Here's What We Actually Know About Market-Rate Housing Development and Displacement

By **Amee Chew** - November 5, 2018

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Rent control. It's on the ballot in California this November *[here are some lessons from its loss]* as tenant campaigns pick up steam across the country and revive an old refrain: "The rent is too damn high!" The real estate industry's biggest argument in opposition? Rent control will hurt new construction. And, as developers would have us believe, the only way to pull ourselves out of our dire housing shortage would be by building new construction.

But this unquestioning reliance on new construction—a code phrase used by developers to signify for-profit building—is deeply flawed.

For one, for-profit new construction is overwhelmingly geared toward the luxury market. But it's lower-income households who face the most severe affordable housing shortfalls. While our high-end stock has steadily grown, since 1990 on balance we've *lost* over 2.5 million affordable units renting for under $800. To what? In large part, rent increases.

Secondly, new construction takes decades to depreciate down to rents that are actually affordable to most renters. "Trickle down" isn't happening fast enough. *[See: "Trickle Up Housing: Filtering Does Go Both Ways."]*

Even worse, however, new construction actually *fuels* displacement in the short term, even when no already existing housing is knocked down. Why? Numerous studies show that market-rate housing development has price ripple effects on surrounding neighborhoods, driving up rents and increasing the burden on lower-income households. Many residents in communities transformed by gentrification can already attest to the connection between for-profit development, rising living costs, and the mass exodus of lower-income residents. Maybe this won't play out in Malibu, or a sparse neighborhood with very few low-income folk, but otherwise the above effects are widespread in our cities.

We need to talk about market-rate construction, and displacement. Here is the what the research says:

- Studies show that market-rate housing development is linked to the mass displacement of neighboring low-income residents (Davidson and Lees 2005, 2010; Pearsall 2010). Such displacement occurs even when low-income housing is not directly demolished and destroyed to make way for new development—because it operates through indirect and exclusionary means, such as "price shadowing" (Davidson and Lees 2005, 2010). Market-rate housing production causes significant price impacts in surrounding neighborhoods, raising area rents and real estate taxes (Oliva 2006; Pearsall 2010; Zuk and Chapple 2016). These price impacts have resulted in higher housing cost burdens for low-income residents, as well as their displacement (Davidson and Lees 2005, 2010; Pearsall 2010). In fact, a study of displacement in New York City based on a survey of 18,000 housing units found that most displaced households were forced to move due to cost considerations; in contrast, low-income residents who managed to remain in gentrifying neighborhoods overwhelmingly lived in public housing or rent stabilized units insulated from price dynamics (Newman and Wyly 2006, 29, 41, 43). Rent burdens rose considerably in gentrifying areas, so that only 1 out of 15 poor renters remaining in these New York City neighborhoods rented in the unregulated market (40-1).

- The influx of higher-income residents, whom market-rate developments are typically geared toward, is itself associated with the displacement of vulnerable groups from the same area. Studies in London, Sydney, and Melbourne using longitudinal census data found that increases in high-income and professional households in a neighborhood were correlated with greater losses or displacement of low-income, family, and working-class households, as well as elderly, disabled, and unemployed residents, from that community (Atkinson 2000a, 2000b; Atkinson et al. 2011). One study found that in neighborhoods with an influx of higher-income residents, working-class residents moved at three times the rate compared to in other areas—and usually out of the neighborhood (Atkinson 2000a, 159).

- Location matters in predicting the pathway of gentrification. Gentrification is more likely for poor neighborhoods that border rich neighborhoods (Kolko 2007; Guerrieri et al. 2013). A study of over 27 metro regions in the U.S., including Los Angeles, found that out-migration of poor residents and in-migration of richer residents was 64 percent more likely for neighborhoods within half a mile of an existing rich neighborhood, compared to those further from the nearest rich neighborhood (Guerrieri et al. 2013, 59). Again, this is likely due to price effects: housing prices in poor neighborhoods that bordered or were within a mile of rich areas appreciated by a significantly higher amount than prices in poor neighborhoods further away (51, 56). Housing booms do not affect prices in all neighborhoods equally; in fact, poor neighborhoods that start out with low housing prices and are near richer neighborhoods experience the largest price increase effects (46).

- Unfortunately, in our market-based housing system, proximity to transit stations is a risk factor for gentrification. Numerous studies show that neighborhoods within half a mile of a transit station experience significant housing price and rent increases (Immergluck 2009; Pollack et al. 2010); loss of affordable units (Chapple and Loukaitou-Sideris 2017); increased share of high-income households and decreased share of low-income households (Dominie 2012; Chapple and Loukaitou-Sideris 2017); and increased prices of commercial properties (Weinberger 2001; Debrezion et al. 2007). Moreover, plans for transit investment can drive up property values and housing costs even before construction begins due to real estate speculation, as the plans become known (Knaap et al. 2001; Immergluck 2009).

- Likewise, new higher-end commercial amenities and big box retailers also add to displacement pressures, again, largely due to the overall marketization of housing in the U.S. and lack of sufficient protections against rising costs. Such commercial development contributes to rising property values, as well as the influx of white and more affluent residents, heightening displacement through competition and rising rents (Zukin 2009). The arrival of large, national retailers has been linked to net job and business loss, as well as decreases in retail wages (Dube et al. 2007). But even smaller-sized yet upscale boutiques contribute to the displacement of local stores and services that long-time, lower-income residents rely on—notwithstanding boutique owners' purported sensitivity to community identity and racial solidarity (Zukin et al. 2009).

- Some academic studies have contested whether gentrification in fact causes displacement. However, whether studies detect displacement very much has to do with how they measure, and define, gentrification. For instance, one famous study often cited to prove gentrification does not cause displacement relied on survey data that did not count residents who had doubled-up, moved out of the city, or became homeless (Freeman and Braconi 2004; Newman and Wyly 2006). Even so, though it failed to count the displaced, the study still admits class change was occurring in gentrifying neighborhoods, though if not through direct 'displacement,' through 'replacement' and probable exclusionary displacement (Freeman and Braconi 2004). And even this study found that gentrification in New York City harmed low-income households by increasing their rent burdens: the researchers reported the average rent burden for poor households in gentrifying areas was 61 percent, compared to 52 percent for poor counterparts in other neighborhoods; and that rents for unregulated apartments in gentrifying neighborhoods increased an average of 43 percent from 1996 to 1999, compared to 11 percent for rent stabilized apartments (50-1). In contrast, a finer analysis of the same New York City survey data by other researchers, that carefully considered place and motive, succeeded in uncovering evidence of gentrification-fueled displacement and migration flows, with rent increases, landlord harassment, and condo conversion emerging as key reasons for moves (Newman and Wyly 2006).

