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Zoning and Land Use Planning

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Do You Believe in Ghost Apartments?

An article in Newsweek claims: “Across the globe, empty luxury apartments darken many of the most desirable cities.”¹ The article claims that superrich foreigners purchase these “ghost apartments”² not to live in, but as “grand residences . . . to store their wealth.”³ Because the super-rich may be able to outbid local residents for apartments, the supply of housing available to local residents is allegedly reduced, thus raising housing prices.⁴

If these claims are true, ghost apartments make cities less dense- yet some commentators use the existence of ghost apartments as an argument against dense new urban housing. For example, columnist Nicole Gelinas claims that because “New York’s new luxury towers are notorious for being empty . . . owned by absentee millionaires and billionaires . . . new condo towers induce demand from overseas buyers that otherwise wouldn’t have existed [and thus do not increase housing supply].”⁵

After describing the background of the urban housing boom, this article evaluates the “ghost apartment” theory: in

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¹David Cay Johnston, *The Hidden Costs of the World’s Ghost Apartments*, Newsweek, April 14, 2015, at <https://www.newsweek.com/2015/04/24/hidden-costs-ghost-apartments-322264.html>.

²*Id.* (using term).

³*Id.*

⁴*Id.* (quoting San Francisco politician’s assertion that because so much housing sold to out-of-town buyers, “we are not filling the needs of people who want to live in the city, because they cannot compete”).

⁵Nicole Gelinas, *What YIMBYs Get Wrong About Housing*, Governing, May 2019, at <https://www.governing.com/columns/transportation-and-infrastructure/gov-yimby.html>.

particular, it discusses whether ghost apartments are as common as the above quotes suggest, and whether their existence justifies cities' refusal to upzone to allow more housing construction.

I. Background

In the late 20th century, most downtowns were losing people. During the 1970s alone, American downtowns lost 10 percent of their population.⁶ A Brookings Institute study showed that 38 out of 45 American downtowns studied lost population during that decade.⁷ But in recent decades, this trend has reversed itself. In the 1990s, three-quarters of American downtowns gained population.⁸ In the 21st century, this trend continued. For example, in metropolitan areas with over 5 million people, population within two miles of the core city's City Hall increased by 13.3 percent between 2000 and 2010.⁹ The repopulation of urban cores is not limited to the United States: for example, in the United Kingdom "inner London" (the most historic part of the city) has grown and become more affluent, while more suburban "Outer London" has become poorer.¹⁰ Similarly, Canadian downtowns such as those of Toronto and Vancouver are growing more rapidly than the city as a whole.¹¹

As downtowns have grown, they have also become more

⁶See Eugenie L. Birch, *Who Lives Downtown* 5, at https://www.brookings.edu/wp-content/uploads/2016/06/20051115_Birch.pdf (combining data from forty-five cities).

⁷*Id.*

⁸*Id.*

⁹See U.S. Census Bureau, *Patterns of Metropolitan and Micropolitan Population Change: 2000 to 2010* 27, at <https://www.census.gov/content/dam/Census/library/publications/2012/dec/c2010sr-01.pdf>.

¹⁰See Kat Hanna and Nicholas Bosetti, *Inside Out: The New Geography of Wealth and Poverty in London* 3, 6–9 at https://www.centreforlondon.org/wp-content/uploads/2016/08/CFLJ3887-Inside-out-inequality_12.125_WEB.pdf ("Inner London boroughs had the fastest growth rates" while "Poverty rates have increased in Outer London and decreased in Inner London").

¹¹See Alex Ballingall, *Census Shows Big Population Gains in Toronto, Milton and Brampton*, *The Star*, July 8, 2017 at <https://www.thestar.com/news/canada/2017/02/08/census-shows-big-population-gains-in-toronto-milton>

affluent. In the 50 largest U.S. metropolitan areas, per capita income within a mile of downtown grew by over 40 percent between 1990 and 2015, from just over \$32,000 to just over \$46,000.¹² By contrast, incomes grew slowly or not at all in areas a few miles from downtown.¹³ And as the demand for urban housing has increased, its cost has increased as well: since 2000, housing prices in city centers have increased 50 percent more rapidly than metropolitan housing prices as a whole.¹⁴ In New York City, for example, housing prices tripled in Manhattan between 2000 and 2017, while merely doubling in suburb-like Staten Island.¹⁵

