

Discussion of America's Housing Affordability Crisis and the Decline of Housing Supply

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Clear Evidence of a Supply Challenge

Main observations:

1. Higher price locations have lower quantity growth
⇒ very low housing supply elasticities
2. Convergence across markets to these low supply elasticities in recent years
⇒ few places left where it is easy to build housing

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Mechanisms:

1. Low/declining productivity in construction (not market power)
2. Increasingly stringent land use regulation
3. Reductions in land availability

Historical Narrative

A “golden age” of suburbanization

- Post-WWII highway construction opened up a lot of land for development
⇒ large land supply shock
- Suburban SFH construction could happen at scale into the 1980s
- Built-up suburbs establish zoning “straightjackets” (Ellickson, 2020)

Historical Narrative

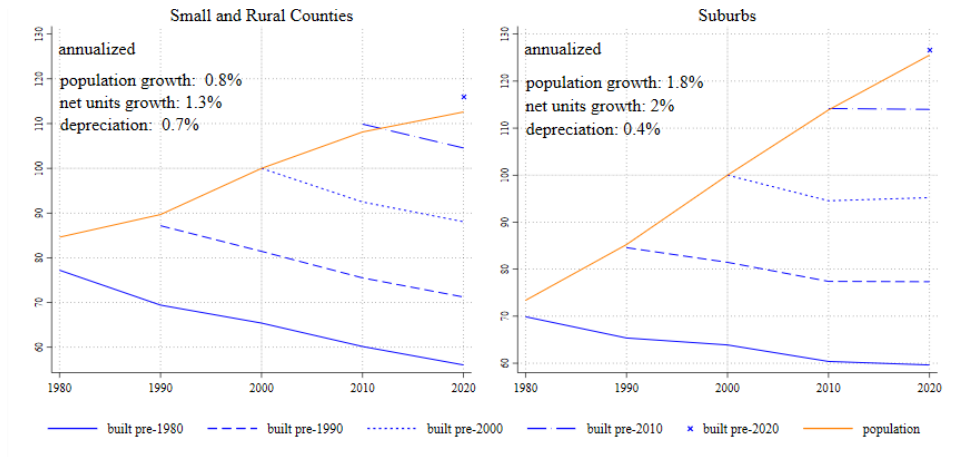
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Binding land constraints kick in

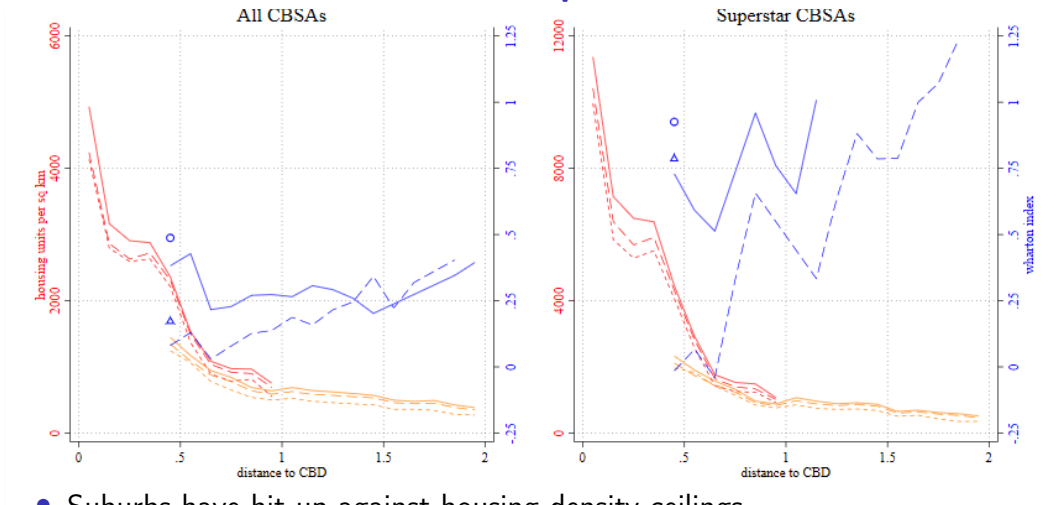
- More emphasis on costlier infill construction, redevelopment, and maintenance
- Few locations where densification is allowed
- Large fixed costs of developing multifamily where allowed; few locations where demand conditions justify these fixed costs

