IMPROVING HOUSING AFFORDABILITY

Scoping Paper for NeahCasa - the Lower Nehalem Housing Trust

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Summary:

Housing costs include *total* outlays - both public and private, future and immediate - for housing and its operation. This includes finance costs, transaction fees, energy to operate, maintenance and repairs, and insurance as well as costs of land and construction. Housing affordability also begins with issues of income and wealth equity as much as actual housing costs. Public and private policy actions have far more impact on housing costs than does the cost of construction or size of dwellings. A holistic approach to housing affordability can reap far greater reductions in housing costs by addressing the whole range and interaction of costs involved.

Earlier studies have shown potential of reduction in housing costs of up to 90% possible through local community policy actions.[1] **Our goal is more conservative - a 50% reduction in housing costs throughout our communities within 20 years, plus a commensurate improvement in affordability.**

Such large changes may seem unbelievable. If possible, why haven't they happened? With housing, like virtually all areas of our economy, costs are paid from different pockets, interactions between connected elements are not obvious, and few people have incentive to look at the whole picture. Systemic analysis of elements of our economy has developed a successful new perspective for achieving large changes. Called "Factor 10 Economics"[1], it has a proven record of achieving up to 10-fold reduction in costs, resource use, etc. In our homes, for example, toilet water use has been reduced 80% over the last 20 years, and compact fluorescent light bulbs use 75% less energy than incandescent.

Background:

As we look at the interplay between separate elements of housing affordability, we need to make a distinction between economic and financial costs, realize the pivotal role that durability plays in housing "costs," and see how housing scarcity masks a basic cost difference between new and used housing.

ECONOMIC VS. MONETARY COSTS

Making a distinction between the economic and monetary dimensions of housing is essential to seeing how decisions affecting the flow of work and money have interacted to build up today's excessive costs. The economic cost of a house consists of the work, materials, energy, and land employed in its construction. Once the house is built, that economic cost is past, and the economic reality of house is free to users as long as it lasts. If built well, the house has little economic cost to its next several centuries of users, except for maintenance and operation.

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[1] LEARNING TO COUNT WHAT REALLY COUNTS: The Economics of Wholeness, Tom Bender, 2002; NATURAL CAPITALISM, Hawken and Lovins, 1999; FACTOR FOUR: Doubling Wealth, Halving Resource Use, Von Weizsacker and Lovins, 1997.

The economic costs deal with all the *real*, objective, and physical costs of a project - no matter who incurs them. By contrast, monetary costs stem from the rules a society sets up for distributing the benefits of economic work. Interest rates, tax laws, loan maturities, government subsidies, and the prices that different trades and professions convince others their time is worth all alter monetary costs. As a result, they alter the final price that must be paid for economic work, who has to pay it, and who profits from it.

Monetary structures often obscure the real economic work and come to seem like some immutable natural law. In reality, they are constantly changing public policies that help shape the nature of a society - the equality or inequality of wealth, the concentration of economic and political power, and the ends to which society puts its efforts. They can, and frequently do, add a great burden on top of economic costs. Only by separating out the underlying real economics can we see the true effect of each policy affecting housing and understand how to alter such effects.

Public policies are, in effect, monetary structures that frequently shift wealth to benefit special interests. Most of us passively allow such policy to be established, which has resulted in immense cost to the broader community. Some examples:

* Minimum wages below what is considered a "living wage".
* Oregon's "Highway Trust Fund" which debt-finances ongoing road maintenance rather than funding it through revenues, thus doubling costs.
* Coastal communities supported by tourism, which allow billboards encouraging tourists to stay at big accommodations, and those in other towns.
* Tax structures which allow corporations and the wealthy to avoid their fair share of supporting public services.
* Public energy policy that puts selling and using more energy ahead of energy efficiency measures that both save money and make our fossil fuels last longer.

Homelessness and lack of affordable housing is a result of a public policy framework which siphons money out of the housing system, raising its cost, and preventing good and least-cost housing for all. This framework of public policy can be redirected through public action, resolving many of the root causes of housing problems.

