

# The US Housing Market: Facts, Trends, and Policy Questions

ThinkTank Tuesday  
September 24, 2019

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## National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession

# Who Are We?

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- 6 Chairs Council of Economic Advisers
  - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
  - o Akerlof, Smith, Maskin

## • Delegates: 364 members

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

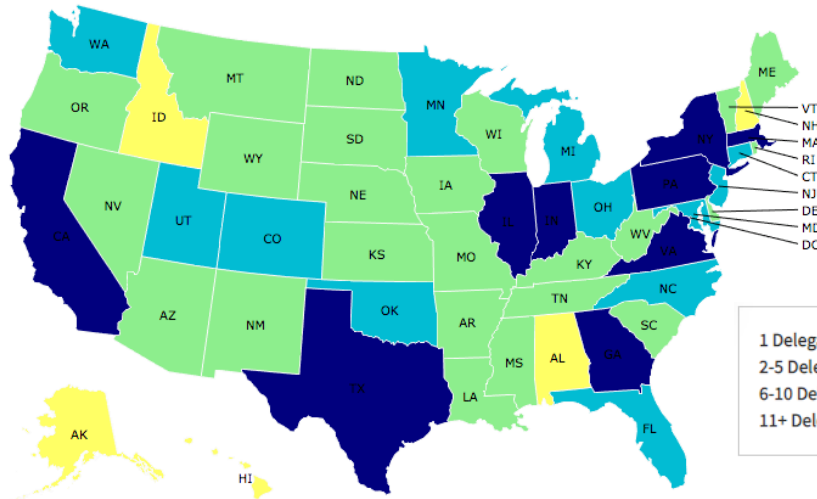
## • Global Partners: 42 Ph.D. Economists

- Aid in slide deck development



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# Where Are We?



1 Delegate - Yellow  
 2-5 Delegates - Green  
 6-10 Delegates - Light Blue  
 11+ Delegates - Blue



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## Outline

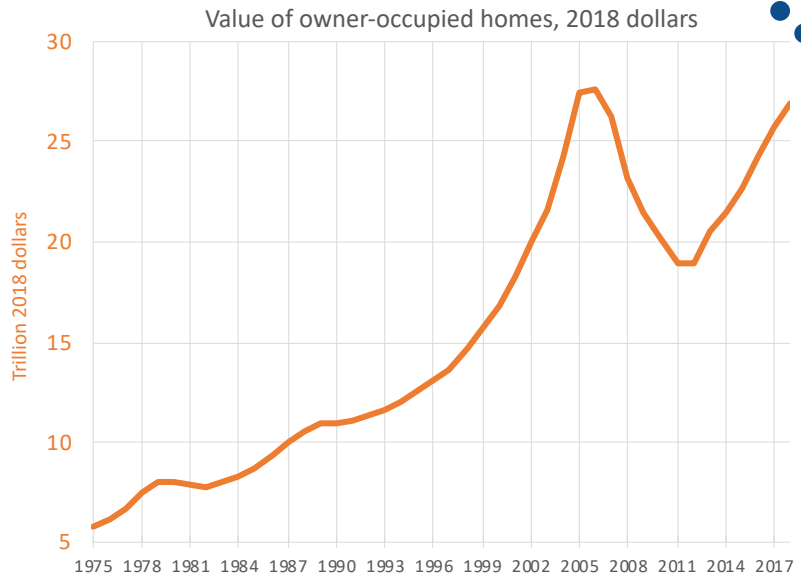
- **Introduction**
- **Home prices**
- **Housing as a store of wealth**
- **Housing as an Investment**
- **Understanding home prices**
- **Affordability**
- **Government Regulation of Housing**



## Total Value of Homes

The total value of owner-occupied homes in the US was about 27 trillion dollars in 2018

This is almost twice as large as 2018 consumer spending

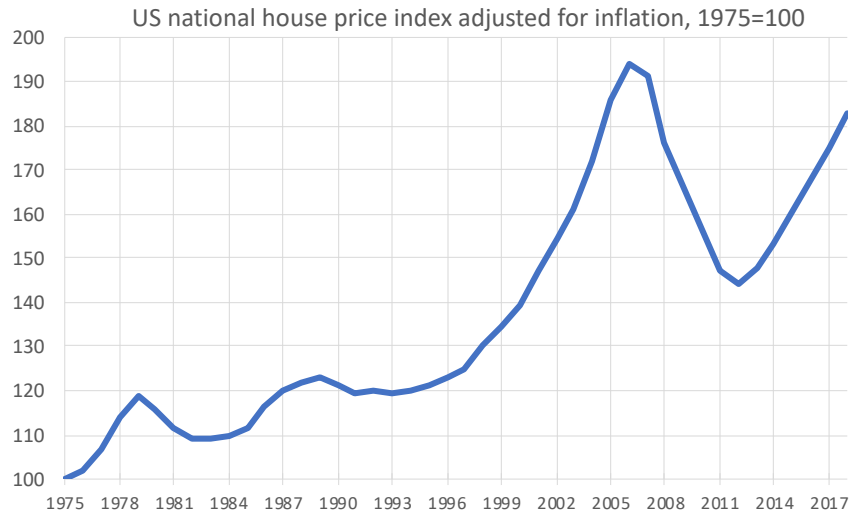


Sources: Federal Reserve Board, BEA, FHFA

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## Home Price Trends

On average, home prices outpaced inflation by 1.4% per year

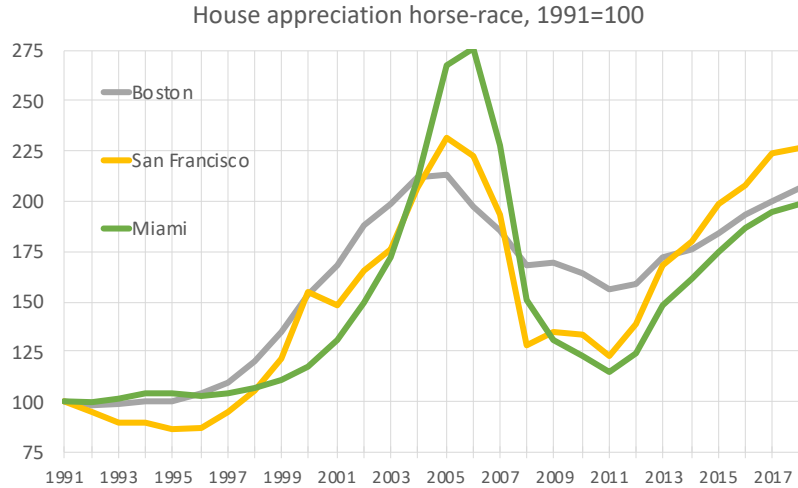


Sources: BEA, FHFA

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## Price Appreciation Varies by City

