



IS THE DREAM DEAD?

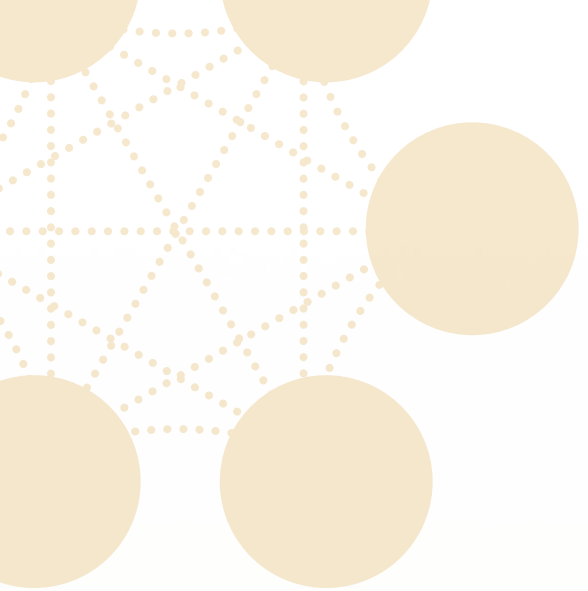
Housing's Next Challenge

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BUILDING THE **FUTURE**
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We need to think about community as a system where all parts need to work in harmony to successfully accomplish the whole.

Huge forces are shaping the future of our communities. These include demographic changes, technology, educational challenges, globalization and a changing employment picture. How communities react will determine the eventual winners versus those that will struggle for relevance.

Sadly, the cumulative impact of poor management and bad public policy has made adjustment to these forces more difficult. The silos within the policy community—housing agencies, economic developers, transportation agencies, health care providers and educators—have, if anything, become taller and their walls thicker. As technical complexity grows, each field consumes more time and demands more specific expertise. Educators have little time to think about health care or transportation; housing providers often do not consider the economic bases for the community that they wish to serve.

We need to think about community as a system where all parts need to work in harmony in order to successfully accomplish the whole. For example, environment protection to the extent your economy can afford to protect it. The ability to attract and retain a productive workforce does not supplant the need to assist those who do not have the skills to compete. Becoming hip and cool is not a strategy applicable to most communities.

Housing is a classic example. Not adequately housing your population leads to over crowding which has been tied to poor education performance and poor health results. Higher prices, and restrictive regulations over housing, lead people to move further from their workplaces which in turn reduces their real net income.

Housing: Pressure on upward mobility

For much of the past two centuries, the American “dream” has been about land—farms in the 19th Century and homes in the 20th. Yet despite lower prices, and record low interest rates, the trends in home ownership are poor, and the prospects for potential middle and working class homeowners are arguably the lowest in generations.

In fact, home-ownership is at a 15 year low in April at 65.4%, down from 66.4% from a year before.ⁱ Bloomberg reports that when you don't count foreclosed homes and homes that are headed to foreclosure the real rate is at a 50 year low at 62.1%.ⁱⁱ

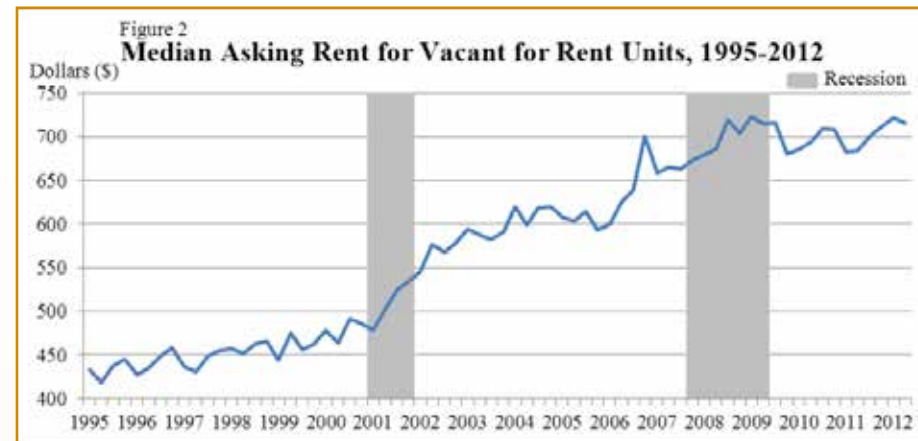


All this is occurring even though home-ownership is cheaper than renting in most of the top 100 metro areas.ⁱⁱⁱ ‘buying a home is 24 percent cheaper than renting in Honolulu, 28 percent cheaper in San Francisco and 31 percent cheaper in San Jose and New York, but is 70 percent cheaper in Detroit and 63 percent cheaper in places like Oklahoma City and Gary, Ind.’ Not only have home prices gone down 31% but interest rates on homes are down a stunning 46%.



This phenomenon of lower housing prices, however, has not done much to improve the conditions for lower-income people. Many potential buyers, BusinessReport.com, blame the “continued economic stagnancy and the sluggish recovery” to lead them to eschew buying a home.^{iv}

As people who would normally own housing become renters, price pressure has actually worsened for renters. Indeed according to US Census data rent prices are up while home prices are down.^v

