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*Heads in the Sand: How the Republicans Screw Up Foreign Policy and Foreign Policy Screws Up  
the Democrats*



**THE  
RENT  
IS TOO  
DAMN  
HIGH**

*What to Do About It, and Why  
It Matters More Than You Think*

**Matthew Yglesias**

*Simon & Schuster*

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# Jimmy McMillan's Good Idea

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For a brief, shining moment in October of 2010, the attention of the nation (or at least that portion of the nation that spends an unhealthy amount of time on the Internet) was riveted by the cost of housing in America's most desirable places. The occasion was the 2010 New York gubernatorial debate. It was a snoozer. Carl Paladino, the Republican nominee, was a bit nutty and was consistently hopelessly far behind Democrat Andrew Cuomo, even in the best year for Republicans in a generation.

What's more, the local cable TV organizers didn't just put together the customary Democrat-versus-Republican clash. Instead, we got a seven-candidate battle royale featuring contenders from the Freedom Party, the Green Party, the Libertarian Party, the Anti-Prohibition Party, and—best of all—Jimmy McMillan of the Rent Is Too Damn High Party.

McMillan, as it turns out, is a lovable crank born for the era of YouTube and Twitter. The sixty-four-year-old martial arts instructor, former mailman, and self-proclaimed "Black Hulk Hogan" was a sensation. With his silver mane, wild beard, black gloves, and concise, disciplined message ("The rent is too damn high!"), he was an instant star. Clips of the debate went viral on the Web the next day, McMillan was featured in a memorable *Saturday Night Live* sketch, and months after the debate, the memory of McMillan was resuscitated in WPIX local news promos as the man himself proclaimed "The weather is too damn cold," before touting the station's weather broadcasts as a potential solution.

Unfortunately, the package, the eccentricity, and the hoopla tended to obscure McMillan's core point. Rent in New York City is, in fact, too damn high. It's too high in Manhattan, too high in fashionable parts of Brooklyn, and too high in neighborhoods adjacent to subway stations throughout the city. And it's not just a New York problem. Nor is it just a city problem. Renting a home with any kind of convenient commute into Manhattan will cost you. It's the same on the west side of Los Angeles, throughout the bulk of the San Francisco Bay Area, and in the metro areas of Boston and Washington DC. Indeed, the rent is too damn high across entire American states. To be sure, you can find a cheap place in New Jersey or Connecticut if you're willing to live in a high-crime city with bad schools. But who wants that? Off the coasts, the problem is less widespread (though it still exists in select neighborhoods). Finding a place in a declining former industrial hub is downright cheap. Moving to the suburbs of Houston or Phoenix or other Sunbelt boomtowns is affordable, and indeed that's a large part of the reason the populations are rising so quickly. But even though the rent is too damn high in only a minority of the American landscape, these areas are very socially and economically consequential parts of the country.

We're so used to the idea that living in a desirable location should cost dramatically more than living elsewhere that complaining about it seems eccentric and naive.

Instead of a broad focus on the issue, America's cities feature niche conversations about the availability of "affordable housing" for poor people. Expensive housing does pose unique problems to poor people—they don't have as much money—but the phenomenon is a general one that afflicts middle-class and rich households and



businesses large and small. The housing cost problem is largely obscured by the predominance of owner-occupied housing among middle-aged middle-class people who think of expensive housing as “wealth” and investment profits. That perception is a mistake. In order to sell your house, you need to find another place to live. Higher overall house prices can’t really make you richer unless you’re willing to move into your car or your parents’ basement. If you own a home and the price of buying a house rises faster than the price of renting one, then you can make money by selling your home and renting a new place. But as we’ll see, this is a telltale sign of a bubble rather than a national strategy for wealth creation. Your house is a smart investment if its value grows faster than that of the average house, but we can’t all be above average. Besides, when housing costs fall across the board, the people whose houses are falling slower than average still come out ahead.

Sometimes it takes nothing less than a crank to point to a problem so all-pervasive that nobody wants to point it out.

The truth is that high rent is a problem for all of us. It’s a problem for big cities and suburbs, but it’s a problem even for people who don’t live in the places where the rents are high. Like most problems, its impact on the poor is especially severe, but it’s a problem for the middle class as well. High rent is a drag on our country’s overall rate of economic growth, and it’s bad for the environment; it promotes long commutes, traffic jams, misery, and smog. What’s more, high rent is not a fact of nature. It’s the result of bad public policy, and it deserves to be taken seriously as one of the critical problems we face. With his simple proclamation that “the rent is too damn high,” Jimmy McMillan has hit on a profound truth, one that reaches back to the core issues of classical economics.

