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What Affects Housing Supply?

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We have a housing shortage because it is difficult to build, and it is difficult to build because policies at all levels of government—some passed with good intentions—make it so. There are countless rules on the books meant to ensure housing is structurally sound, environmentally compliant, and built with skilled labor. But it is possible to have too much of a good thing. Today, Fannie Mae estimates the United States is short about 4 million homes—both for-rent and for-sale. ¹ And now roughly one-in-three Americans is burdened by housing costs, meaning 30% or more of their income goes toward putting a roof over their head. ²

While individual rules or laws may not have an outsized impact on housing supply, their combined effect is to make it difficult and slow to build in some of America’s most desirable locations, or to find modestly priced housing options in many others. And while much of the policy landscape lies below the national level, federal policies still have an impact on housing production, both directly and through the effect of the grantmaking process on state and local policies.

Local Governments

By-Right Zoning

What is it: A set of rules, typically drawn on a map, that describe the types of structures and uses that are permitted or required on individual plots of land by-right.

How it affects housing: These rules can outline the number of families that can live within a structure, how much land a building can occupy, how big or tall structures can be, whether manufactured housing is allowed, or how many parking spaces need to accompany a home. They also determine whether a plot is meant for residential or commercial uses.

In San Francisco, nearly two-thirds of land zoned for residential uses is reserved for single family homes. ³ Such restrictions limit the number of units that can be built and exacerbate housing scarcity in an in-demand region.

Discretionary Zoning

What is it: Rules that permit particular land uses after a “discretionary” approval process. This can involve multiple local hearings, meetings with elected officials, and public

comment periods—even when a proposed development meets all the health, safety, and zoning standards required of it.

How it affects housing: These rules can inject significant uncertainty in the development process, lengthening the amount of time it takes to get a development approved and subjecting local officials to political pressure.

One study compared approval timelines for both by-right and discretionary projects in Los Angeles, finding that by-right project approval timelines were 28% faster and less variable than those for discretionary projects. ⁴

Building Codes

What is it: A set of health, safety, and structural rules a building must abide by.

How it affects housing: Like zoning rules, building codes affect how many and what type of homes can exist on a plot of land. For example, many towns and cities require low-rise buildings to have two staircases to the outside for fire safety reasons. However, these rules originate from a time when multifamily buildings were less resistant to fires than they are today. ⁵

Seattle, WA is currently the only US city to allow single-stair apartment buildings up to six floors in its building code, permitting a greater array of apartment designs. ⁶

Historical Preservation Laws

What is it: Rules intended to protect the historic character of neighborhoods by regulating the appearance and upkeep of buildings within them.

How it affects housing: Historic protections stipulate whether a building can be built or whether existing buildings can be refurbished. They are subject to discretionary approval, which can affect the speed and certainty of the homebuilding process.

Washington, DC designates one-in-five properties as historic landmarks or historic districts, five times the rate as New York City and eight times the rate as Philadelphia, two cities over a hundred years older than Washington. ⁷

Permitting Processes

What is it: The process by which individuals get approval to build or refurbish housing.

How it affects housing: It is often unclear which public agencies are involved in the approval process, how long it will take to receive a decision on a building application, or what amount of fees need to be paid to receive one. In California, many cities and counties do not publish clear, consistent, or up-to-date schedules of impact fees, making it difficult for developers to determine whether a project is economically feasible. ⁸

In one case, the opaque permitting process led a proposed 18-unit affordable housing project costing \$414,000 per-unit to be approved as a 10-unit building over ten years later at a cost of more than \$1 million per unit. ⁹

Property Taxes

What is it: A tax levied on the total value of a piece of real estate, including the underlying value of the land and any structures built on top of it.

How it affects housing: Unlike land value taxes, property taxes charge owners a fee based not only on the value of the land, but also on the value of the structure built on top of it. This disincentivizes building more structures on a piece of land since more structures will lead to more taxes. ¹⁰

Between 2011 and 2016, Altoona, PA was the only US city that taxed properties based solely on the value of land. ¹¹ Several other Pennsylvania towns employ a split-rate property tax, taxing the underlying value of land at a higher rate than the structures built on top of it. ¹² In 2023, Detroit's mayor proposed replacing the city's property tax with a land value tax to encourage development. ¹³

State Governments

Regulation of Local Land Use Policies

What is it: Since municipalities ultimately derive their land use authority from state laws, states can exercise power over local land use rules and how they are implemented. They can also influence local rules by offering or withholding state funds when certain conditions are met or not.

How it affects housing supply: States may choose to change local housing policies. Over the past few years, several states, including California, Montana, Washington, and Vermont, passed laws regulating how cities and towns treat new housing. ¹⁴

State Building Codes

What is it: A statewide set of health, safety, and structural rules that a building must abide by, and rules over what can or must be included in local building codes.

How it affects housing: When states set consistent building standards, they can encourage development by minimizing confusion over what buildings and materials are allowed.