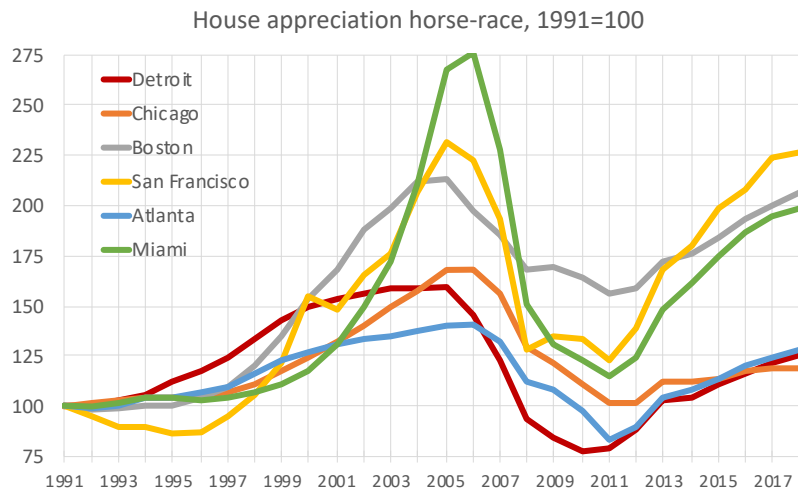
Prices in coastal cities outpaced inflation by 2.7% per year



