

FIXING THE HOUSING CRISIS: IT CAN BE DONE.....SLOWLY

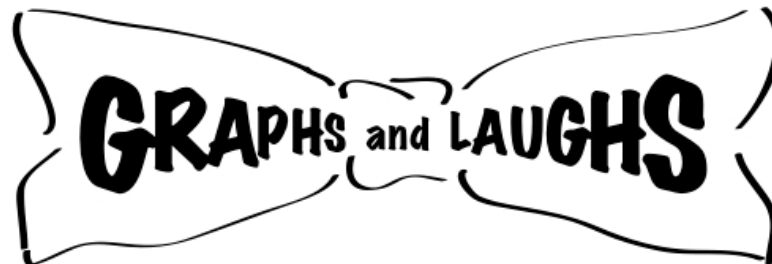
Presented by:

Elliot F. Eisenberg, Ph.D.

President: GraphsandLaughs, LLC

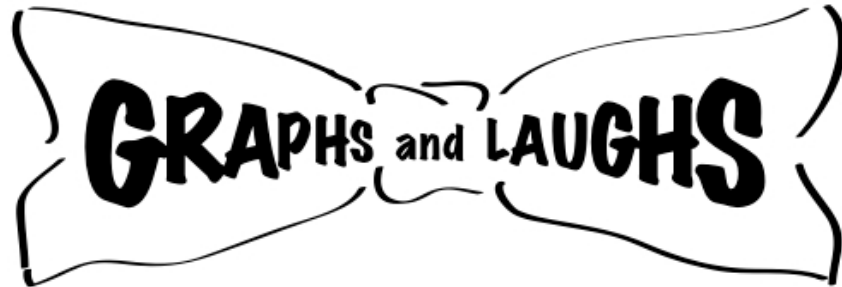
February 9, 2017

Vancouver, WA



New Housing?

There is not much of it
being built !

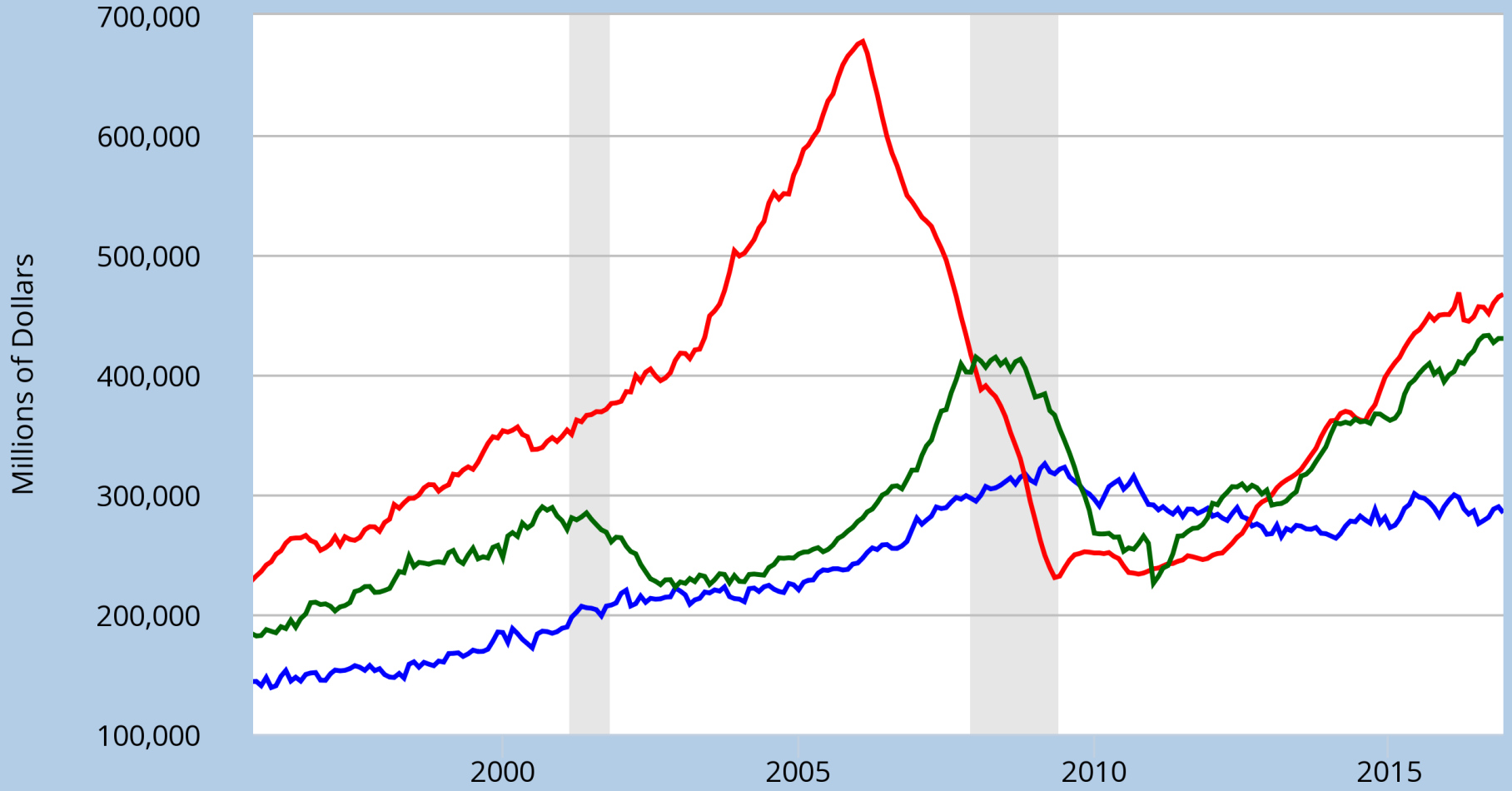


Residential Fixed Investment Slowly Rises!

Up 3.4% Y-o-Y. Non-residential up 1%, public down 12% and residential down 31% from peaks



- Total Public Construction Spending
- Total Private Construction Spending: Residential
- Total Private Construction Spending: Nonresidential



