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# THE RENT IS TOO DAMN HIGH

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

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# THE RENT IS TOO DAMN HIGH

# Jimmy McMillan's Good Idea

For a brief, shining moment in October of 2010, the attention of the nation (or at lea that portion of the nation that spends an unhealthy amount of time on the Internet) wa riveted by the cost of housing in America's most desirable places. The occasion was th 2010 New York gubernatorial debate. It was a snoozer. Carl Paladino, the Republica nominee, was a bit nutty and was consistently hopelessly far behind Democrat Andre 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 customar Democrat-versus-Republican clash. Instead, we got a seven-candidate battle roy featuring contenders from the Freedom Party, the Green Party, the Libertarian Party, th Anti-Prohibition Party, and—best of all—Jimmy McMillan of the Rent Is Too Damn Hig Party.

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

Unfortunately, the package, the eccentricity, and the hoopla tended to obscur McMillan's core point. Rent in New York City is, in fact, too damn high. It's too high i Manhattan, too high in fashionable parts of Brooklyn, and too high in neighborhoo 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 int Manhattan will cost you. It's the same on the west side of Los Angeles, throughout th bulk of the San Francisco Bay Area, and in the metro areas of Boston and Washingto DC. Indeed, the rent is too damn high across entire American states. To be sure, you ca find a cheap place in New Jersey or Connecticut if you're willing to live in a high-crim city with bad schools. But who wants that? Off the coasts, the problem is less widesprea (though it still exists in select neighborhoods). Finding a place in a declining forme industrial hub is downright cheap. Moving to the suburbs of Houston or Phoenix 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 minority of the American landscape, these areas are very socially and economicall consequential parts of the country.

We're so used to the idea that living in a desirable location should cost dramaticall 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 conversatio about the availability of "affordable housing" for poor people. Expensive housing do pose unique problems to poor people—they don't have as much money—but th phenomenon is a general one that afflicts middle-class and rich households an businesses large and small. The housing cost problem is largely obscured by th pre~~dominance of owner-occupied housing among middle-aged middle-class people~~ wh think of expensive housing as “wealth” and investment profits. That perception is mistake. In order to sell your house, you need to find another place to live. Highe overall house prices can’t really make you richer unless you’re willing to move into you car or your parents’ basement. If you own a home and the price of buying a house rise faster than the price of renting one, then you can make money by selling your hom and renting a new place. But as we’ll see, this is a telltale sign of a bubble rather than national strategy for wealth creation. Your house is a smart investment if its value grow faster than that of the average house, but we can’t all be above average. Besides, housing costs fall across the board, the people whose houses are falling slower tha average still come out ahead.

Sometimes it takes nothing less than a crank to point to a problem so all-pervasiv 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 an suburbs, but it’s a problem even for people who don’t live in the places where the ren are high. Like most problems, its impact on the poor is especially severe, but it’s problem for the middle class as well. High rent is a drag on our country’s overall rate o economic growth, and it’s bad for the environment; it promotes long commutes, traffi jams, misery, and smog. What’s more, high rent is not a fact of nature. It’s the result o bad public policy, and it deserves to be taken seriously as one of the critical problems w face. With his simple proclamation that “the rent is too damn high,” Jimmy McMilla has hit on a profound truth, one that reaches back to the core issues of classic economics.

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

# The Trouble with Rent Control

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

To see this, consider the idea of price controls for something more conventional, suc 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 cheape eggs, right? Well . . . not really. At a new lower price, eggs would be less profitable t supermarkets. So supermarkets would reduce egg purchases and reallocate shelf space t some higher-margin product. The result is going to be egg shortages. This means les 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 the you use it. You crack the shell, you cook it, and you eat it. It's gone. Apartmen buildings, by contrast, are very expensive to build, and they last a long time. Th ongoing cost of operating an apartment building is small, relative to the cost of buildin it in the first place. What a landlord *wants* to do is charge a rent that's high enough t receive a decent return on his initial investment—either the cost of building th structure, or the cost of buying out the previous owner. But a landlord should be *willin* to charge any rent that's high enough to cover ongoing operating costs. Putting pric controls on eggs immediately provokes the supermarket to reallocate space and reduc the eggs on the market—nobody wins. Putting price controls on rental apartmen 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 contro law would immediately backfire and be repealed. Rent control is more of a slow-burnin problem. It exploits the fact that once an expensive building has been built, there's n sense in *un*-building it, so you can curb landlord profits without taking away an 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 i improving existing structures.

