

Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs of the House Oversight Committee

Hearing Title: “[Housing Affordability: Saving the American Dream.](#)”

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The views expressed herein are those of the author, and do not necessarily reflect the views of AEI.

Testimony: An antidote to an irresistible force meeting an immovable object

Thank you Chairman Burlison, Ranking Member Frost, and members of the subcommittee for the opportunity to testify.

The current state of housing supply is an irresistible force meeting an immovable object.

The immovable object consists of the overly restrictive land use regulations promulgated by most of the nation’s 33,000 state and local jurisdictions, leading to unaffordability and a dearth of starter homes on smaller lots.

The irresistible force consists of the federal government’s efforts to make homes “affordable” by means of credit easing and subsidies.

According to [Realtor.com](#), returning the housing market to 2019 levels of affordability is a daunting task. Mortgage rates would need to fall 2.5 percentage points, incomes rising 56%, or home prices falling 35%. At the same time, [President Trump](#) has cautioned about “creating a lot of housing all of the sudden, and [driving] home prices down.”

Yet inaction on supply has its own risks. Implementation of multiple demand boosters combined with a strong economy would ignite strong home price appreciation.

There is a deregulatory alternative. First, unlock existing housing stock frozen by the effects of capital gains treatment. Second, incent the building of more starter homes currently made illegal by state and local land use regulations. Third, avoid solutions that only drive demand higher or have been proven ineffective.

In terms of unlocking existing housing stock frozen by capital gains lock-in and related tax provisions:

- 1. Unlock an estimated 3.2 million of the [32 million spare rooms](#) in owner-occupied single-family homes over 10 years by providing an income tax exemption on rental income from newly rented rooms.**
 - a. These rooms are in every congressional district, are near amenities, and would rent at attractive levels.**
 - b. This existing vacant capital stock currently yields no rental income, so the exemption would have no impact on existing federal tax revenue.**
- 2. Eliminate or increase the current capital gains exclusion caps of \$250,000 and \$500,000 for home owners aged 65 or older.**

- a. Capital gains exclusion levels are unchanged since 1997 and are operating to freeze homeowners in place. This creates a housing mismatch problem, as most are owned by empty nesters aged 65 and older.
- b. Additionally, upon death, one's heirs get to have the basis in a home stepped up to current market value, thereby eliminating the tax on capital gains, keeping many homes vacant while the family waits for the stepped-up value,
- c. Providing an incentive to sell and more rapidly return say 2 million of these existing larger family sized homes to the market over ten years has the potential to unfreeze 200,000 move-up homes per year. This would also set off a daisy-chain of moves, promoting a redistribution of home sizes so that supply and demand are better matched.
- d. Another benefit is that 25% - 30% of the sellers will move to types of housing that do not compete with families buying single-family homes. This includes into rentals, independent and assisted living communities, with family, senior only for sale communities, and nursing homes.
- e. Policy options include limiting the size of the exemption increase, and targeting by income and marital status.
- f. It is estimated that only \$6.5 billion dollars are collected annually from excess capital gains on sales of primary residences.

3. **Eliminate capital gains taxes on starter single-family rentals (SFR) sold to an occupying tenant in good standing with at least 24 months on-time rental history.**

- o Thirteen million households live in SFR, seventy-seven percent of which are owned by investors with 1-9 properties.
- o About two-thirds of SFR are starter homes, with an average current value of about \$300,000 and an average rent of about \$1,800.
- o It is estimated that 85% of these borrowers are unable to qualify for a mortgage loan—they are just too risky. This explains why buy-to-rent efforts have not worked.
- o The solution is to halve the risk with a down payment of 10% and a loan term of 20 years, and keeping the monthly payment the same as on a 30-year loan.
 - This would cost about \$46,000 on a \$270,000 mortgage--\$30,000 for the down payment and \$16,000 for a 2% permanent rate buy down to 3.75% on a 20-year loan.
 - This is feasible by combining the seller's savings on capital gains taxes (\$18,000 gross and \$14,000 net to the IRS), and sales commission and sale preparation expenses (\$18,000 and \$10,000 respectively).
- o This is a win-win allowing property owners to sell to a good tenant and the tenant benefitting from wealth building through homeownership, again in every congressional district.

Next, incent the building of more starter homes with a small lot bounty program:

1. The three most important things in addressing affordability are “small lot, small lot, small lot.”
2. Many of the 33,000 state and local jurisdictions have lot size requirements that require the building of more costly homes on larger lots. Our research shows that builders will chose to build more affordable homes on smaller lots, if it is legal.

3. Under the U.S. Constitution's 10th Amendment, land use power resides with the 50 states.
4. The federal government should launch a bounty program to incentivize the states to make starter homes great again through the loosening of restrictions on building on smaller lots.
 - o Building homes on smaller lots can greatly [add to supply and improve affordability](#), especially for homeowners and working and middle class families. These homes would sell for about 20% less than the median single-family detached home currently being built.
 - o Offer states a \$25,000 bounty tied to an increase in the number of homes built on single-family detached home lots of up to 5,000 square feet and single-family attached homes built on lots of up to 2,000 square feet. Additional bounties (with a limit of two bounties per lot) would be paid on homes on small lots near new manufacturing and technology sites, or built on land sold by the federal government, or on in-fill sites. Each state would be free to determine how to move the policy change needle.
 - o At an average bounty per lot of \$37,500, \$9 billion would fund 240,000 family-sized homes/year. Years 1 and 2 could be funded by repurposing \$18 billion of discretionary federal funds towards this initiative. Years 3-10 could be funded by Congress repurposing existing funds for affordable housing subsidies.
 - o For example, Texas in July 2025 enacted SB15, which provides for lot size flexibility in new residential subdivisions in larger cities by overriding minimum local lot size requirements of >3000 square feet.

