

Housing Supply and Innovation
Housing, Transportation, and Community Development Subcommittee
Senate Banking Committee
September 12, 2023

Opening Statements

Chair Smith (D-MN) said without a safe and affordable place to live, nothing else in your life works. She said that the US faces a serious problem when it comes to a lack of housing supply. Smith said that the annual supply of housing units is running dramatically behind demand, and we need to catch up. She said that we are short affordable rental homes and the share of household income needed to cover rent an apartment is increasing. Smith said one in four homeowners are spending more than 30% of their income on housing. She said that housing is an issue across rural and urban areas. Smith added that employers are having trouble hiring employees because these employees do not have affordable places to live. She said that there are a lot of factors and policies that have led to the current housing situation, and we have made it hard, complicated, and very expensive to build homes. Smith pointed to a city in Minnesota that has lessened restrictive zoning, lessened parking requirements, and allowed for ADUs. She said that they are hearing from witnesses today on what works and what the federal government can do better. Smith pointed to how the federal government has been involved in housing for a long time, noting the creation of the FHLBs. She looked forward to hearing about bipartisan solutions on housing.

Ranking Member Lummis (R-WY) said that she was grateful for Smith’s work on the housing dilemma. She said that buying a home is part of the American Dream and it is continuously out of reach. Lummis said that people we need in our communities, like nurses, cannot afford to live in the communities that they serve. She said that we need millions of additional housing units to meet demand and said that markets have not kept up, so it is important to look at what is causing the failure. Lummis pointed to how a lot of these issues are outside the federal remit, but they should still look to reduce regulatory barriers that increase costs for housing. She said that 40% of the costs associated with building multifamily housing is from regulations. Lummis added that most people are also not buying right now due to higher rates. She said that she wanted to dig into the innovations that the witnesses are bringing to the table as innovation can often present solutions. Lummis suggested that federal lands could be opened up and they could work to ease supply chain challenges as well. She said that modular housing is also a great way to reduce costs. Lummis said that she wanted to look beyond the traditional federal housing tools, like vouchers, which just further spur demand.

Witness Testimony

Dr. Jenny Schuetz, Senior Fellow, Brookings Institution, focused her testimony on several aspects of housing supply and innovation, including national and regional trends in housing supply and affordability, the role of zoning and land use regulation, as well as opportunities for federal engagement to encourage housing supply. She noted that local governments have adopted policies, like land zoning and building codes, which have made it more difficult to build homes where people want to live. Schuetz said that single family exclusive zoning is most common and most problematic. She said that the past several years have seen a lot of bipartisan housing reform at the state level and the federal government can support these reforms. Schuetz pointed

to how there could be collaboration through HUD, clear guidelines on best practices from HUD, and financial incentives for local and state governments to better use their investments in housing and transportation.

Ms. Janne Flisrand, *Co-Founder And Board Member, Neighbors for More Neighbors (N4MN)*, testified on Minneapolis' trail blazing housing policy and said that a decade ago, people in the city recognized that the zoning and permitting process prevented them from building new homes. She described how they went about changing these processes and N4MN outreach at the grassroots level. Flisrand said that the most important changes were ending the apartment ban and eliminating parking bans. She said that zoning is a local issue, but there can be national policies to incentivize changes.

Mr. Gregory Good, *Chief Real Estate Officer And Director Of Asset Management, Invest Newark*, focused on a key component that serves as the vehicle to drive Invest Newark's economic development agenda – the Newark Land Bank, which is New Jersey's first and only land bank and for which Invest Newark is the operator. He outlined the benefits of the Newark Land Bank and added that they use the disposition of property to create greater housing affordability and close Newark's wealth gap. Good said that their success with the Land Bank is driven by their ability to leverage public assets to preserve and support affordability. But there remains a key missing ingredient – affordable financing not just to buy, but to build. He said that it is worth noting that programs like LIHTC and NMTC produce needed housing, but there are only so many developers that can produce at such a large scale. Good emphasized that the federal government needs to address smaller projects as well.

Mr. Eric Schaefer, *Chief Business Development Officer, Fading West Development*, said that this hearing is timely given the lack of affordable housing across the country. He said that he is here today because Fading West and the modular manufacturing industry firmly believe Congress can have a role in helping the nation's homebuilding industry to continue to innovate and thereby be a partner in resolving the housing shortages across several states and localities. Schaefer pointed to the root causes of the housing affordability crisis and outlined Fading West's solutions to these challenges. He pointed to how Colorado Governor Polis has embraced modular housing and noted how Fading West has partnered with Habitat for Humanity. Schaefer then outlined how federal policymakers can help address the affordable housing crisis.

