

# *The Affordable Housing Scam*

By  
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# *The Affordable Housing Scam*

## **EXECUTIVE SUMMARY**

U.S. taxpayers spend tens of billions of dollars a year subsidizing housing for low-income households. Previous researchers have shown that subsidized housing costs about 20 percent more per square foot than unsubsidized homes; that developers capture most of the benefits of such subsidies; and that affordable housing does little to make overall housing more affordable because the construction of new subsidized dwellings displaces almost as many new unsubsidized homes.

All these problems have gotten far worse in the last two decades thanks to a planning ideology that says that more people should live in high-density housing. Less than 60 years ago, housing was affordable throughout the United States. Since then, state and local governments in the Pacific Coast states, Colorado, the Northeast, and a few other places have made housing expensive by limiting the land available for new homes using urban-growth boundaries and other policies collectively known as growth management.

The resulting increases in housing prices have led politicians to increase spending on affordable housing subsidies. Yet such subsidies do nothing to make overall housing prices more affordable and, depending on how affordable housing funds are raised, can even make housing less affordable.

Most Americans prefer or aspire to live in single-family homes as opposed to multifamily apartments, which have less privacy and are more vulnerable to crime, even if the costs were the same. Yet the dense, mid-rise and high-rise housing that planners want to see costs at least twice as much, per square foot, to build as low-rise buildings.

To promote such denser development, many cities have convinced the state and local agencies passing out affordable housing funds to primarily favor this kind of housing. Whereas most affordable housing built in the late 1980s and early 1990s was low-rise housing, since the mid-1990s affordable housing projects in Denver, Portland, and Seattle have increasingly focused on mid-rise and high-rise housing. Affordable housing developers mitigate the high costs of such housing partly by dividing buildings into tiny apartments, sometimes as small as 260 square feet and rarely as large as 1,000 square feet.

This raises serious issues of equity and social justice. Why should affordable housing funds be used to promote this ideology when a more sensible use of such funds could see twice as many housing units built for the same amount of money? Why should low-income people be consigned to

live in cramped apartments when most other Americans get to live in single-family homes that cost less per square foot? Why should low-income people be expected to ride transit and discouraged from driving cars when automobility would give them access to far more jobs and economic opportunities than even the best transit systems?

This paper also shows that affordable housing funds has led to the creation of an Affordable Housing Industrial Complex, whose public face is non-profit groups that are guaranteed a share of the funds. These non-profits lend an aura of altruism to the system when in fact they are anything but altruistic as they charge millions of dollars in fees for each project and pay many of their employees well over \$150,000 a year. Yet when rising housing prices reach crisis levels, these non-profits become the face of the unhoused and they promote “solutions” that primarily benefit the developers (including themselves), not people who need housing to be more affordable.

Instead of wasting money on high-cost housing, project-based affordable housing funds should be abandoned in favor of tenant-based voucher subsidies. Meanwhile, Oregon and other states should make housing markets more affordable by abolishing urban-growth boundaries and other rural restrictions on housing developments

## **INTRODUCTION**

Across the nation, the federal, state, and local governments are spending tens of billions of dollars a year subsidizing so-called affordable housing. Such housing is “so-called affordable” because much of it is far more expensive to build than unsubsidized housing. Builders of affordable housing often spend more than twice as much, per square foot, constructing such housing as homes built for the private market.

The reasons for this are a combination of government inefficiency, developer profiteering, and an ideology that is attempting to force more people to live in cramped, expensive-to-build housing. One result of such expensive construction is that taxpayer funds are ineffectively used: Perhaps twice as many homes could be built were it not for these high costs. This paper will examine the high costs of affordable housing, who benefits from and who pays for such high costs, and the effect of affordable housing on housing affordability.

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## **AFFORDABLE HOUSING VS. HOUSING AFFORDABILITY**

Although the terms sound alike, *affordable housing* and *housing affordability* are two completely different things. Affordable housing refers to housing that is publicly or privately subsidized for the benefit of people whose incomes are so low that they can't afford market-rate housing. Housing affordability refers to the price of all housing in a market relative to the incomes of all families or households within that market.

### **AFFORDABLE HOUSING**

Prior to 1987, most government-subsidized affordable housing in the United States was built by local housing agencies. The Housing Act of 1937 created a program of federal subsidies to local public housing authorities.<sup>1</sup> This program was greatly expanded by the Housing Act of 1949.<sup>2</sup> Many public housing authorities used these funds to build high-rise projects that, in many cases, proved to be unlivable. Outside of New York City, most of those projects have since been torn down.<sup>3</sup>

In 1986, Congress decided to go in a different direction by encouraging private developers rather than public housing agencies to build affordable housing. It did so by creating low-income housing tax credits that developers of such housing could use to either offset their own taxes or sell to other companies that had high tax burdens. Today, more than \$10 billion per year in federal tax credits are allocated to state housing agencies based on each state's population, and the housing agencies award the credits to developers based on a competitive application process.<sup>4</sup>

There are two kinds of low-income housing tax credits: so-called 4% and 9% funds because they give the developers credits equal to either about 4 percent or 9 percent of the gross construction cost of a housing project each year for ten years. In fact, the 4% and 9% figures are misleading and should be called 30% and 70% funds as the federal government changes the actual percentage each year so that 4% funds end up paying 30 percent of the cost of a project and 9% funds end up paying 70 percent of the cost. If a project costs \$1 million, the 9% fund would credit enough money to the developer each year for 10 years to allow the developer to borrow \$700,000 while the 4% fund would credit enough money to allow the developer to borrow \$400,000.<sup>5</sup> Thus, when interest rates are high the amount credited would be more than 4%/9% while when rates are low it would be less.

Developers who receive tax credits are required to make housing available to families that earn no more than 60 percent of the median family income in that housing market, meaning a metropolitan area or the non-urbanized portions

of a state or county. For example, 2023 median family incomes in Santa Clara County (San Jose) California, were \$181,300, so a family of four earning less than \$108,780 (60 percent of \$181,300) would be eligible to rent subsidized affordable housing.

The threshold is smaller for smaller families and higher for bigger families. Owners of such affordable properties would be allowed to charge rents no greater than 30 percent of income threshold, or in this case \$2,719 a month for a three-bedroom apartment.<sup>6</sup> To increase the likelihood that they will get affordable housing subsidies, developers sometimes commit themselves to renting some of the homes they build to people earning 50 percent, 40 percent, or 30 percent of median family incomes.

### **HOUSING AFFORDABILITY**

Median incomes also play a role in measuring housing affordability. The most common measure of housing affordability is the median home value in a housing market divided by the median family or median household income. Households include families but also non-family groups such as unrelated students living together while going to college. Median household incomes are usually a little lower than median family incomes, and I prefer to use median family incomes when estimating the affordability of a housing market because most homes are purchased by families, not non-family households.

Standard mortgage advice suggests that the monthly mortgage payment plus property taxes and insurance be no more than 30 percent of a family's income. Although it varies depending on interest rates, local taxes, and insurance costs, families can generally qualify for a mortgage on a home that costs three times their income and pay off that mortgage in less than 15 years. A mortgage on a home that costs four times someone's income would require around 30 years to repay. Unless families can make a very large down payment, a home that is five times their income cannot be repaid within 30 years, and such a home would be considered unaffordable.

Any housing market will have a wide range of home values and a wide range of family incomes. Assuming that the distribution of home values and family incomes is about the same, a market in which the median home value is less than three times the median family income would be considered highly affordable to almost everyone in the region; when the value-to-income ratio is four, the market is marginally affordable, meaning affordable to most people but not to some; when it is five or more, it is unaffordable to most families in the region who do not already own their own homes.

