

Invitations:

- **Join the NEED Community:** www.needelegation.org/friends.php
 - ThinkTank Tuesdays: Wine, Water, and Policy Whimsy
- **Testimonials:** www.needelegation.org/testimonials.php
- **Invite me to your other clubs!**

Osher Lifelong Learning Institute, Fall 2019 **What Economists Know About Important Policy Issues**

Lecture 6: Housing Policy

November 1, 2019

Jon Haveman, Ph.D.
National Economic Education Delegation

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.



Syllabus

- **Lecture 1: US Economic Update**
- **Lecture 2: Government Budgets and Debt**
- **Lecture 3: Trade and Globalization**
- **Lecture 4: Economic Inequality**
- **Lecture 5: Climate Change Economics**

- **Lecture 6: Housing Policy**



Credits and Disclaimer

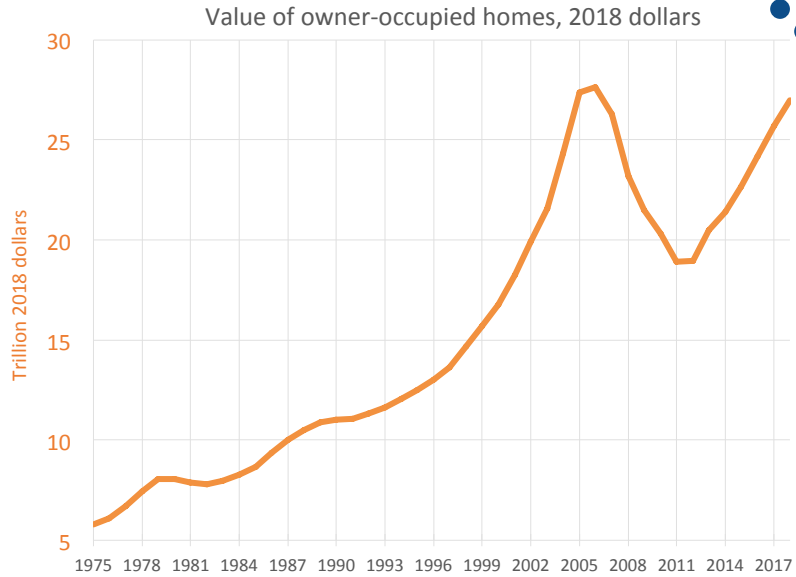
- **This slide deck was authored by:**
 - Daniel Marcin, George Washington University
 - Dmitriy Stolyarov, University of Michigan
- **This slide deck was reviewed by:**
 - Jon Haveman, PhD, NEED
- **Disclaimer**
 - The views presented today are those of the presenter and not necessarily those of the 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.
- * Bubble added \$7 trillion above normal appreciation

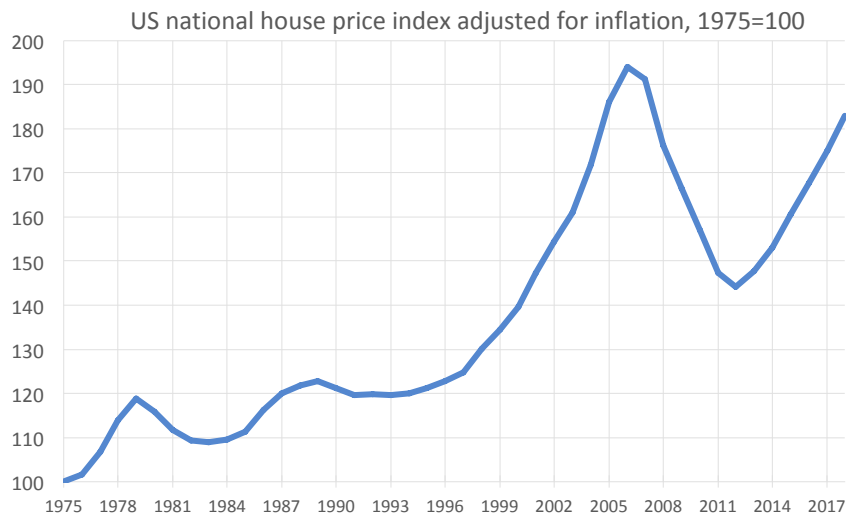


Sources: Federal Reserve Board, BEA, FHFA

7

Home Price Trends

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

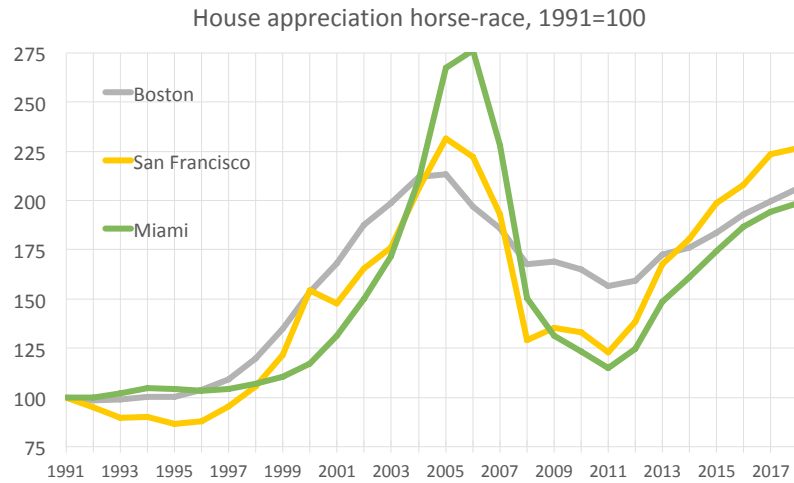


Sources: BEA, FHFA

8

Price Appreciation Varies by City

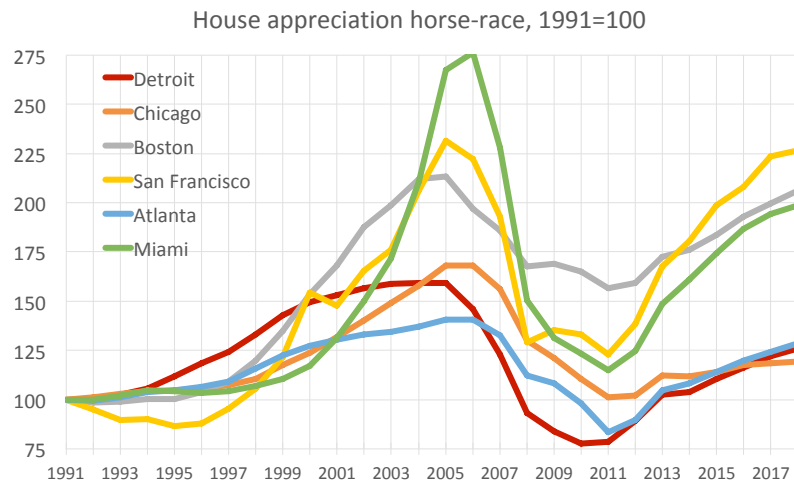
Prices in coastal cities outpaced inflation by 2.7% per year



