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Why subsidies make housing less affordable

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No question that housing is prohibitively expensive for large segments of people in Santa Ana and the rest of Orange County. To deal with that, the Santa Ana City Council passed three amendments Sept. 15 to encourage low-income housing. If passed at the Oct. 6 meeting, the amendments would "go into effect 30 days later," the Register reported.

One amendment is "an incentive for developers to think about building the units instead of paying the in-lieu fee, so we give them additional wiggle room to make the projects more attractive to them," said Hassan Haghani at the meeting; he's executive director of the city's Planning and Building Agency.

In the Register summary, a second amendment "would give developers of for-sale units the option of renting inclusionary units or selling them to qualified low-income households, whereas the original ordinance from 2011 only allowed the units to be sold to moderate-income households."

A third amendment would "give developers of for-sale units the option of renting inclusionary units or selling them to qualified low-income households, whereas the original ordinance from 2011 only allowed the units to be sold to moderate-income households."

The second and third amendments may be a loosening of market controls. But, as was seen in the prior decade's housing crash, making housing loans too easy for low-income borrowers leads many of them to end up going bankrupt.

"The reason housing prices are so high is that housing construction is restricted," Adrain Moore told me; he's vice president of policy at the Los Angeles-based Reason Foundation. "Supply is restricted not just by zoning, but by the entire process." That includes the city, Orange County and, especially, by the state of California. The California Coastal Commission imposes severe restrictions of housing construction along the coast, which ripple inland at least as far as Santa Ana.

In response to the shortages, Moore said, "Cities like to respond. They say, 'We have to subsidize those left out of the market.'" The federal and state governments also respond with mandates and other programs.

"When you subsidize something, you increase demand, which increases housing prices," Moore said. Ironically, he added, the increased costs especially hurt those in the lower middle class who earn just above the qualification range for cheaper housing. They can’t get the subsidies, but must pay the higher prices caused by the subsidies.

Subsidizies “make housing shortages worse by making all the other homes in a region less affordable,” Randal O’Toole agreed when he talked to me; he’s a Cato Institute senior fellow working on urban growth, public land and transportation issues.

To pay for “affordable” homes, the fees charged to new homes obviously add to the sale price the new owners pay. “Then the owners of existing homes can increase their prices when they sell; so the existing homes get windfall profits,” O’Toole said. “A handful of low-income homeowners are helped, but even they usually have to follow restrictions” to prevent their homes being sold to those more affluent and outside the qualification range for low-cost housing.

O’Toole has written studies on California’s LAFCOs – Local Area Formation Commissions – which were started in the 1960s. Since then, California has undergone four LAFCO-caused housing boom-bust cycles, he said.

Orange County LAFCO defines its mission that it “serves the citizens of Orange County by ... fostering orderly development and governance, and by promoting the efficient delivery of services.” But all that “orderly development” increases housing costs.

For Santa Ana, best would be for the City Council to cancel as many of the subsidies and special housing fees as are allowed by state and county laws and simplify or eliminte zoning. What works is free markets, not manipulations.