

Housing Supply and Affordability

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Presentation to the Hawaii Senate & House Committees on Housing

February 21st 2019



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MĀNOA

Supply Skepticism: Housing Supply and Affordability

Vicki Been, Ingrid Gould Ellen & Katherine O'Regan

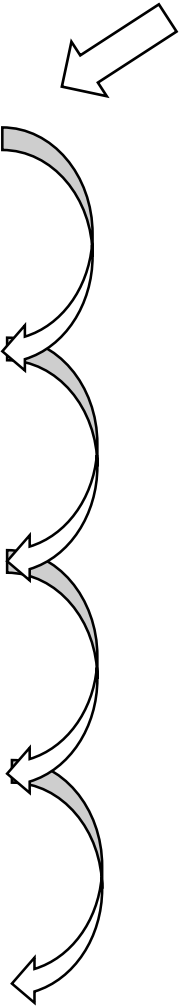
To cite this article: Vicki Been, Ingrid Gould Ellen & Katherine O'Regan (2019) Supply Skepticism: Housing Supply and Affordability, *Housing Policy Debate*, 29:1, 25-40, DOI: [10.1080/10511482.2018.1476899](https://doi.org/10.1080/10511482.2018.1476899)

To link to this article: <https://doi.org/10.1080/10511482.2018.1476899>

