

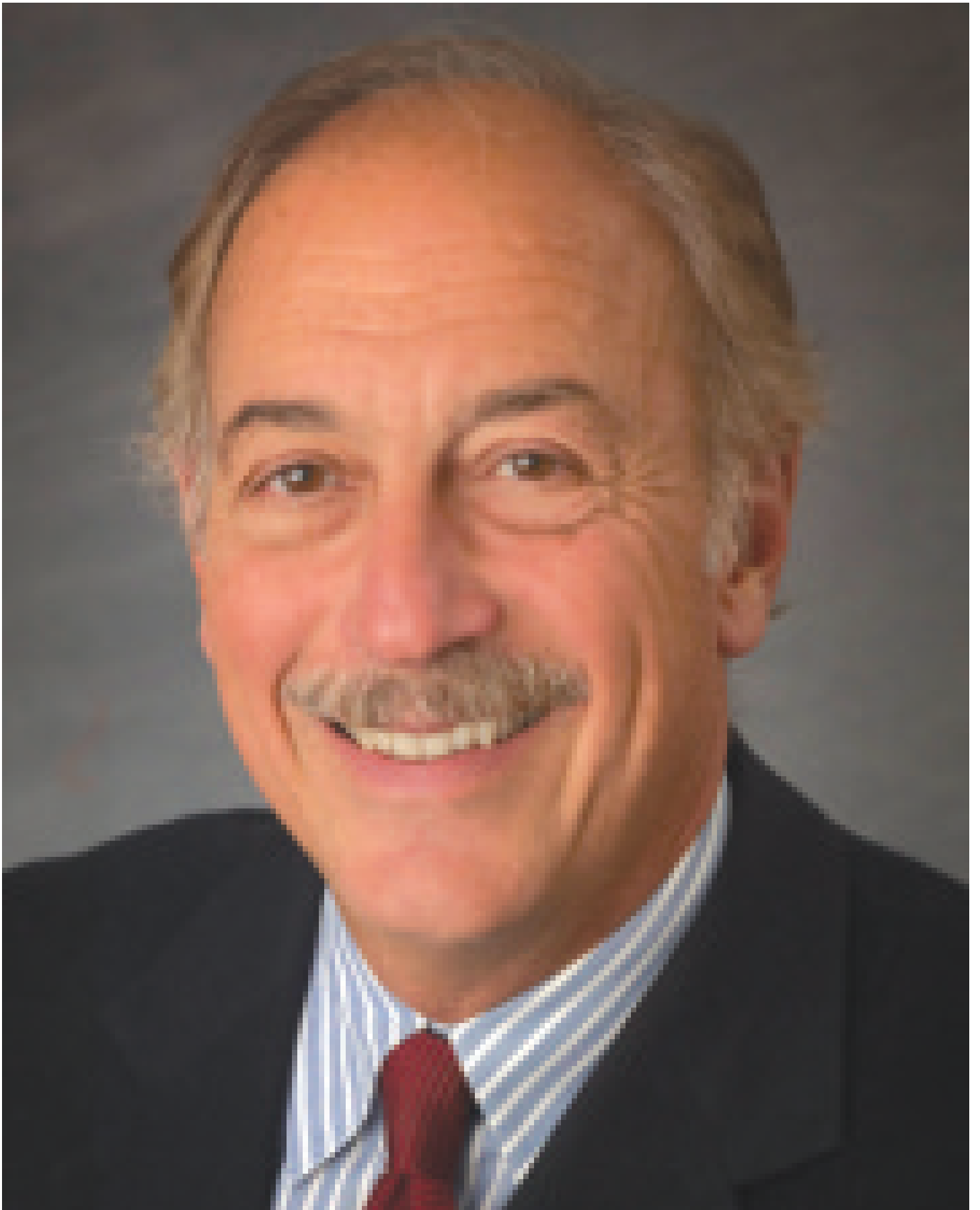


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Affordable housing redux... Look to the past - by Calano

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There has been so much thought and so many articles on affordable housing...with little movement on solving the problem. Why is it so? Because they focus on market response, which has not responded well. The often touted and most significant problems in the news are summarized, with response, as follows:

-Reducing cost of materials and labor... Important point, but inflated prices have already tempered and are likely here to stay.

-Cost of land...Similar to labor and materials, land price inflation is also probably here to stay as it is unusual to retreat from peaks.

-Zoning too restrictive....Up- zoning is seemingly feasible, but increasing density to create more land units will not reduce unit costs, because owners will simply charge as much per unit as under lesser density. Owners will be incentivized and rewarded, but not developers. Further, neighborhoods will delay progress.

-Financing too expensive... But today's interest rates are not expected to lower more than a couple of percent. If interest rates fall more than that, demand for housing will quickly increase, thus potentially inflating prices more, rather than less.

I summarize these points to show that the situation will probably not change much . These are good ideas, and partial solutions, but are not working as they are based on market forces to solve the problem. Left to themselves, market forces will change little to increase affordable housing. I say this because we have been here before, and government at various levels has had to step in.

A quick history demonstrates how government helped, back in the day.

- In 1974, Congress created Section 8 housing which provided rental assistance to low income people, in some cases lowering rent prices as much as 70%.
- In 1986, a low income Housing Tax Credit was created to incentivize developers to lower profits.
- In 1990, the Home Investment Partnership was created look for other options and finance.
- In 1992, the Hope program provided federal money to revitalize older public housing projects
- More recently, in 2008, a Neighborhood Stabilization Program was created, in 2016 a Housing Trust Fund was created, all providing funds or grants to states rehabilitation and new development.
- A government supported program has helped with down payment assistance for first home buyers.

Yes, these programs had their faults. Yes, they were bureaucratic and slow to action. But such

programs worked well enough to help create tens/hundreds of thousands of improved housing. If further innovations of similar programs were interjected now, the market would undoubtedly respond much better and much further, because the incentives will compound. A combined effort could be very effective! Generous people such as Warren Buffett could create the spark needed to grow charitable housing trusts, programs, direct grants partnering with government programs, all creating far better housing opportunities. Perhaps a new Golden Age in affordable housing could be created. One can only hope!

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