The goal of this book is to convince you to take Jimmy McMillan and his claim seriously—even more seriously than McMillan takes himself. Land is a scarce resource, so some increase in the price of housing is bound to happen as the economy grows. But architects know how to design multifloor buildings and engineers can build elevators. Public policy that restricts their ability to do so—not construction costs, or the limited supply of land—is the main cause of high rents in America. The larger goal of this book is to persuade you that this is a bigger deal than you realize. It is not the pet cause of a crank candidate, or a niche problem of the poor, but a devastating blow to the American economy that reduces wages, harms public health, and poisons the environment.

# The Trouble with Rent Control

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Despite his good point, McMillan's preferred solution—strict rent control laws—is a bad idea. It's such a bad idea that a bit of a conspiracy has developed among American opinion leaders to obscure the fact that rent control laws do, in fact, work. But even though they work, they're a bad idea. Indeed, they work for the precise reason that they're a bad idea.

To see this, consider the idea of price controls for something more conventional, such as eggs. I like eggs. And I prefer the prices of the stuff I buy to go down rather than up. So maybe I'd favor a law mandating a price ceiling for eggs. That way I'd get cheaper eggs, right? Well . . . not really. At a new lower price, eggs would be less profitable to supermarkets. So supermarkets would reduce egg purchases and reallocate shelf space to some higher-margin product. The result is going to be egg shortages. This means less profit for supermarkets and less convenience for shoppers. Basically, everyone loses.

But a rental apartment isn't like an egg. You buy an egg, you take it home, and then you use it. You crack the shell, you cook it, and you eat it. It's gone. Apartment buildings, by contrast, are very expensive to build, and they last a long time. The ongoing cost of operating an apartment building is small, relative to the cost of building it in the first place. What a landlord *wants* to do is charge a rent that's high enough to receive a decent return on his initial investment—either the cost of building the structure, or the cost of buying out the previous owner. But a landlord should be *willing* to charge any rent that's high enough to cover ongoing operating costs. Putting price controls on eggs immediately provokes the supermarket to reallocate space and reduce the eggs on the market—nobody wins. Putting price controls on rental apartments causes nothing in the short term but reduced profits for landlords. Somebody wins—namely, the tenants.

So rent control, unlike egg control, works well.

And in many ways that's the problem. Egg control is such a fiasco that an egg control law would immediately backfire and be repealed. Rent control is more of a slow-burning problem. It exploits the fact that once an expensive building has been built, there's no sense in *un*-building it, so you can curb landlord profits without taking away any housing units. But what about the future? If you take the profit out of landlording, people will build fewer new apartments, and existing landlords won't want to invest in improving existing structures.

But national population growth continues. So as overall population grows faster than your city's stock of buildings, if your city continues to be a desirable place to live, over time, you'll get an apartment shortage. Unlike in the case of the egg shortage, it's not true that *everyone* will be inconvenienced. Those households lucky enough to be in rent-controlled apartments will pay less than the market price for their accommodation. They can either enjoy the cheap living themselves or move out and sublease the apartment on the black market for a profit. Either way, it's good for them. The primary sufferers from the policy are the hypothetical people who haven't been able to move to the rent-controlled city. But guess what? Those people can't vote—they don't even live there!

McMillan's idea, in other words, would help some people, but it's not a systematic solution. Lowering the rent via rent control helps insiders, but for outsiders the rent will be higher than ever. If we want a comprehensive plan for what to do about the rent being so damn high, we need better solutions.

Specifically, we need to acknowledge that there are only two sustainable ways to reduce the price of housing. One is to lower demand by making a given place a worse place to live. Detroit features high crime, low-quality public services, and a bleak job market. The rent in Detroit is not high. And, equivalently, if you'd like to buy a place to live in Detroit, you can do so quite cheaply; the median sale in the city as of September 2011 was about \$95,000 and dropping—that is, half the national average.

The other way is to increase supply.

I was twenty-four in 2005 at the height of the housing boom. My roommate and I needed a new place. At the first open house we went to, there were a half-dozen other prospective renters. If we wanted the house, we'd have to pay a premium. By contrast, if we'd shown up and been the only ones there and the house next door had had a "for rent" sign on it as well, we'd have had a stronger bargaining position. Just as plentiful supply leads to low rents, high rents ought to lead to more housing supply. It all goes back to the question of return on investment. Higher prices for housing equal higher profits for developers, which means more capital ought to pour into construction of new units. Once supply starts growing faster than demand, prices will fall, slowing the pace of construction and bringing everything back into equilibrium. That's how markets are supposed to work, and while they almost never work perfectly, they usually do work *approximately*. So what about housing? What explains the persistence of high rents over long periods of time?

# Renting and Buying

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In the long run, the price of renting a home and the price of purchasing a similar home are linked. This is true even in leafy middle-class suburbs where the majority of houses are owner-occupied. Suppose a sudden mania for moving to Alaska strikes your town and two neighbors show up at your house on the same day, both explaining their plan to relocate to Anchorage. Neither family is sure they'll stay in Alaska for long. They both put their houses up for rent. John's house ends up commanding a higher rent than Paul's, despite the similar location, size, and date of construction, because John had his kitchen redone recently. A year later, they both decide they love Alaska, and it's time to put the houses on the market. Which will sell for more?

