

# A Brief History of Housing Underproduction

In the face of unprecedented housing demand, why is America building fewer homes than ever?

To answer this question, it is essential to understand how economic, social, and policy forces converged throughout history to shape housing supply and demand.



## American Urbanization and an Era of Housing Abundance (1820 – 1929)

From the early 19th century through the 1920s, the American Industrial Revolution transformed the nation from an agrarian society into a majority urban one (Taeuber, 1941). Advances in transportation in the 1870s led to the growth of streetcar suburbs beyond the urban core (Hayden, 2004). These streetcar suburbs provided an alternative to overcrowded city centers, drawing long-standing residents and opening space for waves of immigrants from Eastern and Southern Europe seeking opportunities in American cities (Boehm & Corey, 2014).

By 1920, over half of the U.S. population lived in urban areas (Census History Staff, 2022). Fueled by economic opportunities, cities like Chicago and San Francisco became targets for migration (Schleicher, 2017). With the exception of a brief housing shortage and early experiments with rent control following World War I (Fogelson, 2013), limited regulation supported abundant housing construction. Rapidly growing cities were able to house throngs of newcomers, creating widespread economic opportunities and boosting the young nation's economic productivity (Fischel, 2016).

With so many Americans living in close proximity to one another, new challenges arose. Pollution, poor sanitation, and unsafe living conditions in downtown business districts were common (Riis, 1890). Social tensions also began to surface, in part a reflection of the global rise of nationalist and racist ideologies (Higham, 2002). Many white and upper-class individuals, uncomfortable with the increasing diversity and density of the city, sought refuge from these burgeoning urban centers. Around this time, the enactment of the first racial zoning ordinances (Pietila, 2011) signaled the beginning of what would eventually be called "white flight" (Shertzer & Walsh, 2018). Although race-based zoning ordinances were ruled unconstitutional, they were soon replaced with use-based zoning codes often deployed to similar effect.

## The Great Depression and the First Period of Housing Underproduction (1929 – 1948)

On October 29, 1929, Black Tuesday ushered in the Great Depression. Its far-reaching impacts included a significant downturn in the housing market. By 1933, home values had fallen 35% (Davies, 1958), more than 250,000 people had lost their homes to foreclosure, renters fell behind and faced eviction (Fishback et al., 2013), and construction of residential property fell 95% (Glabb & Brown, 1967).

In response to the housing crisis, Franklin D. Roosevelt's New Deal aimed to stabilize the market through key programs like the Federal Housing Administration (FHA) and the Home Owners' Loan Corporation (HOLC). While these agencies helped steady the housing market, they also institutionalized the practice of redlining, which led to the racial segregation of communities (Rothstein, 2017). The federal government also aggressively encouraged exclusionary zoning through a series of requirements and incentives (Toll, 1969). Just as the New Deal policies began to take effect, the nation's focus pivoted to World War II. Most non-essential construction, including residential projects, was halted, and rent control was introduced through the Emergency Price Control Act of 1942, a measure to prevent price gouging during a period of constrained supply.

From the 1930s onward, America settled into a prolonged period of housing underproduction (Newcomb & Kyle, 1947). Fueled by war-related job growth and then by the demobilization of 16 million troops and the subsequent baby boom, America's urban population grew four times faster than it had during the previous decade (Boehm & Corey, 2015).

This population boom, coupled with slow residential construction during the economic downturn of the 1930s, caused housing to become both scarce and expensive. Housing vacancies in April 1940 stood at a little under 5%, plunging to a mere 1.4% by November 1945 (von Hoffman, 2012). By 1946, six million people were living with relatives due to housing scarcity (Palen, 1994).