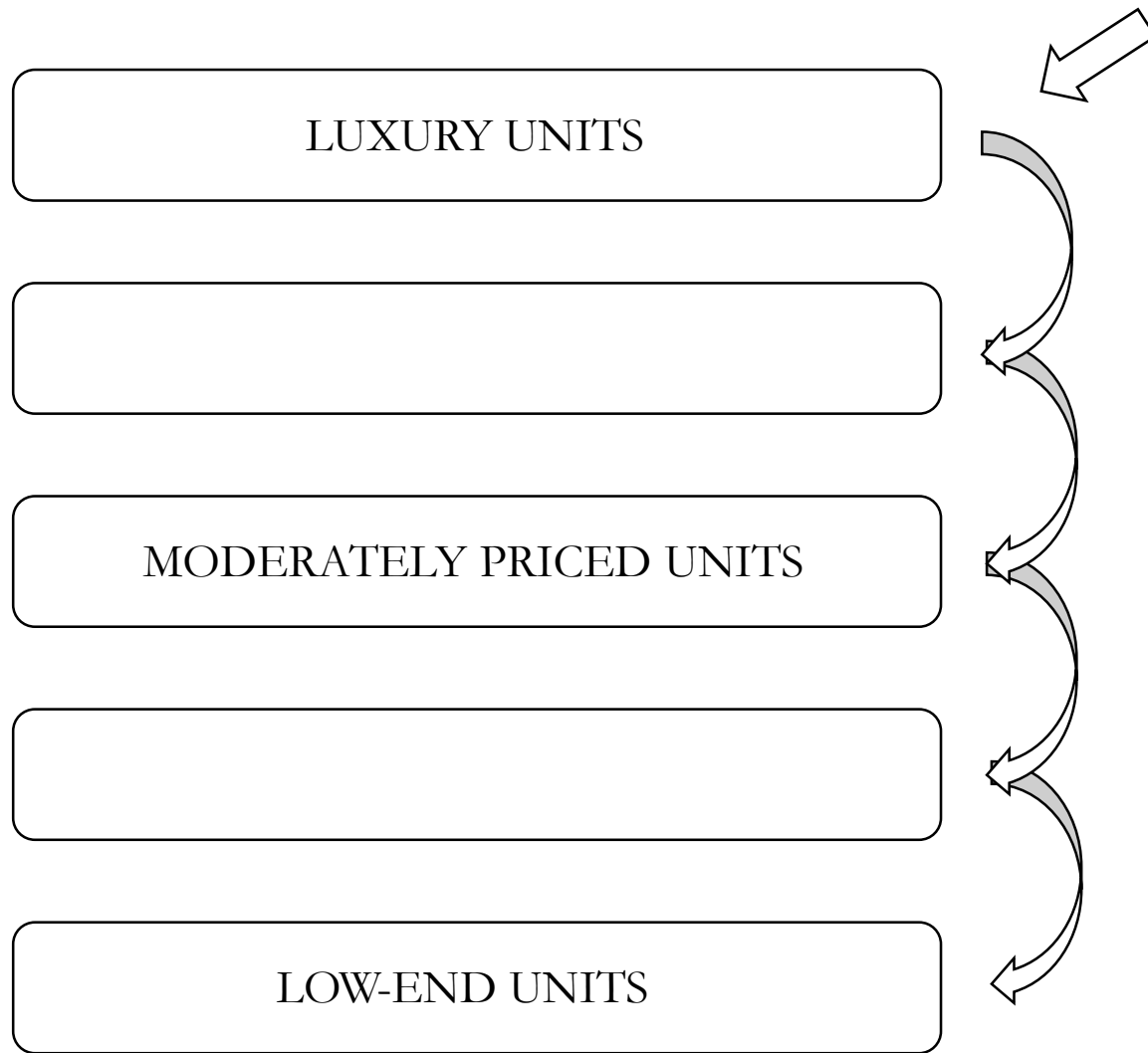
LUXURY UNITS

MODERATELY PRICED UNITS

LOW-END UNITS

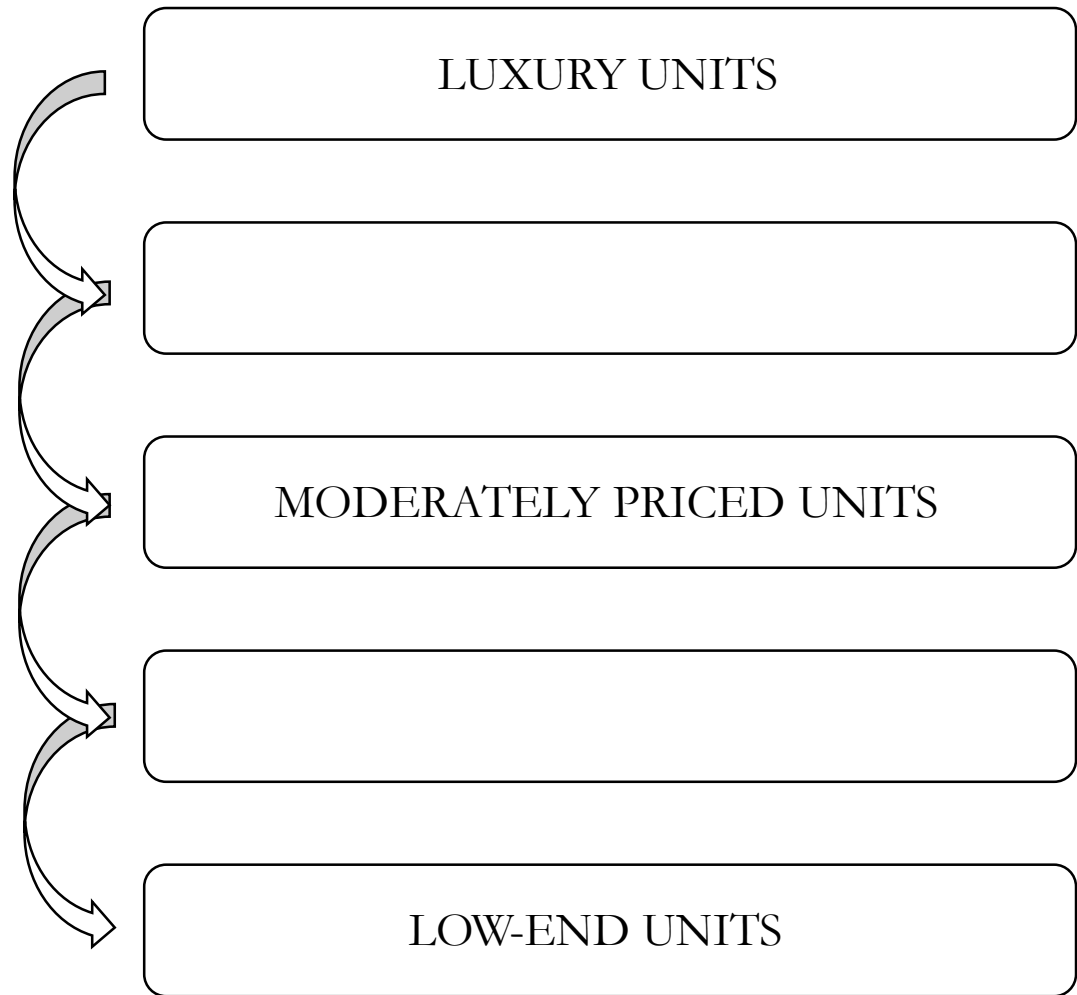


**FILTERING
THE IDEAL**

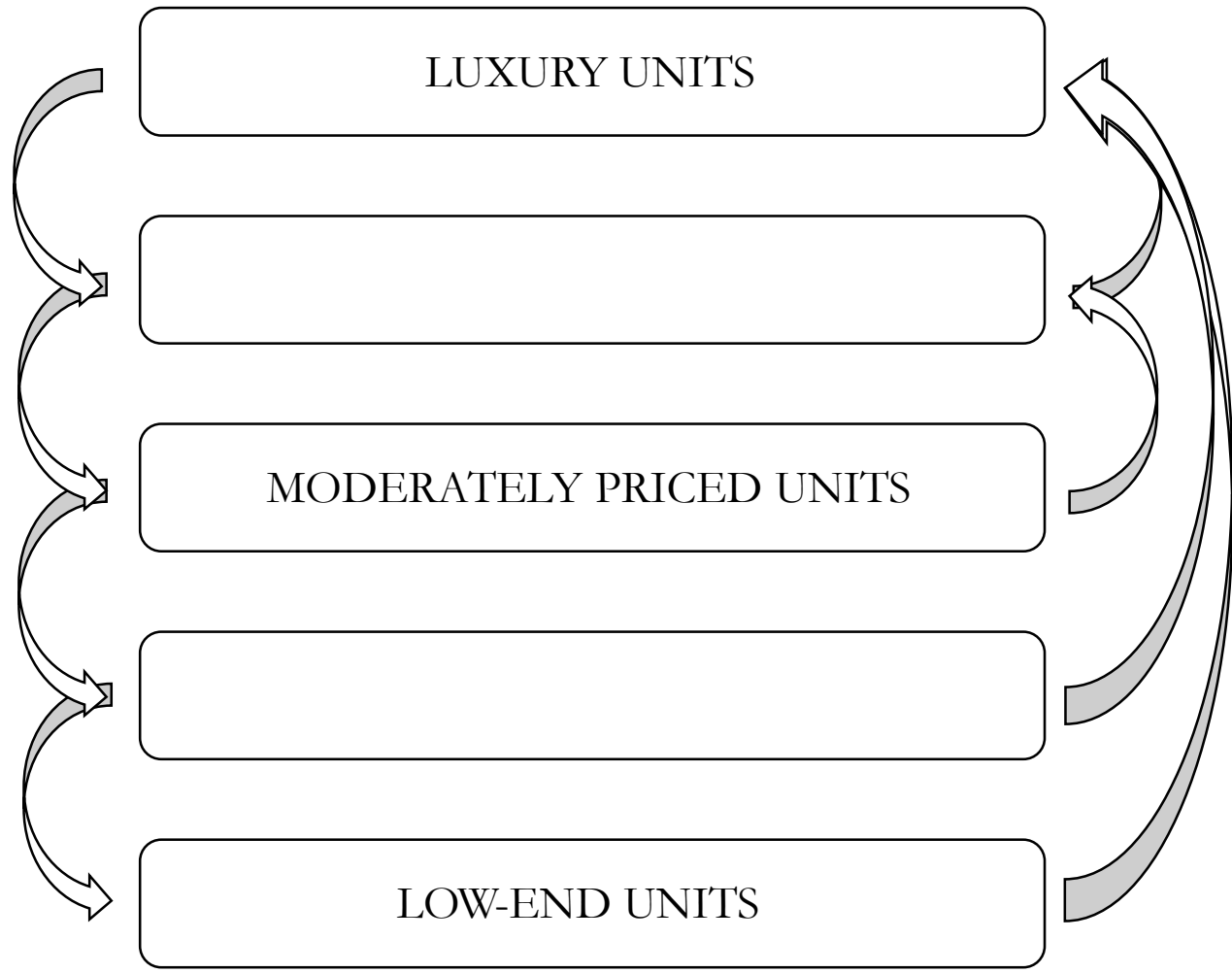


In this highly stylized system, new housing will increase supply relative to demand and lower prices.