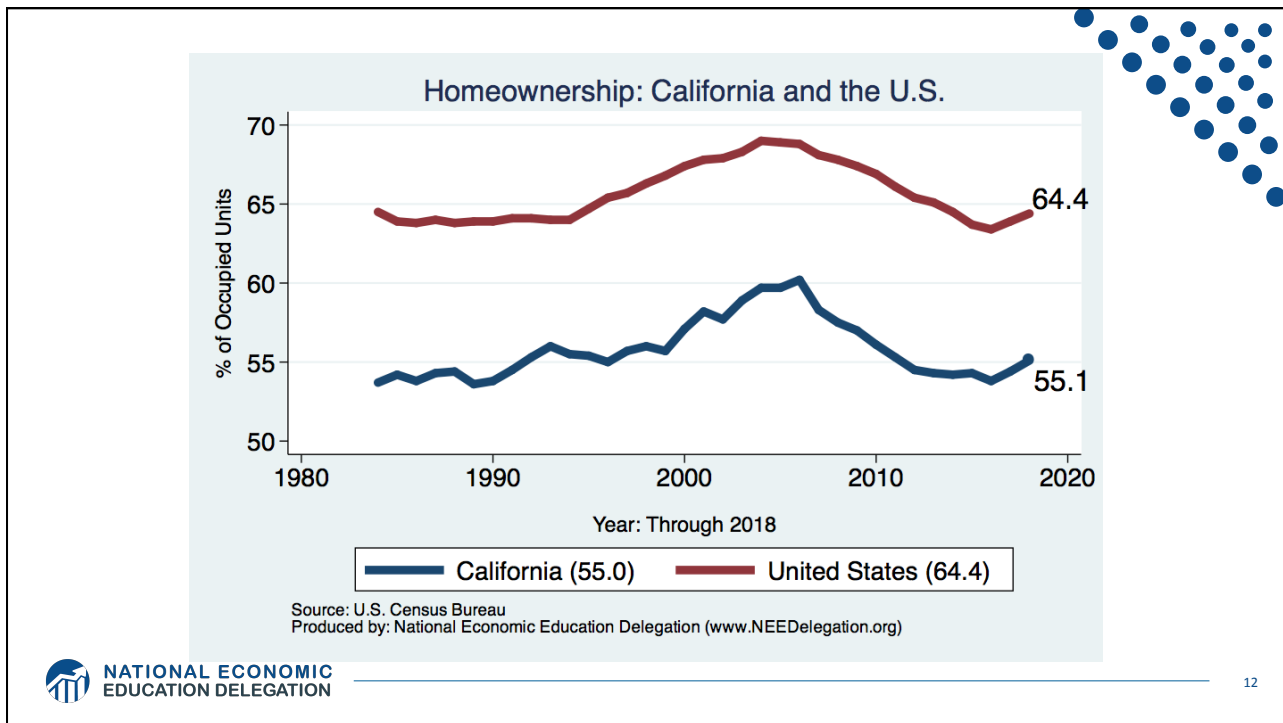
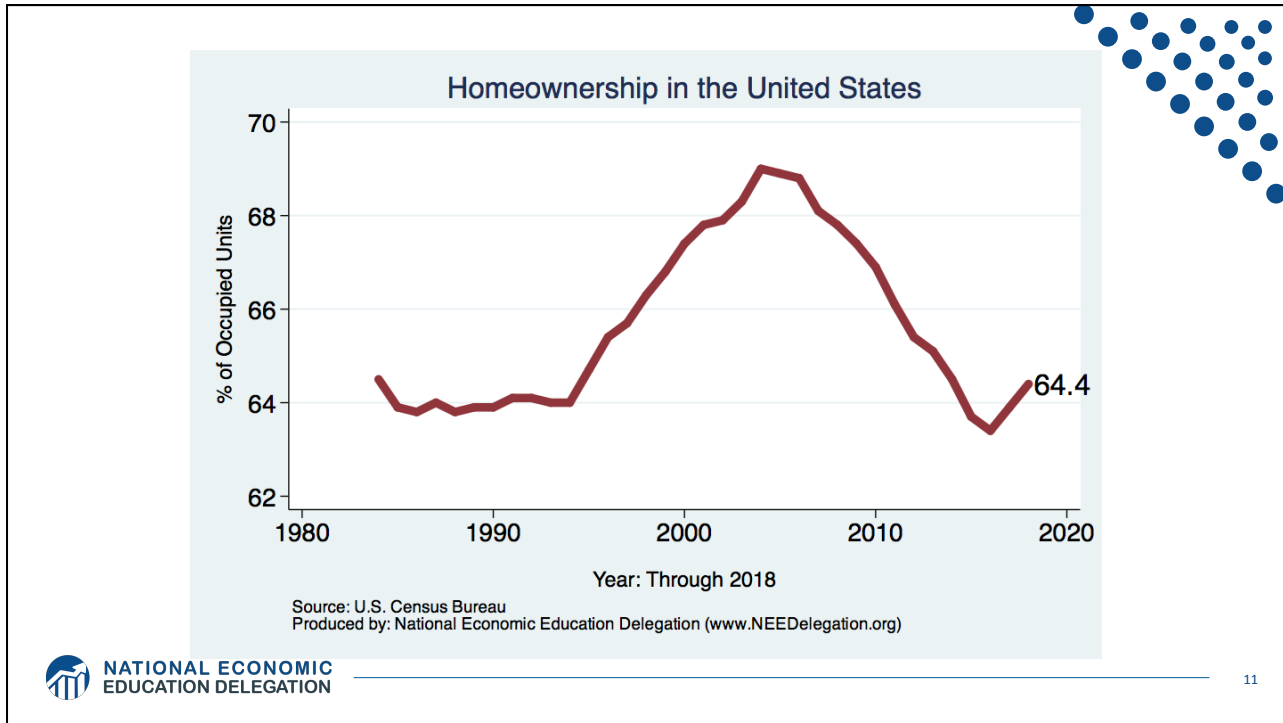
Source: S&P Dow Jones Indices LLC

