

# United States Congress Joint Economic Committee

## Written testimony for hearing on “Rebuilding the American Dream: Policy Approaches to Increasing the Supply of Affordable Housing”

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Chair Heinrich, Vice Chair Schweikert, and members of the Committee, thank you for the opportunity to testify on the critically important issue of policy approaches to increase the supply of affordable housing. 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 affordability, including:

- Four major challenges facing U.S. housing markets today
- The role of zoning and land use regulation
- Opportunities for federal engagement to encourage housing supply

### US housing markets face four major challenges

American families, the real estate industry, and policymakers are confronting four urgent challenges stemming from both the supply and demand sides of the markets.

First, the U.S. is experiencing a persistent and widespread housing shortage. Over the past several decades, housing supply has become less responsive to changes in demand; growth in population and jobs has not led to proportional growth in the number of homes, while prices and rents have increased faster than household incomes.<sup>1</sup> Researchers estimate a shortage of nearly 4 million homes for the country overall.<sup>2</sup> Regions with strong labor markets—such as coastal California, Greater Boston, New York City, and South Florida—have built too little housing for

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<sup>1</sup> 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/> Edward Glaeser and Joseph Gyourko. 2018. The Economic Implications of Housing Supply. *Journal of Economic Perspectives* 32(1): 3-30. Knut Are Aastveit, Bruno Albuquerque, and Andrew Anundsen. 2023. Changing Supply Elasticities and Regional Housing Booms. *Journal of Money, Credit and Banking* 55(7): 1749-783.

<sup>2</sup> 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>. Up for Growth 2023. Housing Underproduction in the U.S. <https://upforgrowth.org/apply-the-vision/2023-housing-underproduction/>

more than 30 years.<sup>3</sup> 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.<sup>4</sup>

Some reasons for the housing shortage are well understood, such as excessively strict land use regulations that limit new development and a decline in the construction workforce.<sup>5</sup> One piece of the puzzle that requires further study is that the construction industry has seen declining productivity growth over the past several decades—an outlier among industries in the U.S. economy.<sup>6</sup>

The second supply-side problem is that the stock of existing homes is aging and in need of substantial renovation or replacement.<sup>7</sup> The median U.S. home is over 40 years old. Like all capital assets, buildings depreciate over time and require ongoing investment to remain safe and habitable. As the number of older adults and people with disabilities increases, there is a growing need to retrofit existing homes with accessibility features, such as no-step entry and grab bars.<sup>8</sup> Many older homes were not built to withstand current and future climate stresses, such as higher intensity rainfall, sea level rise, extreme heat, and wildfires.<sup>9</sup>

On the demand side, households are grappling with two types of affordability challenges. Low-income households cannot afford market rate housing, leading to high rates of housing cost burdens and housing instability.<sup>10</sup> The poorest 20% of households spend more than half their income on housing, leaving too little cash to pay for food, clothes, transportation, and other necessities.<sup>11</sup> In January 2023, more than 650,000 people were experiencing homelessness—the highest number since the U.S. Department of Housing and Urban Development (HUD) began its annual point-in-time count, and a 12% increase from 2022.<sup>12</sup>

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<sup>3</sup> Chang-Tai Hsieh and Enrico Moretti. 2019. "Housing Constraints and Spatial Misallocation." *American Economic Journal: Macroeconomics* 11(2): 1-39; Jenny Schuetz. 2022. *Fixer Upper: How to repair America's broken housing systems*. Brookings Institution Press.

<sup>4</sup> John Mondragon and Johannes Wieland. 2022. *Housing Demand and Remote Work*. NBER working paper 30041.

<sup>5</sup> Joseph Gyourko and Raven Molloy. 2014. *Regulation and Housing Supply*. National Bureau of Economic Research working paper; U.S. Department of Housing and Urban Development, 2021, *Eliminating Regulatory Barriers to Affordable Housing: Federal, State, Local, and Tribal Opportunities*. Andrew Paciorek. 2015. *Where are the construction workers?* FEDS Notes. Washington DC: Board of Governors of the Federal Reserve System.

<sup>6</sup> Daniel Garcia and Raven Molloy. 2023. *Can Measurement Error Explain Slow Productivity Growth in Construction?* FEDS paper 2023-052. Washington DC: Board of Governors of the Federal Reserve System. Austen Goolsbee and Chad Syverson. 2023. *The strange and awful path of productivity in the U.S. construction sector*. NBER working paper 30845.

<sup>7</sup> Carlos Martin. 2023. *Despite a pandemic remodeling boom, aging US homes require additional investment*. Harvard University, Joint Center for Housing Studies brief.

