

Politics

I am in favor of home-ownership for the greatest number of people. Home-ownership promotes social stability. Owning rather than renting gives people a great psychological stake in their community. That’s the old saw and I believe it, even though I really don’t know how I would prove that it makes sound public policy.

We are in an era of enormous socio/ politico changes. I believe that home-ownership is a means (though not an exclusive one as communities of renters can also be quite dynamic) to further social and political stability. Thus I believe that the issue of making housing affordable to the widest number of people is a vital, real and compelling goal.

With that said, let me voice some concerns.

Underlying much current interest in ‘affordable housing’ is the implicit assumption that there is some set of government programs or actions which will be able to solve or at least ameliorate the problem. Putting that larger premise aside for the moment, any governmental action will require a political consensus. Does such political consensus—i.e. to ‘do something’ to make housing more affordable—now exist or appear likely to be formed? Do people really want affordable housing? i.e. is there an emerging political constituency behind ‘affordable housing?’

I suggest ‘NO.’

Too many individual and interest groups actually gain by steadily increasing housing prices for there to be a natural, ready-to-roll political base for significant action.

- House-owners—For a great number of homeowners, their house is their major financial asset. Its appreciation is certainly to their benefit, notwithstanding the higher real estate taxes they must pay. Even the homeowners who recognizes the impact of higher housing costs on their own children—“We need to provide housing so that our children can stay in the community where they grew up”—can rationalize the issue by

realizing that a more valuable family asset will enable ‘loans’ for down-payment as well as the eventual more substantial inheritance.

- Mortgage lenders—As housing prices rise, lenders’ mortgage portfolios become more valuable. The loan-to-value ratio decreases while the yield remains constant hence making the portfolio less risky / more valuable.

- Investors—A recent issue of *Fortune* (October 13, 1997 article on Sam Zell page 100) explained the strategy of one exceedingly successful REIT... “...spent six months studying the apartment markets in 30 cities. They looked for fast-growing economies, where the local governments kept a lid on supply—that is to say, they didn’t hand out building permits like candy at Halloween.”

- Real estate brokers—Brokers bear the brunt of unfair criticism as the supposed drivers of increased housing prices. What they are merely doing is their job of pushing the envelope by a few thousand dollars at a time to get the best possible price for their clients. What home-owner would ask for less? Nonetheless, a tight market and steadily-increasing prices benefit the brokerage business overall, even if making the job more difficult and frustrating for the individual broker.

- Builders—Building into an inflating market decreases risk so long as the market does not hit one of those ‘air-pockets’ in which demand collapses. While a rising market creates more competition for land and sub-contractors make, it also provides an extra margin of security. The greatest risk a home-builder faces is unsold houses and so a tight market lessens that risk.

- Government itself—higher home values lead to higher tax assessments which lead to more money for government decision-makers to spend on projects dear to the concerns of their constituencies.

- Neighborhood activists—A great many of the approaches to making housing more affordable are ‘supply-side’ i.e. they start with the premise that the only way to keep prices stable or even lower them is to increase

the sheer quantity of dwellings. That makes sense. But it also means increasing density which is something that a great number of people do indeed favor as sound public policy *in some neighborhood other than their own*.

I want to make it clear that I am not suggesting any conspiracy, collusion or even concert of interest. All I am suggesting is that there are great number of individuals, institutions and interest groups which at the very least must have a mixed-view of the affordable-housing issue because of their own unique circumstances and the benefit that they derive from higher housing values. But such ambivalent feelings are what politics is filled with.

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That said, let me suggest that there is indeed a potential constituency for affordable housing. And it is an odd-couple—or more accurately, *menage a trois*. It consists of these three groups:

- major corporate employers such as Boeing, Weyerhaeuser, Washington Mutual, Microsoft, US West, Paccar, Safeco and so forth but including other major institutions such as Group Health and the University of Washington. For them, their employees’ housing costs become an indirect factor in their own cost of production or doing business. Housing prices may deter new employees from moving to metropolitan Seattle or add fuel to demands for higher wages. In either case they hurt institutional effectiveness.

- multi-family builders are not a large component of a national economy but traditionally have potent local political force.

- environmentalists through such groups as Thousand Friends of Washington have immediately grasped that the *perceived connection* between the urban containment line and rising home prices threaten the Growth Management Act. Their solution is increased density with the urban growth boundary.

This is a tenuous alliance, however, easily upset. Moreover it is one filled with potential to exacerbate class tensions. We see such tentative stirrings in the current Mayor’s race in Seattle. The supposed candidate of

the corporate elite—Mayor Paul Schell—favors compact, walkable urban villages. His opponent—Charlie Chong— accuses Schell of insensitivity to neighborhoods of middle-class single-family home-owners who wish to be left alone and have no wish to be ‘densified’ into urban villages. Likewise, Chong is accused of attempting to destroy the Growth Management Act and spread more city sprawl by ensuring that suburbs also grow and it is not only Seattle neighborhoods which become more dense.