Source: S&P Dow Jones Indices LLC

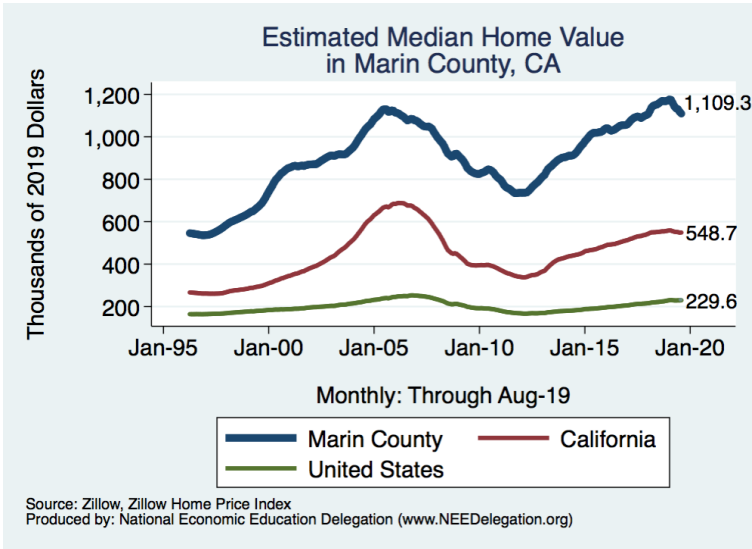
## Price Appreciation Varies by City

Prices in Atlanta, Chicago, and Detroit, barely kept up with inflation

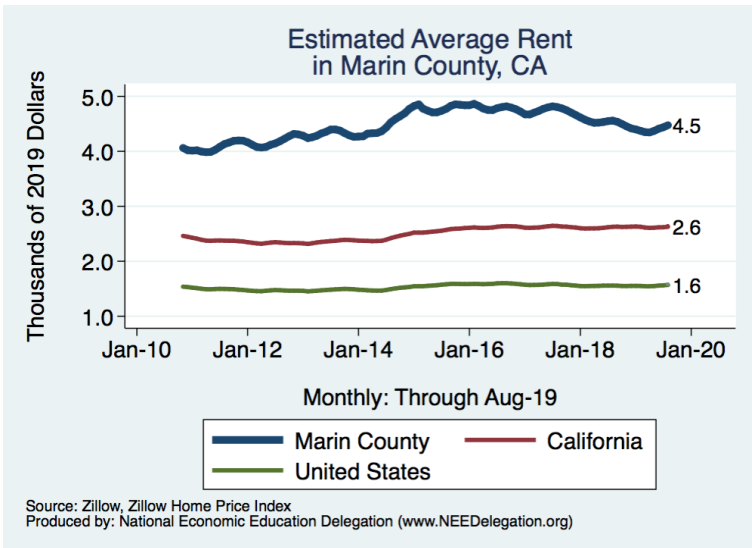


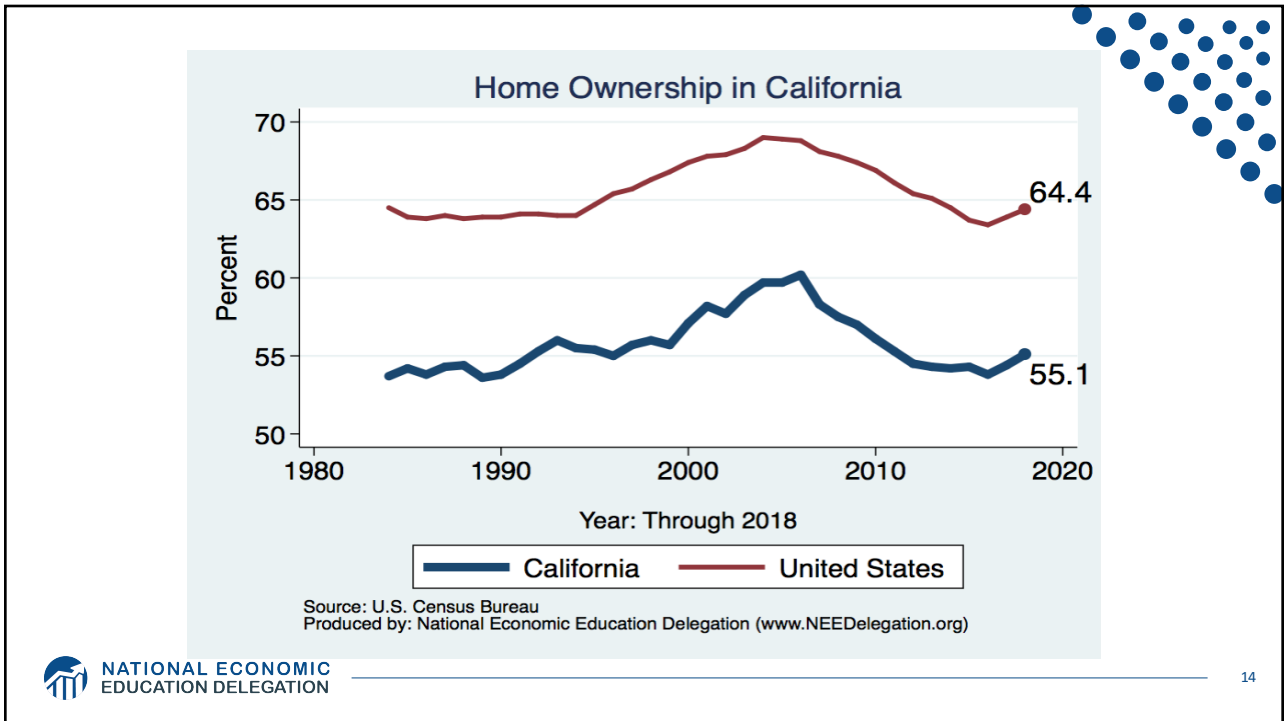
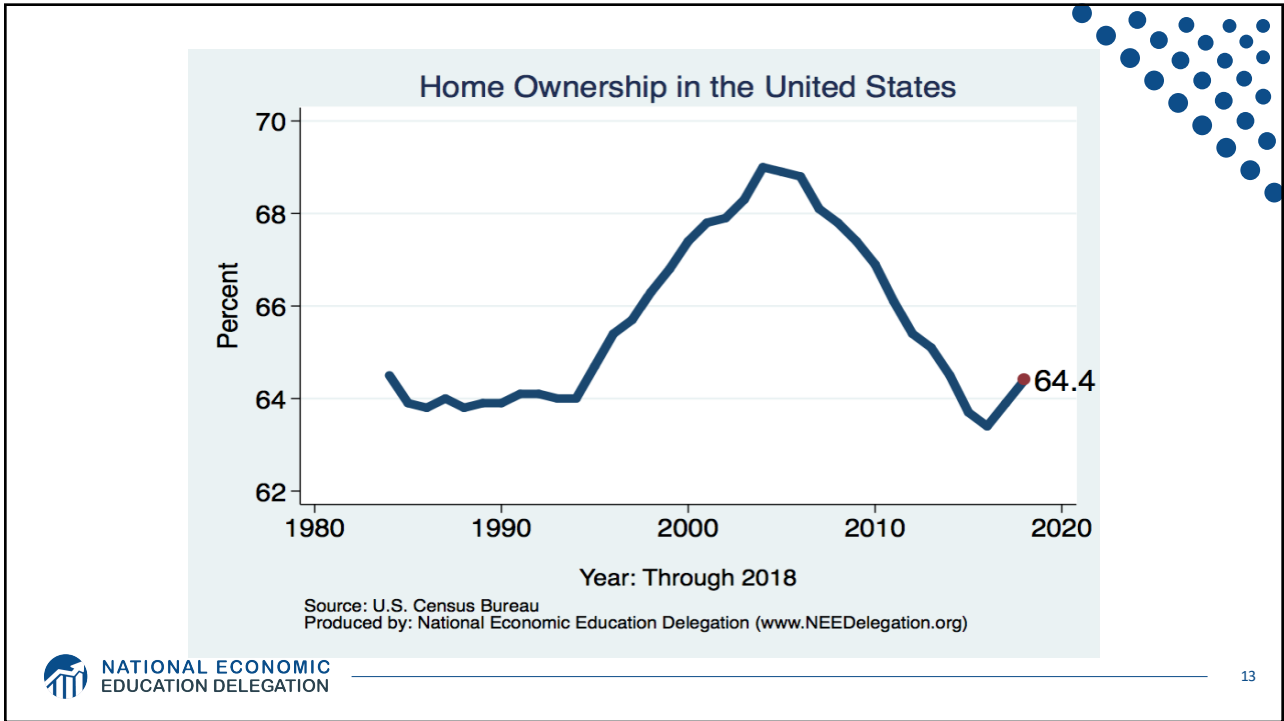
Source: S&P Dow Jones Indices LLC

