner costs. According to Freddie Mac, the average 30-year mortgage interest rate jumped by more than 2.0 percentage points between the first week of January and the first week of May 2022, to 5.27 percent, which is its highest level in 10 years. Rates have risen even further since, although as of last week they had returned to 5.3 percent. The impact of sharply higher interest rates on affordability has been compounded by the outsized growth in home prices over the past year. As a result, the total monthly payments (mortgage payments plus estimated property tax and insurance costs) on the median-priced home shot up by 35 percent, from $2,100 in April 2021 to $2,800 in April 2022 (Figure 9).

In turn, the substantial increase in monthly payments pushed up the amount of income necessary to qualify for a mortgage. In April 2021, a household had to earn at least $79,570 a year to afford payments on the median-priced home of $340,700. One year later, the income requirement stood at $107,500. According to the latest American Community Survey data, this cost increase meant that roughly 4 million renter households earning between $79,570 and $107,500, who could have bought the median-priced home last year, could no longer afford that home in April 2022.

The significant increase in housing values also increases the downpayment and closing costs associated with buying a home, typically paid for with savings. Research has consistently found that a lack of savings is among the most significant barriers to homeownership.[7] One indication of the extent to which rising downpayment and closing costs have created hurdles to homeownership is the trend in the ratio of median home prices to median annual household incomes (the price-to-income ratio) (Figure 10). Before the housing boom of the early 2000s, price-to-income ratios were close to 3 nationally and in a majority of markets across the country. But at the peak of the boom in 2005, the national ratio reached 4.9 and roughly half of markets had a ratio of 4 or higher. After improving substantially through 2011, both the national ratio and share of markets with elevated levels had been trending up in the years preceding the pandemic. But the sharp rise in home prices since 2020 has pushed these measures to new record highs. As of 2021, the national price-to-income ratio reached 5.3 with three quarters of markets above 4 and an astounding two out of five above 5.

At these levels it will take renters years to accumulate the savings needed to buy a home. As shown in Figure 9, assuming a modest downpayment of only 3.5 percent, a prospective homebuyer would need more than $25,000 to meet downpayment and closing costs requirements for the nation's median-priced home. With a median savings among renters of only $6,300, this is an increasingly difficult hurdle to clear.

Worsening Affordability Likely to Exacerbate Racial Disparities in Homeownership

One of the most glaring racial disparities in the housing market is the substantially higher homeownership rate among white households compared to other racial and ethnic groups (Figure 11). The gap for Black households is particularly stark at 29.9 percentage points, little changed from the gap

[7] See for example Wilson, Ellen, and Robert R. Callis. "Who could afford to buy a home in 2009? Affordability of buying a home in the United States." *Current Housing Reports*. Washington, DC: US Census Bureau. May (2013).

at the time of the passage of the Fair Housing Act in 1968.[8] The shortfall in homeownership among Hispanics is also substantial at 24.1 percentage points. Asian and Native American households also have much lower rates of owning homes, with gaps of 11.4 and 15.3 percentage points, respectively.

The difficulty in achieving homeownership has significant consequences for opportunities to control housing costs over time and to build wealth. As described above, homeowners have much lower housing cost burdens than renters in part because mortgage payments are largely fixed over time. There are also substantial differences in wealth between owners and renters, with housing equity accounting for a substantial share of these differences (Figure 12). [9]

The particularly large disparity between Black and white homeownership rates reflects the nation's long history of racial discrimination in housing markets, including historical covenants barring Black households from purchasing homes in many communities and mortgage lending practices limiting their access to financing. But today's homeownership gaps also reflect discriminatory treatment in the broader economy that has constrained their earning power. Indeed, 39 percent of Black households earned less than 50 percent of area median income in 2019, nearly twice the 20 percent share of white households. Hispanic households, which include many recent immigrants, also face significant challenges gaining equal footing in the labor market, with 32 percent also earning less than half of area median income.

But even accounting for the fact that households of color generally have lower incomes than white households, racial/ethnic homeownership gaps are evident within the moderate- and higher-income groups (Figure 11). The Black-white homeownership gap is some 22 percentage points among households earning 80–120 of area median income and 15 percentage points among those earning more than 120 percent of the area median income. The Hispanic-white homeownership gaps for these two income groups are nearly as large at 18 percentage points and 14 percentage points. The disparities for Asian and Native American households at these income levels are only slightly smaller than for Hispanics.

Savings levels are also typically lower among people of color, posing another barrier to ownership. As shown in Figure 12, savings among Black renters is particularly low, with the median renter having only $1,800, while the typical white renter has nearly five times this amount. Racial disparities in parental homeownership and wealth also limit the opportunity for young Black and Hispanic renters to attain homeownership. Surveys from the National Association of Realtors consistently find that about 30 percent of first-time homebuyers rely on gifts or loans from family or friends to fund their downpayment.[10] A range of studies have also found a strong association between parents'

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[8] Laurie Goodman, Jun Zhu, Rolf Pendall. "Are gains in black homeownership history?" Washington, DC. The Urban Institute, February 15, 2017. Available at: https://www.urban.org/urban-wire/are-gains-black-homeownership-history

[9] Shapiro, Thomas, Tatjana Meschede, and Sam Osoro. "The roots of the widening racial wealth gap: Explaining the black-white economic divide." Research and Policy Brief, February 2013. Waltham, MA: Brandeis University, Institute on Assets and Social Policy.

