



**Causes and Solutions to the Ensuing California Housing Crisis**  
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### **Abstract**

This paper delves into the causes of the California Housing Crisis using an analysis of the market and supply and demand forces. I also examine types of government regulation that concern housing, including regulation that negatively impacts the price of housing or the supply of housing. Specifically, I looked at what factors disincentivize developers to build housing in certain areas in California and methods of lowering the cost of housing. This project outlines policy changes to help stop this massive appreciation of housing costs. I find that to reprimand this issue would require three changes: A switch from state income tax to land tax in California, a shift of housing control from local municipalities to the state government of California completely, and removal of unnecessary housing policies.

*Keywords: California Housing Crisis, Housing Crisis, Housing Market, Housing Policy, Housing Regulation, Land Tax, Housing Supply*

## **Introduction**

In 2023, the state of California accounted for 30% of the nation's homeless population. All the while, cities in California such as San Francisco have housing prices that continue to appreciate near-impossible rates for the median earner living there. It is no surprise that California has the largest homeless population out of every state, almost more than double that of New York, which comes in second. This problem is rooted in the lack of housing affordability, where less than a third of Americans across the nation can afford a median-priced home in California. This is all due to a lack of housing supply, where the market continues to appreciate because the housing market is heavily regulated. However, freeing the housing market more would solve this crisis by stabilizing prices according to the laws of supply and demand. To help do this, I argue that California needs to switch from state income tax to land tax, shift housing control from local municipalities to the state government of California completely, and remove unnecessary housing restrictions.

## **Context**

The causes and solutions of the California Housing Crisis continue to be widely discussed in contemporary media and research, with a direct focus on a large lack of housing affordability coupled with a rising homeless population. This literature review aims to summarize existing views and research on this topic.

## **State of Housing Crisis in California:**

Numerous studies and respected commentaries have connected the ensuing Housing Crisis in California with a rising homeless population, warranting concern over the future of the California housing market under not just the fear of a heavier financial burden, but the removal of people from homes onto the streets. The Public Policy Institute of California found that more than half of renters and more than a third of household owners spend over 30% of their income on housing. It also discovered that less than 9% of homes located in cities like San Francisco or San Mateo are affordable to families earning the local median income ("Public Policy Institute of California"). The Cicero Institute, for example, points towards how the housing issue does not affect the unsheltered homeless population as much but agrees that the majority of homeless that are sheltered, about half of which are families, would greatly benefit from lower housing costs and likely contribute to a lower homeless population in general (Glock). This is because many younger families that are homeless cannot afford a home which is why they are in the predicament in the first place.

## **YIMBY vs NIMBY:**

The housing crisis is usually attributed to two sides, the "NIMBYs" (short for "not in my backyard") and the "YIMBYs" (short for "yes in my backyard"). Brookings Edu. Discusses how the YIMBYs represent a relatively new political movement emerging in the 2010s from the Bay Area pushing local and state officials to change zoning rules and allow an increased supply of diverse housing types, while NIMBYs are largely anti-housing and oppose this. Brookings Edu. also brings to light how NIMBYs are commonly disproportionately represented in community meetings that decide restrictive housing regulations (Gill and Schuetz). YIMBYs are effectively made up of people who want to open up housing supply so more people can afford it while NIMBYs want to restrict housing so that their properties do not get devalued due to increased supply.



### **Deregulation of the Housing Sector:**

The State of Homelessness in America government archive depicts projected statistics that show how deregulating the housing market would not only cause a huge reduction in homelessness in metropolitan areas but also reduce rents by more than half in places such as San Francisco. The Hoover Institution discusses how regulation is heavily slowing the process of housing construction whilst increasing costs unnecessarily through policies such as the Davis-Bacon Act which force developers to exclusively hire union labor, driving labor prices up and driving construction firms not part of unions out of business (Ohanian).

### **Evidence**

According to the Hoover Institution, regulations like the Davis Bacon Act cause inefficiency by making developers hire union labor. This Act also includes the forceful allocation of 50% or more units of housing to be rented below the market rate. “Prevailing wages” were shown to be capable of decreasing labor productivity by as much as 50% at an already 20% union wage premium (Ohanian).