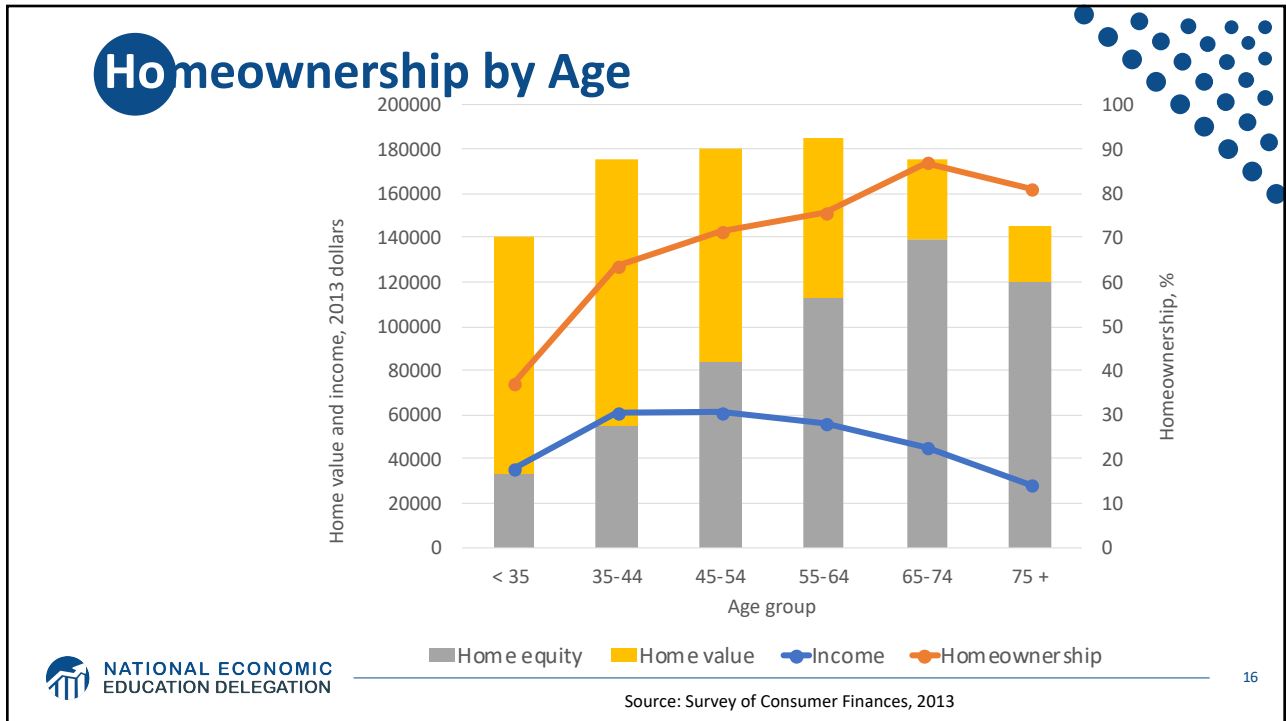
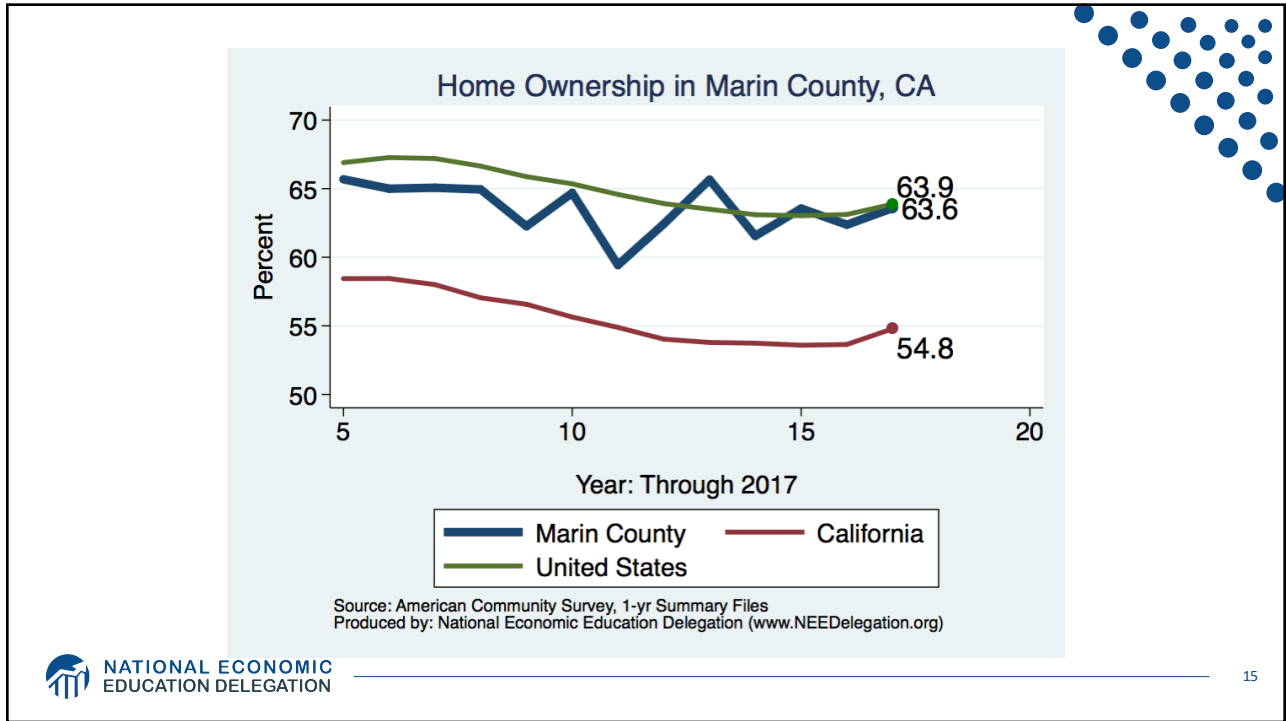
# Home Prices in Your County (or State)



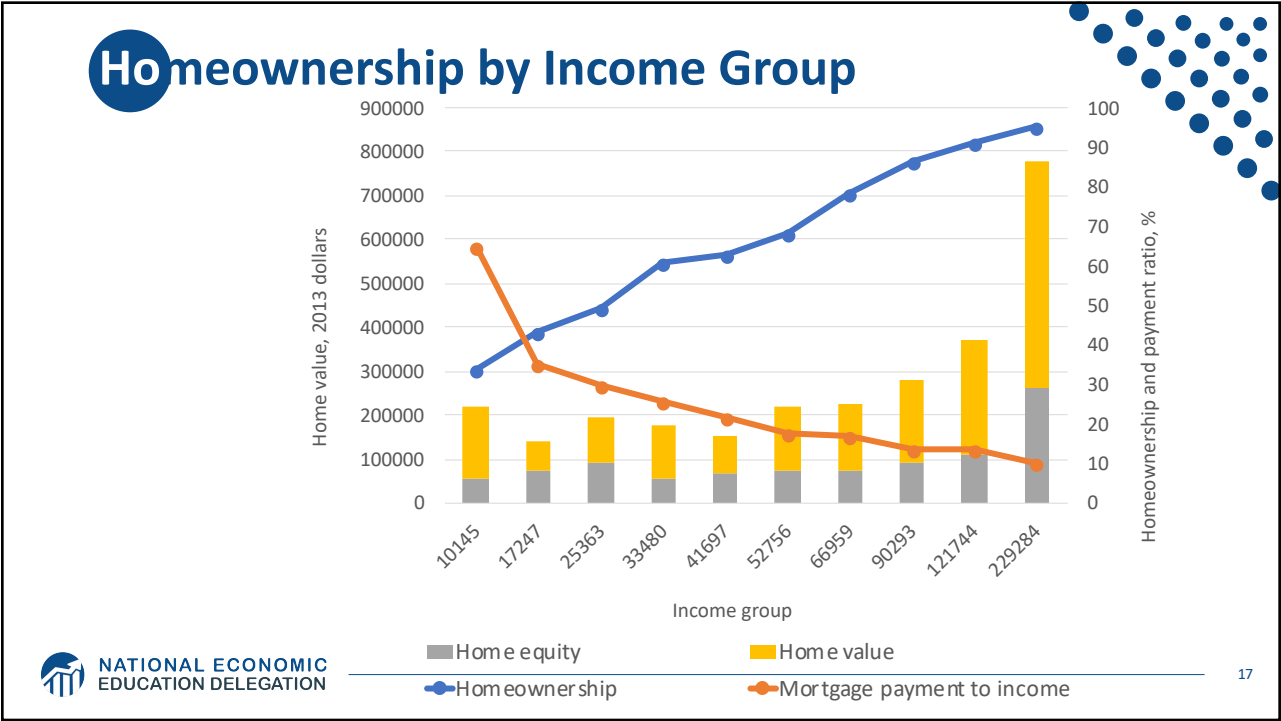
# Rents in Your County (or State)



