

THE **NEW** BAZAAR

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IS THE US ABOUT TO FIX THE HOUSING PROBLEM?

ALEX ARMLOVICH ON A SHOCKINGLY GOOD NEW HOUSING BILL

CARDIFF GARCIA: There is a bipartisan bill making its way through Congress right now, called the ROAD to Housing Act, where ROAD is an acronym that stands for Renewing Opportunity in the American Dream.

And it is a remarkable bill. It's remarkable for a whole bunch of reasons, and I think things are so crazy elsewhere in the news, or in the world, that I don't think the bill has gotten the attention that it deserves. If it becomes law someday, there's a chance that it'll go a long way towards solving one of the most trenchant problems in American life: the housing crisis, the lack of housing availability and affordability.

And I myself would not have known about it, except that today's guest, Alex Armlovich, the Senior Housing Analyst at the Niskanen Center, and his colleagues have convinced me that it is remarkable.

Alex is not just one of my favorite observers of the housing market and of economic trends, he's also somebody who brings a scrutinizing and a skeptical eye to policies generally. So if he likes this policy, it is doing a lot right.

Alex joins me now in the studio and we are gonna talk about different approaches to housing policies, the kind of strange and shifting alliances that support certain policies, and we go into detail on what's in this bill itself, because it not only reflects a lot of good ideas, it also reveals so much of what went wrong and led to the housing problem in the first place.

Then at the end, since Alex and I have both lived in New York City for a while, we're also gonna have a short segment where each of us offers our reflections on housing and construction and just the nature of change in our city. Alex, welcome to the New Bazaar. How are you, man?

ALEX ARMLOVICH: Great. Yeah. Excited to be here.

CARDIFF: So you heard me set up the chat just now. You and I have talked about this before about how when people talk about the housing problem and they say there's not enough housing in the US, they're leaving out something that's kind of big and important. Can you share that with our listeners to start?

ALEX: Yeah, absolutely. So, the original idea of a housing shortage, it kind of started in the high-wage, high-productivity coastal cities and has been spreading. But even as it has involved more and more metro areas getting caught up into this problem of prices above what actually cost us to build a new structure.

CARDIFF: By the way, you're talking about New York, San Francisco, Big—

ALEX: Yeah, it's like seven cities, right? It used to be seven cities, and now it's a lot more than seven. And so, economists use this fancy term, they call it spatial misallocation, and you don't have to worry about that.

It just means that there's not enough houses near where people want to live as symbolized by their choices in the marketplace, by their renting and buying behavior. So that means houses near opportunity, near high wages, good infrastructure and good weather, is the other—

CARDIFF: Good jobs, good amenities.

ALEX: Good jobs, good amenities, and good weather. That is where there is a strong shortfall of housing. It's not a placeless problem. If it was simply a matter of needing a roof to protect you from the rain and walls to protect you from the wind. There are enough physical structures to provide that shelter.

It's that they are in places that don't have that mix of things that people are trying to move to. So if you just needed a roof over your head, there are places in left-behind cities and in rural areas, there's unincorporated rural areas in this country that don't even have zoning codes.

You could—

CARDIFF: Could build as much as you wanted there.

ALEX: Exactly.

If you go 80 miles out from an urban core, far from churches, jobs, family, friends, infrastructure, anything. Anything other than agriculture. Yeah, you can absolutely get shelter over your head there.

But, it's a shortfall of access to the places where people are trying to move to, and then that has knock-on consequences for overcrowding in those areas, homelessness

in those areas when things get — when your management of your daily life gets pushed beyond the economic brink.

And so, in that sense, we like to simplify for messaging purposes, the idea of a national shortage, because there's a way to conceptualize that. But, when people ask me, “Well, Alex, how can I get how—I want to provide housing subsidies to get housing built, how do I get 3 million units built tomorrow, or built now?” And I go, “Well, 3 million units where?”

So if we just wanted to provide — Congress could appropriate funds to build 3 million houses in the woods, in random places.

CARDIFF: In the middle of the Nevada desert or something.

ALEX: Exactly. You could go out to federal land in the desert and be like, here's — and just give away houses there. But you'd be asking people to move away from the places that they're trying to move, where their family, friends, jobs, churches. Everything we do in life is about connecting to and collaborating with other people.

And so yeah, there are vast open spaces in the country where you could build. But what makes a place desirable to live is the presence of other people.

CARDIFF: And certain other things that also make that place desirable. Yeah, that's interesting because when we talk about a national housing shortage of X number of units, that really is way too simple.

It's not like this problem is consistent across all geographies. It is located in certain places.

ALEX: Exactly. Yep.

CARDIFF: So I wanna start also by talking about the shifting coalitions that I just mentioned there at the top. The sort of divide between people who want more housing to be built and to be more easily built in certain places versus I think others who think, number one, that the housing shortage is not necessarily connected to the housing affordability problem.

And number two, the people who think that local residents also should have a big say in whether or not new construction can happen in their areas. So this is the so-called YIMBY (Yes, In My Backyard) versus NIMBY (Not In My Backyard) divide. It's kind of interesting how this has developed over the years because it's not really a left-right problem.

It's not really something that breaks down along easily-defined ideological categories. How do you see the evolution of this divide?

ALEX: Yeah, I mean, I think that as the problem has spread — like it began with an elite consensus. It was kind of like it began in urban economics journals, and then there were some kind of coastal grassroots groups forming in the 2010s. Even a little before that, it was reaching the think tank space.

I came to a New York City think tank in 2013. I was, jokingly, I was like Glaeser-pilled. I wanted to go be an intern where he was a senior fellow.

CARDIFF: A guy named Ed Glaeser, a famous economist who covers housing.

You're talking, by the way, right now, about the YIMBY movement, the people who want more housing to be built.

ALEX: Yeah. That began to build and spread and as the price above production cost problem has spread to more places. It's no longer just New York, Boston, SF. And then it was seven cities and now it's dozens of metropolitan areas.

Even Dallas is starting to see prices get a little bit higher than they should be. And so, I think that has been a forcing mechanism to open minds in addition to the idea that — at some level, the idea that having more houses is necessary to have more houses is not that unintuitive. There's a certain circularity to it that it's like, surely the number of houses has something to do with the availability of houses.

It's amusing that we've had so much trouble, but now when you look back at it, you're like, “Oh, it is kind of funny that it took this long to get people on board with this idea.”

CARDIFF: Yeah. In other words, for the momentum to grow, for more people to favor more building. And I think the approach has been sort of twofold.

Number one is that they believe that local governments who are deeply informed by the feedback of local residents should not have so much power to stop construction.

That's one thing, and then another thing is that, we need to make it easier to build in the first place by having fewer regulatory barriers to building.

So there's number one, the zoning problem, and then there's number two, the fact that building anything in this country, whether housing or anything else, a factory, whatever, also requires a lot of reviews, bureaucratic obstacles, environmental hurdles, that kind of thing. And that is part of the movement that's grown.

I'm kind of curious to know how you see, like any breakdowns within that pro-housing alliance. How does that look to you?

ALEX: Sure. Yeah. I mean, basically, like you said, there's historically a commitment to local controlled land use. And I like to joke that I'm so committed to

local control, that I believe individual landowners should have control over their land.

CARDIFF: Their own land.

ALEX: Their own land. They should have a lot of say — they should have all the say about whether it's legal, whether they should build an apartment building or a duplex on the land that they own. The ultimate local control is devolution to the individual, and so, one thing we raise in our launch paper in 2023 for the team is.

I actually borrow this idea from Catholic social thought. Actually, it's funny — it's actually, when we're talking to conservatives, this could be helpful — there's this principle called subsidiarity, and it's the idea that decision making should be delegated down to the lowest level that is capable of making a good decision.

I like to economize that a little bit and say: delegating to the lowest level of decision-making at which all or nearly all of the costs and benefits of the decision are accrued. So you're kind of the correct catchment area for the spillovers of a decision.

So local governments that are small relative to their labor market area — so like a metropolitan area — if you just have a city of 10,000 people in a metro area of 18 million people, any one decision you make is small relative to the entire region. And so your incentive is only to be like, well, there's nothing I can do about the region. All I can control is traffic and the movement of people in and out of my small place. I'm just gonna focus on regulating growth in my little area. And I'm not worried about what the spillover consequences of the whole region will be.

