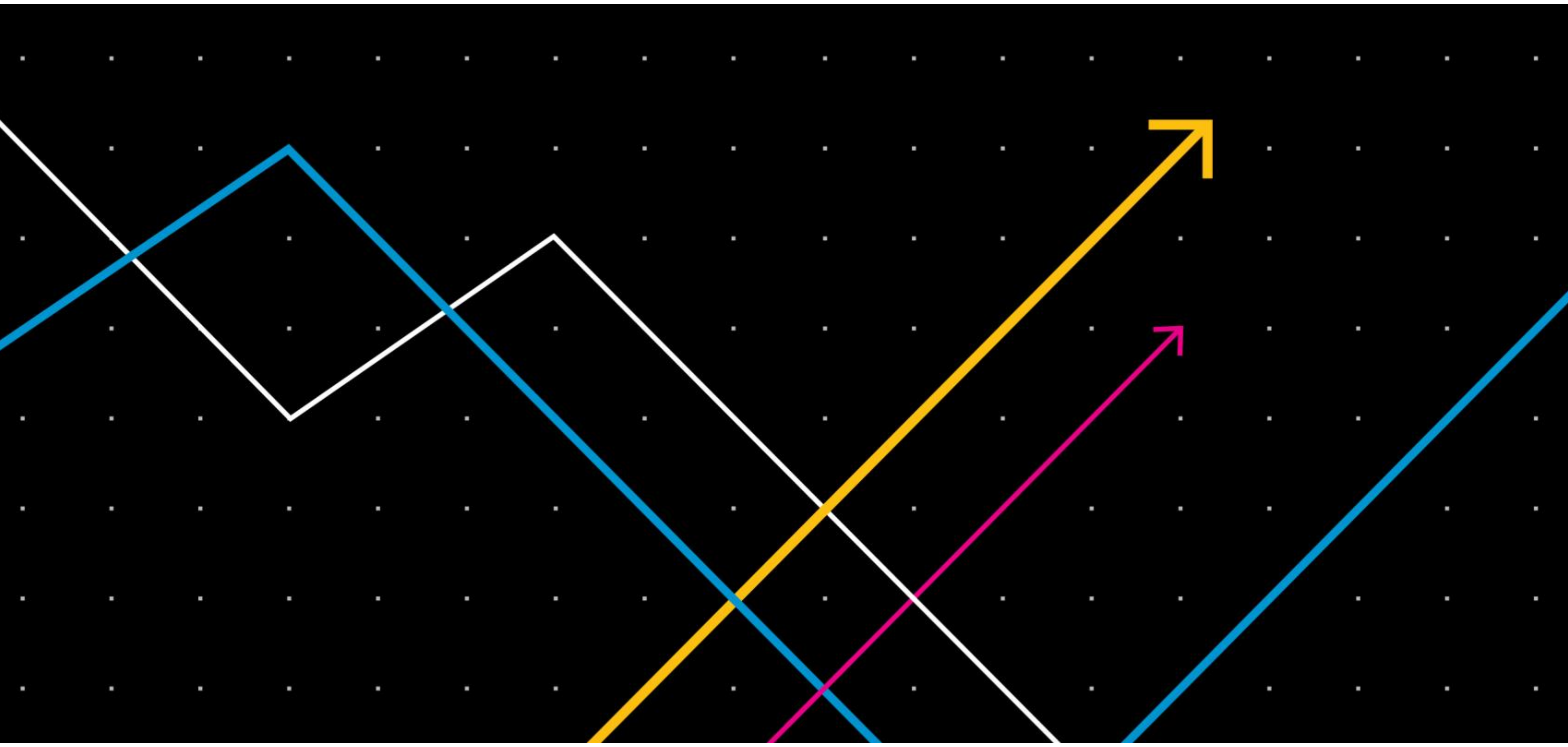

RESEARCH REPORT

A Road Map for Affordable and Stable Housing for All

A National Policy Agenda

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A Road Map for Affordable and Stable Housing for All

Housing touches all aspects of people's lives. Where a person lives affects their economic opportunities, health outcomes, and access to jobs, services, schools, and amenities.[1] The cost of housing is most households' largest monthly expense. And for most homeowners, their home is their largest asset, a key to creating wealth for themselves and for the next generation. Beyond financial matters, home is a place where one is meant to feel secure and at peace, make memories, and ground lives.

Yet today, housing is moving out of reach for many, as a result of interconnecting challenges across incomes, housing tenures, and generations. Failures or faults in one part of the housing market ripple across the entire housing spectrum. Homeownership, rental housing, and homelessness are inextricably linked. The primary cause of homelessness is a lack of affordable rental units.[2] High rents also reduce renters' ability to save up to buy a home,[3] and rising interest rates and house prices further prevent renters from leaving the rental market to buy their own home. Many young adults are delaying household formation altogether,[4] and the billowing population of older Americans will pose a whole new set of housing challenges. As the nation's demographics change, the additional headwinds faced by households of color from historical discrimination and ongoing structural racism threaten to further strain the points of failure in the country's housing system.

How did the US get here? Simply put, localities haven't built enough housing, and what has been built is too expensive. A long-term trend of lagging housing production has created a housing shortage that is driving up rents and home prices for both renters and would-be homeowners (Goodman et al. 2024). The US has millions of units fewer than what is needed, with households of the lowest incomes facing the greatest shortages.[5] Meanwhile, the country's existing housing stock is aging, in need of repair, and threatened by climate change.[6]

All around the country, households are feeling this crisis, and with a consequential election ahead, they are looking to federal policymakers for solutions. Skeptics may say that the country's governance is too divided for an effective response, or that housing is the domain of local governments. But this country has faced—and solved for—worse. Ninety years of national housing policies demonstrate that when the housing needs of American families become particularly acute, presidents and congresses of both parties have acted. From the Great Depression to the Great Recession and beyond, the federal government has taken decisive actions to directly stimulate housing production, enable households to attain homeownership, and prevent families from losing their homes.

Once again, housing is at a point of inflection, with American families calling for help in countering the impacts of a perfect housing storm. The current crisis cannot be solved without building more homes, but that will not be enough. To successfully meet this historic moment will require a comprehensive and coordinated housing policy strategy addressing each of the interconnected yet unique needs of all Americans, in which the federal government can play a lead role. This strategy should seek both to expand the housing supply and to support access to housing for first-time homebuyers, cost-burdened renters, and unhoused individuals and families.

This report summarizes the underlying causes and state of the current crisis. Then, it reviews a wide variety of tools available to federal policymakers to advance affordable and stable housing for all, from both the supply and the household sides. While some of the proposed strategies are supported by strong bodies of evidence, other ideas are more recent or understudied and need additional piloting and evaluation before they can be adopted widely.

The State of the Housing Affordability Shortage

Local housing markets vary considerably, but alarming trends are affecting housing markets across the country. We distill some of the main trends below, noting that some markets face unique challenges not mentioned here.

Aspiring Homeowners Face a Shortage of Affordable "Starter" Homes

Since the start of the pandemic, the inventory of homes for sale has consistently been less than four months' worth—that is, the number of months there would be homes to sell if housing production completely stopped and the current rate of home sales continued. According to the National Association of Realtors, a six-months' supply of homes corresponds with moderate home price appreciation, and supplies of fewer than six months' worth result in more rapid price increases.[7] Figure 1 shows the country's relative supply of available homes since 1999. The recent increase in months' supply since 2020 largely reflects a decline in sales rather than a growth in new inventory.

FIGURE 1

Months' Supply of Existing Homes in the US

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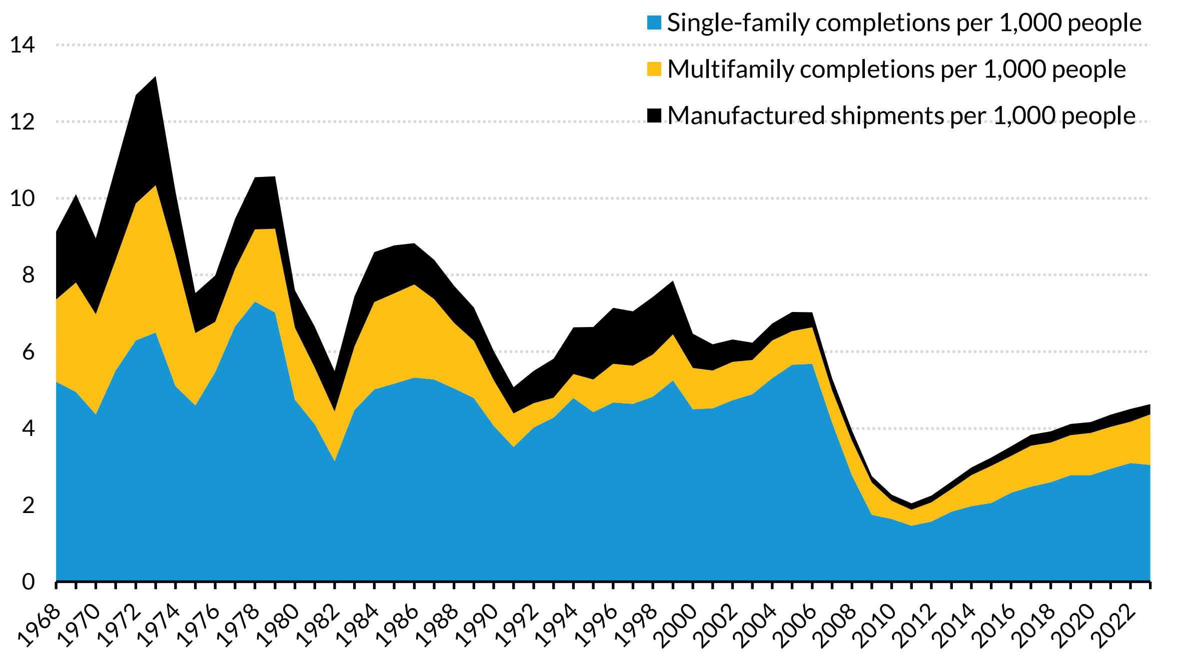
Source: Urban Institute calculations of July 2024 data from the National Association of Realtors.
Notes: Months' supply is the number of months there would be homes to sell if housing production completely stopped and the current rate of home sales continued.

