

NOTES

¹The first such problem is whether to use current income or some measure of permanent (long-term) income or accumulated wealth (see Bossons, 1978). The second problem relates to determining the value of housing when that housing has not been on the market for some time.

²Household dissolutions occur through either a death of one or both spouses, divorce, undoubling, remarriage, or with first-time marriages by two individuals previously living as separate households.

³Household formation and dissolution rates are also related to income. In Reid's (1962) classic study of income and housing, she demonstrated that a 1% rise in income led to a 2.3% reduction in the number of other persons attached to the household.

⁴For comparison purposes, see Grigsby's (1963, p. 63) diagram of household movements in the Philadelphia housing market.

⁵The distinction here is between market (active) filtering, when in the process of moving the household "enters" the market, and nonmarket (passive) filtering when the household's housing status may change, but without going through a market transaction.

⁶Ratcliff (1949) made the same point over 30 years earlier when he concluded: "The end product of filtering is substandard housing; thus filtering produces the very blight which we seek to remedy" (p. 333).

⁷The concept derives from studies of the sequence of job changes within large organizations which follow from the creation of a vacancy at different levels in the organization.

⁸To consider these coefficients as "prices" one has to assume that the urban housing market is in some kind of long-run equilibrium. This is analytically convenient but highly unlikely in reality.

⁹One dimension of this problem is the difficulty of differentiating between an area undergoing substantial maintenance and repairs and one undergoing revitalization. What is implied, but seldom verified, in this literature is that the housing stock in the latter area has significantly changed its position in the hierarchy of all housing units in the city such that it is now in a different sub-market. As shown in Chapter 4, however, sub-markets are not easy to measure.

Chapter 8

Market Failures and Housing Problems

Despite the vast improvements in housing supply and quality noted in Chapter 3, housing remains a persistent and divisive social issue in all western countries. Why this apparent paradox? Perhaps the basic reason, as previously emphasized, is that housing problems are to a considerable extent subjectively defined, depending on the particular social, economic, and political conditions prevailing at any given time, and on our attitudes regarding living standards. It seems that our expectations have grown even faster than our record of housing improvements.¹ In addition, housing remains a divisive issue precisely because the inequalities in the distribution of housing have become even more prominent as overall prosperity increased.

This chapter can do little more than illustrate the range of current and emerging housing problems in western industrial cities. Rather than simply inventory all such problems here, we undertake to explore the processes underlying a selection of these problems in more depth. Those selected are ones which relate to the themes developed in earlier chapters, notably Chapters 2, 3, and 4, and those which have an important spatial dimension.

The Range of Housing Problems

A majority of countries agree they share most, if not all, of the following types of housing problems:

substandardness: far too many households still live in housing which is physically substandard or located in substandard neighborhoods.
inequitable distribution of supply: although aggregate housing supply now equals or exceeds the number of households in almost all countries, this supply is

inequitably distributed by income group, by race and ethnic status, family size, and by location.

needs of special groups: groups such as the elderly, the handicapped, single-parent families, "problem" families, the young, and the transient are often faced with severe difficulties in finding housing suited to their needs and budgets.

the very poor: these people, although numerically small, are the all but forgotten members of the housing problem even in the public sector. In almost all countries, the amount of public housing available is inadequate, and in some cases they are excluded from the public sector because their incomes are too low.

segregation and discrimination: all too often the process of allocating housing—in both the private as well as the public sectors—produces a pervasive spatial separation of social groups by income and ethnicity.

obsolescence, underinvestment and deterioration: in many urban areas the older housing stock suffers from an acute and long-standing condition of inadequate investment in maintenance and repairs.

price escalation and affordability: for many households, the recent inflation in housing prices and in the costs of owning (mortgage, taxes) or renting is assuming an uncomfortably large proportion of their income.

financing, subsidies, and the distribution of benefits: this massively complex area incorporates such problems as the proportion of a nation's national wealth and productive resources which should be directed to housing, the extent to which certain sectors of society and of the housing industry should be subsidized, and the unequal distribution of benefits which result from housing policies (see Chapter 9).

supply problems, instability, and concentration: the private housing industry, as described in Chapter 5, remains beset by wide fluctuations in rates of new construction, instability in financing and in labor force requirements, maintenance of liquidity, corporate concentration, property speculation, and corruption.

local market imperfections: most local housing markets display a variety of illogical, or illegal, and certainly unfair practices—e.g., under-the-table land deals, collusion among estate agents, excessive transaction fees, price fixing and price jumping (called gazumping in the U.K.), bribery and corruption—which benefit those in positions of power.

In the following section, aspects of these problems are regrouped under four broad headings, within which selected examples of each problem are presented. The four headings are: housing quality and substandardness, segregation and racial discrimination, obsolescence and abandonment, and prices and affordability.

The Sources of Housing Problems: Market or Policy Failures?

It is necessary at the outset to see these problems in their political (and ideological) as well as historical context. In some instances, perhaps most commonly, students of housing interpret these problems as "failures" of the market and thus the rationale for government intervention (Downs, 1975). Others, who place more faith in the functioning of the market, see such problems as precisely the result of extensive government intervention in the housing market and of misdirected and mismanaged public policies (L. B. Smith, 1977). Still others view such problems not as failures of the market process but as the inevitable outcomes of a "laissez-faire"

market system in which housing is produced for profit rather than to meet needs and in which inequalities are an essential part of the system (Harvey, 1977b; Boddy and Gray, 1979).

All three views are partly correct. The crux of the debate is the ability or inability of the private market to provide adequate housing for all. Few would now subscribe to the view that it can do so. In each of these views, the policy response is also rather different, varying from reduced government involvement to "corrective" policy measures and to outright nationalization of the housing sector. This text cannot be expected to sort out the relative merits of each interpretation, but it can at least alert the reader to the diversity of perspectives which is necessary in understanding housing problems.

HOUSING QUALITY, SUBSTANDARDNESS, AND INEQUALITIES

Previous sections have demonstrated the dramatic improvement in the quality of urban housing in western societies and the corresponding reduction in the incidence of inadequate or substandard housing. They have also demonstrated that quality is an elusive concept, and that it is not, as Goodman (1978) argues, reducible to a single composite index. In fact, for most census agencies, housing quality has presented a statistical nightmare, as reflected in the wide margins of error and frequent changes in definitional criteria.