In addition,

- 1. Tax profits from newly built, for-sale developments as a long-term capital gain, not income.**
 - a. Treating profits from homes sold directly to buyers as long-term capital gains would make more for-sale developments financially viable.
 - b. Under current law, non-publicly traded homebuilders organized as LLCs can face ordinary tax rates up to 37% on profits from homes sold to individual buyers.
 - c. The same project run as a rental community is taxed upon sale at long-term capital gains rates of 15 percent to 20 percent.
 - d. This disparity gives a clear advantage to build-to-rent over build-to-own development, discouraging the construction of for-sale homes.
- 2. Condition new HUD, Transportation, Energy, Commerce and other department grants on the recipient jurisdiction not having any rent control or stabilization policies, unless specifically intended to meet HUD program requirements.**
 - a. In a rare show of [consensus](#), 85% of 45 top economists in 2024 agreed that even modest rent controls would not help middle-income Americans. Only 2% agreed.
- 3. Legalizing mortgage prepayment penalties.**
 - a. Offering consumers a choice to pay a prepayment penalty is a straightforward way to lower upfront rates by 0.40% - 0.50%.

Appendix 1:

Capital gain regulations impact on home sales and baby boomer lock in

Addressing whether capital gain regulations lock baby boomer homeowners into homes that are too large for their needs, and would ending the capital gains lock-in be an incentive to downsize, thereby freeing up larger homes into which families could move?

Summary: A capital gains tax holiday would boost supply/improve affordability/reduce market frictions in four ways:

1. Lead to downsizing as baby boomer homeowners sell these locked-in homes and move to smaller ones.
2. About 25-30% of baby boomers moving out of single-family homes will move into types of housing that do not compete with single-family homebuyers.
3. It is estimated that hundreds of thousands of family-sized homes are sitting vacant, with heirs awaiting the death of a loved one, so as to benefit from the step-up in basis at death.
4. The filtering down process would apply to the move-up buyers purchasing the homes freed up by the capital gains tax holiday.

In order to free up existing housing supply, consideration should be given to adopting legislation exempting from the U.S income tax all capital gains on the sale of primary owner-occupied single-family homes owned for more than two years by someone 65 years or older. Alternatively, retroactively index the current \$250,000/\$500,000 exemption levels to either consumer price inflation (CPI) or home price inflation (HPI).

Question 1: What is meant by the capital gains lock-in and what is driving it?

The capital gains lock-in is the propensity of individuals to postpone selling appreciated assets subject to capital gains taxes.

This lock-in is driven by the combination of an unindexed capital gains exemption on the sale of a home and the massive amount of consumer price inflation (CPI) and home price inflation (HPI) over the ensuing period.

In 1997, the Internal Revenue Code was amended to provide a capital gains exemption of \$250,000 (individual) and \$500,000 (joint). These amounts were not indexed for either consumer price inflation (CPI) or home price inflation (HPI).¹

If they had been indexed, the values in 2025 would be:

Filer status	1997 value (unindexed)	2025 value (CPI)	2025 value (HPI)
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¹ <https://www.fhfa.gov/data/hpi/datasets>

Single	\$250,000	\$500,000	\$700,000
Joint	\$500,000	\$1,000,000	\$1,400,000

There is a second capital gains lock-in that results from the capital gains exclusion on the step-up in basis on a home at the death of the owner.

In both cases, much of so-called capital gain actually represents gains due to inflation.

Question 2: Is there evidence of the capital gains lock-in effect?

Strong evidence is provided by an examination of both tax expenditures and capital gains revenue relative to homes. As the chart below demonstrates, tax expenditures for the two home related capital gains exclusions total about \$100 billion per year, while gains actually recognized on home sales is relatively small at \$6.5 billion per year. These data support the lock in effect.

It is further supported by the fact that on a national basis about [9 million](#) (31.6%) of homeowners over the age of 65 exceed the single filer capital gains exclusion limit. Assuming these owners exceed the exclusion by an average of \$200,000, this would represent \$1.8 trillion in unrealized capital gains corresponding to an unrealized tax of say \$270 billion at a 15% rate. The \$6.5 billion in annual capital gains actually realized only amounts to 2.4% of the unrealized tax.

IRS Treatment	FY 2025
Tax expenditure on capital gains exclusion on home sales	\$61.74 billion ²
Tax expenditure on capital gains exclusion on step-up basis at death	\$37.83 billion ³
Capital gains actually recognized on home sales	\$6.5 billion ⁴

As the Congressional Research Service noted: “between rollovers, exclusions, step-up in basis (which allowed capital gains to be avoided if the home were held until death and left to heirs), and under-reporting, very little capital gains on owner-occupied housing were taxed. Thus, little revenue was gained from a set of provisions that, nevertheless, caused distortions in behavior and complicated compliance.”⁵

Question 3: Do people with taxable capital gains on their home hold on because of a very strong bequest motive?