According to census data, housing was affordable in every housing market in America in 1970. The 1970 census found

that the value-to-income ratio was 1.6 in Portland, 1.8 in Seattle, and 2.3 in the San Francisco Bay Area. The nation's least-affordable housing markets were in Honolulu and Stamford, Connecticut, where the value-to-income ratios were still affordable at less than 3.2.<sup>7</sup>

The situation changed rapidly after 1970 with many markets becoming unaffordable by 1980 while others remained affordable. As late as 2019, the Census Bureau's American Community Survey found that many fast-growing states, such as those in North Carolina and Texas, continued to have value-to-income ratios below the national average of 3.0. Meanwhile, the value-to-income ratio in Hawaii was 6.9; California was 6.2; Oregon was 5.0; and Colorado and Washington were 4.1. The only other state in this range was Nevada, at 4.2, whose housing is expensive because the federal government owns nearly 90 percent of the state, and such government-owned land limits new housing developments in the Las Vegas and Reno areas.<sup>8</sup>

Numerous reports have blamed high housing prices on a shortage of new homes being built.<sup>9</sup> However, few of these reports have attempted to determine why there is such a shortage. The home construction industry depends on three things to produce homes: land, labor, and building supplies. Given the nation's excellent transportation system, building supplies are available at approximately the same costs everywhere. Before the pandemic, at least, labor was also relatively abundant although labor costs were higher where housing was more expensive.

That leaves land. Every state in the country has plenty of vacant land for housing. The 2020 census found that only 2.9 percent of the nation is urban while 97.1 percent is rural. The Census Bureau excludes communities of fewer than 2,500 people from its definition of urban, but even counting these communities does not add much to the share of land that has been developed. The most heavily urbanized states, census data show, are New Jersey, which is 37.3 percent urban; Massachusetts, which is 37.1 percent urban; Rhode Island, which is 36.7 percent urban; and Connecticut, which is 34.5 percent urban. Three other states, Florida, Maryland, and Ohio, are between 10 and 20 percent urban while every other state is less than 10 percent urban.<sup>10</sup>

In particular, Oregon is just 1.1 percent urban; Colorado 1.5 percent; Washington 3.5 percent; Hawaii 4.7 percent; and California is only 5.0 percent urban.<sup>11</sup> Yet these are the states with the highest housing prices and the lowest affordability. Why is there a shortage of new homes in these states when land is so abundant?

The answer is that, between 1961 and 1990, these states or regional governments within them attempted to stop “urban sprawl” by restricting development outside of urban areas. For example, the five counties surrounding San Francisco—

Alameda, Contra Costa, Marin, San Mateo, and Santa Clara—have all drawn urban-growth boundaries that allow development on just 30 percent of the land in those counties. Virtually all the land in that 30 percent has been developed, and the lack of additional land for housing has driven median home values to be six to nine times median family incomes in all the counties in the Bay Area.<sup>12</sup>

Now known as *growth management*, such land-use restrictions were pioneered in Hawaii, whose legislature passed a land-use law in 1961 that divided the state into urban and rural areas and limited new development in the rural areas—which helps explain why Honolulu housing was the least affordable in the nation in 1970. Thanks to growth management, it has become far less affordable since then, with value-to-income ratios of 7.7 to 8.8 in Kauai, Maui, and Oahu, while the Big Island remains most affordable (but still unaffordable) at 5.9.<sup>13</sup>

Oregon was next, passing a growth-management law in 1973 that created a state commission that required all major cities in the state to draw urban-growth boundaries that ultimately included only 1.25 percent of the land in the state. In most of the rural areas outside of the boundaries, property owners were allowed to build a single house on their land only if they owned at least 80 acres, they actually farmed those acres, and they earned (depending on soil productivity) \$40,000 to \$80,000 a year from farming those acres in two of the previous three years.<sup>14</sup>

Washington passed a growth-management law in 1990. On the East Coast, Florida passed a growth-management law in 1988. The Florida state legislature repealed the mandates created by that law in 2011, but most cities and counties kept the restrictions in place even after the repeal.

The land-use rules in much of California are some of the most restrictive in the nation, yet unlike Hawaii's or Oregon's, they did not result from a state anti-sprawl law. Instead, the rapid growth of the state in the 1950s led to squabbles among cities over which should be allowed to annex recently developed land near their borders. To settle these arguments, the state legislature passed a law in 1963 creating a *local area formation commission* in each county that would approve or reject any annexations, incorporation of new cities, or formation of special improvement districts such as for water or sewers.

California cities soon realized they could use the local area formation commissions to restrict most new development to take place within city limits, thus capturing all the property and sales taxes from that development within their limits. A combination of tax-hungry city governments and anti-sprawl environmentalists led to the drawing of urban-growth boundaries or similar restrictions in much of the state. As a result, almost 95 percent of the population of the state is legally confined to living on just 5 percent of the



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land in the state and the average population density of California's urban areas is more than twice the average density of urban areas in the other 49 states.<sup>15</sup>

Some New England states passed similar laws and many regional or local governments also implemented growth-management plans. Boulder, Colorado purchased development rights for a greenbelt equal to more than nine times the land area of the city itself, thus forcing most new development in the county into the city.<sup>16</sup> This has made Boulder the most expensive housing market in the nation outside of California or Hawaii. The Denver Regional Council of Governments has drawn an urban-growth boundary restricting development in nine counties in Colorado.<sup>17</sup> This has made Denver home prices about twice as high as they should be, though not as high as Boulder's.

One third of Montgomery County, Maryland is urbanized while the county has put the other two-thirds into agricultural reserves or allowed builders in the urban part of the county to build higher densities by purchasing development rights from rural landowners.<sup>18</sup> Loudoun County, Virginia has placed two-thirds of its land area into a rural zone aimed at preserving farms and restricting housing development.<sup>19</sup> Since these two counties border the District of Columbia, their growth-management policies have made DC-area housing expensive.

Many urban planners insist that urban-growth boundaries and growth-management policies don't make housing expensive.<sup>20</sup> This runs counter to the law of supply and demand which says that, if the supply of something that people want is restricted, the price will go up.

Planners respond that more housing can be built within the urban-growth boundaries by replacing single-family housing with multifamily housing. The problem with this is that 80 percent of Americans say they desire to live in single-family homes.<sup>21</sup> Building more apartments that people don't want is not going to make the housing that they do want more affordable, especially if those apartments come at the expense of demolishing some of the single-family homes, which is the goal of abolishing single-family zoning.

It should not be surprising that housing has become more expensive and less affordable just about everywhere that drew urban-growth boundaries or adopted similar growth-management policies while states and regions that don't have such policies remain affordable. State and regional policies that limit private construction of new homes have insidious results for affordable housing programs. Increases in the cost of housing push low-income people out of regions, thus increasing median family incomes. Since eligibility for affordable housing is based on median incomes, this pushes up the income thresholds for such eligibility.

For example, in 2023 metropolitan area median family incomes estimated by the Department of Housing and Urban Development ranged from \$54,600 in McAllen, Texas to \$139,600 in Boulder, Colorado. This means Boulder families of four who earn up to \$83,760 a year are eligible to rent subsidized affordable housing whereas in McAllen any family of four that earns more than \$32,760 is ineligible for subsidized affordable housing.

Supply-chain problems and labor shortages related to the pandemic have increased home prices everywhere in the country. This pushed national value-to-income ratio up to 3.5, while Hawaii's increased to 7.6; California's to 6.8; Washington's to 5.2; Oregon and Nevada's to 5.1; and Colorado's to 4.8. Meanwhile, North Carolina and Texas remained below the national average.<sup>22</sup> But, as these issues are worked out, housing in markets not influenced by anti-sprawl laws will become more affordable while those with growth boundaries and other growth-management restrictions will not.

## **THE RELATIONSHIP BETWEEN AFFORDABLE HOUSING AND HOUSING AFFORDABILITY**

Housing affordability is important in any discussion of affordable housing because politicians respond to high housing prices by proposing the construction of more affordable housing. Yet affordable housing is not the solution to housing affordability problems because the former is targeted to a minority of the population and even the most aggressive affordable housing programs don't build enough new housing to influence overall housing prices.