The Congressional Budget Office noted during Trump’s presidency that the Davis-Bacon Act distorts the market for construction workers, causing the hiring of less labor and loss of construction jobs. It has also been proven to discriminate against small firms and businesses. The Congressional Budget Office additionally notes projected statistics from their economics departments stating the effects of deregulating the housing market shown in the Table below (Hall and Swagel).



**Table 2. Reduction in Rental Home Prices and Homelessness from Deregulating Housing Markets, by Metropolitan Area**

Metropolitan area	Percent change in rent	Current homeless population	Change in homeless population	Percent change in homeless population
San Francisco	-55%	16,920	-9,133	-54%
Honolulu	-51%	4,495	-2,262	-50%
Oxnard	-41%	1,308	-519	-40%
Los Angeles	-41%	57,720	-22,861	-40%
San Diego	-39%	8,576	-3,280	-38%
Washington	-37%	11,172	-4,006	-36%
Boston	-27%	13,587	-3,566	-26%
Denver	-25%	5,317	-1,296	-24%
New York	-23%	92,024	-20,768	-23%
Seattle	-23%	14,598	-3,237	-22%
Baltimore	-19%	4,163	-779	-19%
<b>Subtotal (above 125% of cons. cost)</b>		229,880	-71,709	-31%
<b>Subtotal (below 125% of cons. Cost)</b>		322,950	0	0%
<b>Total</b>		<b>552,830</b>	<b>-71,709</b>	<b>-13%</b>

Sources: Department of Housing and Urban Development, Point-in-Time Counts and Shapefiles, 2018; U.S. Census Bureau; Corinth (2017); Glaeser and Gyourko (2018); Goodman (2004); CEA calculations.

Note: Each CoC is merged into the metropolitan area in which the majority of its overall population is found.

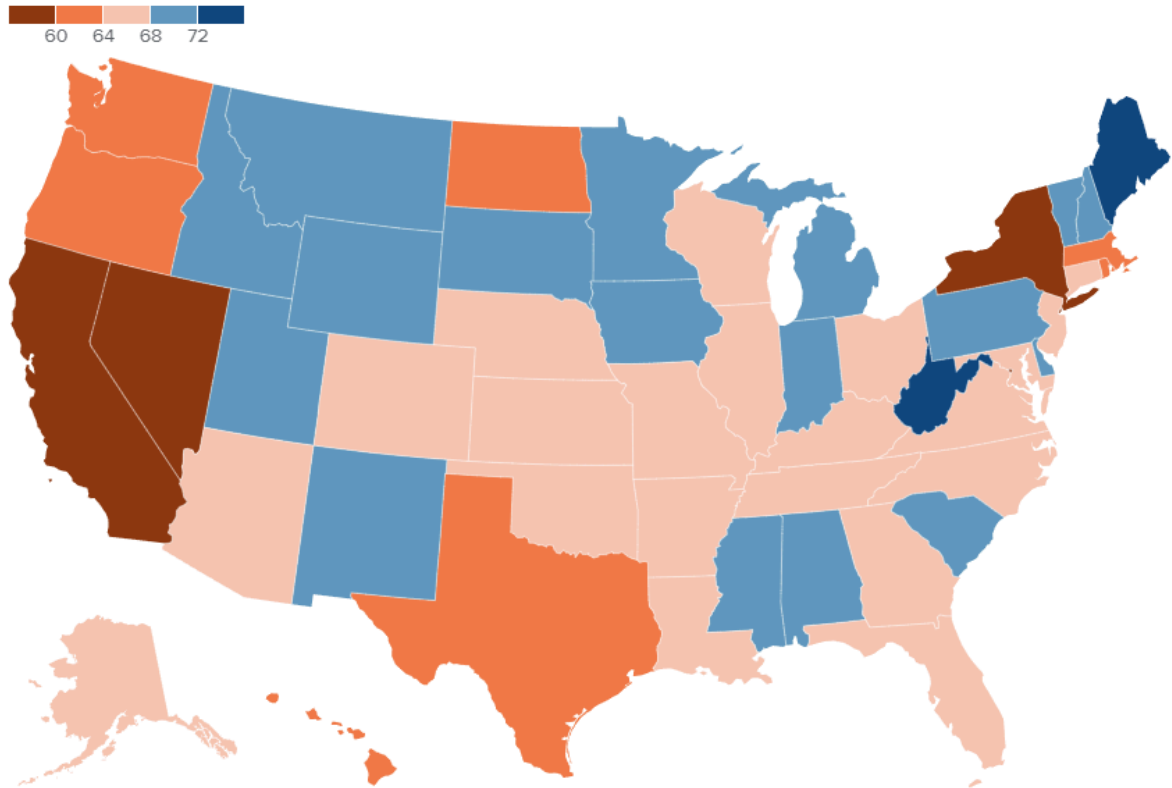
Simulation assumes that deregulation reduces home value to production cost ratio to 1 for all metropolitan areas with ratio of at least 1.25. See text for further details of simulation.

