



State of the Market 61: Housing is urban infrastructure



By David A. Smith

When we as an industry ‘sell’ affordable housing to other stakeholders, we’re selling it wrong; instead of appealing to people’s sense of charity, we should appeal to their self-interest by casting affordable housing not as a benefit for the needy but instead as an urban growth hormone to make our cities work, our economy work, and our nation work.

Nations work only if their cities work

The explosion of connectedness has already brought us two twenty-first century revolutions:

- The dematerialization of capital (money moves globally at a click).
- The matching dematerialization of value chains (the assembly line is now intangible).

Combine these two forces and jobs move to wherever motivated human brains can be most cost-effectively found, anywhere in the world that people speak and type English.

These disruptions, which are both irreversible and brand-new in human history, seemingly devalue place ... and yet people live on a neighborhood scale.

As an Indian business colleague of mine put it, “Global comparative advantage lies in the efficiency and livability of cities.” When value is created wherever brains choose to live, the global competition is to attract those brains to our city. As Detroit now competes for talent with Delhi, Chicago with Cairo, San Francisco with Saigon, the *comparative attractiveness of cities as places to live* becomes the separating feature of national economic growth.



To improve commuting, build better affordable housing

Cities work only if housing works

What makes a built environment into a city?

Fifty-plus years ago, the self-taught urban theorist and community hell-raiser Jane Jacobs wrote:

[For] a city street to make a safety asset out of the presence of strangers, there must be eyes upon the street ... and the sidewalk must have users on it fairly continuously to add eyes on the street and to induce the people in buildings to watch the sidewalks.

Night-time eyes on the street means housing.

Without housing, the built environment is an industrial park; a shopping center; a resort. Without housing, that built environment is empty and dangerous after dark. As my long-time friend Allan Kingston, former CEO of Century Housing in Los Angeles, is fond of saying:

“Housing is where jobs go to sleep at night”

Economic development depends on housing development

Though few politicians oppose adding jobs to their community, many of these same elected



officials have surprising difficulty seeing the connection between jobs and housing, easily expressed as a formula:

$$1 = 1 + 1$$

Jobs, housing, and transportation march in step:

Add **+1 job** to your urban economy, and you

Add **+1 housing unit**¹, which also requires you

Add **+1** weekday round-trip **commute**.

Meanwhile, cities need population growth, stability, and youth refreshment, to sustain the value of their residential housing stock. Because housing is the only manufactured product that cannot be moved, if the population is in decline, the marginal resale value of a surplus house can drop abruptly to zero (as we saw in Detroit and Cleveland).

All this sets up a seeming paradox: to sustain the city, one must grow its economy, and with that one must grow its population; yet a growing economy and population mean a need not just for more housing but also for more *affordable* housing. So I extend Kingston's formulation:

"Affordable housing is where essential urban jobs go to sleep at night."

The economics of land use guarantee that in an urban context, roughly one-quarter of the people can't afford 'market quality' housing, because both the standard of housing and the price of occupancy will continuously rise. If it rises too high, the 'people who make the city work', such as teachers and health workers, are 'market evicted' to the periphery, where they further load already-stressed modes of transportation.

Affordability and transportation are

¹ The Orange County Business Council's *2015 Workforce Housing Scorecard* figures ~1¼ jobs per new housing unit.

in market-tension

Urbanization, economic growth, and population growth all mean that the greatest built-environment dynamic in American cities is increased density, which results in increased verticality. As Mark Twain observed, they aren't making any more land, so if we want more FAR, we have to go down or more commonly up, way up – and connect the new living spaces to transportation, whether tunnel, subway, skyway, or elevator.

All of this finds its expression in Transit-Oriented Development (TOD), mis-marketed as 'sustainable', which may rally the faithful but does little to persuade the skeptical incumbent homeowner who would just as soon have 'those people' go somewhere else. The *better* pitch is that TOD is essential to sustaining home values because without it the city will choke itself in traffic congestion.

Further, TOD requires affordable housing to be baked in, because of another simple equation:

$$H + T = 60\%$$

For a typical working family, **H**ousing Cost plus commuting **T**ransportation cost equals **60%** of the household budget. Demonstrated by NHC's Center for Housing Policy², this equation applies within a metro area and across many metro areas. And that has a huge implication for cities:

If you add transit without adding affordable housing, all you do is push up the price of well-located housing. That windfall benefit for those homeowners may be a fine thing but does nothing for community affordability, and hence discouragingly little for the city's economic competitiveness.

² *A Heavy Load*, October, 2006, on NHC's Web site. http://www.nhc.org/media/documents/pub_heavy_load_10_06.pdf.