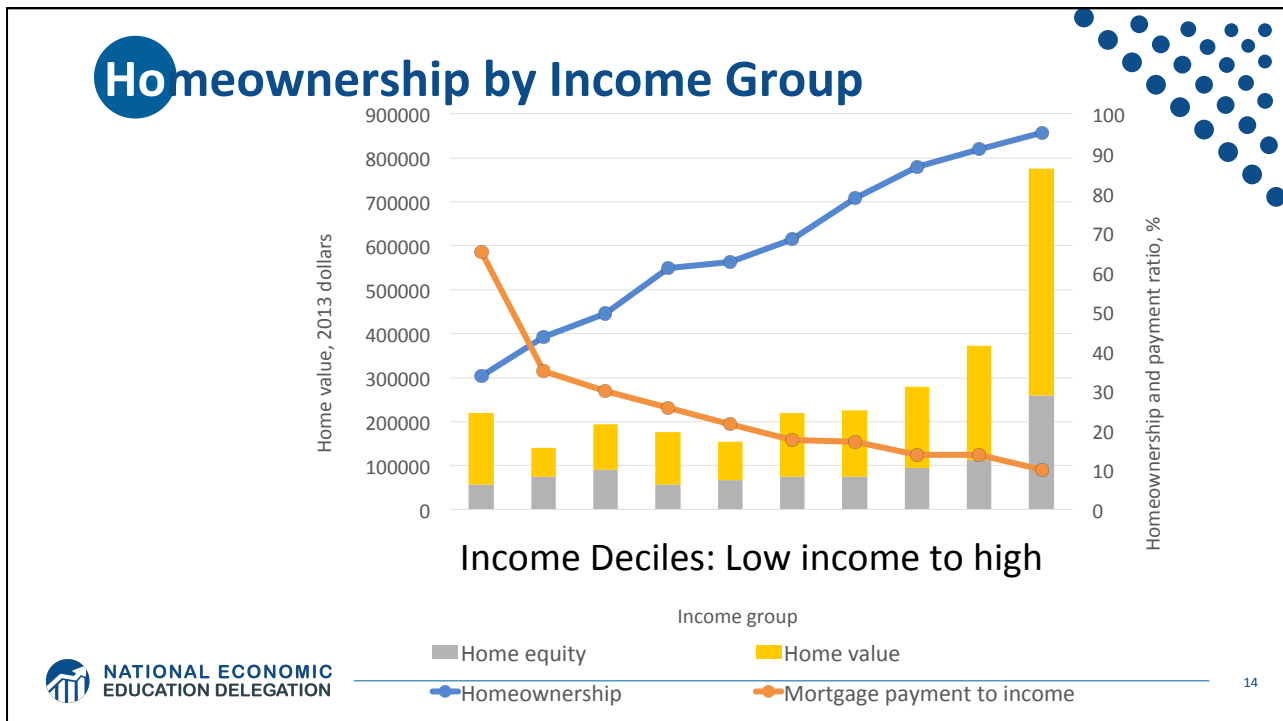
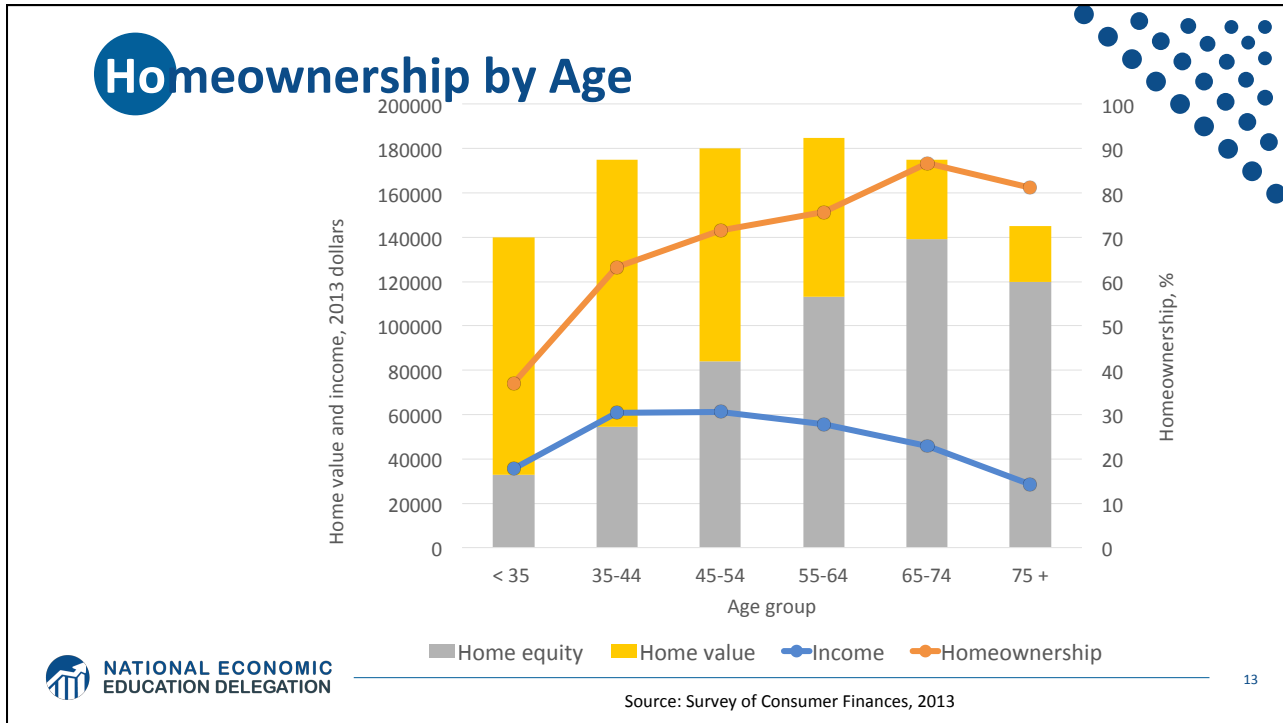
Price Appreciation Varies by City

