How Luxury Units Turn Into Affordable Housing

Building more high-end apartments doesn't sound like a quick fix for the affordable housing crisis. But maybe you just have to look harder.

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There's a fierce argument about housing affordability and supply that's raging in the urbanist community. The big question: Does building "luxury" (or market rate) housing in wealthy neighborhoods free up more housing for everyone? Advocates in the "Yes In My Backyard" (YIMBY) movement say it does; others are more skeptical.

The market-rate-skeptic's view, as captured in Richard Florida's write-up of a new paper by Andrés Rodríguez-Pose and Michael Storper, paints a picture like this: Allowing new market-rate housing citywide will only result in high-end units in already-expensive neighborhoods. At best, developers may win big as the wealthy enjoy new homes. At worst, it could exacerbate segregation in wealthy neighborhoods and displacement in low-income neighborhoods.

The pro-market-rate position, championed by YIMBYs, is more optimistic: This view would concede that, though it's true that new market-rate units will be expensive given the current scarcity of housing, new units will ease up demand for existing housing. Through a process known as filtering, this older housing gradually becomes more affordable to middle- and low-income households. This will ultimately mitigate displacement risk in more vulnerable communities.

A new working paper by economist Evan Mast of the W.E. Upjohn Institute for Employment Research may help move the ball on this issue. Mast's work suggests that even expensive new units in wealthy areas help relieve pressure on rents across the market, including in less-affluent neighborhoods. And that process doesn't need to take years to unfold.

Until now, the argument for filtering has played out in the long run: Given a steady supply of new housing, older homes and apartments gradually grow more affordable, and households of all income levels gradually move into better housing. But many North American cities are in the grips of an urgent affordability crisis right now: Promises based on "the long run" can feel like cold comfort. What about the short run?

Mast looked at 802 new multifamily developments across 12 central cities, from the "Texas doughnuts" of Dallas to luxury high-rises in New York City. Using commercial address data, he found out the moving history of the residents of these new units. The first round of moves are roughly what you might expect: Approximately 70 percent came from nearby neighborhoods with above-average incomes, with the remaining 30 percent moving from below-average neighborhoods. These aren't exactly inspiring results for activists focused on helping households at the bottom of the market.

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But when a household moves into a new unit, they initiate a kind of housing musical chairs by vacating their existing unit. A second household then moves into that unit, in turn vacating a third unit. For each new market-rate building, Mast follows this trail of movers back through six moves, tracking where residents are moving from, a process he calls the migration chain. By the sixth link of this chain, Mast finds that approximately half of the movers are moving out of census tracts with below-median incomes. As many as 20 percent of movers are coming from the poorest tracts in the city.

These findings suggest that housing markets aren't nearly as segregated as some might fear, if you work your way down the migration chain far enough. His model suggests that for every 100 luxury units built in wealthier neighborhoods, as many as 48 households in moderate-income neighborhoods are able to move into housing that better suits their needs, vacating an existing unit in the process. Somewhere between 10 and 20 of these households are coming from among the city's lowest-income neighborhoods, vacating units and reducing demand where housing is most likely to be affordable for working families.

This suggests that even pricey new units could free up a lot of existing housing. Accounting for possibilities like units sitting vacant, out-of-town movers filling the units, or units being used as second homes/pied-a-terres/safe deposit boxes in the sky, Mast's model still indicates that for every 100 new market-rate units built, approximately 65 equivalent units are created by movers vacating existing units. If the migration chain is as robust as this paper finds it to be, as much as half of these newly vacated units could be in low- and moderate-income neighborhoods. This new supply, combined with less demand, could play a major role in easing pressure on rents in the short run.

No one paper is likely to settle a debate this contentious, but if further research vindicates Mast's findings, his model could have serious implications for housing policy. For starters, the case against allowing new market-rate housing in high-income neighborhoods would be considerably weakened. And, as Daniel Herriges points out over on *Strong Towns*, it could also call into question well-meaning policies that suppress the construction of new housing, such as inclusionary zoning.

That doesn't mean we can expect an end to Great Housing Supply Debate of 2019: It's clear that deeper issues divide the urbanism community. But in the meantime, we can recognize Mast's work for what it is: a glimmer of empiricism that helps pierce an increasingly dense fog of ideological theory.

About the Author

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