

## STATE POLICYMAKERS' ROLE IN PROTECTING THE RIGHT TO BUILD WORKFORCE HOUSING IN TEXAS

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Chair Cortez, Vice Chair Holland, and members of the House Committee on Urban Affairs, thank you for allowing me to offer testimony on the interim charge on workforce housing. I am Emily Hamilton, a senior research fellow at the Mercatus Center at George Mason University, where I am codirector of the Urbanity Project. The Mercatus Center is dedicated to advancing knowledge relevant to current policy debates. Toward this end, its scholars conduct independent, nonpartisan analyses of legislation, rules, and proposals.

Today, I'll provide testimony on opportunities to cut the red tape that is standing in the way of workforce housing in Texas.

### INTRODUCTION

The availability of workforce housing is essential for both economic growth and individual opportunity. This country's history is a story of people with few economic resources moving to new places to pursue better opportunities for themselves and their children. Low-cost housing options were an essential piece of creating this opportunity. Today, many parts of the country have shut out low-cost housing and, in turn, they have shut out moderate-income people.

Barriers to workforce housing also stand in the way of broad-based economic growth and innovation. One estimate finds that land use deregulation that facilitates major population growth in the country's three most productive labor markets could increase US real national income by more than one-quarter.<sup>1</sup>

Local land use restrictions and building permitting processes are the key barrier to workforce housing. And these rules present a barrier to housing regardless of who is providing it, whether private-sector homebuilders, public-private partnerships, or a government agency. In places where land use

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1. Salim Furth, *New Urban Econ Research Shows the Macroeconomic Benefits of Big Cities* (Arlington, VA: Mercatus Center at George Mason University, 2020).

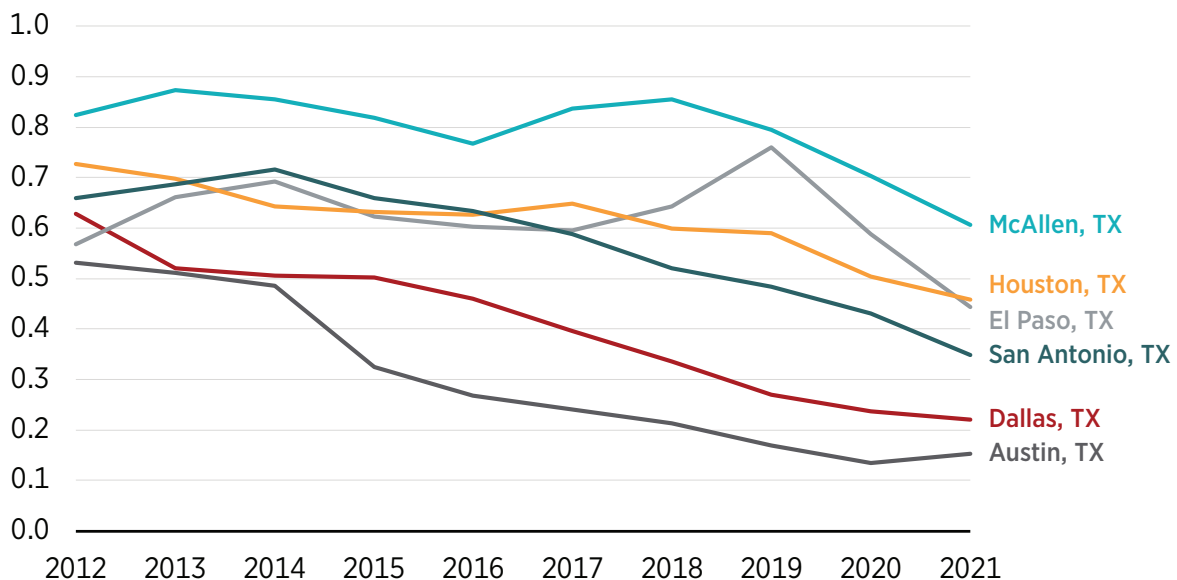
restrictions make all housing expensive, public dollars to subsidize new housing construction do not go far. In California, with its notorious regulations and permitting processes that make housing difficult to build, projects receiving financing through the Low-Income Housing Tax Credit cost on average \$480,000 per unit to build in 2019.<sup>2</sup>

