

## RESEARCH SUMMARY

## Price Is the Medium Through Which Housing Filters Up and Down: A Proposal for Price/Income as an Indicator of Housing Supply Elasticity

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Urban land-use regulations, such as zoning that slow the production of new homes (even “luxury” homes), mostly hurt the poorest families in metropolitan areas. In “Price Is the Medium Through Which Housing Filters Up and Down,” Kevin Erdmann shows that poorest families eventually decide to move away to regions with more homes, but only after enduring a significant degree of economic hardship.

### NEW HOUSING CREATES A DOMINO EFFECT IN METROPOLITAN AREA

In cities where regulations do not constrain the addition of new housing developments, all residents are able to trade up because there are more options. Higher income families can move to new and more expensive homes, which opens up the market of older homes for families with lower incomes. The result is more available affordable housing.

But when the production of new units is constrained, the existing stock of homes is claimed by residents with higher incomes. As a consequence, lower-income residents must either accept higher rents or move to more affordable metropolitan areas.

### PROCESSES REFLECTED IN SYSTEMATIC PATTERNS IN PRICES

When the supply of new housing is lacking, prices rise the highest in the most affordable neighborhoods. Depending on their financial situation, residents react to rising prices by deciding to move away, as cost pressures for staying become more painful than moving. Therefore, when cities make it hard to build housing of any kind, residents must compete with each other for the housing that exists, and families most financially vulnerable inevitably lose that competition.

The apparent unsustainability of high home prices has been a central concern in housing policy debates for the past couple of decades. Prices *are* unsustainably high. Lenders, corporate investors, the Federal Reserve, and a number of other entities frequently have been blamed for this condition. However, it is constrained urban supply that causes home prices to be unsustainably high, because prices *must be* unsustainably high in order to induce existing residents give up, choose to be displaced to relieve their financial burdens, and move to other cities.

Fundamentally, unsustainably high home prices have been mostly the result of families trying to hold on to what they have, rather than families irrationally trying to buy more.

## HOW THE COMPETITION PLAYS OUT

- Housing costs rise the most in neighborhoods where residents are financially vulnerable and have fewer options.
- Poor families are not able to cope with rising rents and have fewer resources to deal with other major changes.
- As the financial pain of inadequate housing increases, a growing number of poor families become more willing to make major decisions, such as moving away to another city.
- In cities where housing production is low, the poorest residents suffer the bulk of the financial distress.

## GREATER HOUSING SUPPLY IS THE KEY TO REDUCING MASS DISPLACEMENT OF POOR RESIDENTS

Economic growth will mostly create financial hardship for the poorest residents until coastal urban centers correct their local housing policies to allow for a normal amount of new construction to take place—an amount that can accommodate moderate population growth, with housing for all their existing and new residents. The higher incomes rise from a growing economy, the more likely poor families will be displaced or face rising costs. The key to shared prosperity is more urban homes of any kind.