



Everything you need to know about the affordable housing debate

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What's affordable housing?

Housing policy is one of the main issues that local governments deal with. It encompasses several overlapping concerns. Making sure that everyone has a decent place to live is an important general priority. People are also interested in ensuring that economic diversity exists in specific cities, metropolitan areas, or neighborhoods. Last but not least, there is interest in maintaining specific communities and community ties without unduly displacing people.

Many regions have a shortage of affordable housing. The National Low Income Housing Coalition **publishes a report annually showing the "housing wage"** that a person would need to earn full time (40 hours a week, 52 weeks a year) in order for a two-bedroom rental unit to be affordable by the official government standard.



Policymakers have a variety of tools to address affordability-related concerns — rent control, inclusionary zoning ordinances, targeted subsidies — but economists generally agree that the only comprehensive way to lower prices is to increase the supply of houses, usually by changing zoning rules to become more friendly to new construction.

The federal Department of Housing and Urban Development (HUD) defines an "affordable dwelling" as one **that a household can obtain for 30 percent or less of its income**. But this varies from city to city.

Obviously these precise thresholds are a bit arbitrary. In the real world, spending 31 percent of your income on housing is not especially more burdensome than spending 29 percent, and different families are very differently situated in terms of child care expenses, health care expenses, and other necessities. But that's the official definition.

What's wrong with the official definition of affordable housing?

One problem is that that many families try to reduce their housing costs by moving further away from job centers. But this simply increases their transportation costs — so a simple "affordable housing" metric might not capture the whole story. The Center for Neighborhood Technology offers a more holistic **H+T Affordability Index** that considers both housing and commuting costs.

Another problem is that the concept of Area Median Income (AMI) can exaggerate the affordability of housing in high-income areas. In the Washington, DC metropolitan area, for example, the median income is \$107,500, which means that **a family of three with an income of \$48,375** is considered "low income" for housing affordability purposes. That means a unit could qualify as affordable for a low income family while still being well outside the price range of a family living near the poverty line.

The fact that many high-income households live in the DC area does not magically make mid-priced houses affordable to the city's actual low-income residents. By basing affordability metrics on the local median income, AMI implies that when housing affordability gets so dismal that lower income people leave, your city has actually increased the affordability of its housing stock. Since the highest income metro areas in America are often the least affordable, this is a substantial distortion.

How can we make housing more affordable?

There are two basic types of policies that could make a large difference in housing affordability:

- First, the government could directly give money or discounted housing to low-income families. Obviously a family that receives a free house can now afford housing. By the same token, families that receive more money can afford a wider range of houses.
- Second, policymakers could increase the number of dwellings in a given metropolitan area. This could be done either by relaxing restrictions on the size of buildings that can be built, or by relaxing restrictions that mandate minimum sizes of individual dwelling units. Cities tend to have a number of zoning rules that artificially restrict the supply of housing.

Governments and political activists are often very interested in using **rent control** or **inclusionary zoning** policies to address housing affordability issues. But those tools only

redistribute a fixed supply of housing, and can't actually expand the number of people who can afford to dwell in a particular place.

Why is increasing supply so central to affordability?

Any approach to housing affordability that ignores the supply side will ultimately run into a problem familiar from the children's game musical chairs — if there aren't enough homes to go around, someone has to lose out.

In an unregulated, unsubsidized market the people who lose out are going to be the people with the least money to spend. Various regulatory measures or subsidies can change that and provide targeted assistance to some households. But in many areas, the basic problem is that demand for housing is high. The technology boom has caused many people to want to live in Palo Alto, but there aren't enough houses to go around. The renewed fashionability of urban living means that many people want to live in Manhattan, but there aren't enough apartments to go around. For housing to be more affordable, the supply of houses needs to increase.

What is zoning?

The term "zoning" is often used loosely to refer to a broad set of regulations that govern the use of urban and suburban land. It is more strictly used to refer to what's also sometimes called "Euclidean zoning" (after the village of Euclid, Ohio not the Greek mathematician) which seeks to segregate different kinds of building uses from one another.

