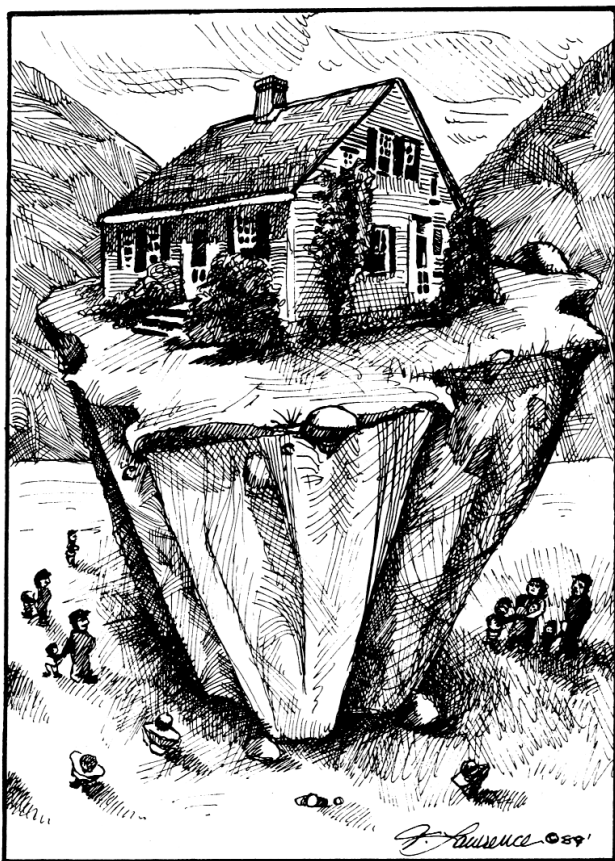

THE NORTHEAST HOUSING SQUEEZE: *Searching for Solutions*

by William Apgar



Housing costs will
continue to climb unless
more land is made
available for development

After years of underfunding and neglect, housing is back on the national political agenda. Although budget constraints rule out a return of the deep subsidy programs of the 1960s and 1970s, increased federal funding for housing assistance is likely as the nation addresses its housing problem. Here in New England, state and local capacity to participate in new housing initiatives is strong. Each state in the region boasts of active state housing finance agencies, committee city and town officials, and strong community-based development groups. But despite the prospects of increased funding—federal or state—and the commitment of local officials, the region faces a larger problem. Unless methods can be created to expand the land available for development, local officials will not be able to stem the tide of growing housing prices. First-time buyers and those least able to afford housing will feel the greatest impact of affordability problems.

National Housing Trends: Haves and Have Nots.

In a recent report, *The State of the Nation's Housing*, the Joint Center for Housing Studies of Harvard University described a nation divided into housing "haves" and housing "have nots." The report noted that while the majority of Americans are well housed and enjoy the benefits of continued economic growth, the prosperity of these Americans does not reflect the plight of the growing number of low- and moderate-income households. Continued high housing costs limit the ability of low- and moderate-income households to improve their housing conditions and, in doing so, improve their overall standard of living.

For decades, improved housing conditions have been a key ingredient in the upward mobility of American households. For many, the move from renter to owner is a major step on the path to financial security. For those without sufficient income to become homeowners, obtaining good-quality, affordable rental housing has been an equally worthy goal. And for those with the lowest incomes, publicly assisted housing units have served as the foundation upon which to build a

better future for themselves and their families.

The growing number of housing "have nots" suggests that this progress has stalled in recent years. Unable to secure a home of their own, many young households remain renters and bid up the price of rental housing. Though they have not increased at the rate of inflation in the 1970s, real rents—that is, rent adjusted for inflation—have moved up sharply since 1981 and now stand at their highest level in two decades. Those families least able to cope with a high rent burden frequently end up in homeless shelters or on the streets.

High housing costs limit housing opportunities for many. It is important to recognize that in many respects the nation's housing problems are interrelated. The State of the Nation's Housing documents the nature of the problem and adds to the growing national awareness of the plight of the housing "have nots."

