

Why We Must Build

We can't build our way out of the housing crisis . . . but we won't get out without building.

Rick Jacobus - March 10, 2016



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Affordable housing advocates are facing a disturbing new opponent in planning battles across the country: other affordable housing advocates.

Take the battle over implementation of Mayor Bill de Blasio's proposed Mandatory Inclusionary Housing policy in East New York. The policy would require private developers to ensure that 25 percent of all new housing units are for lower- income residents. It is the kind of policy that activists concerned about gentrification have long dreamed of. So it was somewhat ironic that Vickie Been, de Blasio's

housing commissioner, felt compelled to **speak out** in response to concerns that the plan would cause gentrification and displacement.

Because New York's inclusionary housing plan is tied to zoning changes, which would allow higher density development along Brooklyn's major corridors, a number of advocates for the area's lower-income residents have concluded that the plan will add fuel to the booming market and drive rents and for-sale home prices higher than they already are. Been's response was to remind people that rents were already high and rising and point out that that was the predictable result of a shortage of housing. The new zoning plan, she said, "is not the trigger for displacement; instead, it is a preventative measure."

A surprisingly similar conflict surrounded a proposed moratorium on new development in San Francisco's Mission District. The district has been ground zero for the Bay Area's displacement crisis and Mission activists concluded that a new private housing development was likely to exacerbate the problem by bringing in higher income residents and driving up rent costs. The proposal split the housing advocacy community. Mayor Ed Lee, who has been an unparalleled leader in the fight for more affordable housing funding, and many committed advocates succeeded in convincing San Francisco voters that the moratorium would only make things worse by further restricting supply. The housing shortage, they argued, is the ultimate cause of rising rents and we have to build new housing to make any real progress.

Unfortunately, if we want to work together for more equitable cities, we have to agree on some basic economics. The two sides in this fight see different economic mechanisms behind displacement. One group says prices are rising and people are being displaced because we aren't building enough housing, while the other group sees new housing development as one cause of gentrification and displacement. If we look more closely, they are not really two different mechanisms as much as the same mechanism working at different geographic scales. New development may lower prices regionally even while it raises prices in a specific neighborhood.

At the regional scale it is easy to see the interaction of supply and demand determining prices. The population of a region is largely determined by the number of jobs available. When we add jobs, we create new demand for housing. If we build housing at the same rate that we create jobs, housing prices remain relatively constant. When we occasionally build more housing than we need, prices fall, and when we build too little housing, prices rise. Across the country we have been systematically building too little housing for a very long time now and high housing prices and rents are the utterly predictable result.

But is that how things work at the neighborhood scale? If you buried your head in an Econ 101 textbook you might argue that building new housing anywhere in a given region would lower rents and prices across that region, right? So why are so many community advocates up in arms about new housing causing higher rents?

What happened in South of Market and parts of Brooklyn and what people fear in the Mission (and the rest of Brooklyn!) is that high-rise luxury housing was dropped into otherwise distressed neighborhoods. These luxury projects dramatically changed the perception of these neighborhoods—they sent a clear signal to the market that these places were safe—both in the sense that they were safe for wealthier residents to live in and in the sense that they were safe for more investment in residential development. However much these projects decreased rents regionally by increasing supply, they had a larger impact of increasing rents in the immediately surrounding neighborhoods by increasing demand.

This is how the market determines the rent in neighborhoods. Neighborhoods compete with each other for residents from among the pool of people who work in a region. Many factors inform the way people choose neighborhoods, including things that change slowly like proximity to jobs, but one factor, neighborhood perception, can change overnight. If you are concerned about displacement, you don't want your neighborhood to be "discovered."

In other words, the demand for housing in any neighborhood is highly variable and can switch from very low to very high quickly. But the supply is almost entirely fixed. In established neighborhoods, no matter how much building is going on, the new supply will be small relative to the overall market so increased supply will have almost no impact on rents. It might theoretically drive rent down some tiny amount but, in practice, the impact of new development in a neighborhood is usually the opposite because it increases demand (for that neighborhood) by more than it increases supply. Partly this is true because any new development is visible, new and exciting. Developers push this process along with marketing campaigns that invariably promote not just one building but the surrounding neighborhood (even if they have to coin a new name for the neighborhood). The result is that—on the neighborhood level—adding supply may not lower rents. It may raise them.