But then when you have many, many, many of those, they all end up in a kind of collective action trap, where no one of them can upzone enough to provide housing abundance in a high-demand area. So each one of them is like, well, leave me alone — I could upzone, but my neighborhood will never be able to do enough to solve the shortfall in this whole region.

So the regional interests are not represented in that local control. And since we don't have metropolitan governments — and there's no prospect of having them anytime soon — the idea is, we need this joint partnership between state and local control, where it's basically state guardrails on local control. Where they say: you're still gonna have some decision-making power, but you must take into account regionwide and statewide interests in those decisions.

And so that's where moving the decision making up to the level at which those costs and benefits are internalized, that is how you solve this collective action problem.

CARDIFF: The launch paper that you just mentioned there, that's you and your Niskanen colleagues then?

ALEX: Yes. It's called the Agenda for Abundant Housing, came out before the book, but happy to say—

CARDIFF: Before the book, Abundance, by Ezra Klein and Derek Thompson. So you had the phrase first, at least when it came to housing. (CHUCKLING)

ALEX: I mean, I trace it back to Julian Simon, the, the Simon versus Ehrlich bet of way back when the population bomb 1970 stuff, Ultimate Resource by Simon, this kind of abundance thinking does date back to — there's a thread of it going all the way back to the 1970s.

CARDIFF: Yeah. What you said there was interesting, if I followed it correctly, you started by saying, well, at the smallest level, sure. You should be able to control what is on the land that you yourself own. As I understand it though, that the problem is that people are trying to extend their control, their influence, their decision-making, over the land that they don't actually own.

Over their neighborhoods entirely or over their streets, their blocks, whatever, that kind of thing. So when you say that it has to be a partnership between local control, like local governments that might say, we're not gonna up on any of this stuff 'cause the people who live two blocks over don't like it versus the state, because now you're considering a bigger region.

Does that go all the way to the national level? Like where's the cutoff, and how do you decide that kind of thing?

ALEX: So most of the costs and benefits are internalized at the state-level. In theory, there are metro areas that are split at the state line. So it's like, New York but like Cincinnati bleeds over a little bit over the border.

Like, there are places where in theory it does cross state lines. There's also federal income taxes, which are progressive, and so the federal government is the residual claimant of the highest tax rates. Like, when people move to high-wage cities, the federal government gets more tax revenue. So, in theory there's a little bit there, but most of the benefits of growth are internalized by state governments.

CARDIFF: Such as housing growth.

ALEX: Housing growth. There's a small fiscal externality that the federal government is the claimant of, but most of it is collected at the state level.

CARDIFF: Yeah, it's an interesting question because it pertains to what we're gonna talk about later when we get into the bill itself: What is the appropriate role for the federal government? And this bill, which we're not gonna talk about in detail just yet, what it does is it tries to incentivize certain behavior at the state and local level. And I'm kind of curious to know if you have a philosophical thought on what the right

approach is, very generally, of the federal government. What kind of involvement should the federal government have versus state and local?

ALEX: Definitely, yeah. Basically, it is within the federal government's constitutional power to engage in preemptive activities; it's just not in the politics. One reason my team focuses so much on — we'll get to this eventually — the HUD Code chassis reform stuff is because in the 1970s, Congress and the Nixon administration decided they were gonna preempt all state and local law with respect to factory-built housing installed on a permanent chassis.

And so there's a single federal building code for this type of factory-built housing. And if you proposed it today, Congress would be like, "Whoa." But it's one direct federal lever on housing supply and housing regulations that exists. It's a holdover from the 1970s.

So certainly, if there's a broad social consensus on this, there are definitely things the federal government can do that are more direct than what's currently on the menu. But I always say that level of what one might call intrusive federal intervention — I call it a capstone, not a shortcut to reform. Basically, by the time you get there, you need a very broad, kind of supermajority consensus. It's not gonna be an end-run around public opinion.

CARDIFF: Yeah, that makes sense. I have a question about the nature of skylines and building more generally, because one of the worries that people who oppose more housing in their areas sometimes express is that, "Well, I didn't move here so that it would turn into New York City with enormous buildings everywhere."

"I quite like a lower- or medium-level skyline," or "I don't want the nature of where I am to change so radically."

And I'm curious to get your thoughts on the different available options for how to have more housing and more housing availability that doesn't turn your city into New York City. Because I also don't think that even people in New York would necessarily say, "Yeah, the whole country should look like this," right? A little bit of diversity in what the country looks like is a good thing.

ALEX: Yeah, I mean, part of me is like, "Buddy, I wish." It's like — the places where, if zoning did not exist, period — if we just went back to law as it existed in 1915 in this country, before the first zoning code—

So why do skyscrapers exist? It's the response to land prices by builders.

Every property consists of land and structure. When land prices go up, that is a price signal to the builder to substitute more square feet of structure per square foot of land in the property that you have. Like, if land is more scarce, I should substitute more

glass, steel, concrete, wood for dirt, because dirt is more scarce, and I'm getting a pricing signal telling me to do that.

The places where land prices are high enough to support skyscraper density — it's like 0.001% of the country's land. So even in a free-for-all, it just wouldn't be that much of the country.

CARDIFF: It naturally wouldn't happen.

ALEX: And so the funny thing is, like, we're talking about — New York City is 400 square miles, and skyscrapers don't pencil on all of New York City. So it's like, nationwide, maybe with zero growth controls, maybe you'd have a couple hundred square miles of skyscraper-viable land in this country — out of unlimited land.

So it's very funny that there are these tiny, tiny slivers of this country where skyscrapers are viable, where people even want skyscrapers—where people are sending signals through their purchasing and renting behavior that say, "Ooh, I would like a skyscraper here, please." There are so few places, and yet they won't even let us have those little slivers of the country have a bit of skyscraper.

CARDIFF: Yeah. Other parts of the country, I would imagine, though, if you rezone some places that currently only allow single-family homes and just allowed even pretty small apartment complexes.

It wouldn't really dramatically change the skyline that much. Right? You would notice it, maybe, but it wouldn't be that big of a deal. Is that what you're saying? Because I actually don't know how to think about this.

ALEX: Definitely. So the way to predict where this makes the most change is to look at land prices. If land prices are really high, even under single-family zoning — there are parts of Los Angeles where they're building massive infrastructure. They're spending — I don't know, what's Measure M at? Is it \$80 billion? \$120 billion?

CARDIFF: I don't know.

ALEX: It's a very very expensive rail buildout in some of the world's best weather and a relatively high-wage, high-opportunity area.

And yeah, land prices are really high. You're going to get big buildings next to rail stations in Los Angeles, and that's probably okay. But in most of the country, it's exactly like you said — it'll be neighborhoody. There are places like Somerville, a small city next to Boston, that are relatively high in population density, but very neighborhoody and detached in character.

For dyed-in-the-wool urbanists, that can be like, "Eh." If you love New York City, you'll be slightly annoyed by that — "Oh, it's very neighborhoody." But for most of

the country, people are not New Yorkers, and it's actually perfect. You can get 13,000 people per square mile, and it still feels like, outside of the rail stations, it has a suburban character.

CARDIFF: Yeah. You mentioned the book *Abundance* by Ezra Klein and Derek Thompson. And of course, your paper is called *The Road to Housing Abundance*—

ALEX: Well yeah, *Agenda for Abundant Housing*.

CARDIFF: *The Agenda for Abundant Housing*. Great. So very close.

One of the aims of the more recent abundance movement, the one from Ezra and Derek, is to talk to other parts of the left. In fact, they quite explicitly say in the book, "We're not really talking to conservatives here. They have their own set of goals and their agenda. We're talking to the rest of the left. We're trying to convince you that a policy agenda that leads to a really impressive supply side — not in terms of higher or lower taxes, not Reagan supply side stuff, but just the ability to build, to create more stuff, including housing — is a good thing that complements the goals of the left."

And I see within the YIMBY movement on the left, the pro-housing movement on the left, there's still a little bit of tension between, I guess, the center-left, which says we've gotta build a lot more, and a lot of the regulations in place are needlessly obstructing that goal, versus what you might call either the further left or the progressive left, which helped create a lot of the environmental regulations in the first place and still believe it's very important. I'm just curious to know, how do you see that split?

ALEX: Yeah. Most of this is in the realm of symbolic politics. And that's also where we can get into some trouble. Like, when you're talking about it in terms of "deregulation," that becomes a totem — it's a word with power, that has symbolic power. And people will be like, "Well, that's bad."

