

Affordable Housing Crisis a Government-Induced Vicious Cycle

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Much is written in the local press about the City of Asheville's proposed strategies to address an affordable housing crisis, which, according to the infamous Bowen report is now a crisis at all income levels. A study conducted by the Joint Center for Housing Studies at Harvard University reached similar conclusions about the entire nation. The Harvard scholars called for "intervention," while local luminaries repeated government would not be able to address the problem without the help of the private sector.

In April, the city's Housing and Community Development Committee received recommendations from the city's Affordable Housing Advisory Committee. Recommendations included increasing the city's disbursement to its Housing Trust Fund from \$500,000 to 1 cent per \$100 of assessed property values, or \$1.1 million for the current fiscal year. The HTF is a revolving loan offering amazingly favorable terms not available through conventional lenders. Funds could be spent on, among other things, development financing, loan guarantees or land banking. The latter is a process by which the city would get into the business of buying land and selling it exclusively for the construction of affordable housing in accordance with city council's strategic goals. Last year, the city only increased its allocation to the HTF to \$650,000; but it appropriated another \$1 million for affordable housing through its Economic Development Capital Improvement Plan.

Another recommendation was to, "Develop and implement a mandatory inclusionary zoning ordinance to require that 20 percent of all new residential developments of more than five units be affordable to and rented or sold to households earning 80 percent or less of median income." Council members are enthusiastic about the prospects of inclusionary zoning, but they have been cautioned by legal counsel about lawsuits elsewhere in the state.

Lower on the list were suggestions to hold a bond referendum to fill a pot for affordable housing projects, partner with Buncombe County, and continue to study the impact of Airbnb's on the local housing supply. It was further suggested that the city offer incentives, which local realtor and former Councilman Chris Pelly said he preferred to impositions. A few years ago, the city launched a Land Use Incentives Grant that had no takers. A couple developers, who council tried to rope into taking "advantage" of the program as an eleventh-hour condition for approval, protested in public hearings that the program would not work in the real world. At least one

offered to sit down with council members and go over the math. Council has since revised the program.

More reasonable recommendations included calls to modify the UDO. Zoning amendments were suggested to, for example, change all RS-8 (high-density, single-family) zonings to RM-8 (multi-family). Another group of recommendations proposed easing up on setbacks and sizes of accessory apartments people may wish to rent out and allowing more mixed-use development in commercial zonings.

In recent years, it has not been unusual for city council to ask developers to rent out a number of units at affordable rates in perpetuity. The developers balk, as they have price points to meet if they are to build at a profit, or even convince banks their projects are not too risky. The easiest way to recover losses from below-market rents is to raise rents elsewhere. Widespread, this scenario would lead to Goldilocks finding this apartment too expensive, that one available only to parties earning less than she, and the very few that are “just right” already taken. Former city councilman Dr. Carl Mumpower’s protests that excessive regulation of development creates elite communities fell on deaf ears. As government extracts more from the middle class – in terms of taxation, buying power, and incentives for self-sufficiency – pundits wonder why the middle class is shrinking.

David Boaz wrote, “Rent control is a particularly pervasive example of price control. Every economist understands that rent controls produce shortages of rental housing. If the controls are set so as to hold rents below their market value, then people will demand more rental housing than they would otherwise. That is, the price set by the state is not the market-clearing price: More people will come to the city, or look for bigger apartments than they would be willing to pay a market price for, or stay in large apartments after the children move out, or seek to rent even though they could afford to buy a house. But since rents are being held below market value, investors prefer to invest in something on which they can get a full market return, so the supply of housing won’t increase to meet the demand.

“In fact, if rent control remains in effect, the supply may shrink, as owners decide to live in their property rather than rent it out, or deteriorating housing is not maintained or replaced. If landlords can’t rent apartments to the highest bidder, they will find other ways to choose among potential tenants; they may take under-the-table bribes, known in New York City as ‘key money,’ or they may discriminate on the basis of race, [CENSORED], or some other nonprice factor. In extreme circumstances, as we’ve seen in places such as Harlem, the South Bronx, and Jersey City, owners of apartment buildings that don’t bring in enough rent to cover the property taxes, and thus can’t even be sold, simply abandon them and try to disappear.

“As with so many kinds of government intervention, the problems created by rent control lead to more intervention. Landlords try to convert their unprofitable apartment buildings to condominiums, so city councils pass laws restricting condo conversions. In the market, tenants and landlords have good reason to try to keep one another happy, but rent control means that tenants are just a burden on the landlord, so landlords and tenants end up fighting, and governments create landlord-tenant commissions to regulate every aspect of their interaction. Bribery and inside information become the best way to find an apartment. The city council in Washington, DC once passed an ordinance that would repeal rent control as soon as the vacancy

rate rose above a certain level – indicating a sufficient supply of available housing – but of course the supply of housing wouldn't likely increase as long as rent controls remained in place. It's no wonder that the Swedish economist Assar Lindbeck wrote, 'Next to bombing, rent control seems in many cases to be the most efficient technique so far known for destroying cities.'"