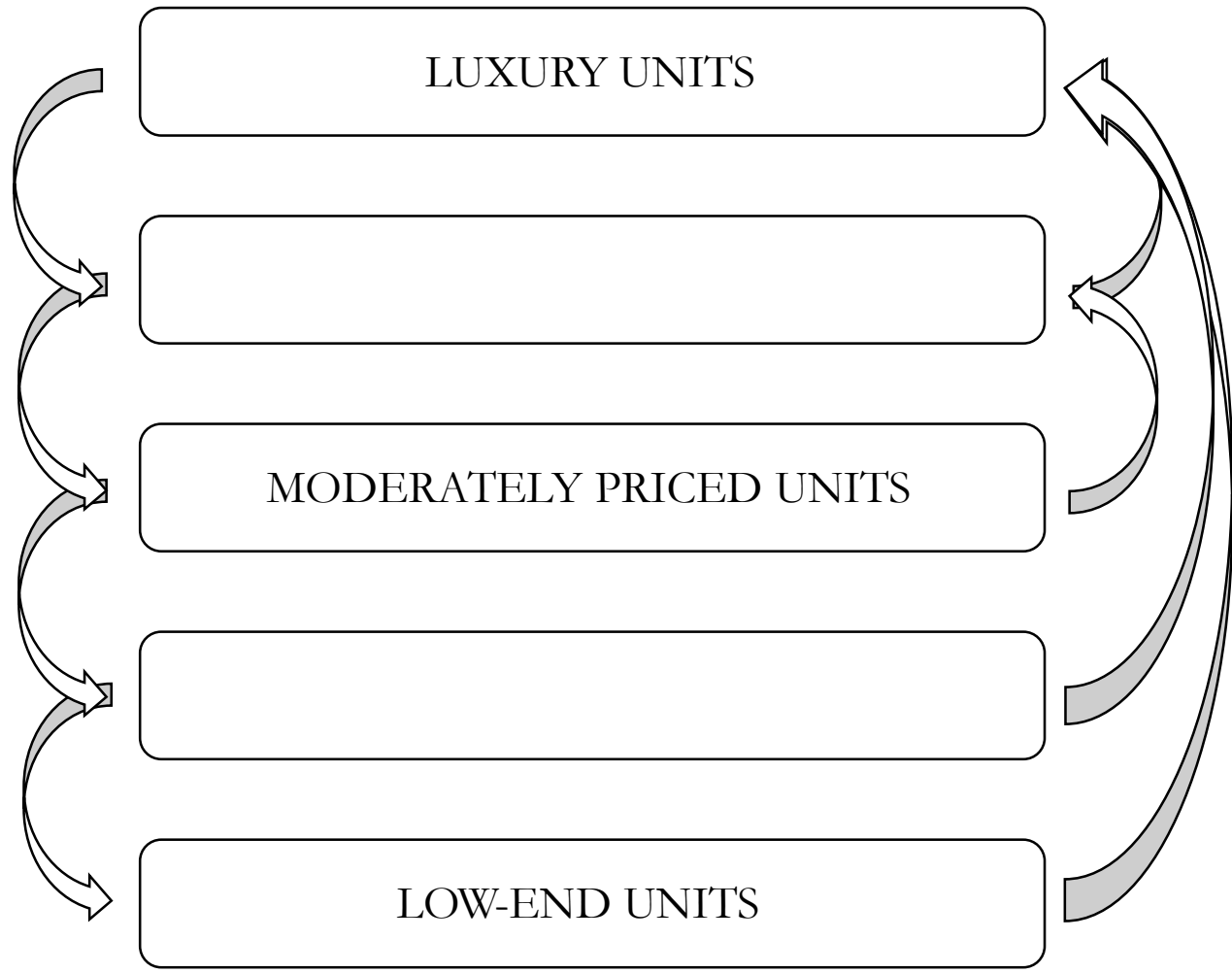
In theory, it doesn't matter what type of units are built. The supply spreads throughout the metropolitan area.



**NO NEW
SUPPLY**



**NO NEW
SUPPLY**



In the absence of new supply, owners will maintain luxury rents through renovation (as the stock ages there will be a supply shortage and thus a premium at the top of the market)

Even without the (likely) loss of units, rents will rise because renovation is an expensive way to achieve luxury (compared with new construction).

THE THEORY IS NICE, BUT DOES ANY OF THAT
ACTUALLY HAPPEN?

THE THEORY IS NICE, BUT DOES ANY OF THAT
ACTUALLY HAPPEN?