- Real estate interests and some scholars *[and many activists]* argue that unaffordable housing costs are primarily due to a shortage in housing supply, and that any increase in supply—including luxury development—will ultimately help depress rents. While there is some evidence new housing production does eventually help lower median rent in the neighborhoods where construction occurred compared to other areas, these effects take decades to surface (Zuk and Chapple 2016; Rosenthal 2014). Worse, by the time such price effects register, large numbers of low-income residents have likely already been pushed out: as one study of construction in the Bay Area found, the increased cost burdens which market-rate production puts on low income residents are far more immediate than any long-term decrease in rents (Zuk and Chapple 2016). And even if median rent is eventually, somewhat, lower than in areas without construction, who is to say that the median rent is actually affordable? In the above study, researchers noted median rents of all areas might still be out of reach for low-income households. During the decades analyzed, significant displacement had already occurred and median rents were hiked up by gentrification. In contrast, the production of subsidized housing had more than double the impact on eventually reducing rents at a regional level, compared to market-rate units. Thus, the production of non-market rate housing matters deeply. *[Editor's note: There is also an argument that production of moderate-income housing is relevant as well.]*

In sum, luxury development that centralizes a concentration of higher-income residents in a lower-income surrounding community puts neighboring poor residents at risk of displacement due to the impact on increased living costs. Both luxury development itself and the influx of higher-income residents are linked to higher housing cost burdens for low-income residents, as well as displacement, because of their price effects on the real estate market. Furthermore, even upcoming development can set off real estate speculation and price increases before construction begins. Place matters, and proximity to richer neighborhoods as well as massive capital investment, whether in the form of private development projects or transit infrastructure, are risk factors for gentrification.

Stability for renters should be valued. Housing instability is bad for health and worsens poverty. Even without gentrification, U.S. neighborhoods experience high endemic levels of displacement and eviction when it comes to low-income families, who face dire intergenerational consequences. Gentrification uproots low-income families to relatively far-flung and less-resourced places, with added political, social, and health impacts.

So what is there to do? Rent control must be paired with any strategy of new construction and investment in order to prevent displacement. On a practical level, rent control would stop the hemorrhage of remaining affordable units now—provided allowed rent increases are appropriate to low-income renters' finances—and include strong protections against eviction and landlord harassment. Rent control would also preserve and potentially even recover the affordability of tens of millions of homes nationally, working on a scale unrivaled by Section 8 vouchers and any new construction.

Construction trickles, but rent control works instantly. Rent control costs the public little. And while Section 8 follows prices set by the market, thus doing little to stop rents from increasing overall, rent control would make sure landlords get a fair return but cannot rent gouge. Section 8's targeted subsidies, supposedly more "efficient" because they help only a few of the neediest, can perversely reward landlords who impose large rent increases. But rent control's more universalist approach, covering all renters, better protects the public good.

Finally, as bitter a pill as it may be to swallow, we cannot rely on the private market to provide the new construction we need. Our housing market is broken. *Most* renters now pay unaffordable levels of income on rent. But for-profit housing cannot meet most renters' needs, and that's by design: when profit determines pricing, the housing needs of low-income folks never matter as much as the demand of a few rich individuals at the luxury end.

Instead, we must massively expand non-profit finance, development, and construction of social and public housing. We must protect land and housing from the vagaries of the market by creating community land trusts, cooperative housing, and mutual housing on a large scale. Other wealthy countries have done it. Sweden addressed its dire postwar housing shortage with hundreds of thousands of cooperatives and an even more massive boom in public housing construction. Thanks to these policies, along with with strong rent regulations, a much larger swathe of its population enjoys extremely low housing costs than in the U.S.

We can start by pooling our own money into cooperative banks, to finance these nonprofit housing schemes. As much as this country's administration, headed by a tax-evading slumlord-in-chief, is gutting all our safety nets—they can't stop us from doing that.

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If you're interested in research on this topic, see also our researcher roundtable, "What We Don't Know About Displacement and Development," and "Why Voters Haven't Been Buying the Case for Building."

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GREATER GREATER WASHINGTON
The Washington, DC region is great and it can be greater.

How Southwest's Waterside Mall, Waterfront Station, and the Wharf connect with displacement fears for Greenleaf public housing residents

HOUSING By Nena Perry-Brown (Editorial Board) May 8, 2020 15

Waterfront Station at 4th and M streets SW by Dan Reed licensed under Creative Commons.

This is the fourth article in our series exploring Greenleaf Gardens, a public housing community in Southwest that's slated for redevelopment.

In the previous article, we discussed how Greenleaf Gardens was constructed in 1957 through a concept called urban renewal. While the plan was to transform the so-called "slums" of Southwest into a more desirable neighborhood, urban renewal quickly became an example of poor neighborhood planning. Moreover, the development in Southwest resulted in the displacement of over 23,000 people — most of whom were Black.

We're now taking a look at the 21st century evolution of the area surrounding Greenleaf Gardens, as leaders attempt to fix problems that urban renewal caused and accomplish some of the concept's earlier goals. Meanwhile, current residents of Greenleaf Gardens must also contend with new issues emerging as gentrification sweeps Southwest and threatens to make them the next DC community displaced in the name of illusory progress.

Waterside Mall by Library of Congress.

A redeveloped Waterside Mall seeks to undo urban renewal's mistakes

A century ago, 4th Street SW (then 4 ½ Street) was a vibrant commercial corridor, offering a central location where Southwest residents could patronize small businesses despite segregation delineating one side of the street from the other.

The Redevelopment Land Agency, which initiated urban renewal, proposed the construction of Waterside Mall. Looming over the 4th and M Street SW intersection, the bulky, modernist office/retail shopping center completed in the early 1970s created a physical barrier dividing the neighborhood, making it unwalkable and unwelcoming.

In 2001, then-mayor Anthony Williams announced that the massive, obsolete structure (and its Safeway grocery store) would be razed and replaced with over 1 million square feet each of residences and office space along a revitalized 4th Street corridor, creating a more approachable community called Waterfront Station — just outside of the Waterfront-SEU Metro station that had been constructed 10 years prior.

Demolition happened under subsequent mayor Adrian Fenty in 2007, jumpstarting a construction boom in Southwest that continues to this day. Only two of the four Waterfront Station parcels have been developed since then, anchored by a new office building housing city government agencies and a new Safeway.

