How housing regulations cause homelessness

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The problem of homelessness in the 1980s has puzzled liberals and conservatives alike. Both have tended to fit the problem into their preconceived views, without looking at what is new and different about the phenomenon.

For liberals, the issue has been fairly straightforward. Homelessness, they say, stems from a lack of government effort and compassion. Reacting almost reflexively, liberals have blamed homelessness on federal spending cuts and the heartlessness of the Reagan administration. The most commonly cited figure is that budget authorizations for the Department of Housing and Urban Development (HUD) were cut 75 percent in the Reagan years, from $32 billion in 1981 to $8 billion in 1988. Everything else is presumably self-explanatory. This compelling logic has even been repeated in the Wall Street Journal.

Conservatives, on the other hand, have taken two approaches. Either they deny the problem's existence or they assert that homelessness is almost always the result of personal pathologies. On the first count, it has often been argued (as in Martin Morse Wooster's June 1987 Reason article, "The Homeless: An Adman's Dream")
that homelessness is really no worse than it ever was, but that the problem has been exaggerated to justify increases in government spending. On the other, conservatives have also argued that most of the homeless are insane, alcoholics, or drug addicts, and that their personal failings make it impossible for them to find housing, even when it is available.

**Unpersuasive explanations**

But these arguments, whether liberal or conservative, do not really hold up under close scrutiny.

The most obviously flawed explanation lies in the figures that seem to indicate a massive federal cutback in housing assistance. There has been no such cutback. Federal low-income housing assistance actually increased from $5.7 billion in 1980 to $13.8 billion in 1988. The number of households receiving low-income housing assistance also rose, going from 3.1 million to 4.2 million during the same period.

The commonly cited "cutback" from $32 billion to $8 billion is the figure for HUD's future authorizations. This figure has nothing to do with actual housing assistance, however, since it only indicates the amount of money that Congress authorized HUD to spend in the future. These authorizations often run forty years in advance—and much of the money is never spent anyway.

The reason for this cutback has been the changeover from a program centered around public-housing construction to one centered around housing vouchers. When Congress authorizes a unit of new public housing, it must include all future mortgage payments, running decades ahead. In authorizing a housing voucher, Congress pledges money for only five years—the lifetime of the voucher.

In addition, vouchers provide the same housing at only half the price. A unit of public housing costs the federal government $8,000 a year, while a voucher costs only $4,000. Thus, twice as many people can be reached with the same amount of money. This is why HUD has been able to extend housing aid to more low-income people without an equivalent increase in spending.

But if the liberal argument about "spending cuts" is based largely on a misunderstanding of the budgetary process, the conservative argument that homelessness has not really increased at all seems equally ill-founded.
There were indeed homeless people long before 1980, and their numbers have always been difficult to count. But it is hard to ignore the almost unanimous reports from shelter providers (many of them old-line conservative church groups) that the problem has been getting steadily worse since 1980. The anecdotal evidence is also abundant. Anyone who has walked the streets of New York or Washington over the last decade knows that there are more beggars sitting on the sidewalks and sleeping on park benches than there were ten years ago.

Although many of the homeless are obviously alcoholics, drug addicts, and people who are clinically insane, large numbers appear only to be down on their luck. The most widely accepted statistical breakdown was first proposed in a 1988 Urban Institute paper: "Feeding the Homeless: Does the Prepared Meals Provision Help?" According to authors Martha Burt and Barbara Cohen, one-third of the homeless can be categorized as released mental patients, one-third as alcoholics and drug abusers, and one-third as people who are homeless for purely economic reasons.

Thus the component of homeless people who are not affected by personal pathologies is large. It should also be noted that being a chronic alcoholic or drug addict does not condemn a person to living in the streets. Even "winos" or "stumblebums" were able to find minimal housing in the past.

And so paradoxes remain. How can we have such a large homeless population at a time when rental vacancy rates are near post-war highs? How can there be plenty of housing but not enough "affordable housing"? In short, how can there be scarcity in the housing market when so much housing is still available?

**Variations among housing markets**

These paradoxes can be resolved when we recognize that the housing market is not a national market but is instead the sum of many regional and local markets. Rental vacancy rates probably serve as the best measure of the availability of affordable housing, since most poor people rent. These rates vary widely from city to city. During the 1980s, rental vacancy rates in Dallas and Houston were rarely below 12 percent—a figure that is about twice what is considered a normal vacancy rate. At the same time, housing has been absurdly scarce in other cities. New York has not had vacancy rates over 3 percent since 1972. San Francisco had nor-
mal vacancy rates during the 1970s, but they plunged to 2 percent during the 1980s, where they remain today.