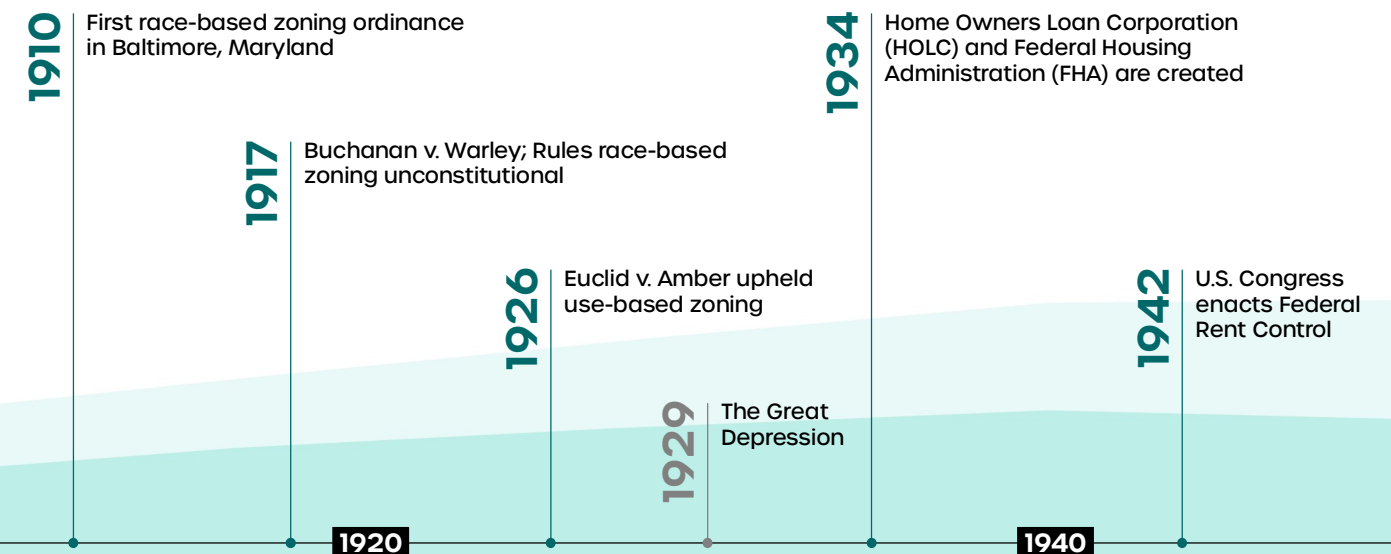
### A Note on Rent Control

Nobel Prize winning economist Milton Friedman noted in 1946 that World War II-era rent control carried significant social costs, including deterioration in the quality of rental housing and the disincentive to build new rental homes (Friedman & Stigler, 1946). Resulting disinvestment in inner city rental housing set the stage for urban renewal and blight removal in the 1950s.

### LEGEND

- Housing Policy Milestone
  - Housing Market Milestone
  - U.S. Economic Milestone
  - ▴ Suburban Population
  - ▴ City Population
- (Nicoladies & Wiese, 2016)

**1869** The first "Streetcar Suburb" develops outside of Chicago in Riverdale, IL.



1860

1880

1900

1920

1940

## Suburbanization and Slow Growth (1948 – 1990)

In anticipation of the end of World War II, the Urban Land Institute, an authoritative voice in land use and real estate, predicted an “almost limitless demand for new housing in post-war America” (1942). Propelled by a mix of federal and local policies, this prediction manifested in the form of suburban sprawl. Exclusionary zoning laws from the 1920s made building near existing urban centers difficult, and the Federal-Aid Highway Act of 1956 incentivized suburban growth through federally subsidized infrastructure.

Developers like William Levitt capitalized on this by mass-producing single-detached homes primarily in what had been rural areas. These ventures were facilitated by federal mortgage financing that came with conditions that perpetuated racial segregation by enforcing a whites-only requirement (Rothstein, 2017). Within a few years, these new suburban developments closed the housing gap but only benefited an exclusively white demographic (Palen, 1994).

As these suburban communities matured, restrictive zoning policies gained traction, with California pioneering the slow-growth movement in the 1960s. This approach, which limited housing construction even as populations grew, was subsequently adopted by other cities across the U.S. (Morrow, 2013). The rise of the environmental protection movement in the 1960s and 70s offered NIMBY activists tools for opposing development (Frieden, 1979). Legislation like the National Environmental Policy Act (NEPA), intended to protect natural resources, also empowered local resistance against housing projects, making new development more difficult.

## Economic Expansion and Return to Cities (1990 – 2008)

As America entered the 1990s, the economy was in a state of unprecedented stability, often referred to as the Great Moderation (Hakkio, 2013). This economic calm was accompanied by significant societal and financial shifts. The 1970s and 1980s brought a sharp and steady decline in household size (Nelson, 2013), and by the 1990s, the popular appeal of city life was growing (Leinberger, 2009). The tech and finance sectors flourished, and a growing consumer preference for urban convenience, coupled with increasing awareness of the repercussions of suburbanization, prompted a significant return to city-life. Yet, renewed urban demand collided with housing constraints created by earlier downzoning efforts.

Amid this backdrop, remnants of the 1980s savings and loans crisis lingered. The U.S. Congress had created the Resolution Trust Corporation (RTC), which introduced innovative financial instruments to resolve the assets of failed savings and loans associations. One such tool was the commercial mortgage-backed security (CMBS), wherein Wall Street and the RTC repackaged non-performing loans into securities for investors (Mandzy, 2017).

