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Statement of

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Before the

**United States House Committee on Financial Services**

For the Hearing

Boom and Bust: Inequality, Homeownership, and the

Long-Term Impacts of the Hot Housing Market

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[1] The views expressed in this testimony are those of the author and do not necessarily reflect the views of New York University (NYU) or the NYU Stern School of Business.

Chairwoman Waters, Ranking Member McHenry, and other distinguished members of the United States House Financial Services Committee,

Thank you for the invitation to testify today on the critically important issues of home price and mortgage financing trends, disparities in homeownership, the causes and potential consequences of the current housing market's historic decline in affordability, and policy options for supporting equitable access to homeownership opportunities.

My name is Sameer Chandan. I am a professor of finance and director of the Center for Real Estate Finance Research at New York University's Leonard N. Stern School of Business.

## House Price Trends

Home prices in the United States reached their post-Great Financial Crisis (GFC) nadir in 2012 and have been rising rapidly in the decade since then.[2] Notwithstanding disruptions to the economy, labor market, and the daily lives of American families, appreciation accelerated within months of the pandemic's taking hold in the United States, with home prices increasing at the fastest pace on record during the last two years.[3] Few if any regions have diverged from the trend, with 67 of the largest 100 markets reporting record-high price appreciation since mid-year 2021.[4]

The 2020 inflexion in the rate of house price appreciation has several drivers. The increase in demand for single-family homes, a positive demand shock, owes in large part to a shift in the location preferences of relatively mobile households favoring lower density neighborhoods, [5] and to

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[2] S&P Dow Jones Indices LLC, S&P/Case-Shiller U.S. National Home Price Index [CSUSHPISA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CSUSHPISA, June 26, 2022 and U.S. Federal Housing Finance Agency, All-Transactions House Price Index for the United States [USSTHPI], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/USSTHPI, June 26, 2022.
[3] ibid.
[4] Joint Center for Housing Studies of Harvard University. 2022. The State of the Nation's Housing 2022. https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2022.pdf
[5] https://www.dallasfed.org/research/economics/2021/1228.aspx

supporting factors, including demographic trends, pandemic supplements to household income, low financing costs, and house price expectations. New evidence from Freddie Mac's automated underwriting system also points to migration from high-cost markets to relatively lower cost areas as a contributor to current price dynamics.[6]

On their own, these demand drivers would not have generated record shattering house price increases. Rather, stronger demand has coincided with a national housing supply shortage estimated at 3.8 million units by Freddie Mac[7] and as high as 5.5 to 6.8 million units in the National Association of Realtors (NAR)'s underbuilding gap analysis.[8]

The roots of the housing supply shortage can be traced to the collapse of the housing bubble in the mid- to late-2000s . Privately-owned single-family home completions reached a seasonally-adjusted annual peak of 1.9 million units in March 2006, falling to just 368,000 in March 2011 as the construction pipeline withered over the intervening years.[9] Between 2012 and 2021, annual completions averaged 747,000 units, well below the 50-year average rate of over 1 million new single-family homes. On a population-adjusted basis, annual housing production averaged 3.2 units per thousand people between 2009 and 2020, as compared to 7.7 units between 1959 and 2008.[10] As a nation, we have underinvested in both single-family and multifamily housing for well over a decade.

Of critical importance, the supply shortfall has been especially severe for entry-level homes, defined by Freddie Mac as homes of 1,400 square feet or less. From approximately 40 percent in the early 1980s, the share of entry-level single-family home construction has been falling over time, and sat at

[6] https://www.freddiemac.com/research/insight/20220622-pursuit-affordable-housing-migration-homebuyers-within-us-and-after-pandemic
[7] https://www.freddiemac.com/research/insight/20210507-housing-supply
[8] https://www.nar.realtor/newsroom/once-in-a-generation-response-needed-to-address-housing-supply-crisis
[9] U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Completed: Single-Family Units [COMPU1USA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/COMPU1USA, June 27, 2022.
[10] Kaul, K., Goodman, L., and Neal, M. 2021. The Role of Single-Family Housing Production and Preservation in Addressing the Affordable Housing Supply Shortage. https://www.urban.org/research/publication/role-single-family-housing-production-and-preservation-addressing-affordable-housing-supply-shortage

just 7 percent in 2021.[11] The median single-family home started in Q4 2021 was 2,561 square feet.[12] Aggregate supply trends and the characteristics of new supply can be explained by a combination of factors, including restrictive zoning and building codes, increasing material costs, skilled labor shortages, financing constraints unfavorable to affordable and workforce housing,[13] and underinvestment in supporting infrastructure.

