# Kempner BS March ’19 AC

**We Affirm Resolved:** The United States should promote the development of market rate housing in urban neighborhoods.

## Part One is Framing

Currently, **Kusisto of the Wall Street Journal ‘18[[1]](#footnote-1)** explains that the construction of new homes isn’t matching the demand - as a result, prices are rising unsustainably, twice the rate of income growth and three times the rate of inflation.

A lack of supply means that everyone is losing. **Hobbes ’18 of the Huffington Post[[2]](#footnote-2)** continues that 30 years ago, you could buy a house in 72 of America’s 100 largest cities for less than 18 months of a median salary. Today, only possible in 25 of them, shrinking every year. **Katz ‘16 of Brookings[[3]](#footnote-3)** warrants that as population expands in a market with constrained supply, the increased competition for units causes prices to rise, even for households that do not typically rely on new construction for their housing. The shortage crisis has hit the low income the hardest, as **Hobbes** concludes that America is 7.7 million units of low income housing behind where it needs to be.

### The Impact is Poverty

**Taylor ’16[[4]](#footnote-4)** explains that the more constrained the supply response to demand shocks is for new residential units, the greater the probability that an affordable unit will filter up and out of affordable stock. This is historic, as **Hertz of City Observatory[[5]](#footnote-5)** finds that by putting severe limits on new housing, the result has been highly inflated prices for older homes that have left so little room for people of low and modest income. Because of this, regions have created a need for much broader and deeper housing subsidies than would be required if they had allowed for filtering. In fact, **Cortright[[6]](#footnote-6)** furthers that the shortage of rental housing at the high end of the market creates downward pressure on less wealthy renters, because when higher-income households rent less expensive units, lower-income renters have fewer affordable choices. He concludes that this unbalanced market is linked to rent burdening, which is disastrous as **Pew Trusts ‘18[[7]](#footnote-7)** finds that rent-burdened families have trouble meeting basic consumption needs and half of rent-burdened households **had** less than $10 in savings. **Cizon of Loyola University[[8]](#footnote-8)** finds that poverty is inherently multi-generational, as if you are poor, your children’s opportunities are limited, meaning they will likely be poor and so on and so forth, creating a cycle of poverty.

Thus, whoever solves for the root cause of the housing crisis should win the round

## Part Two is Solvency through Market Rate Housing

Market Rate Housing, or MRH can incentivize an increase in supply by incentivizing development. **Fleming ‘18 of Business Insider[[9]](#footnote-9)** finds that although the solution is simple to solve the housing crisis, home builders have financial related challenges of their own, such as rising building material costs, land costs, and regulatory costs. However, promoting market rate housing would make these costs worth it. **Leshnower ‘18 of The Spruce[[10]](#footnote-10)** writes that market rate housing is housing without rent restrictions, meaning the landlord or homeowner is free to sell it at the market’s price point without it being restricted by affordable housing laws.

This leads to more affordable housing in two ways

### First, Integration

[**Badger of the Washington Post**](https://www.washingtonpost.com/news/wonk/wp/2016/02/12/the-poor-are-better-off-when-we-build-more-housing-for-the-rich/) ‘16 confirms that in tight markets, poor and middle­-class households are forced to compete with one another for scarce homes. New market-rate housing eases that competition, even if the poor are not the ones living in it.

Empirically, the **Huffington Post**[[11]](#footnote-11)confirms that in Seattle, when the city was adding fewer units, rents went up 5 percent every year, but after the city added 10,000 new market-rate homes, rents immediately dropped. Even though most of the new apartments were high-end studios and one-bedroom units, the extra supply absorbed enough to ease pressure on the rest of the market.

### Second, Filtering

**Cortright ‘17 of City Observer[[12]](#footnote-12)** explains that affordable housing programs are so expensive that those programs can never make a dent in the overall affordability problem. **O’Regan ‘17 of NYU[[13]](#footnote-13)** finds that in the long run, increases in supply at the medium or higher end of the market also increase the supply in lower priced markets. This is because **Cortright[[14]](#footnote-14)** furthers that the vast majority of today’s affordable housing is not subsidized below-market housing, but market-rate housing that has depreciated, or “filtered.”  **O’ Regan[[15]](#footnote-15)** furthers that owners have an incentive to convert existing units to lower-income submarkets so that they can continue to rent the unit as it grows old. Empirically, this included almost 67% of units available to low-income renters in 2013. Even more so, **Syracuse economist Stuart Rosenthal[[16]](#footnote-16)** estimates that the median value of rental housing declines by about 2.2% per year. As its price falls, lower-income people move in. Rosenthal estimates that rental housing that is 20 years old is occupied, on average, by households with incomes about half the level of incomes of those who occupy new rental housing.