Over 1,600 new residential units were delivered between South Capitol and 6th Streets SW since Waterfront Station was established. Of those, more than half were built within two blocks of Greenleaf Gardens. Another 1,850 have been approved in that same area (including another 1,000 for the remaining Waterfront Station parcels off the 4th and M Street intersection).

The redevelopment of the Wharf finishes what urban renewal started

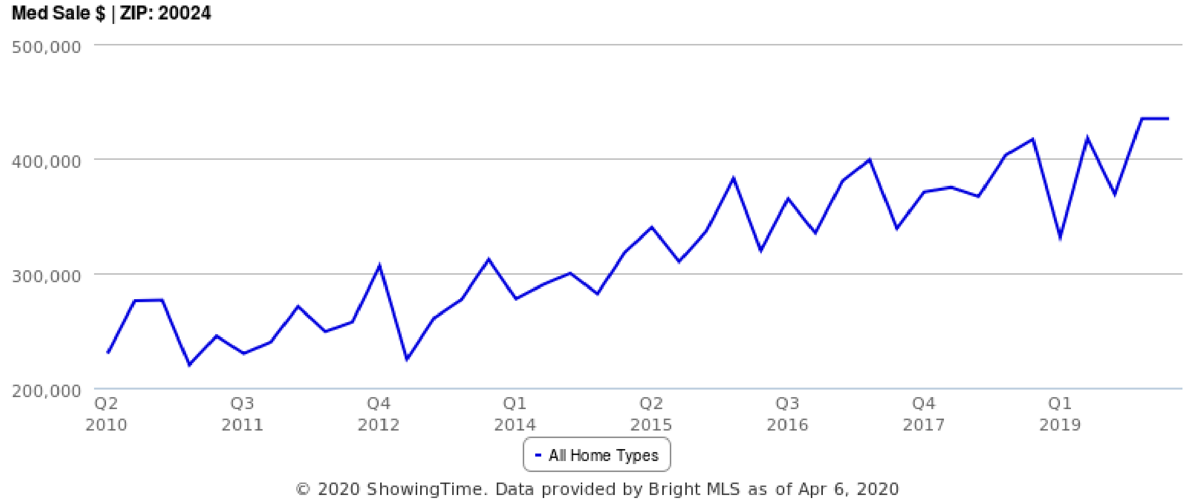
Despite being part of the urban renewal area, little changed along the Southwest waterfront until the 21st century. Less than a half-mile away from Greenleaf Gardens, the Wharf is under construction along 27 acres of waterfront property between Maine Avenue and the Washington Channel.

The massive development was put in motion a year before the Waterside Mall came down and required hundreds of millions in public funds to get accomplished.

The redeveloped Wharf by Ted Eytan licensed under Creative Commons.

The first phase of the Wharf began delivering in 2017, dwarfing the original Wharf that includes Maine Avenue Fish Market — the oldest surviving market of its kind in the country. As described by its development team, "The Wharf reestablished Washington, DC, as a waterfront city and destination."

By the time the new Wharf development is complete in 2023, it will have delivered almost 1,100 units along with over a million square feet of offices, retail, and hotel rooms. It has also facilitated a huge jump in housing prices in the area: the first condos there pre-sold at over $1,000 per square foot — prices typically associated with neighborhoods like Georgetown.



Quarterly median sold prices in 20024 zip code since 2010 by Bright MLS used with permission.

Although these condo prices are outliers, Southwest has gotten less affordable across the board; for example, between the second quarter of 2010 and the second quarter of 2019, the median price of homes sold in Southwest's 20024 zip code had shot up from $230,000 to $417,750, a 55% increase including inflation. Citywide, sold prices went up by 33% over the same time.

Southwest is being hit hard by gentrification and displacement

Recent research shows that DC has experienced the most intense gentrification of any U.S. city since 2000. Southwest has stood out as an example of this: in the census tract containing the parts of Greenleaf Gardens north of M Street, the population doubled from 2000 to 2016, but the share of low-income households dropped from nearly 39% to 20% and over 160 rental units were lost. Black households were the only racial group in that area to see their population decline.

Throughout this period of transition, community members have been contemplating how to withstand change in their neighborhood, placing priority on how to keep it affordable and preserve its open spaces. These priorities were documented in the 2015 Southwest Neighborhood Plan, which established the vision that "Southwest will remain an exemplary model of equity and inclusion — a welcoming and engaged community that celebrates and retains a mix of races, ages and income levels and enhances well-being for all amidst neighborhood growth and change."

The neighborhood plan also cited redevelopment of Greenleaf Gardens as inevitable, placing priority on protecting its residents and including them in the community input involved in the plan's creation. One of the plan's goals was to "support the responsible redevelopment of the Greenleaf complex to benefit existing Greenleaf residents and realize a well-designed development and mixed-income community."

As the current wave of development in Southwest steamrolls forward, a number of questions remain. How will the city guarantee not to replicate the same levels of displacement caused by urban renewal 60 years ago, or even the more recent changes caused by gentrification? And how can existing Greenleaf Gardens residents expect that they will "benefit" from redevelopment of their homes?

Continue the conversation about urbanism in the Washington region and support GGWash's news and advocacy when you join the GGWash Neighborhood!

Tagged: dc, greenleaf gardens, housing, urban renewal, waterfront, wharf

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15 COMMENTS

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Wootness *on May 8, 2020 at 11:25 am*

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Why Voters Haven’t Been Buying the Case for Building

It’s not because they’re stupid.

By **Rick Jacobus** - February 19, 2019

Downtown Los Angeles. Photo by Giuseppe Milo, via flickr, CC BY-NC 2.0

Liam Dillon covers the politics of housing policy more closely and thoughtfully than almost any other journalist in the country and yet he was nearly dumbfounded by the results of a recent survey commissioned by his paper, the *Los Angeles Times*. The *Times* and researchers from the University of Southern California asked 1,200 California residents about the causes of the housing crisis. Only 13 percent of respondents blamed the crisis on “too little homebuilding.” Twice as many people included “lack of funding for affordable housing” or “lack of rent control” as top explanations for the problem.

Why Is Housing in California so Unaffordable?

Dillon sought comments from experts who struggled to explain the results; they all agreed that the lack of supply is at the root of the problem. Democratic state Sen. Scott Wiener, who has been leading a truly impressive crusade to get more housing built in California, said it will take time to convince Californians of the housing shortage.

