A Progressive Approach to Housing

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Proposals for addressing the housing affordability crisis that focus primarily on upzoning ignore the fundamental structural issues in housing markets and obscure the many other causes of the affordability crisis.[2] Housing markets have many imperfections, because of which supply does not respond well to demand – and prices do not necessarily decline with increased supply (see appendix 1).

What then are the structural factors driving the housing affordability crisis?

Most important has been the impact of the 2008 financial crisis.

A report by the American Economic Liberties Project[3] concluded that: "Due to a series of federal policy choices that began in the late 1970s and accelerated in the wake of the Great Financial Crisis, smaller homebuilders—generally speaking, any privately-held builder that makes under 500 closings per year —have had increasing difficulty accessing capital as the number of local financing sources has dwindled …. As a result, the number of homebuilders has fallen since the Great Financial Crisis and remains well below early 2000s levels …. At the same time, publicly-traded homebuilders — who now lead every major regional market — have apparently responded to Wall Street earnings expectations by hoarding land and establishing price floors for their homes, instead of building enough to meet demand. Although various other factors, such as construction costs and high interest rates, have also constrained homebuilding, this financing gap between smaller homebuilders and publicly traded national giants is a significant part of why, by some estimates, America is short nearly 4 million homes."

As noted by Serkin & Sitaraman, "after the crash, home building dried up, leading to mergers and a new oligopoly in the homebuilding sector …. The large homebuilders are financiers that borrow cheaper than real developers and use that cheap credit to speculate in land ….[4] Because they are large and have significant access to capital, they can hold property for long periods of time – waiting to maximize their profits without engaging in construction." Developers mitigate risks and maximize profits by trying to time the market so that not too much supply comes online at once. At the same time, for individuals without strong credit, tightened mortgage lending standards made purchasing a home more difficult.

<u>None of these problems have to do with zoning.</u>

That is why variation in prices between markets cannot be explained by variations in zoning restrictions. One recent paper studied the impact of supply constraints, like zoning, on

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[2] See *Post-Neoliberal Housing Policy*, Christopher Serkin & Ganesh Sitaraman, Vanderbilt University, 2025.

[3] 20251014-aelp-capitalcrunch-execsum-v3.pdf

[4] Matt Stoller, It's the Land, Stupid: How the Homebuilder Model Constrains Housing Supply, BIG (Aug. 15, 2024), https://www.thebignewsletter.com/p/its-the-land-stupid how-the-homebuilder.

housing prices and concluded that "housing supply constraints are quantitatively unimportant in explaining rising housing costs across U.S. cities." [5] The paper found that differences in supply constraints among municipalities could not account for increases in housing prices or housing quantity in response to increased demand; what mattered was rising incomes.

In other words, much of the variation can be explained by higher wages, especially among highly skilled, high-income earners. Wages for the top 25% are rising faster than housing prices, reducing their housing costs relative to income. Meanwhile, housing costs are increasing for the bottom 50%. New housing supply, often in expensive infill projects, tends to cater to higher income groups, worsening the affordability crisis for lower-income earners. The claim that the Starter and Silver Homes Bill would result in home prices that would be 30% lower is hollow.

Leading supply-side scholars like NYU law professor Vicki Been acknowledge that the market is unlikely to result in housing that is affordable to the poor. A recent Georgetown University study[6] of six metropolitan areas where newly built housing made up a larger share of the market than the national average concluded that:

- Newer housing stock in these metropolitan areas primarily consisted of small units in large multifamily buildings for the rental market or large single-family homes for homeowners and largely served moderate- and higher-income households.
- Even in areas where the supply of new housing units grew, the share of units serving lower-income renters decreased or stagnated.
- Rent growth was generally higher for units serving households with the lowest incomes when compared to those serving higher-income households.

"The report illustrates that addressing housing instability for lower-income households requires comprehensive strategies that go beyond a reliance on market-rate supply."

It is odd that those who malign "trickle down" economics seem to accept the "filtering" argument that more market-driven supply of housing for higher income groups will eventually benefit lower income earners.

The root cause of affordability problems then is the mismatch between distribution of incomes and the distribution of housing (too many households with low incomes and too few homes priced within their means), not an overall shortage of units. In Montgomery County, for example, the COG-derived targets required 75% of new housing to be affordable for those making 60% of the area median income. There is no up-zoning strategy that can achieve this -- certainly not one that has no affordability mandates.

The Progressive Way Forward

A truly progressive housing strategy would be anchored in mixed income social housing – effectively a "public option" for housing – combined with a package of fiscal and policy interventions, driven by locally-determined housing targets and zoning policies.

Mixed Income Housing

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[5] See Schuyler Louie, et al., Supply Constraints Do Not Explain House Price and Quantity Growth Across U.S. Cities, NBER Working Paper, Mar. 2025, available at http://www.nber.org/papers/w33576.

[6] Abundance for Who? - Georgetown Center on Poverty and Inequality

As noted by Serkin & Sitaraman, "The most effective way of guaranteeing affordable and workforce housing is to have more direct government involvement in housing markets ….

A housing market that is entirely incentivized around short-term profit accumulation is incapable of meeting the housing needs of working-class people. (Center for Social Housing: "The Only Way to Solve the Fundamentals of the Housing Crisis ...")

While Maryland has several demand-side programs to assist first-time homebuyers and renters, it lacks programs to boost home building, beyond administering federal programs such as the Low-Income Housing Tax Credit. And demand-side measures in an inelastic market like housing, without adequate measures to boost supply, puts upward pressure on prices.

The Maryland Affordable Housing Trust provides small grants mostly to non-profits for rehabilitation projects. By comparison, since 2015 Washington DC has invested $1.4 billion into the Housing Production Trust Fund (HTPF), which is DC's primary tool for financing affordable housing development.