And then you're like, "Well, do you think that apartments should be illegal next to heavy rail mass transit?" And they're like, "Well, I mean, no, of course not. That's crazy." And you're like, "Well, okay."

CARDIFF: You need deregulation to get that. And so, some deregulation even you would agree with. That kind of thing.

ALEX: And one way out of that, what AOC has tried, which I thought was very clever, whatever you gotta do, she said, "Well actually what we're doing is increasing regulation." Like, "We're improving regulation." Or like, if it's a state guardrail, we're regulating local governments.

So in far-left, kind of—

CARDIFF: Using the right language, but to deregulate where it's appropriate.

ALEX: In 80 percent Democrat, partially socialist jurisdictions, maybe that's what you've gotta do. And if that's what they've gotta do, look—

CARDIFF: What's the rationale though for saying, "No, we're actually increasing regulation here," when what you're doing is making it easier to build something near transit?

ALEX: Because people are rigidly ideological about words with symbolic power. And so—

CARDIFF: You just say it.

ALEX: Right. Whatever you wanna call it. But to cut through the BS, what I always do is say: "Do you support SB 79 or not?" That's the transit-and-jobs upzoning bill in California. You either vote for the bill up or down.

And so like, you either support that or you don't drop the symbolic politics. This is about: Should apartments be legal next to trains, or not?

That's always the move — whenever a conversation gets out of control, just bring it down, make it concrete and be like, set the symbolic politics aside. Should apartments be legal next to trains? Yes, no?

CARDIFF: The explicit connection there, by the way, is that if you build apartments closer to trains, you'll have more people using mass transit, which is itself environmentally more friendly.

ALEX: Exactly.

CARDIFF: And that's how you get past an argument that says more building, generally, is bad for the environment.

ALEX: It's also taxpayer protection. Federally funded mass transit — we're eventually gonna get to the Build More Housing Near Transit Act part of the bill. And when I'm talking to Republicans, I'm like, "This same bill, you could rename it the End Light Rail White Elephants Act."

We spend a whole bunch of money on things, and then ban people from using them. That's not good for taxpayers or transit riders. It's genuinely environmental. It's also genuinely protecting taxpayers.

CARDIFF: Because if more people are using mass transit, they're paying for the fares, and that makes it easier to fund those mass transit projects.

ALEX: Yeah, and you're building a project that people use, instead of building a train that then is forced to be empty. That's bad.

CARDIFF: You've told me before also that some of these collection action problems really matter and that they are sometimes ignored by the pro-housing coalitions. The idea, for example, that people who oppose housing in their neighborhoods, very often advance, in bad faith, by the way, the same arguments everywhere: like, it's gonna lead to more traffic. I don't like how it's gonna change the nature of the neighborhood. People can live somewhere else — that kind of thing. But that sometimes, sometimes they're at least hitting on something reasonable.

Right. The fact that if you build more somewhere, you might actually have more traffic. You might end up changing a little bit the nature of the place in ways that don't make sense. I don't know. I don't wanna give NIMBYs too much credit, 'cause I instinctively gravitate towards the pro-housing side.

But I don't wanna leave that out. I don't wanna simplify it more than is justified. And in particular with the point of transportation, you've said that you can't just separate where people live from how they get around. That is an actual collective action problem where we should be listening to people who have complaints about it and how that might change. Because if not, if you keep those two things siloed, you actually are gonna have some problematic building without the adjacent public services.

ALEX: Yeah. So there's an old-fashioned — there's like a 20th-century story that's supposed to explain why NIMBYism is in voters and localities' self-interest in a kind of rationalist sense.

And this is associated with Bill Fischel at Dartmouth. And it's two ideas. One is fiscal zoning and the home voter hypothesis. So the idea, and I'm going to—

CARDIFF: Yeah, explain those things.

ALEX: —shorten and stylize this a little bit. Home voter hypothesis is the idea that homeowners are like rational shareholder-value-maximizing — like, want to maximize the value of their — they're like corporate shareholders who want to maximize the value of their home. And they vote on that basis. And localities make their planning decisions that way. So that's the home voter hypothesis.

And then that affects local government through this idea called fiscal zoning. If local municipal services are provided as a club good — where you don't charge tuition for public school, you charge property taxes for it — and you basically charge tuition at the borders of the municipality by imposing growth controls to require people to buy enough land per home that they're paying enough property taxes to cover their services.

So basically the idea is that local governments are like little fiscal calculators who are looking at the marginal in-migrant service demand versus property tax generation, and excluding low-income people that might need more intensive services. Maybe their students need an IEP or something in the local school. And if they're in affordable housing, they're going to — if an apartment that has less land per unit is gonna pay lower property taxes per head — this is the rational explanation for it.

Now, there are a lot of behaviors that this explains, but there are also important breakdowns. So if single-family zoning, for example, like, restricting the housing supply, is what always maximizes the value of a home—

My favorite example is in Vancouver. There's a project called Señákw, that is a bunch of Canadian federal land right next to downtown Vancouver that the local First Nations tribe was able to basically prove through their claims process actually belonged to them. So they got this huge chunk of open land right next to downtown Vancouver.

CARDIFF: They could do whatever they wanted.

ALEX: And they have sovereign planning permission over it. So the city of Vancouver does not have—

CARDIFF: They can zone it however they want.

ALEX: Exactly. The city can't tell them how to zone it.

It's sovereign tribal land, so they can decide what to do. Now, if downzoning is what was profit-maximizing, they would presumably just build single-family homes on it. They're not doing that. They're building an enormous, unbelievably large skyscraper development because that is ultimately what is going to maximize the value of the land.

And so it's like, wait a minute. In high demand areas downzoning is actually bad for land values. Like in places like Palo Alto, if you could build a 10 story apartment building, or like pick somewhere in the heart of Silicon Valley, you could bring down land costs per unit and thus average condo prices in that place substantially. You might cut them in half. But what the landowner will get from the uplift from being able to build that many more units, even though each unit is cheaper, you could do 10 stories worth of them, you're going to do fine. If people were just maximizing their wallets, then in high demand areas we would actually see more upzoning. It would look — Palo Alto would look like Señákw, if they were actually trying to maximize their wallets.

CARDIFF: More building, not less. In other words, sort of suggesting that people don't always know what's actually good for them, when they make these decisions.

ALEX: So in response to your question about traffic specifically — yeah, we actually, we hypothesize in our Agenda for Abundant Housing that maybe one of the things that has changed the political economy of housing from the local perspective over time is the transition from America being a walking and transit-based urban civilization to one that is almost completely car-based.

Because when more people come to your city, cars can at best stay as good as they were when it was just you. But they are an inherently congestive technology. When more people come, it can only get worse. Mass transit is a little different 'cause it's like a flywheel technology. People sometimes say it experiences increasing returns to scale. So when more people use it, it gets better.

That means that in the short term, your bus can — the transit agency can afford to run your bus more frequently. Instead of coming every half hour, it can come every 15 minutes or every 7 minutes if there's more riders. Beyond that, if even more people are coming, upgrade that to a rail line. And then like historically in New York City, my neighborhood in Queens, originally it was just the elevated line that had two tracks and one express. As Queens kept booming, they were able to bring in a four track express that cut our access time from 22 minutes to 12 minutes to Midtown. So we didn't just add capacity, we actually made — that extra capacity was better for already incumbent residents. So you'd be like, oh wow, growth is great, my trains are gonna get better.

That's how it used to work. Now it's like, ah, more people just means more competition for parking. And so as long as we set up our transport policy in a way that more people means more cars, then people will try to ban people in order to limit cars. And so, yeah.

And so it's funny 'cause I'm like a leading hater on fiscal zoning as the like, oh, if we just fix fiscals, if we just make growth pay—

CARDIFF: Define fiscal zoning.

ALEX: Oh yeah. That's the one where if we can just make it so that growth always pays. Like, instead of having to exclude people based on their expected future property taxes, which I don't think localities are actually very good at doing.

When you go to a city at a zoning or planning meeting and you go, oh, what's your average cost per resident versus marginal cost per resident? And they're like, what's a marginal? And you're like, oh, so you don't know what you're doing here. That's where it feels more pretextual.

