

Op-Ed

A better way to solve the housing crisis — tax land, not development

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To address Los Angeles' housing crisis, Mayor Eric Garcetti has proposed a "linkage fee" on new development. The city would charge new residential developments of more than five units \$12 a square foot, and new commercial developments \$5 a square foot, to finance subsidized affordable housing.

This proposal is well-intentioned. Given our politics, and the realities of Proposition 13, it might be the best L.A. can do. But it won't raise much money or build much housing, and it dodges rather than solves the fundamental problem in our housing policy. We should try for better.

Linkage fees essentially tax new development, but housing in Los Angeles is expensive because L.A. doesn't have much development. With little to tax, revenue would stay low, and so would affordable housing production. City Hall predicts that the fee will raise \$100 million a year. Affordable housing costs, on average, almost \$450,000 per unit to build. That works out to about 225 units annually. Those units would unquestionably change the lives of the people who got them, but the city needs hundreds of thousands, not hundreds, of affordable units.

We could address this problem by raising the linkage fee — make it \$24 per square foot instead of \$12, for instance — but as the fee rises, so do the odds it will discourage development, exacerbate the original problem (not enough housing) and keep revenue low. In fairness, no one knows exactly how high a fee can go before it deters building. The threshold probably varies by neighborhood, and it might vary by parcel. But the higher the fee goes, the closer the threshold gets. And the lower the fee stays, the less affordable housing we build.

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The way around this dilemma is to fund affordable housing by taxing land, not development. Taxing land value — one of the oldest ideas in public finance — makes sense on every level that taxing development does not. L.A. has much more land, and land value, than it does development. This means a small land tax could raise more money than even a high linkage fee. For example, a flat tax of \$3 per day on every parcel in the city would raise hundreds of millions of dollars each year. A 2% tax on every residential real estate transaction over \$1 million would raise \$200 million annually.

Land taxes are also advantageous because they don't tax housing to build housing. Linkage fees pit affordable units against market units, but we badly need more of both. Land taxes, in contrast, can finance affordable housing without deterring new building. They might even encourage building.

Perhaps most important, land taxes put the responsibility for solving our housing crisis where it belongs — on every property owner in the city. Linkage fees place that responsibility on developers alone. The logic of linkage fees suggests that building housing makes housing unaffordable, that developers alone benefit from high housing prices, and that developers should

pay to make things right. Because most of us aren't developers, this message is morally comforting and politically convenient.

But it is also wrong. Housing becomes less affordable when we don't build it, not when we do. Most important, it is not developers who benefit from our housing crisis but everyone who owns property. Yes, some deep-pocketed developers have profited handsomely in our overheated market. But so have landlords, who with limited competition have charged ever-higher rents. So have homeowners, whose property values have ballooned. And unlike developers, landlords and homeowners have prospered without increasing our housing supply. Many, in fact, have fought to stop new housing from being built.

Housing scarcity delivers unearned wealth to people who own housing, and it imposes unwarranted burdens on people who don't. To solve our housing crisis fairly and effectively, we should tax that wealth and use it to ease those burdens. It's easy to wish that someone would help our disadvantaged fellow citizens. It's harder to acknowledge our own role in their distress — to admit that our capital gains are their housing crisis. But that is the situation: Linkage fees feed the false belief that some of us in some neighborhoods can keep blocking development and growing our nest eggs, while the city helps the poor by taxing someone else to build affordable housing somewhere else.

Taxing land dispels that illusion and asks all of us who have prospered to step up. It also, admittedly, runs headlong into the restrictions in Proposition 13. New land taxes would require a two-thirds public vote, while linkage fees can be enacted by a City Council majority. But we have voted to tax ourselves before and perhaps we should try it again. Our housing crisis is an emergency; it deserves more than the path of least resistance.

With or without linkage fees, the contradiction in our housing policy will remain. Eventually we will need to resolve it. Housing can be a source of wealth for the haves, or a source of opportunity for the have-nots. But it can't be both.

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