Center for
Public Enterprise

**September 25, 2024**

**To**
The Honorable Sheldon Whitehouse, Chairman
Committee on Budget
United State Senate

Washington, DC 20510

The Honorable Charles Grassley, Ranking Member
Committee on Budget
United States Senate

Washington, DC 20510

**From**
Paul E. Williams
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Center for Public Enterprise
Brooklyn, NY 11237

Dear Chairman, Ranking Member, and Members of the Committee,

Thank you, Chairman Whitehouse, Ranking Member Grassley, and Members of the Committee.

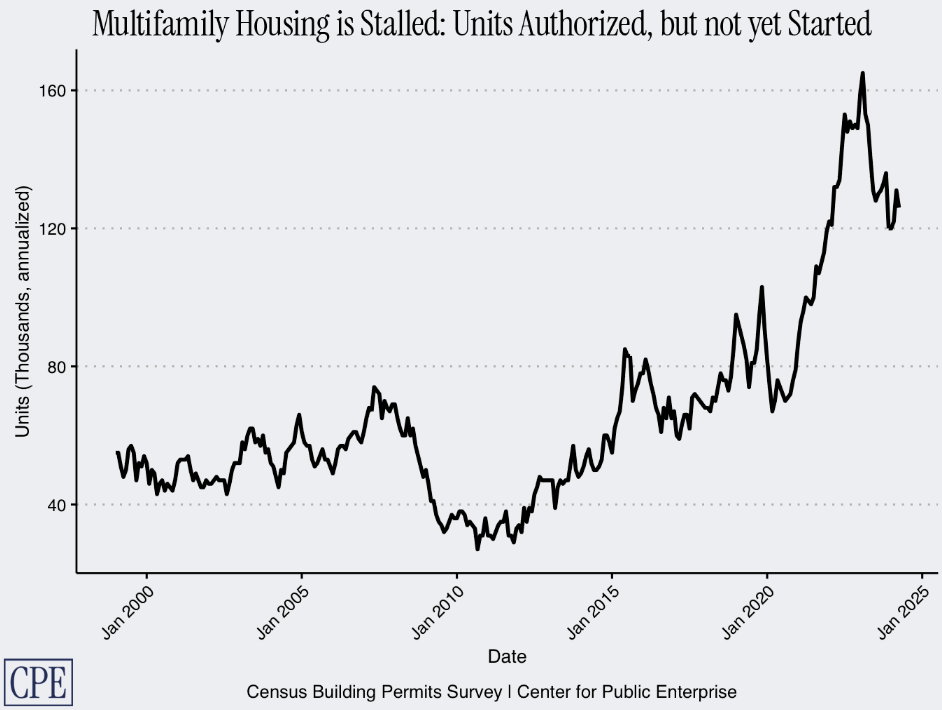
Housing affordability is critical for American families. Housing costs are far and away the largest single item in most American households' budgets, taking up 20%, 30%, or even 50% and higher in severe cases, of a family's household income. Ensuring that housing costs remain stable and affordable helps those families by giving them more flexibility to invest in other necessities and to save for the future. But housing affordability doesn't just help families—it also helps businesses thrive in the economy: when families have more income to spare, they support more small businesses in their communities. And when more families can afford to live in a neighborhood, businesses have an easier time finding workers to hire who live nearby.

To promote housing affordability across the country, consensus among policymakers, economists, developers, and advocates is clear: we need more housing supply.

Bringing new housing supply online requires addressing zoning and land issues, streamlining permitting, and easing financing constraints.

My message to the committee is that the federal government should help bring more stability to the housing investment cycle. Today, a lack of liquidity in the construction financing market has led to hundreds of thousands of would-be homes sitting on the shelf, unbuilt.

Let me begin by sharing with you a key statistic from the Census construction survey: From 2000 to 2020, there was an annual average of about 50,000 multi-family homes that were authorized, or permitted, but never started construction.




Over the past several years, that figure has dramatically increased, reaching a peak of 165,000 in early 2023—about three times more than the prior two-decade average. Today, that figure still sits at 131,000, more than double that prior average. In other words, there are hundreds of thousands of homes that have the permits to build apartment buildings, but they haven't started building. So what's going on here? Barriers to financing.

My organization, Center for Public Enterprise, works closely with public agencies across the country, including many of our state housing finance agencies. This summer, we described this issue in a report, which I include with my testimony, and provided several strategies for addressing it, including by enabling federal instrumentalities to provide countercyclical support to construction financing: that is, a tool that can be active in difficult financing environments, and scale back when financing becomes available. One key issue in the way of more housing supply is a lack of liquidity in the housing construction industry.

To give a pointed local example, in Massachusetts today, there are more than 40,000 multi-family homes that have been permitted or authorized, but are stalled due to financing constraints, more than half of which are in the Boston area. The permits are in place, the housing demand is there—rental vacancy rates in Boston are below 4%—but the financing challenge remains.

At some points in the business cycle, when loan-to-cost ratios are higher and mezzanine financing is more readily available, this issue is not so predominant. But in troughs of the business cycle, countercyclical tools are crucial to ensuring these viable projects can move through the pipeline and create good jobs and high quality homes for families. One of the difficulties that a cyclical investment cycle creates for housing affordability is a difficult trap that hampers our ability to provide supply that matches demand over the long run.

For many commodities, like eggs or N95 masks, a spike in consumer demand leads producers to make investments in new supply that can become available in a matter of months. Housing, on the other hand, takes not months, but years to come online. From the time a demand spike begins to the time keys are in families' hands, often two or three years may have passed. In economic parlance, the supply response of housing—particularly multi-family housing—is significantly lagged relative to demand events. This dynamic magnifies the already existing boom-and-bust shape of the business cycle. If we are going to create the level of housing supply needed in the market to meet housing demand, we will need the support of tools that can smooth this investment cycle by providing construction financing liquidity throughout the cycle.

There are many ways to structure this support. In fact, many of our nation's housing finance agencies have begun to implement small, but scalable, local solutions to this problem. Montgomery County, Maryland's Housing Opportunities Commission has a tool called the Housing Production Fund that provides mezzanine construction financing to mixed-income multi-family housing developments. Massachusetts recently created a tool called the Momentum Fund to provide small construction equity investments to private multi-family projects. Municipalities in Georgia and Tennessee, in partnership with our organization, recently created local investment vehicles to provide similar support for multi-family development.

To build on this local innovation across the country, policymakers could look to federal agencies that can support smoothing the housing investment cycle. Fannie Mae has a history of exploring construction financing tools and could be authorized to offer a new product that supports this type of financing in times of low liquidity, but pulls back in times when financing is more readily available.

Congress could explore options for supporting construction financing, such as through the government-sponsored enterprises, who may already have the authority to support housing affordability in this way. For example, a letter to the Federal Housing Finance Agency on this topic could go a long way in encouraging FHFA and the GSEs to explore how their existing tools could be used to better promote housing affordability and construction financing. The success of these innovative, local models is clear—imagine the boom in construction that could occur if such tools were available nationwide.

Such a tool could create stability not just for housing investment, but also for many things that depend on housing investment: good construction jobs, healthy housing supply, housing affordability for American families, and a stronger economy for everyone.

Thank you for your time and your consideration. I am more than happy to follow up in greater detail with you and your staff should you be interested in exploring these topics further.

Sincerely,

**Paul E. Williams**
Executive Director
Center for Public Enterprise