Research has found that subsidized affordable housing displaces new unsubsidized housing. One study found that, for every five units of subsidized housing, about four fewer units of unsubsidized housing are built. As a result, the subsidies per net additional housing unit built are \$1 million or more.<sup>23</sup> Housing has become unaffordable in Oregon due to a lack of supply, and this displacement means that affordable housing subsidies add little to the state's total supply. For example, Oregon's Governor Tina Kotek has set a target of building 36,000 new housing units per year, but if it takes five new affordable units to get one net additional unit, the state would have to subsidize 180,000 affordable homes per year to meet this target.<sup>24</sup>

The situation is even worse than this because most government-subsidized affordable housing has an expiration date. To qualify for the subsidies, developers must promise to rent homes at affordable rates for a fixed time period, usually 30 years. Since low-income housing tax credit subsidies first began in 1987, the first ones built went past their expiration dates six years ago.

In 2021, developers built 41,480 affordable housing units with the assistance of low-income housing tax credits. In that same year, the rent restrictions on 44,128 units built in 1991 expired.<sup>25</sup> Not every property owner immediately raises rents when the restrictions expire, but many do, sometimes doubling or even tripling rents.<sup>26</sup> The result is that the nation may have had fewer units of federally subsidized housing at the end of 2021 than at the beginning.

On top of this, \$10 billion in tax credits does not equal \$10 billion in housing subsidies. One researcher found that “virtually all developers sell the tax credits at a substantial discount” to banks or other corporations. The discounts are more than 25 percent, so \$10 billion in tax credits produces less than \$7.5 billion in new housing.<sup>27</sup>

Low-income housing tax credits is only one of the programs used to subsidize affordable housing, albeit it is the largest. Other federal programs include the Home Investment Partnerships Program (usually shortened to HOME), the Housing Trust Fund, the Tax Credit Assistance Program, Community Development Block Grants, and several more.

Most state and many local governments have their own affordable housing programs. At least 30 states offer low-income housing tax credits.<sup>28</sup> In addition to state tax credits, Oregon has a housing grant program known as the trust fund. Metro, Portland's regional government, has two programs for subsidizing housing, one a bond measure that is providing \$652.8 million in funds for affordable housing projects and the other a transit-oriented development program that subsidizes high-density developments along transit lines, many of which also meet affordable housing criteria.<sup>29</sup> The city of Portland has its own \$258.4 million bond measure for affordable housing.<sup>30</sup>

Many of these state and local programs reduce overall housing affordability. The Metro and Portland bond measures are funded out of property taxes. Since property taxes are a part of the cost of housing, increasing them makes housing less affordable. Banks take property taxes into account when assessing whether potential borrowers can afford mortgages on new homes.

Metro also charges an excise tax on all new construction, effectively making new homes less affordable.<sup>31</sup> Though this money is used to pay for Metro's land-use planning program, not affordable housing, it is ironic that Metro is using a tax that makes housing less affordable to fund a land-use planning system that makes housing less affordable and then uses that unaffordability to justify bond measures that make housing even less affordable in order to pay for affordable housing.

Bend, Oregon funds its affordable housing program by taxing new homes, thus making those homes less affordable.<sup>32</sup> Since owners of existing homes are aware of

new home prices when they set a price for selling their homes, increasing the cost of new homes makes all housing less affordable.

Several studies have found that most of the benefits of affordable housing programs go to the developers, not low-income renters. A 2010 study found that the rents saved by low-income families are only a small fraction of the programs' cost to taxpayers, “suggesting developers and investors may capture some of the program's benefits.”<sup>33</sup> A 2023 study is more specific: Developers capture more than \$4 in benefits for every \$3 in benefits gained by low-income tenants.<sup>34</sup>

Given federal, state, and local housing affordability programs, developers of affordable housing can apply for subsidies from a dozen or more different funds. Some projects have received funding from as many as 20 different government programs.<sup>35</sup>

All this money available for affordable housing projects has led to numerous illegal schemes.

- Politicians have directed affordable housing funds to campaign contributors.<sup>36</sup>
- Agency officials have accepted bribes to direct affordable housing funds to particular developers.<sup>37</sup>
- Developers have received more money than they actually needed to build affordable housing and pocketed the difference.<sup>38</sup>
- Once built, owners of affordable housing may fail to ensure that renter incomes remain below the qualifying income thresholds. An audit of a group of affordable housing projects in New York found that at least 230 tenants were earning more than \$250,000 a year and one was earning \$1.4 million a year.<sup>39</sup>

While these are despicable, this paper is about affordable housing programs that are nominally legal but ethically questionable. This is a scam in which developers use federal, state, and local funds to build expensive housing projects that are then rented out to people whose incomes are less than the median but often well above what would be considered truly low-income for their areas. Most of the benefits of these projects go to the developers and bureaucracies, while the truly needy see little improvement in their housing.

## **THE AFFORDABLE HOUSING INDUSTRIAL COMPLEX**

To remain in business, builders of private housing need to construct homes that people will want to buy or rent at



prices that are competitive with other builders in their regions. The incentives facing affordable housing developers are completely different. Instead of building homes that people will want to buy or rent, they need to build homes that housing authorities want to fund. Instead of keeping costs low, their goal is to find enough subsidies to allow them to cover their costs when renting or selling homes at below-market rates.

Low-income housing tax credits can theoretically be used to fund 30 to 70 percent of the costs of an affordable housing project. However, in practice, since most recipients of such credits sell them at a discount, they really fund only about 22 to 50 percent of the cost. However, with so many other funds available, developers typically apply for and receive support from several different funds for each project. For example, a Portland project called Powellhurst Place received support from six different programs: low-income housing tax credits, Portland Housing Bureau's share of the Metro housing bond, Metro's transit-oriented development fund, HOME, the Energy Trust, and Oregon's multifamily energy program.

Negotiating this alphabet soup of funding programs requires special expertise, so it is not surprising that many developers end up specializing in affordable housing programs. This is compounded by the fact that many of the projects are developed by non-profit, tax-exempt organizations.

Federal law sets aside 10 percent of low-income housing tax credits for tax-exempt organizations, and in practice 20 percent of such housing has been built by non-profits. While non-profits are not motivated by profits, this makes little difference for the projects as the non-profits rarely do much of the work themselves. Typically, a non-profit that owns an affordable housing project will have hired a private architect to sign the project, private consultants to plan the project, private contractors to build the project, and once the project is completed, private managers to operate the project. Together, these non-profit groups, for-profit companies, and the bureaucracies that support them are sometimes referred to as the Affordable Housing Industrial Complex, in which the non-profits play a key role in giving the system a patina of altruism for the for-profit companies that do most of the work.<sup>40</sup>

Non-profits play such an important role in the affordable housing industry that Congress created a special fund for “capacity building,” that is, helping groups build more affordable housing. By law, only three non-profit groups are eligible to receive grants from this fund: Enterprise Community Partners (which receives about 41 percent of the funds), Local Initiatives Support Corporation (which also gets about 41 percent), and Habitat for Humanity (which gets the remaining 18 percent).<sup>41</sup> While the supposed purpose of these grants is to train other non-profits to build

more affordable housing, a more cynical view is that the programs are used to teach other groups how to work the system to get the most affordable housing funds.

While non-profit groups are theoretically not motivated by profits, they are still motivated by money, and many of them pay their staff much higher salaries than would be considered altruistic. For example, according to the form 990 which it filed with the IRS, in 2018 Enterprise Community Partners paid its CEO more than \$760,000 (including salary and “other compensation”), paid two other employees more than \$400,000, and 30 other employees more than \$200,000 each.<sup>42</sup>

In 2021, the Local Initiatives Support Corporation paid its executive vice president more than \$460,000, its CEO more than \$325,000, and paid seven other employees more than \$300,000 and at least 30 more than \$200,000. Habitat for Humanity paid its CEO almost \$480,000, paid three other employees more than \$300,000, and 14 employees more than \$200,000. Another organization, Mercy Housing, which is headquartered in Denver but builds affordable housing projects in several states, paid its CEO close to \$480,000 in 2021, with five other employees who were paid more than \$300,000, and at least 15 paid more than \$200,000.