Yes, research has shown that to be the case, specifically data on tenure at death of those aged 50+:

² <https://home.treasury.gov/system/files/131/Tax-Expenditures-FY2026.pdf>

³ Ibid.

⁴ <https://www.taxnotes.com/research/federal/legislative-documents/congressional-research-service-reports/crs-analyzes-capital-gains-exclusion-primary-residences/7sx3w>

⁵ <https://www.taxnotes.com/research/federal/legislative-documents/congressional-research-service-reports/crs-analyzes-capital-gains-exclusion-primary-residences/7sx3w>

In 2019, there were 2.6 million deaths of persons aged 50 and older.⁶

- One million of these were renters.
- Of the 1.6 million decedents who lived in owner-occupied housing, a half million were the first-to-die spouse in a couple and transferred ownership to the surviving spouse.
- The remaining 1.1 million died as homeowners and bequeathed their homes.
- Therefore, the supply of homes for sale from the mortality of older Americans was 1.1 million units in 2019.

Further, as of 2014, the annual flow of housing bequests is about 4.5% or \$450 billion of \$10 trillion in aggregate real housing value held by home owning Americans aged 62 and older.⁷

- The median age at death is about 81-82 years (cohort of 62 years and older).⁸
- The intention for elderly homeowners to bequest \$500,000 or more was about 25% in 2014.⁹

Question 4: What are the property characteristics of baby boomer homeowners with capital gains in excess of the applicable exclusions?

In 2022, Redfin reported that baby boomers owned twice as many large homes as millennials with kids.¹⁰

To determine the size of homes owned by homeowners aged >65 with capital gains in excess of the applicable exclusions, we created a proxy: current homeowners who purchased their homes in 2005 or before and either have an estimated equity gain of >\$250,000 for one owner, or >\$500,000 for two owners.¹¹

This proxy identified some 3.8 million such property owners (since we do not have homeowner age, this proxy understates the total number of these homeowners). As expected, this cohort of homeowners own homes with about 2,000 square feet and 3-bedrooms.

Characteristics for the 1.5 million two-owner homes with more than \$500,000 in excess gains:

- Median tenure: 27 years
- Median living area: 2,300 square feet
- Average value: \$1,153,000
- Average equity gain in excess of \$500,000: \$362,000
- Median number of bedrooms: 3.4

Characteristics for the 2.3 million one-owner homes with more than \$250,000 in excess gains:

⁶ Supra. MBA

⁷ https://crr.bc.edu/wp-content/uploads/2021/01/wp_2021-2_.pdf

⁸ Ibid.

⁹ Ibid.

¹⁰ <https://www.businessinsider.com/baby-boomers-wont-sell-homes-millennials-kids-need-housing-affordability-2024-1>

¹¹ These metrics may be ascertained or imputed from public deed recordation files. The estimated equity gain may be approximated by subtracting the original purchase price from the current value.

- Median tenure: 26 years
- Median living area: 1,800 square feet
- Average value: \$713,000
- Average equity gain in excess of \$250,000: \$264,000
- Median number of bedrooms: 2.8

Question 5: Is there evidence that there are older Americans who would like to downsize?

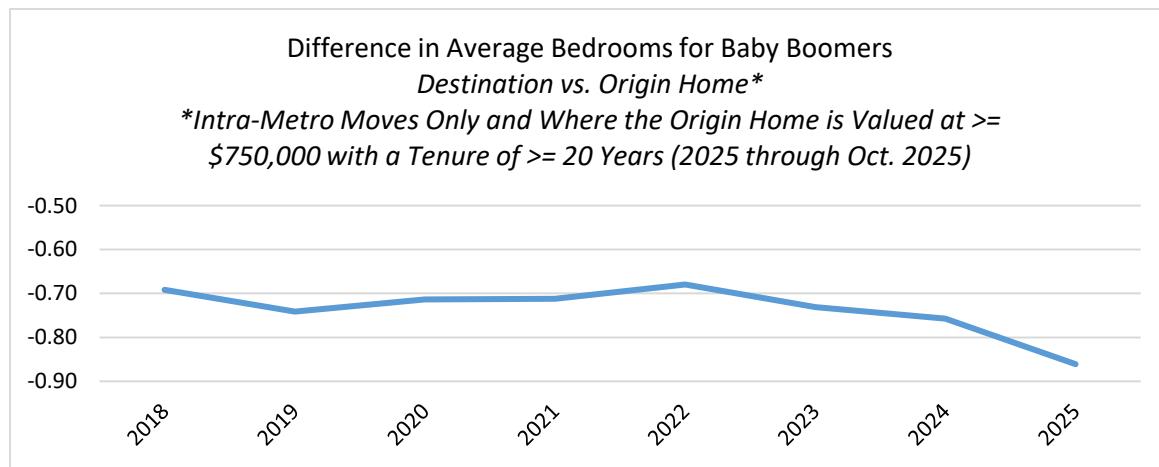
We examined the downsizing propensity of baby boomers who actually did move using a unique dataset going back to 2018 that tracks homeowners who have moved from an origin home to a destination home. For this analysis, we restricted moves to origin homes with a value of at least \$750,000 (2024 value) and a tenure of at least 20 years.

