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The Moral Case for Housing Producers

Why Developers, Gentrifiers, and Landlords are Good

In 2011, I purchased a boarded up home in the Sunnyside community of Houston. This low-income neighborhood was filled with similar homes. Many of these homes were in disrepair and hadn't seen a fresh coat of paint in decades. To call the area economically depressed would be an understatement. Yet, I took a risk and spent the money to purchase the home and repair it. I transformed an uninhabitable structure into an attractive home. Despite providing affordable housing to numerous families in the years since, I am among a group of people coming under increasing attack. I did something good, and yet, I am demeaned.

Across the nation, and indeed around the world, housing producers are under attack. Though they have long been vilified as greedy vultures who put profits before people, the pandemic has elevated the attacks as lock downs place millions of renters in dire straits. Housing advocates are finding politicians eager to embrace their cause, and the result is more restrictions and controls on those who produce and supply housing, whether they are landlords, developers, or gentrifiers.

Moratoriums on evictions are only one example. Landlords are prohibited from evicting tenants for non-payment of rent, yet those same landlords must pay their mortgage, insurance, property taxes, and maintain the property while receiving little or no revenue. Fueled partially by Bernie Sanders' call for national rent control, municipalities around the country are enacting or considering restrictions on what landlords may charge. Groups like Black Lives Matter harass and demean those who bring economic investment into previously impoverished communities and gentrify neighborhoods.

Though these attacks are unjustified, they enjoy growing support. The specifics of the attacks vary. For example, landlords are vilified for charging rents that are "too damn high" while gentrifiers are vilified for displacing long-time residents. Developers are charged with destroying neighborhoods by investing in a community, attracting jobs, and creating opportunity. While the specific arguments differ, the underlying method does not. That method consists of three flawed steps.

First, each of these attacks is founded on an improper standard. For example, housing advocates claim that housing is a right. Opponents of gentrification claim that long-time residents have a right to remain in a neighborhood if they desire to do so. But there are no such rights.

A right pertains to freedom of action—the freedom to take the actions necessary to acquire affordable housing. An individual has the right to build his own home or earn the money to pay for one. But if he has a right to housing or the right to live in a particular neighborhood regardless of his actions (or in spite of his actions), then others must act to provide that housing. Others—landlords,

developers, and builders—must take the actions necessary to construct or pay for housing for those who cannot or will not pay for it. Indeed, this is precisely what the eviction moratorium does—it compels property owners to provide housing to others without compensation. In principle, rent control does the same thing by forcing a landlord to accept less compensation than he could get in a free market.

By starting with an improper standard, those opposed to real estate investors have only one course of action: compel others to act as they—the housing advocates—think proper. And this is precisely what they advocate. They want to prevent housing producers from acting as they—the producers—think best.

Second, each of the issues that housing advocates raise are considered out of context. A problem—whether real or imagined—is considered in isolation, disconnected from other relevant issues. For example, housing activists claim that the rent is too damn high, while failing to consider the costs associated with owning rental property. A personal experience illustrates this point.

A few years ago, a tenant wanted to break her lease and move out on the 5th of the month. She had already paid the rent for the full month and wanted a refund. When I declined, she lashed out at me, saying that I had made thousands of dollars during her tenancy and I could certainly afford to refund a month's rent. I pointed out that I had to pay the mortgage, insurance, taxes, and repairs, and during her tenancy I had only made a few hundred dollars in profit. She responded, "That's your problem."

This attitude is common among housing activists. They see tenants paying a thousand dollars a month in rent and believe that it all goes into the landlord's pocket. They ignore the expenses incurred by the owner—expenses that often must be paid whether the property is vacant or occupied. They consider the issue out of context.

Opponents of gentrification similarly fail to consider the full context. They denounce gentrifiers for causing displacement. However, the cause of displacement is often rising property taxes. But rather than blame the government officials responsible for higher taxes, developers and builders are held responsible.

Third, housing activists fail to consider alternatives. Their standard solution to any problem is more government programs and more government controls. For example, as the lock downs drug on for months and a growing number of tenants were unable to pay their rent, the activists called for the government to provide aid to renters and enact a moratorium on evictions. They did not consider the alternative of letting people go back to work and earn the money to pay for their rent. Rather than demand more economic freedom for renters, they call for less economic freedom for landlords.

