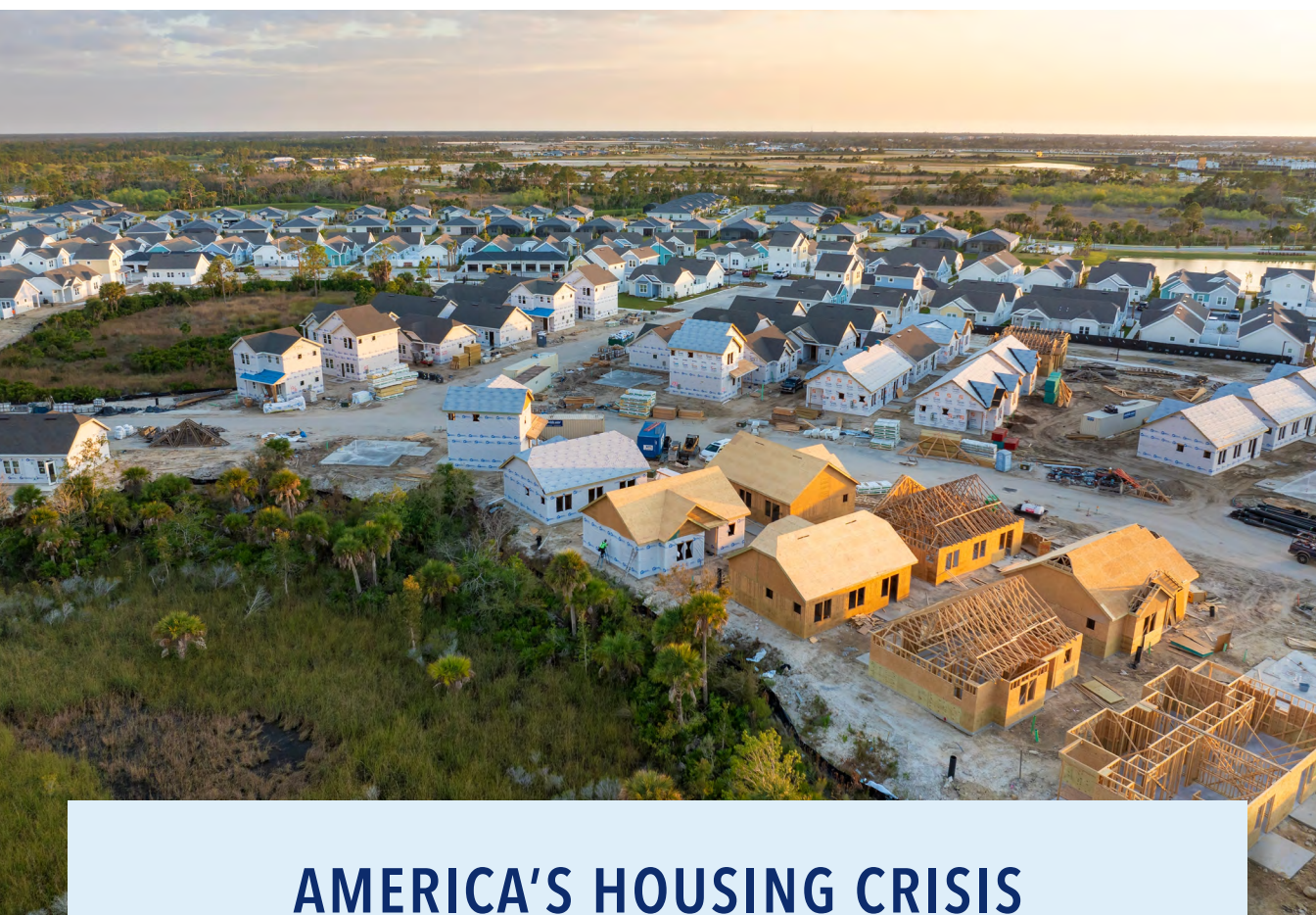


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Policy Recommendations from the George W. Bush Institute

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AMERICA'S HOUSING CRISIS

A Federal Policy Agenda for Expanding Supply and Affordability



*The George W. Bush Institute-SMU Economic Growth Initiative
at
The George W. Bush Institute*

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AMERICA'S HOUSING CRISIS: A FEDERAL POLICY AGENDA FOR EXPANDING SUPPLY AND AFFORDABILITY

Cullum Clark, Director, George W. Bush Institute-SMU Economic Growth Initiative

Housing price inflation erodes living standards, undermines people's ability to access good jobs and build savings, and pushes homeownership further out of reach for younger families. Rapid inflation since 2000 has caused significant hardship for millions of the most vulnerable Americans.

