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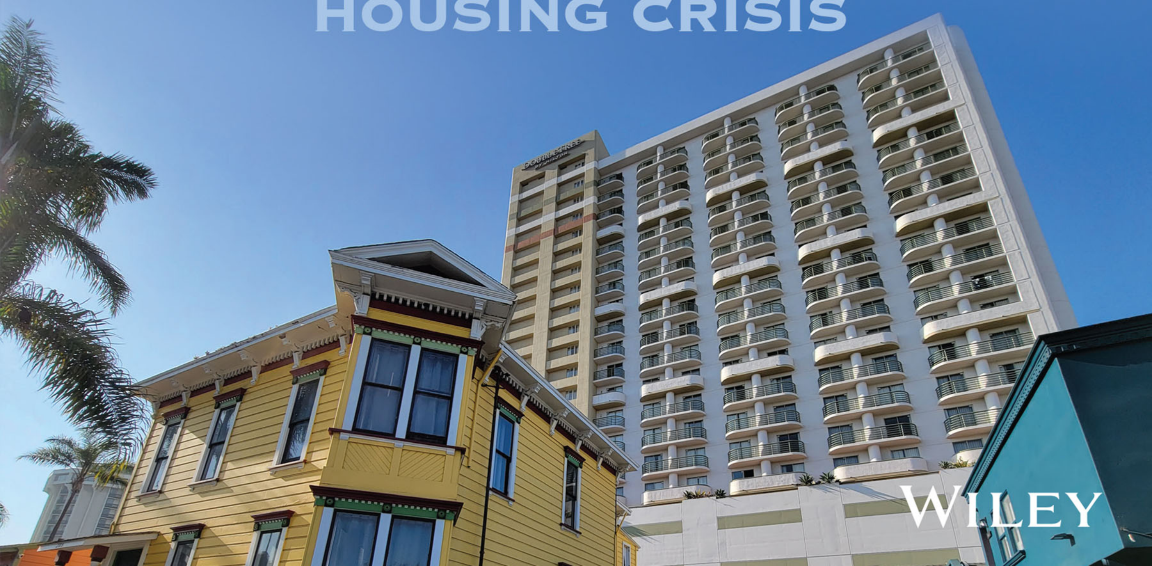
Escaping the Housing Trap

The Strong Towns Response to the Housing Crisis



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Contents

Introduction

Take an evening walk around your neighborhood. As you stroll, count the windows of the homes you pass. If the lights are on, take a casual glance at what you can see from the outside. You don't need to snoop; just glance.

Housing is everything. It is the basis for our ability to meet most of our other needs and wants. It is our tether to a place and to a community. Home is where we make nearly all our most consequential plans. Our career trajectories, our close relationships, and our health all depend in part on what kind of housing we are able to secure and where.

Behind one of those windows, perhaps, is the place where somebody proposed to their sweetheart. Behind another may be a chair where someone sat and wept for hours after receiving tragic news. A college acceptance letter sits on a desk somewhere. A jury summons. Unpaid bills. An eviction notice. A letter from summer camp, or one from rehab.

Behind one of those windows, an elderly widow's live-in caretaker sweeps the floor. An office has been converted to a nursery. Somewhere there is a couch where an old friend looking for a new start has been sleeping. In one of those homes, somebody has made plans to start a business. Or move to another state. Or finally buy that motorcycle.

Ponder, for a moment, the irreducible complexity of the web of decisions that lead particular people to live out their most pivotal moments behind the particular windows of particular buildings. Let yourself be humbled by it.

Most of us, at the end of the day, have pretty simple aspirations. We'd like to live a good life in a place that is prospering. And though each of us will define "good life" a little bit differently, nearly everyone's conception of "good" is going to involve a home in which they are secure and comfortable.

This is the third in a series of books outlining the Strong Towns approach to the growth and development of cities and neighborhoods.

Central to this approach is the recognition that cities are complex systems. They are shaped by countless decisions made by millions of individuals over time, with interconnections that are challenging to trace or fully grasp. When attempts are made to simplify or ignore this inherent complexity in organizing urban life, challenges and disruptions arise.