DURABILITY

The longer a building lasts, the smaller are the economic costs per year or per generation. Durability of construction is a vital key to economic productivity of housing. Houses built to last 400 or 500 years can shelter 15 or more generations under their roofs before needing replacement. Each generation then has to replace only one-fifteenth of its housing, and expenditures on housing construction are 90% less than what they would be if new homes had to be built for each generation. Housing that lasts 400 years costs only a fraction more to build. In addition to dramatically lowering economic costs, its long life makes feasible the generosity of design that separates our shabby "low-cost" housing from ample, comfortable, and livable homes.

Although durable construction costs somewhat more initially, it costs less in the long run. Clay tile, slate, lead, and a few other roofing materials, for example, have a several-hundred year life, compared to 30 years for standard asphalt shingles. The initial cost of a tile roof is about two and one-half times that of asphalt shingles. But the

repeated replacement necessary for the shingle roof boosts its economic cost over 200 years to three times that of clay tile.

Housing durability means more than just "build to last." It shows the importance of looking at how we *lose* as well as how we build housing. War, fires, changes in land-use patterns and tax policies that result in neglect and abandonment of housing are as important "loss-makers" as is poor construction. And the savings involved in reuse of housing underscores the high economic burden of additional housing required by population growth and relocation.

This kind of multi-century durability in our communities must address cycles of earthquakes/tsunami, landslides and other geological issues, as well as changing cultural patterns and energy availability.

SCARCITY

From an economic viewpoint, there is a fundamental difference between the cost of new and older housing. For an older house, the economic cost has been largely paid, and what remains is only the cost of operation and maintenance needed to keep it habitable and comfortable. For a new house the economic cost is the full cost of construction and infrastructure to support its operation. The price of used houses should therefore be far less than for new ones, and this has been true when there has been a *surplus* rather than a scarcity of housing available. Today, however, the opposite is true, with the monetary price of used houses paralleling that of new ones because of a combination of real and artificial scarcity.

Real scarcity arises from a growing population and the natural shortages of preferable climate and living conditions. Artificial scarcity stems largely from institutional pressures on the housing market - from finance structures and government monetary and tax policies. When supplies are plentiful compared to demand, a buyer's market exists, and the price tends to fall toward the real economic costs . In a seller's market, where demand is greater than what is being produced, the sellers maximize prices. In such situations, prices have no relation to the actual costs of existing housing supplies. They are limited only by the cost of available alternatives - the economic cost of new housing.

Although both economic and monetary costs are usually affected by pressures on the housing market, they are differently susceptible to the influence of public policies. Population growth, for example, may cause protracted housing shortages, resulting in scarcity prices. Such price increases are *monetary*, not economic, and can be reversed through proper expansion of the housing supply. Public policies can assist this expansion of housing supply and change its cost.

As the housing supply expands, it shifts toward a dominance of new housing, raising the average economic cost of the housing supply. These increased costs are *real economic* costs, and take a generation to be absorbed and eliminated. Public policies can have little impact on this process, other than to create a housing surplus to ensure that prices drop as economic costs are absorbed. Population growth also interacts with limited factors of favorable location, climate, scenic and cultural conditions, thereby generating more competition for housing and increases in the monetary cost of housing in such locations. Some such increases are permanent and largely irreversible. Restoring and improving the beauty and desirability of other areas can act to spread demand and reduce many of these factors.

Actions:

There are at least ten areas where changes can substantially affect housing costs:

1. REDUCING INEQUITIES OF INCOME AND WEALTH *can have profound effect.*
2. ALTERNATIVES TO SPACE AND AMENITY NEEDS *can achieve a 25% reduction in economic costs.*
3. COSTS OF LAND AND CONSTRUCTION *can be less easily achieved than other actions.*
4. HOUSING DURABILITY *can reduce the economic cost of a house by 80-90%.*
5. FINANCE COSTS - *A no-interest loan fund for housing can reduce the total purchase cost of a home by 50% or more.*
6. TRANSACTION COSTS - *Lifetime costs can amount to one-third of the sale price of a home.*
7. ENERGY OPERATING COSTS - *Affordable energy efficiency measures can reduce energy expenditures by 75% of the costs of a house.*
8. SCARCITY COSTS - *Hard to quantify, but probably 1/3 of upper end purchase costs here and now, less effect on lower end, depending on location.*
9. INFRASTRUCTURE COSTS - *This would have to be examined in more detail to speculate on magnitude of effect.*
10. ATTRACTIVE ALTERNATIVE HOUSING/WORK/LIVING IN OTHER COMMUNITIES - *Impact here is on in-migration and housing demand. Not quantified.*

Keeping these areas in mind, let's now look at how we can reduce - *or avoid the need for* - each of our expenditures for housing, and improve its affordability.