[10] Jessica Lautz. "Tackling Home Financing and Down Payment Misconceptions." *Economists' Outlook.* Washington, DC: National Association of Realtors, January 7, 2022. Available at: https://www.nar.realtor/blogs/economists-outlook/tackling-home-financing-and-down-payment-misconceptions

homeownership attainment and wealth holdings and the likelihood that a young adult will own a home.[11] These studies find that the role of parental assistance is stronger during periods of tight mortgage availability, which suggests that this help is particularly important for those who would otherwise have trouble qualifying for a mortgage.

Given the high share of people of color with low and moderate incomes, the supply shortage of modestly priced homes discussed above poses another barrier to homeownership. Further adding to the supply constraints on homeownership is the lack of development of new homes and rehabilitation of older homes in low-income communities where house values have been diminished by decades of underinvestment so that they are currently too low to support new development.[12] However, given the high degree of residential segregation by race, these communities are home to a large share of the nation's population of people of color and thus are areas where many would-be homebuyers would like to live if good housing opportunities existed. Efforts to support new development in these communities is needed to turn around the market dynamic that has reduced existing home values.

Consequences of High Housing Cost Burdens

The growing incidence of households facing housing cost burdens means more lower-income households struggle to meet their basic needs. As documented in our recent *America's Rental Housing 2022* report, the amount renters have left over after paying for housing drops sharply with income. [13] In 2019, households earning $75,000 or more had $7,400 to spend each month after paying for rent and utilities. Renters earning between $45,000 and $75,000 kept $3,550, while those earning between $30,000 and $45,000 kept $2,000. But renter households with less than $30,000 in income had just $490 a month to cover the costs of food, healthcare, and all other necessities—and if they were cost burdened, they had only $360 each month to live on after paying for housing.

Severely cost-burdened renters must make particularly difficult tradeoffs about how to spend their limited funds. According to the 2020 Consumer Expenditure Survey, severely burdened renters in the bottom expenditure quartile (a proxy for lowest income) spent 38 percent less on food and 70 percent less on healthcare than otherwise similar renters living in housing they could afford (Figure 13). For families with children under age 18, cutting back on food expenditures is especially damaging to health and well-being. Even marginal food deprivation can profoundly undermine children's ability to thrive physically and succeed in school, leaving them at a lifelong disadvantage relative to those receiving adequate nutrition.

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[11] See for example: Choi, Jung Hyun, Jun Zhu, and Laurie Goodman. "Intergenerational homeownership: The impact of parental homeownership and wealth on young adults' tenure choices." Washington, DC: The Urban Institute. (2018); Begley, Jaclene. "Parent housing wealth, credit constraints, and homeownership transitions." Journal of Housing Research 28.1 (2019): 51-79; and Lee, Hyojung, Dowell Myers, Gary Painter, Johanna Thunell, and Julie Zissimopoulos. "The role of parental financial assistance in the transition to homeownership by young adults." Journal of Housing Economics 47 (2020): 101597.

[12] Romem, Issi. "Paying For Dirt: Where Have Home Values Detached From Construction Costs?." Buildzoom. https://www. buildzoom. com/blog/paying-for-dirt-where-have-home-values-detached-from-construction-costs (2017).

[13] Joint Center for Housing Studies. *America's Rental Housing 2022*. Harvard University, 2022. Available at: https://www.jchs.harvard.edu/americas-rental-housing-2022

Older adults with severe cost burdens often sacrifice not only on food but on healthcare. Some 30 percent of extremely low-income renter households are headed by adults age 65 and over, and 18 percent include a householder with a disability—two groups that typically need costly medical care. Cutting back on medications or foregoing doctor appointments to avoid fees and copayments put these households at even greater risk of serious illness or medical complications.

Unaffordable housing costs also increase housing instability, forcing moves that can impair physical and mental health and disrupt connections to jobs, schools, and supportive social networks.[14] While the pandemic caused a significant increase in the share of both renters and owners unable to make monthly housing payments, a host of government interventions were instrumental in keeping both evictions and foreclosures at very low levels. But with government supports now ended, there has been concern that evictions and foreclosures may rise going forward. But while the start of the year saw an initial rise in both evictions and foreclosures, more recent estimates suggest these increases have not been sustained.

At the extreme, the consequence of excessive housing costs as well as eviction and foreclosure is that people may be left without a home. While the pandemic made it difficult to document trends in homelessness over the last few years, the best estimates suggest that government efforts to help people stay stably housed may have prevented what otherwise could have been a sharp rise in this problem. HUD's 2021 survey of the population living in shelters in January 2021 counted 326,000 residents, 28,000 fewer people than a year earlier. This drop may reflect efforts to de-densify shelters to limit the spread of COVID-19, as well as the decision of some unhoused people to avoid shelters because of the risk of illness. However, no national count of the unsheltered homeless population is available and a survey by the National Alliance to End Homelessness found that nearly two-thirds of homeless service providers said they had reason to believe the number of people experiencing unsheltered homelessness was increasing in their areas.

