CONGRESSIONAL TESTIMONY

"Boom and Bust: The Need for Bold Investments in Fair and Affordable Housing to Combat Inflation"

House Committee on Financial Services

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I. Introduction

Chairwoman Waters, and Ranking Member McHenry, thank you for inviting me to testify today. My name is Michael Mitchell, and I am the Director of Policy and Research at the Groundwork Collaborative.

Groundwork is an economic policy think tank based in Washington, D.C. dedicated to advancing a coherent, economic worldview that produces broadly shared prosperity and abundance for all.

My testimony today will focus on three key points:

1) The Federal Reserve's actions to combat inflation are driving up rents as high interest rates increasingly price people out of the home-buying market and further crowd the rental market. They are also exacerbating the longstanding housing crisis by dampening sorely needed investment in new construction.

2) The Federal Reserve's aggressive interest rate hikes risk undermining a strong labor market, debilitating our housing market, and pushing our economy toward a recession. These actions are coming at great cost to workers and families across the country, particularly the most vulnerable.

3) Policymakers have the tools at their disposal to build a more resilient and equitable housing sector. In the short term, they can address rental inflation by pursuing rent stabilization policies, aiding families through fully funding rental assistance programs, and cracking down on landlords engaging in profiteering during these tumultuous times. In the long run, Congress should make strategic investments to increase the housing supply and work with municipalities to update zoning regulations.

II. The Federal Reserve's actions to combat inflation are driving up rents as high interest rates increasingly price people out of the mortgage market, further crowding the rental market. Additionally, higher interest rates are dampening sorely needed investment in new housing construction.

Our housing affordability crisis long predates today's inflation. Between 2011-2019, growth in median rent outpaced growth in median renters' income in nearly every state.[1] And in 2019, about 23 million low-income renters paid more than half of their income for housing.[2] All of these pressures on renters were made worse by a massive undersupply of new homes. Housing starts in the decade between 2010-2020 were at their lowest levels in six decades and experts suggest

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[1] Alicia Mazzara, "Rents Have Risen More Than Incomes in Nearly Every State Since 2001," *Center on Budget and Policy Priorities*, December 10 2019, https://www.cbpp.org/blog/rents-have-risen-more-than-incomes-in-nearly-every-state-since-2001

[2] Peggy Bailey, "Priced Out: The State of Housing in America," *Center on Budget and Policy Priorities,* July 21 2022, https://www.cbpp.org/research/housing/priced-out-the-state-of-housing-in-america#:~:text=Even%20before%20the%20pandemic%20and,of%20their%20income%20for%20rent .

we are more than 4 million units short of what we need to meet the demand from the growing number of households.[3]

The pandemic put renters, who were already struggling to get by in a precarious housing market, at even more risk. The economic fallout from the COVID-19 pandemic caused millions of households to fall behind on rent. By September 2020, 55% of adult renters reported a loss of income due to COVID-19, and researchers estimated that between 30-40 million people were at risk of being evicted and becoming homeless as a result. In response, lawmakers took bold actions to keep renters in their homes.[4][5] This included an eviction moratorium put in place by the CDC and nearly $50 billion in emergency rental assistance across various relief packages. These actions prevented evictions and helped families make ends meet during a difficult period.

But as these emergency measures have been wound down, and the cost of housing continues to rise—indeed, housing has been a key contributor to inflation— the pressure is mounting on individual and family budgets across the country.[6]

By design, the Federal Reserve's aggressive rate hikes are exacerbating this problem. The Federal Reserve has raised interest rates six times so far in 2022, including four interest rate hikes of 75 basis points. The Federal Reserve has not engaged in such aggressive rate hikes since 1994, but even then the Federal Reserve only increased interest rates by a total of 250 basis points – already this year they have increased interest rates by 375 basis points with another rate hike likely before the year's end.

