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How ‘Developer’ Became Such a Dirty Word

It’s a demonized group, yet there are few solutions for the housing shortage that don’t at least partly involve more development.

By Emily Badger

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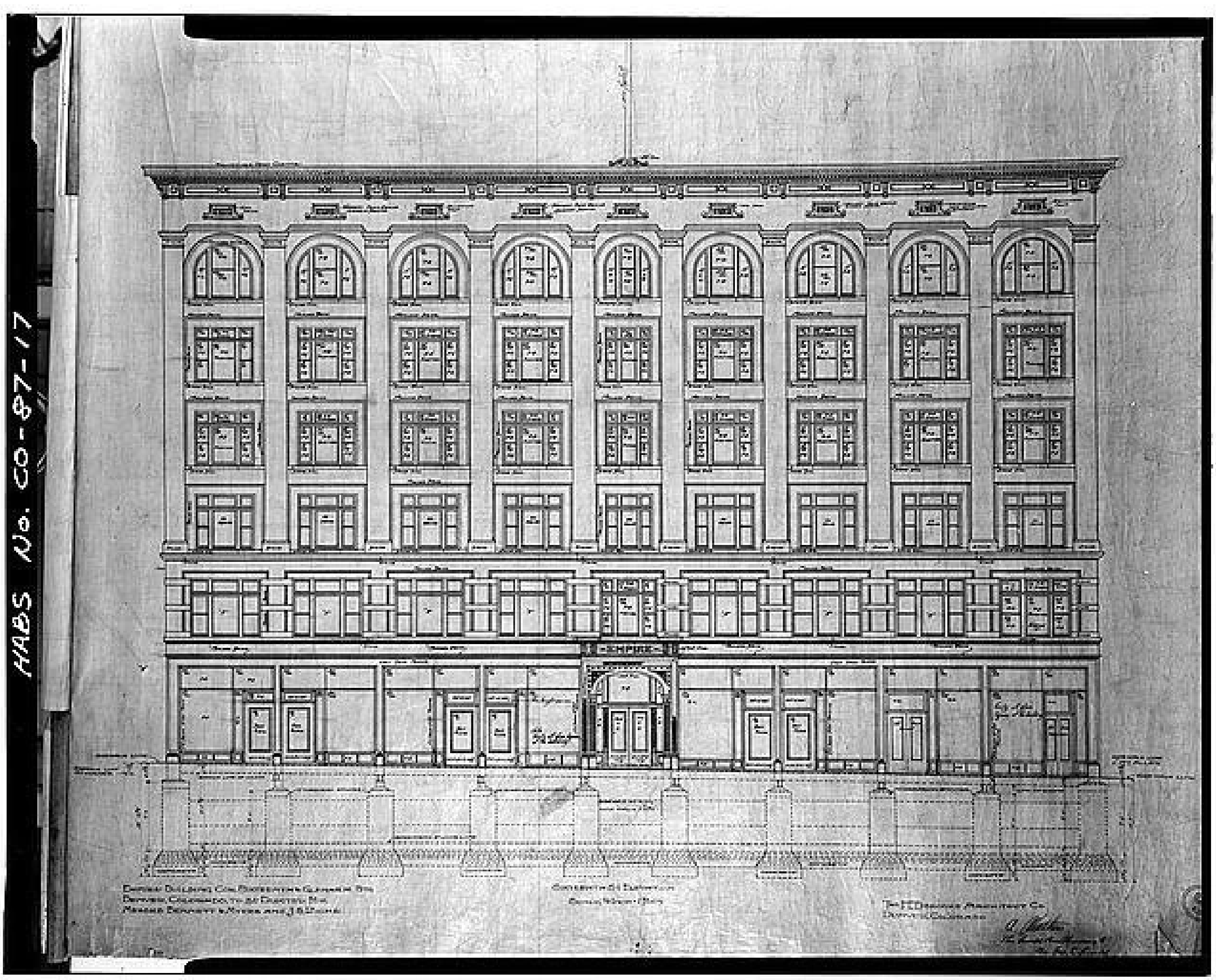


A 1906 drawing of the Empire Building in Denver. Library of Congress

The building itself, decades later. Library of Congress

The developers are coming. They’ve got the politicians in their pockets and the gaudy architectural plans in their hands. They will gorge on the entire city. And they won’t stop until peak profit has been wrung from every patch of land.