John's will, and for the same reason that it rented for more.

All else being equal, you'd pay more to buy a house with a better kitchen, and you'd also pay more to *rent* a house with a better kitchen. The same is true across the board. Better location? Higher rent, higher sale price. Bigger house? Higher rent, higher sale price. Anything that might make you want to pay more for the right to live in a house would also make you want to pay more to own the house.

The better a house is to live in, the higher the rental price. But owning a house is essentially just a combination of the right to live in a house plus the right to rent it to someone else. Consequently, the same underlying drivers of quality impact the costs of buying and renting alike.

This basic reality is sometimes obscured from people by the fact that the monetary decision of whether to rent or to buy isn't straightforward. In America, homeowners get a large tax break; changing interest rates and credit standards affect how much house a person can afford to buy; and ownership comes with a variety of intangible pros and cons. The key point isn't that owning and renting are the same; it's that the same factors drive both prices. That's why smart observers were able to spot the existence of a housing bubble, even if they couldn't predict the exact time of the crash. Making the calculation on an individual basis is complicated, and what's best for an individual household may change over time, but there's no reason for the ratio of rental prices to purchase prices to shift *systematically*. Lots of things can change to make houses scarce or more plentiful relative to demand and thus impact prices, but these same forces push upward on both sale prices and rental prices. Consequently, when the prices start to diverge, something is bound to change.

That's not to say that any sustained increase in home prices is a "bubble." Homes in Australia got steadily more expensive throughout the 2000s, and while the United States fell into recession, Australian houses kept getting more expensive. The difference is that rent was also going up in Australia simultaneously. Australian incomes have been rising steadily because the country does a booming business exporting raw materials to China. These rising incomes have pushed up both rents and home sale prices. It's just like Greenwich Village in New York (where I grew up). When my dad first moved there in the 1970s, the Village was a cheap place to live. This was the classic Greenwich Village Jane Jacobs wrote about, the one where beatnik poets lived in the fifties and where Bob Dylan got his start. By the time my dad left in 2010, it was incredibly expensive-

apartments in the building where I grew up sell these days for \$2 million to \$3 million. The huge premium that people pay nowadays to live in the Village may or may not last forever, but it's not a bubble; the price reflects increased demand. Ironically, some of the desirable qualities Jacobs wrote about have undermined what originally made the neighborhood appealing. The neighborhood is so desirable that it became too expensive to be cool. Prices are lower now than they were at the peak of the real estate market, but it's such a good place to live that people who bought ten or fifteen or twenty years ago have seen incredible profits. That's good for people who were smart, lucky, or daring enough to invest in the neighborhood (or Tribeca, SoHo, or other similar areas), but it's bad for people today who might like to move to Manhattan. And the impact is equally negative whether we think of it in terms of higher sales prices or higher rents.

# Investing in a House

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As everyone now knows, the notion that the value of a house always goes up has done a lot of harm. Belief in this concept led many mortgage lenders to start issuing loans to people who were unlikely to be able to pay them back. “You can always refinance,” the story went. This explosion of dubious lending further drove up the price of housing, leading to a furious boom in home construction, followed by a bust in which lots of people, including many with traditional mortgages, ended up losing large sums of money.

The housing bust has spurred a backlash against the entire idea of investing in housing. As David Leonhardt put it in the *New York Times*, “The best advice for homeowners and would-be buyers may be to think of a house not as an investment, first and foremost, but as a place to live.”

It’s helpful to consider what, exactly, a person buys when he buys a house. A newly built American home comes equipped with a stove, a refrigerator, a freezer, and so on. Nobody invests in refrigerators. People buy them, and it’s possible to sell a used one. But nobody expects to sell a fridge for more than he paid. Similarly, nobody wants to pay a premium for your old plumbing fixtures or your old washer/dryer. This is stuff you’re going to have to fix, not stuff that’s going to increase in value. The house probably comes with some grass and other plants that you’ll have to take care of, a roof that might leak, and windows that will get dirty. Lots of people buy RVs, but nobody “invests” in them. And what’s a house but a giant RV with no wheels?

Yale economist Robert Shiller observes in his book *Subprime Solution* that, once upon a time, “People thought of their homes as depreciating manufactured goods, like cars and boats, which require a lot of upkeep and eventually go out of style.” When people buy new cars, they consider the car’s resale value. But that doesn’t mean they expect to turn a profit when selling it. They wonder how much value the car is likely to lose over time. A well-built car will maintain a fair amount of resale value. That’s a factor in purchasing decisions, just as investment value should always be a consideration when buying a home. Nevertheless, it’s not reasonable to expect a bundle of metal, appliances, concrete, bricks, and wood to increase in value over time.