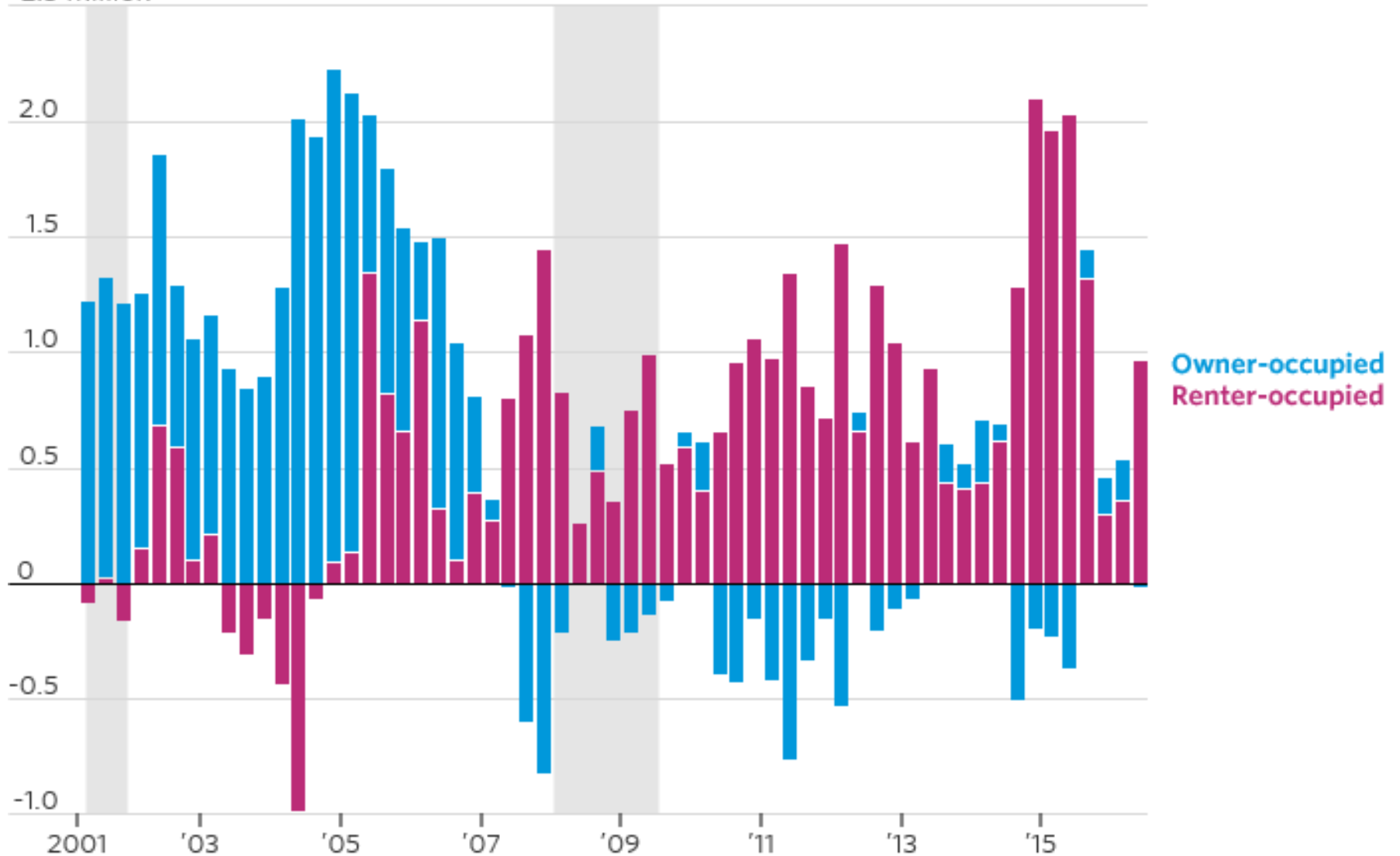
Household Formation is on the Move

But, it is all due to renter households. This should change.

Space for Rent

Change in number of occupied housing units from a year earlier

2.5 million

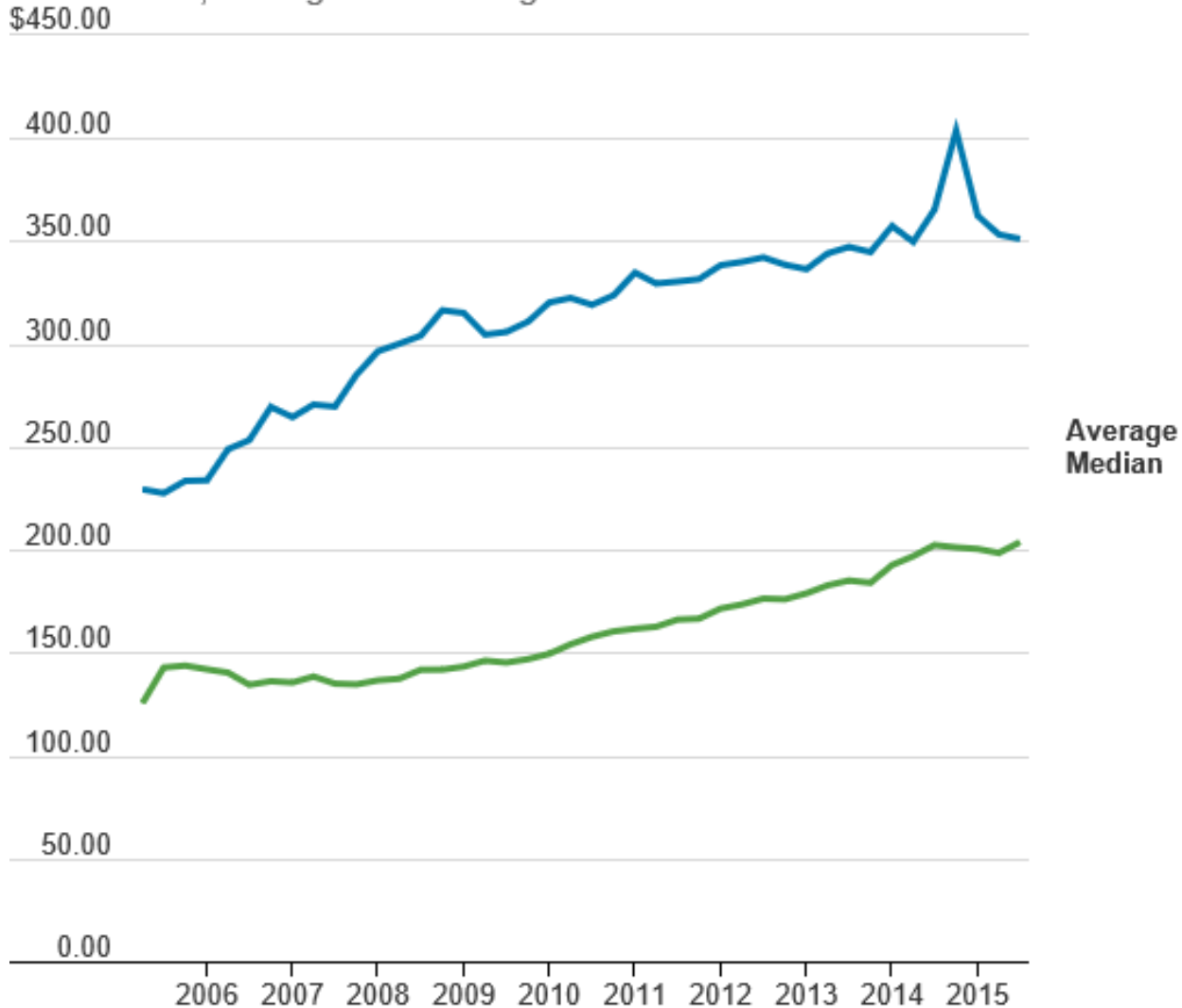


Student Debt Payments are Not That High

Median payment is \$200/month while the average is \$350/month

Student Debt Bills

The median and average monthly payment on student-loan bills, in 2015 dollars, among borrowers ages 20 to 30.



Change in Wealth by Median Household 2003 -2013

\$87,992

Median household net worth,
2003

(Figures adjusted for inflation)