Wiener wasn’t the only person who focused on persuading the public. Both in the comments section on the *LA Times* website and on Twitter, commenters wondered what it was about supply and demand that voters can’t quite understand. More than one person suggested that all voters be required to take an entry-level economics class.

Given the enormous gulf between the view of Dillon’s experts and the majority of voters, one reaction that was conspicuously missing from the overall response was curiosity. Isn’t it possible that voters understand something that the experts are overlooking?

For the record, let me say that I generally believe the experts: In places where there is high demand, we need to build more housing—subsidized and market-rate housing, and even some luxury housing. It won’t solve the housing crisis on its own, but we can’t solve the crisis without building. So how do we make that happen? We will only see significant increases in the pace of development when the public *broadly* begins to agree that they are better off with more building than with less. Winning people over to that point of view won’t be easy, but telling people that they are stupid and uninformed is definitely not the right place to start.

It seems to me that if we want to convince people, we ought to stop yelling and start listening.

Why Aren’t Voters Buying the Need for More Building?

This survey perfectly captures the bind that elected officials across the U.S. find themselves in these days. A new breed of YIMBY (Yes, in My Back Yard) activism and academic analysis have together helped big city governments take the first lumbering steps toward higher rates of housing production. We are building more than we have in years. But for the most part, the average voter remains highly skeptical that market-rate real estate development can make a positive difference.

If you are in the group that finds the need to build more to be intuitively obvious, you may be more

In any introductory economics class we learn that supply and demand interact to set prices. If we increase demand (e.g., more people want to live in our cities), the price of a good will rise. In most markets, rising prices will encourage producers to make more of the good in demand, and increased supply will bring prices back down.

In the Econ 101 view, *any* new unit has the same impact on average rents. It doesn't matter if the new unit we add sells for many millions of dollars; the household that moves into it vacates another unit, which is then available for someone who earns less money. The process works its way down through the whole economy and everyone, everywhere shares in the benefit.

But a surprising number of people shrug this logic off. William Marble and Clayton Nall in the Stanford University Department of Political Science wanted to see what it would take to change people's minds on development. They surveyed people in the 20 largest metro areas and found that people formed attitudes toward new development independently from their overall political ideology. Many people who identified the need for housing affordability as an important issue opposed new development. Marble and Nall guessed that if they first provided people with information about how development leads to more housing affordability, people would answer survey questions about development differently. But they found that no matter what message they started with, people's answers didn't change. It didn't help to say that experts agreed, it didn't help to say that evidence showed that low-income people would benefit, and it didn't even help to say that President Barack Obama endorsed the research. This finding highlights the challenge facing policymakers; no amount of public education is likely to make a difference. Urban voters seem to understand the argument but remain unpersuaded.

My view is that this tenacity is not the result of a lack of understanding or education. Instead, I think it grows from a sensible feeling that the Econ 101 story greatly overstates the extent to which lower-income people, and even middle-income people, will benefit from luxury development. It is hard for people to articulate this feeling given the degree to which the whole discussion has accepted the simpler premise. And while I believe that resistance to development is causing great harm, particularly for lower-income people, I don't think we can overcome that resistance without addressing the real question that people are raising. To do that we have to look more closely at who benefits most from new development and think a little harder about what steps local government can take to share that benefit more widely.

What About Everything After Econ 101?

One reason this debate is so frustrating is that Econ 101 is not the right class for housing policy. Housing is different from other goods and services in a number of very important and mostly well-understood ways. And because of this difference, housing is not generally covered in undergraduate economics courses. Housing is *advanced* economics.

If we're going to agree on a course of action for housing affordability, we really need to first agree on how the economics work. But we won't get the policy right by agreeing that the economics are simpler than they really are.

I have spent much of the past decade in the middle of fights over housing production in big cities across America. After one too many debates where both sides seemed to be making up their economic theories on the spot, I decided to look into what the academic research said about the impact of housing production on rents. I learned quickly that there are some questions that Google can't answer. One reason it was hard to find relevant research is that these questions were the focus of economists in the 1970s and 1980s and many of the relevant papers are not available online. One

Starting in the 1940s, economists began to explore the ways that housing markets were different. Housing is immovable and very expensive relative to other goods, people incur significant costs when they choose to move homes, and characteristics of the neighborhood that their home is located in seem to matter as much as the homes themselves when it comes to setting prices. By the 1960s, some economists began to document the process of *filtering* and to develop theories that would predict how home prices and rents would be impacted by new construction.

By the late 1980s, a group of economists led by Jerome Rothenberg and George Galster undertook an ambitious effort to bring together much of this research into a single economic model of the housing market that would be realistic enough to address the questions facing housing policymakers. They published a series of articles and a textbook, *The Maze of Urban Housing Markets,* which was described by the publisher as "a powerful new theoretical approach to analyzing urban housing problems and the policies designed to rectify them." It seemed like they had answered the core economic question once and for all. But even though there has been very little pushback from other economists, this framework does not seem to have changed how we approach housing policy. Probably because only a small number of students in graduate-level housing economics classes have ever heard of this work.

But it's time to take another look at this research because it directly addresses the specific questions that paralyze policymakers and elected officials today. This approach suggests a view of both the power and the limitations of new development that is dramatically at odds with the point of view that the *LA Times* described as being shared by all the experts.

The Housing Market is Segmented

The authors of *The Maze of Urban Housing Markets* analyzed data from dozens of U.S. cities and came to a surprising conclusion: The housing market is segmented. The structure of urban housing markets is better understood as a set of interrelated submarkets that can move somewhat independently than as a single market. It takes a little time to get used to talking about housing this way, but my guess is that when you think about it, you'll realize that you already see it this way even though it's not how you generally talk about it.

Think about the price of gasoline. It varies in different parts of the country, but in any given city, gas prices vary only a small amount. You may be willing to pay a few cents more to buy gas from a name-brand station or one closer to your home, but if the prices were much lower somewhere else, people would go there because, let's face it, gas is gas. The website gasbuddy.com tracks gas prices all across the country. In California, a gallon of gas costs more than $3.50. At the same time people are paying $2.15 or less in parts of Texas. But within any one city, the prices tend to vary by 10 cents or less between stations. In other words, the national gas market is divided into regional submarkets with prices that adjust somewhat independently, but within any one city there is a single market for gas.

