Innovative Housing Supply Solutions: Addressing the Affordability Gap

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Outline

- Housing supply is a major issue: We are 3.8 to 5.5 million units short
- Single-family affordable options:
  - Manufactured housing
  - Increased ADU production
  - Increased home preservation
- While there are many barriers to increasing the supply in these sectors, financing impediments—which can be resolved at the federal level—play a major role
- How much can each contribute?
Supply Shortage

- Freddie Mac, 2021: Shortage of 3.8 million units
- NAR: 5.5 million fewer units built from 2001-2020 versus 3 prior decade per annum average

Population-Adjusted Housing Production

Source: Urban Institute calculations of US Census Bureau data.
Annual Shipments of Manufactured Homes

Source: US Census Bureau and the US Department of Housing and Urban Development.
Improvements for Manufactured Home Financing

- Education and lending disclosures so that borrowers know the difference between chattel and real estate loans and have adequate opportunity to explore mortgage financing.

- GSE Chattel Loans: GSEs could/should enter the market. If they are unwilling to absorb this risk, they can consider offloading it into the capital markets.

- FHA Loans: Raise loan limits on MH products; index these products to home price appreciation, so the limit rises with home prices. Ginnie Mae should lower the net worth requirements on Title 1 MH issuers to bring them in line with those required for other single-family products.
## US Housing Stock Distribution, by Year Built

<table>
<thead>
<tr>
<th>Year Built</th>
<th>Number of units</th>
<th>Share of housing stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 or later</td>
<td>10,008,104</td>
<td>7.2%</td>
</tr>
<tr>
<td>2000 to 2009</td>
<td>18,434,989</td>
<td>13.2%</td>
</tr>
<tr>
<td>1980 to 1999</td>
<td>37,725,172</td>
<td>27.0%</td>
</tr>
<tr>
<td>1960 to 1979</td>
<td>35,536,349</td>
<td>25.4%</td>
</tr>
<tr>
<td>1950 to 1959</td>
<td>20,762,454</td>
<td>14.9%</td>
</tr>
<tr>
<td>1939 or earlier</td>
<td>17,219,141</td>
<td>12.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>139,686,209</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
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Source: 2019 American Community Survey.
Improvements in Preservation and ADU Financing

- **Accessory dwelling units:**
  - Equity extraction: Raise the maximum cash out refi amount to 90-95% when the funds are being used to construct an ADU.
  - Renovation Loans: Streamline to make less cumbersome
  - Rental Income from ADU: Count a portion toward qualifying income

- **Preservation:**
  - For the FHA 203K loans: Allow some structural changes under the limited program. Raise the threshold for this limited program to reflect the market cost of preservation.
  - For the Fannie and Freddie renovation programs: Raise the threshold for participating in Freddie's ChoiceReno eXPress program; Fannie Mae should roll out a similar program without lender recourse. For their regular programs, both GSEs could eliminate lender recourse if the homeowner installs a factory build ADU or addition.
### Potential Number of New Affordable Units Created or Preserved

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Additional units created per year</th>
<th>Thought process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased production of manufactured housing</td>
<td>70,000</td>
<td>From 1977, when the HUD manufactured housing code went into effect, until 1994, when the market began to overheat, 240,000 manufactured homes were shipped per year; today, that number is less than 100,000 homes. Increasing production to 170,000 homes (halfway between 100,000 and 240,000) in the face of a larger population and the fact that manufactured housing is now a better product is a conservative goal.</td>
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<tr>
<td>Increased ADU construction</td>
<td>233,000</td>
<td>There are 1.4 million ADUs and 85.6 million detached single-family homes in the US. That is, 1.6 percent of homes have an ADU. Increasing this share to 3 percent over the next five years will create an additional 1.17 million ADUs over five years, or 233,000 per year.</td>
</tr>
<tr>
<td>Increased home preservation</td>
<td>105,000</td>
<td>As the housing stock ages, obsolescence will become a bigger issue. If we slow obsolescence by 0.1 percent per year on the 104.7 million one-to-four-unit single-family stock, 105,000 units will be “saved” annually.</td>
</tr>
<tr>
<td>Additional affordable units preserved or created per year relative to today</td>
<td>408,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Urban Institute calculations.

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