The Our American States podcast—produced by the National Conference of State Legislatures—is where you hear compelling conversations that tell the story of America's state legislatures, the people in them, and the policies, process and politics that shape them.

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Unpacking the Housing Crisis | July 10, 2022 | OAS Episode 162

Ed: Hello and welcome to "Our American States," a podcast from the National Conference of State Legislatures. This podcast is all about legislatures, the people in them, the policies, process, and politics that shape them. I'm your host, Ed Smith.

AY: *There estimates between 30 to 40% of all housing costs, each unit's cost, are directly from regulation.*

Ed: That was Arica Young, the associate director of the Bipartisan Policy Center's Terwilliger Center for Housing. Young, who has decades of experience studying housing and community development, joins the podcast to discuss what many describe as a housing crisis.

While estimates vary, there is agreement that the U.S. is short several million homes. Housing has usually been seen as a local issue. But as the housing affordability situation has worsened, states are increasingly involved in the search for solutions.

The other guests on this podcast offering perspective on the housing situation are Whitney Airgood-Obrycki, a researcher at the Joint Center for Housing Studies of Harvard University, and Karl Eckhardt, a vice president at the National Association of Homebuilders. All three guests point to the remarkably complex set of factors that affect housing from zoning regulations to the price of steel and the shortage of electricians, plumbers and others in the trades.

NCSL will explore the topic further in a session at the Legislative Summit. “Opening Doors to Housing Security” will be held August 3rd from 1:30 to 2:45 p.m. at the Colorado Convention Center.

Here is our discussion starting with Arica Young.

Arica, welcome to the podcast.

AY: Thank you. Thank you. I’m glad to be here.

Ed: Well thanks so much for coming on and talking housing with us today and let’s start with the basics. Are we in a housing crisis and if we are, what is it that defines a housing crisis?

AY: Well, we definitely are in a housing crisis. There are too few homes being built. Too few homes that have been preserved to house the supply of people that we have for our population. The estimated shortage is around 5.5 to 6.8 million that we have in terms of units of housing that we have as a shortage. We have underbuilt entry level homes, which are commonly considered at 1,400 square feet or less. We’ve been building them at the same rate every year since the mid-1970’s. The same exact rate while our population has increased approximately around 40%.

Ed: That does sound like a housing crisis particularly those numbers that you are putting out there. That’s kind of astonishing. I’ve heard a range from about 4 million and now you are saying maybe as high as 6 million. I’m sure it’s not something that is easy to get a precise count on. I think it’s clear though that we are in a bad situation. And we were in a bad situation before the pandemic hit leaving a lot of folks vulnerable to eviction, utility debt, mortgage delinquency. What should state lawmakers think about, why should this concern them?

AY: At the state and local levels, a lot of the regulations that affect supply housing, supply housing construction, those are all set at the state and local levels. Areas that they really need to look at include things like zoning. Where houses are allowed to be built. What kinds of housing. Are they appropriate for and do they meet the needs of their populations? Zoning regulations include things like how big a building can be that sits on a property. How high it can be built and there are estimates between 30 to 40% of all housing costs, each unit’s cost, are directly from regulation.

Ed: Who gets hurt most here? Who really suffers in this housing crisis? How does it breakdown demographically, regionally in terms of socioeconomic status and that kind of thing?

AY: A lot of the people most affected are your low-income communities as well as the first populations, people of color. For every 100 low-income housing households, there are about only 55 houses available, units available and affordable and adequate. For extremely low, which is where you are paying 60% or more of your household income, there is only about 36 units per 100. That's the community that is most affected. And then when you turn specifically to certain minority populations, African Americans, Hispanics, the homeownership rates are significantly lower than for the equivalent white populations. It's at 44% of African Americans own their own home versus 74% of whites. Or for Hispanics, 48%.

(TM): 05:13

Ed: How about the difference in how this situation affects renters versus homeowners? Can you talk a little bit about that?

AY: Multi-family homes are exceedingly restricted where they can be built. Overall, there have been studies that have shown that, approximately, in the average city, approximately 75% of the land there for homes is restricted to single family homes.