The CMBS market quickly exploded in prominence, providing an influx of credit and liquidity. By the early 2000s, the CMBS market overtook life companies as the second largest category of commercial real estate lending (Chandan, 2012). The growing market share of CMBS lenders offering very aggressive terms also led banks and life companies to loosen their underwriting standards and mortgage terms in order to remain competitive (Wilcox, 2012). Housing supply limitations, coupled with intense demand, drove up

home prices. Loose lending standards and risky financial speculation created a housing bubble that would soon burst.

In 2008, the inevitable happened. Capital markets, straining to capture red-hot demand for housing, imploded, plunging the nation into the Great Recession (Federal Deposit Insurance Corporation, 2018). Financial instability and a return to tighter mortgage lending standards led many to continue to rent rather than buy (Fry & Brown, 2016), further straining urban rental markets. Housing production came to a standstill, and millennials—America’s largest living generation—became the first generation unable to buy a home at the age their parents did (Both, 2023).

## The Great Recession and the Second Period of Housing Underproduction (2008 – Present)

The repercussions of the Great Recession persist. Even fifteen years later, the U.S. has not matched pre-recession housing starts. Around 2015, many millennials started families. Household formation spiked, and driven by the pursuit of affordability and space, millennials looked to settle in suburbs and small towns.

### A Note on Rent Control

In 2016, in response to skyrocketing rental prices, calls for rent control began to spread like wildfire. If today’s rent control measures pass, we could expect to see owners remove their properties from the rental market, disinvestment in existing rental properties, and a decrease in production of new housing.

# A legacy of exclusionary zoning practices, restrictive land-use codes, and discriminatory housing policies has made it very difficult for builders to meet Americans’ changing housing needs and preferences.

There are glimmers of hope. In 2019, Minneapolis, Minnesota eliminated single-detached zoning, a move that has encouraged other cities to rethink their own artificial barriers to housing. Cities from Portland, Oregon to Charlotte, North Carolina are legalizing ADUs (accessory dwelling units), duplexes, triplexes, and other forms of multi-family housing in areas previously restricted to single-detached homes. The YIMBY (Yes In My Backyard) and Parking Reform movements have gained momentum, helping raise public awareness of the many negative effects of artificial barriers to housing.



Image provided by Vessel Technologies, Inc.

## Solving America’s First Period of Underproduction

### THE GOOD

- **New Funding Sources:** New financing tools like the 20-year mortgage stimulated the housing market and made homeownership more accessible.
- **New Building Types:** The use of smaller, site-built and manufactured homes quickly met the demand for affordable housing.
- **Construction Innovation:** Assembly-line building processes increased the speed and efficiency of home construction.
- **Infrastructure Investment:** Significant public investments in the federal highway system and utility network created capacity for rapid housing production.

### THE BAD

- **Redlining:** The Home Owners’ Loan Corporation (HOLC) and the Federal Housing Administration (FHA) established policies and practices of redlining that systematically excluded Americans from homeownership opportunities based on race and ethnicity (Rothstein, 2017).
- **Exclusionary Benefits:** The Veterans Administration’s mortgage program, created by the GI Bill, was only made available to white veterans.
- **Unsustainable Design:** Zoning restrictions, baked into 1950s-era suburban subdivision design, create a tax revenue shortfall which limits the ability of jurisdictions to cover the ongoing costs of infrastructure maintenance (Mahron, 2012).
- **Subsidizing Sprawl:** Federal investments encouraged urban sprawl, intensifying environmental and social issues (Duany et al., 2000).

## Using A Better Foundation™ to Address Housing Underproduction

- **New Funding Sources:** Develop financing systems to support the production and ownership of a broader array of housing types for more Americans.
- **New Building Types:** Design new housing typologies and incentivize the production of medium- and higher-density developments.
- **Construction Innovation:** Adopt modern construction means and methods that streamline delivery timing, reduce delivery costs, and lower carbon emissions.
- **Infrastructure Investment:** Focus public investments on community infrastructure, particularly that which enables more housing in high-opportunity neighborhoods with walkability, transportation, jobs, and community assets.
- **Remove Regulatory Barriers:** Eliminate exclusionary zoning and other barriers that artificially limit housing production.

Taken together, these policies can increase affordability while also increasing housing equity, ensuring superior economic and fiscal outcomes, and advancing climate policy objectives.