So like I'm a — so if we just make growth pay, everyone will just voluntarily upzone. I'm like, well, I don't know about that. I think that it is often pretextual. Like there are high-profile cases. For example, you do need a sewer system for like a septic and leach field — the non-sewer way of getting water and managing waste. You need at least a quarter acre to do that. You need to attach single family homes to it if you're outside of sewer areas.

But Barnstable County very famously turned down original Clean Water Act money for a sewer because they're like, oh, by not having sewer we'll be able to say we have an objective reason not to allow growth. And then this happens on Long Island also.

CARDIFF: Yeah. What happened in that story, by the way?

ALEX: Oh, it's unbelievable.

CARDIFF: Tell people the conclusion to that story.

ALEX: I love this one. On Cape Cod — they didn't actually stop all development. They just had a really large minimum lot size. And so now they have — they've turned their water table into poop soup, essentially. They have above levels of whatever, fecal coliform or whatever the relevant bacteria is. They're now retrofitting sewers 'cause they're like, okay, actually we have so many septic tanks now that it's become a problem.

Instead of building a classic New England town center that has water and sewer, they have sprawl. Everything is developed, it's just on four acre lots or something. And their water quality is bad.

CARDIFF: All gross.

ALEX: It's like, wait, I thought you guys were — wasn't this supposed to improve your quality of life? But now there's terrible traffic and there's — you have less scenic downtowns and less — it's like you have to drive to get everywhere. And it's very funny that it was done for quality of life reasons, but now it's terrible and they have to retrofit a sewer.

CARDIFF: Lose, lose, lose scenario there.

ALEX: Mm-hmm.

CARDIFF: Yeah. Let's turn to the ROAD to Housing Act now and—

ALEX: Great.

CARDIFF: In the analysis that you and your colleagues at Niskanen have forthcoming, and we'll tell everybody where they can eventually find that, you break

it down into three main things. You break this bill down into achieving three main things.

So first of all, why don't you just take us through what those three things are and then we'll dig deep on each one, but give us that sort of top-level superficial reading of what it does, and then we'll dive in.

ALEX: Great. Yeah. There's different ways to bucket this, but we like to bucket it as: there's regulatory reform, direct regulatory reform. Another bucket is technical assistance, and carrots and sticks accompanying that technical assistance. And then the third one is funding and financing reform broadly. And then there's a whole laundry list in each one of those buckets.

CARDIFF: Yeah, I love that. So if I were to put that in my own words, I'd say this is incentivizing local areas to build more with the carrots and sticks approach. It is then making it easier for them to build more. And then finally, it is making it a little bit easier also for more people to be able to access housing once there is more housing in the first place. Does that sound about right?

ALEX: Yep.

CARDIFF: Okay. So let's go into the first one, which I think you define as the carrots and sticks approach. What are some of the things in the bill that are incentivizing from the front, from the back, however you wanna define it, local governments and localities to build more.

ALEX: Great. Yeah, so like I bundled together the technical assistance, the informing, and then also the carrots and the sticks. So there's the Housing Supply Frameworks Act. That's one of the bills that actually got bundled into ROAD, but it was already bipartisan and bicameral. There's already a House version—

CARDIFF: It existed, then it got folded into this bigger bill that we're talking about now.

ALEX: Exactly.

CARDIFF: Okay. And what does that do?

ALEX: And that establishes the first federal commission to develop model state and local zoning codes — for the first time since Commerce Secretary Hoover, before he was president, had a commission that designed the State Zoning Enabling Act. That then created all the states — States actually have the power to zone, not localities.

They delegate their zoning powers to localities through this model legislation. It was the State Zoning Enabling Act. But it's the first revisiting of that since the 1920s.

CARDIFF: So it's trying to get states to enforce their own better zoning rules. What exactly does it do, and what is the carrot or the stick in that case?

ALEX: And so this is like the technical assistance part. This one doesn't have direct carrots and sticks attached. But what's cool about it is it's the first time that Congress is specifying — like, it's the first time Congress is ever saying zoning is bad. It's more complicated than that, but they basically are like, there have been past things — the National Affordable Housing Act of 1990 had a commission identify barriers, but they never wrote — Congress never said what they considered housing supply barriers to be.

This time they're actually writing down in great detail, like, such as parking requirements, floor area requirements, height, lot geometry. They go through—it's a huge list of all the specific land use regulatory—

CARDIFF: helpful references, it sounds like.

ALEX: Right, exactly. Okay. And so it's cool because this is the first time it's making it clear — what does it mean to be pro-housing? It's the first time we're ever getting congressional intent of what this means. And so that also will help when HUD is doing discretionary grants and we describe them as pro-housing. This is some language to be like, this is what that means. It means parking relief, it means height relief — things like that.

Great. And the other parts of carrots and sticks: Build More Housing Near Transit Act. That's another one — it's a scoring top-up for federal mass transit grants. So if you're building bus rapid transit or rail, then you get points for adopting pro-housing policies. If you let people live near it and use it, you're gonna go to the top of the list.

CARDIFF: Yeah. Going back to what we were saying earlier — transportation closer to where the building's happening. Very important.

ALEX: Exactly. And then another key part — and this one is my favorite for the big conceptual leap that it is — this is Senator Warren and Senator Kennedy's Build More Now Act. This is carrots and sticks for the highest-cost jurisdictions in the country to have a modest penalty to their Community Development Block Grant.

That's usable for various types of community development, but also infrastructure broadly. Basically, it's usable for almost anything a city likes to do — except for new housing construction. But it could be like rehab of old housing, but also infrastructure funds.

What it does is it makes a pool of all the highest-cost jurisdictions who have above the U.S. median in house prices and high rents. So if you have high house prices and high rent, you get put in this scrutiny bucket. And they get ranked by how much

they've grown in the last five years compared to the five years before that. And the jurisdictions that improve the most relative to their previous behavior get put into the carrot bucket — they get prize money. If you're below the median of the improvement rate of the scrutiny group, then you lose 10% of your Community Development Block Grant funds.

CARDIFF: That's interesting.

ALEX: It's not huge, it's not massive, but what we're doing is we're piloting the administrative plumbing and also a brand new Census dataset. This was my organization's key contribution to this — there's a really cool new tabulation from the Census master address file. It's really cool that this is the first time it's being used. So I've got another commentary on that — hopefully I'll—

CARDIFF: Congratulations. That's great. I want to hold on this one for just one second, if you don't mind, because it sounds like what you're saying is: not that you get penalized if you just have a lot of rich people who live in your area. A high-cost area.

It's: are you doing anything right now to make it more possible for housing to be built so that others can move to your area? Which is a big deal, because as I understand it, it's the places that have a ton of well-off folks — traditionally, it's hard to get them to move on this, right?

These are people with a lot of political power, a lot of money, obviously, and they have a high incentive to resist more building — and traditionally they've succeeded. This is an attempt to apply a penalty if they continue succeeding at preventing more housing. Is that right?

ALEX: Exactly. And also giving you rewards if you do better. And so it's like — because you're judged against your peers in the same time period — if there's a recession, everyone's permits fall together. If there's a recession-type of thing or an interest rate spike or whatever's happening in the national macroeconomy, it's kind of implicitly controlled, because you're being measured each year against your high-cost peers. And it's not that you have to hit some arbitrary target, you just have to do better compared to what you were doing before.

Which is not crazy to think. There's also an automatic — like, if you just become cheap enough, you drop out of the scrutiny group and you're held harmless, like most jurisdictions. The other thing is we hold harmless most jurisdictions in the country.

We're targeting the above-median—

CARDIFF: By “hold harmless” you mean they're not gonna get penalized?

ALEX: They get neither rewarded nor penalized. They just get their CDBG as it is.

CARDIFF: Okay.

ALEX: And yeah, so it's basically — the other thing is, if you grow 4% per year, then you're automatically— that is the one— we also have that kind of sharp threshold. You're just automatically in the carrot bucket if you grow that fast and you're high cost. So if you're either above the median or just, 4% is just objectively growth—

CARDIFF: You get a little bit of federal money. Okay, great. What else is in this first bucket of incentivizing with carrots and sticks?

ALEX: And the last one is the Innovation Fund. So you can imagine this — basically, it's very similar to another sub-bucket of Community Development Block Grants called CDBG Pro-Housing: Pathways to Removing Obstacles to Housing. That is a small discretionary grant kind of pilot program that has existed for a couple years. And this is like a glow-up of that that is outcomes-oriented. So it has to actually be targeted to — and paid out on the basis of — actually producing units.

