PRESIDENT'S MESSAGE GEORGE W. McCARTHY

Fixing Complicated Problems

WRITING DURING THE LAST GILDED AGE, Henry George warned of the social and economic perils of giving away land value increases to landowners who had done nothing to earn them. In this new Gilded Age, wealth inequality coupled with persistently low interest rates is leading to a worsening redistribution of wealth, with a growing share flowing to the asset-rich while a growing share of families is priced out of decent housing. One positive outgrowth of the pandemic is the political will we've summoned to deal with two related challenges that have their roots in land policy: the housing affordability crisis and the wealth gaps created by structural racism.

A consensus is emerging among policy analysts and policy makers that both challenges are the result of exclusionary land policies. While exclusion is the principal driver, it is not the only one. More important, no single remedy will magically call forth more affordable housing and simultaneously close wealth gaps.

Dozens of local, state, and national governments—including that of Pasco, Washington, profiled in this issue—are reforming residential zoning that previously permitted only detached single-family dwellings. The logic of this intervention is sound. Single-family zoning constrains development with restrictions like minimum lot sizes. This drives up housing costs and excludes lower-income families from buying or renting in desirable neighborhoods. By relaxing these policies, it will be possible to produce more housing at lower prices. At least in theory.

Market fundamentalists argue that the financial incentives are so powerful that if we make it possible to build two, four, or even twelve units on a parcel that formerly permitted one, we cannot help but solve the housing affordability crisis through increased production. But there is a big difference between permitting the development of multiple units and multiple units being developed. And there is no guarantee that these units will be affordable. Many unaffordable condos and apartments have been built in high-density locales like New York City, where affordable housing is in critically short supply. A lot of them are vacant. How can places like Pasco keep the same thing from happening?

Part of the answer has to do with the housing market. As I've noted before, housing represents two very different commodities traded in the same market. Each unit can satisfy the demand for shelter for a family or the demand for yield from hungry investors. Often, but not always, a housing unit can satisfy both—when the owner occupies the unit. But more and more frequently, households find themselves competing for available shelter against investors drowning in liquidity. With the exception of a pathbreaking intervention by the Port of Cincinnati that I will discuss another time, the investors usually win.

As global wealth inequality worsens, the wedge between shelter provision and investment opportunity is precipitating unassailable affordable housing shortages. But not *housing* shortages. We have some 20 million more units of housing in the United States than we have households, and there are more houses than households in every housing market in the country. Even in a tight market like Pasco, the U.S. Census reports that there are 23,126 housing units but only 22,174 households. The metro market that includes Pasco contains 106,104 housing units and 100,336 households.

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This oversupply is not vast, but it offers a good illustration: our problem is not supply, but the kind of housing we supply (or allow to be supplied).

Land, too, is a commodity traded in multiple markets—as an investment good and a good with multiple uses: residential, industrial, commercial, and agricultural. The price of land derives from a complex mix of social, statutory, and economic factors that are almost completely outside the aegis of the landowner. If more people migrate to a city or neighborhood, the land value goes up. If infrastructure improvements are made, like wastewater treatment or accessible transportation, the value of the land goes up. If local policies allow for more intensive development on a parcel, its value will go up.

Who wins when we allow multifamily construction on formerly single-family lots? Landowners who receive windfall increases in land values are among the big winners. This increase in property values puts nearby homeowners at risk, if it raises their tax bills. If zoning changes aren't designed to be part of a broader strategy to tackle affordability, they could inadvertently usher in displacement. Planners in Pasco know this and are working on a suite of balanced and comprehensive tactics to keep their community affordable.

This country's legacy of racial exclusion further complicates land and housing markets, while eluding all efforts to address it. Historically, deed restrictions, legal covenants, and other overt, but now illegal, practices ensured that people were kept out of neighborhoods based on skin color, ethnicity, or religious affiliation. These were supplemented with blatantly racist finance practices established at the birth of the modern housing finance system. For six decades, we have attempted to confront these forms of structural racism using public policy, with very limited success. It is an important cautionary tale.