Single-family home construction dropped sharply after the 2008 housing crisis and, although it is trending upward, it still remains below historical averages (figure 2). Moreover, much of this construction has been of higher-priced homes. Single-family rental properties have grown to encompass 9 percent of single-family construction.

FIGURE 2

Population-Adjusted Housing Production in the US



Source: US Census Bureau Survey of Construction and Manufactured Housing Survey data and Urban Institute calculations.
Note: Single-family = buildings with one to four units.

Meanwhile, the supply of existing homes for purchase, which make up the vast majority of home sales, has declined significantly. There are about 97 million single-family housing units in the US as of 2022. Over half of the nation's housing stock was built before 1980.[8] As properties age, they traditionally become relatively more affordable; historically, when new additions to the stock were in rough balance with population growth, older units would fall in price. Current supply shortfalls prevent this kind of downward-filtering market dynamic, while strong investor demand coupled with repair needs that are greater than many first-time buyers can take on has dampened the ready supply of older starter homes. The inventory of existing homes for sale is further constrained as many people are opting to stay in their homes longer. In 2023, 62 percent of homes owned with a mortgage had a mortgage interest rate below 4 percent.[9] Many would-be sellers may be reluctant or unable to move into a new home because a new mortgage would have a much higher interest rate and monthly payment. Furthermore, many older baby boomers are "aging in place" rather than downsizing or moving into retirement homes, limiting the number of homes available for sale.[10] A low rate of foreclosures has also reduced turnover, and natural disasters further threaten the housing stock.

The tight supply, rising home prices, and high interest rates all exacerbate affordability challenges for aspiring homeowners. The share of the median income needed to afford the median-priced home with a 3.5 percent downpayment has skyrocketed in recent years, from 24 percent at the start of the pandemic to a peak of nearly 40 percent by July 2023 (Goodman et al. 2023).

Due to the dual effect of higher rent burdens, which make it harder to save for a downpayment, and the rising cost of entry-level homes, households are delaying homebuying later than ever: the average age of a first-time homebuyer rose to age 36 in 2022, up from age 33 the year before.[11] We estimate that the lag in homeownership attainment for younger age cohorts compared with previous generations equates to more than three million "missing" homeowners.[12]

Households of color, who make up an increasing share of the US population, face even greater challenges—Black households in particular. The nearly 30-percentage-point Black-white homeownership gap—which narrowed slightly in the 1990's before widening again in the 2000s—is about as great today as it was when housing discrimination was banned in 1968 and when race-based zoning was disallowed in 1917.[13] We project this gap will increase in the decade ahead without concerted action (Goodman and Zhu 2021).

There Is Not Enough Affordable Rental Housing

Affordable rental housing is in a similar bind. Multifamily construction is much higher now than before the Great Recession and is the highest it has been since the passage of the 1986 Tax Act, which led to a steep decline in multifamily housing production. However, high costs of building and capital mean that building affordable units has become even more challenging: According to the Harvard Joint Center for Housing Studies (2024), from 2012 to 2022 the number of very-low-income renting households went up by 4.4 million, during which time the US lost 6.1 million rental units with rent below $1,000/month and gained 8.4 million units that rented for $1400 and up. Meanwhile, increases in development costs have reduced the number of units created per dollar spent on public subsidies, specifically those that help developers offset the costs of affordable units . Although Low-Income Housing Tax Credit Program (LIHTC) allocations have risen,[14] the dollars don't go as far, and lower valuation for the credits—due primarily to a reduction in the corporate tax rate in 2017—has further eroded the impact of the tax subsidy.[15] Moreover, some LIHTC allocations are absorbed by resyndication to rehabilitate existing units.

Nationally, for every 100 of the lowest-income households—with incomes between 0 and 30 percent of area median income—there are only 40 units that are both affordable—with a monthly rent or mortgage payment at 30 percent of a household's monthly income—and available—either occupied by a household in that income range or vacant. There is also an acute and growing need for housing accessible to households with disabilities, including for more than half of people over age 80 (Harvard Joint Center for Housing Studies 2023). While there are a number of subsidies that serve renters, the three largest subsidy programs (table 1) serve only a small share of those in need.[16] It's also important to note that national figures are misleading and should be interpreted with care because available units are not in the same markets as where the shortages are greatest. These national numbers are an imperfect indicator of the housing needs across the US, given that housing affordability varies drastically across markets and that housing units are not transferable from place to place.

TABLE 1

Units Affordable and Available and Rental Subsidies, by Percent of Area Median Income

	0–30% AMI	30–50% AMI	50–80% AMI	80–100% AMI	100–120% AMI
Housing Supply					
Number of households (millions)	14.6	7.3	9.4	4.2	3.0
Number of affordable and available rental units (millions)	5.85	14.42	30.78	37.64	41.88
Ratio of existing units affordable and available to every 100 households	40:100	66:100	99:100	106:100	109:100
Rental Subsidies					
Households served by public housing (millions)	0.97				
Households served by Housing Choice Vouchers (millions)	2.3				
Project-Based Section 8 units created (millions)	1.2				
LIHTC units created between 1986-2024 (millions)	3.8				

Sources: US Census Bureau 2022 one-year American Community Survey; US Department of Housing and Urban Development Office of Policy Development and Research, "Fair Market Rents and Income Limits," FY 2022; Harvard Joint Center for Housing Studies, 2024, *The State of the Nation's Housing 2024* (Cambridge, MA: Harvard Joint Center for Housing Studies); US Department of Housing and Urban Development, "HUD's Public Housing Program," accessed August 12, 2024, https://www.hud.gov/topics/rental_assistance/phprog.

Notes: AMI = area median income; LIHTC = Low-Income Housing Tax Credit. This metric reports the number of housing units affordable and available for all households with very low-incomes (below 30 percent of AMI), low-incomes (30–50 percent of AMI), moderate incomes (80–100 percent of AMI), and high incomes (100–120 percent of AMI) relative to every 100 households with these income levels including owners and renters. Income groups are defined by the US Department of Housing and Urban Development for a local family of four. Housing units are defined as affordable if the monthly costs do not exceed 30 percent of a household's income. Affordability addresses whether sufficient housing units would exist if allocated solely on the basis of cost, regardless of whether they are currently occupied by a household that could afford the unit. The affordable housing stock includes both vacant and occupied units. Availability measures the extent to which affordable rental housing units are available to renters and affordable for-sale units are available to owners within a particular income range. Some renters spend less than 30 percent of their incomes on rent, occupying units that would otherwise be affordable and available to renters with lower incomes. A unit is affordable and available at a given level of income if (1) it is affordable at that level, and (2) it is occupied by a renter either at that income level or a lower income level or is vacant. Ratios above 100 suggest that there are more affordable housing units than households with those income levels. Values below 100 suggest that on this basis the affordable stock is insufficient to meet the need. Units lost to disrepair and climate disaster and affordable units lost to expiring affordability restrictions put additional pressure on rental housing stock. Between January 2021 and January 2022, US rent prices increased by over 15 percent and have stayed at elevated rates since.[17] As a result, rental cost burdens are at historic highs, with over half of rental households nationally paying more than 30 percent of their incomes on rent.

According to national survey results, renter households at every income level are feeling financial pressures: saving less than they were in the previous year, cutting back on spending on essentials, and considering moves to lower their housing costs.[18] Currently there is not a state in the country where a person making minimum wage is able to afford a two-bedroom apartment (National Low Income Housing Coalition 2024). These financial burdens are especially acute for low-income households and households of color, who are also at higher risk for unwanted moves and eviction,[19] and those with disabilities.

Declining Housing Affordability Has Accelerated Housing Instability and Homelessness

Housing instability and homelessness have increased in recent years, with individuals experiencing homelessness rising by 12.1 percent between 2022 and 2023 alone. This reflects a departure from prior progress in reducing homelessness: overall homelessness on a single night decreased 12.5 percent between 2009 and 2017, but large increases in unsheltered homelessness since 2015 have reversed that progress and increased overall homelessness to beyond 2009 levels. Large increases in unsheltered homelessness were driven by rising homelessness in West Coast cities, among those who identify as Black and Latinx, and among those who identify as women and transgender (Batko, Oneto, and Shroyer 2020; de Sousa et al. 2023).

These increases have occurred as many of the pandemic-era renter protections and assistance have ended or been fully spent, with many communities reporting the same level of need as before the pandemic. Between 2022 and 2023, eviction filings increased for 25 of 32 cities for which the Eviction Lab had data, with national overall increases in landlord filing rates exceeding prepandemic averages.[20] As with previous periods, evictions continue to disproportionately affect Black households and women. Although not all evictions will result in homelessness, unwanted moves increase the likelihood of shelter stays and the length of stays for those who find themselves in shelter (Collinson et al. 2022).

Over the course of a year, about 1.2 to 1.5 million people in the US use a shelter or transitional housing program (Henry et al. 2023). On any given night in 2023, approximately 653,100 people were experiencing homelessness, approximately 256,600 of whom were sleeping in an unsheltered location, meaning on the street, in a car or other vehicle, or in an abandoned building (de Sousa et al. 2023). This represents a 12 percent increase since 2022 and includes approximately 186,100 people in family households experiencing homelessness, about 108,200 of whom are children.

BOX 1

A History of Federal Responses to Housing Crises

A review of ninety years of national housing policies demonstrates that when the housing needs of American families have become particularly acute, presidents and congresses of both parties have acted.

Since the 1930's, the federal government has taken decisive actions to directly support housing production, beginning with the US Housing Act of 1937, which created the federal public housing program—the nation's oldest housing-assistance program—and provided an instrumental source of permanently affordable housing for low-income families, older adults, and people with disabilities (Popkin 2024).

It has also taken extreme measures to prevent families from losing their homes, increase liquidity for mortgage-lending institutions, and prevent evictions. During and after the Great Depression, the federal government established the Federal Home Loan Bank Board in 1932 to "reinvigorate" the devastated housing market (Federal Housing Finance Agency 2023); the Homeowners Loan Corporation in 1933 to refinance the mortgages on more than one million homes;[21] the Federal Housing Administration (FHA) in 1934 to restore lender confidence in making home loans by insuring them against losses in the event of default; and Fannie Mae in 1938 to increase liquidity.