Member Questions

Sen. Reed (D-RI) said that zoning is a constraint on affordable housing projects and pointed to HUD's PRO Housing grant program. He asked if this program is a good example of what Congress can do. Schuetz said yes, to the extent that we know so far as this program is fairly new. She said that with federal grants, you need to make sure they are accessible for smaller communities and address how the grants are awarded so HUD can evaluate the plans submitted to them to see what will work on the ground. Reed said that often it can be a capacity issue when it comes to the technical details around redoing zoning laws and asked if Schuetz had any more recommendations. Schuetz agreed that capacity is often lacking and suggested more technical assistance from HUD on changes that localities can consider. She added that HUD can also provide guidance on what has worked in other communities. Reed said that there is built in resistance in some communities given how it can change the character of the community, but this is less of an issue when changes do not impact the character of the community. Schuetz agreed

and said that we are really just going back to what we used to allow all the time. Reed asked if one of the obstacles to manufactured homes is zoning. Schaefer said that they build modular homes and on zoning, there are 300 different building codes in Colorado and that is where the slowdown comes as it slows down manufacturing. Reed thought this suggested federal as well as state action. Schaefer agreed. Reed thought HUD should collaborate with the states to try to simplify this, and thought modular homes were a good approach to meet the extreme demand.

Ranking Member Lummis (R-WY) asked what the housing shortfall looks like in rural communities. Schuetz said rural areas in places like CO and WY have seen strong demand for seasonal and vacation homes and there are often shortfalls of construction workers in these areas to build more homes. She said that modular homes could provide some solutions here and zoning and building codes need to allow for these to be built. Lummis pointed to an article in Cowboy State Daily on squatting in national forests, saying that these people do not have homes and they stay there for years or months. She asked Schaefer how rural areas struggle to provide enough housing, especially in mountainous areas in the West. Schaefer said that it is difficult for them to find subs and general contractors, and this is why they decided to build their own factory for modular homes. Lummis said that these areas have extraordinary insulation needs and strong roofs to bear the snow loads and asked if modular homes can handle that. Schaefer said yes and all their homes are built to climate zone 7. Lummis asked about their modular construction for multifamily housing and apartments. Schaefer said that they just finished their first multifamily project for Breckenridge, and they had 60 units and people will be moving in soon. He said that ‘stick building’ this project would have taken years. Lummis said housing for workers, especially in resort communities like Jackson Hole, is very difficult. She said that the problems that the panelists are solving are extremely important and then turned to Good on financing. Lummis pointed to what Schaefer is doing in CO and asked Good how they help businesses like that make these products available in their communities. Good said that to the extent that they can have a modular factory come to NJ, that would be integral, and if it is fairly new, state regulations can be problematic, so they have to work with the state on this.

Sen. Fetterman (D-PA) said that there is not a single state or county in the US where a minimum wage worker can afford an apartment which is a disgrace. He asked how a lack of affordable options near opportunity hurt the economy. Schuetz said that when housing costs are high, employers have trouble retaining workers. She said that when people spend more of their income on rent, then they have less to spend at local businesses. Fetterman said that community land trusts are a national model and asked Schuetz to talk to how they can improve affordability. Schuetz said that these land trusts can be a good way to acquire properties and hold them and also develop housing that can be rented or sold. Fetterman asked if any programs are currently failing. Good said that he would not say any programs are failing, but there is more they can do.

Sen. Menendez (D-NJ) said that he was glad that they were exploring innovation in the housing sector but thought more could be done to improve existing federal housing programs. He said that federal lending programs have not kept pace with the market and asked Schuetz if, even after adjustments for inflation in higher cost areas, FHFA multifamily financing is not a viable financing tool in many parts of the country. Schuetz said that she is not an expert on this, but housing costs are certainly rising faster than inflation so that has been challenging on the financing side. She said that builders are also paying more at all parts of the construction process