As the Federal Reserve raises interest rates – other rates, such as mortgage rates, follow suit. The average rate for a 30-year fixed rate mortgage across the US is currently 6.58% – the highest it's been since 2007.[7] Such an increase in mortgage rates makes affording a home much more difficult. The median home sales price in the third quarter of 2022 was roughly $455,000.[8] If interest rates were still consistent with their average across the 2010s, roughly 4.09%, a potential homebuyer would pay approximately $1,976 a month in principal and interest. At the current 30-year mortgage rate, the monthly principal and interest payment would jump by nearly a third – more than $630 – to $2,610 a month.[9]

As the cost of buying a house becomes more expensive, potential homebuyers are forced to remain in the rental market where there are already too few rental units to meet demand –

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[3] Ibid.

[4] Erik Gartland, "Relief Measures Reduced Hardship for Renters During Pandemic, but Many Still Struggle to Pay Rent in Every State," *Center on Budget and Policy Priorities,* June 17 2022, https://www.cbpp.org/research/housing/relief-measures-reduced-hardship-for-renters-during-pandemic-but-many-still#scene-0

[5] Emily Benfer *et al.*, "The Covid-19 Eviction Crisis: An Estimated 30-40 Million People In America are at Risk," August 7 2020, https://nlihc.org/sites/default/files/The_Eviction_Crisis_080720.pdf

[6] Patrick T. Harker, "Unpacking Shelter Inflation," *Federal Reserve Bank of Philadelphia*, September 27 2022, https://www.philadelphiafed.org/the-economy/macroeconomics/unpacking-shelter-inflation

[7] "30-Year Fixed Rate Mortgage Average in the United States," *FRED*, https://fred.stlouisfed.org/graph/?g=Ujgb

[8] "Median Sales Price of Houses Sold for the United States," *FRED*, https://fred.stlouisfed.org/graph/?g=VjOs

[9] Groundwork Collaborative calculations. Analysis assumes a ten percent down payment.

putting even more upward pressure on rent prices.[10] This also adds to the market power benefiting landlords, as they are able to continue hiking rents at alarming rates while virtually ensuring they will find a willing tenant.

The most recent Consumer Price Index (CPI) report in October revealed that rent prices went up 7.5% year over year, the highest increase in over 40 years.[11] Looking more broadly at shelter, which includes both rents and homeowner rent equivalent, this figure rose 0.8% in October, the largest monthly increase since August 1990. The rising cost of shelter is also a major driver of inflation, contributing over half of the monthly CPI increase in October.

Federal Reserve action also undermines private sector investment in housing construction as the rising cost of borrowing for capital-intensive projects – such as housing – makes such construction more costly and less profitable.[12] As the cost of borrowing increases, homebuilders are putting new construction on hold – and the housing market has slowed dramatically. Recent months have produced declines in permits for single-family homes as well as single-family starts.[13] And in September, the rate of construction sector layoffs increased to 2.3% up significantly from 12 months ago when the layoff rate was 1.5%.[14] This is coming on the heels of a 4 million unit deficit in housing that predates this inflationary period.[15]

III. Millions of Americans are facing housing insecurity – and even homelessness – but that pain isn't evenly distributed. Race, gender, and location are all playing a role in how people are experiencing the housing market.

The repercussions of an ever more precarious housing market will be borne by those who are economically vulnerable already.

The pain of rising rents is felt particularly by Black, and Latino households – who due to discrimination in the labor and housing markets are reporting higher levels of difficulty in meeting monthly rent payments as compared to white renters. Between November 2 and November 14, 22% of Black renters and 15% of Hispanic renters reported that their households were behind on rent payments, while only 7% of white renters were behind on their payments.[16] Women –

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[10] Angie Basiouny, "When Will Housing Prices Fall?" *Wharton Business Daily*, October 4 2022, https://knowledge.wharton.upenn.edu/article/when-will-housing-prices-fall/

[11] "Median Sales Price of Houses Sold for the United States" *FRED*, https://fred.stlouisfed.org/graph/?g=VjOs

[12] Skanda Amarnath, "The Supply-Side Damage Has Begun: The Dark Side Of Fed Tightening," *Employ America*, June 1, 2022, https://www.employamerica.org/blog/the-first-dose-of-supply-side-damage-is-here-the-dark-side-of-fed-and-financial-conditions-tightening/

