

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

Daniel Marcin, George Washington University
Dmitriy Stolyarov, University of Michigan
with contributions by
Fudong Zhang, Tsinghua University

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- 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

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

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- **This slide deck was authored by:**
 - Daniel Marcin, George Washington University
 - Dmitriy Stolyarov, University of Michigan
- **This slide deck was reviewed by:**
 - Jon Haveman, PhD, NEED
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Outline

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

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COVID and housing

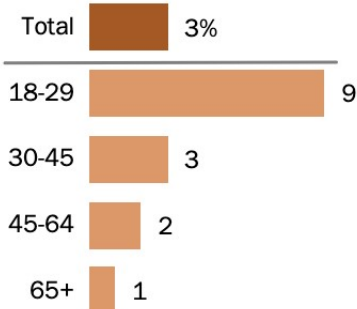
- **Widespread impact:** 15% of homeowners and 23% of renters work in at-risk industries (food, accommodation, entertainment, retail, transportation)
- **Economic hardship:** more that 25% of US population missed either a rent payment or a mortgage payment as of July 2020
- **Urban flight:** rents in cities have fallen (NY -4.6%, SF -4.0%, BOS - 2.8%)
- **Nationally, house prices rose by 11% since March 2020**



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COVID and relocation

- **3% of population moved for COVID related reasons, mostly college students moving in with parents**



Source: Pew Research Center, June 2020



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COVID and housing: policy response

- 120 day eviction moratorium (March-July), most recently extended, but no specific rent relief provisions
- Borrowers with federally backed mortgages can receive 180 days of forbearance

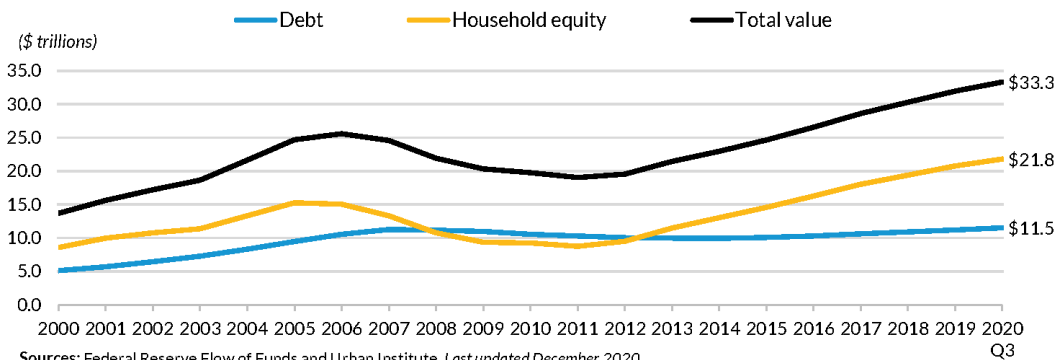


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Total value of homes

Value of the US Single Family Housing Market



Sources: Federal Reserve Flow of Funds and Urban Institute. Last updated December 2020.

Note: Single family includes 1-4 family mortgages. The home equity number is grossed up from Fed totals to include the value of households and the non-financial business sector.