Similarly, opponents of gentrification often advocate for mandates that any new development in a neighborhood include below-market housing for low-income residents of that neighborhood. They don't call for a loosening of the controls and regulations that drive up the cost of housing. Instead, they argue that developers and gentrifiers should be shackled with more controls and regulations. Again, rather than demand more economic freedom for developers and builders, they call for less economic freedom for real estate investors.

On the rare occasions that activists consider alternatives, free-market alternatives are frequently misrepresented. For example, activist and writer Ian Stephens writes, "I would contend that this chronic lack of affordable housing exists because housing is often directed by the free market, and

the basic function of a free market prevents the construction of an adequate amount of affordable housing.”¹ Stephens implies that the current environment of regulations, controls, and mandates imposed on housing producers is a free market.

To his credit, Stephens correctly notes that land-use regulations is a significant impediment to producing affordable housing:

The city of Berkeley, for instance, could easily rezone large areas to allow a greater density of housing. The majority of the city is currently zoned as either an R-1 (single-family residential) or R-1A/R-2 (two-family residential) area. This severely restricts the availability of affordable housing by forcing developers to pay for the entire cost of a project with one or two units. By upgrading much of central Berkeley from R-2 to R-3 or multifamily residential zoning and much of northern Berkeley from R-1 to R-2 — which could still maintain a quiet suburban feel — Berkeley could increase effective land supply in the city and make affordable housing much more practical. If more units are allowed on a plot of land, developers are more likely to develop because they will be able to make a profit more easily.

In other words, if developers had more freedom they would build more affordable housing. However, Stephens does not call this a free market alternative. Instead, he calls the land-use controls that impede developers a failure of the free market. In doing so, he misrepresents the free market.

He doesn’t want to give the free market credit because this would conflict with his contention that the free market is the cause of “the chronic lack of affordable housing” and his call for government to offset market forces. But zoning and land-use regulations are not a market force. They are government force interfering in the free market and restricting the ability of developers to produce affordable housing.

This method—starting with an improper standard, failing to consider the full context, and failing to consider alternatives—underlies all of the attacks on housing producers. When one employs an erroneous method, one will inevitably reach erroneous conclusions. If we want to make the best decisions possible, then we must reject this method. In its place, we must begin with the proper standard, consider the full context, and examine the pros and cons of the alternatives.

Housing advocates are correct when they say that the issue is about rights. But they are incorrect to say that individuals have a right to a particular value—housing. Once again, rights pertain to action—the freedom to take the actions necessary to produce or earn a value. Producing and earning values is how we pursue happiness.

Each individual has a right to pursue his own personal happiness. He has a right to take the actions that he think will bring him satisfaction and joy, so long as he respects the rights of others to do the same. The right to pursue one’s own happiness applies to all individuals—landlords, developers, gentrifiers, tenants, and long-time residents of a neighborhood. Each individual has a right to take the actions that he thinks best for his life. This is the proper standard to use when we consider this issue.

In addition, we must consider the full context. We must consider all of the relevant facts, not just those that support our position. We must look at the big picture, not just isolated facts and anecdotes. For example, we must identify the reasons why the housing supply has failed to keep

1. Ian Stephens, “Free market will not solve housing crisis,” *The Daily Californian*, September 22, 2020, <https://www.dailycal.org/2020/09/22/free-market-will-not-solve-housing-crisis/>

pace with the demand. We must identify what, if any, impediments exist that impede the production of affordable housing. We must identify what “affordable housing” means and why so many individuals are rent burdened. Flip answers and cursory examinations will not suffice. We must dig deep and develop a full understanding of all of the factors that make housing affordable or not.

Similarly, when we examine gentrification, we must look beyond the sob stories and the displeasure expressed by opponents. We must examine why gentrification occurs in particular neighborhoods. We must identify the benefits it brings (if any) and the problems it creates (if any). And we must do this with our standard—the right of each individual to pursue his own happiness—clearly in mind.

Finally, we must consider the pros and cons of the alternatives. If we truly want to make the best decisions possible, then we cannot restrict ourselves to those alternatives that are most familiar or most comfortable. The familiar and comfortable may not be the best alternative. And again, our standard must serve as the guide. We must identify the alternative or alternatives that best satisfy our standard.

For example, housing advocates call for more and more government programs, controls, and regulations over real estate. They do not consider the alternative—fewer government programs, controls, and regulations. They fail to consider the benefits that might result from freeing the producers of housing. Indeed, they believe that we have a free market in housing. Consequently, they blame the producers of housing and the free market for problems while ignoring the role that government programs and policies play in housing.