First-time buyer costs remain high. The decline of mortgage interest rates from peak levels of the early 1980s leads many to think that homeownership is again affordable to a wide range of households. In fact, although down from peak levels of the early 1980s, the after-tax cost of homeownership remains high relative to the income of potential first-time buyers. Nationwide, the after-tax cost of buying a typical starter home in 1987 was 47,449, or 32.4 percent of the annual income of potential first-time buyers in the 24 to 29 age group. This is 50 percent higher than the share of income going to pay for a typical starter home in the early 1980s.

Homeownership declines are widespread. Continued high housing costs have resulted in a steady decline in the homeownership rate since 1980, particularly among young households. In virtually all regions of the country, the homeownership rate has declined for all types of young families. Some two million fewer young households own homes today than would be the case if homeownership rates had not declined so sharply since 1980.

Low-cost rental housing supply continues to shrink. The State of the Nation's Housing also attempts to

explain the apparent inconsistency between the high level of rental housing construction in the mid-1980s and the growing rental housing shortage. While high levels of rental housing were built from 1981 to 1987, this new construction did little to add to the supply of low-cost units. The number of vacant rental units rose by over a million units from 1981 to 1986, but 90 percent of these newly vacant units rent for more than \$300 a month, beyond the means of most low-income households. Moreover, most vacancies are concentrated in select market areas, particularly in the South. Quite simply, a vacant apartment in Houston does little to limit rent increases in Boston or San Francisco.

In all market areas there decline in the supply of low-cost rental housing. From 1974 to 1983, the number of units renting for less than \$300 per month dropped by nearly one million units; during the same period, the number of units with rents above \$00 increased by 4.5 million. This loss of low-rent units is for two reasons: (1) Some fell into disrepair and were removed from the inventory; and (2) Others—especially those located in the stronger housing markets of the Northeast and West—were upgraded to attract higher income tenants. In either case, units were lost from the low-rent range.

Assistance efforts fall short of growing need. Finally, The State of the Nation's Housing assesses the housing situation of the nation's poorest households. Over the past 20 years, rents as a percent of income increased sharply for a wide range of households. It is not uncommon today for households to pay 50 percent of their incomes for housing. This rent burden is particularly harsh for young families with children. For this group, the rent burden increased from 34.9 percent of income in 1974 to 58.4 percent in 1987.

The report notes that the vast majority of these low-income families must cope with rising rents on their own. Only 289 percent of renter households with incomes at or below poverty level live in public housing or other federally assisted units. In fact, some 5.4 million poverty-level renter households currently receive no rental assistance and are left to compete for the dwindling supply of low-cost rental housing available in the private, non-subsidized marketplace. The result is further tightening at the low end of the rental housing market and higher rents for those least able to pay.

The problems of the housing "have nots" come in many forms, ranging from the frustration of a young couple unable to qualify for a home loan to the desperation of low-income families with children who cannot secure any housing at all. Nor is the housing problem limited to high-cost regions such as the Northeast. Housing problems play themselves out differently in each region, but with the same results: Many young households will find it difficult to maintain the same housing standards achieved by their parents.

Housing Trends in New England and the Northeast

While New England and the Northeast share many of the same trends observed nationally, housing affordability problems here have an intensity that makes news around the country. Though the income of potential first-time buyers (represented here by the income of married-couple renters aged 25 to 29) is somewhat higher in the

Northeast (\$29,600 versus the national figure of \$23,800), housing costs in the region are higher still. Though home prices lagged behind inflation for much of the 1970s, the surge in home prices since 1980 has moved the Northeast to the top of the charts. By 1987, the representative starter home in the Northeast cost \$94,000, some 40 percent higher than the comparable national figure of \$67,000. Add to this the Northeast's higher energy costs and other out-of-pocket expenses, and the annual after-tax cost of owning the typical starter home in the Northeast was \$10,233 in 1987, nearly \$2,500 higher than the comparable national figure.