But national population growth continues. So as overall population grows faster tha your city's stock of buildings, if your city continues to be a desirable place to live, ove time, you'll get an apartment shortage. Unlike in the case of the egg shortage, it's no true that *everyone* will be inconvenienced. Those households lucky enough to be in ren 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 th apartment on the black market for a profit. Either way, it's good for them. The primar sufferers from the policy are the hypothetical people who haven't been able to move t the rent-controlled city. But guess what? Those people can't vote—they don't even liv there!

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

Specifically, we need to acknowledge that there are only two sustainable ways t reduce the price of housing. One is to lower demand by making a given place a wors place to live. Detroit features high crime, low-quality public services, and a bleak jo market. The rent in Detroit is not high. And, equivalently, if you'd like to buy a place t live in Detroit, you can do so quite cheaply; the median sale in the city as of Septembe 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 needed a new place. At the first open house we went to, there were a half-dozen othe prospective renters. If we wanted the house, we'd have to pay a premium. By contrast, we'd shown up and been the only ones there and the house next door had had a "fo rent" sign on it as well, we'd have had a stronger bargaining position. Just as plentifu supply leads to low rents, high rents ought to lead to more housing supply. It all goe back to the question of return on investment. Higher prices for housing equal highe profits for developers, which means more capital ought to pour into construction of nev units. Once supply starts growing faster than demand, prices will fall, slowing the pace c construction and bringing everything back into equilibrium. That's how markets ar supposed to work, and while they almost never work perfectly, they usually do wor *approximately*. So what about housing? What explains the persistence of high rents ove long periods of time?

# Renting and Buying

In the long run, the price of renting a home and the price of purchasing a similar hom are linked. This is true even in leafy middle-class suburbs where the majority of house 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 t relocate to Anchorage. Neither family is sure they'll stay in Alaska for long. They bot put their houses up for rent. John's house ends up commanding a higher rent tha Paul's, despite the similar location, size, and date of construction, because John had h kitchen redone recently. A year later, they both decide they love Alaska, and it's time t 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' 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 sal price. Anything that might make you want to pay more for the right to live in a hous 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 essentially just a combination of the right to live in a house plus the right to rent it t someone else. Consequently, the same underlying drivers of quality impact the costs o buying and renting alike.

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

That's not to say that any sustained increase in home prices is a “bubble.” Homes i Australia got steadily more expensive throughout the 2000s, and while the United State fell into recession, Australian houses kept getting more expensive. The difference is tha rent was also going up in Australia simultaneously. Australian incomes have been risin 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 lik Greenwich Village in New York (where I grew up). When my dad first moved there i the 1970s, the Village was a cheap place to live. This was the classic Greenwich Villag Jane Jacobs wrote about, the one where beatnik poets lived in the fifties and where Bo 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 millior The ~~huge premium that people pay nowadays to live in the Village may or may no~~t la forever, but it's not a bubble; the price reflects increased demand. Ironically, some of th desirable qualities Jacobs wrote about have undermined what originally made appealing. The neighborhood is so desirable that it became too expensive to be coo Prices are lower now than they were at the peak of the real estate market, but it's such good place to live that people who bought ten or fifteen or twenty years ago have see incredible profits. That's good for people who were smart, lucky, or daring enough t invest in the neighborhood (or Tribeca, SoHo, or other similar areas), but it's bad fo people today who might like to move to Manhattan. And the impact is equally negativ whether we think of it in terms of higher sales prices or higher rents.

# Investing in a House

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

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

It's helpful to consider what, exactly, a person buys when he buys a house. A newl 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. Bu nobody expects to sell a fridge for more than he paid. Similarly, nobody wants to pay premium for your old plumbing fixtures or your old washer/dryer. This is stuff you'r going to have to fix, not stuff that's going to increase in value. The house probabl comes with some grass and other plants that you'll have to take care of, a roof tha might leak, and windows that will get dirty. Lots of people buy RVs, but nobod "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 time, "People thought of their homes as depreciating manufactured goods, like cars an boats, which require a lot of upkeep and eventually go out of style." When people bu new cars, they consider the car's resale value. But that doesn't mean they expect to tur 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 purchasin decisions, just as investment value should always be a consideration when buying home. Nevertheless, it's not reasonable to expect a bundle of metal, appliance 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 tinder supplies, houses with lots of wood in them will become more valuable. Mor plausibly, over time, wages tend to increase, and with them, the cost of labor-intensiv products. We've solved this problem by applying more productivity-enhancin machinery to the task of home-building. Power drills and nail guns allow for faste building than hand cranks and hammers. But certain kinds of intricate stonework hav proven relatively immune to mechanization. At the same time, stone is highly durabl So complicated historic facades have experienced real increase in value.