The first Strong Towns book, *Strong Towns: A Bottom-Up Revolution to Rebuild American Prosperity*, reveals an epidemic of financial insolvency across North American local governments and outlines a citizen-led approach to growth and development that can make our communities financially strong and resilient. The second book, *Confessions of a Recovering Engineer*, describes the failures, in spiraling costs and a mounting crash death toll, of America's transportation system. It proposes a paradigm shift in how we plan and prioritize infrastructure projects. Both books, in large part, are stories of the failures of top-down institutions, and the promise of bottom-up alternatives.

There is massive complexity to the subjects covered in the first two books because of the human factor: our biases and fallibility, our capacity to make shortsighted decisions and convince ourselves of faulty priorities. However, both of those topics also have an element that is very discrete and quantifiable. Budget math is budget math. Asphalt is asphalt. Physics is physics.

Housing is more complex and arguably has the highest stakes of all.

In the early stages of developing this book, we would often mention to people that we were going to be coauthoring a book about the housing crisis. This tends to elicit nods of affirmation: "Oh wow, yes, what an important topic. Wait: which housing crisis exactly?"

You could probably survey 100 Americans and get 100 different answers as to what the "housing crisis" consists of. And if you had conducted this survey in 2009, you would have gotten a very different set of answers. Different still in 1975. Or 1933.

What you will not find is a lot of disagreement with the idea that there *is* a housing crisis. Virtually no one has ever responded by telling us that they don't think there's a problem. Indeed, the sense is widely and acutely shared across all strata of society that there is a profound problem with housing, and that sense is not new.

If you have a modest income and/or rent your home, the "what" of the crisis is probably not all that elusive to you. Today, we have a crisis of unaffordability. This problem isn't new, but its contours have expanded. The US Census Bureau reported in 2022 that nearly half of American renter households pay over 30% of their income in rent, an amount seen as likely to strain their personal finances and their ability to build up savings. Ownership is no easier. According to the Urban Institute, in December 2022 households earning the median US income could only afford to purchase 20 percent of US homes for sale. In some regions, homeownership is even more out of reach: in metropolitan Seattle, the figure was 7.6 percent. In Los Angeles, a mere 1.9 percent (Choi and Zinn 2022).

It has long been true that burdensome costs, substandard conditions, and the constant threat of displacement have shaped the housing experience for poorer Americans. Today, a broader sense of precarity extends to a lot more people.

"Precarity" is a more subtle issue than just "unaffordability." We use it to convey that many people who can, on paper, "afford" their housing are nonetheless being stretched or finding their lives disrupted in some way. The housing options available to them do not grant them stability and the means to freely make important life decisions.

A single parent raising a teenager in a high-crime neighborhood.

A 30-year-old living with her aging parents.

A 40-year-old far from his aging parents and unable to assist them with their health and mobility.

Someone who cannot afford to move to pursue a desired career.

Someone facing eviction who will be displaced from their neighborhood, and with it, from a community of shared culture, faith, or ethnicity.

Someone fleeing prejudice and discrimination who cannot obtain a home in a community where they will be accepted.

An elderly, disabled homeowner, with significant home equity but cash-poor, who cannot move without losing a vital support network of friends and neighbors.

A middle-aged couple mired in debt, who forgo vacations and visits to the doctor in order to make the mortgage payments.

A young couple, powerlessly watching their ability to purchase a home locally evaporate because of a decision to raise interest rates made a thousand miles away at the Federal Reserve.

Someone afraid to leave a troubled relationship because she does not know how she will afford housing on her own.

A couple who rent a house from a distant landlord, after losing their previous home to foreclosure following a period of unemployment and missed payments.

A college student living in his car.

People making uncomfortable trade-offs. A roommate they don't get along with. A punishing commute. Still living with an ex because neither can afford their own place.

All of those scenarios do not even include the direst of circumstances. As of January 2022, according to the National Alliance to End Homelessness, approximately 582,000 Americans were experiencing homelessness. About a quarter of those were chronically homeless. About 28% were people living in families with children (National Alliance to End Homelessness n.d.).