The substantial increase in home prices over the past decade has many important implications for the Northeast. Current owners have benefitted from these home price increases, but first-time buyers have suffered. High housing costs reduce opportunities for homeownership and permanently lower the standard of living for many young households in the region. These problems of first-time buyers eventually spill over to the rental market, and this increases the competition for scarce rental housing and adds to the housing squeeze of those least able to cope with rental pressures.

How to Cope with High Housing Costs

While many factors contribute, high land costs are a central component of the high housing costs in the region. Quite simply, the costs of the "bricks and sticks" that make up a house do not vary much by region. Nor does the cost of obtaining mortgage money. Arguably, construction wages are higher here in the Northeast than elsewhere, but here too land costs are at least partially the culprit. Without debating the complex issues of construction wages and union versus non-union labor, it's clear that the region's workers are able to command higher wages because the region's basic cost of living is higher. In short, the rising cost of existing housing feeds on itself.

Any effort to address the region's housing cost problems must confront the high cost of land and the difficult time most development proposals have in gaining land-use approvals. Unfortunately, solutions must come from the local level. It may be true that there is growing sentiment in Washington, D.C. for greater federal involvement in housing. But even if Washington moves forward, expanded federal housing programs—or state and local programs, for that matter—can not be expected to solve a housing problem when the root cause is high land prices.

First, any national housing assistance program will be regionally targeted. Quite frankly, there is not much national sympathy for helping a New England family with a \$40,000 annual income seeking to buy a \$120,000 starter home on a \$50,000 lot. Builders in the region may understand that it is hard to push the starter home price below \$120,000 in some towns because of high land costs, but then so does the Congressman from Denver, or Houston, or Detroit. Their reaction is "We've got real problems. Come back again when you can show you are serious about the housing issue by dealing with your land-use problems."

Even if federal funding does increase and the region is able to expand production of affordable housing, such efforts are short-sighted at best. Adding to the production of new housing will do little to solve the region's long-term

housing cost problems. Because subsidized housing competes with non-subsidized development for a relatively fixed stock of developable land, the added pressure of subsidized development could actually add pressure to land and housing prices.

Unlike other regions of the country, the risk here in New England is that programs designed to expand housing opportunities for some will increase the cost of housing for others. In short, without a major effort to expand the supply of land available for housing development to increase allowable densities or to streamline the permitting process, New England will face continued high housing costs.

Meeting the Need for Residential Development

Any effort to reduce land costs must resolve the continuing friction between those who seek to preserve land for environmental reasons and those who seek to expand land available for affordable housing. While the environmental groups and other advocates of slower growth have successfully limited housing construction in select areas in the region, the failure to find mutually agreeable land-use plans has led to losses for both groups.

There are many examples. Environmental groups, in many cases, cannot limit growth, but can merely stall it. The result is that development occurs, but the stalling only serves to raise costs.

It is also important to recognize that in the long term the housing interests—especially those of middle-income homeowners—will not be served. As housing prices rise, there will be growing pressure to develop land in the outer reaches of metropolitan areas. The result will be continued pressure for large-lot sprawl developments that serve neither housing nor environmental interests.

Finally, the competition between environmentally sensitive land and development land reminds us that some in our region—such as low-income households and the elderly—have a limited capacity to compete for this scarce resource. Unless the region is able to deal with the problem of high land costs, high rents and homelessness will be permanent features on the New England landscape.

Clearly, the home builders of the region will come down on the side of housing. Others will come down on the side of the environment. Clean water, clean air, and preservation of unique natural resources are important goals. But those who seek to limit residential development in the name of the environment must understand that their actions often add to the high housing costs that undermine the well-being of literally hundreds of thousands of New England families and individuals. Builders and environmentalists alike can only hope that those who seek to resolve future land-use disputes have the wisdom to see the larger picture. The region needs to better balance competing demands for scarce land resources for the benefit of all who live here. ■

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