As a result of these cost increases, urban renters face a housing crisis. For example, in New York City, rents have increased four times more rapidly over the last decade in Manhattan than in Staten Island,¹⁶ and rose almost four

[n-and-brampton.html](#) (Toronto's "sharpest population gains are concentrated downtown"); Jen St. Denis, with population boom, downtown and east-side voters could sway municipal election results, *The Star Vancouver*, oct. 16, 2018, at <https://www.thestar.com/vancouver/2018/10/16/with-population-boom-vancouvers-downtown-and-east-side-voters-could-sway-municipal-election-results.html> (downtown Vancouver's voter population grew more rapidly than population of areas west of downtown).

¹²See Luke Juday, *The Changing Shape of American Cities* at <http://statchatva.org/changing-shape-of-american-cities/>.

¹³*Id.* ("Per capita income" graph).

¹⁴See FitchRatings, *Fitch: U.S. Housing Demand Pendulum Swinging Back Towards City Centers*, at <https://www.fitchratings.com/site/pr/989360>. Cf. Eliza Theiss, *The Rise and Fall of the American Downtown- A Look into the Home Price Evolution of the Nation's Urban Cores in the Decade Since the Downturn*, at <https://www.propertyshark.com/Real-Estate-Reports/2019/01/14/the-rise-and-fall-of-the-american-downtown-a-look-into-the-home-price-evolution-of-the-nations-urban-cores-in-the-decade-since-the-downturn/> (housing prices in two-thirds of downtowns surveyed higher than their city's average home price).

¹⁵See NYU Furman Center, *State of New York City's Housing and Neighborhoods in 2017* 71, 101 at http://furmancenter.org/files/sotc/SOC_2017_Full_2018-08-01.pdf ("Index of Housing Price Appreciation" showed increase from 100 to 314 in Manhattan, and from 100 to 218 in Staten Island).

¹⁶See NYU Furman Center, *State of Renters and Their Homes* 24, at http://furmancenter.org/files/sotc/SOC_2017_PART1_Citywide_Renters.pdf (since 2006, rents increased by 22.3 percent in Manhattan, adjusted for inflation, and 5.6 percent in Staten Island).

times as rapidly citywide as in New York's suburbs.¹⁷ In the city of San Francisco, rents nearly doubled between 2000 and 2017.¹⁸ In Washington, D.C., city rents rose by 27 percent between 2006 and 2014, while suburban rents rose by only 8 percent.¹⁹

Some buildings are so costly that they are unaffordable not only to the average middle-class renter or condo buyer, but even to a professional making a six-figure or even a low seven-figure income. For example, at 432 Park Avenue in Manhattan, all but four of 43 units sold in 2018 cost more than \$10 million, and the most expensive unit was sold for \$83 million.²⁰ Similarly, the most expensive apartment in downtown Los Angeles, as of early 2019, was on sale for \$60 million²¹—a price far beyond the reach of even a professional earning \$1 million per year.²²

Some of the demand for such high-end housing comes from persons other than local residents; for example, one study shows that in twelve new condominium buildings in downtown Boston, 64 percent of unit owners do not claim a tax exemption available to persons who use a building as their primary residence—evidence that many of these buyers

¹⁷See Ingrid Gould Ellen and Brian Karfunkel, *Renting in America's Largest Metropolitan Areas* 19, at <http://furmancenter.org/research/publication/renting-in-americas-largest-metropolitan-areas> (between 2006 and 2014, city rents rose by 15 percent and suburban rents by 4 percent).

¹⁸See Paragon Commercial Brokerages, *Compass Multi-Unit Res-Income Report*, at <https://www.bayareamarketreports.com/trend/bay-area-apartment-building-market> (rent rose from \$1874 in 2000 to \$3326 in 2017). By contrast, rents nationwide have grown by a little over 30 percent. See Pew Charitable Trusts, *American Families Face a Growing Rent Burden* 6–7, at <https://www.pewtrusts.org/-/media/assets/2018/04/rent-burden-report-v2.pdf>.

¹⁹See Ellen and Karfunkel, *supra* note 17, at 19.