Traditionally, public concern has focused on physical measures of quality, such as structural defects, the absence of plumbing facilities, or standards of occupancy such as overcrowding which submit to easier measurement. As these problems have diminished in importance over the last two decades, attention has shifted to the use of other indices of quality, including household furnishings, excessive costs, social satisfaction, environmental quality and neighborhood services—measures which define the quality of "living" as much as the quality of housing.

Quality Improvements and Inequitable Supply

Chapter 3 provided aggregate statistics on housing quality changes. Between 1940 and 1976, for example, the proportion of all housing in the U.S. lacking some or all plumbing facilities declined from 45% to less than 3%. During the same period, the frequency of dilapidated housing declined from about 18% to less than 4%. Even a more comprehensive attempt to measure quality, based on 15 variables relating to physical quality, still identified only 8% of all occupied units as in need of some rehabilitation (Table 8.1). In the same survey, only 2.8% of households interviewed considered their housing as "poor" (Weicher, 1978). In almost all surveys, well over 80% of households describe their housing as adequate.

Space standards have also improved. The proportion of married couples sharing their accommodation with another household (i.e., doubling up) decreased from 7% in 1940 to just over 1.2% in 1976. Similarly, overcrowding declined from over 20% to less than 5% in the same period. The principal reasons for these increases

Table 8.1. Percentage of Households Occupying Housing In Need of Rehabilitation in U.S., By Income and Race, 1976^a

Race of head of household	Average annual income			Total all households ^b
	Less than \$10,000	\$10,000-\$19,000	\$20,000 or more	
Black	24.9	11.5	7.1	19.6
White	10.6	4.7	2.4	6.4

Note: ^aDefined as a unit with incomplete or inconsistent facilities (sewer, water, heating, light) or one with structural faults such as a leaking roof, wall cracks, falling plaster or inadequate wiring.

^bTotal = 8.1%.

Source: U.S. Congressional Budget Office, *Annual Housing Survey*, 1976.

have been the growth in supply and in personal income and social wealth, and current conditions tend to vary geographically in relation to the strength of an area's economic base and its rate of growth.

In many instances, the rate of improvement has been greatest among low-income and minority populations. Among non-whites, for example, the proportion lacking complete plumbing facilities declined between 1940 and 1976 from nearly 80% to less than 4%. Of the lowest 40% of the profile of household income, roughly those eligible for federal housing assistance, some 57%, were living in housing which was dilapidated or had inadequate facilities in 1950. By 1976, that proportion had declined to 12% (U.S. Congress, 1978).

Nevertheless, inequalities in the distribution of housing quality remain severe. Low-income households are still three times (12%) more likely to live in standard housing than middle- or upper-income households (4%). As shown in Table 8.1, black households are also more than three times as likely to live in housing needing rehabilitation, or in housing which is without plumbing or is overcrowded (Headey, 1978). Moreover, non-whites are more likely to live in such conditions compared to whites, at *all income levels*. Similarly, in the U.K., colored households are also (in 1977) more than three times as likely as white households (23 to 7%) to live without adequate plumbing facilities (Central Statistical Office, 1979).

These inequalities are perhaps more obvious when set in their appropriate locational and neighborhood setting. Many of the low-income and racial minorities are trapped in older inner city areas, systematically cut off from access to the expanding employment opportunities in the suburbs and an adequate level of public services. Even when their own housing is structurally sound, as is often the case, the quality of housing and neighborhood services, in the sense defined in Chapter 2, are often unacceptably low (U.S., HUD, 1973; Downs, 1975). For those at the very bottom, the effects of poor housing and inadequate services are cumulative and socially destructive.

What we cannot easily or adequately convey here, however, is the truly appalling housing conditions in which many of these people live. It does not take much imagination to construct an image of deteriorating structures, garbage smells, leaking pipes, and of rat-infested halls, wall cavities, cellars, and alleys. Equally disturbing are the urban neighborhoods in which these households often live—dirty, vandalized, dangerous, and demoralizing. Numerous articulate authors, such as Herbert Gans, Jane Jacobs, and Lee Rainwater, have painted vivid pictures of life and living in such neighborhoods and the attitudes and behavior it encourages.

Although inadequate housing as such is not the cause of these conditions, it is one vehicle through which they are expressed. It can become a prison for the poor and the disadvantaged. We clearly have come a long way in achieving a decent home for all, and equally clearly inadequate housing will never be completely eliminated.² But there is obviously still a long way to go and an urgent need to reduce inequalities in housing quality, particularly those which include neighborhood services.³

Overcrowding: Of People or Houses?

Traditionally one of the most frequently used and important indices of housing quality, overcrowding has diminished rapidly in recent years as both a problem and a policy priority. As noted in Chapter 3, the level of overcrowding—using the current criteria of 1.00 or more persons per room—has decreased to the point where less than 5% of households are now classified as living in overcrowded conditions in the U.S. and 9% in the U.K. Yet one must remember that the number of people involved (over 10 million in the U.S.) is still numerically large, and that it will be a long time, if ever, before overcrowding is effectively eliminated.

It is somewhat ironic that as the problem itself has diminished, our understanding of the process has increased. Overcrowding is a state, a condition, of occupancy and thus it can refer to either housing units or households. It is also a highly fluid state (Grigsby and Rosenberg, 1975). For example, Moore and Clatworthy (1978) have demonstrated how variable the process is through their analyses of the changing conditions of individual housing units and households based on the annual enumerations conducted by the city of Wichita, Kansas. They show substantial shifts from year to year in the specific houses and households which are overcrowded, particularly in the rental sector (Table 8.2). Houses which were overcrowded last year frequently are not the same ones as those overcrowded this year. The previous household may have moved, to be replaced by a smaller household (<2.00 persons per bedroom) or one or more members of that household may leave, rendering it no longer overcrowded. Other houses remain consistently overcrowded, even if the households have changed, while some households remain overcrowded even when they move from one dwelling to another.

