



Why supply-demand theory breaks in high land-value markets

1. Land value floor
Arlington lots cost \$800K–\$1M+. Construction + profit margin means new units must price at \$800K–\$1.4M+ to pencil out. **Affordability impossible at market.**

2. Induced demand
Upzoning signals desirability. Wealthier buyers & investors are drawn in, shifting demand right faster than supply grows. **Net price effect: neutral to up.**

3. Filtering failure
Filtering (luxury → affordable over decades) requires massive scale. EHO cap: 58 permits/yr. Arlington adds ~100 units/yr vs. structural demand of 1,000s.

4. Inelastic supply
Geography & built environment cap supply growth. Small lots, permit caps, legal challenges keep the supply curve steep. **Supply elasticity ≈ near zero.**

5. Land speculation
Upzoning raises land values immediately. Landowners & investors capture the rezoning windfall before a unit is built. **Ricardo's rent theory applies.**

6. Market segmentation
Luxury and affordable housing are not the same market. Adding \$900K EHO units does not compete with \$300K units. **Submarkets operate separately.**

Bottom line for Arlington EHO
EHO permits ~58–100 units/yr in a county of 240,000+. Land costs alone guarantee new units price at \$800K–\$1.4M. Single-family home prices rose ~7.5% YoY even as EHO was implemented. The supply curve in Arlington is nearly vertical — constrained by land cost, geography, litigation & permit caps — so demand shifts dominate. Standard S&D predicts affordability only when supply is highly elastic and new units compete across price tiers. **Neither condition holds in Arlington.**