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TESTIMONY

MARKET-RATE RENTS CAN SERVE MODERATE-INCOME MARYLANDERS

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Maryland Senate Education, Business, and Administration Subcommittee
SB 484, Land Use - Affordable Housing - Zoning Density and Permitting
(Housing Expansion and Affordability Act of 2024)

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Governor Wes Moore's administration aims to increase Maryland's housing supply by 96,000 homes.[1] This would constitute a 4 percent increase in the state's housing stock—a target that is modest relative to the demand for housing in Maryland, and at the same time ambitious relative to Maryland's baseline policy context. The bill before you, SB 484, is a modest first step toward that goal.

In a recent policy brief, Emily Hamilton and I imagine one conceivable path to seeing 96,000 more homes in the next decade.[2] The value of that exercise is that it breaks down a broad idea into practical pieces. For example, we applaud the idea of allowing churches and campuses to use their land to build housing, but we think it might only deliver 2,000 homes over a decade. We need either 47 other policies of that magnitude—or a bigger boat.

Getting to 96,000 also requires that we set aside the false choice between abundance and affordability. In SB 484, regulatory liberalization is available only to projects that set aside a large percentage of units for means-tested, moderate-income households. In this testimony, I argue that is neither a necessary nor effective way to provide attainable housing options for those households.

HOW DEEP CAN THE MARKET REACH?

As figure 1 shows, housing affordability problems are concentrated among the quarter of the state's households earning less than $48,000. Without assistance, the poorest people end up living in conditions below modern standards. Public support should be entirely focused on those with the most need.

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[1] Josh Kurtz, "State Leaders Promise Vigorous Housing Agenda but Tenant Advocates Sweat the Details," *Maryland Matters*, December 22, 2023.

[2] This testimony uses text from that policy brief. Salim Furth and Emily Hamilton, "Expanding Maryland's Housing Stock: A Roadmap to Meeting Housing Targets" (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, February 7, 2024).

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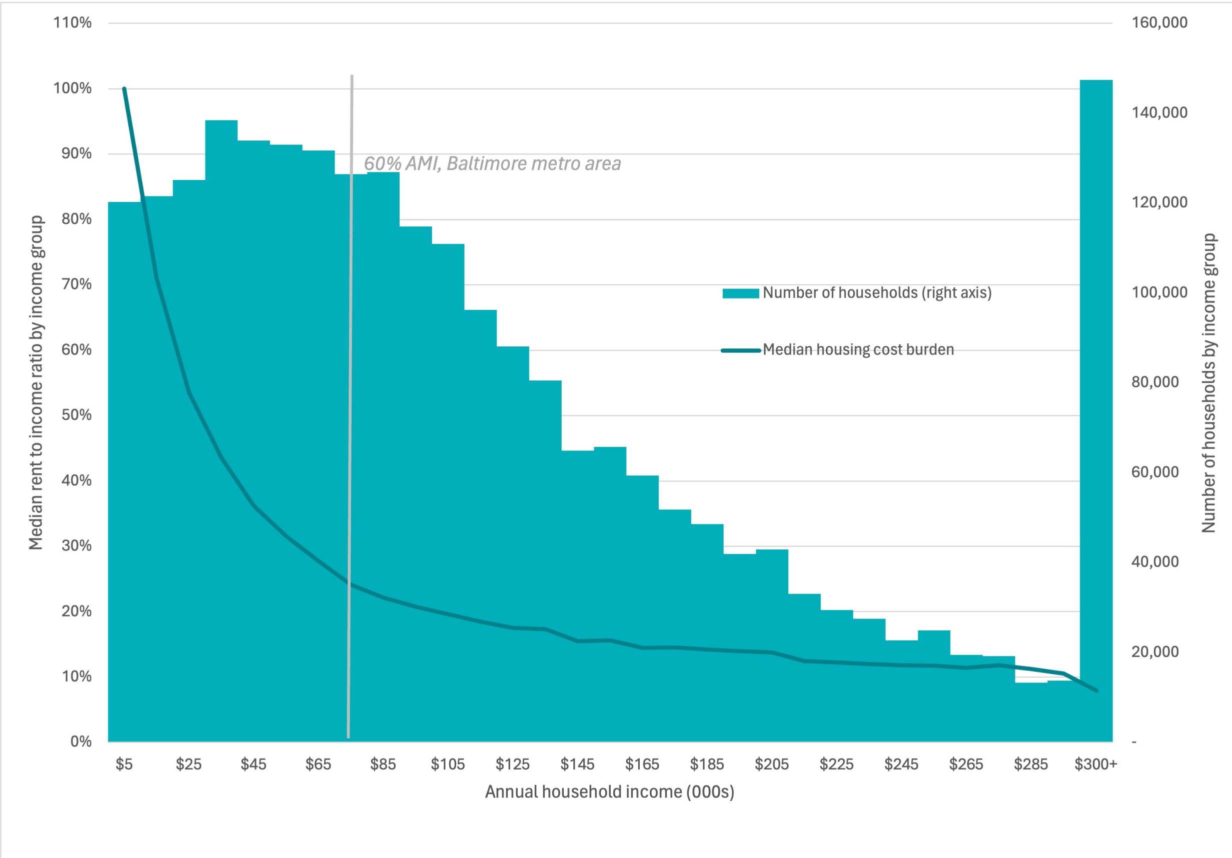
Many affordability requirements, however, are instead targeted to those earning 60 percent of area median income (AMI)—this is $73,000 in the Baltimore metro area. At that income, the median Maryland household spends just 24 percent of its income on housing costs, indicating that attainable options are available in most places.