In 2023, Washington State enacted new rules directing the statewide building code to permit apartment buildings under six stories to be served by single staircases by 2026. ¹⁵

Treatment of Manufactured Housing

What is it: States can determine how manufactured homes—housing made in factories and transported to a site—are titled for lending purposes.

How it affects housing: Many states treat manufactured homes as “chattel property,” like cars and boats, rather than as “real property,” like traditional stick-built homes. This can prevent people looking to purchase a manufactured home from getting access to conventional mortgages, causing them to pay higher interest rates.¹⁶ This can disincentivize the purchase of manufactured housing by increasing its cost.

Each state has its own unique rules over whether and how manufactured homes can be titled as real property.¹⁷ In New York State, manufactured homes are treated like cars or boats when it comes to ownership.¹⁸

Environmental Review Laws

What is it: Statutory requirements that construction be reviewed for its environmental impacts before it is begun.

How it affects housing: Environmental review laws require housing projects to undergo reviews before being started, which may be onerous and expensive, delaying or depressing housing construction. They can also make localities undergo lengthy review processes before changing their land use rules.

In 2016, the Seattle city council attempted to legalize backyard cottages, but opponents of the plan successfully sued the city under Washington’s State Environmental Policy Act (SEPA) to conduct an environmental review first, delaying passage of the law for three years.¹⁹

Occupational Licensing

What is it: Requirements that workers in particular professions obtain licenses to work.

How it affects housing: When it is difficult for young workers or workers from other states to obtain occupational licenses, it becomes harder and costlier to find the labor needed to build and refurbish homes. According to one industry estimate, the United States is short of about half a million construction workers. ²⁰

Twenty states, including places as diverse as Arizona, Idaho, New Jersey, and Vermont, have “universal recognition” laws for out-of-state occupational licenses. ²¹

Workforce Development Programs

What is it: Programs to train and upskill workers.

How it affects housing supply: Without a sufficiently sized skilled workforce, it can be hard for employers to find the workers, such as electricians, mechanics, and plumbers, needed to build and review the safety of new housing.

Federal Government

Low-Income Housing Development Programs

What is it: Programs that directly fund the construction and upkeep of low-income housing, such as public housing and the Low-Income Housing Tax Credit.

How it affects housing: These programs can help smooth housing production by making development financially viable when it otherwise wouldn't be. Inadequate funding can increase the volatility of housing production from macroeconomic swings, deepening shortages where they exist, especially for low-income communities.

To date, the Low-Income Housing Tax Credit has helped finance 52,006

projects, creating or supporting 3.55 million low-income housing units. ²²

Grantmaking

What is it: The rules and criteria by which the federal government distributes grants to states, local governments, and nongovernmental organizations.

How it affects housing: The federal government could tie funding to state and local land use policies. For example, under both the Biden and Obama Administrations, the Department of Housing & Urban Development (HUD) worked on implementing a rule that would condition HUD funds on actions to combat discrimination and overcome segregation. ²³ HUD could broaden this to include actions taken to ease the housing production process.

Environmental Review Laws

What is it: The requirement under the National Environmental Policy Act (NEPA) that federal actions be reviewed for their environmental impact prior to being taken.

How it affects housing: All HUD-assisted projects, such as public housing and some projects funded using the LIHTC, must be examined for their environmental impacts before construction on them begins. ²⁴ The requirements imposed by this law can significantly increase project timelines.

Manufactured Housing Regulation

What is it: Rules that regulate the construction, purchase, and siting of manufactured homes.

How it affects housing: Since manufactured homes can travel across states, they are the unique form of housing that is directly regulated by the federal government. Their building code is subject to the “HUD code,” which establishes national standards on manufactured homes for safety, health, energy efficiency, and other design elements. ²⁵ When this code fails to accommodate novel designs and innovations, lower-cost forms of manufactured housing are prohibited from communities, pushing prices up. Likewise, Congress’ requirement that manufactured homes remain on their chassis increases construction costs by preventing manufacturers from economizing on their reuse.

Tariffs

What is it: The restrictions and taxes the federal government levies on foreign imports.

How it affects housing: Many homes are built using imported products like lumber, but trade disputes can significantly increase their costs. In the last trade dispute with Canada, US softwood lumber tariffs rose from 8.99% to 17.9%, doubling the tax paid by importers for this housing component. ²⁶ When inputs in the residential construction process are more expensive, homes become harder to build.

Workforce Policies

What is it: Programs to increase the supply of skilled workers.

How it affects housing supply: Without ways of attracting workers into the occupation, or without enough pathways into the occupation, it remains difficult for builders to find the workers they need to build homes. Congress can bolster the construction workforce through upskilling programs or through immigration policy.

Through the Workforce Innovation and Opportunity Act (WIOA), Congress funds a number of grant programs supporting activities like job search assistance, career counseling, occupational skill training, and on-the-job training. ²⁷

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