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## The Affordable Housing Crisis: Causes and Cures

In recent years, we have repeatedly been told that Texas is facing an affordable housing crisis. In June 2017, the *Texas Tribune* reported that “more than 2 million urban Texan households, most of them renters, are considered financially burdened by housing costs because they spend 30 percent or more of their income on housing — and more than 950,000 of them spend more than half of their income on housing costs.”<sup>1</sup> In Harris County alone, more than 210,000 households spend more than half their income on housing.

In March 2017, the National Low Income Housing Coalition reported that Texas is

the seventh-worst state in the number of affordable housing units available to households earning at or below 30 percent of Area Median Family Income (AMFI), known as Extremely Low Income or ELI households. Housing is considered affordable if it does not saddle households with a cost burden, defined as exceeding 30 percent of household income. For every 100 ELI families in Texas, there are only 29 housing units available at affordable levels below the cost burden.<sup>2</sup>

Inarguably, affordable housing is a crucial part of individual flourishing. And individual flourishing serves as our standard of value in any policy analysis. We support the goal of providing Texans with affordable housing. However, in analyzing any policy or issue, we must consider the full context.

In regard to housing, the full context must include an identification of the cause for so many Texans to be spending more than half their income on housing. The full context includes the factors that influence the cost of housing and the factors that determine an individual’s income. It must include an examination of the alternative solutions, as well as the pros and cons of each. Only then can we make an informed, rational decision regarding the proper policies.

Housing costs, like any product in a free market, are determined by supply and demand. And demand for housing in Texas has been increasing significantly. According to the U.S. Census Bureau, Texas has led the nation in population growth each year since 2010, averaging an increase of

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1. Brandon Formby, Chris Essig and Annie Daniel, “Despite ‘Texas miracle,’ affordable housing difficult for many urban dwellers,” *The Texas Tribune*, June 16, 2016, <https://www.texastribune.org/2017/06/16/search-affordable-home-urban-texas-getting-more-difficult/>, accessed November 19, 2017.

2. Will Livesley-O’Neill, “Report: Texas faces massive, growing deficit of housing affordable to extremely low income families,” *Texas Housers*, March 8, 2017, <https://texashousers.net/2017/03/08/report-texas-faces-massive-growing-deficit-of-housing-affordable-to-extremely-low-income-families/>, accessed November 19, 2017.

more than 430,000 annually.<sup>3</sup> More than half of the increase was from people moving to the state from other states or other countries.

Assuming an average household size of 2.75 people (Texas's average from the 2010 census), this means more than 150,000 households have been added each year since 2010. Which means, an additional 150,000 housing units must be built each year just to retain the equilibrium between supply and demand.

While the number of new housing units has managed to keep up with the rising demand, those new units are not spread equally among different price points. For the most part, new construction has focused on development well beyond the reach of low income households. If there is a significant demand for a product, businessmen typically are quick to find profitable ways to satisfy that demand. But that isn't happening with low cost housing. Why?

There are two components to the affordability of housing: one's income and the cost of housing. We will examine the cost of housing first, and that includes the cost of land and the cost of construction.

### **The Cost of Land**

At the most basic level, the cost of housing is determined by supply and demand. One aspect of supply that is often overlooked is the land available for new housing. Housing requires land, and if land is made unavailable for development or redevelopment, then fewer housing units will be built. But why would land be unavailable for development?

A variety of land-use regulations can reduce the land available for development. Set back requirements, minimum lot sizes, land-use regulations, and restrictions on density can all reduce the land available for housing. When property owners are prohibited from developing their land as they deem best, the supply of land available for housing is reduced. The land that remains available for development will thereby increase in value. And the increased value of the land will ultimately be reflected in housing prices.

As one example of minimum lot sizes, Dallas zoning regulations include the following districts:

- R-1 Single-family district 1 acre
- R-1/2 Single-family district 1/2 acre
- R-16 Single-family district 16,000 square feet
- R-13 Single-family district 13,000 square feet
- R-10 Single-family district 10,000 square feet
- R-7.5 Single-family district 7,500 square feet
- R-5 Single-family district 5,000 square feet

These minimum lot sizes can remove a considerable amount of land from development.