\$56,335

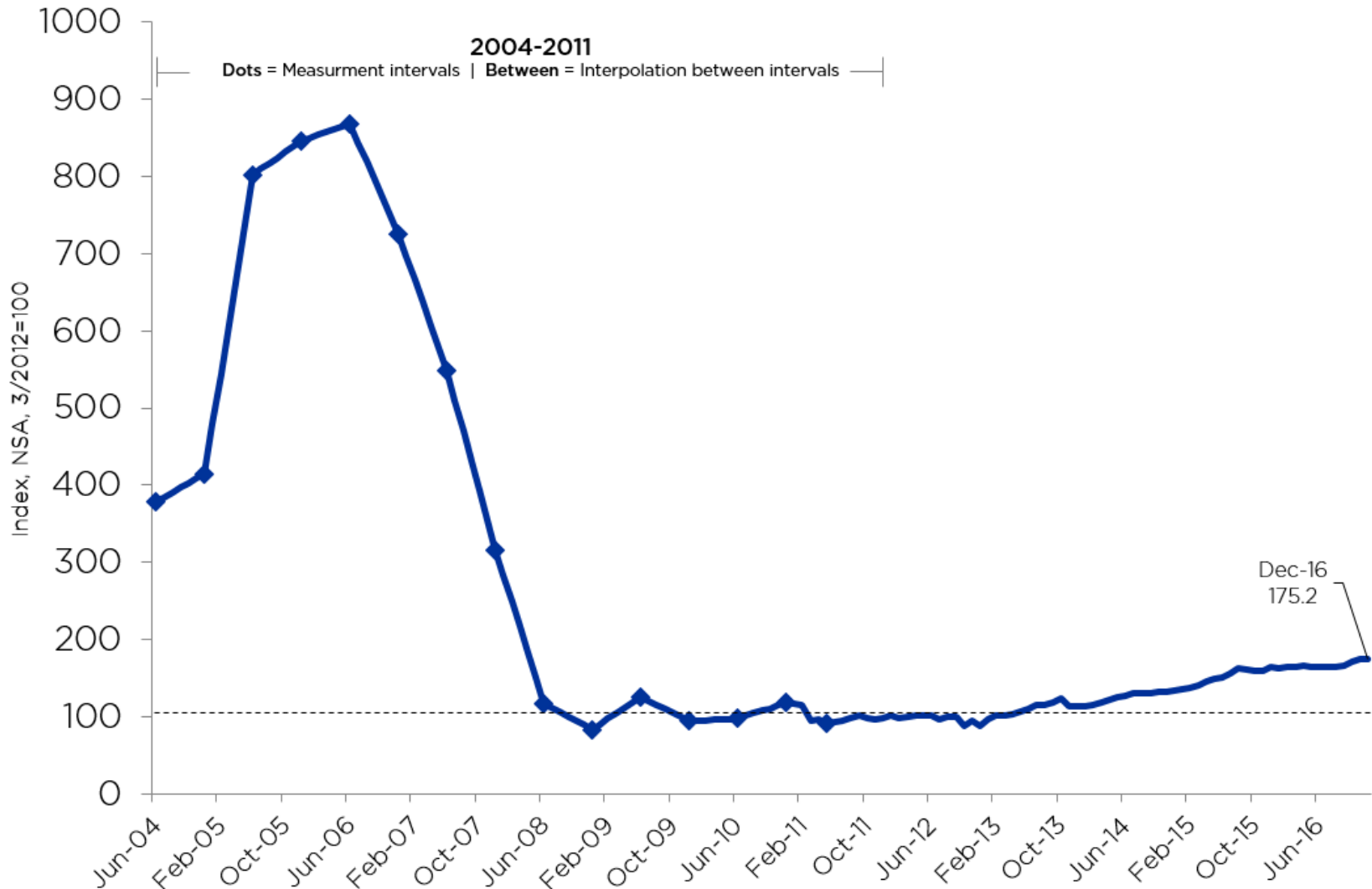
Median household net worth,
2013

Credit is Generally Very Hard to Get

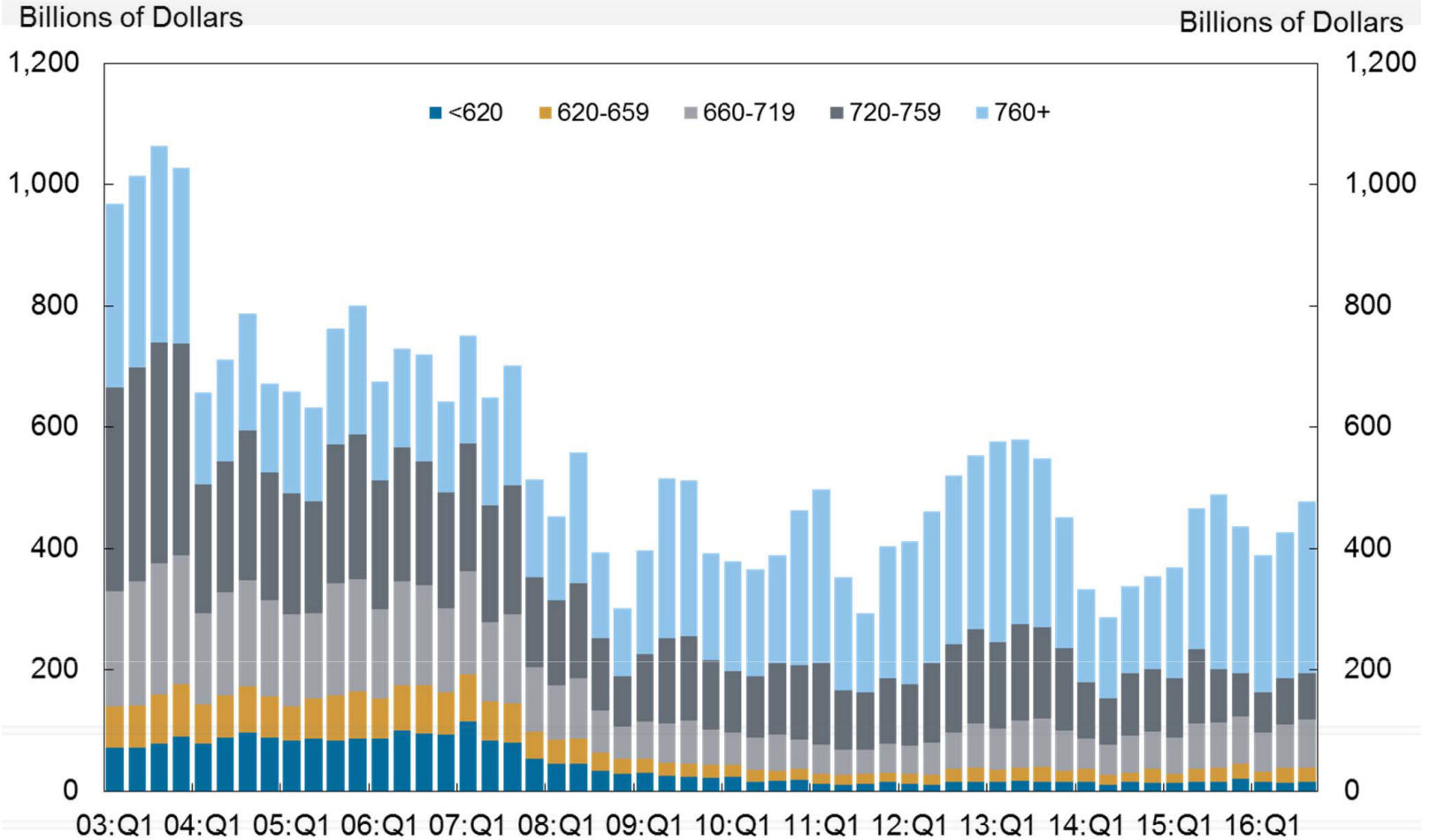
It is getting easier, but very slowly.

Mortgage Credit Availability Index (NSA, 3/2012 = 100)

Expanded Historical Series



Mortgage Originations by Credit Score*

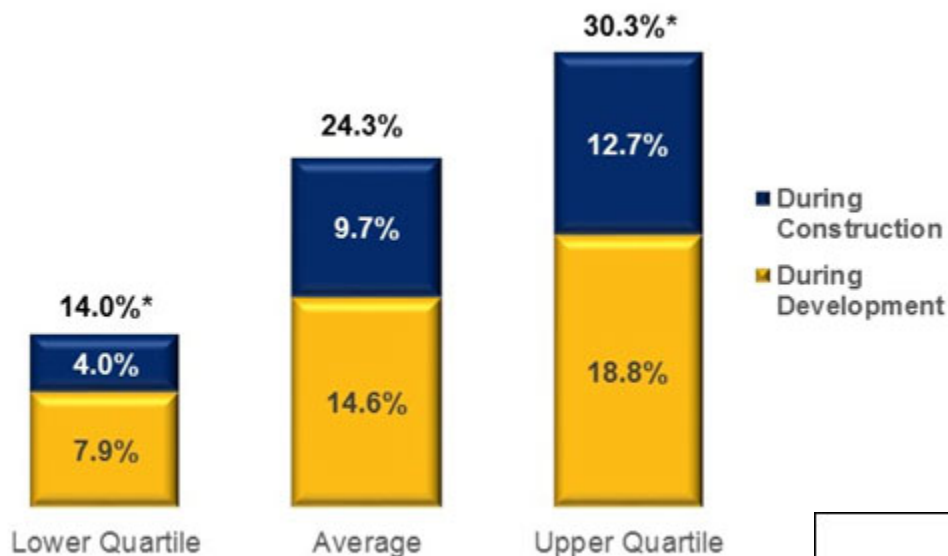


Source: FRBNY Consumer Credit Panel/Equifax

* Credit Score is Equifax RiskScore 3.0

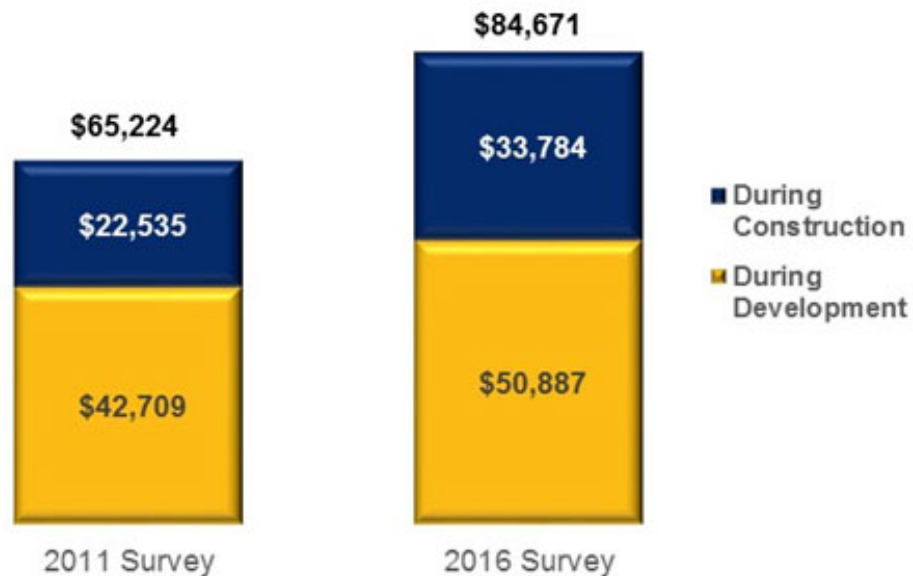
New Home Prices Are Too High Due to Regulation