As of May 2022, NAR reports the median price for existing-home sales climbed above $400,000 for the first time. For single-family homes specifically, median prices have increased by almost $53,000 over the last year and by more than $110,000 from the median price in 2020.

To be clear, the magnitude of these increases is without precedent, exceeding the runups observed during the housing boom of the early and mid-2000s, when speculative investment in housing and looser oversight and regulation of mortgage lending fueled the housing bubble and ultimate market collapse.

**Mortgage Rates**

Until recently, rising home prices have coincided with historically low borrowing costs, including 15- and 30-year fixed mortgage rates.[14] Reflecting the shift in the broader economy and monetary policy environment, however, these rates have surged in recent months, signaling a major shift in market dynamics. Since the beginning of 2022, the 15-year mortgage rate has more than doubled, while the 30-year rate has nearly doubled. The impact of these increases has been immediate, resulting in the

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[11] https://www.census.gov/construction/chars/

[12] https://www.census.gov/construction/nrc/index.html and U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately Owned Housing Starts in the United States, Average Square Feet of Floor Area for One-Family Units [HOUSTSFLAA1FQ], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/HOUSTSFLAA1FQ, June 28, 2022.

[13] Kaul, K., Goodman, L., and Neal, M. 2021. The Role of Single-Family Housing Production and Preservation in Addressing the Affordable Housing Supply Shortage. https://www.urban.org/research/publication/role-single-family-housing-production-and-preservation-addressing-affordable-housing-supply-shortage

[14] Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/MORTGAGE30US, June 26, 2022.

most rapid deterioration on record in the NAR's measures of housing affordability.[15] As compared to the beginning of this year, the monthly payment on today's median existing home purchase has increased by more than $500, equivalent to a rise in prices of approximately 35 percent in just the last 6 months.[16] For millions of low- and moderate-income families aspiring to homeownership, opportunity has moved beyond reach.

Seeking ways to blunt the impact of higher rates, homebuyer interest in adjustable-rate mortgages (ARM) has been increasing. As of the week ending June 17, 2022, the ARM share of mortgage applications was 10.0 percent,[17] near its highest level since 2008. Owing to reforms introduced following the GFC, ARMs are not as risky as they once were. Teaser rates, refinancing penalties, and high frequency rate resets are absent from today's ARMs. Nonetheless, future exposure to interest rate resets is a source of risk for borrowers opting into this lower cost financing vehicle as a means of closing affordability gaps.

As the buyer pool adjusts to higher financing costs, some voluntary sellers will remove their homes from the for-sale market, reducing the inventory of homes for sale. This will be offset in part by recent increases in single-family construction. On balance, institutional forecasts anticipate slower appreciation but not a decline in house prices. Freddie Mac's second quarter forecast, published in April, shows house price increases of 10.4 percent in 2022 and 5.0 percent in 2023.[18] Fannie Mae's forecast, published on June 10, similarly shows appreciation falling from double-digits this year to single-digits in 2023.[19] Neither forecast points to an improvement in broad measures of affordability.

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[15] https://www.nar.realtor/research-and-statistics/housing-statistics/housing-affordability-index

[16] Author's calculations, assuming a 30-year fixed rate mortgage, 80% loan-to-value ratio, mortgage rates as reported in Freddie Mac's Primary Mortgage Market Survey, and a purchase price equal to the median existing home sale price reported by NAR for May 2022.

[17] https://www.mba.org/news-and-research/newsroom/news/2022/06/22/mortgage-applications-increase-in-latest-mba-weekly-survey

[18] https://www.freddiemac.com/research/forecast/20220418-quarterly-forecast-purchase-market-will-remain-solid-even-mortgage-rates-rise

[19] https://www.fanniemae.com/media/document/pdf/housing-forecast-061622

## Housing Equity

The combined impact of higher prices, higher mortgage rates, and limited entry-level single-family home construction is felt disproportionally by households of color in the United States. As compared to pre-pandemic trends, these groups now face even higher barriers to our nation's most reliable vehicle for generational wealth building, social and economic mobility, and housing-related health outcomes.