To illustrate the impact of minimum lot sizes, let us look at one acre of land (43,560 square feet). If regulations require 10,000 square feet per lot, there are 4 lots available on a one-acre parcel of land. But what if land costs dictate that development requires 8 lots to be profitable for low cost housing? The developer is prohibited from building, and so, low-cost housing isn't built. If 8 lots can be developed, the land costs can be spread over 8 homes. But if only 4 lots can be developed, the land costs per house increases 100 percent. If an acre of land costs \$250,000 (which is low in many of

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3. "State Population Trends," U.S. Census Bureau, <https://www.census.gov/about/partners/sdc/projects/st-pop-trends.html.html>, accessed November 19, 2017.

the state's major cities), this is a price difference of more than \$30,000 per home. And that does not include the developer's profit or holding costs.

It may seem a little ludicrous to talk about the availability of land in Texas, but one of the mantras of real estate is location, location, location. An acre of land in a rural county is worth far less than an acre of land in downtown Dallas. The demand for land in downtown Dallas is much greater than the demand for rural land. While there is plenty of land available in Texas, it's not always available where Texans want to live.

Further, many areas in Texas cities are undergoing gentrification, but the land available in those areas is finite. As demand increases, land costs rise. But if density restrictions require single family homes, then builders must construct more expensive homes in order to be profitable. If land costs are \$75,000 or more for a lot, it's simply impossible to build single-family homes for low income families.

Certainly, demand for land will drive prices up. But when land uses are restricted through regulations, the supply is arbitrarily reduced. And that drives up land costs even more. Let us now look at the cost of construction.

### **The Cost of Construction**

Once a developer decides to build, he faces a plethora of government regulations. These regulations impose additional costs for permits, mitigation, fees, and holding costs. All of these are ultimately included in the cost of housing.

As an example, Richard N. Maier, an executive at home builder DR Horton, details the cost of regulations on one property in Austin, Texas.<sup>4</sup> In his article, Maier lists the costs of five city regulations:

1. Historic Preservation-- \$16,226
2. Heritage Tree Ordinance-- \$2,742
3. Impervious Cover-- \$79,800
4. Storm Water Pollution Protection-- \$1,563
5. The "McMansion" Ordinance-- \$12,500

The cost of these regulations came to \$112,831! Maier notes that the average builder operates on a margin of 18 percent, which could bring the total cost of regulations to \$137,598. This is the amount that the home price will be increased simply to pay for government regulations. As of the date I write this, Zillow reports that the median home price in Austin is \$326,000.<sup>5</sup> The cost of regulations on this one property represents more than 40 percent of the median home price. And this finding isn't unique.

In 2008, University of Washington professor Theo Eicher found that land-use regulations imposed by the city of Seattle and the state of Washington increased the cost of a home by \$200,000! At that time, the median home price in Seattle was \$450,000, which means that land-use regulations increased the cost of a home by 44 percent. As an example of one regulation, in 2005 Seattle imposed a \$15-per-square-foot surcharge on developers in order to subsidize low-income

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4. Richard N. Maier, "The Cost of Regulation; The Effect of Municipal Land Use Regulations on Housing Affordability," [http://austintexas.gov/sites/default/files/files/Planning/CodeNEXT/Effects\\_of\\_Regulation\\_on\\_Housing\\_Affordability-RMaier.pdf](http://austintexas.gov/sites/default/files/files/Planning/CodeNEXT/Effects_of_Regulation_on_Housing_Affordability-RMaier.pdf), accessed November 19, 2017.

5. "Austin Home Prices and Values," Zillow.com, <https://www.zillow.com/austin-tx/home-values/>, accessed November 19, 2017.

housing. That regulation alone added \$9,000 to the cost of a 600-square-foot downtown condominium.<sup>6</sup>

If the cost of regulations alone in Austin is \$137,598, a builder obviously cannot afford to build homes for low income families. Simply meeting government dictates raises the cost of construction far beyond the means of low income families. Only a fool would try to build such housing, and he wouldn't build many because he'd run out of money very quickly. Building new housing for low income families under such conditions is far beyond risky—it is financial suicide.