This has always been true, but there is a new reality that has exacerbated the problem. We are in the middle of a once in a lifetime tectonic **shift in consumer preferences** regarding urban living. Throughout much of the 20th century, American households reported a preference for suburban living. Not everyone was able to afford to move to the suburbs (and many were racially excluded) but even central city residents commonly told survey researchers that they would rather be living in the suburbs. The result was that, as people sorted within regions, the people with the most economic (and racial) power chose the most desirable locations (at the edges) while the less powerful were left with the less desirable center. There has been a shift, and now a **growing share** of the powerful prefer the center. But where the edges were occupied by farmland, the center of most of our regions is today occupied by the same low-income and minority communities that were excluded from late 20th century suburbia.

These two different economic stories, one regional and one neighborhood in scale, are the source of the recent conflict over inclusionary development.

Can We Build Our Way Out of the Problem?

If we look at the housing problem at the regional level only, it seems frustratingly obvious that the answer for hot-market metro areas is simply to build. Build more. Build now. Build anywhere. Even when we build high-end housing for the rich it adds to the overall supply and pushes rents down. The

Now, filtering is not quite the panacea that some wish it were because once rents on older housing units fall below the operating costs, it is cheaper for property owners to abandon their buildings than rent them out. This creates a functional rent floor below which rents won't fall no matter how much we build; but in high-cost regions the bottom of the housing market (the lowest rents typically available) is far above this floor. And to reach that floor we would need to build at such an **enormous scale** that it is hardly worth discussing. So building more won't end homelessness or eliminate the need for affordable housing subsidies for very low-income households, but for everyone else struggling to pay rising rents, there is solid **evidence** that building even high-end housing will bring rents and housing prices down. Even if we can't hope to build enough, some building is better than no building.

But if you are concerned about equity (or about the environment for that matter) then it may be a problem if the sky palaces are in the middle of a long-established urban community while the units that get slightly more affordable are 75 miles away at the suburban fringe. And if we are talking about your urban community, it is no consolation to know that some housing somewhere is a little less expensive thanks to the luxury project next door that is driving your rent through the roof. If we could put the luxury housing somewhere else, it might be better to build it than not to, but if we are putting it next to you, it might do more harm than good.

A New Kind of NIMBYism?

What we are seeing in these movements in New York, San Francisco, and elsewhere is a relatively new phenomenon. The term NIMBY (Not-In-My-Backyard) has been used to refer to movements against many different kinds of development, but applied to housing for middle-class or upper-class residents who resisted the location of affordable housing developments in their neighborhoods. What we are seeing now are movements of the poor and their advocates resisting the location of luxury-housing projects.

Activist and author Randy Shaw regularly **argues** (and convincingly **to me**) that community advocacy has almost entirely prevented gentrification of San Francisco's Tenderloin neighborhood even while gentrification has strongly impacted surrounding neighborhoods like the Mission and South of Market (SOMA). He writes, "A key factor in this outcome was the enactment of tough land use restrictions that deterred upscale uses." While the Tenderloin is probably a unique case, it does seem reasonable to conclude that luxury development in SOMA has fueled displacement and if it had been allowed in the Tenderloin it would have had a similar impact.

But if you look at the result at a citywide scale, it seems likely that while development in SOMA may have contributed to displacement, it may have slowed displacement in the Mission as young, high-income tech workers moving to the city for its amazing job market had somewhere else to go when all of their friends were competing for increasingly scarce units in the district.

People with lots of money are choosing to move to our central cities and, in a free market, they will consistently outbid existing residents for limited housing. The more new housing we build for them, the less they should bother everyone else, but where can we put them without impacting someone's neighborhood?

The affordable housing argument against the Mission moratorium was not so much that the few housing units that would not be built there would make the housing shortage noticeably worse, it was that if the Mission could have a moratorium, every other neighborhood would want one and that would reduce supply enough to make a real difference.

have arrived at a future where we actually have this kind of problem!)

But fighting to block new luxury development neighborhood by neighborhood is a losing strategy. Community advocates sometimes have enough power to push development from one area to another, but let's not fool ourselves into thinking we can keep development at bay indefinitely.

You just have to look at the Mission District to see what I mean. While it may be right that the Tenderloin has been saved by the community's refusal to allow "upscale" development, the Mission has also mostly resisted the kind of high-end, high-rise development that transformed SOMA, but Mission rents and home prices have skyrocketed nonetheless. Even with rent control, relentless tenant education and advocacy and nonstop neighborhood organizing, if you didn't allow any new building, you can't stop private property owners from cashing in on the fact that the area is desirable to people with a lot of money. Even in the Mission!

So we face what seems like an impossible dilemma: building makes things worse but so does not building.

Why We Fight

What if we were to take a step back and examine our true hearts for what we really want? I think what a lot of people want is for every neighborhood to become desirable, to be seen as safe for investment, to see new buildings built and new stores open—but we want the lower income communities, the communities of color, to still be there to share in the benefit of that change. That is a lot to ask for, but it is not at all impossible.

