

BY CHARLES GERENA

Taking a Closer Look at Housing

Housing is an important consideration as the Federal Reserve promotes price stability and maximum sustainable employment. The Richmond Fed has spent the last year and a half closely studying this sector of the economy for that reason, with a particular focus on the small towns and rural communities of its region.

Regarding the price stability side of the Fed's dual mandate, "Housing services makes up nearly a fifth of consumer spending, excluding food and energy, and can play an outsized role in inflation," notes John O'Trakoun. "Also, housing can be a major component of a household's wealth, which also can affect their spending and demand, which in turn affects inflation." The senior policy economist is among the researchers at the Richmond Fed who has directed some of his research to looking at housing markets.

As for the employment side of the Fed's mandate, imbalances in housing market supply and demand can impede the flow of labor, both on the national level and within local economies. "During the pandemic, we've heard that the unavailability of housing is one of the constraints that employers face in trying to hire workers," says O'Trakoun.

Since then, housing availability and affordability has continued to be a concern among the employers that the Richmond Fed's staff have talked to. "Prior to a few years ago, the top challenge facing local communities was broadband," says Andy Bauer, vice president and regional executive at the Richmond Fed's Baltimore branch. Now, the top issue is housing. "Communities are worried about their ability to grow — with no housing they can't attract businesses — or to keep their young people or have places for workers. People have to move away and commute to their jobs."

Given the level and persistence of employers' concerns about housing, continues Bauer, "We decided to do some research, both on the data as well as by talking with groups and individuals in the housing space, including government agencies, economic development groups, nonprofits, home-builders, and developers."

The key takeaway of this fact-finding was that there's a shortage of housing everywhere, says Bauer, and if housing is being built, it is for a certain price point and above. "Because of higher costs, builders are more likely to focus on higher-margin homes, which is the higher-end segment of

the market. Below that price point, there is a supply issue."

Federal housing subsidies are available to families that earn 80 percent of area median income (AMI) or less, but Bauer says that the subsidies don't meet the need. Furthermore, there is an acute shortage of entry-level starter homes that are affordable to those earning between 80 and 120 percent of AMI.

A lack of buildable land has contributed to the lack of supply and higher prices, according to the Richmond Fed's

analysis and interviews with its contacts on the ground.

In metropolitan areas, urban neighborhoods are mostly built out and infill development can be costly, while land-use regulations may limit the amount of space available for suburban development. In more rural, non-metro areas, geography and lack of water, sewer, and road infrastructure may make housing development cost prohibitive.

Rural areas and small towns have other obstacles to building new housing, according to Sierra Stoney, formerly a senior research analyst on the Richmond Fed's Regional and Community Analysis team. There may be a lack of local workers to build homes, local banks willing to finance their construction, and developers willing to build in the first place.

So, what can the Richmond Fed do about the supply problem that it has identified? "Interest rates are a blunt tool and can't be targeted toward the housing market in particular," notes O'Trakoun, though they can influence housing demand in the short run. Instead, what the Bank can do, says O'Trakoun, is "communicate how housing market issues are affecting the overall economy, and identify opportunities for improving the policy environment, which can inform policymakers and communities."

During the Richmond Fed's conversations with stakeholders, some ideas have surfaced to make more buildable land available. These include rezoning and making other regulatory changes to attract housing development, using land banks and other tools to deal with dilapidated and abandoned properties, and investing in infrastructure.

"NIMBYism is a hindrance in many communities," says Bauer. "There are groups, however, that treat housing as part of their economic development strategy in order to get community buy-in and build a broad cross section of stakeholders to support their efforts." **EF**

