Cities Are Facing A Housing Terminology, Not Affordability, Crisis

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It's hard to think of any other product in the American market that bears such a unique burden of expectations as housing, and that suffers from such a paucity of clear language and data to analyze those expectations. Most discussions about housing prices are of a "know-it-when-I-see-it" variety or driven by anecdotes and headlines. It's hard to ignore housing price—housing is the biggest single monthly expense a household has and is usually paid in one lump sum. But rising housing prices, however they are measured, become the canary in the coalmine for a myriad of social problems. What we need to make the conversation turn into helpful public policies is better definitions and measures.

Housing prices have become an indicator species for things like economic inequality, racial inequality, and even cultural change. Imagine people saying the rising prices of ground beef were an indicator of gentrification in a neighborhood, or a civic discussion about how "skyrocketing" shoe prices were threatening to force people to move out of a city. Nobody would attribute complex changes in a city to the price of single product. In fact, most of us would recognize rising prices as just one of many interrelated factors in a local economy including scarcity of some products, wage growth, availability of labor, and many, many others. And even more obvious is that everything is less affordable for people with fewer dollars to spend.

Yet most accounts in the press and in civic discussion about housing sound a lot like this: Housing prices in our community are skyrocketing, creating a housing crisis. This crisis is leading to many people of color having to flee our city for less expensive housing in the suburbs. The lack of affordable housing and displacement of poor people demands action like taxing the development of new housing.

This is a composite sketch of characterizations constantly in the mouths of politicians and the press in large cities in the United States. Housing prices are rising so therefore we must tax, fee, or add more regulation to the production of housing in order to prevent the negative consequences created by new housing.

There are glaring problems with this characterization. First, the press and politicians deny and ignore the basic principle of economics, more housing supply will have an ameliorative effect on price. **However, it isn't the development of new housing that causes problems including higher prices but the lack of supply of housing in the face of increasing demand.** Prices for everything in the economy rise and fall, including housing prices. Let's look at an example from an article about housing prices in Seattle by local expert Mike Scott.

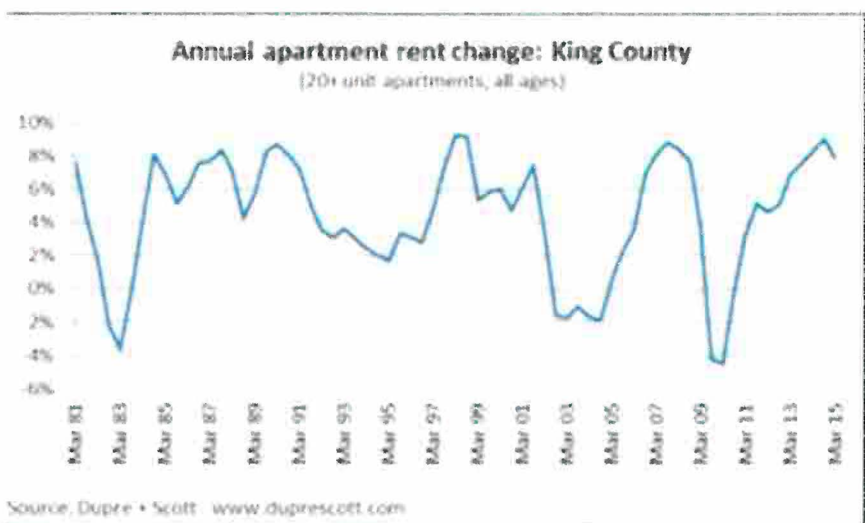
When considering one year, from 2014 to 2015, rents increased by 8.3 percent. Politicians and the press rarely, if ever, remove new construction from the average. This is important to do because new housing is more expensive—it's newer after all. If we do that with this period, the increase is more like 7.5 percent. Still a big increase, but what consider a longer time period.

Over 15 years, from 2000 to 2015, rents went up just under 3.2 percent, not such a drastic increase over the longer term. When using averages to describe or define a housing price problem, factoring out newer housing, looking at product type and location, and considering the time frame are crucial to determining what's going on with prices before declaring "a crisis."

It also matters that costs have been keeping pace or exceeding rent increases in that period. Scott says:

To put those [rent] increases in perspective, apartment investors saw real estate taxes increase 6.3% a year in the same period. And building utilities rose 5% a year. That's important because those are the two biggest operating costs investors face. They account for 45% of total operating costs.

Scott also points out that, over the long run, rents go up and down, a fact that confirms that price itself isn't a cause of anything but rather an precipitate of market chemistry; housing price reflects the fluctuation of supply and demand present in the broader economy. Generally, when the economy is bad prices fall, when things heat up, so do housing prices.



Like Galileo exclaimed to a skeptical and Ptolemaic Roman Catholic hierarchy, "eppur si muove!" Prices move up and down in response to the economy; high demand and costs with low supply means higher prices. **"Skyrocketing" housing prices should be an alarm bell for policy makers to create public policy that leads to the production of more housing, not taxes and more regulation.**

The measure of affordability in the United States is a ratio of gross monthly income to housing price. But any ratio begs a question, which side is problematic, the price side of the ratio or the income side? When considering the lowest levels of income housing cost does consume a larger and disproportionate percentage of monthly income; but so does everything else.

Determining what "affordable" means using a housing cost to income ratio is a blunt measure at best and useless at worst. We need to recognize price for what it is, a measure of supply in relation to demand and we need a better quantitative measure of how households relate to price (see a larger discussion of the need for a new definition of "affordable" in other things I've written).

I've talked already about the blurry and indistinct term "displacement." But I wanted to cite a literature review completed by Journalist's Resource, a program based at Harvard and established to "help anchor journalists as they navigate difficult terrain and competing claims." The review looked at the on the terms "displacement" and "gentrification."

The major studies on gentrification share several important limitations: They have not consistently examined the fate of displaced low-income residents; they do not look at the effects of gentrification over multiple decades; and most use data from the 1980s and 1990s — preceding major increases in rental prices throughout the 2000s and before the Great Recession. There is also no consensus on how to measure gentrification, so existing studies may be missing important demographic transitions in U.S. neighborhoods. More research is needed about the extent of urban displacement and the social effects of gentrification in the contemporary United States.

The review found that longitudinal studies challenged, "The long-held beliefs of many urban geographers, [and] these studies generally found that the extent to which gentrification displaced low-income residents was limited."

The production of market rate housing development unfairly bears the burden of being the source point for social problems and social dislocation. There simply isn't any data to substantiate that new housing production is a problem or the problem in growing cities, nor is there any evidence that new housing production is responsible for the specific and as yet totally undefined and immeasurable problems of "displacement" and "gentrification."

What ensues because of the resistance to accept that price is merely a manifestation of market dynamics and the stubborn and almost reckless colloquial use of "displacement" and "gentrification" is passage of policies like adding taxes, fees, and penalties to new housing production that actually slow it down adding to the problem of housing price inflation.

The United States in general, and fast growing cities like Seattle, are in the midst of a self inflicted and worsening crisis based almost entirely on the misuse and abuse of language. Meanwhile, the households in deepest need of help are forced to compete with each other for scarce resources. There has never been such an acute need to dispense with rhetoric and find useful measures of what our housing needs really are and the best way to meet them, especially for people sleeping tonight in doorways, tents, and their cars.

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