THE BROOKINGS INSTITUTION

ZONING, TAXING, HOARDING: HOUSING POLICIES FOR THE MIDDLE CLASS

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Introduction:

RICHARD REEVES, John C. and Nancy D. Whitehead Chair, Senior Fellow, Director, Future of the Middle Class Initiative, The Brookings Institution

Presentation: Housing Tradeoffs and Middle Class Well-Being:

JENNY SCHUETZ, David M. Rubenstein Fellow, The Brookings Institution

Keynote Speaker:

SENATOR SCOTT WIENER, California Senate District 11

Panel 1: What's the Road to Better Land Use Regulation?:

JENNY SCHUETZ, Moderator, David M. Rubenstein Fellow
The Brookings Institution

KATHERINE EINSTEIN, Assistant Professor, Boston University

MARION McFADDEN, Senior Vice President for Public Policy
Enterprise Community Partners

DAVID SCHLEICHER, Professor, Yale Law School

Panel 2: Taxes, Fees, and Middle Class Housing Costs:

ADAM LOONEY, Moderator, Joseph A. Pechman Senior Fellow and Director, Center on Regulation and Markets, The Brookings Institution

BENJAMIN H. HARRIS, Executive Director, Kellogg Public-Private Interface
Kellogg School of Management

JONAS SHAENDE, Chief Economist, Fiscal Policy Institute

JACK RYAN, Chief Executive Officer, Real Estate Exchange

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P R O C E E D I N G S

MR. REEVES: Good afternoon. Thank you for joining us. My name is Richard Reeves. I'm a Senior Fellow here in Economic Studies at the Brookings Institution, and I'm Director of the Future of the Middle Class Initiative.

This event is co-sponsored by the Future of the Middle Class Initiative and by the Center on Regulation and Markets, which is led by my colleague Adam Looney, who'll you'll be hearing from later.

A special thanks to all of you who are physically in the room who made the effort to come. I hope you're enjoying our famous coffee and cookies, but I'm aware that there are lots of people watching on line, at last count it was in the hundreds, and so I also do want to thank those who are joining us online as well.

If you would like to join in the social media celebration of this event, the relevant hashtag is -- and I use celebration advisedly; I mean it correctly, it will be a celebration -- #HousingRegs. My job is simply to introduce the event at this point, give you a sense of what's to come and then I'll be handing over to my colleague.

First of all you're going to be hearing from Jenny Schuetz, who is a Rubenstein Fellow in the Metropolitan Policy Program here at Brookings. She is also spending some time now working on the Future of the Middle Class Initiative on issues facing middle class families in terms of housing. She has a new report out just yesterday which she'll be providing a summary of.

We'll then hear from our Keynote Speaker, California State Senator, Scott Wiener. Following his presentation there will be a chance for Q&A, which I will moderate. And then we are going to transition to two expert panels, one focused on land use and regulation which will be moderated by Jenny; and then the second one will be more focused on taxation, and how tax affects the housing market, which will be moderated by Adam Looney.

As the Director of the new project on the middle class, one of the things I've struggled with is defining the middle class. I'm also a recovering Brit, so we're obsessed with class where I come from (laughter). And it's been a struggle, frankly, that what I've discovered as a new American is that there are approximately as many definitions of what it means to be middle class in America, as there are people claiming to be middle class in America, which is approximately 90% of the population.

One of my favorite definitions, when we did a little bit of qualitative research on this was somebody has two refrigerators, one of which contains beer (laughter). So you have the new refrigerator in your kitchen, but the old one is being used somewhere else to contain your beer. That was proposed to me as one measure of what it means to know that your middle class.

But at the Brookings Institution we've defined it somewhat differently. We've defined it as the middle 60% of the income distribution by household adjusted for household size, and for inflation, etc., so the middle three quintiles. It's not as exciting or as memorable as having a second refrigerator, but it does allow for more analysis. So we're affectively looking at the middle 60%, and we think one of the advantages of our definition of middle class is that it is in the middle.

It clearly expands 30% up and down, but it is anchored in the middle of the distribution. So for all intents and purposes, that's the definition which I would like you to have in mind, and certainly as we go through Jenny's presentation.

Jenny, as I mentioned, is in Metro but also working here. Previously she's been a principal economist at the Federal Reserve, has a PhD in Public Policy from Harvard, and is a welcome addition to our team here at Brookings, as a deep expert in housing policy. So you're going to hear first from Jenny and then, hopefully, we'll be hearing from our Keynote Speaker, Scott Wiener. Please join me in welcoming Jenny Schuetz to the stage.

DR. SCHUETZ: So now that I know I actually have somebody to follow me, so I have an incentive to finish, so you can hear the main attraction of the day (laughter).

Thank you all for joining us this afternoon. As Richard said, we just put out a new report yesterday titled, *Cost, Crowding, or Commuting? Housing Stress on the Middle Class*.

So this is intended as a framing paper, really, to identify what are the sources of housing stress on middle income families, and as you can tell from the title, they're going to show up in a number of different ways.

I'll start by stepping back a little bit and talk about why we think that it's important to think about housing and middle class well-being. Housing is one of the three pillars of the Future of the Middle Class Initiative here at Brookings, and we think that it's important to consider how housing impacts well-being. It matters quite a bit for individuals, for families, and for communities.

If you live in the Washington D.C. area, you don't need to be told that housing costs are a major source of concern, not just for low income families, but increasingly for middle income families as well. Since we have emerged from the Great Recession, housing costs have been rising generally faster than incomes in most large metropolitan areas. So that's put a certain amount of stress on families.

We know that housing is really important for individual well-being for a number of reasons. First of all, housing is the largest single expense in most households' monthly budget, around a third of their income. That's roughly twice what households spend on say food, or transportation; so this is a really significant expense for most households.

We also know that having a safe, decent quality house, and a stable residential environment is important for pretty much everything else that we need. It enables you to get up in the morning and go to work or to school, to be productive, to engage in social life. Where you live determines your access to lots of other things that are placed-based. How close are you to jobs? What's the quality of the local public school? Are you in a neighborhood with amenities, with grocery stores and parks, and a safe and healthy environment?

And finally, for most middle-income families, the equity that they develop through home ownership, from paying down a mortgage over time, is by far the largest financial asset that they have. So this has really big implications, for instance, for retirement security, for the ability to borrow against housing to pay to send your kids to college.

So for all these reasons, we should be concerned about how well households are doing with respect to housing, but it turns out that measuring the degree of stress creating by housing is fairly complicated.

Typically, indicators of stress on low income families has focused on how much money are they spending on their rent or their mortgage. So we tend to measure those as a share of monthly income that goes towards housing costs. HUD has established a standard that households spending more than 30% of their monthly income on housing are what they call, cost-burdened, or indicative of financial stress.

For middle-income families, we're going to see that there are a number of ways that they adjust their consumption of housing so they're not spending an excess amount, but we may still be concerned about their well-being.

One of those is that you save money on housing by moving into a smaller home, or potentially even, taking in an additional family member; so moving in with extended family, or even with unrelated roommates, in order to pool income together.

We also know that people have a tendency to go looking for cheaper neighborhoods when housing prices go up, and in most large metro areas what that means effectively is moving to the outskirts of the metro. So if you move from close to downtown D.C. out to the excerbs to Rophanaken spots of the county, you're going to save money on the rent or the mortgage, on the other hand you're going to be spending both more time and more money in commuting, which isn't necessarily good either. So these are three measures where we know that theirs is sort of a direction that indicates more stress.

The final metric we're going to look at is home ownership, and that’s not necessarily that home ownership is better than renting in all circumstances, but we do know that owing a house, in particular, if you have a fixed rate mortgage, this provides some insurance against rising faster than income. So renters are much more vulnerable to costs rising and not being able to meet that.

We have also made a number of policy decisions as a country to subsidize homeowners over renters. You'll hear more about that in the second panel this afternoon, and because we are providing special financial benefits to homeowners, we want to be wary of thinking about who's excluded from those subsidies and those benefits.

So I'm going to look at these four metrics of housing stress or well-being and we're going to focus particularly on differences by income, by household type, by race and geography so that we can think a little more about how to tailor policies to meet the sources of stress, and the populations who are experiencing stress the most.

I'll give you a quick preview of the key results here. It turns out that most middle-income families don’t have a housing affordability problem measured by our standard definition of spending too much of their income on housing. But there are particular kinds of stresses on certain groups. Lower middle-income households are facing direct financial stress to cover housing costs. Families with children are more likely to be crowded; consume not enough space per person. Households living in very expensive metropolitan areas are more likely to have very long commutes, and we see persistent homeownership gaps for younger households, non-white households, and people living in expensive metropolitan areas. I'll walk through the data behind each of those.

As Richard said, we are the Future of the Middle Class project define middle income families as the three middle income quintiles. What I've done for this analysis is separate households into five income buckets, the three middle ones, from the orange through the dark blue, are the ones we're mostly going to focus on. This shows you both the poorest 20% and the richest 20% for comparison.

This graph is showing just the standard measure of affordability, how much of income are households spending on housing costs? We have both renters and owner, and it turns out these numbers are quite similar for both of them. So if we look at the orange bar, this is our lower middle income households, and we can see that they are spending more than HUD's recommended 30%. They're actually spending close to 40% of their income on housing costs, so that would suggest there's some financial stress. Once you get into the third- and fourth-income quintiles, it doesn’t look like there's direct financial stress.

You can notice, of course, from the bar on the far left, poor families are really stressed over housing costs. We've known this for a long time. For poor families, there's an enormous gap between what they earn and the market rate cost of housing.

If we focus on these three middle income quintiles, what I'm showing you now is breaking them out into how expensive the metropolitan area is where they live. We want to think about rank ordering metro areas, from the cheapest which is on the left-hand side, all the way through the most expensive. Not surprisingly, if you live in a metro area where housing is relatively more expensive, you have to spend more of your income on housing.

The lower middle-income households in the most expensive metro areas are spending well over 40% of the income. Lower middle-income households in the cheapest metro areas are a little bit over 30% but not nearly as stressed.

If we move to the second metric of housing well-being, this is looking at how much space families have per person. So this is again the three middle income quintiles and showing broken out from low-cost metro areas to high-cost metro areas. The top bar here is showing you the average number of persons per bedroom.

HUD defines crowded households as those that have more than two people per bedroom. The average middle-income family is living in a home with one person per bedroom, so half HUD's level of crowding, right. So most middle-income families have plenty of space, right; we're a country with big houses, so that’s not all that surprising. And there's not actually that much variation by income or even by the metro house price level in just the average amount of space per person.

But what we do see, if we look explicitly at the share of households that are crowded, that have more than two people per bedroom, that there's a significant relationship both within income and with housing prices. So you can see in the orange bars in the bottom here, households in the lower middle income quintile, who live in expensive metro areas, about 9% of them are crowded; so not enough space per person.

And it turns out that the problem is actually even more specific than that. It's really a problem for families with kids. Here I've broken households into three different groups. One is families that have at least one child under the age of 18, and then childless households are separated out by age, either under 40 years of age, or over 40. The yellow bars are the families that have children, and you can see that crowding is almost exclusively a problem to families with kids, and that families without kids, by and large, are not crowded.

We can also see that this is related to the house price levels in your metro area, so the worst-case scenario are families with kids living in expensive metros, and about 13% of them are living in what HUD would consider to be inadequate space. And just to give you a sense of who these households are, the typical household has three adults and two kids living in a two-bedroom space. So you can think of the top graph here as sort of being grandma sleeping on the couch in the living room.

The bottom bar shows up essentially the flip side of this, which are households that have excess space. This is just defined as fewer than one person per bedroom, so you can think of a two-person couple living in a three-bedroom house. It's actually a lot more frequent to have excess space than it is to be crowded. Again, we've got a lot of big houses and we have a bunch of relatively small families.

Even in expensive metro areas, more than half of the older, childless households have at least one extra bedroom, right, compared to about 13% of families with kids that are crowded. So this is just worth remembering that we have a lot of extra space, it's just not allocated evenly across households, and I'm going to talk about this particularly when I come back to the policy implications, what do we think about this distribution of space across households of different types living in the same metropolitan area.

We can look briefly at the geographic patterns of crowding, and you'll see that this is not uniformly distributed across the country. It turns out that California and Texas have, by far, the highest rates of family crowding. We do also have New York on the east coast, but this is primarily a California and Texas phenomenon. And just to point out that this is not entirely driven by the really expensive metro areas, I've circled here McAllen, Texas, which is one of the lower cost metro areas in the country but has among the highest rates of crowding, right. So this is a combination of some cases of low incomes of families and others driven mostly by high prices.

Moving to the third metric of housing stress, we're going to look at commuting times and this shows you that on average, middle income families are spending about 27 minutes one way on a commute, and that there's actually not that much variation in income. So it's not really that all of the lower income families are living in the excerbs and commuting longer distances. There is a relationship between the length of commute and how expensive your metro is; in more expensive metros people are more likely to drive longer distances. So people are looking for cheaper housing in metros that are very expensive.

This also has some clear spatial patterns, so we can see that long commutes, this is the share of households spending more than an hour one-way commuting, so this is higher along the Northeast Corridor. Big metros spatially, expensive places, and in some cases, also, people are commuting between metros. So you might have somebody who lives in Philadelphia, where one person has a job, and the other person is commuting to New York for work.

But this is also not entirely a result of housing costs. Two of the metros to look at particularly here, Atlanta, Georgia, which is not among the most expensive metros in the country but is sort of the poster child for sprawl and has particularly bad public transportation infrastructure; people wind up traveling very long distances to get to work. And on the other side of the country we have Riverside-San Bernardino. This is the cheaper of the housing markets within southern California and there are a lot of people who work in Los Angeles or Orange County but can't afford to live there, so they live in Riverside and have very long commutes.

And I'm told by my colleagues who study environmental economics that commuting long distances is bad for the environment, so maybe that's something we want to do a little less of.

Finally, our last metric of housing well-being is looking at homeownership rates. This is largely a story of income. The higher the income quintile, the more likely a household is to become a homeowner. This is consistent with prior research but if we look within income quintiles and break it out separately by race, we also see fairly noticeable differences. For every income quintile, white households are more likely to own their homes than non-whit households. And if we look at a specific example here, black households in the third income quintile are actually less likely to own their homes, than white households in the second income quintile. And we have a fair amount of evidence that relates this to long histories of discrimination in lending and housing markets.

Just to recap the results, most middle-income households aren't stretching just to cover the basic costs of housing, but we do see particular kinds of problems, some of which are national. So lower middle-income households everywhere are stretching beyond HUD's guidelines, gaps in home ownership for non-white and younger households are also consistent nationally. A lot of the problems we're seeing, though, are really regional, that we see higher rates of crowding and longer commutes, particularly in expensive metro areas.

What does this suggest for policy? There's room for policies to address a number of these concerns at different levels of government. So for lower middle income households we might think about things that can either increase incomes just a little big, say expansion of the EITC, or maybe decrease housing costs a little. And I'll just point out that for lower middle-income households in the least expensive metros, the affordability gap is about $100 a month, so we're not talking about a huge amount of difference. And this is helpful to think about, for instance, policies like making homes more energy efficient, saving some money on utilities could actually do quite a lot of the work to carry the difference between this affordability gap.

Because we have these persistent gaps in homeownership by age, by race, by geography, it's also worth thinking about whether there's a role for greater financial stability and support for renters. There are some really interesting conversations going on around the country about providing better tenant protections, protections against eviction without cause. It would also be useful to think about, both for homeowners and for renters, channels of savings and wealth-building that aren't tied to homeownership, so that couples aren't entirely dependent on the wealth they build through their house.

And then finally, a lot of the problems, really, are about states and local governments that haven't built enough housing. So the expensive metros have not been building enough housing to keep up with population growth and job growth and so ultimately the only way to fix that is for those states and local governments to build more housing.

Hypothetically speaking, if a state legislature in a high cost state, wanted to make it easier to build housing close to jobs and transit, that would be a great step in the right direction (laughter), so we're going to hear some more about that from our Keynote Speaker. And then I'll let you into a little bit of a secret. It's not that we haven't known that this is a problem, or that we don't know we need to build more housing, but the politics turn out to be a little bit difficult.

So if you think about the graph we saw with the families with children who were crowded, and in the same high cost metros all of those older households with excess space, many of those homeowners have been living in those houses for quite a while. They bought them 20 or 30 years ago. The houses have increased in value so they built up a lot of wealth, but that means that homeowners are very resistant to allowing new development that will either just change the character of their neighborhood, or they think reduce the value of their property somewhat.

I will point out also, if we're making policy recommendations, in, hypothetically, states like California, people are living in very expensive houses with excess space, but they're only paying property taxes on a really small share of that, so after you get finished passing SB 50 and taking care of the housing supply issue, if you'd like to turn our attention to repealing Prop 13, that would be an excellent next policy step (laughter) (applause).

With that, the full report is available online and I'm looking forward to what we hear from our Keynote Speaker, thanks (applause).

MR. REEVES: Thank you Jenny; housing matters more today than in the past. Housing matters for middle class families, as well as low income families, and housing matters for different reasons in different places, as Jenny just outlined. I strongly encourage you to look up the report.

It's now my pleasure to introduce out Keynote Speaker who's been semi-introduced already, in a very helpful way by my colleague Jenny, and that is California State Senator, Scott Wiener.

Scott Wiener is perhaps best known in policy circles for his sponsorship of SB 50 which, if passed, will undoubtedly change the housing market in many metro areas in California by allowing more high-density housing around transit areas.

He's been serving as a State Senator since 2016 representing the 11th Senate District. Before that he was Chair of the San Francisco County Transpiration Authority, and so on. The full bio is in your packets, but I think it's fair to say that he has a long history of policy interest and action in areas of transport, housing, etc. So Senator Wiener then is a kind of policy-wonk, he's a believer in using positive public policy to promote equality, prosperity, and inclusion.

But he's also a man of action. When Bike To Work Day was accused of being a sexist institution because it was harder for women to bike to work wearing high heels and with long hair, etc., Senator Wiener joined many other politicians in the State of

California to don high heels and wigs and cycle across the bridge to prove the point, the photos are available and they're terrific.

He's also a deal maker. When his mobile phone was stolen from him, he didn’t just run away as you or I might do; he negotiated immediately with the people that had just stolen his phone. And he negotiated a price of $200 for the return of his phone. They went to ATM where he extracted the $200, completed the transaction and got his phone back, because it was caught on CCTV, the -- I don't know if all of them -- were apprehended, but most of them were subsequently apprehended (laughter).

So these are the kinds of negotiating skills that will be required to bring about serious housing reform in California or anywhere else. And so it's really a pleasure for us to be able to welcome, I think for the first time on a public platform, at Brookings anyway -- Senator Wiener, who is the scourge of Nimbys, the whispering of phone thieves, policy-wonk extraordinaire, please join me in welcoming Senator Wiener to our stage (applause).

SENATOR WIENER: They teach us how to navigate difficult situations in San Francisco, whether you're being robbed or otherwise. It's not a coincidence. People like Nancy Pelosi, Dianne Feinstein, Gavin Newsom, Willy Brown, etc., all hail from San Francisco. If you can have thick enough skin to make it through then you probably will do okay.

I want to start with just a story, a little anecdote. Before I was in the State Senate, I was a member of the San Francisco Board of Supervisors representing the Castro where I live and a few other great neighborhoods, and this was back probably in 2014 or 2015, and I was walking down the street near my home and an older gentleman, probably in his 70's, an older, gay man came up to me and he said, "Scott, I'm really scared." I said, "Why are you scared?" and he said, "Well something terrible has happened. My landlord is painting my building."

