MEMORANDUM

To: Members of the Committee on Financial Services

From: Committee Staff

Date: December 1, 2023

Subject: Housing and Insurance Subcommittee Hearing entitled, "Housing Affordability: Governmental Barriers and Market-Based Solutions"

On Wednesday, December 6, 2023, at 10:00 a.m., in Room 2128 of the Rayburn House Office Building, the Subcommittee on Housing and Insurance will hold a hearing entitled, "Housing Affordability: Governmental Barriers and Market-Based Solutions." Testifying at the hearing will be:

- **Mr. Seth Appleton**, President, U.S. Mortgage Insurers (USMI)
- **Mr. Norbert Michel**, Vice President and Director, Center for Monetary and Financial Alternatives, CATO Institute
- **Dr. Emily Hamilton**, Senior Research Fellow and Director of the Urbanity Project, the Mercatus Center at George Mason University
- **Ms. Arianna Royster**, President, Borger Residential, on behalf of the National Apartment Association (NAA)
- **Ms. Diane Yentel**, President and CEO, National Low Income Housing Coalition

This hearing will focus on the continuing affordability challenges that many currently face in both the single family housing and rental markets. The witnesses will discuss the factors that have contributed to those challenges, particularly government-created barriers such as restrictive land-use and zoning policies, and various market-based solutions to address them.

Summary

Housing accounts for roughly 15 to18 percent of the U.S. economy[1] and is the single-largest expense for many American families. Despite a housing market with unprecedented federal support, including the government-managed conservatorships of Fannie Mae and Freddie Mac, as well as more than $1 trillion dollars spent on programs run by the U.S. Department of Housing and Urban Development

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[1] National Association of Home Builders, "Housing's Contribution to Gross Domestic Product," available at: https://www.nahb.org/news-and-economics/housing-economics/housings-economic-impact/housings-contribution-to-gross-domestic-product.

since 2000,[2] housing continues to be unaffordable for millions of Americans. Housing affordability for single family homes has hit historic lows, with record numbers of Americans paying more than 25 percent of their monthly income on a mortgage payment. At the same time inventory remains limited and mortgage interest rates sit at multi-decade highs.[3] Meanwhile, in the rental market, many growing areas of the country are already oversubscribed, and costs remain high following a peak in annual average rent growth of over 15 percent between 2020 and 2022.[4]

While there are many factors influencing the lack of affordability in housing, some of the largest drivers include the following:

- A widespread lack of inventory in growing and high-demand areas, resulting in home price and rent growth that have outpaced household income;
- The high cost of inflation experienced during the Biden Administration, including higher interest rates, lingering supply chain issues, and a tight labor market stemming from the pandemic;
- Government housing finance policies that crowd-out private sector capital and hamper innovation; and
- Outdated local-level regulatory obstacles that restrict supply and distort markets, including restrictive land-use/zoning policies and misguided rent control.

Addressing these issues will result in greater availability of and more affordable housing. However, there is no panacea that can solve these problems. Possible solutions involve stakeholders coming together at multiple levels. These efforts must include both a focus on removing government barriers that restrict growth as well as embracing private market solutions to increase affordable housing opportunities.

Lack of Inventory and Restrictive Regulations

The primary driver of housing unaffordability remains a lack of supply of homes to meet growing demand. While our national housing stock grew at an annual rate of nearly 2 percent around the 1970s, that rate was cut in half during the last 20 years, with just 0.7 percent growth in the last decade. By some estimates this has led to an undersupply of between 4 to7 million homes nationally to meet the demand of consumers seeking homes they can afford.[5] This trend has existed for decades as the U.S. has failed to keep up with the housing demands. Housing production has taken a particularly

[2] White House Office of Management and Budget, Historical Tables, "Table 5.2—Budget Authority by Agency: 1976–2028," available at: https://www.whitehouse.gov/omb/budget/historical-tables/.

