

Housing Affordability & Taxes: What challenges will 2021 bring?

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Housing affordability impacts individual & community well-being.

- Stable, decent housing is critical to families' well-being.
 - Housing costs are largest monthly budget item
 - Residential stability provides foundation for other social & economic activities
 - Where you live determines access to jobs, schools, and place-based amenities
 - Long-standing segregation means Black and Latino families often excluded from high-opportunity neighborhoods
- Where we build – and don't build – housing affects regional labor markets & climate change
 - Lower-cost new housing tends to be far from job centers
 - Time spent commuting is unproductive, unpleasant, & bad for the environment.
 - Employers have trouble hiring & retaining workers in high-cost regions

Presentation outline

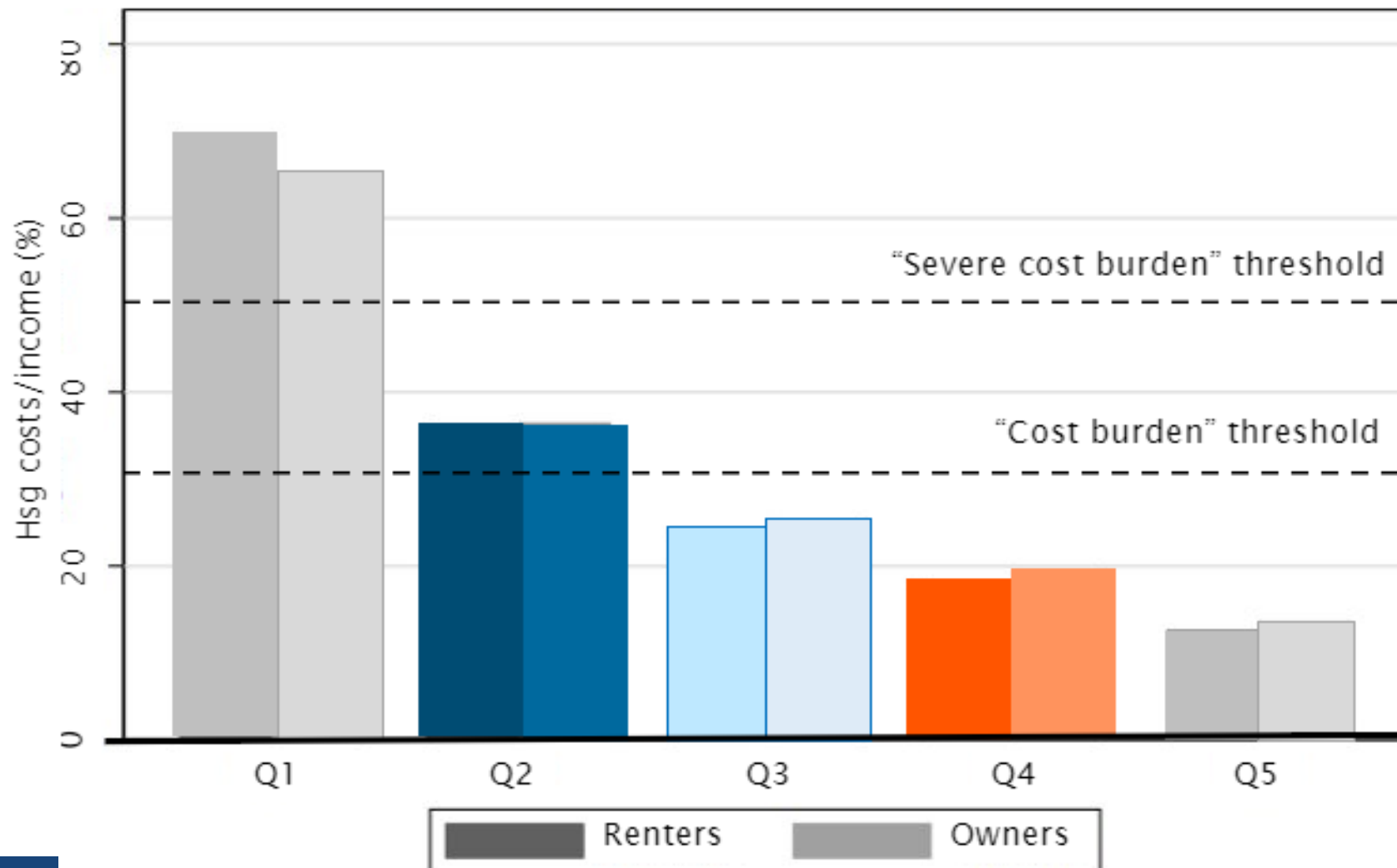
- Housing affordability problems pre-COVID19
- Fiscal implications of housing & infrastructure
- Pandemic is exacerbating housing insecurity & government fiscal stress
- Housing in 2020 Presidential campaign
- Snapshot of local & state zoning reforms
- Fiscal impacts of zoning changes

