

Testimony of:

Michael Hendrix

Senior Fellow and Director of State and Local Policy, Manhattan Institute

Hearing on:

How Private Equity Landlords are Changing the Housing Market

October 21, 2021

Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you for inviting me to participate in today's hearing. My name is Michael Hendrix, and I serve as a senior fellow and director of state and local policy at the Manhattan Institute. Along with my colleagues, we seek to advance freedom and opportunity across America's communities.

Today's hearing topic seems misguided. Large investment firms, including those in private equity, buy just one to two percent of homes sold nationally today. And they own less than one-tenth of one percent of the housing market in America. Big finance is still a tiny player in housing.

But housing's a hot market today, and investors both large and small are seeing opportunities to invest, so I'm open to discussing how these private dollars can go to expanding access and affordability for Americans looking for a place to call home. But it's difficult to be optimistic when many here are embracing this Administration's plans to regulate and legislate their way to a bigger government role in housing.

For instance, the reconciliation bill being considered in Congress doubles-down on failed public housing and throws more subsidy money at a limited supply of homes, a recipe for prices to keep rising. These are not answers to America's housing crisis. And make no mistake: it is a crisis. Housing demand is far outpacing housing supply. We have a shortage of nearly four million homes nationwide. But the roots of this crisis lie not in financial speculation but in government regulation.

Localities have made it practically illegal to build enough housing to meet demand, leading to inflated home prices. America is building homes at its slowest rate in 60 years, worsening a supply problem that has been decades in the making. Investors are snapping up homes because of supply restrictions, not in spite of them. The only answer to a housing shortage is to build more housing.

Yet this hearing suggests a skepticism for the private sector investing in more housing. That's what institutional investors are doing, after all; they're not shrinking the supply of shelter. In fact, many are building more homes, which is what America needs if it's going to get out of this crisis. And as *Vox* notes, "Since renters are on average less wealthy than mortgage-qualifying

would-be homeowners, institutional investors might be creating more housing for lower-wealth Americans,” particularly in desirable neighborhoods.¹

If not the private sector then, that leaves us with the public sector—and specifically, public housing. That is a mistake.

Rather than helping the private sector solve a crisis of the government’s making, Congress’s \$3.5 trillion reconciliation bill plans to bail out America’s failed public housing system. This money—an incredible \$80 billion—has few limits on how it’s spent. Senate Majority Leader Chuck Schumer has promised to hand over the bulk of these dollars to the scandal-plagued New York City Housing Authority (NYCHA). Worse yet, Sen. Schumer’s colleagues want more failed NYCHAs through a backdoor repeal of limits on new public housing.

Back in April, Sen. Schumer called on President Joe Biden to double his planned spending of \$40 billion on public housing. He wanted all of the original money just to pay NYCHA’s repair bill. And he got it: an increase to \$80 billion in spending on public housing and enormous influence on securing half of it for a NYCHA bailout. And even this may not be enough: NYCHA estimates its repair costs may be as high as \$68.5 billion by 2028. In short, it’s an \$80 billion slush fund.

NYCHA is what we get when we get more public housing. And that should scare every American, especially for the survivors of public housing. NYCHA is the nation’s oldest and largest public housing system, housing more people than the city of Atlanta, and long held up as a model of what government can achieve when it takes charge of housing.

And in 2018, NYCHA’s own tenants sued the housing authority for its squalid living conditions. Then the federal government sued too, finding that the housing agency had worked harder to cover-up its “dangerous problems” than to actually fix them. It turns out that the nation’s largest and greatest public housing system poisoned over a thousand children with lead exposure, then lied and covered it up. And just this month, New York City public health officials admitted that NYCHA residents are dying from Covid-19 at nearly twice the city rate.

“The real disaster is the management at NYCHA and its culture of deception,” said the U.S. attorney who sued the agency, and he’s right. Just the other month, Brooklyn’s district attorney charged nine NYCHA contractors with bribery over the authority’s no-bid contracts. There’s an “ecosystem of people willing to make and take bribes at NYCHA,” found the Brooklyn DA.

Despite record levels of funding, “New York’s public housing isn’t getting better,” admitted *The New York Times*.² Sometimes more money means more problems. A new paint job won’t fix NYCHA’s problems. A public housing slush fund only harms accountability and leaves structural

¹ Demas, Jerusalem. “Wall Street Isn’t to Blame for the Chaotic Housing Market.” Vox, June 11, 2021. <https://www.vox.com/22524829/wall-street-housing-market-blackrock-bubble>.

² The Editorial Board. “New York’s Public Housing Isn’t Getting Better.” *The New York Times*, July 30, 2019. <https://www.nytimes.com/2019/07/30/opinion/new-yorks-public-housing-nycha.html>.

problems in place. Spending \$40 billion to repair NYCHA amounts to roughly \$250,000 for every family living in public housing in New York City. Do we really believe we won't get more of the same?

We are now being promised more failure by striking a 1990s-era cap on public housing units known as the Faircloth Amendment. Housing authorities are being told they can build and expand, while it seems the private sector is being told the opposite. That means more demands for even more public housing dollars in the future. The backdoor repeal of the Faircloth Amendment in the reconciliation bill ensures America will trap more generations in public housing poverty.

Public housing has failed—look no further than NYCHA. It's time we did better for Americans in need of more affordable housing. Bailing out scandal-plagued public housing authorities is not the answer. Neither is condemning private sector solutions to America's housing crisis. We can—we must—do better.

Thank you.