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

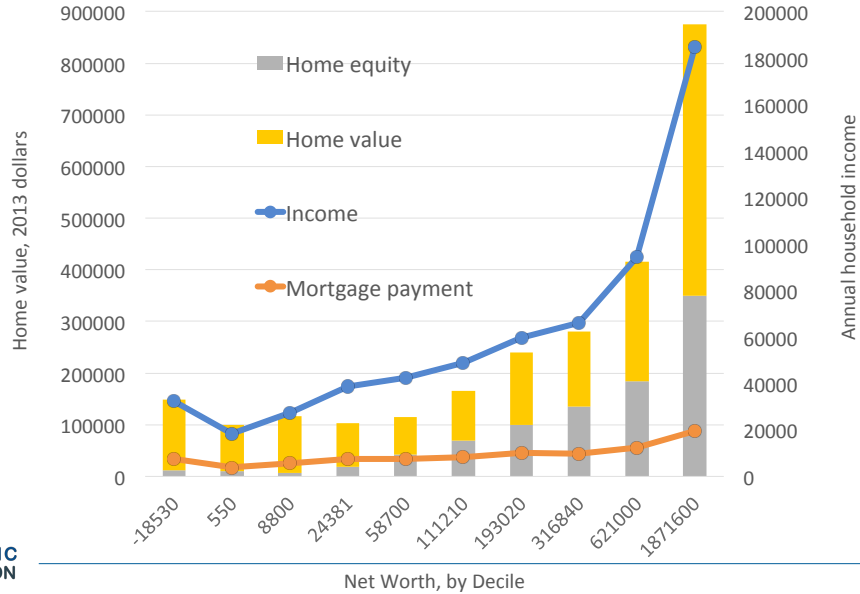


Source: S&P Dow Jones Indices LLC





Homes and Household Net Worth

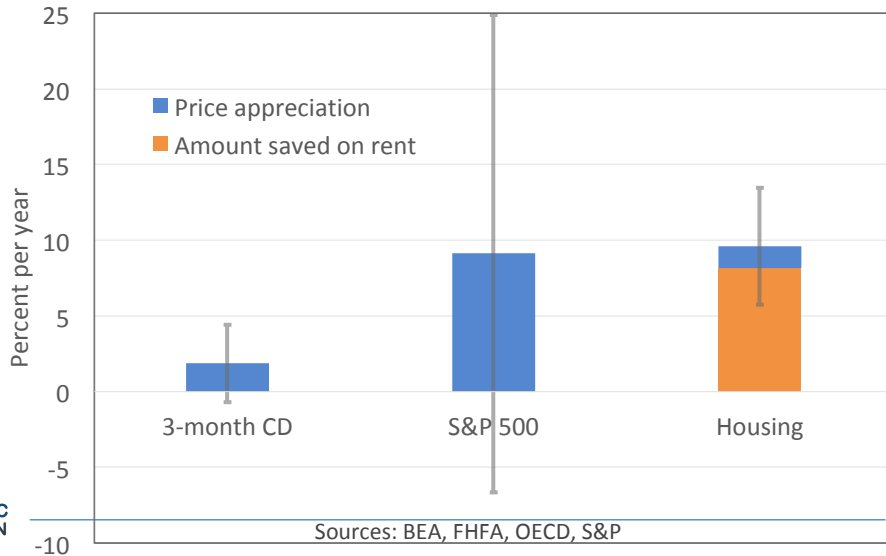


NATIONAL ECONOMIC EDUCATION DELEGATION

15

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.

NATIONAL ECONOMIC EDUCATION DELEGATION

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:

- Homeowners often 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?