In contrast to California, Texas is a beacon of hope for Americans in search of quality housing at reasonable prices. But affordability in many Texas cities is trending in the wrong direction. The state and its localities have many opportunities to permit more housing to be built at lower prices. In this testimony, I examine the current availability of workforce housing in Texas and propose three opportunities for regulatory reform that could be implemented at the state level.

### WORKFORCE HOUSING IN TEXAS

Ed Pinto and Tobias Peter of the American Enterprise Institute have developed the Carpenter Index of housing across the largest 100 US regions.<sup>3</sup> It provides one clear assessment of the availability of workforce housing. The index measures the percentage of houses that are affordable to the typical household of the carpenters who build them. Figure 1 shows the Carpenter Index for Texas metros over time.

FIGURE 1. CARPENTER INDEX IN TEXAS METROS, 2012–2021



Source: Ed Pinto and Tobias Peter, “The Carpenter Index” (dataset), accessed July 7, 2022, <https://www.aei.org/the-carpenter-index/>.

As the figure shows, Texas metros have lost workforce housing over the past 10 years. It also shows large differences across regions in the state, with just 15 percent of housing in Austin affordable to the typical carpenter’s household, compared with 61 percent in McAllen.

2. Carolina Reid, *The Costs of Affordable Housing Production: Insights from California’s 9% Low-Income Housing Tax Credit Program* (Berkeley, CA: Turner Center for Housing Innovation at UC Berkeley, 2020).

3. Ed Pinto and Tobias Peter, “The Carpenter Index” (dataset), accessed July 7, 2022, <https://www.aei.org/the-carpenter-index/>.

## REDUCING REGULATORY BARRIERS TO WORKFORCE HOUSING

Although local land use restrictions are the key obstacle to workforce housing construction, state policymakers have a role to play in addressing this matter of statewide concern by protecting property owners' rights to build housing. I suggest three paths Texas legislators could pursue to make more workforce housing available, regardless of who builds it.

1. Minimum-lot-size requirements, which often require each new house to sit on a large yard, are one of the most pernicious obstacles to starter home construction in the United States.<sup>4</sup> In Oregon, Habitat for Humanity sponsored a successful bill that facilitates lot splits across much of the state in order to make its model of providing workforce housing more successful.<sup>5</sup>

Texas policymakers do not need to look to other states for a successful model of lot size reform, though—they can look to Houston. In 1998, Houston policymakers reduced the minimum-lot-size requirement within the city's I-610 loop to an average size of 1,400 square feet, down from 5,000 square feet. The reform has facilitated the construction of at least 25,000 new houses.<sup>6</sup> Following the success of the 1998 reform, policymakers expanded the reform in 2013 to cover the entire city.

In part owing to its openness to small-lot construction, Houston performs better on the Carpenter Index than all the state's large metro areas with the exception of McAllen. Houston's median house price is below the national median in spite of decades of faster growth.<sup>7</sup>

Inspired by the Houston experience, state policymakers could prevent localities from enforcing lot sizes larger than 1,400 square feet in parts of the state that are served by sewer and water infrastructure. Houston also provides a model for homeowners who value larger lot sizes for their own and their neighbors' properties to maintain larger lot sizes either through deed restrictions or by petitioning for special minimum lot sizes, contributing to the political durability of its lot size reforms.<sup>8</sup>

2. Multifamily housing, which allows multiple households to share the cost of land, is a way in which people of moderate means can compete with higher-income people for housing in desirable locations. Although a growing supply of multifamily housing is essential for housing Texas's growing workforce, most Texas cities ban apartment construction on most of their land zoned for residential development. And even where local zoning does permit apartment construction, other rules such as parking and compatibility requirements can make apartments unfeasible to build on any given site.