Figure 1. Regulatory Costs as a Share of Home Price



* For quartiles, construction and development costs do not sum to the total.
 Source: NAHB/Wells Fargo HMI survey, assumptions described in the Appendix.

Figure 2. Average Cost of Regulation in the Price of a New Home

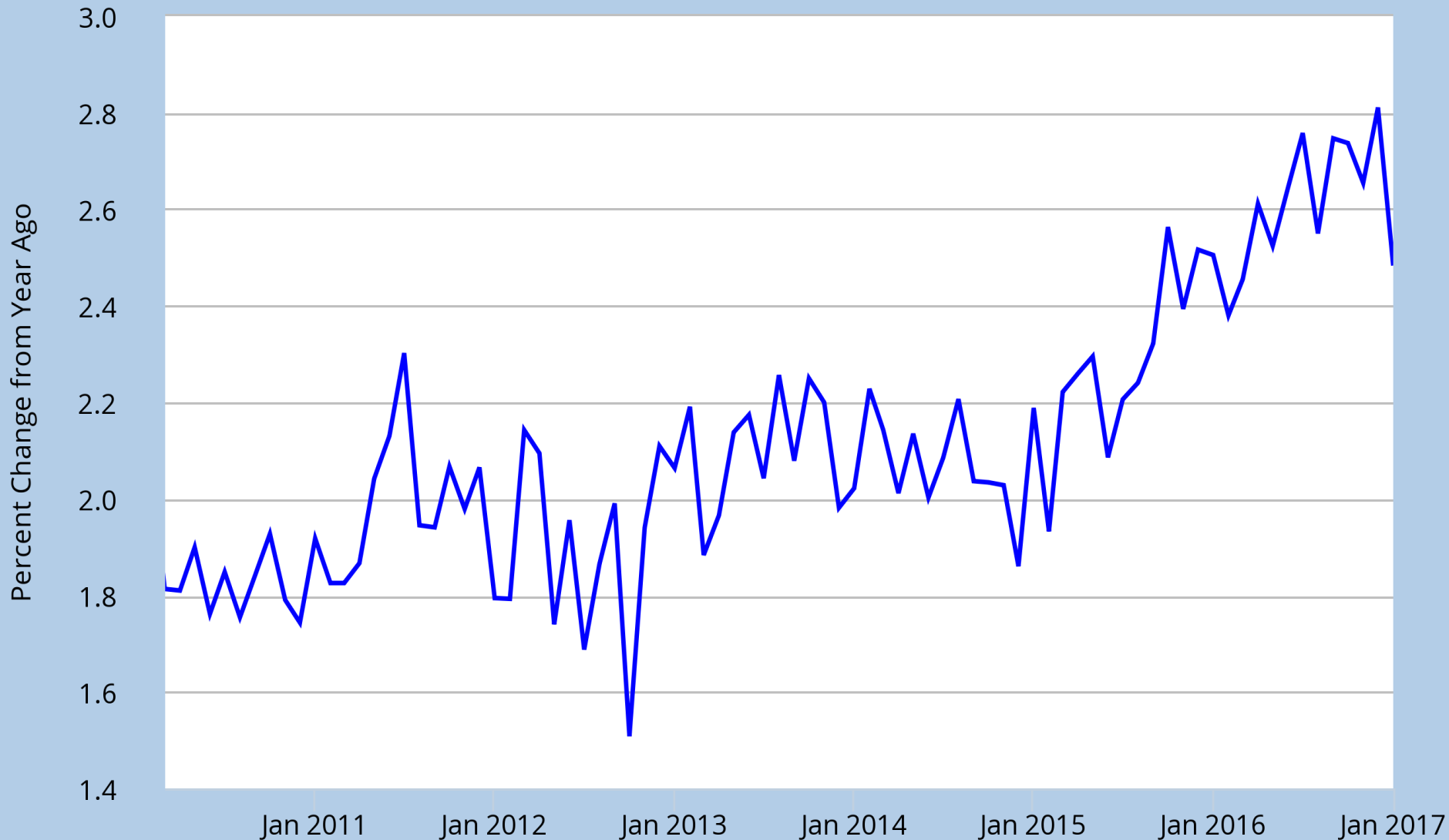


Based on average new home price one month before the NAHB/Wells Fargo HMI surveys
 Source for average new home prices: New Residential Sales, U.S. Census Bureau.

Y-o-Y Percent Change in Hourly Earnings



— Average Hourly Earnings of All Employees: Total Private



Source: U.S. Bureau of Labor Statistics

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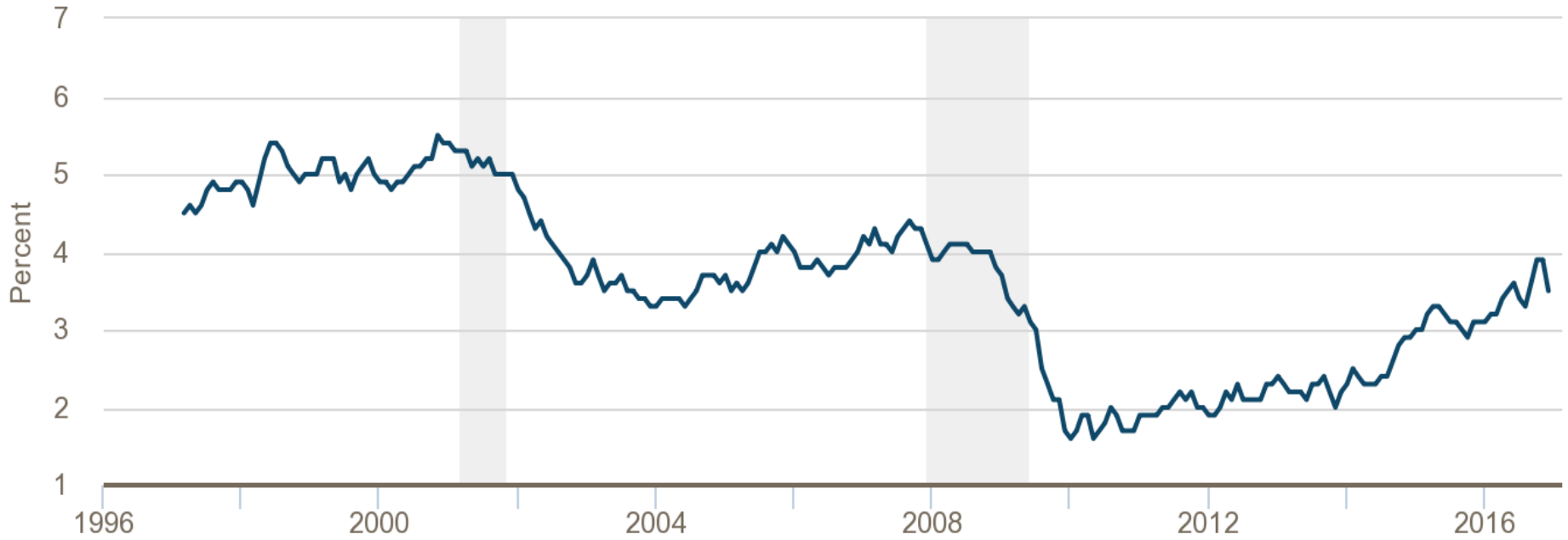
myf.red/g/cAIw

Changes in Median Wage Growth Looks Good!