²⁰See Streeteasy, *432 Park Avenue*, at https://streeteasy.com/building/432-park-avenue-new-york#tab_building_detail=2.

²¹See Zillow, *601 South Main Street*, at https://www.zillow.com/homes/for-sale/Los-Angeles-CA/condo,apartment,duplex_type/2093994595_zpid/12447_rid/priced_sort/34.338333,-117.971879,33.703206,-118.850785_rect/9_zm/0_mmm/.

²²According to Zillow, the likely mortgage for this condominium was just over \$238,074 per month. *Id.* So for a household earning \$1 million per year (or \$83,333 per month) the mortgage would cost more than twice the household's monthly pretax income.

might not in fact reside in those buildings full-time.²³ And in some cities, a high and rising percentage of home purchases are by out-of-town buyers. For example, in Manhattan, the share of home purchases by out-of-town buyers increased from 9.6 percent to 13.6 percent between 2004 and 2016.²⁴ Similarly, 16.6 percent of recent purchases in Paris,²⁵ and 13 percent of purchases in London,²⁶ are by nonresidents.

Some commentators blame non-resident home buyers for high housing costs; as noted above, these commentators suggest that high-cost housing units are especially likely to be purchased by foreigners, thus reducing housing supply for local residents.²⁷ One survey of Californians asked them why housing is unaffordable in California, and gave respondents eight options; “foreign buyers” came in fourth, with 16 percent of the “vote.”²⁸ Similarly, author Dan Barnabic writes that rising home prices in certain American cities are caused by “the ever growing influx of foreign buyers — mostly

²³See Chuck Collins and Emma de Goede, *Towering Excess: The Perils of the Luxury Real Estate Boom for Bostonians* 10, 14 at <https://inequality.org/wp-content/uploads/2018/09/Towering-Excess-Report-Final.pdf> (noting this fact, and describing buildings surveyed).

²⁴See Dan Bertolet, *Stop Blaming Foreign Home Buyers*, at <https://www.sightline.org/2017/07/05/stop-blaming-foreign-home-buyers/>, citing Jack Favilukis and Stijn van Nieuwerburgh, *Out-of-Town Buyers and City Welfare*, at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2922230.

²⁵*Id.* at 4.

²⁶*Id.* at 8. See also *Id.* at 7–10 (showing similar data for other cities popular with out-of-town investors, such as Las Vegas and Jerusalem).

²⁷See *supra* notes 4–5 and accompanying text; *infra* notes 28–29 and accompanying text; Sam Roberts, *Homes Dark and Lifeless, Kept by Out-of-Towners*, New York Times, July 6, 2011, at <https://www.nytimes.com/2011/07/07/nyregion/more-apartments-are-empty-yet-rented-or-owned-census-finds.html> (claiming that in one six-block stretch of Manhattan, half of all apartments “are occupied for two months or less,” and suggesting that one reason for this is that as “the market for high-end apartments has rebounded. Manhattan continues to attract foreign investors seeking a haven.”).

²⁸See Liam Dillon, *Experts say California needs to build a lot more housing. But the public disagrees*, Los Angeles Times, October 21, 2018, at <https://www.latimes.com/politics/la-pol-ca-residents-housing-polling-20181021-story.html>.

wealthy Chinese — who view American residential real estate as the safest investment commodity.”²⁹

²⁹Dan Barnabic, *The Danger of Foreign Buyers Gobbling Up American Homes*, at <https://www.marketwatch.com/story/the-danger-of-foreign-buyers-gobbling-up-american-homes-2015-10-08>. However, Barnabic does not really explain why this should be the case.

II. Analysis

Even if foreign investors purchase a significant number of urban housing units, it does not necessarily follow that these purchases cause higher housing prices, or that a city can exclude out-of-town investors by zoning out new market-rate housing. These propositions make sense only if (1) a significant number of investors turn their units into unused “ghost apartments” rather than renting them out to local residents; and (2) if a city refused to permit new housing, these investors would disappear rather than outbidding local residents for older housing. As will be shown below, each of these propositions is questionable.