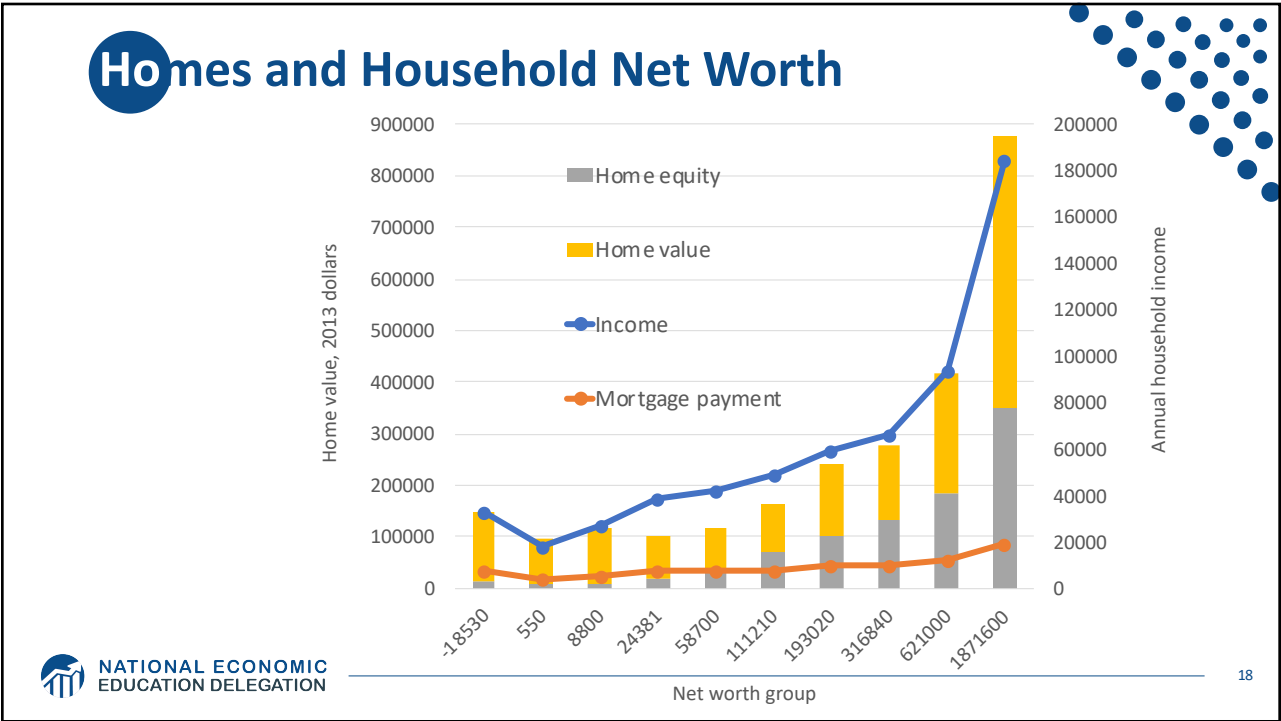








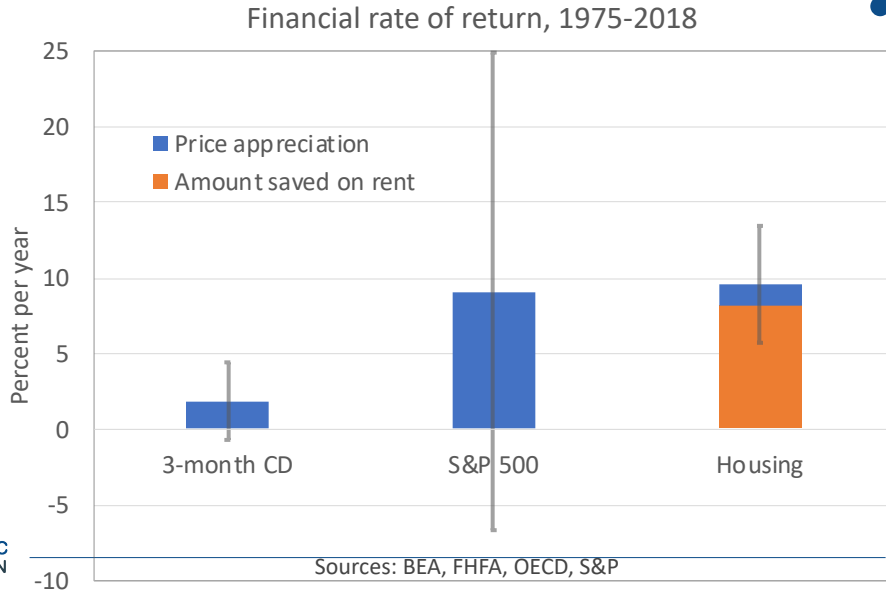
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# Is Housing A “Good Investment”?

Most of the financial return on housing comes from the amount saved on rent



# Benefits and Costs of Homeownership

## Financial benefits of homeownership

- Money saved on rent
- House price appreciation (if any)

## Financial costs of homeownership

- Maintenance/upkeep, insurance, property tax
- Mortgage interest (if any)
- House price depreciation (if any)



## Benefits and Costs of Homeownership

### Tax benefits of owning a home

- Money saved on rent is not considered taxable income
- Homeowners typically pay lower property taxes than landlords
- Mortgage interest and property tax can sometimes be deducted from taxable income (same is true for landlords)
- Capital gains from selling a primary house are tax-free (up to a point)



## Why are House Prices Rising?

### • SUPPLY AND DEMAND

#### • Supply:

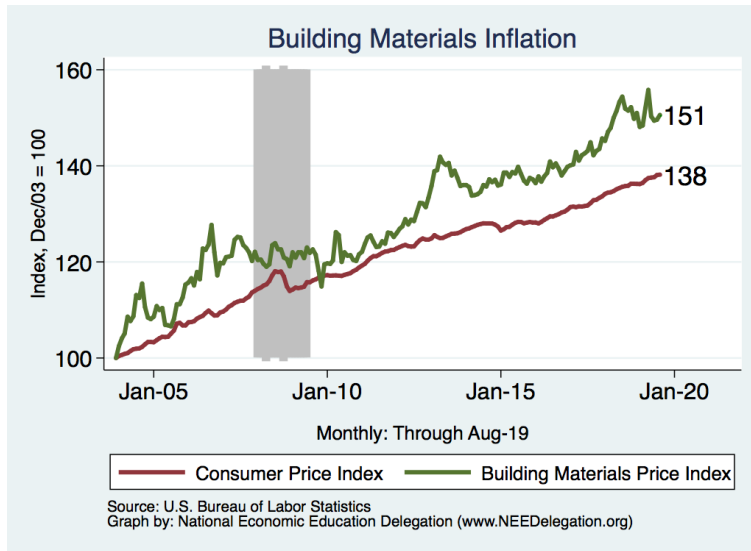
- Is it becoming more expensive to build?
  - Productivity
  - Local fees
- What are restrictions on building and how do they vary by location?