U.S. home prices and rents have risen dramatically relative to people's incomes since the start of the 21st century, fueling a severe housing crisis for middle-class and lower-income families. Solving it requires the nation to accelerate housing production by about 50% from 2017-2023 levels and then sustaining that pace for at least the next 20 years, according to research by the George W. Bush Institute-SMU Economic Growth Initiative.

OUR RECOMMENDATIONS:

- Congress should launch a smart growth initiative to promote faster housing growth in expanding areas
- Congress should create a funding stream for rental apartments for very low-income families
- Congress should reform or expand existing programs that support housing development
- Congress and the Department of Housing and Urban Development (HUD) should reform existing demand subsidy programs to improve access and spur homeownership
- Congress and the Federal Housing Finance Agency should reform the federal housing finance system to promote affordability
- Congress, HUD, and the Census Bureau should increase federal provision of data and technical assistance to support local initiatives

Since 2000, the United States has produced about 6 million to 7 million fewer homes than it needs. As a result, home prices and rents have increased about 20% more than people's incomes have risen. The figure is far higher in the country's most expensive states and localities.

Overly restrictive local land-use rules are the main cause of housing underproduction. Programs focused on subsidized homes for lower-income households are also

underdelivering relative to America's requirements and failing to target families who most need assistance.

America can best accelerate home production by building on what's working most effectively today – rapid, large-scale housing development in previously undeveloped greenfield sites, mostly in suburban Sun Belt communities, plus redevelopment of properties in commercially zoned areas. The reason: Initiatives to make single-family neighborhoods dramatically denser have failed virtually everywhere in the face of local opposition. The federal government should also provide new funding streams, data, and technical assistance to support local policies targeting the nation's lowest-income families.

Congress should launch a smart growth initiative to promote faster housing growth in expanding areas

To build at the scale America needs, Congress should condition transportation funding on the development of local and regional [smart growth](#) plans for previously undeveloped greenfield areas. Smart growth plans should allow for a full range of housing types and mixed-use development; reserve land for retail, restaurants, offices, and green space; and aim for light-touch medium density – the density level of Fort Worth, Texas, or Phoenix, Arizona, rather than the very low density levels of many exurban areas. Congress should likewise incentivize cities to activate raw, underused, or repurposed land in built-up areas – including publicly owned and commercially zoned land – for development.

Most net additions to the housing stock will likely occur on undeveloped greenfield sites at the expanding outer edge of growing metropolitan areas, as they have for decades. Twenty-five large, fast-growing Sun Belt metro areas collectively account for almost 40% of all housing units built since 2010, and three quarters of these homes have gone up in suburban localities and outer-ring communities. Most of these suburban places outperform metropolitan America as a whole in constructing apartments, duplexes, and fourplexes as well as single-family homes. The 25 metro areas include the leading ones in Arizona, Arkansas, Colorado, Florida, Georgia, Nevada, North Carolina, South Carolina, Tennessee, Texas, and Utah.

If all of America's 250 largest metros had policies as pro-growth as these 25 fast-growing Sun Belt metros, they would have collectively added some 5.6 million more homes from 2010 to 2023, based on a Bush Institute-SMU analysis. Average home prices would be \$115,000 lower than they are today, and monthly rents would be \$450 lower.

Congress should create a funding stream for rental apartments for very low-income families

The largest gap in the nation's affordable housing ecosystem is rental units that are attainable for families with income below half of their area's median. The low-income housing tax credit (LIHTC) program mostly subsidizes new development for households closer to their area's income median, while the Section 8 housing choice voucher program – which provides vital help to more than 2 million families – is a demand subsidy program that brings little new housing supply to the market.

Congress should launch a new funding stream focused on preserving and rehabbing existing privately owned apartment buildings and making them available to very low-income families at rents they can afford. The goal should be to preserve older, “naturally occurring” affordable housing rather than lose it to demolition or long-term decay. The funding stream should be as geographically flexible as possible, rather than tying subsidies permanently to any one building or location. It should be available to for-profit, nonprofit, and local government landlords and emphasize loans or loan guarantees over grants where possible to recycle federal dollars and make them go further. It should also support rapid rehousing of people who become homeless.