In Oregon, Central City Concern, which has built several affordable housing projects in Portland, paid its chief executive officer \$386,000 in 2021 and paid five other employees between \$253,000 and \$348,000. Reach CDC, another Portland-area affordable housing developer, paid its chief operating officer \$345,000 in 2021 and another five employees between \$134,000 and \$192,000. Other affordable housing non-profits in Portland include the Portland Community Reinvestment Initiatives, which paid its executive director \$227,000 in 2021; Northwest Housing Alternatives, which paid its executive director \$176,000; Transition Projects, which paid its executive director \$173,000; and Innovative Housing, which paid its executive director \$170,000 in 2021.<sup>43</sup>

Of these groups, Habitat for Humanity has the best reputation. This shouldn't be surprising considering that it spends between \$15 million and \$20 million a year on “public awareness and education.” By coincidence, government grants to Habitat in 2021 and 2022 each almost exactly equaled the amounts spent on public awareness and education in those years, suggesting that taxpayers are effectively paying the group to lobby the public for more contributions and grants.<sup>44</sup>

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## **THE HIGH COST OF AFFORDABLE HOUSING**

In early 2021, Mercy Housing opened Tahanan, a new affordable housing project in San Francisco that cost less than \$400,000 per unit. This seemed remarkable in a city whose median home value was well over \$1 million.<sup>45</sup> A *New York Times* article about the project reported that this low cost was achieved because the project was entirely financed with private funds, and not with government subsidies and all the bureaucratic red tape that goes along with those subsidies. Specifically, the project was funded with a \$50 million grant from the Charles and Helen Schwab Foundation, which required that the project be built in three years at a cost of less than \$400,000 per unit. “By using private financing, the project sidestepped the standards and rules triggered by using public money,” reported the *Times*.<sup>46</sup>

In fact, private funding was probably not the reason why the project could be built for under \$400,000 per unit. A University of California, Berkeley report compared this project with several others in San Francisco. The report indicated that Tahanan's actual construction cost, not including land acquisition, was \$382,917 per unit. This was partly achieved because Mercy Housing waived nearly \$4.5 million in developer fees that it would normally have taken if the project were government subsidized. Including that fee would have added more than \$30,000 to the cost of each unit.<sup>47</sup>

The Berkeley report compared Tahanan with a government-subsidized project at 1064 Mission Street in San Francisco. This project cost \$509,826 per unit, which is considerably more than the per-unit cost of Tahanan even if the developer hadn't waived most of its fee. However, there was a significant difference between the two projects: Where each housing unit at 1064 Mission averaged 350 square feet, Tahanan's housing units averaged just 260 square feet, about the size of a 16'x16' room.<sup>48</sup> This means Tahanan cost slightly more per square foot than 1064 Mission, and nearly 10 percent more if the waived developer's fee is added.

Thus, instead of a decrease in red tape reducing Tahanan's costs, most of the reduction came from chopping up the building into tiny apartment units that would be unlivable for any real families. Part of the reduction also came from Mercy Housing waiving most of its developer fee, which it would not normally do with the projects it builds with government subsidies.

Even after waiving the developer fee (which was nearly \$119 per square foot), Tahanan cost \$1,472 per square foot to build. Land acquisition costs, which are high in San Francisco due to the urban-growth boundaries maintained by all its neighboring counties, added \$218 per square foot

for a total of \$1,690 per square foot. This is an extraordinary amount considering that the median sale price of housing in San Francisco is only about \$1,000 per square foot.<sup>49</sup> According to HomeAdvisor, the cost of building a “value-conscious” home in San Francisco is \$500 to \$700 per square foot, more than any city in the country except New York but still less than half the amount Mercy Housing spent on Tahanan.<sup>50</sup>

While San Francisco is an extreme case, Tahanan teaches three important lessons about affordable housing projects. First, these projects can easily cost twice as much, per square foot, as privately built housing. Second, affordable housing developers make their projects appear more affordable by dividing projects into individual dwelling units that are much smaller than private homes. Third, even non-profit developers charge high fees that can greatly increase the cost of these projects.

Affordable housing projects in Portland don't cost \$2,000 per square foot, but they are still expensive. One recent example is the Buri Building, which opened in 2020 at a cost of \$28.4 million. Owned by Northwest Housing Alternatives, which claims to be “the leading not-for-profit developer of affordable housing in Oregon,” the project was designed by MWA Architects, built by Walsh Construction, and is managed by Cascade Management.<sup>51</sup>

Walsh Construction is typical of companies that have specialized in building affordable housing projects. The company says it has “built more than 55,000 homes” and that “multifamily affordable housing is the heart and soul of our enterprise.”<sup>52</sup> Founded by brothers Tom and Robert, Tom (who died in 2022) was particularly well connected, being part of former Oregon Governor Neil Goldschmidt's “light-rail mafia.”<sup>53</sup>

In the 1990s, Tom Walsh became the general manager of TriMet, Portland's transit agency. From that position, he directed tens of millions of federal and state funds towards the subsidization of numerous multifamily transit-oriented developments, many of which were built by his family construction company. Supposedly, this wasn't a conflict of interest because his brother was running the company.

The Buri project includes 102 studio apartments, 51 one-bedroom apartments, and 6 two-bedroom apartments. It was built with support from six different funds: low-income housing tax credits, Metro's transit-oriented development fund, the state Local Innovation and Fast Track (LIFT) program, the Oregon Multifamily Energy Program, the Energy Trust of Oregon, and the Wells Fargo Housing Foundation.<sup>54</sup> Multnomah County has also waived property taxes on the building and the land it sits on.<sup>55</sup>

The studio apartments range from 350 to 430 square feet and rent for \$929 a month. The one-bedrooms range from

488 to 550 square feet and rent for \$1,023 a month. The two-bedrooms range from 750 to 800 square feet and rent for \$1,218 per month.<sup>56</sup> Assuming rents no more than 30 percent of incomes, the studio rent would be affordable to individuals earning 60 percent of median income but not to those earning less than 50 percent and the same would be true for couples in the one-bedroom apartments. The two-bedrooms would be affordable to families of four earning at least 40 percent of median incomes.<sup>57</sup>

Northwest Housing says that construction cost \$20.5 million, land acquisition cost \$2.5 million, while soft costs, which would include architect and developer fees, were \$5.2 million.<sup>58</sup> While the building has more than 90,000 square feet, only about 70,000 square feet are living area while the rest are hallways and lobby areas. This means construction alone cost about \$290 per square foot of living area; with soft costs the average was \$365 per square foot and adding land costs brings the total to \$400 per square foot.

According to *Home Builder Digest*, basic home construction costs in Portland started at \$159 per square foot in 2021.<sup>59</sup> More recent sources quote basic costs of \$170 per square foot.<sup>60</sup> Of course, high-end homes will cost more, but there is no reason to think that affordable housing should be high-end housing. The Buri Building appears to have cost 70 to 80 percent more per square foot than basic construction of private homes in Portland.

The land costs are also high due to Portland's urban-growth boundary. The Buri Building lot is 0.90 acres and Northwest Housing paid \$2.25 million for it in 2019.<sup>61</sup> That's an average of \$2.5 million an acre. According to a 2017 study, the average cost of land in the Portland area was \$679,000 per acre, more than all but 26 out of 204 urban areas in the study. This was well over twice the cost of land in Atlanta, Dallas, Houston, Raleigh, and many other places that don't have urban-growth boundaries.<sup>62</sup> The fact that Northwest Housing Alternatives spent more than four times as much as this average was partly due to an increase in land prices since the 2017 study but was mostly due to the project location, which will be discussed in more detail below.