Brookings Education discusses how local governments have a hard time with changing zoning policies to allow for more housing, especially since even a small vocal group can easily oppose or heavily slow the process. Revised zoning also requires a majority legislative vote, and if the mayor vetoes the change, then a city council two-thirds majority vote to override. This is after three arduous phases where the policies could be shut down at any point (Gill and Schuetz).

Many property tax activists claim that the basic issue here is that a majority of large houses are owned by people between 50 and 70 years old—empty nesters who often have more space than they need. To resolve this, they recommend a “forced mortgage,” where through higher property taxes, the initial upfront payment for homes becomes lower, accommodating younger families. This would also lead to older citizens retiring from homes that they do not need to smaller living arrangements that fit their needs. This is supported by data collected by the Public Policy Institution of California below which shows how homeownership is the lowest in California (“Public Policy Institution of California”).

### California's homeownership rate is among the lowest in the US

Share of families that own the home they live in (%), 2016-2020



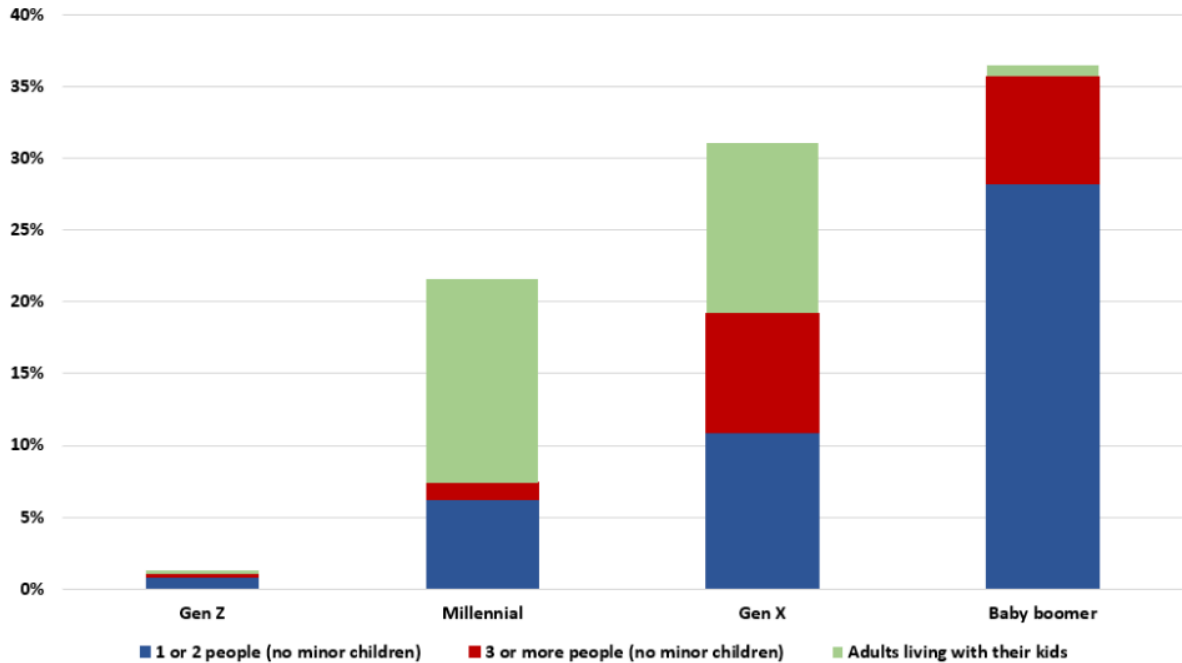
SOURCES: American Community Survey data (2016 through 2020), Census Bureau table DP04.  
NOTES: The homeownership rate is the share of occupied housing units that are owner-occupied.  
FROM: PPIC Blog, June 2022.  
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According to Redfin Research, empty nesters own 28% of large homes while millennials with children only own 14% (Anderson and Bokhari).



