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# The Housing Barrier: How Government Drives Up Costs and How to Tear It Down

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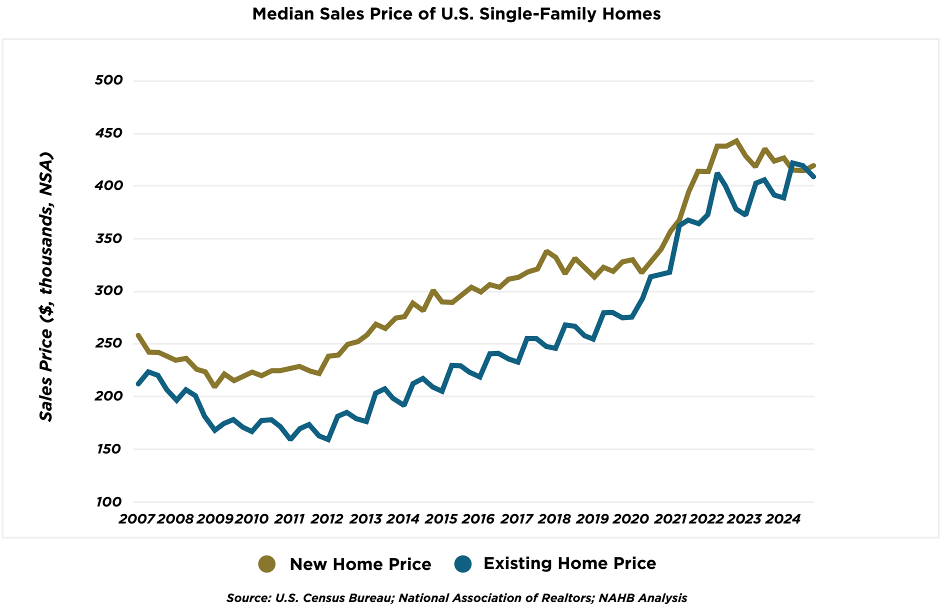
How Big Government Made Life Unaffordable and How to Fix It

# INTRODUCTION

Americans are rightly worried about the cost and availability of housing. During the pandemic, prices of both new and existing homes began rising at rates unprecedented in recent memory (Figure 1). Rents of primary residences grew more than 30% between January 2020 and February 2026, far faster than the general rate of inflation.[1]

**As Figure 1 shows, existing homes surpassed new homes in price in early 2024, a possible indication that something was going awry in U.S. real estate markets.** One plausible explanation is that new homes are disproportionately being built in places that are already affordable, while regions with restricted housing supply continue to suffer from high costs. Historically low inventories of for-sale homes and vacancy rates in rental housing have also contributed to the public's unease about housing.[2]

