



1988

Book Review, The Failure of the Private Housing Market

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Original Citation

W. Dennis Keating, Book Review, The Failure of the Private Housing Market, 11 Shelterforce, No.1 18 (June-July 1988)

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SPECIAL REPORT

The American People want a new national housing policy. They are overwhelmingly in support of federal programs to expand affordable housing opportunities for the poor, working and middle class. And most importantly, they are willing to pay for it.

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The Failure of the Private Housing Market

Rethinking Rental Housing, John Gilderbloom and Richard Appelbaum (Philadelphia: Temple University Press 1988)

BY DENNIS KEATING

John Gilderbloom and Richard Appelbaum, academic sociologists and progressive housing activists, have made major contributions to the revived debate over American housing policy and also to the way in which social scientists view housing and housing policy research. Their approach, unlike that traditionally taken by mainstream social ecologists, sociologists, and economists, challenges assumptions based upon conventional beliefs in the efficacy of the private market to provide housing in the United States. They offer empirical data refuting key market-based assumptions and offer progressive policy proposals.

The authors first recount the economic, social, and political dimensions of the American housing problem. Their primary focus is on the housing affordability problem facing low and moderate-income renters. They identify and analyze the combination of tenants' declining real incomes and rapidly rising rents which caused a large percentage of American renters to have a very high rent-to-income ratio. They point to the following consequences of this trend: "shelter poverty" (Michael Stone's term for poorer tenants being unable to afford other basic necessities because of their overly high rent burden), overcrowding, displacement, arson-for-profit, homelessness, and, potentially, social unrest. They also find that this prevents or delays home ownership for many tenants. Home ownership is, of course, a basic tenet of American housing policy. They foresee only a bleak future for rental housing under prevailing market conditions and current federal housing policy.

In their discussion of the private housing market, Gilderbloom and Appelbaum challenge conventional views of its structure and performance. They dispute the assumption that supply and prices will respond to demand as reflected in rental vacancy rates. Their data from 140 cities does not show such a correlation (e.g. high vacancy rates do not necessarily result in the falling of rents and low vacancy rates do not necessarily result in additional construction of new rental housing).

Gilderbloom and Appelbaum analyze seven conditions necessary for a truly competitive rental housing market. They show that in reality many of these conditions do not exist. For example, they note that large-scale, professional landlords are well-organized and often consult, formally and informally, in setting rents. This concentration of owners and their cooperation in setting prices contrasts with the theory that unorganized landlords set rents independently. They also show that amateur landlords typically consider different factors in setting rents than do professional and speculative investors. Because landlords consider tenants' income in setting rents, Gilderbloom and Appelbaum do not believe that either an increase in tenants' income or the construction of new housing, more expensive than existing units, will solve the problem of housing affordability.

Turning to the argument that a primary reason for the high cost of new rental housing is overregulation (a view taken by several presidential commissions, HUD, and the real estate industry), the authors again challenge a conventional assumption. They conclude that growth and other land use controls have only a slight marginal effect on housing supply and new construction. Instead, they argue that federal credit policies affecting mortgage interest rates and tax policies affecting private investment have a much more important impact. They believe that feder-

al policies generally favor speculative real estate investment, property turnover, and mortgage refinancing, all of which push up the cost of housing for tenants.

Pro-market Approach Rejected

Gilderbloom and Appelbaum reject the pro-market approach of the Reagan administration to federal housing policy. They document the growth of the tenants movement and the enactment of local rent controls as a response to the housing affordability problems faced by lower-income tenants in the face of severe federal cutbacks in subsidized housing programs, especially under the Nixon and Reagan administrations. They suggest: "If housing conditions continue to worsen, as we anticipate, and if the federal government reduces its already limited programs, tenants will have to look to local solutions."

Looking beyond rent control to other progressive alternatives to conservative housing policies, Gilderbloom and Appelbaum survey Western European welfare state housing policies, which include rent control, a very high proportion of state-subsidized "social" housing, and housing allowances, regardless of whether the left or right governs. The authors focus on Sweden. Under the Social Democrats, the Swedes have enjoyed great success in providing decent housing for all and promoting cooperative housing, although they still face issues of equitable housing allocation. This chapter is highly recommended to American housing activists for a better understanding of the much more progressive housing policies which are longstanding and generally accepted throughout Western Europe.