The debate over housing has been waged for decades. But that debate has been dominated by a faulty method, and the resulting decisions have not resulted in more affordable housing. Quite the contrary. If we truly want to address the housing challenge, then we must begin by embracing and employing the proper method.

The Housing Challenge

Since the Great Depression, Americans have been told that we face a housing crisis. For more than eighty years, we have been told that low-income individuals are unable to find safe, affordable housing. And with each passing decade, according to housing advocates, the crisis has grown worse.

According to the US government, housing is considered affordable if it consumes less than 30 percent of a family’s income. Above that number, housing creates an economic stress on the family, and that stress often forces the family to forgo other necessities, such as food and health care. A study conducted by Harvard University in 2019 found that more than 37 million households were paying in excess of 30 percent of their income on housing—a level that is considered cost burdened. More than 17 million were extremely cost burdened—spending more than half their income on housing.²

In simple terms, the demand for affordable housing greatly exceeds the supply. According to the National Low Income Housing Commission, there is a shortage of about 7 million homes. Nationwide, there are only thirty-six affordable and available units per one hundred extremely low

2. “2020 State of the Nation’s Housing Report,” Habitat for Humanity, <https://www.habitat.org/costofhome/2020-state-nations-housing-report-lack-affordable-housing>

income families.³ (A family is considered extremely low income if the family makes less than 30 percent of the median family income.) And this is a problem in every state, ranging from only 18 for every 100 extremely low-income renter households in Nevada to 62 in West Virginia.⁴

The housing challenge is to increase the supply of housing to meet the demand. While that goal enjoys widespread support from across the political spectrum, the way to achieve it does not have a consensus. If we wish to make the best decisions possible, then we must consider the full context while simultaneously remembering our standard.

It should be obvious that one's income is a significant determinant of what constitutes affordable housing. A multi-millionaire has many more housing options than a family making \$25,000 a year. While multi-millionaires can certainly be housing burdened, they are not the concern of housing advocates. The focus of advocates is on low-income families. They have fewer options and are much more likely to be housing burdened.

Certainly, it is difficult support a family on \$25,000 a year. But we must ask why an individual making only \$25,000 a year is trying to support a family. It was his choices that created the situation. It was his choices that put him in such a precarious position. And the role of individual choices in determining what housing is affordable is overlooked by housing advocates.

Of course, circumstances beyond an individual's control can create financial problems. Losing a job, a medical emergency, or a flood can be financially devastating. But such events are the exception rather than the rule, and for an ambitious and conscientious individual, such events are only a temporary setback. Overwhelmingly, it is an individual's choices that determine his financial condition.

For example, if a teenager skips class to hang out with his friends in the park, his diminished education will reduce his economic opportunities in the future. If, upon entering the workforce, he frequently misses work and is unproductive when he is there, he will reduce his opportunities in the present and the future. If he goes to college and gets a well-paying job upon graduation, but then fails to learn more, develop new skills, and take other steps to become more productive, his opportunities for advancement will be curtailed. All of these choices, and countless others, impact an individual's job skills and money making abilities. These choices will ultimately determine what housing is affordable and what housing is not. And these choices are within the individual's control.

Further, an individual can choose to have children at a young age or wait until he is in a better financial position. He can consider the cost of having children and the impact they will have on housing affordability, or he can simply evade the issue. But the choice is his, and the consequences are his to bear.

Poverty is not necessarily caused by poor choices, just as good choices do not necessarily lead to financial success. However, poor choices do increase the odds of financial struggles, just as good choices increase the odds of being more financially comfortable.

If we are going to analyze the affordable housing crisis objectively, then we must consider the choices that individuals have made. Their current predicament did not occur in a vacuum. It is often the result of choices made over a period of time.

3. "The Gap: A Shortage of Affordable Rental Homes," National Low Income Housing Coalition, <https://reports.nlihc.org/gap/about>

4. Ibid.

Low-income individuals, like all individuals, have a right to pursue happiness. They have a right to take the actions that they think will make their lives better. But they must also be held accountable for their choices. We cannot excuse poor choices and shield individuals from the consequences of their choices. Self-responsibility is but one part, albeit an important part, of the affordable housing equation.

For housing to be affordable, every part of the process of producing housing must be affordable. There are five general categories that contribute to the cost of producing housing: labor, materials, land, regulatory/permitting, and carrying costs.