#### • Demand:

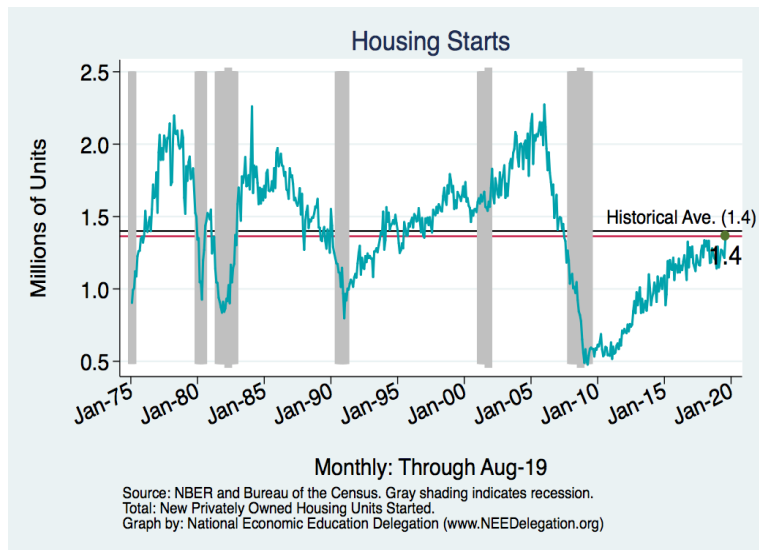
- Capacity to afford: income and interest rates



# What About Building Materials Costs

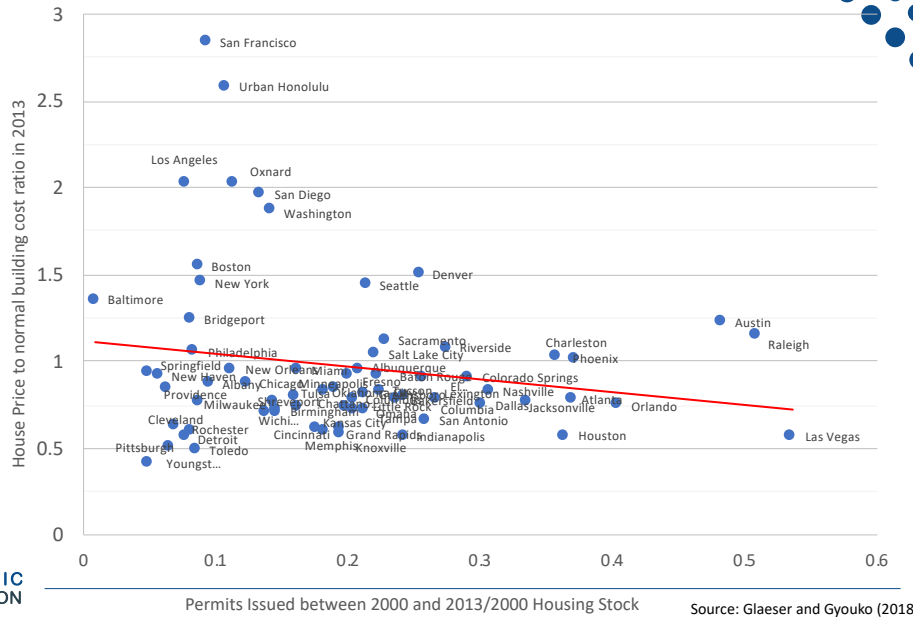


# Housing Starts

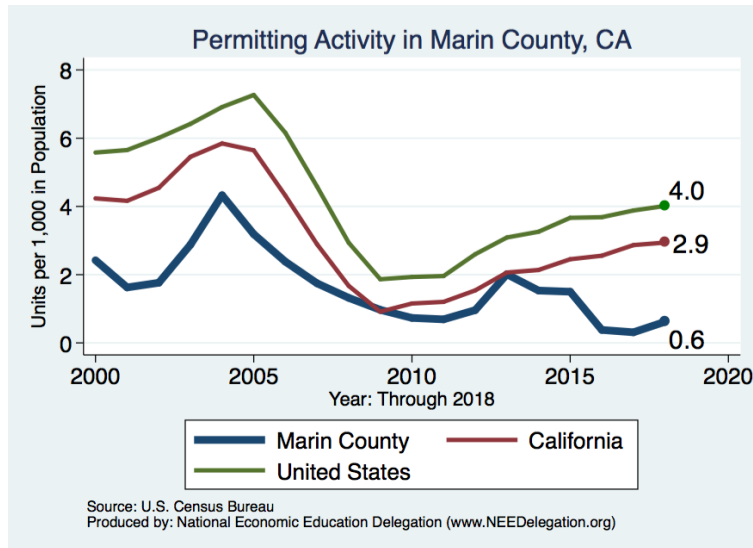


## New Construction Permits and House Prices

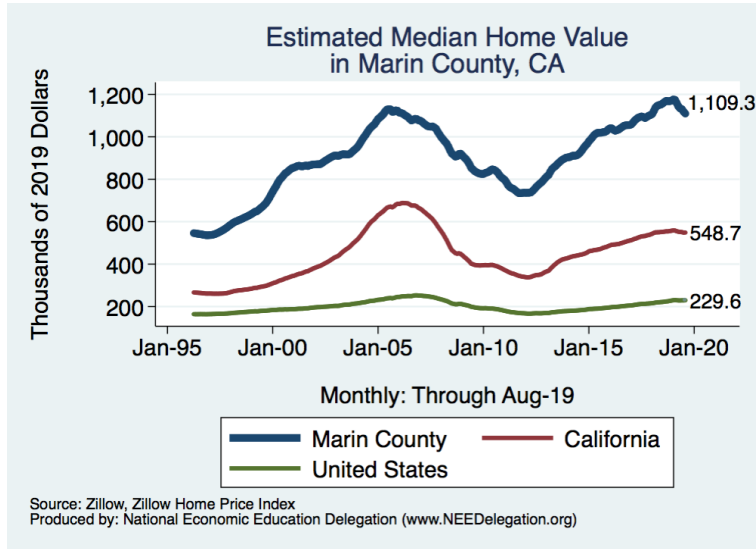
House prices are generally higher where fewer permits are issued



## Marin is Not Keeping Up



## ...And Prices Reflect it!



## Policy Issues: Government Influence

- Restrictions on new housing construction
- Affordability
- Government housing programs

## Examples of Local Restrictions

- Lot size requirements
- Setbacks
- Availability of on street parking
- Multiplexes – du or triplex
- Limits on # of people/lot
- Cost increases through fees



## Local Restrictions on New Construction

- Why is there so little new construction in some areas?
- Edward Glaeser (Harvard economist):



“Arguably, land use controls have a more widespread impact on the lives of ordinary Americans than any other regulation.