[13] Robert Dietz, "An End to Large Rate Hikes from the Fed?" National Association of Homebuilders, November 2, 2022, https://eyeonhousing.org/2022/11/an-end-to-large-rate-hikes-from-the-fed/

[14] "Layoffs and discharges levels and rates by industry and region, seasonally adjusted" BLS, Job Opening and Labor Turnover, Table 5, https://www.bls.gov/news.release/jolts.t05.htm

[15] Sam Khater, Len Kiefer, & Venkataramana Yanamandra, "Housing Supply: A Growing Deficit," *FreddieMac*, May 7 2021, https://www.freddiemac.com/research/insight/20210507-housing-supply

[16] "Week 51 Household Pulse Survey: November 2 - November 14," *US Census,* https://www.census.gov/data/tables/2022/demo/hhp/hhp51.html

especially women of color – are also struggling with rising rents: nearly 8 million women reported being behind on rent or mortgage payments in 2021.[17]

And many of these same households are doubly hit by the Federal Reserve's actions. Because rate hikes by the Federal Reserve also affect borrowing rates broadly, it is more expensive for households to use credit to help with affording basics such as housing, food, and gas.

While families can cut back on some expenses, cutting back on housing is not an option. With a shortage of truly affordable housing, moving or downsizing are often not possible. The alternative is homelessness.

IV. The Federal Reserve's aggressive approach to interest rate hikes risks undermining a strong labor market, debilitating our housing market, and pushing our economy toward a recession. These actions are coming at great cost to workers and families across the country, particularly the most vulnerable.

Thanks to timely actions taken by the Biden administration and Congress in the last two years, we have experienced one of the strongest post-recession recoveries on record. The labor market recovered all the jobs lost in the pandemic recession, 22.2 million jobs, in a mere 28 months. By comparison, it took 75 months – more than 6 years – to climb out of the Great Recession.[18] Workers, especially those at the bottom of the income spectrum, have also experienced strong wage growth during this recovery. This tight labor market has allowed workers to "upgrade" from unsafe, poorly paid work to better-paying jobs with greater upside.[19]

However, the recovery is in jeopardy because of the Federal Reserve's aggressive interest rate hikes. Between 2021 and the first half of 2022 the labor market added more than half a million jobs a month, but job growth has slowed dramatically in the latter half of 2022 and wage increases have also tempered as of late.[20] Most recently, the US economy added 261,000 jobs in October, a high number during normal economic times, but far below the average, we've been seeing since the pandemic. As for wages, the Employment Cost Index showed that the rate of wage increases has stagnated in the past quarter after rising for two years.[21] The labor market is cooling because of the Federal Reserve's tight monetary policy, and the situation could get worse if the Federal Reserve continues to raise interest rates.

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[17] Jaboa Lake, "The Pandemic Has Exacerbated Housing Instability for Renters of Color," *Center for American Progress*, October 30 2020, https://www.americanprogress.org/article/pandemic-exacerbated-housing-instability-renters-color/

[18] Groundwork Collaborative analysis of *FRED* data

[19] Richard McGahey, "A 'Great Upgrade,' Not A 'Great Resignation'— Workers Quit For New And Often Better Jobs," *Forbes,* January 20 2022, https://www.forbes.com/sites/richardmcgahey/2022/01/20/a-great-upgrade-not-a-great-resignation--workers-quit-for-new-and-often-better-jobs/?sh=5fb48e686eac

[20] "All Employees, Total Nonfarm," *FRED*, https://fred.stlouisfed.org/graph/?g=WqLr

[21] "Employment Cost Index: Total compensation: All Civilian" *FRED*, https://fred.stlouisfed.org/graph/?g=Vm9l

Experts, from Nobel Prize-winning economists to financial analysts paying close attention to markets, have started to sound the alarm about how the Federal Reserve's interest rate hikes could throw us into a devastating – and totally avoidable – recession.[22]

For example, Ellen Meade, a Special Adviser to the Federal Reserve Board of Governors until 2021, recently stated: "Every additional 75 [basis point increase] makes me feel like the plane is going to crash rather than land smoothly"... "There's a reason for going a little bit more slowly, and that's to watch and to react to the effects your policy is having. At this rapid clip, they aren't doing themselves any favours."[23]