Approximately one in seven children born in large American cities between 1998 and 2000 experienced at least one eviction for nonpayment of rent or mortgage between birth and age 15 (Lundberg and Donnelly 2019). Among those born into deep poverty, the figure is one in four. Eviction can have spiraling consequences for health, for academic performance, and for the ability to secure housing in the future.

A widely circulated 2021 article in *Works in Progress* was titled "The Housing Theory of Everything" (Bowman, Myers, and Southwood 2021). It made the case that housing precarity is behind a range of issues that bedevil the wealthy Western world, from slowing economic productivity and innovation to rising inequality, from low birth rates to poor physical fitness. Why can't the wealthiest societies in the history of humanity figure out this housing thing?

The answer, in some sense, is that as a society, we don't want to.

The housing market is our source of shelter, but it is also the foundation of the American economy. Investments whose values are derived from home mortgages literally backstop the solvency of the entire banking system. This is a lesson we learned the hard way in 2008, and yet it remains true today. Not only the financial sector but millions of individuals' finances are dependent on equity in a house they hope will be an appreciating asset over time.

At the same time, we all need shelter. And there is no way for shelter to remain broadly affordable while home prices rise faster than incomes.

The tension between these two objectives may be clearer than ever. But we are no closer to identifying a simple way of resolving it. In May 2023, a *Newsweek* story titled "Housing Market Crash Fears Rise

Among Americans" summarized the results of a survey: "Americans seem conflicted about where they would like home prices to be heading: some 43 percent would prefer prices in their area to increase, while 41 percent would want to see them drop" (Carbonaro 2023).

We need housing prices to fall; we also cannot afford for them to fall. Thus, we are trapped.

It was not inevitable that we would find ourselves in this trap. In this book, we will explore the historical origins of our housing predicament. Based on this understanding, we will offer some rational responses: ways to begin extricating ourselves from a broken system.

There is a difference between a rational response and a solution. There is no simple way out of our housing trap, no magical fix that does not entail some societal disruption and some economic pain.

But we are not helpless. Within the financial and legal means of local leaders are avenues to reform regulations that stifle the production of housing, to curb the distorting influences of Wall Street capital on our towns and neighborhoods, and to cultivate a new groundswell of local, neighborhood-focused developers who can actually build the housing we need, where it is needed.

We can act upon these things immediately. Incrementally, we can begin to make local housing markets more responsive to local demand. Ultimately we will have a world of more plentiful, affordable, and varied housing options.

This book will challenge several common simplistic narratives about the housing crisis: those that assert, or imply, that it has either a single cause or a single solution.

Those who make such assertions often focus on only one facet of the issue. In this, they call to mind the Indian parable of the blind men and the elephant. It describes a group of blind men who set out to determine the nature of an elephant but arrive at vastly different conclusions. One man, touching only the trunk, concludes that the elephant resembles a large snake. Another, reaching out and finding the elephant's ear, concludes that it is more like a fan; the man who touches the leg likens it to a tree, and so forth. None of them produces an accurate mental picture of the whole animal.

The parable illustrates that people who have incomplete mental models of the world (which is to say, all of us) can arrive at vastly different and incompatible conclusions.

Our national discourse about housing is incoherent in part because we are touching different parts of the elephant. Those who set housing policy often do not understand housing finance. Those who focus on finance are often oblivious to the effects of land-use policy. These conversations—housing finance and land-use policy—occur in separate circles and are often insufficiently informed by each other.

The first third of this book will review the history of housing finance, from the creation of the modern home mortgage and the problems it was addressing at the time to the ways in which rising home prices have become ever more entangled with the health of the US financial system.

The second third of the book will address the public policy environment that governs housing as shelter, from local zoning and building codes to state laws governing development to federal affordable housing programs. All these things affect where homes are built, what can and cannot be built, and what political forces come to bear on these questions.

Understanding both will lay the groundwork for the third and final section, in which we discuss rational steps that local leaders can begin to take right now to make room for a new housing paradigm, one that is able to rapidly produce housing on a local scale in response to local needs.