Black and Hispanic household wealth was disproportionately impacted by the GFC and 2008 recession, with long-term implications for homeownership that continue to reverberate through our measures of housing equity. The Bipartisan Policy Center reports that, between 2007 and 2011, Black and Hispanic households lost 31 percent and 44 percent of their wealth, respectively, as compared to 11 percent for White households.[20] The steeper initial decline owes in part to a disproportionate share of wealth held in home equity during the housing collapse and homeownership concentrated in neighborhoods that experienced higher levels of distress.

The recovery in wealth between 2011 and 2019 was also incomplete, owing to factors including undervaluation of homes in predominantly minority neighborhoods and lower homeownership rates.[21] Grappling with lower initial wealth and lower earnings, as well as higher employment insecurity during the pandemic, many Black and Brown households aspiring to ownership have found themselves at a substantial and increasing disadvantage in the homebuying market as prices and mortgage rates have increased.

Barriers to housing equity are wide-ranging and not simply related to the financial circumstances of people of color. Apart from systematic differences in income and wealth, prevailing models of credit scoring, discrimination in the home search process, higher financing costs unrelated to

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[20] Minott, O. and Winkler, A., 2021. Understanding and Addressing Racial and Ethnic Disparities In Housing. https://bipartisanpolicy.org/report/understanding-and-addressing-racial-and-ethnic-disparities-in-housing/
[21] ibid.

creditworthiness, and disparities in labor market and health outcomes during the pandemic are among the myriad headwinds to closing the ownership gap.

The relatively higher vulnerability of Black and Brown homeowners and renters to economic and labor market stresses has persisted even as the economy has recovered and labor markets have tightened. During the first half of June 2022:

- 6.3 percent of homeowners responding in the Census' Household Pulse Survey reported they are not caught up on their mortgage payments. For White, non-Hispanic households, that share was 4.5 percent, as compared to 11.8 percent for Black households[22]
- 5.9 percent of responding homeowners reported it is "very likely" they will have to leave their home in the next two months due to foreclosure. For White, non-Hispanic households, the share was 3.7 percent, as compared to 9.8 percent for Black households[23]
- 14.9 percent of responding renters reported they are behind on rent payments. For White, non-Hispanic households, the share was 10.3 percent, as compared to 24.7 percent for Black households.[24]

**Steps to Improving Housing Equity**

As context for these observations, it is important to note that, looking back as far as the 1960s, the United States has not seen an observable narrowing in the homeownership deficit for Black households in particular.[25,26] There are no viable policy interventions that will immediately address housing equity gaps or the shortfall in the supply of affordably-priced and workforce housing. Nonetheless, it is encouraging that in recent weeks and months, major initiatives to address

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[22] Author's tabulations of U.S. Census Bureau Household Pulse Survey, Week 46, June 1 to 13, 2022. Table 1a. https://www.census.gov/data/tables/2022/demo/hhp/hhp46.html#tables
[23] ibid. Table 3a.
[24] ibid. Table 1b.
[25] U.S. Census Bureau, Homeownership Rates by Race and Ethnicity: Black Alone in the United States [BOAAAHORUSQ156N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BOAAAHORUSQ156N, June 26, 2022 and U.S. Census Bureau, Homeownership Rates by Race and Ethnicity: Non-Hispanic White Alone in the United States [NHWAHORUSQ156N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/NHWAHORUSQ156N, June 26, 2022.
[26] https://bipartisanpolicy.org/report/understanding-and-addressing-racial-and-ethnic-disparities-in-housing/

affordability and housing equity have been announced by the Administration, the Department of Housing and Urban Development (HUD), the Federal Housing Finance Administration (FHFA), and at the local level.