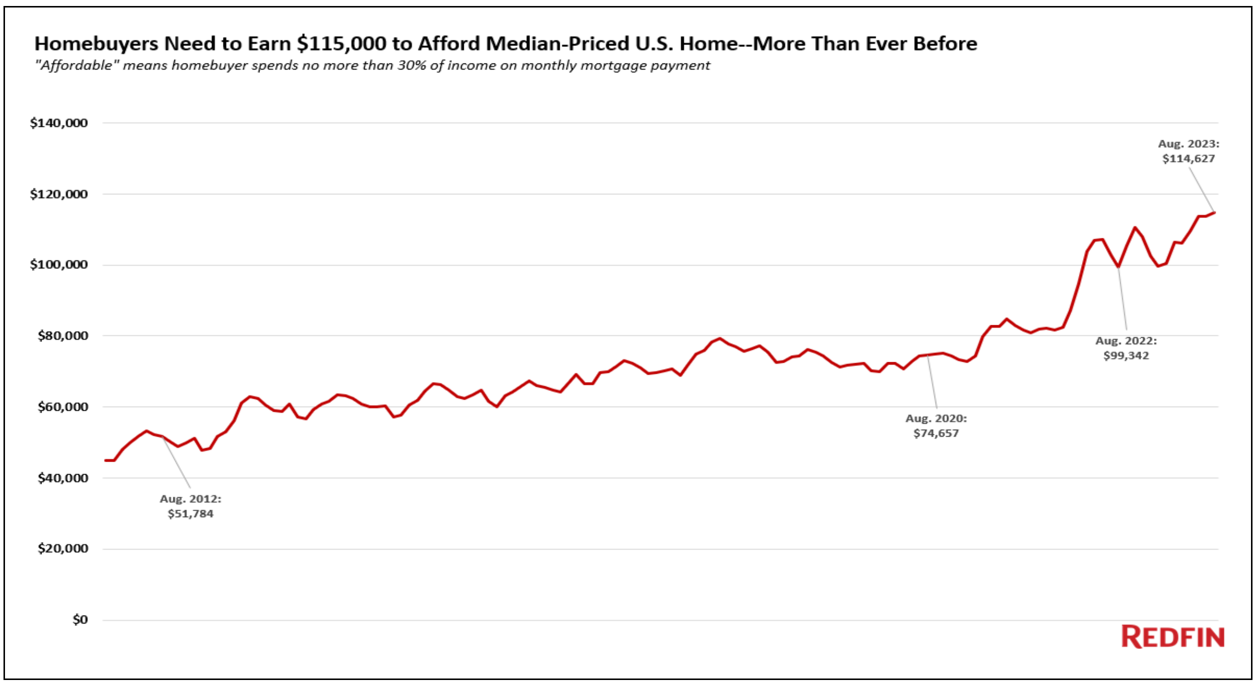
[3] Michael Hyman, "Housing Affordability Hits Historical Low in August 2023," National Association of Realtors, October 19, 2023, available at: https://www.nar.realtor/blogs/economists-outlook/housing-affordability-hits-historical-low-in-august-2023.

[4] Hanna Zakharenko, Abha Bhattarai, and Janice Kai Chen, "Rent is finally cooling. See how much prices have changed in your area.," Washington Post, July 31, 2023, available at: https://www.washingtonpost.com/business/interactive/2023/rent-prices-coming-down-near-me/.

[5] Kenneth T. Rosen, David Bank, Max Hall, Scott Reed, and Carson Goldman, "Housing is Critical Infrastructure: Social and Economic Benefits of Building More Housing," June 2021, available at: https://cdn.nar.realtor/sites/default/files/documents/Housing-is-Critical-Infrastructure-Social-and-Economic-Benefits-of-Building-More-Housing-6-15-2021.pdf.

strong hit since the Great Financial Crisis of 2008. In fact, monthly, new single-family homes for sale remain roughly 25 percent below their pre-recession peak of 572,000 in July 2006.[6]

These higher costs make housing less attainable for first-time and middle- and lower-income borrowers, creating barriers to entry. According to a recent report by Rocket Homes, median household income was $68,710, while the nationwide median U.S. home price was $416,100 in the second quarter of 2023.[7] This means that average home prices are now six times higher than the median household income. Similar work by Redfin shows that a homebuyer must earn $114,627 to afford the median-priced U.S. home, up 15 percent ($15,285) from a year ago and up more than 50 percent since the start of the pandemic.[8] That annual salary of $114,627 – more than $45,000 above the current median household income – is the income necessary to afford a home on record. Yet, annual wage growth remains stagnant at approximately 5 percent year-over-year.