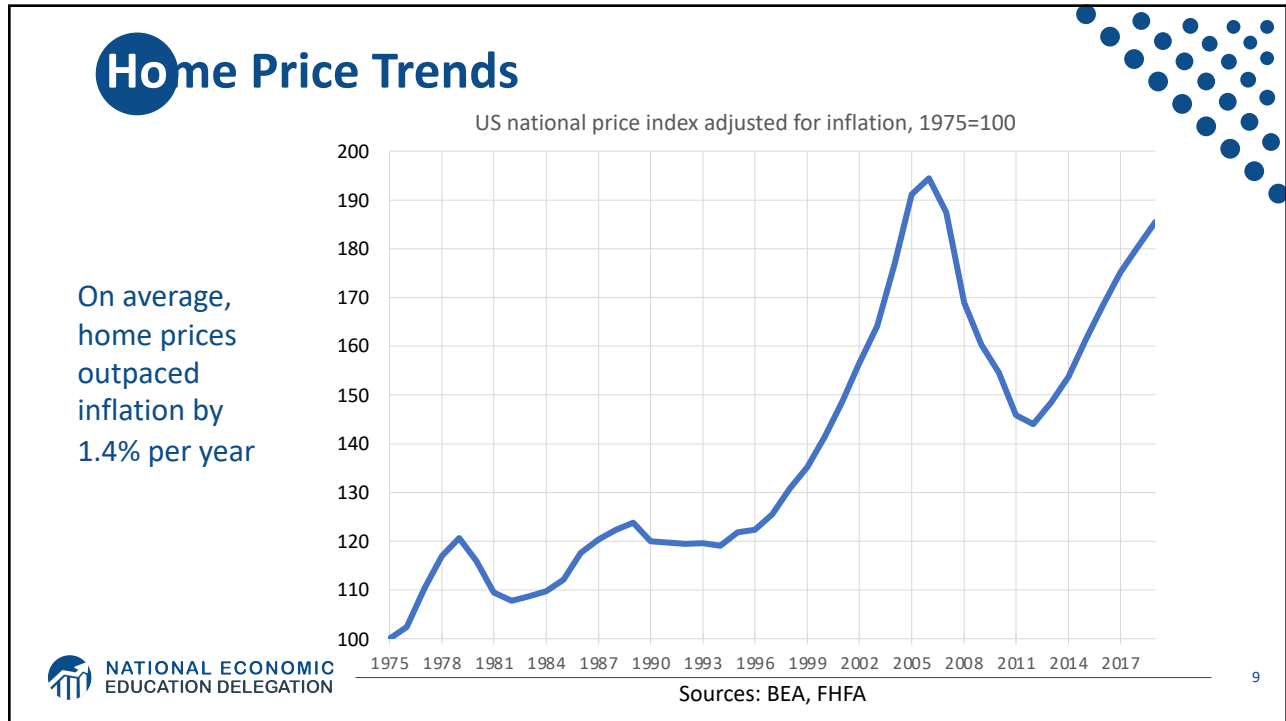


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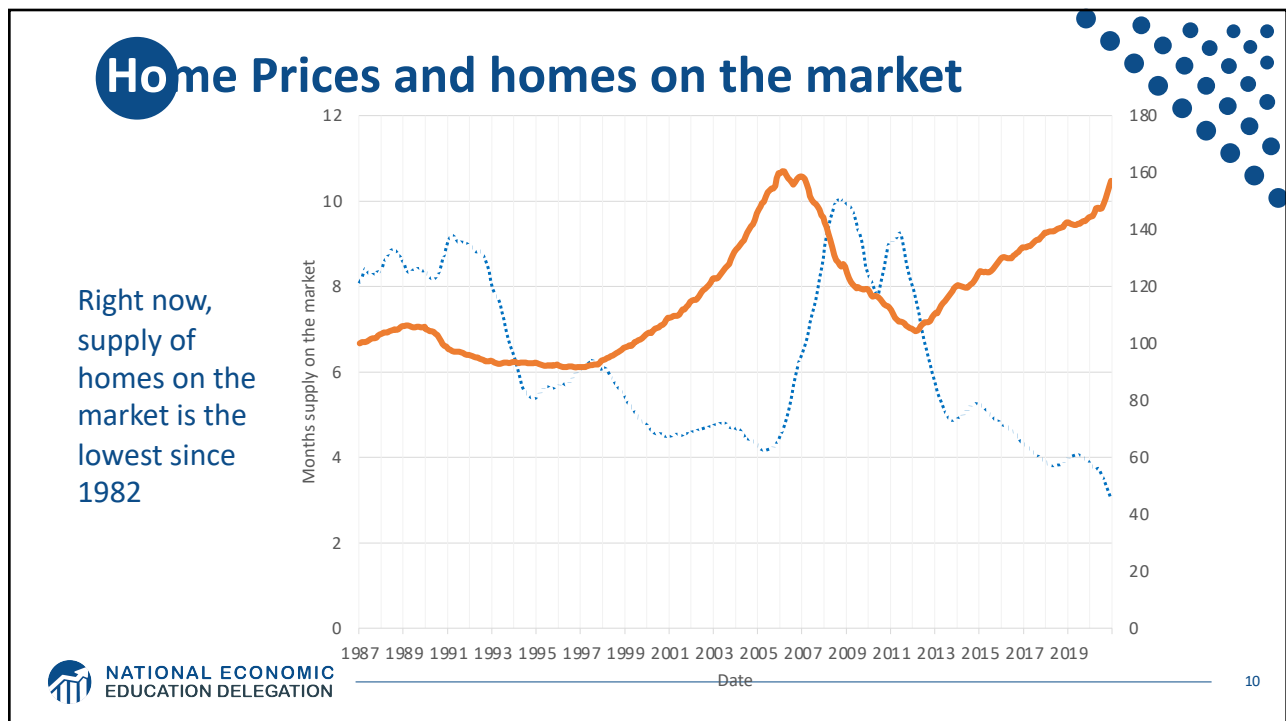
Sources: Federal Reserve Board, BEA, FHFA