Some Facts about Construction and Demand



- Locations with land availability still building faster than pop growth
- Suburban locations increasingly squeezed, especially post-GFC

Cities offer Glimmers of Hope



- Suburbs have hit up against housing density ceilings
- Cities are figuring out how to allow higher densities

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- Addressing urban quality of life challenges (DC, NYC)

Developer Incentives

With large fixed costs, housing construction can take the following forms:

- Many standardized single-family houses on large undeveloped tracts of land
- Bespoke luxury single-family homes on large lots
- Large multi-family buildings

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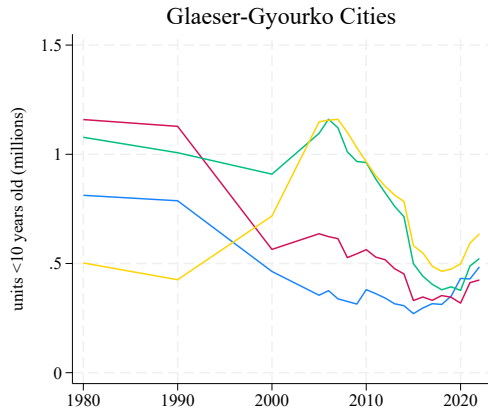
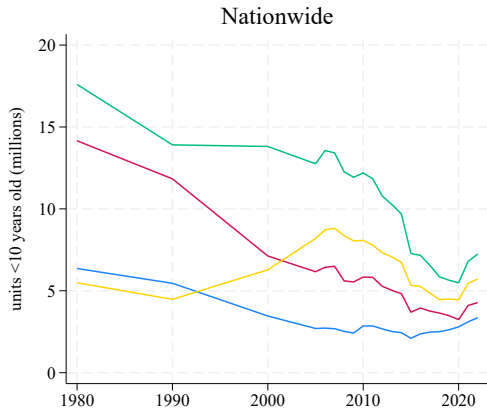
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Land value capitalization disciplines development types

- Given a common production technology and hedonic price function, developers will target one type of new construction property only
- In most US suburbs, it is “luxury” single-family homes
- In very high demand locations, it is large multi-family buildings

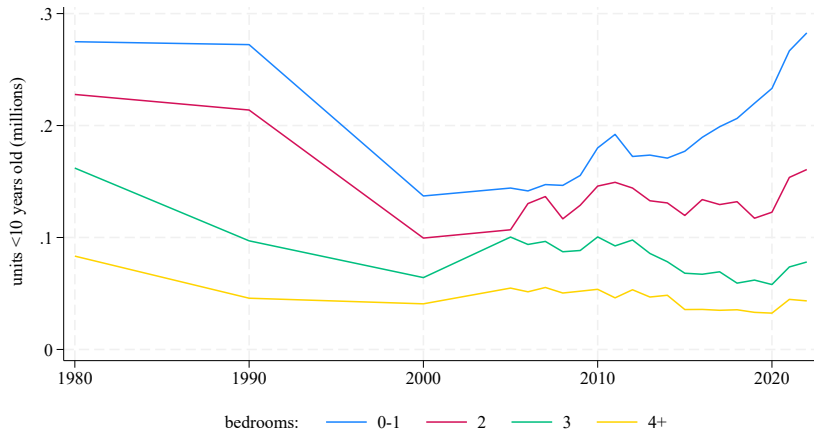
Evidence on the Composition of New Construction Units (<10 Years Old)



bedrooms: 0-1 2 3 4+

Evidence for Superstar Central Cities

New York, LA, San Francisco, Washington, Boston, Seattle, and San Diego



Mismatch and the “Missing Middle”

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- Top of the market will always be large SF homes
- Assignment can mean very low supply elasticities for “middle” type housing units between subsidized housing (LIHTC) and luxury housing
- Traditionally, housing economists have appealed to a filtering process to provide middle-income housing
- More practical in urban areas, where housing units are smaller and more divisible

Conclusions

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- With land in good locations now built up, we have to figure out how to densify
- The good news is that density begets more density
- Opportunity once again for a “Triumph of the City”

