Summary of The Housing Problem and Solution

Housing is becoming increasingly unaffordable and all the solutions proposed have serious issues. There are two main solutions proposed to the problem:

1) Increase housing supply
2) Build "affordable housing"

The problem with 1 is that it assumes the housing market has been working as intended. The reality is that the cost of housing is not determined only by the supply of housing and the market can be distorted by speculation, artificially inflating the cost of housing. This can be done when major players in the market are able to purchase several properties and remove them from the housing stock, thereby creating an artificial housing shortage.

The problem with 2 is that it doesn't address the underlying problem and, thus, as housing becomes increasingly unaffordable it also becomes increasingly more expensive to build subsidized housing. Making housing affordable in this strategy requires the cost of housing to be shifted from the housed to some government or not-for-profit institution. In the short-term it helps but, in the long-term, this becomes increasingly harder to do unless the underlying cause of unaffordability is addressed.

The Problem

Many factors affect housing cost: the ownership framework (public vs private), cost of construction, cost of land, cost of financing, sustainable design (eg insulation), supply and demand, the concentration of ownership and market manipulation, taxes, permits and bureaucracy, and cohabitation design (eg shared living rooms).

<u>Breakdown of Main Costs</u>

	Cost of Profit	Book value
	Cost of Materials	(depreciates)
+	Cost of Labour	
	Cost of Construction	
	Cost of Land	Market value
+	Cost of Financing	(appreciates)
	Cost of Housing	

<u>Accounting Analysis</u>

Assets (what is owned)	L and E (who owns it)	
Value of Building	Bank	Liability
Value of Land	Buyer	Equity

Problems with Current System

- The value of the land is contributed to by the entire community but captured only by the private owner, who makes little to no contribution to the value of the land. This also forms the basis for housing as an investment vehicle, since land tends to appreciate over time due to the efforts of the entire community.
- Most of the cost of housing comes from the value of the land. Profit from construction and financing unnecessarily further increases the cost of housing.
- No distinction is made between the taxation of property and of land
- The open global market is less affordable because anyone on the planet can purchase housing anywhere. A billionaire could purchase an entire community if they felt like it.

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The Solution

A local co-operative bank could be created to facilitate the non-profit financing of homeownership and to remove the cost of the land from the equation, making housing significantly more affordable. The bank would be co-owned by every resident of the community, with each resident owning one share and one vote. In order to purchase a house, anyone from the community could enter into a partnership with the bank. The bank would issue the currency to provide the mortgage, just like a typical private bank. But unlike a private bank, the mortgage would be interest-free. Instead of compounding interest, the bank would charge a small fee to manage the account. In the partnership, the bank would cover the cost of the land and, thus, take over ownership of the land. The only cost the buyer would pay would be the cost of the building itself, which depreciates over time. The bank could also charge a small fee for the use of the land, which would cover the opportunity cost of the use of the land. Alternatively, the city could charge a land value tax instead of a property tax. This tax or fee would be lower than the typical property tax because it would be based on the value of the land alone, not on the value of the building and the land. The cost of housing could be further reduced if housing is built by a non-profit construction cooperative.

Scenarios

1) If someone wants to buy a house
    - Enter into a partnership with citizen bank
    - The bank issues the mortgage just like a regular bank, but the land is held by the bank and that value is taken out so the citizen only needs to pay the mortgage on the building. Eg $100k mortgage on building, city holds $600k of land
    - The resident pays a proportional land value tax on the value of the land held by the bank.
2) Is someone already owns a house
    - Can transfer the mortgage from their bank to the citizen bank. The remaining mortgage is split between the resident and the bank, with the resident assuming the remaining mortgage of the building and the bank assuming the remaining mortgage of the land. The bank assumes ownership of the land which effectively pays it off. The resident is only left with the mortgage of the building, which is paid to the citizen bank.
    - Instead of paying a property tax on the value of both the building and the property, the resident now pays a proportional land value tax on the value of the land held by the bank.
3) If someone rents a house
    - Renter asks for help from the citizen bank. The citizen bank purchases the house from the landlord. The land is held by the bank and that value is taken out so the citizen only needs to pay the mortgage on the building.

LVT = (property area rate X property area) + (100% X vacant land area*)

*Area used in food production is exempted from vacant land area tax