A. How Common Are Ghost Apartments?

If every unit of a high-end condominium was purchased by foreign investors who then refused to rent those units out, the units obviously would not add to housing supply, and thus would not lower housing costs. On the other hand, high-cost units would increase local housing supply if they were rented out to local residents. If this occurred, local residents’ use of the new units would reduce rent for the preexisting housing supply, since their lack of interest in these older units would reduce demand for those units.³⁰

A highly detailed study comes from London. A study performed by several London School of Economics (LSE) scholars found “almost no evidence of units being left entirely empty—certainly less than 1%.”³¹ The LSE study cited a 2012 study showing that 58 percent of overseas investors intended to rent out their property, 27 percent intended to occupy it

³⁰See John C. Weicher et.al., *The Long Term Dynamics of Affordable Rental Housing* 2–3, at <https://s3.amazonaws.com/media.hudson.org/files/publications/AffordableRentHousing2017.pdf> (describing “filtering” of housing caused by new units).

³¹Kath Scanlon et. al., *The role of overseas investors in the London new-build residential market* 2, at <http://www.lse.ac.uk/business-and-consultancy/consulting/consulting-reports/the-role-of-overseas-investors-in-the-London-new-build-residential-market>.

regularly, and 17 percent intended to use the property as a second home.³²

The authors of the study independently interviewed developers and real estate agents. The agents suggested that “over 90% and often 95% of properties were occupied with the vast majority being tenanted.”³³ The authors interviewed over a dozen building managers and developers in new buildings with high levels of foreign ownership; some stated that 90 percent or more of units were occupied, while one stated that 70 percent were fully occupied and 30 percent were used as second homes.³⁴ The authors also interviewed concierges from four large new buildings; they estimated that between 50 and 75 percent of units were rented out, and no more than 0–2 units per building were entirely unoccupied.³⁵ Based on this data, the authors estimated that roughly 70 percent of foreign-owned units were rented to Londoners.³⁶ Because less than 20 percent of London’s new housing units were foreign-owned, this means that only about 6 percent of London’s new housing units (or about 1200 in 2015–16) were used by foreigners at all, including the units that those foreigners actually lived in.³⁷ The authors also explained the reasons behind the perceptions of high vacancy in the very newest developments: passers-by may think a unit is vacant when it is in fact not yet completely built, and even after a building is ready for occupancy, selling the units may take years.³⁸

³²*Id.* at 16. Also cited was a 2013 analysis by real estate agents finding that “85% of international buyers purchased properties as an investment and let them out.” *Id.*

³³*Id.* at 17.

³⁴*Id.* at 18. One building manager did not specify a percentage of occupancy, but stated that the average occupancy was 190 days a year. *Id.*

³⁵*Id.* at 19.

³⁶*Id.* at 26.

³⁷*Id.*

³⁸*Id.* at 19.

Another study was conducted by an energy company for the city of Vancouver, Canada.³⁹ This study defined non-occupied units as those with minimal electricity consumption.⁴⁰ The study found that 4.8 percent of all housing units in Vancouver were unoccupied- a result that, at first glance, suggests a high number of ghost apartments.⁴¹

But if the number of ghost apartments was so significant as to affect housing prices, the non-occupancy rate would have risen over the past decade, when housing prices in Vancouver soared.⁴² Yet Vancouver's non-occupancy rate was no higher in 2014 than in 2002.⁴³ Some press coverage suggests that Downtown Vancouver is especially notorious for ghost apartments owned by nonresidents.⁴⁴ If this were really the case, downtown Vancouver's non-occupancy rate would have grown in recent years. Yet according to the energy company study, downtown Vancouver's non-occupancy rate has actually declined since 2002 (from 6.9 percent to 6.0 percent).⁴⁵ The lack of change in electricity usage suggests that investor-owned ghost apartments in Vancouver are uncommon.

I have found no similar data for U.S. cities; however, if 6 percent of Manhattan's units built after 2010 were unoccupied, this would mean that a grand total of 934 units fit this description- a drop in the proverbial bucket for such a large

³⁹See Ecotagious, *Stability in Vancouver's Housing Unit Occupancy*, at <https://vancouver.ca/files/cov/stability-in-vancouver-housing-unit-occupancy-empty-homes-report.pdf>.

⁴⁰*Id.* at 8–10.

⁴¹*Id.* at 12.