In Seattle, Austin, New York, Denver, Minneapolis, Washington and the Bay Area, developers are the antiheroes of an urban drama over the high cost of housing and what must change to bring it down.

But their archvillain status today — merely invoking “developers” can shut down civic debate — deserves scrutiny, for two reasons.

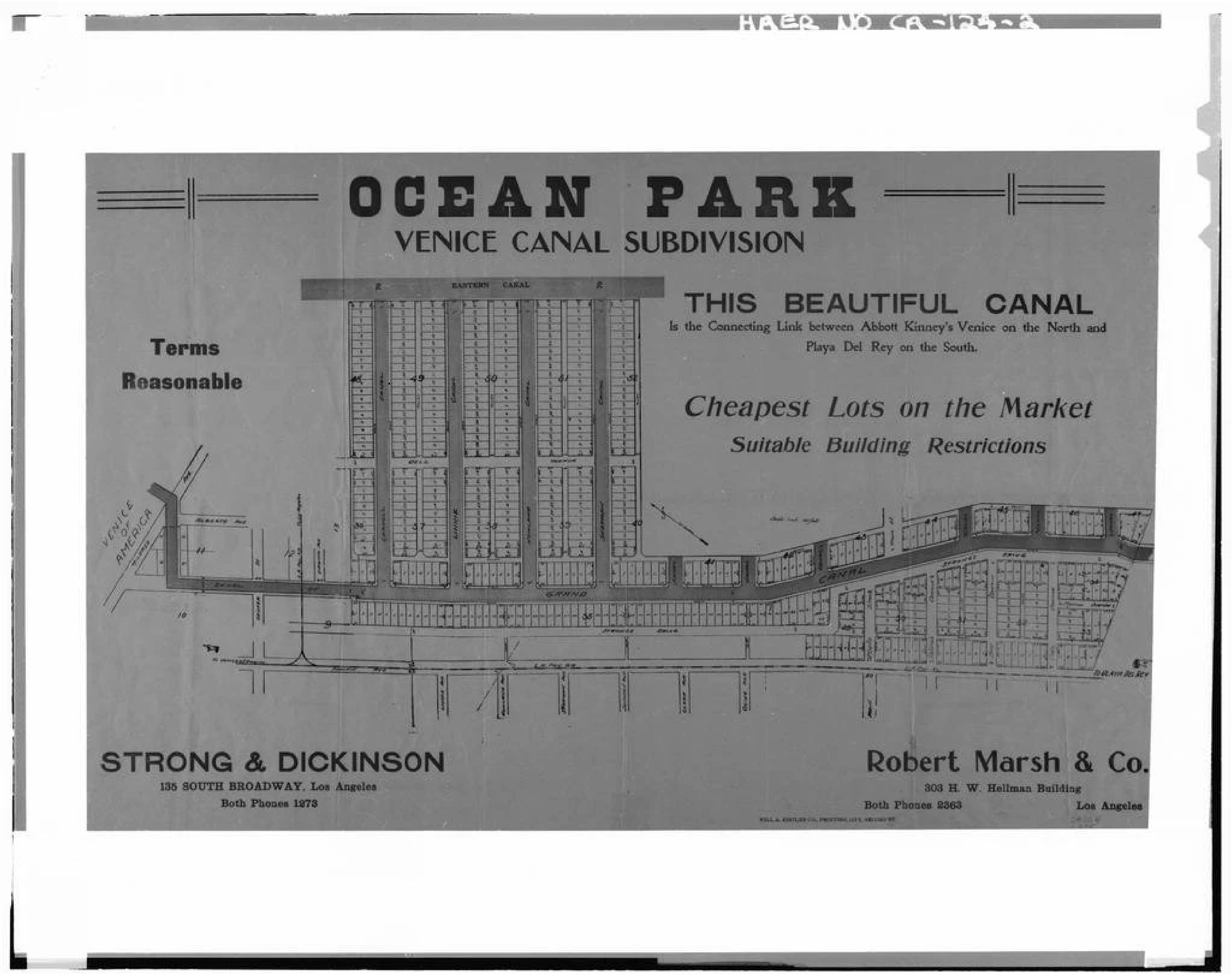
The notion that development is inherently bad, or that developers are inherently bad actors, seems to ignore that the communities residents want to protect from developers were once developed, too, and often by people who made money at it. (That is, unless you believe in “immaculate construction.”)

