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Democrats' New Housing Policy: Vilify Private Equity and Recycle Failed Ideas

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Last week I testified before the Senate Banking Committee at a hearing titled *How Private Equity Landlords are Changing the Housing Market*. As I argue in my testimony, it is extremely difficult to support the claim that private equity investors have harmed the housing market.

They account for a very small share of the total market. And when the best argument you have is that private equity firms are heavily "concentrated in specific market segments within metropolitan areas," you are effectively admitting defeat.

The only way that argument works is if *most* single-family home renters have no ability to move to a different neighborhood, and that's a tough sell when it comes to people renting single-family homes. It's even more difficult when one of your own witnesses references an article acknowledging that people normally move when their rent gets too high.

Naturally, that didn't stop the Democratic senators from vilifying private equity investors. It simply does not matter to them that private capital markets are now the primary means that entrepreneurs use to raise capital, or that they are the primary means for acquiring troubled companies that might otherwise completely disappear in the absence of those investments.

Even the left-leaning Urban Institute argues that "institutional investors play an important role in the market by improving the quality of the housing stock and increasing the supply of decent rental housing."

Interestingly, many of the same senators that want to clamp down on private equity investors are fighting to expand government-backed lending to other private investors. Consistency is usually at a premium in politics, but this contradiction is rather shameless.

Another fascinating aspect of the Democrats' policies is that they are calling to push demand through the roof while complaining about high housing prices. Senator Tester (D-MT), for instance, argued that:

[H]ousing [cost] across this country has increased because of demand, and if anybody on this call has a way that we can increase demand so that houses can become more affordable and what role the government can play in it, I'd love to hear it. (See the 1:21 mark in the video.)

At least Tester identified the concept of demand, even if he has the effect backwards. Increased demand has led to higher prices, and it is because (A) demand can't keep up with supply; and, (B), government policies keep juicing demand even though supply can't keep up. So, at the very least, the government has to stop trying to boost demand.

To a large extent, U.S. housing markets are always constrained because there is less and less land available for building in areas where most people want to live. Regulatory and zoning restrictions, as well as the NIMBY movement, tend to exacerbate the supply problem, but *that* really isn't a federal issue.

What *is* a federal issue, though, is that in the face of these well-known supply constraints, federal policy stubbornly remains geared toward making it easier to obtain mortgages. As a result, federal policies increase the number of people able to bid on any given set of homes, thus causing prices to rise faster than inflation and (in many cases) income.

To support more low-equity lending through Fannie, Freddie, and the FHA in such markets, while also complaining about rising housing costs, is an utterly incoherent policy.

Tester also argued that "there's no housing for people who make regular wages," and then insisted that "shrinking Fannie and Freddie and doing away with the 30-year mortgage, that would be insane." (Continue at the 1:21 mark.)

There are several problems with this line of reasoning.

First, it is extreme hyperbole to claim that there is "no housing" for people earning "regular wages." The United States has a roughly 65 percent ownership rate, and with a total population north of 330 *million* people, approximately 500,000 people can be found "experiencing homelessness on a given night."

Homelessness is a serious problem but basing policies on the idea that "there's no housing for people who make regular wages" only makes it harder to identify the underlying causes of homelessness.

Second, nobody in that hearing argued for getting rid of the 30-year mortgage. Regardless, shrinking Fannie and Freddie would not cause the 30-year mortgage to disappear – the two are not linked by any statutory or regulatory requirement. Denmark, by the way, maintains a 30-year mortgage without the need for GSEs or other government support, and at a *lower* cost to borrowers than in the United States.

But reality does not matter to the Fannie/Freddie supporters in Congress who keep using this scare tactic. (There's also the undeniable fact that even if Fannie and Freddie were completely shut down, not one single person would lose their home, but let's save that for another day.)

In that same spirit of denial, the Democratic senators (and their witnesses) tried to minimize the fact that private equity firms bought the bulk of foreclosed homes *from federal agencies*. That's a very inconvenient fact, of course, for those who want to absolve federal policies from having harmed housing markets.

Still, the Democrats want Americans to ignore all of this while they make it easier for Fannie and Freddie to enable more low-equity lending.

Aside from these distractions and contradictions, Democrats also want Americans to believe that the most abysmal housing policies of the 1900s will finally work in the 21st century. As mindboggling as it may seem, the centerpiece of their housing policy is to expand public housing and increase rent subsidies. At least one witness even called for implementing rent control, though I don't believe the reconciliation bill includes such a provision. (Not yet at least.)

Senator Schumer (D-NY) is even trying to bring back earmarks.

Schumer asked for, and appears to have received, an extra $40 billion in federal funds to give to the New York City Housing Authority. According to Michael Hendrix of the Manhattan Institute, this amount represents approximately $250,000 for every family living in public housing in New York City.

This agenda is destined to fail. It will make housing more expensive, thus giving rise to calls for yet more government involvement. It will also let Congress avoid addressing the really tough issues, such as the underlying economic and social problems that make it difficult for some people to earn income and build wealth.

But just like always, it's easier to throw (someone else's) money at a problem than to actually fix it.