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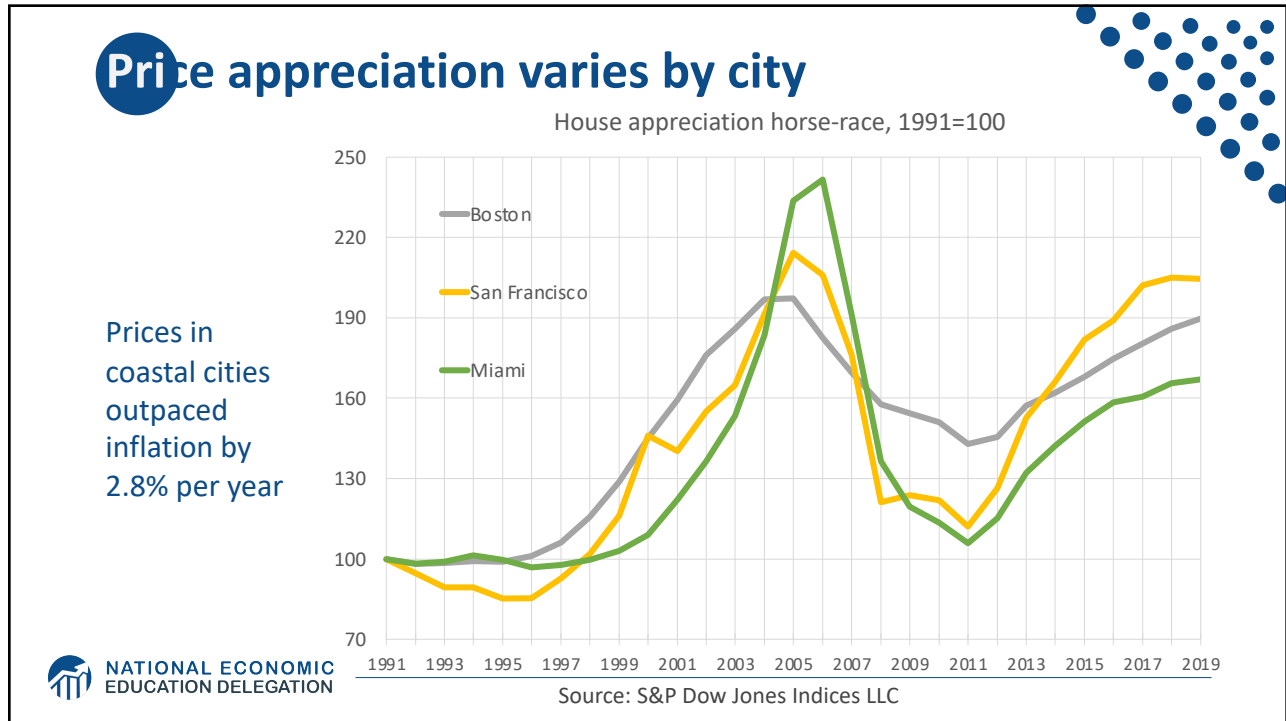
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