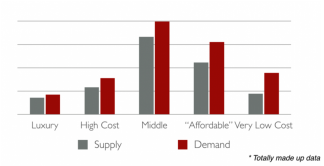
Now, compare that with apartments. Obviously the national apartment market is also segmented into different regions where prices move independently. But what about within each city? Sure, we can calculate the average rent for a two-bedroom apartment in each city, but depending on who you are, you might pay a lot more or a lot less than that average. Gas may be gas, but apartments aren't all the same. The most desirable units in the hottest neighborhoods will cost many times more than the least desirable apartments.

But most apartments aren't quite *unique* either. If you rent, my guess is that you looked at less than 10 available apartments before you signed a lease, even though there were hundreds more available general sense held up across many slightly different units. There was a market and a market price even if it was not a single citywide market. In a segmented market, the price you pay for an apartment is still set by supply and demand, but it's not just the overall supply and demand that matters. The rent is at least partly set by the supply of apartments *like yours* and the amount of demand from people *like you*.

It's tempting to think that the issue is just geography: that apartments are just like gas, but instead of different markets in different states, there are different markets in each neighborhood. Clearly neighborhoods are important, but the research suggests that both location and other quality factors and building amenities combine to define distinct submarkets. You can think of each submarket as all of the different units that one kind of person might consider when they are looking to move. They may be in several different neighborhoods, but they will be of similar overall quality and desirability and they will have similar prices.

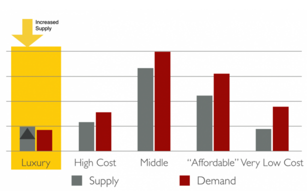
It's easier to see how this works if you think about student housing. Student units have to be somewhat close to a university and be available to rent by the academic term instead of the year. But not all housing near university campuses is student housing. You can often tell the difference from the street because, apparently, students don't care about landscaping. In some neighborhoods, two different markets—student and non-student—operate side by side on the same block.

Like any product, the rent for student housing is determined by supply and demand, but it's mostly the supply of *student housing* and the demand from *students* that matters. When a university's enrollment drops, the rents for student housing drop because student-housing vacancies rise. If they fall enough, landlords may convert some student housing to housing for other people. But that change will come with a cost. For one thing, the landlord may have to invest in landscaping, not to mention kitchen and bathroom remodeling. So student housing is a distinct submarket. Because housing units can be moved into or out of the student submarket, the student prices are not fully independent from the non-student market.

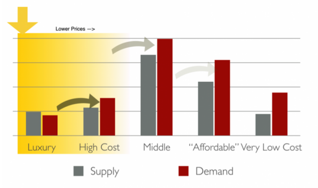


Rothenberg and his colleagues found that the student market is not unique in this sense. They saw a similar pattern in every community. Housing markets were segmented by quality and the supply and demand in each submarket resulted in semi-independent price movements. A community might see rising prices in the high end of the market even as prices in the middle or at the bottom were falling. And vice versa.

They considered how housing markets that were segmented in this way would respond to a range of different changes in supply or demand in any one segment. One scenario that they evaluated most closely was the situation where new housing was added at the most expensive end of the market. What they found was that when new luxury homes are built, there is an immediate response within that specific submarket. Prices drop in response to increased supply just as we would expect from Econ 101.



In the next subgroup down market, prices fall also, but not by as much. When luxury prices drop, some people will upgrade from merely high-cost housing into the luxury market. This reduces demand in the high-cost submarket, which lowers the price. But for a number of reasons, each new luxury unit was associated with less than one household stepping up. So the price reduction is less in the second tier. And for each step further down, the effect of the added supply was diminished to the



The Most Important Number You Have Never Heard Of

If markets are indeed segmented in this way, then the results of the *LA Times* survey may make somewhat more sense. Why are people in Los Angeles not excited about the potential for new luxury development to make all housing more affordable? For the same reason they don't see new buildings in Seattle or Portland helping them. Surely it is at least partly true that the more Seattle builds, the less pressure there will be on California's housing markets. (Lower prices in Seattle will cause some people to move north.) But we all intuitively understand that this will make only a very small difference in the cost of housing in LA. New luxury towers in the city seem no different to many Los Angeles residents, who feel like they occupy an entirely different world.

Of course, new buildings in LA (even luxury buildings) are likely to have a much bigger impact on middle- and low-income rents in the city than any buildings in Seattle. But, sadly, it turns out that we don't know how much bigger. The key number is what economists call "cross-price elasticity of demand," a measure of how readily people switch from one submarket to another.

"Elasticity" is the kind of jargon that keeps economists in business. "Elasticity of demand" is the extent to which the quantity of a product that consumers demand changes as the price changes. For most products, if we lower the price, people buy more; elasticity is the measure of how much more. If a good is highly elastic that means that it is price sensitive—a 10 percent drop in price will result in more than a 10 percent increase in the quantity demand; a 10 percent increase in price will cut demand by more than 10 percent.

A cross-price elasticity of demand (XED) instead measures how a change in the price of one product impacts the level of demand for another product. For example, if the price of gas rises, the demand for public transit increases. Driving and transit are what economists call substitutes—you can trade one for the other— but they are not perfect substitutes, which means that even when gas prices spike, transit ridership only rises a little. In this case, economists would say the cross-price elasticity is less than 1.

Similarly, economists have studied the cross-price elasticity of demand for butter and margarine and estimated it to be .66. This means that if the price of butter falls by 10 percent, then margarine consumption will fall, but only by 6.6 percent. Some people are buying margarine because it is cheaper than butter, but some people just prefer margarine.

Why Does This Matter?

If housing markets are segmented, then when we build more luxury housing, the price of luxury housing falls (Econ 101). But if each new luxury unit does not correspond to one less household in the next market down (the 'high-cost' submarket), then the prices in the high-cost market will move less noticeably than the luxury prices.

Why wouldn't there be a 1-1 change? For every new luxury unit, doesn't someone vacate a less expensive unit down market? Not exactly. There are many reasons why the submarket units are imperfect substitutes. For one thing, as prices fall, households in the luxury segment of the market may consume more housing. This can happen when someone buys a second home or even when two roommates respond to lower prices by each renting their own place. But also, some luxury units may be taken off the market when prices fall, while others may be downgraded to lower-quality buildings one household from one tier does not automatically mean that one additional household will step up into that tier.

I think it is clear from this that we can't expect new luxury development to have the same impact on rents at the bottom of the market as it does at the top. But how much less impact is not clear. In technical terms, there is no good recent data on the cross-price elasticity of demand between luxury housing and lower-cost housing. A large group of urbanists have taken to talking about the housing market as if these elasticities were close to 1 (increases in luxury supply have a big impact on the low-end rent). But it's just as likely that the elasticity is closer to 0 (the rent at the bottom of the market is very insensitive to the level of supply at the top of the market).