Looks only at those continuously full-time employed

Hourly Wage Tracker

three-month moving average of median wage growth

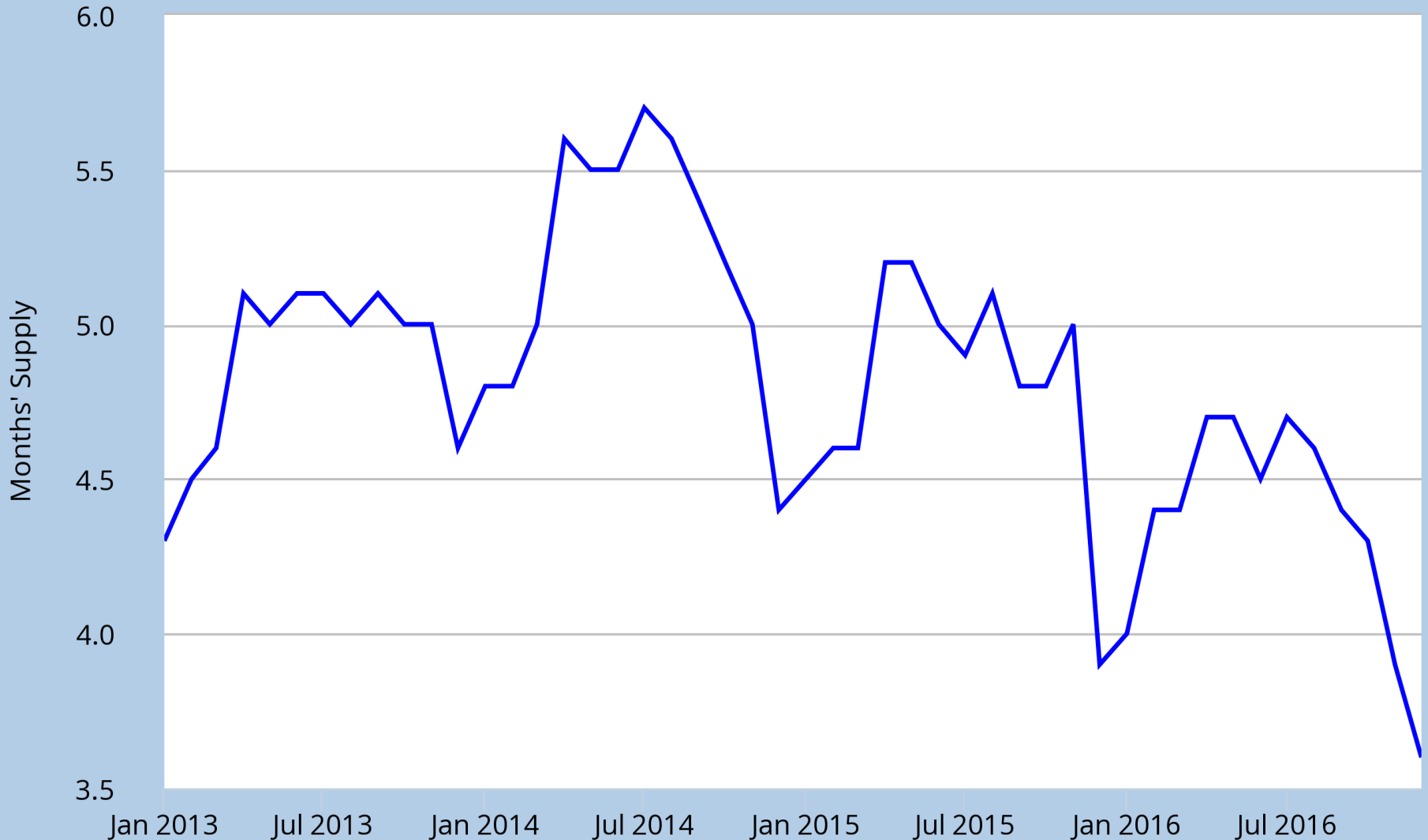


Source: Current Population Survey, Bureau of Labor Statistics and Author's Calculations

Months of Existing Home Inventory is Falling! Insane!



Existing Home Sales: Months Supply©



Source: National Association of Realtors

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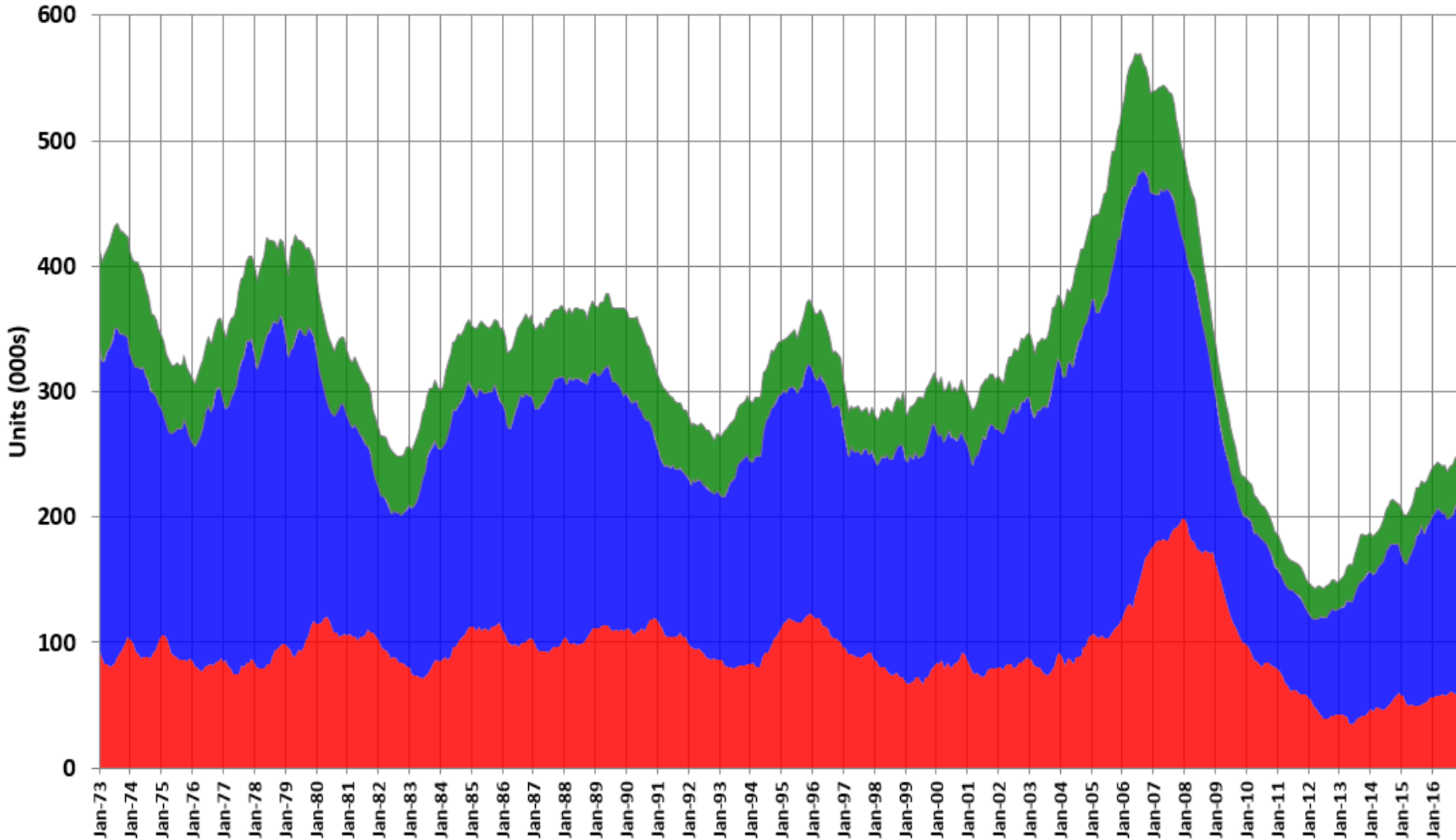
myf.red/g/ctsn

New Home Inventories Fell Fast and Now What?