Congress should reform or expand existing programs that support housing development

Several existing programs currently fail to deliver as much home production as they could. The [Bipartisan Infrastructure Law](#) expanded eligibility for developers to use Department of Transportation (DOT) loans to fund transit-oriented development, but bureaucratic inflexibility has prevented significant use of this facility. Federal agencies own sufficient buildable land near urban transit stops to support 35,000 to 135,000 apartments, but there is no mechanism to make this land available for development, according to a [Lincoln Institute of Land Policy](#) analysis.

Other hurdles to building the homes America needs are skilled labor shortages and inadequate productivity growth in the construction sector. The [construction workforce](#) has shrunk by about 1 million people since 2007 and is likely to decrease further as older workers retire, the Harvard University Joint Center for Housing Studies has found. And construction is one of the only industries that has experienced [no productivity improvement through technological progress at all](#) over the last 50 years, as shown in a 2023 study by Federal Reserve Bank of Chicago President Austan Goolsbee and economist Chad Syverson.

Congress should make existing loan facilities like the DOT program more flexible and accessible, make more federal government-owned urban land available for development, expand support for workforce development for the construction trades, and increase investment in housing-focused technology innovation.

To further stretch available resources, Congress should also reform the low-income housing tax credit (LIHTC) program to cut the unnecessary costs imposed on LIHTC-funded construction by bureaucratic complexity. It should make it easier to combine LIHTC funding with other capital sources, reduce the share of project funding that must come from [Private Activity Bonds](#), and incentivize states to shift LIHTC awards to preservation of existing homes rather than new development.

Congress and HUD should reform existing demand subsidy programs to improve access and spur homeownership

Congress should restructure the [housing choice voucher program](#) so that it no longer disincentivizes people from working – and makes the program more financially attractive and easier to navigate for both beneficiaries and landlords. One easy reform: Simplify

onerous inspection requirements. Congress should also expand the number of vouchers it makes available each year, as [only about one quarter of eligible families](#) currently receive a voucher.

Congress should also create incentives for landlords to offer rent-to-own pathways to support homeownership. But Congress should avoid new subsidies to first-time homebuyers, as these drive up home prices for everyone.

Congress and the Federal Housing Finance Agency should reform the federal housing finance system to promote affordability

The government-sponsored entities Fannie Mae and Freddie Mac, which support homeownership by buying residential mortgages and packaging them into government-backed securities available to investors, drive up home prices by unnecessarily subsidizing housing demand among middle-income and affluent households. Congress should require Fannie Mae and Freddie Mac to stop buying mortgages for refinancings, second homes, and investment properties. It should require them to support private-sector initiatives to develop better designed mortgage products, making it easier for borrowers to refinance or take their existing mortgage with them when they move. And it should authorize them to make or buy mezzanine construction loans – loans to developers that are junior to bank loans – to support new housing development.

Congress, HUD, and the Census Bureau should increase federal provision of data and technical assistance to support local initiatives

Most U.S. localities struggle to collect even basic data on their own housing market. Congress should direct HUD and the Census Bureau to collect much more geographically granular, timely data on housing inventory, new construction, rents, and home prices. It should be disaggregated by building type, size, and income-restricted status and made as accessible as other Census data.

Since outdated or poorly targeted building ordinances hold back promising initiatives like residential development in commercial areas and medium-density greenfield development in expanding suburbs, Congress should direct HUD to create model ordinance language for such specific environments. Congress should also direct HUD to write and encourage use of modern, standardized building codes – including for manufactured, modular, and 3D-printed homes – to cut building costs imposed by idiosyncratic local codes and encourage cost-saving technologies.

America's housing crisis is fixable. The success of leading Sun Belt metros in achieving rapid housing growth over the last decade, even with far-from-perfect local land-use rules, suggests that the nation could significantly accelerate its pace of housing production if other states and localities would adopt more growth friendly policies. While Congress should respect local control over land-use rules, it can contribute to addressing the challenge through new and reformed funding streams, better incentives for state and local governments, improved data, and greater technical assistance.



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