Under Euclidean zoning, a given patch of land is set aside for residential use, for office buildings, for shopping centers, for light industry, or whatever else. There are also "form-based" zoning codes that regulate the shape of buildings rather than the activities that take place inside them. Typically either a Euclidean or a form-based zoning code will distinguish between areas where multi-family apartment buildings are allowed and where they are banned.

Other kinds of regulations may or may not be considered zoning by a particular jurisdictions. It is common, for example, to require certain minimum amounts of parking to be included with new construction projects, a rule that often de facto limits the amount of density that is allowed. Jurisdictions may also have rules about "lot occupancy" (how much space must be left unbuilt and reserved for yards) or the minimum size of lots. These

regulations can all restrict the supply of housing in an area. If houses are legally required to be built on larger lots, fewer houses can be built in a given area.

How does rent control impact housing affordability?

At first blush, a "rent control" law that puts a ceiling on the amount of rent a landlord can charge should make housing more affordable. Economists often teach in Econ 101 that this is wrong, however. By making it less profitable to build new apartments, the argument goes, rent control laws perversely make housing less affordable by making it scarcer.

The Econ 101 argument is certainly possible in theory, but it is unlikely to be a significant factor in the contemporary United States. In the markets with the worst affordability problems, it's usually zoning rather than rent control that is restricting the supply of housing. Massachusetts, for example, entirely scrapped rent control in 1994. But that hasn't led to a surge of high-rise construction near Harvard Square — despite rising housing prices — for the simple reason that high-rise construction violates the zoning code.

What is inclusionary zoning?

Inclusionary zoning (IZ) ordinances have become increasingly popular affordable housing measures in recent years.

The way inclusionary-zoning works is it requires that a certain share of units in new projects be set aside for families under a given income threshold (typically 80% of the Area Median Income) at a price that's affordable for such a family. This is an effective tool for maintaining economic diversity in a rapidly developing neighborhood, but its impact on the overall affordability of a city or a metropolitan area is ambiguous.

When IZ is used as part of a larger political process aimed at increasing the amount of construction that's allowed in a desirable area ("upzoning") it can be a very potent tool for affordability. But if IZ isn't paired with upzoning, it has an ambiguous impact on affordability. A small number of households will end up getting a home they couldn't otherwise afford. But everyone else will be left with a smaller pool of market rate units to bid on.

What is gentrification?

Different people mean different things by "gentrification," but typically it refers to a process by which higher-income people and retail outlets that cater to them move into a

neighborhood previously dominated by low-income households, artsy Bohemian types, immigrants, people of color, or some combination of the above.

People may bemoan gentrification simply because change per se can be discomfiting (perhaps your favorite neighborhood bar has been replaced by a P.F. Chang's) but also because they worry that gentrification is a process whereby the original residents are displaced by market forces.

Research by Columbia University's Lance Freeman suggests that displacement is actually relatively rare. Residential turnover in urban neighborhoods is high, with people frequently moving out of any given neighborhood. In non-gentrifying neighborhoods, poor people move out and are replaced with other poor people. In gentrifying neighborhoods, poor people who move out are replaced with non-poor people. But Freeman **found little impact of gentrification on the pace of churn**. Still, even if displacement on the individual level is rare, there's no doubt that widespread occurrence of gentrification is often associated with citywide increases in housing costs and intensifying affordable housing problems.

What is filtering?

Filtering is in some sense the opposite of gentrification. As Thomas Bier of the Brookings Institution **explains**, as old structures age they generally "deteriorate, become obsolete, fall out of fashion, and 'filter down' in value." This is what Jane Jacobs had in mind when she wrote that "new ideas need old buildings." All else being equal, rent is cheaper in an old building than a state-of-the-art one, which makes old commercial buildings ideal for startups.

The same is true of residential housing. As long as new buildings are being regularly built, some share of older buildings will "filter" down market and become affordable for families with lower incomes.

Won't unregulated developers just produce tons of luxury housing?

This is unlikely. If you were to only build one building, you might well want to make it a high-priced, high-margin luxury project. But there are only so many millionaires in the country. As the number of projects increases, developers need to reach further down the market to reach a larger base of customers.

Think about car companies. Most auto firms do try to sell high-margin luxury vehicles. But they also make plenty of ordinary vehicles for middle-class car buyers, because there are only so many rich people to sell cars to. If you forced Toyota to only build a handful of cars per year, they would probably try to make them Lexuses rather than Corollas. But in an unconstrained market, Corollas predominate.