YES

(Glaeser and Gyourko 2003; Gyourko and Molloy 2015; Kok, Monkkonen, and Quigley 2014; Zabel and Dalton 2011;
Glaeser and Ward 2009; Ihlanfeldt 2007; Saks 2008; Hilber and Vermeulen 2016)

Limiting Supply Doesn't Just Raise Prices

(1)

Environmental Costs

(2)

Increased Income and Ethnic Segregation

(3)

Hinders Economic Growth

Limiting Supply Doesn't Just Raise Prices

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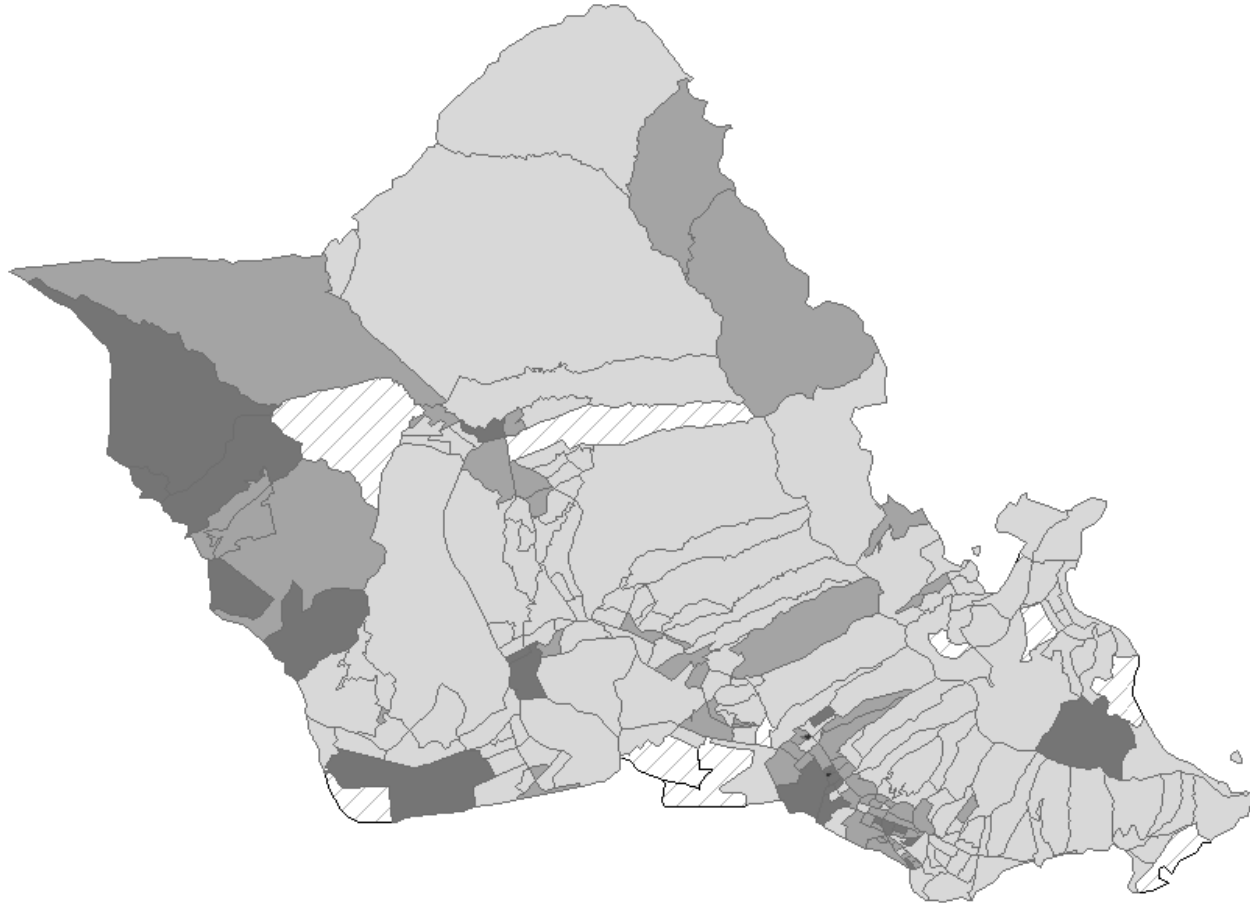
Of Course, Limiting Supply Is Sometimes Justified

reducing ecological footprint
cultural and historic preservation
protecting property values