And normally, of course, you would think a tenant would be thrilled that the landlord was painting his building, but he, not irrationally, interpreted that as he's getting the building ready to be sold and whoever buys it is going to find a way to mass-evict all the tenants and he's going to have to leave San Francisco because there is nowhere that he could conceivably live, and he's lived in the city for 40 years.

So when people sometimes ask my why are you willing to get called every name in the book, and get protested and so on and so forth, that’s why; because real people are hurting when it comes to housing.

We get very technical about housing, and technical is a good thing, like statistics are good -- we talk about very technical terms, and housing debates about zoning, and streamlining, and California CEQA, our Environmental Quality Act, about conditional use, about permits, about prevailing wage, all of these technical terms, but it's so important as we talk about housing, and as we have housing policy debates in more and more parts of the country, that we always bring it back to the real people whose lives are being harmed in real and deep ways by the housing crisis in California, but also in other parts of the country.

And it really helps that one of the response that I frequently provide, both when I was in local government and now, when people talk about their concerns about housing development in their neighborhood, I always ask them, is your kid going to be able move back home and live in your neighborhood, or even in your city. And overwhelmingly, the answer is no, and that brings it right down to earth for people.

You know, housing, I'm thrilled that this is happening today, and I'm thrilled that we have presidential candidates now talking about housing and that everyone believes, correctly, that they need to have a housing platform because housing for so long has been sort of left out of a lot of our conversations about inequality, around how to lift people up, about how to share prosperity. We focus importantly on things like education and healthcare, that’s critically important, but housing sort of takes a back seat and I think it's been very underappreciated how foundational housing is to everything else.

It's hard to be healthy if you don’t have stable housing or it's over-crowded. It's hard to get a good education if a kid is waking up every morning in a car or a homeless shelter. In California, at a minimum, 1 out of 20 school children is homeless, and that is probably an under-count; it's higher than that.

And so housing is foundational and it's finally, I think, getting the attention around the country, particularly in California, that it deserves. And the cost of housing is having so many impacts. It's absolutely driving people into homelessness. I think sometimes there's a stereotype that all homeless people have some sort of mental illness or drug addiction, and although there's a portion of the homeless population that does struggle with those issues, most homeless people don't. They simply cannot afford housing and so they're living in places we don't want them to live.

In California in particular, housing problems aren't just a result of poverty, housing is driving people into poverty, it's driving children into poverty because the cost of housing is so crushing. It is pushing, as you just saw, more and more people to become what we call super-commuters, where they're driving, and that's an hour or more, it's more like two hours we're starting to see in the Bay Area in LA, two hours each way, which is terrible for the environment, for people's health and for people's family life.

The challenges we have with housing are making it exceptionally hard for young people to get a foothold, to just be able to get that basic foothold that having housing. You know, yes they may want to start a family at some point, they want their career, but at some point living in an overcrowded roommate situation just doesn't work anymore, and we are making it really hard for the young generation to get that foothold.

We're undermining our climate goals. In California, although we are reducing and heading towards 100% clean energy in our grid, our transportation sector is going up in terms of carbon emissions. And of course, our housing approach absolutely perpetuates segregation in a huge way.

We also have these debates in housing about, is it local control; you know, you're taking away local control by setting state standards. And the local control argument, I think, is one of the most bogus arguments around, and there are very few people who engage in that debate with integrity. It's a little bit like the current debate, not the past debates about states, right, but the current debate, should we allow states to do things or should the Federal government do it? And you'll notice that it really depends on whose empowering Congress about whether it's state versus Federal. No one really, few people, fundamentally believe, oh, the states are better or the Federal government's better; it's the result.

The same is true with a state versus local control. In addition to my housing bill, I have a bill to allow people, or cities, to go later than 2 a.m. for their nightlife. We don’t require them to, it's local control, but some of the same people fighting me on SB 50, because they say it takes away local control, are fighting the nightlife bill because it gives them local control. So the local control issue, I think, really is about results and we should really focus on the results and stop pretending like there's something biblical about local control when their isn't (laughter). Local control is good when it delivers good results and in California, on housing, it has not.

We also have to keep hammering away about the truth that housing is a climate issue. And when you look, in the environmental movement at times, there can be a blind spot around housing and land use patterns. We see it in the Green New Deal, which, there are a lot of great things in the Green New Deal. The Green New Deal is silent on housing and land use patterns; it's silent, which I think is absurd and it needs to be changed to add that.

In California's debate about wildfires land use patterns and housing has been largely absent and no one wants to grapple with the fact that if you're not going to build in wildfire zones, you gotta build somewhere else, and that means more urban density.

Also, I think it's important to really -- one of the things that I really think is a disservice to housing policy, is when any kind of new market rate construction is lumped in as, it's luxury housing. It's sort of disparaging, dismissive, it's luxury housing, and although there certainly are buildings that are built that are luxury housing in the ways we would all conceive, the reality is that new construction, yes it's expensive, but so are the hundred year old buildings.

In places like Los Angeles or San Francisco, or other high cost areas, everything is expensive because it's scares. And so some people would say we should only build affordable housing, subsidized housing, but that's never by itself going to get us out of this mess. We have to build both.

And then the last thing I would say, before I get into some more details, is that this is a long-term problem that's been built and it's going to take a long time to get us out of this. And that's why a lot of politicians don't want to touch housing, because you can't deliver in a year, or three years, or four years. You can make some short-term improvements, but this is a long-term project and yes it will probably take decades to move the dial in a place like California when all of us will be out of office. So that's why people stay away from it, but this is not just for us, but for our kids and our grandkids

So California is very instructive about what not to do on housing (laughter). We used to do it the old-fashioned way; as we grew as a state, we added new housing. And back in the early '60s we were adding 250 to 330 thousand new units of housing per year. But then we stopped; we just ground to a halt. And what has that led us to? California has a 3.5 million home deficit, which to put it in context, is equal to the housing deficit combined of the other 49 states. We are half of the national housing deficit.

In homes per capita, California ranks 49 out of 50. In 1960 when we were building all those homes we had 15 million people. Today we have 40 million people, but instead of building 250 to 330 thousand homes per year, we're now building 77,000 homes per year; we've gone down by two-thirds or three-quarters. And actually, last year it was 77,000, and that was down from the previous few years, so we're going in the wrong direction.

California has one quarter of the Nation's homelessness, or 15% of the population, and we have half of the Nation's unsheltered homeless, half. We have a very high poverty rate and several million low income Californians are paying more than 50% of their impact for housing.

People get this, it is the top polling issue in the state today which it wasn't 5 or 10 years ago, but we've suffered from political paralysis.

So how did we get here in California, and this is where people need to take notes because it is a cautionary tale. Over the years we developed what I refer to as California's Housing Last Policy, where we have a defacto policy in California that it's not a priority to have enough housing for everyone who needs it.

We have created a system that is designed to fail. People sometimes criticize city council members for not approving enough housing, but as they say, don't hate the player, hate the game (laughter); we have created a systems that has made it impossible for city council members really to do their job, and we ask them to walk the plank every week and vote for projects that people don't want in their neighborhood, instead of having state rules, like we do with education or healthcare, to help guide and create standards and guardrails so that cities are doing the right thing.

Instead we have a race to the bottom where cities, and frankly individual neighborhoods, can say, I know we need housing just put it in a different neighborhood, and that happens over and over again in a state of 40 million people and you end up with a 3.5 million home deficit.

So what did we do? We allowed cities to engage in massive down-zonings, for example, in the mid-1980s Los Angeles did a down-zoning where it literally deleted one-half of its zoned housing capacity, all in one fell swoop. San Francisco did it in the '70s mostly, where we banned apartment buildings in 70% of the city; 70% of San Francisco is zoned for single family or two-unit only, in this job rich, transit rich area.

We invented all sorts of process barriers. Our environmental laws, conditional use, appeal after appeal, law suit after law suit, to say that even if we have zoned for it, we're going to make you run the gauntlet and you are going to take 5-10 years to approve a project.

We've allowed cities to put moratoria on housing. There are cities that have population caps, if you can believe that. I didn’t realize that was a thing and it sort of horrifying, but there are cities in California that have that. We have cities that refuse to even adopt a housing element, which is a required housing planning document.

And now the new argument that we hear in the Bay Area a lot is, the problem is we don’t have enough housing, we have too many jobs (laughter), and so we need to try to keep new jobs out. And they say that with a straight face. It's the ultimate form of privilege: that I have my home, I have my job, I made my money in tech, I'm retired; no more jobs. So not only can our kids not have housing, they can't have jobs either, and they make that argument. It's an actual policy argument along with, supply and demand don’t apply to housing; that’s another argument that we hear, and of course, we have our broken tax system, as you heard Prop 13, which creates a huge incentive for cities to favor commercial development over residential.

And now, increasingly, we have the use of impact fees as a way to stop development. I don’t oppose impact fees, they play an important role and cities rely on them because of Prop 13, but we have some cities that have fought decades to keep low income housing out of their neighborhood all of a sudden fall in love with inclusionary housing, and put a really high inclusionary percentage in place because they know that it will render projects infeasible.

So what do we need to do? There's no silver bullet, and I know SB 50 has gotten a lot of attention, and I, as the author of the bill, you know, it's always nice when people pay attention to your bill, but no one bill or approach is going to fix this. We have to do a number of things.

Yes, we need zoning reform. We need faster approval of projects. We need streamlining. It is not acceptable that you have to have 50, 5-0 community meetings to build a project that’s within zoning. And that happens; in San Francisco and elsewhere. It's not okay that it can take 10 years to get projects improved. We have to control costs.

There's an important conversation happening now in California between labor and the building industry about prevailing wage and having a separate residential wage for low to mid-rise, wood-frame construction, having a lower wage for that and that will open up so many doors if they're able to resolve that.

We have to fund more affordable housing in the market. The vast majority of low-income people in California live in unsubsidized housing, but the market is not producing housing affordable to low income people like it used to, and we need massive subsidies and that’s one area where the Federal government can help.

We have to protect renters. In California, very few cities actually have rent-control, and so as a result the vast majority of renters in California can be evicted for no reason and could have their rent doubled or tripled overnight. We have to really understand that creating new housing isn't about replacing the existing people who live there. It's about being additive.

We also have been adding more teeth into our existing laws. California actually went through a period in the early 1980s where we passed various great laws. Our State Density Bonus Program, to say that if you have high affordability, you can go taller and get relief from local restrictions. A mandate that cities have to allow in-law units, or ADUs, and the Housing Accountability Act, which bans cities from arbitrarily denying, or down-sizing projects that come forward. They were dead letter for a long time, and in the last few years we are now putting teeth into the, including allowing people to sue cities and get penalties if the cities violate them.

Now, about zoning reform, which is what SB 50 is about, I did a streamlining bill in 2017 and I was told, this is great, streamlining is so important but you have to get it zoning or none of it's worth it. And the more I looked into it, the more I realized that zoning is absolutely foundational.

We talk about zoning, and single-family home zoning, or this zoning and that; let's be very clear in plain English. Zoning is about saying, this is the only kind of housing allowed here, every other type of housing is illegal, is banned. So single family home zoning, which 80% of the state of California is zoned single family. As I said 70% San Francisco single-family or two-unit; the same in LA, 70%, that means that everything else is banned.

Apartment buildings, banned. Senior housing, banned. Low-income housing, which is only multi-unit, banned. Student housing, banned. I could go on and on and on, it is all illegal in 80% of California. So that’s what we mean when we say a nice word like, oh it's zoning. People think zoning, that’s how you keep like the pig farm out of the middle of a residential neighborhood; no, it's about banning kinds of housing.

And that also means banning kinds of people because if what you're saying is the only people who are allowed to live in this community are people who can afford a single family home, which I can't afford a single family home in the Bay area right now, let alone the vast majority of my constituents, you are banning people of working class, low income from your community, and your banning affordable housing.

And so zoning is foundational, so if we're ever going to fill that 3.5 units, we have to change the zoning because, otherwise, if we try to do it with our current zoning, it means we're building sprawl. And we're doing what we've also done, we just build further and further out and those hour to two-hour commutes, start looking angelic; welcome to the three-hour commutes.

And we cover up farm land, cover up open space, make our overcrowded freeways even worse than they are, and emit even more carbon. So it's not sustainable and that’s why we are, with SB 50, trying to tackle this in a meaningful way. And that’s why it's so controversial.

What the bill does -- and we tried last year, it didn’t succeed, and we're doing it again this year -- is to say that if you are near high quality public transportation, or if you are in some sort of job center, or job-rich high-opportunity area, you cannot limit density.

You can't put an arbitrary cap, like only a single-family home, or only two-units, or only three-units; you have to allow more density.

And if it's within a half a mile of a rail stop, you can't push the height limit below four stories, or five stories. This bill is, for California, a new thing. We've done some zoning over-rise before, but never anything like this. But according to studies, this is one of the most probably productive ways of adding a lot of new housing. It does question basic orthodoxies in California. Zoning has always been a jealously guarded, local prerogative, but it has become a race to the bottom and it doesn't work.

And zoning reform I think has become -- there's growing national attention to it. I remember, I first started on it in 2014, when I very timidly said, I want to do a law in San Francisco to say that you can add a new in-law unit in the Castro neighborhoods, one of the neighborhoods I represent. And that was this radical thing; we limited it to one neighborhood. And then you fast forward five years and now we have Minneapolis eliminating single family home zoning; Oregon proposing to eliminate single family home zoning.

And in SB 50, in addition to the transit and job provisions, we have a statewide, four-plex by right provisions. You'll be able to turn any home in California into a four-unit building.

So I think we have some momentum and some progress. And I want to just close by talking about the coalition that we've built. It took a few years but it is doable and I think for a lot of communities, there has historically been -- it's just opposition. Housing is always viewed as a punishment, right. It's a punishment to have more housing in your community, and we sometimes play into that by saying, we're only going to put the housing for cities that have been actors in the past, as opposed to where it's sustainable.

But we have been able to build a very proactive coalition and so we have, behind SB 50, a coalition that includes both the California Labor Federation, and the California Chamber of Commerce. That does not happen very often, labor and business together. We have both the building trades unions and the California Building Industry Association. and then we have amazing groups like Habitat for Humanity, and the US Students Association because students suffer so mightily; AARP, and so on and so forth.

So we were able to really -- major environmental organizations, we were able to build, I think, what's a very powerful coalition. Without that coalition, this bill would be even harder than it already is.

But there's also been a reaction and one of the things that our work has done, I think there's been a lot of good progress, but last year, with the bill, it created sort of a conjuring of every anti-growth group in the state, they found each other (laughter); it was inevitable, it was going to happen at some point in time, but it happened -- I felt a little bit guilty about that, and they formed a statewide coalition called Livable California, which I re-envision, as it's Livable For People Who Have Housing California, and they are getting more and more active, and threatening a statewide constitutional amendment to try to kick the state entirely out of housing. And so we have the reaction that happened.

There also is a split within the progressive community. We have progressive groups that are strongly supportive of the work that we're doing. There are some progressive groups who are just fundamental opposed to market rate housing and will oppose anything that adds anything other than public housing. But then there are a large number of progressive groups in the middle who are very concerned about displacement, and gentrification, and evictions, but also understand that the general direction we're going in is a desirable one.

So we have built some very strong tenant protections into the bill; some affordability requirements, and I think that's really important because there is a broad housing coalition that can bring many people together right to left, housing cuts across partisan labels. It is not partisan in any way. We have some very liberal democrats and conservative republicans who work together on these issues, but you have to have a balance bill that takes into account these needs.

So, housing is hard. I've had my house -- I don’t have a house, I live in a condo -- but I've had my home, my building protested at various times. I feel bad for my neighbors (laughter). A terrible group out of LA called the Aids Healthcare Foundation, a pariah HIV group that is funding Nimbia for it's -- in various parts of the state -- is running TV commercials and sending mail out against me in San Francisco, making horrible claims.

So you get demonized, you get beaten up, but it is really, really important and we know that the polling is there. That even though there's a lot of pressure and negativity around these issues, that the people get it, people understand that we have to do things differently, that the system is broken and that it's time for real change. So I'll leave it there and thank you very much (applause).

MR. REEVES: Thank you so much, is this live.

SPEAKER: Yes, it's live; the button.

MR. REEVES: Is it live now, right, thank you so much for that keynote. We have about 15 minutes, maybe a little bit more actually for some questions so please put your hands up, keep it short, tell us who you are, and make sure it is a question, or at the very least, sort of have your inflection rise towards the end of the statement (laughter).

Yeah, I'm going to start there, and do you mind if we take two?

SENATOR WIENER: Whatever you want.

MR. REEVES: Yeah, that’s fine, let's take the gentlemen there first.

SPEAKER: Hi, my name is Ryan Bhandari, I'm a Senior Policy Advisor at Third White. I'm a native of LA so I know the housing crisis very well --

MR. REEVES: Can you bring the mic a bit closer to you.

SPEAKER: Yeah, as I said, I'm a native of LA. I know the housing crisis very well there. I'm wondering, how do you go about down-zoning, what areas do you choose? Do you start -- is it like, the richest areas stay zoned? Or how do you decide which areas get down-zoned, or up-zoned --

SENATOR WIENER: Yeah, up-zoned.

SPEAKER: Up-zoned, sorry.

SENATOR WIENER: We don't like down-zone.

SPEAKER: Yeah (laughter).

MR. REEVES: let's take one at a time, because they're going to rich, I think.

SENATOR WIENER: Sure, in SB 50, last year we did it just around transit. We said anything that's within a half a mile of fixed rail or ferry terminal, or within a quarter mile of high frequency bus stop, so a bus stop that's running regularly and is not one of those commute only bus lines. That's where it gets up-zoned.

One of the critiques that we got of that approach was that when you look at where high quality transit is, it is disproportionately in lower income areas, because wealthier communities have typically kept transit out, sometimes because they don't want people who might take buses to come into their community. It has sort of an ugly history.

So one of the critiques was, this is not equitable. One of the changes we made to the bill this year is to keep the transit part, but to also add in, what we call jobs-rich or high opportunity areas; areas that have good access to employment, good access to high quality public schools, economic opportunity, and to try to balance it out. So those are the categories we've used.

We also this year have a category of areas called sensitive communities; areas with high concentrations of poverty, high risk of displacement, where we give them a delayed implementation of five years so that they can do local anti-displacement planning, and then the bill will go into effect.

MR. REEVES: Is it fair to say that the answer to the question, should be up-zone here, here or here, yes, but to different degrees.

SENATOR WIENER: Yes, and the up-zoning that I just mentioned, transit and high opportunity is a more robust up-zoning, but then we recently amended the bill to include, as I mentioned, a statewide four-plex, so you can do a duplex, triplex, four-plex anywhere. And the reason for that is it's a lighter tough density that will apply in areas that don't have the same access to jobs or transit.

MR. REEVES: All right, thank you. Yes, sure, but be brief please.

SPEAKER: Does that include like, 90210, Bel Air, like even those areas?

MR. REEVES: He's asking if it will include Bel Air and places like that.

SENATOR WIENER: Well the statewide four-plex is everywhere, but yes, Beverly Hills is included, it's both job rich and it has some transit in it and the mayor of Beverly Hills, who is an interesting character, has been one of the foremost critics of the bill, so yes, 90210 is covered (laughter).