However one may bemoan the simplistic images and cliches which dominate this debate, we do see the emergence of a potential political split in which those who favor ‘affordable housing’ are accused of doing so for their own narrow class or business interests and to the detriment of the majority of middle-class single-family home-owners.

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I point out what I believe are the intractable politics of affordable housing not with any levity but simply as a caution. Nothing happens without a political consensus. My point is that I do not see a natural community of interests to back-up government action, even assuming that there is much effective government action to be taken.

And after all, and to take the affordable-housing agenda to its logical conclusion, who would actually be in favor of *declining* home prices? All those in favor please stand up!

Values

Who should be subsidized?

No doubt we will be hearing many programs to help ‘first-time’ home-buyers and other worthy parties. I sympathize with the dilemma of the individual faced with the huge mountain of the down-payment. I acknowledge the human desire to help and the accompanying political reality that prompts the elected-official to want “to do something.”

My question goes to priorities. Should we subsidize able-body working people when we face unfilled needs for the truly needy? i.e. ‘defenseless’ populations—the low-income elderly, mentally-incompetents, children, the dying of any age who need hospice-care etc. etc.

It seems to me a matter of values—and votes. On the one hand there are defenseless people who have few backers in their corner. On the other side are fit, alert, typically younger people starting in their careers. Who’s claim to our help is greatest?

Well without sounding too cynical, the claim on public dollars for housing subsidies will surely tend to the people who represent the most votes i.e. the working-renters. And that is the way the politics will tend unless people agree that much as we might sympathize with the plight of people without the down-payment for a home purchase or the income to meet the payments, what money we have to subsidize housing should go to defenseless populations.

I concede that a variety of mortgage programs we already subsidize the home-buying public. My question simply goes to the matter of degree.

Moreover—and *perhaps more tellingly*—subsidies to working-renters to buy will be somewhat counter-productive. In effect it will make more people able to buy a home, certainly a worthwhile endeavor. On fact that is of course the goal: make more people home buyers.

But putting more people into the home- buyer pool with only a slowly growing amount of housing will only put further upward pressure on house prices. Unless there is a simultaneous supply-side solution, creating more home buyers only makes our problems worse.

So what looks like a sensible and neighborly gesture—helping others to buy a home through lending the down-payment, lowering interest rates for first-time home-buyers, a shared-equity program or some other device—actually turns out to exacerbate the problem.

Unequal Appreciation

Let me add to our list of woes by pointing out what I believe to be a troubling fact: we have seen dramatic appreciation in the single-family housing market. But by-and-large we have not seen the same rise in values in the resale attached, multi-family dwelling segment.

The lack of growth in value of attached housing is troubling and should disturb any affordable housing advocate. (Here as well as congruence with the interests of Growth Management advocates, by the way.) It indicates, I believe, a 'voting with one's feet' by the market place. I think that this phenomenon of static attached-housing prices is partially related to the declining quality of life in our public areas—both parks and street right-of-way, which are growing shabby due to lack of reinvestment by both the public and private sectors.

Here's the chain-of-thought: One of the tradeoffs (and benefits) of purchasing in a multi-family structure in a denser neighborhood *should be* that one can walk in safety and with security conveniently / comfortably to stores, restaurants, theaters and so forth along pleasant public sidewalks. Such pedestrian-friendly environments are called for by the public policy of most jurisdictions—certainly they are in the City of Seattle—but we are lagging in actually creating them.

Moreover, and even more troubling, we seem to be incapable of managing the public spaces of the pedestrian-friendly neighborhoods that already exist. I believe that the slow decline in the quality-of-life in higher-density neighborhoods exacerbates the preference for the single-family house. The detached dwelling offers the home-buyer the opportunity to create a private zone of comfort—even if the public spaces of the block decline, the house-owner has his/her lot on which to buffer the world. The buyer in a multi-family environment must not only deal with the high transaction costs of a condominium association decision-making but even as part of group has little if any opportunity to create a better environment as there simply is no room to do so on the private property of the building.

They are thus forced to take on the task of improving their neighborhood environment in the public right-of-way, a task for which

they are ill-equipped and face enormous institutional resistance from local engineering departments, most of which are still grounded in the task of only moving automobiles. A great number of the small (and relatively inexpensive) improvements which could increase neighborhood comfort are in the roughly 40% (using Seattle as an example) that is public right-of-way. These small-scale improvements have the potential to beneficially impact the look-and-feel of a neighborhood well-beyond their cost; there is great leverage in small city comforts. But they are very difficult for homeowners to do; the government is not doing them. In my view static attached housing prices are the result and a bad portend for the future.

The challenge is to propel local government to create public environments which can compete in quality of life with what one finds in single-family blocks. Local government is not doing that at this point.