Likely Housing Market Trends from Here

The recent double-digit gains in home values and rents in markets across the country are clearly not sustainable as they have greatly outpaced increases in household incomes. The recent moves by the Federal Reserve to raise interest rates have begun to cool the for-sale housing markets as indicated by slower sales and increasing inventories of homes on the market.[15] While it may take time, ultimately this greater slack in the market will bring supply and demand into greater balance and slow house price growth substantially. While interest rates will likely remain high until inflation is firmly under control, affordability pressures will ease once rates do come down. Still, while house price growth should slow, an actual decline in prices is unlikely given the continued limited supply of homes. As a result, even with

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[14] For a thorough review of the impacts of eviction on families and individuals see for example Desmond, Matthew. *Evicted: Poverty and profit in the American city*. Crown, 2016. For an assessment of the impact of foreclosures on household well-being see for example Mykyta, Laryssa. "Housing crisis, hardship and safety net support: examining the effects of foreclosure on households and families." Housing Studies 34.5 (2019): 827-848.

[15] Aaron Gregg and Hamza Shaban. "The housing market, at last, appears to be cooling off." *The Washington Post*, July 9, 2022

lower interest rates, the very high ratio of home prices to income will remain a significant barrier to low- and moderate-income households seeking to buy a home.

There is less hope for much easing of affordability pressures in the rental market. While rent growth is likely to slow as renters reach the limits of what they can afford to pay, the barriers to homeownership will keep more young adults in the rental market, adding to demand even as vacancy rates remain near long-term lows. The pipeline of new multifamily housing is robust which offers hope for some easing of these pressures over the next few years, but that process will play out slowly.

In short, while estimates of housing cost burdens for 2021 will not be available until later this year, it seems quite likely that the share of both renters and owners spending more than 30 percent of their income on housing will continue their upward climb.

Alleviating the Housing Crisis

As this review of market conditions documents, the shortage of new modest-cost housing, a growing concern over much of the past decade, is a key factor in the worsening of housing affordability for both renters and owners. As *The State of the Nation's Housing 2022* notes, building the supply of new, moderately-priced housing will require concerted efforts by both the public and private sectors. The Biden administration's Housing Supply Action Plan makes a good start by identifying steps that could be taken to build on and enhance existing federal financing mechanisms to build and preserve affordable housing. The plan also calls for rewards for jurisdictions that reform zoning and land use policies to enable lower cost housing production. Along these lines, state governments have an important role to play to reduce local restrictions to building smaller homes at greater density in well-located areas. Supports for homebuilders to adopt more efficient construction methods are also needed.

But even if measures such as these are adopted, they will not be sufficient to bring down the cost of housing to levels within reach of the lowest-income Americans. Expanded public subsidies are needed to increase the supply of deeply affordable housing available both for rent and to own. Particular attention should be given to efforts that expand the supply of affordable housing in lower-income communities where the depressed value of homes impedes both new construction and substantial rehabilitation of existing homes as the costs of these investments exceed current market values. Not only would these communities benefit from such investments, it would also provide residents of these areas with opportunities to own or rent good quality homes in their own neighborhoods. For this reason, the Neighborhood Homes Investment Act deserves serious consideration as a tool for expanding the supply of good quality homes and homeownership opportunities in these communities.[16]

While current market conditions point to the importance of supply side interventions, there is also room for demand side supports for low- and moderate-income households to obtain and sustain affordable homes. The experience during COVID has demonstrated the value of emergency rental assistance in helping to keep families stably housed. The Census Household Pulse Survey continues to find that significant shares of low-income renters—and particularly people of color—continue to struggle to keep

[16] https://neighborhoodhomesinvestmentact.org/

up with monthly housing costs even as the economy nears full employment. This highlights the fact that financial insecurity among the nation's most vulnerable households is not limited to times of crisis like the pandemic. Thus, the continuation of such supports as an ongoing part of the housing safety net is critically needed. But so too is greater financial support for the housing voucher program to help lowest-income households afford decent homes.

Finally, greater efforts are needed to expand opportunities for people of color to own homes and narrow the substantial shortfall in homeownership rates by race and ethnicity. To do so will require a comprehensive approach that addresses information barriers to navigating the homebuying process, expands access to sustainable mortgages, and helps close the affordability gaps both for monthly homeowner costs and the substantial savings needed for downpayments. Given the benefits of sustained homeownership for managing housing costs and building wealth, these efforts deserve the significant attention of policy makers.

Concluding Remarks

I realize that the housing challenges I have outlined are perhaps daunting in their scope and scale. But as the experience of the pandemic has made abundantly clear, having a good quality, affordable, and secure home in a thriving community is foundational for a healthy and productive life for every person in America. Addressing our country's housing challenges will take a substantial commitment from the public, private, and non-profit sectors. But this investment would pay dividends in improved quality of life for those who are unaffordably and inadequately housed. And it would pay dividends to society as well, in a more productive workforce, lower public spending for healthcare and other supports, and enhanced economic activity in the important housing sector.

Thank you for turning your attention to these critical issues and for your invitation to share this information with you today. I look forward to answering any questions you may have.