That doesn’t mean it’s impossible. If an unexpected tree blight wipes out the nation’s tinder supplies, houses with lots of wood in them will become more valuable. More plausibly, over time, wages tend to increase, and with them, the cost of labor-intensive products. We’ve solved this problem by applying more productivity-enhancing machinery to the task of home-building. Power drills and nail guns allow for faster building than hand cranks and hammers. But certain kinds of intricate stonework have proven relatively immune to mechanization. At the same time, stone is highly durable. So complicated historic facades have experienced real increase in value.

Another possibility is that a building could increase in value due to some special historical significance. Clearly, though, these circumstances are rare. And there are no guarantees here. I live near the Surratt Boarding House where John Wilkes Booth and his co-conspirators met to plan Abraham Lincoln’s assassination. Today it’s a mediocre Chinese restaurant.

The general point is that if a house is a manufactured good, the price of a used house is like the price of a used car—related to, but almost always lower than, the cost of building a new one.

An interesting fact about construction is that building prices generally stay in line with overall prices over the long term. That's because a house is a giant bundle of diverse stuff. It's got copper in it, and plastic, assembled by a mix of skilled and unskilled laborers. And as the relative price of commodities shifts, home builders tend to swap materials. That's not a law of nature. People could insist on coating houses in sheaths of decorative gold, in which case the price of construction would fluctuate with the price of gold. But they don't, so prices tend to stay steady. For example, according to the R. S. Means Company, in inflation-adjusted terms, it cost \$58.50 per square foot to build a one-story "modest quality" home in 1950; by 2000 it cost \$61.00 per square foot. That's not to deny that houses built in 2000 are more expensive to build than houses built in 1950 were. What happens is that as people get richer, they want bigger houses. The average newly built single-family home in 1950 was 983 square feet—not much larger than the one-bedroom apartment I live in today. By 2006 average housing sizes were up to 2,349 square feet. All else being equal, bigger houses cost more than smaller ones. But the cost of building a 1950-sized house has stayed approximately constant. The impression that building costs are rising is primarily an illusion generated by a failure to appreciate the extent to which we're building bigger homes.

So how do people make money in real estate?

Sometimes it's the "greater fool" theory. Your investment doesn't need to make sense if you can hand it off to some other sucker. But the main reason it's possible to make money investing in real estate is that there's more to real estate than buildings. A house is like a boat, but when you buy a boat you don't also become the owner of a slice of ocean. A house is like an RV with no wheels, but a real estate purchase comes with the land the RV is parked on. And that makes all the difference.

# Location, Location, Location

There's a cliché that there are only three things that matter in real estate—location, location, location. If there's wisdom here, it points to the idea that *land* is the central investment commodity in a real estate transaction.

It makes sense for land to be a speculative commodity. For one thing, it's hard to make more land. And the desirability of different patches of land can change over time. When the Erie Canal connected the Hudson River to the Great Lakes, the port of New York City became a better place to do business. The construction of the Transcontinental Railroad added value to the land along the route. The invention of the automobile and the subsequent construction of a nationwide network of highways reduced the value of proximity to train stations and central cities. The invention of affordable air conditioning made Phoenix a much more desirable place to live. High crime and bad schools reduce the value of land in Baltimore and Trenton even while land in Maryland and New Jersey is generally quite valuable. More localized effects are also possible, as J. Paul Getty learned when oil was discovered on his previously worthless swampland.

The question is what land prices should have to do with the cost of houses and office buildings. When the classical economic theory of rent was developed in eighteenth-century Britain, its developers took for granted that rent had a lot to do with land. That's because they were looking at a primarily agricultural economy. The main instance of "rent" was a farmer making a payment to a large landowner. Early economists recognized the existence of other renter-landlord arrangements, including those for mines and homes, but saw all these as extensions of the central case of renting farmland. But in the twenty-first century United States, very few of us are interested in renting farms. We tend to live and work in structures with multiple stories. In the suburbs, that's often two floors, maybe with an additional finished basement. But an office building downtown, where land is more expensive, will be quite a bit taller than that. In Manhattan, where land is extremely expensive, there are enormous skyscrapers.

Where land is expensive, a lot of people occupy a given patch of it. Where density is low, by contrast, land is typically cheap. The ability of real estate developers to ride the currents of supply and demand ensures that land should always be a low portion of overall housing costs.

According to Shiller, this tendency makes the land speculation issue a red herring in terms of house prices: "There will be a natural process of finding ways to build homes on less land, or less expensive land. This can be achieved either through building higher density housing, such as more and taller apartment buildings or infill development in urban centers, or founding new urban areas." Indeed, the United States still has plenty of empty space. So one could always respond to complaints about the rent being too high by suggesting that you move or build elsewhere. The rent may be too damn high in Santa Monica and Seattle, but it's a good deal cheaper in Sioux Falls.