While wages are primarily determined by the market, the amount of labor required to produce housing can be impacted by other factors. For example, a high-end home that makes use of exotic stone and wood will require more skill to install than ceramic tile and pine moldings. Workers with those skills generally command a higher wage. Custom cabinets require more labor than off-the-shelf cabinets, and the same is true of many other features of a home. To produce affordable housing, labor costs must be minimized.

Similarly with the materials used. Exotic stone is more expensive than the bargain ceramic tile sold at big box stores. The same is true of plumbing and electrical fixtures, doors and windows, moldings, appliances, and all of the other materials used in building a home. To produce affordable housing, lower cost materials must be utilized.

A builder has a great deal of control over labor and material costs. But he has little or no control over other expenses.

Every housing unit built requires land, and in every locale, land exists in a finite quantity. Unfortunately, in many areas of the country, the land available for housing is limited by government land-use regulations. While these regulations vary in their details, they share one crucial similarity: they remove land from the stock available for producing housing.

We have already seen one example in Berkeley. As another example, in Seattle nearly two-thirds of the land zoned for residential use is zoned for single family homes.⁵ This means that a lot that could hold multiple housing units, and thus house multiple families, can only hold housing for one family. In many cities, minimum lot sizes do the same thing—they remove land from the stock available for housing. For example, if regulations require a minimum lot size of 10,000 square feet, a single-story home of 2,000 square feet will occupy only 20 percent of the land. However, if minimum lot sizes were not in place, then that lot could easily hold at least four two-story town homes and quadruple the housing on a single parcel of land.

An increased demand for housing ultimately means an increased demand for land, but government regulations prohibit a large percentage of land from being used for housing. This escalates the price of land available for housing to a point that it is impossible to build low cost housing. If a lot costs \$100,000 (which is low in many cities), and the cost of construction is \$100 per square foot, even a modest home of 1,200 square feet will cost \$220,000. This is far beyond affordable for low-income families. However, if a developer could build eight housing units on that same parcel of land, the land cost would be only \$12,500 per unit and the total cost would drop to \$132,500. While this would still be unaffordable to low-income families, it illustrates the point:

5. Mike Rosenberg, “Rapidly growing Seattle constrains new housing through widespread single-family zoning,” *The Seattle Times*, May 3, 2018, <https://www.seattletimes.com/business/real-estate/amid-seattles-rapid-growth-most-new-housing-restricted-to-a-few-areas/>

Regulations that restrict land use increase the cost of housing substantially. And this is only one way in which government regulations inflate the cost of housing.

Nearly every city requires a variety of permits for new construction, remodeling, or sometimes even with new ownership. Satisfying the demands of inspectors can be a laborious and expensive endeavor. And those costs are eventually passed on in the form of higher housing costs.

As an example, years ago I bought a fully occupied four-plex for \$32,000. About two years later, I received a letter from the city demanding that I obtain an occupancy permit, and before I could do that, I had to submit to an inspection. Though the tenants had no complaints about the property, the city was unsatisfied.

I had to travel to downtown Houston and pay a fee of almost \$500 to schedule an inspection. On inspection day, six different inspectors arrived in six different vehicles. They spent about fifteen minutes at the property and told me I would receive a report within two weeks. Nearly three months passed before I finally received the inspection report, and I had to make another trip downtown to get it.

The report noted a number of problems. Most were minor and easily corrected, such as the absence of a visible address on the building and a broken outlet cover in one unit. However, the report also said that I was required to install window units that provided both AC and heat. To do this, I had to have substantial rewiring done. The total cost of all of this was almost \$15,000—nearly half of what I paid for the property. That cost was passed on to the tenants in the form of significant increases in rent. The housing that was once affordable suddenly became much less so, not because of greed on my part, but solely because of the demands issued by the city government.

As another example, Richard N. Maier, an executive at home builder DR Horton, details the cost of regulations on one property in Austin, Texas.⁶ 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. At the time Maier wrote his article, Zillow reported that the median home price in Austin was \$326,000.⁷ The cost of regulations on this one property represented more than 40 percent of the median home price.