But you can get Innovation Fund prizes for various types of pro-housing activities — upzoning, even some things that straddle that line in the financing world like revolving loan funds. For example, my friend Paul Williams at Center for Public Enterprise was working on that — making sure that's included as an eligible activity.

Yeah. And so various types of innovative pro-housing—

CARDIFF: What are revolving loan funds, by the way?

ALEX: That is when a local government uses — for example, the most famous example is in Montgomery County, Maryland. They issue a bond for maybe \$50 million — I think they've done more since — but that then is used to provide construction loan financing at a below-market rate. And so it's not that they're losing money in dollar terms — they're just accepting a lower risk-adjusted return. And so even though, yes, there's an opportunity cost — they could grow the fund faster if they collected a higher interest rate — the goal there is to partially buy down rents, but also make sure that projects can pencil even if financial conditions are disorderly.

CARDIFF: Yeah. So it sounds like what happens with this innovation fund is that you get rewarded for experimentation and results.

ALEX: Exactly.

CARDIFF: If the experimentation actually leads to more housing, then you get some money. It sounds great.

ALEX: Exactly.

CARDIFF: Not bad. Let's turn now to the next part, which is the regulatory reform part of the ROAD to Housing Act.

What's the big one there?

ALEX: Yeah, I would say the biggest single one that I think is gonna have a near-term impact is something we've been pushing for a long time. And it's that national HUD code for manufactured housing that—

CARDIFF: HUD, you've said HUD a couple times.

Housing and Urban Development.

ALEX: Exactly right.

CARDIFF: Okay.

ALEX: This is the one where, if you build a home in a factory and you install it on a permanent chassis that can, for example, be shipped across state lines, you're allowed to use the national building code.

I should also mention most US cities have at least two codes. The building code governs things that are supposed to be related to life safety. Sometimes they go beyond life safety. But things like fire and soundproofing and things like that and egress.

And then the zoning code is about like height and bulk and use. So this is not a zoning preemption, it's just a building code preemption. So, wherever zoning allows these structures, you could follow the federal building code here. And what's neat about that is these are some of the cheapest naturally affordable units, like a single-module, HUD-code home, excluding land, but including shipping costs (so a two-bed, one-bath) ships for about \$90,000.

You can look up the average sale price on FRED (the Federal Reserve Economic Database) and then for two-module ones, it's like \$140k or something like that. And so wherever land costs are low, these are really, really cheap market rate structures that you can do.

CARDIFF: Let's stick with this for a second. You're talking about homes that go through this manufacturing process that's standardized and because of that, these homes are quite cheap. But to this point, they've been hard to actually deliver to people who want to buy them on the cheap because what?

Just because of regulatory barriers entirely?

ALEX: I was gonna say, so one reason that it's impactful is 'cause we already ship a hundred thousand of these a year. It used to be more like 400,000 a year, but there's a bunch of discriminatory state and local regulations on these. New York State, in the early 1990s, banned real property titling.

You're never allowed to attach it to the land, like a house. You have to own it like an RV, like a mobile home. You're not allowed to turn it into a real property, like as in reality. It has to stay personal property or chattel property. It makes it harder to get a mortgage because you can only get an RV loan for the thing.

You can't go to a bank and get a regular mortgage. Only if it's attached to the land legally can you get an ordinary mortgage. And a lot of localities also discriminate against them. Say HUD code homes are only allowed in maybe one single zone in the whole area, in part because they're naturally affordable.

The income exclusionary activities that local governments like to get up to — these homes come under attack because they're affordable. And they're not subsidized. It's just that they're just affordable at market rate.

CARDIFF: So this bill makes it easier for these homes to be deliverable.

ALEX: Yeah.

CARDIFF: It can actually happen.

ALEX: By removing the chassis. One thing — so some local codes target the chassis specifically for when they're banning this typology. So chassis-less kind of. If it's not on the chassis, then it's can be installed just like a regular single-family home.

CARDIFF: The chassis, by the way, to be clear, is the foundation.

ALEX: Yeah.

CARDIFF: It's the thing that's permanent, and it has to be a part of the house. And that's what's been determined to this point to be, this is what's allowed these other things that are more mobile; these other houses that are more mobile not allowed. Now, they might be allowed.

ALEX: And it costs five grand per module.

So like, five grand for one, 10 grand for two, and so on. Taking five grand off of a product that costs \$90,000 is actually a substantive kind of day one price impact, but it's also the design flexibilities. So one of the other things we've been working on on the rulemaking side for a while was right at the tail end of the Biden administration. They finished something that also the Trump administration before had been working on.

This is a bipartisan thing. They just legalized up to four HUD code units in the HUD code for the first time. So you're now allowed to have like a quadplex using HUD code modules. That means that these things can actually compete in areas that have a little more than zero land costs because, the problem for a HUD code home traditionally, when they're only single family, was that in urban cores, where land is \$50 million an acre, if you take an acre of land and you put a \$90,000 HUD code on, it's gonna sell for 1 million and \$90,000 for this two bed, one bath 'cause the land cost is the problem.

So, to get in high land cost areas, it doesn't matter how cheap you get the — even very low hard costs for the structure are not the binding part. You need more structure on that land to amortize that those land costs over more square feet of structure.

So, fourplexes in the HUD code allow to enter urban markets for the first time. Traditionally, these have always been a rural and so-called “left behind” — anywhere reliant prices are very low is where these were competitive. You could do triplexes, quadplexes, but if you have a big steel chassis in between the units, when you stack them, you'd have to torch a hole in them for a staircase, right?

And it's like you have this big three foot dead space between — the chassis relief is always gonna help with that for design flexibility so it all interacts to allow these things to enter urban markets for the first time.

CARDIFF: Amazing. That's great. Another part of the regulatory reform bucket of the bill is NEPA Environmental Review.

First of all, tell us what NEPA stands for and why it is such a big part of the housing conversation.

ALEX: This is the National Environmental Policy Act, and I have an old Twitter joke about this, calling it the national environment —

And so it is like instead of the Environmental Policy Act of 1970, call it the Environment of 1970 Policy Act. It's not actually about the environment. It is a process law that if you change—

CARDIFF: It's about freezing everything in place. Everything as it was.

ALEX: It's the environment — including driving around the suburbs and emitting lots of carbon and qualifying air pollutants.

There have been environmental lawsuits against closing down oil derricks in Los Angeles. There is a state-level equivalent sequel lawsuit against closing down oil derricks because they didn't adequately consider the cultural and historical value of the oil derricks in the neighborhood.

And so it's not about the environment; it can be used — if you change oil derricks, you are triggering these laws. And so, it really shouldn't be called environmental review. It's just—

CARDIFF: It should be called something more along the lines of freeze everything in time.

ALEX: Exactly.

CARDIFF: So what does the ROAD to Housing Act do about NEPA environmental reviews, which I take it you're saying have been used to stop housing construction in certain parts of the country, and now they're not gonna be able to? What happened?

ALEX: The state-level versions of these that apply to housing are a bigger deal, are more intrusive. But the federal one matters for anything that the federal government touches. So, if HUD finances something through the federal housing administration's multifamily financing, if they touch it through the home grant program, if they touch it through housing trust fund, anything that they're touching, they're triggering this procedure law that is just designed, it's designed to be a new veto point and to create veto points and litigation attack surface.

And again, it's not actually about the environment. The goal here is basically to have HUD's activities be more ordinary. When private entities issue alone, they don't do these procedural reviews; when even government-sponsored enterprises like Fannie and Freddie that insure mortgages much like the FHA at HUD, they don't do NEPA either.

They do something that's very confusing. They call it, not environmental review, but environmental site review. And that is where they investigate, they do due diligence for like objective hazards to human habitation that would affect the credit quality of the building.

So, if something is full of toxins or is in a rockfall zone or something, if the building is going to kill people or be uninhabitable, that's bad for the mortgage insurer.

So they still do environmental site review, that's substantive. We would still have HUD do that. It's the other parts of the paperwork that deviate from that, this would categorically exclude infill housing. So, if you're in an urbanized area it also excludes small projects outside of existing urbanized areas.

Basically (it's) just an administrative categorical exclusion to say “you don't have to go through this extra process beyond the substantive review that you do, just as a matter of due diligence.”