Different pieces of land have different characteristics. The weather is different. The amenities are different. Proximity to the beach is a source of value, as is proximity to the capitol building, or to the Metropolitan Museum of Art. What's more, proximity to other people is valuable. Lots of people in the Los Angeles area can't just move to Sioux Falls.



because they work in the entertainment industry. Lots of other people in L.A. *don't* work in show business, but they can't just move to Sioux Falls, either, because they're selling things to the people who do. Firms need to be where their workers want to live. A law firm that tried to save money by moving its New York office to a cheaper building in Buffalo would find itself disadvantaged when trying to recruit top graduates from the best law schools. As we'll see later on, this arrangement means that high real estate costs—even if concentrated in a minority of places—can have important implications for the national economy. For now, the point is that land prices vary from place to place for the good reason that different places are different. The main issue in terms of the growing salience of land is the density of what's built on it.

Once upon a time, the primary issue here was technical. But today elevators, steel, and concrete are all old technologies. The Chrysler Building in New York is over eighty years old, and it's still the third-tallest building in the city and the seventh-tallest in the country. Manhattan hasn't gotten bigger or cheaper since the 1930s, but we've stopped building taller. In San Jose, Silicon Valley's main city, the tallest office building is only twenty-two stories. The most expensive office market in America is in Washington, DC where the tallest commercial structure is the nineteenth-century Old Post Office Pavilion.

So given the technical capacity to build, why haven't we? Why have high land prices driven up rent in desirable areas? The answer, overwhelmingly, is regulation.

# The Land of the Free

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The United States of America conceives itself as a country in love with the free market. And in some ways we are. But there's nothing "free market" about land use in the land of the free. The small city of Richmond, Virginia, is by no means unusual in having a 400-page zoning ordinance. The documents are long because the prescriptions are so detailed and intense. The original intent of land use regulation was to tackle the real and perceived health and safety issues involved in the uncontrolled mingling of factories and houses and the overcrowded conditions of urban tenement districts. Today's rules still separate residential uses from industrial uses but go far beyond any plausible health concerns. For example, in Johnson County, Kansas, in the suburbs west of Kansas City it's generally illegal to build a house that's over 40 feet tall—except, that is, in RN-districts where it's illegal to build a house that's over 35 feet tall. Johnson County also specifies what size lot you can build a home on. In one district, a minimum width of 100 feet and an area of not less than one acre is required. In another, the minimum width is still 100 feet but the minimum total area is two acres. In a third, it's 150 feet and three acres.

That's a lot of rules. And they matter a lot.

In a 2005 paper, economists Edward Glaeser, Joseph Gyourko, and Raven Saks used a method called "hedonic price estimation" and found that "generally a quarter acre [of land] is worth about ten times more if it sits under a house than if it extends the lot of another house." Imagine two adjacent houses in Johnson County in the area where the smallest lot allowed is one acre. One house sits on a one-acre lot. The next house over sits on a lot that's an acre and a quarter. If the owner of the large lot wants to sell his "extra" quarter acre to the owner of the small lot, he'll find that it's worth much less than 20 percent of the total value of the land under his house. That's because a huge amount of the value of the land is tied up with the permission to build on it. If we had a free market in land, a parcel of land with a house on it would be worth more than a house-less parcel simply because the physical structure has value. Instead, the *land itself* is more valuable largely because *permission to build* is such a valuable commodity. In his book *Triumph of the City*, Edward Glaeser discusses the costs of these density restrictions primarily in terms of anti-skyscraper sentiments in classic cities, such as Paris, and with reference to historical preservation rules. But in terms of aggregate impact, these measures are relatively minor. Most Americans live in the suburbs, and by their nature suburbs take up the vast majority of the space in any metropolitan area. Their suburban character is upheld not only by consumer preference but also by draconian central planning measures like Johnson County's rules against narrow lots or 47-foot buildings.

And of course cities have rules, too. Washington, DC, is unusual in having a height act that prohibits skyscrapers downtown by limiting buildings to about 110 feet in height. But limits on the heights of buildings in residential districts are common throughout the country.

More subtly, cities choke density with rules mandating the quantity of parking that must be constructed to go along with any new residence. In Phoenix's designated downtown, for example, new apartment buildings must provide one parking space for

each unit. Though not a formal limit on high-density construction, this regulation does create a ~~de facto limit on what developers can do since there are logistical constraints on~~ how deep an underground parking lot you can build/dig before costs become exorbitant. In addition, a survey of Los Angeles County by Sofia Franco, Bowman Cutter, and Autumn DeWoody found that “minimum parking requirements significantly increase the amount of parcel area devoted to parking.” The rules, in other words, increase the number of parking spaces over what a free market would create. That helps make real estate more expensive than it otherwise would be by ensuring that either homes are smaller or else parcels are larger than would be the case absent regulation.