What's more, even luxury projects help address housing scarcity. In a marketplace with no new luxury projects, rich people don't forget that they enjoy fancy houses in appealing neighborhoods. They simply snap up older properties and renovate them (or house-flippers do it), thus blocking the process of **filtering** and taking middle-class residences off the market.

Whatever happened to public housing?

The economic calamity of the Great Depression tended to restrain new construction activity in the 1930s. Then during World War II, there was a broad ban on civilian construction to ensure that resources were available for military use and war production. Consequently, the postwar United States faced a serious housing shortfall. This was addressed in many places with government-financed construction projects to build government-owned housing.

As the economic situation normalized, these public housing projects became concentrated clusters of housing for poor families. Then the general suburbanization trends and urban population decline of the 1960s, 70s, and 80s left the projects more isolated from jobs and economic activity. Rising crime (and plain old racism) led middle-class neighborhoods and suburbs to reject the idea of new public housing projects, further entrenching the nexus between public housing and ghettoization.

Over the past two decades, housing policy trends have been toward reducing the amount of public housing. Instead of spending money on public housing construction, funds tend to be spent on Section 8 housing assistance vouchers or on programs to reconfigure old public housing projects as mixed-income ones.

What is Section 8?

The Housing Choice Voucher Program is laid out in Section 8 of the repeatedly amended Housing Act of 1937, and thus "Section 8" has become housing wonks' shorthand for the program. The idea of Section 8 is relatively simple: instead of money being spent to build

public housing, the money is given to families as vouchers that cover part or all of the cost of renting from a private landlord.

The conceptual advantages of Section 8 are considerable. Most notably, it lets poor families decide for themselves what tradeoffs they want to make around building quality, location, price, and all the other relevant factors.

But there are also several problems. One is funding. Due to Congress's reluctance to appropriate large sums of money for housing assistance, the number of families who meet the eligibility criteria generally far exceeds the number of vouchers actually available. That leads to long waiting lists for families seeking help. Another is that landlords often prefer not to rent to Section 8 tenants, recreating the social isolation dynamic of public housing projects that Section 8 is supposed to mitigate.

What is exclusionary zoning?

Exclusionary zoning is a process by which a neighborhood or town makes it de facto illegal for low-income — or at times even non-poor — people to live in a given area. The most blunt form is something like a **ban on trailer parks or mobile homes**.

More subtle forms of exclusionary zoning are also available. In Washington, DC's Spring Valley neighborhood, for example, **homes must be located on lots that are at least 7,500 square feet**. Minimum lot size rules are extremely common in America's suburbs, as are bans on multi-family structures. These kinds of measures, whether deliberately or unintentionally, make it impossible to locate cheap housing in the areas where it's applied.

Requirements that housing units include off-street parking **can also serve as a form of exclusion**, as carless households are disproportionately low-income.

If high-density zoning is so great, why are Manhattan and San Francisco so expensive?

It is true that the densest county in America, Manhattan, is not exactly cheap. Nor is San Francisco, the second-densest city in the country. But the right question to ask is how much more expensive would these places be with less density. Suppose every apartment building on Fifth Avenue and Central Park West were reduced in height by 20 percent. Rich people would still like park views. But all that rich-person money would be chasing fewer units. Prices would rise. And the rich people who got priced out of Fifth Avenue would fan out across the city raising prices elsewhere.

Conversely, if San Francisco were allowed to be built up to New York City levels of density it could fit another 1.2 million people. Upzoning expensive Bay Area suburbs in San Mateo and Santa Clara counties could be even more beneficial.

If we allow denser building, isn't everything going to get too crowded?

For starters, there are only so many people to go around. If rezoning were to cause some cities to become more crowded, it stands to reason that some other place is becoming less crowded. Different people will have different preferences about levels of crowding and will choose to live in different neighborhoods or different metropolitan areas.

More broadly, the fact that many people don't like too much crowding is precisely why we don't need to worry too much about prescriptive residential land use rules. There is no reason to build a dense parcel unless someone wants to rent or buy it.

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