BUT

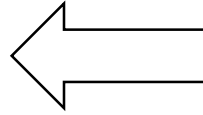
higher prices are what these policies are designed to do
(a feature not a bug)

now let's turn to how this all gets messy



**HOUSING
MARKETS ARE
(VERY)
SEGREGATED**

LUXURY UNITS



MODERATELY PRICED UNITS

LOW-END UNITS

**DEMAND IN
ONE MARKET
NICHE IS NOT
FIXED**

LUXURY UNITS

MODERATELY PRICED UNITS

LOW-END UNITS

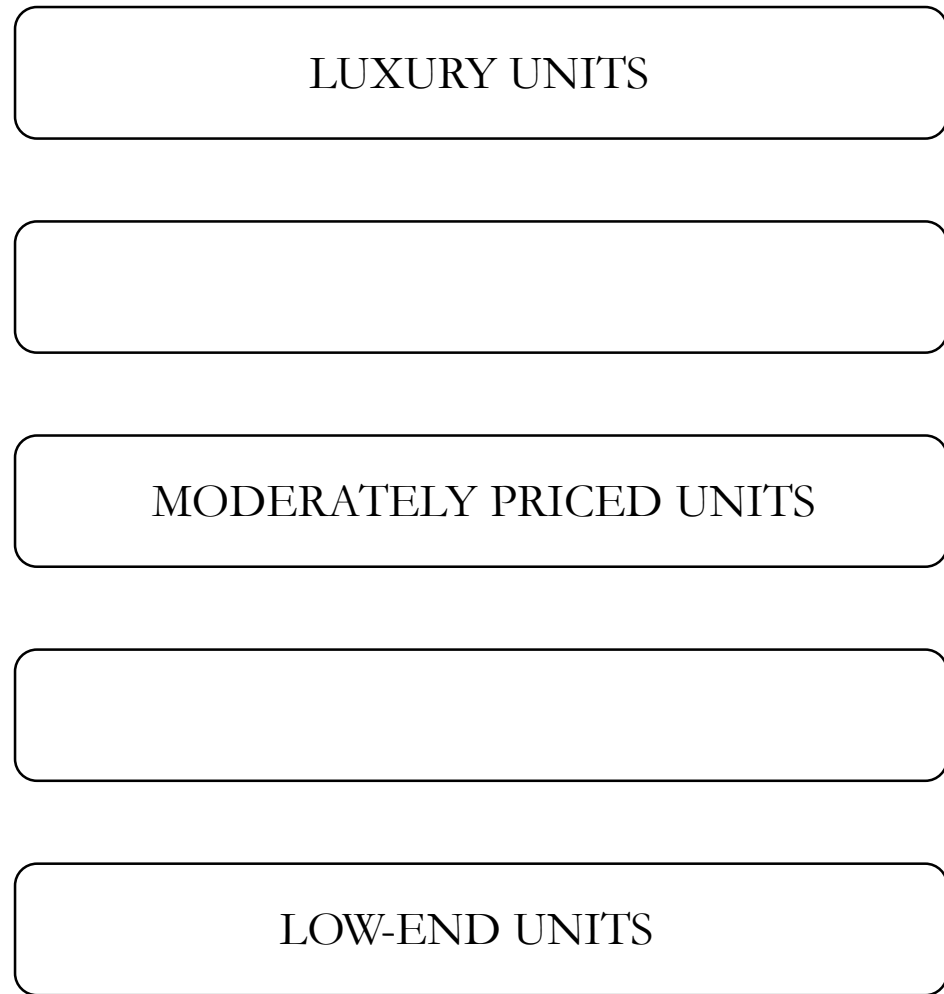
**DEMAND IN
ONE MARKET
NICHE IS NOT
FIXED**