These kinds of rules are so all-pervasive that people often forget they exist. But the impact is everywhere in the vicinity of urban America. A quick visual guide of the impact can be seen in any picture of the New York skyline. There’s a cluster of skyscrapers in Midtown, and another cluster in the Financial District, and then a broad valley of shorter buildings in between. What explains this valley? The phenomenon is so noticeable that an urban legend has grown up that holds it’s caused by the varying qualities of Manhattan’s bedrock. The real answer is simpler—the buildings are tall where you’re allowed to build tall buildings and they’re shorter in places where you’re not. The attractive single-family homes of southern and western San Francisco have a similar explanation—the denser, taller construction of the downtown area halts because dense construction isn’t allowed in these neighborhoods.

The same process happens in desirable inner-ring suburbs. As of March 21, 2011, the average home offered for sale in Arlington, Virginia’s affluent 22207 ZIP code cost over \$969,000. The 22205 and 22209 ZIP codes were both in the \$865,000 to \$969,000 range. That’s at a time when the median home price in the country was around \$160,000. Logic dictates the construction of much taller buildings on such valuable land, but tall multifamily structures are illegal on most Arlington County land outside of a couple of narrow corridors. They’re also illegal on most Montgomery County land on the other side of Washington, DC. And they’re illegal in most of San Mateo County south of San Francisco. They’re illegal, that is to say, across the vast majority of the developed suburban land area of the United States. There are exceptions, to be sure, in specific places, and developers can always petition for change. But land where one can build tall apartment buildings as a matter of right is rare indeed.

When Douglas Yeardey, CEO of a leading home-building firm, says that “most people still want the big house with the big lot in the desirable school district in the suburbs,” he’s not wrong. But most people want *lots* of things. They want convenient commutes. They want money left in their pockets to buy clothing and televisions and to pay for college tuition. They want to live someplace with good job opportunities. They want nice weather. They want good views. In other words, people want—and need—to make trade-offs. Some locations are more desirable than others. It’s natural that some people—rich people—will live in large, expensive homes in those desirable places. But it’s also natural that some working-class and middle-class people will also live in those desirable places, but in smaller, more densely built homes. It’s natural, but to a surprising extent it doesn’t happen because there’s nothing even remotely resembling a free market in land use in built-up parts of the country.

# The Price of Sprawl

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Widespread regulatory restrictions on land use raise housing costs in the most desirable areas. But that doesn't mean everyone lives in expensive houses or pays high rents. Most people either can't or won't pay that much. For the most impoverished, that often means putting up with squalid conditions in urban slums beset by high crime, bad schools, and generally substandard public services. For the middle class, and for most office and retail buildings, it simply means going someplace else.

This phenomenon is the much-discussed urban sprawl. In Los Angeles, land near the coast or convenient to major employment centers is more expensive than land further inland. But restrictive zoning policies make it difficult for these desirable areas to house all of Southern California's huge, growing population. Consequently, while the city of Los Angeles saw its population grow by just 2.6 percent between the 2000 and 2010 censuses, the surrounding L.A. County grew 3.1 percent, and adjacent but further inland San Bernardino and Riverside Counties grew 19.1 percent and 41.7 percent, respectively. And it's not just that those exurban counties were growing from a smaller base. About twice as many people moved to Riverside County last decade as moved to L.A. County.

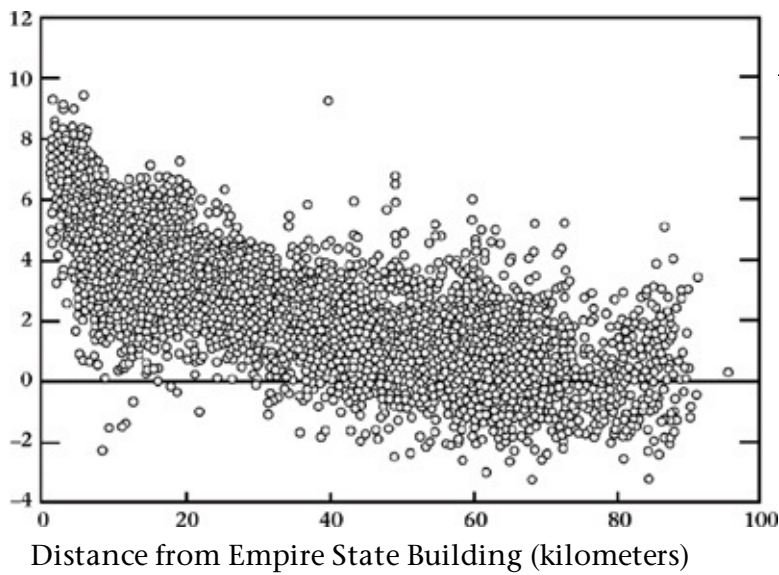
The sprawl phenomenon sometimes attracts too much criticism from people who have aesthetic objections to it and who ignore the deep logic of car-centered development. In his excellent study of New Haven, *City: Urbanism and Its End*, Douglas Rae notes that most classic American cities emerged during a specific technological era. Trains had been invented, as had steamships, but there were no cars. Consequently, the price of moving people and goods along a waterway or a railroad track was much cheaper than moving them along other routes. Under the circumstances, people had good reason to cluster around train stations, docks, and the intersections of train lines. During the 1930s and 1940s, the fundamental economics shifted as cars and trucks became widely available. Cities built primarily after World War II reflect the different logic of a different era, and even those of us who happen to prefer the appearance and ambiance of older cities should acknowledge that there's nothing wrong with this.

