Distorted DNA:

The Impacts of Federal Housing Policy

Strong Towns

Table of Contents

Strong Towns

Introduction

During February of 2016, Strong Towns spent a week focusing articles, podcasts and discussion on the findings of a report published by the Regional Plan Association called, "The Unintended Consequences of Housing Finance."[1] The report identifies a very narrow set of federal housing rules that were adopted during the Great Depression. These rules came about for logical reasons but, played out over subsequent generations, have created incredible distortions in the U.S. housing market.

As the Regional Plan Association explains, "The supply of walkable communities, brought to life by mixed-use developments where residential units are paired with non-residential space for businesses, community services and other uses, is falling short of demand, our study found."[2] The report focuses on three key arguments:

- *Americans want walkable neighborhoods, but development is not meeting this demand.*
- *Federal loan programs do not support the mixed-use multi-family development essential to these communities.*
- *Financing rules reinforce concentrations of poverty.*[3]

The report concludes with recommendations for simple, low-cost actions that could greatly increase access to mixed-use, multi-family housing in America.

What follows is a compilation of the top pieces we published during that week in February, inspired by and expanding on the issues covered in the Regional Plan Report. If you're frustrated about the lack of choice in housing, distorted pricing, issues of affordability, gentrification and blight, you're going to want to pay attention to the concepts and recommendations explored in this collection of essays.

The Distorted DNA of Your Community

By Charles Marohn

You are made principally of carbon. So is every other living thing on earth, from plants to animals to bacteria to DNA itself. There is a reason for this: At a molecular level, carbon is a really flexible element. It can bind with and be adapted to other elements in many different ways. The stunning diversity of living organisms that we experience is only possible because of the flexibility of life's most essential building block: carbon.

What if carbon were not as flexible? What if it didn't have four electrons and thus could not form double and triple bonds or the many complex chains of carbon atoms that we find in life? What we'd see is that life—if it formed at all—would have far less diversity. There would be much less variation, much less ability to adapt and, thus, life itself would be far more fragile than we have come to experience it.

The DNA of our cities is composed of many things, but a principle component is financing. The way we finance buildings—the options that are made available in the marketplace—shapes everything else. Make those options flexible and we'll get a broad diversity of housing types, styles and price points in an adaptable marketplace. Make those options rigid and narrowly focused and we'll get large distortions in supply and demand along with communities that are inherently fragile.

The National Housing Act of 1934 was passed during the depths of the Great Depression. The act created the Federal Housing Administration (FHA), an organization that sought to stabilize housing prices. Before the FHA, home financing was primarily handled by local banks. To limit risk, those local banks (which were investing the savings of other community members) kept mortgage terms short—three to five years—and required really high down payments in order to maintain a safe loan to value ratio. When housing prices fell, banks refused to offer refinancing without additional capital—which many did not have—and lots of homeowners were driven into foreclosure. An excess supply of repossessed houses along with a lack of people able to make huge down payments only accelerated the decline.

As part of the New Deal, the FHA offered insurance to local banks, which allowed them to issue mortgages with less money down and longer payment terms. The immediate effect of this was to increase home ownership rates. In 1940, the US home ownership rate was 44%. By 1950, that had climbed to 55%. The FHA today is still a major insurer of home mortgages.

Photo by David Shankbone

In order to limit risk, the FHA placed some reasonable-sounding limitations on what they (more precisely: we, as taxpayers) were willing to insure. While some practices, such as redlining, were later made illegal (although it still remains a problem), others continue to be in force. For example, a home being mortgaged may not have more than 25% of the floor area used for commercial purposes. That means the family business, the one that was built up over generations, where there is a building with the business on the first floor and the home on the second, is too risky to insure. A local bank is on its own for that kind of thing. The new suburban house out on the edge of town, however, meets the guidelines perfectly and can easily attain federal backing.

Another rule concerns the amount of income that can be derived from a commercial use. Let's say you live in the quintessential city building—a first floor retail store and a second story home—and the mortgage for it would be $1,000 per month. Let's say the business, which has been there for decades, pays $1,000 a month in rent and has never been late for a rent payment. Seems like not much risk. However, to limit their exposure to commercial volatility, the FHA would only allow the home owner to claim $150 of that rent as income towards the mortgage. They would need to show, within income to debt ratios, that they had other sources of income to cover the payment.

