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Committee on Banking, Housing, & Urban Affairs
Subcommittee on Housing, Transportation, and Community Development

Written Testimony for Hearing on “Housing Supply and Innovation”

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Chair Smith, Ranking Member Lummis, and members of the subcommittee, thank you for the opportunity to testify on the critically important issue of housing supply and innovation. It is an honor to be here before you today. I am grateful for your leadership and attention to this issue.

My name is Jenny Schuetz. I am a senior fellow at Brookings Metro. The views expressed in my testimony are my personal views and do not reflect the views of Brookings, other scholars, officers, or trustees.

My testimony will address several aspects of housing supply and innovation, including:

- National and regional trends in housing supply and affordability
- The role of zoning and land use regulation
- Opportunities for federal engagement to encourage housing supply

The US is experiencing a persistent and widespread housing shortage

The past decade has seen increasingly tight housing markets due to strong demand and limited supply. Since the Great Recession, the U.S. has not built enough housing to keep pace with demand created by job and population growth, leading to historically low vacancy rates and rapidly rising costs.¹ Researchers estimate that the U.S. needs roughly 3.8 million additional homes nationally to address this gap.² Regions with strong labor markets, such as coastal California, Greater Boston, New York City, and South Florida, have built too little housing for more than 30 years.³

¹ Jared Bernstein, Jeffrey Zhang, Ryan Cummings, and Matthew Maury. 2021. Alleviating supply constraints in the housing market. White House Council of Economic Advisors. <https://www.whitehouse.gov/cea/written-materials/2021/09/01/alleviating-supply-constraints-in-the-housing-market/>

² Sam Khater, Len Kiefer, and Venkataramana Yanamandra. 2021. Housing Supply: A growing deficit. Freddie Mac Research note. <https://www.freddiemac.com/research/insight/20210507-housing-supply>

³ Chang-Tai Hsieh and Enrico Moretti. 2019. "Housing Constraints and Spatial Misallocation." *American Economic Journal: Macroeconomics* 11(2): 1-39; Joseph Gyourko and Raven Molloy. 2014. Regulation and Housing Supply. National Bureau of Economic Research working paper; Edward Glaeser and Joseph Gyourko. 2018. The Economic Implications of Housing Supply. *Journal of Economic Perspectives* 32(1): 3-30. Jenny Schuetz. 2022. Fixer Upper: How to repair America's broken housing systems. Brookings Institution Press. U.S. Department of Housing and Urban Development, 2021, Eliminating Regulatory Barriers to Affordable Housing: Federal, State, Local, and Tribal Opportunities.

The increasing prevalence of hybrid and remote work since the COVID-19 pandemic has exacerbated housing shortages in previously affordable regions, including Columbus, Ohio, Nashville, Tenn., and Salt Lake City.⁴ Rural resort areas, such as Jackson Hole, Wyo. and Sun Valley, Idaho, have also seen increased demand for seasonal and vacation homes, but face a severe shortage of moderately priced housing for workers in hospitality, retail, and service industries.⁵

Housing costs as a share of income have grown steadily since 2000, with the greatest stress for low- and moderate-income households.⁶ Both rents and prices increased sharply during the pandemic. Between 2020 and 2023, nominal housing prices increased by 37.5% and rents in professionally managed buildings increased by nearly 24%.⁷

Tight housing supply and rising housing costs are not just a problem for individual families; regional economies function better when workers across a range of incomes can afford housing within a reasonable commute of their jobs. Employers have trouble hiring and retaining workers in high-cost regions.

A variety of market forces contribute to the overall housing shortage and rising housing costs. The costs of land, building materials, and construction labor have risen since the start of the pandemic.⁸ Higher interest rates affect developers' financing costs, as well as the ability of households to purchase a home. Smaller communities and rural areas face additional challenges, including lack of infrastructure, fewer economies of scale in construction, and a prevalence of older, poor-quality housing.⁹

Reducing regulatory barriers to new development, especially for smaller homes, could help increase housing supply and improve affordability

America's housing shortage is not simply the result of market forces. Local governments across the U.S. have adopted policies that make it difficult to build more homes where people want to live.¹⁰ Policies such as zoning laws and building codes have been used for over 100 years to regulate what kinds of structures can be built in which locations.¹¹ However, these laws have become more complex and restrictive over time, especially in high-opportunity communities that have the strongest demand for more housing.