One of the things that I find most striking about this way of thinking is how much the list of things that might cause the XED to be much lower than 1 looks like the list of concerns you hear from people who don't see new development as the key solution to the housing crisis. There has been quite a lot of pushback against new development on the grounds that many units are sold to Russian oligarchs or other foreign investors. By itself, this is a spectacularly weak argument against building because the total number of oligarch units is so low. But taken together with other factors, it seems like just one more way the benefit of luxury development never quite reaches the masses.

Similarly, people like to complain that new apartment buildings are mostly made up of studios and one-bedroom units. In an unsegmented view of the housing market, this should not matter because the people moving into these units will vacate units somewhere else in the city. But, if we see the market as segmented, then it matters that new buildings are serving young single people because we can expect to see the biggest price impacts on other housing that those singles *would have* occupied. Other young singles will get most of the benefit. When you look at all of these complaints together, they paint a picture of an electorate laser-focused on the one number that really does matter: cross-price elasticity of demand.

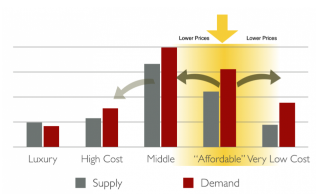
So much depends on this one number. If the elasticity is 1, then *all* new building is inherently good for everyone equally and we should build as much as possible without worrying much about *who* we are building for. At any point below 1, luxury development is most beneficial for the rich and less helpful for everyone else. Below 1, any policy that results in new buildings that serve the middle of the market will increase the degree to which middle- and-low income people benefit from building. At some point we get far enough below 1 that luxury housing development stops looking like a reasonable solution to the housing affordability problem at all. At that point, other strategies, like subsidized affordable housing, start to seem like more obvious solutions.

What Should we Do?

There is a meaningful debate about whether new developments push rents up or down in the neighborhoods immediately surrounding them. My view is that there are sensitive neighborhoods where fancy new buildings can accelerate gentrification, but there are also many more neighborhoods where that is not much of a risk. At the regional scale, there seems to be wide agreement and strong evidence showing that more building leads to lower average rents. But the average rent does not tell the whole story; who we build for seems to matter. If we build only high-end housing, everyone may see some benefit, but most of the benefit will flow to the rich. Low-income people may (depending on XED) receive very little benefit. Of course, if we don't build at all, no one benefits. So, in some very real sense, some building is better than no building. But we have more options.

The most compelling policy implication of this switch to a segmented view of housing markets is that we need to do more to encourage development of new buildings that are targeted for lower- and

We invest a significant amount of public money in subsidized affordable housing—primarily through the Low-Income Housing Tax Credit program. We tend to justify this investment primarily based on how those buildings affect the families who live in them. But think about how adding new supply at the lower end of the market impacts the rents that everyone else will pay. Just like with high-end housing, the benefit accrues most noticeably within the same sub-segment of the market where new building happens. When we add lower-income units, we increase the supply and reduce competition for lower-cost housing and the benefit filters out in both directions to help people renting in the market segments just above and below. People at the top of the market receive the least benefit from this kind of new supply.



Listening to Voters

If we accept that the market is segmented, then it matters who we build for. In one obvious way, that is bad news. Building for the rich is simply much easier than building for anyone else, given the high construction costs. But for policymakers who are struggling with how to get more housing built, this should be very good news. If it matters who we build for, we can do something about that and we can get the great bulk of voters behind that kind of action.

Yes, local governments in hot market areas must take bold action to enable more development, but it matters to voters what kind of development results and, specifically, who that development is for. Instead of (or in addition to) focusing on changes that support development in general, we should identify the policies that *change who benefits* from new development and we should stress that aspect when we explain these policies to the public.

Changing who benefits is not easy or inexpensive. But the research on public attitudes suggests that even small changes along these lines can make a big difference.

Michael Hankenson, a graduate student at Harvard, surveyed renters in high-cost urban markets. He found widespread opposition to new development with a majority supporting an outright ban on new building in their own neighborhood—even among people who claimed to support the need for building more housing generally. But, among renters, attitudes toward affordable housing were quite different. While renters were less likely to support market-rate housing the closer it was located to their house, for affordable housing the result was reversed. People supported affordable housing more strongly the closer it was to their home. And, surprisingly, this difference was exactly the same for projects that were 100 percent affordable and those with only 25 percent affordable housing. Including a share of affordable units in primarily market-rate buildings dramatically changed people's attitude toward the project. Hankenson didn't test levels of affordability below 25 percent, but the popularity of inclusionary housing policies in cities across the country suggests that this is a common reaction and it is relevant even at much lower shares of affordable housing. People want to support development when they see it as not *exclusively* benefiting the rich.

Growing Bottom–up Housing Policies

One clear implication of this perspective is that we need to do even more to support development of income- and price-restricted affordable housing units. These units add to supply from the bottom up. New units come directly into the submarkets where they will make the most difference. But this is not news to local policymakers. More and more cities and counties have, in fact, been identifying local funding sources to subsidize affordable units. This is the right first step and hopefully a trend that will continue. But there is also a limit to the extent to which local taxpayers are likely to fund affordable

Similarly, nearly every major American city has now adopted some form of inclusionary housing—requiring, or in some cases incentivizing, developers to include below-market-rate units in new market-rate buildings. But there is a limit, and sometimes a fairly low limit, to how much affordable housing can be included in a project before it is financially infeasible to develop at all. Cities however, are not powerless against this economic reality. Local planning and zoning regulations have enormous impact on what and where it is financially feasible to build. Time and again, urban voters have shown a willingness to trade relaxed density rules or reduced parking requirements in exchange for more affordable housing units.

The same voters who are consistently skeptical of market-rate building for its own sake seem to have no reservation about using market-rate development as a tool to get more affordable housing. The experts have had little success in convincing voters to remove restrictive zoning rules for the sake of more building in general, but there is a proven track record of doing exactly that in exchange for more affordable housing units. Pursuing regulatory reform on its own in the absence of clear requirements for affordable housing is not a good use of energy. It might pass in the state house, but the *LA Times* survey shows why someone in every city hall is going to try to fight back. However, when we tie reducing regulations to affordable housing requirements (of almost any kind) we can all pull in the same direction.