The end result of this is pretty simple to grasp. One kind of dwelling was suddenly easy to finance at very generous terms. Other kinds of dwellings suddenly became less competitive as they were not easy to finance and the terms were far more onerous. When one approach is made easy and the other is made difficult, the outcome is not surprising: We got tons of suburban homes and fewer and fewer mixed-use homes.

The new DNA of community finance that was set up within FHA rules was then supercharged in a genetic replicator by the Federal National Mortgage Association, also known as Fannie Mae, which was established in 1938. Fannie Mae was set up to accelerate the lending process by creating a secondary market for conforming mortgages,

loans that met the FHA guidelines. This allowed local banks to sell those mortgages and then use the capital freed up to make more loans.

So by the start of World War II, one could walk into a local bank and get a loan on a single family home on the edge of town. That loan would require less money down and have far lower payments and interest rates than almost any mixed-use property on the market. The bank could then rid itself of whatever tiny bit of risk might remain on this federally insured package by selling the loan, at a small profit, to Fannie Mae which, in turn, would package the loan up with lots of other loans into a security and then sell that to investors, generating more demand for that kind of conforming property.

Fannie Mae become a publicly traded company in 1968 and then was forced to "compete" with another government-sponsored entity, the Federal Home Loan Mortgage Corporation or Freddie Mac, two years later. These two organizations supercharged the market for loans that conformed with FHA guidelines—almost exclusively single-family homes—to the point where, by 2008, they owned 44% of all mortgages in the US, trillions of dollars worth.[4]

There is no secondary market for that mixed use building with the retail store on bottom and the home up above. It's not because there is no market demand. It's because that building style—a simple approach that has been the tried and true backbone of community finance for thousands of years—does not conform to federal housing guidelines.

A free market is one where prices are established in a competitive marketplace free from manipulation or coercion. There is no free market for housing. The federal government long ago decided what elements your community DNA would be made of. That affects everything.

5 Reasons America Needs Walkable Neighborhoods

By Rachel Quednau

Walkability isn't just something that we believe is "good for you" like broccoli or flossing. In fact, walkability is something that people have time and again demanded, and that demand is simply not being met. What is the true value of walkable neighborhoods? Why do we need them and desire them so much? Here are five main reasons why walkability is valuable to communities and should be prioritized:

Photo courtesy of NACTO

Affordability

Between purchase, insurance, gas and repairs, car ownership can cost a person thousands of dollars a year. WalkScore reports that cars are "the second largest household expense in the US."[5] Imagine if you could get rid of that expense and instead use your own two feet to get to work, school, the grocery store, and more.

More importantly, for the millions of Americans who live near or below the poverty line, for whom automobile costs suck up a huge portion of an already small budget, a walkable neighborhood can mean the difference between food, clothing and shelter, or being out on the street (or sleeping in your car). Walkable neighborhoods make getting around far more affordable for every member of a community, and this has a particularly significant impact on low income populations.

Accessibility

When transportation is limited to cars, that means many people are shut out of the transportation system: the elderly, the disabled, and children. In a car-centric environment, anyone who cannot drive for physical, mental or age-related reasons is forced to rely on others to transport them around. In a walkable neighborhood, however, travel is much more accessible. Children can walk to school. Seniors can walk to the grocery store or the doctor's office. Wheelchair users are able to wheel to work, instead of having to wait for a special bus or a ride from a friend. Walkability means access for a much wider swath of the population.

Economic Productivity

We've written about this before, but walkable environments usually lead to higher economic productivity. In a concentrated, walkable neighborhood with shops and restaurants, passersby are far more likely to frequent multiple businesses than if they were just driving to a specific store in an auto-oriented area. Walkable neighborhoods with local businesses also help keep economic gains in the community when compared with strip and big box developments on the edge of town. Finally, walkable neighborhoods in city after city across the country demonstrate far greater tax revenue per square foot than any other type of development.