Overcrowding, then, is for many people a transitional state from which they may escape for only short periods of time. Although the tendency is to classify units as overcrowded, it is obviously preferable to follow households which are overcrowded wherever they move. It is only through disaggregate level data, for

Table 8.2. Transitions Among Overcrowded States, Wichita, Kansas, 1971-72^a

	% shifting from overcrowding			Remaining overcrowded %	% of total overcrowded
	Unit demolished	Household moved	Unit no longer overcrowded		
Owned	2	17	14	67	7.9
Rental	4	55	7	34	9.9

Note: ^a2 bedrooms with more than 4 persons.

Source: Moore and Clatworthy, 1978.

individual housing units and households, that the dynamics of this condition can be understood and specific problem areas or households identified.

SEGREGATION, RACIAL DISCRIMINATION, AND CLOSED HOUSING MARKETS

One of the most pervasive characteristics of urban housing markets in western and pluralistic societies is their intense spatial segregation. One need only think of the Falls Road area in Belfast, Harlem in New York, or Watts in Los Angeles to solicit the appropriate images. This segregation varies widely among cities, regions, and countries in degree, extent, and in who is being segregated. It also differs in origin: the first is *voluntary* segregation, due to residential self-selection; the second is *involuntary*. The latter may result from differences in income or tastes among groups, or in the information available in the search for housing, or it may be caused by discrimination on the basis of ethnic origin, religion, life-style, or race. Although it is not possible to separate the effects of these processes precisely, our concern here is primarily with the latter.

Segregation and Access to Housing

Although the context and processes of discrimination differ, the results are often the same: one group is systematically denied access to its *fair share* of a nation's housing resources through the attitudes and behavior of others. These "others" might include real estate agents, bankers and financial institutions, government agencies, or any of the actors outlined in our earlier conceptualization of the housing market (Chapters 2 and 4). Generally, however, they are the social group which holds political power.

A recent and extensive assessment of racial discrimination and segregation in American urban markets, undertaken by the Office of Policy Development and Research in the Department of Housing and Urban Development, stressed the

Table 8.3. Aggregate Measures of Discrimination By Real Estate Agents In the Search for Housing (percent)

Search for:	Blacks and whites treated equally (1)	Whites favored (2)	Blacks favored (3)	Difference (2)-(3)
Rental housing	30.3	49.4	20.3	29.1
Housing for sale	10.5	55.5	34.0	21.5

Source: Yinger et al., 1978.

complexity of measuring discrimination as such, but concluded that the evidence of the existence and importance of discrimination was now overwhelming (Yinger et al., 1978). In a survey of the actual practices of real estate sales and rental agents, authors concluded that blacks faced discrimination in over 29% of their attempts to find rental housing and in nearly 22% of their attempts to find housing for sale (Table 8.3).⁴ The difference between the two sectors is due, in part, to the simple fact that rental agents are much more likely to discriminate on the basis of a wide variety of criteria against people they do not expect will be good tenants. If one considers the more limited housing options open to them, as well as restricted sources of information, blacks are likely to encounter discrimination 75% of the time in the rental submarket and 64% of the time in terms of housing for sale. This also ignores the presence of *racial steering* by agents, i.e., directing black or minority households into particular areas or away from others.

The direct and indirect effects of this discrimination are clearly substantial. The disadvantaged group usually has less choice in housing than the majority population, consumes less housing at greater per unit cost and housing which is of lower quality. Since housing is inevitably married to a local environment, and since such groups tend to be restricted to poorer areas of the city, they also receive fewer and lower quality public services and are subject to higher costs (such as crime). Further, given that most segregated ghettos are centrally located within urban areas, while jobs are increasingly decentralized, the same groups have lower accessibility to employment. The result is *cumulative—a vicious circle*—in which discrimination, low incomes, and residential location interact to perpetuate poverty, segregation, and housing inequalities.

The accumulated evidence on the spatial extent and configuration of segregation by race—the classic urban ghettos—is now staggering and widely available (Rose, 1972; von Furstenburg, Harrison, and Horowitz, 1974; Kain and Quigley, 1975; Jones and Eyles, 1977; Lee, 1977; McKay, 1977; Schnare, 1978). We need not repeat this evidence. Instead, the following section focuses on one dimension of the process of discrimination: racial discrimination and price "mark-ups" or premiums for housing in American cities.

Racial Discrimination and Housing Premiums

The question "do blacks pay more for housing?" has been a long-standing issue in housing research (Muth, 1969; Lapham, 1971; Bonham, 1973; Olsen, 1974; Sumka, 1977; Yinger et al., 1978). The almost universal assertion is that they, along with other minority and racial groups, do pay more. In the majority of studies, housing located in predominantly black neighborhoods was shown to be more expensive than similar housing in neighborhoods which were exclusively white.

It is one thing, however, to assert the existence of a "racial" premium or mark-up for black households because of discrimination and "collusive-like" practices on the part of landlords, real estate agents, and financial intermediaries, and yet another to demonstrate it systematically by empirical observation and analysis. To do so requires that the researcher identify similar types of housing for comparison—i.e., essentially identical housing "bundles." This is extremely difficult to do given wide differences in housing style and quality within cities, coinciding with marked differences in neighborhood quality (e.g., in terms of schools and public services as well as levels of vandalism and crime). It is also difficult to separate, as Olsen (1974) notes, price discrimination due to households being poor or black, or likely both.

In assessing what are commonly called discriminatory "mark-ups" or premiums for housing, one then has to differentiate between two distinct types of discrimination, even when both are interrelated with race.

neighborhood or location "mark-ups"—these are premiums paid for housing by all households in a given neighborhood because of the perceived disadvantages or costs of transitional and racially-mixed neighborhoods. These may arise because of the aversion of one racial group to living next to another group, or the view that racial change means more violence, increased crime and therefore higher costs to the owner or greater risk to the lender. These differentials are reflected in the prices (or rents) paid by all households in that area for similar housing units regardless of race.

racially discriminatory "mark-ups"—these are premiums paid by members of one racial group, usually the minority, for similar housing within the same area, because of "overt" discrimination against households in that group.

Obviously, as the proportion of a neighborhood's population becomes increasingly black, however, the two forms of "mark-ups" become essentially the same.

