

September 2022

HOT TOPIC ALERT

Barriers to Housing Supply



Introduction

America's housing crisis is real. There is not enough housing to meet the demand. While estimates [vary](#), Freddie Mac concluded that, as of late 2020, there was a [housing shortage](#) of 3.8 million units. Many have heard shocking stories about tight housing markets in large, coastal cities like [San Francisco](#) or [New York](#). Recent [research](#) underscores, however, that the problem extends across the entire country, affecting urban, suburban and rural areas.

The economics of the housing market compounds the problem. The homes that are available are [more expensive](#), whether one is buying or renting. Not surprisingly,

according to a [Pew Research Center study](#), almost one-half of Americans (49 %) say the availability of affordable housing in their local community is a major problem.

U.S. housing policy

Housing policy in the U.S. is [largely defined at the local level](#), though state laws also play an important role. These policies can [conflict](#), as some policies at the state level may aim to increase overall housing supplies while local governments may be limiting development in their areas for one reason or another. Federal financing programs and policies also have the goal of bolstering supply. The Biden administration has made increasing the stock of housing an explicit priority, launching the [Housing Supply Action Plan](#) in May. The Administration's plan seeks to improve and augment federal housing financing, to reward those jurisdictions that have reformed their zoning and land-use policies and to build and preserve more housing.

A multitude of barriers

Overcoming the country's housing shortage requires confronting numerous barriers to achieve the goal of increasing housing supply. These barriers can include restrictive planning and zoning codes, burdensome permitting processes and financial hurdles. Getting past these barriers is not only a matter of changing mindsets, but also changing formal, legal requirements. There may be a general reluctance to accept change in one's "own back yard," a concept known as NIMBYism (see detailed overview of this concept in the pages ahead). There is also the concern that residential development drains local government finances by reducing the land available for more highly-taxed commercial developments. The lingering effects of decades of [racial discrimination](#) also help to inhibit housing supply efforts through exclusionary zoning and discriminatory lending and appraisal practices.

Impact of barriers

The broader costs of impeding housing development are severe. Suppressing supply drives up prices, putting property ownership out of reach for many families. At the individual level, this prevents potential buyers from building wealth. Those who do buy homes often can afford to do so only further away from cities, aggravating urban [sprawl](#). [Commutes](#) become longer, reducing both individual productivity and bringing higher costs for the infrastructure needed to accommodate commuters.

Some of those who are [priced out of the local housing market](#) may simply choose to forego available job opportunities, restricting economic growth. [San Francisco](#) is a particularly notorious example of this situation, with only one home created for every eight jobs between 2010 and 2015. But the problem is even broader. A 2015 [study](#) by the National Bureau of Economic Research found that high costs in metropolitan areas preventing middle- and low-income Americans from moving to high-productivity areas lowered U.S. aggregate economic growth by more than 50 percent from 1964 to 2009.

Zoning as a Barrier

How zoning works

[Zoning](#) involves limiting, typically by way of municipal or local law, the ways in which real property in specific areas can be used. The restrictions on owners' otherwise lawful use of their property are generally imposed for the benefit of surrounding neighborhoods or wider communities. Zoning can consist of broadly classifying defined areas into [use categories](#), including industrial, commercial, residential, agricultural, or special use (such as for parks and schools). Sometimes these categories are further divided into more specific sub-categories, with areas set aside for light industry only, or for certain types of retail or homes.

The U.S. Supreme Court has held that zoning regulations are [constitutional](#) if they are not arbitrary and unreasonable, and when they are tied to aims such as public health, safety, or general welfare. [Existing uses](#) of property are generally considered off-limits and are not changed by new zoning rules, though landowners may still need to acquire a special use permit to continue their existing use. In addition, landowners can usually apply for so-called [variances](#), allowing them to diverge from the set rules if they can show that complying would create hardship.

Yet [permits and variances](#) can be cumbersome, and time-consuming, to obtain. The [process](#) typically involves filing an application with the local board or zoning commission, paying a fee, and participating in one or more public hearings. Owners of neighboring properties have a say, and interests often conflict. Hiring lawyers and architects may be necessary. Even then, [success is not guaranteed](#), discouraging some from trying at all.