Less than a decade later in 1946, in a frenzy to build homes as American veterans returned after World War II, the US implemented emergency measures, including deregulating imports of lumber and timber, mandating that these materials be predominantly allocated to housing construction,[22] and temporarily limiting construction of nonresidential infrastructure and luxury housing. Other executive actions included adaptive reuse of surplus nonresidential properties and apprenticeship programs to increase the supply of skilled construction labor. Simultaneously, the FHA expanded its mortgage insurance programs for rental housing, which had become a focus of President Truman's housing plan.[23] And, the GI Bill of Rights (1944) gave veterans returning from World War II the resources to buy a home with a mortgage requiring zero down (the VA loan program). This combination of executive actions enabled 3.6 million starts between 1946 and 1948,[24] and in 1950 1.69 million new homes were built, an all-time high.[25] In 1945, the country had 37.6 million occupied dwelling units; by 1956 this number had reached 48.9 million; over this period the homeownership rate climbed from 53.2 to 60.4 percent (US Bureau of the Census 1960). The success of these programs saw the rise of the white middle class, but Black households and other households of color were largely barred from participating; the racial disparities these programs created loom large to this day (Rothstein 2017).

Two decades later came the omnibus Housing and Urban Development Act of 1968, which was in part influenced by the Kerner Commission's agenda for federal housing action to investigate the causes of rampant race riots in the US. The legislation proclaimed a national need to build or rehabilitate 26 million housing units in 10 years to meet the needs of American families, including 6 million units reserved for low- and moderate-income families, requiring a yearly production level of more than twice what was then being produced (Bartlett 1969). By 1970, there were 470,000 federally assisted new and rehabilitated housing units, or about one-third of all units produced that year.[26]

By 1973, in the face of national budget debates and high inflation, the Nixon administration suspended a handful of US Department of Housing and Urban Development (HUD) production programs that President Reagan and Congress later eliminated.[27] In their place, in 1974, the Federal Government introduced a tenant-based rental certificate program "to allow low-income households to find rental units in the private market and to pay some or all of their rent and utility payments," which eventually became the Housing Choice Voucher program.[28] In 1986, a divided Congress preserved a small federal production presence in the form of a new Low-Income Housing Tax Credit program, part of the Tax Reform Act of 1986,[29] that today is the dominant resource for creating new affordable housing supply. As of 2024, the credit supported more than 3.8 million units (Harvard Joint Center for Housing Studies 2024b) at an annual budget equivalence of $10 billion.[30]

The Great Recession of 2008 saw massive government interventions to stabilize financial institutions and help homeowners at risk of foreclosure. Newly standardized loss-mitigation approaches allowed more borrowers to seek a mortgage modification when appropriate and a foreclosure alternative when home loss was unavoidable. These lessons were refined between 2009 and 2020 (Goodman and Zhu 2024a). When the coronavirus pandemic hit, policymakers responded with powerful tools and supports to help households unable to make their mortgage or rent payments keep their housing. Consider the following:

- A federal eviction moratorium nationally paused evictions in certain cases of rent payment from 2020 to 2021, with estimates that it cut evictions filings in half for renters unable to pay their rent.[31]
- Through June 2023, state and local jurisdictions had passed through federal Emergency Rental Assistance payments to nearly 12.3 million households that were behind on rent and utility payments because of job and income losses caused by the pandemic.[32]
- By March of 2024, more than 8.8 million borrowers received a forbearance due to a hardship created or exacerbated by COVID-19 (ICE Mortgage Technology 2024). Many of these programs were made permanent in slightly modified form, creating new loss-mitigation tools that will help struggling homebuyers keep their homes for generations to come.[33]

A Path Forward

Once again, housing is at a point of inflection, with American families calling for help in countering the impacts of a perfect housing storm. Addressing this crisis will require a comprehensive and coordinated federal housing policy strategy addressing each of the interconnected yet varied needs of all Americans, be they first-time homebuyers, lower-income renters, or unhoused individuals.

The remainder of this paper provides a road map for a responsible and feasible set of federal policy and program responses to the acute housing conditions faced by American families. We begin with the core of the current crisis: a lack of affordable housing supply. But building housing takes time, and renters, homebuyers, and the unhoused need relief now. Moreover, a well-functioning housing market will keep lower-income households stably housed and help those who become unhoused find safe and supportive housing.

Box 2 outlines a cascading and interlocking set of federally driven strategies within these two action areas: (1) expand the housing supply and (2) empower households to buy, rent, and stay in homes, identifying major elements that need attention and specific actions to be taken.

BOX 2

A Road Map for a National Housing Policy

Expand the Housing Supply

- Catalyze new construction for sale and for rent.
  - » Stimulate starter home and affordable rental construction.
  - » Encourage local action to accelerate housing supply.
  - » Expand public and social housing options.
- Unlock and preserve existing housing inventory.
  - » Increase owner-occupant access to for-sale homes.
  - » Preserve inventory of affordable rental homes.

Empower Renters and First-Time Homebuyers and Assist the Unhoused

- Level the playing field for first-time and first-generation homebuyers.
  - » Boost the purchasing power of first-time homebuyers.
  - » Provide targeted assistance to first-generation homebuyers.

- Empower and protect low- to middle-income renters.
  - Offer relief and protections for low- and middle-income renters.
  - Protect renters vulnerable to housing instability.
- Assist and protect the unhoused.
  - Prevent and end homelessness.
  - Protect people enduring unsheltered homelessness.
- Leverage existing tools.
  - Adequately fund the US Department of Housing and Urban Development.
  - Finalize the Affirmatively Furthering Fair Housing rule.

Source: Framework developed by the authors.

The proposed strategies range from major legislative measures—which have high potential impact but will take time to enact, structure, and implement—to relatively simple changes to existing programs that will be easier to put in place and will help in the near term, if only at the margins. All of these levers are presented so that a variety of housing policymakers, advocates, and practitioners can locate their role within the landscape of potential solutions and align their efforts toward a housing market that works for all. That said, the solutions and outcomes will not happen in a vaccuum: there is a connection between housing and the broader economy. On the one hand, many actors outside the housing ecosystem have parts to play, and many policy areas—including the social safety net, immigration, trade, energy and climate, transportation, and monetary policy—can either accelerate or or hamper progress. On the other hand, a healthier, more affordable housing market will make for a healthier economy, by creating jobs, reducing wage and inflationary pressures, and contributing to greater economic stability.

Expand the Housing Supply

There is a clear need for new construction and preserving affordable housing stock to meet the need in owning and renting markets. Both building new housing units and preserving the units that are affordable now are critical to ensuring a healthy housing market. Without preservation, bringing new units online will only slow overall losses or, at worst, not even replenish units that are lost. Below we describe federal housing policy solutions that can contribute, in varying degrees, to increasing the number of available homes that are affordable to own and rent.

Catalyze New Construction for Sale and for Rent

As discussed, nearly two decades of underbuilding of new housing has created a housing deficit; reversing that trend will require new construction. Though this will not solve the problem immediately, it must start now; the longer the nation underbuilds the worse the supply situation will get.

STIMULATE STARTER HOME CONSTRUCTION AND AFFORDABLE RENTAL DEVELOPMENT THROUGH SUBSIDIES AND BETTER FINANCING TOOLS

The high costs of new construction—which are affected by land, labor, materials, regulatory, and financing costs—make it cost prohibitive for the market to provide affordable new units, both for ownership and rental.

Below, we review several potential solutions. The largest impact will come from new targeted funding subsidies to encourage construction in affordable price tiers, which will require new legislation. Financing tools can also play an important but often overlooked role in what gets built and how affordable it is. The federal government has a limited footprint in direct financing of housing development, but we note several levers that could boost supply incrementally, through improved financing terms.

Provide incentives for builders and developers of affordable for-sale homes. The federal government could provide tax relief to builders and developers of homes affordable to first-time homebuyers (e.g., homes below the area median home price) through a waiver of federal income tax liability for each unit built or a variation of the LIHTC that provides credits to those who develop such units for ownership. The benefit of the former is that it could be used easily by builders of all sizes and the benefit of the latter is that it would take advantage of an existing market and development infrastructure. Policymakers could also combine the two, with a federal tax break for building entry-level single-family detached homes and a LIHTC-type credit for building entry-level multiunit properties (such as condos).[34]

Expand and improve the Low-Income Housing Tax Credit program. LIHTC is an incredibly sought-after incentive. (For a guide on how the program works, see Scally et al. 2018a.) It is the largest source of funding for affordable housing construction and rehabilitation, supporting 100,000 to 150,000 rental units each year.[35] The number of annual units produced has declined in recent years, both in absolute terms and as a share of multifamily production.[36] More funding is needed just for the program to keep up with rising costs (Scally et al. 2018b). Allocating more resources to the program would enable further affordable housing development in a program that is already well-known to private developers and receives bipartisan support (Scally et al. 2018b). For example, the proposed bipartisan Affordable

Housing Credit Improvement Act would expand the program to generate almost 2 million (1.94 million) additional affordable rental homes for lower income families, veterans, and residents in rural and Native American communities over the next decade.[37] Expanding other subsidies—such as the National Housing Trust Fund and the HOME Investment Partnerships Program (HOME)—as gap financing with LIHTC is also vital to ensure that units are affordable to low-income families.[38]

Unleash private financing to build "missing middle" housing. Even with expanded funding, programs like LIHTC that subsidize rent- or income-restricted units won't produce enough units to meet the housing needs of all eligible renters, let along those who earn above the income threshold and who are increasingly rent burdened due to the lack of supply. A comprehensive housing strategy must include solutions for this "missing middle," including advancing new technologies and building codes, lowering regulatory barriers and reducing the cost of capital, all of which the federal government can influence (Brickman 2023). On the financing front, as high interest rates have increased the cost of multifamily construction loans,[39] the federal government should explore mechanisms to leverage private capital and create a reliable stream of affordable debt and equity for mixed-income multifamily housing development. For example, the Biden-Harris administration has recently extended and improved the FHA and the Department of the Treasury's Risk-Sharing Initiative, which will provide favorable and predictable interest rates to state and local housing finance agencies who use FHA mortgage insurance to finance housing development and preservation projects. This is estimated to help create or preserve 38,000 units in 10 years.[40]

Today, some 120,000 multifamily units have been permitted but not yet started, which is more than double the average of the prior two decades. Citing financing constraints exacerbated by business cycles, the Center for Public Enterprise proposes federal investment in a national housing construction fund to leverage private capital to create new mixed-income units (Williams and Feygin 2024). Federal initiatives to creatively fill funding gaps could draw on emerging models: Massachusetts recently approved the Momentum Fund, with an initial $50 million investment by the state to catalyze side-by-side "market-driven, mixed-income" housing;[41] and the Montgomery County, Maryland, Housing Production Fund provides affordable equity to mixed-income projects.[42]

Boost financing for housing production. The federal government has several financing tools—some for developers and builders to create new units, and others for potential homebuyers to pull supply through increasing demand for certain housing types—that it can leverage to increase supply incrementally. These powers lie with the FHA and government-sponsored enterprises (GSEs) including Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System.