Ed: I did a podcast last year where we discussed the likelihood of a substantial increase in people being evicted once the federal moratorium that was instituted through the CDC expired. It's a little unclear to me at this point what exactly happened as a result of that or what maybe more important to say what is happening as a result of that. Can you talk about the outcomes what you are seeing out there in the country and how families are being affected by that?

AY: So, evictions lead to a variety of – it makes it hard for you to find a job. Housing is everything. So having a set stable address impacts whether or not you can actually find work and can apply for work. It affects your economic stability. It affects your emotional and social stability. The evictions are continuing. We really do need to try to figure out what are more effective ways to deal with keeping people longer term in stable housing.

Ed: We, of course, have an audience of legislators and legislative staff, other people interested in the state policy so you've got their ear and I wonder Arica what you would want to tell them about the policy solutions you think states should consider. When they go back into session or they go into a committee meeting, what would you like them to keep in mind?

AY: So, the first thing that I will speak on is trying to put in place incentives for changes to land use regulation. I think that's one of the first steps. And this includes things like parking. Because if you have a multi-family home and you don't take into account how many of those individuals are going to use mass transit versus are going to own their own cars and you just put a blanket amount in, you've put an incremental, but substantial charge on the cost of building those homes and therefore or renting those out, it increases your rent prices. So, land use is just really one of the first steps that I would recommend. We are also really talking about the low-income housing tax credit. Trying to strengthen that program. Make it so that it can reach. It has more impact for developers to use. And then also we are looking at, there is a bill out there, The Neighborhood Homes Investment Act, which is modeled on the LIHTC, the low-income housing tax credit. But what it does is it helps preserve existing houses and it also helps renovate homes in areas that the housing costs might be too low to justify preserving them, but it provides funding to actually make that gap to fill that gap and maintain those homes. And it also could be used by low or income homeowners so that they could make necessary changes to preserving their own house. So those are three areas that I would definitely ask legislators to look at.

Ed: I don't think we are going to solve the housing crisis on this podcast, but I think everything we can do to help legislators better understand what the pain points are is really useful. Thanks so much. Take care.

AY: Thank you. I appreciate the opportunity.

Ed: And I'll be right back after this with my guests for more discussion on the nation's housing situation.

(TM): 09:15/music/advertisement

Ed: Whitney, Karl, welcome to the podcast.

KE: Hello.

WO: Thanks for having us.

Ed: First thanks to both of you for coming on the show to discuss the factors that affect the affordability and availability of housing in this country. So, let's start with the basics. I wonder if you could talk about your own role in studying this issue and then what you see as the main factors affecting affordability in the rental housing market. Whitney, why don't you start.

WO: Well, a big part of my role at the Joint Center for Housing Studies is researching rental market conditions. And in our reports, we are frequently looking at things like housing cost burdens, the tradeoffs that households make when they live in unaffordable housing and the loss of low rent units especially in recent years. So, my own research interests than within that have really been centered on the affordability challenges that lower income households in particular so that is sort of where a lot of my research and study is centered around. So, there are few factors that are contributing to the unaffordability of rental housing right now and I'll highlight just a few to get us started.

First on the demand side, there has been an incredible growth in demand for rental housing over about the last 15 years or so. And we saw a big boost in demand after the last, you know, the Great Recession as well. In the last couple of years, we've seen that demand really amplified, which is part of the reason why we are seeing such intense rent increases right now. But much of the longer-term demand has come from higher income renter households and they've been putting pressure on the rest of the market as a result. Some of these higher income renters are people who have been shut out of homeownership opportunities because that's also become unaffordable. But then there is also this demographic component behind the demand where you have this large Millennial generation that has been renting until later year of their lives. And at the same time, we also have a large population of older adults who when they reach about their 80s or so more typically will turn to renting as they age. So that's the demand size.

But there's, of course, a supply component to it that's happening as well that we are seeing. And we really haven't been building enough in desirable places where people want to live. We are also seeing that construction is increasingly geared toward the high end of the market, so rates are just higher when they are coming out of new construction. And we are seeing a lot more apartments that are permitted in places where land is more expensive. So, we are seeing apartments that have more amenities and then just have higher asking rents to start with.

