

Priced Out: The State of Housing in America
Senate Committee on Banking, Housing, and Urban Affairs
July 21, 2022

Opening Statements

Chairman Brown (D-OH) remarked that wages have not kept up with housing for multiple years and said that Congress has not done its job to ensure that housing is affordable and that there is enough housing supply. He continued that where you live determines so much of one's life and added that housing is the biggest part of the paycheck. Brown went on that the dream of homeownership is becoming more difficult and said that when a family can finally afford a home, they are outbid by institutional investors who can buy the house in cash. He added that it is taking people over a year to buy a home and they are forced to continue to rent in a tight rental market. Brown said that this continues to exacerbate the wealth gap and referred to legislative solutions to create more affordable housing for LMI communities, energy efficient housing, production of housing in rural and tribal communities, fund repairs for manufacturing housing, and preservation of existing housing. He warned against displacing families from the communities they love.

Ranking Member Toomey (R-PA) stated that home price appreciation is not happening in a vacuum and said that inflation fueled by reckless spending and lax monetary policy is occurring across the board. He discussed wages falling every month and was not surprised that homeownership has become increasingly unaffordable. Toomey pointed to bad policy decisions by the Biden Administration and Democrats like rental assistance vouchers, economic stimulus, and expansion of the eviction moratoriums. He added that there are overlapping programs from HUD and other agencies, which brought the country to the situation we are in without narrowing the racial wealth gap or the homeownership gap. Toomey stated that government policies have run up debt and only made housing more expensive. He suggested eliminating tariffs on steel, lumber, and aluminum to decrease building costs. Toomey pointed to the administration's support for a partisan House passed proposal to increase spending on housing vouchers and public housing, which he argued would only further fuel inflation. He added that the Biden Administration is pushing Fannie and Freddie into policies that are risky and noted that the Government-Sponsored Enterprises (GSE) are still in conservatorship. He said that the GSEs' new equitable housing finance plans are racially motivated and referred to a [letter](#) sent by Committee Republicans to FHFA on this. Toomey stated that racial discrimination is always wrong and said that the state of the housing market only shows the urgency of reforming the GSEs. He called for an end to the GSEs' conservatorship and for a phase out of housing subsidies.

Witness Testimony

Dr. Lawrence Yun, Chief Economist and Senior Vice President for Research, National Association of REALTORS® (NAR), remarked that NAR constantly hears from their members about lack of inventory and said that single-family building has fallen over a series of months. He continued that the median home prices continue to set new records and believed that home prices are set to decelerate but did not foresee national home price decline. Yun said that lack of housing supply is not a new phenomenon. He estimated that there is a median net worth of \$320,000 for each homeowner and said that homeowners are quite content. Yun added that this is not the same for renters as they are paying increasingly high rents and feel that homeownership is becoming less of a reality. He said that unless we address supply, homeownership will continue to be a challenge.

Dr. Douglas Holtz-Eakin, President, American Action Forum, stated that in 2021, we saw a record number of supply which should lead us to believe that the issue is demand. He discussed the issues with the additional demand subsidies that Toomey mentioned and also pointed to monetary policy at the Fed like purchasing mortgage-backed securities (MBS). Holtz-Eakin expected that in the stressed housing market, that the Fed is reversing course so mortgage rates will be higher and said that the Fed is also going to unload about \$35 billion dollars in MBS. He believed that the Fed has to do this and if the Fed wants to hit a two percent inflation target, the Fed needs to bring down shelter price inflation. Holtz-Eakin expected a stressed housing market for the next couple years and highlighted the continued role of the GSEs. Holtz-Eakin feared mission creep and worried about further generational loss. He thought it would be wise for FHFA to protect the taxpayer and focus on the supply side when making policy. Holtz-Eakin agreed with relaxing tariffs on supplies and encouraged apprenticeships in the construction field.

Peggy Bailey, Vice President for Housing Policy, Center on Budget and Policy Priorities, focused on the lowest income individuals and families who cannot afford housing. She discussed factors that make housing unaffordable, such as increasing rental costs, shortage of single-family homes, deterioration of existing homes, and lack of housing vouchers. Bailey stated that vouchers help low-income families afford rent while giving landlords and owners the money they need to keep the property and pay bills. She added that vouchers continue to allow people to live where they want and help ensure that segregation of the lowest income people does not occur. Bailey continued that the Emergency Housing Voucher program shows newly developed buildings' ability to house people. She suggested that Congress invest more in housing vouchers, increase capital funding for deeply affordable housing, preserve existing affordable housing, remove barriers to homeownership, and ensure that tribal communities are included in all of these policies and investments.