Why might blacks pay more? Several different but complementary explanations are possible for why might blacks, or other racial minorities, might pay more for housing with identical attributes.

limited housing supply—rapid growth of the minority population, combined with racial segregation which restricts housing choices, have acted to put upward pressures on prices and rents.

racial change and risk aversion—landlords and real estate agents may be averse to renting (or selling) to black households because they perceive that racial change will lead to increased social problems and higher maintenance costs. They will

seek higher rents to compensate for these expected costs. Mortgage lenders may charge similar premiums on interest rates, or more likely restrict funds.

limited spatial mobility—blacks have more limited spatial mobility because of the newness of many to the urban area, their more restricted choice of job locations, and because of segregation.

limited equity—since blacks and other racial minority groups tend to have lower homeownership rates, they bring to the owner-occupied market fewer capital assets for down payments.

restricted information—as previously noted, blacks are likely to have less access to information sources on the housing market because of discriminatory practices by real estate agents and associations, and because of a reluctance to use services dominated by whites.

racial prejudice and preferences—if blacks are color blind, and whites prefer to live in neighborhoods dominated by those of similar race, then house prices or rents will be greater for blacks than whites in racially-mixed areas.

Empirical evidence. Despite this complexity, most empirical studies based on data for the 1950s and 1960s have demonstrated the existence of a significant relationship between racial composition and average house prices or rents. For example, King and Mieszkowski (1973) and Kain and Quigley (1970) found "mark-ups" for rental housing in all-black neighborhoods of New Haven and St. Louis, respectively, of roughly 8%. Sumka (1977) identified a similar mark-up in smaller urban areas in North Carolina. Schnare and Struyk (1976) found even greater mark-ups of 20 and 12% in Pittsburgh and Boston, respectively.

Yet the evidence is not consistent. Numerous studies, including those by Muth (1969), Lapham (1971), and Olsen (1974), found no significant differences. In their study of Chicago, Berry and Bednarz (1975) found a small discount for owner-occupied housing in all-black areas. Part of the difficulty here is in obtaining a "controlled" sample on which to base comparisons, and part is that such premiums or discounts do vary widely between cities, depending on prevailing conditions in the local housing market, as well as between rental and ownership sectors.

It is also clear that the premium differs with the racial composition of the neighborhood and with the degree of stability in that composition. In a study of five SMSAs, Gillingham (1973) found that mark-ups for black households varied from 9 to nearly 23% (Table 8.4). In three of the five cases, the premium increased in neighborhoods which were over 80% black, but the relationships, again, were complex and inconsistent.

There is additional evidence, however, which suggests that the relationship between race and housing prices may have changed significantly in recent years. Again referring to Schnare and Struyk's (1966) analysis, using 1960 data they found that rent levels were at a minimum (i.e., discounted) in mixed neighborhoods with 25% black populations, rising from there to a rent premium of 12% in all-black neighborhoods. But with 1970 data, they discovered that the premium had disappeared. Rents in all-black areas of Boston were at least 5% lower than those in all-white areas (Fig. 8.1). In Pittsburgh, the rent premium still existed for housing in all-black areas but it had been reduced from 20% to 7%.

Table 8.4. Rent Premiums Paid By Black Households in Five SMSAs

SMSA	Proportion of black household rents in mixed residential areas over rents for white households in all white areas		
	Blocks less than 20% black	Blocks 20-80% black	Blocks over 80% black
Chicago	12.8 ^a	17.6 ^a	22.9 ^a
Detroit	6.4	9.3	10.3 ^a
Washington	16.1 ^a	2.2	2.1
Baltimore	13.1	18.8 ^a	17.2 ^a
St. Louis	5.8	4.7	11.4 ^a

Note: ^aRegression significant at .05 level or higher.

Source: Gillingham, 1973, Table V-2.

Why might such a decline be taking place? Schnare and Struyk (1976) hypothesize that the traditional racial mark-up for housing derives not simply from discrimination, but, as argued above, from a shortage of reasonable quality housing in predominantly black neighborhoods. The 1950s and early 1960s were indeed periods of massive growth in the black population of the central cities of most

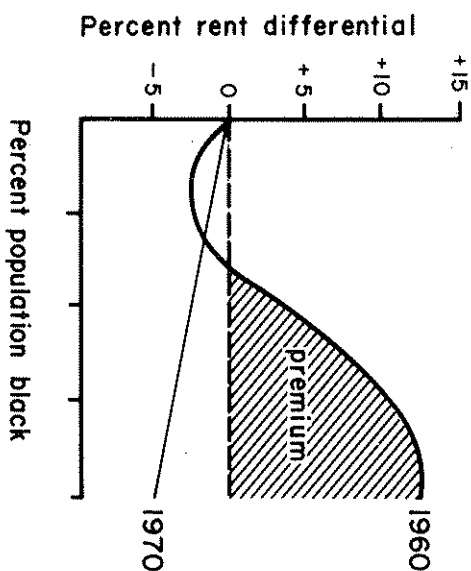


Fig. 8.1. Changing rent differentials in selected Boston neighborhoods, by race, 1960 and 1970 (after Schnare and Struyk, 1976).

major northern U.S. metropolitan areas, leading to a very high level demand for housing. The relatively inelastic supply of the housing stock in such areas, making it difficult to adjust supply to meet the new demands, combined with the limited locational alternatives available to blacks, meant that landlords and owners could charge a rent premium to the new migrants.

With the recent decline in the rate of black in-migration and of population growth generally, demand has subsequently declined. At the same time, housing supply has expanded through neighborhood racial transition and vacancies have increased. As a consequence, the permissible "mark-ups" on housing have declined or disappeared. It may also be true that recent federal legislation against discrimination in the selling and financing of housing, and policies for more open housing generally, have contributed to this trend. The evidence, however, is not yet sufficient to draw firm conclusions. We must await publication of the 1980 Census to obtain a more comprehensive picture.

OBSOLESCENCE, PHYSICAL DECAY, AND ABANDONMENT

One of the universal problems of urban housing is that of maintaining the physical quality of the existing stock. We have all seen pictures of urban slums, deteriorating houses, and in many American and British cities the abandonment of housing. Given the pervasiveness of the filtering and arbitrage processes described in previous chapters, the racial discrimination-poverty cycle described earlier, and the obvious fact that buildings, like other capital goods, require substantial reinvestment in maintenance and repairs, some degree of obsolescence or deterioration is almost inevitable. The problem, then, arises when deterioration becomes widespread or when certain groups of households suffer as a result.