That said, though automobiles are unquestionably a useful technology, they're not teleportation devices and they haven't abolished distance. Location still matters, and some land is more valuable than other land. Since land and structures are normally sold in a bundle, it's difficult in many cases to get precise numbers on land prices as such. But researchers at the Federal Reserve Bank of New York used a statistical model based on prices paid for vacant lots and for structures that were torn down to be replaced by brand-new buildings and found that the price of land in the metro area is closely linked to its distance from the Empire State Building:

CHART 1

Land Prices and Distance of Property from Empire State Building

Natural logarithm of land price per square foot



In general, the expensive land should be much more densely built upon than the cheap land. Tall buildings on expensive land would improve the affordability of convenient commutes. But when regulations cap how densely we can build and mandate large quantities of parking, we get more sprawl than technology and population growth alone would create.

These policies have serious costs. Most literally, there tends to be a trade-off between housing costs and transportation costs. People who move farther from employment centers in search of affordable housing wind up paying more at the gas tank. The Center for Neighborhood Technology unveiled an interactive map a few years ago featuring what they call their Housing + Transportation Affordability Index; the latest release of the tool came out in March 2010. The results are quite revealing. In the Chicago area, for example, moving from the suburban Hillside neighborhood to the farther-out exurb of North Aurora saves you a modest \$110 per year in housing costs. Those savings are more than wiped out by an additional \$1,160 in annual fuel costs. Gasoline prices, meanwhile, have risen more since the release of the report. In other words, even in cases where sprawl is a workable solution to lack of affordable housing, lack of *convenient* low-cost housing is still a major driver of high living costs.

At the same time, sprawl damages the environment through higher fuel consumption and development of rural land. Many jurisdictions have tried to address this problem through various kinds of easements or subsidies to preserve green space or farmland. But people have to go somewhere. Metro areas that preserve green space while curtailing vertical density are really pushing people to other, less ecologically minded cities.

Worse in some ways are the nonfinancial costs of long commutes. In a May 2011 *Slate* piece, Annie Lowrey summarized the research and concluded that “long commutes cause obesity, neck pain, loneliness, divorce, stress, and insomnia.” Couples featuring one member with a commute of over forty-five minutes are about 40 percent likelier to split up. Vehicle miles traveled are not just a source of obesity; they have a stronger correlation with being overweight than any other lifestyle factor.

This bad news about long commutes leads some observers to postulate that people irrationally undervalue transportation convenience when making decisions about where to live. This may be true. Still, the market price of conveniently located real estate

generally higher already. Nor do people seem unaware that when considering a move from Minneapolis to Los Angeles, the better weather has to be balanced against the worse traffic. In cities with decent mass transit systems, people pay a premium to live near stations. Almost everywhere, people pay a premium to live in conveniently located suburbs rather than distant exurbs. The biggest issue here isn't that people can't figure out that a short commute is valuable, it's that they can't afford one. Even if you persuaded each household in America to increase its willingness to pay more for convenience, all you'd achieve in tightly regulated areas would be further price increases. Just as there's only so much beachfront property in Miami, there's a limited supply of land in Brooklyn that provides a quick subway commute to Manhattan. If you don't allow tall buildings to go up on that land, people will have to commute a longer distance.

# The New American Geography

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There is another option besides denser cities or more sprawling ones: People can just relocate to other cities altogether. And increasingly, that's what Americans have been doing. If the only way to afford a place in a safe neighborhood in some metropolitan areas is to bear the enormous costs of long commutes, those are just cities with little or any housing that's truly affordable. The natural choice is to go to the cities that aren't choked with these problems.