Another possibility is that a building could increase in value due to some speci historical significance. Clearly, though, these circumstances are rare. And there are n guarantees here. I live near the Surratt Boarding House where John Wilkes Booth and h co-conspirators met to plan Abraham Lincoln's assassination. Today it's a mediocr Chinese restaurant.

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

An interesting fact about construction is that building prices generally stay in lir with overall prices over the long term. That's because a house is a giant bundle of divers stuff. It's got copper in it, and plastic, assembled by a mix of skilled and unskille laborers. And as the relative price of commodities shifts, home builders tend to swa materials. That's not a law of nature. People could insist on coating houses in sheaths c decorative gold, in which case the price of construction would fluctuate with the price c 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 one-story "modest quality" home in 1950; by 2000 it cost $61.00 per square foot. That not to deny that houses built in 2000 are more expensive to build than houses built i 1950 were. What happens is that as people get richer, they want bigger houses. Th average newly built single-family home in 1950 was 983 square feet—not much large than the one-bedroom apartment I live in today. By 2006 average housing sizes were u to 2,349 square feet. All else being equal, bigger houses cost more than smaller ones. Bu the cost of building a 1950-sized house has stayed approximately constant. Th impression that building costs are rising is primarily an illusion generated by a failure t 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 sens if you can hand it off to some other sucker. But the main reason it's possible to mak money investing in real estate is that there's more to real estate than buildings. A hous is like a boat, but when you buy a boat you don't also become the owner of a slice c ocean. A house is like an RV with no wheels, but a real estate purchase comes with th 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 centra investment commodity in a real estate transaction.

It makes sense for land to be a speculative commodity. For one thing, it's hard t 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 Transcontinenta Railroad added value to the land along the route. The invention of the automobile an the subsequent construction of a nationwide network of highways reduced the value o proximity to train stations and central cities. The invention of affordable ai conditioning made Phoenix a much more desirable place to live. High crime and ba schools reduce the value of land in Baltimore and Trenton even while land in Marylan and New Jersey is generally quite valuable. More localized effects are also possible, as Je Clampett 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 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 the were looking at a primarily agricultural economy. The main instance of "rent" was farmer making a payment to a large landowner. Early economists recognized th existence of other renter-landlord arrangements, including those for mines and home 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 liv 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, wher land is more expensive, will be quite a bit taller than that. In Manhattan, where land extremely expensive, there are enormous skyscrapers.

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

According to Shiller, this tendency makes the land speculation issue a red herring i terms of house prices: "There will be a natural process of finding ways to build homes o less land, or less expensive land. This can be achieved either through building highe density housing, such as more and taller apartment buildings or infill development i urban centers, or founding new urban areas." Indeed, the United States still has plenty o empty space. So one could always respond to complaints about the rent being too hig by suggesting that you move or build elsewhere. The rent may be too damn high i 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. Th amenities are different. Proximity to the beach is a source of value, as is proximity to th capitol building, or to the Metropolitan Museum of Art. What's more, proximity to othe people is valuable. Lots of people in the Los Angeles area can't just move to Sioux Fall because they work in the entertainment industry. Lots of other people in L.A. *don't* wor in ~~show business, but they can't just move to Sioux Falls, either, because they're~~ sellin things to the people who do. Firms need to be where their workers want to live. A la firm that tried to save money by moving its New York office to a cheaper building i Buffalo would find itself disadvantaged when trying to recruit top graduates from th best law schools. As we'll see later on, this arrangement means that high real estate cos —even if concentrated in a minority of places—can have important implications for th national economy. For now, the point is that land prices vary from place to place for th good reason that different places are different. The main issue in terms of the growin 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, an concrete are all old technologies. The Chrysler Building in New York is over eighty year old, and it's still the third-tallest building in the city and the seventh-tallest in th country. Manhattan hasn't gotten bigger or cheaper since the 1930s, but we've stoppe building taller. In San Jose, Silicon Valley's main city, the tallest office building is onl 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 Pavilio

