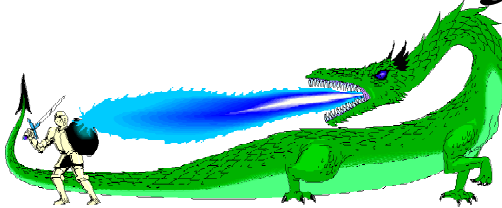


The Affordable-Housing Myth



Myth: Low-density housing is unaffordable because it consumes so much valuable land.

Reality: High densities are strongly correlated with significant increases in land and housing costs.

Low-income housing advocates and home builders use two slightly different terms when they discuss housing costs. To the former, *affordable housing* means housing that is affordable to low-income people, such as the 20-percent of people with the lowest income in a region or people whose income is half of the region's median. To builders, *housing affordability* means the share of houses for sale that are affordable to people with the *median* income in a region. Both measures are important, but if housing is not affordable to those of median income, it is certainly not affordable to low-income families.

Smart growth advocates often cite suburban housing costs as a reason for adopting smart-growth policies. But they rarely say how their policies will make housing affordable. There is a good reason for this: Smart growth's prescriptions for density and urban-growth boundaries make single-family housing unaffordable to people with both low and median incomes.

The National Association of Home Builders publishes a quarterly ranking of housing affordability in major urban areas. The ranking is based on the percentage of homes in the area affordable to families of median income. The list shows that, while density is not the only factor in housing affordability, higher densities tend to be associated with less affordable housing. Dividing the Home Builders' list into fourths, table one shows that the less affordable regions tend to have higher densities.

Higher densities are a response to higher land prices; if there is a scarcity of land, people will bunch up. If there is no scarcity, many people will choose to live in lower densities. The only way smart growth can increase densities is to create an artificial land shortage, driving land prices up. Such high land prices make housing less affordable.

Density is not the only factor affecting affordability. Local economic and geo-

graphic conditions all play a role. One important factor is the supply of land. Urban-growth boundaries create an artificial shortage of land, making land for housing less affordable. This process is plainly visible in Oregon, which established urban-growth boundaries around its cities in the late 1970s. Those boundaries included enough vacant land for an estimated twenty years worth of growth.

Table One: Density and Affordability
(Density in Population Per Square Mile)

Most Affordable Regions	1,426
Second Most Affordable Regions	1,886
Second Least Affordable Regions	2,079
Least Affordable Regions	2,520

Source: National Association of Home Builders, Housing Opportunity Index, Third Quarter 1999 (<http://www.nahb.com>); densities from FHWA, Highway Statistics 1998, table HM-72. A few urban areas were not included in the comparison because the boundaries used by the home builders were different from the boundaries used by the Federal Highway Administration.

In the 1980s, Oregon cities were among the most affordable housing markets in the nation. By 1996, they were among the least affordable. As of the last quarter of 1998, three Oregon cities—Portland, Eugene, and Medford—were among the nation's six least affordable housing markets. One more—Salem—was in the top fifteen.¹ Oregon cities have grown rapidly in the 1990s, but this growth alone does not account for Oregon's unaffordable housing. Many other cities have grown faster, including Albuquerque, Chattanooga, Denver, Las Vegas, Phoenix, and Raleigh, yet none of these are among the twenty least affordable cities.

While all four of Oregon's housing markets regularly make the home builders' list of unaffordable regions, most of the least-affordable cities are in California. California cities have implemented various forms of growth control since the 1970s. While these controls are not the same as smart growth, they have had the same effect as Oregon's urban-growth boundaries, which is to limit the amount of land available for new homes. California growth controls have included:

- Limits on the number of building permits allowed each year;
- Purchases of huge blocks of land as regional parks and open spaces, including more than 15 percent of the total land supply in the San Francisco Bay Area;²
- Local requirements that any increases in density or housing be approved by a vote of the people;
- Public involvement processes that make it so easy for people to halt or challenge development that, in one case, says zoning expert Bernard Frieden, "a lone boy scout doing an ecology project was able to bring construction to a halt on a 200-unit condominium project."³
- Even where public challenges don't stop developments, they often lead devel-

opers to change their plans “from moderate-priced to high-priced luxury units,” says planner David Dowell.⁴