- ***Reform the Federal Home Loan Bank System to increase support for affordable rental and for-sale housing production.*** The Federal Home Loan Bank (FHLBank) System is a network of for-profit cooperatively owned government-sponsored enterprises originally created to broaden access to mortgages through the economic cycle and to expand homeownership (Federal Housing Finance Agency 2023). The FHLBanks receive similar benefits to those received by Fannie Mae and Freddie Mac, including exemption from most federal, state, and local taxes, and an implied federal guaranty of their secured debt that enables them to borrow in the capital markets at near-Treasury rates and relend at a markup to their more than 6,000 members. Estimates of the value of these benefits range up to $6 billion a year (Federal Housing Finance Agency 2023). And, as with Fannie Mae and Freddie Mac, the FHLBanks must meet certain mission requirements. The FHLBanks' mission requirements are to support affordable housing and community development. The cost savings from just their tax exemption, estimated at around $800 million in 2022, was more than triple their collective mandatory Affordable Housing Program contribution of 10 percent of net profits.

  However, as the FHLBank System nears 100 years of existence, the role of the FHLBanks in supporting housing and homeownership has lagged. There are a number of mechanisms the FHLBank System can leverage to increase support of affordable housing and homeownership, including discounting advances for affordable housing production, expanding its membership to foster more affordable housing and community development, and directing a greater share of profits to the Affordable Housing Program (Stegman 2023). With its regulator, the Federal Housing Finance Agency, undertaking a sweeping review of the FHLB System, stakeholders have the opportunity to push for a dynamic rethinking of how the FHLBanks can once again support the country's housing system in a time of crisis.

- ***Improve and expand Federal Housing Administration and government-sponsored enterprise multifamily construction and development financing.*** The FHA Section 221(d)(4) program insures loans for new construction or rehabilitation of multifamily properties. The FHA could offer greater leverage and better terms without significantly increasing risk. It could also make compliance with Davis-Bacon Act rules easier and less costly. Thirdly, the program could embrace factory-built housing and new housing designs with lower development costs (Brickman 2023).

  The Small Building Risk Sharing pilot launched by FHA and the US Treasury Department could be revisited to widen the pool of lenders and the appeal of FHA financing for smaller properties. Developed to increase capital access for properties with 4 to 49 units, the pilot expanded FHA underwriting to smaller, local lenders, including community development financial institutions, who agreed to share loss risk with FHA in exchange for originating FHA-insured loans. While not yet implemented, it is a promising model (Scally et al. 2021).

Fannie Mae and Freddie Mac could provide more significant incentives to developers to use programs like Fannie Mae's Sponsor-Initiated Affordability program and Freddie Mac's Workforce Housing Preservation program to make more units more affordable. In addition to revamping existing programs, the GSEs could expand their offerings to provide construction-to-permanent financing in the vein of the FHA's 221(d)(4) program and provide forward commitments of financing for construction take-out. The agencies could require developers to adopt various affordability restrictions in exchange for favorable terms (Brickman 2023).

- ***Improve Federal Housing Administration and government-sponsored enterprise financing to access affordable forms of ownership.*** There are several housing types that can generate greater housing supply quickly and at a lower cost (and often, more sustainably) than single-family housing, but these types remain difficult to finance for first-time buyers. If rules were eased, demand would grow and suppliers would respond by producing more such units. While there are barriers to remove on the supply side, easing restrictions on the lending side can help. Several options sit on the spectrum between full fee simple ownership and renting, and, if financed through safe, mainstream channels, could offer households greater housing stability and affordability, including the following:
  - **Improve chattel financing for manufactured housing.** Manufactured housing contributes about 7 million units to the housing stock, but new production remains less than a third of its pace prior to the 2000's (Goodman et al. 2023). Because of its relative affordability due to building efficiencies (Herbert, Reed, and Shen 2023), manufactured housing is one of the strongest avenues to low-income and entry-level homeownership. However, financing is a barrier to expanding the stock. Chattel loans—the primary financing for manufactured housing as personal property—carry significantly higher interest rates, shorter terms, and fewer consumer benefits compared with mortgages to finance manufactured homes titled as real estate (Kaul, Goodman, and Neal 2021). More FHA, Ginnie Mae, and GSE involvement in this market could improve viability and demand. FHA is increasing its capabilities in this sector and Ginnie Mae is reevaluating its lender requirements.[43]
  - **Spur accessory dwelling units (ADUs).** Allowing ADUs serves several purposes: they increase the housing stock, largely in single-family neighborhoods and mostly through private investment; they provide homeowners with rental income, helping them afford

homeownership in today's increasingly unaffordable market; and they ensure safety and quality by encouraging the many homeowners who have already added unpermitted units to bring these units up to code. Through enhancements and flexibilities in GSE rules for loan-to-value, credit score, valuation, treatment of income from ADU rentals, and lender recourse, the GSEs could boost ADU supply (Goodman 2024).

» **Encourage condominium development.** The supply of new condominiums for sale has been low since the Great Recession, partly because of condo defect litigation, which subjects condo builders to liability for construction and material defects up to several years after building completion. Steps the GSEs took in the wake of the 2021 Champlain Towers collapse further crippled financing for condos. Although financing barriers have since been relaxed, the GSEs and FHA could revisit some of their financing rules and increase reliance on regular condo inspections to reduce condo risk and homeowner's association liabilities (Goodman and Neal 2023). Additional issues that have arisen recently, such as enormously high price tags for condo repairs after decades of no inspections,[44] could be addressed through financing supports for condo repairs, as proposed in H.R. 4465—Making Condos Safer and More Affordable Act of 2023.[45]

BOX 3

The Role of Other Policies in Reducing the Costs of Housing

Although this report focuses on federal housing policies, there are factors beyond the housing policy space that, if addressed, could accelerate the revival of America's housing stock. Increased costs of inputs—land, labor, lumber, and capital—have made it more expensive to produce housing, and the federal government has levers in each of these areas. It is not within the scope of this report to offer comprehensive policy analysis of these areas, but we encourage consideration of these opportunity areas by offering broad examples:

- Land development is one of the largest constraints on housing supply. The federal government could make its significant land and building holdings available to localities for affordable housing.[46]
- The residential construction industry has experienced some of the highest labor supply shortages in two decades, despite some improvements due to high immigration levels since 2022. Immigration is highly correlated with single-family housing starts, indicating the importance of immigrant labor to the industry: immigrant workers comprised 24.7 percent of the total construction labor force in 2024, and significantly more in certain trades, such as 64 percent of plasterers and 52 percent of drywall installers, and in certain states such as California and Florida (Home Builders Institute 2024). Reforms to immigration policies could

help, as could special provisions to attract construction labor. Simultaneously, resourcing educational institutions and apprenticeships could help to develop the skilled construction workforce, which also has high shortages. Investment in factory-type construction can also improve productivity.

- Materials cost reduction and productivity increases may result from encouraging a reconsideration of traditional on-site stick-built construction methods and materials. Trade policies also affect materials costs.
- Cost of capital could partly be eased by monetary policy and by revising restrictive capital and reserving requirements that bank regulators put in place following the Great Recession. These requirements have led to credit standards that constrain acquisition, development, and construction lending.[47]

We also remind readers of the federal tools outside the housing space that help people afford housing. The broader social safety net offers a host of levers that would improve people's lives and give breathing room on the income and asset side of the equation. These include expanding Medicaid to cover rental assistance, raising wages and livable minimum wage rates, and adjusting benefits to cost of living for Supplemental Security Income and Social Security Disability Insurance.

ENCOURAGE LOCAL ACTION TO ACCELERATE HOUSING SUPPLY

Federal actions will be less effective if local governments are not aligned. The federal government can use its influence to encourage localities to take action using a variety of methods, including competitive grants that require local preconditions and waiving certain federal regulations for localities that take certain actions or establish new policies. In this section, we discuss ways that the federal government can incentivize and create the conditions for state and local actions that encourage expansion of housing units.

Create new federal grant programs for localities. States and localities have the greatest influence over many barriers to expanding housing supply, and many innovative policy tools have emerged on these levels, such as easing zoning and permitting barriers (Freemark 2023), establishing permanently affordable housing (Fu et al. 2024), and advancing transit-oriented development.[48] The federal government can incentivize and encourage pro-housing changes through a variety of programs. Congress could build on existing grant programs to help states and localities develop and implement comprehensive strategies to eliminate barriers to affordable housing production and to encourage innovations in home construction using modern building products and practices, such as modular and manufactured homes.

The Pathways to Removing Obstacles to Housing program, administered through HUD, continues to roll out new funding for states and localities, awarding $85 million in fiscal year 2023–24, with another $100 million slated for round two.[49] The government could consider increasing funding and extending the program. Enhancements to the program could include provisions for HUD to provide technical assistance and best practices to model zoning and land-use changes for states and localities.