<sup>8</sup> U.S. Senate Special Committee on Aging. July 2023. "Laying the Foundation: Housing Accessibility and Affordability for Older Adults and People with Disabilities."

<sup>9</sup> Claire Elise Thompson and Gabriela Aoun Angueira. 2023. *How to build homes that can fight climate change—and survive its effects*. Grist. Joseph Kane and Andy Kricun. 2022. *Seizing the water infrastructure moment nationally and locally*. Brookings Institution brief. U.S. Climate Resilience Toolkit. Buildings and Structures. <https://toolkit.climate.gov/topics/built-environment/buildings-and-structures>

<sup>10</sup> Peyton Whitney. 2023. *Number of renters burdened by housing costs reached a record high in 2021*. Harvard University, Joint Center for Housing Studies brief.

<sup>11</sup> 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.

<sup>12</sup> U.S. Department of Housing and Urban Development. 2023. *Annual Homelessness Assessment Report: By the numbers*.

Finally, the historically unusual combination of high housing prices and high mortgage interest rates are making it difficult for renter households who are trying to purchase their first home.<sup>13</sup> Median home prices have risen nearly 30% from the beginning of 2020 to the third quarter of 2023, while mortgage rates rose from about 3.5% in January 2020 to a peak around 7.75% in November 2023.<sup>14</sup> Together, these trends mean that households need substantially higher incomes to afford the monthly mortgage payments for a typical home. The decreasing affordability of first-time homeownership is particularly acute for younger adults, because they earn lower wages and have had less time to accumulate savings.<sup>15</sup> Mortgage rates will likely decline over the next year, but the size and timing of rate decreases are uncertain.

Tight housing supply and rising housing costs are not just problems for individual families—they also create harmful spillover effects on surrounding communities and regional economies. Building too few homes to accommodate demand—especially in regions with the most productive labor markets—makes it harder for employers to attract and retain workers.<sup>16</sup> Poor quality housing, high cost burdens, and housing instability are harmful to families’ physical and mental health, with repercussions for public health systems, worker productivity, and children’s development.<sup>17</sup> Homeownership has traditionally been the primary mechanism for middle class households to build wealth, so raising barriers to entry can have long-lasting impacts on the financial well-being of families and communities.<sup>18</sup>

### **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.<sup>19</sup> 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.<sup>20</sup> 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 land in U.S. cities and suburbs is reserved exclusively for single-family detached homes, meaning that rowhouses, duplexes, and apartment buildings of all sizes are simply illegal to build.<sup>21</sup> This rule creates challenges for both affordability and 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

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<sup>13</sup> Daniel McCue. 2023. Home prices and interest rates still rising, shutting out more potential homebuyers.

<sup>14</sup> Federal Reserve Bank of St. Louis. 2024. FRED Economic data.

<sup>15</sup> Samantha Fields. 2023. First-time homebuyers are older these days. Marketplace.

<sup>16</sup> Hsieh and Moretti 2019.

<sup>17</sup> Jens Ludwig, Greg Duncan, Lisa Gennetian, Lawrence Katz, Ronald Kessler, Jeffrey Kling, and Lisa Sanbonmatsu. 2013. Long-term neighborhood effects on low-income families: Evidence from Moving to Opportunity. *American Economic Review* 103(3): 226-231. Sandra Newman and Scott Holupka. 2021. Effects of Assisted Housing on Children’s Healthy Development. *Housing Policy Debate* 33(1).

<sup>18</sup> Schuetz. 2022. *Fixer Upper*, chapter 5.

<sup>19</sup> Hsieh and Moretti 2019; Gyourko and Molloy 2014; Schuetz 2022.

<sup>20</sup> Sonia Hirt. 2015. *Zoned in the USA: The origins and implications of American land-use regulation*. Cornell University Press.

<sup>21</sup> Emily Badger and Quoctrung Bui. 2019. Cities start to question an American ideal: A house with a yard on every lot. *New York Times*.

with expensive land, allowing multiple homes on a single lot, as shown in Figure 1, could substantially reduce per-unit development costs.<sup>22</sup>

**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.<sup>23</sup>

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.<sup>24</sup> 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.<sup>25</sup> 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.<sup>26</sup>

Restrictive regulations are especially problematic for the construction of small “starter homes” that accommodated first-time homebuyers in previous generations. In 1973, a typical new single-family home was 1,660 square feet; by 2020, new homes averaged nearly 2,500 square feet.<sup>27</sup>

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<sup>22</sup> Sarah Crump et al. 2020. Fixing Greater Boston’s housing crisis starts with legalizing apartments near transit. Brookings Institution brief. Edward Pinto, Tobias Peter, and Emily Hamilton. 2022. Light Touch Density. American Enterprise Institute Housing Center.