Health

The benefits of walkable neighborhoods for physical health are myriad. Active Living Research recently released a research review on this topic entitled, "Moving Toward Active Transportation: How Policies Can Encourage Walking and Bicycling." Here are a few key findings and recommendations revealed in that review:

- *Physical activity has been associated with a risk reduction for premature death and a number of chronic diseases. Estimated risk reductions between the most active and the least active groups are substantial, i.e., about 30 percent for all causes of death.*
- *Areas with more amenities for biking and walking, such as sidewalks, bicycle lanes, or paths are associated with more active commuting to school.*
- *Traffic volume, highway density, and traffic speeds are negatively associated with levels of active travel, while smaller block size, access to public transport, retail, neighborhood shops, and street connectivity are positively associated with levels of bicycle ridership.*
- *Walking and cycling can be increased by community-scale urban design and land use policies. These include zoning regulations and building codes [...] higher street connectivity, higher density of development, and having more stores, jobs and schools within walking distance of where people live.*[6]

The evidence is clear: people in walkable neighborhoods tend to be healthier than those in auto-oriented areas. Minority communities are particularly negatively affected by a lack of walkability in their neighborhoods and thus, less access to physical.

Environment

Walking is clearly better for the environment than driving. It uses no fossil fuels and creates no pollution, which is healthier for the earth and healthier for our lungs too. The environmental benefits of walkable environments are so obvious that I'm not

Photo courtesy of NACTO

going to go into much detail beyond that. Suffice it to say, if you care about the environment, you should support improvements in walkability.

As the RPA report explains, the demand clearly exists for walkable places. Baby boomers want them. Millenials want them. From the report: "In a recent survey by Urban Land Institute, 50 percent of people said that walkability is either the top or a high priority in where they would choose to live."[7] If half the population would prefer to live in a walkable place, that's clearly an indication that we need to start building more of these places, and transforming existing places into walkable neighborhoods.

By not meeting this demand for walkable neighborhoods, we're hurting both affordability and economic productivity. We're also cheating our communities out of the chance to be healthier, more environmentally-friendly and more accessible. As walkable neighborhoods become more and more desirable, the cost of housing in those neighborhoods increases beyond the reach of so many people who could truly benefit from walkability. We need to change federal finance rules so that walkable living is more affordable.

Suburban Poverty: Hiding in Plain Sight

By Daniel Herriges

There is arguably no place where half a century of suburban growth has more resembled a giant Ponzi scheme than in Florida. The state of Florida went all-in on the suburban experiment in a way that few other places did. For reasons that may have more than a little to do with the advent of air conditioning,[8] the state's population did not begin to grow rapidly until the post-WWII era, when the economic and public policy forces driving suburbanization were at their peak. Add a state economy driven by land speculation and lax-to-nonexistent development regulations, and you've got yourself a perfect storm.

Florida soon became the poster child for disastrously unsustainable development—both fiscally and environmentally. Unsurprisingly, boom-and-bust cycles tend to hit the state hard. The suburban experiment has been most ruinous in precisely the places that were first to embrace it, and that embraced it with the most reckless abandon.

Narrative accounts of the fallout of Florida land scams and ill-conceived development are legion. But if you haven't been to this part of the country, you may not know what the fallout looks like. "Suburbia will be the new slums" may be something you've heard or read in urbanist circles but not yet encountered a preview of on the ground, because there's really nothing comparable in the Midwest or Northeast. In 2016, fringe exurban communities around Minneapolis-St. Paul, where I grew up, are still affluent and exclusive places, while poverty is growing fastest in inner-ring suburbs. Not true in the boom-and-bust Sunbelt.

A Tour Through Florida's Zombie Subdivisions

Let's take a field trip to Southwest Florida, which was hit as hard as anywhere in the U.S. by the real-estate market collapse and foreclosure crisis that began in 2006. If you Google "foreclosure ground zero" and scan the first few pages of results, you'll find many claimants to the (dis)honor, but Lehigh Acres and Cape Coral are two names that show up again and again.

Cape Coral is a large suburb of Fort Myers. Founded in 1957 and intended as a retirement community, its population has more than doubled since 1990 to over 150,000 residents, and residents under age 25 now outnumber residents over 65.

Cape Coral was built at a breakneck pace by its developer, the Gulf American Corporation. In a pattern you see over and over in Florida—which boggled my mind when I first

moved there—the developer paved huge swaths of the street grid before most of the lots were even sold, let alone homes built. The result is this:

Photo from GoogleMaps

Florida is infamous for "zombie subdivisions" like this, where rudimentary infrastructure exists but the promised boom never came. There are those (many of them realtors) who will tell you it's still coming: This may be the decade! The future is bright! You can have your affordable home amid sunshine and palm trees and relax on Easy Street! Don't count on it.

Lehigh Acres is located east (inland) from Fort Myers. Its population has more than quintupled between 1990 and 2010, from 13,611 to 86,784. The population is young and relatively low-income.