Several proposed programs would support states and localities in uprooting barriers to expand the affordable housing stock. A program of $300 million was proposed in the Housing Supply and Affordability Act, which was first introduced in Congress in 2021 and reintroduced again 2024. In March 2024, the Biden administration proposed a $20 billion "Innovation Fund for Housing Expansion."[50] Such flexible funds could build on lessons learned from the American Rescue Plan Act of 2021 and complement other, more limited federal funding programs.[51]

Repurpose publicly held land for affordable housing. In expensive, high-density cities and suburbs, land costs are a primary impediment to new affordable housing construction. This is particularly a concern in areas close to transit, which are often ideal locations for new affordable housing because the locations have the potential to lower both residents' travel costs and housing costs. The Biden-Harris administration announced in July 2024 new efforts among various federal agencies to repurpose certain public lands to use for affordable housing, with encouragement to states and localities to do the same.[52] The federal government could build on this by providing grants to communities to procure land near transit for building affordable housing.[53] This program could be used alongside existing federal transit capital investment grants to ensure that new affordable housing is implemented simultaneously with new transit lines.[54]

Improve coordination between metropolitan housing and transport. Although housing availability—and the ability of residents to afford their day-to-day lives—is highly dependent on access to transportation options, US cities have for decades struggled to integrate planning for housing and transportation. In the Infrastructure Investment and Jobs Act, Congress created a new voluntary program that allows metropolitan planning organizations and states to implement "housing coordination plans" with their short- and long-term transportation plans.[55] This initiative could be considerably improved, and its value strengthened if such plans were required as part of the federal transportation planning process, and if the US Department of Transportation provided clear information about how they should be enacted.

EXPAND PUBLIC AND SOCIAL HOUSING OPTIONS

Public housing continues to face urgent challenges, with severe rehabilitation needs and extended waiting periods in many communities (Popkin 2024). The total supply of public housing is capped by the 1998 Faircloth Amendment, but there is still room under that cap to replace units if agencies have adequate funding. Traditional public housing serves very-low income, disabled, and senior households, and increasingly there are calls for expanding other forms of permanently affordable housing, such as community land trusts, cooperative housing, and units with other forms of deed restrictions (Fu, Reynolds, and Atherton 2024). Such housing forms can provide more stability for households who are unwilling or unable to reach homeownership, including moderate and middle-income families.

Key government and nonprofit stakeholders convened through the Council of Large Public Housing Agencies are currently mapping out their own ten-year road map for the sustainability of public housing,[56] and can focus on the following priorities.

Bolster public housing. Providing federal funding to construct new public housing units would first require repealing the 1998 Faircloth Amendment, which prohibits net increases in public housing units (Fu and Velasco 2024).[57] Barring that, housing agencies can build up to the number of units they had in 1999 by converting existing public housing units to Section 8 contracts through HUD's Rental Assistance Demonstration program. However, the Rental Assistance Demonstration program is constrained by a Congressional cap on the number of units that can be converted nationally and the need for additional capital dollars to meet substantial capital needs in many public housing units—capital funds that are not provided by Congress. For starters, Congress could add capital appropriations and remove the current cap of 455,000 units to allow more severely distressed public housing properties to be improved and preserved for the long term (Stout et al. 2019)

Any strategy to build new public housing must go hand in hand with direct federal investments in preserving the obsolescing public housing stock, as we will discuss later.

Expand public housing options for very low-income households, senior households, and people with disabilities. The robust growth of senior renters and households, projected to increase by an additional 5.5 million in the next 20 years, will outgrow the declining stock of Section 202 units, which have dramatically decreased in the last decade.[58] Similarly, and with some overlap, some 18 million disabled people in the US who are eligible for housing assistance do not receive it (Popkin et al. 2022). HUD Section 202 provides capital advances to finance the construction, rehabilitation, or acquisition of multifamily properties for low-income seniors at an affordable rate.[59] The Section 811 program provides supportive housing for people with disabilities. Providing funds to Sections 202 and 811 to both increase and rehabilitate the inventory of affordable housing units available to seniors and people with disabilities would help meet the growing need for affordable housing for cost-burdened senior renters. Congress could also provide new, ongoing appropriations to allow thousands of additional distressed senior housing units and units for people with disabilities produced under HUD's Section 202 and 811 programs to enter the Rental Assistance Demonstration program. Providing capital funding alongside the Rental Assistance Demonstration program would enable housing agencies to address the existing high rehab need particularly in areas with robust housing markets (Popkin et al. 2021).

Support other forms of permanently affordable housing. An increasing share of renters are unable to attain homeownership. Recent polls show that households are growing more interested in permanently affordable housing—a form of tenure that would provide more stability than renting.[60] To create a supply of homes that remain affordable, the federal government can support local efforts by making clear that certain federal funds and land could be used for permanent affordability, as the Biden administration recently did in its proposal for a $20 billion housing innovation fund, which specified that the funds could support permanent affordability. The federal government could also provide grants to national technical-assistance providers to support capacity building for community-based organizations and other local groups interested in owning and managing such units (Fu et al. 2024).

Unlock and Preserve Existing Housing Inventory

While building new housing is necessary to address the underlying causes of the affordable housing crisis, building enough homes will take time, and home prices will not fall overnight. New construction represents a small share of homes that sell each year. There are 97 million total single-family units, and buying an existing home is often far less expensive than building new. While these existing units provide a source of affordable homes for sale, many first-time homebuyers lack the resources to upgrade those homes upon acquisition.

On the rental side, the US is losing affordable rental housing faster than it can be produced. The private market lost four million low-cost rental units between 2011 and 2017, while LIHTC added back only one-fifth as many homes over a comparable period. Compounding this loss, rent restrictions expire on more than 125,000 legacy subsidized rental units each year, putting those units at risk at a pace that is forecast to continue throughout the coming decade (Poethig et al. 2020).

INCREASE OWNER-OCCUPANT ACCESS TO FOR-SALE HOMES

Increase available inventory by inducing more owners to sell their homes to modest-income buyers. Many homeowners are unable or unwilling to sell their homes, given high mortgage rates. Solutions could include incentivizing current owners with low-interest-rate mortgages by using a cash payment at the closing table or a tax credit if they sell their home to qualified buyers, as the Biden administration recently proposed. Another solution could offer higher capital gains exclusions to those who sell to owner occupants, which would free up midrange housing for purchase by move-up buyers. Incentives to certain mom-and-pop landlords to sell to tenants or other owner-occupants could unlock a significant source of affordable starter homes. Another option is to help nonprofit, community-based organizations acquire bulk property from large single-family rental property operators seeking to dispose of properties.

Reform federal note-sales programs. Federal agencies control the disposition of properties facing or completing foreclosure that have federally backed mortgages, through selling seriously delinquent notes or foreclosed properties. Investors have a distinct advantage in bidding for and acquiring these assets. HUD's Office of Asset Sales has prioritized sale of delinquent notes to owner-occupants, nonprofit organizations, and state and local governments through a long-standing demonstration program that it recently proposed to make permanent.[61] It can continue to take steps to ensure that more of this inventory is available for occupancy specifically by first-time homebuyers—either directly or through community-based developers who can upfit the properties for sale to owner-occupants (Zinn and Reynolds 2023). The GSEs have also taken steps to improve the likelihood that foreclosed properties will be occupied by owners, but they could do more.

Encourage investment and building in disinvested communities. For distressed markets with a large supply of older and obsolescing homes, policymakers could provide a tax credit to encourage investment in developing and rehabilitating single-family homes that have an appraised value lower than the total costs to complete. This appraisal gap prevents potential owners from investing in their neighborhoods. The Neighborhood Homes Investment Act is an example of such a proposal under consideration by Congress; under the act, each $1 billion in funding is projected to create 25,000 units of affordable homes for ownership ($40,000 per unit).[62]

Improve Federal Housing Administration and government-sponsored enterprise financing products for purchase-rehab and construction by owner-occupants. Home improvement financing is hard for homeowners to obtain (Kaul, Goodman, and Neal 2021) . Older homes are naturally affordable, but the lack of financing to enable purchase and renovation puts homebuyers at a disadvantage when competing with investors to purchase affordable properties that need upgrading.[63] Although GSEs and

FHA offer renovation financing, there is room for improvement. FHA recently made a welcome set of changes to its 203(k) Rehabilitation Mortgage Insurance Program by increasing total allowable rehabilitation costs and revising its consultant fee schedule, among other important changes. Additional changes, such as creating a preferred vendor list to reduce uncertainty for borrowers and more incentives for lenders to issues these complicated loans, could help further.[64] Revisions to GSE programs to reduce costs and frictions could also boost their use (Goodman, Tozer, and Neal 2023).

PRESERVE INVENTORY OF AFFORDABLE RENTAL HOMES

It is essential to stem the loss of affordable housing by addressing the varied sources at risk. Rent restrictions expire on more than 125,000 subsidized rental units each year, a pace that is forecast to continue throughout the coming decade (Stegman 2024). This stock includes units that were built with subsidies through LIHTC and critical rural housing stock under US Department of Agriculture programs that are reaching the end of their affordability requirements. There has also been historic and continued disinvestment in America's manufactured housing stock, which has created a significant burden on residents of manufactured housing, who are often low income.[65] Many owners of naturally occurring affordable rental housing have faced higher interest, insurance, and operating costs, putting pressure on net operating income and investment value and threatening owners' abilities to adequately manage and retain their affordable units.[66] Further, many private owners are raising rents in a supply-constrained environment. The severe repair needs of public housing are depleting the public housing stock (Popkin 2024). Growing climate-related risks could further deplete affordable housing stock in the future.

Open pathways to continued affordability in LIHTC exits. While LIHTC carries a 30-year affordability requirement, participating LIHTC owners may exit the program after the 15-year compliance period by presenting a qualified contract to buy out the existing ownership to the state housing credit agency (Scally et al. 2021). However, any new contract that keeps affordability restrictions in place is not competitive with market-rate offers. In strong housing markets, the qualified contract provision has allowed units to end their LIHTC affordability restrictions and convert to market-rate housing.[67] Changing the qualified contract process by amending the requirement that a contract consider the property's value given restricted rents would help assets change hands without losses in affordability.[68]

Preserve rural rental housing. The US Department of Agriculture can preserve the affordable rural rental housing it finances by restructuring existing Section 515 loans, extending incentives for owners to stay in the program, and providing properties with additional resources to repair and restore homes, while ensuring residents have rental assistance.[69] Such efforts have been included in bills such as the Rural Housing Service Reform Act of 2023.