A recent study by the Center for Public Enterprise[7] describes how "state governments across the country are working with their Housing Finance Agencies to capitalize housing investment funds and pilot a new class of supply-focused investment programs: subordinate and quickly revolving debt or equity investments with below-market interest rates that can fill strategic financing gaps in mixed-income projects helping to jumpstart housing production." (See appendix 2)

Massachusetts has capitalized its program at $50 million from the state with $50 million local match; New York's fund was capitalized at $100 million from the state and $115 million from private lenders; Michigan plans $75 million using state funds, combined with taxable bonds and philanthropy.

Maryland already has a model that could be scaled up state-wide: Montgomery County's highly regarded Housing Production Fund (HPF), which uses a very efficient leverage model to finance mixed-income social housing. One option would be for the State to establish a revolving loan fund for smaller homebuilders, administered by local or regional banks and credit unions.[8]

Fiscal and Policy Measures

The State should adopt fiscal measures and policies that incentivize the construction, retention, and enable the ownership, of smaller starter homes. Reducing the minimum lot size is a useful first step. The menu of options could include:

- Authorizing a county or municipality to establish zones within which to apply annual tax on properties zoned residential or mixed use that are not being developed to meet authorized uses or densities.
- Authorizing counties to impose transfer and recordation taxes either at a single uniform rate or through a progressive rate structure, with state law setting maximum allowable rates to ensure consistency.

[7] A-new-class-of-supply-focused-housing-investment-programs_CPE_web.pdf
[8] 20251014-aelp-capitalcrunch-execsum-v3.pdf

- Establishing a loan guarantee program for first-time home buyers earning up to double the area median income, thereby reducing the mortgage costs for borrowers.
- Allowing factory-built homes to be titled as real property, following HUD/Fannie Mae/Freddie guidelines.
- State antitrust enforcers should use their existing authorities to scrutinize transactions that would exacerbate trends toward concentration in the homebuilding industry.
- Incentivizing homebuilders to build "starter" and "silver" homes on undeveloped parcels of State and County land, so that density and required infrastructure can be planned.

As proposed by the Maryland Association of Counties, revenues generated by fiscal measures should be dedicated to affordable housing initiatives, school construction, or other purposes related to housing development.

Local Housing Targets

Successful housing strategies inevitably require strong government leadership and direction guided by targets. Rather than mandating top-down targets and how local governments address housing affordability, Maryland might consider Connecticut's approach, which requires local governments to create their own housing growth plans with targets and provides them incentives.

If Connecticut's local governments create these plans or take certain steps to add more housing near train and bus stations or in downtowns, they will have access to a new state fund and can get more state reimbursement for what they spend on school construction.[9]

This approach would enable both community members and local decision-makers to better contextualize, understand, and respond to the housing shortage at a more local level by implementing **land-use changes that are planned locally through area master plans**. These decisions must be guided by thorough evaluations of infrastructure, social and environmental impacts, and school capacity, along with active community participation in developing a shared vision for neighborhoods that reflect local conditions.

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[9] What to know about the CT housing bill passed in special session

Appendix 1

- A University of Virginia study of Charlottesville found significant underdevelopment of parcels under current zoning despite it being a small, high-demand city experiencing high housing costs. That finding suggests that zoning classification may not be the primary constraint on housing supply. ("Underdevelopment Despite Upzoning - University of Virginia School of Law")
- Montgomery County's analysis of its housing pipeline identified economic factors as the primary barrier to development of permitted units. It explains why, in Montgomery County, White Flint remain undeveloped, despite its prime location near Metro.
- The Economist noted that Los Angeles and Atlanta have practically identical zoning restrictions, but quite different prices.
- Houston, the poster child of unrestricted zoning, ranks second worst amongst 50 metropolitan areas in availability of affordable rental homes for low-income people.
- Loosely zoned Nashville, despite a building boom, still cannot produce enough housing and lower prices.
- Washington DC produced housing at rates on par with North Carolina, South Carolina, and Texas, without upzoning. In fact, it easily topped upzoned cities such as Portland (OR), Spokane, and Minneapolis.
- In Seattle, upzoned areas saw new multi-family structures that were cheaper than "McMansions" but more expensive (and smaller) than the "naturally occurring affordable homes" that they replaced. And the overall impact was to reduce the supply of single-family homes.

Appendix 2

The Center for Public Enterprise notes that the benefits to the HFA of these types of programs are threefold:

- Develop new project pipelines. A powerful use for these types of tools is unsticking stalled market-rate projects. HFAs can pull forward housing production on existing projects that are fully entitled but would otherwise be stuck waiting for private equity or other gap financing, thereby speeding up the production of housing in the state and adding affordability without needing LIHTC. These tools can also provide an offramp for unsuccessful LIHTC applicants, providing an alternate pathway for projects that would otherwise wait years for funding. (“A-new-class-of-supply-focused-housing-investment-programs_CPE_web”) (“A-new-class-of-supply-focused-housing-investment-programs_CPE_web”)
- Recycle capital quickly. "These funds are designed to recycle public capital quickly, though the timing varies by structure." (“A-new-class-of-supply-focused-housing-investment-programs_CPE_web”) In each model, repayments replenish the fund so that the initial appropriation can support multiple projects. The funds grow, not diminish, over time. Unlike traditional subsidies, revolving loan funds do not require new budget appropriations, except for capital increases.
- Addressing a broader range of housing needs. "These programs unlock affordability through mixed-income production, with a significant portion of developments serving households above 60% AMI all the way up to market rate, meeting goals for housing production across the income spectrum." (“A-new-class-of-supply-focused-housing-investment-programs_CPE_web”) (“A-new-class-of-supply-focused-housing-investment-programs_CPE_web”)