“When somebody’s attacking this, I do sort of wonder, ‘Well, where did you grow up?’” said Julia Vitullo-Martin, a policy analyst who has followed development in New York since the 1970s, from City Hall and academia. “And who built your house?”

In any city with a housing shortage, there are also few practical solutions that don’t at least partly involve more development. The villain blamed for the problem, in other words, must be part of solving it.

“In places where frankly there isn’t a lot of development happening, how is that working for you right now?” said Carol Galante, a former nonprofit housing developer and federal housing official, now at the University of California, Berkeley. “In terms of getting increased housing affordability, it’s obviously not.”

Real estate developers are indeed fraught characters in city life (sometimes they *do* try to put politicians in their pockets). And the history of American development certainly includes shady land speculation schemes, racist intentions and bloated egos (see any Robert Moses biography).



Ocean Park Venice Canal subdivision advertisement, Los Angeles County, Calif., 1910 Library of Congress

But at its best, development has also meant progress in America. And that possibility has been banished from recent debate. We’ve gone from allowing that new development might enhance our cities to fearing that it will surely detract from what’s already here. Or, worse, destroy it.

The story of why that happened is less about developers themselves than the forces around them: the economics of the industry, the politics of growth, the available land that’s dwindled and the inequality that’s grown.

But it is simpler to jeer the huckster standing before the planning commission.

“I always felt that I was behind one of those Coney Island cutouts,” said Ron Ratner, whose family’s lumber business in Cleveland grew into a publicly traded real estate behemoth, Forest City, which was sold in December (Forest City developed The New York Times’s Manhattan office, too).

“I’m wearing a leisure suit and I have a bolo tie,” Mr. Ratner said. “Or I’m wearing a sharkskin suit and I have alligator shoes with big gold buckles on them. And I’m probably wearing five or six gold chains hanging around my neck.”

The seeds of sprawl

New development once brought obvious advances like indoor plumbing, elevators, monumental bridges.

“There was a great sense of optimism in the 1800s about growth and future land development, and bigger, taller buildings, bigger and more infrastructure,” said Jonathan Rose, a developer of mixed-income and subsidized housing. “‘We’re the first city to have streetlights!’ ‘We’re the first city to have a streetcar!’”

Mr. Rose is a third-generation developer, although his father deeply disliked the term. He considered himself a *builder*, a distinction that has also largely been lost (historically, the developer wrangled the politicians and secured the land; the builder actually created something on top of it).

His family built market-rate apartments for middle-income New Yorkers, the kind of project that’s all but impossible today. Progress in the following years came to mean something different anyway, Mr. Rose said. Cheaper, faster development. Subdivisions, mass production.

Fort Lincoln, mid-rise housing in Washington, D.C., 1966. Library of Congress

That development created homeownership on a vast scale, though at first only for white families, and it offered an upgrade from tenement living. But today it is also Exhibit A of what “developers” have given us: homogeneous sprawl.

“If you drive through the San Fernando Valley, you wouldn’t feel like someone did all of that because they were driven by a desire to create community, or that they were really modeling their housing on aesthetics,” said Jim Newton, a longtime chronicler of California for The Los Angeles Times who now teaches at U.C.L.A. “It’s just a bunch of houses and strip malls.”

All those houses and strip malls produced a backlash of their own. With the rise of the environmental movement — and fears of “The Population Bomb” and “The Destruction of California” — communities began to adopt no-growth politics (and tighter zoning regulations). Homeowners also increasingly came to see their homes as a financial asset, and to demand control over the surrounding neighborhood that might affect that asset.