Concepts of Housing Obsolescence

The concept of obsolescence, as with housing quality generally, is in part a subjective concept. It is defined, most broadly, as a process leading to a decline in the ability of a structure to meet the demands placed on it, relative to other structures (Nutt et al., 1976). This decline results from three principal sources: (1) poor quality of initial construction, (2) wear and tear due to aging (as in Chapter 5), and (3) inadequate maintenance through misuse, abuse (overcrowding), or neglect. It is the latter—the question of a lack of investment—which to an extent incorporates aspects of the first two sources and which concerns us here.

Obsolescence, as it relates to the inability of a housing unit (or any building) to meet current needs, may reflect several different sources of change. A typology of obsolescence might include the following:

- physical*: the deterioration of the physical structure through aging or the lack of maintenance;
- style* (or social): due to changing tastes or rising standards of living;

functional: when the structure is inadequately designed or equipped for current uses;

economic: when it is no longer viable to maintain the structure due to high costs and low returns;

environmental: when the decline of a neighborhood renders it uneconomic, undesirable, or impossible to continue to maintain (or even occupy) a structure;

financial: when external constraints on credit (mortgages), maintenance and repair, and the property tax system discourage investment;

planning: or planning "blight," when a planning authority or other public agency through such actions as designating an area of clearance or renewal invites uncertainty and undermines the incentive for improvement.

These various forms of obsolescence are neither mutually exclusive nor independent. They overlap in numerous and complex ways, although most are reflected in the same outcomes: physical and economic decline. Each acts to produce a continuous downward "spiral" of disinvestment in the housing stock of many cities, culminating, in some instances, in a state of physical obsolescence which is not reversible.

Disincentives to Housing Improvements: The Prisoner's Dilemma

The spatial interrelationships—or externalities—linking housing units with a given geographic area play an important role in determining which areas of the city undergo improvement and which see this continued lack of investment. This process must be seen in the context of a market in which housing is individually owned (the "atomistic" market) and each owner is uncertain what his neighbor will do. In fact, it is in the interest of each owner not to tell. Under these conditions, and given certain external changes, it can be easily shown that the most common result will be that both owners do nothing—that neither invest in their property.

To illustrate the process, and the rationale for government intervention in land and housing markets, we draw on a simple example of decision making under uncertainty and adapt it to the housing situation (Davis and Whinston, 1966). In an urban area undergoing gradual deterioration, the presence of uncertainty about the future often produces a situation known as a *prisoner's dilemma*. Assume, as in Table 8.5, that we begin with a neighborhood consisting of only two resident homeowners (I and II), each of which has savings that could be invested either in the house or in safe bonds. Say the latter would each earn a 5% return. Let's further assume that if both invest their savings in housing (option A) the cumulative result, through the spill-over effect noted earlier, would be not 5 but a 10% return. If, however, only owner I invests (option B), his return will not be 5 but, say, 3%, because the neighbor's house has not been improved and thus his investment is somewhat depreciated. Meanwhile, the neighbor might gain a modest return (say, 1%) by doing nothing; at least he would not lose, and would still have the 5% return from the bonds.

The end result of this process is that even though it may be in the interest of both owners (and society as a whole) to invest in their housing, the optimal

Table 8.5. Why Owners are Reluctant to Invest In Housing Improvements: A Prisoner's Dilemma Interpretation

Options:	Pay-off matrix = % return (gain or loss)		
	Owner I	Owner II	Total housing investment gain
A If both invest	10 (+5)	10 (+5)	+10
B If only I invests	3 (-2)	1 (+1) + 5 ^a	+4
C If only II invests	1 (+1) + 5 ^a	3 (-2)	+4
D If neither invests	5 ^a (+5)	5 ^a (+5)	0

Note: ^aFrom leaving savings in bonds at 5%.

Source: Adapted from Stafford, 1978, p. 62.

strategy (unless there is collusion) for any single owner under such conditions is not to invest. Neither owner is guaranteed a 10% return, but each is guaranteed a 2% loss if one invests and the other does not.

It is not surprising then that neighborhood decline continues in a self-reinforcing fashion once uncertainty and self-interest become paramount. Although the figures in Table 8.5 are artificial, and in any real world situation the number of actors and variables involved is very much greater, the example nonetheless is indicative of the strength of spatial externalities in urban housing and the importance of owners' expectations about future changes in their environment. When we add in the negative effects of absentee landlords on housing investment, the importance of "block-busting" by speculators in neighborhoods undergoing racial transition or redevelopment, the pressures for housing disinvestment become even stronger. One obvious outcome of this process is not only deterioration but the abandonment of housing. Both outcomes warrant a brief elaboration here.

Block-busting and Speculation

The unethical but often very profitable practice of block-busting is a means of securing rights to a block of properties at the lowest possible cost to the developer or speculator. This process takes several forms, but commonly begins with the purchase of one or more existing houses on a street which is considered "ripe" for redevelopment. These houses may then be let out to tenants who have no stake in the neighborhood and often those who are culturally different and of lower income or status. These tenants, either intentionally or unintentionally, tend to lower the quality of the neighborhood, or at least are seen to do so by longer-term residents.

As a result, uncertainty—if not outright panic—begins to set in among those owners who refused to sell out earlier or who were holding out for a higher price. Rumors spread rapidly about others on the street selling out at reduced, but still

adequate, prices. Some of the rumors are true. Inevitably, without organized community action or policy intervention, the process culminates in a flight from the neighborhood and deteriorated housing (the arbitrage process), but speculative gains for some owners and, for the developer or his agents, a very successful land assembly. Ironically, designation of housing units or entire areas for rezoning or renewal by public authorities can have roughly similar effects. The implications for housing quality are of course even more serious since many residential areas destroyed in this way are not rebuilt, at least not for housing purposes. Even when such areas are redeveloped for residential purposes, housing is seldom provided for those persons initially *displaced* in the process.

