

Why Building Affordable Housing Isn't Affordable, And How To Do It Anyway

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Urban Studies and Planning

2020-05-12

The fact that housing is almost always only being built by investors means it's not possible to have affordable housing for everyone. In this paper I will show that when real estate investors act in their own rational self-interest, they harm everyone else. I will show that this is because affordable housing can't be a good investment. As we will see, there are many non-profits struggling to develop and operate affordable housing, but there is not nearly enough funding available for them to meet the demand. Even before the current corona crisis, we were nowhere near on-track to meet our current housing needs. This problem has been getting worse for a long time; we used to have widespread public housing projects to fill unmet need. Finally, we will see how Crisis Theory explains the current crisis while also suggesting a solution.

Real estate investors who act in their own rational self-interest harm everyone else. Monopolistic practices prevent competition and artificially inflate prices because real estate investors collude to decrease supply. Height and bulk restrictions prevent housing from being built. Holding vacant property to deliberately drive up price. Delaying construction until prices go up. As a political and economic special interest class, real estate investors fight for interests that are exactly the opposite of the interests of the people. Adam Smith said as much in his book, *The Wealth of Nations* (Smith 43). Local governments are dominated by these special interest real estate investor groups. These groups work against the needs and interests of the broader population, purportedly in the public interest but actually only in the interest of the real estate investor class which they represent.

Affordable housing cannot currently be a good investment. The barriers and systems put in place to artificially inflate prices by preventing density from increasing and preventing new development makes it cost-prohibitive to build affordable housing (Hertz). By comparing income percentiles in every state to housing prices, my original research has shown that nowhere in the country is housing affordable, and in most states, it's not affordable until you reach the 75th percentile in income.

(Appendix 1) Efforts to incentivize for-profit investors to build at least some affordable units include trivially small “fines” in lieu of those units. The in-lieu fee in San Francisco is currently about \$200 per square foot. Let’s consider an average apartment which in San Francisco is 747 square feet (Rent Cafe). This means an investor need only pay \$150k in lieu of building an affordable unit. Building an affordable unit costs an average of \$750k in San Francisco (Fuller). Now consider that the average market-rate rental price for that unit in San Francisco is \$3,629 (Rent Cafe). This means that even at market rate, this unit does not break even for 17 years. At an affordable rate, it is not likely to ever break even at these prices. Therefore, for-profit real estate investment is focused on providing for the wealthy while increasing the prices paid, meanwhile the vast majority of people must go without any affordable housing options. This problem exists everywhere; San Francisco is easy to talk about because so much research has been done, but the same holds true in every state, as you can see in Appendix 1 where I compare these numbers across the country.

There are many non-profits developing and operating affordable housing, but there is not nearly enough funding to meet demand. Many of these focus on specific neighborhoods, for example the Tenderloin Neighborhood Development Corporation focuses protecting and developing affordable housing in the Tenderloin neighborhood while the Chinatown Community Development Center focuses on that neighborhood. Others focus on specific communities or causes. These include non-profit affordable housing for formerly unhoused people, people living with AIDS, seniors, and other groups. All of these nonprofits must compete for extremely tight funding. In the words of a development officer I interviewed at one of these organizations, the solutions they are able to build are not even a drop in the bucket towards solving the problem.

We used to have widespread public housing projects to fill unmet need. This gave us the ability to house everyone and provide enough supply to meet demand. During a period of extremely racist

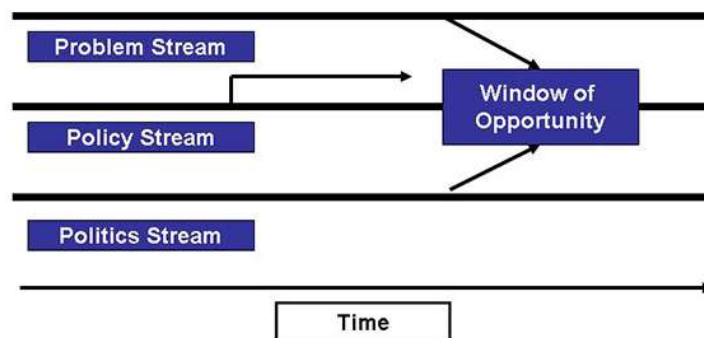
public policy, almost all public housing was demolished. 90% of that housing was never replaced, and this was almost forty years ago (Race, The Power of an Illusion).