In the history of how Americans are housed, a crucial hinge point is the society-wide paradigm shift we have labeled the suburban experiment. This is a term we have used extensively in our work at Strong Towns to describe an interconnected set of radical changes in how we build, finance, and understand cities. This shift occurred across the entire North American continent in a short span of time, beginning in the mid-20th century. There was effectively no control group.

The suburban experiment did not have a single cause. The mass marketing of the automobile made it possible to design communities around this revolutionary new transportation technology. Rapid industrialization had strained the social and physical fabric of American cities. And the Great Depression had destabilized the country's economic foundations.

In response to the Depression, we deployed massive government spending, and new systems of housing finance, planning, and regulation, across a continent. We did it in an effort to stimulate homebuilding and homeownership on a mass scale. The result was to take trends that had already begun, such as the building of suburbs and the creation of residential zoning, and give them rocket fuel.

Virtually everywhere, we went from towns built and modified over time by many hands to whole neighborhoods built all at once to a finished state. We began to build neighborhoods as monocultures, instead of eclectic mixtures of different kinds of homes and activities. And we began to design them differently, around the assumption that almost everyone would drive a car.

The suburban experiment also encompassed a shift away from building cities in proportion to our means, with an understanding that those means would increase over time. Armed with new financial tools, we would increasingly finance our cities and our homes through debt, obtaining a short-term sense of prosperity at the cost of long-term liabilities.

This experiment emerged from choices that were understandable at the time. They were mostly the choices of policymakers looking to solve large and immediate problems. But the suburban experiment did have an underlying ideology of sorts.

In his seminal work *Seeing Like a State*, the anthropologist James C. Scott (1999) identifies the defining ideology of technocratic states in the 20th century. Scott calls this ideology *high modernism*, and for a time it dominated elite thinking in governments both right- and left-wing, both democratic and authoritarian. High modernism consists of a strong belief in the scientific perfectibility of society. The high modernist seeks to render complex social phenomena discrete, legible, and measurable, in order to prescribe solutions through rational, scientific management.

The suburban experiment is America's high modernist revolution in city-building. We believed we could build a prosperous society on a new, never-tested template. We believed we could enhance access to one of humanity's most basic needs—shelter—by streamlining and standardizing our systems for providing it. We believed we could devise permanent solutions to problems that had bedeviled city dwellers forever.

The 20th century housing revolution was a three-legged stool: financial, regulatory, and cultural. Again, one can look at the motivations of those leading the charge in each realm, and it's not hard to find them understandable, perhaps even noble. They can be read as an effort to create broadly shared middle-class prosperity.

But nearly a century on, we can recognize that the experiment's goals are not being met.

Before the suburban experiment, the bar of entry to create housing was very low. Your home was relatively likely to be built by you, your family members and neighbors, or someone close to you in your community. However, much of the housing that existed was of very low quality. Every rung of the proverbial housing ladder existed, including situations like crowded, airless tenements that we would find intolerable today.

A regulatory revolution sought to guarantee basic standards of housing and neighborhood quality. Building codes, fire codes, and zoning codes were all invented and widely replicated toward this end. We can recognize the health and safety advances that this new city planning apparatus enabled.

These early planning reforms, however, soon outgrew their initial purpose. To bring legible order to America's cities and neighborhoods, we broadly outlawed many of the housing forms that had been basic building blocks of our cities. We curtailed many of the ad hoc strategies by which Americans had built wealth while simultaneously meeting their need for shelter. We wrote into law rigid, pseudoscientific, and often prejudiced notions of what a good home and a good community could be.

By the 1940s, zoning had been repurposed as the operating system by which we would build the new suburbia: a set of standardized housing monocultures amenable to streamlined planning and large-scale finance.

Today, we experience a world in which there are massive regulatory barriers to the production of housing. Those barriers are highest in affluent and desirable cities and neighborhoods. Far from guaranteeing the order and permanence promised by early zoning champions, the actual effect has been to destabilize our communities and to displace many Americans from living where, and how, they would like to live.

Culturally, the relationship between Americans and our neighborhoods has changed. The neighborhood was once the stage on which most of life took place. You were likely to live, work, and conduct commerce within a small radius, and as such you were a participant in the full range of the complex social life of your neighborhood.