Creating hurdles

Zoning laws can be very specific. In the United States, zoning regulations that explicitly forbid building anything other than detached single-family homes are [especially pervasive](#). Many major cities ban multi-family housing, apartments, townhouses and duplexes [in over 70% of their residential areas](#). Sometimes the ordinances are less explicit, but so detailed that the result is the same. For example, they may regulate the maximum permitted height of buildings, the [minimum size of individual lots](#), or even require large lawns.

Focusing on single-family homes can mean limiting supply to more expensive options. Moreover, such restrictions greatly [reduce the total number of units that can be built](#) in a given community. In contrast, building several homes on a particular lot helps [bring down housing costs](#), as the cost of the land can be shared. [Density limitations](#), which cap the number of housing units that can be built in a certain land area, further exacerbates the problem. By increasing competition for available land, these laws can drive up prices and make new construction more expensive. Some municipalities also propose moratoria on new developments that restrict supply and lead to an increase the price of housing.

Using zoning to foster supply

When possible, zoning can be a [powerful tool to increase available housing](#). Instead of regulating exclusivity, ordinances can promote the more broadly beneficial goal of maximizing available living space.

Eliminating zoning for single-family homes only can be a first step towards increasing supply. Another strategy is reducing design requirements that add to housing costs, whether they relate to lot size, height restrictions, or minimum garage dimensions. Allowing [auxiliary dwelling units](#) (ADUs) can also make available much-needed and [generally more affordable](#) housing options. [Auxiliary dwellings](#) are smaller, separate units that are placed onto lots containing single-family homes; examples include backyard cottages known as in-law units or ‘granny flats’ and apartments added on top of garages. Landowners often use them as a cost-effective way to house relatives or to benefit from rental income. However, [resistance](#) to ADUs can be fierce, with homeowners worrying about overcrowding and changes to their neighborhood’s character.

Embracing potential zoning changes can yield dramatic results. Houston, for example, [introduced major reforms to its land-use regulations in 1998](#). Among other things, minimum lot sizes for single-family houses were reduced from 5,000 to 3,500 square feet, and as low as 1,400 square feet in some specific contexts. Researchers estimate that these reforms significantly eased housing constraints by contributing to the development of more than 25,000 new units in 20 years. Similarly, an [analysis by Zillow](#) concludes that allowing 10 % of single-family lots in 17 metro areas researched to instead house two units could yield almost 3.3 million additional housing units.

In some cases, amending specific restrictions may not suffice to foster large-scale improvements. With zoning laws often intricately interconnected, entire codes may need to be revamped, so it is critical areas conduct analysis of potential policy changes to best understand their impact. Sometimes zoning rules are part of [comprehensive land-use plans](#) devised at the local level in time-consuming and contentious proceedings. [Comprehensive plans](#) are typically prepared every five or ten years, and outline a community’s broader growth and development vision, covering elements such as infrastructure needs, community facilities, housing supply, and the protection of natural and historic resources. Changing these plans requires assessing local market conditions and involving a myriad of stakeholders who are potentially affected □ not a simple task.

Meanwhile, though more modest in scope, [simplifying permitting processes](#) for uses that deviate from local ordinances can also be beneficial. This [can involve](#) streamlining requirements for minor project approvals, allowing pre-application meetings to address local authorities’ concerns, and bringing together relevant agency representatives in ‘one-stop shops’ to avoid conflicting feedback from the entities involved.

In addition, where broadly amending ordinances is out of the question, diverse incentives can encourage developers to tackle projects that alleviate housing shortages, including affordable housing. [Density bonuses](#), for example, allow developers to deviate from zoning requirements in exchange for setting aside a set number of affordable units in a proposed development. [Community Benefits Agreements](#) are legally enforceable contracts between community organizations and developers in which a developer agrees to provide some benefit to the community, such as affordable housing or open space for recreation, in exchange for the organization's support for the developer's permit. These agreements can condition support for specific projects on commitments to include options for moderate-income households.

Allowing developers to [repurpose unused commercial properties](#) can also produce much-needed housing, including below-market-rate housing. Defunct office buildings, hotels, warehouses and factories are all strong candidates for such uses □ but zoning regulations need to be revised to allow communities to capitalize on their potential. With many commercial buildings still vacant in the aftermath of COVID-19, the opportunity to embrace more flexible policies is vast. This possibility is gaining considerable attention in [New York](#), though conversion [projects are pending](#) throughout the entire country.