Two housing affordability challenges

- Poorest 20% of households everywhere in US spend more than half their income on housing.
 - Incomes are too low to afford minimum quality market-rate housing without subsidy
 - Families with children have highest cost burdens
- Metro areas along Northeast corridor & West Coast have adopted land use regulations that limit housing development & drive up costs.
 - Regulations prevent housing markets from building enough to meet demand
 - Especially hard to build small, moderately-priced homes (duplexes, townhouses, multifamily)

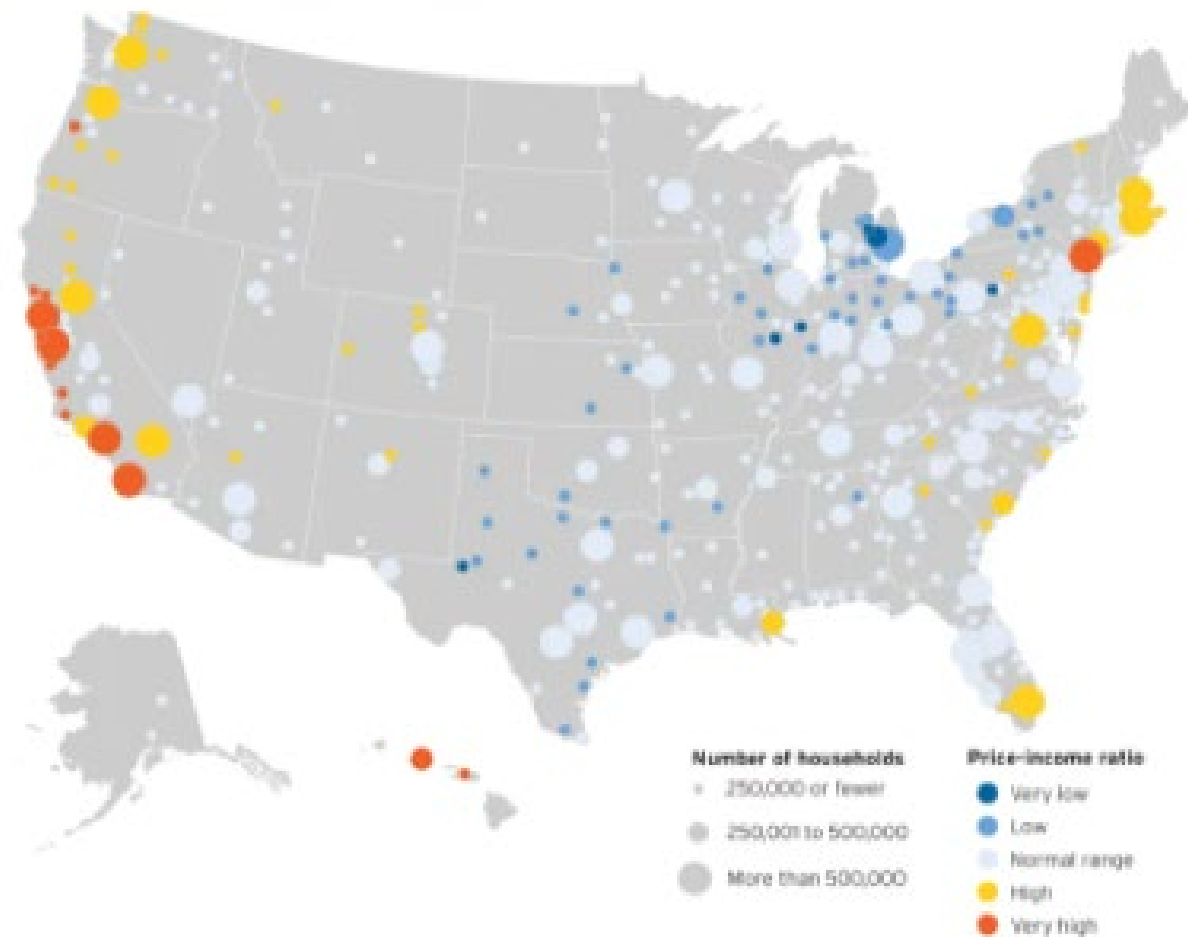
Figure 1: Housing costs consume larger income share for poor and lower-middle income households

Housing costs/income, by quintile



Hard to become a homeowner vs. hard to build housing wealth

Average price-income ratio by metro area, 2012-16



Note: Metro-level price-income ratios are averages across constituent tracts. Price-income categories are assigned based on the national distribution, as follows: very low (bottom 10%), low (11-25%), normal range (26-75%), high (76-89%), and very high (top 10%).
Source: Brookings analysis of 2012-16 American Community Survey data

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How could policies improve outcomes?