And then these trends are putting more pressure on rents and as a result we are seeing this mass loss of low rent units as property owners are making upgrade or just raising rents because they can to keep up with the market. That's all compounded by the fact then that we don't have enough housing subsidies for households at the lower end of the market who just don't have enough income to be able to afford really anything in the private market. A stat that always jumps out at me is that just 1-in-4 income eligible renters actually receive some form of rental assistance. We just are really lacking in subsidies on that end.

Ed: Karl, what's the role of the National Association of Homebuilders in this? And what do you see as the key factors affecting the rental market?

KE: So, we are made up of about 140,000 members and we are not just the builders. We are also the carpenters and bankers and everything that goes into the home. Our members build about 80% of the houses in the country. And NAHB is not typically publicly traded big companies per se. A lot of our members are building 10 to 50 units kind of members. And then some of the larger apartment builders as well. And I would say, too, we try not to say affordable housing because that makes you think of terrible 5,000 people living in one complex. So, we've actually surveyed that and we've come back to housing attainability has a much better connotation especially with elected officials. You know it's like everybody hates Obamacare, but they love Kentucky Care. They will go for housing attainability and get the same results. So, the main issues we see when it comes affordability are labor, lots and land. Those are three things that are very hard to have an impact on as elected officials. But the lots part we kind of lump into that the government aspect. That's where there, the fees and the design standards and all those things. And Whitney hit it just perfect, I think. The market is saying build more high end, but in large part it's the government is saying build more high end because they don't want poor people to live in their town. They make it so that you can only build the expensive. Then the problem just sort of exacerbates itself. It definitely is a problem and, you know, we don't just build homes to be owned. A lot of our members are getting in even to the single-family homes to rent business. So, it's expanding. There is a problem. Supply and demand can fix it, but we need to build way more supply.

Ed: Karl, one thing I think we've all heard about is the shortage of labor and the runup in the cost of building supplies along with supply chain problems. How has that affected housing in particularly in the supply of housing for people with moderate or low incomes?

KE: Lumber,, I'd say was our No. 1 and now we've definitely come back even stronger on labor. The residential construction industry has anywhere between 750,000 and 1 million job openings today. If you can pass a drug test and swing a hammer, you can get a job. One of my members joked it's so bad he would almost hire me and that's not a good idea. It's a tough one to fix. A huge chunk of our workforce was kicked out of the country, to be blunt, and they are not coming back. And then the average age, for example, of a plumber in America is 56 years old. The schools, they chose. Everybody needs to go to college and so there's not a replacement class of people coming up to take those jobs. So, more expensive. There are fewer workers. They can demand more money because there's fewer of them. We feel that the need for more students and then maybe even now with the economy the way that it is more transfer careers trying to come into our industry. We have a training arm, the Homebuilder's Institute, that works in schools, prisons and the military to try and increase the number of skilled workers in our industry and it is booming. They are kicking off academies all over the country every week. That will help, but that's 10 years down the road.

(TM): 16:37

Ed: Well that sounds like a glimmer of hope, but it's a long pipeline to train people in trades. Whitney, let me ask you about affordability and how it affects renters and homeowners differently. And along with that, I'm wondering how the pandemic affected renter's ability to stay in their homes?

WO: The pandemic definitely hit renters harder than homeowners according to a couple of indicators that we are looking at and we attribute that in part to the fact that renters are more likely to work in the service industries and sectors that were most affected by shutdowns especially early on. And then maybe didn't have jobs that rebounded. So, they've experienced a greater level of income loss. And that's then translated into higher rates of being behind on housing payments for renters as compared to homeowners. And the source that we look to right now is the Census Bureau Household Pulse Survey that they began with the start of the pandemic to try to understand how households were faring. And what we've seen from that is when you looked at the first quarter of last year, just over half of renters said that they loss employment incomes since the start of the pandemic. And about a fifth were behind on rent. So, it was really high rates of employment loss and then being behind. We found in a subsequent paper that I wrote with some co-authors that a lot of renters were also pulling from their really meager financial resources to try to weather this, so they are pulling from their savings. They are borrowing from friends and family and this is something that's impacting their broader networks.