Fannie Mae and Freddie Mac's recently announced Equitable Housing Finance Plans seek to address many of the structural drivers of these persistent disparities, by incorporating updated approaches to underwriting, such as the consideration of positive rental payment history. Importantly, this specific measure enjoys broad support amongst housing researchers, housing advocates, and several industry associations.

While the Plans takes important steps to address housing disparities, principally by improving access to financing, the Government-Sponsored Enterprises are not structured to address housings supply shortfalls directly. If the supply of affordable and workforce housing is not expanded in the medium- to long-term, initiatives that enhance demand, however well intentioned, designed, and executed, will likely have the unintended consequence of undermining affordability for the very populations they are intended to support.

The Administration's Housing Supply Action Plan[27] includes a range of measures to address barriers to new supply and close the housing gap over time, while recognizing that many of these issues are only actionable at the local level. It is noteworthy than single-family home construction has increased sharply over the last two years, to levels not seen since the mid-2000s.[28] However, the location and physical characteristics of the median home under construction, and its anticipated price point, do not directly address the housing needs of Black and Brown communities.

A multifaceted approach to enhancing affordable and workforce housing supply constraints will:

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[27] https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/

[28] U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Under Construction: Single-Family Units [UNDCON1USA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNDCON1USA, June 26, 2022.

- Address state and local building codes and zoning, in particular to allow for smaller homes and higher density housing in connected neighborhoods;
- Improve the supply of construction materials;
- Invest in the next generation of skilled construction labor;
- Improve access to low-cost or subsidized financing for a wider range of affordable housing types, including manufactured and modular housing, and small multifamily properties; and,
- Invest in public transportation and co-located social infrastructure to open new land development opportunities.

Enhancing demand is similarly multifaceted, and will:

- Address structural barriers to mortgage access and the housing market itself;
- Develop programs to flexibly address the greater risk of temporary income disruptions; and,
- Reduce the transactions costs of individual homeowners' buying and selling, removing a barrier to mobility as households age, thereby freeing up entry-level homes;

**The Role of Institutional Investors**

As supply issues loom large, the role of institutional investment in the single-family housing market and its influence on prices has garnered increasing attention. Institutional buyers, acquiring single-family homes and repositioning them for the rental market, represent a relatively new component of housing demand, meeting the needs of families that may want some of the benefits of residing in a house without the financial or other obligations of outright ownership.

Their role in the market following the GFC was facilitated by three key factors: an abundance of homes for sale, including portfolios of homes in foreclosure; constrained access to mortgage financing for individual homebuyers; and, reduced, technology-enhanced acquisition and portfolio management costs.[29] During this time, institutional investors likely had a small but beneficial impact in some markets, supporting the stabilization of prices and housing occupancy in distressed neighborhoods[30], but also driving higher rent increases and rates of eviction through professional property management than smaller landlords.[31]

As affordability has deteriorated, the question has turned to institutional buyers' role in a market where for-sale supply is constrained rather than abundant, and access to financing has improved materially. Research by Freddie Mac, published this month, attributes prevailing price appreciation trends to diverse drivers—low mortgage rates, strong demand, migration patterns, and constrained supply.[32] The analysis shows that, nationally, the institutional investor share of the market has risen since just prior to the pandemic, but still only accounts for approximately 2.5 percent of home sales. By way of comparison, individual investors and other non-institutional investors account for 24 percent of the market, nearly ten times the institutional share.

The available data suggests that institutional investment and repositioning of homes for the rental market are not currently material contributors to national housing supply shortages, though we may observe some degree of variation in the institutional investment share of the market across metropolitan areas and neighborhoods.

**Rental Affordability**

While the direct impact of rising house prices and rapidly rising mortgage rates has been a clear focus of policy and public attention, the indirect impact of rising prices and mortgage rates on affordability in the rental housing market deserves special attention. Since 2014, broad measures of

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[29] Mills, J., Molloy, R., Zarutskie, R., 2019. Large-Scale Buy-to-Rent Investors in the Single-Family Housing Market: The Emergence of a New Asset Class. Real Estate Economics 47, 399–430.. doi:10.1111/1540-6229.12189

[30] Lambie-Hanson, L., Li, W., Slonkosky, M., 2022. Real estate investors and the US housing recovery. Real Estate Economics.. doi:10.1111/1540-6229.12396