MR. REEVES: Thank you.

SPEAKER: My name is Yaya Fanusie, with United State of Africa 2017 Project Task Force.

SENATOR WIENER: I'm sorry, which union?

SPEAKER: My name is Yaya Fanusie with United State of Africa 2017 Project Task Force.

SENATOR WIENER: Oh.

SPEAKER: My one-bedroom condo on Lake Merit, which I'm renting, I'm losing a thousand dollars because I don't charge my tenant the going rate, you know Lake Merit, what is all about there now, in Oakland. This is a serious issue and I would like to -- I'm going to Oakland in June and I would like to talk to you about which group I could work with to help people like my tenant to be able to stay there. I'm doing a discount because she's part of this project --

SENATOR WIENER: Yes.

SPEAKER: That's why I'm losing a thousand dollars a month.

SENATOR WIENER: Yes, you're having to do everything today, policy -wonk, local advisor (laughter), everything. Do you have a brief answer to that? Who he can talk to?

SENATOR WIENER: There are so many renters who are struggling. Oakland does have rent control but as I mentioned, a large majority of California renters don’t. And rent control is a controversial topic, but I do think it's important to stabilize people in the housing that they have.

MR. REEVES: Thank you. The gentleman right here in the front, is there a microphone here towards the front? Thank you, and then we're going to go back there, sorry to make you come up and down.

SPEAKER: I can't recall the -- my name is Dave Armstrong, no affiliation, in the early '70s (inaudible) there was a law, I guess, it was passed that allowed environmental review of projects and not only do groups like Sierra Club and all that stuff, you have to stop development, but labor unions have used that to try to extort favors from developers about union labor and that kind of thing. My question is, does your bill help curtail that, I can't recall the name of the law, the one that started all this Nimbyism.

SENATOR WIENER: Well, I don't know if it started Nimbyism, but it has definitely has sometimes been used. It's CEQA, the California Environmental Quality Act. It was signed into law by Ronald Reagan in the early 1970's and the purpose of CEQA was to say, if you're doing a project, and when people say, you know, building a new highway, building a damn, whatever, you have to analyze the environmental impacts to inform your decisions, it makes a lot of sense, it's a very important law.

SPEAKER: Mm hmm.

SENATOR WIENER: Over time, through court decision, it has grown to encompass a lot of things. In San Francisco it was used to hold up our bike network expansion, which is I think pro-environmental. It is used routinely to slow down or stop infill developments, clearly pro-environmental. And so it is a challenge.

I mentioned before there's a negotiation on wages happening between labor and the building industry. If that is successful, I believe it will open a door to meaningful CEQA reform.

To be clear, it's not about getting rid of CEQA. CEQA actually serves a lot of really important environmental purposes, but there are times when it's used in the wrong way.

MR. REEVES: Thank you, the lady there, in the back.

SPEAKER: Hi, also from Los Angeles. My name is Ifay Cade and I just wanted to know, you said that some communities will have five years to work on a plan. I was just wondering if there is funding or is there technical assistance for folks to do that?

SENATOR WIENER: The answer is yes, because we have, in the last few years, and Governor Newsom is proposing to dramatically increase the pot of planning money.

Primarily its smaller cities that often don't have -- you know, their planning department is one person, or they just don't have a lot of resources, and they haven't updated their zoning in 40 years. They want to, but they just don't have the wherewithal to do it, or they don't have objective design standards so the developers know going in, here are the design rules.

And so we're providing more grants, particularly to these smaller cities to help them do that kind of planning. And in a place like Los Angeles, Los Angeles has a very well-developed city structure around planning. But, yes, there are grants that would be available to help out.

MR. REEVES: Thank you. I'm going to ask my own question now, Senator, and push you on the use of the word "bogus" to describe some of the local control arguments, that was a very strong statement. I'm reminded of one of my (inaudible) is John Stewart Mill and he said, everybody is in favor of devolution, down to approximately the level at which they currently sit in the political system (laughter), and so people who operate at the state level tend to be quite pro-devolving pare down to the state level, if you're in local government you go to (inaudible low speech). I don't mean that as a thing against you, I'm sure -- because you've proven that you would argue for this anyway, but isn't one of the things that makes American democracy historically so strong, the very fact that the default assumption is that power should lie as close as possible to the voter on as many things as possible rather than overriding it?

SENATOR WIENER: Just to be clear and I don't believe that local control is bogus. I think that many of the arguments that are made are not always about local control.

MR. REEVES: You think they're about something else masquerading as that --

SENATOR WIENER: Or about the results, so when people -- there are some people who just philosophically believe in local control, and that's fine, everyone is entitled to their view, such as there are people who think that states are better than the Federal government, that's fine. But I have found that very often local control arguments on both sides are not actually about whether local control is good, but about what are the results in this specific situation, which is why I mentioned the example of my Nightlife bill, where people who oppose SB 50 for taking away local control, are going like really spinning around and getting upset that we're trying to give them local control, over when they shut their nightlife down.

MR. REEVES: Mm hmm.

SENATOR WIENER: I'm a former local elected official and before that I was the President of my neighborhood association so I feel like I've seen -- and I also served on several regional commissions, so I've never been at the Federal government, but I've been at like every other level, and I have seen the good and the less good.

In most cases, local communities are in a better position to make decisions than the state is, as mostly the case, but it's not always the case. And on housing in particular, and I've never advocated taking away all local control. Even SB 50 retains enormous local control around approving individual projects, local design standards apply, local demolition restrictions apply, local impact fees and inclusionary requirements apply; for the most part local height limits apply, local setback rules apply. So we maintain local control, and that’s a good thing, but California's system of local control on housing is extreme.

And I mentioned before, public education, if I were to come in here and say I have a bill for you to give pure local control to local school boards, because local control is so incredibly important that they should be able to decide whether they hire credential teachers, how many days a year they instruct, and whether they teach math and science, you would laugh me out of the room. We have state standards because it's so important.

The same should be true of housing. Standards and local control exist within those standards. The system of pure, unadulterated local control, not just at a city level, but at a neighborhood level, has not worked for housing.

MR. REEVES: Thank you, great, the gentleman here. And please keep putting your hands up, even in between, so that I can see where the demand is.

SPEAKER: Thank you, Rick Rybeck with Just Economics. I appreciate you and Dr. Schuetz mentioning Proposition 13. It's something that was promoted to help affordable housing, but really has worked to the contrary. There's been a lot less notice of tax reform in Pennsylvania, I'm wondering if your familiar with it, where they’ve altered their property tax by splitting it in two and reducing the tax rate applied to privately created building values, which makes things like energy conservation that you were talking about more affordable and economically viable.

But because they can't forego the revenue, they increase the tax on publicly created land value, and the thing that is kind of strange is that the lower rate on building values makes buildings cheaper to construct, improve, and maintain -- people get that -- but surprisingly at higher rates on land actually make land cheaper. I'm just wondering if you're familiar with it or if it makes any sense to you?

SENATOR WIENER: I mean I'm familiar with the idea of taxation and the effects on land values. I'm not familiar with the Pennsylvania model. In California, we're very constrained because of Prop 13, in terms of what we can do. There is a constitutional amendment on the ballot next year to remove commercial property from Prop 13. I support that but with some trepidation because Prop 13 is anti-housing because it makes commercial more lucrative for cities that are struggling to balance their budgets. If we now remove property tax caps only for commercial, it means Prop 13 would make commercial even more -- the disparity will grow.

So we need to look at broader tax reform, like for example, the possibility of having regional sharing of like, sales tax, which, I mean, the pitchforks come out when I mention that (laughter), which it's not a criticism. These cities are struggling to balance their budgets because of our tax structure, and so I totally get it why they don't like that. But we have to look at these broader ideas of how do we create the right incentives so that cities want to build housing instead of the next strip mall.

MR. REEVES: Okay, great, lady there.

SPEAKER: Hello, my name is Rosa Lee, I'm a PC student at George Washington University and I'm writing about the American middle class, my dissertation is all about middle class. And I was just wondering around the BLS Consumer Expenditure Data, and I realized that LA and San Francisco, their share of the expenditure on transportation is much higher for the middle class, and Los Angeles is like 16% and San Francisco is about 13%, which is very different from Chicago, because Chicago area, there is no difference on the transportation costs. So I was wondering, do you have any thoughts on this issue in terms of for housing, it has.

MR. REEVES: Well first, to remember that it's not just about income, but cost as well, after all if everything was free, nobody would be poor. But I just want to say that anybody who comes to an event and says I was playing around with the BLS's Consumer Expenditure Survey, is always welcome at Brookings (laughter). It warms our heart. Are there any thoughts on the costs?

SENATOR WIENER: Yeah, I mean, I think the long commutes is definitely part of that and all the expenses are entailed there, gas prices are higher in California than other parts of the country, and yeah, we just -- we make it hard. But we also, in terms of driving, we do rely on bridge tolls and gas taxes to fund our public transportation system, so that does increase the cost of driving, but it allows us to, we hope, make transit more affordable.

Another issue though is that some of our transit systems receive very little public subsidy and are over-reliant on fares. So Bart is a prime example. It gets very little subsidy and so the fares are way too high, and it's a big problem for low income riders.

MR. REEVES: The guy in the blue shirt right there.

SPEAKER: Hi, Elan Sykes with the Climate Leadership Council. My question has to do with a different personal affiliation. I know that you're involved with the California Jewish Legislators' caucus and I'm an observant Jew, and it's important to live in a place where I can walk to synagogue. I know that in California there are lots of Jewish communities in high cost areas that seem like they would both be a target for SB 50 but also a natural constituency for denser development. So I'm wondering whether there's been any outreach to Jewish communities in California as natural supporters of denser development.

SENATOR WIENER: Yeah, there's actually a statewide coalition of Reform Judaism, that is -- they haven’t endorsed the bill yet, but they’ve indicated that they're likely to do so. And these are members of our community who are very involved in social and economic justice issues. More broadly, you know, it's been a mix. We have a fair amount of opposition coming from some areas where you're -- my brothers and sisters -- are abundant, but opposition comes from other areas where there are fewer of us.

I have not heard that particular argument before, I think it's actually a really good one (laughter). I'm going to mention that to some of the Jewish opponents of the bill, so thank you for giving me a new argument (laughter).

MR. REEVES: Next time you come we expect some theology to be woven into your policy-wonkery, as well (laughter), but with apologies to those who have their hands up, we can't get to everybody and I'm very conscious of the Senator's time. So we're going to have to close it here and move on to the next panel, but please join me again in thanking our Keynote Speaker (applause).

SENATOR WIENER: Thank you very much.

MR. REEVES: And with that Jenny Schuetz is coming back onto the stage to moderate our first panel discussion. I'm going to leave it to Jenny to briefly introduce the panelists and then moderate a conversation between them on many of what you've already heard about, from both our Keynote and Jenny herself. Don't forget, especially if you're watching online, you can send questions in using #HousingRegs. Jenny, over to you.

MS. SCHUETZ: All right. While we're finishing up the mic'ing process, I'll just say thanks for sticking around for this. This is our panel really to get into a little bit more of a nitty-gritty of what are the politics behind currently unused; how can we move to a different kind of politics and what are other ways that we can move the policy needle on land use and housing development. I have met most of you already. I'm Jenny Schuetz. I'm a Fellow here at Brookings Institution and I'm going to introduce briefly our three panelists.

We have three experts who bring slightly different backgrounds to the table. To my left is Katie Einstein. She is an assistant professor of political science at Boston University. She studies state and local politics and has written a book that's particularly germane to the topic. I'm going to ask her to tell us a little bit about her new book shortly. To her left is Marion McFadden. Marion is currently a senior vice president for public policy at Enterprise Community Partners. And before that she served at HUD in the Obama Administration; had this experience overseeing affordable housing and community development programs including the CDBG Program. To our far end of the panel is David Schleicher. David is a professor of law at Yale Law School, so he's going to keep us on track every time we propose things that are unconstitutional, which probably will happen.

MR. SCHLEICHER: I left my robe at home, unfortunately.

MS. SCHUETZ: David's an expert on land use and both local and state law. So, to give you a little sense of the parameters of this panel, there's an enormous academic literature on the effects of land use regulation on housing supply that land use that that Senator Wiener was talking about. Bands on apartments and so forth have driven up the cost of housing and limited the supply of new housing. We are not going to rehash all of the research on the evidence of what land use does. We're going to talk instead about some policy fixes and there are two areas in particular that I'm going to ask the panelists to respond to.

One is to think about how do we change the politics of zoning or the politics of housing at the local level, since most of the decisions are still made at the local level. So, what are the kinds of political coalitions and arguments that can be made to change this? Then second, what's the role of state and federal government? If we can't get local governments to do better on the results, then are there things that state and federal government can do to incentivize changes in housing and land use policy at the local level?

So, that's sort of the general parameters. We're going to start off on the political side of this and I'll ask Katie to kick things off. So, the title of your new book is Neighborhood Defenders, Participatory Politics in America's Housing Crisis. I'm wondering if you can just briefly tell us some of the main lessons that you learned. In particular, how does local democracy and the participatory process at the neighborhood level get us to a housing crisis?

MS. EINSTEIN: Yeah, so this comes from a collaborative project with my Boston University colleagues, David Glick and Max Palmer. And what we're really interested in understanding is the political consequences of our current land use regulations. There's been this big emphasis basically since the excesses of new urban renewal to put planning back in the hands of neighborhoods and to empower neighborhoods to have a say over local development. And this sounds really good, right, like this sounds, yeah, when we -- a lot of city governments like to talk about, we talked to our neighborhoods, we it take into account what neighborhoods think.

So, it sounds really good in principle and we use this kind of neighborhoodoriented language, but what we find is that in practice what these neighborhood level institutions do is empower older white homeowners to dominate land use discussions and to use their power to stop and delay the construction of new housing. So, neighborhoods that have a lot of these older white homeowners are able to use land use tools available to them to fight the construction of new housing. And if you live in a community where there aren't as many older white homeowners and maybe there aren't the same land use tools available to you, you, if you're in one of these high cost metropolitan areas, are going to be the neighborhood that bears the brunt of these development pressures.

And so we end up with these really uneven land use patterns where some communities are able to mount these really successful neighborhood defenses while other communities receive the brunt of the development and the gentrification and the displacement that comes with it.

MS. SCHUETZ: I'm curious if you can just tell us, so a lot of the research that you were doing was based on community meetings in Massachusetts. Massachusetts has some particular forms of local government. To what extent do your findings translate to other kinds of high cost metro areas?

MS. EINSTEIN: One of the things that we did, one of the biggest empirical parts of this book is we went and looked at all of the planning and zoning Board meetings in 97 cities and towns in Massachusetts. We read like thousands and thousands of pages of meeting minutes to understand who these people were; why they showed up; what their main objections were to propose to housing developments. One important point on generalized ability, obviously, Massachusetts is distinctive in a variety of ways.

The places we looked at were whiter and wealthier than the country as a whole. But the places we studied are a huge range of communities. There's some of the really wealthy homogenous intercourse suburbs of Boston that are facing huge housing costs pressures, but we also studied older industrial cities that are really socioeconomically diverse and farther away from the urban core of Boston. So, for people who know the region, places like Lawrence, Massachusetts and Wooster, Massachusetts, these are not places that are facing housing crises on the order of San Francisco or Los Angeles. They're very different housing markets. In every single city and town we studied, the advantage dominated these proceedings. They were consistently dominated by older white homeowners.

We felt like Lawrence, Massachusetts was especially illustrative. So, Lawrence, Massachusetts is 80 percent Latino. And over a three-year period of the 42 commenters who showed up to planning and zoning board meetings, only one of them had a Latino surname. The underrepresentation of voices of color at these forums and renters at these forums was really stark. We think that this is a process that generalizes well outside of Massachusetts, that this is something that happens in a variety of different kinds of communities. We also as part of our research, talked to local officials in many places outside of Massachusetts. So, in Milwaukee, Wisconsin, again, not a place that people typically think of when they're talking about a housing crisis, we found that this same kind of process unfolded where older white homeowners were able to dominate these land use proceedings.

MS. SCHUETZ: Marion, if I can turn to you, Senator Wiener talked a little bit about the rift in progressive politics at the local level that very often the debate in places like San Francisco comes down to the yes in my backyard. YMBs, we're saying we want more market rate housing, but they are often opposed by traditional advocates for affordable housing versus subsidized housing, the FMBs public housing in my backyard. And that you wind up with a debate between two groups who in some senses might be alive. So, I'm curious if you have a sense, are the goals of more market rate housing and more subsidized housing fundamentally incompatible? Are the groups who were arguing on these sides; do they really have different goals that can't be merged together or is this; are these two groups that could be making an alliance?

MS. MCFADDEN: Well, I think you're coming right to the cutting edge of affordable housing inside politics, right, so, something that's really new and different versus even maybe a decade ago is we are seeing low income communities and communities of color coming forward and say, don't come here. Don't bring resources here. It's going to be too detrimental to us over the long run. And so some of the work that we've been doing at Enterprise is helping communities understand local housing policy tools that they can use to mitigate against displacement with the infusion of new residents. And so there's always going to be a political push and pull. Rare is the place like San Francisco that, where people may say no jobs because generally elected officials and communities want jobs. But there have to be steps put in place far in advance of the arrival of new residents to ensure that existing residents' benefit. We see that conversation coming up also around opportunity zones, which are agnostic about the types of investments that have to be made as long as they're in low income communities and communities saying, "Hey, wait a minute, just bringing a lot of cashier could be really harmful."

MS. SCHUETZ: So, in particular, concern about taking some steps before, for instance, an up-zoning happens before a market rate development. So, it's partly about the timing of the investment and what happens before it.

MS. MCFADDEN: Absolutely and just to be a little more explicit, these are things like allowing inclusionary zoning, right, so that when there are new developments, some portion of new development units are set aside for existing residents are affordable to the working class essentially.

MS. SCHUETZ: Okay. David, you have written a fair amount about the lack of partisan competition at local elections. Some of the cities where this is playing out, Boston, New York, San Francisco, do you see the city council and the mayor are essentially all democrats and there is, at most, nominal competition among parties. I'm curious if you see the lack of partisan competition playing into the kinds of solutions, or if you think that there's a different way that local politics could better represent the different interests?

MR. SCHLEICHER: I think the absence person competition is very crucially related to some of the breakdowns of land use politics and two kind of ways. The first is that I'm heavily interested homeowners are going to be involved in land use politics no matter what. The value of one's home is your biggest investment. That bill (inaudible) home voter hypothesis suggests that these people are going to be in. Whereas, other interests, whether they're employers, renters, unions or more weakly attached to homeowner -- to housing, politics. And as a result, without the mechanisms of party competition or party organization to harness weekly attached preferences on a policy issue, we're likely to see the most heavily invested interest groups win.

And so the story of that, the why you see the biases in who shows up to these meetings, they're the ones who are the most invested, but we don't have great mechanisms inside local politics for harnessing weekly attached preferences. The second is that we don't have great mechanisms for making deals across neighborhoods. One of the things we imagine or when we think about land use politics is that we think that perhaps when we say, "Nimby, not in my backyard," suggest that you might be okay if it wasn't someone else's backyard, or on as opposed to some of the other acronyms we used, that there might be deals to be struck where everyone would accept slightly higher amounts in housing as long as everyone else was doing it.

Political parties are mechanism for making these cross urban or even cross intraregional deals. In their absence or in the absence of party competition, so in many local elections, we have no party competition because they're formerly nonpartisan. And even where we do, we, as you know, we have only one party usually involved. The results in a kind of creating the space for land use, the pathologies of land use politics.