**FIGURE 1: Single-Family House Prices Since 2007**

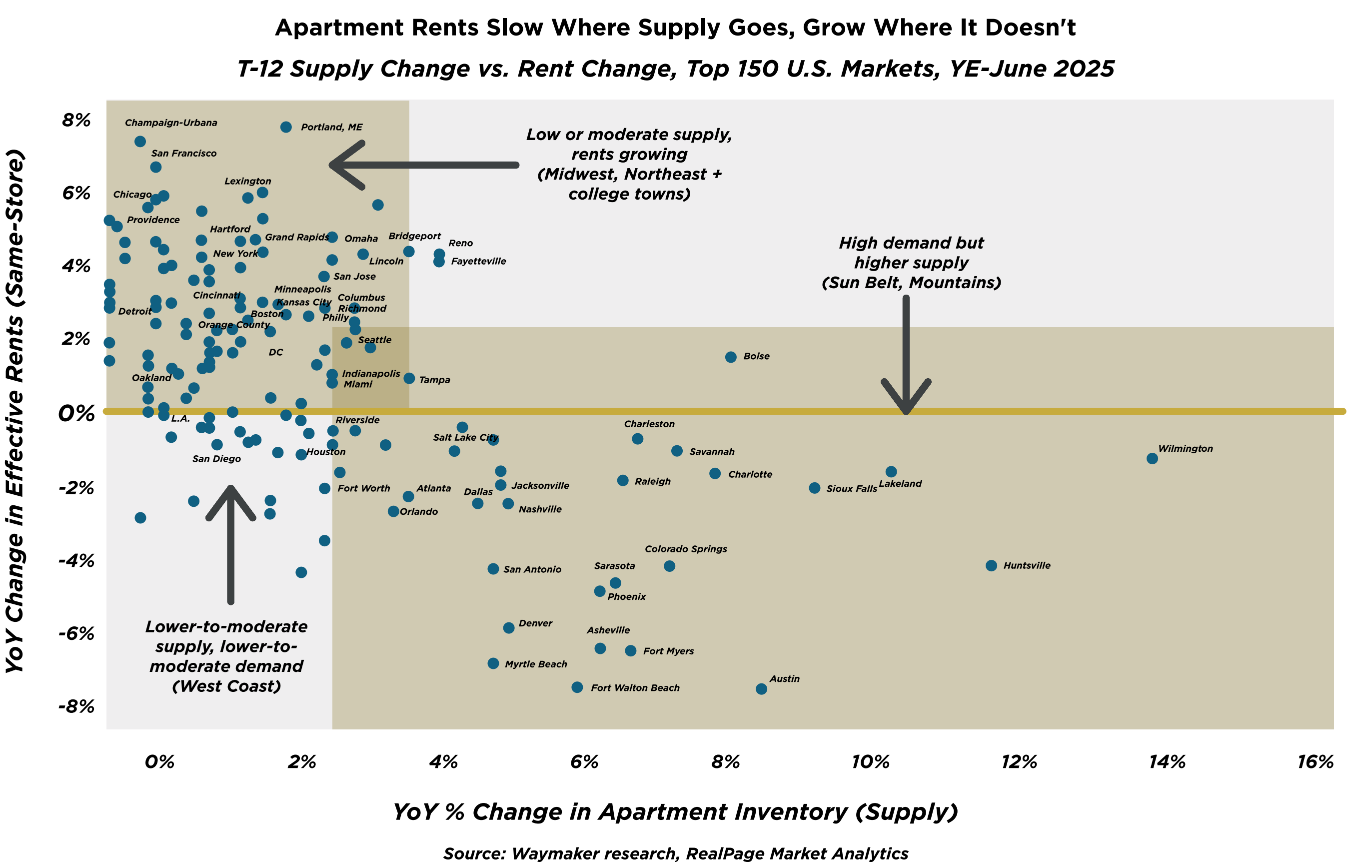



1 U.S. Bureau of Labor Statistics, "Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average," FRED, Federal Reserve Bank of St. Louis, n.d., https://fred.stlouisfed.org/series/CUUR0000SEHA.
2 National Association of Realtors, Existing-Home Sales (months' supply/inventory), https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales; and U.S. Census Bureau, Housing Vacancies and Homeownership (CPS/HVS), https://www.census.gov/housing/hvs/.

**A surge in homelessness has accompanied this rise in housing costs.** While myriad factors contribute to homelessness, housing availability and affordability remain one of the most consistent predictors. Initially suppressed by an unsustainable eviction moratorium, U.S. homelessness counts rose 12.1% between January 2022 and January 2023, and a further 18.1% between January 2023 and January 2024.[3] Cities with higher housing costs also have higher homelessness counts.[4]

**The housing crunch in America is a local and regional problem.** Low-demand parts of the country have not seen significant price increases, but high-demand areas, particularly in desirable locations in the Rockies, New England, the Pacific coast, and the Sun Belt, saw prices skyrocket in the early 2020s. Places that subsequently built more housing, chiefly in the South and Southwest, then saw house prices and rents moderate (Figure 2).

**FIGURE 2: Apartment Inventory and Rent Change, First Half of 2025**




3 U.S. Department of Housing and Urban Development, "2024 AHAR: Part 1 Point-in-Time Estimates," n.d., https://www.huduser.gov/portal/datasets/ahar/2024-ahar-part-1-pit-estimates-of-homelessness-in-the-us.html.

4 Rebecca Baird-Remba and Alex Horowitz, How States and Cities Decimated Americans' Lowest-Cost Housing Option (Pew Research Center, 2025), https://www.pew.org/en/research-and-analysis/issue-briefs/2025/07/how-states-and-cities-decimated-americans-lowest-cost-housing-option; Hanna Love and Tracy Hadden Loh, Homelessness in U.S. Cities and Downtowns: The Perception, the Reality, and How to Address Both (Brookings Institution, 2023), https://www.brookings.edu/articles/homelessness-in-us-cities-and-downtowns/.