Even before the current corona crisis, we were nowhere near on-track to meet our current needs. The San Francisco bay area's official RHNA projections say some parts of the bay will not meet their 2016 housing needs until 2880 at the current pace (MTC). Housing is not affordable anywhere in the country unless it's subsidized, and states are going bankrupt because of the current crisis. In a recent interview, California Governor Gavin Newsom said he expects unemployment to pass 25% in the coming weeks (Vanek-Smith). The broader global economy seems likely to suffer widespread collapse in the coming months and years. Housing will be hit hard, as more and more people fall from being unable to afford enough housing to being unable to afford any housing. We are likely to see a dramatic rise in homelessness and civil unrest.

Crisis Theory explains the current crisis while also suggesting a solution. The fundamental argument of Crisis Theory is that under capitalism, a moment inevitably comes when certain kinds of countervailing forces overpower the prevailing forces, causing a crisis. At this point, fundamental change is possible, or else we can face the long slog towards trying the same mistakes once again. In this case, one of the prevailing forces was the over-exploitation of housing. Instead of competing to provide enough housing to meet demand, players in the market colluded to eliminate housing while artificially inflating prices through anticompetitive oligopolistic practices as outlined above. The main countervailing force in this crisis could be seen as the under-exploitation of labor. 75% of Americans cannot afford housing despite having one or more jobs. This essay focuses on the housing issue, but similar issues affect labor in this country.

Because we have a crisis, we have the opportunity to create fundamental change. How do we do that? Affordable housing has become a condensing symbol in American culture. Everyone who hears the

phrase understands the issue at least to some degree, if only through the personal experience of being one of the 75% of people who cannot afford housing. If we look at this issue through the lens of Kingdon's Three Stream Model of policy change, this condensing symbol fulfils the requirements of the first stream; the troubling social condition has been clearly articulated with a condensing symbol and most people understand that there is a social problem around affordable housing (Kingdon). The second stream, policy, is also well developed; there is a clear policy framework in place for how to build affordable housing in the current set of conditions. Just look at the many nonprofits which are already doing that with the limited funding that's available. The piece that's missing is the politics around how much money needs to be spent on this issue by the government. Currently, the amount being invested is barely a drop in the bucket. All that's required to solve this problem is for the streams to come together during the window of opportunity provided by this crisis and broaden the available funding to such a degree that enough housing can be built to make a meaningful impact on this issue. Hopefully at the same time, we can also address anticompetitive practices such as height and bulk restrictions which prevent new or denser housing from being built in many areas around the country.



We have spent over six trillion dollars on the “war on terror” (Zeballos-Roig). That’s a billion dollars A DAY for the last twenty years. How much different would our nation be today if we had spent that money on housing, education, healthcare, infrastructure, and small businesses? We’ve spent MORE than that in the last few weeks alone in response to coronavirus (Van Dam). A bill just passed the house to

spend yet another three trillion on coronavirus (Shabad). The amount of money we spend on issues we take seriously is incredible, and yet we live in a country where 75% of people do not have access to housing they can afford. We have the tools, we have the organizations, we have the people in place, we understand the problem. Solving housing is not impossible, we just need the political will to accomplish the task. We face dark times, but we also have the rare opportunity to decide what kind of world we want to go back to when the global collapse is over. In conclusion, I believe that every community which can't meet its housing needs should automatically get enough federally funded non-profit-administered high-density housing to fill all unmet housing needs.

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Appendix 1

Summary: Affordable rent is defined as 30% of income. Comparing income percentiles in every state to median rents, you can see that for most states, up to 75% of the population can not afford rent. This data is from before the pandemic and spiking unemployment rates, so these problems are likely far worse now, but it will take years to understand exactly how bad things currently are.