A recession would be particularly damaging to marginalized workers – workers of color, women, and workers with disabilities – as discrimination in the labor market means these workers are last to benefit from a strong labor market and the first to suffer. Even during a "mild" recession such as the dotcom recession of the early 2000s, while White unemployment peaked at 5.5%, Black unemployment was more than double that at 11.5%.[24]

The impacts of aggressive rate hikes are even more alarming given the fact that, by the Federal Reserve's own admission, they can not address the underlying factors driving current inflation — namely supply chain constraints, elevated oil and grain prices driven by the war in Ukraine, and corporate profiteering. In front of this very committee, Federal Reserve Chairman Jerome Powell himself acknowledged, "our policies cannot affect supply-side conditions."[25]

This statement, however, is not true. Higher interest rates *can* harm supply-side conditions, by reducing private investment. At a time when we would want to increase productive capacity, not reduce it, to meet strong demand, Federal Reserve actions push in the exact opposite direction, undermining long-term capacity. This is especially true in sectors sensitive to interest rate hikes such as the housing sector where we need more supply long-term to meet growing demand.

Given the tremendous consequences for workers, families, and our economy of a recession, the Federal Reserve must pause further interest rate hikes before doing any further damage.

V. Despite the significant threats that the Federal Reserve's interest rate hikes pose to the economic security of millions of tenants, large landlords have found this period extremely profitable – and they have not been shy about sharing their glee on their earnings calls.

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[22] "Federal Reserve Members Threaten More "'Pain'" For Working Families As Top Economic Experts And Other Prominent Voices Warn Interest Rate Hikes Could Backfire," *Accountable. US,* November 10, 2022, https://accountable.us/research/federal-reserve-members-threaten-more-pain-for-working-families-as-top-economic-experts-and-other-prominent-voices-warn-interest-rate-hikes-could-backfire/

[23] Colby Smith, "The Fed's dilemma: how long to 'keep at it' on inflation," *Financial Times*, October 28 2022, https://www.ft.com/content/55a8b198-4f48-4eb4-b446-0e6166608e4a?accessToken=zwAAAYQvCWA3kc9VqLGYT0hOtNO0Rg5hZmCOSg.MEYCIQCZYYZdpy4ReWK3VC_5DqomcLeaKhxY7cw52diTVJ01rQIhAMFCWM7nLSODvwu31ExUA0Y5H8egonfLwWXGZx3B3yOx&sharetype=gift&token=78825823-83e8-4f00-8cdf-99a919d97bfc

[24] "Unemployment Rate" FRED, https://fred.stlouisfed.org/graph/?g=X002

[25] "Fed chair Powell on inflation: Our policies cannot affect supply-side conditions," *CNBC,* March 2 2022, https://www.msn.com/en-us/lifestyle/lifestyle-buzz/fed-chair-powell-on-inflation-our-policies-cannot-affect-supply-side-conditions/vp-AAUwhZ4?category=foryou

Corporate landlords, who own a large and rapidly growing share of all rental units, have been very explicit about the fact that the Fed's actions have given them cover to raise rent more than overall inflation in order to pad their own pockets and those of their shareholders. The 10 largest publicly traded apartment companies saw their profits soar by 57% to nearly $5 billion in 2021.[26] [27]

On earnings calls with shareholders, corporate landlords have been forthright with shareholders about their ability to raise rents with zero concerns for tenants.

- Starwood Capital's CEO, for example, boasted on an earnings call this February that "tenants are capable and willing to pay rent increases" and called inflation "an extraordinary gift that keeps on giving."[28] Last year, it boasted about record profits and saw its net income rise by one-third to $492 million.[29]

- The CEO of American Homes 4 Rent stated last year, "We're really excited and optimistic about the ability to push rents next year." And sure enough, in June 2022 they saw a 96% increase in their profits compared to the previous quarter.

- On their 2021 Q3 earnings call, corporate landlord giant Invitation Homes noted it had raised rents by 29% in Las Vegas, 30% in Phoenix, 21% in Tampa, 20% in Atlanta, and 19% in Jacksonville. At the end of last year, they reported a 33%, or $65 million increase, in profits compared to 2020.

