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Policy Recommendations from the George W. Bush Institute

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STATES CAN HELP END THE U.S. HOUSING CRISIS THROUGH SMART POLICIES



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

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STATES CAN HELP END THE U.S. HOUSING CRISIS THROUGH SMART POLICIES

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America faces a housing crisis, and state governments – along with municipalities and the federal government – need to do their part to alleviate it. State housing and land-use policies should start from the same premise as federal policy: Aim to make homes abundant and more affordable relative to people's incomes.

OUR RECOMMENDATIONS:

- States should invest in infrastructure to support both medium-density expansion of growing metros and infill development in built-up urban areas
- State legislatures should shift property tax policies to tax land more heavily and structures more lightly
- State governments should reform policies that stand in the way of housing growth
- State governments should intervene in targeted ways to reduce local barriers to new housing development
- State governments should mostly take a light-touch approach to overriding local land-use policies

Underproduction of homes, mostly since the global financial crisis of 2008, is the chief cause of the nation's growing affordability challenges, as a new [George W. Bush Institute-SMU Economic Growth Initiative report](#) shows. We estimate a national shortfall of 6.1 million to 7.8 million housing units. As a result, home prices and rents have risen far faster than Americans' incomes in the 21st century in most U.S. cities. Sky-high prices stand in the way of economic opportunity for millions of Americans by preventing moderate-income people from being able to live within range of thriving job centers, reducing the rewards from hard work, and holding back homeownership, the principal means of wealth accumulation for many Americans.

Many studies confirm that states and localities with more restrictive land-use policies experience higher land values, higher production costs, less development, and higher rents and home prices. But a handful of states – notably Florida, Montana, and most recently Texas – have also led the way in implementing pro-growth housing reforms.

Carrots make more sense than sticks when states wish to influence local land-use rules. Top-down mandates are a recipe for endless conflict and litigation. Coercive state mandates are also unnecessary and even counterproductive in some cases. While they are required in extraordinary circumstances – like federal intervention to end racial segregation policies in the 1960s – local development patterns don’t meet this test, in our view. On the other hand, well-designed statewide policies can help localities resist antigrowth pressures and achieve their housing policy goals.

States should support housing supply growth and affordability in the following ways:

States should invest in infrastructure to support both medium-density expansion of growing metros and infill development in built-up urban areas

States have a key role to play in building the infrastructure that will ultimately support housing development. They should work to build out road networks and water infrastructure ahead of expansion and make it easy to launch municipal utility districts. They should also facilitate improving transportation and broadband connections to outlying semiurban as well as rural communities. This can be done by shifting some transportation and water spending to competitive grants that support infrastructure investments tied to regional plans for medium-density development, with no free-riding localities. States can also support urban infrastructure by enabling downtown revitalizations, innovation districts, mixed-income housing in commercial areas, bus rapid transit, and other local placemaking investments.

State legislatures should shift property tax policies to tax land more heavily and structures more lightly

Tax systems that encourage rather than discourage development of raw land and better use of underused office, retail, and industrial areas are key to addressing the housing crisis. Pennsylvania has allowed localities to use [split-rate property taxes](#) for more than a century. Some 16 cities in the state value land parcels separately from structures built on them and charge higher rates on the former, with beneficial results. Harrisburg instituted a split-rate tax with rates four times higher for land in 1982. It subsequently enjoyed a nearly 90% decline in the number of vacant structures over the next 20 years, an impressive economic revival in its formerly distressed downtown, and lower property tax bills for most residents. Allentown saw similar results after it adopted a split-rate system taxing land values at almost five times the rate charged on structures in 1996.

State governments should reform policies that stand in the way of housing growth

Texas has made development funded by low income housing tax credits (LIHTC) more difficult than it should be through overly restrictive qualified allocation plan rules governing awards of valuable LIHTC credits. The state’s restrictions partly account for why Dallas, Houston, and San Antonio have added fewer LIHTC-funded units than most other large cities since 2010. Some states, including Michigan and New Hampshire, unnecessarily [discourage LIHTC-funded development](#) by including the value of tax credits in assessed property values for tax purposes. Others create disincentives by valuing LIHTC properties

based on their land and construction costs rather than on the income they generate. Colorado, Florida, Georgia, and Utah, on the other hand, are among several states that have passed legislation directing tax assessors to value LIHTC properties based on their income and exclude the value of tax credits. Other states should follow their example.

State governments should intervene in targeted ways to reduce local barriers to new housing development

Florida and Montana have enacted policies allowing developers to build apartments and townhomes as of right – meaning without specific local government action – in areas zoned for commercial or industrial use. Texas passed similar legislation in May 2025, in addition to first-of-its-kind legislation preventing localities from imposing overly restrictive rules on starter homes on small lots in undeveloped urban areas. Other states should consider similar policies.

State governments should mostly take a light-touch approach to overriding local land-use policies

The most controversial housing policy issue in many states concerns how and to what extent state governments should exercise preemption powers and override local housing and land-use rules. Some proponents of vigorous state preemption argue persuasively that localities are locked in a collective action problem, in which each locality seeks the benefits of having relatively affordable housing nearby while underbuilding it within its own borders. Preemption advocates believe state governments are positioned to coordinate solutions in which all localities build their fair share. Others argue that states should override restrictive land-use rules on the grounds that such rules violate the Fair Housing Act by pushing prices out of reach for low-income Black, Hispanic, and otherwise marginalized families.

While some local policies might be sufficiently egregious to warrant state preemption, states should mostly take a light touch for three reasons: First, states are just as likely to impose counterproductive policies as pro-growth policies; second, empowered localities promote much-needed policy experimentation and customization; and third, strategies that rely on faraway state authorities imposing top-down mandates on local communities that conflict with what local citizens want and view as vital interests are often ineffective.

Addressing America's housing crisis is within reach. While local rules present the chief obstacle to new housing, and localities must therefore bear principal responsibility for removing these barriers, state governments can help in targeted ways. Ideally, states and cities should work together to enact pro-growth reforms. But every state has opportunities to take down obstacles to housing growth and achieve meaningful improvements in housing supply and affordability.



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