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

6. 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

7. “Austin Home Prices and Values,” Zillow.com, <https://www.zillow.com/austin-tx/home-values/>

income families under such conditions is far beyond risky—it is financial suicide. And Austin 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 housing. That regulation alone added \$9,000 to the cost of a 600-square-foot condominium.⁸

Even if someone wants to build affordable housing for low-income families, government regulations often make it virtually impossible. Between limiting the available stock of land and the countless fees and other costs imposed on builders and property owners by permitting, the cost of producing housing is arbitrarily inflated by government policies. And the higher cost of producing housing is ultimately reflected in rents and home prices.

These policies also create an incentive to build more expensive housing. If a lot costs \$100,000, it makes little economic sense to build a 1,200 square foot home with low-end materials. Few would be willing to pay \$220,000 for a home of such size and quality. And so, builders focus on higher priced housing. And this is particularly true in gentrifying neighborhoods.

Opponents of gentrification are quick to note this fact. They argue that it does low-income families no good for new developments in a neighborhood to be far beyond what they can afford. High-end developments just drive up rents and property values and displace the current residents. This is often true, but it ignores a real estate phenomenon known as “filtering.”

Filtering is a process by which housing that was once considered high-end becomes available and affordable to families with lesser incomes. When families move into the new high-end housing, they free up the housing they formerly occupied for individuals of lesser income. And this chain continues as families at each economic level improve their housing. In short, an increased supply, even at the top of the market, increases the supply of housing for everyone.

The National Multifamily Housing Council conducted a study of rental occupancy trends from 1980 to 2018 in the nation's one hundred largest metropolitan areas. The study found, “Filtering occurred at different rates in each decade but produced rising shares of low-income occupancy until the Great Recession...”⁹ and “nationwide, filtering in good years produced a substantial boost in opportunity for low-income households in apartments. A total of 69,000 additional low-income occupied units was generated annually between 2000 and 2006 in the existing stock...”¹⁰

We can observe this process in the market for automobiles. A brand new, luxury automobile is unaffordable to most Americans. But when that car is a few years old and its value declines, it becomes affordable to individuals with lower incomes. What was once affordable only to the wealthy slowly becomes affordable to many more people.

As another example, a paper published by the WE Upjohn Institute for Employment Research tracked the housing trends of 52,000 residents of new multifamily buildings across the country. The

8. 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

9. “Filtering of Apartment Housing Between 1980 and 2018,” <https://www.nmhc.org/research-insight/research-report/nmhc-research-foundation-study-filtering-of-apartment-housing-between-1980-and-2018/>, p4

10. *Ibid*, p5

author identified the residents' previous address, the current residents of those addresses, and then repeated this for six rounds. He found that "new market-rate construction substantially loosens the market for middle- and low-income housing by inducing a series of moves that reduces demand for those areas. This occurs within a few years of the new units' completion."¹¹ The author used several different models to calculate the relationship between new construction and the number of units made available to low income individuals. He found that for each 100 new market rate units between 17 and 39 units were created for bottom quintile families.

Of course, this process does not occur immediately—it often takes several years for noticeable filtering to occur. But no policy can or will have an immediate impact.

The affordable housing crisis is one of supply and demand—the demand greatly exceeds the supply. The solution is to increase the supply by freeing those who produce housing. This means removing the controls and regulations that stifle production. To do this, we must begin by recognizing the fact that government is frequently pursuing conflicting goals.

The Pursuit of Conflicting Goals

In the 1930s, the federal government launched a number of programs aimed at increasing affordable housing. Since the early twentieth century, governments at every level—federal, state, and local—have enacted policies that impede or prevent the production of affordable housing. These programs and policies are in conflict, and the result has been a steady decrease in the affordability of housing for low-income families.

The federal government's first foray into housing was the construction of public housing projects. Low-income families were moved from tenements and slums into the projects. The goal was to increase the supply of housing. But vandalism and mischief soon caused maintenance costs to skyrocket and the federal government began changing its tactics in the 1960s.

The new tactics involved giving money to states and municipalities and allowing them to use the money as they thought best to address the housing crisis locally. And in 1970s the government began issuing vouchers to low-income families to subsidize their rent. While these new tactics helped many low income families secure better housing than they could otherwise afford, they have done little to increase the supply of affordable housing.

Another tactic used by states and municipalities to make housing more affordable is rent control. While the details vary, rent control imposes a cap on the rent that a property owner can charge. In New York City, where rent control was enacted as a temporary measure during World War II, some tenants have been paying the same rent since the 1970s.

