

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

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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

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 - The views presented today are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED)

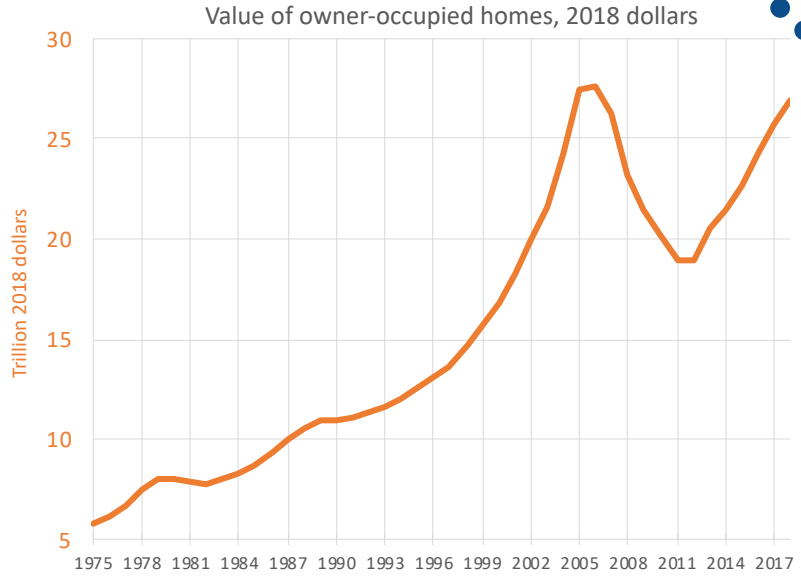
Outline

- **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

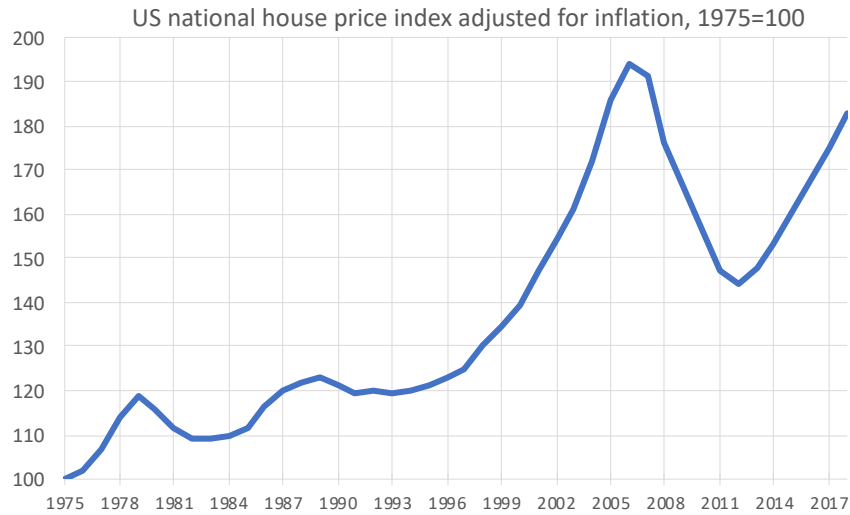


Sources: Federal Reserve Board, BEA, FHFA

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Home Price Trends

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

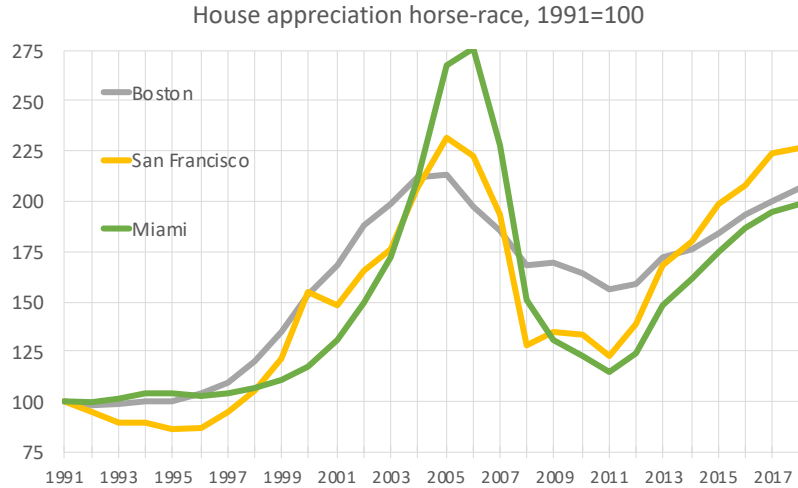


Sources: BEA, FHFA

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Price appreciation varies by city

