The Roots of the Modern Housing Crisis

written by Sean Posey | February 9, 2016

Americans today face a dual crisis: rising rents and increasingly unaffordable housing markets. The housing crisis, far from being over, has metastasized. This new set of problems is confounding economists, who are left to view the situation through the narrow lens of mainstream orthodoxy—one that is highly colored by the ever-present notion of the American (Delusion) Dream. If the country is to deal with this new normal, it must embrace new economic tools and question the veracity of a system that swings from one crisis to the next—a system that is proving incapable of providing individuals and families with affordable housing, a basic need.

Following the end of World War II, a combination of forces made the largest housing boom in American history possible: generous federal housing policies, real increasing wages, and a concerted effort on the part of the government and developers further enshrined the ideal of homeownership in the American mind. Homeownership rates increased nearly 20 percent from 1945 to 1960. Suburban tract housing spread throughout the newly built cul-de sacs around the country, and professionals, blue-collar workers, and middle managers joined the exodus to the land of cookie-cutter Cape Cods and white picket fences.

Not everyone was welcomed, however. African Americans were quite purposely excluded. But the new programming did grow the economy, and the expansion of housing provided a convenient bulwark against communism during the height of the Cold War. ("No man who has a house and a lot can be a communist," famed developer William Levitt once declared. "He has too much to do.")

Decades later, President Bill Clinton unveiled his "National Homeownership Strategy," which sought to dramatically increase the number of homeowners in a short period of time. Among other things, Clinton's initiative helped relax lending standards in order to achieve the stated goals. George W. Bush largely followed suit, promoting owning a home as a key element of his ideal "ownership society." By 2004, the homeownership rate approached 70 percent.
All of that changed in 2007. The spectacular subprime mortgage crisis and the recession put an end, probably permanently, to the American Dream of overwhelming homeownership. Today, homeownership rates are back to where they were in 1994. Now we face a housing crisis of new proportions: Both homes and rental units are becoming increasingly unaffordable for a large percentage of the working class and the déclassé. Despite efforts by the Federal Housing Finance Agency to keep down payments to a bare minimum, the "dream" of homeownership remains out of reach for an increasing segment of the population. The reasons are straightforward: declining and stagnant wages for the majority of Americans, large amounts of student-loan debt, rising rents, and the growth of non-white families facing more extreme problems of access and inequality.

Wage growth today is largely concentrated in the managerial classes at the top fifth of the income distribution; wages for the vast majority of workers are barely keeping pace with inflation.[1] Between 1979 and 2015, most workers witnessed an outright decline in hourly pay.[2] With more and more people unable to get ahead financially, the prospect of increasing numbers of families putting money away for the down payment on a house seems remote, no matter how low down payments go.

The decline in homeownership and the rise of the rental market is also exacerbated by the problem of inadequate wage growth for young professionals. Only 19 percent of available rentals in the top

25 largest markets are considered affordable for recent college graduates.[3] Once considered a problem mainly in "global cities" like San Francisco, Los Angeles, and New York, the lack of affordable rental units for young college graduates is spreading from the coasts to inland cities. In places like Atlanta, once seen as a safe market for middle-income families, the rise in rents is affecting a greater share of wage earners. The same goes for housing: "Many cities are exhibiting decreasing housing affordability, period," writes Professor Todd Sinai. "It doesn't matter whether the houses are owned or rented; in those cities, households of all stripes pay increasing shares of their incomes for housing."[4] Student-loan debt makes it even more difficult for college grads to find suitable affordable rentals (and to save for the down payment on a home). Graduates from the class of 2015 carry an average of $35,000 in debt.
The situation is even worse for low-income renters. Over 80 percent of renters making under $20,000 in 2011 paid more than 30 percent of their income in rent. According to the Economic Policy Institute, the average cost of living for a family of four is $50,000 higher than the average salary of a worker making minimum wage.[5] A full 30 percent of American workers are making near the minimum wage. The hourly wage needed to afford a two-bedroom rental is higher than the median hourly wage of the average American worker, and it's nearly three times higher than the federal minimum wage.[6]