1. REDUCE INEQUITY OF INCOME AND WEALTH

Reversal of tax and other public policy that has generated massive income and wealth inequity in our country and communities is the most fundamental and easily achieved measure to improve housing affordability.

A. Establish a "living" minimum wage in our communities of $12-$15/hour. All "exportable" jobs in our community have already been exported. There is such great inequity of power between corporate job providers and individual potential employees that there is need for public intervention. There is no conscienceable reason that public agencies, as well as private businesses, should be paying less that what is accepted as living wages. "Poverty" wages mean massive subsidy of the wealthy by the holders of such jobs. There is no reason for anyone to be paid less than needed to afford decent housing.

B. Revise local tax structures. Local taxation is very small compared to state and federal taxation. Yet local policies can have substantive impact on that inequity. Three shifts in local taxation can permit locally-funded and controlled provision of services from housing to education, health, and safety that have been severely disrupted in recent years, while lessening tax impact on the majority of residents. This can also finance a revolving loan fund and reduce the tax component of housing costs by up to two thousand dollars per year.

1. Implement a homestead tax exemption for residents, with a clear and limited definition of "residency".

2. Expand property taxes to include intangible property such as stocks and bonds, as well as real property such as homes, with a progressive rate structure.

3. Establish a minimum tax rate on corporations operating in the community.

2. REDUCE SPACE AND AMENITY NEEDS

A. Reduce space and amenity needs through co-housing, flex housing and good small house design.

B. Reduce vehicle land and shelter needs through walkable housing and vehicle co-ops.

C. Convert oversized residences to smaller multi-housing. Permitting "Granny Flats" in existing houses, with a rental cap, can increase housing availability out of the existing housing stock.

3. REDUCE COSTS OF LAND AND CONSTRUCTION

Such elements are already "efficient" from conventional perspectives. New approaches can include:

A. Lower land costs by decreasing competition through making other places more attractive.

B. Approaching construction cost efficiency through perspectives of overall owning and operating costs, durability, etc.

4. EXTEND HOUSING DURABILITY:

Increasing the durability of housing construction and renovation to an anticipated life of 400 years would generate a five- to ten-fold increase in the economic productivity of our resources put into housing. It would correspondingly reduce the economic cost of providing housing by an equivalent 80% to 90%.

The benefits of housing durability are great, but not quickly obtainable. Their consideration is essential, however, in a period when substantial expansion of our housing stock is occurring and when durability has not been a central feature of our housing tradition. We must make proper investments now if we are to reap the eventual massive benefits of durability. Durability incentives can reduce maintenance and repair costs, stretch the useful life of the economic work that went into the original construction of a house, and reduce insurance expenditures.

• *Economic,* rather than monetary, analysis should be the basis of all housing-policy analysis. Financial analysis, through the "future-discounting" of high interest rates, leads to ignoring the all real benefits occurring more than 10 or 20 years in the future. This leads frequently to shortsighted decisions with greater long-term maintenance and replacement costs.

• Encourage use of materials, construction methods, and detailing that contribute to durability of housing, through research and publicity of their benefits, code requirements, and financing and insurance premiums that reflect their economic contributions.

• Where possible, eliminate or minimize housing finance charges, which magnify the additional cost of durable construction.

• Minimize the impact of factors such as neglect, fire, rot and insects, demolition, or earthquakes, which cause premature loss of housing, through preventive programs, codes, and ordinances.

5. REDUCE FINANCE COSTS:

A. Housing Trusts

Development of a local housing trust can work to provide several ways towards reducing housing costs and improving quality.

1. Local Investment - people could loan money to a Trust to purchase or build, allowing local investment without management for retirement needs while providing liquidity.
2. Housing Quality - a Trust can continually improve housing stock to evolving "best practices" levels regarding energy use, durability, and design.
3. Finance Costs - once paid for, housing in a trust does not continue to incur finance costs.
4. Market increases - once in a Trust, housing does not incur inflationary or market pressure increases in land and structure costs.