MS. SCHUETZ: So, I'm curious if you can elaborate a little bit more, what would be mechanisms for getting people with weaker preferences to show up? As Katie said, the people who show up at community meetings are homeowners. They tend to be older, a wealthier whiter; how do you either -- how do you get the preferences of renters, or in some cases the preference of business to speak louder in the political process.

MR. SCHLEICHER: Our traditional mechanism for making land use changes is the land use amendment, which is locally specific to a neighborhood, or potentially slightly larger than that, but -- or the broader, focusing on amendments activates nearby homeowners who will become unhappy with -- who are unhappy with the change, but usually at two small levels to activate the interest of employers or unions. Because you're talking about -- a small employer cares about housing costs because it's going to drive down the cost of housing, which will mean that steady nominal wage will be a higher real wage. They can pay their workers more or pay them less and get the same amount. An amazing idea, that any individual -- land use change that's made at the specific geographically specific zone will not activate the kind of classic growth machine interests. So, employers, unions, et cetera. Broader changes, so changes that have affect policy everywhere will in a city or state will have the effect.

And so as Senator Wiener noted, his bill has attracted the interest of business and of unions that are not usually interested in individual neighborhood level zoning changes. To the extent that policy can be made at a broad level and generalities, it can get these big interests. Again, with renters are kind of a complicated story. They can theoretically be organized, but getting the interests of employers and unions who are kind of the two classic elements of a growth machine politics to be involved, and you see this in cities and at the state level, you see it in Senator Wiener's bill has attracted this, but also New York City, with probably the only really major pro housing, the zoning for quality and affordability change zoning categories everywhere in the city at once.

People have already mentioned the Minneapolis rezoning, which is a citywide change rather than a neighborhood specific change. And so that by making changes that apply to a broad swath that you can really get at housing policy, housing price changes, which will then themselves activate neighborhood -- big groups as opposed to neighborhood groups.

MS. SCHUETZ: So, focusing a little bit more on citywide changes instead of neighborhood specific where you're really going to get immediately affected homeowners. I was listening to Senator Wiener talk through the coalition. He said they have labor unions who are presumably interested both in the welfare of their workers; Chamber of Commerce, which is interested in business being able to grow an employer is being able to hire people; local trades who would be part of the construction. I think there was one more and then I'm the housing industry groups who getting -- want to build more stuff. So, those are a number of different interesting groups. You don't necessarily get involved in local politics. I'm curious from any of you, if you have a sense of -- so we have, we have the Nimbys, the MBs, the FMBs, and then the -- in the case of SB-50, we have some additional groups. Are there other interested parties, people who would be affected by changing zoning, either changing the way we do it or specific kinds of change who haven't been actively engaged in the political debate, but could be; who either could be drawn in as allies or just who haven't figured out that this matters to them?

MS. EINSTEIN: I guess one thing we could think about is changing the way that we have these conversations around housing. The two really important disparities that we found in our work. One is that the forums over-represent the most privileged voices. So, they're advantaged homeowners, but it also over-represents opponents to housing. This totally makes sense if you think about a three-unit condominium building, getting proposed three doors down from you, you're going to have to deal with all the construction noise.

You're going to have to deal with the parking hassles of having all those construction vehicles nearby. In contrast, those benefits are pretty diffuse. So, you're not going to attract a lot of people who are supportive to new housing developments. I also think there's a natural human instinct when we're reviewing anything like any kind of proposal, you see specific fleet out in front of you, you're going to oppose it. Like maybe this is me as a professor grading student papers, but you give me specifics and my instinct is to find something to critique in them. And so I think we need to have a conversation about how we present ideas to communities and to neighborhoods.

And so one thing I've seen urban planners do that elicits more positive feedback is to have these neighborhood visioning processes. Where instead of asking people to say, here's a project, do you think this is a good idea or a bad idea for this neighborhood? You instead bring people together. And I saw one where they actually had like a 3D model of the neighborhood and you say, "Hey, what would you like to see in this neighborhood?" And so, at the one I was at, they talked a lot about commercial establishments. They wanted like a gastro pub. So, the urban planner who was there then said, "Hey, if you want this gastro pub, you also are going to need a lot more density in this town center. You're going to need to build up to four stories." So, right, it was about the building height. And so I think it's not necessarily a brand new group of people, but you're reframing the conversation so that a group of people who might have been predisposed to oppose a very specific proposal will instead have something different to talk about.

MS. MCFADDEN: If you want to have a coffee shop that sells avocado toast, then you have to have enough people in the neighborhood to use up the avocados.

MS. EINSTEIN: Yes. I would add to that that I think that engagement of the public led to the successes that we're talking about in Minneapolis also in Seattle is helping existing residents understand the benefits particularly with Minneapolis connecting the dots on racial segregation and helping understand the role that the government had. And people didn't just wake up segregated and really unpacking that. So, we're looking at different cities around the country at how we can break that down. So, we've been working with a group called designing the we, on a project called Un-design the Red Line, which has exhibits currently in Boston, Cleveland, Chicago and Los Angeles, where it really goes deep on the federal government's role and state and local government's role in ensuring segregation across neighborhoods. And when people start to understand that it helps them loosen up a little bit around, well, maybe it would be okay if the house next door was turned into a two-family or three-family because now, there's a shared vision, a shared ethics around what kind of community it could be as opposed to without that kind of a deep understanding and connecting the dots when people go to, the schools could be overcrowded; the parking could be too much; it could just be too dense for my comfort.

MR. SCHLEICHER: The group with the most complicated relationship to housing politics in (inaudible), it's definitely environmental groups who have a set of cross cutting interest. And you see this fight between local branches of the Sierra Club and the national branch in the chair at Sierra Club. Where do you see groups that are mostly concerned about greenhouse gasses are greenhouse gases are very, very pro-development, but people are traditionally drawing environmental local branch of environmental groups for anti-development purposes, that if you actually look at the history of anti-development groups, they actually formed frequently as environmental groups of the LA, the Anti-Hollywood Hills Development Group. It started as an anti-branch of the zero-population movement. So, these people would go to these meetings and they'd be sending condoms to Africa to keep to limit population and opposing development the Hollywood Hills. And imagine this is part of one political project and that seems crazy on because it is. But it's the environmentalism is played an extraordinarily important role on giving people opposed to housing something to say in public. So, some people have suggested that what explains the big takeoff in zoning restrictions that we saw it in the or late '70s and early '80s. They played two things. One is something about OPAC, but the other one is Earth Day. So, it's been local environmental groups where one of the things was opposing local developments. You see this big conflict in figuring out ways to activate the greenhouse gas side of environmentalism, which is -- yeah, as opposed to the don't cut the tree down in my neighborhood side.

MS. SCHUETZ: And we've definitely see that with the groups lining up in support of or opposing SB-50 that environmental groups are split and they're active environmental groups on both sides. I want to segue now of Marion's comment about what's the role of bringing in higher levels of government. So, California is experimenting with this. Local governments have had almost total control over land use and housing decisions. The output has been not great for the state. The state is having difficulty maintaining jobs and allowing workers to retain -- employees to retain workers. So, the state in part has a self-interest economically in getting their region to work better and to build more housing. Marion, I'm wondering if you can tell us a little bit about your experience at HUD. One of the signature attempts -- proposals under the Obama Administration was the Affirmatively Furthering Fair Housing Rule, which was at least in part designed to have local governments think about how zoning reinforces existing patterns of racial segregation. Can you tell us a little bit about what the goals of AFFH were and what the mechanisms were that it was trying to use to influence local land use?

MS. MCFADDEN: Well, I think there are two ways that the federal government really interfaces with local zoning. So, Senator Wiener said there's nothing biblical zoning being a local matter, we should look at the results. Well, certainly there have been times when Congress has said we need to have civil rights laws and other laws that overlay. And so you'll see that that tension with the Fair Housing Act. For example, when communities have large lot sizes, or setback requirements, or they fight against including multifamily housing in their areas. And that those are areas of general applicability. So, it doesn't matter whether HUD is funding that housing or not, everybody has to abide by the Fair Housing Law.

The affirmatively furthering fair housing requirement is an additional requirement that recipients of federal funds face. So, just for a sense of context, that's all the states and up to about 1200 local jurisdictions nationwide. So, wide applicability, HUD, however, has had limited enforcement ability. So, we've only seen really a handful of really big cases. But the Obama Administration came back to those requirements to affirmatively further fair housing. Looked at research about the impact on children's lives, such as Raj Chetty's research to say we really need to shoulder in and ensure that recipients of this funding are doing what they can to deal with their own patterns of segregation, which are having such a harmful effect on people's lives. And so, in part of that work which took many years of interface with communities and public comment to figure out how to do it, there was a new rule for communities to identify their barriers to fair housing choice, then analyze their impediments. And the HUD ultimately under the Trump Administration suspended the Obama Administration Rule. But there were communities that created and submitted plans that identified zoning as one of their huge barriers.

Thinking of like the Kansas City regional submission, not known as a liberal hotbed Kansas City, generally, but they said, if you really want us to make a dent on segregation in our city, we need to deal with and we will deal with some of these big zoning challenges.

MS. SCHUETZ: So, the idea was that local governments that are getting funds directly from HUD would have to identify barriers to racial integration, and if they did not make progress in addressing those, what would be the consequences?

MS. MCFADDEN: Up to an including not getting any more funding from HUD?

MS. SCHUETZ: So, essentially making federal funding from HUD contingent on reducing barriers to fair housing, including some reform of zoning.

MS. MCFADDEN: Right.

MS. SCHUETZ: That's ambitious. That was a big move for HUD. I'm curious to what extent do you think that, assuming that enforcement of that had gone ahead, how much of an impact do you think that would have, particularly in some of the places that are not building enough housing? Does HUD have leverage on the worst offenders?

MS. MCFADDEN: HUD has leverage on the worst offenders and the coalition of the willing, right. So, part of what the federal government's power is, is to lift up what's actually working and nudge other communities to emulate that. But yeah, the process was forcing communities to reckon with their history; to understand what had gone wrong and how it was continuing to have an impact. And there are multiple ways of looking at that across communities, but even just having that requirement there to move towards understanding what needs to happen to change history that was a really positive step. And so now, HUD wouldn't have the enforcement ability to go after every community and say, "Oh, you missed something here. You missed something there." But it was driving forward community change.

MS. SCHUETZ: Okay.

MR. SCHLEICHER: I think the assumption that higher levels in government will always do better has not historically worn out, so if you look at in the 1970s, there's this big belief that there's something called the quiet revolution in land use, which people are met by the greater involvement of state governments involved in land use and the interpretation people given in most cases, it created a double detail that if the projects were approved at the local level there would be another level of review.

MS. SCHUETZ: Give us a little more information. What were state governments doing; local governments weren't doing?

MR. SCHLEICHER: The environmental quality review is the big one, but there are a whole variety of other process and (inaudible) meetings, requirements and things that they --

MS. SCHUETZ: Now, on top of local government --

MR. SCHLEICHER: -- that cease (crosstalk) --

MS. SCHUETZ: -- but not superseding them.

MR. SCHLEICHER: No, not superseding them on top of what -- and there's an instinctive belief that having local governments that the state has an interest in kind of solving the inter-local problems that you see in (inaudible), but it very much depends on what process they create. Because the state, just as a city can devolve into neighborhood control. A state can devolve into legislator control where you get carve outs for the individual districts. As for the federal government, the federal government, one of the things that's notable about the Obama era efforts in this area is that it's a very old law they were seeking to enforce, right. It's been around for 50 years, give or take and there had not been much successful enforcement across -- on affirmative -- with the part of the law had been there forever. And the -- almost since it had passed, there are real reasons to believe that the federal government will not in the end cut funding from jerkin because they want to achieve the policy ends of community development and public housing. So, the federal government generally stopping money is something that they're not so good at doing, or not willing to do. And so, I thought for affordable housing was a noble effort, but I don't know that it was going to be the be all and end all of solving Landis' politics problems.

MS. EINSTEIN: At the same time, we did hear from local communities that would say, I need the cover of federal requirement to do this, so I can get my community there, but I have to blame you to make it happen.

MS. SCHUETZ: So, I think that's --

MR. SCHLEICHER: (Crosstalk) blamable. So, there you go. So, I there you've got --

MS. SCHUETZ: So, I think that's an interesting question. One, the federal government could withhold funds, right? That's something that has the power to do, whether it has the political will to follow through is another question. And that's a punitive kind of action, but Marion, you're suggesting that also the federal government by potentially even by having standards or guidelines, even if they're not attached to direct dollars, could also be nudging local governments in a direction that maybe they want to go. There may be some mayors and city councilors who want to move in this direction, but they're sensitive to the fact that they have to run for reelection. This could be a way of saying, well, HUD says this is good land use and this is good zoning. We should do this. We'll get better treatment from HUD.

SPEAKER: And she sends stuff.

MS. SCHUETZ: Do you have a sense from some of the local governments that you were working in, how many of them have mayors and city councilors who kind of want to do the right thing, but feel like they can't do it or they'll get voted out?

MS. MCFADDEN: I absolutely think this is a really big issue that you worry, particularly if you're in one of these smaller suburban cities or towns, that if you support a deeply unpopular zoning effort that you're going to get voted out. When we interviewed a lot of public officials as part of this book project, one of the things they talked about at these neighborhood meetings is people have come up to them after a meeting didn't go their way and say, "I'm going to vote you out of office. I'm going to take you out of your job." And so I think having that cover absolutely helps in one area where we can see this happening is actually in school budget override votes. And so, oftentimes when we have school budget overrides, it's tied to state funding. A lot of these campaigns will say, you need to pass this budget override or you're going to lose $80 million in state funding. And so I think that could be a pretty persuasive tactic. And it also gives electoral officials the cover to, in the case of a budget override, to increase someone's property taxes for a few years.

MS. SCHUETZ: This raises a really interesting question. So, HUD gives -- the federal government gives pots of money to local governments through some channels. CDBG is one of the big ones from the federal government that mostly goes to bigger communities, right? So, larger cities or counties, not necessarily to a bunch of the smaller suburban communities, some of whom are very exclusionary. State governments do a lot of redistributive funding through things like schools. Talk a little bit too about Massachusetts. Governor Baker has been pushing for some structural reforms and land use. Do you want to talk a little bit about that?

MS. EINSTEIN: Yeah, so this one feels personal. In my town, which is an intercourse suburb of Massachusetts. I worked to -- well along with my committee to write and accessory dwellings ordinance to try to allow in-law units to be passed by special permit. We went before our legislative body, which in New England is a town meeting and we got 62 percent of the votes in support, which would be normally, in a normal legislative body, you'd say hurray at past, except in Massachusetts and nine other states to reform zoning in a city or town, you have to get a two-thirds super majority. And so, this ordinance did not pass with 62 percent of the legislative body voting in support. So, Senator Rena was talking about a lot of different veto points that prevent us from pursuing progressive housing policy. And it seems like one really important veto point that we have is how easy is it to pass zoning reform at the local level?

First of all, you have to convince a legislative body and an executive body to do it. But then in several states there's actually on top of that already challenging process of convincing your legislative body to do this. There's this super majority requirement which poses really big obstacles to this.

MS. SCHUETZ: So, this is a state level kind of structure of local government. What it takes to pass legislation at the local level. David, I'm curious if you can tell us how much variation is there across states in the amount of authority that's given to local governments where what extra hurdles they have to jump through?

MR. SCHLEICHER: There's now quite a lot. Historically, there was very little, which is actually somewhat think extremely interesting about the history of the development of language control, that it's the most successful model act in history that after New York City passed zoning law in 1916, soon afterwards, the Department of Commerce under then Secretary Hoover, proposed a model State Standard Zoning Enabling Act that was largely adopted all around the country in roughly similar form. And there's some variation since the 1970s, you've seen huge amounts of additional stuff added to this, particularly in our highest cost jurisdiction. And so particularly in the California's and New York's of the world. I don't know that they're more than that. They're just California and New York. Now, I say --

MS. EINSTEIN: You can throw New Jersey and Massachusetts in there too.

MR. SCHLEICHER: Yeah and Connecticut a little bit. So, there've been things added to this over time that have made the process much more complicated. And the result of this is that we have very different land use policy across the country. So, that as you noted it, when you put up your broad slides that the problems of a lack of housing production in terms of its effect on housing costs, is really in several metro areas. It's not a hundred -- in the other metro areas, there's problems of sorting and exclusion from rich tax hoarding, but there's not the effect on the broader housing prices. The effect on regional housing prices is exclusively a California and Acela corridor with a little bit in like Raleigh, and a few places that are kind of on the edge, but it's really just those jurisdictions and so there's legal process things in some, but not all of those.

The other really -- they're kind of other ways that land use politics differently, so traditionally, big southern and western cities had very powerful annexation power and so one thing that you saw in those -- one of the kind of structural regularities of local land use policy is that cities that have lots of undeveloped area don't restrict anywhere quite a strictly because the interests that own property in the undeveloped area or sufficiently powerful, whereas in Boston, you have no idea what jurisdiction you're in. Everything was built in the 1600s, it's been densely populated for a long time. You see a very, very strong nimby politics and so, the southern and western cities, because of their broad structure of land use policy have less restrict, have less restrictive land use outcomes.

MS. SCHUETZ: Okay. We've talked a little bit about what HUD has tried to do or was trying to do to incentivize liberal government behavior. Is there a role for the federal government moving outside of HUD's purview, right? One of the limitations of HUD is that it primarily funds urban areas as opposed to suburban areas and more of its money goes to poor places, which are not necessarily the worst offenders. Is there room for say a Department of Transportation to engage with us? And we've talked a little bit about some of the environmental impacts of the current development patterns. Could there be a role for EPA if we were going to really think outside the box, what are the other federal levers that could be pressed to change local behavior? Any of you can talk about --

MS. MCFADDEN: And if you can talk about federal officers here.

MS. EINSTEIN: Yeah, no, I think you make a great point about the

Department of Transportation and the need to have the community level conversations about what's going on there. I would just say on the HUD point, one thing that's less noticed about HUD is the tens of billions of dollars mostly every year pour in for post disaster recovery communities. There, money does go into non-communities, non-low-income communities, right? And it helps rebuild middleclass housing. The current rules allow housing up to 120 percent of AMI to be assisted with disaster recovery dollars. So, we see in areas that have been hit by the worst disasters, huge infusions of cash, which are subject to federal policy. So, that's another area where we need to be forward thinking in terms of what's going to happen in the rebuilding to deal with whatever future disasters are going to come their way. But also how can they solve some of the existing challenges including the need to create density around transit. And the other issues that we're struggling with.

MS. MCFADDEN: Although going back to sort of through what's the federal appetite for not providing disaster recovery assistance of places that have just gone through a hurricane unless they were formed their rezoning?

MR. SCHLEICHER: There's a long history of the effort to use transportation money to incentivize different changes in land use patterns that that's where councils of government largely come from. From the federal requirement that there be discussions about integrating land use. They've proven to be pretty truthless for exactly these types of reasons, which there's no formal regulatory. The federal government can't force anyone to change anything and the federal government wants to achieve the policy end. And so, as a result --

MS. SCHUETZ: For which policy through?

MR. SCHLEICHER: -- building the road.

MS. SCHUETZ: Okay.