from Freemark 2019

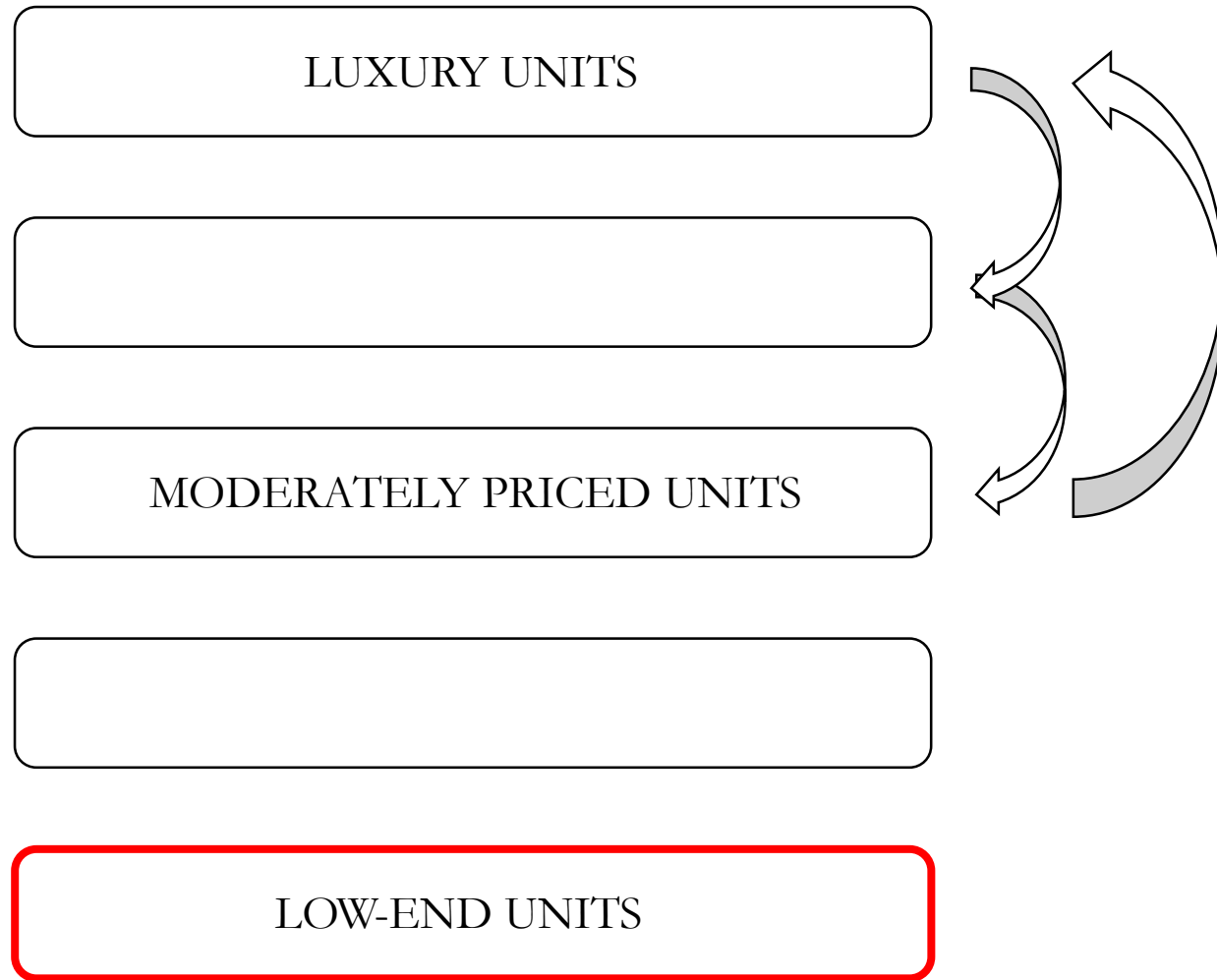


**NEW SUPPLY
CAN INCREASE
PRICES IN ITS
IMMEDIATE
VICINITY (IN
THE SHORT
TERM)**

**WITH OR
WITHOUT
DEMOLITION**



**AS LAND
VALUE RISES,
FILTERING
TOUCHES LESS
OF THE
BOTTOM**



**AND NONE OF
THIS IS
RELEVANT TO
FAMILIES
WITH THE
LOWEST
INCOMES**

TAKE-HOMES

1

increasing supply is absolutely necessary for slowing the
growth of housing costs

but

it will not address the problem for all families

2

increasing supply is not the same thing as luxury development (that's just the cheapest way to do it)

filtering can be a slow process and thus it is worthwhile to subsidize housing interventions at lower price points

this can slow price growth throughout the metropolitan area

3

for some families, there is no unsubsidized housing they can afford regardless of excess supply

this is a different problem

we must complement any plan to build market housing with housing subsidies for these families

thank you

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