



# Mark Wright

Increase supply of housing, incentivize private sector to build more, recognize trade-offs and shared sacrifice

A Minnesota Affordable Housing Policy Interview

*July 12, 2019*

Minneapolis Federal Reserve Bank's Mark Wright argues that increasing housing supply is critical to addressing the issue of housing affordability. He also cites policies that governments must reform, because they drive up the cost of housing. He says government subsidies should rightly be targeted to the housing needs of people at very low income levels.

## Present

Tom Ables, John Adams, Helen Baer, John Cairns (vice chair), Janis Clay (executive director), Ruth Lambach, Clarence Shallbetter, T Williams, Mark Wright.

## Summary

Mark Wright, senior vice president and director of research at the Federal Reserve Bank of Minneapolis, emphasizes three overarching points that he says are crucial to addressing the issue of housing affordability: 1) It is critical to increase the supply of housing; 2) The problem is enormous, bigger than available governmental dollars; while subsidies will play a role, it is critical to incentivize the private sector to build more; and 3) Solutions will involve trade-offs and shared sacrifice.

Wright says the Minneapolis Fed is undertaking research and will produce a series of reports on housing issues. He notes that housing is a relatively new initiative for the Minneapolis Fed, but is highly related to core Fed concerns.

He argues that governments must reform policies-such as zoning, regulations and minimum lot-size requirements-that drive up housing costs. And there should be more areas zoned for multi-family rental housing, he says. Other cost drivers include the high costs of land, land preparation and utilities, he says.

Wright says the market will never be effective in producing housing for people at very low income levels. He believes government subsidies should rightly be targeted to that group's needs.

Wright notes that public-policy decisions on housing involve trade-offs and shared sacrifice. He cited the example of increasing density and enacting zoning changes will change the character of a neighborhood and may significantly reduce green space. While such changes might be deemed necessary, he says, there are costs associated with every choice and trade-offs must be understood and acknowledged.

## Biography

Mark L. J. Wright is senior vice president and director of research at the Federal Reserve Bank of Minneapolis. In this role, he oversees key research efforts at the Minneapolis Fed and advises the Bank's president on monetary policy and related matters. Prior to coming to Minneapolis, Wright was a senior economist and research advisor in the Economic Research Department at the Federal Reserve Bank of Chicago.

Wright has been an associate professor at the University of California, Los Angeles, and an assistant professor at Stanford University. He has been an economist and advisor to the Reserve Bank of Australia and the Federal Reserve Banks of San Francisco and Minneapolis, as well as an instructor at the International Monetary Fund (IMF) Institute. He is currently a faculty research fellow of the National Bureau of Economic Research and serves on the editorial boards of the *Journal of International Economics*, *Economics Letters*, and the *Journal of Monetary Economics*.

Wright received a B.A. in economics from the University of Sydney, Australia, and an M.A. and a Ph.D. in economics from the University of Chicago. His research examines the macroeconomics of developing countries, with a specific focus on their tendency to be prone to international financial crises. Much of his recent work has been devoted to sovereign default and the process by which sovereign debts are restructured.

## Background

The Civic Caucus is undertaking a review of the issue of affordable housing in Minnesota. The Caucus interviewed Mark Wright of the Federal Reserve Bank of Minneapolis. To see all of the previous Civic Caucus interviews on affordable housing, go to [the Civic Caucus website](#).

## Discussion

**Federal Reserve Bank of Minneapolis.** The Federal Reserve System is the central bank of the United States. Congress created the Federal Reserve through a law passed in 1913, charging it with the responsibility to foster a sound banking system and a healthy economy. This broad mission remains today for the Federal Reserve Bank of Minneapolis and the 11 other Federal Reserve Banks, each serving a specific region of the country. The Minneapolis Fed, with one branch in Helena, Montana, serves six states of the Ninth Federal Reserve District: Minnesota, Montana, North Dakota, South Dakota, 26 counties in northwestern Wisconsin, and the Upper Peninsula of Michigan. Each regional bank takes care to be aware of and receptive to the interests of its region.

**The Minneapolis Fed is undertaking research and will produce a series of reports on housing issues.** The Minneapolis Fed has a long and strong research tradition. In the two years since he started with the Minneapolis Fed, Wright has traveled the large region the bank serves, meeting people and listening to their concerns. Two issues have surfaced of particularly high concern: child care and affordable housing.

Housing is a relatively new initiative for the Minneapolis Fed. It is of great interest to the Fed, because it is highly related to core Fed concerns of maximizing employment and equitable access to mortgage finance. Adequate, stable housing is central to success in virtually every aspect of people's lives. Also, home ownership has been a traditional path to wealth accumulation.

***Star Tribune* Op Ed piece on affordable housing. *Star Tribune* Op Ed piece on affordable housing.** In October 2018, Wright, along with Ron J. Feldman, wrote a *Star Tribune* op-ed piece, "[Affordable Housing Crisis Demands More Supply](#)" (October 18, 2018). In the piece, they argued forcefully that increasing housing supply is critical to addressing the issue of housing affordability and said governments must reform policies that drive up housing costs. Wright noted that they have received considerable push-back from some people on these views.

**We must understand and acknowledge trade-offs and shared sacrifice.** Wright emphasized three overarching points: 1) it is critical to increase the supply of housing; 2) the problem is enormous, bigger than available governmental dollars; while subsidies will play a

role, it is critical to incentivize the private sector to build more housing; and 3) solutions will involve trade-offs and shared sacrifice.