VI. Policymakers have an opportunity to bring down rental inflation in the short term and build a more resilient and equitable housing market for the long term by making different policy choices.

The good news is there are a number of actions that Congress can take to address the growing cost of rent in the short term while also tackling key underlying factors to ensure adequate affordable housing over the long term.

In the short term Congress can:

- **Protect renters from burdensome rent increases in homes with federally backed mortgages.** For example, Congress should press the Federal Housing Finance Agency (FHFA) to exercise its ability to impose rent controls on borrowers of federally-backed

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[26] Lydia DePillis, "Inflation Has Hit Tenants Hard. What About Their Landlords?," *The New York Times,* September 27 2022, https://www.nytimes.com/2022/09/27/business/economy/landlords-rent-inflation.html
[27] "REPORT: Top Rental Companies' Net Income Jumps 57% After Raising Rent on Vulnerable Consumer," *Accountable.US*, April 28 2022, https://accountable.us/report-top-rental-companies-net-income-jumps-57-percent-after-raising-rent-on-vulnerable-consumers/#:~:text=Washington%20D.C.%20%E2%80%93%20Government%20watchdog%20Accountable,57%25%20to%20nearly%20%245%20billion
[28] "CBS News: 'Corporate landlords' profits have surged despite eviction ban fears'," *Accountable.US*, June 8 2022.
[29] Irina Ivanova, "Corporate landlords' profits have surged despite eviction ban fears," *CBS*, June 7 2022, https://www.cbsnews.com/news/rent-apartment-housing-price-landlords-profits-eviction/

mortgages, which would apply to approximately 43.8 million rental units – immediately slowing down rental inflation.[30]

- **Tackle corporate profiteering in the housing sector.** This committee can continue to urge regulatory agencies including the Department of Justice and the Federal Trade Commission to use their existing authority to crack down on extractive and exploitative business practices, including collusion in the rental market. Recent action by the Department of Justice to investigate real estate software company RealPage, and its possible facilitation of collusion by landlords is encouraging.[31]

- **Make investments in helping families afford housing:** As an important start, the House-passed Build Back Better legislation contains over $20 billion in funding for new housing vouchers. Currently, due to inadequate funding, just 1 in 4 eligible households receives rental assistance.[32]

And in the long-term:

- **Make public investments geared toward boosting the supply of affordable housing.** As an important start, the House-passed Build Back Better legislation contains more than $100 billion over a ten-year window to increase the housing supply. The legislation includes funds for the development of affordable housing via the national Housing Trust Fund and resources to renovate the nation's public housing stock. These investments would help alleviate supply constraints that have been at the center of increasing rents but much more investment will be necessary to adequately address the long-term housing crisis.

- **Work with municipalities to adopt new forms of zoning regulation that would enable an increase in the supply of affordable housing.** The federal government can act by requiring changes in land use policy as a condition of federal grants. Such policies can be coupled with robust protections for existing residents in those communities, such as rent control and collective ownership models, as well as targeting upzoning to higher-income, whiter neighborhoods, and suburban areas.

The Federal Reserve's actions to combat inflation are driving up rents and exacerbating a housing crisis that threatens the well-being of millions of families across the country. Congress will need to act to ensure that struggling families have access to quality and affordable housing. In the long-run, public investment in boosting housing supply will be critical to building a housing sector capable of meeting our country's housing needs.

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[30] Meir Rinde, "Biden Has Power to Impose Rent Control, Say Housing Advocates," Shelterforce, September 1, 2022,
https://shelterforce.org/2022/09/01/biden-has-power-to-impose-rent-control-say-housing-advocates/

[31] Emma Roth, "The DOJ is reportedly investigating rent-setting software company RealPage," The Verge, November 26, 2022,
https://www.theverge.com/2022/11/26/23479034/doj-investigating-rent-setting-software-company-realpage

[32] "House Build Back Better Legislation Advances Racial Equity" Center on Budget and Policy Priorities, September 27, 2021
https://www.cbpp.org/research/poverty-and-inequality/house-build-back-better-legislation-advances-racial-equity