A Trust can probably be most effective in the rental segments of the housing market, though some innovative 99-year lease programs exist and should be considered.

B. Owner-building sweat equity

Owner-building provides a reduction in the *economic* cost of housing only where it makes use of human resources that would otherwise not be taken advantage of, as with sweat-equity housing grants as part of public housing programs. It does provide *financial* savings to the owner-builder when it avoids finance charges or taxes, as well as providing social and personal benefits., incremental construction which needs less financing, etc.

C. Renter's equity:

Computerized tracking of financial transactions make it a simple matter for a mortgage on a property to be increased or decreased. Rental properties that are financed by the owner currently result in renters paying off the loan to the benefit of the "owner" with no equity gain for themselves. Local regulations requiring that renters receive equity equal to the financed portion of the rent, less services provided by the owner, could allow equity buildup by renters that could be applied to purchase of the occupied house or another one. This amounts conceptually to rental housing loans being made to renters, rather than "owners". Owners do provide certain services, which should be covered by a percentage of rents.

D. No-interest revolving loan funds

A no-interest revolving loan fund for housing can, in one stroke, reduce the total purchase cost of a home by 50% or more.

Finance costs are by far the biggest single factor in what consumers pay for housing, amounting to up to 100% of the actual price paid, over a twenty year period. The average house is bought and sold, mortgaged and remortgaged, every eight years. Instead of being free to its users after a century of use, the house costs its new occupants several times as much as the original sales price, while also costing its users 5 times its total economic cost in continued finance charges over that period.

We do not all need mortgage money at the same time. So what really takes place is an equal loan of the same money back and forth, from one of us to another, as we each in turn have need of it. For a necessity that virtually everyone "purchases," housing mortgage loans can and should be treated like the true economic trade of time and energy they are - without a massive finance charge. It is absurd that each and every one

of us should have to pay an added financing "tax" of *several years* of our labor and income, *doubling* the purchase cost we must pay for housing.

Habitat for Humanity uses a no-interest revolving loan fund to finance their houses. Several public low-income housing programs use a similar mechanism. These, plus numerous special-interest loan-subsidy programs for veterans, the elderly, low-income households, farmers, and others are clear testimony that our conventional financing concepts are not considered workable today, and acknowledge the importance of reducing financing costs.

Operating in the normal money market has also meant that home mortgages have to compete with other investments whose high profits from exploitation of people and resources set exorbitant expectations of return on investment. The result is that we, and our housing expenditures, have been pulled into a similarly exploitative relationship. Removal of housing finance from that market is necessary to permit humane and sound housing decisions to be made.

A no-interest revolving loan fund recognizes that social and economic productivity, not short-term financial "rate-of-return", are the essential measures of the use of our housing dollars. Resources shifted into extremely durable ways of meeting basic needs produce an unusually high level of social and economic value. Conversion of home financing to nonprofit public operation, as occurs with public streets, highways, water supplies, and utilities that serve everyone, means both immense cost savings to everyone and a much more effective use of our dollars. Removal of finance charges from housing expenditures would also allow building costs to more closely reflect economic productivity of more durable housing by eliminating interest surcharges on their higher initial costs. A revolving loan fund could operate on a local or state-wide basis. It could be tax-funded, or use cycled funds from government housing programs.

Such funds would involve large sums of money and require several years to build up. With an initial backlog of new housing demand and outstanding loans on existing housing purchases, loans could at first be restricted to new construction, and later extended to all other housing purchases.

As housing vacancies eventually develop, the fund would be self-regulating. Prices of existing houses would drop closer to their economic cost, it would become cheaper for most people to buy existing houses rather than to build new houses, and less use would be made of the fund. Loan repayments would be kept as close to those of conventional mortgages as feasible within household budget guidelines. Because of the lack of interest charges, repayment would occur in one-half to one-third the usual time, making the funds available more quickly for other loans.

The function of the fund would be that of an *exchange* mechanism, where all residents exchange their time/energy/money as they each establish their housing equity. Being a revolving fund, the same dollars would be used again and again to finance many housing purchases. Any initial taxpayer "sacrifice" would thus be minimal compared to the benefits gained, particularly since the fund, by eliminating interest charges, would radically lower *everyone's* cost of housing purchase.