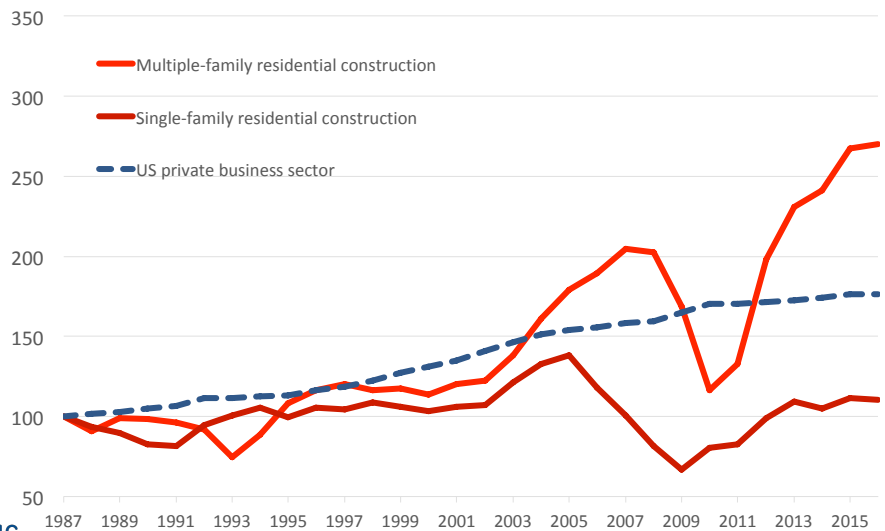
- **Demand:**

- Capacity to afford: income and interest rates



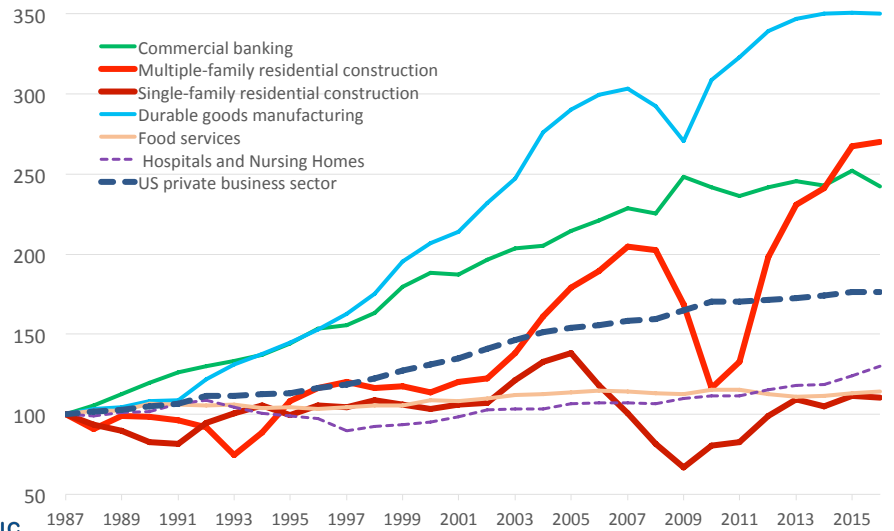
Is Construction Becoming More Efficient?

Labor productivity in construction, 1987=100



Is Construction Becoming More Efficient?

Labor productivity in US industries, 1987=100

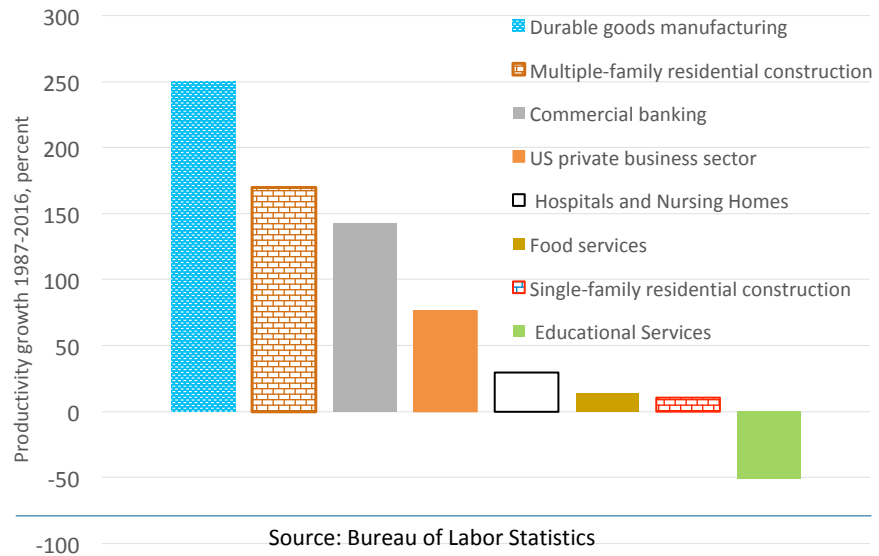


Source: Bureau of Labor Statistics

21

Productivity Growth Comparisons

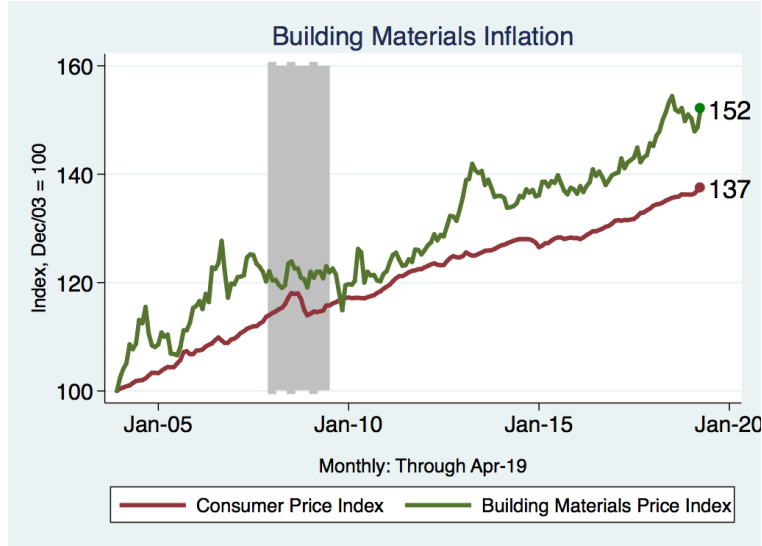
Productivity growth in US industries, 1987-2016