⁴²See Yuen Pao Woo, *In Vancouver, foreign capital is part of the housing solution*, The Globe and Mail, Feb. 19, 2018, at <https://www.theglobeandmail.com/opinion/foreign-capital-is-part-of-the-housing-solution/article38017421/> (between 2007 and 2017, “prices of single detached Vancouver houses rose by 130 per cent.”).

⁴³See Ecotagious, *supra* note 39, at 12.

⁴⁴See Mike Raptis, *15% of downtown Vancouver condos sit empty, turning areas into ghost towns: Study*, at <https://globalnews.ca/news/386369/15-of-downtown-vancouver-condos-sit-empty-turning-areas-into-ghost-towns-study/> (citing variety of estimates).

⁴⁵See Ecotagious, *supra* note 39, at 25.

city.⁴⁶ So it seems unlikely that a significant number of condo units are completely unused.

On the other hand, many units are used for second homes or vacation rentals. In fact, about 50,000 Manhattan housing units (5.8 percent of the borough's housing supply) are vacant and used for "seasonal, recreational or occasional use" according to the Census Bureau.⁴⁷ But these units are not necessarily ghost apartments; it may be that their owners rent them out through Airbnb or similar sites. More importantly, these units are a small percentage of citywide housing supply. In New York City as a whole, 79,001 vacant housing units are vacant and used for seasonal or occasional use—only 2.2 percent of the 3.5 million housing units available in the city.⁴⁸

In sum, ghost apartments do exist—but they tend to be a small percentage of regional housing supply.

B. Zoning and Ghost Apartments

As noted above, the existence of ghost apartments has been used as an argument against amending zoning codes to allow new market-rate housing; some commentators claim that such new housing will be snapped up "by absentee millionaires and billionaires."⁴⁹ But in fact, even most high-end new housing is affordable to the local upper classes. Law firm partners at the largest Manhattan firms make almost

⁴⁶I calculate as follows: Manhattan has 15,573 units built after 2010. See U.S. Census Bureau, *American FactFinder*, at <http://factfinder.census.gov> ("Factfinder") If 6 percent of these units are temporarily or permanently vacant due to foreign ownership, that yields a total of 934. Favilukus and Van Nieuwenburgh cite a study claiming that 25 percent of condo units in the core of Manhattan are owned by nonresidents. See Favilukis and Van Nieuwenburgh, *supra* note 24, at 6, citing Michael Suher, *Is Anybody Home? The Impact and Taxation of Non-Resident Buyers*, at [https://en-coller.m.tau.ac.il/sites/nihul.tau.ac.il/files/media_server/Recanati/management/elrov/Conf_Housing/Suher-TAU%20paper%20\(1\).pdf](https://en-coller.m.tau.ac.il/sites/nihul.tau.ac.il/files/media_server/Recanati/management/elrov/Conf_Housing/Suher-TAU%20paper%20(1).pdf). But the study in question focused on only five neighborhoods; New York City has 55 such areas. *Id.* at 6 & n 6. Thus, these neighborhoods comprise only a small part of the citywide housing market.

⁴⁷The exact number was 49,924 in 2017. See Factfinder, *supra* note 46 (data only available through "Advanced Search" feature, Tables B 25002 and B25004).

⁴⁸*Id.* (data only available through "Advanced Search" feature, Tables B25002 and B25004).

⁴⁹See Gelinas, *supra* note 5.

\$5 million per year⁵⁰—which means that they can afford to pay as much as \$15–20 million for a condominium.⁵¹ Even the newest for-sale housing units in Manhattan usually cost less than this amount. My research of vacancies on Streeteasy.com (a New York City real estate site) showed that only about 22 percent of housing units built after 2015 cost over \$14 million, and only 18 percent cost over \$20 million.⁵² In fact, 65 percent of new units cost less than \$5 million.⁵³ Thus, the majority of new units are affordable to the ordinary “working rich” of Manhattan, as well as to foreign billionaires.

More importantly, freezing new construction will not cause out-of-town investment to disappear, because these investors may choose to use older units to store their wealth, thus outbidding local residents for those units and raising housing costs. This is likely to occur for two reasons.