Dramatic income inequality between white, black, and Latino families fully reveals how the housing and rental crisis is affecting people of color. The median net worth for white households in 2009 was over $113,000, but only $6,325 for Hispanic households and $5,677 for black households.[7] Unlike during the postwar housing boom, both the Clinton and George W. Bush housing initiatives sought to bring black and Latino families into the tainted-dream of American homeownership. Yet the subprime debacle—which disproportionately targeted (and eventually devastated) black and brown neighborhoods—wiped out most of the gains in wealth previously made by these communities. And with a rapidly growing number of "minority" households, the rental and housing crisis will surely only worsen.

A variety of "remedies" have been advanced by mainstream housing experts and economists in response to what U.S. Secretary of Housing and Urban Development Shaun Donovan calls "the worst rental affordability crisis that this country has ever known." Some experts have argued for policies aimed at increasing housing density in cities, especially in so-called "superstar cities" such as San Francisco and Portland. However, high land costs are leading developers to build units geared to those at the top of the income distribution. According to the *Wall Street Journal*, over 80 percent of new apartments built between 2012 and 2014 were targeted at the luxury market.[8]

Economist Ryan Avent, blogger Aaron M. Renn, and others argue that density is indeed the key, and that new laws for zoning, historic districts, and floor-area-ratio limits will allow more workers to congregate in "superstar cities," and therefore allow a broader spectrum of wage earners to enjoy the benefits of access to better neighborhoods—which will supposedly buoy low-income and lower-"middle class" families.[9]

But these arguments represent a mindset deeply grounded in mainstream economic orthodoxy. Nowhere do they address why economic networks are clustering in a few cities (usually on the coasts) while wide swaths of the country are hollowed out. They fail to consider the importance of communities rooted in place and the impact of forced economic migration on less wealthy cities. These types of "solutions" merely tinker at the edges of a dying economic system, one that is unable to deliver a meaningful standard of living for larger and larger percentages of the population.

While policy paralysis reigns at the federal level, local solutions for tackling the rental and housing crisis are slowly spreading. In particular, community development corporations are leading the way. In Newark, New Jersey, the New Community Corporation not only manages two thousand housing

units, it also employs well over 1,000 local residents and uses the proceeds to operate a shopping center and grocery store. Community land trusts—which are non-profit corporations that operate and manage housing, developments, and commercial enterprises for place-based communities—are also proving to be powerful local tools for stopping gentrification and providing affordable housing.

If we are truly to deal with the new crisis in housing in a structural manner, then we must discard the flawed perceptions we use to analyze the situation in the first place. The postwar American Dream is part of the problem, not the solution. It's time to discard discredited notions that situate housing at the center of consumer utopias and speculative frenzy, which always brings us back to another crisis. Instead, it's time to bring the conversation around to systems change—starting at the local level with tools such as land trusts and community development corporations. Affordable housing should be viewed as a basic right, one enshrined at the center of an American reality—not an America Dream.

Footnotes

1. U.S. Department of Labor, Bureau of Labor Statistics; and see Lawrence Mishel and Heidi Shierholz, "A Decade of Flat Wages: The Key Barrier to Shared Prosperity and a Rising Middle Class," Briefing Paper #365, August 21, 2013.
2. Elise Gould, "2014 Continues a 35-Year Trend of Broad-Based Wage Stagnation," February 19, 2015.
3. Ralph McLaughlin, "Pads for Grads: Where the Newly Educated Can Afford Rent," May 20, 2015.
4. Richard Florida, "The Deep Roots of America's Housing Affordability Crisis," May 20, 2015.
5. Fred Imbert, "Cost of Living is Increasingly Out of Reach for Low-Wage Workers," August 31, 2015.
6. National Low Income Housing Association, Out of Reach 2015, 2015.
7. Rakesh Kochar, Richard Fry, and Paul Taylor, "Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics."
8. Laura Kusito, "New Luxury Rental Projects Add Squeeze to Rent Squeeze," May 20, 2015.
9. See Ryan Avent, The Gated City, Amazon Digital Services, 2011.