Why does it cost so much to construct affordable housing? Part of the answer is all the soft costs, including architect and developer fees. While only about 2 percent of private homes built in the United States involve an architect, most affordable housing projects are architect-designed. One reason most people don't hire architects for their homes is that most architect-designed buildings “reflect contemporary architectural culture that values idiosyncrasy over utility.”<sup>63</sup> A look at affordable housing projects shows that many are, indeed, quirky, often designed to stand out rather than provide comfortable (and affordable) housing.

One way to determine exactly what features of affordable

housing projects make them so expensive would be to examine the applications for low-income housing tax credits and other affordable housing funds. These applications break down costs in detail, making it possible to compare those costs with the private sector. Unfortunately, the Oregon Housing and Community Services agency refuses to make this information available, saying the cost projections were confidential corporate information.

Seattle for Growth, a group concerned about the high cost of affordable housing, has posted Excel spreadsheets accompanying the full applications for 28 projects funded in Seattle between 2014 and 2018.<sup>64</sup> All of these projects are owned by non-profit developers such as Mercy Housing, and at least a few were built by Walsh Construction. Four of the projects were rehabilitations of existing structures. To compare with private construction costs, I focused on the other 24 projects.

Some of the projects included both residential and commercial uses; I counted only the costs of the residential portion of the project. In addition to low-income housing, some projects included one or two housing units for residential managers; I counted these in the total. To adjust for inflation to 2018 dollars, I used GNP price deflators published by the Bureau of Economic Analysis.

These 24 projects included a total of 2,196 different housing units that averaged 603 square feet in size. Construction alone cost \$217,160 per unit or \$360 per square foot. Adding land acquisition, soft costs, and financing charges increased this to \$305,499 per unit or \$507 per square foot. The costs per unit ranged from \$211,000 to \$402,000.

Land acquisition costs were high. Like Portland, Seattle has an urban-growth boundary; unlike Portland, Seattle has never expanded its boundary to accommodate growth. The average price of land in the Seattle area is almost twice that of Portland, which, as noted above, is twice that of cities that don't try to restrict growth at the urban fringes. The 24 projects considered here were built on 11.2 acres.<sup>65</sup> Although the land for at least two of the projects was effectively donated to the non-profit group that owns the projects, the average cost of these 11.2 acres was \$4.5 million per acre.

Architects did well from affordable housing programs as their fees averaged more than \$1 million per project, \$11,000 per housing unit, and nearly \$19 per square foot. The non-profit developers also did well as developer fees averaged almost \$2 million per project, more than \$21,000 per unit, and more than \$35 per square foot.

In addition to developer fees, the non-profit owners of these projects can expect to reap rich rewards when the projects are completed. Although they will rent units for less than



their fair market value, on average the developers risked their own money to cover just 16.5 percent of the cost of these projects. All the rest was paid for by low-income housing tax credits and a variety of other affordable housing funds. Much of the 16.5 percent that the developers spent was raised by borrowing money from various affordable housing loan programs, which means they are paying lower interest rates than conventional loans.

According to a home construction group called ProMatcher, which collects construction cost data nationwide, basic home construction in Seattle cost \$120 to \$180 per square foot in 2018.<sup>66</sup> These affordable housing projects cost two to three times that even before adding in land acquisition, developer and architect fees, finance charges, and other soft costs.

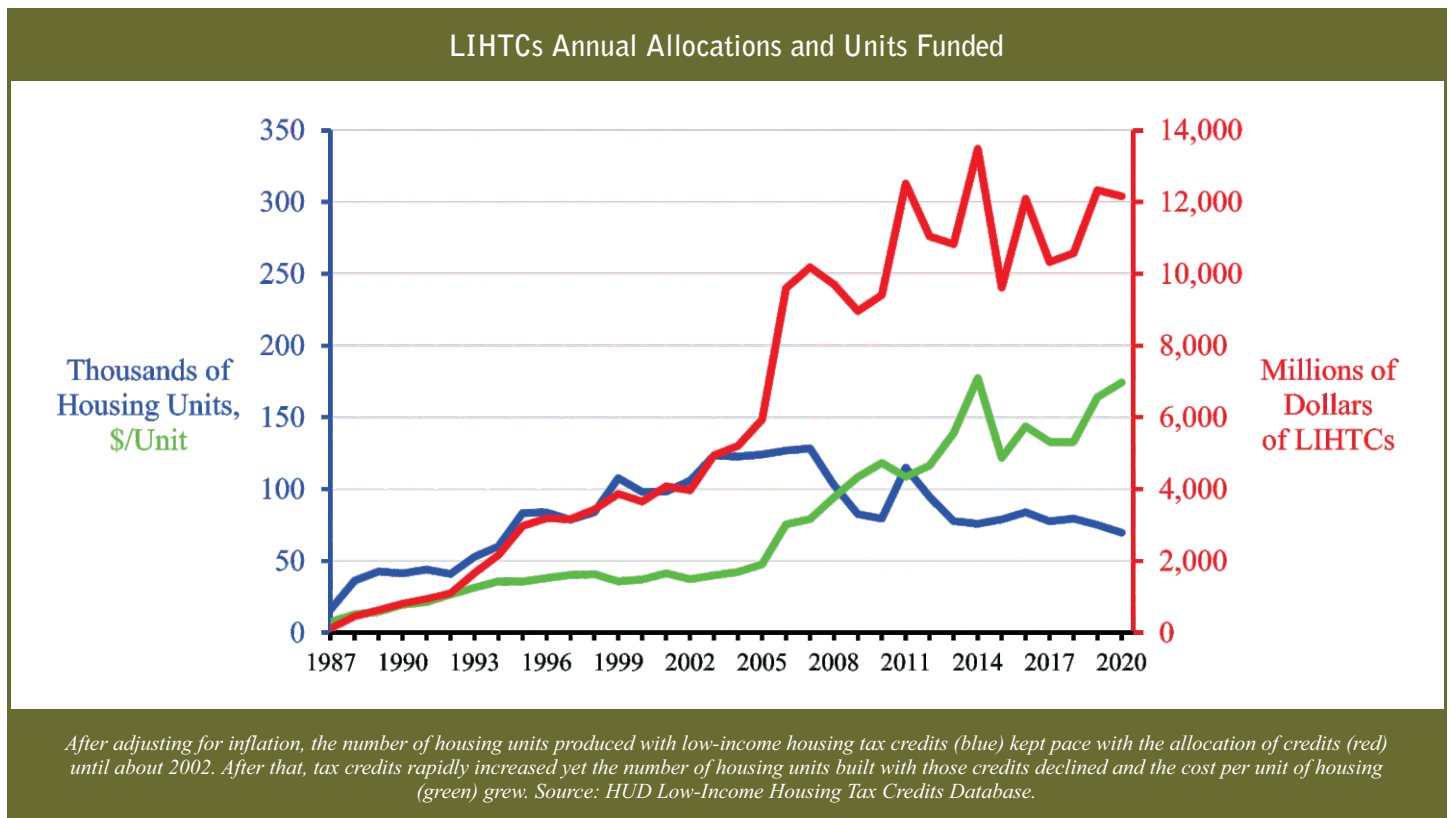
Previous studies have found that subsidized affordable housing projects tend to cost more to build than unsubsidized housing. One 2009 study found that low-income housing tax credits “encourages developers to construct housing units that are an estimated 20% more expensive per square foot than average industry estimates.”<sup>67</sup> A 1999 study found that the projects developed by non-profit groups cost an average of 20 percent more per square foot than subsidized projects built by private developers.<sup>68</sup> If both of these are true, projects developed by non-profits would be about 40 percent more expensive than unsubsidized housing. Yet the differences found in the Tahanan, Buri Building, and Seattle projects are much greater than 40 percent.

In 2017, NPR's *All Things Considered* observed that the average cost of affordable housing projects had significantly grown in the years since researchers found that subsidized housing cost about 20 percent more than regular housing. Although government agencies were handing out more affordable housing funds than ever, the number of new units being built was falling.