Housing Abandonment

The scale of housing abandonment in the inner areas of some U.S. cities in the 1970s has become staggering. The U.S. Department of Housing and Urban Development (1973) estimated that in the city of St. Louis over 10,000 units (4%) of the housing stock were vacant and derelict.⁵ In specific problem neighborhoods, the percentage rose to over 20%. In Baltimore, it was estimated that nearly 5% of all inner city housing units were boarded up, and the rate of withdrawal was estimated at about 4,000 units annually. In New York, perhaps 100,000 units are lost each year in this way. In most instances, the rate of abandonment is highest in older neighborhoods near the CBD, as in Philadelphia (Fig. 8.2), but not necessarily so.

Why has this abandonment taken place? The specific reasons for abandonment, of course, vary from city to city as well as between neighborhoods, but in general they mirror *a decline in the demand for housing* in particular areas. This phenomenon continues to be rare in countries other than the U.S., particularly those which still have an overall housing shortage. In the U.K., aside from losses due to vandalism, almost all of the vacant dwellings are the result of government action, either in clearing substandard 19th century housing or through restrictions on private rental. In the U.S., it has been argued (Grigsby and Rosenberg, 1975) that about half of the boarded up units are due to the abandonment process itself, and about half to government actions in renewal, highway building, or what we called earlier planners' blight.

The factors leading to the abandonment process are many. Grigsby lists six major factors: (1) the rising cost of maintenance; (2) absentee landlords who are indifferent, unwilling or unable to maintain their properties (Sternlieb and Burchell, 1975); (3) poor management of rental properties; (4) high rates of occupancy turnover, creating uncertainty and reducing the incentive for regular maintenance; (5) racial change in the neighborhood; and (6) the threat of government action. The low income of some households, in itself, is not considered by Grigsby to be the single major factor, although it is still important. Others would disagree.

Some researchers have attempted to develop a theory of the abandonment process in its spatial context and to link that process to broader changes in the housing stock. Dear (1976), for example, proposes a direct link between

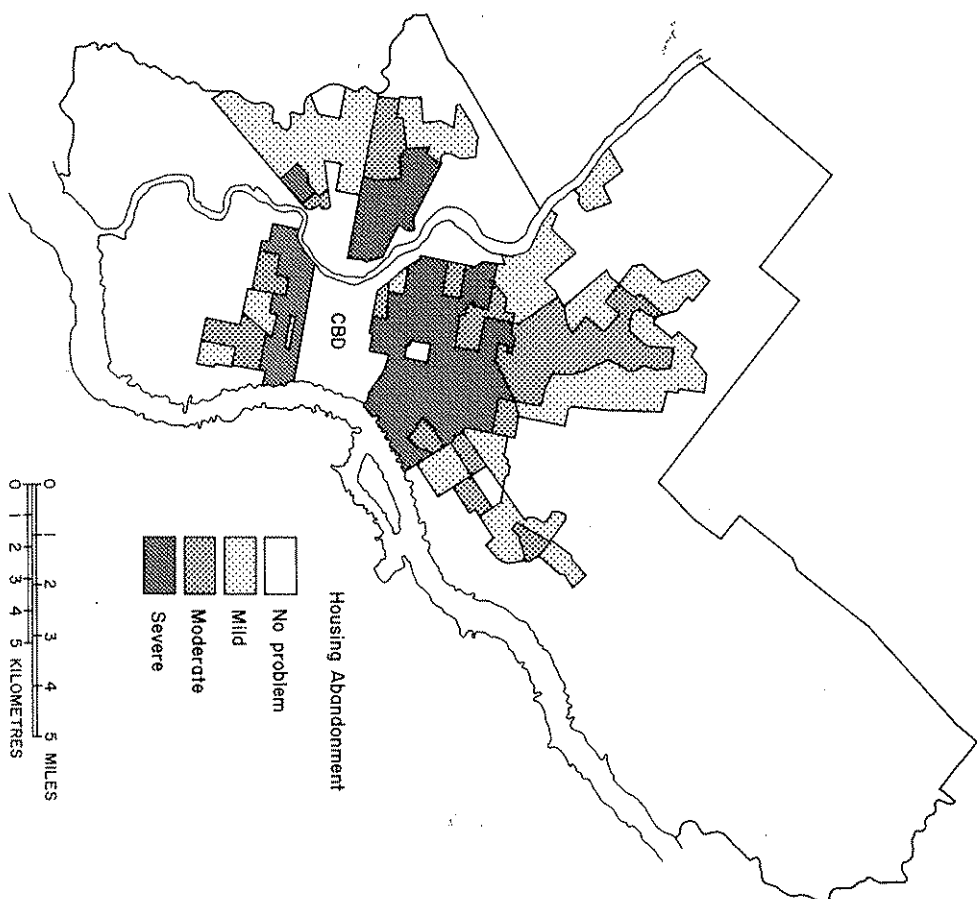


Fig. 8.2. Patterns of abandonment housing in Philadelphia, 1972 (after Dear, 1976).

suburbanization, specifically the massive construction of postwar housing in suburban areas, and the decay and subsequent abandonment of older housing in the inner city. Briefly, suburbanization and low in-migration lead to a reduction in the city's economic base (the decline in demand) which results in a spatial concentration of low-income households, lower levels of housing investment, and a loss of confidence in the market. These become "initiating" conditions within

which specific adverse conditions in certain neighborhoods lead to specific cases of abandonment.

Once set in motion, like the arbitrage process described in the last chapter, abandonment can develop its own internal dynamic. It spreads (the "contagion" effect) through the externalities noted above. Other owners become restless as abandonment spreads in their neighborhoods. Hazards such as vandalism and fire combine with a rapid deterioration in neighborhood quality to lower property values. Investment declines still further as the possibility of selling or renting the property decreases. In some cases, vacant houses are put to the torch, to rid the neighborhood of undesirables, or are vandalized for fun and spare parts. Eventually entire streets are abandoned and the process is complete.

Public Sector Abandonment, Vandalism, and the High-Rise Block

Such outcomes are not limited to private sector housing. Almost all readers will know of such spectacular public housing disasters as Pruitt-Igoue in St. Louis and the "piggeries" in Liverpool. Most cities have some similar but smaller examples. In these cases, an excessive large concentration of "problem" families, in badly-designed and poorly-maintained, high-rise buildings lead to discontent, vandalism, and eventual abandonment. Pruitt-Igoue was blown up; the piggeries were sold to a developer for next to nothing.