Experiment With Middle-Out Housing Policies

Where the policy choices become truly difficult is when we move up the income scale to think about more middle-income housing. If markets are segmented, then building middle-income housing would be vastly more helpful than only building luxury housing because instead of filtering from the top down, the benefits would filter from the middle out. While the market is unlikely to ever provide high-quality, low-income housing without public subsidy, in the past the market did provide plenty of middle-income housing and it could again.

In the early 20th century the federal government's early interventions in the housing market focused on supporting the creation of market-rate, middle-income housing. Federal mortgage guarantee programs reduced the risk and cost of building. And many cities have issued bonds to finance middle-income apartment buildings. These programs can be abused, but they show that local governments can take an active role in ensuring that financing is available for new production of housing that serves more middle-income segments of the market.

And there is also growing interest in changing design and development standards to make it easier to build for the middle of the market. The recent growth of accessory dwelling unit programs can be seen as one way to do this. Several cities have been considering legalizing fourplexes in single-family neighborhoods. While these changes don't guarantee that new housing won't be expensive, if they are implemented at a sufficient scale, it is likely that the new units will be much more modestly priced than most multifamily development has been. Even if these new units don't directly serve lower-income households, their benefit is more likely to reach the lower end of the market because they will start closer to the middle than much of the multi-family housing we have been building in recent years.

Living with Supply Skepticism

Time and again, housing policy 'experts' in this country have helped rationalize and implement policies that enriched property owners and real estate investors at the expense of communities, particularly those of color. We bulldozed people's homes. We wrote racism into the zoning code. We surprisingly central force driving the current housing shortage. Many people simply aren't inclined to trust the experts any more.

But it is easy to overlook the many times when the partnership between the public sector and the real estate industry worked the other way. At the beginning of the 20th century, most Americans lived without indoor plumbing, fires regularly leveled whole neighborhoods, and substandard and overcrowded housing was a major contributor to deadly epidemics. Private builders all but eliminated some of those concerns from our public life. Builders didn't install fire-rated walls or sprinkler systems to save money. They did it because laws informed by the experts made them. Homebuilders didn't invent the 30-year, fixed-rate mortgage to help middle-income people afford homes. Experts inside the federal government did.

Urban voters aren't likely to embrace a strategy of getting out of the way and letting the market do its magic. Many are inclined, instead, to stand in the way to keep the market from doing harm. But if we were more honest about the limitations of the market, it would be easier to convince people that local governments can hold private development accountable for delivering benefits to people who are being left out.

This article appears in the Winter 2018-19 edition of Shelterforce *magazine.* ***Subscribe here***.

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Apartment Rents On D.C.'s Waterfront Rise 6% Even As Area Leads City In New Supply

October 19, 2018 | Jon Banister, Bisnow Washington, D.C.

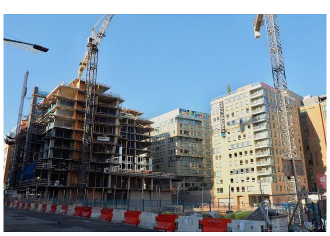
Want to get a jump-start on upcoming deals? Meet the major D.C. players at ***one of our upcoming events****!*

Apartment rents in the District rose modestly over the last year, a new report shows, but experienced a surprisingly sharp increase in the waterfront neighborhoods where the most supply is coming online.

Class-A apartment rents in the District averaged $2,602 at the end of Q3, according to Delta Associates, a 1.1% increase from the same point last year. The slow increase coincides with a record surge in apartment supply and represents a reversal from 2017, when rents fell by 3.9%.

Rents rose most dramatically in the submarket that includes Capitol Riverfront, Southwest D.C. and Capitol Hill. The areas experienced a 6.1% increase in rents year over year, according to Delta Associates, bringing its average Class-A rent to $2,564.

The year-over-year rent growth measurement only counts buildings that were open at the end of Q3 2017, so the delivery of hundreds of luxury units at The Wharf in Q4 did not directly skew the numbers upward. The Southwest Waterfront development is one of several projects that have delivered thousands of units in recent years to the area, including The Yards in the area around Nationals Park.



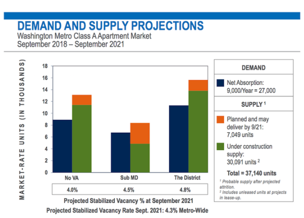
Those neighborhoods have led the District in new deliveries and their apartment pipeline only continues to grow, with new projects moving forward in areas that previously had little development, such as Southwest D.C.'s Buzzard Point. The Capitol Riverfront, Southwest D.C. and Capitol Hill submarket currently has 7,853 units expected to deliver over the next 36 months, according to Delta Associates, up from 5,609 units at this time last year.

"Development continues to be pushing ahead in that submarket," Delta Associates President Will Rich said. "You've got other portions of the submarket starting to bring units online, you have two large-scale multifamily buildings underway in Buzzard Point, where a year ago before Audi Field opened there were talks about having new product, but now developers have pulled the trigger in that area."

Such a rapid supply surge would be expected to have the opposite effect on rents as developers compete for tenants, Rich said. But his team surveyed the five D.C. neighborhoods with the most supply growth, including Capitol Riverfront, NoMa, H Street, 14th Street and Mount Vernon Triangle, and found that rents grew in those areas at a faster pace than the city average.

"Intuitively, you would think that a submarket that has a lot of oncoming supply would have a negative impact on its rent growth, but the opposite seems to be true in Capitol Riverfront as well as the other four submarkets," Rich said. "In all five cases, when the new development of multifamily occurs, a lot of these buildings have ground-floor retail opening and the popularity of the neighborhoods increased at the same time units were coming online."

The construction pipeline across the District continues to grow at a significant pace. Delta Associates projects 15,649 units will deliver across the city over the next 36 months, a 12% increase from the Q3 2017 pipeline. After the dominant waterfront area, the submarkets with the most units planned over the next three years include NoMa/H Street and Columbia Heights/Shaw, with 3,998 and 1,905, respectively.



This supply growth will have to be met with robust demand levels to keep rents stable, but absorption figures indicate that is possible. The District absorbed 3,726 Class-A units over the last 12 months, roughly 2% more than the prior year.

The D.C. suburbs are experiencing the opposite absorption trend from the District, as D.C. surpassed Northern Virginia as the regional leader in total number of units absorbed. Northern Virginia's Class-A absorption decreased by 39%, while Suburban Maryland experienced a 14% drop in absorption.

Rich said those drops are largely a function of the suburbs having fewer new units opening for renters to absorb, while options in the District continue to grow.