MR. SCHLEICHER: And so, to condition it on an underlying land use changes, people can differ about how effective this is. I think they can differ between not at all effective and barely at all effective. And so --

MS. SCHUETZ: It's pretty striking that part of what SB-50 is going to do is allow taller buildings --

MR. SCHLEICHER: Yes.

MS. SCHUETZ: If it passes, that it would allow taller buildings around Bart stations. And Bart was built with federal money. So, in theory, it could have been a condition on building the Bart stations in the first place to allow the up-zoning. We wait until after 30 years of development posts the Bart system operating before we go back and start attaching conditions. That seems less effective than building it in upfront.

MS. EINSTEIN: Hindsight is 20, 20.

MS. SCHUETZ: There we go. Yeah. Do you have other comments on --

MS. MCFADDEN: No, no, I think that, yeah.

MS. SCHUETZ: Okay. Well, I think that --

Mr. SCHLEICHER: In general, like focus on what the federal government can do is fine. There are some things that you could imagine, small policy interventions, research to the top, that sort of thing. But with -- and certainly some things in the tech side, but this fight is going to happen in state capitals and it's going to happen among largely in a kind of blue state capitols. Because that's where we see the most extensive state restriction to the San Francisco, New York, Connecticut, New Jersey, Massachusetts. The internal progressive fights are where the action is and the resolving, oh, that and where the action is. And so, the federal government, and it's interesting to talk about we're in Washington and all, but really if you're interested in these things, you need to be in Albany, in Sacramento and other kind of depressing places. Sorry, Sacramento.

MS. SCHUETZ: I'm curious, other than -- California gets a lot of the attention on this and they've got a lot of activity going on. Are any of you seeing other things happening at the state level that are particularly interesting? Either concrete proposals or some of these sort of political coalitions forming around this. Massachusetts has a little bit.

MS. EINSTEIN: So, the Massachusetts Bill, which does a lot of things, but sort of the biggest, and I think most controversial part is, it's trying to overturn this two-thirds super majority and it's trying to essentially make it so that communities that want to make these kinds of zoning changes can. And this is obviously great to make it easier to reform zoning, but I think fundamentally, it's still going to be limited because some of the most expensive and exclusionary places in the state aren't going to magically start coming up with 51 percent majorities in their legislative bodies. So, even if we get rid of the super majority requirement, there are lots of affluent places that are not going to develop. I think we need to be thinking more in terms of preemption, or in these kinds of, you frame them as punitive, but sort of ways of structuring funding so that you have to comply with certain inclusionary policies in order to receive funding from transportation or environmental agencies.

MS. MCFADDEN: I'd add Oregon, which is working on a statewide bill to allow increasing of housing for like duplexes and triplexes in single family zones, not just in its largest cities but in communities with 10,000 or more residents. And I think that really speaks to the pinch that's being felt across multiple communities. We're not just talking about the highest cost cities that need to look at ways to densify.

MR. SCHLEICHER: I think there's been a really interesting division that the West Coast jurisdictions that have had this problem and have it have somewhat longer standing. California was the kind of the original epicenter of this particular problem. Or you see a pro housing politics up at in Washington, in Seattle, particularly and Oregon and the East Coast jurisdictions have not. So, we see in Massachusetts is pretty pathetic. New York does not have any such politics of any sort. It's having a big fight about rent control, but nothing really about housing construction. You saw some at the city level, but not on Connecticut, nothing. And so, you're seeing a really big division and why that is, is kind of an interesting history perhaps, but it's certainly the current state of affairs.

MS. SCHUETZ: Yeah. New York is an interesting one because, of course, New York City has been really expensive even longer than in California has been expensive, but it's mostly been sort of localized to the city. I'm wondering if it's presumably the rural communities, Albany, Rochester are not getting in on this fight.

MR. SCHLEICHER: New York City's been where most people live in New York. New York state is downstate and it's been -- people think New York City is a relatively pro-growth jurisdiction. It's not at all. New York City per capita builds half as much housing in San Francisco. So, it is a way slower growth jurisdiction than even in San Francisco and then San Francisco isn't really the bar you'd set yourself at. But New York is extremely -- its suburbs particularly are extremely slow growth, that there's more housing construction. There was a -- in the mid-2000s, there's a five-year ban where there's a period where there's more housing construction in Newark, New Jersey than there wasn't all of Nassau County. Nassau and that's, the county is very big and New York, New Jersey is not very big. So, you see really, really big -- it's a very, very slow growth jurisdiction over time and really since the 1961 rezoning, which really radically restricted development in the city. Up until then, it had been a pretty (inaudible).

MS. SCHUETZ: Okay. So, I'm going to ask the panel one more question and then throw it open to you guys, so you can be thinking of your questions to ask. Although we, I think, we are agreed to that there's more potential for effective activity at the state level, housing is starting to get more attention in the national political cycle than it's gotten an a very long time. I'm curious if you are hearing things that sound promising from candidates, or if there are things that you would like people to be proposing as they're running for office that they haven't yet said? This is your chance to give free advice to everybody running for president in 2020.

MS. EINSTEIN: So, I think one of the things I'm, as I listened to national level conversations, but frankly, conversations that are happening at the state and local level too, that's been frustrating about housing policy is how much it's been divorced from conversations about climate policy. So, when we have conferences, right, it's either a housing conference, or it's a climate conference. When we hear politicians talk about climate policy, they're not usually talking about housing policy. Alexandria Ocasio Cortez'

Green New Deal, got some early criticism because it wasn't talking as much about transit-oriented development and how do we build more housing in places that are environmentally sustainable. And so, I would love to see if we're talking about sort of the 2020 election presidential candidates that have taken those two conversations jointly and think about those issues together.

MS. MCFADDEN: Having worked in this field for more than 20 years, I can't get over my excitement just that it's being talked about, right? This is so different and so new, it's also really grim, of course, that it has -- the housing problem has become so big that it's bubbled up into the common vernacular. But I think at this stage in the debate, it's just the most important thing that they start to talk about it because there is such a crowded field among Democrats, right, it's not the time to get super specialized about your plan, versus your plan, versus your plan because they need to differentiate themselves from one another. But I would say generally, we want to ensure that there are policies for production of new housing, preservation of existing housing and tenant protections.

Tenant protections are probably mostly going to fall to local decision-making, but really ensuring that there are big policies for big dollar solutions because it's felt all over the country and it's not just the urban cores, but all across all types of communities.

MR. SCHLEICHER: My by venture is that they, instead of running for president, they should run for governor, which should be a solution to some of the problems. But the --

SPEAKER: Well, the mar governors.

MR. SCHLEICHER: The system of the mar governors, yeah, maybe they should stay. Now, the second thing I'd say though, the little -- is that I think that one thing that national leader can do in this area is talk about the national consequence. You've mentioned the environmental consequences, but they're really huge growth consequences. And so that there are a variety of studies that try to estimate the effect of local land use restrictions on national economic activity. And they range in size, but they -- and the variety of assumptions they make, but it's very, very big numbers. Regardless, you're talking in the 2 percent -- sometimes you see 11 or 13 percent estimates. Those are a little aggressive I think, but whatever.

The federal -- but they can talk about the ways in which these states and localities are really hamstringing national economic activity. And one thing when we talk, we put it in the frames about affordability and it's a valuable frame in which to think about housing, but the absence of ability of people to move to where jobs are and the absence of people to capture agglomeration economies by firms moving together because they can hire enough workers really, really limits a national economic output. And that's a -- we were in a low growth economic era. And this is a potential tool for actually spurring real economic growth, which is exciting. And national level politicians can do something in the rhetorical space for focusing us on that big national impacts of these local policies.

MS. EINSTEIN: And that's not necessarily just a partisan framing. This has been taken up more by Democrats, but the sort of pro-growth and pro-mobility, taking down barriers so that people can move between cities to the place that provides them the most opportunity and lets the country grow. There's no reason that that needs to be a partisan issue.

MR. SCHLEICHER: Yeah, except that it does imply the reason you see these big effects is that it implies people leaving some jurisdictions and moving to other jurisdictions and the reason we have some belief that they'll do that is because we see the housing price differentials that if the housing prices in San Francisco wouldn't be so high if people didn't want to move there. And it does imply that what would happen if we were to reduce those things is that people wouldn't live in Nevada, right, they would just leave to go to Los Angeles because it's nicer. Sorry, I'm just insulting jurisdictions left and right. But -- so I think there are some real questions about the regional facts that may inhibit some of this Kumbaya-ishness.

MS. SCHUETZ: Fair enough. All right. So, we're happy to take your questions and as Richard said, identify herself and the closer you can get to putting us in the form of a question rather than a statement, we'd appreciate that. I'm in the back there.

MR. WARWICK: Hi, my name is Daniel Warwick, I'm an advisory neighborhood commissioner in D.C. so, one of the most local forms of government. We're talking about a lot about state preemption of local zoning regulations. I'm wondering how the conversation changes in jurisdictions where the city is the state to a large extent. One, one example would be obviously, Washington DC, also thinking Rhode, which is mostly the Providence MSA. Even New York State, which is the primary population is in New York City. A lot of the population of New York state is in New York City, or even here in Washington DC where our state elected officials are our city elected officials, and our zoning code isn't enforced by our state/city local elected officials. It's enforced by the zoning commission that's partially federal and partially local. So, how do you do state preemption when there isn't always a state to preempt the zoning?

MS. SCHUETZ: Or we could make DC a state and then we would get around that problem?

MS. EINSTEIN: Well, I would say one of the things that sets that sets DC apart is its aggressive pro-housing strategies, right, so, the mayor has committed to affordable housing going all the way up to 120 percent of area median income. And I think that because the need is so dire, folks don't necessarily feel it who are living here in DC, but we're going to see over time a lot more housing coming online.

MR. SCHLEICHER: I don't know that I agree with that, but it's okay. I think the thing is you can imagine citywide deals that take the basic structure of statewide deals that you could imagine citywide changing. And we've seen that there's nothing conceptually that's all that distinct from the Minneapolis re-planning process and a statewide process that tries to incorporate. So, like the California arena process, that gives every place it some elements. The big problem in Washington, the biggest structural problem is the sheer refusal of a large part of the city to allow any new housing of any sort in the richest areas.

That's what makes it like it's possible that DC has fewer solutions because there's no Albany to come in -- Albany wouldn't, but didn't know Sacramento to come in to do something to Ward Three on, but in most places that hasn't happened in those places either. So, I don't know how distinct the problem is in that in many ways.

MS. MCFADDEN: Here's what I think about what makes the political challenges in DC distinct. It's less actually the political institutions and more sort of what's been going on in terms of racial politics and the gentrification of communities of color. I think relates to some of these points that David raised where there are some neighborhoods in DC that have been effectively able to block development and that is concentrated development into communities of color and created, I think a really challenging politics when you tell people, oh we're going to build lots of new housing. Oh where is that going to go and are those newcomers going to look at all like the people who used to live there, or the people who used to live, they're going to be able to stay there. So, that's, I think somewhat it's happening in a lot of other cities, but I think DC is in many respects at the forefront of those kinds of conversations about race and gentrification.

MS. SCHUETZ: Yes. Up in the front.

SPEAKER: Thank you very much. I'm was a local housing advocate in the Arlington County and I would point out that in Arlington County, in addition to extensive single family zoning restrictions, they also have an unofficial policy of non-consolidation, which means you can't bring a number of single family homes together to then site a larger building. But my question actually is, I'm troubled by just a definition of middle class that permeates all of this, which seems to rely on two incomes or more when 50 years ago housing relied on one income. And that isn't to say I'm not in favor of women working, which I am, but I really wonder if you factored middle class by the fact that it now takes two incomes to file in a lot of those quadrants, then isn't the housing issue more national by virtue of taking that into account?

MS. MCFADDEN: So I'll take those. I think it's referring to the presentation.

So, I did not look at the income per person. I was looking at household income together in part because the choice of how many people to include in a household is driven by housing costs. So, in more expensive places, people are likely to find other people to group together. So, for instance, the phenomenon of a bunch of 20 somethings, sharing a house and having a bunch of roommates is almost exclusively a result of high housing costs. And we see that almost entirely in very expensive places. So, it's a valid point that one way of getting a bigger income is having more people work in the family. But it also affects the household formation decisions as well.

SPEAKER: Right, sorry, I'm talking about husband and wife that in a lot of places, whether it's Wisconsin, rural Wisconsin, whether it's rural Wisconsin, or suburban DC, you need two incomes to support owning a house. A husband and wife are both working and part of that reason is to afford housing. Or at least (crosstalk) --

MS. SCHUETZ: And I think this gets into some other really interesting questions. So, inexpensive metro is childcare outside the home is almost expensive as another mortgage. So, this gets into a lot of really complicated questions about choices about labor supply and subsidies for other kinds of things. But it's an interesting question to think about. Yeah. Yes.

SPEAKER: Thank you. International Urban Alliance, unpronounceable name. I thank you for this very exciting exchange. I have a stupid question from my otherwise intelligent person. And that is, what the impact of say, doubling the property tax or heavily taxing the land be on housing affordability, urban mobility, cutting and commuting, densifying the citizen, not the least, funding schools? Thank you.

MS. EINSTNEIN: I will cheat on that question a little as a political scientist and talk about the political consequences of that kind of decision, which will mean that you, as an elected official probably won't have a job anymore if you, you make (crosstalk) --

SPEAKER: (Crosstalk)

MS. EINSTEIN: -- your job individually. So, yeah, I think we can sort of talk about what the optimal level of taxes are and I think the next panel is going to think a lot about property taxes and taxation in general, but politically I suspect that's a hard sell in most places.

MS. EINSTEIN: And I would add to that by saying you were voted into office by your current constituents and current constituents are always going to oppose that, particularly in communities where we see seniors who want to remain in their homes and because livelihoods are going so long may have their money run out during retirement. So, you mentioned accessory dwelling units. One of the ways to sell those locally is to have existing homeowners who say, I want to make room for my kids who are moving back in or I need a caretaker on the property or I simply need the income and it's not going to impact what the neighborhood looks like at all.

I think we're seeing lots of support building for those. But if you have a community even where you can't make that sell to two-thirds you've got a pretty anti-growth (crosstalk).

MR. SCHLEICHER: I think conceptually, it probably would be probably pretty bad for housing construction. The greater local reliance on property taxes, this just like basic structure -- gives places incentive to try to maximize the average property value per residence, go with the fiscalization of land use and in a classic boost Hamilton's results suggested that a grit reliance -- pure alliance on property tax will create jurisdictions that want to keep housing style -- housing consumption per capita exactly even across the populace. So, this would be -- largely be restrictive. And to extent you're talking about local governments raising property taxes, getting a greater share of their revenue from property taxes rather than inter local transfers or sales taxes or where else would probably result in less housing construction.

SPEAKER: Thank you. So, these are European and Asian since --

MR. SCHLEICHER: Oh --

SPEAKER: -- are our main conditions?

MR. SCHLEICHER: I mean, these are -- one of the things you don't see, the sense of a localization of property tax revenue in other places the same way degree you do here. So, it results in a very different political economy.

SPEAKER: Thank you.

MS. SCHUETZ: I think we are going to hear more about the structure of local taxes and the next panel. We may get to them.

SPEAKER: (Inaudible)

MS. SCHUETZ: That's fine. Yes.

MR. BHANDARI: Hi, Ryan Bhandari again. Third way, I had a supply and demand question for housing and a lot of the most desirable metro areas that are also very expensive, San Francisco, Los Angeles, New York City. You have a lot of other rich people in the United States who have second homes there or more often than not, a lot of people who are oligarchs and whatever from other countries that end up laundering their money through real estate, particularly in New York City and Los Angeles and other places like that. So, what, if anything, could you do about that slash/how big of a problem is it?

MR. SCHLEICHER: It's not that big a problem. So, the pieta tier rate has ticked up a little bit, but it's not to the point of having that huge an effect on housing prices. The foreign ownership of housing, it's increased quite substantially. But Lord, whether it's actually foreign or it's foreign registered LLCs, but that actually has no effect on the broader -- because if they're renting out the apartment, it doesn't really matter whether it's a local rich guy are foreign rich guy who's renting out the apartment. The pieta tier rate has increased in some of these jurisdictions. I think in many places you've seen on a very, very, very negative politics and merged from efforts to stop this. So, you've seen in British Columbia a tax on foreign ownership on -- that is, ooh, I would say I'd say had some pretty questionable overtones to the policy, but the there are some discussions about vacancy property taxes. The leasing taxes in order to (crosstalk) --

MS. SCHUETZ: Which we're actually going to talk about it in the next panel.

MR. SCHLEICHER: Okay, I would love to.

MS. SCHUETZ: I'm just going to punt all of the hard gas.

MR. SCHLEICHER: I would say broadly talking about foreign oligarchs as a way upper middle class people in big cities absolve themselves from the responsibility that they're the ones --- we are the ones, I don't know. There's often myself here either jacking up property values because it's hard demand and it's not like some foreign Russian dudes.

MS. SCHUETZ: In the back. (Applause) yeah. Heard the claps.

MR. SCHLEICHER: You knew.

MR. STADIC: Hey, thanks for being here. My name is Alex Dadok and I'm lucky this is my second Brookings panel. I've gotten to attend because I'm in town from Appalachia and Kentucky. And so I was wondering if you all, I mean it's a future of middleclass initiative and we're talking about a big broad topic like housing. But it feels like there's a lot of assumptions that are being made about the kind of housing questions we're focusing on. And I was wondering if you could maybe tie it in a little bit more with some of the structural economic conditions that keep like black and brown people out of housing markets with wealth, for example, that they have and also small cities and even rural areas that have a middle class also. And where -- in our area in Appalachia, the housing market just doesn't work at all because you can't get appraisal values because the -- nobody's building any affordable housing at all in most of these places. And it would just be great to hear if you could take a -- I hate to be that guy, but like if you could take a few minutes for like that other 30 percent of the population that doesn't live in the major metro areas, that'd be awesome. Thank you.

MS. EINSTEIN: So, in part I'm an urban economist and so I study cities because that's what urban economists do. But it's a very good point that housing markets and real estate markets work really differently outside major metropolitan areas in a couple of ways. So, the construction costs are much more complicated because you're not building at large scale, you're doing smaller projects, lending requirements are often quite different as well. We have been focusing mostly on the problem of very high cost places where people can't afford to buy homes, but there are large parts of the country and urban areas as well as rural areas where housing prices are actually very low. And in some sense you have the opposite problem. They're not good vehicles for wealth building because prices don't appreciate and in some cases you can't get a loan to buy a house. So I have a colleague in Akron who says, you can buy a very nice house in Akron for 30 or $40,000. Banks aren't interested in offering mortgages on a 30 or $40,000 home because there's essentially no money to be made in that. It's a very good point.

The future of the middle class initiative is not focused solely on high growth places. So, this panel has been focused on that, but we're very conscious that much of the country spatially and a lot of the people in the country don't live in these high cost areas and there are some very distinct problems that should be addressed. And it's worth reminding us that we need to spend some time on that. So, thanks.

MS. MCFADDEN: I would add, I think that the core of the problem is the same in rural America as it is an urban America that inflation and construction costs have so vastly outpaced wages, right, so, all the people who are working, if just working, whether it's one person in a family or two people in a family just working a job were enough to afford housing, we would probably have enough goodwill to take care of elders, low income people, disabled people are unable to work and we would have our housing problem go away. But that's the stark reality is, it's very different. And to your point about appraisals, I went out to a Kentucky and how to develop or explained to me that it's so hard to bring in capital and get those appraisals, that the first thing they do when creating a development is completely finish two units that the developer finances just to then have some comparables on the books. That's something I find deeply sympathetic about the fact that there's just not been capital out there for construction.