This process, as yet numerically small despite the publicity, is perhaps one of the most worrying trends in public sector housing policy. In the U.K., where public sector housing is considerably more important, the problem takes two forms: one is the rapid deterioration of many recently-built council housing estates, notably high-rise towers, and the other is the overzealous acquisition of private sector housing by local authorities for eventual modernization. Many of the latter units remain empty, because of a lack of money or tenants, and are subsequently vandalized, boarded-up and, in some cases, demolished.

This situation in turn emphasizes two recent and major housing problems which warrant elaboration: vandalism and the misfortunes of high-rise housing projects. The two do not necessarily go together, but frequently they appear to do so. Vandalism may be a short-term behavioral problem, or it may reflect a deep-seated reaction to inadequate housing and social injustice. In both cases, it is an expression of social alienation, of ghettoization and of a feeling of being trapped in bad housing. These social causes are capped by a private real estate market which all too frequently encourages depreciation of the housing stock and its environment, and often by the indifference of public authorities. Pruitt-Igoue may be but the tip of the proverbial iceberg.

The second problem, expressed in the question "what is wrong with high rises," is (as noted in Chapter 5) a subject of widespread debate, primarily in reference to public housing construction.⁶ While there is little evidence of a consistent relationship between high-rise living and social pathologies (Schafer, 1974; Sutcliffe, 1974; Michelson, 1977), there is little doubt of their inadequacy for some people—notably for families with small children (Gittus, 1976), and for those with no choice as to where they live (Taylor, 1978). Vandalism also increases

under such conditions, particularly when the apartment blocks are ill-equipped, poorly designed, and badly maintained. All of the problems of a downward spiral of deterioration evident along a street are accentuated in the enclosed space of the high-rise tower.

PRICES, RENTS, AND AFFORDABILITY

Perhaps the crucial dimension of housing supply and quality, and certainly the most common concern expressed in the popular press, is that of increasing housing prices and rents. This in turn raises the difficult question of the distribution or incidence of such increases: who suffers and who now has a problem in "affording" housing?

The difficulty every student of housing has in investigating questions of housing cost and affordability is that of separating rhetoric from reality. One must differentiate between cost increases due to our greater consumption of housing and those for a "standard" housing unit, as well as between perceived costs and real costs where the latter are deflated by increases in income and inflation. In addition, one must ask the thorny question, when is housing too expensive, by what, and whose standards? The fact that most of us have income constraints on the maximum amount of housing we consume should not obscure the fact that some people are paying more than they should for housing they receive.

Price Escalation and Affordability

Previous chapters have demonstrated that the 1970s has been a decade of escalating house prices and rents. Whether they have increased relative to income is a debatable point: it varies with the measure used, the time period, and location under study. In the U.S., for example, between 1970 and 1976 homeownership costs rose 49% (measured by the CPI index) while median family income grew by 52%. In Britain and Canada house prices exploded in the early 1970s, at a much faster rate than average earnings, but then declined in real terms during the mid-1970s. In 1978 house prices in Britain were still some 20% above the retail price index (for 1970) and they were again increasing. The interested student must look at specific indices of price (and cost) and incomes for each community before drawing firm conclusions (Bourne, 1977).

Nevertheless, it was also shown that the proportion of household income spent on housing decreases steadily with increasing income, and that the costs borne by low-income groups, especially renters, was often excessively high (see Chapter 3). The latter inequality may differ if, as in the U.K. and Sweden, the provision of public sector housing for many low-income households shields them from some of the very high costs in the private sector (Headey, 1978). Moreover, in those countries which subsidize homeownership through tax relief on mortgage interest, price escalation in housing can result in a *massive redistribution* of wealth from renters (and future generations) to current homeowners.

Table 8.6. The Degree of Inequality: The Percent of Households Paying 25 Percent of Family Income for Housing, 1976

Ratio of housing costs ^a to income	Annual family income			Total all households
	Less than \$10,000	\$10,000- \$19,999	\$20,000 or more	
<i>Renters spending:</i>				
more than 50%	18.5	0.3	0.1	10.8
more than 35%	37.8	2.0	0.2	22.6
more than 25%	61.1	10.9	1.3	39.0
<i>Homeowners spending:</i>				
more than 50%	9.7	0.4	0.0	3.0
more than 35%	23.1	3.2	0.3	8.0
more than 25%	39.0	15.4	3.9	19.3

Note: ^aHousing costs for renters include rent payments plus heating and utility costs if not included in the rent; and for homeowners include mortgage payments, property taxes, heating, utilities and public services such as garbage collection if not otherwise included.

Source: U.S. Congressional Budget Office, *Annual Housing Survey*, 1976.

Perhaps the single most common indicator of affordability is the proportion of households who pay more than 25% of their income for housing. Table 8.6 suggests again that in the U.S. renters are, on average, worse off than homeowners. Fully 39% of all renters pay more than 25% of their income for housing, compared to 19% for homeowners. For low-income households, these figures rise to 61% and 39%, respectively.

These proportions also tend to be highest for those living in the inner cities and for minority populations. A recent survey by the Department of Housing and Urban Development (U.S., HUD, 1978) found that some 30% of all households living in the central city paid more than 25% of their income on housing, and that proportion was increasing. The corresponding figure for low-income minority households who were also renters rose to nearly 80%. Although there is no single or unique value (such as the 25% rule) of what is or is not affordable housing, the latter percentages are clearly excessive and socially unacceptable by any standard.

These trends have not, however, discouraged homeownership, at least up to 1976. The U.S. 1976 Annual Housing Survey reported that the proportion of homeowners among young and formerly-rental households (head <30 years old) increased from 30 to 48% between 1970 and 1976. The proportion of their income spent on housing did increase, but only marginally. For low-income, first-time buyers the proportion was much higher (34%) and clearly constituted a short-term (if not long-term) burden. The situation appears to have deteriorated since 1976.

The conclusion from this brief review is that the "affordability" of housing, however complex and difficult to measure, is primarily a problem for specific groups—notably the poor, racial minorities, those on fixed incomes, and inner city residents. Many of these people are already homeowners but are subjected to the increasing costs of household operation and maintenance. There are few policies designed to help them in either the U.S. or Canada.