**Empty Nesters Own 28% of Large Homes; Millennials With Kids Own 14%**

Share of 3-bedroom-plus U.S. owner-occupied homes owned by each generation, broken down by household type/size



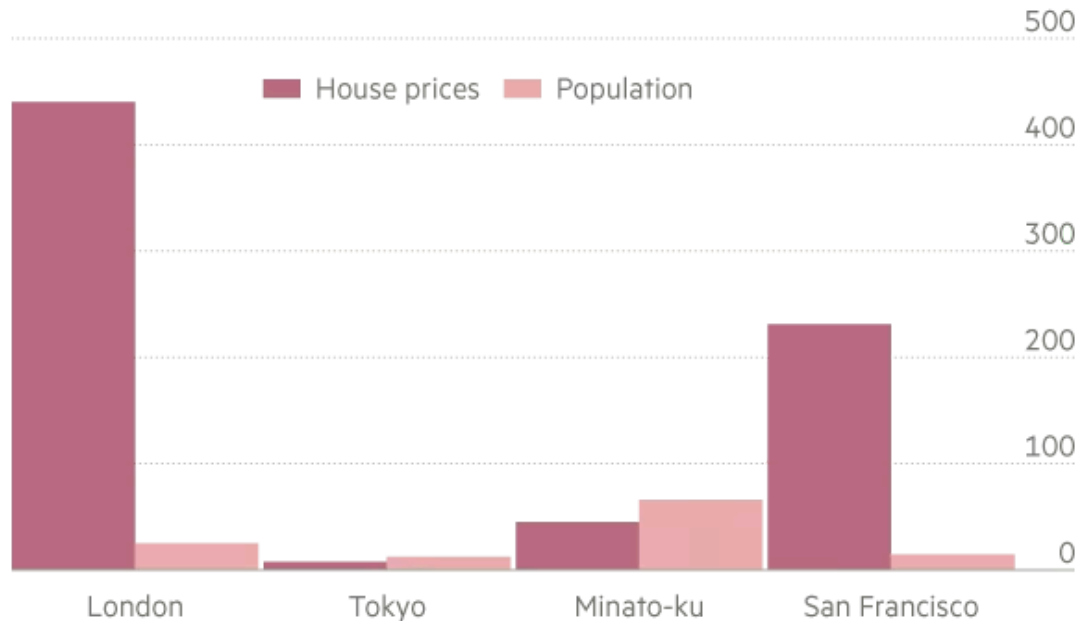
According to the New Majority Foundation, esteemed Professor Ken Miller from Claremont Mckenna College commented on how Texas today looks like California from the 1950s and 1960s, and that now due to heavy economic restrictions on the housing market, states such as Texas and Florida are drawing away businesses and industry due to more favorable economic conditions (“New Majority Foundation”).

According to Forbes, the cost of living in California is 50% above the national average, while in Texas the cost of living is 10% below it. A direct comparison showed that the average home price in a Texan metropolitan area such as Dallas-Fort Worth is 42 percent lower than in a Californian metropolitan area such as Los Angeles (Benningfield and Saddler).

According to the *Financial Times*, in contrast to California’s spike in housing prices, housing prices in Japan have relatively remained the same over twenty years. A big reason for this is due to how the rights of landowners trump local government authority in the United States. After easing urban development regulations in the early 2000s through the Urban Renaissance Law of 2002, Tokyo’s housing market was able to flourish. The shared view that all buildings are disposable and temporary has helped Tokyo maintain low housing costs, a complete contrast from cities like San Francisco and London (“Financial Times”).

## Change in house price and population, 1995-2015

Per cent



Sources: Office for National Statistics; Census Bureau; Tokyo Kantei;  
Ministry of Land, Infrastructure & Transport

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According to the National Housing Conference, inclusionary housing policies that force developers to create affordable housing units at below-market rates increase the cost of new developments which increases prices for market buyers. These policies incentivize developers to create fewer units of housing and unfairly place the burden of economic integration on developers in the first place (“National Housing Conference”).