We divided the groups into intra- and then inter-metro moves, which are about evenly split, and found a downsizing trend:

- For both Intra and inter metro moves, the average baby boomer selling a high value home moved down in terms of number of bedrooms and home value. Living area square footage changes were more varied.

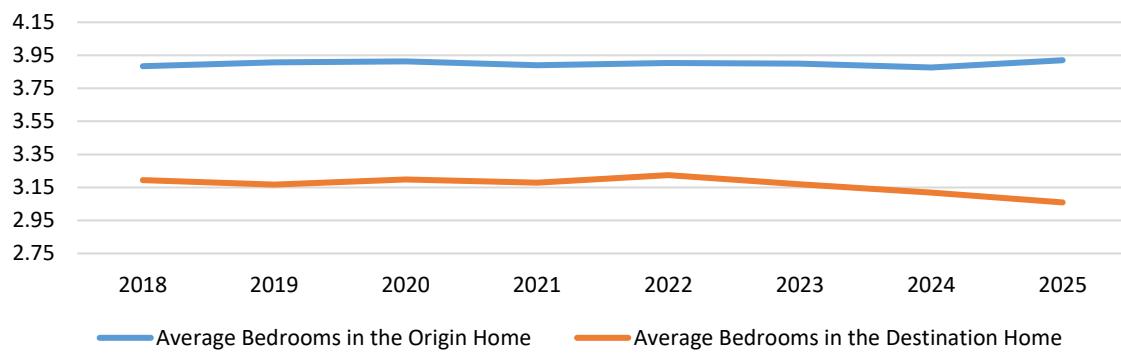
For intra metro moves:

- The average number of bedrooms (origin to destination) dropped by about 0.86 bedrooms from 3.92 to 3.06 in 2025 (first graphic below).
- The origin bedroom count has been relatively stable, with the destination bedroom count trending down in recent years (second graphic below).
- Living area is consistently smaller, with a percentage decline of 11% in 2019 vs. 16% in 2025.
- These declines roughly correspond to the change in destination home value vs. the origin value (-14% for 2019 and -18% for 2025). See first table below.



Origin vs. Destination Bedroom Trends for Baby Boomers*

**Intra-Metro Moves Only and Where the Origin Home is Valued at >= \$750,000 with a Tenure of >= 20 Years (2025 through Oct. 2025)*



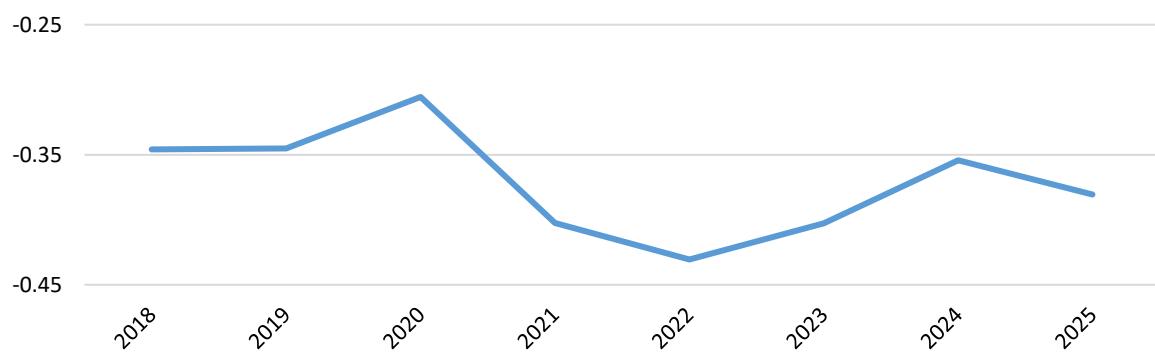
For inter metro moves:

- The average number of bedrooms (origin to destination) dropped by about 0.39 bedrooms in 2025 (first graphic below).
- The origin and destination bedroom trends have been relatively stable (second graphic below).
- Living area changes relatively modestly, with the percentage decline being +3% in 2019 and -3% in 2025 (second table below).
- Destination home value declines: -31% for 2019 and -28% for 2025.
 - The modest changes in living area combined with the substantial decline in destination home value vs. the origin value makes sense, as this indicates that the living area cost per square foot was less in destination metros. This allowed movers to maintain similar living area even though moving into a lower cost home.