Income Percentile	Income By Percentile							Median Rent	Affordable Rent By Income Percentile					
	10%	25%	50%	75%	90%	99%	10%		25%	50%	75%	90%	99%	
Alabama	\$8,425.00	\$20,000.00	\$35,054.00	\$58,376.00	\$94,000.00	\$274,075.00	\$989	\$210.63	\$500.00	\$876.35	\$1,459.40	\$2,350.00	\$6,851.88	
Alaska	\$11,072.00	\$23,320.00	\$43,080.00	\$73,005.00	\$115,557.00	\$252,030.00	\$1,529	\$276.80	\$583.00	\$1,077.00	\$1,825.13	\$2,888.93	\$6,300.75	
Arizona	\$6,505.00	\$18,808.00	\$34,150.00	\$60,000.00	\$92,584.00	\$324,181.00	\$1,375	\$162.63	\$470.20	\$853.75	\$1,500.00	\$2,314.60	\$8,104.53	
Arkansas	\$10,002.00	\$19,456.00	\$33,325.00	\$54,424.00	\$88,083.00	\$217,924.00	\$875	\$250.05	\$486.40	\$833.13	\$1,360.60	\$2,202.08	\$5,448.10	
California	\$8,500.00	\$19,629.00	\$37,010.00	\$70,097.00	\$120,020.00	\$321,050.00	\$2,542	\$212.50	\$490.73	\$925.25	\$1,752.43	\$3,000.50	\$8,026.25	
Colorado	\$10,108.00	\$24,450.00	\$40,002.00	\$65,260.00	\$110,000.00	\$270,017.00	\$1,751	\$252.70	\$611.25	\$1,000.05	\$1,631.50	\$2,750.00	\$6,750.43	
Connecticut	\$11,141.00	\$23,000.00	\$45,002.00	\$75,168.00	\$122,514.00	\$400,016.00	\$1,474	\$278.53	\$575.00	\$1,125.05	\$1,879.20	\$3,062.85	\$10,000.40	
Delaware	\$13,000.00	\$24,000.00	\$40,000.00	\$62,100.00	\$98,000.00	\$227,196.00	\$1,373	\$325.00	\$600.00	\$1,000.00	\$1,552.50	\$2,450.00	\$5,679.90	
District of Columbia	\$12,000.00	\$27,000.00	\$55,216.00	\$97,200.00	\$150,200.00	\$387,684.00	\$2,358	\$300.00	\$675.00	\$1,380.40	\$2,430.00	\$3,755.00	\$9,692.10	
Florida	\$9,500.00	\$20,000.00	\$35,001.00	\$59,622.00	\$98,881.00	\$301,270.00	\$1,620	\$237.50	\$500.00	\$875.03	\$1,490.55	\$2,472.03	\$7,531.75	
Georgia	\$9,011.00	\$20,000.00	\$35,002.00	\$62,040.00	\$99,100.00	\$240,054.00	\$1,360	\$225.28	\$500.00	\$875.05	\$1,551.00	\$2,477.50	\$6,001.35	
Hawaii	\$10,000.00	\$20,002.00	\$36,120.00	\$62,000.00	\$100,001.00	\$216,040.00	\$2,333	\$250.00	\$500.05	\$903.00	\$1,550.00	\$2,500.03	\$5,401.00	
Idaho	\$9,000.00	\$19,000.00	\$33,025.00	\$55,288.00	\$91,000.00	\$282,655.00	\$1,271	\$225.00	\$475.00	\$825.63	\$1,382.20	\$2,275.00	\$7,066.38	
Illinois	\$10,000.00	\$21,000.00	\$40,006.00	\$70,003.00	\$111,015.00	\$274,999.00	\$1,563	\$250.00	\$525.00	\$1,000.15	\$1,750.08	\$2,775.38	\$6,874.98	
Indiana	\$9,104.00	\$19,500.00	\$35,360.00	\$57,600.00	\$92,000.00	\$222,500.00	\$1,031	\$227.60	\$487.50	\$884.00	\$1,440.00	\$2,300.00	\$5,562.50	
Iowa	\$10,200.00	\$22,882.00	\$38,000.00	\$61,010.00	\$99,035.00	\$257,600.00	\$941	\$255.00	\$572.05	\$950.00	\$1,525.25	\$2,475.88	\$6,440.00	
Kansas	\$10,100.00	\$20,823.00	\$36,001.00	\$61,000.00	\$101,500.00	\$242,335.00	\$944	\$252.50	\$520.58	\$900.03	\$1,525.00	\$2,537.50	\$6,058.38	