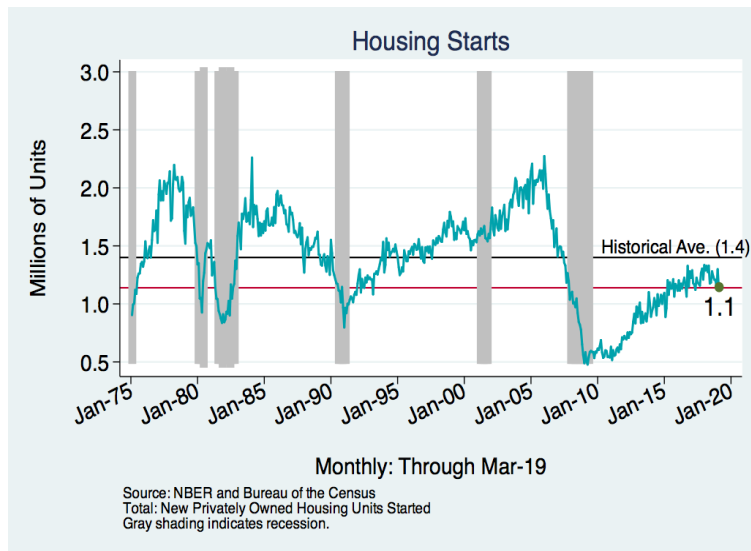
Source: Bureau of Labor Statistics

22

What About Building Materials Costs



Housing Starts

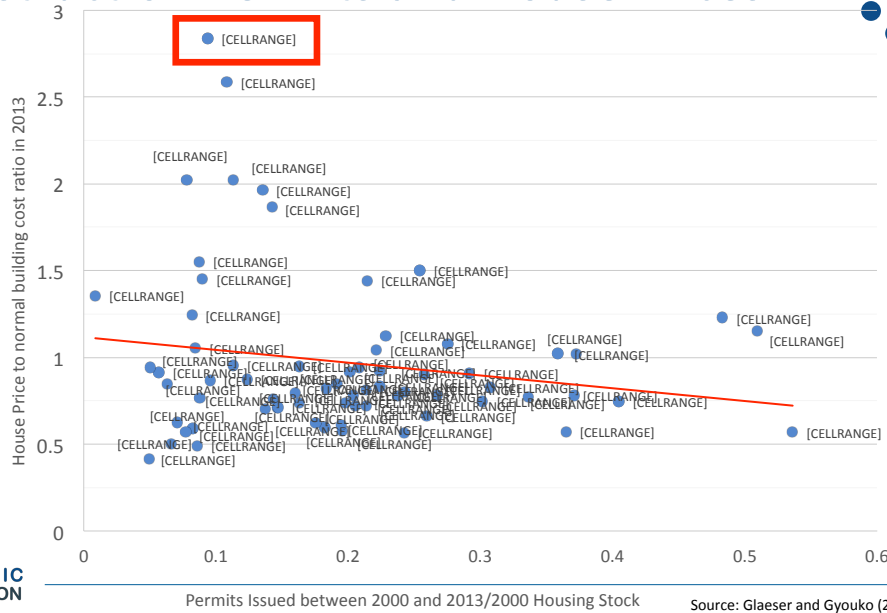


Source: NBER and Bureau of the Census
 Total: New Privately Owned Housing Units Started
 Gray shading indicates recession.

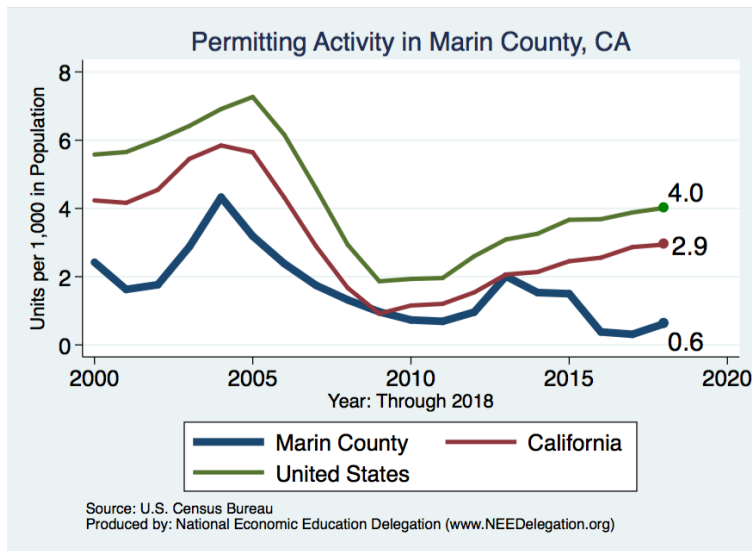
New Construction Permits and House Prices

House prices are generally higher where fewer permits are issued.

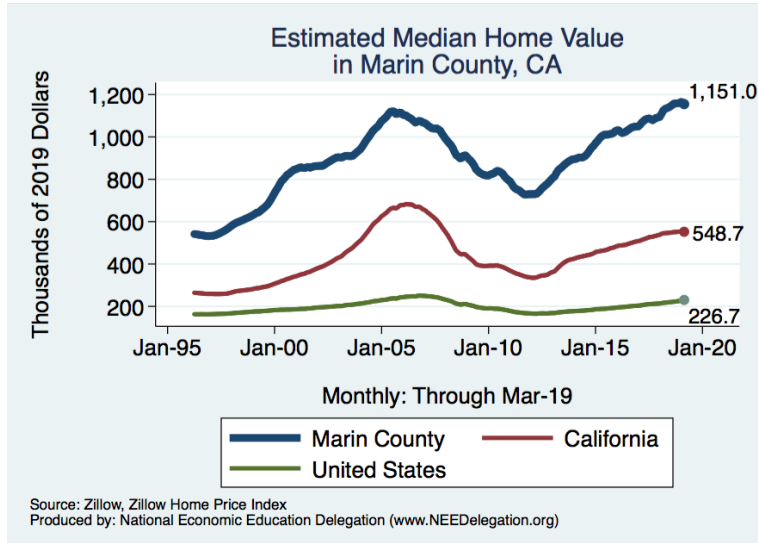
Weak because of slow growing cities.



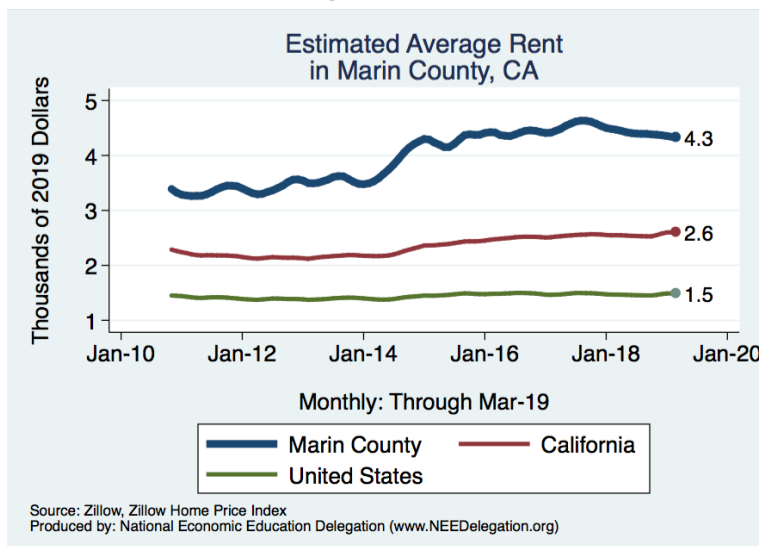
Marin is Not Keeping Up



...And Prices Reflect it!