The first step is to let go of the idea that the market is going to offer neighborhoods that are both highly desirable and economically diverse. We are systematically under-building and likely to continue to do so which means that any desirable location will fetch high prices in the market.

I know a developer who likes to say, only half joking, "Let us developers overbuild and we will solve your affordable housing problem with Wall Street's money." Much as I like the idea, I don't think there is any chance that we will overbuild housing again any time soon. There is a long list of reasons why, but this conflict over where to build is one of the bigger items on that list.

If you accept this conclusion (basically a limit to what we can expect the housing market to do for us) you don't have to give up on the dream of quality (i.e. desirable) neighborhoods that are nonetheless economically, and racially, diverse. But to achieve the dream you need a non-market mechanism to preserve affordability.

What About Rent Control?

In San Francisco, New York, and a lot of other urban areas, the primary non-market strategy for preserving affordability has historically been rent control. Imagine how different these development fights would be if New York and San Francisco still had strong rent control. I don't mean the watered down policies that pass for rent control these days. I mean the old school, shaggy sideburns, 1970s rent control that both cities had back when the rich were fleeing to the suburbs.

With strong rent control, when someone moves, the next tenant gets the same below-market rent. This means landlords have no incentive to evict lower income tenants. In a city with strong rent control, new luxury housing on your block might be good news regardless of your income. If you didn't have to worry that your neighborhood becoming more desirable would drive up your rent or get

But rent control has been beaten into submission by state legislatures across the country and the weakened versions in effect in most places are helpful at slowing displacement but they don't offer enough protection for people to actually welcome gentrification.

You can see that playing out in the Mission where in spite of rent control, people are being evicted in [record numbers](#). Even if you could stop the evictions, since 1995 California law has enabled owners to increase to market rents whenever a unit turns over. This "vacancy decontrol" means that every time a lower income tenant gets married, dies, moves out of the area or just decides that they need a bigger place, the landlord will mark the rent up to market prices. Inevitably over time, the character of the neighborhood will change as the working class tenants are all replaced by a more affluent social group.

And even old-school rent control may not have prevented the displacement of low-income communities. New York and San Francisco were both more highly segregated racially and economically when they had strong rent control. Rent control is a very blunt tool, it transfers economic power from landlords to tenants, but it benefits all tenants, including those who don't need its help. If gentrification is a competition among tenants for access to desirable locations, rent control does not actually tilt the table in favor of lower-income tenants. They still compete at a disadvantage against higher-income households. There is [some evidence](#) that upper-income tenants disproportionately benefit from rent control because they are less mobile. The image of wealthy New Yorkers like [Carly Simon and Mia Farrow](#) living in enormous rent controlled apartments overlooking Central Park greatly undermined public support for rent control.

Economists tend to dislike price controls on principle and while there is some empirical research that supports concern about rent control, [the concern may be overstated](#). In a [report](#) commissioned by the developer-funded Urban Land Institute, economist Anthony Downs reviewed the published studies and found that while "stringent" rent control imposed over a very long time had reduced private apartment construction in the UK, there was "no persuasive evidence that temperate rent control ordinances inhibit the construction of new rental housing." And "temperate" rent control was by far the most common type—the only type, in fact, found in American studies. The research seems to suggest that the rent control that generally gets implemented is not strong enough to harm the building industry but, by the same token, it is probably also not strong enough to prevent displacement over the long term.

The housing crisis has generated a surge in interest in rent control, and we should do all we can to pass stronger tenant protections, but we should think of rent control like a spare tire. When you have a flat, it is a life-saver, but you don't want to rely on it as a long-term solution. Rent control may be better suited for preventing displacement during temporary price spikes (like today's) than for overcoming the long-term effects of chronic under building.

Own the Land

The other way to sustain desirable neighborhoods that are also economically diverse is to turn to what the Europeans call "social housing." In Europe, a high share of central city housing units are owned by public or nonprofit organizations and rented at below market rates to low or moderate-income residents. In the Netherlands, for example, social housing accounts for as much as 50 percent of the housing in central cities. Where rent control disrupts the entire housing market by limiting the returns on privately owned property, social housing takes a share of housing out of the market to build a separate portfolio of units that are restricted specifically to serve families with a demonstrated financial need. This is not only more economically efficient (we don't have to subsidize every tenant) but it dramatically changes the politics. Rent control succeeds only when tenants have enough

Under social housing, tenants benefit from the same property rights orientation that undermines rent control. Because these nonprofits own the land they are not as subject to the whims of a new city administration or an activist state legislature so they can maintain affordability forever without maintaining political control.