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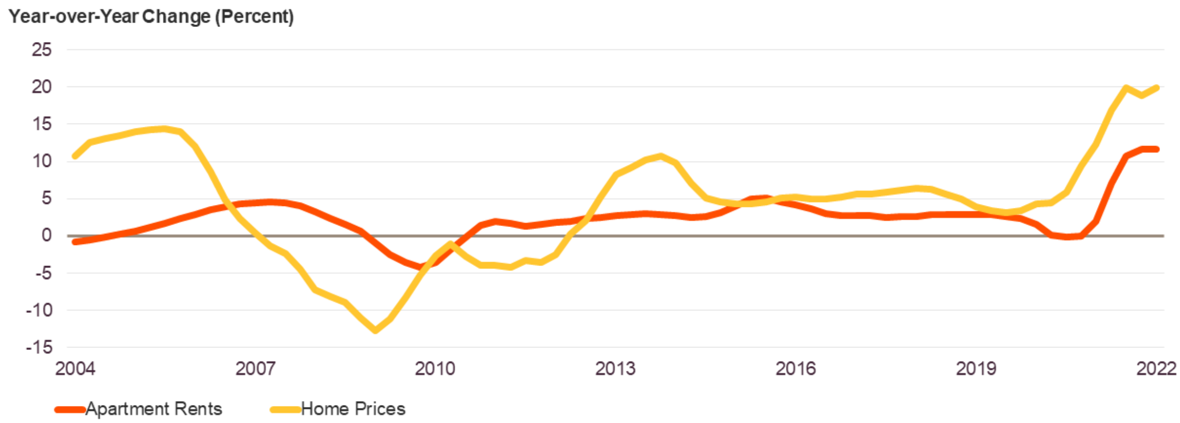
[27] Joint Center for Housing Studies. *Housing America's Older Adults 2019*. Harvard University, 2019. Available at https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Housing_Americas_Older_Adults_20 19.pdf

[28] Joint Center for Housing Studies. Housing America's Older Adults 2014. Harvard University, 2014. Available athttps://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs-

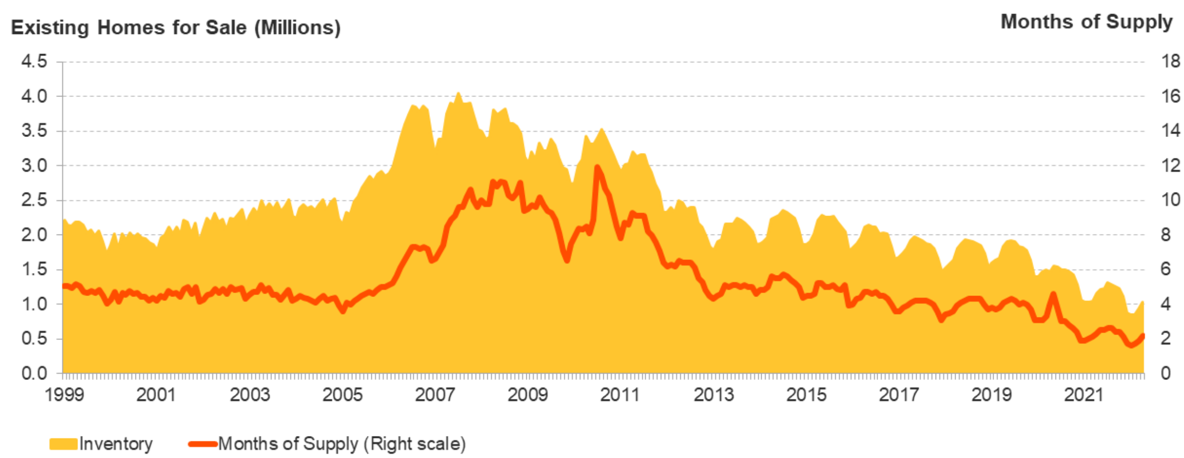
housing_americas_older_adults_2014.pdf

Figure 1: Home Prices and Apartment Rents Soaring to New Heights



Note: CoStar same-store rents are for professionally managed market-rate apartments in buildings with five or more units.
Source: JCHS tabulations of CoStar data; S&P CoreLogic Case-Shiller US National Home Price Index.

Figure 2: The Supply of Homes on the Market Has Reached New Lows



Note: Months of supply measure how long it would take homes on the market to sell at the current rate, where six months are typically considered a balanced market.
Source: JCHS tabulations of NAR, Existing Home Sales.