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

# The Land of the Free

The United States of America conceives itself as a country in love with the free marke And in some ways we are. But there's nothing "free market" about land use in the lan of the free. The small city of Richmond, Virginia, is by no means unusual in having 400-page zoning ordinance. The documents are long because the prescriptions a detailed and intense. The original intent of land use regulation was to tackle the real an perceived health and safety issues involved in the uncontrolled mingling of factories an houses and the overcrowded conditions of urban tenement districts. Today's rules sti separate residential uses from industrial uses but go far beyond any plausible healt concerns. For example, in Johnson County, Kansas, in the suburbs west of Kansas Cit 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 als specifies what size lot you can build a home on. In one district, a minimum width of 10 feet and an area of not less than one acre is required. In another, the minimum width still 100 feet but the minimum total area is two acres. In a third, it's 150 feet and thre 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 method called "hedonic price estimation" and found that "generally a quarter acre [c land] is worth about ten times more if it sits under a house than if it extends the lot c another house." Imagine two adjacent houses in Johnson County in the area where th smallest lot allowed is one acre. One house sits on a one-acre lot. The next house ove sits on a lot that's an acre and a quarter. If the owner of the large lot wants to sell hi "extra" quarter acre to the owner of the small lot, he'll find that it's worth much les than 20 percent of the total value of the land under his house. That's because a hug amount of the value of the land is tied up with the permission to build on it. If we had free market in land, a parcel of land with a house on it would be worth more than house-less parcel simply because the physical structure has value. Instead, the *land itse* is more valuable largely because *permission to build* is such a valuable commodity. In h book *Triumph of the City*, Edward Glaeser discusses the costs of these density restrictio primarily in terms of anti-skyscraper sentiments in classic cities, such as Paris, and wit reference to historical preservation rules. But in terms of aggregate impact, thes measures are relatively minor. Most Americans live in the suburbs, and by their natur suburbs take up the vast majority of the space in any metropolitan area. Their suburba character is upheld not only by consumer preference but also by draconian centra 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 heigh act that prohibits skyscrapers downtown by limiting buildings to about 110 feet i height. But limits on the heights of buildings in residential districts are commo throughout the country.

More subtly, cities choke density with rules mandating the quantity of parking tha must be constructed to go along with any new residence. In Phoenix's designate downtown, for example, new apartment buildings must provide one parking space fo each unit. Though not a formal limit on high-density construction, this regulation doe cre~~ate a de facto limit on what developers can do since there are logistical constrain~~ts o how deep an underground parking lot you can build/dig before costs become exorbitan In addition, a survey of Los Angeles County by Sofia Franco, Bowman Cutter, an Autumn DeWoody found that "minimum parking requirements significantly increas the amount of parcel area devoted to parking." The rules, in other words, increase th number of parking spaces over what a free market would create. That helps make re estate more expensive than it otherwise would be by ensuring that either homes ar 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 th impact can be seen in any picture of the New York skyline. There's a cluster o skyscrapers in Midtown, and another cluster in the Financial District, and then a broa valley of shorter buildings in between. What explains this valley? The phenomenon is s noticeable that an urban legend has grown up that holds it's caused by the varyin qualities of Manhattan's bedrock. The real answer is simpler—the buildings are tall wher you're allowed to build tall buildings and they're shorter in places where you're not. Th attractive single-family homes of southern and western San Francisco have a simila 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, th average home offered for sale in Arlington, Virginia's affluent 22207 ZIP code cost ove $969,000. The 22205 and 22209 ZIP codes were both in the $865,000 to $969,000 rang That's at a time when the median home price in the country was around $160,000. Logi dictates the construction of much taller buildings on such valuable land, but ta multifamily structures are illegal on most Arlington County land outside of a couple o narrow corridors. They're also illegal on most Montgomery County land on the othe side of Washington, DC. And they're illegal in most of San Mateo County south of Sa Francisco. They're illegal, that is to say, across the vast majority of the develope suburban land area of the United States. There are exceptions, to be sure, in specifi places, and developers can always petition for change. But land where one can build ta apartment buildings as a matter of right is rare indeed.

When Douglas Yeardley, CEO of a leading home-building firm, says that "most peopl 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 commute They want money left in their pockets to buy clothing and televisions and to pay fo college tuition. They want to live someplace with good job opportunities. They wan nice weather. They want good views. In other words, people want—and need—to mak 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 als natural that some working-class and middle-class people will also live in those desirabl places, but in smaller, more densely built homes. It's natural, but to a surprising exten it doesn't happen because there's nothing even remotely resembling a free market i land use in built-up parts of the country.

