

Testimony of Ben Metcalf
Managing Director, Turner Center for Housing Innovation
Before the United States House of Representatives
Committee on Financial Services
July 24, 2024 Hearing Entitled: Housing Solutions: Cutting Through
Government Red Tape
Submitted July 26, 2024

Introduction

I am the Managing Director of the Turner Center for Housing Innovation at the University of California Berkeley, a research and policy center dedicated to the vision of a country where we all live in vibrant, sustainable, and affordable homes and communities. I directed the State of California's Department of Housing and Community Development from 2016 through 2019 and the Office of Multifamily Housing Programs for the United States Department of Housing and Urban Development from 2012 through 2015.

The House Financial Services Committee is seeking to understand the opportunities for the federal government to reduce regulatory barriers to the creation of new housing. In this testimony, I offer the following:

- *Regulatory barriers are a major impediment to the construction of new housing supply and increase the cost of renting or purchasing a home, particularly in communities with employment and population growth. Regulations are necessary to ensure that housing is built to appropriate standards, connects well with surrounding public infrastructure, and protects consumers. Most regulations that affect housing are at the state and local levels, not the federal level.*
- *However, the federal government can play a key role in incentivizing the removal of regulatory barriers at the state and local levels as well as in advancing the amount and quality of data and research available to inform practice.*

Regulatory Barriers and Their Impact on Housing Supply and Cost

By several measures, the U.S. faces the greatest shortage of housing since World War II. In part, this reflects inadequate federal expenditures for affordable housing production programs in recent years. However, stringent local and state regulations that add cost and delay to the creation of new market-rate homes may be an even bigger driver. While regulations are certainly needed for consumer protection and safety, an emerging body

of research and practice has identified the role that overly rigid land use rules, zoning, and local fees play in diminishing new supply. When supply fails to meet the needs of home seekers, rents and home prices are pushed up, particularly in high-demand markets.¹ For example, a 2023 study by Christina Stacy, et al. examined 1,136 cities from 2000 to 2019 and found that increased land use restrictions and lowered allowed densities were associated with increased rents and a reduction in units affordable to middle-income renters. Conversely, cities that loosened specific local land use restrictions saw an increase in housing supply within three to nine years of reform passage.²

Research published last year by the Turner Center demonstrated that without reforms, it is not financially viable to build multifamily housing in four key California markets. Reforming regulations such as parking requirements, height limits, or density restrictions can play a role from tipping projects from being financially infeasible to feasible.³ Other research from the Turner Center has documented that jurisdictions can charge as much as \$150,000 per unit in upfront fees, resulting in higher costs to the consumer and making it that much harder for specific development opportunities to proceed.⁴

Barriers to construction like these can have a host of negative impacts, including stifling economic growth, limiting new job creation, redistributing wealth from lower-income renters to higher-income homeowners, and inhibiting the construction of more environmentally sustainable housing in denser areas that offer shorter commute times to job centers. Federal regulations have little direct impact on the cost of new market-rate housing, as states and local governments control building codes, zoning,

¹ See, e.g., Hitchcock, B. & Preel-Dumas, C. (2023). "Supply Skepticism Revisited: What New Research Shows About the Impact of Supply on Affordability." NYU Furman Center. Retrieved from: <https://furmancenter.org/thestoop/entry/supply-skepticism-revisited-research-supply-affordability/>; Gyourko, J. & Molloy, R. (2015). "Regulation and Housing Supply, regional & urb. Econ." NBER. Retrieved from: <https://www.nber.org/papers/w20536>; Glaeser, E. et al. (2005). "Why Have Housing Prices Gone Up?" 95 American Economic Review. 329, 329. Kazis, N. (2002). "The Case Against Restrictive Land Use and Zoning." NYU Furman Center. Retrieved from: <https://furmancenter.org/research/publication/the-case-against-restrictive-land-use-and-zoning>.

² Stacy, C., et. al. (2023). "Land-use reforms and housing costs: Does allowing for increased density lead to greater affordability?" Urban Studies Journal, 60, 14. Retrieved from: <https://doi.org/10.1177/00420980231159500>.