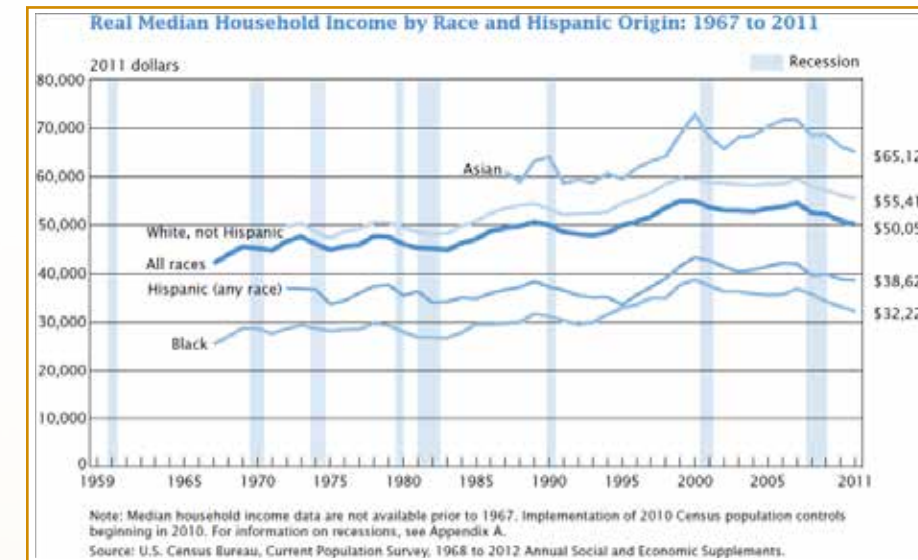


Increasingly, the combination of lower housing prices and higher rents has squeezed both the middle and working classes. Lower housing prices have destroyed the equity for the middle-income group, while higher rents have further reduced the cash flow of poorer Americans.

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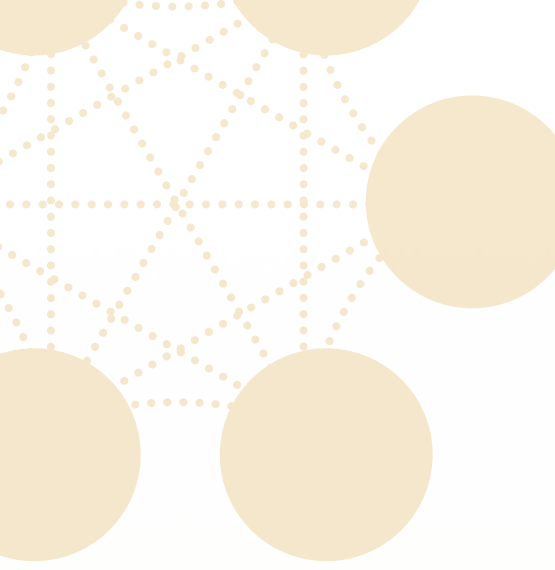
Housing reflects the broader economic crisis.

Although difficulties in the housing market are part of the problem, the real culprit has been in stagnant and even declining incomes. Low interest rates have a depressing impact on some people’s incomes—particularly the elderly—while economic restructuring and globalization tend to lower many people’s wages.



Housing is only one factor, albeit a critical one, squeezing lower and middle income Americans. Another problem is the rising cost of living. Gas prices, while not at their all-time high in mid-2008, look to be consistently more expensive than ever before and more than doubled since 2009.^{vi}





With gas, groceries and health insurance on the rise and income on the decline, many prospective buyers, particularly among the young, don't find the concept of buying a house appealing, despite the now extremely low cost.

For lower and middle income families this is more than a matter of decision deferred; it is increasingly become a battle to survive. Between 2000-2010 housing costs rose 52% and transportation by 33%; incomes grew only by 25%.

A recent report for the National Housing Conference reveals that “for households earning 50 to 100 percent of the median income of their metropolitan area, nearly three-fifths (59 percent) of income goes to housing and transportation costs.”^{vii}

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Regional Implications

This crisis is particularly evident in those places where incomes have not kept pace with basic costs. This applies not just too high income areas but particularly to those which have the lethal combination of higher costs and diminished economic earnings by residents.

In the Housing survey, these places included San Bernardino-Riverside, Miami, Los Angeles and New York. In some of these areas the combination of transportation and incomes can amount to as much as two thirds of household income. In New York, for examples, prices rose by 55% but incomes by a mere 31%. Los Angeles also did poorly, as costs rose by 45 percent and income only by 30%.

In contrast areas with more buoyant economies and higher wage growth—such as Seattle, Washington DC and Boston—have experienced far less extreme relative increases in basic costs.

Needed: Regulatory Reform and Greater Economic Growth

Clearly the discussion of housing has to move beyond just providing homes but needs to be balanced with two approaches. One would look to reduce housing prices by new supply and reforms in regulation that would allow for the construction of new market-friendly housing.

The second element that is rarely discussed focuses on economic development. Given the trend towards higher costs of housing, and particularly transportation, more attention needs to be given to boosting opportunities and incomes. This, in turn, requires the active involvement of professionals from related fields, such health care, transportation and education.

Providing low cost housing to low income residents may solve a temporary problem, but it does not get at the heart of the matter. Housing developers and advocates need to become economic developers and business advocates—in cooperation with professionals in other fields— if there's any hope to restore the American “dream” to its rightful place for the next generation.

Housing developers and advocates need to become economic developers and business advocates if there's any hope to restore the American dream.

i <http://articles.latimes.com/2012/may/01/business/la-fi-0501-homeownership-20120501>
ii <http://www.businessweek.com/articles/2012-08-29/real-homeownership-rate-at-nearly-50-year-low>
iii http://www.mercurynews.com/saratoga/ci_21728515/nationally-homeownership-is-45-cheaper-than-renting
iv <http://www.businessreport.com/article/20120911/BUSINESSREPORT0113/120919969/0/events>
v <http://www.census.gov/housing/hvs/files/qtr212/q212press.pdf>
vi http://gasbuddy.com/gb_retail_price_chart.aspx
vii <http://www.nhc.org/media/files/Landscape2012.pdf>

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