Lehigh Acres is huge. It occupies about 95 square miles, twice the land area of San Francisco or Boston. It's hard to overstate the extent of these master-planned, pre-platted Florida developments, and it's hard to comprehend their sheer mind-boggling scale unless you've been there. Like northwestern Cape Coral, much of eastern Lehigh Acres is utterly empty:

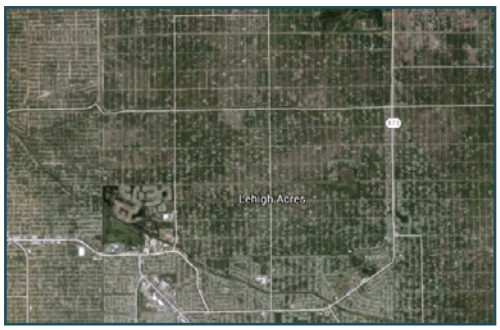

Photo from GoogleMaps

A bit to the north, we find the adjoining cities of Port Charlotte and North Port, halfway between Sarasota and Fort Myers (about 40 miles from each). North Port's per capita income is $16,836, far lower than the $28,326 for Sarasota County, of which it is a part. The population averages about a decade younger than the county as a whole (which is famously a retirement destination), and half of all households have children. By now you're getting the picture.

These are not cities that even existed pre-WWII; they have zero traditional neighborhoods. They were wilderness in 1950. But nor are they the elite, affluent exurbs that surround most Midwestern and Northeastern cities. They were never built to be. They were built to provide vast—almost unimaginably vast—swaths of cheap real-estate and low-quality tract housing to buyers with access to a mortgage market awash in easy credit.

These places were hit hard by subprime and predatory lending in the 2000-2006 period, and the fallout was predictable. In North Port, the tax base dropped 59 percent from 2007 to 2011.[9]

Foreclosures are no longer happening at the rate they were a few years ago, but there's still a large inventory of vacant homes sitting around. You can see signs like this on doors if you pay attention.

Houses are few and far between in these areas. The whole city is still less than ⅓ built out.

Zombie subdivisions are a big problem for the homeowners stuck in them. In many cases, the up-front infrastructure costs for these developments were funded with a CDD: Community Development District. This is an entity created by the developer and authorized to sell bonds to pay for street paving, lighting, sidewalks, etc. The residents, once enough of them move in, pay an annual assessment to pay back the CDD bonds.

But what if the market crashes and the promised residents never do move in? The Sarasota Herald-Tribune ran this exposé in 2013 about a zombie subdivision in North Port with a failed CDD:

> *Only two dozen homes exist in what was to be a 1,999-home, master-planned community. The homes are separated by undeveloped tracts of high weeds that residents say attract snakes, field mice and wild boars. Trespassers illegally dump debris on empty lots. The streetlights are shut off, compelling drivers to use their high-beam headlights at night so they can negotiate the development's meandering lanes. The palatial, Tuscan-style clubhouse stands eerily empty and only partially built—without the promised library, media center, fitness club, steam and massage rooms, crafts room, and billiards and card room.*[10]

Astonishingly, at the worst point of the recession around 2010, an expert on the CDD bond market, Richard Lehmann, estimated that 73 percent of Florida CDDs were in default.[11]

This isn't rocket science. This is, "We built this stuff assuming people would come, they didn't come, and now we have no idea how we're ever going to pay for it."

Hiding in Plain Sight

Even the built-up areas in these exurban boomtowns have an aging, dilapidated housing stock and high poverty rates. I paid a visit to one census tract in Port Charlotte, Florida (the older counterpart to North Port, across the county line in Charlotte County), because data showed it had the highest rate of poverty and mortgage foreclosures in the area. It looks like this:

The thing about suburban poverty is that, unlike urban poverty, it hides in plain sight. These are not horrific images of blight. But the overriding sense I had while exploring it, was of an eerie quiet. Many of these houses seem to be vacant. I can't tell how many only seem that way because their residents are seasonal—but this was February, when the vast majority of seasonal Florida residents are there.

Some homes are in minor disrepair. There is a vacant lot here and there. Some homes are bank-owned. The cars parked in front yards and driveways are beat-up and old. I didn't get to talk to anyone about the neighborhood, because I barely saw anyone. There is an overriding sense of isolation. And in fact, the experience of poverty in such an environment is one of isolation from the resources you need to get back on your feet.