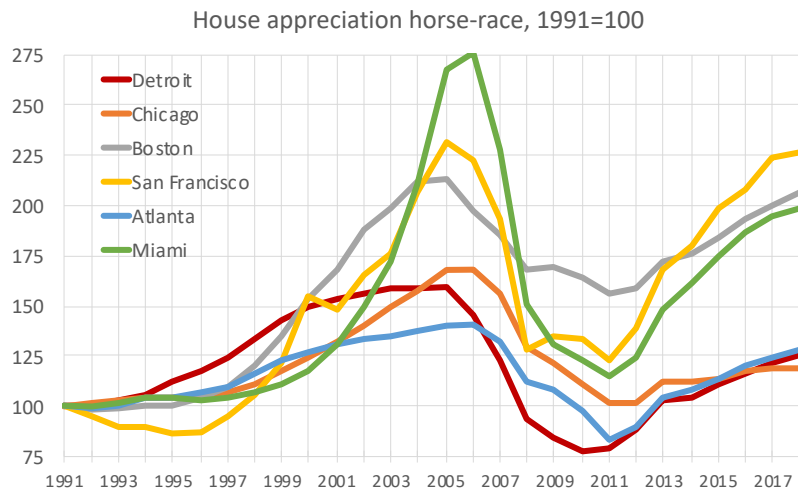
Prices in coastal cities outpaced inflation by 2.7% per year