MS. EINSTEIN: I think one other thing that I would add too is, that zoning has absolutely contributed to racial segregation, not just in this sort of high cost metropolitan areas that have dominated this conversation, but across the country. And so, again, I mentioned that we found these dynamics in places like Milwaukee, Wisconsin, which is obviously not a rural area, but it is not one of these high cost metropolitan areas that we've talked about. Zoning is absolutely used as a tool by people, advantaged people in these communities to stop people who don't look like them from moving in. So, I think that's one important point. The second point too is, all of these sort of housing challenges both in rural communities and urban communities have been dramatically affected by federal government cutbacks in this arena. And so when we think about the dramatic federal government retrenchment over the last three to four decades, right, this is why we're having a conversation about how we can reform zoning to build more housing. It's not that we think that this is going to be the perfect solution and that this is not going to be -- we're not going to be able to build enough affordable housing to meet everyone's needs without massive federal government reinvestment in this arena. That's true for rural and urban areas.

MS. SCHUETZ: Yes. On the aisle here, the woman in the jacket. Yes.

MS. KRAMER: Thank you. Ricky Kramer, I'm an independent researcher and also active in redevelopment in Washington to preserve social diversity in our extremely aggressive redevelopment policy. There's been relatively -- because you're talking about the need to increase the supply of housing, which I understand and we're saturated with that discussion. I don't find a lot of discussion now on preservation tactics so that every time, for instance, in Washington we're building you've just cited that Washington is progressive in terms of its concern about building affordable housing. There is no way that the policy, as progressive as they may be in our housing trust fund, which has been pumped up even a little bit more this year than last, that we're going to catch up to maintaining any kind of level of affordable housing. And so with that, those racial discrimination and obviously income discrimination. And Jenny, your data that you presented in the beginning is clearly the problem is that the low end, it's not at the -- in terms of housing, of absolute supply. The problem is the low end. So, I'd just like to hear all of you and I'm sure it's also a question of the next panel in terms of tax incentives to retire, keep retiring affordable housing, which then ramps up the gentrification problems. Just what we do with our preservation in general.

MS. SCHUETZ: I think one just really quick point to make is that we can't build, get private developers to build affordable housing unless they can also build market rate housing. That's sort of those two need to be coming together in order for those projects to be profitable and again, if we're talking about a place where the federal government has massively disinvested from this arena, this is what we're left with in an era of disinvestment is that we need to have market rate housing along with subsidized housing. I don't know if that's what add in on.

MS. EINSTEIN: I would say the federal government needs to double down on its investment. So, we need to see an increase in low income housing tax credits and in HUD programs to spur the development of housing because the middle class is fighting with the lower income folks for the same units because the lower income folks are paying so much to just to be able to find something.

MS. MCFADDEN: That's --

MS. KRAMER: The public housing policy, that's not -- that's a public housing that's allowing the public housing to deteriorate and be essentially taken off, ultimately taken off the market. That is a huge thing that we don't talk about it a lot. And it seems to me, it's just enormous. And in Washington certainly, and in many places in the United States. The IZ, the level of IZ requirement, there's so much lower and I'd like to hear you talk about affordability. When you say that you can't afford, they can't afford to build housing. It's very low threshold in most places.

MS. SCHUETZ: So, we could definitely have an entire other panel on inclusionary zoning and preservation. But we're actually out of time and we want to give everybody a chance to have a little bit of a break before we come back. So, join me in thanking our panelists and then, we'll take about a 15-minute break. (Applause)

(Recess)

MR. LOONEY: Are we ready to go? May I have your attention? We're about to get started, here, for the second panel. All right. Well, thank you, guys, for coming. If the topic of the first panel, today, was about barriers to new construction and how to break down those barriers and to increase the supply of housing, then the topic of this panel is existing housing. How well are we using it, and what can we do to increase the value we get from our existing stock of housing. So, we're going to talk about fees, transaction costs, vacant and unoccupied residences, and other barriers to finding and buying and moving into an affordable home in a good neighborhood in an area that has good jobs.

So, today, I'm joined by three experts on this panel. You have your bios in your handout. So, I will not give lengthy introductions. To my left is Ben Harris. Ben Harris is the former Chief Economist to the former Vice President and current Presidential Candidate, Joe Biden. He, now, has too many job titles for me to list in their entirety, but I'll say that he's a visiting professor at the Kellogg School of Management and the Chief Economist for Results for America. To his left is Jack Ryan. Jack Ryan is the co-founder and CEO of REX. That's a real estate -- a residential real estate company that uses AI and Big Data to match sellers and buyers of homes at a lower cost, and to his left is Jonas Shaende, who is the Chief Economist at the Fiscal Policy Institute, where he heads the Institute's research work on budget analysis and economic policy. He is one of the innovators behind the pied-à-terre tax that was proposed in New York City. That was an idea that captured the attention of New York policymakers, earlier this year, and, I think it's fair to say, terrified the New York real estate brokerage industry, and, so, I wanted to jump right in with some basic facts.

So -- and, Jack, I wanted to start with you.

MR. RYAN: Oh, good.

MR. LOONEY: So, part of what I wanted to talk about today was transaction costs and how much it costs to buy and sell a house, and, so, I wanted to start off with just some basic facts. How high are the costs of buying and selling a house in the U.S., and is the U.S. unusual?

MR. RYAN: Well, thanks, first, for having me. I'm so -

MR. LOONEY: Sure.

MR. RYAN: -- glad that -- to be here with Brookings, and with you, Adam, and with Ben and Jonas. It's nice to be with all of you, too. So, in the prior panel, we talked about transaction costs and how much it costs to move into a home or buy a home, but one of them are totally unrelated to government, proactively, and that is just this huge size of the residential real estate fees. Can you all hear me, by the way? I have a sense I'm going in and out.

(background talking to verify he is being heard)

MR. RYAN: You can all hear me? Okay, great. So, you know, ask yourself the following, some questions, why is it that residential real estate brokers' fees are about three times higher in the U.S. than any other developed country in the world? That doesn't strike you as odd that that would be true, the, you know, the kind of the font of free markets and competition and low SGNA, and why is it that every other consumer facing agency fee in the U.S., meaning stockbrokers' fees, bond brokers' fees, travel agents, taxi dispatchers, they're all down about 80% over the last 10 years, except for one group, residential real estate agents. Isn't that peculiar, and why is it that every -- that the cost of inputs, the labor inputs used, kind of Ben's background in -- as the economist, have gone down for agents over the last 10 or 15 years. No one's asking an agent, really, most people aren't, to drive them around Chevy Chase, Maryland, for eight weekends in a row, for three hours a week, and to show them a home. That input's gone away, and, yet, the fees are still the same. Peculiar, isn't it?

Why would all those things be happening at the same time? Is there some of the industry structure that's allowing that to happen? What are the odds they're all independent, all those are independent events? They're probably very low. There must be something systematic going on, right? Should we care?

This is why I think this is one of the biggest issues facing public policy people, probably in the last 100 years, and you're going to think this is hyperbolic to say this, but it's one -- there's $1.5 trillion of residential real estate transactions every single year. If you use the international standard of a two to three percent to sell a home, the rent that's being charged by residential real estate agents in the U.S. is $60 to $70 billion year.

Sixty to 70 billion dollars a year is getting removed from consumers' pockets to agents' pockets; huge number, and over the next 10 years, probably a trillion dollars, going from middle class Americans to real estate agents, and then what are the knock-on effects? How many more minutes do I have, by the way?

MR. LOONEY: Forty-five. You can talk as long as you -

MR. RYAN: Oh, boy to that. Okay. I'll take them all. What are the knock-on effects? When I was a -- I started at Goldman Sachs a long time ago, and, to give you a stance for how this affects all the adjacent industries, about a third of the U.S. GDP is consumer services.

Most consumer services are attached to buying a home. There's some for manicures and pedicures, but most are attached to buying a home, and, so, when you think about all of the attached services, you get a mortgage, you get home insurance, you get a contractor to fix the house up, you get landscaping, you get a decorator, you buy new furniture.

All those things are catalyzed by buying a home, and, so, when you make that transaction cost really high, guess what happens? The volumes go way down. When I was at Goldman Sachs, it was 12 cents to move a share of stock, when I first started. We drove down the price of moving shares from 12 cents to one cent using Big Data in the, AI. What happened to volumes? The average volume of shares in the New York Stock Exchange went from 100 million shares, when I started, to about two billion a day when I left because the prices went down. What happens when volumes of homes go -- trades go up.

Guess what? More mortgages, more home insurance, more contractors, more decorators, more furniture, more landscapers.

So, all these industries are being suppressed because of this group that are taking so much money from consumers for their fees.

MR. LOONEY: Well -

MR. RYAN: The last two things I'll say about this is just -- because there's a cultural issue and a tax issue. When you suppress transactions, guess what happens? Capital gains tax goes down because the Federal government taxes on capital gains tax. State revenues go down because there's property taxes attached to the value of the home, right? So, when you traded homes, the value of homes go up, and then state and local taxes go down because there's a transfer tax. In most jurisdictions, I find police and teachers and firemen when you traded homes, and the last thing is when it's -- cost a lot to move a -- sell a home, job mobility goes down, and then home ownership goes down because it costs so much to buy a home.

So, this group of people are damaging the economy in ways that I think is trillions of dollars over the next 10 years, trillions, and probably, maybe, a quarter of GMP every year, 0.25%. Anyway, so, I think it can be fixed. We're trying to fix it. We can talk more about that, but I know I'm running out of time.

MR. LOONEY: Well, I wanted to ask a couple of follow-up questions. So, I agree that, in most other markets, that these transaction costs have gone way down. You know, I buy my plane tickets online, now, and my stock trades are, as you say, extremely cheap through an online brokerage, but now there are places, like -- or there are website, like Zillow and Redfin, and why haven't those made a dent in these costs?

MR. RYAN: Well, so, as you know, Zillow is lead generation for agents. You go there to look for a home, and they send you to a traditional agent, and then everybody else, and, this is peculiar thing about the industry, there is the residential real estate agents, who join the MLS, and there's one company that's not doing it through the

MLS, and that's us, but why is everybody else doing it the exact same way, and one is the access to data. The MLS gets the data when you sell a home. They keep it. They hold it for themselves. Imagine if you could not know what the last share traded was for IBM, the last price and the last volume. You can only get it if you join the Goldman Sachs Trading Association.

What would happen to the price of trading shares? It would have never gone down, if you were to ask Goldman Sachs and Morgan Stanley for approval to get the information, right? So, one is the suppression of data, and that we hire data scientists from Harvard, and Stanford, and MIT to help us predict things, and we go around that, but, like, if you're a normal realtor, you can't get access to the data.

The other thing I'll just share with you, a few other things about how the -- why this has happened. If you join the MLS, there's a rule that if you list a home with a MLS agent, you must also offer to pay a bicent agent commission at the same moment.

MR. LOONEY: Sure.

MR. RYAN: They tie those two together by FIAC. To me, it's an illegal tying arrangement. You buy one service, you must buy another, and you're supposed to pick the price that you'll offer the buy side agent at the moment you list the home. That is never modifiable. So, you have to name a price for a buy side agent for a buyer you don't know, and guess how much they might want to pay at the moment you sign a listing agreement, months before you even met a buyer, right? There's so many things that they're doing to constrain competition that results in these fees that are so high, relative to almost any other developed country. I can go more. There's about 20 things that happen -

MR. LOONEY: Sure, but it -

MR. RYAN: -- which is why we're not a member of it, but I didn't want to take all the time on the panel. I'd like Ben and Jonas to have a chance to speak, but I can go through all the things that they do to create the (someone in the background says "monopoly") I'm sorry.

MR. LOONEY: You're saying barriers to competition. So, I can see that position. Well, Ben, to follow-up on that, first of all, do you think that there is a competition problem in this market, and what do you think the broader consequences are of the high transaction costs that are associated with buying and selling homes?

MR. HARRIS: So, transactions costs, depending on how you measure them, are about nine percent of the volume of the price of a house. There's just some similar basic facts, and, so, around five and a half percent of that is around the realtor fee, but we also have origination fees for mortgage. We have transaction, taxes in local jurisdictions is -- vary a lot. In Pittsburgh, they just raised it from four percent to four and half percent, but a lot of cities and states don't have any. There is title insurance. So, you know, all combined, when there's a lot of heterogeneity in transaction costs, but it's around nine percent, nationally, on average, and, so, the question is: is this a problem?

Of course, it is. I mean, the -- a house is the biggest purchase that most households will ever make, and if you're talking about nine, 10% of that, of course, that's a massive cost. So, let's put it in sort of a broader macroeconomic context, and move way, way, way, 30,000-foot level.

For about 100 years in the United States, from about 1880 to 1980, there was a convergence in incomes by cities, right? So, the poor cities were catching up to the richer cities at about 1.8% a year. Now, that's a good thing, right? We want to sort of all see these cities converge together. Something happened around 1980, where this slowed down to about half that rate. They were still converging, but they were converging much more slowly, and then, around the Great Recession, this stopped, and cities just are not converging anymore.

So, why aren't cities converging anymore? It seems -- one reason why cities aren't converging anymore is because people aren't moving anymore, and, so, you know, if you look at mobility patterns going back to 1950, the within county moving, so the rate at which people move within their county has fallen from about 13% down to around six percent. That's a big change. People move a lot less within the county. Intra-county moving, so, moving from one county to another county, has declined from around six percent to four percent. This is a really big problem because before what was happening is people are moving from areas where there wasn't opportunity to places where there was opportunity, and if they're not going to move, the problems of income inequality and income growth become much more challenging.

So, why aren't incomes converging? Because people aren't moving. Why aren't people moving? Because it's really costly to do so, and, so, there's this really good paper that showed that people just are not moving to higher income areas. So, by the way, it used to happen. It used to be, for this 100-year period, it used to be that people would move from poor areas to rich areas. It also is true that capital would flow to poor areas. If you wanted to build a factory, you're not going to build it in the heart of San Francisco. You're going to go to, you know, Allentown, or Gary, Indiana, or somewhere it's cheaper to build a factory, and that would end up lifting up that place, and sort of lead this convergence of income.

So, that's not really happening anymore, and, you know, one of the things that's going on right now is it's just too expensive to move to the high opportunity areas. You can look at janitors, for example. There's this paper and let me just cite a few statistics that can really hammer this home. People get paid more to be a janitor in San Francisco than they do in the Deep South. You get paid more as a janitor, being in New York City, than you do in rural Mississippi, even though you're doing the same work. That's just a fact, but the problem is that the housing costs in New York eat up all of your wage premia and then some. So, you're asking why aren't people moving from the Deep South to -- it is a great opportunity in New York City? Because it's too expensive to live there, which makes sense, but here are some numbers.

So, this paper showed, okay, so, in nominal terms, the wages of -- but, so, here's the other point, which is that for people who are lawyers, it would make sense to move from the Deep South to New York because your wage premium more than accounts for the bump up in housing price, but if you're a middle income worker, particularly if you're low income worker, it doesn't make sense. It's just too expensive.

So, in nominal terms, the wages of lawyers and janitors are 45% and 32% higher in New York, respectively, in 2010, but housing costs are more in New York, and the Deep South for janitors, 21% for lawyers and 52% for janitors in New York. So, after adjusting for housing prices, the premia are 37% for the lawyer who moves from the Deep South to New York and negative six percent for the janitor. So, the basic point is that if a lawyer moves from the Deep South to New York, they get a 37% bump in after-housing wages. The janitor gets a six percent wage cost. It doesn't make any sense for the janitor to move from the Deep South to New York because housing is so damn expensive, and, so, part of it is -- are the transactions costs we've been talking about, and part of it were just the sort of general housing costs we were talking about earlier, but they're -- the story that we're trying to tell, and I'll wrap this up.

The story we're trying to tell, where the United States is supposed to be this land of opportunity, where people can move from poor areas to rich areas. The big barrier right there are that housing costs are just too high for them to do that, and that's, you know, that's one of the biggest barriers we're facing. I agree with you. It's one of the biggest economic challenges of our time.

MR. LOONEY: Thank you. So, I will -- I wanted to explore, next, a slightly different barrier to affordability in these cities, and I'm going to ask Jonas a question about his -- the debate around his pied-à-terre tax. So, several cities around the world, like Vancouver, Singapore, Paris, all tax vacant properties or second homes at higher rates. D.C. has a tax on vacant property, for instance.

You proposed a wildly discussed pied-à-terre tax in New York that would've applied to high end homes that were second residences or vacant, and before going -- before talking about the details of that proposal and the fiscal consequences because it --

part of it was a revenue proposal and into finance. Part of it was also an effort to, especially in other places, to affect the housing market, to make sure that all the land is being used, and, so, I just wanted to start off with a question of how much vacant or underutilized land is there in some of these big cities, and, in other cities, what has been the effect of trying to encourage more of that -- those properties to be used for local residence?

MR. SHAENDE: This is a good question. Well, you see, the rise of the cities that we have now is not a new development. It's been going on for a while, and the problems have been international, and they've been observed in other places, and, in the United States, I think the progression is quite interesting because, for a large portion of American history, it's been a very agricultural country with a lot of land, a lot of resource, and a lot of people think about the United States as a country with a lot of space, you know, a lot of living space, and then we became more industrial, and, of course, that made some cities more important, you know, strategic, a location near the iron ore, mines, and so on and so forth, distributional centers, like Chicago and all that, and, as the economy is becoming more service-based, we don't need as many people, first, and we get a lot more concentration.

So, a lot of other places have been dealing with these kinds of problems, and what happens, usually, when the cities rise and they become very prominent destinations for business, and commerce, and finance, and construction, and services, and lawyers, et cetera, the ecosystem, the economic ecosystem, of those places becomes a kind of a very good insurer of property values. So, you may not want to live there, but if you want to park your money, those are the places to go.

So, what other places? Mumbai is probably a very, very good place. Paris is a good place. Everybody wants to be in Paris. New York, the, you know, the home of the party, the rent is too damn high party. There's a place like that. Everybody wants to be in New York, I think, supposedly, and, so, that creates, you know, the disparity in how many people own multiple units, and have their living situation all fixed, and how many people are struggling, and, of course, in smaller places, like Vancouver, that is the first such policy innovator in a pied-à-terre tax, you know, that they have there is a very interesting to look at.

It's much easier to notice that something is going incorrectly, right? So, Vancouver residents, they decided, well, with the politicians, they decided to charge a one percent empty home tax, and the tax on foreign buyers. So, there's this -- and a lot of places are like this, single porters like this, and it's a small place. So, they try to make sure that the local residents are able to live somewhere, and they have a very strong public housing program, there, as well.

So, what other places are doing, normally, they have the second home tax, and they have a foreign buyer tax, or a form of a foreign buyer tax. So, in the city of New York, we cannot afford it. So, we cannot charge a special tax. It's going to be unconstitutional for, you know, foreign buyers, but, the second homes, we can do that. Now, of course, our proposal doesn't go as far as to prohibit multiple homes being bought and owned. It's not intended to move the market in a significant way, but it was part of the discussion of the infrastructure debate. You know, the subway system that we have is crumbling. So, it was just part of the discussion to raise some revenue, and help a little bit, you know, to do that, but I think the discussion could be broadened, and we can have a really, I think, strong conversation about whether or not the markets are designed properly to deliver the types of outcomes that we would want.