First, the number of housing units vacant and used for “seasonal or occasional” use exceeds the number of new units. In Manhattan, for example, there are 49,924 such units⁵⁴—more than 30,000 more than the number of units built after 2010.⁵⁵ So even if *every single housing unit* in the “seasonal or occasional use” category is an out-of-town investor’s second home, and even if *every single housing unit* built after 2010 was purchased by such an investor, tens of thousands of older units also shared this fate. Thus, it seems

⁵⁰See Arkady Bukh, *How Much Do Lawyers Really Make in New York City?*, Legalink, <http://www.legalinkmagazine.com/2014/09/how-much-do-lawyers-really-make-in-new-york-city/> (at Wachtell, Lipton firm partners make \$4.9 million per year).

⁵¹See Jean Folger, *Condo Buying Guide: What You Should Spend*, at <https://www.investopedia.com/university/condo-buyers-guide/condo-buyers-guide8.asp> (prudent buyer should spend no more than 28 percent of income on housing).

⁵²See Streeteasy, *Manhattan Real Estate and Apartments for Sale*, at <https://streeteasy.com/for-sale/manhattan/status:open%7Cprice:20000000-> (visited May 14, 2018) (out of 892 units built after 2015, 161 cost over \$20 million, and 34 cost between \$14 and \$20 million).

⁵³*Id.* (584 out of 892 post-2015 units cost \$5 million or less).

⁵⁴See Factfinder, *supra* note 46 (7309 units out of the city’s 417,939 housing units in this category; data only available through “Advanced Search” feature, Tables B25002 and B25004).

⁵⁵*Id.* (15,583 units built after 2010).

clear that foreign investors are perfectly willing to purchase older housing.

Second, it would be economically irrational for wealthy investors to ignore older units. If a housing market becomes expensive, price inflation is likely to affect older units as well as newer units- so an investor can make money by buying and selling older housing just as it can make money buying and selling new housing.

If nonresident investors and other second-home buyers are willing to purchase older housing units, it logically follows that if new housing is not built, they will drive up demand for *those* units and bid up their prices. So *even if* nonresident investors purchase many of a city's new housing units, and *even if* these units are ghost apartments, a city that fails to permit the construction of new housing may experience higher housing prices than if the new housing was not built.⁵⁶ It logically follows that even if out-of-towners do turn thousands of newer housing units into ghost apartments, a city unwilling to discourage or directly exclude such investment⁵⁷ should permit *even more* new housing than it otherwise would, in order to prevent housing prices from rising.

⁵⁶The above discussion assumes, of course, that the city's choice is between market-rate new housing and no new housing at all. The city can also choose to subsidize housing for the lower and/or middle classes, thus allowing it to have new housing with lower rents than market-rate housing. But in that case, the city would incur the financial cost of building the new housing or subsidizing those who do. Cf. Joe Cortwright, *Why Is 'Affordable' Housing So Expensive To Build?*, Citylab, Oct. 19, 2017, at <https://www.citylab.com/equity/2017/10/why-is-affordable-housing-so-expensive-to-build/543399/> (citing examples of subsidized housing costing as much as \$825,000 per unit).

⁵⁷A more moderate remedy for the problems caused by out-of-town housing purchases would be to use taxation to discourage such investment. See Guardian Staff, *Vancouver Declares 5 percent of homes empty and liable for new tax*, The Guardian, March 7, 2018, at <https://www.theguardian.com/world/2018/mar/08/vancouver-declares-5-of-homes-empty-and-liable-for-new-tax> (describing new tax on empty homes in Vancouver); See Nishant Kumar, *UK Tax on Foreign Buyers to Hit London luxury home values*, The Independent, Oct. 4, 2018, at <https://www.independent.ie/business/commercial-property/uk-tax-on-foreign-buyers-to-hit-london-luxury-home-values-37381617.html> (describing similar tax in the United Kingdom). The wisdom of these proposals is beyond the scope of this article.

III. Conclusion

Some media coverage suggests that cities are being overwhelmed by a tide of wealthy foreign investors who are purchasing condominiums and using them as investments, rather than living in these apartments or renting them out to local residents. However, at least some studies suggest that truly unused apartments are quite rare.

More importantly, the existence of new “ghost apartments” does not justify exclusionary zoning policies in big cities. If a city popular with foreign investors discourages construction of new housing, investors are likely to purchase older housing units, outbidding local residents for those units. In this scenario, housing supply would decrease while demand was steady, causing continued price increases.