

From the Desk of Emily Hamilton

January 11, 2024

The Honorable Patrick McHenry
United States Representative
Chairman, House Financial Services Committee
Washington, DC 20515

Re: Hearing on December 6, 2023, entitled “Governmental Barriers and Market-Based Solutions”

Dear Chairman McHenry:

After my testimony before the Subcommittee on Housing and Insurance on December 6, 2023, you requested answers to one question submitted by Congresswoman Garcia and two questions submitted by Ranking Member Waters. The questions and answers are below.

Question from Congresswoman Garcia

(1) Dr. Hamilton, you mention in your testimony that Houston median house prices are now lower than the national median, despite decades of higher population growth and economic growth in the region.

Despite Houston’s lauded affordability and high supply of homes for sale, 51% of Houston and Harris County renters are cost-burdened, higher than 2019’s 48% figure, delaying homeownership and other important life decisions. On top of that, nearly 1 in 5 rental structures in Houston and Harris County were graded as being in “below-average” condition by the Harris Central Appraisal District. Older properties and those rated as below average were disproportionately located in neighborhoods with a lower median income and more Hispanic residents, like many of my constituents.

The City of Houston, for example, has no zoning laws, leaving property subdivisions up to ordinance codes. Despite the mostly open market, there are still ongoing issues with affordability and lack of quality rental/housing options. Given these facts, how can localities like Houston better encourage developers to increase the production of affordable units targeting low-income households?

As in the country as a whole, rental affordability has worsened in Houston in recent years, and too many households that rent in Houston face difficult tradeoffs in their household budgets and housing quality. Houston, however, has fared better than many other cities in housing affordability for both renters and homebuyers.

As I interpret the evidence, the best way to improve housing affordability and housing quality for households that cannot afford adequate market-rate housing is with housing vouchers or other forms of

income assistance targeted to the renter households most in need.¹ The Housing Choice Voucher Program improves important outcomes for the households that receive them. Compared to eligible households that do not receive vouchers, those that do suffer less food insecurity, less domestic violence, fewer child separations, and much less housing instability.²

Dollars dedicated toward vouchers go further relative to dollars dedicated toward new, subsidized housing construction because new-construction housing is generally the most expensive type. Relative to new construction that is fully or partially dedicated to residents of a specific income, vouchers open up opportunities for recipients to live in many different types of housing.

Policymakers in cities like Houston could provide similar, locally administered aid for extremely low-income residents who are not receiving federal Housing Choice Vouchers. However, fiscal constraints and tax competition across local and state borders present challenges for providing this type of aid at the subnational level.

Due in part to the fiscal difficulties in providing costly aid at the local level, local policymakers tend to turn instead to policies to mandate income-restricted housing through programs that appear costless. Increasingly, local policymakers are implementing “inclusionary zoning” programs that require housing developers to set aside a portion of new-construction units as income-restricted. I’ve studied inclusionary zoning in the Baltimore-Washington region, which has the country’s longest history with these mandates. I find that in this case, localities that have adopted mandatory inclusionary zoning programs have seen greater increases in their median house prices relative to what they could have expected without these programs.³

Inclusionary zoning can provide large benefits for the few residents who win lotteries for the units that they produce. However, inclusionary zoning provides a very small number of units relative to the number of households that qualify for them based on their income. Further, as I find, these programs can actually worsen housing affordability for households that don’t specifically benefit from these programs.

The name “inclusionary zoning” implies that these programs are a reversal of the exclusionary zoning rules that exclude people from neighborhoods and localities based on their income. In fact, inclusionary zoning depends on continued exclusionary zoning in order to function. These programs are typically paired with density bonuses that are intended to fully or partially offset the cost of providing income-restricted units. Without exclusionary zoning, these density bonuses would have no value, and inclusionary zoning would be a clear tax on housing construction.

While Houston is the only major US city without use zoning, it does have land use regulations that appear in zoning ordinances elsewhere, including minimum lot size, setback, and parking requirements. These rules drive up the minimum cost of building housing in Houston. However, in contrast to localities that are relying on so-called inclusionary zoning, Houston has been a nationwide leader in reforming these exclusionary rules. Houston policymakers have enacted rule changes to enable small-lot development, and, in parts of the city, they have eliminated parking requirements.⁴ In part as a result, Houston’s affordability is impressive compared to peer regions.

¹ Emily Hamilton, “Opportunities for Better Federal Housing Policy: How the Biden Administration and Congress Can Improve Housing Affordability” (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, January 2021).