Difference in Average Bedrooms for Baby Boomers

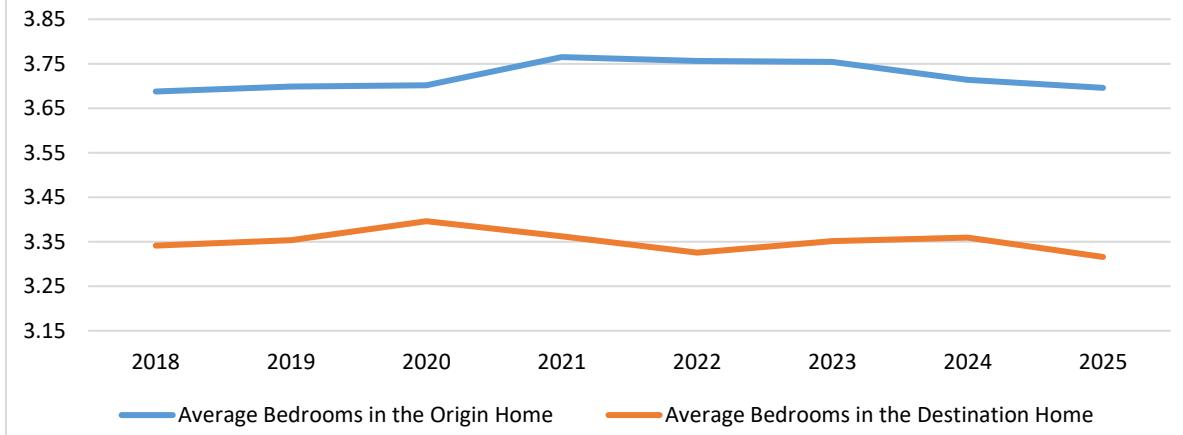
*Destination vs. Origin Home**

**Inter-Metro Moves Only and Where the Origin Home is Valued at >= \$750,000 with a Tenure of >= 20 Years*



Origin vs. Destination Bedroom Trends for Baby Boomers*

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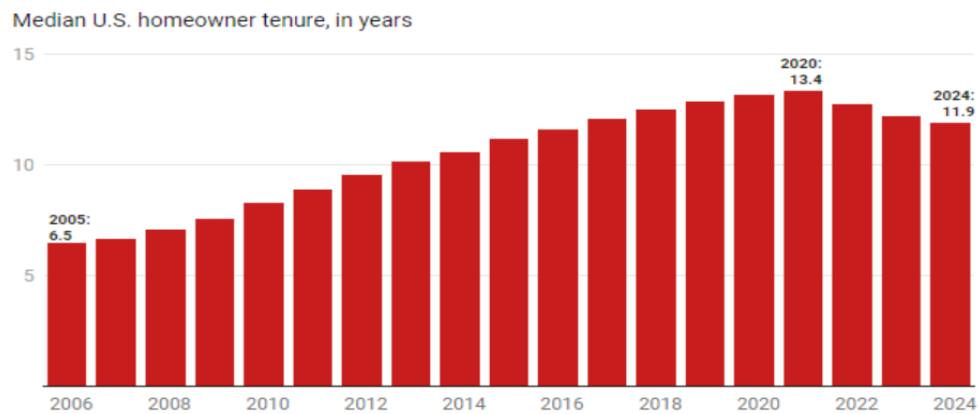


Baby Boomer Intra Metro Moves from Homes with an Origin Value >=\$750,000 (2024 Values) and Tenure >= 20 years (2025 through Oct. 2025)												
Year of Destination Home Purchase	N Count by Year of Origin of Home Sales with Value >=\$750,000 and Tenure >= 20 Yea	Share of Intra-Metro Moves by Year	Average Bedrooms in the Origin Home	Average Bedrooms in the Destination Home	Change in Average Bedrooms	Average Value of the Origin Home (Dec. 2024 AVM)	Average Value of the Destination Home (Dec. 2024 AVM)	Change in Home Value	Average Gross Living Area (Sq.Ft.) in the Origin Home	Average Gross Living Area (Sq.Ft.) in the Destination Home	Change in Average GLA	
2018	11,489	54%	3.88	3.19	-0.69	\$1,235,211	\$1,085,062	-\$150,149	2,986	2,675	-311	
2019	14,153	54%	3.91	3.17	-0.74	\$1,236,135	\$1,068,223	-\$167,912	3,041	2,697	-345	
2020	13,593	51%	3.91	3.20	-0.71	\$1,225,950	\$1,072,526	-\$153,424	3,039	2,758	-281	
2021	10,256	48%	3.89	3.18	-0.71	\$1,243,176	\$1,056,433	-\$186,744	3,054	2,732	-322	
2022	6,217	48%	3.90	3.22	-0.68	\$1,237,288	\$1,070,781	-\$166,507	3,005	2,750	-254	
2023	7,850	52%	3.90	3.17	-0.73	\$1,211,970	\$1,025,330	-\$186,640	3,036	2,692	-344	
2024	10,285	53%	3.88	3.12	-0.76	\$1,196,631	\$1,019,618	-\$177,013	3,008	2,713	-295	
2025	6,776	55%	3.92	3.06	-0.86	\$1,174,252	\$957,061	-\$217,191	3,074	2,596	-478	