And so, we are really seeing this issue of housing stability become a big policy question for renters who were already struggling with housing costs before the pandemic and then have this financial shock. We did see a really robust policy response though especially at the federal level that has helped keep a lot of renters in their homes. So, in addition to the federal eviction moratorium that helped stave off evictions, there were about $46 billion in emergency rental assistance that became available starting last year. And on top of that, we had things like the expanded unemployment insurance. We got stimulus checks. We had expanded monthly child tax credits. So, all of those things have sort of helped renters stay afloat and some of those weren't specific to renters but have certainly helped keep people more stably housed than we would have expected.

We are, though, with the expiration of all of these things starting to see evictions rise. And when we look at data from the Eviction Lab, they are tracking a sample and they are finding that evictions are basically back at pre-pandemic levels as of March this year. So, I think that this indicates that we are still seeing renters who are still struggling from this economic shock of the pandemic. We are also seeing that renters under normal conditions are always faced sort of these financial challenges that can lead to instability though. And in the coming months with the expiration of some of these protections and some of these supports, we probably will see that renters are having a harder time staying stably housed.

Ed: Whitney, let me stick with you for a minute. We talked a little bit earlier about the mismatch between what is needed in the housing market, affordable or attainable housing to use Karl's word and what is actually being built. Could you give us your perspective on that aspect of the situation?

WO: Yes. So, I'll just start by saying that nationally we have an under supply of homes at all price points. Freddie Mac estimates it's about 3.8 million units, so we are lacking in homes in general; not just affordable homes. In high demand supply constrained places especially which are some of these places I think that Karl is referring to, we need construction at all price points. We just need units on the ground essentially. But even if we do have new high-end units, we should in theory see some relief on rents. You put new units in, you should have higher income people hopefully go to them and that creates a filtering process right. But even in those benefits are reaching moderate and low income households, they aren't necessarily getting there fast enough. And there is also work from the National Low Income Housing Coalition that just shows that we have a shortage of affordable units in particular and they use the term affordable in states and counties across the country and that's a need for deeply affordable housing and it is very immediate and pressing. Right so this is something that just creating market rate housing isn't necessarily going to solve on the timeline that we need it to.

So, part of the problem though that I don't think is necessarily acknowledged all the time, is it's not that developers don't want to build at lower price points. There are certainly many developers who are likely catering to the higher end of the market and are saying, OK, we can build something with more amenities and attract these higher income renters. But if you also just look at the rising cost of construction influence and, you know, Karl was mentioning this with the labor shortage, it's hard to build at a lower price point than what a lot of developers are building at. The cost of building materials as of February this year was up 20% year over year. The construction industry, as Karl mentioned, has been dealing with this labor shortage for several years, which drives up worker compensation, but also increases the cost of development. And as I mentioned, things are being built in places where land prices are also going up really rapidly. So, if you think about the inputs, if you are a developer, even if you want to build at a more affordable price point, it is really hard to do that and still make any kind of profit. And that's where subsidy comes in. That's the problem that the low-income housing tax credit is trying to answer and trying to fill that gap. But we certainly do need affordability solutions and subsidies on a larger scale to make things more affordable at these lower price points if we want to increase production of these types of units.

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Ed: Those kinds of increases and costs along with the inflation we are all seeing and the supply chain problems has to make building really challenging right now. Karl, how does your industry see this and particularly the obstacles the local governments erect?

KE: Yeah, just to cap off the supply, I can give you an example. I was talking with some developers in California and New Mexico. You know the transformer that's on the end of your street that goes from the powerline to that little green box on the street. Those used to cost a couple of thousand dollars. Now they are tens of thousands and there aren't any available. There are whole neighborhoods that are on hold because they are not able to get the electricity to the houses. And that's just because of the steel those are made of comes from China and from America, but it is just slow in getting made. So, it's always going to be something. And then your question on the mismatch, it's the homebuilder will build whatever can be built right. And they are in business to build. But I think that the government is playing an oversized role in that. And our national chairman this year built primarily HUD and low-income housing tax credit properties, 50 to 100 units, but he has to carry $30 or $40 million dollars ahead of then getting paid back by the government. So, you can't be the Whitney and Karl Construction Company and just start building for subsidized housing. You have to have an enormous amount of capital already. So that limits the number of builders who are going to enter that marketplace. When they do, then they can. We lobby every day for more credits in the lower income housing tax credit and are always stopped by Congress, so that's a problem.