Impact of Inflation and Supply Chain Disruptions

Persistent inflation during the Biden Administration has had a clear, damaging impact on housing markets and the rest of the economy. This period of increased inflation has exacerbated the price of housing supply chain inputs. For example, the cost of building materials has still not dropped to its

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[6] Federal Reserve Bank of St. Louis FRED, "New One Family Homes for Sale in the United States," updated November 27, 2023, available at: https://fred.stlouisfed.org/series/HNFSEPUSSA.

[7] Katie Ziraldo, "Median Home Prices By State: 2023 Edition," Rocket Homes, updated October 1, 2023, available at: https://www.rockethomes.com/blog/housing-market/median-home-price-by-state.

[8] Dana Anderson, "Homebuyers Must Earn $115,000 to Afford the Typical U.S. Home. That's About $40,000 More Than the Typical American Household Earns.," Redfin News, October 17, 2023, available at: https://www.redfin.com/news/homebuyer-income-afford-home-record-high/.

pre-pandemic norms, leading to higher prices for renovation and new construction.[9] Supply chain disruptions have also created costly development delays, which further constricts housing inventories and drives up consumer prices. Distorted labor markets that began during the pandemic continue to cause shortages in the construction workforce, further slowing production. The construction industry will need to attract an estimated 546,000 additional workers on top of its normal hiring pace in 2023 to meet the demand for labor, according to a proprietary model developed by Associated Builders and Contractors.[10]

Additionally, the Federal Reserve's actions to fight off inflation by raising interest rates have had a direct impact on the housing market. Predictably, as the cost of borrowing for banks increases, so does the cost of mortgage lending to consumers in both the single- and multifamily markets. The result has been an increase in mortgage rates. For example, a 30-year fixed rate mortgage went from an all-time low of 2.65 percent in January 2021 to a peak of just over 8 percent in October 2023.[11] Any additional Federal Reserve interest rate hikes to fight inflation are likely to put even more upward pressure on mortgage rates, which have not exceeded 8 percent since August 2000. These generationally high rates are also "locking in" more current homeowners with lower rates. Higher rates discourage homeowners from selling their existing homes given the higher costs they would face on a new mortgage. As a result, existing home sales tumbled 4.1 percent last month to a seasonally adjusted annual rate of 3.79 million units, the lowest level since August 2010.[12]

Government Housing Finance Policies

Housing affordability issues persist despite historic levels of government intervention. Almost every corner of the housing market is supported, subsidized, or otherwise controlled by government policy, yet affordability challenges persist and are magnified. For example, Fannie Mae and Freddie Mac guarantee roughly 70 percent of the nation's single-family market. In addition, loans insured by the Federal Housing Administration (FHA), which are primarily for lower-income and first-time homebuyers, account for another 10 percent of the market. These agencies exist in addition to the Department of Housing and Urban Development, which spends approximately $70 billion a year on rental housing and other community development programs.

On the whole, such an outsized government presence can distort markets, crowding-out private sector capital and hampering innovation. Because these government programs were not developed at the same time, their goals are not aligned and often overlap and compete with one another, creating even

[9] National Association of Home Builders, "Building Materials Price Growth Slowed 60% in 2022," January 24, 2023, available at: https://www.nahb.org/blog/2023/01/building-materials-price-growth-slows-in-2022.
[10] Associated Builders and Contractors, "Construction Workforce Shortage Tops Half a Million in 2023, Says ABC," February 3, 2023, available at: https://www.abc.org/News-Media/News-Releases/construction-workforce-shortage-tops-half-a-million-in-2023-says-abc.
[11] Federal Reserve Bank of St. Louis FRED, "30-Year Fixed Rate Mortgage Average in the United States," updated November 22, 2023, available at: https://fred.stlouisfed.org/series/MORTGAGE30US.
[12] National Association of Realtors, Existing Home Sales Overview, updated November 21, 2023, available at: https://cdn.nar.realtor/sites/default/files/documents/ehs-10-2023-overview-2023-11-21.pdf.

more inefficiencies and market distortions. Better coordination of these efforts, including understanding the appropriate role for each program, will help target government resources to areas of true need. This will also allow for a more viable and innovative role of the private sector in originating new housing supply across the country.