Despite this variety of schemes, the affordability crisis has worsened. Clearly, the policies, programs, and tactics being used are a failure. The reason for that failure is two-fold. First, the demand for affordable housing had risen significantly while the supply has not kept pace. Second, despite its professed desire for more affordable housing, other government policies make this virtually impossible.

11. Evan Mast, "The Effect of New Market-Rate Housing Construction on the Low-Income Housing Market." Upjohn Institute Working Paper 19-307. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/wp19-307>

We have already seen how land-use regulations, permitting, and other government interventions artificially inflate the cost of housing. But these are only a few examples. Other regulations and controls also contribute to the rising cost of housing.

As one example, preservation ordinances prohibit the demolition of historic buildings, and they often prohibit the construction of modern buildings in an historic district. As with zoning and similar land-use regulations, preservation ordinances prevent developers and builders from making the best use of the land in community. They are prevented from razing an old, single family home to make way for a modern multi-story condominium.

As another example, in 2016 California Gov. Jerry Brown unveiled a plan to relax the state's stringent environmental regulations in order to stimulate the construction of more affordable housing. Environmentalists protested, arguing that Brown's plan would undermine the state's environmental laws. The *Los Angeles Times* reported:

Economists and some housing advocates argue that that's the point. Existing laws can require multiple environmental reviews, all of which can be time-consuming and costly and sometimes lead to outcomes, such as blocking bike lanes, that aren't considered Earth-friendly. The law frequently is cited as a significant barrier to increasing housing supply.¹²

California has suffered from a housing shortage for years. But when faced with a choice between more affordable housing, which would benefit human beings, and protecting nature, environmentalists sided with nature. When they had an opportunity to promote the well-being of humans, environmentalists expressed no interest in doing so. Indeed, environmentalists often oppose any form of development.

For example, in the mid-1980s, The ESG Companies began purchasing land in Virginia with the intention of developing a mixed-use community in anticipation of population growth and demand for housing. In 1989, after the company began clearing the land, the Army Corps of Engineers asserted that the property contained "wetlands" and issued a Cease and Desist Order. Since that time, the company has been subjected to continually changing demands and edicts from the Corps and the Environmental Protection Agency.

In March 2018, Valerie Wilkinson, vice president and chief financial officer of the company testified before the House Subcommittee on Interior, Energy and the Environment. As a part of that testimony, she said, "The land we acquired almost three decades ago still lays undeveloped and we continue to be held hostage by the federal government. Throughout every step of the process, the rules have changed and new requirements have been added."

She added that the company had spent more than \$40 million on the land and holding costs over a period of thirty years. But the government's changing requirements have made it impossible for the company to obtain permission to develop its property.

In the 1980s the company judged that consumers would want housing in a particular area in the near future. It was willing to invest time and money to produce that housing. Yet, the government has prevented the company from acting on that decision. It has prevented the company from producing more of the housing that is so desperately needed.

12. Liam Dillon, "Labor unions, environmentalists are biggest opponents of Gov. Brown's affordable housing plan," *The Los Angeles Times*, May 24, 2016, <https://www.latimes.com/politics/la-pol-sac-labor-enviro-housing-20160524-snap-story.html>

On the one hand, government pushes a variety of programs and policies aimed at making housing more affordable. On the other hand, government pursues a variety of policies that makes the production of housing more expensive or even impossible. And the government imposes other obstacles that make affordable housing more difficult to attain.

As previously noted, an individual's income has a significant impact on the housing that will be affordable. Yet, just as government makes the production of housing more difficult, it often makes it more difficult for many individuals to improve their income. Minimum wage laws are one example.

Minimum wage laws make it illegal for an employer to pay a wage below that set by government officials. Such laws also make it illegal for an employee to accept a lower wage. Suppose, for example, that an unskilled teenager is willing to work for \$5 an hour to obtain job skills and work experience. Minimum wage laws make that illegal, and so, he is unable to obtain a job, develop skills, and improve his future employment prospects. Certainly, an individual making the minimum wage or lower is not likely to be able to support a family. But he can obtain the skills and experience that will enable him to get better paying jobs in the future.

Similarly, occupational licensing laws prohibit individuals from offering certain services unless they have first obtained permission from the government. Often, licensing requires hundreds of hours of training at a cost of thousands of dollars—a cost that many low-income individuals cannot afford. They are prevented from starting a business and improving their financial situation. Consider Jestina Clayton as an example.