Support the preservation and affordability of manufactured housing communities. There is growing awareness of the contribution of manufactured home communities to the nation's affordable housing stock. Residents of manufactured housing communities are twice as likely to be living in poverty compared with conventional renters. Federal grants for infrastructure, planning, resident and community services, resiliency, and other assistance, including land and site acquisition, can improve the affordability of manufactured housing communities (Kaul and Pang 2022). HUD's Preservation and Reinvestment Initiative for Community Enhancement (PRICE) program has provided a major new source of investment for repair and rehabilitation for manufactured home communities. A bill introduced in the Senate in 2023, the PRICE Act, S. 3264, could help to make this program permanent, ensuring current stock can be preserved.[70] Further, the federal government could provide grants to residents who organize to own their own parks, such as resident-owned communities, to combat the consolidation of manufactured home parks under corporate landlords, which is leading to significant increases in lot rents. Lastly, a nationwide replacement program is needed for dilapidated manufactured housing stock, particularly targeting areas with weather hazards, as has been piloted in states like Vermont.

Support state and local private unsubsidized affordable housing preservation efforts. The federal government could become a force multiplier in state and local efforts to preserve naturally occurring affordable housing (NOAH) through the provision of matching grants to existing entities like Minneapolis's NOAH Impact Fund, a subsidiary of the Greater Minnesota Housing Fund; Los Angeles's NOAH Impact Fund; and similar entities funded by philanthropy and social-impact investors (Scally et al. 2021). These funds provide low-cost equity and financing to developers for preserving at-risk, affordable units (Scally, Jayachandran, and Schonfeld 2021). Federal investment in such models could also spur creation of more of these funds.

Preserve existing public housing. Most existing public housing stock is aging and woefully undermaintained (Popkin 2024). Congress has long underfunded the capital fund that provides maintenance and rehabilitation funds for public housing, causing much of the country's public housing stock to be in poor condition and outdated. While the Build Back Better agenda proposed a $40 billion investment in the public housing stock, this provision never passed, and the estimated need is more than twice the proposed investment (Harvard Joint Center for Housing Studies 2024b). Solutions include fully funding the public housing capital fund to address the maintenance backlog, which requires an estimated $90 billion in repairs (Harvard Joint Center for Housing Studies 2024b).

Invest in resiliency of affordable housing stock. Both ownership and rental stock is increasingly exposed to disaster and climate losses—according to FEMA measures, 60.5 million housing units are in moderate-risk or higher-risk areas (Harvard Joint Center for Housing Studies 2024b). Federal investments in resilience, weatherization, and infrastructure at the household and community levels should be bolstered, with special attention to the most vulnerable people and places, such as FEMA's recently designated Community Disaster Resilience Zones. New grant programs, such as the Green and Resilient Retrofit Program, are providing important investments in the stock of HUD subsidized housing, including project-based rental assistance properties.[71] However, more needs to be done to improve the resiliency of our aging public housing. There are opportunities to bolster the climate resilience of affordable housing in multiple ways (Cohen et al. 2024).

Empower Renters and First-Time Homebuyers and Assist the Unhoused

Creating new supply will not solve the problems highlighted above if people cannot afford to buy or rent the resulting housing.

Level the Playing Field for First-Time and First-Generation Homebuyers

Renting households cite lack of funds for a down payment and closing costs as the primary barrier to becoming homeowners. Today, many young homebuyers are outcompeted by investors with cash offers and are facing sellers who do not want to accept offers from borrowers with mortgages and smaller down payments. Moody's Analytics estimates that it would take the typical renter about 14 years to save for a down payment at the prevailing renter household savings rates (Stegman and Loftin 2021). Specific segments of the population face additional barriers to saving for a down payment. Government policy excluded Black Americans and other people of color from participating fully in the postwar suburban housing boom that propelled the explosive growth of the White middle class, leaving a large and persistent racial wealth gap that is undergirded by the homeownership gap.[72]

BOOST THE PURCHASING POWER OF FIRST-TIME HOMEBUYERS

Federal assistance that makes it possible for renters to become owners can ease the downpayment burden, offset the monthly payment burden and/or increase access to affordable mortgages for renters aspiring and ready to become homeowners.

Expand first-time homebuyer assistance. Measures to create a federal program to give first-time homebuyers a better shot at competing with move-up, cash, or investor buyers could take many forms. While thousands of state and local downpayment assistance programs exist, creating a national source could improve access and standardization. Solutions beyond downpayment assistance include first-time homebuyer tax credits, interest rate buydowns, or a Section 529–type tax-free savings account.

Improve access to credit safely and equitably. The GSEs and FHA establish standards for determining eligibility of the mainstream, consumer-friendly mortgages they back. These rules and processes can safely be adjusted to enable more borrowers to attain homeownership, and to improve equity in the process. Furthermore, as a result of loss mitigation innovations during the pandemic, the GSEs have capacity to back at least 300,000 additional mortgages annually without increasing risk (Goodman and Zhu 2024b). The GSEs and FHA should adopt and pilot a range of new approaches to evaluating credit, collateral, and capacity of borrowers.[73] Special purpose credit programs are a notable tool to do so in a way that allows lenders to extend mortgage credit to households from historically disadvantaged groups.[74] The GSEs can provide liquidity by accelerating purchases of these loans and expand their own special purpose credit pilot programs. The prudential regulators, who indirectly influence depositories' mortgage lending practices through their safety and soundness purview, can encourage greater access to mortgage credit and use of special purpose credit programs via their Community Reinvestment Act authority.

PROVIDE TARGETED ASSISTANCE TO FIRST-GENERATION HOMEBUYERS

Children of homeowning parents are much more likely to become homebuyers, to do so at a younger age, and to receive down-payment assistance from family and friends (Choi, Zhu, and Goodman 2018). Programs targeted toward first-generation homebuyers could help those without intergenerational wealth overcome the upfront costs of homeownership.

Fund a national first-generation down-payment assistance program The federal government could establish and run a program targeting down-payment assistance funds to first generation homebuyers, for whom upfront costs are a greater obstacle. Two proposals for this include $100 billion through the Downpayment Toward Equity Act of 2023 and $10 billion in mandatory funding for a First-Generation Down-Payment Assistance program as requested in the Biden administration's fiscal year 2025–26 budget request.[75]

Increase adoption of first-generation programs through GSE standards and programs. The GSEs have recently circulated a standard for defining first-generation homebuyer status. The GSEs endorsement of a standard determination is expected to catalyze more state and local governments to create their own programs.[76] The GSEs can go further by creating scalable first-generation homebuyer programs of their own.

BOX 4

Building on Previous National Homeownership Strategies

For more than a century, there has been bipartisan support for federal policies designed to encourage homeownership. One example is the Clinton administration's National Homeownership Strategy—a federal policy designed to encourage homeownership that earned bipartisan support.[77] Working with leaders in the housing industry, representatives of nonprofit groups, and officials at all levels of government, Secretary of Housing and Urban Development Henry Cisneros forged a nationwide partnership that drew on "the resources and creativity of lenders, builders, real estate professionals, community-based nonprofit organizations, consumer groups, state and local governments and housing finance agencies, and many others in a cooperative, multifaceted campaign to create ownership opportunities and reduce the barriers facing underserved populations and communities" (US Department of Housing and Urban Development 1995).

The National Homeownership Strategy's final report, still relevant today, contains, in Clinton's words, "100 specific actions that address the practical needs of people who are trying to build their own personal version of the American dream, to help moderate income families who pay high rents but haven't been able to save enough for a down payment, to help lower income working families who are ready to assume the responsibilities of home ownership but held back by mortgage costs that are just out of reach, to help families who have historically been excluded from home ownership." [78]

Empower and Protect Low- to Middle-Income Renters

Renters at almost every income level have felt the impact of increases in rental costs since the start of the pandemic.[79] The income needed to afford a modest two-bedroom rental unit in 2023 was roughly \$28.58 an hour, or about \$59,000 per year, though significantly more in high-cost markets.[80] Since 2001, the share of cost-burdened middle-income households—defined in this case as households earning \$45,000 to \$74,999 per year—has doubled from 20 to 40 percent (Harvard Joint Center for Housing Studies 2024a). As a result, many working renters are making difficult decisions about spending on essentials, like food, health care, and debt in order to afford their rent.[81] Tailored subsidies and better consumer protections for renters are needed to ensure housing stability.

OFFER RELIEF AND PROTECTIONS FOR LOW- AND MIDDLE-INCOME RENTERS

Offer housing subsidies for low- and middle-income renter households with housing cost burdens. While vouchers serve very low-income renters, tailored and flexible housing assistance could help working low- to middle- income renters lower their housing cost burden and allow them to continue to live and work in communities with increasing housing costs. One option is a subsidy tailored to alleviating cost burden with some upper limit on rental costs, such as HUD's fair market rents, open to households up to middle income.[82] In 2020, several presidential candidates offered renter tax credit proposals that would allow certain renters to claim credits to offset part of their rental burdens. This solution would leave less room for landlord discrimination against households in need of government subsidy (Reynolds, Lo, and Boshart 2024). And, recognizing that the US has subsidized homeownership through the tax system for a long time, it would offer a degree of parity for the vast majority of renting households who receive no housing subsidies.

Require model landlord practices on federally backed mortgages. FHFA has recently made changes to support renters by requiring any owner of housing that has a federally backed mortgage to follow specific guidelines to protect renters.[83] The scale is quite large, as the GSEs jointly securitize about 40 to 50 percent of outstanding multifamily mortgages and likely a higher percentage when single-family rental units are included. These practices can serve as influential models of best practices. Additional owner requirements—such as positive rent reporting, just-cause evictions, junk fee restrictions, transparent and fair eviction processes, and prohibiting source-of-income discrimination including requiring voucher acceptance—could be built into mortgage contracts and enforced through repayment.[84]

PROTECT RENTERS VULNERABLE TO HOUSING INSTABILITY

Research shows that increases in housing cost burden can increase community homelessness rates (Glynn, Byrne, and Culhane 2021). Supporting people to remain stably housed is an important upstream intervention that can reduce the number of people at-risk of homelessness and be better for renter households overall. Several populations have higher risk for housing instability including very low-income households, people of color, single women and children, people exiting the criminal justice system, the elderly, and disabled people. In this section, we explore federal policies that would have an outsized benefit on those households.