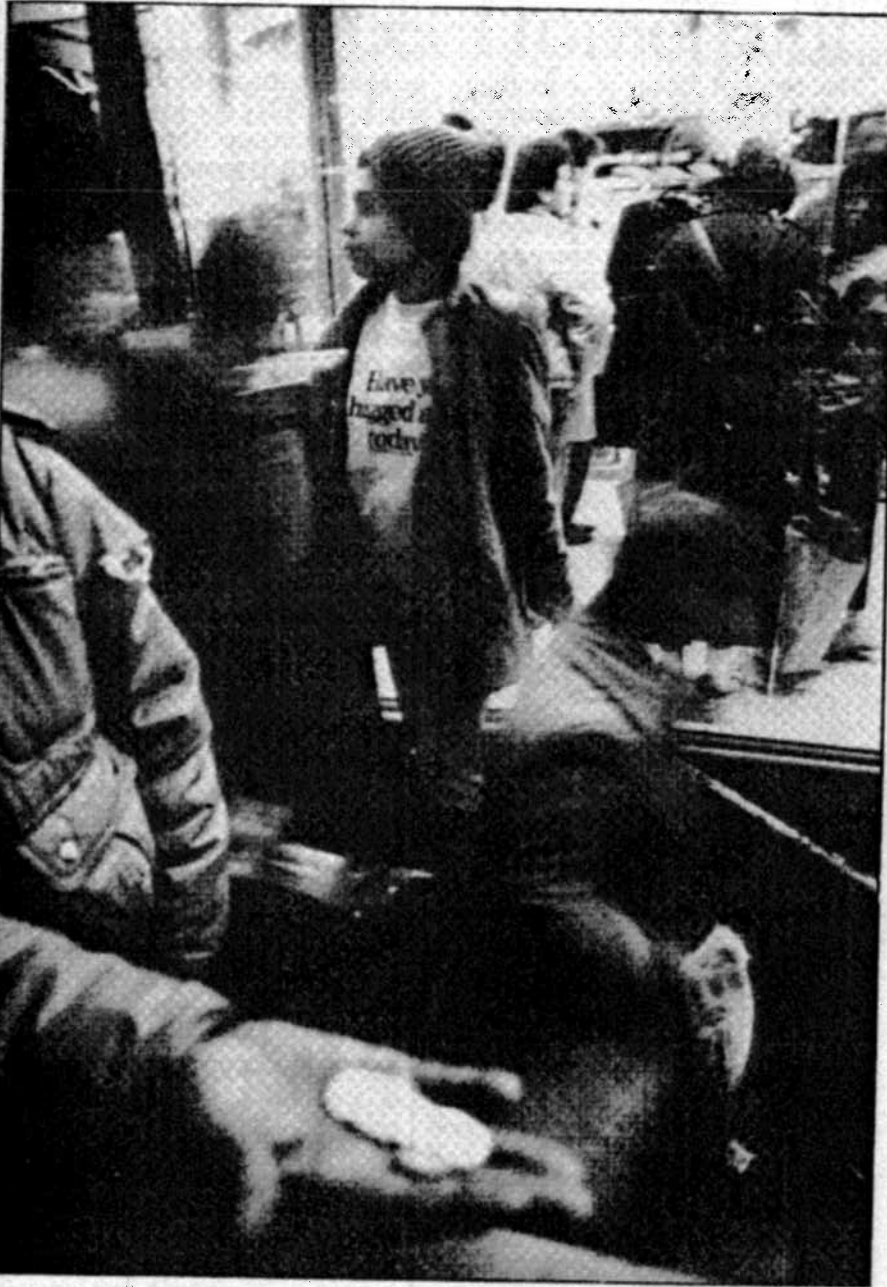
Community-based Housing Proposed

Finally, Gilderbloom and Appelbaum conclude by making both short-term and long-term proposals for the conversion of our predominately private housing market into a community-based housing system. They propose to make affordable housing an entitlement. To achieve this national goal they support the creation of non-profit



Andre Lambertson/City Limits

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housing. Their program is based on a proposed national program developed through the Institute for Policy Studies (see *Shelterforce* November/December 1987, "Blueprint for America: A Progressive Housing Program.") Their short-term proposals include reform of the federal tax system to achieve greater equity by eliminating accelerated depreciation for rent-

al housing, replacing the capital gains tax with a windfall profit tax, instituting an anti-speculation tax, reducing the homeowner tax deduction, and making local property taxes more progressive. They would require more capital investment in affordable housing (e.g. insurance companies and pension funds) and would redirect existing federal programs like CDBG to

better support community-based housing.

In the long-term they propose that the federal, state, and local governments finance the production of new housing units and rehabilitation and conversion of existing housing into non-profit limited equity cooperatives. Non-profit community development corporations would receive direct federal assistance. They propose to upgrade and preserve all existing subsidized housing. Finally, they propose to require increased protection of all tenants in private housing. These programs would be implemented at the local level with maximum resident participation. The first year cost of this program is estimated to be \$55 billion.

In the Reagan era of massive cutbacks in HUD funding, the attempt to privatize subsidized housing, and HUD's virtual withdrawal as an active proponent of affordable housing, these represent seemingly utopian and financially impractical proposals. However, the homelessness crisis has visibly and forcefully brought the affordable housing crisis back into the public's consciousness and, hopefully, the 1988 fall presidential campaign. The Community-based Housing Partnership legislation introduced in 1988 by Rep. Joseph Kennedy (D-MA) (see *Shelterforce* September/October 1987, "Community-based Housing: A New Direction in Federal Housing Policy") contains modest elements of what Gilderbloom and Appelbaum propose. The National Housing Task Force endorsed direct federal aid (although very modest amounts) to CDCs. And the recent National Housing Institute poll in which most Americans express willingness to pay higher taxes to support more affordable housing offers additional hope that a liberal Democratic administration can be persuaded to initiate at least some elements of this progressive program. This book offers guidance in the post-Reagan era for the progressive housing movement. ■

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