CARDIFF: To be clear, infill housing, as I understand the definition of it, is essentially vacant land that's not being used.

And in urban areas, you'd think that that land would be incredibly valuable, especially if you were to be able to build more housing on it, right? So, that seems like a pretty big deal to me. Is that what you would say is the second biggest part of this bucket of the ROAD to Housing Act?

ALEX: On the red tape side. And as it affects supply and growth controls, and the regulatory imposition. There is one last part that affects that's — it's quantitatively large and immediate if this passes — but it affects the subsidy side of the equation.

CARDIFF: Okay. What's that part?

ALEX: That is a bunch of clean aid for Section 8, which is — Section 8 covers housing choice vouchers and project-based vouchers. This is when we give people cash that is restricted for spending only on housing and it's several million households that receive this assistance.

It streamlines like income certification. If you've just certified your income for another federal purpose within the last 12 months, they don't make you do the paperwork all over again. They're just like, “Okay, you're still good. You can use the one you just did.” They allow landlords to preinspect their apartments.

Section 8 was created in the 1970s—

CARDIFF: What does that mean exactly? So, as I understand it, with Section 8, landlords are sometimes disincentivized from participating in it at all. The fact that they can preinspect apartments — what does that mean and why does it make it easier, number one, for landlords to participate?

This is number two: for people to actually be able to access the money to use it then?

ALEX: So you might remember in the 1970s, when Section 8 was being created, America's problem was not a lack of structures. The old urban crisis used to be abandonment and blight, right?

We built so much, so fast, we actually drained city centers. We drained New York City, not just into affordability. There were parts of New York City that, like the South Bronx, was abandoned. Because we built so fast, we built faster than population and jobs growth in the suburbs.

And it's a reminder that when you build at the regional level faster than population and jobs growth, it can keep going into even into falling rents in many submarkets. But, so in the 1970s, one of their goals was housing quality. They were like, “We wanna give people money, but we also wanna make sure that they're not going to an unrehabilitated tenement or that sort of thing.”

CARDIFF: Terrible, blighted. That kind of thing.

ALEX: And still, to this day, kind of make landlords go through hell and that you have to wait for a government inspector to come and inspect the unit on your behalf. And sometimes it can be really nitpicky and can vary from inspector to inspector. And so, a couple things that they allow now.

There's tons. Many public housing authorities in the most housing constrained places where there's just vacancy is so low that it's hard to find a spot for a voucher. Voucher success rates can be under 50%. Like in Los Angeles, most people who get a voucher have to go back on the waiting list too because they're unable to secure a home in time.

And then on the landlord side, you have to keep the thing vacant, waiting (for) the tenant to potentially move in until you get a government inspector to show up and inspect the unit.

So now they're allowing landlords to get — you can essentially pre-qualify your structure and then get on a list of the PHA to say, “Anyone who gets a voucher come right to me.”

CARDIFF: Streamlined it significantly. Okay.

ALEX: And then also remote inspections. Those were allowed on an emergency basis during COVID, but now, for the most part, people of modest means are still human beings who can make decisions in their life, and maybe they need a little bit of extra help. But like having that expert on the smartphone with a camera escorting you through the inspection, that's a little parrot on your shoulder to help, but it doesn't require you to schedule someone to show up on time. The inspector to show up on time.

So, those three things together are going to have a big impact on the effectiveness, efficiency, and paperwork burdens of several million people.

CARDIFF: Okay. Let's move on to the third category that you're using to describe the effects of the ROAD to Housing Act, which is financing and funding reforms.

What is it doing about those?

ALEX: So there's a wide variety of things. One of them is tweaking the qualified mortgage rule and regulations in the Consumer Financial Protection Bureau with respect to small-dollar mortgages.

We cracked down on no documentation and low documentation lending after the 2009 financial crisis. And so, the cost to underwrite and document a loan is much, much higher than it used to be. But we also capped fees on loan origination. So, if you have a small mortgage, it costs more. It costs more than it did 20 years ago, to underwrite and your fee is capped.

So lenders are like, “Yeah, I'm small-dollar mortgage, why would I do that?”

CARDIFF: The end result of which by the way, is that lower-income folks find it a lot harder to access a mortgage and not just because they're lower-income, 'cause you'd think that there would be an adjustment also there for the size and the cost of the house they wanna buy.

Even adjusting for those things, lower-income folks struggle to get a mortgage.

ALEX: Exactly. So this is a thing I like to joke; in high-cost areas, I'm like, “I wish small-dollar mortgages were a problem. I wish our mortgages were so small that it was a problem to one.” But, for community development, this is important.

If you're in Flint, or if you're in the east side of Buffalo, and you need an \$80,000 mortgage to buy your house, this matters for you. This is important for the community development side. They have some performance tweaks to HUD home buyer counseling, Title 1 Federal Housing Administration loans.

These are for manufactured homes and also for rehabs. They lift the loan limits to readjust them for inflation. They had decayed with inflation and that allows the secretary to update them in the future with inflation also allows them to be used for detached ADUs. Little—

CARDIFF: What does all that mean? (CHUCKLES)

ALEX: Basically, it's easier, manufactured home lending is gonna be a little better. It'll be easier to get rehab lending through this Title 1 loan program, and also now you can use them for detached ADUs. So because it was a rehab loan, only attached it, like when you turn your garage.

CARDIFF: Tell people what those are, by the way.

ALEX: Accessory Dwelling Units. On the West Coast, they call them casitas. On the East Coast we call them like mother-in-law units or granny flats. These are dwelling units that are accessory to the main unit, right?

CARDIFF: A place where somebody could conceivably live or, or take shelter in for a bit. If you have a guest that comes by a lot, you could put them there, that kind of thing.

ALEX: Exactly. And so these are also tend to be naturally affordable. They're small and highly-contextual fit into single-family neighborhoods really well.

This allows Title 1 to be used for not just ADUs that are like your garage, your attic or basement, but also one that's in your backyard. Like a little backyard unit. Something that's not attached to the main unit.

CARDIFF: Hitting everything from all sides, basically. Making it more economical to provide the mortgages, making it more economical to build these extra units, making it a little bit easier for people to access these mortgages, some counseling for them. So they better understand what they're getting into when they take out a mortgage, basically everything.

ALEX: Exactly.

CARDIFF: Okay, great. What else is in this bucket, would you say?

ALEX: We also have reauthorization of the home grant program.

That's, again, like a federal direct subsidy — It's usable to subsidize a variety of types of housing. There's also some public housing tweaks, so there's part other parts of the safety net, an expansion of something called the Moving to Work Program for Public Housing Authorities.

This allows them to basically have a bunch of local — it frees them from all the federal public housing rules and let's a selection of a couple dozen more high performing public housing authorities have flexibility to — they can use those flexibilities along with the other part of this bill, the raising the rental assistance demonstration cap, that's allowing to convert units from Section 9, traditional public housing into Section 8, voucher assisted housing.

The Turner Center, my friends at the Turner Center, shout out to Ben Metcalf, they estimate about 235,000 social housing units; deeply affordable subsidized units could be built through a mixture of moving to work flexibilities and the rental assistance demonstration program.

So, that's pretty cool. The other part: coordinating Opportunity Zones with other HUD grants. This also reflected some of our interests as well.

CARDIFF: This is a big one. Let me pause on this one, because the place where I work, the Economic Innovation Group, I think we can take the bulk of the credit for having come up with Opportunity Zones.

And we've done a lot of research on the effects since they were first passed in 2017. And what it shows is that a lot of building that otherwise would not have happened if the law had not been passed with Opportunity Zones. It's led to a lot of new housing in the low-income communities where Opportunity Zones apply.

I should, by the way, define this a little bit. Opportunity Zones are effectively a capital gains tax incentive that you can get, and it's quite good, if you spend money, if you're an investor and you invest your money in certain low-income communities throughout the country, there's designated by the governors of the states in which

those communities exist. It's led to a lot of housing. So having explained what that is, why don't you now give us a sense of how this bill interacts with Opportunity Zones.

ALEX: This directs HUD to take Opportunity Zone designation into consideration in relevant grants. The original one was just all grants, and I was like, "Well, like lead removal is probably, you should do it wherever you need the most lead removal."

Opportunity Zones are great, but like, does that have an access with lead or something? And so, with covered grants that entail like rehab, new construction — I'm sorry, there's four categories and I gotta remember — but it's like things that are directly relevant to Opportunity Zone goals should be. Opportunity Zones are ordered to be taken into account in grant making priority.