Single-family-exclusive zoning is one of the most common—and most problematic—zoning practices. More than three-quarters of the land in U.S. cities and suburbs is reserved exclusively

⁴ John Mondragon and Johannes Wieland. 2022. Housing Demand and Remote Work. NBER working paper 30041.

⁵ Maggie Mullen. 2021. Jackson Hole's working class has scrambled for housing. But now the market is forcing an exodus. Wyoming Public Radio. Mike Baker. 2022. A town's housing crisis exposes a "House of cards". New York Times.

⁶ Jeff Larrimore and Jenny Schuetz. 2017. Assessing the severity of rent burden on low-income families. FEDS Notes. Washington DC: Board of Governors of the Federal Reserve System.

⁷ Joint Center for Housing Studies. 2023. State of the Nation's Housing. Cambridge MA: Harvard University.

⁸ Joint Center for Housing Studies 2023.

⁹ National Rural Housing Coalition. <https://ruralhousingcoalition.org/overcoming-barriers-to-affordable-rural-housing/>

¹⁰ Hsieh and Moretti 2019; Gyourko and Molloy 2014.

¹¹ Sonia Hirt. 2015. Zoned in the USA: The origins and implications of American land-use regulation. Cornell University Press.

for single-family detached homes, meaning that rowhouses, duplexes, and apartment buildings of all sizes are simply illegal to build.¹² This rule creates challenges both for affordability and for expanding housing supply. Single-family homes with yards require more land per home than other structures, and therefore are more expensive to buy or rent. In job- and amenity-rich places with expensive land, allowing multiple homes on a single lot, as shown in Figure 1, could substantially reduce per-unit development costs.¹³

Figure 1: Legalizing more homes per lot can expand housing supply



Source: Schuetz (2022), *Fixer Upper*, chapter 2.

Revising zoning to allow more diverse structure types and smaller homes is also necessary to expand housing capacity in high-demand cities and inner-ring suburbs. Many communities that were developed as low-density, single-family neighborhoods in previous decades when land was less expensive are now “built out” under their current zoning—they have no remaining undeveloped land. To expand housing supply in those communities, local governments need to update their zoning in one of two ways: allow somewhat higher density in single-family residential neighborhoods or reallocate commercial and industrial land for housing.¹⁴

In addition to legalizing a wider range of housing types, local governments could undertake a variety of policy changes that would increase housing supply and improve affordability. These include reducing minimum lot sizes, increasing building height limits, and reducing off-street parking requirements.¹⁵ Additionally, states and localities often impose complex discretionary development processes—such as requiring multiple public hearings or lengthy environmental reviews—that make new housing more expensive.¹⁶ Making the development process shorter, simpler, and more transparent would reduce the “soft costs” of construction, which can amount to 20% to 30% of total development costs.¹⁷

¹² Emily Badger and Quoctrung Bui. 2019. Cities start to question an American ideal: A house with a yard on every lot. *New York Times*.

¹³ Sarah Crump et al. 2020. Fixing Greater Boston’s housing crisis starts with legalizing apartments near transit. *Brookings Institution* brief.

¹⁴ Leah Brooks and Jenny Schuetz. 2023. Does housing growth in Washington DC reflect land use policy changes? *Cityscape* 25(2): 203-224.

¹⁵ Nolan Gray and Salim Furth. 2019. Do minimum lot sizes limit housing supply in Texas? *George Mason University Mercatus Center* working paper. Hannah Hoyt and Jenny Schuetz. 2020. Parking requirements and foundations are driving up the cost of multifamily housing. *Brookings Institution* brief.

¹⁶ Amy Dain. 2019. The state of zoning for multifamily housing in Greater Boston, *Housing Toolbox*. Barbour, Elisa and Michael Teitz. 2005. *CEQA Reform: Issues and Options*. *Public Policy Institute of California*.

¹⁷ Hannah Hoyt and Jenny Schuetz. 2020. Flexible zoning and streamlined procedures can make housing more affordable. *Brookings Institution* brief.

The past several years have seen an unprecedented amount of housing policy experimentation, with state and local governments across the U.S. taking actions intended to boost housing production and improve affordability. In 2018, Minneapolis passed a historic comprehensive plan that legalized duplexes and triplexes in all residential neighborhoods.¹⁸ Other local governments, including Anchorage, Alaska; Raleigh, N.C.; and Salt Lake City, have passed similar reforms aimed at legalizing “missing middle” housing types, such as accessory dwelling units, rowhouses, and small multifamily buildings.¹⁹ State legislators from Oregon to Montana to Massachusetts have passed statewide laws aimed at increasing the diversity of housing options and encouraging development of apartments near transit stations and in commercial corridors.²⁰ Notably, local and state pro-housing policies have been adopted through bipartisan efforts in a wide range of housing market types.

