"Federation Corner" column
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Examine facts before mouthing off about affordable housing
by Wayne Goldstein

Does seven years of affordable housing advocacy in Montgomery County entitle me to challenge anyone who criticizes our county's affordable housing? It does so only if I know facts to counter such criticisms. As this is the week that the County Executive's Affordable Housing Task Force is releasing a list of recommendations and then going around the county this month seeking public comment, it seems appropriate to respond to such criticisms aired in a recent Examiner editorial titled: "Party's Over in Montgomery."

The editor writes: "In 1973, Montgomery County became the first U.S. jurisdiction to pass a mandatory "inclusionary" zoning law requiring developers to provide below-market housing units in return for increased density. The goal of this Moderately Priced Housing Program [MPHP] was to keep housing costs down. Three decades later, Montgomery County is among the least affordable places to live in the Washington region. The MPHP is still going strong. But a new data-regression study by the Independent Institute of a similar program passed the same year in Palo Alto, Calif., found that such programs do the opposite of what they were intended. "Cities that adopt below-market housing mandates actually drive housing prices up by 20 percent and end up with 10 percent fewer homes," the Independent Institute concluded. The mandates act like price controls by restricting supply and thus forcing prices up.

"Since Montgomery County's own policies led to higher prices and fewer affordable homes, county leaders spanning several generations are partially responsible for the recent spike in foreclosures, up 2,000 percent in the third quarter, as exclusively reported by The Examiner's Kathleen Miller. Lured by lenders hawking adjustable mortgages into buying homes they could not afford, more than a thousand Montgomery County homebuyers were trapped when their initially low interest rates were adjusted upward. Knowing they might have purchased the same homes for 20 percent less if county officials had kept out of the real estate market is little solace for those being foreclosed. With an additional 3,003 foreclosures expected in coming months - double the number of government-mandated, below-market housing units - look for a perfect storm of sinking home values just as state income and local property taxes are set to rise again next year, thanks to Gov. Martin O'Malley and the Maryland General Assembly in Annapolis..."

Regular readers know that I am not at all shy about criticizing or praising county government, depending on the facts. Thus, I am astonished at the incredibly sloppy facts, logic, and conclusions that went into this noisy diatribe that is utterly lacking in substance. Where to begin? For starters, if you want to compare different things, make sure they can be compared, such as apples to apples, rather than apples to California oranges. The editor wants to compare Montgomery County's affordable housing program with that of the City of Palo Alto. This seems problematic, because Montgomery County has about 940,000 residents as compared to Palo Alto's 58,000. The median price of a home in Montgomery County is $475,000 and in Palo Alto it is $1,415,100. According to U.S. Census data, as recently as 2000, the median price of a home in this county was $221,800. In fact, about 40% of the county's housing stock would have been considered to be affordable at that time, even though this was 27 years after we created our Moderately Priced Dwelling Unit (MPDU) program.

How is it that a relatively affordable Montgomery County has become so unaffordable since 2000? There is no question that the cost of money - mortgage interest rates - was already at historic lows in 2000, even as interest-only and adjustable rate loans began to proliferate. If buyers only cared what the monthly payment was, rather than the cost of the house, this made it easy to bid up the price of houses. It wasn't that the supply of buyers greatly exceeded the supply of sellers; it was that the supply of money greatly exceeded the supply of houses, and people could easily get more of the former. In fact, it is the reduction of the supply of money through the adjustment of mortgage rates to their true market rate, along with the tightening of credit requirements, causing difficulty in refinancing or selling, that is driving the rapid rise in the foreclosure rate. This is happening across the nation, primarily in areas where housing is far more affordable, because of irresponsible or predatory lending. In fact, the Montgomery County Council passed legislation to control such predatory lending in 2006, only to have the court rule that state law superceded such local control.

My explanation could certainly be the subject of scrutiny in a study of this issue. The problem with any such study, if purported to also include scientific or mathematical analysis, is that the more variables there are, the more difficult it becomes to separate them from each other to conclusively demonstrate that one, and only one, of these many variables caused the effect. The Examiner editor would have us believe that such a study was recently done that conclusively proves that MPDU programs alone have made housing more expensive and scarcer in California. The editor points to "a new data-regression study by the Independent Institute of a similar program passed the same year in Palo Alto, Calif." Actually, this cited study did not focus on Palo Alto at all; it merely referenced that city as the first of the many California cities to adopt the MPDU requirement, also known as inclusionary zoning. I've read this November 2007 study, "Below-Market Housing Mandates as Takings: Measuring their Impact" and the variables it considers include median income, density, population, rent, and the affordable housing programs of 15 cities in 1985 expanding to 59 cities in 1999.

Several times in the last 8 years I've worked with mathematicians to analyze projections in the growth of jail and school populations. They've told me that linear-regression studies for such populations are only accurate if they deal with a few variables and cover 2-5 years. Beyond that, any conclusions will be the equivalent of speculative guesswork.

On the block where I live near Wheaton, the price of houses roughly doubled between the early and the late '80s, from about $70,000 to a peak of $140,000 in 1989. But then, due to a recession caused by lax lending practices and overbuilding, the value of these houses declined to a price as low as $105,000 by 1995, a drop of 25% from the peak. Assessments and property taxes for these incredibly cheap houses actually declined through most of the '90s. It wasn't until 1999 that these houses again sold for $140,000. Since then, prices have again doubled, even tripled in some cases. Houses that were so affordable for so long while this county had its MPDU law have not now suddenly become so much more expensive because of it in the last seven years. Will these prices again drop 25%, or more? Only time will tell, but not ideologically-driven Examiner editors.