Baby Boomer Inter Metro Moves from Homes with an Origin Value >=\$750,000 (2024 Values) and Tenure >= 20 years (2025 through Oct. 2025)												
Year of Destination Home Purchase	N Count by Year of Origin of Home Sales with Value >=\$750,000 and Tenure >= 20 Yea	Share of Inter-Metro Moves by Year	Average Bedrooms in the Origin Home	Average Bedrooms in the Destination Home	Change in Average Bedrooms	Average Value of the Origin Home (Dec. 2024 AVM)	Average Value of the Destination Home (Dec. 2024 AVM)	Change in Home Value	Average Gross Living Area (Sq.Ft.) in the Origin Home	Average Gross Living Area (Sq.Ft.) in the Destination Home	Change in Average GLA	
2018	9,828	46%	3.69	3.34	-0.35	\$1,253,333	\$893,374	-\$359,958	2,876	2,946	70	
2019	12,270	46%	3.70	3.35	-0.35	\$1,261,558	\$875,221	-\$386,337	2,870	2,946	76	
2020	12,961	49%	3.70	3.40	-0.31	\$1,261,221	\$909,887	-\$351,334	2,905	3,043	139	
2021	10,946	52%	3.77	3.36	-0.41	\$1,282,108	\$887,227	-\$394,880	2,959	3,018	59	
2022	6,815	52%	3.75	3.33	-0.42	\$1,172,766	\$821,031	-\$351,735	3,008	2,878	-131	
2023	7,330	48%	3.76	3.34	-0.41	\$1,172,645	\$815,483	-\$357,162	3,074	2,987	-87	
2024	8,951	47%	3.72	3.37	-0.36	\$1,140,305	\$816,682	-\$323,623	3,059	2,928	-131	
2025	5,616	45%	3.73	3.34	-0.39	\$1,138,287	\$822,502	-\$315,784	3,052	2,962	-90	

Question 6: Is there evidence that Americans are staying in their homes for longer compared to the past?

Median homeowner tenure in recent years is at a historically high level, having almost doubled from 6.5 years in 2005 to 11.9 years in 2024, but has fallen somewhat from the 2020 peak of 13.4.



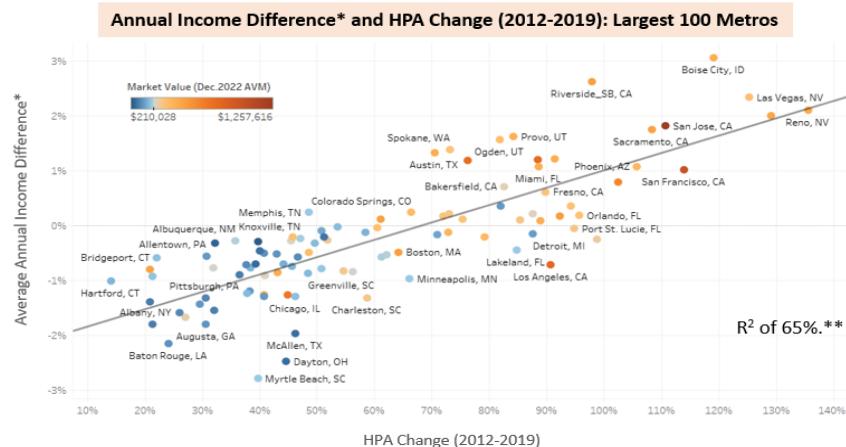
Source: Redfin analysis of U.S. Census Bureau data • Created with [Datawrapper](#)

Question 7: What evidence is there that a capital gains tax holiday would boost supply and improve affordability?

- As already noted, baby boomers moving out of single-family homes have been downsizing, and this would continue to be the case with a capital gains tax holiday.
- One also needs to take into account filtering down, which would be at work with respect to the move-up families purchasing the homes freed up by the capital gains tax holiday. Think of the process where the sale of a new car frees up a less expensive, but still serviceable used car. The same process is operational in the housing market. See <https://www.aei.org/wp-content/uploads/2024/09/Filtering-overview-Final.pdf?x85095>

Filtering and Home Price Appreciation

- There is a strong positive relationship between a metro's rate of filtering (defined as the annual income difference on the y-axis*) and its home price appreciation (HPA) (x-axis). The coloring is based on the average market value of the metro.
- While housing filters down (as measured by the average annual income difference) at around -1 to -2% for slower appreciating metros, housing filters up at +1 to +3% for faster appreciating metros.
- Metros where housing filters up also tend to have higher housing prices and to add supply in insufficient quantities to keep up with demand. This includes San Jose, Boise, and Las Vegas.



* We calculate the annual income difference by dividing the most recent buyer's income as a % of MSA area median income (AMI) by the prior buyer's income as a % of AMI. We then annualize this result using the duration of holding before selling.

** R^2 measures the amount of variation in the data that are being compared. www.causal.app

Note: Using public records data, we identify sale pairs where the same property was bought and subsequently sold during 2009 and 2022. We then match the sale pairs to HMDA data to get the income information. The final data for the largest 100 metros cover 2.4M sale pairs. The y-axis HPA change is in nominal terms.

Source: Public Records, HMDA and AEI Housing Center, www.AEI.org/housing.

