

## IDEAS

# America Needs More Luxury Housing, Not Less

New market-rate development helps relieve pressure on local housing prices.

APRIL 12, 2021

**M. Nolan Gray**

Housing researcher at UCLA



Sandy Carson / GalleryStock

*Updated at 9:15 a.m. ET on April 13, 2021.*

**T**IF YOU WERE INTENTIONALLY designing a development to spark a NIMBY backlash, you might come up with something that looks a lot like the Clay

Enjoy unlimited access to The Atlantic for less than \$1 per week. | [Sign in](#)

[Subscribe Now](#)



and floor-to-ceiling windows. True to form, the website for the Clay Apartments celebrates amenities such as a rooftop deck and stainless steel appliances. Hosting 76 “micro units,” the project seems perfectly optimized to house the well-paid, single young professionals that companies such as Amazon have attracted to the city in droves.

Today, however, the Clay Apartments house Seattlites earning roughly a third of the median income, most of whom have recently struggled with homelessness. As reported in *Next City*, thanks to a deal struck by a local affordable housing non-profit, those suffering the brunt of Seattle’s housing shortage—a crisis that leaves nearly 12,000 Seattlites homeless—now enjoy a safe place to call home.

Although the Clay Apartments project is exceptional in many ways, it’s far from the only development to blur the line between luxury and affordable housing: These aren’t stable, or standardized, concepts. Nevertheless, carping about “luxury development”—or more accurately, any market-rate development—has emerged as the preferred angle for opposing housing construction. In the recent past, the typical NIMBY complaint was that new housing was too affordable, and thus a threat to “community character,” a term loaded with racial baggage. Today’s NIMBYism, savvy to a changing political landscape, makes hay opposing new housing on the basis that it isn’t affordable enough.

## RECOMMENDED READING

---

The Chauvin Trial’s Jury Wasn’t Like Other Juries

**SONALI CHAKRAVARTI**



Not Everything Should Be a Moral Reckoning

**CONOR FRIEDERSDORF**



Biden’s Misstep in India

**THOMAS WRIGHT**



*[ Read: From ‘Not in my backyard’ to ‘Yes in my backyard’ ]*

Advanced by an unholy alliance of cynical property owners and misinformed activists, the argument goes like this: If local governments were to remove the arbitrary zoning barriers that are behind America’s housing shortage, developers would build only luxury apartments and condos. Such housing would be leased or sold at price points well beyond what regular working families can afford. At best, these units would sit empty as “safety deposit boxes in the sky,” doing nothing to ease the affordability crisis. At worst, all this new luxury could trigger higher housing costs, as developers rush in to demolish older affordable units and throw up residential towers.

This story has captured the minds of many local policy makers. But it’s nonsense. For all the NIMBY near-clutching over the construction of luxury apartments and condos

AT THE RISK OF stating the obvious, *luxury* is just a marketing term. Much of what is eagerly cast today as “luxurious” is run-of-the-mill new or refurbished housing. Developers and real-estate brokers are not in the modesty business—they’re in the business of building, leasing, and selling homes, which depends on a flair for hyperbole. No recently built apartment or condo is merely “new” or “nice.” It’s *luxury* housing. Thus, a pleasant if unremarkable student apartment building in my neighborhood near UCLA might promise prospective residents “a life of luxury and endless comforts.”

The distinction between marketing and reality is crucial. Take Promenade Pointe in Norfolk, Virginia, an apartment building derided by neighbors as unwanted luxury housing. Yes, the building’s website promises “premiere luxury” including de rigueur granite countertops and stainless-steel appliances. But truthfully it’s a rather humdrum suburban apartment building, leasing at rates affordable to many Norfolk families. A successful attempt to block Promenade Pointe would have left a lot of regular people without a home.

Similarly, the recent surge in small-scale condo development in North Brooklyn has spurred intense concern about new development changing the grungy character of America’s “hipster paradise.” As demand for housing surges, developers have indeed found clever ways to build more units on underutilized lots. And these new condos are no one’s idea of affordable housing—prices for a studio hover at just over \$500,000. Anyone grumbling about the North Brooklyn that was, however, has to grapple with the fact that these new condos are a fraction of the cost of nearby existing townhouses, which start at about \$2 million. When a Brooklyn brownstoner complains about all the “luxury” condo development under way, she is usually criticizing homes far more affordable than her own.

For all the preoccupation with luxury, new apartments and condos are nearly always cheaper than existing single-family homes. As my UCLA colleague Shane Phillips points out, in every housing market in North America, a typical condo will cost a quarter to half as much as a single-family home. While a ramshackle bungalow in an expensive city such as Los Angeles might look cheaper than the shimmering new high-rise down the street, the reality is that a condo in that building will cost much less than the low-slung house. This is why density exists in the first place: Where land costs are high, building up allows us to spread these costs across more units, enabling more families to afford a home in their preferred neighborhood.