It is important to note that the types of regulations that currently limit housing supply—and therefore what policy changes would help—differ across places. Single-family exclusive zoning with a two-acre minimum lot size in Greenwich, Conn. will severely constrain new development, relative to what developers would choose to build in the absence of such rules. But a similar policy in exurban or rural communities with less expensive land will have far less impact on the size and type of homes that are built. Limitations on manufactured and modular housing are particularly relevant in rural areas, where manufactured homes have traditionally been an important source of moderately priced housing.

The federal government can more effectively support state and local pro-housing innovations

While state and local governments have primary responsibility for regulating housing production, the federal government can provide essential support to state and local efforts through three channels.

First, the Department of Housing and Urban Development (HUD) could serve as a useful connector and facilitator between state and local policymakers and other stakeholders that are currently experimenting with pro-housing policies. Because of the decentralized nature of land use regulation, there is not an established venue or network for policymakers to connect with their peers. HUD could organize periodic convenings among policymakers and researchers to share their experiences on how policy changes are working in real time and identify knowledge gaps that are most important for policy design and implementation.²¹

¹⁸ Henry Grabar. 2018. Minneapolis confronts its history of housing segregation. Slate.

¹⁹ James Brasuell. 2023. With new ADU rules, Anchorage leading U.S. zoning reform efforts. Planetizen. Tony Semerad. 2022. Salt Lake City rezones hundreds of properties for new housing—with a twist. Salt Lake Tribune. Raleigh Department of Planning. <https://raleighnc.gov/planning/zoning-reform-creating-opportunities-more-housing-types>.

²⁰ Jeff Mapes. 2019. Oregon strikes exclusive single-family zoning, but effects may take years. Oregon Public Broadcasting. Tim Reardon, Rachel Heller, and Jesse Kanson-Benanav. 2021. Bold guidance for MBTA communities. Boston Globe. Emily Hamilton. 2023. Four elements of a successful housing task force: Lessons from the Montana Miracle. George Mason University, Mercatus Center brief.

²¹ Jenny Schuetz. 2022. Are new housing policy reforms working? We need better research to find out. Brookings Institution brief.

Second, HUD and other federal agencies can assemble and disseminate clear, accessible guidelines on the types of policies that support housing production. Many local and state policymakers are seeking information and advice on how to design policies that are effective in their local or regional housing markets, and how to achieve specific policy goals. Developing and sharing information on “best practices” as well as “poison pills”—based on research and evaluation—would reduce knowledge gaps, especially for smaller communities with limited staff capacity. Local governments and regional planning agencies would also benefit from federally funded technical assistance when they choose to rewrite their regulations.

Third, Congress should work with HUD, the Department of Transportation, and other relevant federal agencies to create well-targeted financial incentives that encourage local and state governments to better integrate investments in housing, land use, transportation, and other infrastructure. These types of policies already have bipartisan support in Congress and are included in the bipartisan infrastructure law.²² A key challenge is to ensure that these funds are awarded to communities that develop feasible plans that will be effective in boosting housing supply. Making sure that competitive grant applications have clear, direct guidelines for applicants and that agencies have sufficient expertise to evaluate applications is essential to the success of these programs.

All these tasks fall well within HUD’s mission and would require limited additional resources. However, to coordinate the activities, HUD should hire or designate at least one staff member to focus on housing supply and land use as their primary responsibility. Because housing supply and land use have not been part of HUD’s historic portfolio of funded programs, the agency has not previously invested in building staff capacity on these topics.

Conclusion

Housing affordability has become increasingly urgent for many Americans over the past decade due to insufficient production and rising demand. Across the U.S., an increasing number of cities and states are experimenting with changes to zoning and related regulations intended to increase housing supply and create more diverse housing options, especially in high-opportunity communities. The federal government can better support those efforts by facilitating conversations between stakeholders, sharing information about what policy changes are most effective, and offering financial incentives to remove regulatory barriers.

Thank you again for the opportunity to testify here today on this important issue. I look forward to answering your questions.

²² U.S. Congress, Senate, “Yes In My Backyard Act,” S.B. 1919, 116th Cong., 1st sess., introduced in Senate on June 20, 2019. U.S. Congress, Senate, “Housing Supply and Affordability Act,” S.B. 5061, 116th Cong., 2nd sess., introduced in Senate on December 17, 2020.