United States Senate Committee on the Budget

The Costs of Inaction: Economic Risks from Housing Unaffordability

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Chairman Whitehouse, Ranking Member Grassley, and members, thank you for the opportunity to testify on this most important topic.

History offers a cautionary tale against inappropriate federal action in the housing market: From the 1930s to 2008, Congress passed and presidents signed into law at least 43 housing, urban renewal, and community development programs. Despite their lofty promises, these initiatives consistently failed in making housing more affordable, and a number were downright disasters.

The root cause for housing affordability is a shortage of 3-8 million housing units, which is fueling both unaffordability and a homeless crisis in many areas. Nationally we have had a sellers' housing market since 2012. We remain in a strong sellers' market as months' remaining inventory for August 2024 stood at 3.7 and 2.4 months respectively overall and for the low price tier. Sellers' markets provide upward price pressure, which worsens if demand is stimulated even more.

What we should not do:

1. Vice President Harris's plan to provide up to $25,000 in down payment assistance to 4 million first-time buyers over four years almost certain to lead to higher home prices, thereby, greatly diminishing the intended benefits. The millions of program recipients would become price setters for all buyers in the neighborhoods where the recipients buy. Our research shows that home prices would rise an additional 3.6 ppts., 77% of all home purchases would be subject to this home buyer "tax", and this tax would total $175 billion over 4 years, more than the $100 billion cost of the program. This would be a wealth transfer to existing homeowners—rewarding NIMBY opposition to added supply.
2. Harris's proposed tax incentive for building starter homes is intended to add to single-family supply. History shows that this approach can lead to significant market distortions. The Housing and Urban Development Act of 1968 provided easy credit terms and substantial subsidies, resulting in a surge of housing permits by 1971-1972, only for this boom to dissipate by 1975, leaving lasting scars on cities like Detroit, Chicago, and Cleveland. Similarly, the 1992 congressional GSE affordable housing goals combined with President Clinton's National Homeownership Strategy led to an easing of credit in the run-up to the Great Financial Crisis. Housing permits doubled from 1.1 million in 1992 to 2.2 million in 2005, but permits then collapsed by 73 percent in 2009, leaving behind millions of foreclosures and a persistent housing supply deficit that still afflicts us. Under the Harris proposal, most incented new construction would have been built in any event, and any incremental construction would be unevenly distributed, causing more supply/demand imbalances.
3. Harris's $40 billion fund for local governments to explore "innovative" housing solutions will likely funnel money into projects burdened by self-defeating government-mandated

affordability requirements, which HUD loves but markets abhor. By further empowering federal bureaucrats, it will do more harm than good.

The fundamental problem holding back housing construction is not insufficient subsidies but structural issues—namely, restrictive zoning, land use rules, and building codes This makes buildable land scarce and expensive, and increase construction costs.

We need to significantly increase market-rate housing supply. The federal government has several levers at its disposal to encourage this result:

1. A 10-year plan to auction surplus federal lands for new market-rate home construction could add 200,000 homes per year. However, for this to be effective, the rules need to follow the keep it short and simple or KISS rule. These sales could generate $10 billion in annual receipts.
2. Eliminating the mortgage interest deduction for second homes would add to supply and reduce demand by freeing up 700,000 existing homes over the next decade for first-time buyers.
3. Reducing regulatory costs that hold back builders by increasing construction expenses is crucial—and indeed, this is an issue that Harris and Trump's plans hope to address. On the federal level, many of these relate to restrictions on logging and excessive energy mandates, including an effort to phase out home use of natural gas.
4. Adopting a credible plan to reduce deficit spending and our national debt could lower the ten-year treasury (and mortgage rates along with it) by 75-100 bps.
5. Establishing accountability on the expenditure of federal housing subsidy dollars. In 1953, the NAHB noted: "Public housing is not low-cost housing. It is high-cost housing offered at low rent…. The average construction cost of each public housing unit built in 1949… was more than $11,000. Contrast this to a maximum figure of $8,100 per unit allowed private builders of rental apartments under the FHA mortgage insurance program.,,, [In addition, there] "is an operational subsidy of nearly $19,000 per apartment, which cost $11,000 to build." Today, subsidized projects are all too often a revolving door of subsidizing, rehabbing, tearing down, and rebuilding. This committee should require HUD to document project by project this revolving door of waste.

These measures, in combination with state and local efforts to deregulate land use and zoning, can more effectively address the housing affordability crisis, all at no taxpayer cost and without unintended consequences.

Failure to act appropriately will lead to even greater unaffordability and diminished economic growth.