Remember what I said about living on Easy Street? I wasn't joking. There really is an "East Street" in Port Charlotte. If you walk down Easy Street, in the poorest neighborhood of Port Charlotte, to its intersection with Tamiami Trail (the area's main commercial drag) you encounter this bleak scenery:

The area gives new meaning to unwalkable. You can get nowhere safely or pleasantly on foot. Walk Score bears this

perception out with data: North Port receives a 6[12] and Port Charlotte, a 15[13] out of 100. Both are labeled "car-dependent."

Commercial areas are dominated by strip malls in various stages of decline. There is a large mall a couple miles away which seems to be hanging on for now, but has some conspicuous vacancies even within it. The only jobs in sight are low-wage ones in the service industries. The white-collar jobs are in Sarasota or Ft. Myers, both of which can be an hour or more away in peak traffic. A map from the Census Bureau's OnTheMap website[14]—an interactive way to look at employment statistics broken down by location and industry—shows how the jobs paying more than $3,333 a month, or $40,000 a year, are concentrated in the urban cores of Sarasota and Bradenton. Not much white-collar work to be had in North Port. (What exists is largely in the medical field, naturally a big industry anywhere you have a lot of retirees.)

So you bought a house out here because it was cheap, much cheaper than closer to the hart of things in Sarasota. But now you need to be a two or three car household and commute dozens of miles a day. The simple logistics of life—get the kids from school, get groceries, etc.—may be a challenge. There is virtually no transit, and what does exist goes virtually nowhere useful.

North Port, and even older and more decrepit Port Charlotte, are not slums. Most of the area is solidly middle-class. But it wouldn't take much to send a place like this over the edge, or a family in a precarious situation in a place like this over the edge. Imagine something causes gas to return to $4 per gallon instead of $1.60. Imagine the havoc that would wreak on a middle or low-income family's budget in a place where driving vast distances is as unavoidable as it is here.

Infrastructure Struggles

The public realm is also a disaster. North Port streets are crumbling, and there are a lot of them: 822 miles of streets for 60,000 people. Most of the city is characterized by incredibly low densities, with only one or two houses on many blocks. How on earth are they going to maintain their infrastructure? (Hint: they're not.)

Ah, but perhaps I'm not giving enough credit to the amenities the area has to offer its young families. Look at this beautiful regional park on Google Maps. Imagine taking an after-dinner stroll to it from one of the, uh, many homes in the vicinity:

Photo from GoogleMaps

Water issues are also a challenge. Most North Port residents are on well water, and many are dealing with quality issues and clamoring to be hooked up to city water, as a Herald Tribune article explains:

> *But the cost of bringing services to developed neighborhoods is challenging in pre-platted communities like North Port, Port Charlotte, Port St. Lucie and Cape Coral, North Port Utilities Business Manager Jennifer Desrosiers said. "Several years back it was estimated it would cost more than $2 billion to get water and sewer for the entire city," she said.*[15]

Who's going to pay for that? Do any population growth projections support the idea that these cities will reach build-out? Not a chance.

So the roads will continue to crumble. The houses will not age well, because they were built cheaply to begin with. This is already bargain-basement real-estate, not a destination. North Port's selling point—and that of Cape Coral, and Lehigh Acres, and so much of remote exurban Florida—has always been that it's cheap, not that it's desirable or exclusive. Cheap can only get you so far.

Ultimately, homeowners in these places have been sold a bill of goods: "You can buy a house now in a safe, quiet, growing community that will appreciate over time." And the community may grow in population—I expect it will—but it's spread out so thin on the landscape that it's hard to see it ever becoming a sustainable, productive place that generates wealth for inhabitants and enough tax base to sustain the extravagant amount of infrastructure that's already been built. This, of course, being infrastructure that federal financing has supported with home mortgage loans for decades.

Life in the exurban fallout zones of the housing crisis is precarious. It may not be terrible, depending on your situation. If you have a stable income, and you're not banking on your cheap house appreciating to give you a nest egg, you might be fine there. But the future of these places is not bright unless they change course. Federal policy must play a role in that.

As of the last couple years, developers have started building again in Gran Paradiso, that zombie subdivision I told you about before.[16] Sounds like more boom times in sunny Florida! Until next time, then.

All photos taken by author unless otherwise indicated.

Want Community? Build Walkability

By Sarah Kobos

Lately, I've been thinking about how our cities shape our habits and our lives.