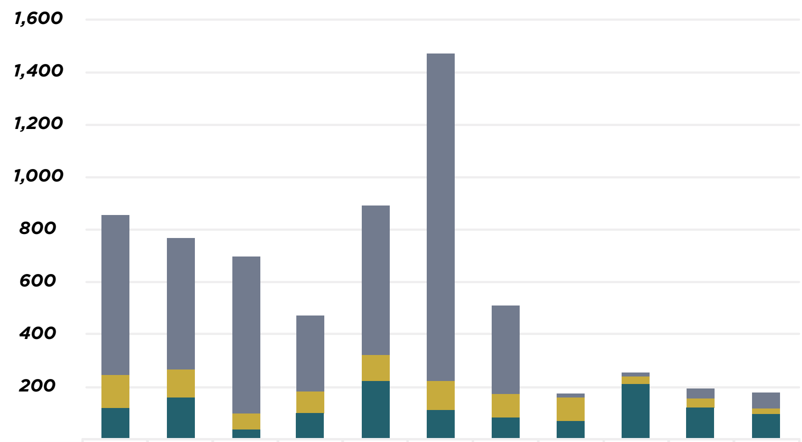
**The key to more available and affordable housing is boosting supply, by which economists mean increasing the housing output produced per unit of land, capital, and effort, and reducing per-unit costs.** When construction productivity grows, builders can deliver more housing at lower cost and still make a profit in a competitive market.

**Two "solutions" to high housing costs do not work: subsidizing demand and hiding the costs.** Subsidizing demand through homebuyer incentives, rental subsidies, and the like while supply is constrained does little to help renters and homebuyers; existing property owners capture most of the benefits through higher prices.

**Rent control and rent stabilization laws do not reduce the cost of rental housing; they merely hide it.** Rent control causes landlords to skimp on maintenance and pass on every fee they can to tenants. Landlords will also take advantage of every available legal provision to evict tenants and/or reset rents (for example, through major renovations), or will convert rental housing to offices or condominiums. Rent control encourages queuing among prospective tenants and locks existing tenants into housing that may no longer make sense for their work or family situation. The prospect of rent control discourages builders from developing housing in the first place, as Montgomery County, Maryland, recently discovered (Figure 3). As a result, in the long run most tenants themselves lose out from rent control.[5]

**FIGURE 3: Residential Permitting in Montgomery County, Maryland (Rent Control Enacted July 2024)**

***Residential Building Permits by Type, January 1, 2022 to August 31, 2025***




| | 2023 Q1 | 2023 Q2 | 2023 Q3 | 2023 Q4 | 2024 Q1 | 2024 Q2 | 2024 Q3 | 2024 Q4 | 2025 Q1 | 2025 Q2 | 2025 Q3 ytd |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Multifamily* | 603 | 490 | 591 | 284 | 555 | 1,240 | 313 | 8 | 7 | 23 | 54 |
| *Accessory Dwelling Unit* | 8 | 8 | 7 | 5 | 13 | 9 | 17 | 6 | 1 | 8 | 4 |
| *Single Family Detached* | 114 | 108 | 62 | 81 | 102 | 106 | 88 | 86 | 35 | 33 | 20 |
| *Townhouse or Duplex* | 125 | 159 | 35 | 101 | 218 | 114 | 88 | 73 | 210 | 124 | 97 |

*Multifamily* *Accessory Dwelling Unit* *Single Family Detached* *Townhouse or Duplex*