When asked, Boaz gave the Tribune permission to quote his entire book for this article, provided the title was spelled correctly. The above came from *The Libertarian Mind*. Boaz served as executive director for the Council for a Competitive Economy before joining the Cato Institute and rising to the rank of executive vice president. Like most conservative think tankers and apolitical economists, Boaz is convinced that, in not so many words, government programs provide quick Band-Aids that don't get changed after being run through the mud. When the wound festers enough to garner public outcry, the proverbial public solution is to add more Band-Aids.

It is indisputable that government assumes the role of middleman in addressing social problems. While Americans complain about middlemen jacking up the costs of goods and services and buy directly from suppliers as they are able – they are slow to articulate government's role in taking a rake for its "processing." One reason is government always purports to provide for the poor. Collectively, politicians are in the business of winning votes, and a great way to do that is to promise for free what people don't want to pay for themselves. The rationale parallels that of lottery players: They hope to score big off the small contributions of many others. The problem with government is the small contributions of others (taxes) add up to 25 percent or so of personal income for the non-exempt.

Scarcely considered is the amount of housing the private sector could, and would, produce at a profit – were earnings not going toward government bureaucrat salaries and program support, but directly into housing construction and maintenance. Unfortunately, government is suspicious of the private sector, to which it imputes selfish, money-grubbing tendencies. The word "capitalism," which used to emblemize trading value for value, now bears the heavy connotation of "fraud," which is illegal. Trading value for value allows both parties in the transaction to ponder with warm feelings upon whether it was better to give than receive. Charity, on the other hand, leaves one party feeling indebted, kind of guilty, and sometimes damaged in the self-esteem department. A longing to contribute is instinctive.

Barry Goldwater's *The Conscience of a Conservative* was one of very few publications to counter the welfare state's goals of taking care of man as an animal, with a cry for more humanitarian goals, like spiritual fulfillment. Goldwater challenged today's drive to get citizens signed up for government healthcare and government food. Newspapers are full of awareness campaigns to reach out to those who might not know they qualify. Walking into a hospital uninsured, one is offered government insurance, and if that is too expensive, there are government subsidies not only for ongoing medical services and prescription meds, but for rent, food, and wellness programs, with voter registration implicit somewhere.

As Boaz put it, "The state's all-encompassing embrace is particularly smothering for those who fall into its much-touted safety net, which ends up trapping people in a nightmare world of subsidy and dependence, taking away their obligation as responsible adults to support themselves

and sapping them of their self-respect.” This runs counter to traditional values that encouraged everybody to, “use his own reason and intelligence to create wealth and knowledge.”

In spite of the city’s lofty ordinances, and the federal government’s push to be everybody’s Big Daddy, compassionate people are opening their couches to friends and family who would otherwise be homeless. Unable to keep up with property taxes, long-time homeowners feel obliged to break city ordinances, more likely than not unknowingly, to rent out rooms. It appears painfully obvious the kind-hearted, law-abiding private sector could do more to provide affordable housing if it could afford to do so legally. As-is, arbitrary building codes serve to push the marginalized onto the street and into government programs, which then require more funding, from the newly marginalized.

Another serious problem with government replacing professionals in the real estate business is economic distortions. Like “capitalism,” the word “price” has also been perverted into something scary. Left to their own devices, consumers won’t buy products they can’t afford, and enterprising geniuses will find ways to supply pent-up demand. If a lot of people want housing, and they can’t afford McMansions, absent zoning and minimum housing codes, it isn’t hard to find a solution. The city, by way of contrast, must spend tax dollars to subsidize affordable housing in high-rent districts made more so through strategies recommended in tax-funded downtown plans.

By signaling when trades will occur, the entire pricing system of a free market provides a wealth of data not available to command-and-control economies. When government subsidizes what the private sector is not buying, it distorts price signals, making it more difficult for markets to optimize consumer preferences for finite resources. Boaz describes rent controls as “the economic equivalent of LeBron James standing between you and a friend, waving his arms, as you try to toss a basketball back and forth.”

Boaz describes what happened in the Soviet Union when the government took price controls to an extreme. “In practice, Soviet factory managers had to establish markets illegally among themselves. They were not allowed to use money prices, so marvelously complex systems of indirect exchange – or barter – emerged. Soviet economists identified at least eighty different media of exchange, from vodka to ball bearings to motor oil to tractor tires. The closest analogy to such a clumsy market that Americans have ever encountered was probably the bargaining skill of Radar O’Reilly on the television show M*A*S*H. Radar was also operating in a centrally-planned economy – the US Army – and his unit had no money with which to produce supplies, so he would get on the phone, call other MASH units, and arrange elaborate trades of surgical gloves for C rations for penicillin for bourbon, each unit trading something it had been overallocated for what it had been underallocated. Imagine running an entire economy like that.”