These controls, typically imposed by localities, make housing more expensive and restrict the growth of America’s most successful metropolitan areas.”



## Building Restrictions and Economic Inequality

- **Glaeser, continued:**

“These regulations have accreted over time with virtually no cost-benefit analysis. Restricting growth is often locally popular.

Promoting affordability is hardly a financially attractive aim for someone who owns a home.

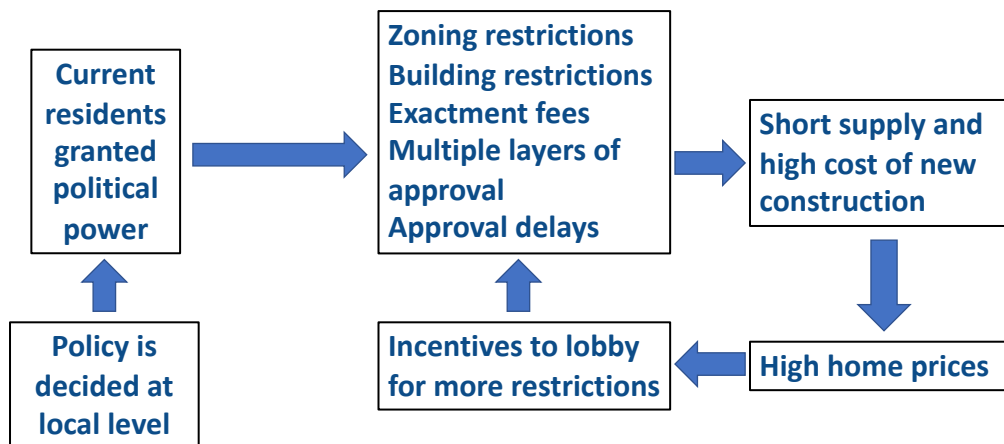
Yet the maze of local land use controls imposes costs on outsiders, and on the American economy as a whole.”

- **“There is no better way to reduce inequality than building more housing.”**



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## The Vicious NIMBY Political Cycle



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## Home Prices: Summary

- Housing market is not a free market
- Differences in home prices across locations often have to do with local building restrictions in the face of economic growth
- US coastal areas experienced an economic boom and tightening of building restrictions at the same time

For example, there were 13,000 new housing units permitted in Manhattan in the single year of 1960 alone. Compare this to 21,000 new units permitted throughout the *entire decade of the 1990s*.

Source: Glaeser, Gyourko and Saks 2005.



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## Economic Damage From Building Restrictions

- National income would have been higher if workers could afford to move to high-wage locations.
- The economists' estimate of potential income lost to low housing affordability caused by building restrictions is 2-9 % of US output (400-1800 billion current dollars per year).
- By way of comparison, the cost of the entire Medicare (health care for 65+ population) program is about 600 billion annually.



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## Policy Reforms and Debates: Government Regulation of the Housing Market



## Affordability

- **What is the best way to make affordable housing?**
  - Free market?
  - Mandates?
  - Rent control?
  - Subsidies to low income households?



# How Does Rent Control Work?

- **Sets limits on rent increases**

- Could set a cap on rent
- Regulates frequency of rent increases
- Usually w/in a tenancy

- **Limits reasons for evictions**

- E.g., non-payment or significant damage to the rental property

- **Implications:**

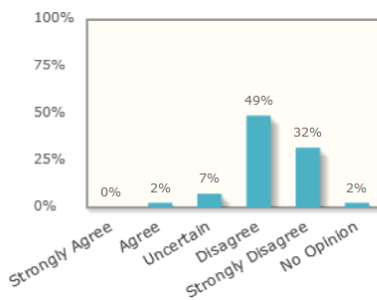
- Increases well-being of current tenants
- Can reduce the supply of or lead to decay of rental housing stock
- Can lower the value of nearby housing
- Contribute to gentrification

# Rent Control – There is no “Other Hand”

## Rent Control

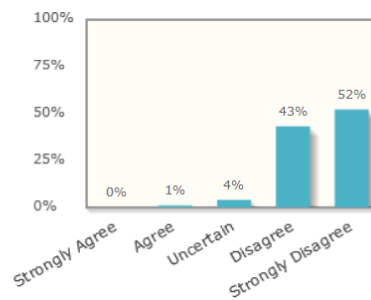
Local ordinances that limit rent increases for some rental housing units, such as in New York and San Francisco, have had a positive impact over the past three decades on the amount and quality of broadly affordable rental housing in cities that have used them.

**Responses**



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**Responses weighted by each expert's confidence**



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## Rent Control – What’s Not to Like?

- **Why don’t economists like rent control?**
  - We usually think housing costs too much because there’s not enough of it to go around.
  - Landlords raise rent because they can; if somebody moves out, somebody else is willing to move in.
  - If there were more places to live, the landlord could not raise rent as easily.
- **Rent control does nothing to stop the increase in prices in uncontrolled units. And controlled units may see neglect, since they will often lose their owners money.**

## Rent Control – The San Francisco Experience

- **A 2018 study of San Francisco rent control showed:**
  - Renters were 20% more likely to stay at their address
  - But, landlords stopped renting 15% of rent-controlled units
  - The lower number of units was related to a 5.1% citywide rent increase.