While Austin may impose more costs on developers and builders than other Texas cities, the principle applies across the state—government regulations drive up the cost of building new homes. And those costs are reflected in the affordability, or lack thereof, of housing.

One of the primary causes of a lack of affordable housing for low income Texans is not an unwillingness on the part of builders and developers. One of the primary causes is government policies and regulations.

### **Individual Choice and Income**

The second major component of housing affordability is income. A household with an income of \$50,000 a year cannot afford the same housing as a household with an income of \$500,000. But in the discussion of affordable housing, the issue of individual choice and its impact on income is often evaded.

Our choices ultimately determine our economic success. If we goof off in school, skip class, or refuse to do our homework, we limit our future economic opportunities. If we show up late to work (or not at all), perform poorly, and refuse to improve our skills, we limit our future economic opportunities. Our economic status today is largely a result of choices we have made in the past.

Certainly, things can happen that are beyond our control. Oil prices might plummet, and we get laid off. We might get ill and incur significant medical bills. We might get hit by a meteor. But such events are not standard fare. They are tragic and unfortunate, but for those with ambition and job skills, they are usually temporary setbacks.

Housing advocates, and those who make an issue of housing affordability, focus on the chronically low income—those who lack the skills to get a higher paying job. If someone's skills limit him to cleaning offices, flipping hamburgers, or mowing lawns, whose fault is that? We certainly need people to perform these tasks, but these are entry level jobs. They are the first step in a career path. They aren't a career for someone who aspires to improve his economic status. They aren't a job for someone trying to support a family.

If an individual chooses to have a family that he can't support, he has nobody to blame but himself. If he refuses to obtain better job skills or get additional education, his diminished earning ability is his fault. The housing advocates evade these facts. They look only at his current conditions and ignore the reasons for those conditions. More significantly, affordability is a matter of choice. Some individuals choose to pay more than 30 percent for housing and do without other things, such as a new automobile or vacations. Some people choose to spend less on housing so that they can purchase a new car or take a vacation. Each of us can choose to spend more than we can afford on some things but less than we can afford on others.

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6. Russell Hokanson, Reagan Dunn and Samuel L. Anderson, "Misguided Land-use Regulations Push Middle Class out of King County," *The Seattle Times*, April 9, 2008, [http://seattletimes.nwsourc.com/html/opinion/2004335618\\_reagandunn09.html](http://seattletimes.nwsourc.com/html/opinion/2004335618_reagandunn09.html), accessed February 1, 2011.

The affordable housing movement wants us to ignore the role that choice—volition—plays in an individual's life, including where he lives, what he earns, and what he spends. An individual's choices impact his education, his job skills, his earning ability, and what housing is affordable. An individual's choices determine whether he becomes a gang-banger or a productive employee or entrepreneur. An individual's choices determine whether he languishes in poverty or continually improves himself and his earning ability, and thus, the housing that he can afford.

Low-income families can't afford to live in wealthier neighborhoods, and that is the only fact that affordable housing advocates want us to consider. The reasons—the choices that those individuals have made—are considered irrelevant.

They want us to ignore volition because they don't want us to hold individuals responsible. If we don't have a choice in our actions, then the consequences aren't our responsibility. This applies not only to the lazy and degenerate, but also to the ambitious and productive. If our actions are not of our own choosing, then we should be neither scorned nor applauded for the results. If we don't possess volition, we deserve neither punishment nor rewards.

The logical consequence of this premise is to insulate individuals from the consequences of their choices. And that is precisely what has been occurring for decades.

### **The “Right” to Housing**

According to the Texas State Affordable Housing Corporation “every Texan deserves safe, decent, affordable housing.”<sup>7</sup> Why does every Texas deserve safe, decent, affordable housing? No answer is provided. The implication is that safe, decent, affordable housing is a right.