Fully fund the federal Housing Choice Voucher program. Most very low-income households—with incomes at or below 50 percent of area median income—need a large housing subsidy to ensure that they can stay housed, particularly in areas with jobs and opportunity, and avoid the societal and personal costs and risks associated with eviction and other forms of housing instability. But for every eligible household, only one in four receives a federal Housing Choice Voucher. Rigorous evidence has established that vouchers keep families stably housed and have a host of additional positive benefits, such as fewer moves, lower food insecurity, and less involvement with child protective services (Kim, Burgard, and Seefeldt 2017; Wood, Turnham and Mills 2010; Gubits, et al. 2016). However, vouchers only work when landlords are willing to rent their units to voucher holders.

Increase voucher acceptance and ban source-of-income discrimination. Landlord participation is critical to the success of the Housing Choice Voucher program. Unfortunately, landlords discriminate against Housing Choice Voucher holders at high levels. In Los Angeles, for example, 74 percent of landlords reject voucher holders, and in Fort Worth, rejection rates are even higher, at 78 percent (Cunningham et al. 2018). Many jurisdictions across the country are considering laws to prevent such discrimination, called source-of-income discrimination laws, but only one in three voucher holders are currently protected. A national protection against source-of-income discrimination is needed. Policymakers could also test ways to boost landlord participation by making the Housing Choice Voucher program more attractive to and efficient for landlords (Stegman and Shea 2024). New research shows that increasing public housing authority capacity may help improve landlord participation rates (Garboden, Rosen, and Fleming-Klink 2024).

Strengthen other federal programs to mitigate displacement risk. Several systems serving vulnerable households can be leveraged to better identify and help people at risk of housing instability and homelessness. Below are two recommendations:

- **Incorporate universal screening for housing instability into federal benefit and direct services programs.** This can identify people and families experiencing homelessness and connect them to housing services no matter which system they present to. Many local agencies like jails or child welfare agencies do not routinely screen for homelessness as part of their intake or discharge planning processes. Housing screening tools have been deployed in various agencies across the country with success, such as the Veterans Health Administration's housing survey. Veterans facing housing instability who indicated they were open to service referrals were more likely to receive assistance; housing instability was resolved for 80 percent of veterans by the time of their second screen (Byrne et al. 2015). Child welfare agencies have also instituted a screening tool that allows case managers to refer clients to vital housing services. In Connecticut, the child welfare system has developed the Quick Risk Assessment for Family Triage tool (Farrell et al. 2017). A task force could be convened to design and pilot a prototype that could be adopted by the US Department of Health and Human Services in the child welfare system and by the US Department of Justice for people leaving prison, among others.

- **Work with state Temporary Assistance for Needy Families (TANF) agencies to better keep families housed.** The US Department of Health and Human Services could issue guidance to state TANF agencies stating that it expects federal resources to be directed to help families avoid homelessness, particularly unsheltered homelessness.[85] State TANF agencies could be directed to use unobligated TANF resources (about $6 billion nationally) to house families experiencing and/or at risk of homelessness (Administration for Children and Families 2024). HUD is currently operating a federal unsheltered homelessness initiative) in a number of communities across the country that could help ensure that TANF resources are fully leveraged so children are not at risk of being unsheltered.[86]

Create legal protections for tenants. For tenants on the brink of eviction or struggling to find housing because of prior incarceration, further legal protections are critical:

- **Provide funding for legal representation to tenants facing eviction.** Nearly 900,000 renters are evicted each year, but less than 10 percent of tenants have legal representation in eviction proceedings (Desmond 2015; Engler 2010). Research shows that, when combined with emergency assistance and mediation, legal representation can help renters stay in their homes (Ecker, Holden, and Schwan 2018; Burrowes et al. 2020).
- **Incentivize jurisdictions to adopt fair chance laws**. People with histories of incarceration face challenges in obtaining housing, which contributes to high rates of homelessness and housing instability for people with criminal histories (Couloute 2018). A small number of communities have passed fair chance housing laws that are intended to limit the amount of criminal legal history that is shared with and can be considered by landlords. The federal government could incentivize or encourage jurisdictions to adopt fair chance laws.

Assist and Protect the Unhoused

Reducing homelessness is a math equation: help people exit homelessness faster than new people enter. In annual estimates for 2019 through 2021, in each year between 1.2 and 1.5 million people used emergency shelter and transitional housing programs over the course of the year (de Sousa et al. 2023), representing a sizeable opportunity to intervene.

The single most effective way to end homelessness nationwide would be to fund a comprehensive affordable housing plan that would include a universal voucher program, discussed earlier, as this would both support exits from and prevent entries into homelessness (Gubits et al. 2016). A universal voucher program would make homelessness rare and, for those who do experience it, brief. Vouchers would also reduce poverty for children and families and reduce racial and ethnic disparities in rent burden (Cunningham 2021) . Beyond a universal housing voucher program, the federal government can fund supportive housing services, improve access to emergency housing assistance and units, and provide targeted voucher program increases to populations known to be particularly vulnerable to experiencing homelessness.

PREVENT AND END HOMELESSNESS

Expand permanent and emergency housing assistance. Research shows the most effective way to help people exit homelessness is through permanent housing assistance, specifically housing vouchers and permanent supportive housing services (Gubits et al. 2016).[87] The faster a community increases permanent supportive housing capacity, the faster the rate of chronic homelessness decreases (Byrne et al. 2014). And, the joint US Departments of Housing and Urban Development-Veterans Affairs supportive housing program shows that, when investment is made at a sufficient level, in homelessness are possible.[88]

Increase accessibility of voucher assistance. Aside from funding a universal voucher program, legislation could support the increased accessibility of voucher assistance through expanded waivers and could support targeted increases in the Housing Choice Voucher program through congressional requests. Waiving third-party income verification and social security number documentation before lease up and initial lease term requirements could remove barriers for people experiencing homelessness who are trying to lease a unit using Housing Choice Vouchers.[89] The US Department of Housing and Urban Development recently approved changes for Los Angeles housing authorities to extend the waiver of third-party income verification from the Emergency Housing Voucher program to the Housing Choice Voucher program to better facilitate rehousing people experiencing homelessness.[90] HUD could consider expanding the number of Emergency Housing Voucher waivers to the Housing Choice Voucher program and expand those waivers in additional jurisdictions to help more people successfully exit homelessness through the Housing Choice Voucher program.

Support communities in master-leasing strategies and landlord incentives to maximize opportunities in the private rental market. Master leasing is the process of a housing provider leasing entire multifamily properties to an agency to sublease individual units, which increases the agency's capacity to rapidly house clients. Landlord incentives involve an agency and a property owner agreeing to specific responsibilities or costs, such as paying for vacant units within a building, in order to increase owner willingness to lease units to people typically excluded from the private rental market. Both master leasing and landlord incentives help people experiencing homelessness exit homelessness into the private rental market and can increase the speed of placements and make local systems more effective and efficient. Additionally, master leasing and landlord incentives are likely to help those people most likely to be discriminated against in the private rental market, including people of color, single parents, and people with eviction and incarceration histories (Batko et al. 2022). There are barriers to master leasing that include lease duration and liability and unfunded costs. The federal government could work with localities to identify these roadblocks and develop strategies to mitigate them.

Provide targeted voucher programs. Until there is universal voucher coverage, targeted voucher programs designed for populations at particular risk of homelessness—including young people exiting foster care, pregnant people, and parents with young children—are essential. The joint US Departments of Housing and Urban Development–Veterans Affairs supportive housing program, which has contributed to significant decreases in veteran homelessness, is a model of a targeted voucher program. We have two specific recommendations for targeted voucher programs:

- **Provide vouchers to any young person aging out of the foster care system.** Approximately 25,000–35,000 young people exit the foster care system each year (Dworsky et al. 2014). This group is particularly vulnerable to homelessness—between one-third and one-half of young people exiting foster care experience homelessness at least once by the age of 26. A relatively small increase in vouchers issued nationally would protect a group of young people who are particularly vulnerable and whose potential future contributions to communities remain untapped.
- **Provide dedicated vouchers or housing assistance resources to pregnant people and parents with young children identified as at-risk of homelessness.** Infancy is the time of life when a person is most likely to experience homelessness (Gubits et al. 2015), and children under the age of 5 account for over one in four people in families experiencing homelessness over the course of a year (Henry et al. 2023). Homelessness is associated with preterm birth; neonatal intensive care admittance (St. Martin et al. 2021); and poorer negative health outcomes between birth and age 6 (Clark et al. 2019). The US Department of Health and Human Services Maternal, Infant, and Early Childhood Home Visiting Program provides supports to pregnant people and parents with young children who are at risk of poor maternal and child outcomes.

This program could screen for homelessness risk and funnel vouchers to a population particularly vulnerable to homelessness and its negative effects.

PROTECT PEOPLE ENDURING UNSHELTERED HOMELESSNESS

Nearly a quarter of a million people experience homelessness on a given night (de Sousa et al. 2023; Batko and Reynolds 2024). People and communities are struggling with the resulting challenges and risks including poorer physical, mental, and behavioral health outcomes than those who are sheltered (Batko, Oneto, and Shroyer 2020; Levitt et al. 2009; Rountree, Hess, and Lyke 2019). Federal-level leaders can help protect people enduring unsheltered homelessness by messaging for safety in emergency shelter and against criminalization and by incentivizing communities to reject criminalization through competitive programs. Additionally, Congress can allocate resources to fund and evaluate a demonstration of alternative crisis response programs.