Every American city has a growing stock of public and nonprofit owned or otherwise permanently restricted affordable housing. We just haven't built enough of it yet to meet the challenge.

You can see the potential of this approach in the Tenderloin. The Tenderloin's refusal to allow new building is only part of the story of how this one neighborhood has avoided the displacement that has plagued the rest of the city. In the Tenderloin, roughly a third of the housing stock is owned by nonprofit or public agencies. These units are rented at affordable rates to tenants who have to prove they are income qualified. This sizable group of low-income residents is not going anywhere and that fact alone makes it hard to convince both investors and potential new residents that the neighborhood is going to flip overnight into some new kind of place. Large-scale social ownership of land has created a situation where Tenderloin activists are not actively resisting new market rate development, even while their peers in every other corner of the city are fighting builders tooth and nail. (Some would argue that the extreme social distress visible on many Tenderloin street corners has done more to protect the neighborhood than the stock of permanently affordable housing and I would agree that the story is more complex than any one factor, but you don't have to look far to find examples of other extremely distressed communities that have been entirely swept away by gentrification.)

The Tenderloin is one of the few neighborhoods in America where the stock of social housing is large enough that new luxury development is not a threat to everyone else. But even the Mission, the poster child for gentrification and displacement, will likely retain significant economic diversity forever because of San Francisco's ongoing investment in permanently affordable housing. Since 2005, 37 percent of all new housing built in the Mission has been designated as permanently affordable. While evictions have devastated the Mission, the city's housing programs have created more new affordable housing units in the district than what has been lost to evictions. If the city can keep the rate of displacement in check and continue to build affordable housing at this level, the Mission can continue to offer a stable home to a sizable working class community even as it becomes a more desirable and expensive neighborhood for new residents.

Notice that when a public or nonprofit agency builds new affordable housing, it helps stabilize rents in its immediate neighborhood and alleviates the housing shortage regionally.

Playing the Long Game

Social housing is a promising strategy for protecting economic diversity in changing neighborhoods but the big problem is that we aren't building nearly enough of it to get the job done. In most American cities, the affordable housing portfolio represents a very small share of the overall housing stock.

Current affordable housing programs are not up to the task because they don't scale to the level of the challenge. Most new affordable housing is financed through a small pool of mostly federal housing funding. Even private market incentives like the Low-Income Housing Tax Credit are capped at a certain level to limit its impact on the federal budget. This means that building new affordable units in one place takes them away from somewhere else. But what if there were a way to piggy back on the private market and get more affordable housing whenever we built new market-rate homes?

This is precisely what the de Blasio administration is proposing in Brooklyn (and what San Francisco

financed affordable homes, these new units could mean that a third or more of the new housing in Brooklyn and other growing areas is forever set aside for lower income residents.

These inclusionary requirements come with their own economics debate. Many builders argue that they slow development also. Here again [research](#) shows that these fears are overblown but there is, in fact, some risk that overly aggressive requirements could result in fewer economically viable projects. But I think that this kind of trade-off is key to getting more cranes in the air in high-cost cities across the country. Faced with a choice between building housing only for the super-rich and building no housing at all, many will choose no housing—even if we suspect that choice could make things worse. Inclusionary housing requirements are the trade-off that makes building luxury housing worth it for the rest of us who aren't likely to be enjoying the views from the rooftop infinity pool. We get more building, which helps reduce pressure in the regional market, and we get permanently affordable units that serve a variety of income levels, which help preserve the existing community.

Setting aside 25 percent of units as permanently affordable is clearly a long-term strategy. If we look at it honestly, we have to acknowledge that new market-rate buildings (even with the affordable units) will sometimes contribute to displacement in the shorter term in some neighborhoods. (In some places, even "affordable" units require rents that are out of reach for typical area residents.) But this is a strategy that can win. By this I mean a strategy that can lead step-by-step to the goal we all share—strong, healthy and sustainably diverse communities. The alternative—simply opposing all building—is not a strategy that ever gets us to a better place. Maybe it slows the loss of some communities but it does not get us closer to what we really want in the end.

This is what the long game looks like. We can't build our way out of the housing crisis ... but we won't get out without building. Any realistic proactive strategy for combating displacement has to offer a way to get more housing built—both permanently affordable and market-rate housing.

Admittedly this is a slow process. Even if a third of all new housing is affordable, it will take a long time before that means that a third of all housing is affordable. We need rent control, just-cause eviction protections, tenant education and advocacy to help communities hold out for this future. But we can't get to that future if we don't build today.

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