NPR's numbers are correct. After adjusting for inflation, the average annual allocation of low-income housing tax credits increased from \$6.6 billion in the 2000s to \$11.2 billion in the 2010s. Yet the number of dwelling units built with such tax credits fell by nearly 25 percent from an average of more than 111,000 per year to fewer than 84,000 (see figure).<sup>69</sup> This means the subsidy per housing unit increased from under \$60,400 to nearly \$135,600. Assuming tax credits are roughly proportional to project costs, costs per unit must have grown by nearly 125 percent.

“Industry representatives don't dispute the numbers,” reported NPR; “they say these trends are the result of rising construction costs, decreasing federal dollars that funded other housing subsidy programs, and stricter state requirements to build homes for the lowest-income households. They also say the business is less profitable than it used to be.”<sup>70</sup>

However, these reasons fail to fully explain the increase in costs or the decline in affordable housing construction. Before the pandemic, construction costs weren't rising faster than funding for affordable housing: Federal



spending on affordable housing more than doubled from \$5.4 billion in the 2000s to \$11.0 billion in the 2010s, but new home construction prices rose by an average of only 20 percent.<sup>71</sup> Some federal funds may have declined but overall funding for affordable housing increased both at the federal and the state and local levels. Requirements to build homes for lower-income households did not change that significantly. Plus, if the business were less profitable, some developers would have dropped out, yet there were still more applications for low-income housing tax credits than there were credits to be handed out.

## **A BRIEF HISTORY OF HOUSING**

To understand recent trends in affordable housing, it is helpful to know something about the history of housing in the United States. In the mid-19th century, the factory system led to a large concentration of jobs in what became known as downtowns or central business districts. Since most workers were limited to foot travel, they lived in mid-rise housing within walking distance of the factories. In 1890, journalist Jacob Riis published *How the Other Half Lives*, a book of photographs of such crowded housing projects, primarily in and near Greenwich Village, New York, showing their inhumane living conditions.<sup>72</sup>

Housing reforms resulted from Henry Ford's development of the moving assembly line in 1913. On one hand, moving assembly lines required a lot of land, so factories moved out of downtowns. On the other hand, moving assembly lines increased worker pay and reduced the cost of buying a car, so workers were able to move out of crowded tenements and move into single-family homes.

Amidst the chaos of the Depression, an architect who called himself Le Corbusier proposed that cities should consist mainly of high-rise buildings. He himself never lived in a high rise yet he thought that should be the only kind of housing available to urban residents.<sup>73</sup>

After World War II, developers such as Henry J. Kaiser on the West Coast and William Levitt on the East Coast built tens of thousands of new homes for returning servicemen and their families. Built using assembly line methods, these homes were affordably priced at less than \$10 per square foot (under \$100 in today's dollars) and proved very popular.

Meanwhile, Congress passed the Housing Act of 1949, offering public housing funds to cities to help low-income people. Inspired by Le Corbusier, many cities used those funds to build high-rise housing that proved unlivable. These high-rises cost more, per square foot, than luxury homes yet suffered from high crime rates. Many were torn down after just a few years.

The high-rise boom was still underway in 1960 when New York City wanted to tear down the former tenements in Greenwich Village and replace them with high rises. Residents successfully protested and among them was an architecture critic named Jane Jacobs. In a book, *The Death and Life of Great American Cities*, she defended her views by making two points.<sup>74</sup>

First, she correctly argued, urban planners didn't understand how cities work. Second, she incorrectly claimed that she did understand how cities work. While she believed Greenwich Village was the epitome of a great city, in fact it was an artifact of a bygone age when it was considered to be a form of inhumane housing.

Just as Le Corbusier never lived in a high rise, Jacobs never lived in a mid-rise. Instead, her home in Greenwich Village was a three-story building, so she never had to trudge up four or five flights of stairs to get to her apartment.<sup>75</sup> Later, she moved to Toronto where she used the proceeds from her book to buy a single-family home.<sup>76</sup>

Nevertheless, architects and planners read her book and collectively decided that she was right. Instead of trying to force people to live in high-rise housing, they decided they should try to force people to live in mid-rise housing. They called these ideas New Urbanism. "Governments should take charge of the planning process," they said, rather than allowing private developers to plan housing.<sup>77</sup> "All [new] development should be in the form of compact, walkable neighborhoods," while existing "sprawling suburbs" should be "reconfigured" with denser housing.<sup>78</sup> In other words, they wanted Greenwich Villages everywhere. "There's no question that [Jane Jacobs's] work is the leaping-off point for our whole movement," says the executive director of the Congress for the New Urbanism, a group that promotes these ideas.<sup>79</sup>

In 2006, a New Urbanist planner named Arthur Nelson wrote a paper in which he claimed to have calculated that by 2025 most Americans would want to live in dense cities and, as a result, there would be 22 million surplus suburban homes by 2025. He argued that cities should prepare for this shift by building more dense housing. He did not reveal how he reached these conclusions, only saying they were his "interpretation" of surveys which, in fact, said that 75 to 85 percent of Americans wanted to live in single-family homes.<sup>80</sup>

Today, it is clear that Nelson was completely wrong. In 2018, before the pandemic, a Gallup poll found that 40 percent of people living in dense cities said they would rather live in suburbs or rural areas, while fewer people lived in suburbs than wanted to.<sup>81</sup> The pandemic has quadrupled the number of people working at home, and census data shows that they responded by moving out of dense cities and suburbs and into lower-density suburbs and



rural areas.<sup>82</sup> Nevertheless, many cities are still trying to increase the number of residents living in dense housing, and one of the ways they are doing so is by directing affordable housing funds to such housing.

## **THE HIGH COST OF MID-RISE AND HIGH-RISE HOUSING**

What makes recent affordable housing projects so much more expensive than private home construction is that they are mostly mid-rise (meaning four to six stories) or high-rise projects (meaning seven or more stories). Taller buildings allow developers to pack more dwelling units on a single lot, but greatly increase the cost of construction for several reasons.

First, multifamily buildings taller than three stories require lots of common areas: halls, lobbies, and other areas that cost about as much to build as the housing units but that don't contribute to living areas. Second, taller buildings require more steel for structural support and more concrete to act as fire barriers between floors. Third, anything above three stories requires one or more elevators, which greatly adds to the cost of the building. Other factors include the cost of cranes for taller buildings; union workers, which are usually required for mid-rise and high-rise projects but not for low-rise development; structured parking; additional fire code requirements for mixed-use buildings, especially if they include restaurants; and various other local code requirements that apply to taller buildings.

California developer Nicholas Arenson estimates that constructing four- and five-story buildings costs two to three times as much, per square foot, as two-story buildings. This fits with the above findings that projects in Portland, San Francisco, and Seattle are costing at least twice as much per square foot as conventional homes. Arenson also notes that condominiums in such buildings “sell at a discount” compared with single-family homes, reflecting most people's preference for the latter type of housing.<sup>83</sup>

Given these added costs, why do affordable housing developers build mid-rise to high-rise projects? The answer is that funders in an increasing number of states have a decided preference for such projects, so proposals to build low-rise projects are less likely to be funded. In particular, funders assume that low-income people don't have cars, so want high-density projects that are located on transit lines. Locating a project on a major transit line also gets points for being “green” as people living in such projects are presumed to walk, bicycle, or ride transit rather than drive.

All these assumptions are questionable. First, the vast majority of low-income households have at least one automobile. According to the 2022 American Community Survey, people whose incomes are less than \$25,000 a year

are *more* likely to get to work by car than those with higher incomes: 78.5 percent for low incomes and 77.3 percent for high incomes. Less than 4 percent of low-income workers take transit to work.<sup>84</sup>

Auto ownership rates are admittedly lower for low-income households. According to a 2017 Department of Transportation survey, 26 percent of households with incomes below \$25,000 a year own no automobiles compared with just 3 percent of higher-income households.<sup>85</sup> However, low-income workers partly make up for this by having higher carpool rates than higher-income workers (12.2% vs. 7.5%) and partly by driving employer-supplied vehicles to work: 26 percent of workers who have no cars in their households nonetheless drive alone to work, mainly in employer-provided vehicles.<sup>86</sup>

Of course, many households living in affordable housing earn more than \$25,000 a year, and the \$25,000-\$35,000 income class has a 93 percent auto ownership rate.<sup>87</sup> A 2017 survey of affordable housing residents found that 44 percent of households earned more than \$20,000 a year.<sup>88</sup> While the numbers weren't broken down above \$20,000, a substantial number must earn more than \$25,000, especially considering median incomes are so high in urban areas such as San Francisco, San Jose, and Seattle.