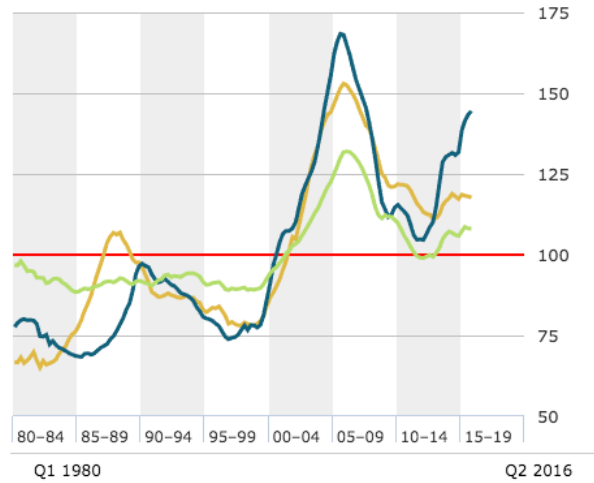


Rents in Marin County



The Relationship Between Prices and Income

Ratio of house prices to median household income, long-run average=100

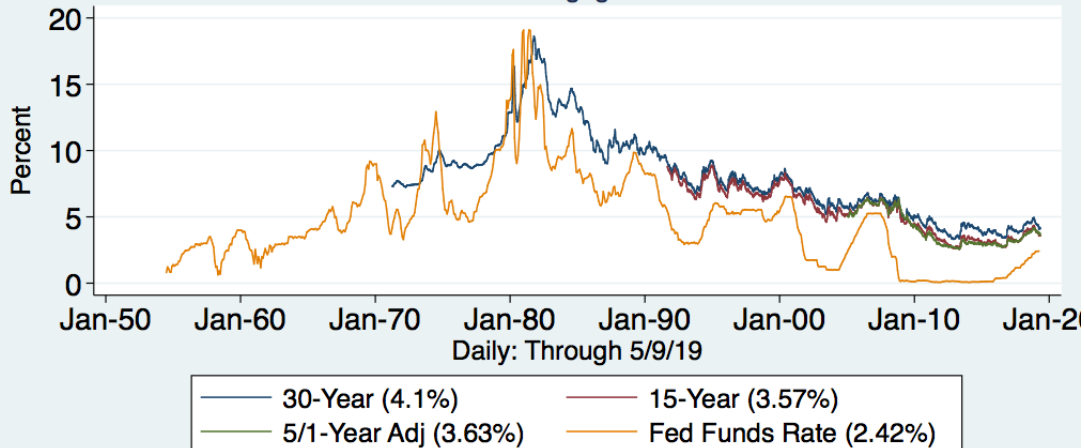


Source: Zillow; The Economist

29

Mortgage Rates

U.S. Mortgage Rates



Source: Freddie Mac



30

Policy Issues: Government Influence

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

32

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.”



NATIONAL ECONOMIC
EDUCATION DELEGATION

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.

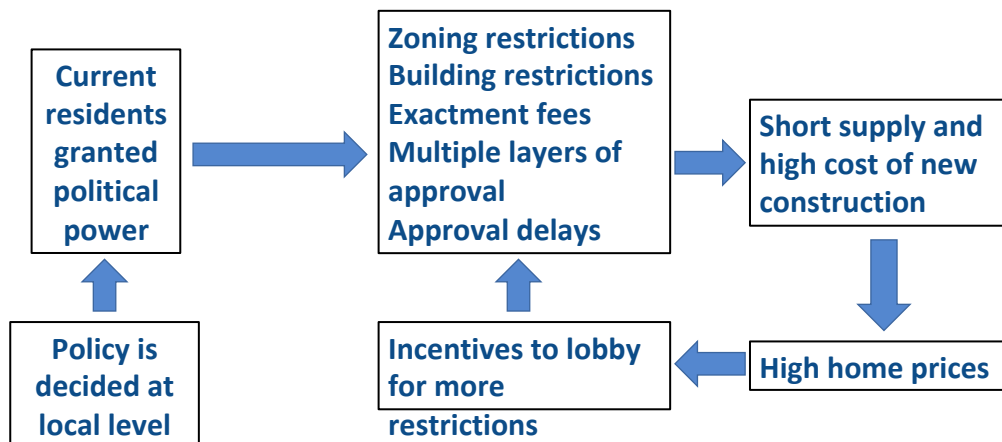
Yet the maze of local land use controls imposes costs on outsiders, and on the American economy as a whole.”

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

The Vicious NIMBY Political Cycle



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.



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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

Policy Reforms and Debates: Government Regulation of the Housing Market



NATIONAL ECONOMIC
EDUCATION DELEGATION

38

Affordability

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

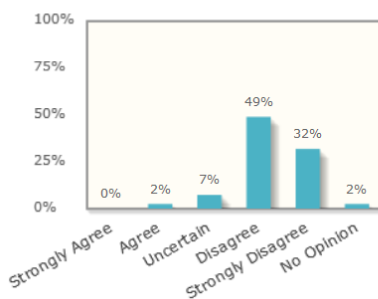
40

Rent Control – There is no “Other Hand”

Rent Control

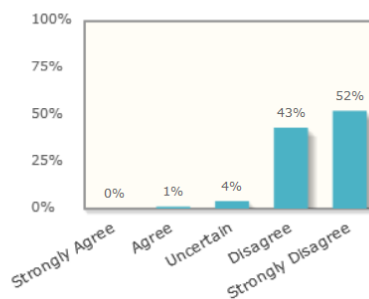
Local ordinances that limit rent increases for some rental housing units, such as in New York and San Francisco, have had a positive impact over the past three decades on the amount and quality of broadly affordable rental housing in cities that have used them.

Responses



© 2018, Initiative on Global Markets.

Responses weighted by each expert's confidence



© 2018, Initiative on Global Markets.



NATIONAL ECONOMIC
EDUCATION DELEGATION

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.
 - If there were more places to live, the landlord could not raise rent as easily.
 - *It's a supply issue.*

- **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.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

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>



NATIONAL ECONOMIC
EDUCATION DELEGATION

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.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

44

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**



NATIONAL ECONOMIC
EDUCATION DELEGATION

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
 - About 1 in 4 eligible households receives a voucher.
- **Public Housing**



NATIONAL ECONOMIC
EDUCATION DELEGATION

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.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

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
 - Why? 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.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

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.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

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?



