Written Testimony

of

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before the

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RE: Building Consensus to Address Housing Challenges

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Chairman Brown, Ranking Member Scott, and members of the committee, thank you for convening this hearing. My name is Vanessa Brown Calder, and I am the director of opportunity and family policy studies at Cato Institute. In my role at Cato, I focus on policies that support family and increase opportunity, with a special emphasis on housing. The views I express in this testimony are my own and should not be construed as representing any official position of Cato Institute.

Housing continues to function as a gateway to economic, educational, and social opportunities for millions of Americans. When housing is abundant, it is more affordable. Affordable housing provides a pathway to better jobs and a better education. It allows individuals to be part of the communities that they desire.

On the other hand, when housing supply is limited, housing prices rise and opportunity declines. Today America has an acute housing imbalance and continuing affordability challenges. Policies have restricted housing supply for many years and in many places, resulting in high and rising prices in places such as New York City, San Francisco, and Washington, DC.

Pre-existing housing supply challenges intensified during the pandemic. The number of "missing" housing units (that is, the number of units required to keep up with household formation minus existing units) grew from approximately 2.8 million in 2018 to 3.8 million at the end of 2020, though some scholars estimate that this figure is much higher.[1]

Although a variety of factors are relevant, federal and local policy is unfortunately substantially to blame. State and local regulatory constraints on housing supply have limited supply in many places for many years. Zoning and land-use regulation continues to limit housing supply by increasing development costs, creating uncertainty, and producing delays.

These regulations limit nearly every aspect of development. They subject housing development to lengthy review processes with many veto points. Together, these regulations effectively freeze pre-existing development in place, which makes it difficult to build new homes or accommodate new residents. As a result, high regulation areas issue an abysmally low number of housing permits per new job each year.[2]

A large volume of academic research ties land-use regulations to high housing prices. A well-known paper finds that zoning regulations pushed up the cost of apartments by around 50 percent in Manhattan, San Francisco, and San Jose.[3] A recent paper reviewing 24 metropolitan areas finds a massive "zoning tax" (up to $500,000 per quarter-acre) in cities with restrictive land-use regimes but much lower zoning taxes in less-regulated places.[4]

Parking minimums provide one example of a costly local regulation that limits supply. These regulations require that developers provide a predetermined number of parking spaces per square foot or developed unit, which reduces the available space for housing. Recent research finds that the cost of garage parking is approximately $1,700 per year or an additional 17% of rent for renters.[5] Unfortunately, these costs, like zoning regulations more generally, fall hardest on low-income renters that are unable to readily absorb the costs of increased rents and often have no need for parking spaces in the first place.

The importance of housing supply becomes quickly evident when contrasting the outcomes of homeless policy initiatives across Utah, California, and Houston, Texas. All three locations have adopted Housing First policies which emphasize the need for permanent housing before tackling other issues, such as mental health problems or substance use disorder. Despite their commitment to providing the homeless with housing, only Houston, a place lacking a traditional zoning code, with a pro-development culture and responsive housing supply, has been able to significantly reduce homelessness under this policy. In Utah and California, chronic homelessness grew 95 and 93 percent following policy implementation. On the other hand, chronic homelessness in Houston declined by 68 percent.[6]

As one other example of policy limiting housing supply, federal lands policy severely limits the supply of available land for housing in western states that have experienced substantial recent in-migration.[7] In western states like Nevada, Utah, and Idaho, the federal government owns most of the land. A recent study finds that a reform that would allow local governments to purchase just 0.1 percent of federal land holdings could lead to the construction of approximately 2.7 million homes.[8]

Although housing programs are often the focus of housing affordability conversations, underlying housing affordability problems will not be fixed through subsidies for rent and homeownership. 5.2 million households use federal rental assistance, but there are over 41 million cost-burdened or severely cost-burdened households and 62 million low-income renters in the United States.[9]

Even generously expanding existing programs or creating new ones would still only reach a fraction of renters and homeowners experiencing affordability issues. The Department of Housing and Urban Development spends about $70 billion per year, much of which is devoted to improving housing affordability, and the federal government spent around $90 billion on rental assistance in 2021.[10] Despite this, the number of renters that are cost-burdened has stayed approximately stable over the past decade and grew during the pandemic.[11]

Although housing subsidies will not solve widespread housing affordability issues, there are nonetheless opportunities to improve existing housing programs. These improvements should be made with an eye towards increasing effectiveness, innovation, and human flourishing. Senator Scott's proposal to reward effective homeless initiatives, allow greater experimentation, reduce regulation, and allow the continuing conversion of public housing to voucher assistance, are common-sense reforms that should be seriously considered by both sides.