CARDIFF: That's great. And what do you think would be the effect of the bill on Opportunity Zones and how well they work?

ALEX: I mean—

CARDIFF: An accelerant?

ALEX: Yeah, it'll be an accelerant.

OZ's also already appear to have a lot of juice in your diff-in-diff paper. The effect size you guys found is so big that I'm excited to see what — there's some so-called general equilibrium that you could do as well. It's gonna go through peer review.

But even with all that, it looks like a really, really big effect. It also should raise everyone's estimate of how important federal taxes are for projects that can pencil where you have the zoning. So unfortunately you guys have gotten lots of bad critiques of Opportunity Zones (CHUCKLES). I feel—

CARDIFF: Those critiques were quite early though. I think, before the law itself was given time to take effect before it was even finalized, which took some time. The rulemaking process took some time in the years after it was passed.

ALEX: I was shocked. There are reputable think tanks that put out papers on the effects of OZs before the rules were finalized.

CARDIFF: Correct. Makes no sense.

ALEX: And I'm like — that's bad for your professional credibility to do that. Like that's a boo boo. But, it even goes beyond that. With respect to — Opportunity Zones are supposed to be like — what's neat about them is that they're supposed to be places that need place-based assistance.

It's not like the subsidy is unlimited, right? It's just a relief of capital gains tax on the structure. Not even the land uplift, just the structure, which is cool. That means that like places that are close to opportunity, but not quite at the cusp, are places where rents would've had risen more to hit the hurdle rate of return for a project to be investible.

With the capital gains tax relief, the break-even market rent from the new pencil is lower than it would be if they had to also pay the operating cost plus the capital gains tax. And so, that's how you guys are — if you're zoning like in — OZs can't help Manhattan much because tons of lots are already, unless we did upzoning first — a lot of places are already built above what the current zoning code allows in Manhattan.

So it's places next to, so it would be like in a spot where there's zone capacity, but rents haven't yet hit that level where construction is feasible yet. That's where we're seeing these huge numbers in your study.

CARDIFF: I asked about this not just because it's our, EIG's, thing, but it also relates to that question earlier we had about the appropriate role of the federal government and what this bill effectively represents the federal government should be doing.

The other idea by the way that we at EIG have been working on, and still very preliminary, is something that we're tentatively calling Density Zones at the moment. And this is the idea that the federal government could work on one standardized zoning code that then certain localities could voluntarily opt into.

And if they do, and then if they hit certain performance metrics of building, then they would qualify for federal money. And I'm curious, number one to know how you think an idea like that would interact with the ROAD to Housing Act itself, but also what you think about the idea.

ALEX: One of my favorite things about it is, so your colleague Adam Ozimek and my friend and coauthor Chris Elmendorf at UC Davis, the three of us have for years been together on Twitter, talking about, "Boy would we love to have—" I think I call them reverse impact fees, but maybe we need a better word than that, but like, basically it's cities charge impact fees to new development to cover the fixed cost of new infrastructure and things.

If the federal government gives you \$10,000 or \$20,000 per permit that can kind of displace; it can fund services in the same flexible way that impact fees do. But without having to actually charge them to the new housing, you have them bake into construction costs.

And so I think that's a really cool thing. Like, the only concerns I've heard are like the marketing that it's like, "Oh, some people might not like the word density in Density Zones or something." I'm not a marketing guy, I'm a policy guy. Don't ask me.

CARDIFF: We like the name, but we're trying to figure it out because sometimes people associate the word density with a certain partisan or ideological approach to things.

And we're also trying to avoid that thing I said earlier, where people assume that if you want more density or more building, that it necessarily means you're trying to turn every town into New York City, into something that looks like New York. We're actually trying to design this thing so that there's some flexibility in the kind of new building that makes sense for a particular locale.

ALEX: Right, exactly.

CARDIFF: Which I think is important.

ALEX: So, a year ago, what I would've said is my main problem is that it's too ambitious.

We can't even get Congress to do the YIMBY Act. We can't get them to do Housing Supply Frameworks Act. That's the YIMBY Act.

CARDIFF: Like one smaller act?

ALEX: Right. Exactly. YIMBY Act is actually the one of — we've got everything in this bill. The YIMBY Act is the one piece that's not actually in this—

CARDIFF: In the ROAD to Housing Act.

ALEX: Exactly

CARDIFF: But what's missing? What is it?

ALEX: The YIMBY Act is just a reporting bill. I'm surprised that it become as controversial on the Hill as it—

CARDIFF: This is really funny.

So this much smaller bill that you were using as an example of what Congress can't even get done to say Density Zones are too ambitious. Now the ROAD to Housing Act comes out and you're like, "Oh my god! Ambition is back."

ALEX: Exactly. Ambition is back. And so I would've said before, until we can get something like the ROAD to Housing, I don't think Congress is ready to talk about something like Density Zones. And now it's like, oh, well.

CARDIFF: Yeah, why not?

ALEX: My concern was an if-then, and if we send it right to the 'if', then we get to the 'then', right?

CARDIFF: Yeah. I'm excited for people to read the upcoming report that you and your colleagues are putting out on the ROAD to Housing Act.

And again, we're gonna share the link to it in the show notes, of course. It's gonna be at the Niskanen Center website. That's where it's gonna be. It's gonna be published.

But you were kind enough to share an early version. I actually want to quote to you this one passage of it, and just get your sort of take on it.

Because I think it reflects your optimism about the bill. So here's what you write. "The ROAD to Housing Act is the first comprehensive bill to tackle the roots of America's affordability crisis in a generation. It correctly identifies and takes initial steps to attack the interlocking barriers to housing abundance at every level."

This is my favorite part. This is the part that comes next, where you write, "It is miraculously bipartisan and its negotiation and development exhibited a stunning, almost anachronistic return, to the old Senate tradition of depolarized collegiality and bipartisan problem-solving." That's the end of the quote.

That's quite uplifting. It also seems to run contrary to the spirit of the moment, if you ask me. It's a strange thing to believe about something that's happening right now, given the tumult and the ranker that exists in politics at the moment. What do you think?

ALEX: In some ways, our country has never felt more like divided and polarized and madness and unprecedented times, and then all of a sudden, Senate Banking is like legislating like it's 1999.

It's just like, "Oh, my god. Senator Warren and Senator Scott are kind of chuckling at the diocese."

CARDIFF: Polar opposites by the way, but now getting along to do this.

ALEX: Like that the Chairman and the Ranking Member clearly have developed a good working relationship and a lot of trust and that they're like — all of a sudden you just are hearing this kind of Cronkite-like, "Let us reach us across the isle and solve a problem for the American people."

And you're like, whoa. I mean, okay. But I joke that it's been more like Schoolhouse Rock than like House of Cards, in its version of DC. That it's just people were like "Let's get to yes."

And just lots of good faith negotiating and no like — sometimes there are things like hostile leaks of an incomplete draft of something that makes something look bad. Everyone was working together in genuine good faith.

There were reporters asking after the markup, the press corps go outside, they were like, "After everything that's happened to HUD, HUD almost got gutted." Congress also helped a little bit that we were back channeling a little bit on that, the depth of the DOGE cuts.

In March people weren't sure if HUD was going to exist and in July, Senate Banking is doing a bipartisan housing package. Like, how is this possible? And I think that it just (was) a mixture of the structural incentives plus what people were hearing in town meetings, everyone's hearing about housing.

All the members are hearing about it. What were your impressions?

CARDIFF: No, I mean, reading your piece and having spoken to you about it before our chat today, I just couldn't believe it. I couldn't believe it. I knew something weird was happening when I saw your first tweet about it, where you tweeted after you'd finished reading it, "Oh my God, this thing rules." Something like that. And so I knew something was different, but then what I expected after I saw that was for it to get a ton of coverage, "Oh my God, bipartisan bill to solve like the one economic problem that everybody agrees is an actual problem that everybody wants to be fixed."

And there were some people who wrote it up, but it just didn't get anything like the breadth of coverage that I would've expected. And again, I think that probably says something about the wider circumstances in Washington at the moment.

There's also a sense in which I wondered if so much attention is being drawn to other things, geopolitics, I dunno, tariffs, attacks on the Fed, whatever, that maybe there was a kind of useful space for this to slip in under the radar, this super ambitious thing to slip in under the radar. That's what my reaction was.