Source: S&P Dow Jones Indices LLC

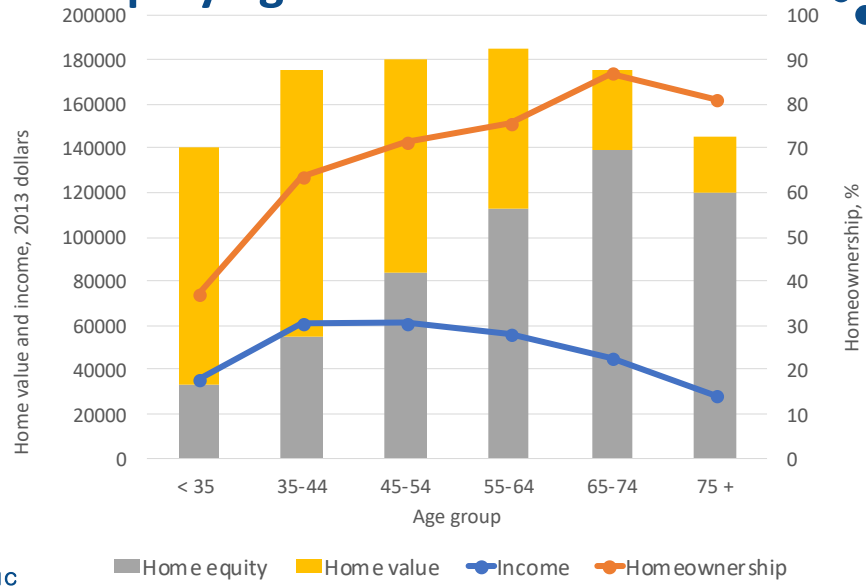
Price appreciation varies by city

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



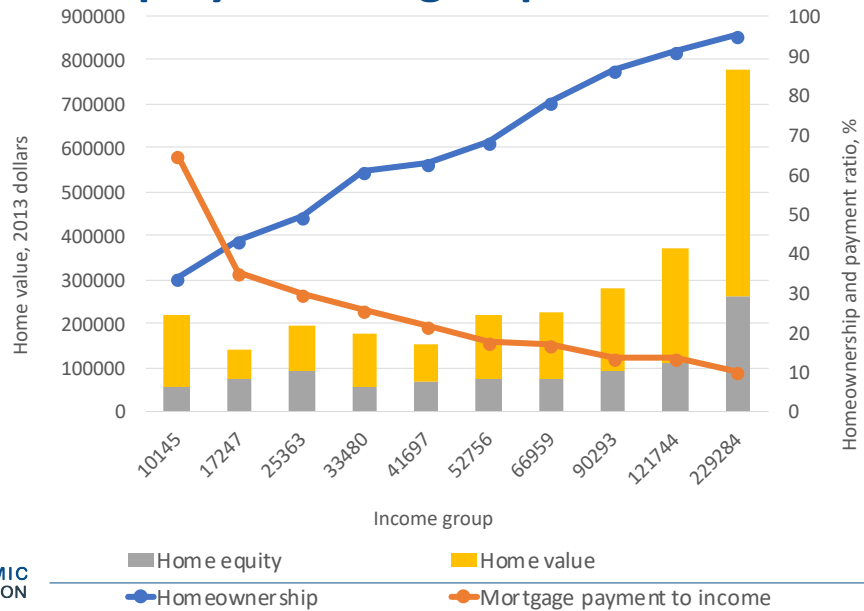
Source: S&P Dow Jones Indices LLC

Homeownership by age

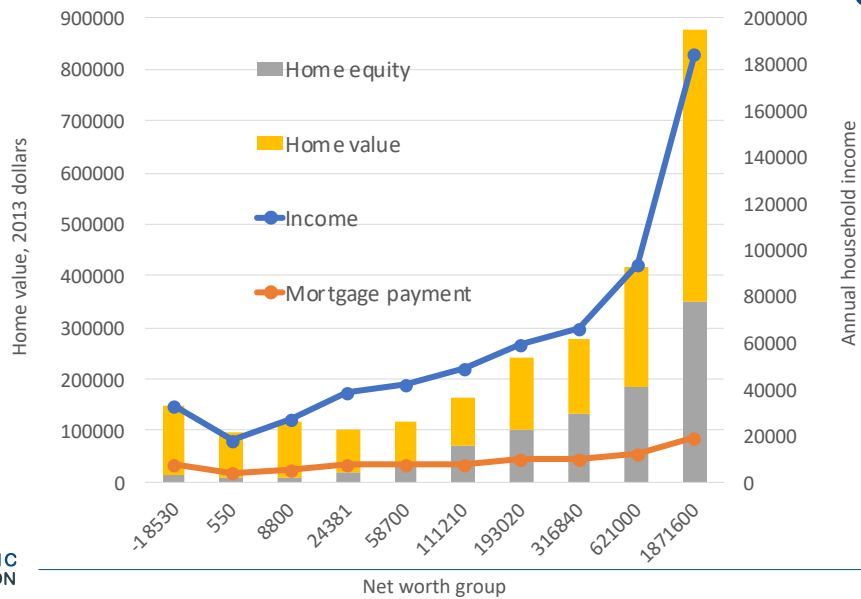


Source: Survey of Consumer Finances, 2013

Homeownership by income group



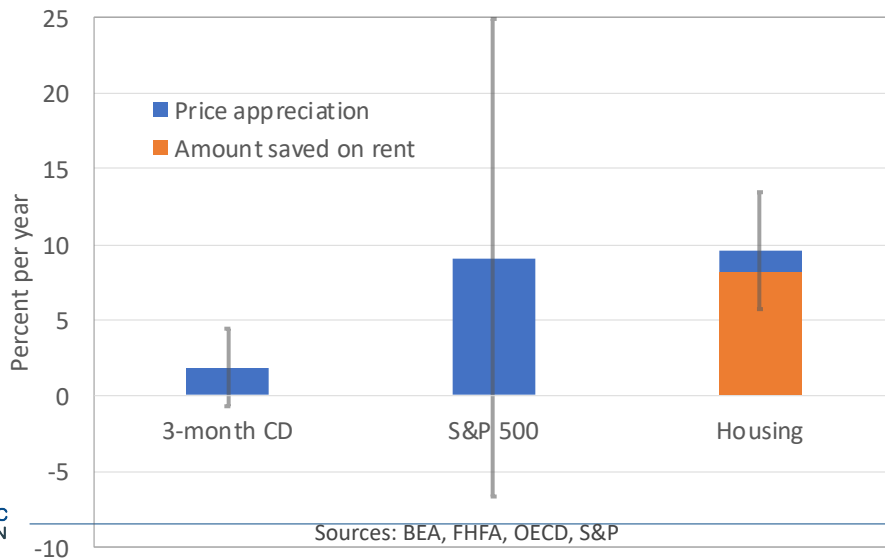
Homes and household net worth



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Is housing a "good investment"?