But I think that the inequity's part is a huge part of the problem. There's a great book and you probably have it memorized Whitney, "The Color of Law" by Richard Rothstein, that we could preach right now. And it just shows how this has been a problem forever. You know, with the design standards and the ability to build what is going to allow teachers, nurses, firefighters to live near where they work is a good way to get government officials to understand the problem. If you are seeing your firefighters live 30 miles away, that's not good for safety. Another problem that we are facing is that the code issue building up to the new net zero or more green building, that's being used now to get so that homes cost more to make sure that those people don't live somewhere. We saw that, not because of keeping poor people out, but an example in Colorado after the fires last year. Several towns wanted to build to the 2022 building code, which would have added about $30,000 to the cost of each house. The insurance companies are paying about $20 a square foot where this was now $40 a square foot.

So, they made the right call and said let's pare back on that. But those kinds of things just add up and pretty soon it become unattainable. I think that the solution though is to really look at your marketplace and then and make sure that everyone who you want to work in your area can live in your area instead of how much money can the city bring in or the county bring in in property taxes. Everybody has to give a little I think and then we can start to solve this problem.

But I think it is kind of interesting like, you know, the industry side and the academic side have yet to disagree. Typically on a lot of issues that isn't the case. But this is such a real problem that we are on to something.

Ed: Yes, I'm rather surprised at how much you two are in agreement about the causes of the problem. That Marshal Fire that you mentioned that was here in Colorado offered a good example of how building requirements can affect people in the real world. When people first heard they would need to rebuild based on the new standards and realized how much more expensive it would be to rebuild, it was quite an uproar. They've since rolled it back for those rebuilding, but even so many residents were prevented from even clearing the rubble from their land by a lawsuit and are only now able to start cleaning up their lots. I want to ask you both about federal stimulus money and if that offers a chance for states and localities to work more closely on housing. Karl, why don't we stick with you to start.

KE: I think for rental, it can be a help. If you think about everything you have this bare dirt and then to get it to a housing unit, the government eventually is going to have the maintenance of the sewer, the electrical, the water, the Internet. You know all that infrastructure. So, we've been encouraging governments to use their ARPA money and their coronavirus money. Go ahead. You pay for the sewer. You pay for the road. That takes a lot of that initial burden off of the builder, who usually has to pay for all of that and then build the building and then start to make their money back. And you are right. I mean they are going charge whatever they can to get their money back as quick as they can as free market. If we can work together and lower that, that will have a direct impact on the cost of each unit. And it doesn't have to be thought of as a subsidy. It's just a public/private partnership. And so you can, I think, make it more politically attainable for both sides of the aisle. And we have seen that work. You know it is not widely being used, but I think there are more and more cities that are seeing that 10 million bucks can build a couple miles of sewer and that can really help. So that's what we are thinking would be a good use.

Ed: Whitney what's your take on that?

WO: We've looked at other people who are tracking this really closely and I think there are a lot of ways that fiscal recovery funds are being used in the housing sector that are very encouraging. I think that one of them when we look at a lot of the funds that are being dedicated to housing purposes, they are going toward meeting sort of longer term affordability needs and one of the ways that they are doing that is by shoring up the infrastructure for people experiencing homelessness, which is a group we haven't talked about yet today, but certainly is also on the rise with the growing affordability crisis. And so being able to use those funds for permanent support of housing, for counseling to try to provide services for people who are unhoused is an important way those are being used.

We are also seeing that many states are using recovery funds for gap financing so on tax credit deals where they just need a little bit more to make the deal work. Some are supplementing HUD programs that just fall a little bit short and using those funds as gap financing there to increase the affordable supply. And then we are also seeing other places that are setting up you know eviction diversion and rental assistance programs that are maybe intended to be shorter term. But at the same time as with you know the homelessness infrastructure, your building capacity and experience in those places so that they might be able to continue in "normal times" or you know if there is another crisis, they would have that experience going forward. So, I think all of those uses are very encouraging.

Ed: Karl did you have a thought on that? Go ahead.