# The Price of Sprawl

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

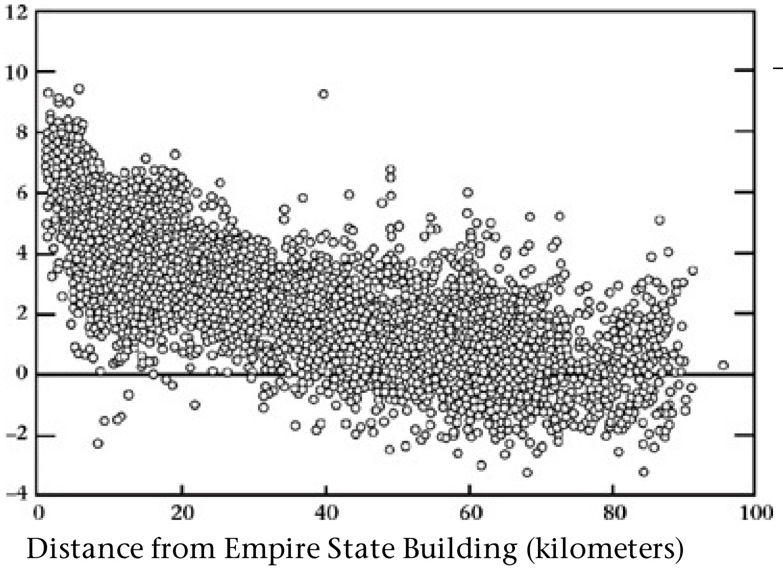
This phenomenon is the much-discussed urban sprawl. In Los Angeles, land near th coast or convenient to major employment centers is more expensive than land furthe inland. But restrictive zoning policies make it difficult for these desirable areas to hous all of Southern California's huge, growing population. Consequently, while the city c Los Angeles saw its population grow by just 2.6 percent between the 2000 and 201 censuses, the surrounding L.A. County grew 3.1 percent, and adjacent but further inlan 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. Abou 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 wh have aesthetic objections to it and who ignore the deep logic of car-centere development. In his excellent study of New Haven, *City: Urbanism and Its End,* Dougla 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, th price of moving people and goods along a waterway or a railroad track was muc cheaper than moving them along other routes. Under the circumstances, people ha good reason to cluster around train stations, docks, and the intersections of train line During the 1930s and 1940s, the fundamental economics shifted as cars and truck became widely available. Cities built primarily after World War II reflect the differen logic of a different era, and even those of us who happen to prefer the appearance an ambiance of older cities should acknowledge that there's nothing wrong with this.

That said, though automobiles are unquestionably a useful technology, they're no teleportation devices and they haven't abolished distance. Location still matters, an some land is more valuable than other land. Since land and structures are normally sol in a bundle, it's difficult in many cases to get precise numbers on land prices as such. Bu researchers at the Federal Reserve Bank of New York used a statistical model based o prices paid for vacant lots and for structures that were torn down to be replaced b brand-new buildings and found that the price of land in the metro area is closely linke 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 th cheap land. Tall buildings on expensive land would improve the affordability c convenient commutes. But when regulations cap how densely we can build and mandat large quantities of parking, we get more sprawl than technology and population growt alone would create.

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

At the same time, sprawl damages the environment through higher fuel consumptio and development of rural land. Many jurisdictions have tried to address this probler through various kinds of easements or subsidies to preserve green space or farmland. Bu people have to go somewhere. Metro areas that preserve green space while curtailin 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 *Sla* piece, Annie Lowrey summarized the research and concluded that "long commutes caus obesity, neck pain, loneliness, divorce, stress, and insomnia." Couples featuring on member with a commute of over forty-five minutes are about 40 percent likelier to spl up. Vehicle miles traveled are not just a source of obesity; they have a stronge correlation with being overweight than any other lifestyle factor.

This bad news about long commutes leads some observers to postulate that peopl irrationally undervalue transportation convenience when making decisions about wher 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 mov from ~~Minneapolis to Los Angeles, the better weather has to be balanced against~~ th worse traffic. In cities with decent mass transit systems, people pay a premium to liv near stations. Almost everywhere, people pay a premium to live in conveniently locate suburbs rather than distant exurbs. The biggest issue here isn't that people can't figur out that a short commute is valuable, it's that they can't afford one. Even if yo persuaded each household in America to increase its willingness to pay more fo convenience, all you'd achieve in tightly regulated areas would be further pric increases. Just as there's only so much beachfront property in Miami, there's a limite supply of land in Brooklyn that provides a quick subway commute to Manhattan. If w don't allow tall buildings to go up on that land, people will have to commute a longe distance.