As one specific example of productive reform, the ROAD to Housing Act reduces the regulation of manufactured homes by striking the federal requirement that manufactured housing is attached to a permanent chassis, or a metal base frame. Research suggests that this requirement increases the cost of development and is used by local regulators to limit the use of manufactured housing.[12] This is unfortunate because manufactured housing provides an alternative to traditional stick-built homes, at a fraction of the price.

Furthermore, existing housing programs that are ineffective or poorly targeted to the poor, should be repurposed or eliminated. For instance, research indicates that the benefits of the Low-Income Housing Tax Credit (LIHTC) program primarily flow to developers, rather than low-income tenants.[13] Moreover, supply-side subsidies including LIHTC, public housing, and project-based Section 8 programs concentrate poverty and limit mobility, with dire effects for low-income residents. In general, directing subsidies to the lowest income people constitutes the most compassionate, effective, and economically efficient approach.

The goal of housing policy should not be to increase spending and expand programs, it should be to radically improve existing housing policy, housing supply, and affordability. Then Americans of all stripes will have the pride of standing on their own two feet and the opportunity to achieve their dreams.

Thank you, and I look forward to your questions.

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[1] Rather than taking existing historical development trends as a given, the authors of the second study use a supply and demand framework and find that the number of missing units is closer to 20 million. Sam Khater, Len Kiefer, and Venkataramana Yanamandra, "Housing Supply: A Growing Deficit," Freddie Mac Economic and Housing Research Note, May 2021; Kevin Corinth and Hugo Dante, "The Understated 'Housing Shortage' in the United States," IZA Institute of Labor Economics Discussion Paper no. 15447, July 2022.

[2] For example, one permit for every nine new jobs in San Francisco-Oakland-Hayward, one permit for every seven new jobs in New York-Newark-Jersey City metropolitan area. "Housing Shortage Tracker", National Association of Realtors, September 2022.

[3] Edward L. Glaeser, Joseph Gyourko, and Raven Saks, "Why Is Manhattan So Expensive? Regulation and the Rise in House Prices," National Bureau of Economic Research Working Paper no. 10124, November 2003.

[4] Joseph Gyourko and Jacob Krimmel, "The Impact of Local Residential Land Use Restrictions on Land Values Across and Within Single Family Housing Markets," National Bureau of Economic Research Working Paper no. 28993, July 2021.

[5] C.J Gabbe and Gregory Pierce, “Hidden Costs and Deadweight Losses: Bundled Parking and Residential Rents in the Metropolitan United States,” *Housing Policy Debate* 27, no. 2 (2017).
[6] Vanessa Brown Calder and Jordan Gygi, “In Houston, Housing Affordability Helps Reduce Homelessness,” *Cato at Liberty*, February 15, 2023.
[7] For example, in Nevada, Utah, and Idaho, the federal government respectively owns 80 percent, 63 percent, and 60 percent of the land. In other states, including Oregon, Wyoming, New Mexico, and Montana, the federal government owns around one-third to one-half of the available land.
Carol H. Vincent, Laura A. Hanson, and Lucas F. Bermejo, “Federal Land Ownership: Overview and Data,” Congressional Research Service, R42346, February 21, 2020.
[8] JEC Republicans, “The HOUSES Act: Addressing the National Housing Shortage by Building on Federal Land,” United States Joint Economic Committee, August 2022.
[9] “2022 Federal Rental Assistance Factsheets Sources and Methodology,” Center on Budget and Policy Priorities, January 19, 2022; Peyton Whitney, “Number of Renters Burdened by Housing Costs Reached a Record High in 2021,” Joint Center for Housing Studies of Harvard University, February 1, 2023.
[10] Department of Housing and Urban Development, *2024 Budget in Brief* (Washington: Department of Housing and Urban Development, 2023); “The Federal Government’s Support For Low-Income Housing Expanded During the Pandemic,” Peter G. Peterson Foundation, June 24, 2022.
[11] Peyton Whitney, “Number of Renters Burdened by Housing Costs Reached a Record High in 2021,” Joint Center for Housing Studies of Harvard University, February 1, 2023.
[12] James A. Schmitz, Jr., “Solving the Housing Crisis Will Require Fighting Monopolies in Construction,” Federal Reserve Bank of Minneapolis Working Paper no.773, December 11, 2020.
[13] Ed Olsen, “Does Housing Affordability Argue for Subsidizing the Construction of Tax Credit Projects?” 2017. Presented at a conference at the American Enterprise Institute, April 6, 2017; Gregory S. Burge, “Do Tenants Capture the Benefits from the Low-Income Housing Tax Credit Program?” in *Real Estate Economics* (Blackwell Publishing Inc., December 2010).