Today, new residential bedroom communities are more often marketed as places of privacy and exclusivity. They are less likely to be physically and socioeconomically integrated with the broader community, and their residents experience them largely as consumers, not cocreators.

As consumers we expect to be catered to, and yet many share a strong sense that the building industry is *not* responsive to our wants or needs. There's a disconnect. Development, and developers, are widely unpopular. We recognize housing as necessary and may well recognize that many places do not have enough of it, yet the construction of new housing elicits ferocious protest at least as often as not. Many do not believe that development can deliver positive benefits for their communities.

In finance, we had a pre-Depression status quo in which debt was not easily available as a means of securing housing. Homeownership was not actually much rarer than today. But the path involved some improvisation, some making-do. Homes could be financed, but lenders were much more risk averse and limited in what they would offer.

A system engineered in large part to rescue the housing market from the depths of the Great Depression changed the game. The federal government began to insure the mortgage loans issued by commercial banks, allowing them to confidently make long-term loans with small down payments and attainable monthly installments. This innovation unlocked the possibility of homeownership for millions of middle-class Americans.

But the new system was not without a catch. Federal mortgage rules excluded many poorer and predominantly non-white neighborhoods from the benefits of this system, condemning these places to often catastrophic stagnation and decline. The same rules dramatically tipped the scales in favor of building new suburbs and away from revitalizing existing communities.

This experiment spread throughout American society at the same time as an unprecedented remaking of the physical fabric of our communities. Mass suburbanization subsidized by the building of highways would change the way many, eventually most, Americans lived.

The opening of the suburbs unlocked a one-time financial windfall for governments and citizens alike. For a generation of newly minted homeowners, it appeared virtually a law of the universe that home prices would only go up. Mayors and city managers looked at budgets determined by the values of those homes and concluded the same. The resources of postwar America must have felt inexhaustible.

The first homes in the planned postwar suburb of Levittown, New York, cost $6,990. In today's dollars, that is $91,515.76: cheaper than almost any home on the market today. But with each successive decade, the effort required to sustain the expectation that home equity gains will outpace general inflation has become greater. Successive waves of financial innovation have been aimed not at stimulating the supply or variety of housing but at increasing Americans' ability to take on debt to gain access to it. That debt, in turn, would become the basis for an ever-more exotic collection of financial instruments that extracted profit for investors out of the basic homeownership transaction.

The shock of 2008 did not force a total reset. Rather, the years since have seen home prices rise to levels even higher than the peak of the early-aughts bubble. This has been fueled by historically low interest rates and massive infusions of cash into the economy, as well as a decade of underbuilding. In the summer of 2023, the Case-Shiller Index of US home prices relative to incomes hit an all-time high (FREDd n.d.).

There is no way out of this trap that does not involve a painful correction. Housing prices are untenably high for millions of Americans, threatening the stability and prosperity of our lives. But anything more than a modest fall in home prices, in the near term, represents a threat to the banking system and the entire US economy.

The path to escaping the trap will require a building boom. But it won't be one that looks like the suburban building boom of the postwar era.

We need a lot more housing, in a more diverse range of places and forms than what is currently produced. Much of it will be small, and much of it will be carved out of existing homes and properties. We need a lower bar of entry, both for people seeking housing and for people creating it. We must reinvent the starter home, the bottom rung on the housing ladder, in a way that is appropriate to our era, not by seeking a return to the tenement conditions of a century ago.

In all of this, we can learn from the rapid yet decentralized process of growth that created many pre-suburban cities we still enjoy and admire today. These places were built by many hands, not few.

We must enable and cultivate a new generation of small-scale, incremental, citizen developers: people who can build in the communities they live in, where they have skin in the game, people who can work in the gaps and crevices of a neighborhood and make more out of less.

We need access to finance for these projects. We need communities of such developers who can share know-how and resources.