# The New American Geography

There is another option besides denser cities or more sprawling ones: People can ju relocate to other cities altogether. And increasingly, that's what Americans have bee doing. If the only way to afford a place in a safe neighborhood in some metropolita areas is to bear the enormous costs of long commutes, those are just cities with little any housing that's truly affordable. The natural choice is to go to the cities that aren choked with these problems.

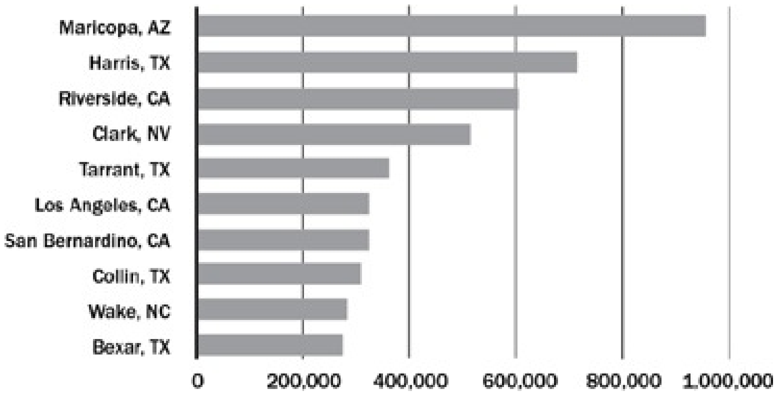
As *Forbes* magazine put it, "It's no secret that the Southeast and Western United State are booming. The costs of living and doing business there are often cheaper than in bi coastal cities." People have to go somewhere, and by and large they're going where it cheap. That's why between 2000 and 2010 the Dallas and Houston metropolitan area each added about 1.2 million people, dwarfing the approximately 500,000 each added b the much bigger New York, Los Angeles, and Chicago metro areas. But this kind o boom driven by a low cost of living is a particular kind of boom. The relatively sluggis population growth in New York City and its suburbs during this period wasn't a repea of the urban collapse of the 1970s. The financial services sector at the core of th region's economy was, for all the (oft-deserved) opprobrium it's attracted over the pas several years, one of the decade's major money-making success stories. The city specialization as the main headquarters of American journalism and publishing seeme relatively unaffected by the sweeping technological change reshaping media. The crim drop of the 1990s that turned the city's momentum around in the first place continue A wave of gentrification swept through the Lower East Side, vast swathes of Brooklyn 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 Bi Apple, it represents only a small *net* increase in the population. The people moving in ar largely replacing other people who are moving out as rents go up. Some of this is due t working-class families moving out of now-expensive neighborhoods. Other times, it the cycling of twentysomething professionals out of the city as they start families an want more space. In both cases, the city can prosper without its population increasin very much.

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

Alternatively, we can look at absolute growth in the number of people (rather tha 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 an San Bernardino Counties are far-flung inland suburbs of Los Angeles; Clark County is La Vegas; Tarrant County is Fort Worth; Collin County is suburbs of Dallas; Wake County i Raleigh; and Bexar County is San Antonio. This population boom is the foundation o the so-called Texas Miracle, in which the Lone Star State has outpaced the nation in jo creation. It's a genuinely impressive achievement, and it is overwhelmingly a triumph o affordable housing policy that not only continues to draw residents to the state but ha left them largely unexposed to a price bubble and its ensuing levels of unsustainabl debt.

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

There's something odd going on here. Every year, about one million peopl 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 pattern of precisely who leaves where and where they end up going are determined by an arra of factors, the general pattern is for people to leave poor countries to move to riche ones. A country full of rich people is a country full of people who might hire you to d something. It's a country where willingness to work for relatively low wages will b welcomed by employers, even as the wages earned are substantially higher than wha you got back home.

The exact same logic indicates that people should be moving to Fairfax Count (median household income: $104,259) rather than Maricopa County ($53,284). The ga between the two counties isn't quite as big as the gap between the United State ($47,284) and Mexico ($14,430) in terms of per capita GDP. But the legal, linguistic, an logistical barriers between moving from Phoenix to Northern Virginia are tiny compare 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 Unite States are all warm places. By contrast, three of the top ten highest-income MSAs are pa of the Greater New York City area, another is Boston, and a small one is part of Cap