NIMBYism

Housing developers across the country often face fierce resistance from neighborhood or community members who oppose changes in their “back yard” □ with “back yard” often broadly interpreted. So-called [NIMBYism](#) (“not in my back yard”) is sometimes based on existing zoning codes, but also refers to community activists who obstruct projects regardless of whether or not they comply with local rules.

[Resistance](#) to new development varies, with some battling any form of new construction in an area, and others focused on allowing only certain types of construction, such as single-family homes. The underlying rationales are diverse, as well. Some opposition is based on [environmental concerns](#). Other efforts emphasize the importance of preserving a [neighborhood's aesthetics or character](#). And some NIMBYers resist change based on the broader principle of maintaining [local control](#). Practical [day-to-day concerns](#), such as increased traffic congestion, fewer parking spots, and other strains on local services, also play a large role.

Detrimental effects

Local NIMBYism can have detrimental effects on a broader scale. By limiting the supply of housing, it both makes it impossible for some to secure a home and makes existing housing more expensive. Given [that property ownership is a key to building wealth](#), the resulting economic difficulties harm both individuals and wider communities. [San Francisco](#) often makes the news for its lack of affordable housing, including for the middle class, but the problem extends [across the entire country](#).

Vocal critics of NIMBYism include former President Barack Obama. Speaking at the [American Institute of Architects 2002 Conference](#), local regulations were noted to empower NIMBYism, even when well-intentioned, and could undermine efforts to create communities that include affordable housing. President Obama [added](#) that “bipartisan resistance to affordable, energy-sustainable mixed-use and mixed-income communities” is a major cause of the nation’s housing crisis.

On a state level, California Governor Gavin Newsom has bluntly [stated](#) that NIMBYism is “destroying” his state. He has introduced [various measures](#) to increase housing supply and is stepping up enforcement of state affordable housing mandates. The [Housing Strike Force](#) set up in California in late November 2021 will, among other things, target local planning and zoning decisions that block higher-density residential projects with affordable housing. Meanwhile, the state’s Housing and Community Development Department is also confronting efforts to resist new developments. For example, it is investigating whether San Francisco violated the Housing Accountability Act by [rejecting construction of a 495-unit apartment complex](#) in the city.

On a local level, [former San Diego Mayor Kevin Faulconer](#) urged his fellow California Republicans to “embrace development” as a way of dealing with the state’s housing problems. In North Carolina, one conservative commentator has decried the single-family zoning requirement in Charlotte as a restriction that puts even greater demand in densely populated areas on already limited housing supply. The commentator, Dan Larson of the [Carolina Journal](#), wondered if conservatives shouldn’t “be the ones for deregulation, expanding property rights, and increasing the supply of homes.”

Frustration with NIMBYism has also sparked a YIMBY movement (“yes in my back yard”), [driven largely by younger Americans](#) who are [heavily affected](#) by the lack of affordable housing. The movement is becoming [increasingly mainstream](#), especially in locations with particularly extreme housing shortages.

YIMBYism is partly about embracing increased [density](#), whether by allowing structures other than single-family homes or so-called “upzoning”, which involves relaxing height and bulk requirements or increasing floor area ratios. Others supporting the movement call for allowing construction without restriction, letting the market determine the housing supply. Some tenant advocates worry that these efforts could spur [gentrification](#). This concern has pushed some local governments to require developers to [include affordable units](#) in their development projects.

Financial barriers

Merely increasing supply does not solve the housing problem. Housing also needs to be affordable. However, several factors often put property ownership out of reach. [Housing prices have risen faster than incomes](#) during the past decades. Higher prices also mean higher down payments, in part because competitive bidding can pressure interested buyers into committing to [putting down larger sums](#) to beat the competition. The rise in

[mortgage interest rates](#) is another serious hurdle. Meanwhile, personal debt including [student loans](#) can disqualify buyers from obtaining financing in the first place.