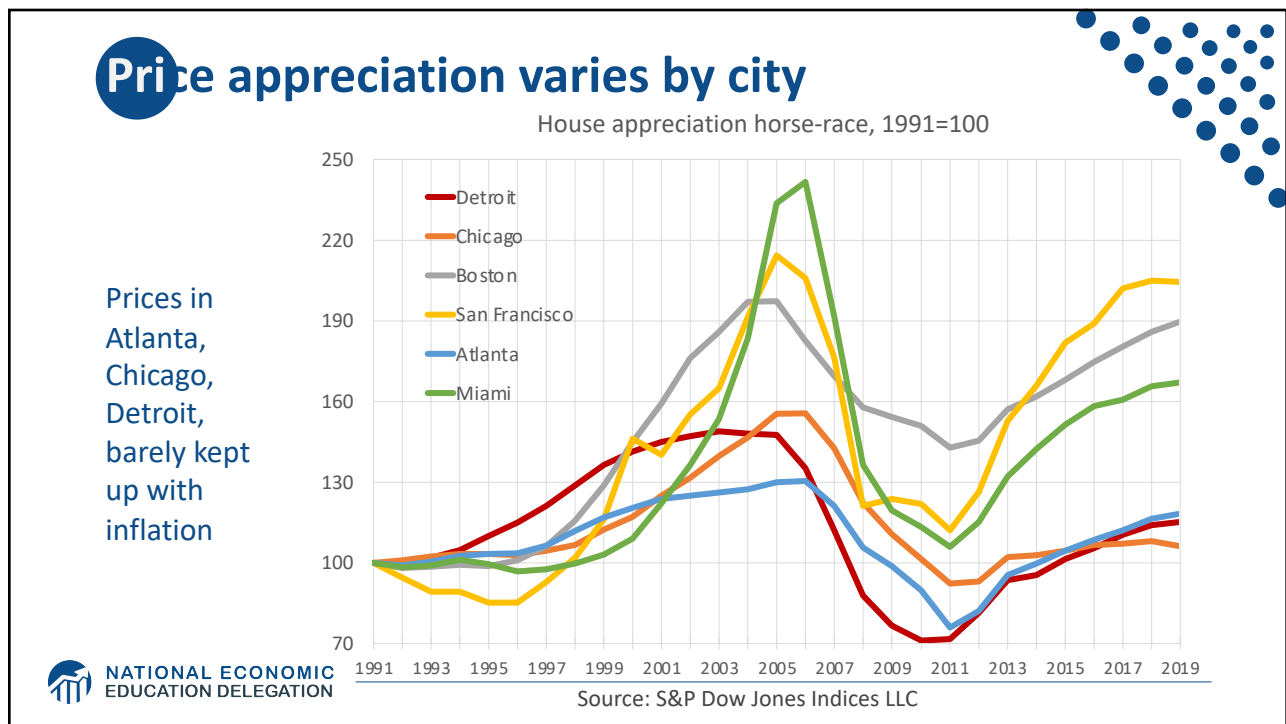
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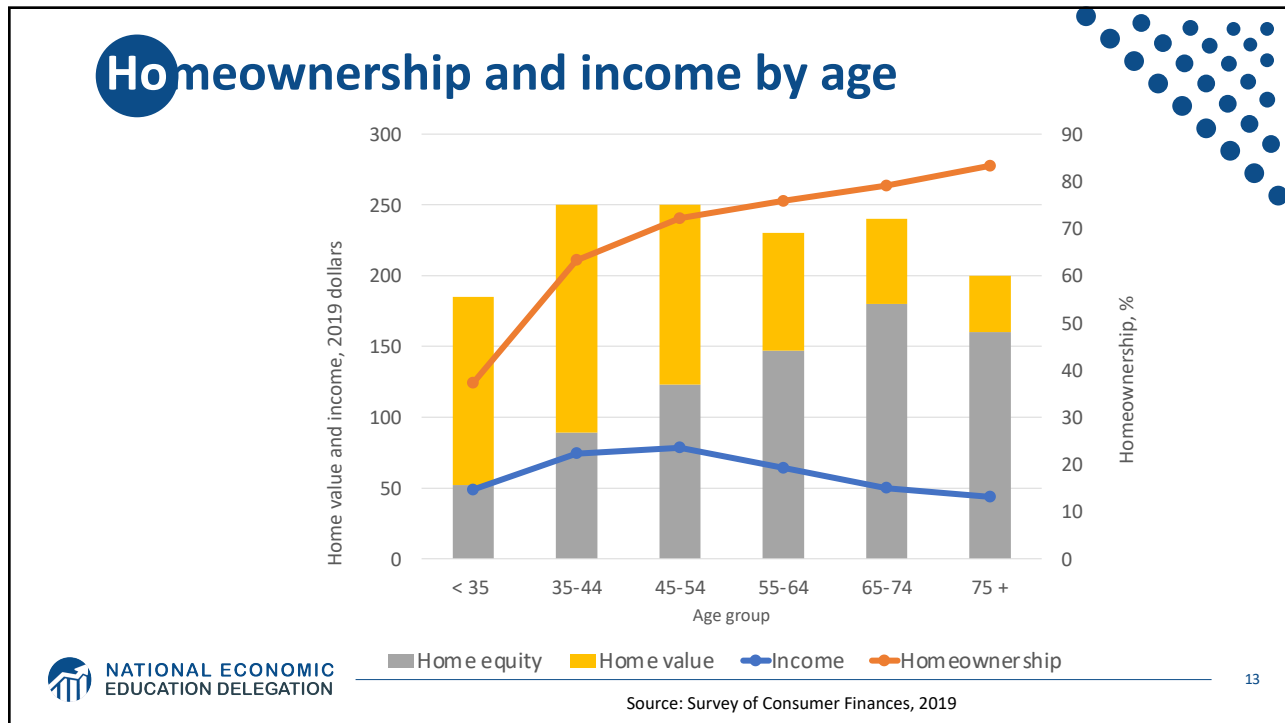
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