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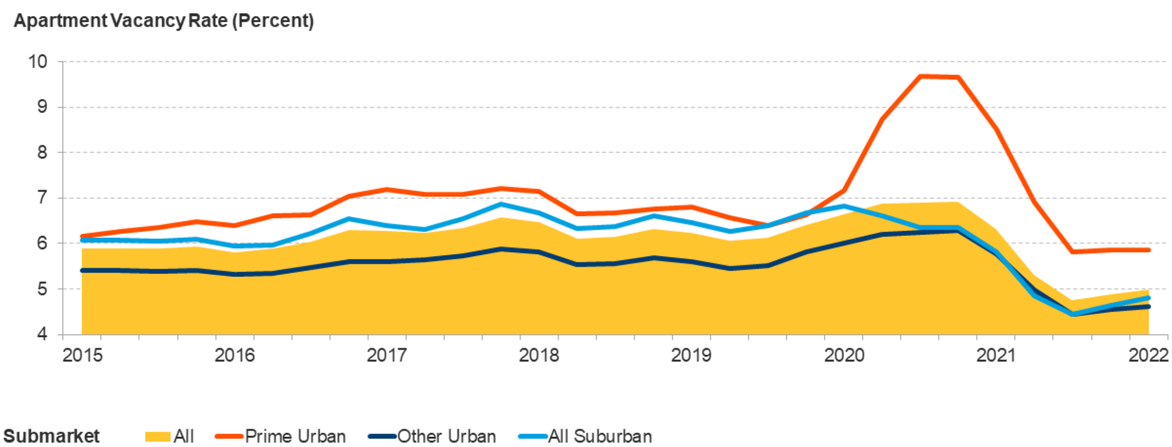
Figure 3: Vacancy Rates Have Fallen Back Near Historic Lows Even in Prime Urban Areas



Notes: Urban/suburban areas are based on density in the 54 largest markets that CoStar tracks. Prime submarkets have the highest rents.
Source: JCHS tabulations of CoStar data.

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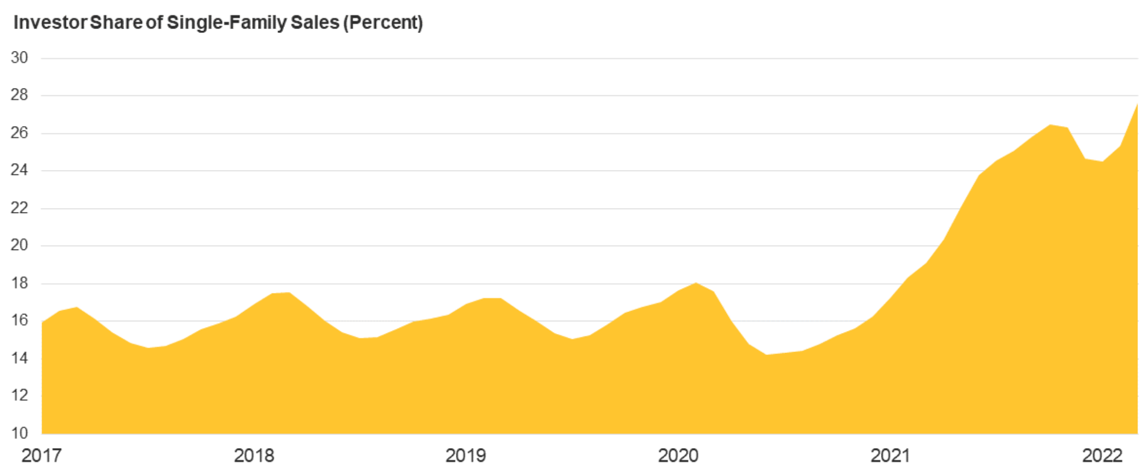
Figure 4: Investors Are Buying Up a Record Share of Single-Family Homes



Note: Data are 3-month trailing averages.
Source: JCHS tabulations of CoreLogic data.

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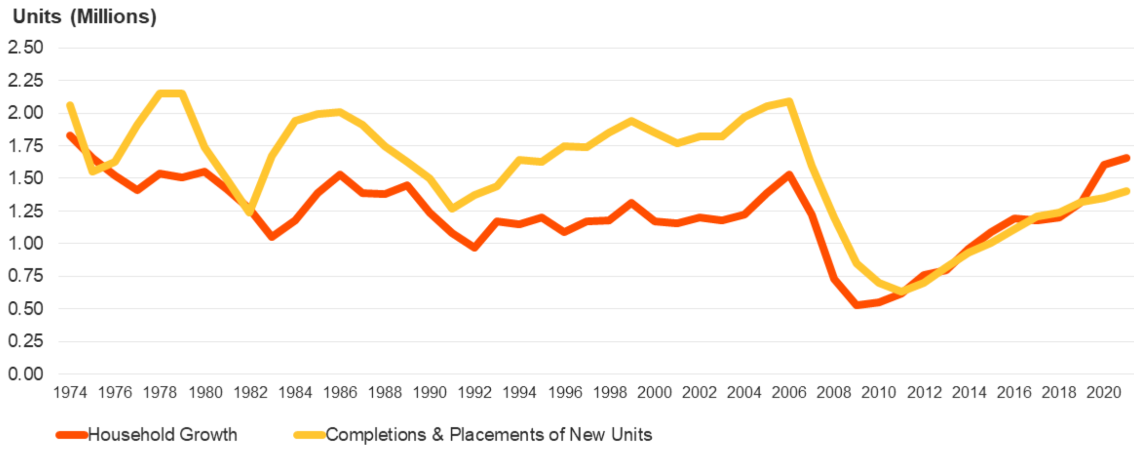
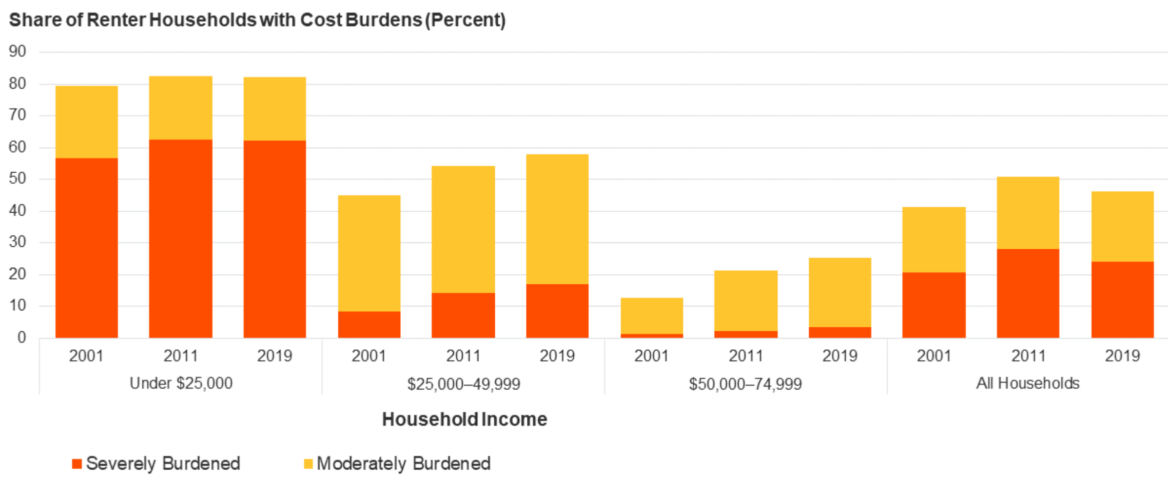
Figure 5: Tight Supply Also Reflects Housing Construction That Has Struggled to Keep Pace with Household Growth for a Decade