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- Additionally, about 25% - 30% of baby boomers moving out of single-family homes will move to types of housing that do not compete with families buying single-family homes. This includes:
 - Rental:** while precise data on this type of move are scarce, research on tenure upon the death of older individuals finds 38% are renters.¹² This is well above the 22% renter percentage for older individuals generally.¹³
 - Independent living communities:** while precise data on this type of move are scarce, it appears that 3% of seniors live in independent living communities.¹⁴
 - Assisted living communities:** while precise data on this type of move are scarce, it appears that 2.4% of seniors live in assisted living communities.¹⁵
 - Nursing homes:** while precise data on this type of move are scarce, it appears that 4% of seniors live in nursing homes.¹⁶

¹² Of the 2.6 million deaths of individuals aged 50 or older in 2019, 1 million or 38% were renters.

https://www.mba.org/docs/default-source/uploadedfiles/research/riha/23976_research_riha_silver_tsunami_report_wb.pdf?sfvrsn=cc034199_1

¹³ <https://www.census.gov/housing/hvs/data/charts/fig07.pdf>

¹⁴ https://www.retirementliving.com/how-many-americans-live-in-senior-housing#:~:text=Table_title:%20Senior%20Housing%20Occupancy%20Rates%20by%20Housing,Overall:%205.4%25%20%7C%20Independent%20living:%204.8%25%20%7C

¹⁵ <https://www.consumeraffairs.com/assisted-living/statistics.html>

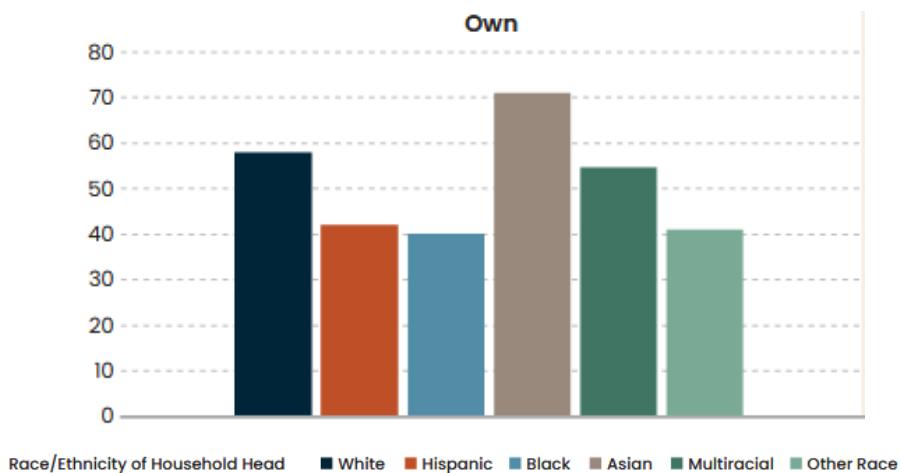
¹⁶ Ibid.

- e. **Living with family:** while precise data on this type of move are scarce, it appears that 9.3% of seniors live with family or in other co-living arrangements.¹⁷
- f. **Senior only for sale communities:** this type of move are scarce, there are 3,000 for sale 55+ communities across the nation.¹⁸ The largest is Florida's The Villages with 70,000 homes.¹⁹ In total, there are likely about 1 million such homes, with about 84,000 sales per year.²⁰ These homes account for about 3-4% of moves by baby boomers selling a home.
- There would also be an undetermined number of homes that are sitting vacant, with heirs awaiting the death of a loved one, so as to benefit from the step-up in basis at death.²¹ While precise data on the number of these homes are scarce, it could number in the hundreds of thousands of family-sized homes.

Question 8: What is the state-by-state distribution of large capital gains that current owners likely have?

- In terms of income, these owners are asset rich (a highly appreciated home), but with retiree type incomes.²² Median income of homeowner households is about \$55,000. Therefore, large long-term capital gains would be taxed at a much higher bracket.

Median Income of Households Age 65 and Over (Thousands of Dollars)



Notes: White, Black, Asian, and multiracial/other race households are non-Hispanic. Hispanic households may be of any race.
Source: JCHS tabulations of US Census Bureau, 2022 Current Population Survey via IPUMS-CPS.

¹⁷

https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Housing_Americas_Older_Adults_2023.pdf

¹⁸ <https://www.55places.com/explore>

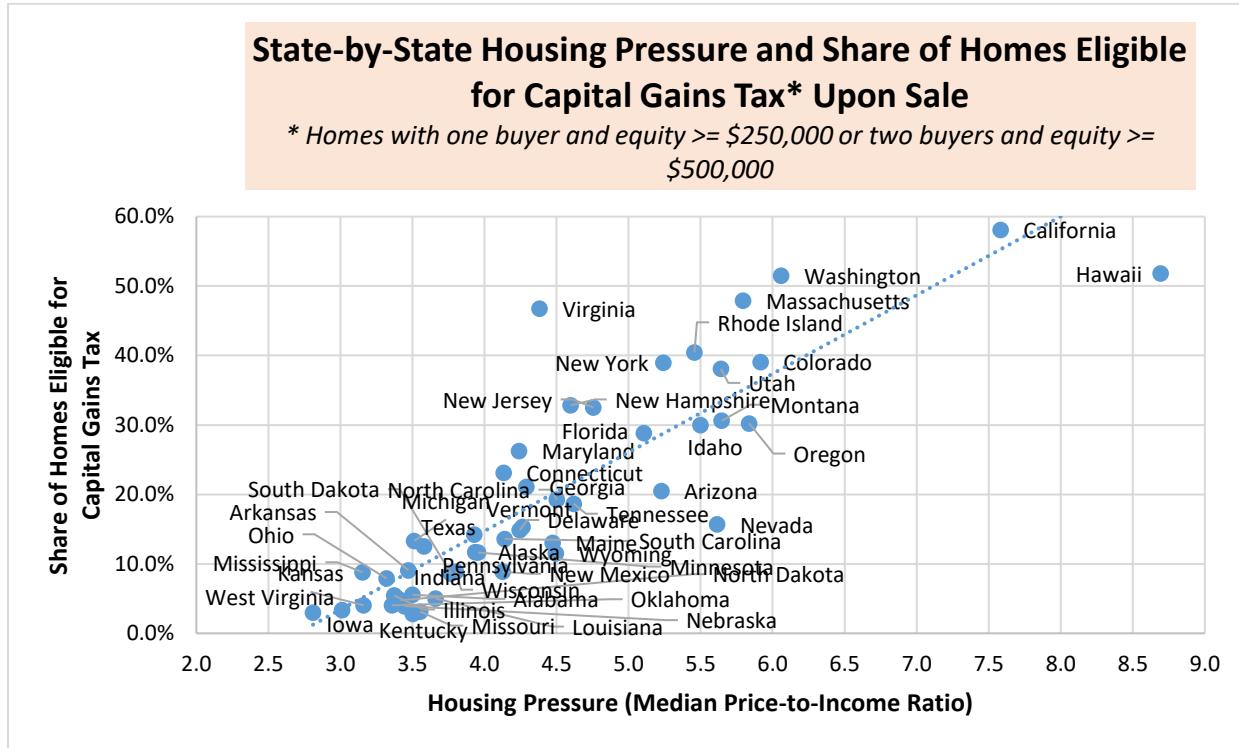
¹⁹ <https://www.55places.com/florida/communities/the-villages>