**For people at very low income levels, housing must essentially be made free.** A previous speaker, developer Steve Wellington, had made that point in a Civic Caucus interview. (See [notes of Wellington's May 5, 2019, interview](#) .) Wright agreed that the market will never be effective in producing housing for that population and went on to say that government subsidy dollars should rightly be targeted to that need. Robust economic growth over the past decade has caused the size of that group to decline somewhat, he said.

Wright has seen some inventive and promising solutions. He noted that plumbing, kitchens and bathrooms, for example, are very expensive components of construction costs. He has seen some creative efforts with making those components shared space in certain kinds of living arrangements.

An interviewer observed that interest can be a big cost and pointed to the profit motive of banks as a cost driver. Wright responded that the Minneapolis Fed has a reputation of being quite tough on the banking industry. Its diverse board of directors represents the broad range of interests of the large area it serves, including small and community banks, as well as large banking interests. Wright referenced the [November 2016 Federal Reserve Bank of Minneapolis report \*Minneapolis Plan to End Too Big to Fail\*](#), which recommended substantially increased equity-capital requirements for large banks.

**Factors curtailing housing supply.** An interviewer asked what has happened to curtail supply. During the 1940s and 1950s, there was booming construction, particularly in the expanding suburbs. This had the effect of releasing older existing housing, thus lowering prices closer to the core city and making that core-city housing more affordable. What has happened over the last 20 years or so to reverse that?

Wright answered that it has become extremely expensive to construct a newly-built home, about \$350,000, and \$250,000 to construct an apartment. Even a one-bedroom, low-rise apartment without parking will cost \$175,000. Modular construction will do little to help, since costs still involve high-budget items, such as land preparation and utilities. Also, buyers increasingly do not want homes with small square footage and that are not well maintained.

Wright noted that in the 1960s, some 40 percent of houses were factory-built, such as the Sears "kit" homes, which offered affordable homes by way of the famous Sears catalog. The mid-century saw large-tract home subdivisions, along the Levittown model. Wright also

cited the rise of manufactured housing. Traditional builders began to be highly subsidized by the federal government in the form of the mortgage-interest deduction and through changes in HUD rules.

In the 1980s the cost of money increased, curtailing the easy financing of new homes. The decade also saw restructuring of interstate banking and the Savings and Loan crisis. Wright noted that interest rates are now at historically low rates.

**Rental versus owning.** Undervalued properties are being purchased, rehabbed and turned into rental housing. An interviewer brought this up and said it acts to the detriment of neighborhoods. Wright acknowledged the issue, but posited that there may be too much emphasis on ownership. Many other countries rely far more heavily on rental and on public housing. On the flip side, however, we must keep in mind home ownership's role as a tool for wealth creation, a role rental does not serve.

**High building costs.** An interviewer asked what would bring down high building costs. Wright listed some big cost drivers. For a single-family house, the costs of land and of utilities are significant, particularly where zoning requires large lots. Zoning and regulatory changes could be considered to reduce lot sizes for single-family homes and to allow for the construction of multi-family buildings.

An interviewer pointed to the effect of a high debt load in hampering an individual's ability to get into housing. Wright noted that, while predatory lending practices have certainly existed, on the flip side is the importance of allowing people to maintain autonomy over their borrowing decisions.

**Lack of a comprehensive plan.** An interviewer bemoaned the lack of a comprehensive plan on these important policy matters, a plan articulating the ultimate goals, who makes these decisions and what actions are required. Wright discussed his view of the role of a public servant, basically to provide a comprehensive and well-thought-out menu of options and consequences.

For example, he explained, increasing density and enacting zoning changes will change the character of a neighborhood and may significantly decrease green space. While such changes may be deemed necessary, there are costs associated with every choice, and tradeoffs must be understood and acknowledged. What makes this tough is that small things add up to something big.

Wright returned to the three overarching points with which he began:

1. The supply of housing must be increased.
2. This requires incentivizing the private sector.

3. And, importantly, solutions will involve trade-offs and shared sacrifice.

**The expense of new infrastructure.** An interviewer asked who should bear the expense of new infrastructure, such as roads and utilities, when housing is extended into new areas. Should it be those building and purchasing the new housing or should the burden fall on those already living in the community? Wright responded that this is a very important question and requires accurate measurement and more study.

**Naturally Occurring Affordable Housing (NOAH).** An interviewer brought up the importance of Naturally Occurring Affordable Housing (NOAH) and asked by what means it should be protected and preserved. Wright agreed that NOAH is an important resource, especially given the very high cost of new construction. He often sees proposals to prevent owners from selling or making changes that would threaten NOAH. Wright argues that this is the wrong approach. A better way to preserve NOAH, he believes, is to build new housing that will attract buyers, who will then tend to leave NOAH available to fill the need for affordability.

Another interviewer brought up a less positive aspect of NOAH. Letting housing become less desirable, and thus more affordable, can be seen by some as letting their neighborhoods decline, which they do not see as a positive. Also, when the price of existing housing is bid up, this serves an important part in wealth accumulation to the owner when the property is sold. These matters have to be approached with great care, with understanding and with the consent of community members.

**Closing Remarks.** Wright closed by noting that there are costs and tradeoffs associated with every choice. Expect to see more research and a series of reports coming from the Federal Reserve of Minneapolis.