The 2024 Presidential Economic Report's Plan to Boost the Housing Supply

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The United States is currently facing an unprecedented housing shortage. On March 21, 2024, the Biden-Harris Administration (the "Administration") released its 2024 Economic Report of the President (the "Report"), which includes a chapter focused on insights and solutions for increasing the country's supply of affordable housing. The Report points out an estimated nationwide housing supply shortage of 1.5 million to 3.8 million homes, which has significantly driven up the cost of housing.

Two of the primary "frictions" identified in the Report as restricting the supply of affordable housing are: (1) zoning restrictions and land-use regulations that limit what can be built, and (2) the rising input costs associated with housing construction. The Report states that although there are many beneficial land-use regulations, such as distancing factories from schools, other building regulations have escalated the cost of housing and prevented residential growth. Some of the regulations that may create artificial barriers to growth include restrictions like minimum lot sizes, parking requirements, and limiting building heights and housing density. Similarly, the Report notes that exclusionary zoning policies, which are a subset of land-use regulations, at times hinder the housing supply. Additionally, research discussed in the Report shows that physical construction costs have quadrupled since the 1980s, while production in the construction sector has only decreased during that same period.

The three federal policy solutions to this housing crisis proposed by the Administration include: (1) zoning reforms, (2) lowering supply constraints through federal tax incentives and subsidies, and (3) increasing the delivery and financing of manufactured homes in rural areas.

Zoning Reform

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The Report indicates that zoning reform is already occurring at the state and local levels with significant success. For example, in 2018, Minneapolis banned single-family exclusive zoning, and in 2021, Charolette eliminated single-family only zoning, though is considering reallowing it in some form. At the state level, Oregon, California, and Washington have enacted similar zoning policies since 2018. The Report mentions that California has been particularly active in using zoning reform to increase its housing availability. Specifically, the state is now allowing mixed-income, multifamily housing in all residential areas and duplexes and lot splits in single-family zones. California has also legalized accessory dwelling units (ADUs) and eliminated parking requirements at transit stations.

Some of the zoning reforms identified by the Report as likely to boost the housing supply include allowing a higher volume of multifamily housing, eliminating density restrictions, and legalizing accessory dwelling units. Through additional federal funding, the federal government can further encourage local lawmakers to make zoning changes. The Report points out that federal programs are already in place or planned, such as the Pathways to Removing Obstacles to Housing (PRO Housing) program, which will award competitive grants in the amount of $85 million to communities with plans to remove affordable housing barriers in 2024.

Tax Incentives

Next, the Administration proposes both short-term and long-term solutions for increasing the housing supply through favorable federal tax policies. In the short term, the Report identifies planned federal tax relief for first-time homebuyers, including a temporary mortgage payment relief tax credit and down payment assistance to increase access, and also proposes a tax credit for low- and middle-income homeowners that sell houses classified as "starter homes." On the other hand, one of the long-term solutions discussed by the Report is subsidizing housing construction expenses through the tax code.

In particular, the Report discusses how the Low-Income Housing Tax Credit (LIHTC) program has continued to benefit the affordable

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housing market. The construction of multifamily developments requires significant upfront building costs, while the revenue to recuperate these costs is not generated until well after construction is completed. Investors are incentivized to provide equity to developers in return for LIHTCs. To receive these LIHTCs, developers must commit to certain income and rent restrictions on their rental units.

According to the Report, the LIHTC is the largest construction subsidy offered by the federal government, and it has funded one in five of all multifamily units constructed since 1987 and produced more than 3.5 million affordable rental units. President Biden's fiscal year 2025 budget dedicates approximately $30 billion to LIHTC expansion in an effort to further bolster the LIHTC program. Additionally, Congress is currently considering tweaks to the LIHTC program that would increase both 4% and 9% credits.

Manufactured Housing

Finally, the Report suggests that expanding manufactured housing could positively affect housing supply shortages in rural communities, as those communities see a higher volume of occupied manufactured housing compared to more densely populated communities. Although manufactured homes cost 45% less per square foot to build than homes built on site, manufactured home construction is often not an option due to minimum house size requirements or zoning requirements that restrict manufactured housing to only certain zoning districts.

The Administration points out that it will take a collaborative effort between all levels of government to successfully tackle the country's affordable housing crisis. However, the solutions being proposed by the Administration, as identified in the Report, are certainly steps in the right direction.

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