due to higher interest rates. Menendez said that the current statutory limits pose a challenge to HUD and FHA meeting their mission to provide affordable housing. He said that he has a discussion draft that would modernize FHFA's ability to finance multifamily housing across the country. Menendez said that this is a simple proposal that would update FHFA's lending ability to accurately reflect the increasing construction costs. He said that one way they can reduce the pressure on affordable rental housing supply is making it easier for renting families to transition into ownership, but this transition is often difficult. He asked Good how his organization has helped prospective homebuyers. Good said that they have worked to bridge the gap for those in rent subsidized apartments who want to attain homeownership. He said that they have a great program and there are tools available from the federal government on this. Menendez said that sometimes first time homebuyers are competing with institutional investors, and asked Good how they can incentivize developers to build properties for low and moderate income families. Good said that time kills all deals and Invest Newark looks to expedite deals that are focused on these families. Menendez said that affordable housing is increasingly located in areas far away from jobs, but thankfully IJA injects billions into our transportation system. He said that he led the charge with his Livable Communities Act, which incentivizes the building of more affordable homes near public transit. Menendez asked how critical this is. Good said that this legislation is vitally important.

Sen. Cortez Masto (D-NV) agreed with Menendez on the important nexus of transit and housing. She pointed to the idea of land trusts and how they have one in Nevada, but the issue she has is that her staff has been trying to find mortgage lenders for deed restricted land for 200 moderate income homebuyers. She asked what it will take and how we can improve Fannie Mae, Freddie Mac, and the FHLBs to approve these land trust mortgages. Good said that the federal government has addressed this in the housing discrimination context and thought they could require mortgages for those locked out of the traditional mortgage process. Cortez Masto asked if anyone had other ideas. Schuetz said that this is the issue of long term affordability but also the issue of building on federal lands. She thought local credit unions and CDFIs could be brought in to deal with this issue.

Sen. Sinema (I-AZ) said that she hears about the housing affordability crisis from Arizonians and that there is a lack of homeless shelters and transitional housing. She noted that Phoenix changed the law to allow for ADUs/casitas and asked Schuetz how this would impact supply and affordability there. Schuetz said that we saw this in California, and it took a while to build this up. She said that California has been building 60,000 casitas and it can be part of the solution as a source of income but also a source of additional housing that can be rented out. Sinema asked for Flisrand's opinion on laws that allow for homeowners to build casitas. Flisrand agreed with Schuetz and said that she became a homeowner because she had a fourplex and she thought that legalizing ADUs/casitas was a critical piece of supply. Sinema asked what policy issues they should be aware of in thinking about scaling up prefab and manufactured homes. Schaefer said that the issue is on the supply side; the more factories they have, the more they can meet affordable housing needs. Good said that ADUs/casitas are a good addition to the economy, but there can be zoning laws that do not allow for rooming houses so there could be questions around zoning when it comes to ADUs and other transitional housing.

Chair Smith (D-MN) said that a lot of communities are interested in the zoning reforms in Minneapolis and asked Flisrand what lessons people should learn from her experience leading N4MN. Flisrand said that change is incremental and when there was a discussion of allowing plexes everywhere, there were concerns that everything would change overnight, but the increase in plexes is very slow. Smith said there is a lot of conversation on the missing middle and asked Schuetz what this means and what we should do to enliven this part of the housing sector. Schuetz said that by ‘missing middle’ they mean everything from a single family attached house to a large high rise apartment. She said that they are ‘missing’ because they are not frequently built anymore. Smith said that this missing middle could include small towns in Minnesota and that kind of housing would fit there. Schuetz agreed and said that every part of the country has examples of this, like row houses on the East Coast. Smith said that some of this housing construction was made illegal and there are also economies of scale for large developers. She asked how we could fix that. Schuetz said that small scale family companies often want to build these homes and there is also space for modular housing here. Smith asked how modular construction can fit into this missing middle. Schaefer said that this is how his company really came into existence. Smith said that there are often misperceptions about modular homes and asked Schaefer to speak to this. Schaefer said that their homes are architecturally interesting, and you can do whatever you want with the exterior.

Ranking Member Lummis (R-WY) asked if there is anything eating at them that they did not get to talk about. Schuetz said that we need to preserve the existing housing stock and ensure they stay habitable. Good said that to the extent that their advocacy can pair transportation and housing, which will make housing more accessible. Schaefer said that for modular housing, they need help with the supply side through grants or low interest loans. Flisrand said that rents have flattened out in Minneapolis because they have built a lot of homes and they built market rate homes which made the affordable housing more available.

Chair Smith (D-MN) entered statements to the record from NMHC, NAA, BPC, MHI, and International Code Council, among others.