TOD, then, is more than just upzoning; it requires affordable housing as an essential design criterion and decision factor.

Mixing is essential; infill is inevitable

Cities and zoning are frenemies, because complexity lies between order and chaos, and these two are always in tension. Cities are inherently and organically messy³ in their jumbling and juxtaposition of people, cultures, property uses, curb appearances, and circadian rhythms – and the messier cities are, the more successful they become.

‘Walkability,’ a concept currently much beloved by planners and New Urbanists, requires mess because it requires proximity – yet zoning treats the city as a pantry, where the FARs can be stacked in neat static arrangements like cans on shelves.

Zoning (invented less than a century ago) was the logical legal and political outgrowth of two features of the nineteenth-century industrial city: (1) its economy, whose jobs were street-level, jarring, odoriferous, sooty, and often dangerous; and (2) its resulting need for heavy-duty cast-iron and concrete industrial infrastructure. In that city, jobs needed to be downwind of homes and schools.

No more; in today’s cities the jobs are intangible, quiet, and clean. Meanwhile, broadband makes live-work not only feasible but for many people superior⁴ to the traditional suited commute. As a result, property built for one purpose (factories, shopping malls) must be repurposed, often into residential or live-work, and almost

invariably into a different use category than the by-now anachronistic urban zoning specifies.

Add to this a growing population, immigration, and urbanization and the city sees constant density-increasing development via infill and adaptive reuse, use mixing, and new property uses.⁵ The most successful neighborhoods today are mixed-use, mixed-income, attracting newcomers at all socioeconomic levels; they offer a continuum of tenure and price points within one area, so that people can change their family configuration, earning profile, and housing consumption without changing their friends, schools, social circle, and leisure; and in reverse, people can retire to a cheaper, smaller, maintenance-free place in their old neighborhood, rather than moving somewhere they’ll never get to like.

Implications: news you can use

Whether as a program participant or a policy maker, all of us connected to housing and affordable housing have a shared interest in making the pie higher and maximizing support for and efficient use of housing and urban development resources.

- **Design and develop for mixing.** Though mixing of uses, incomes, and resources is harder to finance manage, it is ultimately superior for cities, and the developers that master it become preferred partners for high-challenge (and therefore high-profit) turnaround and revitalization properties.
- **Don’t sell TOD as social inclusion, sell it as economic expansion,** because a more functional city benefits everyone, especially

³ Messy does not mean dirty or unkempt, but dynamically ordered. *Your desk is messy, mine is dynamically ordered.*

⁴ See *SOM 30, The Flexi-force and Multifamily Rental*, August, 2010.

⁵ No planner can predict the best future use of a location; only the market can decide that, and the market’s decision is continuously being updated, not least by technological advances that change economic and social patterns.



the rich. “You city councilors should endorse Transit-Oriented Development because *your* job will be better, *your* commute will be better, and *your* home will be worth more.”

- **Don't promote affordable housing as anti-poverty or social justice, present it as economic development.** “For our city to compete and attract the high-wage jobs, we need a strong workforce including lower-wage jobs who live close to their work.”
- **Sell additionality.** Housing strengthens neighborhood civility, people's sense of community, their connectedness to each other, and their sense of mutual interest, all of which builds a society that is protected by neighbors more than by police.
- **Measure additionality.** We can't claim wins if we don't keep score. Too often the housing industry assumes that units by themselves are proof of success, while making no effort to document or even estimate additionality benefits such as reduced commuting times, better air quality, stronger employment, and increased city revenues (property, business, and sales taxes).
- **Expand state and local housing funds beyond LIHTC by mobilizing non-cash resources.** Inclusionary zoning with density bonuses, PILOT agreements tied to current

baselines, adaptive upzoning around growth corridors – all create value ‘out of the air’, a portion of which can be monetized back into affordable housing and community resources.

- **Make workforce housing a priority.** Happy families make better workers make stronger cities. Everyone in the locality can see the value of, and hence get behind, quality affordable housing aimed at people whose income is above LIHTC caps because they work for post-industrial employers like hospitals, universities, and service companies.
- **Make zoning reform a priority.** Infill is where it's at, especially infill for accessory dwelling units, live-work spaces, smart TOD and mixed-use redevelopment of former industrial areas. As an industry, we have to tackle zoning, because our tolerance of an anachronistic tyranny of the homestead suburb contorts development and leads to spatial mismatches resulting in long commutes and overloaded parking garages.

In a future *State of the Market*, I expect to explore the connections about transportation, economy, community, and housing development.

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