Outdated Local-Level Regulatory Obstacles

At the local level, there are several obstacles that hinder housing construction and impede housing supply. These barriers can restrict supply and distort markets, contributing to the ongoing challenges in housing affordability and availability. One significant obstacle is the restrictive zoning practices at the local level. Many municipalities implement zoning regulations that limit the density of housing developments or designate certain areas exclusively for single-family homes. Restrictive zoning limits the development of newer housing supply as well as inadvertently makes it harder for middle-income individuals and families to find affordable options. While these are and should be inherently local decisions, such policies often were put in place decades ago and do not reflect the challenges of the current market.

Other regulatory burdens that restrict housing development include extensive and time-consuming permitting regulations. Such delays can increase costs for housing and exacerbate affordability challenges for both homebuyers and renters. In fact, according to a recent study from the National Association of Homebuilders (NAHB), regulations imposed by all levels of government account for $93,870, or 23.8 percent, of the current average sales price ($397,300) of a new, single-family home.[13] Similarly, NAHB research conducted by the National Multifamily Housing Council has found that an average of 40.6 percent of total development costs are attributable to regulatory compliance at all levels of government.[14]

Another factor adding to and distorting the cost of housing at the local level are harmful policies like rent control. Despite widespread condemnation by economists, some policymakers continue to push for and expand this failed policy.[15] While meant to address costs for all renters, rent control has been shown in countless evaluations to have a negative impact on the amount and quality of broadly affordable rental housing. Instead of driving down costs, rent control simply benefits the *current* occupant of the rental unit at the expense of future renters, by adding new costs to the system at large, reducing affordability and creating scarcity. It also creates a disincentive for property owners to maintain their units, as well as for developers to invest in new units within such jurisdictions.

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[13] National Association of Home Builders, "Regulatory Costs Add a Whopping $93,870 to New Home Prices" May 6, 2021, available at: https://www.nahb.org/blog/2021/05/regulatory-costs-add-a-whopping-93870-to-new-home-prices/.

[14] Paul Emrath and Caitlin Sugrue Walter, "Regulation: 40.6 Percent of the Cost of Multifamily Development," 2022, available at: https://www.nmhc.org/globalassets/research--insight/research-reports/cost-of-regulations/2022-nahb-nmhc-cost-of-regulations-report.pdf.

[15] Chicago Booth Kent A. Clark Center for Global Markets survey, "Rent Control," February 7, 2012, available at: https://www.kentclarkcenter.org/surveys/rent-control/.

Legislative Proposals

- ***HR 802, the Respect State Housing Laws Act (Rep. Loudermilk)***

This bill eliminates a provision in Section 4024 of the CARES Act (15 U.S.C. 9058) that requires a 30-day notice period before a landlord may begin eviction proceedings against a tenant in federally assisted or federally backed housing.

- ***HR 3327, the Manufactured Housing Affordability and Energy Efficiency Act (Rep. Kustoff)***

This bill would require the Secretary of the Department of Energy to receive approval from the Secretary of the Department of Housing and Urban Development before adopting energy efficiency standards for manufactured housing.

- ***HR 5198, the Expansion of Attainable Homeownership Through Manufactured Housing Act (Rep. Rose)***

This bill would amend the definition of "manufactured home" in the National Manufactured Housing Construction and Safety Standards Act of 1974 by striking a requirement that it be built on a permanent chassis.

- ***HR 3507, the Yes In My Backyard (YIMBY) Act (Rep. Kilmer)***

This bill requires certain Community Development Block Grant program recipients to submit to the Department of Housing and Urban Development information regarding their implementation of certain land-use policies, such as policies for expanding high-density single-family and multifamily zoning.