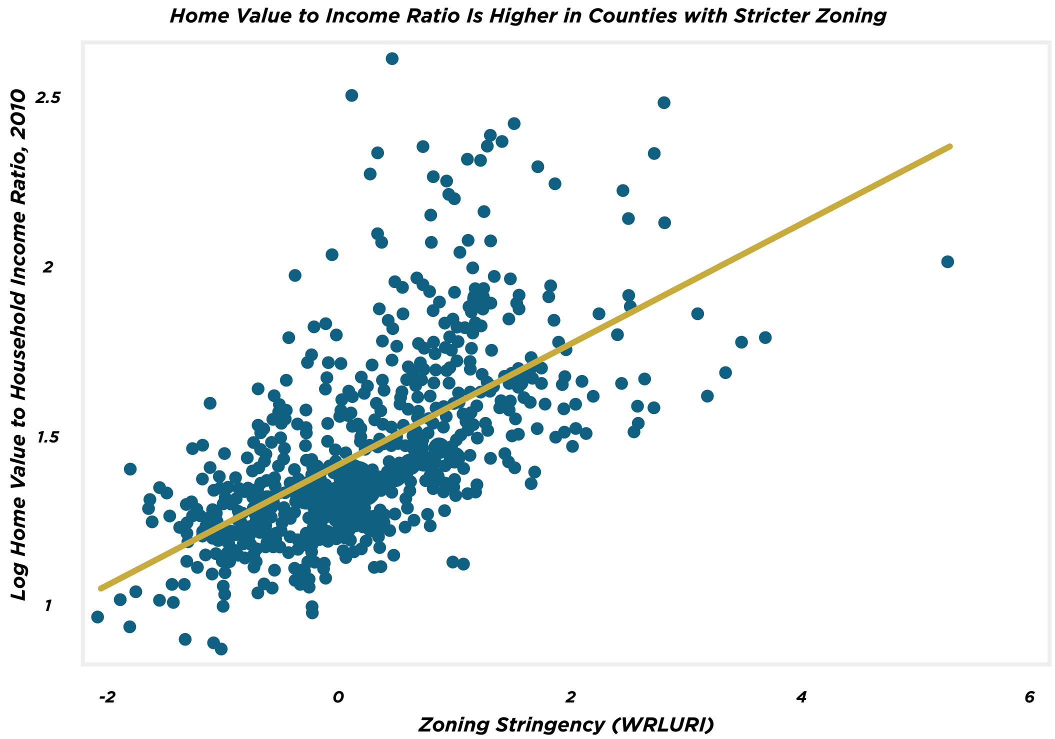
*Source: Montgomery County Department of Permitting Services, tabulated by Montgomery Planning 9/15/25; data subject to revision*

5 Joseph Gyourko and Peter Linneman, "Equity and Efficiency Aspects of Rent Control: An Empirical Study of New York City," Journal of Urban Economics 26, no. 1 (1989): 54–74; Dirk W. Early, "Rent Control, Rental Housing Supply, and the Distribution of Tenant Benefits," Journal of Urban Economics 48, no. 2 (2000): 185–204.

**A growing body of evidence shows how reducing certain government regulations affects new housing construction and housing costs.** There are three types of regulations that need reform: (a) limits on how much housing you can build per unit of land, (b) requirements that housing include features not demanded by consumers, such as energy-efficiency mandates, and (c) unnecessary costs and delays in the building permit process. Reforming these regulations generates housing abundance not just in the jurisdiction enacting the reform, but in the broader housing market around that jurisdiction.[6]

**In the United States, housing costs are closely related to zoning regulations at the county level (Figure 4).** Causation could go both ways here, but these statistics are consistent with the economic literature that carefully distinguishes cause and effect.

**FIGURE 4: Zoning Stringency and Housing Affordability, U.S. Counties, 2005–2010**




**If these regulations are so bad, why do we have them? Starting in the late 1960s, the United States and most other industrialized countries shifted from a "we can build it" attitude to a fear of change.**[7] Some of this fear stemmed from environmental concerns.[8] Adding layers of review, requiring more studies, giving self-selected members of the public more opportunities to voice opposition, and empowering interest groups to

6 Simon Büchler and Elena Lutz, "Making Housing Affordable? The Local Effects of Relaxing Land-Use Regulation," Journal of Urban Economics 143 (2024): 103689; Ryan Greenaway-McGrevy, "Can Zoning Reform Reduce Housing Costs? Evidence from Rents in Auckland," Working Paper No. 16, preprint, University of Auckland Economic Policy Centre, 2023; Ryan Greenaway-McGrevy, "Evaluating the Long-Run Effects of Zoning Reform on Urban Development," Regional Science and Urban Economics 111 (2025): 104062; Vincent Rollet, Zoning and the Dynamics of Urban Redevelopment, Working Paper / Technical Report (Massachusetts Institute of Technology, 2025), https://vrollet.github.io/files/city_structure.pdf.

7 Alan Cole, "Why America Can't Build Quickly Anymore," Full Stack Economics, March 17, 2022, https://www.fullstackeconomics.com/p/why-america-cant-build-big-things-any-more.