Disincentivize policies that criminalize homelessness. The McKinney-Vento Continuum of Care program competition includes incentives for communities to minimize criminalization activities. As criminalization measures continue to gain footing,[91] federal leaders could determine whether there are additional mechanisms or program competitions that could incentivize jurisdictions to minimize criminalization strategies.

Incentivize communities to decrease barriers to entry to and increase safety in emergency shelter and housing programs. In a recent study of people who identify as women experiencing homelessness, the most common barrier to shelter was safety concerns (Batko et al. 2023). Additionally, one of the primary reasons that women left permanent housing placements was safety concerns. The McKinney-Vento Continuum of Care competition could require that jurisdictions assess and address safety concerns in shelter and housing programs, especially those serving women or other vulnerable groups. The US Interagency Council on Homelessness could prioritize safety in shelter and housing programs in their work with agencies and in communities across the country.

Fund a demonstration and evaluation of alternative crisis responses to homelessness through the US Department of Justice. Many communities have taken steps to reduce the role of law enforcement agencies, who are often called to respond to incidents related to unsheltered homelessness (Batko, Oneto, and Shroyer 2020). The proliferation of alternative response programs creates an opportunity to build the evidence basis for how these programs perform in different contexts and program configurations through a demonstration and national evaluation of alternative response programs.

Leverage Existing Tools

While new programs could potentially have big impacts, it is important to recognize the latent potential within existing laws, rules, and infrastructure that make up US housing policy. As Appendix A shows, there is an array of existing tools that must not be overlooked, for which increased funding or new rules and guidance can achieve key policy outcomes. Two tools that will ultimately determine the effectiveness of any new programs are adequate funding for the country's housing agency and a renewed commitment to fair housing.

ADEQUATELY FUND THE US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HUD's programs have not been adequately funded to meet the US population's needs, a trend that has worsened in the past two decades. The Budget Control Act of 2011 capped discretionary budget outlays to state and local governments, a trend that was temporarily reversed during the pandemic. This has left state and local governments scrambling to find their own funding sources to address a housing crisis that directly affects their constituents.[92] For example, while 5.1 million very low-income households received rental subsidies in 2021, another 14.2 million eligible households were left unassisted, over half of which were identified to have worst-case housing needs (Harvard Joint Center for Housing Studies 2024). For nearly the past three decades, spending on key housing programs on both the supply and demand side—including tenant and project-based rental assistance, the Public Housing Capital Fund, and HOME—as a share of gross domestic product has largely remained flat.[93] Congress can increase HUD's budget in its annual appropriations to ensure that households who need assistance can receive it.

FINALIZE THE AFFIRMATIVELY FURTHERING FAIR HOUSING RULE

Federal investments to increase supply or assist households have often disproportionately and deliberately benefited white families, fostering great inequity. It is critical that the US uses this moment to forge a new path forward—any efforts to resolve the current crisis must affirmatively incorporate equity-enhancing measures. The country has the tools: the Fair Housing Act of 1968 prohibits discrimination in the sale, rental, and financing of housing and requires HUD programs and activities (and those of all "executive branch departments and agencies administering housing and urban development programs and activities") to affirmatively further fair housing.[94]

In February 2023, HUD released a proposed rule updating its approach to fulfilling its affirmatively furthering fair housing mandate.[95] Finalizing and implementing the Affirmatively Furthering Fair

Housing rule would mandate that HUD and state and local recipients of HUD funding take proactive and meaningful steps to overcome persistent housing disparities (Reynolds et al. 2023).

Conclusion

A robust, multifaceted policy campaign to address America's housing needs will yield exponential returns on investment in all parts of Americans' lives and communities. On a macro level, taming housing costs can ease cyclical inflationary pressures. Moreover, investments in housing can alleviate disruptions in the labor market, allowing essential service workers—such as teachers, nurses, janitors, and police officers—in high-cost areas to live near where they work.[96]

Intentionally working to undo the malignant legacy of redlining, where communities of color were deliberately segregated into areas with poorer education systems and greater pollution (United Church of Christ 1987),[97] can result in healthier development for families and children, reduce related social costs, and improve well-being.[98] Investments in safe, stable, and affordable housing can enable families to access health care, educational opportunity, and economic mobility.[99] Rental subsidies, for example, have been shown to improve long-term earnings of children in low-income households.[100]

In this paper, we have outlined a menu of federal levers and laid out a vision of what is possible. While the challenges are immense, further delay will only dig a deeper hole. Right now, our country risks not only making the American Dream of homeownership a relic of a bygone era, but also making the most basic concepts of "home" difficult to obtain. A better future for our country is built on a just and compatible housing system in which people can afford to live close to their work so they can spend more time with their families, transit and sustainability are deeply engrained into the housing infrastructure, and rich community connections can develop and thrive.

Appendix A: A Comprehensive Framework for Affordable and Stable Housing for All

TABLE A1

Expand the Housing Supply

	Legislative (new or revised legislation)	Regulatory (new or revised regulations)	Program and guidance changes or flexibilities	Budget or funding increases
Catalyze new construction for sale and rent				
Stimulate starter home construction and affordable rental development	▪ Provide incentives for builders and developers of affordable for-sale homes. ▪ Expand and improve the Low-Income Housing Tax Credit (LIHTC) program. ▪ Unleash private financing to build "missing middle" housing. ▪ Boost financing for housing production through Federal Home Loan Bank (FHLB) reforms. ▪ Encourage condominium development.	▪ Improve and expand FHA and GSE multifamily construction and development financing products.*	▪ Boost financing for housing production through** » increased FHLB discounted advances, and » adjustments to FHA and GSE single-family financing programs for manufactured housing, accessory dwelling units, and condos.	▪ Expand the Housing Trust Fund and HOME funds.
Encourage local action to accelerate housing supply	▪ Create new federal grant programs for localities.		▪ Repurpose public land for affordable housing. ▪ Improve coordination between metropolitan housing and transport.	▪ Increase and enhance HUD's PRO Housing awards.
Expand public and social housing options	▪ Bolster public housing through » repeal of the Faircloth Amendment cap and funding new units, and		▪ Support permanently affordable housing.	▪ Expand public housing for very low-income seniors and people with disabilities through HUD's Sections 202 and 811 programs.

	Legislative (new or revised legislation)	Regulatory (new or revised regulations)	Program and guidance changes or flexibilities	Budget or funding increases
	» lifting the Rental Assistance Demonstration conversion cap and appropriating capital funds.			▪ Provide funding for permanently affordable housing
Unlock and preserve existing housing inventory				
Increase owner-occupant access to for-sale homes	▪ Induce more owners to sell to modest-income buyers. ▪ Encourage investment and building in disinvested communities.	▪ Improve FHA and GSE financing products for purchase-rehab and construction by owner-occupants.*	▪ Reform federal note sales programs.	
Preserve inventory of affordable rental homes	▪ Support the preservation and affordability of manufactured housing communities. ▪ Invest in resiliency of affordable housing stock.*	▪ Open pathways to continued affordability in LIHTC exits. ▪ Preserve rural rental housing through USDA's Section 515 program.		▪ Support state and local private unsubsidized affordable housing preservation efforts. ▪ Preserve existing public housing by fully funding the public housing capital fund.

Source: Framework developed by the authors.

Notes: LIHTC = Low Income Housing Tax Credit; FHLB = Federal Home Loan Bank; FHA = Federal Housing Administration; GSE = government sponsored enterprise; HOME = HOME Investment Partnerships Program; USDA = US Department of Agriculture

* Some actions may require program changes only.

** Some actions require regulatory measures.

TABLE A2

Empower Renters and First-Time Homebuyers and Assist the Unhoused

	Legislative (new or revised legislation)	Regulatory (new or revised regulations)	Program and guidance changes or flexibilities	Budget or funding increases
Level the playing field for first-time and first-generation homebuyers				
Boost the purchasing power of first-time homebuyers	▪ Expand first-time homebuyer assistance.		▪ Improve access to credit safely and equitably.	
Provide targeted assistance to first-generation homebuyers	▪ Fund a national first-generation homebuyer down payment assistance program.		▪ Increase adoption of first-generation homebuyer programs through GSE standards and programs.	
Empower and protect low-to-middle income renters				
Offer relief and protections for low- and middle-income renters	▪ Offer housing subsidies for cost-burdened renters.		▪ Require model landlord practices on federally backed mortgages.	
Protect renters vulnerable to housing instability	▪ Increase Housing Choice Voucher (HCV) acceptance and ban source-of-income discrimination. ▪ Create legal protections for tenants through funding legal representation and incentivizing fair chance laws.	▪ Incorporate universal screening for housing instability into federal benefit and direct services programs.	▪ Increase voucher acceptance through program modifications. ▪ Mitigate housing displacement risk through working with state TANF agencies.	▪ Fully fund the HCV program. ▪ Provide funding for legal representation of households facing eviction.
Assist and protect the unhoused				
Prevent and end homelessness	▪ Increase voucher accessibility through expanded waivers.	▪ Increase voucher accessibility through HUD expanding waivers in additional jurisdictions. ▪ Support communities in master-leasing strategies and landlord incentives. *	▪ Work with localities to encourage use of master-leasing and landlord incentives. **	▪ Expand emergency housing assistance. ▪ Provide targeted voucher programs for high-needs populations.

	Legislative (new or revised legislation)	Regulatory (new or revised regulations)	Program and guidance changes or flexibilities	Budget or funding increases
Protect people enduring unsheltered homelessness		▪ Lower barriers to entry and increase safety in emergency housing through changes to McKinney-Vento continuum of care regulations.	▪ Disincentivize policies that criminalize homelessness. ▪ Lower barriers to entry and increase safety in emergency housing through prioritizing shelter safety in: » McKinney-Vento continuum of care competition » USICH engagement with jurisdictions	▪ Fund a demonstration and evaluation of alternative crisis responses to homelessness through the DOJ.
Leverage existing tools		▪ Finalize the Affirmatively Furthering Fair Housing rule.		▪ Adequately fund HUD

Source: Framework developed by the authors.

Notes: HCV = Housing Choice Voucher; TANF = Temporary Assistance for Needy Families; USICH = United States Interagency Council on Homelessness; DOJ = US Department of Justice; HUD = US Department of Housing and Urban Development

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