ALEX: I agree. I was really impressed with the members in the markup with their framing where they both recognized what this is and they didn't resort to hyperbole.

Because it's like, I mean, Senate Banking hasn't done any housing markup in almost 20 years, let alone something significant like this. And so, it's tempting them to be like, "Oh my God, like we solved it. It's over." What everyone was saying was this is an essential and significant first step into solving the crisis.

And then, even Chairman Scott said, “How about first leap? Can we say first leap?” People are like “Is this the first step or the first leap?” I’m with Chairman Scott. I’m like “Yeah, I would call this a first leap.” Everyone was always recognizing its seriousness and significance and being like “This is going to help millions of people.”

It's not a small deal. It's also not like this alone ends the crisis. Ongoing state and local action, like there's tons of the flurry of activity at the state level is still absolutely essential. This is backstopping supporting all that state action.

CARDIFF: That's great. That is our chat on the ROAD to Housing Act. That was a lot of fun and super informative. And I want to close with a little bit of a personal conversation. You and I are both New York residents, New York City residents. How long have you been here, by the way?

ALEX: Since 2013, with a break for grad school.

CARDIFF: Okay, so 12 years. I'm a little bit older than you are. I've been here for 22 of the last 23 years. And you tweeted something kind of interesting about life here in NYC, and I wasn't exactly sure what you meant, so I wanted to ask you about it and have a little quick chat about it to close.

You wrote the following, “I live in NYC in part because it indulges the pleasant delusion that high classical liberal urbanism, which was the period between 1880 and 1940, did not lose the battle of the 20th century.” What do you mean by that? What does that mean?

ALEX: There’s a way of life that was typical in every American city in the pre-war era that can only be obtained now in zip codes that have more than 10,000 people per square mile.

It’s a very small number of areas. It’s like New York City, Boston Core, Chicago Core, SF Core, one tiny part of Koreatown in Los Angeles. A little bit of Seattle. There’s just not a lot of places where you have this kind of lively retail and small business scene.

Full sidewalks, places where you walk to the grocery store. Like what? It's like witchcraft. What do you mean you walk to the grocery? You cannot do that. That was a thing. Every American city used to be like — downtown Buffalo used to look like SoHo in Manhattan. If I showed you a picture of downtown Buffalo and a picture of SoHo in both of them in 1915, a lay person would not be able to tell the difference. They'd be like, “I don't know. It looks the same to me.”

CARDIFF: But you're talking specifically about the wide sidewalks, the walkability, the fact that you could walk outside your—

ALEX: The transit, the retail, the life, the liveliness. The idea that all our downtowns are — our little downtowns are all dead type of thing.

Our retail is vacant. Like the idea of walking, why would I wanna walk somewhere? Like when in most of America, when you walk somewhere, someone will stop and be like, “Are you okay?” Like, this walking environment is so unpleasant. You must have had a car breakdown, or maybe you had a DUI and you're not able to drive or something. Lots of parts of the country where if you're walking, people will just stop to offer help.

Because they'll assume, why would anyone walk here? It's so miserable. You must not be doing it by choice. And so, that's a type of living — in the era from kind of the invention of the electric streetcar all the way up to the golden age of rail rapid transit, it's like first the depression, and then wartime steel rationing, and then auto mobility after World War II. We lost the ability. Skyscrapers got banned and we forgot how to build subways.

When you're in New York or downtown Chicago in the loop, you can kind of pretend like, “Yeah, this country we can still build skyscrapers and trains.” I've jokingly called it like a, like a “Shutter Island for urbanists,” where we almost could delude ourselves that we could still—

CARDIFF: Spoiler alert, by the way, if people didn't see the 2000 and something Martin Scorsese film, but I know exactly what you mean.

Something about living in New York that relates to the conversation we've just had about building came to mind because I've been reflecting not just in the last few months, really the last couple of years, about something that's been a little bit disappointing. And I still consider New York home.

I really like it. I have great networks of friends and professional networks and all that stuff here, but the truth is, when I first started living here, I actually did think it would change more. I thought I would notice the change more. And the truth is, when people talk about change in New York, they usually mean one of two things.

Either that it's a transient city. A lot of people move here for professional reasons, especially early in life, twenties, early thirties, and they leave if they wanna start families. Or they're talking about the fact that there was some turnover. Their local restaurant, which was their favorite place, shut down.

And then some other restaurant took its place. Or in some cases it's fairly positive change, like some rundown place became a nice urban coffee shop or something like that. Whatever. Actually, I've kind of noticed that the New York City physical environment has not changed that much in the roughly, almost quarter century that I've been here.

I'm wondering if you noticed the same thing or if you've just had a different experience of it.

ALEX: I'm of two minds. You are statistically correct. I actually think sometimes one of the problems we have in New York is that people see highly-visible change and think that everything is changing when actually very little is, like Hudson Yards.

Like if you're walking anywhere in Brooklyn and Queens, there are a bunch of avenues that look onto the Empire State Building. And on 34th Street, Hudson Yards has super tall buildings that are right now on the shoulder. They just rise over the shoulder of the Empire State Building. In 2013, they just weren't there.

And so those are the 57th Street super tall buildings, and then the Brooklyn Queens waterfront, so Long Island City, Greenpoint, and Williamsburg. They're statistically very small parts of the city, but when you're walking along the waterfront parks, they're super visible.

And the nature of a 1400 foot super tall building as you can see it from very far away. And so you're like, "Oh, my God. There's cranes everywhere." But there's actually not cranes everywhere. You could just see them from many miles away.

I think that certain high-visibility changes are there. It's like Long Island City and the Brooklyn Queens waterfront have changed on the scale of Nashville visually, but they're so much smaller relative to the 20 million-person labor market area of New York that has tricked some people into thinking we're building a lot when we're actually building at Detroit rates in New York City.

CARDIFF: Are you more or less optimistic now about housing generally, either in New York or throughout the country, given the existence of this bill?

Which may or may not become law. We wanna be clear. We don't know. We haven't commented on that, and I personally have zero idea what its chances are. I think the fact that it's gotten this far is very impressive. I think the fact that it exists is borderline shocking. So I'm a little more optimistic. I'm wondering where you are.

ALEX: Definitely. So big chunks of this already have bipartisan co-sponsors in the House, like Housing Supply Frameworks Act, Build More Housing Near Transit Act, those are already bipartisan bicameral bills that are wrapped up in this.

CARDIFF: The little parts of the overall ROAD to Housing Act, you mean have some support in the House? In the Senate, obviously it has bipartisan support.

ALEX: Exactly. So some of these already have House support. There's other stuff that's new that we'll have to check. Spending in this environment is always fragile. The innovation fund: what will the house do with the \$200 million?

I mean, \$200 million isn't a bank breaker, but things have been tight on the fiscal side. We'll see for various subcomponents, but I'm optimistic that something's gonna happen here. My friends at the Mercatus Center have a new roundup out now. It's hundreds of pro-housing reforms at the state and local level, like an all-time record.

At the state level, and now also at the national level, we are finally getting to escape velocity on this stuff. I'm a little worried about California, because it was headed (to a) strong early start. And some of their legislature dynamics are starting to — we'll see what happens.

Like their huge legislative champions are gonna start running into term limits at some point, so we gotta keep an eye on California. I really want see SB 79 pass over there before they lose their window. But in the rest of the country, we are still just on the steep part of the S curve.

CARDIFF: Last question. You're gonna be a New Yorker for life, you think? You're gonna become an old guy like me still in New York?

ALEX: That is my preference. I would do a tour of duty in government in DC, but I don't see myself — I used to joke that I wanted to be like a rent-stabilized deli guy, who lived above the diner and then goes down with my elderly friends reading the Daily News going like, “Oh my God, did you see what the mayor did this time?”

CARDIFF: That's the dream! (CHUCKLES)

ALEX: People always ask me, “Oh you must hate DC.” And I'm like, “No. DC is a perfectly nice place to live. There are many nice neighborhoods. I'm not anti-DC, I'm just pro-New York.”

CARDIFF: Pro-New York, you and me both pal. Both working, by the way, for DC-based think tanks. But there you go. Alex, thanks so much. This has been such a fun, deeply, richly informative chat and I know our listeners are gonna love it.

ALEX: Thank you for making time. It was great.