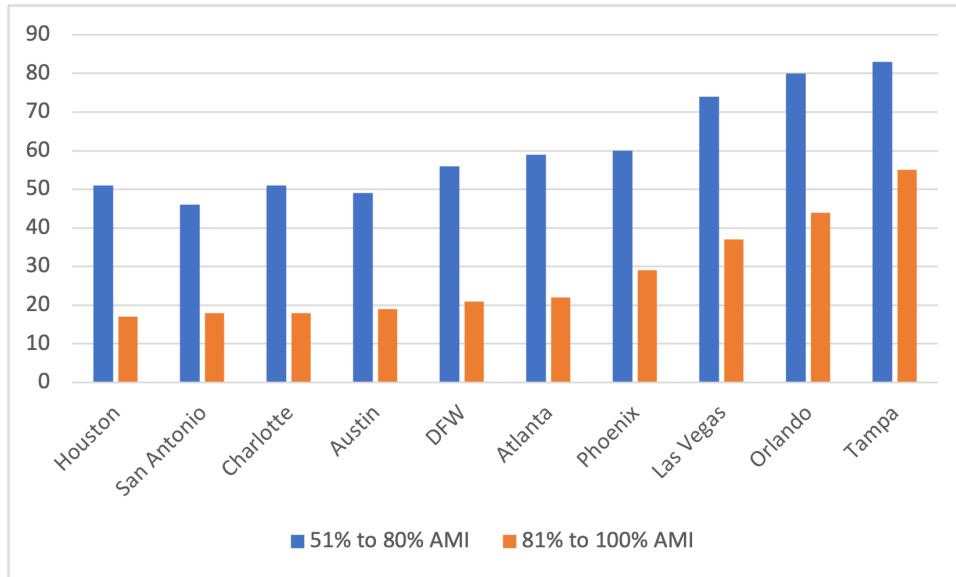
² “Housing Choice Voucher Fact Sheets,” Center on Budget and Policy Priorities, August 9, 2017, <https://www.cbpp.org/housing-choice-voucher-fact-sheets>.

³ Emily Hamilton, “Inclusionary Zoning and Housing Market Outcomes,” *Cityscape* 23, no. 1 (2021): 161–194.

⁴ Emily Hamilton, “Learning from Houston’s Townhouse Reforms” (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, April 2023).

Figure 1 below shows that Houston has the lowest share of cost-burdened renter households among comparable Sun Belt markets for households earning 81% to 100% of the area median income. Only San Antonio and Austin have lower rates of rent burden among households earning 51% to 80% of the area median income.

FIGURE 1: SHARE OF RENT-BURDENED HOUSEHOLDS AT INDICATED AREA MEDIAN INCOME (AMI) LEVELS ACROSS METROPOLITAN STATISTICAL AREAS IN 2021



Source: National Low Income Housing Coalition, *The Gap: A Shortage of Affordable Rental Homes* (database), accessed January 3, 2023, <https://nlihc.org/gap>.

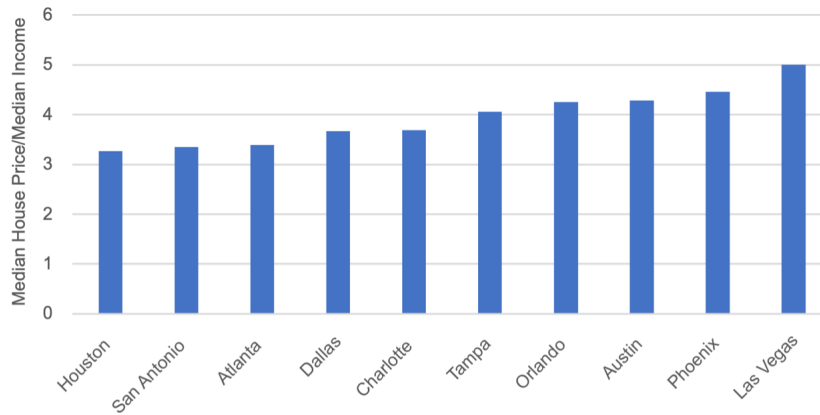
At the least-well-off end of the income spectrum, Houston has the lowest rate of homelessness among major US cities, due in part to its relative abundance of housing and in part to well-administered public and nonprofit services for formerly homeless residents.⁵

Figure 2 shows that at the other end of the spectrum, homeownership is also more attainable to residents earning the region’s median income compared to the same group of Sun Belt metros shown in Figure 1.

Even in a city at the far end of land use liberalization, like Houston, the housing market may not adequately serve low-income residents. There is a role for policymakers to provide aid to extremely-low-income households. Expanding the Housing Choice Voucher Program is one way to make progress toward improved housing affordability that carries fewer risks than programs that require market-rate housing construction to subsidize income-restricted housing.

⁵ Hanna Love and Tracy Hadden Loh, “Homeless in US Cities and Downtowns: The Perception, the Reality, and How to Address Both,” Brookings Institution, December 7, 2023, <https://www.brookings.edu/articles/homelessness-in-us-cities-and-downtowns/>.

FIGURE 2: HOUSEHOLD MEDIAN INCOMES AS MULTIPLES OF MEDIAN HOUSE PRICES OF METROPOLITAN STATISTICAL AREAS IN 2021



Source: Zillow Research, Housing Data (database), “ZHVI All Homes Time Series (\$),” accessed March 24, 2023, <https://www.zillow.com/research/data/>; US Census Bureau, American Community Survey (ACS) (database), accessed March 24, 2023, <https://www.census.gov/programs-surveys/acs>.

Questions from Ranking Member Waters

Answers are marked in yellow highlight and underlined.

(2) Which of the following options best describes your race?

- a. White or Caucasian**
- b. Black or African American**
- c. Hispanic/Latinx**
- d. Asian**
- e. Middle Eastern/North African**
- f. Choose not to answer**
- g. Prefer to self-describe (please specify)**

(3) Which of the following options best describes your gender identity?

- a. Woman**
- b. Man**
- c. Non-binary**
- d. Transgender Man**
- e. Transgender Woman**
- f. Choose not to answer**
- g. Prefer to self-describe (please specify)**

Thank you for the opportunity to testify in December and for the opportunity to contribute to the hearing’s Questions for the Record.

Sincerely,

Emily Hamilton
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