Kentucky	\$7,912.00	\$20,000.00	\$35,481.00	\$58,050.00	\$89,018.00	\$220,359.00	\$1,000	\$197.80	\$500.00	\$887.03	\$1,451.25	\$2,225.45	\$5,508.98	
Louisiana	\$8,000.00	\$19,400.00	\$35,000.00	\$59,498.00	\$95,035.00	\$301,700.00	\$1,110	\$200.00	\$485.00	\$875.05	\$1,487.45	\$2,375.88	\$7,542.50	
Maine	\$9,005.00	\$18,950.00	\$37,640.00	\$58,000.00	\$90,001.00	\$237,024.00	\$1,436	\$225.13	\$473.75	\$941.00	\$1,450.00	\$2,250.03	\$5,925.60	
Maryland	\$12,001.00	\$23,522.00	\$44,049.00	\$76,051.00	\$125,935.00	\$264,145.00	\$1,674	\$300.03	\$588.05	\$1,101.23	\$1,901.28	\$3,148.38	\$6,603.63	
Massachusetts	\$10,961.00	\$23,000.00	\$45,006.00	\$77,137.00	\$125,002.00	\$326,914.00	\$2,211	\$274.03	\$575.00	\$1,125.15	\$1,928.43	\$3,125.05	\$8,172.85	
Michigan	\$8,500.00	\$20,000.00	\$37,376.00	\$61,702.00	\$100,006.00	\$260,865.00	\$1,196	\$212.50	\$500.00	\$934.40	\$1,542.55	\$2,500.15	\$6,521.63	
Minnesota	\$11,133.00	\$24,041.00	\$40,861.00	\$69,015.00	\$103,200.00	\$300,010.00	\$1,409	\$278.33	\$601.03	\$1,021.53	\$1,725.38	\$2,580.00	\$7,500.25	
Mississippi	\$8,260.00	\$17,510.00	\$30,800.00	\$50,013.00	\$79,796.00	\$237,554.00	\$986	\$206.50	\$437.75	\$770.00	\$1,250.33	\$1,994.90	\$5,938.85	
Missouri	\$10,410.00	\$22,800.00	\$38,115.00	\$62,004.00	\$100,167.00	\$254,000.00	\$945	\$260.25	\$570.00	\$952.88	\$1,550.10	\$2,504.18	\$6,350.00	
Montana	\$9,999.00	\$20,000.00	\$35,050.00	\$60,000.00	\$97,100.00	\$246,700.00	\$1,268	\$249.98	\$500.00	\$876.25	\$1,500.00	\$2,427.50	\$6,167.50	
Nebraska	\$10,000.00	\$20,360.00	\$37,285.00	\$60,000.00	\$90,250.00	\$250,810.00	\$1,062	\$250.00	\$509.00	\$932.13	\$1,500.00	\$2,256.25	\$6,270.25	
Nevada	\$8,908.00	\$20,000.00	\$33,075.00	\$57,754.00	\$90,000.00	\$249,999.00	\$1,380	\$222.70	\$500.00	\$826.88	\$1,443.85	\$2,250.00	\$6,249.98	
New Hampshire	\$11,000.00	\$24,962.00	\$40,510.00	\$70,325.00	\$110,067.00	\$226,016.00	\$1,591	\$275.00	\$624.05	\$1,012.75	\$1,758.13	\$2,751.68	\$5,650.40	
New Jersey	\$10,002.00	\$23,000.00	\$45,005.00	\$75,550.00	\$123,032.00	\$331,460.00	\$1,837	\$250.05	\$575.00	\$1,125.13	\$1,888.75	\$3,075.80	\$8,286.50	
New Mexico	\$8,520.00	\$18,001.00	\$32,000.00	\$53,000.00	\$87,000.00	\$207,409.00	\$1,169	\$213.00	\$450.03	\$800.00	\$1,325.00	\$2,175.00	\$5,185.23	
New York	\$10,000.00	\$20,800.00	\$40,025.00	\$72,144.00	\$118,002.00	\$346,266.00	\$2,221	\$250.00	\$520.00	\$1,000.63	\$1,803.60	\$2,950.05	\$8,656.65	
North Carolina	\$9,100.00	\$20,000.00	\$35,000.00	\$60,000.00	\$100,052.00	\$298,034.00	\$1,211	\$227.50	\$500.00	\$875.00	\$1,500.00	\$2,501.30	\$7,450.85	
