

# Why Washington can't fix the new housing crisis

*There aren't enough homes where Americans want to live—and not even the president has the tools to change the market. What now?*

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Donald Trump campaigned on restoring the “American dream,” a 1931 metaphor for economic success that has become political shorthand for homeownership. But as president, Trump faces a unique challenge delivering on that promise: The country is in the grip of a new kind of housing crisis that Washington has virtually no power to solve.

The crisis is a shortage of houses. Nationally, the inventory of homes for sale has been shrinking for 24 straight months, stoking bidding wars for even the lowliest fixer-uppers. In January, a measure of supply hit its lowest in history, according to the National Association of Realtors. That scarcity has helped push the homeownership rate to a near 50-year low. As 83 million millennials approach home buying age, the shortage is expected to get only worse.

The president claims to have the problem well in hand. “Homebuilders are starting to build again,” he told a cheering crowd in Iowa last month. But that’s wrong: Construction is at an eight-month low and builder optimism is waning. There were so few houses for sale in May that buyers pushed prices to a new record high. The scarcity has helped push homeownership among young adults to its lowest in at least a generation, according to Bank of America. Today’s millennials are less likely to be homeowners than their parents or grandparents were at their age.

But Washington, which has a century long track record of goosing the market to encourage buyers, has almost no leverage when those buyers have nothing to buy. The Trump administration has offered few plans for tackling the problem beyond rolling back a clean-water regulation that raised builders’ cost of doing business. Housing and Urban Development Secretary Ben Carson has said building codes need to be updated to pave the way for inexpensive modular homes and other construction innovations, although he hasn’t gotten more specific.

The problem they’re facing is that American housing policy has always pointed one direction: encouraging people to own their own houses. Subsidized mortgages, tax breaks and, lately, crazy-low interest rates are all designed to boost the market for housing. And the market has usually cooperated: With the government juicing demand, builders swooped in and a steady supply of new houses typically followed.

But in recent years, that dynamic has broken down. Cities and towns that hold sway over residential construction have increasingly been derailing Washington’s demand-driven agenda. Ever since New York City pioneered land-use controls a century ago, local laws have tended to rein in homebuilding rather than accelerate it. Today’s not-in-my-backyard activists, environmentalists and preservationists are armed with arsenals of local and hyperlocal rules designed to keep development at bay. And the most in-demand cities and suburbs tend to have the tightest restrictions—putting a huge squeeze on people trying to live in the country’s most thriving areas.

As the mismatch between local and federal policies starts to look more like a collision, economists and housing leaders, including Mark Calabria, a top Trump administration official,

and Shaun Donovan, Barack Obama's HUD secretary, have sounded the alarm. But a fix might be out of Washington's hands. "These rules are made at the micro, micro level," said Harvard economist Edward Glaeser. "The federal ability to override local regulation is really pretty minimal."

In job centers large and small, a lack of residential construction is reaching crisis proportions, prompting workers to shun high-cost cities such as Denver and San Francisco for more-affordable living in places like Atlanta and Dallas. It's a historic shift. In the past, America's urban economic engines were also construction boomtowns. From 1880 to 1910, Chicago's population grew by an average of 56,000 each year, according to Glaeser. By contrast, from 1980 to 2010, as San Francisco was blossoming into the world's tech capital, its population barely changed: annual growth averaged only 4,200.

Scarcity has home prices rising at a rapid clip. From 2011 to 2016 — a period of economic sluggishness and weak wage growth—the median price of a new home went up nearly 34 percent, to \$348,900.

"If we want housing to be more affordable, we need more houses," said Sam Khater, deputy chief economist at CoreLogic, a housing data provider. "From a federal perspective there's nothing being done."

**WHAT COULD BE** done? The problem is, not much. Americans have repaired their credit since the financial collapse, and there's no lack of appetite for homes, but the federal housing agenda is still fixated on boosting demand from buyers. Its toolkit consists of levers such as preserving homeowner tax breaks, access to credit, and the 30-year, fixed-rate mortgage—an American innovation that owes its existence to government-controlled Fannie Mae and Freddie Mac.