Jason Barr, an economist at Rutgers-Newark, suggests that there are “open cities” (those with wide-open horizons and literal room to grow) and “closed cities” (those that have bumped against the frontier and adopted an ethos to match). New York City closed, he said, in the 1970s, as other older cities would, too.

By then, there was no more marshland left in Queens to put a LeFrak City, no more swampland in the Bronx for another Co-op City.

“Now everything new is about tearing down and changing what has already been constructed,” Mr. Barr said.

That makes development feel much more zero-sum: Something must be subtracted to add something new. Old residents must lose if new ones win.

Where profits are barely even possible

Inside the “closed city,” there is demolition to do, soil to remediate, parcels to combine, pipes to navigate, neighbors to appease.

The new Hudson Yards in Manhattan, for all the rent it will reap, required $1.5 billion worth of platforms suspended over a rail yard just to begin building.

Development today is a fundamentally more expensive proposition than the suburban prototype Levittown, or even LeFrak City. Land, labor and materials are more costly, development restrictions and environmental reviews more complex.

Much of our discomfort with development today stems from the twin suspicions that developers don’t just make money — they make money *off* people who oppose them, and they make *a lot* of it. (Several developers suggested that the developer-president hasn’t helped dispel this impression.)

But for every Hudson Yards, there are many projects that are never built because profits aren’t possible at all.

“There is just a total lack of understanding of the economics of building new housing today, of the math behind it, and what developers actually make or don’t make,” Ms. Galante said. “This is not your father’s subdivision process of the 1950s.”

A developer underwriting a multifamily project today typically must project returns of about 6 percent on the invested equity (much of which goes to the investors, not the developer). That’s no guarantee of riches.

“That may have been true 50 years ago when there were large families who bought up significant parcels of land as areas became urbanized,” said Robert Youngentob, the C.E.O. of EYA, a residential developer based in Bethesda, Md. “I don’t believe that those days still exist.”

Today he estimates that he pays $50,000 to $60,000 a unit in impact fees in Montgomery County, in the Washington suburbs. Such fees covering investments in local schools or roads didn’t exist two generations ago. California adopted them in the 1980s, after taxpayers severely limited the revenue flowing from their property taxes.

Moore’s Rooming House, Elko, Nev. Library of Congress

All of these costs mean that in many places, housing, if not heavily subsidized, must command luxury rents to be economically viable.

“And once you have to build something outrageously expensive in the first place, you might as well add a few more features,” Mr. Ratner said. “So you get into the amenity wars. ‘I’ll match your climbing wall, and I’ll add a few more projection screens.’”

In his last several years of developing in Washington, he said, he realized that a household required at least $140,000 in income to qualify for one of his units. And Forest City would still rent 300 such units in six months.

Urban inequality supplies the tenants for such buildings. But what’s driving their development is more complicated than greed.

Paradoxically, the kind of development that has prompted some of the loudest fears of late — triplexes in Minneapolis, backyard cottages in Seattle, “missing middle” housing in Portland — has the best chance of being relatively more affordable, for the builder and the resident.

Plan for noncommissioned officers quarters, 1891, Arlington, Va. Library of Congress

An apartment in Seattle can cost $300,000 a unit to build. A backyard cottage may cost $125,000.

When The Seattle Times’s editorial board warned of developers “gorging” on the city, it was opposing regulations making it easier to build such modest options. But big national developers are unlikely to gorge on that opportunity. And while Wall Street amassed an empire of single-family rental homes in the foreclosure crisis, it would be much harder for remote, big-money interests to build small infill housing on that scale.

In fact, there are few existing builders in that business at all, because cities have made it nearly impossible to develop triplexes or cottage clusters. Most likely, small local builders, or even the neighbors, will learn how to create these homes, said Daniel Parolek, who leads the architecture and urban design firm Opticos Design in Berkeley.

“It is the developer with the little d,” he said, “versus the capital D that a lot of community members are afraid of.”

And yet they all fade together: the national developer, the local builder, the developer-president and the Coney Island caricature.

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