8 William A. Fischel, "The Rise of the Homevoters: How the Growth Machine Was Subverted by OPEC and Earth Day," paper presented at Kreisman Initiative conference "Bringing It All Back Home: Evidence and Innovation in Housing Law & Policy," University of Chicago, June 2016.

sue the government for allowing private individuals to use their own land all promised to ensure that "nothing bad will happen."

**But stopping land development doesn't stop change.** Instead, "America's frozen neighborhoods," as Yale law professor Robert Ellickson puts it, have priced out most Americans and become havens of privilege and wealth.[9] Without new homes for new generations of Americans, some of the most productive cities on earth have simply locked out most young people and middle- and lower-income workers.

**We can reform land-use and building regulations and processes without harming the environment or threatening the amenities that existing homeowners enjoy in their neighborhoods.** To boost housing supply, policymakers should focus on policies that address the most important costs that deter building or make housing expensive. The most important are the costs of land, legal compliance, labor, and materials. Policies that enable more efficient use of land, buildings, and materials help lower per-unit costs of new housing.

Here are some of the most significant policy ideas for addressing each of these costs, grouped by federal, state, and local opportunities.

## *Federal Opportunities*

**The role of the federal government in housing policy should be narrow and focused on protecting property rights.** Decisions about where housing is built belong to developers, lenders, and consumers in the marketplace. To the extent regulation is needed to limit nuisances or prevent abuses, state and local governments are better situated to provide it than is the federal government. **The problem is that federal policy has driven housing costs upward: deficit spending and easy money from the Fed pushed inflation up and supercharged housing demand during the pandemic;** Davis-Bacon wage mandates inflate construction labor costs on federally contracted projects; National Environmental Policy Act (NEPA) review requirements add years and millions of dollars to federally funded developments; tariffs on lumber and steel raise materials prices nationwide; and federal transportation grants flow freely to localities that actively restrict housing growth, effectively subsidizing the obstruction. Federal reforms should remove regulatory barriers and unleash the private sector to build.

**On the land side, the federal government should sell land with no significant conservation value in high-pressure markets such as Las Vegas and Salt Lake City.** Increasing the supply of developable land directly reduces land costs across each market.

**On the legal and financial side, Congress should allow immediate expensing of residential construction costs and eliminate NEPA review requirements for housing developments that receive federal funding.** It should also reduce federal transportation grants to localities with below-average per capita housing permitting rates despite above-average housing costs—a targeted incentive for localities to permit more housing development.

**Workforce and materials cost reforms round out the federal agenda.** All federally subsidized housing development should be exempt from prevailing wage requirements under Davis-Bacon that drive up labor costs. Currently, only projects that rehabilitate or build seven or fewer units are exempt.[10]

9 Robert C. Ellickson, America's Frozen Neighborhoods: The Abuse of Zoning (Yale University Press, 2022).
10 HUD, "When Do Davis-Bacon Requirements Apply to Construction on Residential Property?," 2015, https://www.hudexchange.info/faqs/2252/when-do-davis-bacon-requirements-apply-to-construction-on-residential/.

On materials, the Administration should reduce or eliminate tariffs on building materials such as lumber and steel, cease incentivizing states to adopt expensive new energy codes, and follow up President Trump's recent Executive Order on stormwater regulation with legislation to codify its intent and prevent future EPA reversal—regulations that require expensive mitigation measures such as retention ponds even though in many cases these measures probably do not measurably reduce harmful runoff.[11]

## *State Opportunities*

**Within a framework of free markets and limited government, states should check overreach by both federal and local governments.** They should resist unfunded mandates and regulatory strings attached to federal dollars while also limiting local government attempts to weaponize land-use rules to push growth onto their neighbors. Most states have failed on both counts, adding their own layer of costs through environmental review mandates, occupational licensing, and unnecessarily complex building codes, while leaving localities a free hand to obstruct growth. The following reforms would dissolve much of this dysfunction.

**The most consequential state-level changes involve land use.** States should legalize starter-home developments (single-family houses on small lots) in places with adequate infrastructure, and should similarly legalize lot splits and conversions of single-family homes into apartments in such places. This and other "zoning" reforms that allow more housing to be built on a given amount of land will reduce land costs per unit built.