Federal policy has less to offer the supply side of the equation—builders—and the economic recovery has less been less kind to them. The number of homebuilding companies shrank 50 percent from 2007 to 2012, according to the most recent Census data, hitting their lowest level since 1997. The industry has yet to recover.

Those builders that remain can't break ground fast enough to keep up with demand. They lack skilled workers, who fled the business during lean years and never came back. Smaller banks stunned by the housing collapse and flood of regulation that followed aren't eager to offer development and construction loans. The cost of materials has skyrocketed and is bound to rise even more after the Trump administration said it would impose tariffs of up to 24 percent on Canadian lumber.

Calabria, chief economist to Vice President Mike Pence and an administration point person on housing, has warned about the inability of cities and counties to respond to big swings in buyer demand and population growth. Calabria is an advocate of zoning deregulation—he called land use a "crucial economic issue" for the whole country—but absent a big new idea or profound shift in thinking, the administration has little power to force localities to liberalize land-use laws.

Calabria, who is assembling a team to develop the Trump administration's plan for housing reform, didn't respond to questions about what he has in mind. Last fall, he tipped his hat to Obama after the president tried to jawbone cities and counties into easing up on zoning restrictions. "There are a lot of very strong economic reasons to worry about the constraints on housing supply that go beyond housing affordability," Calabria told POLITICO. "It reduces mobility, it adds inequality."

Indeed, a lack of residential construction is one reason Americans on the economic margins are still struggling after eight years of economic growth. Entry-level homes are seeing the biggest price gains, according to Khater, so the inventory crunch has hit lower-income households and first-time buyers the hardest.

**WHAT NOW? TRUMP** has few easy options. At the federal level, builders are pinning their hopes on infrastructure spending, looser bank rules and an immigration bill that will draw foreign workers back into construction, though it's not likely those priorities can get political traction in Congress.

Washington, of course, can dial back its demand levers. Affordable housing groups are lobbying to cut the mortgage interest deduction, a tax break that flows largely to the wealthy and encourages people to buy bigger, more expensive houses, but they're up against a deep-pocketed and powerful housing lobby, including bankers and real estate agents, aiming to preserve the status quo. Then there's the risk that congressional tinkering with tax or mortgage rules could cause home prices to fall or sales to slow, a shift that would be felt well beyond Middle America, to Wall Street and the foreign investors who hold billions of dollars in U.S. home loans. That's one reason Congress still hasn't tackled mortgage reform nearly nine years after the crisis.

That leaves the supply side of the equation. Trump could, like Obama, use his bully pulpit to make the case for local land-use deregulation, a message that would appeal to libertarian ideals and cheer progressives fighting for more affordable housing.

But the best hope for a policy fix might lie somewhere between the White House and Main Street. States have the authority to curb local power and some, including Massachusetts, have already tried. Massachusetts builders can win zoning flexibility if they build affordable housing units where prices are high, for example. The state also can levy financial penalties against high-cost communities that refuse to greenlight new construction.

"I don't think there's anything in the Constitution that gives the federal government the right to override local rules," Glaeser said. "The place you can make a difference is the statehouse."

And a new breed of local revolutionaries outside the Beltway is doing what the federal government can't — challenging the not-in-my-backyard establishment. A coalition of California renters established the YIMBY Party, which is taking root against NIMBYism in Denver, Austin and other high-cost cities. YIMBYs — it stands for "yes, in my backyard" and isn't an actual political party — claimed their first victory last summer when they blocked a San Francisco ballot initiative that would have subjected zoning decisions to hyperlocal control.

While the group is focused on affordable rentals, its pro-growth agenda calls for higher density housing that will lift homeowners and tenants alike.

"The U.S. government has been totally hands off with this," said Sonja Trauss, the YIMBY Party's 35-year-old co-founder. "Someone has to get involved."

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