1. http://archive.is/HSg6x#selection-2163.18-2163.95 [↑](#footnote-ref-1)
2. Michael Hobbes, 6-19-2018, "America’s Housing Crisis Is A Ticking Time Bomb," HuffPost, <https://www.huffingtonpost.com/entry/housing-crisis-inequality-harvard-report_us_5b27c1f1e4b056b2263c621e>

The United States is not one big housing market, of course. Rents and homebuilding vary wildly from city to city as populations move and sectors boom and bust. But here, too, the news is grim. **In 1988, just one city in America had homes that cost, on average, more than six times the annual median income. Today, 22 of them do. And this number is only going to grow. Last year, 13 of America’s 100 largest cities** — from big ones like Seattle and Las Vegas to smaller ones like Salt Lake City and Orlando — **had home prices that rose by more than 10 percent**. San Jose, California, had the worst mismatch, with the median home costing 10 years of the median income, at $1.1 million. Rounding out the top five were Los Angeles (9.5 years), Honolulu (9.2), San Francisco (8.9) and San Diego (8.1). But it’s not just that expensive cities are expensive. Almost three-quarters of Pittsburgh residents own a home, compared to fewer than half of Los Angeles residents. **As prices continue to rise, high-cost cities will have a greater proportion of the population vulnerable to displacement and spending more of their paychecks on rent rather than savings, pensions or other forms of equity.** If America’s biggest cities, where job growth has been concentrating for years, can’t offer anything beyond check-to-check living, the entire country is sleepwalking into a crisis. It’s worth noting just how unprecedented this is: One of the most startling statistics in the Harvard report is that **30 years ago, you could buy a house in 72 of America’s 100 largest cities for less than 18 months of their median salaries. Today, that’s possible in just 25 of them, and shrinking every year.** [↑](#footnote-ref-2)
3. https://www.brookings.edu/wp-content/uploads/2016/06/PB\_Housing\_Katz.pdf

Moreover, in prosperous metropolitan areas, the supply of housing is not keeping pace with employment and population growth. Local zoning laws, land use controls, and other regulatory barriers limit total housing production, raise the costs of new units, and often prevent the production of low-cost units**. As population expands in a market with constrained supply, the increased competition for units causes prices to rise, even for households that do not typically rely on new construction for their housing.** In effect, the traditional “filtering” process—in which older housing units become more affordable over time while the most affluent households trade up to new units—cannot function properly when supply falls too far short of growing demand. [↑](#footnote-ref-3)
4. Taylor, M. (2016). Perspectives on Helping Low-Income Californians Afford Housing. Sacramento, CA: Legislative Analyst’s Office, 2100.

Another result of too little housing construction is that more affluent households, faced with limited housing choices, may choose to live in neighborhoods and housing units that historically have been occupied by low–income households. This reduces the amount of housing available for low–income households. Various economic studies have documented this result. One analysis of American Housing Survey data by researchers at the Federal Reserve Bank of New York found that “the more constrained the supply response for new residential units to demand shocks, the greater the probability that an affordable unit will filter up and out of the affordable stock.” Other researchers have found that low–income neighborhoods are more likely to experience an influx of higher–income households when they are in close proximity to affluent neighborhoods with tight housing markets. [↑](#footnote-ref-4)
5. Daniel Hertz, 11-10-2015, City Observatory, "What filtering can and can’t do", accessed February 6, 2019, <http://cityobservatory.org/what-filtering-can-and-cant-do/>

Which leads to the second lesson. By putting severe limits on new housing, the wealthy metropolitan areas of the East and West Coasts have embarked on a several-decades-long experiment in what happens when housing filters down much more slowly than normal. The result has been a disaster: highly inflated prices for older homes that have left so little room for people of low and modest incomes that they've changed national migration patterns.

As a result, these regions have created a need for much broader and deeper housing subsidies than would be required if they had allowed for normal filtering. (Recall the link at the top of this post to a story about San Francisco giving significant housing assistance to people making over $100,000 a year.) In the short run, Rosenthal argues (and we agree) that his paper helps make the case for a dramatic expansion of housing assistance in these metropolitan areas.But in the long run, he also shows that places like San Francisco and Boston must re-start the filtering process. Many of these regions, by refusing to make that room, have clearly already reached the point where no realistic amount of low-income subsidies will create a sufficient amount of affordability - and if legal restrictions on new construction continue to exacerbate their housing shortages, that gap will only widen further. [↑](#footnote-ref-5)
6. Joe Cortright, 2-20-2017, City Observatory, "Urban myth busting: Why building more high income housing helps affordability", accessed February 6, 2019, <http://cityobservatory.org/urban-myth-busting-high-income2/>