Since the poor tend to be limited in their mobility, vacancy rates significantly affect their ability to find housing. Although southern and southwestern cities claim to receive a regular seasonal migration of homeless people during the winter months, there is little evidence that people are moving from city to city to find housing. Other factors, like work opportunities, proximity to family members, and sheer inertia, seem to dominate people's choice of locale.

What should be far more mobile is the capital that builds housing and has created such a superabundance in specific cities. If it is difficult to find tenants for new apartments in Dallas and Phoenix, why don't builders shift to Boston or San Francisco, where housing is desperately needed?

Once we start asking this question, the impediments in the housing market suddenly become visible. It is obviously not equally easy to build housing in all cities. In particular, the local regulatory climate has a tremendous impact on the housing supply. Dallas and Houston are free-wheeling, market-oriented cities with little or no zoning regulation and negligible antigrowth sentiment. They have been able to keep abreast of housing demand even as their populations grew rapidly. Boston and San Francisco, on the other hand, have highly regulated housing markets. Both are surrounded by tight rings of exclusionary suburbs, where zoning and growth-control sentiment make new construction extremely difficult. In addition, both have adopted rent control as a way of "solving" local housing shortages. As a result, both have extremely high housing prices and extremely tight rental markets. The median home price in each approaches $200,000, while in Dallas and Phoenix the median price is below the national median of $88,000.

Thus it makes little sense to talk about a national housing market's effect on homelessness. Local markets vary widely, and municipal regulation seems to be the deciding factor.

This is what has misled both liberals and conservatives. Conservatives look at the national superabundance of housing and conclude that local problems do not exist. Liberals look at local shortages and conclude that there is a national housing problem. In fact, housing shortages are a local problem created by local regulation, which is the work of local municipal governments.
It is not surprising, then, to find that homelessness varies widely from city to city, with local housing policies once again the decisive factor. These conclusions are supported by research that I conducted in 1988: I calculated comparative rates of per-capita homelessness for various cities, using the homelessness figures for the largest thirty-five cities investigated in the 1984 Report to the Secretary of Housing and Urban Development on the Homeless and Emergency Shelters. I also added fifteen other large cities that were not included in the initial HUD survey. I then subjected the comparative rates of homelessness to regression analysis, in order to look for possible associations with other factors.

Among the independent variables that I considered were the local unemployment rate, the poverty rate, city size, the availability of public housing, the median rent, annual mean temperature, annual rainfall, the size of the minority population, population growth over the past fifteen years, the rental vacancy rate, the presence or absence of rent control, and the median home price in the metropolitan area surrounding each city.

Of all these variables, only four showed a significant correlation: the median home price, the rental vacancy rate, the presence of rent control, and the size of the minority population. The first three formed an overlapping cluster, with the median home price being the strongest predictor (accounting for around 42 percent of the variation, with a chance of error of less than .001 percent). The size of the minority population added about another 10 percent. The total predictive value for both factors was 51 percent, with a margin of error below .0001 percent.

When combined on a single graph (see next page), the figures for the forty cities for which all of the relevant data are available show a strong trendline for median home prices; the cities with rent control are predominantly clustered in the top right-hand quadrant. Of the four major cities with minority populations of more than 60 percent, the two with rent control (Newark and Washington) are right on the trendline, while the two without it (Miami and Detroit) are the sole “outliers”—cities whose rates of homelessness do not seem to correspond with their positions in correlation with median home prices.

Altogether, these data suggest that housing variables are a better indicator of homelessness than are the traditional measures of unemployment, poverty, and the relative size of a city’s public housing stock. High median home prices are usually found in
cities with strict zoning ordinances and a strong no-growth effort. Cities with a tight ring of exclusionary suburbs (such as Boston, New York, Washington, San Francisco, and Los Angeles) have high home prices. Strangely enough, most have also adopted rent control.

**Homelessness in Forty American Cities, Correlated with Rent Control, Size of Minority Population, and Median Home Price**

(R=.649  P<.0001)

At the same time, rent control is closely correlated with low rental vacancy rates. Every city in the country with rent control (except Los Angeles) has a vacancy rate below 4 percent, while the average for cities without rent control is over 8 percent.

When viewed historically, these low vacancy rates are obviously the result of rent control rather than its cause. When most of these cities adopted rent control in the 1970s, all had vacancy rates around the norm of 6 percent. Rather than being spurred by low vacancies, the rent-control ordinances that swept the East and West Coasts during the 1970s were advertised as a response to
inflation. The housing shortages came later. (New York, on the other hand, has had rent control since 1943, when it was imposed as part of World War II price controls. Vacancy rates stood at 10 percent in 1940, but have never been above 5 percent since the war ended; they have been below 3 percent since the late 1960s.)

