What can cities, towns, and counties do to make housing markets work again?

If you watched our previous video, *Why doesn’t the housing market produce the housing we need?*, you know that regulatory processes that limit how much new housing can be produced have contributed to sharp increases in the cost of renting or buying newly developed housing.

In a minute, we will discuss how to fix this problem. But first, we want to explore why individuals and organizations who care about affordable housing should also care about the price of new homes. After all, new housing in expensive cities, towns, and counties is only for the high-cost segment of the market, right? So doesn’t this problem only affect the well-heeled?

The short answer is no—it affects all of us. Although it’s true that higher-income people are more likely to buy new housing, constraints on supply also affect rents and home prices for middle-income, moderate-income and even low-income households.

When there’s not enough housing for higher-income households, these families compete for homes that would normally be occupied by middle-income households, causing rents to rise. This, in turn, causes middle-income people to compete for housing that would normally be occupied by moderate-income households, again
causing rents to rise. This continues, like a chain reaction, all the way down to low-income households.

**So what can cities, towns, and counties do to make housing markets work again?**

To improve housing affordability, community leaders can adopt policies that encourage the production of additional housing units. For most cities, towns, and counties, the most important step is to change land use regulations that limit how much housing can be built – for example, by allowing taller buildings or smaller units, so that more homes can fit on the same size lot.

Establishing a clear, predictable development process that minimizes the need to seek special approvals or permits in order to build new housing is also important. The uncertainty associated with the approval processes for these exceptions slows down the development timeline, and can also prevent new development from happening at all. By making critically needed policy changes to streamline the development approval process, cities, towns, and counties can change the workings of their housing market, from one that is fundamentally broken to a normally functioning market where increases in demand result in new supply.

There’s an important caveat. No amount of changes in land use or regulatory requirements will induce the private market to produce housing for the lowest-income households. The cost of developing and operating homes for this population segment is still higher than the rents these households can afford to pay, so housing subsidies will always be needed. But a properly functioning private market can help ease the burden of rising housing prices on other households while also reducing the government subsidy needed to help the lowest-income households.

It’s not an either-of proposition: we need both government subsidies and a streamlined development approvals process to ensure the affordability of housing for people of all incomes.