Another critical point is that if we don't build more housing at the high end of the market, those households don't just disappear, they take their demand "down-market" and bid up the price of housing that would otherwise filter down to middle and lower income households. That's exactly what the Montgomery County Maryland housing department reports is happening there:

The shortage of rental housing at the high end of the market creates downward pressure on less affluent renters, the study found, because when higher-income households rent less expensive units, lower-income renters have fewer affordable choices. Cost-burdening is linked with this unbalanced market, especially at the lower end of the income spectrum.Ironically, this problem persists in Montgomery County in spite of its widely touted inclusionary housing requirement that forces builders of new apartments to set aside a portion of them for low and moderate income households. [↑](#footnote-ref-6)
7. Pew Charitable Trusts, April 2018, Pew Charitable Trusts, "American Families Face a Growing Rent Burden", accessed February 10, 2019, <https://www.pewtrusts.org/-/media/assets/2018/04/rent-burden_report_v2.pdf>

Rent-burdened families are financially insecure in many other aspects of their lives, too. They often have trouble meeting basic consumption needs, frequently rely on public assistance, and typically have little connection to the banking system and limited savings. In general, renter households have less money across their financial accounts than do nonburdended families and those that own their homes.8 In 2001, half of rent-burdened households had less than $10 in savings, while the median non-rent-burdened family had $800 in inflation-adjusted dollars, and half of homeowners had more than$4,000.9 By 2015, the savings of nonburdened renter families had increased to slightly more than $1,000 at the median10 and that of owner households had nearly doubled, to $7,000. But rent-burdened households still had less than $10. (See Figure 5.) [↑](#footnote-ref-7)
8. http://ageconsearch.umn.edu/bitstream/17533/1/ar660084.pdf [↑](#footnote-ref-8)
9. <https://www.businessinsider.com/why-the-supply-of-homes-in-the-us-is-running-dangerously-low-2018-2>

The solution seems simple - build more new homes and increase the overall supply of housing. But, home builders have challenges of their own - limited access to buildable lots, rising building material costs, labor constraints and rising regulatory costs. The four L's, land, lumber, labor and laws, are limiting the ability of home builders to build more homes. [↑](#footnote-ref-9)
10. Ron **Leshnower**, 9-7-20**18**, "What Exactly Is Market-Rate Housing?," **Spruce,** https://www.thespruce.com/market-rate-apartment-155986

**Market rate housing is an apartment that has no rent restrictions. A landlord who owns market-rate housing is free to attempt to rent the space at whatever price the local market may fetch.** In other words, the term applies to conventional rentals that are **not restricted by affordable housing laws.** Market rate housing can be beneficial for landlords, as it is less complicated and they may be able to generate higher rent income as a result. But if you're a tenant looking for an apartment you can afford, a living in a market with a high cost of living can make things tricky. Here are a few things you should know about market rate housing and how to find an apartment you can afford. [↑](#footnote-ref-10)
11. https://www.huffingtonpost.com/entry/housing-crisis-inequality-harvard-report\_us\_5b27c1f1e4b056b2263c621e [↑](#footnote-ref-11)
12. http://cityobservatory.org/why\_affordable\_so\_expensive/

It’s a problem that isn’t going away:  **the so-called “affordable” housing we’re building in many cities**–by which we mean publicly subsidized housing that’s dedicated to low and moderate income households–**is so expensive to build that we’ll never be able to build enough of it to make a dent in the housing affordability problem.**  The latest case in point is a new affordable housing development called [Estrella Vista](http://www.eastbaytimes.com/2017/10/11/emeryville-affordable-housing-project-breaks-ground/) in Emeryville, California (abutting Oakland and just across the bay from San Francisco).  A non-profit housing developer just broke ground on a new mixed use building, about three-quarters of a mile from a local BART transit station, which will include 84 new apartments.  The project also houses about 7,000 square feet of retail space.  The total cost:  $64 million.  Assuming that 90 percent of the building is residential, that means that the cost per apartment is something approaching $700,000 per unit.  While the complex provides many amenities for its residents (proximity to the BART station, a Zen garden and sky deck), its inconceivable that we have enough resources in the public sector to build many such units. [↑](#footnote-ref-12)
13. https://www.google.com/url?q=http://www.law.nyu.edu/sites/default/files/Been%2520Ellen%2520O%27Regan%2520supply\_affordability\_Oct%252026%2520revision.pdf&sa=D&ust=1551283777172000&usg=AFQjCNHXUzIzCDc9MgwejDfRWB0bU2VXGQ