"There has been a slight decrease of the number of units coming to market in Northern Virginia and Suburban Maryland," Rich said. "But absorption of units per project continues to be quite strong, within the range it's been for the past five to six years, so that really hasn't changed much."

See Also: Residential Towers Totaling 800 Units Planned To Replace Rosslyn Office Building

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HOW-TOS | HOME TRUTHS

A rise in vacancies won't mean drops in rent

BY PHILIP BRASOR AND MASAKO TSUBUKU

Jul 2, 2016

According to the June 11 issue of Nikkan Gendai, the vacancy rate for rental properties in the 23 wards of Tokyo is currently 33.7 percent, while in surrounding prefectures, it's even higher: 35.5 percent in Kanagawa and 34.1 percent in Chiba.

One real estate consultant told the newspaper that the combination of record-low interest rates and recent revisions to the inheritance tax law have spurred construction of new rental housing units by people of means who want to reduce taxes on the money that they will leave to their children. Nationwide, the number of such units built in April 2016 was 16 percent higher than the number built in April 2015.

The land ministry predicts that this year alone 430,000 units will be newly made available for rent. In contrast, between April 2015 and April 2016, the number of new for-sale housing units nationwide only increased by 1.2 percent. In Tokyo, new for-sale units actually fell by 7.9 percent during the same period, while new rental units increased by 20.1 percent.

Sales agents for housing companies continue to bombard well-to-do families with investment plans that include the construction of new apartments that the companies will then let and manage for them. In most contracts, they even guarantee a certain amount of income, though the fine print usually says this term is "renewable" every two years, meaning if the realtor can't find enough tenants they can reduce the amount of income passed on to owners. Since owners count on this income to pay their mortgages, they could end up losing money and some, according to the consultant, are facing default on their properties.

This situation is likely to continue. Everyone knows Japan's population is declining, but when it comes to housing, the media usually relate this development to home sales. At present there are 8.2 million vacant housing units in Japan, but few people know that a good many of these are rental units.

In accordance with the laws of supply-and-demand, the surplus would only seem to be a problem for landlords. In an environment of oversupply, rents are expected to drop — and they are, but not by much. According to the housing portal site Homes (www.homes.co.jp (http://www.homes.co.jp)), nationwide rents peaked in 2007 at about ¥9,000 per *tsubo* (3.3 square meters). Right now the average rent is ¥8,633 per tsubo, a drop of 3.7 percent, and about the same as it was at the end of the bubble period in the early 1990s.

The reason rent hasn't gone down in proportion to the rise in vacancies is that an increasing portion of the rental housing stock is made up of recently built apartments. In Tokyo, for instance, developers are tearing down old wooden apartments, which tend to charge low rent, and replacing them with new ones. In most wards there is no minimum size for wooden apartments, so landlords can get more units into the available space. We found an apartment on the internet, 14 minutes from Suidobashi Station, that goes on the market in July. It will cost ¥70,000 a month, but it's only 12 square meters.

The real problem is that wages for those who traditionally rent have dropped 8 percent since 1999. The average expenditure for rent in 2014 was 30 percent of a renter's income. That's why more young people are remaining with their parents, even after they graduate from university and get jobs.

In her blog at the Magazine 9 website (www.magazine9.jp (http://www.magazine9.jp)), writer and poverty activist Karin Amamiya recently wrote that when she was working for a company about 10 years ago, half her salary went toward rent, which meant sometimes her utilities were cut off. Eventually, she had to move back in with her parents. "If they had died, I would have been homeless," she says.

According to Big Issue, a newspaper sold to aid low-income people, 77.4 percent of Japanese people who make ¥2 million or less a year and are aged 20 to 39 live with their parents.

A demonstration in Tokyo's Shinjuku, Ward on June 12, organized by the group Call for Housing Democracy, demanded that if the government doesn't raise the minimum wage, it must work to either push down rents, provide housing subsidies to low income people or build more public housing. The government promotes home ownership in Japan with tax breaks and the like, but there are no government programs to protect or help renters. One member of the group, Kazuhiro Sato, who is researching housing issues at the University of Tokyo's graduate school, says that with the current wage-rent dynamic, fewer young people can become independent, which means they have to postpone marriage and starting families, that's if they even choose to get married.

The situation is also getting worse for the genuinely poor. Last year, the government reduced the housing subsidy for welfare recipients, and Tokyo stopped building new public housing under former Gov. Shintaro Ishihara. The chances of getting into a public housing unit in the capital is now 1 in 20 for families and 1 in 57 for singles, and by singles the government means retired people. If you're young and unmarried, you have no chance of getting into public housing, regardless of how poor you are.

Amamiya contrasts this situation with that in Europe, where rent subsidies and public housing are integral parts of the social safety net. Even in Singapore, 60 percent of all rental properties are operated by a public authority. The Japanese government has shown an intention to tackle the rental problem, it just hasn't made any plans. In 2007, it approved a housing safety net law and four years later formed a public entity that would supply money to prefectural governments to work with realtors, landlords and support groups to provide more reasonable rental housing. However, according to Homes, "The current financial situation has made it difficult to realize these plans," so it isn't being promoted.

When Call for Housing Democracy asked the land ministry what it was doing about the issue, they were told the matter needs more "serious study," though there has been talk of trying to turn some vacant properties into low-cost public rental housing.

Renters should keep in mind that they can benefit from the apartment glut, but it may take some effort on their part. When your two-year lease is up, ask your landlord to reduce your rent before signing a new one. This will suggest that you may move out if he doesn't. If the local market is over-supplied, the landlord could have trouble finding a tenant to replace you, and will lose money if the unit is vacant for more than a month. It's definitely worth a try. Renters have to take advantage of every opportunity.

Philip Brasor and Masako Tsubuku blog about Japanese housing at www.catforehead.wordpress.com (http://www.catforehead.wordpress.com).

KEYWORDS

HOUSING (HTTPS://WWW.JAPANTIMES.CO.JP/TAG/HOUSING/), PROPERTY (HTTPS://WWW.JAPANTIMES.CO.JP/TAG/PROPERTY/), REAL ESTATE (HTTPS://WWW.JAPANTIMES.CO.JP/TAG/REAL-ESTATE/), REMODELING (HTTPS://WWW.JAPANTIMES.CO.JP/TAG/REMODELING/), RENTAL HOMES (HTTPS://WWW.JAPANTIMES.CO.JP/TAG/RENTAL-HOMES/)

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