Indeed, the Universal Declaration of Human Rights, adopted by the United Nations in 1948 and approved by the United States, declares

Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

Consider what this means: individuals are entitled to basic values such as food, clothing, health care, and housing, whether they can pay for them or not. And if an individual cannot pay for his basic needs, others must provide for him. If others don't, then they are guilty of violating his rights.

In truth, rights pertain to action—the freedom to take the actions necessary to create or earn the values that we want and need. Rights protect our freedom to act as we judge best, so long as we respect the freedom of others to do the same. There is no such thing as a right to an object or value.

The premise that individuals have a right to particular values, such as housing, ultimately leads to the violation of actual rights. If individuals are forced to provide housing for others, then the providers are prevented from acting on their own judgment. Their rights are violated in the name of protecting the alleged rights of the recipients. And this is precisely what has happened in regard to housing.

The affordable housing “crisis” is not new. Indeed, since the 1930s the federal government has been providing housing for low income Americans. In the years since, government officials at the federal, state, and local levels have unleashed a plethora of programs, including tax credits, subsidies, and government housing.

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7. “About Us,” Texas State Affordable Housing Corporation, <http://www.tsahc.org/about>, accessed November 24, 2017.

All of these government programs cost money, and that money must come in the form of taxes and fees. Taxpayers, developers, landlords, and others are compelled to subsidize, either directly or indirectly, the housing costs of low-income individuals. And they must do so regardless of their own judgment, values, or desires. The rights of taxpayers, developers, and landlords are violated when they are prevented from acting as they deem best.

As we have already seen, government regulations have a significant impact on housing prices. In response, government imposes additional costs on taxpayers and those who provide housing. It should not be a surprise that the availability of affordable housing has continued to decrease. As the costs to builders grow, their ability to build housing for lower income Texans becomes increasingly difficult, if not impossible. Taxes, regulations, and fees make it economically unfeasible to build low-cost housing.

The affordable housing crisis is largely a creation of government policies. The costs imposed by taxes, regulations, and fees makes it financial suicide to build low-cost housing. To solve the resulting problems, government has chosen to violate the rights of taxpayers, builders, and developers.

It's not a surprise that the problem has gotten worse.

### **The Unseen Victims**

Affordable housing advocates argue that low-income Texans are victims of social and political policies. They are correct, but for very different reasons than they claim.

Government policies are a primary factor in the rising cost of housing. The costs of those policies impose significant costs on developers, builders, and landlords, and those costs must ultimately be reflected in housing prices. As housing prices rise, quality housing becomes less affordable for low-income families.

As an example, several years ago, I purchased a four-plex in a low-income area of Houston. About a year later, I received a letter demanding that I register the property with the City of Houston. But before I could register the property, I had to obtain a Certificate of Occupancy.

The property was fully occupied when I purchased it, and all of the tenants had been living there for many years. But this wasn't good enough for city officials. They needed to inject themselves into the process.

I obediently applied for a city inspection of the property. On inspection day, six different individuals arrived at the same time. They were in six different vehicles. They spent about fifteen minutes looking around the property and then informed me that a report would be mailed within a week. Two months later, after multiple phone calls and a trip downtown, I received the report.

The report contained about a dozen violations. Most were very minor, such as a broken globe on a light fixture and the absence of a visible address on the building. Others were entirely cryptic, such as "all plumbing fixtures must be installed to code." I hired a plumber and electrician to decipher the report and inspect the property. Neither was certain what would pass inspection, and so, to be safe, I spent a considerable amount of money.

When I called for an electrical re-inspection, I was told that no permits had been issued and a re-inspection would not be scheduled. I explained that no permits were required to replace a broken globe and broken switch plate covers. After being passed to numerous other individuals in the department, a supervisor finally bothered to look at the report. He agreed that no permits were required and scheduled the re-inspection.