Prioritize car travel and parking lots, and you get places where everybody drives. Build places where it's delightful to walk, and pedestrians magically appear. Make it safe to bike, and cyclists come out of the woodwork.

Drop me in any location—like the "Street View" guy from Google Maps—and I can instantly tell if it's a good place for people.

Are the streets narrow enough that drivers slow down and folks feel comfortable on foot? Are the buildings built up to the sidewalk, where pedestrians and transit users can access storefronts without coming into conflict with cars? Is the streetscape interesting to humans, providing a diversity of options and opportunities to explore? Do buildings have sufficient windows to breathe life into the street—allowing people on the outside to see in, and people on the inside to see out?

Photo by Sarah Kobos

These are just a few of the variables that make places rich and inviting to people. And for the most part, we quit building them about 70 years ago. Not because people suddenly didn't want to walk, bike and use transit. We basically regulated walkability out of our cities and towns.

Municipal zoning ordinances separated commercial uses from residential ones, and enshrined car-oriented design at the local level. Transportation engineering standards transformed our city streets into high-speed stroads. Meanwhile, changes to lending practices and federal mortgage insurance regulations made it easy and cheap to get a loan on a single-family home in the suburbs, while making it significantly harder to finance mixed-use buildings in the urban core.

We pay for these mistakes with our bodies, as decades of car-centric design have transformed us from active humans into motorists reliant on machines for movement. But our communities also pay a price, as people who drive are more isolated and detached from the cities they call home.

I don't mean to knock people who drive. (I live in a city where driving is often the only practical choice.) I simply mean that when you walk or bike, you experience your hometown in a much more intimate way.

Neighborhoods Need Eyes (and Ears) on the Street

A few weeks ago, while biking home from work, I was enjoying a long downhill stretch of road late on a Tuesday night. Catching all the green lights is a beautiful thing for a cyclist, and I was pedaling fast.

The sound of breaking glass stopped me.

I braked sharply and circled back, listening and looking for the source of the sound. Unfortunately, it appeared to be coming from the vacant Tulsa Club building, an art deco masterpiece that has suffered from decades of neglect and damage inflicted by vandals, fire, and an absentee slumlord. After many years and several false starts, it's finally under new ownership and everyone in the community hopes this historic icon can return to its former glory.

Which is why it really ticked me off when I heard a second crash. Someone was either breaking in, or breaking windows for fun. Without a moment's hesitation, I was off my bike and yelling at them to stop. I called the cops, and shined my bike light into the dark passageway between buildings while waiting for them to arrive. When the police showed up, I got back on my bike and headed home.

But I kept thinking about what had happened. If I'd been in my car, I never would have heard a sound. I wouldn't have stopped, because I wouldn't have known anything was wrong.

More than One Way to Gauge a Community's Health

When we talk about healthy communities, we often talk about economic prosperity, access to fresh produce, or chronic disease among populations.

But there's more than one way to gauge a community's health, and it's not about dollars or waistlines or longevity statistics. It's about engaging in your community and being a part of the world around you.

Every time I walk or bike, I enter into this world on a much deeper level. When I bike to work, I speak to strangers. People say hello. They ask directions. They comment on the weather. At a minimum, I get eye contact and a wave. More often than not, people smile.

Over time, you start to recognize people: The doormen at the downtown hotel. The folks at the bus stop. The kids on bikes delivering sandwiches to office workers.

The crossing guard at the elementary school. The homeless guy soaking in the sun on a warm winter day.

As people start to recognize you, the smiles get bigger, and the hellos get friendlier. You start to feel that we're all in this thing together. Every time it happens, it makes my day. Every time, I feel a part of something bigger and better than myself. Maybe that's the definition of community.

Traditional Building Patterns Bring People Together

Two things are at play here. One, I'm on my bike. I'm recognizable as a human being. I'm not encased in a soundproof bubble of glass and steel.

Photo by Sarah Kobos

Two, my route to work takes me through older neighborhoods into the heart of downtown. I pass homes and schools and offices and shops, all of which are easily visible from the street. Houses and storefronts are built closer to the street, and there are a lot more people on foot. We're close enough to recognize each other, and it's possible to speak.

I rarely bike through places where single-use buildings are fronted by giant parking lots. If I did, I wouldn't interact with nearly as many people. In these places, I would only interact with cars—which is a lot more dangerous for cyclists and a lot less fun.