Given these facts, the most plausible explanation of the relation of homelessness to high median home prices, low rental vacancies, and the presence of rent control seems to be what might be called “intense housing regulation.” Many cities, such as San Francisco, Berkeley, and Santa Monica, have adopted rent control as part of municipal efforts to slow growth and stop development. These efforts are often aimed against new housing construction, particularly of apartments and rentals.

Since most communities that adopt no-growth ordinances usually like to think of themselves as liberal-minded, they do not like to admit to limiting housing opportunities for low-income people. So they try to compensate by imposing rent control, which they claim “protects” tenants from rising rents.

But of course rent control makes things only worse, by causing vacancy rates to decline and apartments to become much harder to find. The words of Assa Lindbeck, the Swedish socialist (and now chairman of the Nobel Prize Committee for Economics) can hardly be improved upon:

The effects of rent control have in fact been exactly what can be predicted from the simplest type of supply-and-demand analysis—“housing shortage” (excess demand for housing), black markets, privileges for those who happen to have a contract for a rent-controlled apartment, nepotism in the distribution of the available apartments, difficulties in getting apartments for families with children, and, in many places, deterioration of the housing stock. In fact, next to bombing, rent control seems in many cases to be the most efficient technique so far known for destroying cities.

**Attacks on growth and SRO’s**

Perhaps the best place to see this syndrome at work is in the San Francisco area, which has some of the country’s most intense and innovative housing regulation and is also generally considered to be the center of some of the nation’s worst homelessness.

It may be hard to believe, but housing prices in California in 1970 were no higher than the national average—even though the state experienced astonishing population growth during the 1950s
and 1960s. It was not until the wave of environmental regulation and no-growth sentiment emerged in the 1970s that housing prices began to climb. Throughout California, the increase in home prices has consistently outpaced the national average over the last two decades. By 1988, the median price for a home stood at $158,000 there, in contrast to the nationwide figure of $88,000. In the highly regulated San Francisco Bay area, the median was $178,000, more than twice the national median.

California also experienced a wave of rent-control ordinances in the 1970s. Berkeley adopted rent control in 1971, shortly after imposing a “neighborhood preservation ordinance” that all but prohibited new development. The ordinance was eventually overturned in the California courts in 1975. Then in 1978, Howard Jarvis made an ill-fated promise that Proposition 13 would lower rents by reducing property taxes. When rent reductions failed to materialize, angry tenants in more than a dozen cities retaliated by adopting rent control.

As a result, housing in highly regulated metropolitan regions around San Francisco, San Jose, and Los Angeles has become very scarce. At the same time, homelessness has become a pronounced problem. Santa Monica, which imposed rent control in 1979 as part of an intense antidevelopment campaign, has become the homelessness capital of the West Coast.

Once growth control, tight zoning, and rent control are in place, even middle-class people may have trouble finding housing. A municipality in effect becomes a closed community, open only to its current residents (who either experience remarkable run-ups in the value of their homes or live at rents far below market) and people with strong inside connections. Mark Kann’s 1986 book *Middle Class Radicalism in Santa Monica*, which generally praised the city’s housing policies, speaks of a “woman who tried to get a Santa Monica apartment for more than a year without success[;] ... she broke into the city, finally, by marrying someone who already had an apartment there.”

No-growth ordinances and rent control have not, of course, been embraced everywhere; but city administrations have often produced comparable results through intense housing-code enforcement, designed to drive “undesirable” housing (and the people who live in it) out of their jurisdictions.

In *New Homeless and Old: Community and the Skid Row Hotel*, Charles Hoch and Robert Slayton have traced the disappearance of
the single-room occupancy (SRO) and “cubicle” hotels that once provided cheap housing to thousands of marginal tenants in downtown Chicago. Over 8,000 of these hotel rooms—still available to Chicago’s low-income transients in 1963—have disappeared, leaving barely 2,000 today. These lost accommodations were all supplied by the private market. Although remarkably inexpensive (often costing only $2 a night), these rooms offered residents exactly what they wanted—security and privacy. Most of the hotels had elaborate security systems, with desk clerks screening visitors and protecting residents from unwanted ones. In addition, the cheap hotels were usually convenient to stores and public transportation, allowing low-income residents with few family connections to lead frugal but relatively dignified lives.