Financial rate of return, 1975-2018



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

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Sources: BEA, FHFA, OECD, S&P

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)



House as a financial asset: illustration

Money saved on rent is not considered taxable income

Jane is a homeowner. A house similar to hers can be rented for 2,000 per month (24,000 per year). Jane would need 30,000 in pre-tax income (24,000 rent + 6,000 income tax) to rent a house similar to hers.

Amount saved on rent: 30,000



House as a financial asset: illustration

Financial rate of return on a 300,000 house bought with cash

$$\text{Rate of return (\%)} = \frac{\text{Net income}}{\text{Home equity}} \cdot 100\%$$

Benefits		Costs	
Amount saved on rent	30,000	Upkeep, maintenance	6,000
Price appreciation (3.5% annual)	10,500	Property tax + insurance	6,000
Total benefit	40,500	Total cost	12,000

$$\text{Rate of return (\%)} = \frac{40,500 - 12,000}{300,000} \cdot 100\% = 9.5\%$$



Leverage in a rising market

Rate of return on a 300,000 house bought with 20% (60,000) down

Benefits		Costs	
Amount saved on rent	30,000	Upkeep, maintenance	6,000
Price appreciation (+3.5% annual)	10,500	Property tax + insurance	6,000
		Mortgage interest (6% rate)	12,000
Total benefit	40,500	Total cost	24,000

$$\text{Rate of return (\%)} = \frac{40,500 - 24,000}{60,000} \cdot 100\% = 27.5\%$$

Leverage in a falling market

Rate of return on a 300,000 house bought with 20% (60,000) down

Benefits		Costs	
Amount saved on rent	30,000	Upkeep, maintenance	6,000
Price appreciation (- 5% annual)	- 15,000	Property tax + insurance	6,000
		Mortgage interest (6% rate)	12,000
Total benefit	15,000	Total cost	24,000

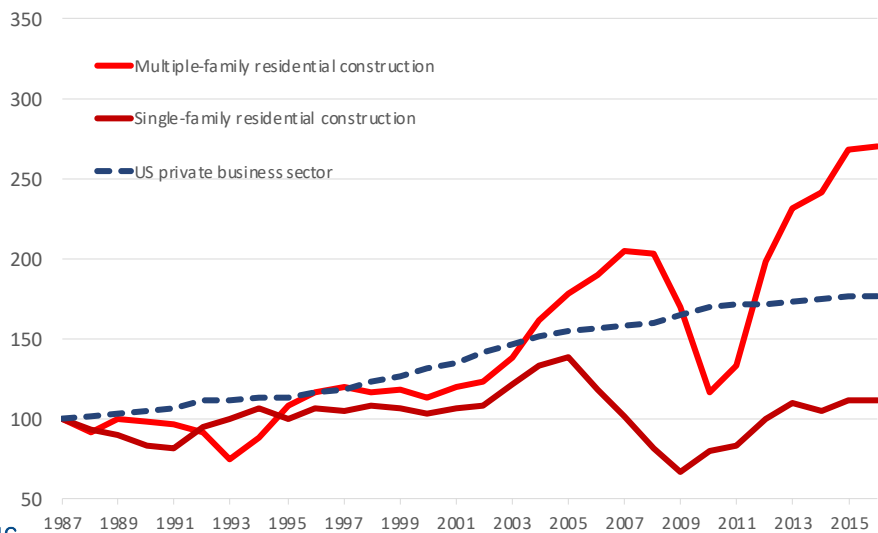
$$\text{Rate of retrun (\%)} = \frac{15,000 - 24,000}{60,000} \cdot 100\% = -15\%$$

Why are house prices rising?

