



March 4, 2020

Environment and Transportation Committee
Maryland General Assembly
House Office Building
Annapolis, Maryland 21401

Re: House Bill 1406 – Modest Home Choices Act of 2020

Chair Barve, Vice Chair Stein, and Members of the Committee:

Good afternoon. Thank you for the opportunity to voice my support for HB 1406, the Modest Home Choices Act of 2020. And thank you Delegate Stewart for leading this effort. My name is Doug Ryan, and I am Senior Fellow at Prosperity Now, a national, nonpartisan, nonprofit organization based in Washington, D.C. that works to expand economic opportunity for all Americans by promoting and advocating for asset-building policies and programs.

I have worked on affordable housing my entire adult life, including 13 years at the Housing Opportunities Commission of Montgomery County. My family has lived in Montgomery County for about 22 years, including nearly 17 years in Bethesda in District 16. HB 1406 would define the Census tract where I live as a “High-Opportunity Tract,” making my community one of many in the state that would benefit from new, affordable and modest housing development if HB 1406 is enacted.

Much of my work focuses on homeownership, which has long been the primary way for families to build wealth in the United States. Owning an affordable home can offer families stability, security and a legacy to pass on to the next generation. In addition, we advocate for access to affordable, safe rental housing, which is essential to allow families the opportunity to save and prepare to purchase a home in a community in which they wish to live. Unfortunately, in too many communities across Maryland, high housing costs, tight credit markets and inequitable land use policies impede families’ abilities to secure housing. The impediments disproportionately impact families and communities of color, further exacerbating the racial wealth divide and inequities in Maryland.

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Prior to securing homeownership, most families rent. And escalating rents in our state impede a family's ability to save for the elusive downpayment. Too often, high costs lead to missed rent and utility payments, damaging credit scores and pushing off buying to even later in life.

Housing cost burdens, of course, directly undercut families' abilities to pay bills, save and invest in their futures and prepare for retirement. The lack of housing affordability has externalities, too. For example, workers who live far from employment centers add traffic congestion to points on their commute. Employers in high-cost areas need employees at all wage levels. Longer and costlier commutes aggravate employee turnover. Cost-constrained families buy fewer goods and services, reducing the economy's output and the state's tax revenues.

We also know that the region needs more housing – lots of it. The Metropolitan Washington Council of Governments last year noted that DC region needs more than 75,000 housing units on top of what is currently forecasted to be built by 2030. Montgomery County needs to add 10,000 – a goal that the County Council supports. (The County Executive does not.) Furthermore, the Urban Institute has concluded that the region needs 40% more middle-income units than currently forecasted. And this is the tier that HB 1406 will target.

Why do we need more middle housing? Beyond the reasons I have already offered, we need more because the national and the state housing markets are currently in market failure. The markets alone, as configured, will not produce what we need.

Consider national trends.

The National Association of Home Builders just released data that show year over year, single-family construction lending increased by just one percent – the lowest rise since 2013. Moreover, lending remains much reduced from years past. The current amount of existing residential acquisition, development and construction loans now is 61% lower than the peak level of residential construction lending reached during the first quarter of 2008. And, yes, construction lending in early 2008 was hyperactive – but this collapse has had consequences.

One consequence of this has been the loss of starter homes, as fewer owners move up to newer, more expensive homes, fewer homes are built. This further prices first-time homebuyers out of the market. Fewer starter homes also mean fewer first-time home buyers, which will likely force families away from Maryland or further aggravate the rental markets as families do not move into homeownership. Starter homes are types of homes envisioned in HB 1406. These homes would be the first step to wealth building for families that would otherwise never have shot at ownership.

Couple this with research from the Urban institute that between 2009 – after the financial crisis formally ended – and 2015, the nation added 6.3 million fewer new homeowners than it could have had mortgage credit standards been as they were in 2001 – which were not permissive. We have lost a generation of new homeowners, and with it the potential for wealth building for young families across the country. (And, of course, because of the secondary market, credit standards are national.) Tighter credit standards and the growing chasm between incomes and home prices are two major explanations for the loss of the potential homeowners.

In the wake of the crisis, there was a boom in one segment of the purchase market – cash buyers, often investors planning to rent out single-family homes, further reducing the number of homes available to first-time buyers.

Unfortunately, new research from the American Enterprise Institute suggests that Fannie Mae and the Federal Housing Administration – a key resource for first-time homebuyers with imperfect credit – are again tightening access to mortgage credit, a trend that will continue to reduce the number of new homebuyers.

We have a market failure here in Maryland, too. And while this varies across the state – Maryland has many housing markets – the trend holds true particularly in the places where populations and jobs are centered.