Member Questions

Sen. Warnock (D-GA) noted that the Georgia housing market has recently been deemed unaffordable, especially in Atlanta, and said that the best way to lower prices is to increase supply. He asked Bailey about immediate solutions to renters to help provide relief. Bailey replied that providing rental assistance through the Housing Choice Voucher (HCV) program would immediately provide relief to struggling renters. Warnock asked if tax cuts could be helpful too. Bailey agreed that tax credits could be helpful and would free up cash for other needs. Warnock pointed to the Child Tax Credit (CTC) as one of these tax cuts, regretted that it was not extended, and asked if the CTC could be helpful. Bailey agreed that provisions in the ARP were very beneficial to lowering child poverty. Warnock turned to institutional investors and Wall Street private equity firms and said that institutional buyers made up 19 percent of all sales in Georgia. He said that out of state investors made about 43 percent of all purchases in the Atlanta area in late 2021 and asked Yun about the effects of targeted PE investments on the housing market in Atlanta and surrounding areas. Yun replied that he has heard this from members in Georgia and that institutional investors are pushing out first-time buyers and said that this changes the dynamics of the neighborhood. Warnock asked Yun what data we need to understand how institutional investors are influencing our housing market. Yun replied that data is very important here and expressed concerns about corporate landlords creating more rental homes rather than giving people the opportunity to buy their own home. Warnock looked forward to introducing legislation on this in the future.

Ranking Member Toomey (R-PA) asked if the big surge in supply in recent years applies to both single and multifamily housing. Holtz-Eakin agreed. In light of this, Toomey said that a lot of price escalation is probably a reflection of inflation. Holtz-Eakin agreed. Toomey discussed the Fed's decision to allocate credit in the mortgage space where there was not a problem and said that supply is still an issue at the end of the day. He then asked Holtz-Eakin about zoning barriers, the labor shortage, and other challenges that are holding back supply. Holtz-Eakin agreed that it is a combination of factors that contribute to the lack of housing supply. He emphasized that to solve the lack of housing quickly would require a residential construction boom which would not be healthy for the economy right now. Toomey related the demand side housing subsidies to the existing education subsidies which have increased the cost of education. He then asked about the impact of demand side subsidies. Holtz-Eakin replied that subsidies just exacerbate existing problems. Toomey turned to the GSEs' equitable housing finance plans that are based on race and thought that this would contribute to inflation. He was disturbed by the plans, calling them 'social engineering'. Toomey asked if this mechanism was in line with the FHFA's statutory obligation to return the GSE's to sound and solvent condition. Holtz-Eakin replied that these equity plans are not part of the GSEs' mission, the GSEs are still not adequately capitalized and are expanding credit blocks which puts them at a greater risk of losses which is the wrong direction.

Sen. Tester (D-MT) asked Yun how we can have a housing surplus one month and no supply months later. Yun replied that when looking at the long-term trends, homebuilders never came back completely to the market after the 2008 crisis so housing production has not kept up with population growth and we have a housing shortage as a result. In relation to people moving from places like Texas to Montana, Yun said there was a housing shortage in Texas so this stressed demand in Montana and while housing opens up in Texas with these people leaving, it is only a small drop in the bucket. Tester asked for insight into a long-term plan that would result in more housing on the market. Holtz-Eakin replied that we should remove housing subsidies and create easier paths for land permits. He said we do not need new workforce training but said there are extremely promising apprenticeship programs that were started under the previous administration. Tester asked about the state of housing from a rural perspective and if it is different from the urban perspective. Bailey responded that the issues between the two areas are related but need to be addressed in a different way. She discussed manufactured housing as a solution for rural areas and said that the LIHTC mainly addresses large projects, so we need other solutions for smaller projects to be built.

Chairman Brown (D-OH) appreciated Bailey's comments on manufactured housing and asked if the housing we are currently building matches up with people's wages and their size and accessibility needs. Bailey answered that we have partly been in a development boom over the past 18 month but the average rent in these multifamily properties is \$1,800 a month when the median renter can only pay \$1,000 a month. She said they are targeting the upper ends of the market, so we need strategies that enhance supply and also add subsidies to make these units affordable and give owners the ability to properly operate these buildings. She said the HCV program helps low-income renters afford market housing. Yun added that supply is required and needs to be combined with rental subsidies for a long-term solution. He reflected on the previous U.S. recessions and how building more homes helped economic recovery. Brown then turned to the Fed raising interest rates and asked what this meant for homeowners and the monthly cost of housing. He asked if he could estimate how many people this will push out of the homeownership market and the impact on the rental market. Yun estimated that monthly mortgage payments have risen 48 percent across the country due to changes in prices and rates. He said that the home buying demand is softening as a result because people cannot afford a house and now, they must continue to rent which is leading to rent acceleration and low vacancy rates for apartments. Bailey added that this is a very important issue for the lowest income families and how this could lead to housing instability and possibly homelessness