Notes: Household growth data are three-year trailing averages. Placements refers to newly built mobile homes placed for residential use.
Source: JCHS tabulations of US Census Bureau Housing Vacancy Survey, New Residential Construction data.

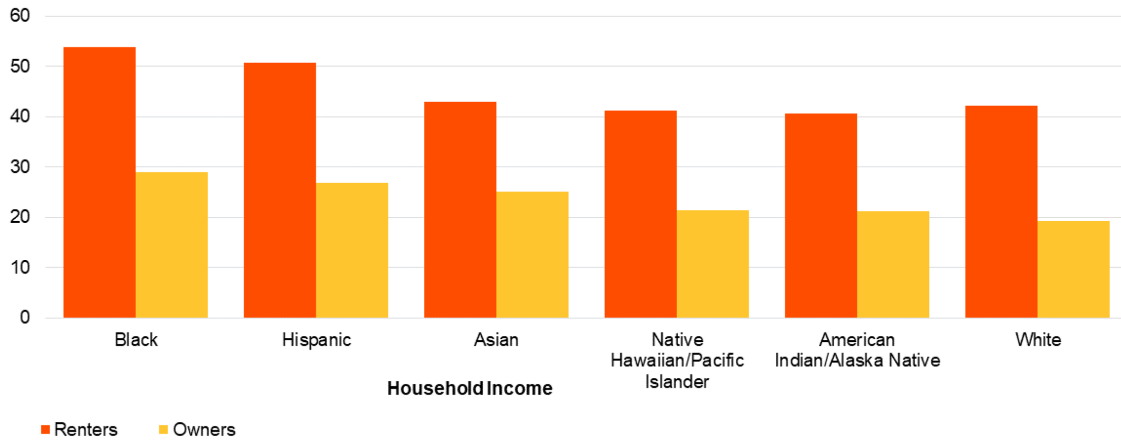
Figure 6: Renter Cost Burden Rates Have Been Moving Up the Income Scale Even as Overall All Rates Fell



Notes: Incomes are adjusted for inflation using the CPI-U for All Items. Moderately (severely) cost-burdened households pay 31–49% (50% or more) of income for housing. Households with zero or negative income are assumed to have severe burdens, while households paying no cash rent are assumed to be without burdens.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

Figure 7: Cost Burden Rates Are Highest For Black and Hispanic Households Among Both Renters and Owners

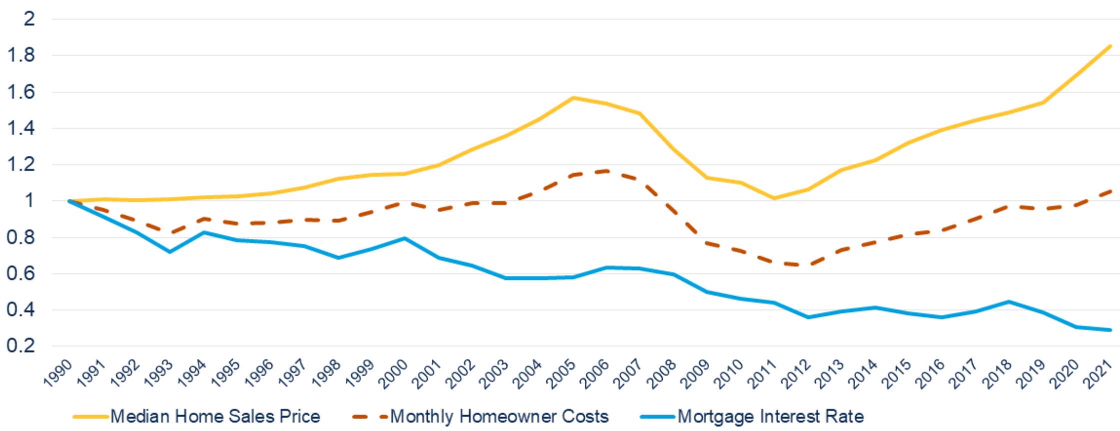
Share of Households with Cost Burdens (Percent)



Notes: Incomes are adjusted for inflation using the CPI-U for All Items. Cost-burdened households pay more than 30% of income for housing.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates using experimental weights.