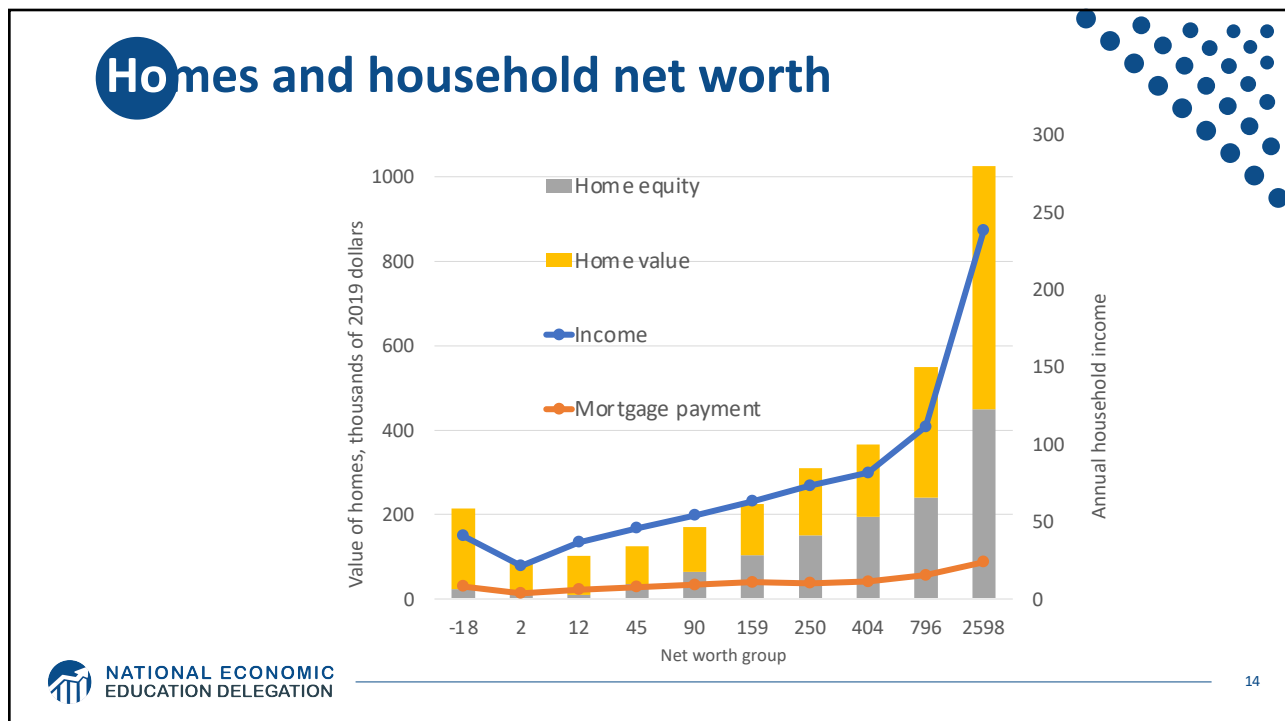
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Benefits and costs of homeownership