Sen. Hagerty (R-TN) referred to Holtz-Eakin's testimony and wanted to talk about the artificial increase in prices as a result of the Davis-Bacon Act requirements for affordable housing and asked how this could incentivize developers to go in a different direction. Holtz-Eakin replied that this leads to higher costs and changes the calculation of the type of unit being built from a unit that is low-income to more luxury units. He said that taking artificial costs out would be a

good idea. Hagerty said that there is a voucher program being negotiated in appropriations which would increase demand and asked about the impact of vouchers on housing supply and price. Holtz-Eakin replied that these vouchers will raise the cost of housing and renting. Hagerty turned to Yun on the Fed, saying that the Fed's job has been very difficult lately due to Democratic policies which have forced the Fed to buy MBS and raise rates. He asked how the Fed's actions have impacted the housing market. Yun replied that the mortgage rate should be 4.8 percent, but it is 5.8 percent due to the undoing of QE and quoting the potential sale of MBS. He said that this larger spread is leading to a decline in home sales and mortgage rates will only go down when inflation starts to top out. Hagerty thought that inflation is only going up and was very concerned about the housing market in Tennessee.

Sen. Menendez (D-NJ) asked Yun of the top three reasons why black and Hispanic homeownership rates have continued to lag behind white homeownership. Yun replied that there is a legacy of discrimination in our country and the down payment is the biggest barrier to first time homebuyers so down payment assistance would be important here. He also liked the idea of changing the credit scoring models to include rent and utility bills to make people more eligible for home loans. Menendez added that federal policies created these discriminatory and structural barriers. He pointed to how property tax rates are higher for black and Hispanic homeowners, worsening the racial wealth gap, and said that SALT is the only deduction that allows homeowners to deduct their property taxes. He said that the NAACP passed a resolution this week to support eliminating the Trump \$10,000 SALT cap. Menendez rejected that the SALT deduction is just a tax cut to the wealthy.

Sen. Warner (D-VA) pointed to the widening racial wealth gap and believed that the biggest driver of the wealth gap is homeownership. He talked about a proposal, the *LIFT Homebuyers Act*, which would look at first-generation, first-time homebuyers who are qualified for a 30-year mortgage and would enable them to have a 20-year mortgage instead. Warner turned to Yun and Bailey on the racial homeownership gap and asked how the LIFT Act could apply. Yun replied that a 20-year mortgage would enable families to build up equity much quicker and added that we need to combine this with increased supply so demand can access the increased supply. Warner stressed that the program is only available to first-time, first-generation home buyers. Bailey added that anything helps first time homebuyers get into a home helps renters as well.

Rep. Cortez Masto (D-NV) said that in 2021, 28 percent of homes were bought by institutional investors in the Las Vegas metro area and asked Yun what trends he was seeing and what impact institutional investors are having on home prices. Yun replied that institutional investors boost demand which make the prices higher and said that when these buyers buy single family homes and rent them out, this takes away the possibility of homeownership for a first-time buyer. Cortez Masto worried about this greatly and was concerned with these investors buying up homes and then increasing rent. She turned to vouchers and how developers have said that they

cannot build an apartment building that is affordable for people making under \$50,000 without a subsidy. Cortez Masto asked Bailey why vouchers are among the most important layers of these subsidies. Bailey replied that vouchers play the critical role of filling the gap between helping people afford the rent while ensuring that the property manager's bills are paid, providing stability for both.

Sen. Warren (D-MA) remarked that the severe lack of supply has pushed up the cost of rent, eating up people's budgets. She discussed the Fed raising interest rates at an aggressive rate and said that the Fed claims that these rate hikes will meaningfully bring down rental costs. She asked if Yun agreed with this. Yun replied that rent will rise even faster actually. Warren agreed and said that the rising rates will not bring down rental costs or grocery costs. She believed that the high rates will exacerbate the lack of supply and make it harder to get a mortgage. Warren asked if any participants in the housing market are better off in these housing market conditions like institutional investors or PE firms. Yun replied that people, like corporate investors, who are still in the market will have easier access to buying homes because there are less bids now. Warren continued that PE firms eat up housing and rent it out at a premium. She asked what the impact on the cost of rent will be if PE and other big investors buy more of the housing stock. Bailey expected rent to increase, putting more pressure on people's budgets, and added that this could create displacement and gentrification in neighborhoods. Warren believed that we need to build more housing and loosen the grip of investors on the market. She added that Powell should think twice before jamming through aggressive rates.