According to our own analysis, 50% of Maryland renters are cost burdened, meaning they spend more than 30% of their incomes on housing. Any income disruption would likely lead to eviction. Twenty-seven percent of homeowners in the state are cost burdened. These rates are similar to what exist in Montgomery County. Homes are also more expensive, proportionately, in Maryland than elsewhere in the United States, with a median home costing 3.9 times as much as the median household income. This has risen from 3.5 to 1 in just the last seven years. As income and prices further separate, we will simply see fewer new homebuyers.

Fewer homebuyers threaten the economic wellbeing of the state and localities. We will raise less in transfer and recordation taxes and see fewer purchases of goods and services related to home sales. It also complicates the retirements of older homeowners, who may be unable to sell homes when they want or need to.

So, the failures in our housing markets are on multiple fronts. Income, underwriting, the secondary market and housing supply all contribute. Addressing housing supply though better land use is the best avenue for state and local leaders to pursue. And to do that, we must honestly and directly address how land use and zoning have helped shaped the crisis.

As Delegate Stewart noted earlier this year, zoning has been weaponized in this country, to the detriment of many and to benefit of fewer and fewer.

Richard Rothstein meticulously detailed in his 2017 book, *The Color of Law*, that all levels of government worked to segregate our communities. Economic and racial segregation is not just the result of bad private sector actors who were ignored by federal and state authorities. For decades after World War I, federal, state and local agencies adopted policies and rules to exclude black and lower-income residents from mortgage insurance, public programs and access to land. And these policy decisions from what seem like eons ago continue to have impacts today, limiting the intergenerational wealth transfers that have fueled prosperity for many Marylanders and Americans.

Local governments use zoning and other tools (minimum lot sizes, parking requirements, bans on multifamily developments, etc.) to favor single-family homes, which invariably price many people out of housing. The results are measurable. Single-family housing accounts for 96 percent of all residential land in Montgomery County, which clearly is not the best and highest use of all this land. And the impacts on our neighbors are measurable, too. Thirty percent of black households in Maryland have zero or negative net worth. About 10% of white Marylanders do. Encouraging more middle housing is one way to start to address these inequities.

If HB 1406 is enacted, Maryland would join a select group of jurisdictions that have committed to up zone. Minneapolis and Oregon have passed laws, which, in different ways, allow for the development of duplexes, townhomes, cottages and the like in single-family districts. HB 1406 proposes a variation. Nothing in the new Oregon and Minneapolis law (or in HB 1406) would prevent a landowner from building a single-family detached home. We will see, however, more intentional land use decisions and more efficient use of that land. HB 1406 targets Census tracts that are much wealthier than its region, those with excellent transit or with robust job markets. These are exactly the places that housing experts, planners and economists argue should have more housing and broader opportunity.

Leaders from across the spectrum should support HB 1406. Liberals have long advocated for more affordable housing. Conservatives advocate for property rights. HB 1406 has something for both sides. More housing, more flexibility for landowners.

I want to close with just why it is so important to build more densely in areas with these characteristics.

Developing more housing, more efficiently in high-opportunity areas is good for all of us. My experience in communities as different as the Bronx and Bethesda underscore this. HB 1406 is one tool in our potential toolbox to address the overall housing crisis. HB 1406 would incentivize housing development for young families, downsizing seniors and middle-income workers such as teachers, first responders, federal and state employees, the people we so often say we need to include in all our communities. We need to first make our communities more inclusive.

An added benefit is that it is clear from research both nationally and in Maryland that children in economically diverse communities have better educational and economic outcomes than do children in poor communities. Raj Chetty, Nathaniel Hendren, and Lawrence Katz at Harvard, and separately Eric Chyn at Dartmouth, have documented this. Looking at Montgomery County, Heather Schwartz, in a 2010 study for the Century Foundation, found that scattered-site housing offered lower-income children an opportunity to live in more affluent neighborhoods which drove stronger achievement and significantly reduced outcome gaps.

As you know, parts of the state have good and others have excellent transit. These resources are wasted if we do not increase housing density near them. The benefits would be many: higher ridership, reducing costs to taxpayers, reduced vehicle emissions, and lower living expenses for those who drive less or not at all.

Finally, building housing in job centers just makes sense. We have a relatively strong economy in the state, but there is often a mismatch between jobs and job seekers. Developing housing and homeownership opportunities would help families connect with communities, have better employment options and reduce their travel times and costs. These are positives for all of us.

In closing, HB 1406 offers Maryland a program to help families find the first step on the ladder of economic opportunity. It would incentivize homebuilding – without subsidy. It would free up other housing options, such as apartments, for the next generation. It would help families build wealth through home equity, that they could invest in their next home, their children or their futures. Maryland would be stronger because of it.

Thank you for the opportunity to testify on HB 1406. Feel free to contact me at dryan@prosperitynow.org or at 202-207-0155.

Sincerely,

Doug Ryan
Prosperity Now