**Multifamily housing should be allowed in areas already zoned for general commercial purposes like professional offices and retail.** Accessory dwelling units (ADUs) should be permitted by right on single-family lots, limiting localities' ability to impose additional dimensional or parking regulations. ADU legalization has proven popular among suburban homeowners, giving them a clear stake in increased housing supply.

**Where strict urban growth boundaries exist, such as those in Hawaii, Maine, Oregon, and Washington, they should be relaxed or eliminated.** States should also smooth the way for infrastructure improvements by allowing developers to pay to extend or upgrade water and sewer lines and by limiting local ability to arbitrarily refuse utility connections.

**On the legal and regulatory side, states should exempt housing developments from state environmental review laws like those currently in force in Washington, Vermont, New York, and California.** They should forbid local rent control and mandatory inclusionary zoning, which effectively taxes new development by requiring multifamily developers to offer a certain percentage of units at below-market rents.

**States should also enact a regulatory takings compensation law modeled after Arizona's, which requires local and state governments to compensate a landowner for new land-use regulations that diminish land value by removing development rights without consent.** This law would place a "price" on local governments' decisions to revoke development rights. They could still do so, but would have an incentive to do it only when they can create large benefits for their residents.

**States can also significantly streamline the permitting process.** A "housing appeals board" could quickly and affordably adjudicate disputes between property

11 Judge Glock, "Building a New House? This Little-Known Rule Could Cost You Thousands," Washington Post, February 4, 2026, https://www.washingtonpost.com/opinions/2026/02/04/housing-stormwater-regulations/; The White House, "Removing Regulatory Barriers to Affordable Home Construction," March 13, 2026, https://www.whitehouse.gov/presidential-actions/2026/03/removing-regulatory-barriers-to-affordable-home-construction/.

owners and local governments on housing development matters. Carefully defining site plan review and subdivision approval processes in law would allow them to be handled by technical experts and, to the extent possible, exempted from public hearings and discretionary review by elected officials. Authorizing third-party private inspections of documents and structures as an alternative to public building inspector approval and setting firm deadlines ("shot-clocks") on state and local review of permit applications would further reduce the delay. Exempting more housing developments from state permitting requirements like endangered species, driveways on state highways, terrain modification, etc., and centralizing permitting in one or two state agencies, would reduce complexity and cost.

**Property tax structure matters too, and should encourage rather than discourage development.** Homestead exemptions, assessment caps, and poorly designed revenue or spending caps that do not exclude new development violate this principle, as do school finance schemes that redistribute from high-value to low-value localities. When the fiscal benefit of new development is redistributed away, a locality has less incentive to welcome growth. States should design tax systems that reward growth, not penalize it, and should reduce state funding to localities with below-average per capita housing permitting rates despite above-average housing costs.

**On labor costs, states should ease or eliminate the burden of occupational licensing on construction contractors.** Half of states already do not license general contractors, and several states, including Kansas, Missouri, Nebraska, New York, and Pennsylvania, do not even license electricians, plumbers, or both. There is no evidence of worse safety outcomes in those states, but licensing contractors limits the supply of professionals and increases their cost.[12] States should also preempt arbitrary local requirements such as mandates that a licensed engineer be physically present during all multifamily construction.

**On material costs, states should adopt uniform statewide building codes that limit local government technical amendments, and should modernize those codes to reduce construction costs in three specific ways:** allowing the construction of new single-stair multifamily buildings up to six stories provided they have modern fire safety features;[13] allowing small multifamily structures to be built under the International Residential Code rather than the International Building Code;[14] allowing the construction of smaller elevators under European standards.[15] States should also legalize manufactured housing in residential districts, cap localities' minimum unit sizes, which can often be used to discourage manufactured housing, and eliminate or cap parking minimums on residential developments. Parking minimums encourage too much paving, which has environmental, economic, and aesthetic costs.

## *Local Opportunities*

**Local governments are closest to the people and closest to the housing problem.** They should make zoning and permitting decisions based on the best interests of the whole community rather than the demands of the tiny but highly motivated anti-change groups that disproportionately turn out for local elections and development hearings.