Tackling the problem

[Down payment assistance](#) programs can help. These programs consist of providing either grants or loans, and are usually aimed at first-time buyers. Income requirements often apply. The [programs](#) are typically offered at the state and local level, and [vary across states](#). Over 2,000 programs are available in the U.S. Many are at least partly, though indirectly, funded by the [U.S. Department of Housing and Urban Development](#).

[First-time homebuyer savings accounts](#) are increasingly being offered in states throughout the U.S., including [Iowa](#), [Virginia](#) and [Oregon](#). These accounts provide varying tax benefits to encourage individuals to save up for a future home purchase, usually within a specified time period. The benefits come in the form of tax exemptions on contributions to the account or on interest or capital gains derived from the account.

Tax credits can also facilitate property ownership. At the federal level, the [mortgage interest tax credit](#) is available for lower-income homeowners, but broader credits remain elusive. The Obama administration's 2008 [federal first-time homebuyer tax credit ended in 2010](#). Meanwhile, the proposed [First-Time Homebuyer Act of 2021](#), which would provide tax credits of up to \$15,000 to first-time home buyers, was introduced in spring of 2021, but has not yet been passed by Congress.

Retention efforts are also crucial. The economic devastation triggered by the [COVID-19 pandemic](#) underscored the importance of [mortgage assistance for hardship](#). [Shared equity](#) programs, which involve lenders and buyers sharing ownership, can also [foster stability](#). While the buyer usually lives in the property, the accrued equity is shared with the lender, who essentially operates as an investor. In sum, ensuring property owners are able to retain property needs to be a priority in addressing overall affordability.

Racial/fair housing issues

Securing housing supply for all requires countering the legacy of so-called "[redlining](#)." This refers to efforts by federal agencies, in the late 1930s, to issue maps that categorized neighborhoods across the U.S. according to the supposed riskiness of issuing mortgages. Those marked in red were deemed high-risk for mortgage lenders.

The reasoning behind the classifications was often [plainly discriminatory](#), with neighborhoods where African-Americans, immigrants and ethnic minorities lived routinely labelled "hazardous." This made residents ineligible for Federal Housing Administration-backed loans and also discouraged private lending. The [results were devastating](#), with individuals cut off from a vital source of wealth building while their broader communities suffered from lacking investment, both public and private.

Although the Fair Housing Act, passed in 1968, banned racial discrimination in housing, lending and housing discrimination remain scourges. Recent research shows, for example, that the [mortgage approval gap](#) between black and white applicants is increasing. Meanwhile, homes [owned by African Americans](#) or [located in minority neighborhoods](#) are often undervalued.

NAR Activity

NAR engages in a wide range of efforts that seek to eliminate barriers to housing. These include highlighting housing shortages and affordable markets, funding educational and other efforts by state and local REALTOR® Associations through grants, and [advocating for laws](#) that promote a more robust housing supply and addresses affordability.

Advocacy

The Association supports the proposed [Housing Supply and Affordability Act](#) (HSAA), which would allow the Department of Housing and Urban Development (HUD) to award grants to states, local governments, tribes, and regional municipal and county coalitions to support the development and implementation of housing policy plans. These plans must increase the housing supply while avoiding resident displacement, increase housing affordability, and reduce barriers to housing development.

NAR is also in favor of the pending [Yes in My Backyard \(YIMBY\) Act](#), which would condition certain Community Development Block Grant funding on the preparation of reports outlining how beneficiary communities are promoting affordable housing through land-use policies, such as policies for expanding high-density single-family and multifamily zoning.

Moreover, the Association [supports](#) the Build Back Better Act's [Unlocking Possibilities Program](#). It would establish a new, \$1.75 billion competitive grant program, administered by HUD, to help state and local jurisdictions eliminate regulations that hamper the development of affordable housing production and diverse neighborhoods.

[NAR](#) also supported the [National Defense Authorization Act](#) (NDAA), which included a provision containing the Promoting Affordable Housing Near Transit Act. Its [final version](#), which became law in December 2021, spurs housing development near transit locations by making possible the transfer, at zero cost, of land owned but unused by transit agencies to non-profit or certain third-party organizations for the purpose of developing affordable, transit-accessible housing.