But the way we build our cities impacts more than just cyclists. Over the years, I've come to believe that older, more traditional development patterns are actually safer and better for everyone. When buildings "face" the street and meet the sidewalk, not only does it put "eyes on the street," but walkable places create more opportunities for people to meet, to speak, and to care about each other.

When houses have front porches instead of backyard decks, people are more likely to know their neighbors, at least by sight, and they will notice if anything unusual is happening in the vicinity. When people live above commercial spaces in mixed-use buildings, they "activate" the space both night and day. The area never feels abandoned, because people are always around.

Contrast this with the Suburban Model

In a typical suburban neighborhood, people enter their vehicles within the protective shroud of their garage. They drive to their destinations without speaking to anyone

who's not already on speed dial. They park in enormous parking lots, where they may see other humans, but their main focus is avoiding being run over by an SUV. Later, they return home, where the garage door closes behind them like the drawbridge of a medieval castle. Outdoor activities take place behind privacy fences, and yards are so large that people who can afford to, pay others to mow the lawn for them. Neighbors rarely have occasion to speak, and often don't even know each other's names.

This doesn't sound like the American dream to me.

When we stopped building traditional, walkable places, we lost something important: the chance to have routine, face-to-face contact with strangers; and the opportunity to see and know and learn from people who are not exactly like us. In addition, we've decimated the kinds of neighborhoods in which people can easily look after each other.

What we've done is not good for our communities. It's probably bad for our souls, too. I can't help but believe that our neighborhoods, our cities, and our commitment to each other would improve if more of us lived in places where "bumping into someone on the street" doesn't involve heavy traffic and a fender bender.

To get there, changes are needed. We need to fix our zoning codes to enable traditional mixed-use neighborhoods. We need to challenge our transportation policies and stop prioritizing car travel over all other modes. And we need to eliminate the regulatory obstacles that make it difficult to obtain financing for renovation or construction of small, mixed-use buildings in walkable neighborhoods.

Cities evolve. We create our future one building at a time. So there's no time like the present to start building—and rebuilding—places that are great for people and communities (again).

4 Ways Housing Outcomes Could Be Different

By Charles Marohn

As we've examined the mechanisms of American housing finance, the impacts it has on our communities and all the opportunities presented to do things better, I've thought about the changes I envision for a stronger America. Here are four:

Better Pricing Through Market Feedback

During Housing Finance Week, one of our readers took mild exception to what they thought was my free market idealism. Guilty. I think markets, as free from manipulation and coercion as possible, provide the best signals—positive as well as painful—about what works and what doesn't. Where we must tolerate some level of manipulation and coercion, I prefer a system that is simple at the federal level and is allowed to become more complex and nuanced at the local. This is the exact opposite of what we have now.

When it comes to housing, my positive desire for better pricing mechanisms is overwhelmed by my distaste for the current market manipulation. In 2008, we had a housing bubble. Less than a decade later, housing is at near the same levels in most markets nationwide. We now call this a recovery. It's just insane.

Photo by Greg Hume

This year I've been to inflated housing markets in California, Washington, Vermont and now Georgia. Prices are crazy—out of touch with local realities—and everywhere I hear the same two things: (1) Housing is brutally expensive, really unaffordable for all but a few and (2) Housing prices are going to keep going up because we're going to continue to grow. This makes sense only in a market without functioning feedback loops. That is our housing market. A lot of people are going to get hurt badly.

Economic Systems That are More Localized, and Thus, More Antifragile

On a recent trip to Savannah, GA, I was speaking to someone who told me about his latest home buying experience. The part of the story I would like to pass on involves the appraiser who asked, "So what price do you need for the loan you are after?" It's

not the first time I've had that reported to me this year. Yes, what once was business-as-usual became fraud for the briefest of time periods and now is, once again, business-as-usual.

Housing is the perfect case study in the dangers of a centralized economy. When either the Federal Reserve or one of our government-sponsored entities (read: privatized gains and socialized losses) like Fannie or Freddie buys home loans, the risks of default are socialized across our entire economy. We're all on the hook, which means none of us individually is on the hook. This creates all kinds of incentives for mischief.

The appraiser does not need to be accurate, just defensible. The bank originating the loan doesn't need to worry about whether or not the borrower will default since they don't hold the loan. They only need to concern themselves with whether or not the loan is conforming to federal guidelines so it can be sold. Our current incentives are completely misaligned with the level of risk the system is assuming.