We also must re-jigger our planning apparatus, which has become an unwieldy tangle of rules that conspire to stifle even the smallest change to the existing physical character of many neighborhoods. The next increment of intensity, allowing for growth of the housing stock and evolution of the neighborhood, must be legal everywhere. Securing permission to do these projects must be fast and straightforward.

Every neighborhood must be allowed to grow and change. This means a cultural shift. We've been sold the promise of permanence: an illusion that we can be happy homeowner-consumers in endlessly appreciating homes in neighborhoods that look the same for decades.

The reality is that a place that is not changing is dying. We can wage a war against entropy, and we will lose it. Or we can recalibrate our cultural sensitivities to live with a certain amount of change, to relinquish a certain expectation of control.

If we can do this, there is much to gain. We will find that we can produce a world of far greater housing options and that this allows us to live richer lives. We will discover that we have more agency than we thought we did, that we can shape our communities to meet our needs, not the imperatives of an impersonal planning bureaucracy or a distant financial institution.

This will not look like a return to the past, which was never perfect or simple anyway. But it will involve a return to a recognition that cities are at their best when they are, as Jane Jacobs said, created by everyone. Genuine solutions to the problems we share cannot be orchestrated from the top down. But they can emerge over time from the work of many hands, pursuing separate objectives in a dance that is never fully choreographed.

This is how our cities, towns, and neighborhoods used to grow. In that respect, it's time to go home.

I

Housing as Investment

1

Is Housing Shelter or an Investment?

Securing shelter is a fundamental necessity for everyone. In Maslow's hierarchy of needs, the foundational level is rooted in the essentials of human existence. Basic life requirements include air, water, and food, in addition to the fundamentals of rest, clothing, and a place to shelter. When any of these essentials are absent, all other considerations naturally take a backseat as the immediate priority becomes obtaining these basic needs. It's not just a preference; it's a fundamental matter of survival.

The second level of Maslow's hierarchy is safety. Once a human's base needs have been met, it is natural to seek an increased level of security. Protection of oneself and one's property is urgent. There is also room here for things such as personal health, stable employment, and financial security.

A residence serves as more than just shelter; it enhances physical security and, under favorable circumstances, becomes a vehicle for accruing wealth and achieving financial stability. Homeownership often plays a pivotal role in ascending the initial rungs of Maslow's hierarchy.

The next step is love and belonging. The home plays a large role here as well. A home provides the place to raise a family and experience the intimacy of family life. Living in a place can provide a sense of connection to neighbors and a community.

Once a person has love and belonging, Maslow suggests the next level is esteem. Respect, status, and recognition are elements of esteem often reflected in a home. A housewarming party is a way to share good fortune with others. It's also a way to signal success.

At the pinnacle of Maslow's hierarchy is self-actualization, the pursuit of realizing one's full potential. While a home is not typically the catalyst for achieving self-actualization, the upkeep of a well-tended yard, engaging in occasional home improvement projects, or simply fulfilling mortgage payments can unexpectedly become avenues toward personal fulfillment.

The home is at the core of the American Dream because it is so many things to so many people. It's shelter. It's security. It's a store of wealth. It's a reflection of our status. It's where we live and experience life's most intimate moments. If we're lucky, it is the place we'll draw our final breath, surrounded by our loved ones, after a long life.

Housing serves us in so many dimensions, but what happens when these dimensions compete? When housing becomes a good investment for homeowners by reliably going up in value year after year, it impairs the ability of non-homeowners to purchase a home. When housing as a form of esteem or self-actualization leads homeowners to demand exclusionary zoning practices, it makes it difficult for needed housing to be built.

Economically, housing is an excludable good. If one person or family occupies a home, they can exclude others from making use of it. It is also considered a rival good. When a person or family occupies a home, that home is no longer available in the marketplace for someone else to occupy. This combination—excludable and rivalrous—makes housing what economists call a private good.

In theory, a free market will supply private goods in quantities and at price points to meet demand. Some essential private goods, such as food and clothing, the market provides in excess. The fact that some Americans go without food or clothing is not a function of supply breakdowns. There is ample food and clothing being produced, more than enough for everyone.

Housing is also an essential good, but it is not produced in excess like food and clothing. Quite the opposite; there is currently