Highlighting shortages and opportunities

NAR's [Housing Shortage Tracker](#) highlights metropolitan areas that need to build more houses for supply to keep up with local demand. It does this by computing the number of permits issued for each new job in 178 metropolitan areas that have at least 100,000 non-farm employees.

The Association's research also regularly identifies affordable markets across the U.S., which boast strong underlying housing market fundamentals, but where home prices remain undervalued. These [publications](#) shine the spotlight on these often-difficult to identify areas

Grants

Various grants offered by NAR further bolster efforts to ensure an adequate housing supply and promote homeownership.

These include [Issues Mobilization Grants](#) to state and local REALTOR® Associations to support effective advocacy campaigns on public policy issues. Financial assistance and strategic support are often crucial to success. For example, such a grant [helped the Michigan REALTORS® advocate](#) for the passage of two bills that resulted in the state's First-Time Home Buyer Savings Program. The [program](#) provides for favorable state tax treatment for qualified contributions and withdrawals from first-time home buyer savings accounts in Michigan.

An Issues Mobilization Grant and [Advocacy Everywhere](#), NAR's call for action platform, also helped the [Lakeway Area Association of REALTORS® in Tennessee's Jefferson County rally the public to oppose a moratorium on new development](#) that threatened housing inventory, prices, and the construction and trade industries.

NAR's [Housing Opportunity Grants](#) aim to position REALTORS® as leaders in improving their communities by supporting and creating affordable housing opportunities. There are three different levels of funding. Level 1 grants, capped at \$1,500, focus on efforts to educate REALTORS® and the public about housing affordability topics. Level 2 grants, which can total up to \$5,000, are aimed at broader community outreach, especially in cooperation with local agencies and organizations working on expanding access to affordable housing. Level 3 grants involve funding up to \$10,000. These support new projects or enhance existing efforts that have growth potential through comprehensive activities that include at least one non-REALTOR® primary partner organization, have a broad community reach, and significant REALTOR® involvement.

A Housing Opportunity Grant helped the [West Georgia Board of REALTORS® offer a 'Pathways to Homeownership' course](#) for first-time buyers in partnership with a local HUD-certified housing counseling agency. The grant, plus a ten-percent stake from the West Georgia Board, covered marketing, event space in the town conference center, boxed lunches, and handouts in a specially branded folder. The course proved so popular that it will be offered on an annual basis.

[Smart Growth Grants](#) support state and local REALTOR® Associations' efforts to advance programs, policies and initiatives aligned with one or more of the [10 Smart Growth Principles](#). These grants are also available at three levels, focusing on education; engagement in local land-use, growth and transportation issues with other stakeholders

and elected officials with policy impact; and comprehensive initiatives with significant REALTOR® and public and private stakeholder involvement that have a long-term community impact.

The grants can help ensure access to information that improves the tenor of development debates, which can be emotionally wrought. For example, thanks to such a grant, [the Orlando Regional REALTOR® Association](#) was recently able to bring a panel of experts to Oviedo, Florida to explain the economic modeling behind an initially contentious mandate for higher-density development in the small city.

Better information can ultimately yield very practical changes. The Charleston Trident Association of REALTORS® used a Smart Growth Grant to host, in partnership with the Charleston Homebuilders Association and the Urban Land Institute, a March 2021 [planning summit](#) that brought together national housing experts and local planners, officials, and zoning staff. The discussions served as a strong catalyst to the next step: commissioning a detailed housing study, supported by an Issues Mobilization Grant, which identified zoning codes that impeded the development of much-needed affordable housing.

Conclusion

The U.S. housing shortage is no longer a niche issue affecting select cities, but a widespread and pervasive problem that requires urgent attention at all levels of government. With property ownership a central element of both personal wealth and broader economic growth, access to affordable options needs to be fostered for all. Doing so will require changes in mindsets as well as renewed attention to obscure zoning rules, overly burdensome regulatory barriers and an increase in diverse financial mechanisms. With so many stakeholders potentially affected in any given community, the discussions involved will not always be easy - but they are critical to addressing housing supply and affordability in America.

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Growth Management Fact Book: Analysis of issues related to land use and modern growth management topics include density — rate of growth, public facilities and infrastructure, protection of natural resources, preservation of community character, and affordable housing.

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