

DEC - 2 2003

Allen's P. C. B. Est. 1888

Affordable-housing quotas at Ord discourage solution

10 By Benjamin Powell
and Edward Stringham

Increasing affordable-housing quotas in Fort Ord would cost citizens of Monterey County millions of dollars. The quotas would distort the housing market and actually make housing less affordable.

Affordable-housing quotas are nothing more than a price control. They would lower the price builders will pay for the land and that would cost government and taxpayers dearly. U.S. Rep. Sam Farr's proposal to increase the price-control quota to 50 percent would decrease land values by \$300 million. Fort Ord Reuse Authority would lose money needed for infrastructure and environmental cleanup. Builder profitability would become negative, so government would have to give the land for free and give builders a \$50 million subsidy just to get the project built. Where will this money come from?

Even though local governments received the land at Fort Ord for free, increasing price controls are still costly. All economic consultants for Fort Ord agreed that a 50 percent quota would bring the development to a halt. One consultant suggested that a 30 percent requirement is feasible. Though a project with 30 percent of the units under price controls could be built, it would cost FORA, local governments, and taxpayers millions of dollars.

Price controls would lower assessed values and cause local governments to lose \$5 million a year. County residents would have to pay higher taxes for police, fire and schools at Fort Ord.

Price controls are a poor way to help people own homes. Even the select few who get price-controlled homes lose one of the most effective ways that other working families accumulate wealth: home appreciation. Since resale values are restricted by price controls, much of the incentive for upkeep and making home improvements that build "sweat equity" is taken away.

SOAPBOX

Ninety-eight percent of economists agree that price controls reduce the quantity and quality of housing. Watsonville's experience is a prime example. After passing a law requiring that 25 percent of new homes be affordable, there was no for-profit development for almost 10 years. When the requirement was relaxed, the housing stock increased by nearly 12 percent.

When new construction is high-priced, all income levels benefit. When a high-income family buys a new house and sells its old one, it frees up a house for someone else. New market-priced homes generate an average of 3.5 moves; 6,000 market-rate homes at Fort Ord could generate 21,000 moves, including 8,200 moves for families earning less than \$47,000 per year. Price-controlled homes shorten the chain.

Price controls are the worst method of improving affordability. FORA should not enact new price controls that would jeopardize or delay projects.

It should set the number of price-controlled units as low as possible — ideally at zero.



Edward Stringham



Benjamin Powell

BENJAMIN POWELL and **EDWARD STRINGHAM** are professors of Economics at San Jose State University. They conducted research on the impact of price-controls in Fort Ord for the Community Partners Group.