What happened to these old SRO hotels? Almost without exception, they became the target of urban-renewal efforts and municipal campaigns to “clean up downtown.” Intense building-code enforcement and outright condemnation drove most of them out of business. Strict zoning ordinances have since made it virtually impossible to build replacements. Hoch and Slayton conclude:

We do not believe that the demise of Skid Row and the SRO hotels was the inevitable result of market forces, or that Skid Row residents embodied peculiar social and psychological characteristics that produced deviant and pathological social behavior. . . . [Instead,] this loss was the result of decades of antagonism from civic and business leaders, legitimated from the 1950s on by social scientists, and incorporated into dramatic change-oriented programs like urban renewal.

Nor have these policies abated today. Despite the hue and cry over the loss of SRO hotels, their replacement is still generally forbidden by zoning ordinances. In Los Angeles, there is a movement afoot to close down SRO hotels—even those subsidized by the city government—because they are not built to withstand earthquakes. Peter Smith, president of the New York City Partnership for the Homeless, comments: “It’s essentially illegal for private developers to build SRO hotels in New York anymore.”

Restricting development

What is causing homelessness, then, is the familiar phenomenon of government regulation. This regulation tends to escape the attention of the public and the enthusiasts of deregulation, because it is done at the local rather than the state or national level.
The truth is that cities and towns do not always welcome new development. At bottom, even the most enthusiastic advocates of progress would often prefer to see their own neighborhoods remain just as they are. People will usually settle for higher-priced housing, because it raises the value of their own homes; but few want tenements, rentals, or other forms of "low-income" housing.

Through regulation, most cities and towns hold a tight rein on their housing markets. Suburbs are particularly exclusionary, zoning out everything but high-priced single-family homes (which require large lot sizes), and prohibiting the rental of rooms or apartments. Cities themselves, although sometimes offering rhetorical welcomes, often play the same exclusionary games.

An example can be seen in Takoma Park, Maryland, a nineteenth-century "streetcar suburb" of Washington, D.C., which until recently had a long history of tolerant housing policies. Takoma Park is a hodgepodge of two-, three-, and four-family homes within easy commuting distance of Washington. During World War II, homeowners rented attics and spare bedrooms to wartime officials who could not find housing in Washington. This tradition continued after the war, when many returning GI's sought housing while attending nearby Columbia Union College. Many homeowners permanently converted their homes to two- and three-family units.

During the 1970s, however, a group of homeowners living in a recently constructed, more suburban part of the city asked Montgomery County to enforce a sixty-year-old zoning ordinance that prohibited rentals in single-family zones. (Zoning is controlled by county governments in Maryland.) After a long dispute, the city council adopted a compromise in 1978, which permitted anyone who was renting before 1954 to continue to do so for another ten years. In 1988 the reprieve expired, however, and evictions began. More than six hundred tenants were forced to leave their homes.

The appeal of utopianism

It is important to realize that housing regulations are to blame for a lot of homelessness. But at the same time, we must acknowledge the impulses that make people want to intervene in the housing marketplace.

About a year ago, I spent a few days in San Francisco's Market Street district, a notorious skid row. Although not particularly dangerous, the surroundings were decidedly unpleasant. Weather-beaten young men, each of whom seemed to have his entire
worldly belongings wrapped in a sleeping bag, lounged along the sidewalks. Ragged holdovers from the sixties perched on public monuments, performing drunken imitations of rock singers. Veterans of motorcycle gangs weaved past timid pedestrians, carrying on garrulous arguments with their equally disheveled girlfriends. Along the side streets, tattoo parlors jostled with cheap cafeterias, pornography shops, and the inevitable flophouse hotels.

It was easy enough to imagine some ambitious politician surveying the scene and deciding that it was time to "clean up Market Street." Such campaigns have occurred all over the country and have inevitably produced the disjuncture that we now find between the supply of housing and the price that poor people can afford to pay for it.

Yet distasteful as it may seem, skid rows play a crucial role in providing the poor and near-poor with cheap housing. Not everyone can live in suburban subdivisions or high-rise condominiums. To provide for everyone, we also need rooms for rent, fleabag hotels, tenements, trailer parks—and the "slumlords" who often run them. Although usually imagined to be rich and powerful, these bottom-rung entrepreneurs almost always turn out to be only slightly more affluent than the people for whom they are providing housing.

In the utopian dreams of regulators and "housing activists," such landlords are always eliminated. They are inevitably replaced by the federal government and the "non-profits," orchestrated by the city planners and visionary architects who would "tear down the slums" and replace them with "model tenements" and the "garden cities of tomorrow."

It is not wrong to have such visions. But let us do things in stages. Let us build the new housing first—and only then tear down the old "substandard" housing that is no longer needed. If we let the best become the enemy of the good—or even the barely adequate—the homeless will have nothing more substantial to live in than the dreams of the housing visionaries themselves.
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