KE: Just to add onto that especially the eviction side I think is a great use. A lot of our members are owners, and they may have you know one, two, 10 units that they rent out. They had the hardship then of not being able to make the mortgage payment and not being able to have their reserves so that they could fix the water or fix whatever breaks during the pandemic until that money got to them. It was a mess of a process. But we've seen a lot of success building tiny houses. Some of our developers have gotten into building those and making a community. Great for returning vets. Great for coming right off the street. They have counseling right there. It's I think it is fantastic. But again, it takes the government caring enough to say, OK, we are going to do this and not make it a stigma.

Ed: As we get ready to wrap up, I wonder if each of you could share with our listeners an example or two of a state or locality that has had some success dealing with the issue of housing attainability or affordability? Whitney why don't you go first.

WO: I think one thing for legislators to know is first of all the affordability crisis is everywhere. There is no one city or state that is solving the problem entirely. We also look in our work at the other challenges that the stock needs to be ready for and so we talked about sort of climate resiliency around wildfires earlier. Thinking about broader climate resiliency of the stock and also the accessibility of the stock are two really big issues. So, just to put that out there that there isn't one place that's getting it all right. But there are places that are chipping away pretty significantly at some of these problems. I'll say that I'm sort of heartened by the momentum for zoning changes and I know Karl has talked a lot about you know government sort of getting in the way. And one way that we can encourage multi-family development is to at least remove the barriers to it and to allow construction of multi-family units by right. So, in recent years, we've seen broad single family zoning reforms in places like Minneapolis, California, Oregon. Here is Massachusetts, there is now a requirement that communities that are served by NBTA, our transit lines here the buses and the commuter rail, allow for denser housing in certain areas by right. And then just last month, Maine passed a law that is basically allowing accessory dwelling units, statewide duplexes, statewide and then up to four units in designated areas. So, by themselves those zoning changes aren't going to solve the problem. They are not even going to necessarily spur development, but it removes a major barrier by making that a buy right opportunity for developers. And then when we look at sort of the lower rent especially side of things, the more affordable side, there are a lot of places that have worked on buying properties and putting it under public ownership to some degree. Extending affordability periods by working with landlords and providing that subsidy and that helps to increase and preserve existing affordable units. Here in Cambridge, we have a lot of that going on. It's done through Land Banks Housing Trust Funds and through the housing authority here. So, there's a role of those kind of municipal agencies and preserving the affordability that exists. We also have 100% affordable housing overlay here that was just instituted. That slows higher densities and a streamlined review process for 100% affordable projects. So, I think some of the stuff that is happening in my own backyard is pretty encouraging. And just the general momentum we are seeing toward zoning reform and toward removing some of the barriers to multi-family housing is very encouraging.

Ed: Karl you get the last word. What do you see as some bright spots around the country?

KE: Whitney took mine with the zoning, which is fantastic. I think that's another. We're on the same page. You know Minneapolis, Portland they did that and it didn't end the world, right. It's OK. People didn't build apartments right next to somebody's single family house so. … In California after their fires, they passed a bill that if your lot is big enough, you can build two homes on the lot. But the opposition legislators from both sides of the aisle said, oh my god, it's going to cause too many cars to be parked in the neighborhood. You just can't win for trying sometimes. But I think the legislators need to realize there are more human beings here and we do need to have everybody have a house. So, the zoning is great. The design standard I think is something a state legislator can control. We were able to pass in the past two years bills in Arkansas, Texas, Oklahoma and a couple of other states laws that said the locality cannot dictate beyond health, safety and welfare. Cause a lot of cities were saying every new house has to be brick and 2,000 square feet. So, the state has some power there to really help with affordability and I think that is happening. And those states that haven't done that yet, they should consider it. And just in general, we all learned our lesson in 2007 and 2008. Homes are not piggy banks, and we need to treat homes as a place to live and not as money sources for the government or for our own use. So, when everybody works together, I think we can get it right. Thank you for your letting us be on.

Ed: Well thanks so much to both of you for walking me and our listeners through this issue. Take care. And that concludes this episode of our podcast. We encourage you to review and rate NCSL podcasts on Apple podcasts, Google Play, Pocket Casts, Stitcher or Spotify. We also encourage you to check out our other podcasts: *Legislatures: The Inside Story* and the special series *Building Democracy.* Thanks for listening.

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