NATIONAL ECONOMIC
EDUCATION DELEGATION

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 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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

Misguided Past Policies: Redlining

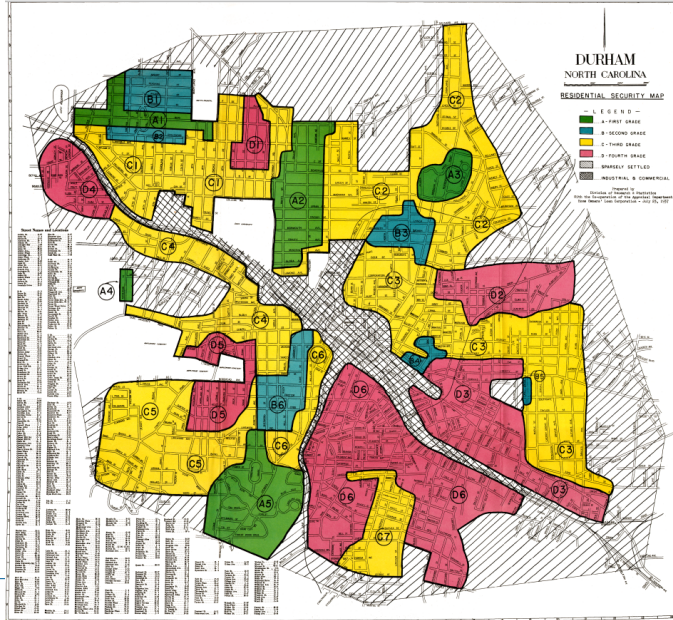
- For example, the government “redlined” heavily minority neighborhoods.
 - Redlining occurred when maps were drawn to show how risky investment in certain areas would be. The “riskiest” areas usually had the highest concentrations of black people.
 - o Some argue that the government merely drew these 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.
 - o Note: this is a market failure introduced by government!
 - o Set the stage for a persistent wealth gap across races.



NATIONAL ECONOMIC
EDUCATION DELEGATION

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:
 - Supply – both quantity and quality
 - Nearby uncontrolled properties
 - Zoning and permitting
 - 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.



Course Summary

- **US Economy**
- **Government Budgets**
- **Trade and Globalization**
- **Economic Inequality**
- **Climate Change**
- **Housing Policy**



US Economy

Things to Be Worried About

- **Stock Markets**
- **Yield Curve**
- **Government Debt**
- **Declining Labor Force**
- **Income and Wealth Inequality**
- **Policy Uncertainty**
 - Trade and immigration policy, especially

Government Budgets



Budget Summary: Slide 1

- **Total Spending: \$4.1 Trillion in 2018**
- **There is remarkably little discretion in the budget:**
 - Mandatory: 69%
 - Discretionary 31%
- **Fastest growing parts of the budget: Health Care and Interest**
- **By 2048:**
 - Debt is forecast to grow to 150% of GDP, from 80% today
 - Interest payments are forecast to grow from 8% to 22% of budget



Budget Summary: Slide 2

- **Categories that get a lot of attention are relatively small...**
 - Foreign Aid: 1% of the budget
 - Income support/welfare: 8.7%
- **Tax expenditures are enormous: 25% of spending
...and get relatively little attention.**

Summary: The Debt

- **The jury is (sort of) out on the debt.**
- **Conventional wisdom is being challenged:**
 - Previously: inflationary and crowd out private investment
 - New assertion: these things don't matter for a country that can borrow in its own currency.
- **Upshot?**
 - This is a policy choice.
 - The cautious approach is to rein in the debt.
 - The cautious approach may lead to slower economic growth.



Trade and Globalization



Conclusions

- **Trade and growth are positively related.**
- **Gains from trade can be widespread (lower prices for consumers).**
- **Losses from trade can be highly concentrated.**
- **Tariffs reduce trade overall.**
 - Imposing widespread losses to producers (who use imported inputs).
 - And consumers (who buy lower-priced imported goods).
- **More direct policies can be more efficient and save gains from trade.**
- **The trade deficit, per se, is not a source of worry.**
 - But activities that cause it, may well be.



Economic Inequality

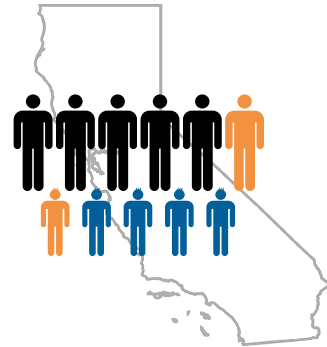


Transition in Policy Solutions

- **Is it possible to increase growth at the same time that you reduce income inequality?**
 - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
 - Expanding equality of access requires resources likely from the well-to-do.

Summary

- **Income inequality is clearly increasing.**
 - The economy is clearly favoring owners of productive resources over labor.
- **The causes appear to be largely driven by:**
 - The market – technology, competition, and trade
 - Changing institutions.
- **Open questions are:**
 - To act or not to act?
 - If so, how?



NATIONAL ECONOMIC
EDUCATION DELEGATION

Climate Change



NATIONAL ECONOMIC
EDUCATION DELEGATION

70

Summary

- **Climate change is real, is caused by human actions, and has impacts we're already feeling.**
- **We need to reduce emissions to balance the costs of action against the costs of inaction.**
- **Scientists and the IPCC recommend that we work to keep warming below 2 degrees celsius.**
 - *Economists believe that this goal is well worth the costs!*
 - *It passes a Cost-Benefit Analysis*



NATIONAL ECONOMIC
EDUCATION DELEGATION

Summary – *continued*

- **There are many ways to reduce emissions.**
- **Economics-inspired policies can help us do this at the lowest cost.**
- **Taxes and cap and trade are proven effective tools to fight climate change!**
- **Other tools may also be necessary.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

Bill Nye Explains A Carbon Tax



Thank you!

Any Questions?

www.NEEDelegation.org

Jon Haveman, Ph.D.

Jon@NEEDelegation.org

Contact NEED: info@needelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php