Although setting a broad limit on minimum-lot-size requirements across large swaths of the state would be straightforward, setting limits on local barriers to apartment construction would

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4. Paul Boudreaux, "Lotting Large: The Phenomenon of Minimum Lot Size Laws," *Maine Law Review* 68, no. 1 (2016): 1–43.

5. Tim Gruver, "Oregon Bill Builds on State's Ongoing Guest to 'Upzone' Neighborhoods," *Washington Examiner*, May 19, 2021.

6. M. Nolan Gray and Adam A. Millsap, "Subdividing the Unzoned City: An Analysis of the Causes and Effects of Houston's 1998 Subdivision Reform," *Journal of Planning Education and Research* (published ahead of print, July 15, 2020): 739456

7. Zillow Research, "ZHVI All Homes Time Series (\$)" (dataset), accessed July 7, 2022, <https://www.zillow.com/research/data/>.

8. Gray and Millsap, "Subdividing the Unzoned City."

be less so. However, one situation where state policymakers have a clear reason to intervene is when local zoning restrictions prevent denser types of development in places that are served by state-subsidized transit.<sup>9</sup>

Another potential path to making more workforce multifamily housing feasible to build is to set limits on local parking requirements. High parking requirements add substantial costs to multifamily construction,<sup>10</sup> and they can make it impossible to build multifamily housing on small sites. State policymakers could put limits on parking requirements, such as one parking space per housing unit, or eliminate them entirely, recognizing that developers rather than policymakers are in a better position to determine how much parking each site should have.

3. In addition to setting limits on the extent to which local land use regulations can obstruct workforce housing construction, Texas policymakers also have a role to play in evaluating the state's localities in terms of their openness toward housing. This information is critical for evaluating opportunities to subsidize workforce housing.

State policymakers could establish practices for collecting data on housing construction that are not currently available, such as permit approval time and the number of projects that are ministerially approved versus going through a subjective approval process. Policymakers also could establish practices for evaluating whether localities' zoning advances progress toward localities' comprehensive plans.

The state could also rank localities according to their rate of housing permitting per capita, their cost of new-construction housing,<sup>11</sup> and their land costs per unit across neighborhoods.<sup>12</sup> Collecting these metrics would provide the tools policymakers need to provide transparency and accountability in the provision of workforce housing. It would also provide state policymakers with an opportunity to allocate state infrastructure spending proportionately to localities that demonstrate their openness to workforce housing.

## CONCLUSION

Abundant workforce housing is crucial for Texas to continue to provide opportunities for its residents and newcomers and to continue attracting business investment. When local restrictions prevent property owners from building workforce housing and contribute to statewide housing affordability problems, state policymakers should step in to carefully assess the problem and set limits on these local obstructions.

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9. California legislators have introduced bills that provide one model for requiring localities to permit transit-oriented development in places served by state-subsidized transit. Salim Furth and Emily Hamilton, "California Can Improve Housing and Transit by Preempting Local Ordinances" (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, January 2020).

10. Emily Hamilton, "Land Use Regulation and Housing Affordability," in *Regulation and Economic Opportunity: Blueprints for Reform*, Adam Hoffer and Todd Nesbit, eds. (Logan, UT: The Center for Economic Growth and Opportunity, 2020), 193.

11. For a discussion of data availability and the relevance of these metrics, see Salim Furth et al., "HUD Can Use Housing Market Data to Inform Fair Housing Accountability" (Public Interest Comment, Mercatus Center at George Mason University, Arlington, VA, March 12, 2020).

12. For a discussion of the relevance of measuring land value per unit as an indicator of zoning's restrictiveness, see Dan Keshet, "A Desire for Density," *Market Urbanism*, June 19, 2019.