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

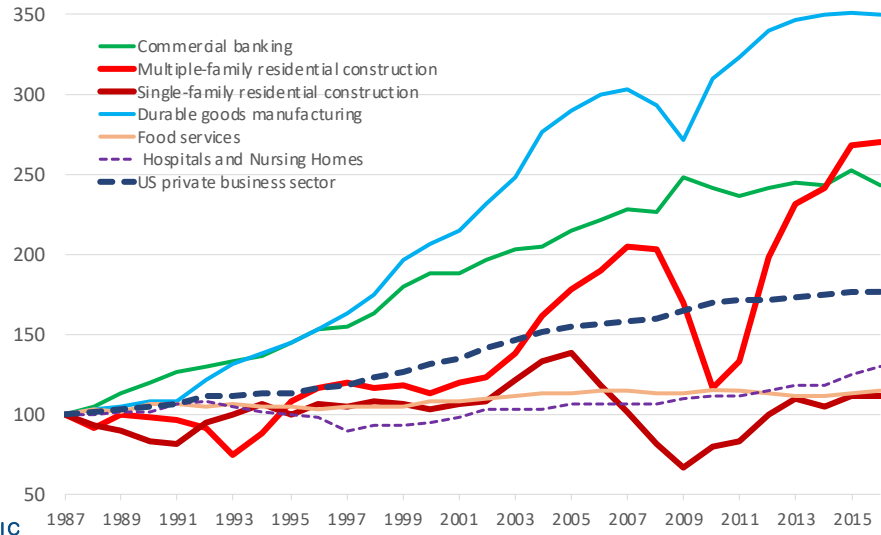
Is construction becoming more efficient?

Labor productivity in construction, 1987=100



Is construction becoming more efficient?

Labor productivity in US industries, 1987=100



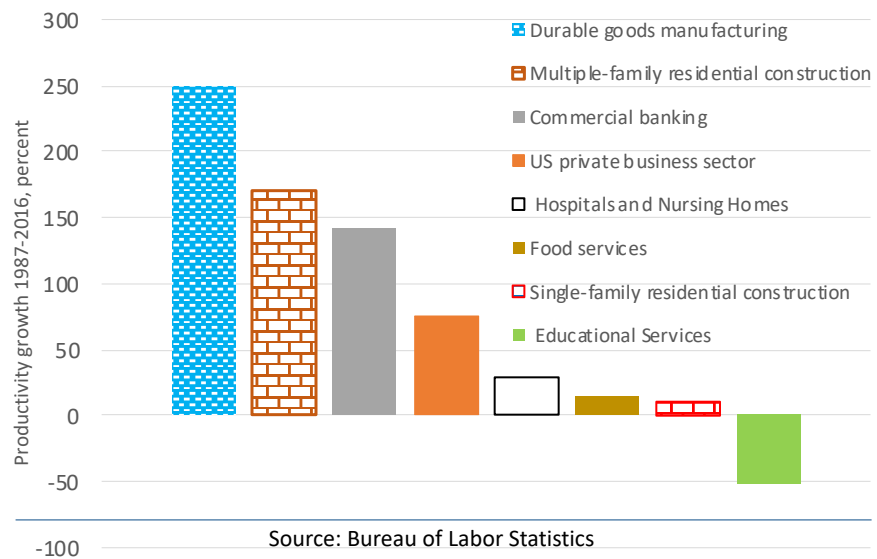
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Source: Bureau of Labor Statistics

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Productivity growth comparisons