As *Forbes* magazine put it, "It's no secret that the Southeast and Western United States are booming. The costs of living and doing business there are often cheaper than in big coastal cities." People have to go somewhere, and by and large they're going where it's cheap. That's why between 2000 and 2010 the Dallas and Houston metropolitan areas each added about 1.2 million people, dwarfing the approximately 500,000 each added by the much bigger New York, Los Angeles, and Chicago metro areas. But this kind of boom driven by a low cost of living is a particular kind of boom. The relatively sluggish population growth in New York City and its suburbs during this period wasn't a repeat of the urban collapse of the 1970s. The financial services sector at the core of the region's economy was, for all the (oft-deserved) opprobrium it's attracted over the past several years, one of the decade's major money-making success stories. The city's specialization as the main headquarters of American journalism and publishing seemed relatively unaffected by the sweeping technological change reshaping media. The crime drop of the 1990s that turned the city's momentum around in the first place continued. A wave of gentrification swept through the Lower East Side, vast swathes of Brooklyn's important parts of Queens, and even Hoboken and Jersey City across the Hudson River.

But while this kind of gentrification demonstrates the continuing appeal of the Big Apple, it represents only a small *net* increase in the population. The people moving in are largely replacing other people who are moving out as rents go up. Some of this is due to working-class families moving out of now-expensive neighborhoods. Other times, it's the cycling of twentysomething professionals out of the city as they start families and want more space. In both cases, the city can prosper without its population increasing very much.

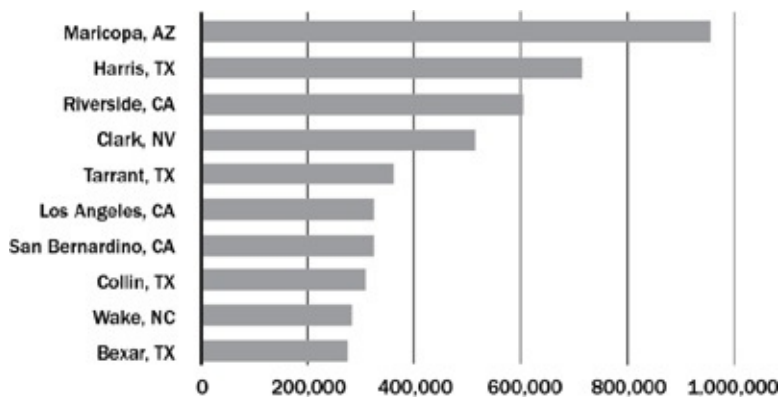
By contrast, the "booming" cities of the Southeast and the western United States aren't necessarily booming in the sense of getting rich. The ten metropolitan areas with the fastest population growth between the 2000 and 2010 censuses were, in order, Palm Beach, Florida; St. George, Utah; Las Vegas, Nevada; Raleigh, North Carolina; Cape Coral, Florida; Provo, Utah; Greeley, Colorado; Austin, Texas; Myrtle Beach, South Carolina; and Bend, Oregon. That geographical distribution supports the idea of a boom in the Southeast and West. But it's striking that in 2009 all ten of these metro areas had per capita personal incomes below the national average of \$40,757. Indeed, only Cape Coral was even close.

Alternatively, we can look at absolute growth in the number of people (rather than percentage increases) and see the following top ten growth counties in America:



CHART 2

## Top Ten Population Growth Counties, 2000–2010



Maricopa County is Phoenix and environs; Harris County is Houston; Riverside and San Bernardino Counties are far-flung inland suburbs of Los Angeles; Clark County is Las Vegas; Tarrant County is Fort Worth; Collin County is suburbs of Dallas; Wake County is Raleigh; and Bexar County is San Antonio. This population boom is the foundation of the so-called Texas Miracle, in which the Lone Star State has outpaced the nation in job creation. It's a genuinely impressive achievement, and it is overwhelmingly a triumph of affordable housing policy that not only continues to draw residents to the state but has left them largely unexposed to a price bubble and its ensuing levels of unsustainable debt.

Strikingly, *none* of these booming counties are located within one of America's ten richest metropolitan areas. The Phoenix metropolitan statistical area (MSA), home to the fastest-growing county in the country, is, according to the Brookings Institution's *State of Metropolitan America*, below average in terms of median household income.

There's something odd going on here. Every year, about one million people immigrate legally to the United States, joined by many who cross the border illegally. They uproot themselves from home and family and familiar places. And while patterns of precisely who leaves where and where they end up going are determined by an array of factors, the general pattern is for people to leave poor countries to move to richer ones. A country full of rich people is a country full of people who might hire you to do something. It's a country where willingness to work for relatively low wages will be welcomed by employers, even as the wages earned are substantially higher than what you got back home.

The exact same logic indicates that people should be moving to Fairfax County (median household income: \$104,259) rather than Maricopa County (\$53,284). The gap between the two counties isn't quite as big as the gap between the United States (\$47,284) and Mexico (\$14,430) in terms of per capita GDP. But the legal, linguistic, and logistical barriers between moving from Phoenix to Northern Virginia are tiny compared to those involved in moving from Mexico to the United States.

In part it seems to be a story about weather. The fastest-growing places in the United States are all warm places. By contrast, three of the top ten highest-income MSAs are part of the Greater New York City area, another is Boston, and a small one is part of Cap



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