The *LA Times* commented on the California Environmental Quality Act and how it is sometimes used abusively. The well-intentioned environmental law created in the 1970s is now being used to shortcut the housing supply by contributing to higher costs for developers. The complex web of environmental mandates this policy requires for each housing unit boosts development fees significantly, killing motivation for many housing projects in California. Parties with no affiliation to the environment or housing project can still sue developments, even anonymously. Frequently, real estate companies sue each other for competitive reasons using this policy (Hernandez, Jennifer, and Soledad Ursúa).

### **Analysis**

The Housing Crisis is rooted in the deep-seated problem of younger families being unable to afford proper housing due to high down payments on mortgages. We see this through citizens ages 50-70 years owning a majority of large homes in California. Empty-nesters own 28% of available housing, while millennials with children only own half that. A solution to this is land taxes, where instead of the state taxing citizens based on a percentage of their income, it would be a tax based on a percentage of the value of land they own. Texas has already been following this route by continually rejecting state-income taxes from being implemented through legislation





like Proposition 4, relying solely on property taxes to fund the state. This kind of taxation can cause empty-nesters to downsize their housing to avoid higher property taxes, putting back into supply larger housing fit for younger families, helping stabilize the housing market in Texas. This is a reason why we see significantly lower housing prices in Texas than we do in California, and replacing the state income tax with land taxes would greatly help stabilize the housing market.

Land taxes would also lead to higher monthly payments on a mortgage, causing buyers to opt for a lower down payment. Lower down payments would be much more attractive for younger families who could ease better into higher monthly payments, in contrast to empty-nesters who are usually retired and relying on a fixed income. Younger families usually have a source of income from occupations that would allow them to pay off more expensive monthly payments. This would further lead to younger families possessing larger homes while causing empty nesters to downsize, benefitting the housing market overall.

A rising concern in metropolitan areas, especially areas where housing prices are skyrocketing, is the concept of real estate investments. Potential investors see properties that are appreciating greatly in price and buy those properties in the hopes that they can resell the property for a higher value, making large profits. The problem with this strategy is that it ends up diminishing the housing supply in places like California, causing housing prices to rise further. However, land taxes would counter this by making real-estate investing less attractive. This tax would significantly decrease the return on investments from buying real estate, especially in areas with high land or property taxes. Additionally, it would make it much harder for sellers to hold on to housing for prolonged periods in the hopes of market appreciation due to the accumulation of taxes. In general, this would attack the strategy of real estate investing and help the housing market stay at reasonable prices.

Over the past decade and a half, two sides have been head-to-head on whether or not to ease up on housing regulation or to keep preventing supply from catching up to market demand. The YIMBY-ism versus NIMBY-ism conflict has been around for quite a while and at its core it's the fight to either discontinue or conserve suffocating housing supply. NIMBYs thrive in the state of California because of how much power is given to local governments in terms of the housing sector. Zoning regulations, for example, are incredibly hard to overturn or change on the local level due to how easy it is for a vocal minority to halt this process. Furthermore, there are multiple levels of approval and revision that these changes have to go through to pass, making it nearly impossible for any improvements to current zoning policies to be made. This not only is an issue in the state of California but nationally amongst other states as well, as shown by how a housing reform package in Vermont (S. 100) was recently legislated in 2023 after years of negotiations with respective local governments and environmentalists. However, other states are not as lucky as is the case with New York where Governor Kathy Hochul's proposed housing policies which would have addressed the severe lack of housing production in New York were unfortunately met with severe opposition and ultimately shut down (Mercatus Center). This is why shifting power over to the housing sector from the local to state level of government would help prevent this from happening, due to how the state would better understand how to regulate the market in light of their housing crisis.

Japan accomplished something similar through the Urban Renaissance Law of 2002, a spatial policy that promoted deregulation in the housing market, especially on the local level where private entities now could rebuild areas to accommodate housing demand in Tokyo. This policy, as well as many others like it, helped the metropolitan city recover from a huge economic recession linked to housing market failures by making the rezoning of land significantly easier. Following this way of thinking to current-day Tokyo, the same results follow where housing prices have generally remained constant with a steadily improving standard of living, depicted by the data table in the evidence section. In contrast to coastal California where strict zoning regulations from local municipalities have choked the market, Tokyo has flourished from making landowner rights inviolable.