**A principled framework at the local level would plan infrastructure to accommodate growth and use land-use rules intelligently to limit true nuisances and**

12 Morris M. Kleiner and Evan J. Soltas, "A Welfare Analysis of Occupational Licensing in US States," Review of Economic Studies 90, no. 5 (2023): 2481–516.
13 Seva Rodnyansky et al., Small Single-Stairway Apartment Buildings Have Strong Safety Record (Pew Research Center, 2025), https://www.pew.org/en/research-and-analysis/reports/2025/02/small-single-stairway-apartment-buildings-have-strong-safety-record.
14 John Zeanah, Beyond Zoning: Hidden Code Barriers to Middle-Scale Housing (Center for Building in North America, 2026), https://admin.centerforbuilding.org/cfb-publication/beyond-zoninghidden-code-barriers-to-middle-scale-housing/.
15 Stephen Smith, Elevators (Center for Building in North America, 2024), https://centerforbuilding.org/publication/elevators.

**ensure that new development pays its own way.** All too often, however, local governments cater to loud voices that want to stop any growth at all, thus pushing that growth further and further away from the jobs and amenities that attract new residents and keep young people in the community. They do this through irrational mandates like parking minimums, sprawl-inducing minimum lot sizes and maximum densities, and costly, time-consuming discretionary reviews. The following reforms would reorient local policy toward housing abundance:

**On land costs, localities should allow mixed-use buildings wherever general commercial development is permitted, and reduce or eliminate minimum road frontage requirements that constrain how land can be assembled and developed.** Density bonuses tied to clustering and permanent conservation can simultaneously reduce road costs and build public support for new housing in suburban and rural areas. Local road standards should also be examined: narrower widths can enhance both safety and neighborhood aesthetics while opening space for buildings. Some fire departments oppose these changes because their existing fleets require wider clearances. Local officials should accordingly investigate and evaluate the comparative safety costs and benefits of wide roads.[16]

**On legal costs, the central reform is straightforward:** allow more development "by right" rather than by discretionary permits that give anti-growth interests multiple opportunities to delay or block projects. Impact fees, where they exist, should be properly calibrated to "make development pay its own way," giving residents an incentive not to oppose new development but also not unduly discouraging development.

**On material costs, localities can go further than state law requires on parking.** Beyond eliminating all parking minimums, they can allow on-street parking in more places, set market prices on on-street parking to ensure availability, and return parking revenues to the block where they are collected (the "Shoup solution").[17] Localities should also legalize single-room occupancies in downtown areas. These shared-kitchen, shared-bathroom arrangements are the lowest rung on the housing ladder and can meaningfully reduce homelessness. Finally, though some aesthetic standards may be appropriate in established or historic neighborhoods, local governments should refrain from applying aesthetic standards that significantly increase construction costs in new subdivisions—bans on vinyl siding, granite curb mandates, and similar requirements add cost without adding proportionate value.

## *Conclusion*

**The American people are demanding solutions to scarce housing and soaring housing costs.** We can solve these problems at minimal cost to taxpayers by simply getting the government out of the way. Governments at all levels have put heavy burdens on private land development, especially for residential uses. While many of these restrictions have been well-intentioned, they have caused a great deal of harm, especially to the young and to the working class. Fortunately, policymakers have a large menu of reform options from which to choose. If the American dream is to be a realistic opportunity for rising generations, we must tear down the barriers preventing them from attaining affordable, stable housing.

16 Laura Bliss, "The Fire Trucks Are Too Damn Big," Bloomberg CityLab, December 11, 2018, https://www.bloomberg.com/news/articles/2018-12-11/fire-trucks-and-engines-are-too-big-let-s-shrink-them.
17 Donald Shoup, The High Cost of Free Parking (Planners Press, American Planning Association, 2005).

## About the Author

Jason Sorens, Ph.D., is Distinguished Fellow in Political Economy at AIER. He is also Principal Investigator on the New Hampshire Zoning Atlas. Jason was formerly the director of the Center for Ethics in Society at Saint Anselm College. He has researched and written more than 20 peer-reviewed journal articles, a book for McGill-Queen's University Press titled Secessionism, and a biennially revised book for the Cato Institute, Freedom in the 50 States (with William Ruger).

His research is focused on housing policy and land-use regulation, U.S. state politics, fiscal federalism, and movements for regional autonomy and independence around the world. He has taught at Yale, Dartmouth, and the University at Buffalo and twice won awards for best teaching in his department. He lives in Amherst, New Hampshire.

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**– Jason Sorens**