<sup>23</sup> Leah Brooks and Jenny Schuetz. 2023. Does housing growth in Washington DC reflect land use policy changes? *Cityscape* 25(2): 203-224.

<sup>24</sup> 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.

<sup>25</sup> 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.

<sup>26</sup> Hannah Hoyt and Jenny Schuetz. 2020. Flexible zoning and streamlined procedures can make housing more affordable. Brookings Institution brief.

<sup>27</sup> Goulsbee and Syverson. 2023.

Some of this likely reflects changes in consumer preferences—few households today would choose to buy a three-bedroom home with only one bathroom, for instance. But regulations such as minimum lot sizes, minimum home sizes, and off-street parking requirements make it difficult to build small homes in most communities.

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.<sup>28</sup> Other local governments, including Albuquerque, N.M.; Anchorage, Alaska; and Raleigh, N.C. have passed similar reforms aimed at legalizing “missing middle” housing types, such as accessory dwelling units, rowhouses, and small multifamily buildings.<sup>29</sup> State legislators from Massachusetts to Montana to Utah have passed statewide laws aimed at increasing the diversity of housing options and encouraging development of apartments near transit stations and in commercial corridors.<sup>30</sup> 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.

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<sup>28</sup> Henry Grabar. 2018. Minneapolis confronts its history of housing segregation. Slate.

<sup>29</sup> James Brasuell. 2023. With new ADU rules, Anchorage leading U.S. zoning reform efforts. Planetizen. James Brasuell. 2023. Albuquerque posed to legalize accessory dwelling units. Planetizen. Raleigh Department of Planning. <https://raleighnc.gov/planning/zoning-reform-creating-opportunities-more-housing-types>.

<sup>30</sup> 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. Katie McKellar. 2023. What are Utah lawmakers doing to address Utah’s housing crisis? Deseret News.

## **The federal government has several policy levers to support healthier housing markets**

While state and local governments have the primary responsibility for regulating housing production, HUD and other federal agencies can provide essential support for better functioning housing markets through four channels.

First, HUD should coordinate and disseminate research on effective policy solutions. Commissioning, funding, and coordinating well-targeted research efforts across universities, think tanks, industry, and practitioners falls squarely within HUD's jurisdiction. Key areas of research include the reasons behind declining construction productivity, the effectiveness of recent state and local zoning reform efforts, and the impacts of local affordable housing programs, such as inclusionary zoning and rent stabilization.<sup>31</sup>

Second, HUD should leverage relationships with other federal agencies and the real estate industry to monitor real-time data on the health of U.S. housing markets. Housing market indicators collected by federal statistical agencies have tended to focus more on aggregate supply measures than on household well-being. Much of the best real-time information—especially on rental markets—comes from private sector sources.<sup>32</sup> HUD should play an essential role in assembling housing market metrics from across all these sources and sharing updates with key stakeholders.

Third, HUD can encourage regional collaboration among housing authorities to preserve and expand affordable housing. Most of HUD's programs now focus on housing authorities or agencies within a single political jurisdiction, which contributes to fragmented efforts to address affordability. However, waivers of existing rules in programs such as the Rental Assistance Demonstration and Moving to Work can foster consortia-based solutions and encourage collaboration across multiple public housing authorities, nonprofit and private property owners, and essential service providers.

Fourth, HUD should build up its triage and rapid response capacity. In the past 15 years, two different crises have emerged to roil housing markets: the foreclosure crisis of 2007 to 2009 and rental instability caused by COVID-19. In both instances, HUD was pushed into reacting after the crisis occurred, without having contingency plans in place. To be better prepared for the next housing crisis, HUD should build a small in-house team that monitors signs of impending distress, in coordination with other relevant agencies.

All these tasks fall well within HUD's mission and would be relatively inexpensive in the context of the agency's overall budget. To coordinate some activities that are outside the agency's traditional portfolio of subsidy programs, HUD may need to hire some staff members with expertise on housing supply and market analysis.

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<sup>31</sup> Jenny Schuetz. 2022. Are new housing policy reforms working? We need better research to find out. Brookings Institution brief.

<sup>32</sup> See, for instance, Zillow's Observed Rent Index and RealPage's Market Analytics.

## **Conclusion**

Housing affordability has become increasingly urgent for many Americans over the past decade due to insufficient production, aging homes, and rising costs. Across the U.S., an increasing number of cities and states are experimenting with changes to zoning and related regulations, intending to increase housing supply and create more diverse housing options, especially in high-opportunity communities. The federal government can better support the efforts of state and local partners, as well as the real estate industry, through strategically targeted efforts.

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