A native of Sierra Leone, Clayton had learned the art of hair braiding while growing up. After graduating college, she was dissatisfied with her pay in an entry-level job. She decided to open a hair braiding business and began advertising on a local website. NPR reported that she soon received an email from a stranger, who wrote, “It is illegal in the state of Utah to do any form of extensions without a valid cosmetology license. Please delete your ad, or you will be reported.” Clayton could not afford the two years of training and \$16,000 required to get a cosmetology license in Utah, and she closed her business.¹³

Clayton wanted to offer a value to willing buyers, but the state of Utah prohibited her from doing so. They prevented her from improving her financial situation and making her life better.

So, while government is making it harder for developers and builders to produce more housing, it is also making it harder for individuals to earn more money and thus be better able to find affordable housing.

If we are going to make wise decisions regarding housing policy, then we must consider the full context—all of the relevant facts. In regard to housing, the full context includes much more than just the cost. It includes the ability of developers and builders to produce more housing and the obstacles that stifle their ability to do so. It includes the myriad factors that impact the cost of building new housing, as well as the obstacles to improving one's income. It includes all of the factors that determine what type of housing is affordable to a family. All of this must be considered if we are to look at the big picture rather than isolated issues.

For more than eighty years, government has imposed a growing list of obstacles on both producers and consumers of housing. And despite its stated intentions, the housing crisis has grown steadily worse. This is not a coincidence. Government regulations and controls stifle production and

13. Jacob Goldstein, “Why It's Illegal To Braid Hair Without A License,” NPR, June 12, 2012, <https://www.npr.org/sections/money/2012/06/21/154826233/why-its-illegal-to-braid-hair-without-a-license>

drive up costs. As a counter example, consider what has happened in two industries that have remained relatively free of government regulation: computers and flat screen televisions.

The first IBM PC sold for \$1565 in 1981 (\$4445 in 2021 dollars). It ran at 4.77 MHz, had 16kB of RAM (which could be upgraded to 256kB, and did not come with a hard drive. It used 5.25” floppy disks for additional storage. Each disk could hold 320 kB of data.¹⁴ Today, you can get a Dell Inspiron for less than \$400. It operates at 3.6 GHz, comes with 4 GB of RAM, a 1 TB hard drive, and can use flash drives. This is less than 10% of the cost of the IBM PC and it operates more than 900 times faster. With the use of flash drives, the storage capabilities are almost infinite and easier to transport.

Sony and Sharp introduced the first large flat-screen television in 1997. It was 42” wide and cost more than \$15,000.¹⁵ That is \$24,000 in 2021 dollars. Today, you can get a 43” television from Walmart for less than \$200.

According to the United States Bureau of Labor Statistics, rents increased 322 percent between 1980 and 2020.¹⁶ The median home value in June 1980 was \$57,133 (\$179,449 in 2020 dollars).¹⁷ In June 2020 the median home value was \$278,261,¹⁸ an increase of 55 percent.

In short, the price of computers and flat screen televisions has plummeted and both products are abundantly available, even for low-income families. During a similar time period, the cost of housing has increased substantially and the availability of housing for low-income families is severely lacking. The reason for this discrepancy should be clear: the makers of computers and flat screen televisions have been relatively free to produce those products while the producers of housing have been shackled and restricted. If the producers of housing were free, they could and would find innovative solutions to the affordable housing crisis.

In addition to considering the full context, we must also examine the alternatives and their pros and cons. Time and again when any housing issue is discussed and debated, the proposed solutions involve more government involvement. It is rare that anyone proposes an alternative that lessens government’s role. We have seen that increasing the supply of housing—even on the upper end—ultimately provides more affordable housing for low-income families. But freeing the producers of housing is seldom discussed. Instead, government officials subject developers and builders to an expensive permitting process. And when they grudgingly give permission to build new housing, they often include stipulations and demands, such as the inclusion of below market housing in the project, that add to the cost.

As another example of failing to consider alternatives, one of the major criticisms of gentrification is displacement—as property values rise, current residents can no longer afford to live in the neighborhood. And the primary reason for this unaffordability is that property taxes skyrocket. But it isn’t the gentrifiers who raise property taxes; it is the taxing authorities—the government. And so, while many public officials decry displacement and advocate coercive measures

14. “IBM Personal Computer,” Wikipedia, https://en.wikipedia.org/wiki/IBM_Personal_Computer

15. Emily Beach, “The History of Flat Screen TVs,” Techwalla, <https://www.techwalla.com/articles/the-history-of-flat-screen-tvs>

16. “Prices for Rents, 1980-2020,” In2013Dollars.com, <https://www.in2013dollars.com/Rent-of-primary-residence/price-inflation/1980-to-2020?amount=1000>

17. “Historical Home Prices: Monthly Median Value in the US from 1953-2020,” DQYDJ.com, <https://dqydj.com/historical-home-prices/>

18. Ibid.

to stop it, they eagerly accept the additional tax dollars generated by gentrification. However, there is an alternative that does not require coercive measures and actually benefits nearly everyone.