North Dakota	\$12,000.00	\$23,000.00	\$39,100.00	\$60,102.00	\$95,010.00	\$300,001.00	\$1,006	\$300.00	\$575.00	\$977.50	\$1,502.55	\$2,375.25	\$7,500.03	
Ohio	\$9,350.00	\$20,000.00	\$35,150.00	\$60,204.00	\$97,001.00	\$209,880.00	\$1,033	\$233.75	\$500.00	\$878.75	\$1,505.10	\$2,425.03	\$5,247.00	
Oklahoma	\$10,000.00	\$20,000.00	\$35,000.00	\$59,065.00	\$98,776.00	\$330,102.00	\$894	\$250.00	\$500.00	\$875.00	\$1,476.63	\$2,469.40	\$8,252.55	
Oregon	\$8,001.00	\$19,425.00	\$35,003.00	\$62,772.00	\$98,669.00	\$250,050.00	\$1,559	\$200.03	\$485.63	\$875.08	\$1,569.30	\$2,466.73	\$6,251.25	
Pennsylvania	\$8,176.00	\$20,000.00	\$38,500.00	\$65,023.00	\$100,923.00	\$276,888.00	\$1,273	\$204.40	\$500.00	\$962.50	\$1,625.58	\$2,523.08	\$6,922.20	
Rhode Island	\$9,360.00	\$21,010.00	\$40,000.00	\$68,451.00	\$101,081.00	\$250,728.00	\$1,443	\$234.00	\$525.25	\$1,000.00	\$1,711.28	\$2,527.03	\$6,268.20	
South Carolina	\$8,000.00	\$18,720.00	\$35,000.00	\$55,293.00	\$86,687.00	\$250,231.00	\$1,245	\$200.00	\$468.00	\$875.00	\$1,382.33	\$2,167.18	\$6,255.78	
South Dakota	\$10,400.00	\$23,010.00	\$37,000.00	\$62,333.00	\$96,356.00	\$252,715.00	\$968	\$260.00	\$575.25	\$925.00	\$1,558.33	\$2,408.90	\$6,317.88	
Tennessee	\$10,000.00	\$20,000.00	\$35,000.00	\$60,081.00	\$98,498.00	\$283,999.00	\$1,190	\$250.00	\$500.00	\$875.00	\$1,502.03	\$2,462.45	\$7,099.98	
Texas	\$10,000.00	\$20,000.00	\$37,600.00	\$64,854.00	\$108,001.00	\$330,134.00	\$1,359	\$250.00	\$500.00	\$940.00	\$1,621.35	\$2,700.03	\$8,253.35	
Utah	\$9,000.00	\$20,000.00	\$35,751.00	\$61,502.00	\$100,000.00	\$233,062.00	\$1,441	\$225.00	\$500.00	\$893.78	\$1,537.55	\$2,500.00	\$5,826.55	
Vermont	\$10,000.00	\$22,005.00	\$39,600.00	\$64,100.00	\$100,316.00	\$210,037.00	\$1,668	\$250.00	\$550.13	\$990.00	\$1,602.50	\$2,507.90	\$5,250.93	
Virginia	\$10,000.00	\$23,000.00	\$42,000.00	\$73,025.00	\$124,100.00	\$290,100.00	\$1,606	\$250.00	\$575.00	\$1,050.00	\$1,825.63	\$3,102.50	\$7,252.50	
Washington	\$10,000.00	\$23,186.00	\$40,955.00	\$71,558.00	\$117,002.00	\$250,029.00	\$1,825	\$250.00	\$579.65	\$1,023.88	\$1,788.95	\$2,925.05	\$6,250.73	
West Virginia	\$7,500.00	\$18,500.00	\$34,202.00	\$55,031.00	\$89,200.00	\$220,432.00	\$866	\$187.50	\$462.50	\$855.05	\$1,375.78	\$2,230.00	\$5,510.80	
Wisconsin	\$10,000.00	\$21,003.00	\$36,663.00	\$58,209.00	\$92,002.00	\$225,451.00	\$1,115	\$250.00	\$525.08	\$916.58	\$1,455.23	\$2,300.05	\$5,636.28	
Wyoming	\$10,401.00	\$22,169.00	\$40,000.00	\$64,219.00	\$97,000.00	\$320,029.00	\$1,105	\$260.03	\$554.23	\$1,000.00	\$1,605.48	\$2,425.00	\$8,000.73	

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