- Federal subsidies needed to reduce financial stress for low- and moderate-income households
 - Housing vouchers or income supplements (UBI)
- Reduce regulatory barriers to housing supply
 - Build more housing near jobs and transit
 - Build smaller, lower-cost homes (apartments)
 - Make it faster, easier, & cheaper to build housing
- Rethink funding for community infrastructure
 - Transportation systems, water, sewer, broadband, schools, libraries & parks all cost money

Fiscal federalism & housing markets

- Fiscal federalism: which level of government should pay for what type of public services?
- In housing markets, federal funding needed for:
 - Low-income housing subsidies (avoid “flypaper effect”)
 - Large-scale, expensive infrastructure with national or regional benefits (interstate highways & rail, Superfund cleanup)
- State & regional funding (MPOs for transportation):
 - Regional-serving transit (New York’s MTA, Bay Area Rapid Transit), water systems & broadband
 - Regional environmental clean-up (Flint water)
 - Schools: support for low-income & special needs students
- Any service funded purely through local revenues will have widely varying quality across jurisdictions.

Gaps in current infrastructure funding

- When state & federal govts provide too little support, local governments will find workarounds.
 - Low-income housing: inclusionary zoning, rent control
 - Impact fees for construction/upgrades of schools, roads, water
 - Taxes on businesses, commercial property owners
 - Restrictive zoning is back-door mechanism to extract contributions from developers & future residents, while sparing current residents (voters).
- These workarounds often bring unintended consequences.
 - New housing becomes more expensive because it covers costs of infrastructure upgrades/maintenance.
 - Central cities can't maintain aging infrastructure, disadvantages them relative to newer suburbs

COVID-19 exacerbates housing stress

- Pandemic highlights social & economic costs of housing insecurity
 - More than half of renters have lost income
 - Homeowners faring better so far in “k-shaped” recovery
 - Overcrowded housing increases risks from contagious diseases
- Policy interventions to date
 - UI benefits & stimulus checks helped families pay rent
 - CDC issued nationwide eviction moratorium through Dec 31
 - Fannie Mae & Freddie Mac offer one year of mortgage forbearance
 - More federal support before election/inauguration is uncertain
- State & local governments caught in dilemma
 - Increased demand for health care, social services
 - Revenues down in all categories: income, sales, property, user fees
 - Limited ability to run deficits, structural limits on revenue sources

Housing in 2020 Presidential campaign

- President Trump
 - Tax Cuts & Jobs Act 2017 reduced cap on mortgage interest deduction, SALT deduction
 - Rolled back fair housing enforcement (Affirmatively Furthering Fair Housing rule, disparate impact)
 - Attempted to cut housing subsidies to immigrants
- Vice President Biden
 - Expansion of housing vouchers for low-income people
 - Strengthen tenant protections & fair housing enforcement
 - Reduce zoning barriers: racial equity & climate change
- Relatively weak federal levers over housing supply, private rental markets

Local & state zoning reforms

- Most regulatory barriers to housing are local
 - [Zoning](#) limits land where [apartments](#) are legal
 - Lengthy, complex, expensive [development process](#)
 - Discretionary approval process favors existing homeowners
- Federal, state & local governments are exploring new ways to reduce barriers
 - [Minneapolis 2040](#), Oregon HB 2001, California SB 50
 - Proposals from [Democratic presidential candidates](#)
 - White House Council on Eliminating Regulatory Barriers to Affordable Housing
- Effective policy solutions face steep political opposition

More homes, less yard



One single-family detached
3,000 square feet
2.5 stories



Three townhouses
2,000 sq. ft./house
2.5 stories



Six condominiums
1,200 sq. ft./condo
3 stories

Note: These are hypothetical examples created for this analysis. Structure types and building dimensions are typical of homes in Washington, D.C., verified against Computer Assisted Mass Appraisal residential data from opendata.dc.gov.

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Fiscal impacts of zoning reform

- Increased share of owner-occupied homes that include rental property
 - Accessory Dwelling Unit (ADU), duplex
 - Rental income increases property value
 - Educating new landlords about landlord-tenant laws
- Upzoning (allowing greater density) increases land values, even before redevelopment
 - Option value created by potential for more housing
 - Windfall to current property owners?
 - Local govts may want to capture some of this extra value (esp. around transit) through tax increment financing

Comments & questions welcome!

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