Also questionable is the assumption that people living in higher-density housing lead “greener” lifestyles. Advocates of high-density developments often point to surveys showing that people who live in such developments use transit more. But a literature review of the effects of density on driving by University of California–Irvine economist David Brownstone found that such surveys fail to account for self-selection bias; that is, people who want to drive less are more likely to locate in dense areas near transit. After adjusting for self-selection bias, Brownstone found that the effect of density on driving and transit was “too small to be useful” in saving energy or reducing greenhouse gas emissions.<sup>89</sup>

Even to the extent that people living in dense housing do drive less, the effect is small and is partially or completely offset by the increase in congestion in denser areas. This can be seen in the table below, which is based on National Household Travel Survey estimates of the number of people, vehicles, vehicle occupancies, and miles of driving by population density, including densities of 1,000 to 2,000; 2,000 to 4,000; 4,000 to 10,000; and 10,000 to 25,000 people per square mile.<sup>90</sup> While all of these densities are found in various parts of moderate sized urban areas such as Portland, Denver, and Seattle, only a few neighborhoods of these urban areas exceed 10,000 people per square mile and it is not likely that any of them reach 17,500, which is the average of the highest density category in the survey.

## Effects of Density on Driving and Fuel Consumption

DENSITY RANGE	1,000 - 1,999	2,000 - 3,999	4,000 - 9,999	10,000 - 24,999
Average Density	1,500	3,000	7,000	17,500
Vehicles/Person	0.83	0.80	0.76	0.64
Miles/Vehicle	25.0	25.3	25.2	21.8
Miles/Person	20.7	20.3	19.1	13.9
Vehicles/Square Mile	1,241	2,409	5,298	11,169
VMT/Square Mile	31,031	60,951	133,520	243,476
People/Vehicle	1.70	1.64	1.62	1.69
Average MPH	28.8	25.9	24.4	21.2
MPG at Average Speed	31.4	30.7	30.2	28.5
Gallons/Person	0.659	0.661	0.632	0.488
Congestion Penalty	0%	5%	10%	20%
Gallons/Person	0.659	0.694	0.695	0.586

*Vehicles per person, miles per vehicle, miles per person, vehicles and VMT (vehicle-miles-traveled) per square mile, people per vehicle, and average miles per hour are all from or calculated from the National Household Travel Survey Data Explorer Tool. Miles per gallon at average speeds are calculated based on average speeds and data in the Transportation Energy Data Book, edition 40, table 4-34, 1997 column. The first gallons per person is based on the previous data. The second adds a congestion penalty that is entirely speculative but reasonable considering how much more VMT per square mile takes place at higher densities.*

As shown in the above table, the survey revealed that people living in higher densities do drive a little less, but the reduction in the number of vehicles and miles is small compared to the increase in density. Thus, densities of 10,000-25,000 (average of 17,500) see 9.0 times as many cars and 7.8 times as many miles of driving per square mile of land as densities of 1,000 to 2,000 (average 1,500). Since such high-density neighborhoods are not going to have 7.8 times as many lane-miles of streets as low-density neighborhoods, average traffic speeds will be lower and congestion will be greater. The survey didn't measure congestion, but average trip speeds for residents in the 10,000-25,000 neighborhoods were 21.2 miles per hour compared with 28.8 miles per hour in the 1,000-2,000 neighborhoods.<sup>91</sup>

The Department of Energy has published estimates of fuel consumption by average speeds.<sup>92</sup> Based on these estimates, per capita fuel consumption is higher in neighborhoods with 2,000 to 4,000 residents per square mile than ones with 1,000 to 2,000 residents despite fewer miles of driving per capita. In neighborhoods of 4,000 to 10,000 people per square mile, per capita fuel consumption is slightly lower than in lower-density neighborhoods, but it is not until densities of more than 10,000 people per square mile are reached that fuel consumption is reduced by more than 5 percent.

This only takes into account average speeds. If denser neighborhoods see more stop-and-go traffic, per capita fuel

consumption will rise considerably. One study found that “traffic congestion typically leads to an increase of fuel consumption of the order of 80%,” which could be enough to wipe out any reduction in driving at even the highest densities.<sup>93</sup> Another study found “that under congested conditions the fuel consumption can increase by more than 18%,” which is more modest but still can tilt the balance within the range of population densities found in Oregon.<sup>94</sup>

Although the National Household Travel Survey did not measure congestion, numerous studies have shown that more congestion is strongly correlated with higher densities.<sup>95</sup> Thus, it is likely that, at least within the range of population densities found in Oregon today and in the near future, increased densities lead to increased fuel consumption and therefore increased greenhouse gas emissions per capita. The above table assumes that congestion will add 5 to 20 percent to average fuel consumption based on densities.

The above table shows that the environmental benefits of density, which is the justification for spending affordable housing funds on dense developments, are practically nil. Since such spending results in fewer affordable housing units being built, the results are harmful to low-income people without producing any compensating benefits.

Another mistaken assumption is that high-density development is itself more affordable than single-family homes. “Higher-density development,” claims an advocate

of urban-growth boundaries, “is actually less expensive than sprawl development.”<sup>96</sup> Yet funders of affordable housing know this isn't true. Portland's Metro, for example, has a transit-oriented development fund that is often used to support affordable housing. Documents relating to projects funded with this money freely admit that high-density housing costs more.

- “Cost premiums resulting from higher density mixed-use development exceeded \$1 million,” says the description of a \$6.1 million, four-story project.<sup>97</sup>
- “Cost premiums included extensive site preparation, retaining walls and foundations, in addition to the typical premiums associated with higher density mixed-use buildings,” says another.<sup>98</sup>
- A five-story project has cost premiums due to “structured parking, fire safety requirements and the change in construction type required because of building height.”<sup>99</sup>
- “Cost premiums are related to vertical mixed use, building height and structured parking,” another reports.<sup>100</sup>
- “Cost premiums are related to parking, vertical mixed use and building height,” says a report about a four-story project.<sup>101</sup>
- “Transit-oriented development program funding was authorized for the cost premiums associated with the building elevator,” says the description of a three-story project.<sup>102</sup>

Pressure to locate affordable housing in transit corridors also helps explain why the cost of acquiring land for the Buri Building and Seattle projects was so high. Buyers of land in major corridors must compete with potential retailers, offices, and other businesses that also want to locate in such corridors.

To see why affordable housing project costs may have increased in recent decades, I examined more than 350 projects in Denver, Portland, Seattle, and some of their suburbs to see whether they were low-rise, mid-rise, or high-rise. This was done by entering addresses of new projects (as opposed to rehabilitations of existing structures) from the Department of Housing and Urban Development's low-income housing tax credit database into Google maps and counting the number of stories in each project.

Except in downtown areas, nearly all projects from the late 1980s and early 1990s were two or three stories tall. Outside of downtowns, the first four-story projects appeared in Denver and Seattle in 1992 and Portland in 1994. By the

2010s, virtually all new projects in Denver, Portland, and Seattle were mid-rise to high-rise, and some suburbs, such as Beaverton and Gresham (Oregon), Everett and Issaquah (Washington), and Thornton and Westminster (Colorado) saw many four- and five-story projects.