Why is Housing so Expensive?: Alternative Perspectives?

While the debate on the extent to which housing prices have increased in real terms continues, it is worthwhile here to attempt to synthesize the arguments put forward to account for such increases. This approach allows us to represent a large volume of contemporary literature which would not otherwise be represented, and it should help to bring together various ideas scattered through previous chapters on demand, supply, and the urban housing market. In particular, it might assist in understanding why real house prices vary so widely over time and space.⁸

At the risk of extreme generalization, at least five different sets of arguments, or explanations, have been advanced for an overall housing price escalation. These five argue that housing price increases are primarily a function of:

- increases in *demand*, due to the growth of income, a desire and willingness to consume more housing and tax changes which have made housing a relatively more attractive investment (the "demand-pull" argument);
- land speculation and *monopoly* concentration in land ownership, financing, and housing development which have allowed a small group of companies and institutions to extract excess profits (the "manipulated-city" argument);
- escalating *development costs*, including increases in the basic costs of production—materials, land, labor, and capital—as well as increases in the costs of servicing residential land and the property taxes on that land (the "cost-push" argument);
- the *bottlenecks or red-tape* created by an increasing number and complexity of development and planning approval procedures which have combined to slow the rate of residential development and thereby increased housing costs and prices (the "multiple-bottleneck" argument);
- the *behavior of financial institutions*, and more generally of the capitalist system through which housing is provided, combine to ensure that housing is in scarce supply, expensive, and unevenly distributed, particularly with respect to low-income groups (the "radical" argument, dominated by Marxist or neo-Marxist groups).

Each of these five sets of arguments, and there are obviously many different permutations and combinations of each, offer, at best, partial explanations of what has happened to housing prices. They are not, however, mutually exclusive explanations; nor can they be simply added together to form a more comprehensive interpretation.

Which set of arguments provides the most powerful explanation depends on the market conditions prevailing in different housing markets, on the time period

under study, and of course, on one's political views. The first (demand-push) explanation is perhaps the most widely accepted, at least among academic researchers (Scheffman, 1978). Average incomes have indeed risen rapidly in the last decade, and that rate of increase is highly correlated with increases in house prices. When combined with changes in household size, and with the increasing proportions in different age cohorts (early 20s), the effects of income growth are multiplied. There is no reason to assume that housing demand would not increase with income, and that prices—given the lag in adjusting supply—would rise accordingly. The effect on prices of an increasing proportion of households with two or more income earners is difficult to assess, but it too must be substantial.

National and local governments and institutions have also come in for considerable criticism. In the U.S., for example, it has been estimated that the average length of time required to complete a residential development increased from just 5 months in 1970 to nearly 14 months in 1975 (Seidel, 1978). The additional cost of each month of delay was, in turn, estimated at 1% at then current rates of interest.⁹ Some financial institutions have also played a major role in house prices. For example, in the U.K. a massive injection of mortgage funds into the housing market by building societies was clearly instrumental in creating the explosion of house prices in the early 1970s (Mayers, 1979).

At the same time, changes in tax policies in several countries—such as the exemption of the private residence from capital gains—have also shifted household investment into housing and away from taxable investments (L. B. Smith, 1977). Similarly, government programs to stimulate demand, such as housing allowances, grants for homeownership, etc., without corresponding incentives for the supply side, have also contributed to price increases. Whether there has been an upward shift in the demand curve for housing—i.e., a change in the income elasticity of housing—is difficult to say, but it too could be a contributing factor.

Once an *inflation psychology* begins to prevail, still other factors come into play. Rapidly rising prices encourage speculation and the exercise of monopoly power in land and housing markets in local areas. This tends to draw additional investment into the housing market, thereby expanding the credit base for both house purchase and rental. If consumers believe that prices will go up still further, they increase their own bids and prices begin to explode. Eventually, higher prices begin to eat into available credit, because mortgages have increased in size in line with the inflated price of housing. Mortgage funds then become scarce, they are rationed, and eventually prices stabilize (or decline). It is this combination of circumstances which produces the boom-and-bust cycle of house price increases.

Whatever view one subscribes to, the critical question relates to the distributional effects of house price increases. Clearly, certain groups have suffered more than others in recent years, notably first-time house buyers (a cash-flow problem), those on fixed incomes (an inflation problem), and obviously the poor. Others, including existing homeowners, have benefited. Equally clearly, the former groups are concentrated in particular locations—in poorer cities and regions and the inner city—which tends to exacerbate the pressures of price escalation. The following chapters provide an overview of some of the policy responses to these issues.

NOTES

¹For example, at the turn of the century overcrowding was defined as those situations in which the number of persons per room was more than 2.0 (Alden and Hayward, 1907).

²To illustrate the point, and the potential for error in quality statistics, Welch (1978) reports that the 1976 survey of housing in the U.S. showed some 22,000 households with incomes over \$25,000 living in housing without complete plumbing facilities.

³In the 1976 survey, over 34% of central city low-income households declared a dissatisfaction with their environmental conditions in reference to litter or abandonment, vandalized or run-down buildings, and local services.

⁴It should be noted that differential treatment of consumers by the real estate industry regarding whether housing is available or not is a potential violation of Title VIII of the 1968 U.S. Civil Rights Act.

⁵There is an obvious difficulty here in differentiating between housing units which are vacant but available for reoccupancy, those which are vacant and abandoned, and those which are abandoned by their owners but are not vacant (e.g., squatters). The most common definition of abandonment is when there is nonpayment of taxes and when owners cannot be traced.

⁶We should, of course, be careful of assigning any deterministic connotation to the effects of living in high-rise buildings. The vast majority of such buildings, even in the public sector, serve their purpose adequately. The problem is when tenants unsuited to such living conditions are concentrated in such buildings and when they see no prospect of getting out should they wish to do so.

⁷Much of this discussion is taken from a paper by the author (Bourne, 1977).

⁸By real terms is meant the rate of price increase discounted for inflation generally.

⁹For an average \$40,000 house, a delay of say 8.3 months at this rate would add \$3,320 to the value of the house, with no benefit to compensate for that increase (Seidel, 1978, p. 35).