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

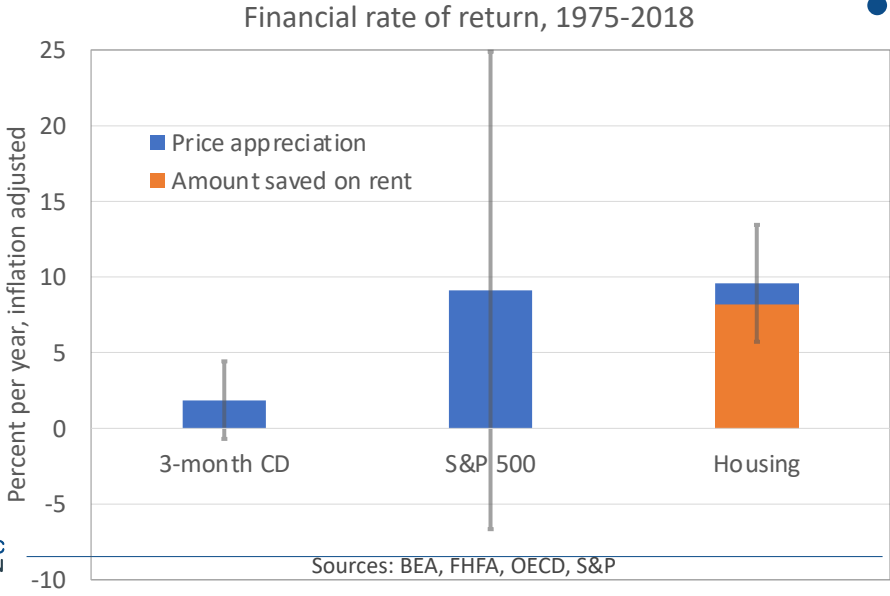
Tax benefits of owning a home

- 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)