Unlike in Japan, local municipalities in California have power over land-use regulations, building and housing codes, permitting processes, and zoning ordinances. Even when housing is approved by local governments, it is after many layers of permitting and after-construction plans that fit what the community wants, which can include but not be limited to building heights, lot sizes, density, and design requirements. Due to this lengthy process, housing supply takes much longer and is much more expensive for developers to invest in. Japan on the other hand has many of its housing laws come straight from the national government, giving landowners the freedom to demolish and rebuild their properties to whatever they desire. This is much more economically efficient for developers, causing cities such as Tokyo for example to thrive in terms of housing supply. In general, the obvious choice for California in the effort to save its housing market would be to immediately shift housing control from the local to the state government.

Another constant obstruction to the housing supply lies in general housing restrictions that are not necessarily controlled by local municipalities. Examples of this include the Davis-Bacon Act, Inclusionary Housing Ordinances, and the California Environmental Quality Act. The Davis-Bacon Act deters developers from creating more housing by mandating “prevailing wages” for workers. What this essentially means is that developers are forced to hire union labor which causes labor productivity to be 50 percent less efficient at an already 20 percent union wage premium. Not only does this make housing projects more unattractive in the state of California, but it also causes many laborers to lose jobs because the developers that build the housing are going to rely more on capital than on labor due to higher labor costs. The Davis-Bacon Act has also been shown to have discriminated against smaller construction firms and businesses. This unnecessary policy only drives the housing market into the ground by catering to unions.

Inclusionary Housing Ordinances force developers to set aside housing units that will be rented to low-income families far below market value. This often kills or de-incentivizes the creation of many housing projects, further choking the housing supply. What would work in reality is increasing the housing supply in the first place, lowering the equilibrium price of housing due to the law of supply. But with Inclusionary Housing Ordinances, the market is not only being throttled in terms of supply but renting out units with below market rates only causes the market rate for normal units to rise to compensate for this change. Coupled with the implementation of “prevailing wages”, it becomes harder and harder for developers to produce more housing due to high costs and additionally it raises the price of normal housing units.



But as if this was not enough of an assault on California housing supply, the California Environmental Quality Act is. The California Environmental Quality Act was originally designed to protect the environment in the 1970s but has since then grown to incorporate a new use: abusive behavior in the housing market. This policy wastes hundreds of thousands of dollars in the creation of new homes due to environmental mandates that it requires. Additionally, reporting projects under this law can waste large amounts of time and money for developers, with anyone being able to sue through this act, even anonymously. A frequent use of this policy is to suppress competition in the real estate world by suing rival firms. In general, this policy is not only outdated but incredibly flawed in how abusable it is. Its current effect on the housing market is incredibly dangerous through how it either demotivates developers from building in California or just ends up ruining market rates through expensive and unnecessary mandates the policy requires.

The Davis-Bacon Act, Inclusionary Housing Ordinances, and the California Environmental Quality Act are all examples of flawed modes of housing control. Housing restrictions like these continue to throttle the market and contribute to unreasonable housing appreciation, making many homes not affordable to the median earner. It is crucial to understand that freeing the housing supply would greatly help with California's ensuing crisis, and settle down prices.

### **Discussion**

The purpose of this section is to discuss alternate views and stances on the subject including possible unanswered questions from the paper and opposition perspectives.

Q: Won't a lack of local zoning restrictions cause beautiful cities and towns to be ruined or made less appealing?

A: The Financial Times discusses this in their article concerning Tokyo's housing sector freedom. However, it is important to realize that while the beauty of a city is subjective to each person or individual, it is commonly agreed that people need homes to live. With homelessness on the rise in California, some sacrifices need to be made to accommodate those who cannot afford to live in certain areas, which at this point includes the median earner in the state. It is also important to recognize that purchasing land and paying taxes on that land should give the buyer complete freedom to do what they want. Property is the business of the person who purchases it, just like it is in Tokyo, and restricting that choice essentially restricts that person's freedom. It would be asked not to apply John Locke's concept of the Social Contract where certain freedoms need to be sacrificed for the common good, mainly because the Social Contract refers to restricting extreme freedoms such as the freedom to murder or commit other heinous acts, a situation that does not apply here.