*[ Scott Wiener and Anthony Iton: A backlash against cities would be dangerous ]*

New multifamily development is not only more accessible than the typical single-family home; it may also help ease escalating housing prices. For decades, urban economists have argued that the affordable-housing crisis is a straightforward matter of demand outstripping supply: A lot of people want to live in certain neighborhoods, yet we don’t build enough housing to accommodate all of them. As a result, many households are forced to bid up the price of a fixed housing supply, until you get shacks in San Francisco selling for millions. From this angle, the need to build more housing—even luxury housing—is obvious. In a hot neighborhood, the young professionals are coming, for better or worse. Why not build giant “yuppie fish tanks” to absorb all that

A flurry of [studies](#) over the past few years have consistently found that new market-rate development, even of the luxury variety, helps relieve pressure on local housing prices in this way. According to one 2019 [study](#) of low-income census tracts, the construction of new market-rate rentals resulted in rents for nearby buildings falling by 5 to 7 percent. A more recent 2021 [study](#), by the economist Kate Pennington, looking exclusively at San Francisco, found a more modest drop of 2 percent, alongside evidence that new development reduces the displacement and eviction of existing residents. It might not change minds at a raucous public hearing, but the research is clear: Even new high-end development can help cool local housing prices.

Luxury housing also has a curious way of turning into affordable housing through a phenomenon known as “[filtering](#).” As buildings age, designs fall out of fashion and affluent residents move into newer homes, allowing prices to decline. If you rent an apartment built more than 50 years ago, you may well be living in yesteryear’s luxury. Take the [Metropolitan](#) in D.C.’s Eckington neighborhood: Built in a lavish Art Deco style in the late 1930s, it was once the height of luxury; today, even after careful restoration, it commands rents close to the metropolitan average. The luxury housing built today will follow a similar path to affordability, if we let it.

This filtering effect can happen overnight. In the case of the Clay Apartments, a nonprofit was able to snap up a luxury building before leases were signed. At about \$240,000 a unit, that housing didn’t come cheap. But with new affordable housing in Seattle [costing](#) roughly \$300,000 a unit to build, in many cases it’s cheaper for affordable-housing agencies to simply buy up and convert existing market-rate units into income-restricted housing. Down the coast, in San Francisco—where each new unit of affordable housing [runs](#) about \$750,000—letting luxury development rip while buying up and restricting some of it to low-income residents might be the only scalable way to produce affordable housing.

Even without the fancy financial footwork of a project such as the Clay Apartments, we don’t have to wait a century for luxury housing to add to the affordable supply. In a 2019 [study](#), the economist Evan Mast found that even pricey development in wealthy neighborhoods sparks a chain reaction that extends all the way to the bottom of the housing market, as richer residents vacate older units for newer ones. The data suggest that for every 100 market-rate units built, as many as 48 moderate-income households can move into nicer housing. If this more subtle form of filtering is as robust as these findings indicate, luxury housing may quietly be generating a lot of affordable housing as soon as the first residents move in.

None of this is to say that high housing prices aren’t a problem—far from it. But any given luxury development is a symptom of—and in a small way, part of the cure for—a broader set of issues. As the urbanist writer Daniel Herriges [suggests](#), what makes new housing expensive is not so much the amenities that brokers like to gush about, but the lack of supply in certain locations. In a context of extreme scarcity, the price of anything that gets built in a fashionable neighborhood such as New York’s SoHo or L.A.’s Venice will be exorbitant. The solution is not to stop developments with granite countertops, but to build many more like them, particularly in affluent areas.

Better yet, local policy makers could simply stop driving up the price on new housing

can easily add \$50,000 to the cost of each new condo, regardless of whether the prospective residents want or need parking. Rules of this nature abound in zoning codes, including mandates requiring large homes and prohibitions on the construction of inherently affordable duplexes and fourplexes.

Houston, a city that has attracted nearly 500,000 new residents over the past 20 years, reveals what easing land-use rules might actually look like: Back in 1998, facing early warning signs of an impending housing crunch, city planners dropped the minimum lot size needed to build a home from 5,000 to 1,400 square feet, such that developers could turn any given ranch-style home into three townhouses. As a result, more than 25,000 new townhouses were built in neighborhoods with easy access to transit and jobs, helping keep Houston one of the most affordable cities in America. Many of the new townhomes are quite nice. Some even flaunt granite countertops and stainless-steel appliances. But the best-kept secret about luxury is that, if you keep building it, eventually there's enough for everyone.

*\*This article previously misidentified the Clay Apartments as 10 Clay, a building located in the Belltown neighborhood of Seattle*