Figure 8: Declining Interest Rates Have Helped Prevent a Sharp Increase in Monthly Cost of Owning

Index: 1990 Level = 1



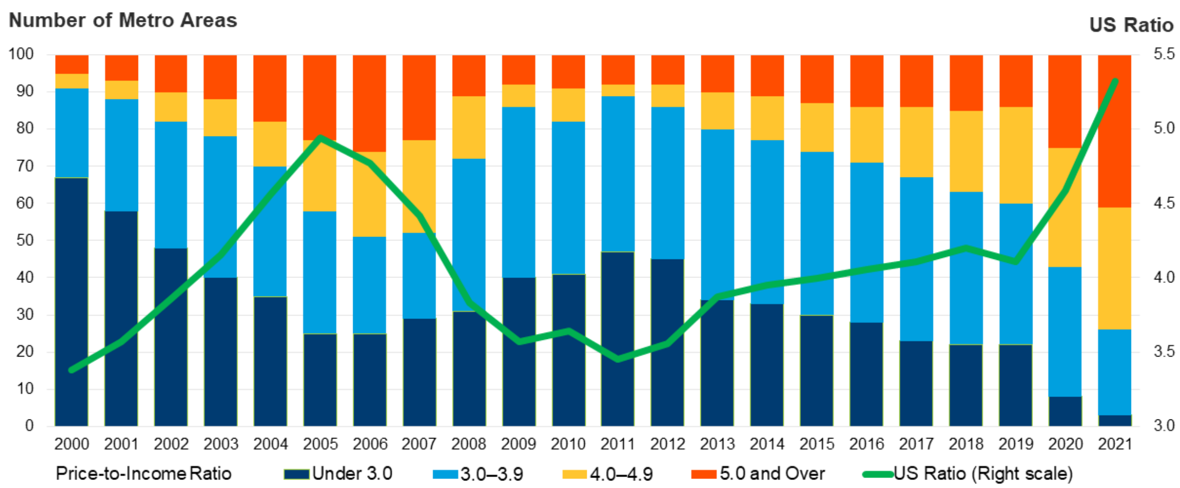
Notes: House prices and monthly homeowner costs are adjusted to 2020 dollars using the CPI-U for All Items less shelter. Monthly homeowner costs assume a 3.5% downpayment on a median-priced, existing single-family home (including condos and coops); property taxes of 1.15%, property insurance of 0.35%, and mortgage insurance of 0.85%.
Source: JCHS tabulations of US Census Bureau, Current Population Surveys; and Freddie Mac, Primary Mortgage Market Surveys.

Figure 9: Recent Interest Rate Hikes Have Further Eroded Affordability

	April 2021	April 2022	Change 2021-2022
Interest Rate (Percent)	3.06	4.98	1.92
Median Home Price (Dollars)	340,700	391,200	50,500
Downpayment & Closing Costs	22,100	25,400	3,300
Monthly Mortgage Payment	1,400	2,020	630
Total Monthly Owner Costs	2,060	2,780	720
Annual Income Needed	79,600	107,600	28,000

Note: Estimates assume a 3.5% downpayment on a 30-year fixed-rate loan with zero points, 0.85% mortgage insurance, 0.35% property taxes, 1.15% property taxes, 3% closing costs, and a maximum 31% debt-to-income ratio.
Source: JCHS tabulations of Freddie Mac, Primary Mortgage Market Surveys; NAR, Existing Home Sales.

Figure 10: The National Home Price-to-Income Ratio Hit a New Record in 2021



Notes: Price-to-income ratios are for the 100 largest metro areas by population. Income data for 2021 are based on Moody's Analytics forecasts.
Source: JCHS tabulations of NAR, Metropolitan Median Area Prices; Moody's Analytics estimates.