Was moving towards normalcy but is now reversing!

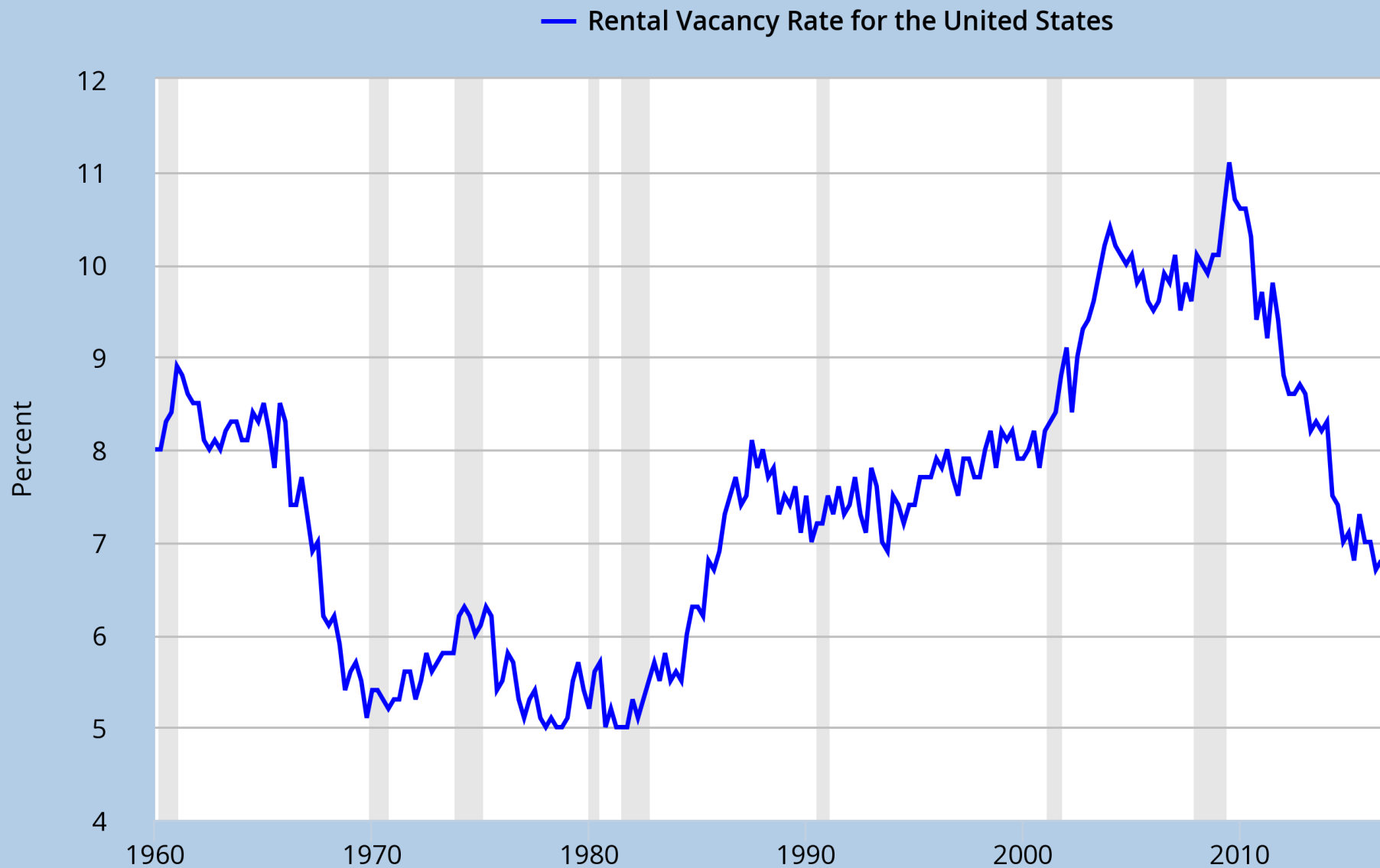
New Home Inventory

Completed Under Construction Not Started



Apartment Vacancy Rates

Rental vacancy rates are finally starting to level off. But are quite low.



Source: US. Bureau of the Census

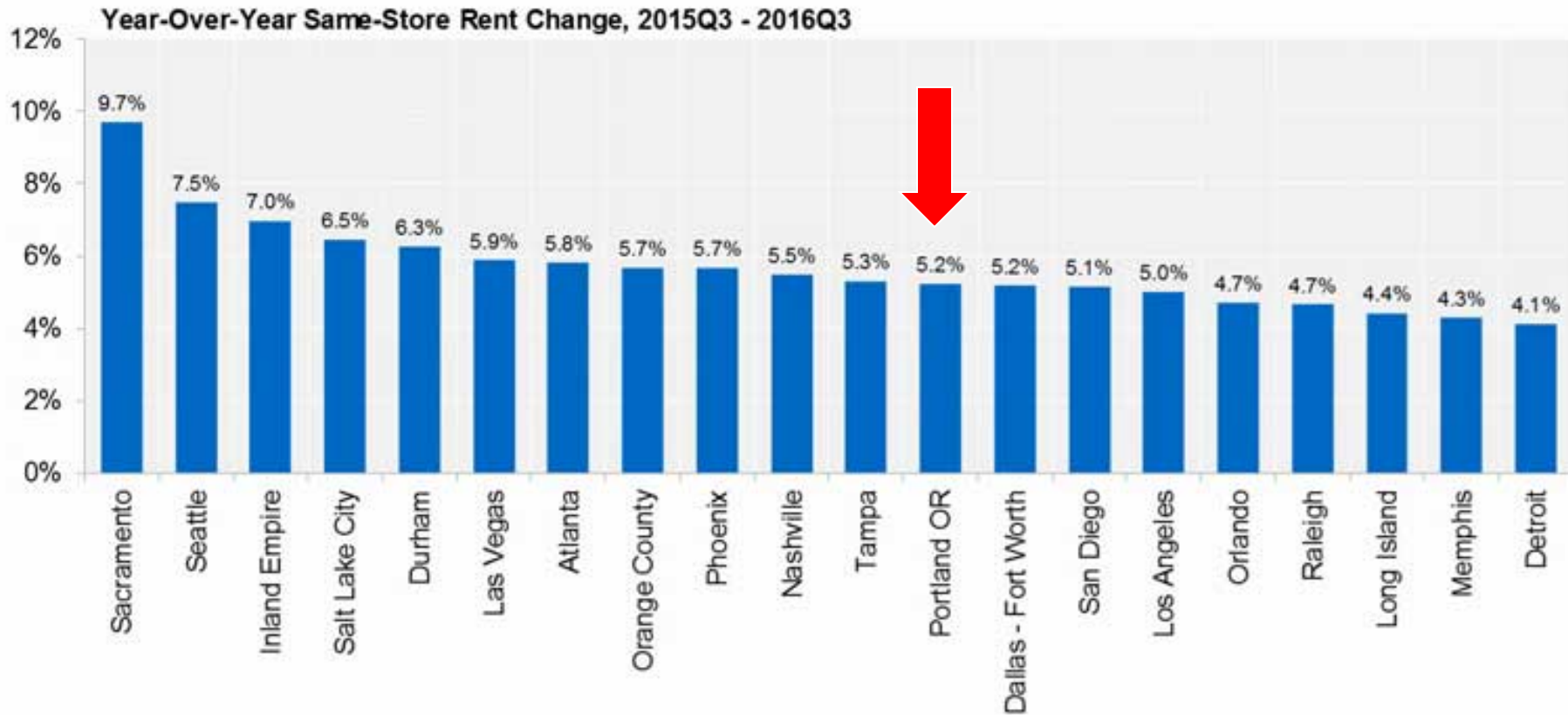
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Single-family Rental Increases

