

# THE U.S. HOUSING SECTOR HAS PULLED THE ECONOMY ALONG, BUT AT CONSIDERABLE COST, AND NOT FOR MUCH LONGER

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Every builder across the United States knows that the cost of acquiring land for development is on the rise wherever people want to live (and, because of the very low effective cost of hoarding land parcels, often where they do not). The type of housing constructed has a good deal to do with market demand, of course, but also has a good deal to do with local politics.

One of the most powerful community reactions to changing conditions today is referred to as "NIMBYism" (i.e., "not in my back yard ism"). Suburban sprawl has been accompanied by crowded roadways and a rising backlash against more development.

Suburbanites are often frustrated by the long commutes to and from our places of work. Not that long ago, the welcomed definition of distance became one of time rather than miles; and, when expressways were less crowded and less prone to long backups due to collisions, construction activity or bumper-to-bumper traffic, the trade-off between miles and time was minimal. Moving to the suburbs meant escape from the congestion of urban life. Now that sprawl has reached what some view as epidemic proportions, the average amount of time to travel the same distance continues to increase. People live in neighborhoods rather than communities and feel increasingly isolated from one another.

Faced with what seems like a continuous state of congestion, suburbanites are uniting to resist the construction of more apartments and high-density housing construction. Despite a crisis shortage of "affordable housing" in many communities, accommodating newcomers - or even their own adult children - finds widespread resistance. Where state legislatures are mandating that some percentage of all new housing units constructed are permanently set aside for low- and/or moderate-income households, the community response is to resist the construction of any new homes. One way to do so is to set minimum lot sizes at an acre or larger or require developers to pay very high infrastructure development fees.

Some suburban communities are channeling funds into their urban neighbors as a strategy for subsidizing the construction of housing units in places where developers cannot otherwise profitably build. Cities and towns may already control the land or acquire it via a condemnation proceeding, clear the land of any decayed structures and remediate for industrial pollutants. A community development corporation can then be brought in to put up new housing units (and other community amenities), funded by various public and private sources. Housing units are sold at market value, with a second and sometimes their mortgage lien placed on the property reflecting the subsidies not repaid out of the sales proceeds. To ensure long-term affordability, the housing units are often sold with restrictive covenants that permit resale only to households with incomes at or below a

given percentage of the area median. These restrictive covenants may run indefinitely or disappear after some period of time (e.g., 15 to 20 years).

In the suburbs, the problem is normally quite different (although not always). New housing units can be sold for an amount required to cover the cost of land and construction; however, making the units affordable requires the availability of grants or low interest loans to cover down payment and closing costs. As land prices escalate, the pool of grant funds made available is less and less able to serve the needs of lower- and/or moderate-income households, or even higher income households who are living in relatively high-cost apartments.

Rather than address the underlying structural problems of land markets - and thereby stabilize and possibly achieve a gradual reduction in the land cost component of housing - the U.S. Congress is now considering yet one more small band-aid measure. President Bush made a campaign pledge to promote home ownership which has taken form in the "American Dream Downpayment Act." This bill (Senate 811) would provide \$5,000 in downpayment and closing-cost assistance to an estimated 40,000 low-income, first-time homebuyers annually. The \$400 million fund is earmarked to help meet the Bush administration's "Homeownership Challenge" to increase minority homeownership by 5.5 million families by the end of the decade. It will provide \$200 million in each of the next two years to cover downpayment and closing costs for households whose income is below 80% of area median income.

The window of opportunity for many minorities to acquire decent, affordable housing is already closed. Housing prices, except in the worst sections of our cities, are moving rapidly away from this targeted segment of the population.

What few in the U.S. Congress grasp is that every measure that expands the demand side of the equation without stimulating the supply side merely pulls more wealth into the hands of those who control the land. The Federal government could have continued to mitigate the problem by taxing the highest income recipients and filtering some of this tax revenue to subsidize home ownership for lower income households; but, with the recent tax cuts in place, the Federal government can obtain this revenue only by issuing debt. So, we are in the midst of another round of "reward the rent-seekers" (i.e., the wealthiest few percent of the population able to lend to the Federal government at interest in lieu of paying taxes), while the producers of goods and services face increased tax obligations in order to cover the record-high debt service payments on the national debt.

The U.S. economy is on shaky ground - and not just because California's ground is often shaking!

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