

## LAND MARKET DYNAMICS LOST TO HOUSING ANALYSTS

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GroundSwell readers in the United States and elsewhere will find a wealth of information in the annual *The State of the Nation's Housing* report issued by the Joint Center for Housing Studies at Harvard University. This report is funded in large part by the Ford Foundation. The year 2000 report will be available at the end of June at the Center's website.

Looking at the 1999 report from the standpoint of someone who appreciates the workings of land markets and the influences tax policies have on the supply and cost of housing units, one is struck by the fact that despite rising housing prices in so many regions of the United States, the rate of home ownership continues to edge upward in the face of an expanding population and new household formations. Housing affordability is, after all, the net result of a combination of the housing price itself, the rate of interest charged for a mortgage loan, household income, and the amount of savings (or gifts and grants) the purchaser brings to the transaction. When interest rates fall and incomes remain stable, the tendency is for housing prices to increase (either quickly or over time, depending upon local economic conditions). Housing prices will also tend to rise when increases in household income occur as the changing variable. On the downward side, however, the most important variable seems to be not interest rates or household incomes but unemployment. One reason is that many of the houses offered for sale in a market can and will be pulled from the available inventory if prices are falling. Owners of existing homes have far more discretion over the sale of their asset, generally, than does a builder of new homes (although builders are far less likely today to construct homes on speculation, that is, without a buyer under contract who has been pre-qualified for mortgage financing) or a merchant selling other types of goods.

Housing prices have periodically stopped increasing and in some markets have experienced significant declines. The types of markets most affected by the combination of higher interest rates and higher unemployment are urban neighborhoods populated by less skilled and largely minority populations, rural communities more easily decimated by the close of a major employer, and newly-constructed housing subdivisions or developments built to accommodate growth (but without a stable, long-term resident base).

All of the variables -- economic and demographic -- have combined to achieve a modest increase in the rate of home ownership during the last forty years. Home ownership had reached 63 percent in 1966, rose to 66 percent in 1980, then began to fall until the early 1990s, rising again to 66.3 percent in 1999. More impressive is the actual number of households that have become first-time homebuyers.

May-June 2000 GroundSwell, page 10

Between 1995-1999 some 5.4 million additional households have become homeowners, with nearly 40 percent of this total comprised of minority households -- indicating that access to affordable mortgage financing and other barriers to purchasing a home have been dramatically reduced for minorities.

The population of the United States is aging; and, despite the migration of people to Florida and other "sunshine" states, most are aging in place. The 1999 report states that of "households with members aged 70 and over living outside institutions, only 3 percent reside in assisted or congregate facilities..." Each year, the number of households headed by someone aged 65 or older increases by some 300,000. In some parts of the United States, the percentage of seniors in the population is increasing at a faster rate because the young are leaving. The young continue to leave older, urban neighborhoods for the suburbs, for newly-constructed homes with more living space and amenities, and continue to migrate from regions where economic growth has been stagnant to the high growth regions. All across the United States, the home ownership rate in cities is far below the national rate. The rate of home ownership in the suburbs is around 73 percent; in the cities, the average is under 50 percent (and less than 30 percent in the City of Boston). Not surprisingly, wherever land prices are the highest, the rate of home ownership tends to be the lowest and the shortage of affordable housing the most acute.

Home ownership is, under current conditions, permanently out of reach for most low income households, who now spend half of their household income on apartment rent and another 25 percent on utilities -- often for housing units that are poorly maintained and lacking in basic amenities. Poor housing conditions exist everywhere, but are most likely to affect minorities and, in particular, "Native American" households living on tribal lands. Around 80 percent of all households that rent apartments are recipients of some form of public assistance. The supply of housing for these households is diminishing, as property owners choose to refinance government-insured mortgage loans through conventional lenders in order to attract higher income renters and remove themselves from government oversight and regulation. Between 1996 and 1998 some 30,000 units were privatized in this manner and not replaced by new construction. Contracts between property owners and the Department of Housing and Urban Development -- affecting over one million apartment units -- are scheduled to expire over the next five years. Half are expected to be converted to market rate apartments. Additional apartment buildings are reorganized as condominiums or cooperatives, with the result that lower income renters are displaced. Housing units owned and managed by local housing authorities -- constructed with Federal and State grants -- provide housing for some 4.5

(continued on page 11)

## LAND MARKET DYNAMICS (continued from page 10)

million households. The Center's 1999 report indicated that maintenance and repairs of these units have been so poor that "restoring systems in these buildings to their original working condition would have cost \$4.2 billion in 1995."

Those are the factual highlights. The Center's study is more descriptive than analytical. The purpose of the study is to inform us of important demographic influences on home ownership and where the problems of meeting demand are most challenging. What is missing from this report, even in a purely descriptive form, is a presentation of the facts on the ownership, sale, leasing and rental income streams (imputed and actual) associated with land. This added information on land parcels would focus needed attention on the role land markets play in the state of the nation's housing. Without this information, policy analysts are almost certain to continue to act in counterproductive ways to the core problem, which is, the capitalization of privately appropriated imputed rent into the selling price of land, the payment of which by developers is passed on the homeowners, apartment dwellers and producers of goods and services, generally.

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