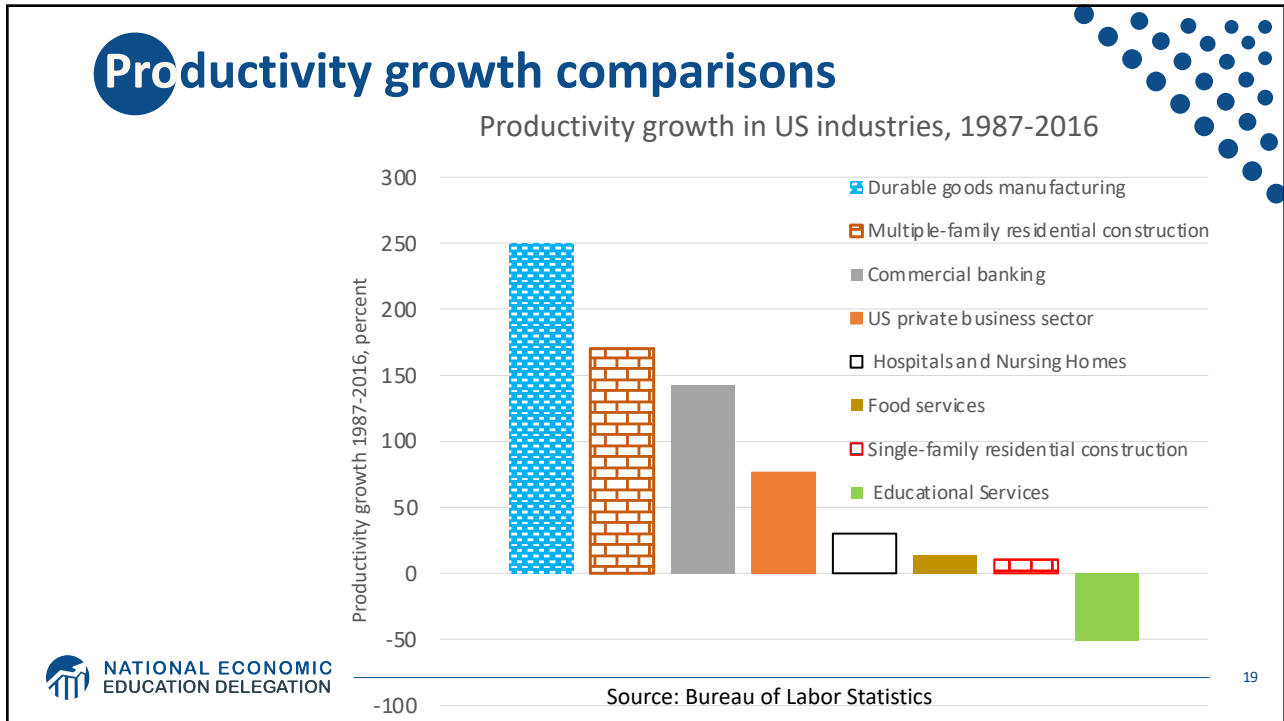
Is housing a “good investment”?