Productivity growth in US industries, 1987-2016



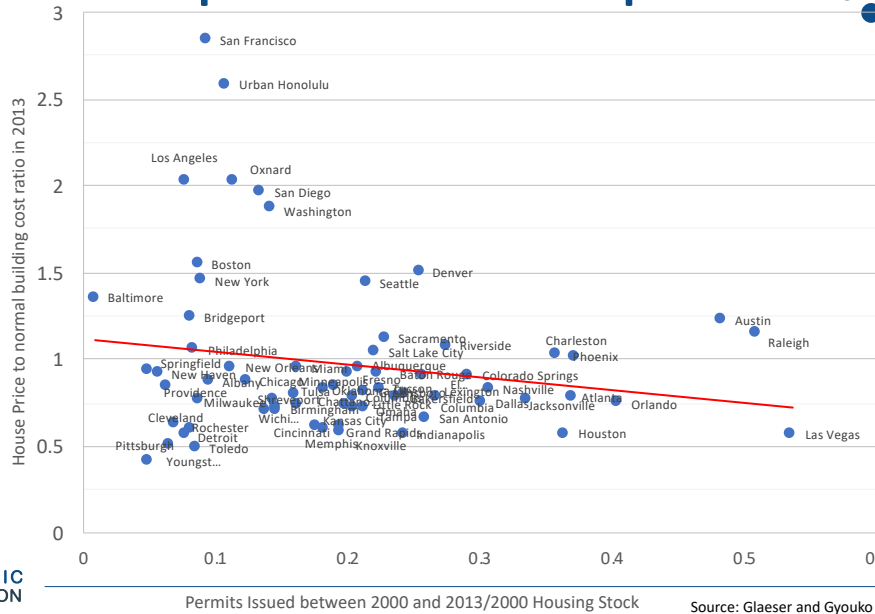
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Source: Bureau of Labor Statistics

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New construction permits and house prices

House prices are generally higher where fewer permits are issued



Source: Glaeser and Gyouko (2018)

Policy Issues

- Restrictions on new housing construction
- Affordability
- Government Intervention



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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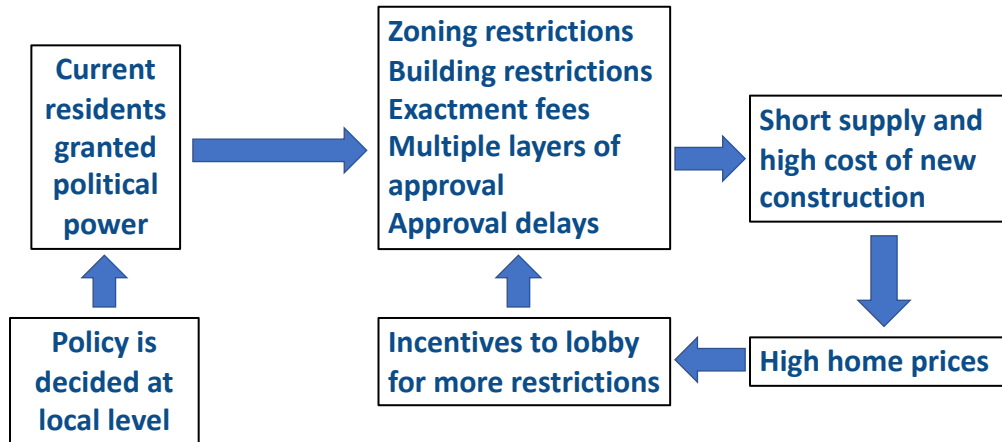
Building restrictions and economic inequality

- 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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The vicious NIMBY political cycle



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.

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?

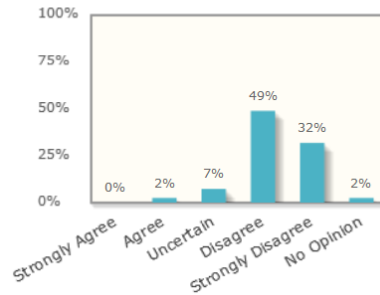
- Mandates?
- Free market?
- Rent control?

Rent Control

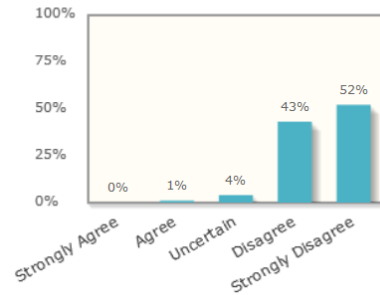
Rent Control

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



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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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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- **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.



- **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.

Local government

- **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**

- Some reformers have proposed that rent is too expensive, and therefore should be subsidized. This gets the economics backwards.
- However, it may make sense to spend that subsidy money building new public housing, to expand the supply, rather than distort market-rate prices.

- **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?



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Proposed reforms

- 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.



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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!



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Conclusions

- **A modest-size house is a good investment that pays a great 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**