**Over the longer-run, increases in supply at the medium or higher end of the market should also increase supply in lower-priced markets as older units that are now less valuable work their way down to lower-priced sub-markets**.4 Housing lasts for many years, but most housing 'filters down,' or loses value as it ages, representing 'new' supply in submarkets at lower price points.5 In this way, newly constructed units at the high-end of the market have a ripple effect across connected submarkets. As demand is met at the high-end, the older units that are now less valuable work their way down to other submarkets. While luxury apartments in the most desirable locations may never become part of the stock affordable to low-income households, their creation should help to increase supply and reduce prices in the next submarket, which over time, should trigger some downward filtering of housing through various submarkets to lower-priced submarkets. 6 [↑](#footnote-ref-13)
14. *Joe Cortright, 2-20-2017, City Observatory, "Urban myth busting: Why building more high income housing helps affordability", accessed February 6, 2019,* [*http://cityobservatory.org/urban-myth-busting-high-income2/*](http://cityobservatory.org/urban-myth-busting-high-income2/)

What really matters is not whether new housing is created at a price point that low- and moderate-income households can afford, but rather, whether the overall housing supply increases enough that the existing housing stock can "filter down" to low and moderate income households. As we've written, that process depends on wealthier people moving into newer, more desirable homes. Where the construction of those homes is highly constrained, those wealthier households end up bidding up the price of older housing - preventing it from filtering down to lower income households and providing for more affordability.

This isn't theoretical: As we've discussed before at City Observatory, the vast majority of today's actually existing affordable housing is not subsidized below-market housing, but market-rate housing that has depreciated, or "filtered." Syracuse economist Stuart Rosenthal estimates that the median value of rental housing declines by about 2.2% per year. As its price falls, lower-income people move in. Rosenthal estimates that rental housing that is 20 years old is occupied, on average, by households with incomes about half the level of incomes of those who occupy new rental housing.In its 2016 report on the state's housing crisis, the California Legislative Analyst's Office noted that as housing ages, it becomes more affordable. Housing that likely was considered "luxury" when first built declined to the middle of the housing market within 25 years. Take the 1960s-era apartments built in Marietta, a suburb of Atlanta: When they were new, they were middle to upper income housing, occupied by single professionals, gradually, as they aged, they slid down-market, to the point where the city passed an $85 million bond issue to acquire and demolish them as a way of reducing a concentration of low income households in the Franklin Road neighborhood. [↑](#footnote-ref-14)
15. [http://www.law.nyu.edu/sites/default/files/Been%20Ellen%20O'Regan%20supply\_affordability\_Oct%2026%20revision.pdf](http://www.law.nyu.edu/sites/default/files/Been%20Ellen%20O%27Regan%20supply_affordability_Oct%2026%20revision.pdf)

Finally, the supply and demand effects interact. For example, the ripple effects created if inadequate supply causes higher end buyers to compete for lower-priced homes may be compounded by owners' decisions to upgrade their buildings. As prices increase in the higher end of the market, owners will find it more attractive to maintain or upgrade existing housing units that would otherwise have aged out of this submarket.7 Indeed, if price increases are large and persistent enough, upgrading of existing units (and perhaps entire neighborhoods) will occur in other submarkets, further decreasing supply in less-expensive submarkets. Empirical research shows that filtering is not just a theory posited on the pages of economic textbooks, but it in fact occurs in real housing markets. Weicher, Eggers, and Moumen (2016) report that **45 percent of the rental units that were affordable to very low-income renters in the U.S. in 2013 had filtered down from owner-occupied or higher rent categories in 1985. Another 21.8 percent were conversions from formerly owner-occupied homes or seasonal rentals.** 8 Note that filtering occurs over a shorter time frame too; among affordable units in 2013, 19 percent had been higher rent units as recently as 2005. Most of the higher priced rental units that filtered down to become affordable in 2013 were moderate rent units in 1985, but 15 percent of those that filtered down were high-rent units in 1985.9 [↑](#footnote-ref-15)
16. http://cityobservatory.org/urban-myth-busting-new-rental-housing-and-median-income-households/

This isn’t theoretical: [As we’ve discussed before at City Observatory](http://cityobservatory.org/what-filtering-can-and-cant-do/), the vast majority of today’s actually existing affordable housing is not subsidized below-market housing, but market-rate housing that has depreciated, or “filtered.” [**Syracuse economist Stuart Rosenthal**](https://www.aeaweb.org/articles.php?doi=10.1257/aer.104.2.687)**estimates that the median value of rental housing declines by about 2.2% per year. As its price falls, lower-income people move in. Rosenthal estimates that rental housing that is 20 years old is occupied, on average, by households with incomes about half the level of incomes of those who occupy new rental housing.** [↑](#footnote-ref-16)