A national housing crisis is brewing. What actions can policymakers take to head it off and how can Hive Modern Homes help?

Mark Zandi, The Washington Post

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Housing is sputtering.

Home sales, home-building and homeownership have gone flat, and the rise in home prices threatens to stall out. Things aren't likely to get better soon, particularly for lower- and middle-income households struggling to make the rent and become homeowners. That is, unless policymakers act.

Housing statistics are clear. Sales of new and existing homes have gone sideways over the past year, as has new single- and multifamily home-building. Housing prices are still rising in much of the country, but the pace of growth is throttling back, and some builders are cutting prices to move houses. Homeownership, which collapsed during the housing crash a decade ago, is just off bottom, and foundering.

Housing's travails appear incongruous with the red-hot job market. The economy is creating lots of jobs, unemployment is near a 50-year low, and job openings are at a record high. Workers are demanding and getting bigger raises. In earlier times, when people had jobs, they bought and built homes. They became homeowners. So, what's wrong?

For one thing, potential home buyers are having trouble digesting the run-up in mortgage rates. A year ago, the typical rate on a 30-year fixed-rate mortgage loan was no more than 4 percent. Today, it's closer to 5 percent. The increase is partly the result of Federal Reserve efforts to normalize interest rates amid a strong job market. Rates are also rising in response to the ballooning federal budget deficit that's paying for President Donald Trump's tax cuts and government spending splurge.

A 5 percent mortgage rate might not sound high, at least not to anyone over the age of 40. But rates have been so low for so long that most homeowners are now paying no more than 4 percent. It is too big a financial stretch for many to sell a home with a 4 percent mortgage and buy one with a 5 percent mortgage. This interest-rate lock is one reason the typical homeowner has lived in his or her current home for almost a decade, nearly double the average homeowner tenure before the crisis.

Higher mortgage rates also have conflated with the robust house price growth since the crash to create a serious affordability problem. This is especially true in heretofore high-flying markets - Washington is a case in point - where monthly mortgage payments are out of reach for many potential home buyers, despite their better wages. Getting a loan isn't the ordeal it was not long ago, since lenders normalized their lending standards, but affording the loan is.

Recent changes to the tax code, including a significant reduction in the value of mortgage-interest and property-tax deductions, have also dinged housing. The first thing most people do when they plan to purchase a home is determine the largest monthly payment they can afford, tax benefits and all. Most set out to buy a home that isn't quite as expensive, but once they start looking, they can't resist the extra bathroom or bigger garage. The tax breaks quickly translate into higher house prices.

Take the tax breaks away, and households can't afford as expensive a home, and house prices weaken. On cue, house prices are softening, especially in parts of the country where these tax deductions were most commonly relied on, including the East Coast, from Boston to Washington, plus South Florida, the Chicago area and the West Coast.

Housing is also plagued by a dearth of new affordable homes. Construction of high-end houses and apartments recovered strongly after the crash, as higher-income and wealthier households quickly bounced back from the recession. Builders were attracted by the higher prices and rents they could charge, and it didn't take long for them to put up too many posh apartment towers in cities across the country.

The construction of affordable housing - homes reasonably priced for lower- and middle-income people to rent or own - is a different story. The supply of affordable homes has only recently begun to increase and continues to significantly lag behind demand. Builders put up fewer than 50,000 new single-family houses with less than 1,400 square feet this past year. In more typical times, closer to 200,000 such houses were routinely constructed.

The deepening affordable-housing shortage is clear in the evaporating number of vacant housing units. The percent of the housing stock for rent and sale that no one is living in has plunged since the housing crash and is now as low as it has been in more than 30 years. At the current pace of supply and demand, it will soon hit record lows. That will further boost house prices and rents and make it even more difficult for low- and middle-income households to find a place to live.

Higher prices are providing greater financial incentives to build more affordable houses, but builders now can't find construction workers. The construction worker shortage is especially acute in places such as California, Florida and Texas, where affordable housing demand is especially strong. Jobs for truckers, forklift operators and many others required to construct a home are also going unfilled.

The costs of lumber, gypsum and a host of other home-building materials have also risen sharply in recent years, while Trump's escalating trade war and higher tariffs on steel, aluminum, and other imported materials and equipment are also pushing up costs.

Stiff zoning restrictions, higher permitting costs and other regulations are driving up building costs, particularly in urban areas where the shortage of affordable housing is especially acute. These costs have risen substantially since the financial crisis, as local governments jacked up fees to offset the loss of property tax revenue when house prices collapsed.

Thus, a decade after the housing crash and financial crisis, another national housing crisis is brewing. A decade ago, the problem was egregious mortgage lending and overbuilding. Today, it is a mounting lack of affordable housing. Low- and middle-income households are struggling to make their rent and mortgage payments, suffering through increasingly long commutes, and unable to take better jobs because they cannot afford housing near the available work. It took forceful action by policymakers to end the crisis a decade ago, and it will take a similar effort to end the current one.

Most immediately, Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corp.), the mortgage behemoths in government conservatorship, could reduce mortgage rates. Together, Fannie and Freddie account for about half of all mortgage loans made today, mostly to households with modest means.

The mortgage rate on their loans is based on a fee they require for the risk they take. This fee is set by their regulator, the Federal Housing Finance Agency, based on the returns that private lenders would get if they made the same loans. Because of the recent large cut in the corporate tax rate, Fannie and Freddie could charge a lower fee but still get the same return. Indeed, private mortgage insurers, who take on similar risks, cut their fees in response to their lower taxes.

Taking such action would lower the mortgage rates by 10 to 15 basis points. On a typical 30-year fixed rate loan, this translates into $20 to $25 in monthly mortgage payments.

Even a small reduction in mortgage rates would make a meaningful difference for many would-be first-time home buyers, but it would hardly solve the affordable housing problem. A long-term solution requires policies that give localities the incentives to ease regulations and building restrictions, and provide funds to increase the supply of new affordable housing for sale and rent.

State housing authorities and Community Development Financial Institutions, mission-driven institutions that provide financing for development in underserved communities, have the flexibility necessary to supercharge affordable home-building in places encumbered by a variety of complex and costly problems. They need lawmakers to empower them.

Most Americans have jobs, but many still struggle to make their mortgage and rent payments. This will become more difficult as mortgage rates rise and the shortage of affordable houses becomes more acute. Policymakers must engage to address this mounting housing crisis.

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