Promoters of smart growth and growth controls emphatically deny that these policies lead to higher housing prices. “The development industry is at work,” says growth control advocate Eben Fodor, “trying to convince policymakers that growth controls will have negative effects on housing affordability, and therefore should be abandoned.”⁵ He claims that growth controls may “result in a better distribution of affordable housing than market-driven growth,” but only because “cities acting to control growth may also be more proactive about housing policies.”⁶

Yet the reality is that growth “controls inevitably make housing expensive,” says economist Edwin Mills. Moreover, they “contribute to home prices that are not only high but unstable as well.”⁷ “The higher housing costs caused by growth controls reflect a net loss to society,” says economist William Fischel. Even if the controls are designed to produce more compact development, as in Oregon, adds Fischel, they can “cause developers to go to other communities that are farther from the central city, thus contributing to metropolitan sprawl.”⁸

“Advocates of growth and compactness controls may believe that the benefits of such controls outweigh the costs,” says Mills. “I have no idea what such benefits might be (and am unable to find a coherent argument that substantial benefits exist). But advocates of controls should face the fact that an inevitable implication of the government actions they espouse is much more expensive and unstable metropolitan area housing.”⁹

One difference between California’s growth control’s and Oregon’s smart-growth policies is that the former drive up the costs of both single-family homes and apartments. Oregon’s policies, so far, have not made apartments unaffordable to median income people. But most of the new apartments built in Portland are luxury buildings. Says *Oregonian* reporter Gordon Oliver, “There are few apartments, new or old, that are affordable to people earning less than 50 percent of the region’s median income.”¹⁰

In both Oregon and California, the rise in housing prices has hit poor people the hardest because housing prices in their neighborhoods have increased the fastest. Poor neighborhoods contain some of the most affordable housing left in Portland and other Oregon cities, so they are soon invaded by middle-class newcomers who can’t afford new homes or housing in middle-class neighborhoods. This has caused housing costs to rise the fastest in low-income neighborhoods. Such gentrification is good for land values and property taxes, but not for poor people.

As Fodor suggests, Portland has responded to escalating home prices by being “proactive about housing policies.” The Portland city council recently passed a requirement that all new developments of sixteen housing units or more must include a certain percentage of affordable housing. This will force developers to subsidize a few poor people by increasing the prices of other housing. Yet at the

rate new housing is constructed, it will take hundreds of years for this policy to provide housing for all low-income Portlanders. Along with other Portland programs, such as its smart-growth design code, this policy will ultimately make housing even less affordable for most poor people.

Notes

1. National Association of Home Builders, *Housing Opportunity Index, Fourth Quarter 1998* (Washington, DC: NAHB, 1999).
2. David E. Dowall, *The Suburban Squeeze: Land Conservation and Regulation in the San Francisco Bay Area* (Berkeley, CA: UC Press, 1984), p. 15.
3. Bernard J. Frieden, *The Environmental Protection Hustle* (Cambridge, MA: MIT, 1979), p. 6.
4. David E. Dowall, *The Suburban Squeeze: Land Conservation and Regulation in the San Francisco Bay Area* (Berkeley, CA: UC Press, 1984), p. 141.
5. Eben Fodor, *Better Not Bigger: How to Take Control of Urban Growth and Improve Your Community* (Stony Creek, CT: New Society, 1999), p. 12.
6. *Ibid.*, pp. 44–45.
7. Edwin S. Mills, “Truly Smart ‘Smart Growth,’” *Illinois Real Estate Letter*, Summer, 1999, p. 7.
8. William Fischel, “What Do Economists Know about Growth Controls? A Research Review,” in David Brower, David Godschalk, and Douglas Porter, eds., *Understanding Growth Management: Critical Issues and a Research Agenda* (Washington, DC: Urban Land Institute, 1989), pp. 59–86.
9. Mills, “Truly Smart ‘Smart Growth,’” p. 7.
10. Gordon Oliver, “Apartment hunters move in on deals,” *The Oregonian*, December 6, 1999.



Web Tools: Housing Affordability

How affordable is housing in your urban area? Find out at <http://www.nahb.org/facts/default.htm>. Point to “Housing opportunity index” and click on “HOI, major markets, listed alphabetically” or “listed by rank” for the latest information. The table shows the percentage of homes in each housing market that are affordable, using standard mortgage criteria, to families of median income. You can also use the data to calculate the ratio of median home sales price to the median income. In the most affordable cities, the ratio is about 1.5 to one, while in the least affordable cities it is about five to one.