Q: Won't the increase in the supply of housing and the lowering of housing prices induce further demand for people to live in California, causing the Housing Crisis to reemerge?

A: The concept of induced demand states that increasing the supply of a certain good leads to more people using that same good, ergo increasing demand. However, this concept is mainly applied to highways where the expansion of transportation systems initially decreases traffic, but later on causes worse traffic than before due to more people taking advantage of the new

transportation additions. Similarly, some researchers tend to apply the same concept to housing where they fear an increased supply of housing would cause the market price to decrease, increasing demand for housing. It is vital to note that this concept is flawed because of the assumption that the main reason people relocate to certain areas in the United States is because of housing prices. Conventional wisdom would dictate that people move where industry lies. The three-pronged plan I stated in my paper would be to ease zoning regulations, which would lead to the rezoning of commercial zones to residential zones for more housing, effectively decreasing job opportunities while increasing housing. This decrease would demotivate many to move to California, not induce them into moving there. Another reason why this concept is flawed is because this is not a discussion concerning how to cut commute times to work but rather figuring out living situations for the many residents in California. Increasing the housing supply would only help people who currently have no options for affordable housing and the distortion of the housing market afterward should be a second thought, unlike with transportation systems.

Q: Doesn't prevailing wages protect workers against being paid less than their worth?

A: When the Davis-Bacon Act was made in the 1930s, minimum wage laws were not properly established. The act was also created to distort the market for black workers by mandating union labor. These unions would reject black workers from joining, causing many black workers to lose jobs. Besides the racially prejudiced motivation for this policy, the other was to make sure the labor market does not "race to the bottom" through workers out-competing one another by working for lower and lower wages to be hired. However, as said earlier, minimum wage laws currently make this act impractical and incredibly unnecessary. Prevailing wages to the labor market inefficiency in the economy by paying workers more than market wages, causing many industries to instead rely more on capital, causing many workers to lose jobs. In general, the Davis-Bacon Act is a net negative, both unnecessarily distorting the labor market and causing the loss of many jobs.

Q: Why not use property taxes instead of land taxes?

A: Property taxes take a percentage of property value as a tax while land taxes take a percentage of land value as a tax. The reason there is a preference for land taxes in this paper is because property taxes demotivate residents from improving their property. Property value is assessed on the land the housing is on and the housing itself, while land value is only the value of the land the housing is located on. This distinction is important because amenities added to, for example, rental units by a landlord would get taxed by property taxes. This unfairly makes good landlords pay the price for increasing the quality of life for residents and demotivates them from doing so in the future. The ideological reason for land taxes existing is because the right to exclusivity should be a payment to the public, in this instance through taxes. However, property taxes tend to erode that purpose by taxing utilities and such added to the land which once again de-incentivizes people from improving their property. Therefore, land taxes are a much better payment to the public for land exclusivity than property taxes are.



## **Conclusion**

In conclusion, the analysis made in this paper shows how changing the state income tax to a land tax, shifting housing control from the local to state government level, and removing unnecessary housing restrictions would greatly benefit the housing situation in California. This paper has continuously linked how monopolies on land, the practice of real estate investing, unnecessary zoning regulations, housing control on the local level of government, and outdated housing laws and policies have contributed to this crisis. Through the aforementioned solutions, it is greatly possible to cure these illnesses that plague the housing market and with it, other benefits can be reaped. As discussed earlier, the homelessness issue is greatly related to the housing crisis that is taking place in California, and helping subdue this issue would benefit many lives significantly and make housing affordability much better in the state. It must be acknowledged that while statistical data backs the causes of this crisis, there is generally a lack of data for concepts such as land taxing or removing certain policies that were mentioned to solve the Housing Crisis. While comparisons were made to other governing bodies such as the state of Texas and Japan, it is impossible to state whether or not enacting similar policies that exist in those places in California would have the same or similar effect. However, the same was true during the Great Depression when FDR implemented radical economic policies that ended up benefiting the United States greatly and helped pull the nation out of the depression. In light of this, reform should not be looked down upon, just like in FDR's case, but rather encouraged, especially considering that California is on the precipice of overinflating its housing market too far. Prejudiced or selfish opinions concerning gatekeeping communities or preventing further housing supply heavily attack people's mode of living unfairly and it is important to resist these attempts, not just in the housing market, but generally through all forms of politics.



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