Starting with the Civil Rights Act of 1964, the Fair Housing Act of 1968, and the Equal Credit Opportunity Act in 1974, the nation nominally prohibited discrimination in housing and lending. The Community Reinvestment Act of 1977 imposed further affirmative obligations on regulated lenders to meet the credit needs of their communities. And yet, in 2018 the Center for Investigative Reporting analyzed 31 million mortgages and found that people of color were denied conventional mortgages by regulated lenders at significantly higher rates than whites in 61 metropolitan areas, even after controlling for income and other socioeconomic factors. The national racial gap in homeownership rates is

This duplex in Portland, Oregon, is an example of "missing middle" housing that can provide more affordable options in formerly single-family neighborhoods. To be truly effective, the zoning changes that allow such housing must also mandate affordability and must be part of a broader housing strategy. Credit: Sightline Institute Middle Homes Photo Library via Flickr CC BY 2.0.

worse today than it was in 1960, when efforts to address housing discrimination began.

Closing the racial wealth gap will require much more than leveling the financial playing field and producing more housing units. Stable, affordable housing in high-opportunity areas is foundational to the long-term economic success of families. But increasing the housing stock does not necessarily increase affordable housing for lower-income households, nor does it ensure that historically excluded populations will have access to wealth-building homeownership opportunities in thriving neighborhoods.

We need aggressive inclusionary housing requirements that obligate landowners to build affordable housing when redeveloping former single-family sites. We also need to provide and protect opportunities for historically excluded families to purchase affordable homes and build wealth.

In almost every housing market in the United States, we're producing too much of the wrong kind of housing and letting the existing housing stock slip out of local control. Escalating rents are inspiring conversions of single-family homes to rental units at unprecedented rates. Single-family rental real estate investment trusts (SFR REITs) have become a hot investment. According to CoreLogic, investors acquired more than 25 percent of all the single-family homes purchased in the United States in the last two quarters of 2021. A single zoning reform will not change the way the market works, and nothing will stop global capital from bidding housing in desirable neighborhoods away from families that need shelter unless other actions are taken.

We need aggressive inclusionary housing requirements that obligate landowners to build affordable housing when redeveloping former single-family sites. We also need to provide and protect opportunities for historically excluded families to purchase affordable homes and build wealth. Rather than giving away additional development rights to landowners, development rights should be sold. Development rights are traded actively in many private and some public markets in the United States. Municipalities could raise billions of dollars by selling development rights, and the proceeds could be used for affirmative efforts to address the racial wealth gap by, for example, providing generous down payment assistance or property tax relief.

Once we have established a reasonable supply of affordable housing, we need to preserve it. This will require shielding affordable housing stocks from global capital markets. This can be done easily with steeper capital gains taxes imposed on speculative property transactions. In Taiwan, land value increment taxes had a chilling effect on property speculation. In addition, deed restrictions can limit future sales prices. Alternative ownership arrangements like limited equity cooperatives or community land trusts can ensure permanent affordability. If we don't act now, we'll face continual affordable housing crises in the coming decades. But there is an important caveat: preserving affordable housing by limiting the financial upside will impede our efforts to close racial wealth gaps through homeownership. This illustrates the challenges of intervening in complex systems. Once we recognize the complexity, we can consider tradeoffs to find a practical and acceptable compromise.

At the Lincoln Institute, we applaud the recognition that land policy sits at the roots of major social and economic challenges. But simplistic interventions in complex land and housing systems will not address these staggeringly complex challenges. We cannot rely on increasing the supply of housing as a silver-bullet solution. We must layer zoning reform with other policies, trying different combinations in an iterative process. As we proceed, we should be mindful of the words of H.L. Mencken: "there is always a well-known solution to every human problem—neat, plausible, and wrong."