Very large increases resulting from huge increases in demand

Top 20 Rent Growth Markets

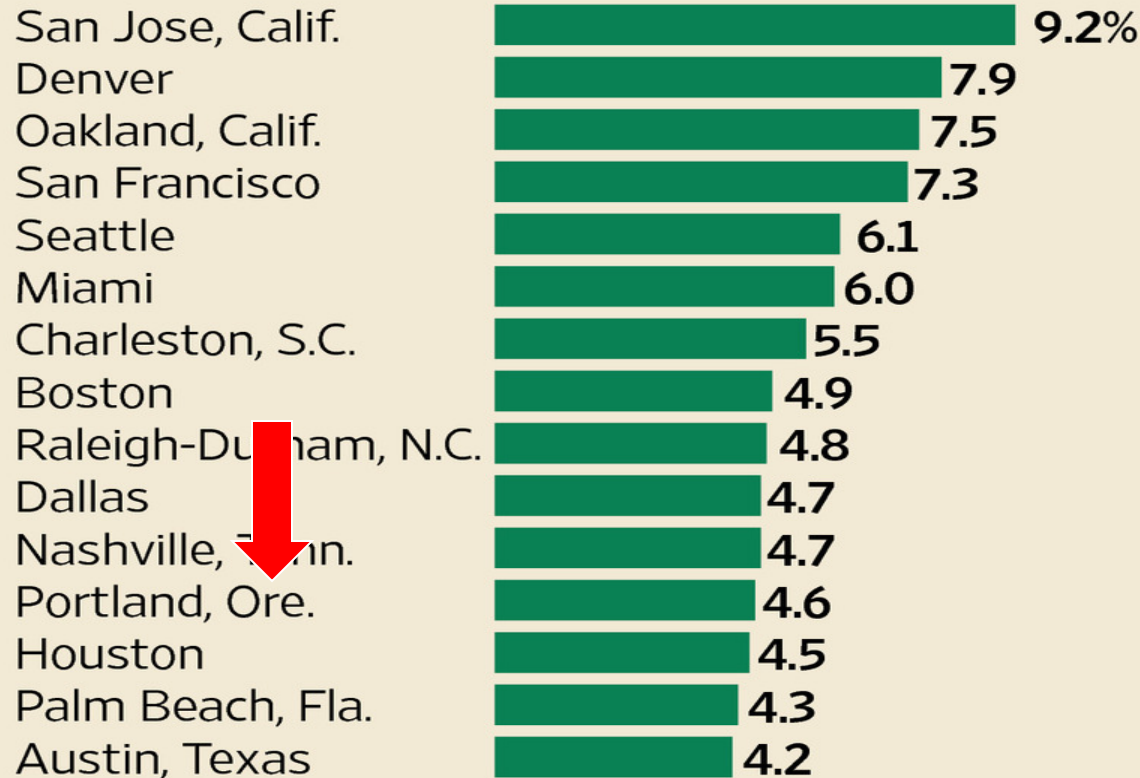


Apartment Rental Increases

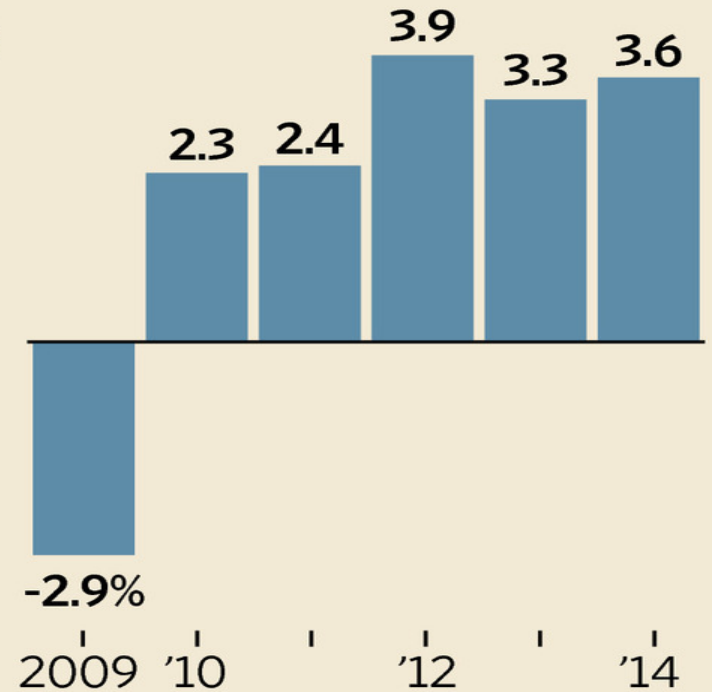
The Multifamily Construction remains strong here!

Rising Rental Costs

Effective rents by metro area in the fourth quarter, change from a year earlier



Effective rents nationally, change from the previous year



Note: National trends are based on 79 primary metro areas

The Wall Street Journal

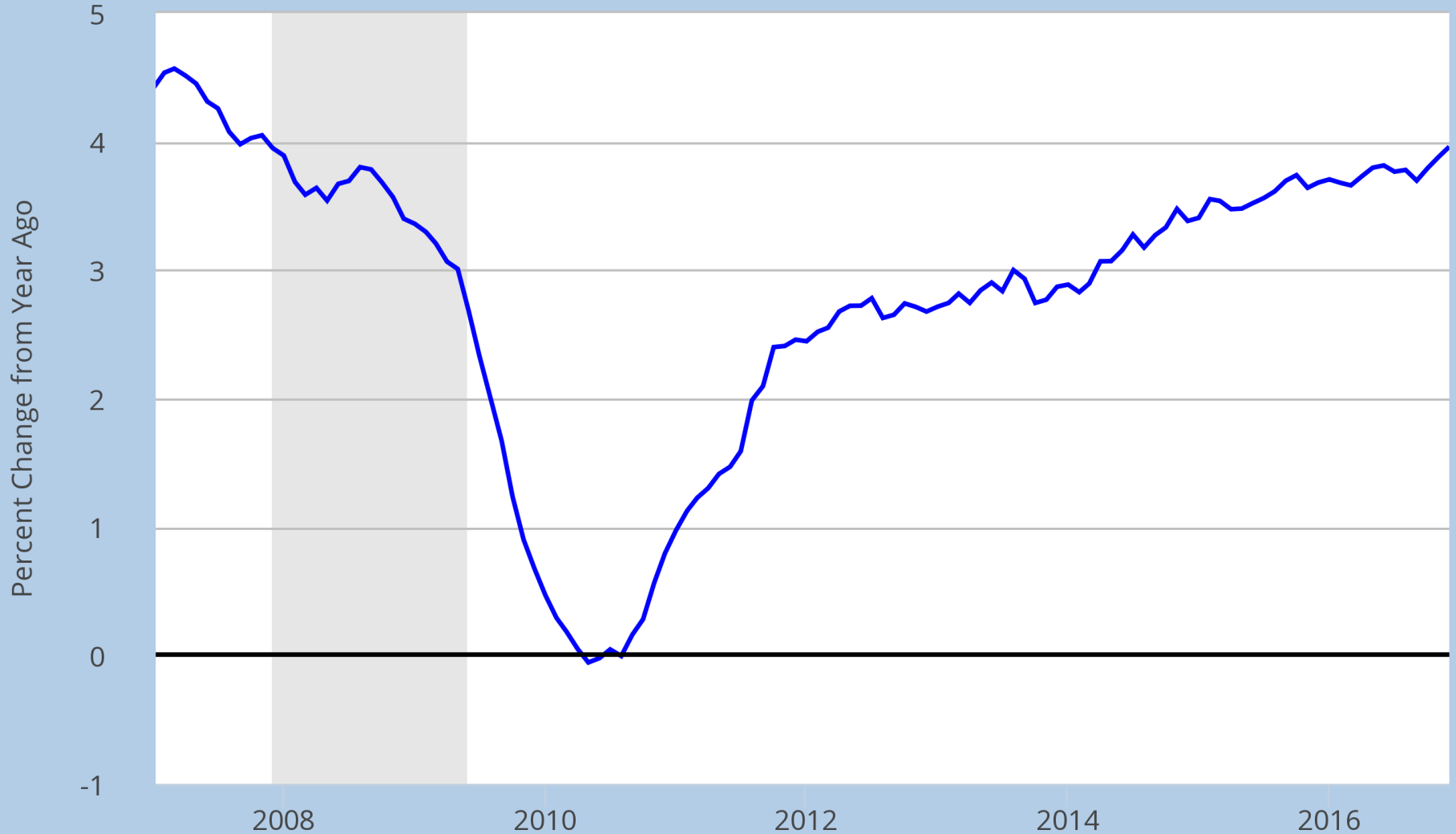
Source: Reis

Rents are Rising Increasingly Quickly

Rents rise faster than wages! Y-o-Y prices up 4%. Fastest since the housing boom!