³ Garcia, D. (2023). "Making It Pencil: The Math Behind Housing Development – 2023 Update." Turner Center for Housing Innovation, UC Berkeley. Retrieved from: <https://turnercenter.berkeley.edu/research-and-policy/making-it-pencil-2023/>.

⁴ Turner Center for Housing Innovation, UC Berkeley. (2019). "Residential Impact Fees in California." Retrieved from: <https://turnercenter.berkeley.edu/blog/residential-impact-fees/>.

and land use requirements, which together form the majority of regulatory costs.⁵ Nonetheless, there is a key role for the federal government to play.

The Federal Government's Role in Reducing Unnecessary State and Local Regulations

In recent years, the federal government has taken significant steps to encourage local governments to reform their zoning and land use policies. For example, HUD's Pathways to Removing Obstacles to Housing (PRO Housing) program provided \$85 million to communities to help identify and remove barriers to affordable housing production and preservation. HUD awarded grants of up to \$10 million to jurisdictions with an acute demand for affordable housing that are working to identify, address, or remove barriers to housing production and preservation. Similarly, the Department of Transportation's Reconnecting Communities and Neighborhoods (RCN) program included a \$450 million Regional Partnership Challenge that incentivized stronger regional partnerships to tackle persistent equitable access and mobility challenges and identified land use reform as a key priority.⁶

Additionally, the Economic Development Administration (EDA) recently updated its "Investment Priorities" to include an emphasis on efficient land use, where economic activity and employment opportunities are concentrated and accessible to nearby residential density. EDA is explicitly incentivizing projects that emphasize density in the vicinity of the project.⁷

Efforts like these leverage the power of the federal government to spur local, regional, and state governments to foreground reforms that encourage new housing development by easing land use restrictions or boosting zoning limits.

However, these efforts are still relatively nascent and provisional. Continued appropriations are needed to scale and grow programs like PRO Housing and build out complementary technical assistance programs. Planning staff and elected officials across the country are only recently understanding the scope of work that needs to happen. However, local politics that have caused these regulations to become entrenched are hard to unwind. And without federal funding and technical assistance, limited capacity

⁵ National Multifamily Housing Council. (2022). "NMHC-NAHB Cost of Regulations Report." Retrieved from: <https://www.nmhc.org/research-insight/research-report/nmhc-nahb-cost-of-regulations-report/>.

⁶ The White House. (2023). "Biden-Harris Administration Announces Actions to Lower Housing Costs and Boost Supply." Retrieved from: <https://www.whitehouse.gov/briefing-room/statements-releases/2023/07/27/biden-harris-administration-announces-actions-to-lower-housing-costs-and-boost-supply/>.

⁷ Ibid.

and backlogs of work further complicate the ability of cities and counties to engage on needed reforms.

In addition to iterating on interventions like these, the federal government also needs to concurrently take steps to better understand the true potential for new housing supply in local communities through better acquisition and analysis of existing housing data. Identifying which policies are the most significant barriers to new housing supply is complicated because of the multi-year lag between enacting policies and housing being built as a consequence of those changes. Accurate modeling of which policies will move the dial on production—and by how much—can be hugely important for boosting the likelihood that policy changes will have the intended result. However, this kind of data analysis is often beyond the capacity and skill sets of local governments.

The good news is that the tools, data, and proof of concept for modeling work along these lines all exist today. The federal government should invest to systematically collect local data on zoning codes and land use requirements. It also needs to help fund the creation of modeling tools that allow local users to toggle policy and economic inputs to compare the relative impact of new policies and guide the next generation of land use reforms. Examples of such modeling tools, including the one recently built by the Turner Center & Labs for the City of Los Angeles, demonstrate the value of connecting zoning data with economic feasibility pro formas for modeling supply impacts.⁸ With recent efforts to digitize land use data, increased real-time datasets on rents, home prices, financing, and construction costs, combined with remarkable advances in computing power, the federal government has a tremendous opportunity to bring significant data and evidence into the hands of local reformers seeking to reduce and remove unnecessary local barriers to new housing supply.

⁸ Casey, A., et. al. (2022). “Modeling New Housing Supply in Los Angeles: Simulations from the Turner Housing Policy Dashboard.” Turner Center for Housing Innovation, UC Berkeley. Retrieved from: <https://turnercenter.berkeley.edu/blog/policy-dashboard-los-angeles/>.