Photo by Wally Gobetz

A localized housing market, one where local banks held loans (or at least kept a portion of each loan) on their books, would be slower moving, but it would also be more stable. Federal policy obsesses about today's macroeconomic statistics like GDP growth and unemployment while local economic ecosystems have greater incentives to consider the long term implications of financial decisions. Localizing housing finance would make it harder to juice the national economy just to bump up next quarter's GDP number.

Cities with Better Tools to Halt Decline

Federal housing policy creates distorted markets for single-family homes while also accommodating large buildings, sometimes six stories or greater. What's missing from this approach is the two-, three- and four-story mixed use buildings that used to be the cornerstone of prosperous cities.

I see cities trying to overcome this gap in two ways. First, they feel obliged to accept neighborhood-busting leaps in development. No city exemplifies this more than Austin, TX, where you'll have a neighborhood of single-family homes with the occasional 12- to 20-story tower. When the next increment of intensity can't be competitively financed, the outlet for demand is a hyper expansion on the edge along with random towers in the core, an approach that makes a city simultaneously unaffordable and stagnating.

The other way cities try to overcome bad federal housing policies is with local tax incentives, often some form of tax increment financing. We force communities to forgo gains in order to have progress, which makes local governments a lot more fragile. It has also created a local culture—especially among development professionals—that tends to look up the government food chain for the next subsidy program rather than at the many productive ways in which we can serve one another.

People with More Opportunities to Pursue Their Dreams

I want thousands of small developers working to make their communities better. I want tens of thousands of individuals with a hope and a dream to have the opportunity to open their own storefront in a building they could own. I want everyone to have options so that they can buy a fairly-priced home with the confidence that they are not going to be taken on a roller coaster of volatility.

Federal financing rules started out as a way to help people. They've now become a mechanism that exploits. There is more to be gained by ending these programs than continuing them. At the very least, they should be reformed to provide more opportunity for people who want to choose traditional, mixed-use development.

Endnotes

1 http://static1.squarespace.com/static/53dd6676e4b0fedfbc26ea91/t/56c4e43cab48de9641559379/1455744066769/rpa-the-unintended-consequences-of-housing-finance__final.pdf

2 http://www.rpa.org/article/more-people-want-walkable-communities-but-outmoded-regulations-get-in-way

3 http://static1.squarespace.com/static/53dd6676e4b0fedfbc26ea91/t/56c4e43cab48de9641559379/1455744066769/rpa-the-unintended-consequences-of-housing-finance__final.pdf

4 http://www.fhfa.gov/DataTools/Downloads/Pages/Current-Market-Data.aspx

5 https://www.walkscore.com/walkable-neighborhoods.shtml

6 http://activelivingresearch.org/sites/default/files/ALR_Review_ActiveTransport_January2016.pdf

7 http://static1.squarespace.com/static/53dd6676e4b0fedfbc26ea91/t/56c4e43cab48de9641559379/1455744066769/rpa-the-unintended-consequences-of-housing-finance__final.pdf

8 https://weatherspark.com/averages/30284/Fort-Myers-Florida-United-States

9 http://www.heraldtribune.com/article/20110524/ARCHIVES/105241047?p=all&tc=pgall

10 http://www.heraldtribune.com/article/20130308/ARTICLE/130309612?p=all&tc=pgall&tc=ar

11 http://www.heraldtribune.com/article/20100810/ARTICLE/8101062?p=all&tc=pgall&tc=ar

12 https://www.walkscore.com/FL/North_Port

13 https://www.walkscore.com/FL/Port_Charlotte

14 http://onthemap.ces.census.gov/

15 http://www.heraldtribune.com/article/20160221/ARTICLE/160229950/2416/NEWS?p=all&tc=pgall&tc=ar

16 http://www.heraldtribune.com/article/20140221/ARTICLE/140229938?p=all&tc=pgall&tc=ar

Cover photo by Johnny Sanphillippo.

The mission of Strong Towns is to support a model of development that allows America's cities, towns and neighborhoods to become financially strong and resilient. For the United States to be a prosperous country, it must have strong cities, towns and neighborhoods. Enduring prosperity for our communities cannot be artificially created from the outside but must be built from within, incrementally over time. For the latest on housing policy from Strong Towns, visit www.strongtowns.org/housing.