²⁰ <https://www.55places.com/55-housing-market-trends?target=Total+Closed+Listings>

²¹ <https://www.businessinsider.com/the-tax-that-incentivizes-boomers-to-die-in-their-homes-2025-12>

²² Supra. JCHS

- In terms of geography, we looked at state-by-state housing pressure (median home price to median household income—all households) and the share of homes eligible for capital gains tax upon sale on homes with one buyer & equity $\geq \$250,000$ or two buyers & equity $\geq \$500,000$, as shown in the scatter plot below. It shows a strong correlation between housing pressure (median price-to-income ratio) and the share of homes eligible for capital gains in excess of the exemptions.



Question 9: How many homes might be freed up by means of a capital gains tax holiday?

Nationally, about [9 million](#) homeowners over the age of 65 (31.6%) exceed the single filer capital gains exclusion limit. This has kept many from selling.

Additionally, upon death, one's heirs have the basis in a home increased to current market value, thereby eliminating the tax on capital gains. This has kept many from selling.

Providing an incentive to sell and return say 2 million of these larger family sized homes to the market over ten years has the potential to add 200,000 move-up homes per year.

Since these homes already exist, they would immediately address a portion of our housing shortage, especially for move-up family households, and would set off a daisy-chain of moves (filtering down), promoting a redistribution of home sizes so that supply and demand are better matched.

Implementing this initiative would have a minimal cost in lost tax revenue, as most of the tax gains on these homes would be eliminated upon the step-up in basis available upon the death of the owner.

Question 10: Are there other economic benefits provided by a capital gains tax holiday

Moody's Analytics has found:²³

"Under scenarios where housing turnover rises by 10%, or 400,000 existing-home sale transactions, in response to reduced capital gains lock-in effects, state and local transfer taxes (ranging from 0.5% to 1%) could generate an additional \$800 million to \$1.6 billion annually based on recent median house price data. Federal and state income taxes (averaging 25%) on realtor commissions for these sales (near 6%) could yield \$2.4 billion in additional revenue.

Furthermore, local property tax bases could strengthen as homes transfer from owners with significant homestead exemptions that restricted property tax growth to owners responsible for property taxes on a stepped-up basis. These transfers could generate upwards of \$1 billion in additional property tax revenue (which totaled \$797 billion in 2024), especially in states like California and Florida, where provisions such as proposition 13 and Save Our Homes, respectively, restrict property tax increases for long-time homeowners.

Income and sales tax collection stemming from additional economic activity that home sales typically generate, such as remodeling or furniture sales, could further offset revenue effects from changes to capital gains taxes on primary home sales. In addition, unlocking the housing stock could affect labor mobility, potentially enhancing productivity and taxable income.

From a cost perspective, optimizing the allocation of housing among households could alleviate strain on infrastructure and enhance the efficiency of government services, potentially resulting in substantial public expenditure savings.

²³ <https://www.economy.com/getfile?q=C8D59392-75B0-4486-B9C4-3A6C8A01774E&app=download>

Appendix 2

Strong Foundations: A Playbook for Housing and Economic Growth

Overview

Housing has long been a cornerstone of the American dream and the nation's economy, but a supply–demand imbalance has pushed the U.S. market into crisis, driving up prices and limiting workforce mobility. Addressing this shortage is essential to stabilize the market and sustain economic resilience, so the U.S. Chamber of Commerce and the AEI Housing Center* have released Strong Foundations: A Playbook for Housing and Economic Growth, a guide that gives state and local leaders actionable solutions. These 6,600 playbooks are backed by location specific data on affordability, net migration, and homeless displacement pressure. These data allow officials to make informed decisions to reinforce housing stability and spur growth.

<https://aeihousingcenter.org/playbook/>