If the primary cause for displacement is soaring property taxes, then a sensible alternative is to provide tax relief to the existing residents. For example, if their appraised value were frozen (or increases were capped at a very modest level), then existing property owners would not face the burden of unaffordable tax bills. They would be able to retain their property and enjoy the revitalization of their neighborhood. And developers would then be free to invest in a neighborhood and bring economic development to it. The only “loser” in this alternative is the government—it will receive reduced tax revenues. But that money rightfully belongs to the tax payers.

Politicians and housing advocates love to vilify real housing producers as greedy vultures who put profits before people. But the producers are not the villains in this story, and those who attack them are engaging in a gross injustice.

A Matter of Justice

Everyone, including the most hostile and vocal critics of landlords, gentrifiers, developers, and builders, acknowledges that housing is an important value. Yet, the producers of that value are attacked with a hostility that is usually reserved for pedophiles and mass murderers. And at every turn, the producers of housing face a growing list of controls, prohibitions, and mandates.

As one example, as the economic destruction from the lock down has spread, government has shifted much of the financial responsibility to landlords. The eviction moratorium imposed by the Centers for Disease Control and Prevention prohibits landlords from evicting non-paying tenants, thereby forcing property owners to provide free housing while still paying insurance, the mortgage, property taxes, and repair costs.

As another example, in order to receive the required permits, developers often must agree to include affordable housing—i.e., below-market housing—in their multi-family projects in gentrifying neighborhoods. In other words, the developer must agree to produce some housing at a loss so that he can receive permission to build any housing.

A similar example is rent control, which sets a legal limit on the rent a landlord can charge. The landlord is prohibited from charging a rent that he and the tenant find mutually acceptable. Instead, he can only charge what the government mandates, even if his expenses soar and the investment becomes unprofitable.

In each of these examples and countless others, the producers of housing are treated with scorn and contempt. They are treated like criminals, and their “crime” is producing a value that others want and need. This is an injustice.

Justice means judging the character and actions of others and treating them as they deserve. Those who produce life-sustaining values, including housing, deserve to be treated with respect.

Sadly, the most vehement and vociferous critics of housing producers are low-income individuals and their advocates. Yet, these are the people who most desperately need housing producers to be free. Rather than demand more freedom for those who could produce affordable housing, low-income individuals and their advocates demand more shackles and restrictions on developers, landlords, and gentrifiers. That they do this in the name of housing justice is worse than a contradiction. It is an inversion of justice. It means penalizing the producers because they produce.

This is the inevitable result of a faulty method. Beginning with the standard that housing is a right, housing advocates must ultimately demand injustice. If housing is a right, then those who can and do produce or earn that value must provide it for those who can't and don't.

If housing advocates considered the full context, then they would recognize the obstacles to affordable housing imposed by government regulations and controls. They would recognize that government policies and restrictions impede individuals from improving their financial situation. And then they would call for the repeal of the laws that make housing less affordable. They would demand economic freedom for everyone. But they do not consider the full context, and so, their solution is to force the producers to provide for the non-producers because housing is a right.

If housing advocates examined the alternatives, they would have to accept the fact that individuals are responsible for their choices and actions. They would have to accept the fact that economic freedom provides opportunity, but it does not guarantee successful results. But because housing is allegedly a right, housing advocates are unwilling to consider alternatives that do not guarantee affordable housing.

The affordable housing crisis is complex and multi-faceted. But it will not be solved if we employ a faulty method. We will not produce affordable housing if we start with the wrong standard, refuse to consider the full context, and categorically reject alternative solutions.

The solution is not more of the policies that have failed for eighty years. The solution is more economic freedom for the producer and consumers of housing. The solution is to protect the freedom of each individual to pursue his own personal happiness. It is a matter of justice.

The Texas Institute for Property Rights provides analysis, training, and resources for legislators, businesses, organizations, and property owners.

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