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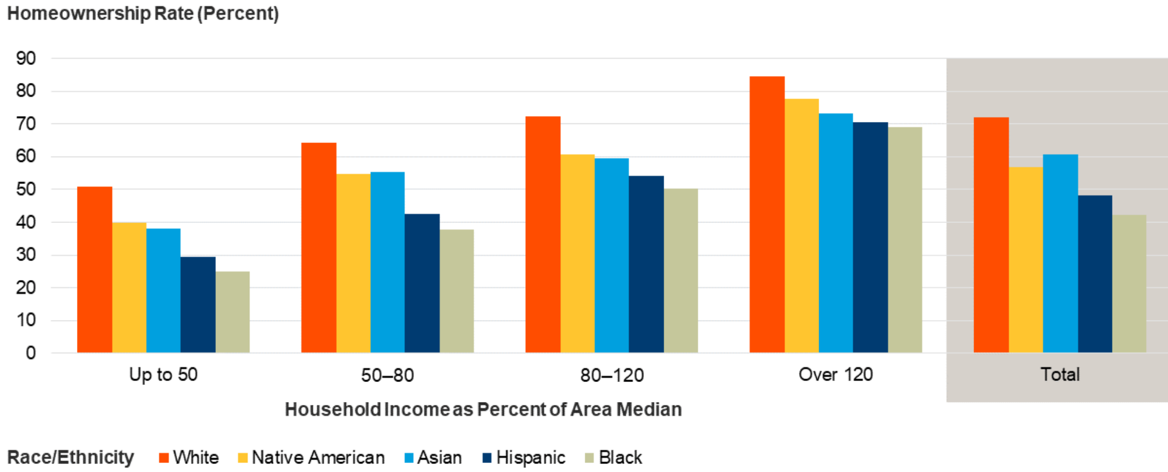
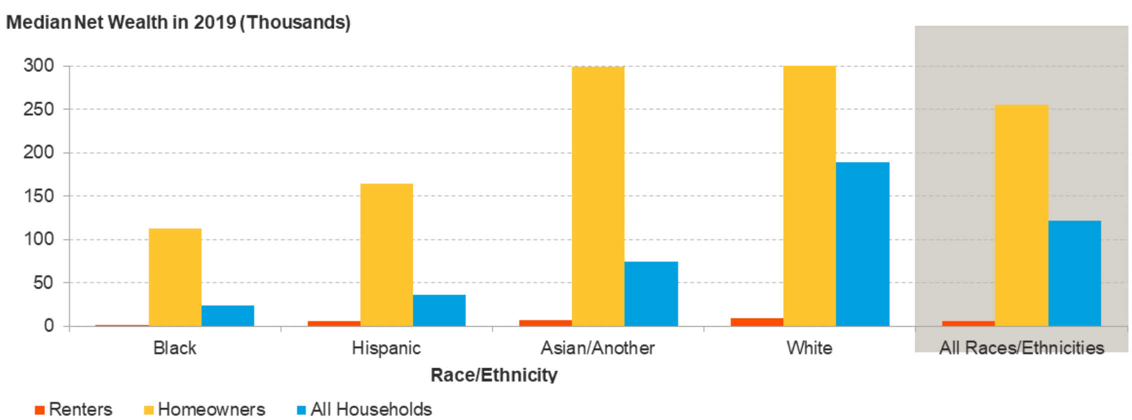
Figure 11: Regardless of Income, Households of Color Have Lower Homeownership Rates than White Households



Notes: White, Native American, Asian, and Black householders are non-Hispanic. Hispanic householders may be of any race(s).
Source: JCHS tabulations of US Census Bureau, 2019 American Community Survey 1-Year Estimates.

Figure 12: Homeowners Have Much More Wealth Than Renters, Although Black and Hispanic Households Have Significantly Less Wealth than White Homeowners



Notes: Black, white, and Asian or another race(s) householders are non-Hispanic. Hispanic householders may be of any race(s).
Source: JCHS tabulations of Federal Reserve Board, 2019 Survey of Consumer Finances.

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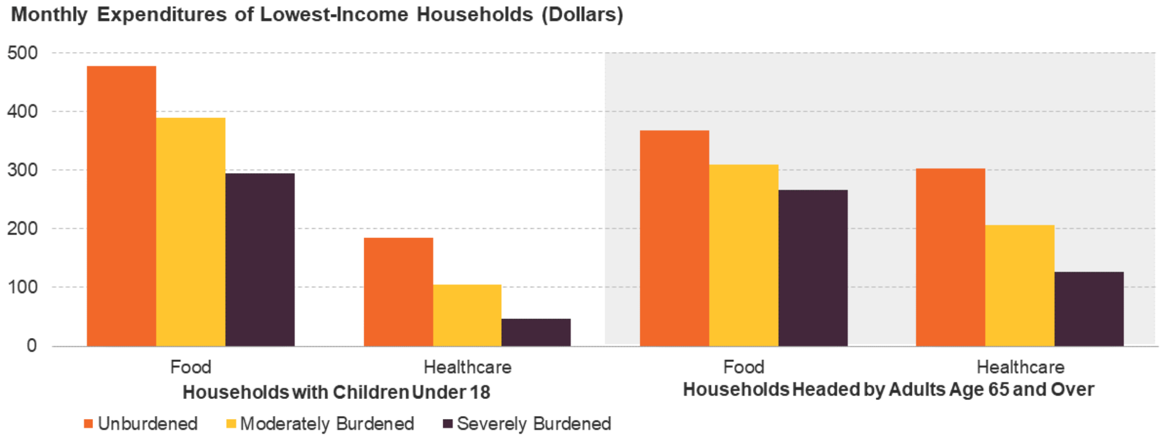
Figure 13: High Housing Costs Leave Vulnerable Households Unable to Meet Basic Health Needs



Notes: Chart shows renter households in the bottom quartile of expenditures, which are considered lowest-income households. Households are considered moderately (severely) burdened if housing accounts for more than 30% (50%) of their expenditures. Health expenditures include out-of-pocket costs and premiums.
Source: JCHS tabulations of Bureau of Labor Statistics, 2020 Consumer Expenditure Survey.

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