[31] Raymond, E. L., Duckworth, R., Miller, B., Lucas, M., & Pokharel, S. 2018. From Foreclosure to Eviction: Housing Insecurity in Corporate-Owned Single-Family Rentals. *Cityscape*, *20*(3), 159–188. https://www.jstor.org/stable/26524878

[32] https://www.freddiemac.com/research/insight/20220609-what-drove-home-price-growth-and-can-it-continue

rent growth have exceeded improvements in earnings,[33] undermining the stability of low- and moderate-income household budgets and increasing the share of moderately and severely rent-burdened families. The most current tabulations by the Joint Center for Housing Studies at Harvard show that more than 40 percent of Black renter households are moderately or severely burdened; for Hispanic households, the share is just under 40 percent.

As homeownership moves further out of reach and rising rents limit savings towards a down payment, a larger share of renters that might otherwise "graduate" to ownership will instead remain renters. This portends a widening gap between demand and supply for workforce rental housing that can be most effectively addressed over the long term through programs that enhance a diverse supply of affordably priced rental housing options.

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

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[33] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average [CUUR0000SEHA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CUUR0000SEHA, June 26, 2022 and U.S. Bureau of Labor Statistics, Average Hourly Earnings of All Employees, Total Private [CES0500000003], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CES0500000003, June 26, 2022.

**About Sameer Chandan, PhD FRICS FRSPH**

Sameer ("Sam") Chandan is a professor of finance and Director of the Center for Real Estate Finance at the New York University Stern School of Business, home to the school's applied real estate research initiatives, industry and policy engagement, and MBA and undergraduate real estate programs, ranked #2 and #4 in the nation respectively by U.S. News and World Report.

Prior to joining Stern in February 2022, Professor Chandan was the Larry & Klara Silverstein Chair and academic dean of the Schack Institute of Real Estate at the NYU School of Professional Studies. He is also founder of Chandan Economics, an economic advisory and data science firm serving the institutional real estate industry, a contributor to *Forbes*, and host of the *Urban Lab* on Apple Podcasts.

Among his diversity and inclusion initiatives, Professor Chandan is global chair of the Real Estate Pride Council, an association of lesbian, gay, bisexual, and transgender leaders in the professions of the built environment, and a member of the Real Estate Executive Council (REEC). In 2017, he founded the National Symposium of Women in Real Estate (WIRE), which has since grown into one of the industry's largest annual mentorship forums connecting senior executives and early-career women in real estate.

A Fellow of the Royal Institution of Chartered Surveyors (FRICS), the Royal Society for Public Health (FRSPH), and the Real Estate Research Institute (RERI), and a contributing member of the American Society for Microbiology (ASM), Professor Chandan's multifaceted applied research interests address real estate capital market, urban epidemiology, and the preparedness of global cities and other systemically important urban areas in managing and mitigating novel public health threats. He holds an honorary appointment as the Economist Laureate of the Real Estate Lenders Association and has served on the real estate advisory council of the Federal Reserve Bank of Atlanta.

While serving as dean of the Schack Institute, Professor Chandan secured the largest gift commitment in the program's 54-year history to support the creation of a new center in Shanghai, and founded the NYU SPS CREFC Center for Real Estate Finance in collaboration with the Commercial Real Estate Finance Council. A first among academic real estate programs, he created endowed scholarships for the advancement of women in real estate, LGBTQ+ persons in real estate, and for graduate students who attended a Historically Black College or University (HBCU) for their undergraduate degree.

Professor Chandan holds editorial board appointments with the *Yale Journal of Health Policy, Law, and Ethics; Real Estate Finance; Commercial Real Estate Finance World*; and, *Summit Journal*. He currently serves as a chair of the International Well Building Institute's Health Equity Advisory Board.

Prior to founding Chandan Economics, he was the global chief economist at Real Capital Analytics (RCA). During his tenure as chief economist at Reis, now part of Moody's Analytics, he was part of the executive team that took the company public.

He received his BSc in Economics from the Wharton School of the University of Pennsylvania, MA in Economics and MSc in Engineering from the University of Pennsylvania, and PhD in Applied Economics from the Wharton School of the University of Pennsylvania.