### **The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco**

Rebecca Diamond, Timothy McQuade, Franklin Qian, NBER Working Paper No. 24181, Issued in January 2018, <https://www.nber.org/papers/w24181>

## Rent Control – The Cambridge Experience

- **Elimination of rent control in 1994.**
- **Decontrolled properties' market value increased by 45%.**
  - Neighboring properties also increased in value.
- **Value of the changes is significant between 1994 and 2004.**
  - Direct effect: \$300 million for decontrolled properties
  - Indirect effect: \$1.7 billion for nearby never controlled properties
- **Rent control is a VERY expensive way of increasing affordability.**

## Government Regulation

- **There is a federal agency involved in housing, commonly known as HUD (Department of Housing and Urban Development).**
- **HUD has a few main ways in which it acts in the housing market**
  - Public Housing
  - FHA Mortgage Insurance
  - Housing vouchers
  - Community Development Block Grants
  - Fair Housing
- **Some of these solve issues like discrimination, and some address affordability issues**

## HUD - Affordability

- **FHA Mortgage Insurance**
  - Makes loans available to those who have lower credit scores, or cannot afford a 20% down payment
- **Section 8 Vouchers**
  - Allows households to find rental housing, but the waiting lists are too long and many landlords do not accept the vouchers
- **Public Housing**



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## HUD - Discrimination

- **Fair Housing: the market may include discriminatory landlords, realtors, mortgage brokers, etc., and the government needs to correct this.**
- **For example, HUD sued Facebook in April 2019, since Facebook was (allegedly) allowing landlords to only show their apartment listings to certain racial groups.**



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## HUD – Fair Housing and Local Land Use

- Some argue that the Fair Housing Act allows the federal government to prohibit exclusionary and burdensome zoning regulations, as they disproportionately work against the classes protected by the FHA.
- This has been a popular idea with both left-wing and right-wing HUD secretaries.



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## Local Government and Housing Policy

- **Public Housing Agencies**
  - HUD leaves the administration of public housing and vouchers to local Public Housing Agencies; there are over 3,000 PHAs.
- **Other**
  - Local government is far more involved in the housing market via land use policies like zoning.
    - Community input process
    - Historical designation
    - Permitting



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## Proposed Reforms - Federal

- **Further subsidization of more building?**
  - Some reformers have proposed that rent is too expensive, and therefore should be subsidized.
  - However, it may make sense to spend that subsidy money building new public housing, to expand the supply, rather than demand.
- **Stronger anti-discrimination policies, including for discrimination against voucher holders.**



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## Proposed Reforms – State and Local

- **Taxation on absentee owners, investors, AirBnB, etc.**
  - These are attacking symptoms rather than causes. AirBnB is profitable because there are not enough hotel rooms. Investors buy properties because they expect the returns to be high.
- **States can give or take money from localities in their states**
  - For example, a recent budget proposal in California would link transportation funding to housing production. Localities that don't add enough housing would lose money.



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## Proposed Reforms – State and Local

- **Spread property tax revenue more equitably**
  - Currently, parents essentially buy spaces in desirable public schools for their children. This method of school finance may perpetuate economic privilege across generations.
- **Loosen zoning**
  - Minneapolis has recently made it legal to build triplexes almost citywide. In contrast, it is illegal to build a duplex or triplex in most space in most American cities.
  - Mixed use zoning: it is also currently illegal in many places to have a first floor grocery store (or any kind of commercial use) with apartments or condominiums on top. Why?

## Proposed Reforms – Economists' Take

- **Economists will, in general, support government intervention when free markets don't work well, and support government restraint when free markets would work well, or too much government is causing a problem.**
- **Most people can buy or rent housing in a market transaction with another person or corporation, with minimal government involvement (enforcement of contracts via courts, protection against overt fraud, health and safety protections for renters, etc.)**
  - However, equity matters too. Some economists may support policies that alleviate the effects of racial discrimination which still persist.

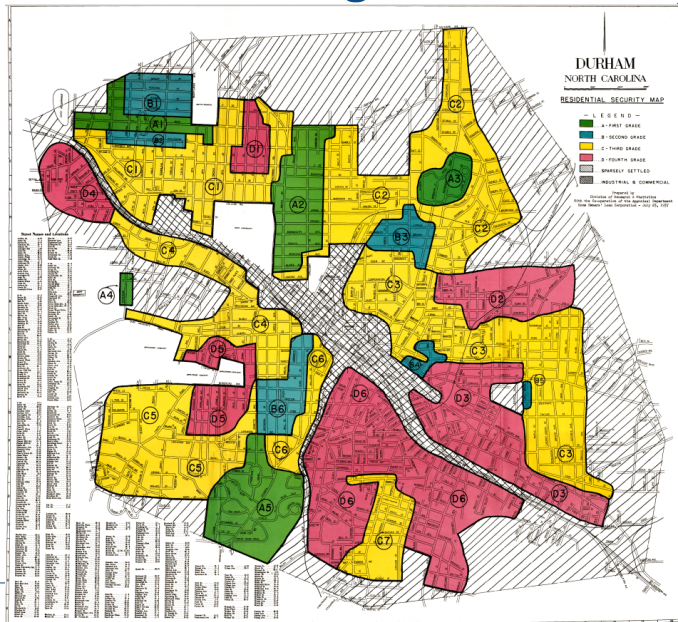
# Misguided Past Policies: Redlining

- For example, the government “redlined” heavily minority neighborhoods.
  - Redlining occurred when maps were drawn to show how risky investment in certain areas would be. The “riskiest” areas usually had the highest concentrations of black people.
    - o Some argue that the government merely drew these maps, and did not discriminate in their own lending practices, but others say private and public lenders relied on these maps to deny investment or loans in those areas.
  - Some relationships between redlined areas and outcomes still hold today in peer-reviewed economics research. Note this is a failure introduced by government!



# Misguided Past Policies: Redlining

Red areas were largely African-American communities, and considered to be too risky for new home loans.



## Conclusions

- **A modest-size house is a good investment that pays a great dividend.**
- **Housing market is not a free market.**
  - Government stimulates homeownership through tax policy and mortgage insurance.
  - Zoning and other building regulations contribute to economic inequality and may cause substantial economic damage.

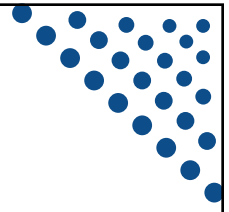


## Conclusions: More on Government Intervention

- **Policies need to be considered carefully – unintended consequences**
  - Rent control can have an enormous impact on:
    - o Supply – both quantity and quality
    - o Nearby uncontrolled properties
  - Zoning and permitting
    - o Can feed inequality of access to resources: housing/education
- **Government intervention is a likely contributor to home price appreciation.**
  - May well achieve goals, but at lowest possible cost? Unclear.



**Thank you!**



## Any Questions?

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