MR. LOONEY: Well, so, in New York, I mean, New York is, obviously, a big market, but, in Vancouver, my sense was that the -- when they imposed that tax, it had real effects on the market.

MR. SHAENDE: It is very difficult to say what really impacted the market. Is it the foreign buyer tax, or is it the pied-à-terre tax, but there are some articles about what is going on there, with their real estate. So, the benchmark prices went down by eight percent, eight and change percent. Is that because of the problems with the Chinese demand, or is it because of something else? We do not know. There are some articles, also some reporting, that, now, all those pieds-à-terres become very affordable rentals, right? So -- and even students can afford them. So, that, I think, is a positive development.

MR. LOONEY: Sure. A question on the earlier panel, I thought, was are the Russian Oligarchs responsible for the rising New York prices? It sounds like, in that market, the answer is no, but in a small market, like Vancouver, it seemed like the influence of foreign buyers was much larger, and, especially when they were keeping those -

MR. SHAENDE: I wouldn't be -- look, you know, I would not be dismissive of that comment. I think it has a great validity, but, you know, but the way markets are, usually, if there is a very strong demand at the top of the market, and not everybody's going to be able to sell those kinds of units, but they are going to be produced, right? So, it attracts the productive resources from other segments that could be delivering more affordable options, more economic options to, you know, lower-income people and middle-income people.

So, there is a role that the foreign buyers play in New York, the, you know, the Oligarchs, and absolutely shady characters that could buy real estate with questionable funds and not disclose where the money is coming from.

MR. LOONEY: Oh, yeah. It was the Delaware LLC, or something like that. The, you know, in some sense, when you motivated your -- in the paper that motivated this tax, in some ways, you treat -- the tax treats vacant property almost as like a negative externality, something that's like a black hole in the neighborhood, and that should be, in some ways, taxed away.

I mean, I can see it multiple ways. So, on one hand, these non-resident buyers are paying property tax, and they're not necessarily using local schools, and they're not necessarily, you know, wearing and tearing the local streets -

MR. SHAENDE: Yeah.

MR. LOONEY: -- but what's the other side of that? I mean, like what are the -- what are you -- what would you hope to achieve if more local residents lived in those places?

MR. SHAENDE: Well, a tax is a tax, right? So, it doesn't solve all the problems, and it shouldn't solve all the problems, but, as I said earlier, you know, the entire economic, you know, environment around those properties is conducive to the property values increasing and being shored up.

Well, what we'll lose, if we have a lot of empty condos and houses, we lose the 24-hour community. So, we don't have as much, or we have less of the civil and civic, you know, engagement there, and, if you walk down the street, many areas in Manhattan, you know, there's nobody there after a certain hour, right? So, of course, it's a busy -- it's a busy place that a lot of -- there are a lot of, you know, businesses, but all those businesses that -- they need to be sustained, and not just -- especially the local businesses, the restaurants, the Mom and Pop shops, as they're called. They need to be sustained by more hours of people going into them and buying stuff than they are currently.

So, we have this, I think it's a rolling story, in New York, that the long-time restaurants and small businesses, they just shut down, and -- because they cannot, you know, they don't see that demand there. So, their services are not needed, and all we have in many such places. It -- well, in many neighborhoods around New York, all we have is, you know, national chains, and banks, and pharmacies, which are, of course, very good businesses, but the character of the neighborhoods are changed, negatively.

MR. HARRIS: I mean, you, really, you have got an economic argument for this, and you've got a political argument for this. The economic argument is that if you were going to design your ideal community, it would never be absentee landlords who lived, you know, 6,000 miles away, and just happened to show up once a year. I mean, that's not the idea of community that most of us want, and, so, what do we do in economics if there's something which is bad or harmful? You know, we tax it. We tax. We tax cigarettes, we tax soda, in some places, and, so, why not tax people who only show up once a year.

The political side of this is that -- and, so, in 2016, we went to -- when I was Vice President Biden's Chief Economist, we went on a sort of a state trip to Australia and

New Zealand, and Australia was remarkable because, you know, we were in Sydney, and the city real estate prices have just shot up over the past several years. I don't know why, but everyone in Sydney thinks it's because of the Chinese. So, you would get into the -- get into a taxi, and the taxi driver would say, "Can you believe what's happened to our real estate prices? It's all the rich Chinese." You would go, you know, you'd get your hair cut. They're talking about how the Chinese are driving up their real estate prices. You go to a state dinner, and they're talking about how the Chinese are driving the real estate prices. It's a really politically convenient thing to do to tax the rich Chinese investor.

No one likes taxes, but, if I'm a politician and I'm not, and I'm a politician in Sydney, it's a lot easier to levy this pied-à-terre tax than it is to boost property taxes on native Australians. That feels like a much harder thing to do.

MR. LOONEY: I mean, in New York, you struggled with this tax, right? At the end of the day, it felt like it was beaten back by the real estate industry. At the end of the day, it was enacted as a one percent transaction cost instead. Like, what do you think the barriers are to getting these things done?

MR. SHAENDE: Well, I think we need a wider discussion about this. You know, there's just -- I was very surprised with the level of attention that this proposal got. It's been around for a while, but this, you know, this -- by this year, we needed to find some money in New York to fund the MTA, and, so, this was the part of that discussion. Yes, of course, you know, the one, you know, the sales tax, right? So, which we got, which is a one-time tax that the buyers of properties over a million dollars' worth are going to be paying, and, of course, it's not nothing. I think it's a good start, and maybe we'll -- we could revisit this question at some, you know, some next time.

MR. LOONEY: I think -- well, I think your timing was helped by someone buying a $238 million condo, right?

MR. SHAENDE: Right.

MR. LOONEY: Yeah. So, that enhanced the attention.

MR. SHAENDE: Well, that property, actually, the market price, of course, is $238, but the taxable value is only several million dollars. So, there's a huge difference between the, you know, the amounts that are paid in transactions, and what the city and the state get.

MR. LOONEY: And those are development incentives? Is that what the reason is?

MR. SHAENDE: Well, it's a combination of a lot of things. So, there are some abatements, of course, that the buyers get, if it's a new property, if it's a newly constructed property. So, there's that, but, also, New York has a very complicated property tax system that doesn't evaluate a lot of properties, you know, condos and coops, as houses. So, we evaluate them as comparable rentals in the area. So, I do not know what the $238 several story apartment is -

MR. LOONEY: In a rent form.

MR. SHAENDE: -- is comparable to, and how much it would rent, you know, for -

MR. LOONEY: Come on.

MR. SHAENDE: -- but that's the system we use, and it's -- and it needs to be, again, looked at, and maybe reevaluated, whether or not it's a good system to have.

MR. LOONEY: I mean -

MR. SHAENDE: Probably not.

MR. LOONEY: Yeah, probably not. Probably not. The traditional way we think about the influence of taxes on homeownership and affordability is through provisions, like Prop 13, in California, where we have reductions in property tax rates, or, at the Federal level, we provide deductions for mortgage interests and a deduction for state and local taxes the Tax Cuts and Jobs Act just capped those at $10,000. So, in many high cost -- well, it capped the deductibility of state and local income taxes. It also placed limitations on how much mortgage interests you could deduct, and, so, I think in a lot of the coastal cities, in particular, there's a concern that this is impairing affordability, and, so, I wanted to get your take about what you think that this -- that bill did to home prices, if anything, and what that actually means for homeownership.

MR. HARRIS: So, the bill did three things. It, as you mentioned, it reduced the maximum price of a mortgage, on which you could deduct interest from one million to 750,000. Although, mortgages were grandfathered in. It capped the amount of deductible state and local taxes, including income taxes you could deduct at 10,000, but the big thing it did is it doubled the standard deduction, roughly doubled the standard deduction. It just killed itemization, right? Over -- and people are still sort of, I think, realizing this as they're getting their tax returns back, and filing their taxes, but the rate of itemization fell from, for middle class families -- the rate of taking the mortgage interest deduction for middle class families fell from around 20% down to around seven percent, and for those who -- that were in the fourth quintile, it fell even more, and, if you look at those taking the state and local deduction, you saw reductions from around 50% for sort of middle income families, down to around in the high teens, I think.

So, TCJA just killed itemization. Now, the question is did it impact housing affordability, and it depends on who you ask. It depends on -- do you own a house, or are you wanting to buy a house? If you own a house, it's this, sort of, this negative windfall, right? So, now the house, which you've bought under the prior tax law and expected to be able to afford under the prior tax law, now just became more expensive, but that's all capitalized into the price of the house. So, if you're looking to buy a house, you don't own one, it might be a bit cheaper, and, so, you have this sort of complicated price effect between people who own houses and who don't. You also have this complicated price effect between expensive areas and not very expensive areas.

So, if you're comparing, for example, a coastal city, where you have a really high price to rent ratio, where you have really high -- like New York, New Jersey, a lot of people are taking the state and local deduction. There were itemizers before. You know, that price impact is much stronger than it would be in somewhere in the heartland, or somewhere else, where incomes tend to be -- can be lower, and we're already seeing some evidence to this.

So, the New York Fed went ahead and did some analysis on this, and they were finding price to rent ratios are converging really sharply in the wake of TCJA.

So, I think, that there's already some antidotal evidence, not necessarily academic evidence, but pretty solid evidence by the New York Fed that prices are coming down, or being capitalized into coastal cities, which, to me, feels fairly unfair to people who purchase a home under a certain set of laws, but might be, you know, good news for someone who's hoping to get into a house.

MR. LOONEY: So, in New York, when the pied-à-terre tax failed, they went with a transactions tax, and, so, I wanted to turn to this topic of transaction taxes, or transaction fees, for a second. Those seem to be like widely used sorts of taxes, and also the fees that we pay to realters seem so high, and, yet, I'm wondering why this is, and I speculate that it's because people buy and sell homes so rarely that they just don't notice these fees, or that they -- when you own homes. I mean, I've never sold a home. So, I've never actually paid a broker's fee, since it's myself, and I've only paid this transaction tax in D.C. one time.

Why do these -- why does this sand in the gear of the market persist?

MR. RYAN: Well, I'll take -- I'd like a crack at that. You know, one is the point you're making. People buy or sell home, one sense, every seven to ten years on average, and it's pretty complicated, and, so, they don't spend a lot of time thinking about it, for seven or eight years. All of a sudden, all at once, you have to think about buying a home, a broker's fee, a mortgage rate, insurance, title, escrow, and it's almost like it's too much to handle, and you need to move into a house by a certain time. So, you just kind of pay the man, to use the phrase, right?

You just get it over with, and all those people, along the way, you're dealing with are unsalaried, totally commissioned people. You're the mark. They know you need to buy a home within two months. They know that you only do this every -- once every seven years. They know everything, and they're totally commission driven.

So, it's a very bad, asymmetric knowledge battle going on there. The other thing that I'm surprised the FTC let's people get away with is what I -- economists call lying prices. They let allow people -- lay people say that, "Hey, list your home for two percent." even though the total -- no one cares to list a home. They want to sell their home, right?

What good is it to list your home? It doesn't do anything for you, and to sell your home is actually, you know, five or six percent because you got to pay this forced broker's fee of three percent, but you're not -- they don't allow car dealers to say, "You know, come on, get into a minivan on my lot for $20,000. You can't drive it off for less than $40,000 but come in this. Sit in that in the lot. The engine and the steering wheel are separate." Right?

The FDC stopped that a long time ago. They said no more listing the, you know, the half price for the car, all in, drive off a lot, you got to put it on the ad, right? Same with consumer electronics, no longer to say tv is available for 100 bucks. Come and get it. You get there, and there's no tv for a $100, and they want to sell you a $500 one, but you see all the time, "List your home for two percent," and not telling you the other half of the transaction is when you want to sell it. There's a three percent fee, or bigger, to the buyer -- value of sidation, right, and the other thing I'd just like to highlight, one more time, is because of this kind of economist version of what's called lying prices, is I think it's one of the reasons why there's the residential MLS industry, all of them, kind of the big blob, and then there's us, by ourselves.

Why are their fees all same, processed all the same, speed all the same, transparency, all the lack of the same, and there's one company doing it totally differently? By the way, it's called Rex. We're moving to Washington D.C. this week, just want you to know, but why would that be true? So, anyway, I think a lot of it has to do with transparency of information because consumers only get themselves involved in this every seven years, and they don't know a lot, and all the information is being husbanded in by those, who does, every day, for a living, are totally commissioned, driven people.

Not that they're bad people, but the incentives are totally different. The focus, the attention, the knowledge, the asymmetry is traumatic for the people buying and selling a home.

MR. LOONEY: Well, I mean, in a lot of those markets, where the buyers are -- don't have a lot of information, and are, in some ways, victims of those with better information. We have a government regulator or a policy that we implement, and why is there not something like that, or, I guess, first of all, is there a role for that, here, and, like, what role would that be, and what are the barriers to that?

MR. RYAN: Well from my point, and from a governmental point of view, just like the SEC does with stocks and bonds, is you got to disclose the price of which something sold, within some -- a quick period of time. If you could keep that, all the information to yourself, and not share it with anybody else who's in the public, the fees would never drop for any of the stocks, bonds, travel agents, anything.

So, you know, just put the information out there, and once the information gets out there, consumers have proven, now, to be really smart. Once they have the information, the data about stocks, bonds, track tax dispatchers, travel agents, they'll make the great determination. They know the other homes have traded in the market. They know what price they sold at, and the prices -- the transaction costs will come down really quickly.

Now, I know this is more about just the real estate transaction cost, but just think about this as, like a flat four or five percent tax per transaction, relative to the International Market Place. Then, sometimes, then there's the state taxes, and the property taxes, pied-à-terre tax, but all these, you know add up, but the pied-à-terre tax, which is getting a lot of attention, is one percent, right? Is that what it is?

MR. SHAENDA: One percent.

MR. RYAN: One percent. The amount that is being paid for by -- to U.S. Brokers versus the national standards, probably three to four percent.

MR. SHAENDE: Yeah.

MR. RYAN: That -- we should have four times the attention that you've gotten, but it hasn't yet.

MR. HARRIS: I mean, so, those are two really different questions, that you posed in the beginning, and then we've just sort of piggybacked on what Jack was saying. One is: so, why do we have transaction taxes when you buy and sell a home? I mean, you know, we tax a lot of things we think are good. We tax wages. We tax investments. Those are all good things, but we have -- the money has to come from somewhere, and maybe states that are in localities are doing it because they want to diversify, and, as I said at the beginning, there are a lot of cities that don't have these transactions taxes, but, also, it's a salience issue.

So, we know from other studies. For example, when we used to have to sort of reach into our glovebox, when we went through a toll, when you're driving, and take out the six quarters, and throw it in. Then, we shifted to these little white boxes that you put on the front of your car. You don't really think about it; you just drive through. You knew that people, sort of -- the perception around those taxes changed. It was, well, easier to pay it. You didn't think about it each time you got an automatic payment on your credit card, and from (inaudible) and others, we know that, that people became less sensitive to the taxation. We became less salient, and, as Jack said, with transaction taxes, maybe you're going to pay it once every seven or eight years.

You're going to get it, along with a million other fees on your -- it was formerly the HUD-1, and you just don't think about it. The question is so why do we have these persistently high realtor fees, and there is some decent evidence that there's lack of competition in the real state market. So, there's a couple reasons why. So, one, so (inaudible) recuses economists at Cornell, looked at the impact of people, or realtors, when they dropped their fees, right? So, all else equal, if you can sell a home for 5.7%, instead of six percent, you should go with that, but the problem is the one I'm steering. So, when you had discount buyers' fees, you saw that they were being steered away, sorry, yeah, discount buyers' fees, right? They're being steered away from those homes, and the volume went down, the likelihood of selling the home went down, and the amount of time that you would sell the house went up.

So, there's this sort of natural disincentive towards offering a lower cost, which is that the realtor would be steered away from the home, and they looked at 650,000 transactions, this was Nationwide, and they found pretty systematic steering going on, and what's happening, too, in another sort of indication there might be anticompetition in the realtor market, is that there's bunching around certain prices. So, it's very common to have your -- the buyers fee be 2.5%. It's very uncommon for it to be 2.4%, right, and so when you start of see bunching around prices, that's sort of suggestive of anticompetition, and that could be what's going on here.

A third thing, which is happening, is, at the state level, there's some state laws which definitely inhibit competition. So, in many states, you cannot get a kick back from your realtor. Right, so, if your realtor says, "If you're a buyer and you say, 'look, you're going to get three percent,' how about you give me one percent?" That's illegal in some states, which is crazy. Why is that illegal?

In other states, you can't have a la carte pricing. So, in some states you can't have say, "Look, I don't want the full package when I buy and sell homes. I only want part of it." That's illegal in some states. There's no economic justification for that. So, your initial question was a great one, but it really depends on if we're talking transactions taxes, or if we're talking about realter fees. The forces driving those up are incredibly different.

MR. LOONEY: Fair. The -

MR. RYAN: You know what's just fascinating about this though, and this is what we learned when I was trading at -- for Goldman, and now we do it for homes, is on the steering issue, is if your marketing to an agent, the agent's allowed to steer because they control the information. When you took out the New York Stock Exchange Floor Broker and did high frequency trading or selling, you went to the consumer directly, and say, "Do you want to buy a million shares of IBM at 72 and quarter, yes or no, and what price did you want to buy it?" and the computer stores it. If you can go directly to the consumer, go around the agent, directly to the seller, which we do at Big Data and AI, you can find the buyers, and say "This home is available. Would you like to buy it or not?"

Whatever answer they give you, no answer, "Yes, I do," "No, I don't." the computer gets smarter and smarter, and gets this called reinforced learning, and realizes who are the better buyers for this home, based on the feedback they got from the first deployment of the information. I think as we move to the Big Data IA world of marketing homes, the steering problems are going to go away because, even if an agent were to get in the middle somehow, and tell, like, a buyer, "Do you really want to but that home? I think there's a nuclear dump waste next door." because they did not get the fee they want. They don't know we dropped a cookie on the person who came to see the home, and the home -- an ad's flying around saying open house, you know, next week, or there's a map of the property next door, if they -- so, they can't -- so, they can see there's no nuclear waste dump next door, or if the agent said the home is not for sale, well, why is there a ad following me around saying open house tomorrow?

So, the Big Data and AI, which we're a Big Data AI Company, can -- we can predict the seller, predict the buyer, and then, the last model of the transaction, humans still have to do, but I think technology solves some of the steering problem, but some of it still is this agency problem, or the buyer's agents paying -- they -- being paid by the seller. You don't have steering going on if the buyer's agent's paid by the buyer. You only have a steering problem if the buyer's agent is paid by the seller. By the way, in what sense is someone a buyer's agent, when they're paid by the seller? Right, you never allow in a court, a court of law, that the defendant's attorney is paid by the plaintiff's attorney, right? That would never work -

MR. LOONEY: Yeah.

MR. RYAN: -- but this is the part of the forced linkage, when you say, “If you sell a home, seller, you must pay a fee to a buyer’s agent.” allows the steering to occur, and, so, once you break that, the steering would go away, but in the meantime, I think, you know, we’re a Big Data AI Company. We can predict the buyer, and then avoid the steering because we’re not using the agent to find the buyer.

MR. HARRIS: And as the panel says, it’s the bundling that the fundamental problem -

MR. RYAN: Yeah, the bundling is the problem.

