

# The Filtering Fallacy

In response to our current housing affordability crisis, some activists have called for increased construction of any kind in San Francisco. This relies on a theory called "filtering." Let's examine the numbers and philosophy behind these claims.

## What is happening in cities today?

Today, cities are more desirable places to live than ever before, bringing a flood of new residents. To create more housing for these new arrivals, cities must rely on "infill" development, defined as building within existing urbanized areas. It's important that development is affordable to a wide range of people at all income levels.

Problems can arise when new residents or developers have enough money to displace old residents or businesses from their neighborhoods.



## Who are we currently building for?



Over the last ten years, 86.8% of the housing created in San Francisco has been market rate.<sup>1</sup> If we continue that pattern, quality housing will remain out of reach for all but the wealthiest citizens.

Market-rate housing typically caters to wealthier residents because developers have profit motives to target their price to the top of the real estate market.



**1**/**5** of apartments currently on the market are affordable for people earning the Area Median Income.<sup>2</sup> For a single person household in San Francisco, the AMI is \$71,000 a year.<sup>3</sup>

## What is filtering?

One newly popular idea presented as a solution to the affordable housing crisis is filtering. Filtering is like trickle-down theory for houses: as wealthy and middle-class people move to newly built homes, older and more dilapidated homes will "filter down" to working and poor people, resulting in more housing units for everyone.

However, with the reversal of decades of migration to the suburbs by wealthy residents, filtering no longer works in all types of cities.<sup>4</sup> In fact, many areas are filtering upwards because filtering theory fails to account for factors like the increasing desirability of historic buildings or demand for units in unique, walkable neighborhoods.



## Is this realistic?

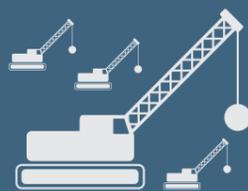
The filtering "solution" laid out in a widely circulated report from the California Legislative Analyst Office (LAO) calls for a massive increase in housing construction in coastal cities.<sup>5</sup>



## How big, exactly?

The report suggests that San Francisco must add 15,000 new housing units each year,<sup>6</sup> which is over **4x** as much construction as San Francisco had in 2014.<sup>7</sup>

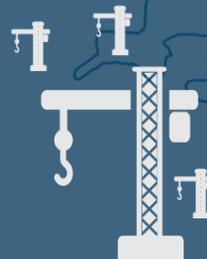
## But aren't we not building enough right now?



Actually, 2014 was a banner year for new construction in San Francisco, with over 3,500 units constructed, including the 2nd highest affordable housing production in the state.<sup>8</sup>

San Francisco built just over 4,000 units at the height of the destructive Urban Renewal initiatives in the 1960s,<sup>9</sup> when the city tore down whole neighborhoods to build new highways and homes.

Construction has not come anywhere close to 15,000 units per year since the years immediately following the 1906 earthquake.<sup>10</sup>



## Is their report right?

In fact, researchers at UC Berkeley released a response to the LAO report describing numerous errors. In particular, the government analysis did not include permanently affordable housing in its calculations.<sup>11</sup>



The Berkeley analysis noted that while massive construction might eventually reduce prices for the region as a whole, development in dense, transit-rich areas will likely accelerate rent increases. San Francisco is characterized by high costs, geographic constraints, and immense income inequality on the demand side. These factors increase the risks of a plan that relies on private capital.<sup>12</sup>

## But won't building more housing of any type help?

Research from UC Berkeley indicates that in a city like San Francisco, with geographic limitations and historic housing stock, filtering could take at least

# 30 Years

to produce affordability for households that are middle- or low-income.<sup>13</sup> That is too long to wait for housing relief.

## Why will it take so long?

Even if we reached the LAO Report's theoretical rate of 15,000 new units built every year, the rent would only drop about 0.3% annually.<sup>14</sup>



The median San Francisco unit, currently \$42,000 a year in rent,<sup>15</sup> would still cost \$41,880 next year. This is not affordable to the vast majority of San Franciscans.

Additionally, if there were enough development to cause rents to decline, development activity would likely slow sharply due to falling profits.

## Is there a better way to affordability?

Data analysis proves that affordable and protected housing is more than

# twice as effective

at reducing displacement of low-income residents on the regional scale.<sup>16</sup>



Construction of permanently affordable housing is able to continue through times of financial crisis (in 2011 it was 52% of San Francisco's production).<sup>17</sup>

Market-rate developers, dependent on global finance, often put projects on hold or abandon them entirely.

## Filtering can't solve today's housing affordability crisis.

## You can't base policy on a fallacy!

Sources: 4, 11, 12, 13, 14, 16: Berkeley Institute of Governmental Studies; 5, 6: California Legislative Analyst Office; 1, 2, 7, 9, 17: the San Francisco Planning Dept.; 3: SF Mayor's Office of Housing; 15: US Census Bureau; 2: Zillow.com; 10: Experimental Geography; 2: Trulia.com. Icons from the Noun Project, created by Creative Stall, Yu Luck, Alfredo Hernandez, Claire Jones, Gira Park, Adam Simpson, Shawn Schmidt, and Eugene Dobrik.