Two of the largest reductions possible in housing costs could be accomplished through this mechanism. It would remove one of our most expensive basic necessities

from massive, unnecessary finance charges. It would make possible the stable and high level of housing production needed to eliminate housing scarcity and scarcity prices.

6. REDUCE TRANSACTION COSTS:

Lowering of transaction costs, through establishment of community housing exchanges, could realize lifetime savings in housing expenditures amounting to one-third of the sale price of a home.

Community Housing Exchanges

Every home sale through our conventional real estate system adds an average of 6% (?) to the sale price. Legal fees, housing inspections, title insurance, closing and other fees also add to transaction costs. With houses being bought and sold on the average of every eight years, homeowners pay an average of six transaction costs during their lifetime. Money saved from reduced transaction costs can be applied to reducing the mortgage on the house purchased, doubling the savings involved.

Such costs can be reduced or eliminated by using standardized documents, buyer and seller education, non-profit MLS (multiple-listing services), standardized inspection and disclosure requirements, etc. People would still be able to go to realtors and other professionals for any special assistance or services they wanted. But for the vast majority of sales, a community housing exchange could perform the job at considerable savings.

7. REDUCE ENERGY OPERATING COSTS:

Affordable energy efficiency measures can reduce energy expenditures by 75% of the costs of a house.

The second largest hunk of housing dollars goes to energy operating costs. Over a person's life, this can amount to equal or more than the cost of construction of the house. Even Oregon's energy-efficient housing code fails to anticipate dramatically increasing energy costs as fossil fuels are depleted. Habitat for Humanity homes have been built for total utility bills of only $12/month.

8. REDUCE SCARCITY COSTS BY CREATING A HOUSING SURPLUS

A. Reduce population growth, which is already slowing, through education and reduction of subsidies.

B. Reduce in-migration by helping other communities become more attractive.

C. Increase housing construction through no-cost revolving loan funds, local investment in housing through housing trusts, and use of appropriate government housing construction programs.

D. Reduce conversion of housing to vacation rentals by transferring tax liability from homeowners to rental properties. With only a third of existing housing in Manzanita and surrounding areas being occupied full-time, it could be argued that we already have a *surplus* of existing housing! Vacation homes affect local housing in two primary ways - taking housing stock out of availability, and dramatically increasing sales/rental prices because of the high rental rates possible through short-term vacation rentals.

E. Increase conversion of vacation rentals to housing through the same mechanism.

9. REDUCE INCURRED WATER, SEWER, ROAD, POLICE, COMMUTING, AND OTHER INFRASTRUCTURE COSTS

Our patterns of housing location, design, and use substantially affect our community costs for utilities, roads, parks, and police, as well as our commuting costs. More holistic patterns of sanitation, water and energy efficiency, solid waste reduction in the home, working at home, local food production, etc. can reduce the costs of off-site development, commuting, and community services. These savings are grandly beyond the scope of this overview, but coupling infill housing and greater housing density with increased energy, water, and other infrastructure use efficiency is one important pattern that can be improved.

10. ASSIST OTHER COMMUNITIES IN ACHIEVING EQUIVALENT IMPROVEMENT IN ATTRACTIVENESS TO PREVENT IN-MIGRATION TO OUR AREA.

Share the mechanisms and successes in reducing housing costs as they develop, through conferences, foundation programs, government programs, newspapers, etc. Achievement of our goals will be counterproductive unless others adopt similar measures or other means of improving attractiveness.

How to Get There:

This is an area of innovative strategic planning. It involves building awareness, education, local discussion and creating sometimes unprecedented organization, ordinances, etc. New concepts sound weird to most people when first broached. Once on the table, and people start to let it sink in, excitement begins to build, and possibilities begin to coalesce. What ideas do you have on specific strategies in these areas?

1. REDUCING INEQUITIES OF INCOME AND WEALTH
2. ALTERNATIVES TO SPACE AND AMENITY NEEDS
3. COSTS OF LAND AND CONSTRUCTION 4. HOUSING DURABILITY
5. FINANCE COSTS
6. TRANSACTION COSTS
7. ENERGY OPERATING COSTS
8. SCARCITY COSTS
9. INFRASTRUCTURE COSTS
10. ATTRACTIVE ALTERNATIVE HOUSING/WORK/LIVING IN OTHER COMMUNITIES