FIGURE 1: HOUSING COST BURDEN BITES AT THE LOWEST INCOMES



Source: US Census Bureau, "American Community Survey 2022," via Steven Ruggles, Sarah Flood, Matthew Sobek, Daniel Backman, Annie Chen, Grace Cooper, Stephanie Richards, Renae Rogers, and Megan Schouweiler. IPUMS USA: Version 14.0 (dataset), (Minneapolis, MN: IPUMS, 2023), accessed February 2024.

Thus, Marylanders of moderate means can and do house themselves within their budgets. Indeed, even new construction can be attainable housing. For example, in Montgomery County, the typical renter household living in a unit built since 2010 has a total monthly housing cost of $2,050, affordable to a household earning just 54 percent of AMI. If the state allows builders to create more modest-sized units in job-accessible locations, market affordability will stretch to even more households.

DON'T BOX OUT MARKET AFFORDABILITY

The most potentially powerful aspect of SB 484 is that it allows that kind of housing: up to four units per lot within a mile of rail stations. I live in such a neighborhood. The modest old homes on my street are being steadily replaced with five- and six-bedroom houses.[3] The most recent flip replaced a $600,000 fixer-upper with a $1.9 million residence. It has over 5,000 square feet of living space, which could easily fit three or four units. But under local zoning it is illegal to create multiple units on a lot, even though there is a small apartment building next door.

Legalizing flips that benefit four households instead of one is a great idea and would benefit my street as well as the state. But SB 484 comes with a catch: it mandates that one unit in each duplex, triplex, or fourplex be reserved by deed restriction for a family earning 60 percent of AMI or less. That comes with a bureaucratic income verification process that scares away tenants and small-scale managers. Even at market rates, a fourplex is not much more profitable than a big single-family house. Facing such a big additional risk, developers will stick with the $1.9 million product that sells reliably.

The tragedy here is that the intent to create housing attainable at moderate incomes will directly undermine the creation of housing that is naturally attainable at moderate incomes.

CONCLUSION

My neighborhood is just one of the diverse places that ought to have more housing opportunities. As Hamilton and I argue in our brief, meeting Governor Moore's goal will require large transit-oriented housing developments, small-scale infill, and greenfield growth. Each of these strategies, however, also needs policy intervention at the county or state level to legalize construction of housing with diverse styles and densities. And none of these strategies is likely to succeed at scale if legalization is encumbered with unfunded affordability mandates.

[3] My wife, our four kids, and two renters appreciate having a large place to share. Our street is an exceptionally nice place to live, as I detailed in a recent book review. Salim Furth, "Is Policy Writing a Newscast or an Advertisement?," *Discourse*, January 23, 2024, https://www.discoursemagazine.com/p/is-policy-writing-a-newscast-or-an.