MR. HARRIS: -- is the fundamental problem. That’s her point of view, and there is regulatory attention being paid to this. So, the FTC just had a public meeting. They invited comments on this issue. It was an issue, you know, 10 years ago. They’re revisiting it. So, there is some Federal regulatory attention being paid to this issue.

MR. LOONEY: And do you think they’re going to make progress? I mean, you think the -- is it, I guess, first of all, is it the FTC’s job, or is it DOJ’s job? Like, if this really is as he says, a monopoly that’s being, you know, perpetuated illegally, or through some sort of collusion, like what’s the -- what is -- what do the regulators do?

MR. HARRIS: So, I would never want to get in the middle of the FTC, DOJ, jurisdiction discussion, so.

MR. LOONEY: Yeah, no fair.

MR. HARRIS: I want to point on that one.

MR. LOONEY: Okay, but you think that there’s not a (overtalking)

MR. RYAN: But I think the advertising issue, can you say I’ll list your home for two percent or something, when you really know the cost is five or six percent. That seems to be an FTC issue. I could be wrong, but, you know, false advertising. On the who’s responsible for breaking the forced tying arrangement, when you list a home, you must also pay for some buyer's agent, whether a buyer needs them or not, you have to set the price for that buyer's agent at the moment you list your home, not knowing if the buyer needs an agent or not. You're always told, but it must be three percent, and you don't want to scare anybody away, right?

I think that probably is, I don't know, it might be a FTC, DOJ issue, but it certainly falls in my view of Sherman Act problem when you have forced tying of services.

MR. LOONEY: I'd like to ask the audience if they have any questions for this group. You sir. Is there a mike? There's not a mike. Well, can you just stand up and -

MR. HARRIS: Yeah.

MR. LOONEY: We'll be quiet.

MR. POLZER: Karl Polzer. We're working on issues of (inaudible) So, on the issue of taxing an empty unit, that's an idea for Trump and Putin. You have a group of people with this tax that going to be interpret -- oh, you have a -- this is for Trump and Putin. I don't know about Biden.

So, you got these -- the tax fold will disadvantage a group of people. So, they oppose it, but there's no winners. So, what if you make the tax higher, and you waive the tax if the Oligarch who's saying he's just buying it for insurance, right, in case he has to leave the country. He doesn't want -- need it to live there, if he leases it to a family, a young family that lives in New York, and only charges them 30% of their income, and then you put, you know, no pets, but, I mean, like, there's got to be some people -- maybe the Oligarchs can help us fill in these empty spots, and they can get -- I would make the tax higher and give them an option, and also on the -- why are these, you know, I give money to my local state representative. He's a lawyer for the real estate industry, and he's in the state legislature, and, my guess is, there's a million little fees, and things that they have in ensconced in state law that support this whole five percent array of services that you have to have. So, I wonder, have you run into that? So, two different questions, sorry.

MR. RYAN: You want to go first?

MR. SHAENDE: Well, you know I probably would place no trust or hope with the Russian Oligarchs, at this point, but, of course, it's a, you know, it's a question of how to, you know, best engineer the tax, you know, how to apply it best. I mean, there are some other, you know, ways of doing it. Let's say, increase the profit taxes for everybody, and then provide, you know, the abatements on, you know, tax discounts, on the properties that are the primary residents of the people, all right? So, it's possible to do that, you know, this way it possible to, you know, to tie, say, the revenues from this to public housing, and other stuff like that. So, it's possible to do that, and, of course, that is the discussion that needs to be had.

Now, I think Jack knows a lot more about the fees, but, you know, every New Yorker is little bit of a real estate agent. So, you know, real estate is not stocks, right? Because they're not uniform. So, there is a lot of physicality there, a lot of variables. How do you compare an apartment that has 700 square feet, and has the balcony, and the one that doesn't have a balcony, or the one that has a southern exposure, and the northern exposure, and, so, these are all variables that are, you know, the -- of the array of these variable is, you know, is so large that, of course, the real estate agents are the ones that, you know, that horde that knowledge, and knowledge is power, and power, of course, is translated into more profits, but I think -

MR. RYAN: Well, this probably is Ben's territory, but, you know, every asset is substitutable in the real estate space. They're not identical. They're not commodities, but there substitutable, and humans, all the time, are making judgements about the southern exposure verses northern exposure. It turns out that the computers -- we run billion of algorithms, you know, per day. You take all this into consideration, and can give you good sense for what a home is worth, as long as the information is available, all right? You just need the information.

It wasn't -- this was not true seven years ago, five years ago because the cloud, the cost of storing data gone from five dollars a gig to half a penny a gig.

MR. HARRIS: Mm-hmm.

MR. RYAN: So, you can -- we have an infinite attic that stores as much information as we want to, can run algorithms against information in real time, deploy against the algorithms at a hundred millisecond, get the response back, and redeploy a new algorithm. Anyway, so, the point of this is that you can have a million variables, and we can still make a prediction, and change a computer in real time against prediction about who's the right buyer for this home, what this home is worth.

Having said that, you were referring to the state legislator. The state legislate -- and it's very interesting. For instance, Ben was saying that some states say you can't get rebates. New Jersey is an example. We give, you know, there's huge fee that goes to the buyer's agents for many people it worth it, and many people it's not. Everyone's looking at the home on their own, and, so, and truly they have an agent open the door, and the agent got three percent of $800,000, $24,000, to open the door.

Can't we give a lot of that money back to the consumer, to the buyer? We try to rebate half or more back to the consumer. New Jersey says that's illegal. We can't give money back to consumer, that sounds odd. Why can't we do that? What's the public policy for that? So, this is the point you were making, Ben, about -- in certain states, I think, you were talking about regulatory capture. The regulator managing the industry is actually part of the industry, maybe, is what you were referring to. Why would that be true, you know? So, why is it that some states legislators say you can't rebate the fees to a consumer?

MR. HARRIS: Yeah. I don't know why. I just know that it is anti-competitive.

MR. RYAN: Okay.

MR. LOONEY: I think New Jersey was also the state that -- where you couldn't buy a Tesla because you had to buy all your cars through a dealership. So, they like their middlemen a lot there. There was another question. Yes, right there.

MS. CONTOS: Hello my name is Maria Contos. I'm 29 years as a realtor.

MR. RYAN: Yay.

MS. CONTOS: So, I wanted to defend. For 25 years, I had my own firm in Athens, Greece. I know the European Real Estate Market very, very well, and now I'm working with (inaudible) here in D.C.

MR. HARRIS: Hey.

MS. CONTOS: So, I would like to say that the reason we have realtors is the same reason that you have lawyers, meaning that you could not imagine -- I see -- I have seen the smartest people, in the luxury market that I work for, say the dumbest things when their emotionally involved, and they want a specific home, and the same stands for the sellers. So, the reason that agents are here, and we are charging a fee, which actually, we charge the fee. We might show 100 homes to a 1,000 people, and we are getting paid only for the deals that we close. Is that because we can eliminate the emotional factor out of the buyers and the sellers?

And what I want to say is, that the case, here, in the U.S., are not as high as they are in Europe. In Europe, they are divided between the seller and the buyer. They can be even higher, and I would like to say something to you because my brother is the acting CFO of the IRS, right now, and also a professor (inaudible) public economics, is that U.S., right now, is a very safe and regulated real estate market.

All these wealthy people, which is my market that I work right now, from Europe, from Russia, and all these countries, they are going to come here, and they are coming here. So what you're going to do -- taxation is a different thing. Find ways to tax them because, of course, they haven't paid taxes all these years in order to come here and buy real estate, but it's a fact, and the more unstable the European market is, all these clients are coming here. Thank you very much.

MR. HARRIS: So, I'm really glad you made that statement, which wasn't a question, but it is important because you raised a question of -

MS. CONTOS: I wanted to be fair, now.

MR. HARRIS: -- yeah, no -- yes, but, I'm glad you said this.

MS. CONTOS: (overtalking)

MR. HARRIS: So, from my perspective, realtors provide a service, and should be compensated for that service. My -- I've bought and sold four homes, which is far too many, but, and I had a realtor each time. She was ivy -- she's ivy league educated. She went to Brown. She's in creditably smart, and she's saving some -

MR. RYAN: She went to Brown?

MR. HARRIS: She went through some really bad decisions. The problem is not that realtors are compensated for providing the service. They should be, absolutely. That's without question. The problem is that we have a market that discourages being able to offer differential prices for that service. So, the problems we have in market, which, basically, makes it very difficult to set at 2. -- I think other than 2.5% or two percent, for the purchase of a home, and if we had a market that it said, plumbers are all paid $20.00 or $200.00 for a certain service, and we didn't allow them to work the market to work the way it's supposed too, and have differential prices for the plumber, if I couldn't compete on service for my plumber, that's the real problem.

It's not that we have plumbers in the first place, because, of course, we need plumbers, the problem is we can't compete over those prices for services, and there are certain institutional barriers in the realty market, which make me concerned that we can't compete over those prices.

MS. CONTOS: You are right, because I -- oh, excuse me. We have really high costs from -- in order to list a home, and sometimes I'm getting paid the same percentage as some bad agent is getting paid. The thing is, and I have answer for that, coming now and relocated to the U.S. market for the last three years, from Europe, is that United States Market is a very firm market. It's an open market, meaning that at the end the bad agent is going to be at this side. He's not going to have work, and I think that if you work hard, in the United States, you are getting compensated, and you are getting what you deserve. So, I think, that's the answer, and I thought about that many, many times, as I told you, because I relocated recently, why me, or somebody else, and you have thousands of agents here, especially in the D.C. Market. In Europe there are much less agents, but this is the answer. I mean, the good is always going to survive, the bad, the market is going throw him out.

MR. RYAN: Well, I just want to say two things; one, thank you for saying what you said so politely, and so nicely. I really appreciate your thoughts -

MS. CONTOS: You're my worst nightmare.

MR. RYAN: -- but the generous way -- you are awesome. It was fantastic. So, there's good agents, and some maybe worth five or six percent. I'm just echoing Ben's point, that it's hard to know. For instance, you're selling a home in the Bay Area, should it cost you five or six percent when the home gets sold in three days for three million dollars to sell that home? Could you -- why can't you sell it for -- pay the seller agent half percent and nothing to the buy side agent because the day after you list it, 50 people are lined up to by the home, but no, that fees still five or six percent.

So, it's not that that shouldn't be the -- for a right fee for you because I'm sure your very good at it, for the right homes that you sell, but why is that true everywhere, to Ben's point. It doesn't seem to make any sense, and, so, I think there'll be people, like in the stock market, the people who charge you a lot and do a really good job.

MS. CONTOS: Exactly.

MR. RYAN: There will be E-trade that does very little for you, but you're very smart, and it will be e-trade that does very little for you, but you are very smart, and great, use e-trade. There should be a variety of services price, which you can choose to use those service, and there isn't right now, other than us, to do that. So, that would back my point.

MR. LOONEY: All right. There was a question -

MS. CONTOS: Thank you. Thank you.

MR. LOONEY: -- right there. I -

MS. ROSALIE: Hi, my name is Rosalie. Again, we were talking about buying and selling houses, but I was wondering the renter's point of view, and then U.S. Housing Policy was traditionally favored to homeowners, and I was wondering what would be the long term consequence of lack of Federal level attention for the renter in, like, each of you, like I want to hear about your personal thoughts, in terms of the future of middle class initiative. How does this affect to the economy mobility? Because, for example, like if student -- if you are paying one third of your income into housing cost, and you either have to eat, you have to transport, like transportation costs, and there's not enough money to save, or for the future, so, yeah.

MR. HARRIS: So, this is -- this -- I think this is a really -- just a terrific question. It's a tough one. If you lined up 100 economists, this is just a guess, this is zero empirical evidence, and said, should we subsidize home ownership? My guess is maybe twenty out of those hundred would say yes. I happen to think there's value in homeownership, social value in homeownership, people are more actively engaged, they're better citizens when their homeowners. I think, homeownership is worth subsidizing, but then we get up -- you get the very valid point, which you brought up, which is, you know, look --- for some people, housing costs -- this was earlier in this program. Housing costs can approach 50% of your income.

That leaves very little left over for things like, college, food, I mean, all the other fees, and shouldn't we be subsidizing those people as well, and that's a perfectly valid point, but then if you're both subsidizing renting and your subsidizing homeownership, what are you trying to achieve? Right, I mean, so, why don't you just -- you know, so, I mean, this is -- this is a really tough -- you're the only person that knew that was funny -- but, so -

MR. RYAN: It was really funny.

MR. HARRIS: So, you know, when it comes to one of the things you can do it, with the cost of renting, is on the wage side, which is try to look for subsidies to -- or ways, not subsidies, but for strategies from boosting wages, so that even though the rents might not come down, people have more income, save more money, left over for other things. Now, this isn't -- I'm not talking about sort of subsidizing low income and making affordable housing because that's -- obviously has merit.

I'm talking sort of general credits for rent, and I guess my ultimately point here is, I don't -- I think it's tough to subsidize both rent for everyone, and homeownership for everyone because you end up back at the same spot.

MR. LOONEY: Go ahead.

MR. SYKES: Hi, Yvonne Sykes. We had a question in an earlier panel about property or land taxes, and I guess when we're talking about, sort of, transaction costs, and incentives to develop, and fill empty apartments, whether it would be feasible, or worthwhile to explore some of the more creative proposals for taxation of land and property, like old school with Henry George's proposal to tax the value of land without the improvements, or through the wackier Eric Posner, Glen Wild Proposal, to allow people to value their own homes, and pay property taxes based on that, but, then, have anyone come and be able to buy it. They call it the self-assessed tax. So, like, these are not immediately implementable ideas, but whether those are worth exploring as ways to solve some of the problems of transaction costs, and incentive to develop?

MR. HARRIS: So, for a long time, the number one pro-homeownership program in the United States was the mortgage interest deduction. Now, it's been cut basically in half by the TCJA. The mortgage interest deduction was not a conscious strategy to subsidize homeownership. When the Federal Income Tax was implemented in 1913, we allowed all types of deductions for interest, and, over time, that meant things like credit cards interest, and other types consumer interest, and we started pairing that back, and then, all of a sudden, all we have is deductions for mortgage interest, and then we started calling it a homeownership subsidy.

It doesn't make any sense from the get go, right? So, you would never -- the mortgage interest deduction subsidizes mortgage debt, it doesn't subsidize home ownership. It subsidizes mortgage debt, and it subsidizes at whatever rate your marginal tax rate is in. So, if you have a dollar mortgage debt, you get 37 cents back, if you're in the top income bracket, and then it gradually goes down. That's insane. You would never start -- if we started from scratch, and someone said let's develop a tax policy that subsidized homeownership, and someone raises their hand and said, "Let's subsidize debt instead of homeownership, and let's give higher income people a higher rate of a subsidy. Let's do that." They'd get kicked out of the room.

So, we had this really bazaar subsidy for homeownership that wasn't very effective, and, if you look at study after study, we found the mortgage interest deduction, just -- it just increases more debt, and increases more expensive homes. It doesn't increase the rate of homeownership.

So, what can we do? So, I had a paper about this, maybe four or five years ago, where we looked at the economic consequences of a few different strategies. One strategy we thought was have a first-time home buyer tax credit. Get people in the home in the first place. Homes aren't just places where you live, they're vehicles for accumulating assets. How will we just get people started early, as sort of a pro-saving measure? So, we sort of look at about a $10,000 first-time home buyers tax credit as an option.

Another thing we looked at is saying, "Look, let's just give us a tax credit every year." So, now, people get $2,000 every year for having a child. We don't just give, you know, when the child is born, here's $10,000. We say, "Look, we give you $2,000 every year." Why not have an annual home ownership tax credit? We say, "As long as you're a home buyer, we see value in that, have about $2,000 a year, if you're a married couple, and $1,500 if you're single." and another thing we looked at was a sort of a rebate on property taxes, but the point is that there are lots of ways to improve on the mortgage interest deduction. It's not effective at increasing homeownership, it's unequal, and now it's only available to a few people.

MR. LOONEY: You had a question, right there, and, then, you'll get the last one.

MR, RYBECK: Rick Rybeck, with Just Economics. You were talking about the value in homeownership, and I just can't let that go unaddressed. As somebody, who used to be a renter, I'm a homeowner, now, but I think one of the reasons why people think that homeowners are better people, more involved in the community, this, that, and the other thing. It gets back to something that was said before, many places in the country, the landlord on a whim, can either kick you out, or double your rent.

So, if you don't have security of tenure, are you going to get involved in the school, are you going to get involved in the community? It's a security of tenure issue. One of the main motivations for homeownership, at the turn of the last century, was to get security of tenure, so you wouldn't get kicked out, and then because of all the -- what's happened with mortgage interests, and other types of deductions, it's morphed into a wealth-building scheme.

The other thing that I think is important to recognize is that when we talk about housing affordability, and what to do, and some people say, "Well, the best thing to do is, you know, a wage program. You get peoples' incomes up." You know, people have said this in our discussion. You're going out to Akron, Toledo, Gary, Indiana. Home prices are really cheap there, but the factories have closed down. If I don't have a job, even a cheap home is unaffordable.

Now, you go to Silicon Valley, and people are making six figure incomes, and they can't afford a home, and it's not the price of lumber or pipes that's more expensive in these places. It's the price of land, and that's because we have this upside down tax system that you've referred to, and you've referred to, which is that if you -- we say we want more affordable housing, more jobs, but if somebody has the audacity to put up a building or improve a building, we raise their tax, not just the year they make that improvement, but every year thereafter. The net present value of the typical property tax is like a 10 to 20% sales tax on labor and construction costs. That's crazy.

On the other hand, if you hold a piece of land vacant, and let the government improve public services around you, you make money in your sleep. So, we encourage that by taxing land low. So, we've got this upside-down system. Some places in Pennsylvania have reduced the tax, property tax rate, applied to buildings, increased it on land, without losing any money, or spending more money. These people have lowered the cost of buildings and the price of land. So, that's something that I'm surprised nobody talks about. People seem not to know about it, but it's been very effective. It's fundamental economics, and, yet, never gets addressed, and I would hope that, maybe, Brookings and other people could deal with that. I appreciate the gentleman for asking the question.

MR. LOONEY: Okay. We are running out of time. Very quickly the last question.

SPEAKER: I'll be very quick, and I didn't want to do that because I ask the question to the wrong panel, but the -- some of my colleagues have raised the issue again. How about taxing -- increasing the property tax in order to achieve a lot of things, like densifying, you know, house affordability, urban mobility, commuting, building schools, et cetera, and also taxing the land more heavily, and actually the land could be taxed progressively, so you -- a certain rate for a quarter of, like, acre, another rate for second -- for half an acre, depending on the local community. Thanks.

MR. LOONEY: And I thought that that was the spirit of your -- the next generation, where you have a, basically, a property tax that applies to a certain higher end group of homes, and then it gets used for affordable housing, or for other services.

MR. SHAENDE: Right, right. Well, there are some discussions, you know, along those lines, and, of course, we're only about at -- by hour, a creativity, and some people, you know, could make -- be very creative and coming up with new tax schemes, especially, of course, when -- if we talk about land. Internationally, it's very concentrated.

Let's say, one percent of -- less than one percent of people in England own, you know, most of the land, right? So, the report just came out on that, and we have a similar situation here, in the United States, as well. So, of course, it's a very interesting idea. Again, I would not be dismissive, but it needs more careful thinking and it requires, I think, a wider debate.

SPEAKER: That's right.

MR. LOONEY: Okay. All right, well, thank you very much for coming, and thanks to our panelists for appearing.

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