Three-story buildings were built in both early and recent years, but a significant design change occurred during that time. In the early years, most three-story apartment buildings were recessed from the streets, surrounded by large parking areas, and accessed by external staircases. In later years, most fronted on the streets, had hidden or no parking, and were accessed by internal staircases and, in many cases, an elevator. The later design and other mid-rise projects represent a style known as New Urbanism, which is based on the idea that people living in walkable neighborhoods are less likely to drive than people living in a sea of parking lots.<sup>103</sup> However, these designs are more expensive as internal staircases require internal hallways, adding to construction costs without adding to livable space.

Most of this increase, as well as the decline in new units of new affordable housing, appears to be due to the demand from many state housing agencies, particularly those in regions practicing growth management, that developers build expensive, multi-story projects out of a misguided belief that such projects will encourage transit ridership and discourage driving.

## **THE SOCIAL INJUSTICE OF AFFORDABLE HOUSING**

The Buri Building was in the news recently because its design made it unlivable. Homeless people “shoot up in the stairways, sleep on couches in common areas, smoke fentanyl in the elevators, and vandalize plumbing.” In 2022, the first full year the project was open, “police, fire and medical personnel have responded to six calls about stabbings, 17 for assault, four about shots fired, seven for vandalism, eight on restraining order violations, and one labeled ‘death-obvious-cold/stiff.’”<sup>104</sup>

This will not be surprising to anyone familiar with many of the public housing projects built in the 1950s. Many were so crime infested that housing agencies were unable to fill them with residents even rent-free. The mid-rise projects favored today contain many of the same design flaws that make them vulnerable to crime.

In the 1970s, as St. Louis was demolishing some of its high-rise public housing projects, an architect named Oscar Newman wondered why crime was such a problem in those projects while it wasn't in nearby low-rise housing occupied by people of the same income class. He did an extensive study comparing crime rates with architectural features and

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concluded that the key to keeping crime rates low was “to allow residents to control the areas around their homes.” He called this “defensible space.”<sup>105</sup>

Single-family homes were easily controllable because occupants would immediately know whether someone in their yard belonged there or not. In contrast, occupants of high-rises and mid-rises would have no idea whether someone in a common area such as a hallway, lobby, or outdoor areas was another tenant, a guest of one of the tenants, or a potential criminal. This is one reason why, as Arenson noted, condominiums in mid-rise buildings “sell at a discount” to similar-sized single-family homes.

Advocates of affordable housing often appeal to concerns about equity and social justice. But growth-management policies that make housing less affordable are not socially just. MIT economist Matthew Rognlie (now at Northwestern) has shown that rising housing prices are the main cause of growing inequality.<sup>106</sup> Those who care about equity should demand the repeal of growth-management policies that have made housing expensive.

Instead, many are supporting more subsidies to affordable housing. Yet putting low-income people in tiny apartments that most Americans would reject in favor of single-family homes is hardly equitable, especially when single-family homes cost less to build.

This inequity is compounded by funders who have decided to put transit ahead of affordable housing and thus spend twice as much per housing unit as it would cost to build those units in low-rise housing somewhere else. This is partly based on funders' assumption that low-income people don't have cars, which is far from true.

Low-income workers have good reasons to value auto mobility. Researchers at the University of Minnesota have shown that more than 90 percent of jobs in major U.S. urban areas are inaccessible to transit riders who aren't willing to spend more than an hour commuting in each direction, while 54 percent of jobs are accessible to people willing to make a 30-minute auto trip. For the typical Portland resident, less than 16 percent of jobs are accessible in a 60-minute transit trip but 72 percent are accessible within a 30-minute auto drive.<sup>107</sup> Other researchers have found that there are “strong effects of car ownership on the probability of employment and usual hours worked per week” and have recommended that poverty programs be coordinated with “transportation programs in ways that enhance the upward mobility of low-income households.”<sup>108</sup> In short, one of the best ways to help people out of poverty is by giving them access to an automobile.

Despite this, many transit-oriented developments are built with fewer than one parking space per dwelling unit. For example, Powellhurst Place, a project currently being built

in Portland by Northwest Housing Alternatives, will have 65 housing units but only 10 on-site parking places.<sup>109</sup> Located on Southeast 122nd Avenue, Powellhurst place has a low walk score of 44 out of 100, making it “car dependent.”<sup>110</sup> Including only 10 on-site parking spots means that the developers are effectively forcing parking into surrounding neighborhoods.

Such a lack of parking also discourages low-income households who already have automobiles from moving in. Low-income families who move in without cars will have fewer economic opportunities and are effectively discouraged from expanding their opportunities by buying a car since they may not have a safe place to park it. It is hardly equitable to force low-income people to rely on a second-rate, ineffective transportation system when almost everyone else has better transportation available.

## CONCLUSIONS AND RECOMMENDATIONS

Most economists who have scrutinized low-income housing tax credits and other project-based affordable housing programs have concluded that they are inefficient and that most of the benefits are captured by the developers, not the low-income tenants. “The LIHTC is not very effective along any important dimension—other than to benefit developers and their investors,” write Harvard economist Edward Glaeser and Wharton Business School economist Joseph Gyourko, who recommended abolishing the program in 2008.<sup>111</sup>

Most economists also believe that housing vouchers, such as the Section 8 vouchers administered by the Department of Housing and Urban Development, are more effective at helping low-income people. While some worried that the benefits of such vouchers would be captured by landlords, who would simply raise their rents, research has shown this hasn't happened. Instead, renters have used vouchers to move into better housing.<sup>112</sup>

Unfortunately, instead of replacing low-income housing tax credits with increased vouchers, the Biden Administration has proposed to greatly increase the size of the tax credit program and other federal project-based subsidies in 2024 and to create a new program focused on building affordable homes for sale.<sup>113</sup> The non-profit organizations and other groups that make up the Affordable Housing Industrial Complex are no doubt thrilled with these proposals, but they will be a disaster for U.S. housing markets. The unsubsidized homebuilding industry is suffering from a labor shortage as it is; that shortage will be much worse if the affordable housing program is expanded as President Biden proposes. Given limited labor that must be divided between subsidized and unsubsidized housing, spending more on subsidized housing will lead to fewer new



unsubsidized homes on an almost one-to-one basis.

Recognizing that affordable housing and housing affordability are two different things, this report's recommendations are simple. To increase housing affordability, Oregon and other states should repeal growth-management laws and abolish urban-growth boundaries.

It is tempting to suggest that Oregon can make housing more affordable by simply expanding urban-growth boundaries. But what made housing affordable in the U.S. between 1945 and 1980 was the virtually unlimited amount of land available for large-scale housing developments. Led by Henry J. Kaiser in Oregon and California and by William Levitt in New Jersey, New York, and Pennsylvania, developers applied mass production techniques to home construction, thus greatly increasing homeownership. By comparison, building homes one at a time on infill sites is much more expensive.

That land would still be virtually unlimited were it not for rural land-use restrictions. According to the Census Bureau, nearly 99 percent of Oregon and 97 percent of the United States as a whole are rural.<sup>114</sup> Urban growth is not going to significantly impact farms, forests, or open space. Placing an urban-growth boundary or another limit on new development around an urban area, even if it seems generous, will significantly increase land prices within that limit and thus increase housing prices.

To assist people who still can't afford housing, all project-based housing programs should be eliminated in favor of vouchers. Voucher programs may not be perfect, but they are far more efficient than project-oriented housing. Where research has shown that most of the benefits of funds for affordable housing go to developers, most of the benefits of vouchers go to the renters, not the landlords.<sup>115</sup> Landlords do receive some benefits, however, so where affordable housing projects reduce the rate of construction of unsubsidized housing, voucher programs should increase the rate of construction of new rental housing.

Only a small share of the benefits of affordable housing funds go to people who truly can't afford housing, and such funds are doing little to make housing more affordable overall. Abolishing growth boundaries should make housing affordable to many Oregonians who can't afford housing today, thus reducing the need for any kind of housing subsidies. Vouchers are the best way of providing housing for the people who may still be unable to afford housing in a deregulated land-use system.

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