I then had to call for the plumbing re-inspection. That was when I was informed that I needed to perform a gas pressure test on all four of the units, even though two of the units were not using

gas appliances (they were plumbed for gas, but didn't even have a gas meter). I had already performed the gas test on the two units using gas and now had to call the plumber again.

Finally, the re-inspections were scheduled over several days, which required multiple trips to the property. Only one of the inspectors actually entered a unit to check the work. The others simply stood in the parking lot, asked me a few questions, and then gave me a green card that indicated the work was up to code.

The purported purpose of this frustrating, laborious, and moderately expensive process was to protect the tenants. But the inspectors showed little interest in actually doing so. They seemed more interested in making sure that the proper forms were completed.

To comply with the city's demands, my investment in the property increased nearly 50 percent. The property was only marginally better after this pointless exercise, yet the costs will ultimately be borne by the tenants. (I sold the property a short time later, but the cost of meeting the city's demands was built into the sales price. The new owner had to increase the rents to make the property profitable.) The tenants gained no discernible benefit from the city's intervention, but they will get the privilege of paying for it.

To maintain the same profit margins, rents would have to be increased more than 50 percent, which the tenants could ill-afford. This single action made housing much less affordable for four low-income families. They could become enter the ranks of the unseen victims of government resregulations.

It is clear that government isn't solving the affordable housing "crisis." It is only making the problem worse. But the solution involves more than reducing regulations and freeing builders and developers. The solution involves both a moral and a political component. Let us examine the moral component first.

### **The Moral Component**

We have seen that affordable housing advocates want to absolve individuals of responsibility for their economic conditions. They advocate policies that are intended to insulate individuals from the consequences of their choices.

But if individuals are protected from the consequences of their choices, then they have little motivation to make better choices. If they don't see the connection between bad decisions and bad results, they have little motivation to make good decisions. And so, they will continue to make bad decisions.

Morally, we are each responsible for our own lives. We are each responsible for creating or earning the values that we want and need. If we refuse to accept that responsibility, the consequences should be ours to bear.

Certainly, there are some individuals who, through no fault of their own, are incapable of providing for themselves. But such individuals are far smaller in number than we are led to believe. Further, their misfortune is not a claim on the property of others. They must depend on the generosity and charity that others provide voluntarily rather than the coerced "charity" provided by government programs.

If we truly wish to end the affordable housing "crisis," we must begin by holding individuals accountable. We must end the practice of protecting individuals from the results of bad decisions. We must make it clear that they have a choice: be responsible and productive, or suffer the consequences.

Government programs simply enable the irresponsible. Those programs allow individuals to continue engaging in irresponsible actions.

If an individual deserves safe, decent housing, the best way to prove is by taking the actions necessary to attain that value.

### **The Political Component**

When Apple introduced the first smart phone in 2007, the base price was \$499. Most consumers could not justify such an expense for a new gadget. But what has happened in the ensuing decade? Multiple manufacturers have entered the market, offering a wide variety of products with an array of price points. The market has provided affordable smart phones for every consumer's budget and needs.

And this is the nature of a free market. Where a demand exists, producers seek to meet that demand. But what would happen if government imposed such a myriad of regulations on smart phone manufacturers that the cost increased \$500? Suddenly, many consumers would be priced out of the market. We would have a smart phone crisis. And this is what has happened with housing.

There is clearly a demand for low-cost housing. But government regulations make it impossible for developers and builders to meet that demand. They can't build low-cost housing and be profitable. And so, like any rational businessman, they don't build low-cost housing.

While it is impossible to predict what solutions the free market would develop, we know that free individuals, and only free individuals, find innovative solutions to meet the demands of the market.

What would happen to the cost of housing if more land were available for development? What would happen to the cost of housing if the costs of construction were slashed by 25 percent or more? The cost of housing would dramatically decrease. Developers and builders would be better able to profitably meet an unfulfilled demand in the market.

The political component requires the repeal of the regulations that impose unnecessary and arbitrary costs on housing providers. It requires that we get out of the way of the innovators who can solve the affordable housing problem. But until we have the moral courage to hold individuals accountable, we will lack the political will to free the innovators.

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