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

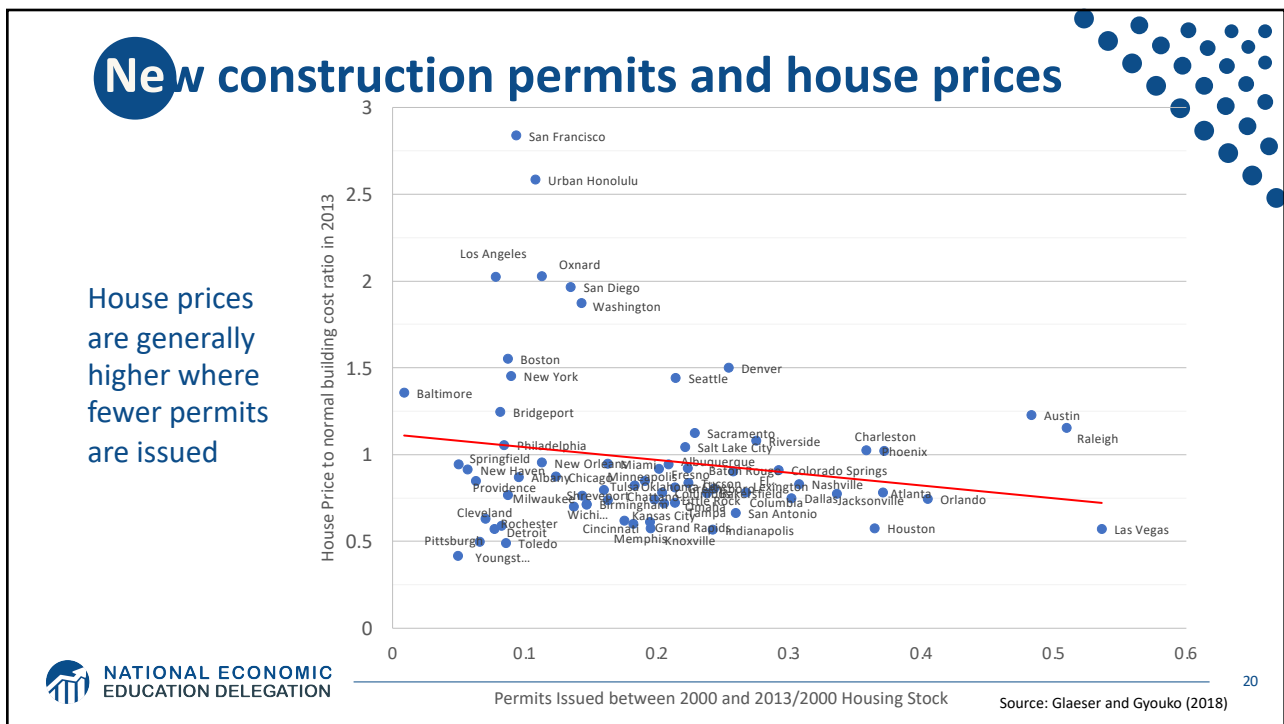


Why are house prices rising?

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



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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.”



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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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Policy Issues

- Restrictions on new housing construction
- Affordability
- Government Intervention

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The vicious NIMBY political cycle

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    graph TD
      A[Policy is decided at local level] --> B[Current residents granted political power]
      B --> C[Zoning restrictions  
Building restrictions  
Exaction fees  
Multiple layers of approval  
Approval delays]
      C --> D[Short supply and high cost of new construction]
      D --> E[High home prices]
      E --> F[Incentives to lobby for more restrictions]
      F --> A
  
```

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Home prices: summary

- Housing market is not a free market
- Differences in home prices across locations mostly 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 on the entire Medicare (health care for 65+ population) program is about 600 billion annually



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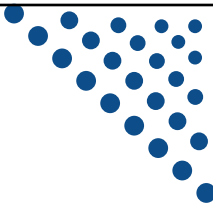
Policy reforms and debates

Government regulation of the housing market

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Affordability

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

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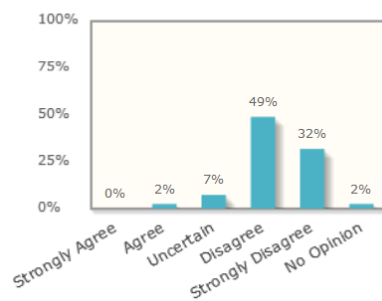
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Rent Control

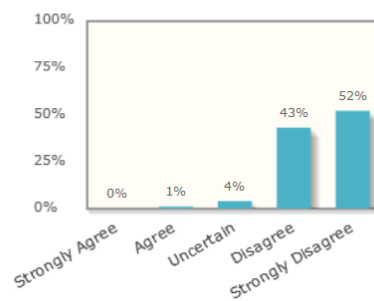
Rent Control

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



Responses weighted by each expert's confidence



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Rent Control

• 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.



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Rent Control

- **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>



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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**



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- **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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- **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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• Fair Housing

- 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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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?



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Conclusions

- **A modest-size house is a relatively good investment: money saved on rent is a tax-free dividend**
- **Government stimulates homeownership through tax policy and mortgage insurance**
- **Housing market is not a free market**
- **Zoning and building regulations decided at local level contribute to economic inequality and may cause substantial economic damage**



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