— Consumer Price Index for All Urban Consumers: Rent of primary residence



Source: U.S. Bureau of Labor Statistics

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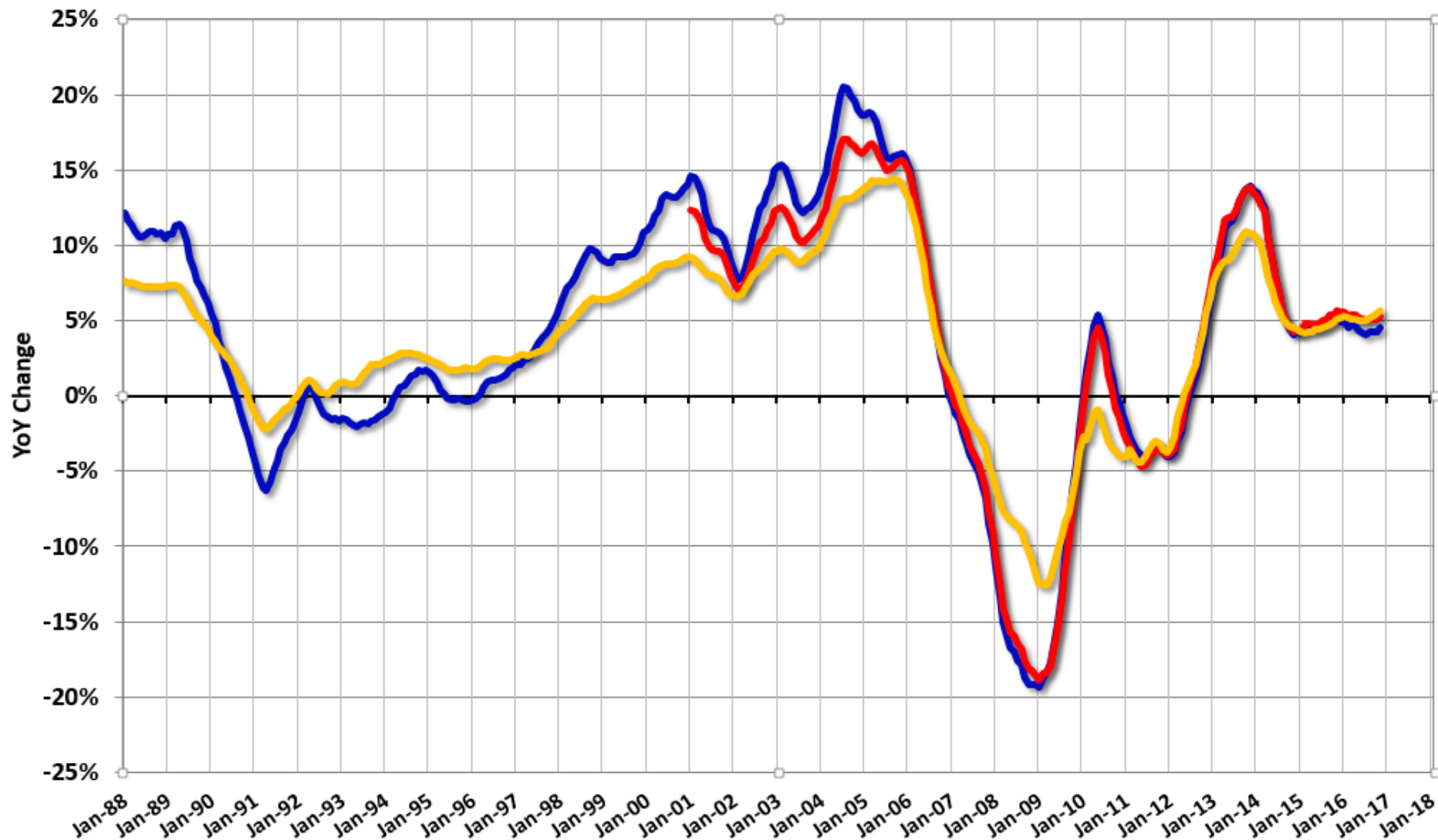
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Price Growth Appears Not to be Slowing

Prices rise faster than wages! Y-o-Y prices up 4.5% 5.3% or 5.6% depending on the measure

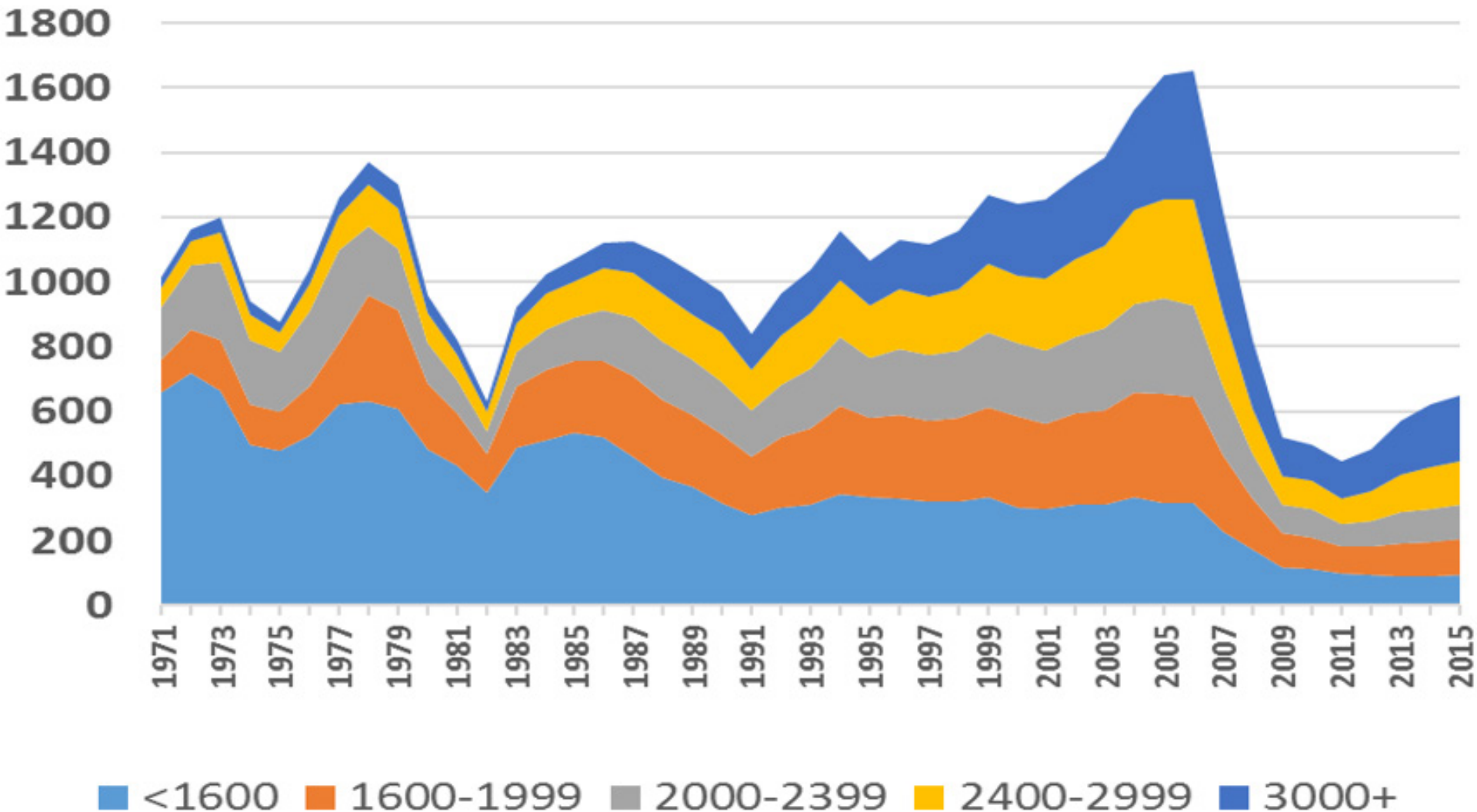
Case-Shiller National and Composite Indices SA, Year-over-year Change

Composite 10 Composite 20 National Index



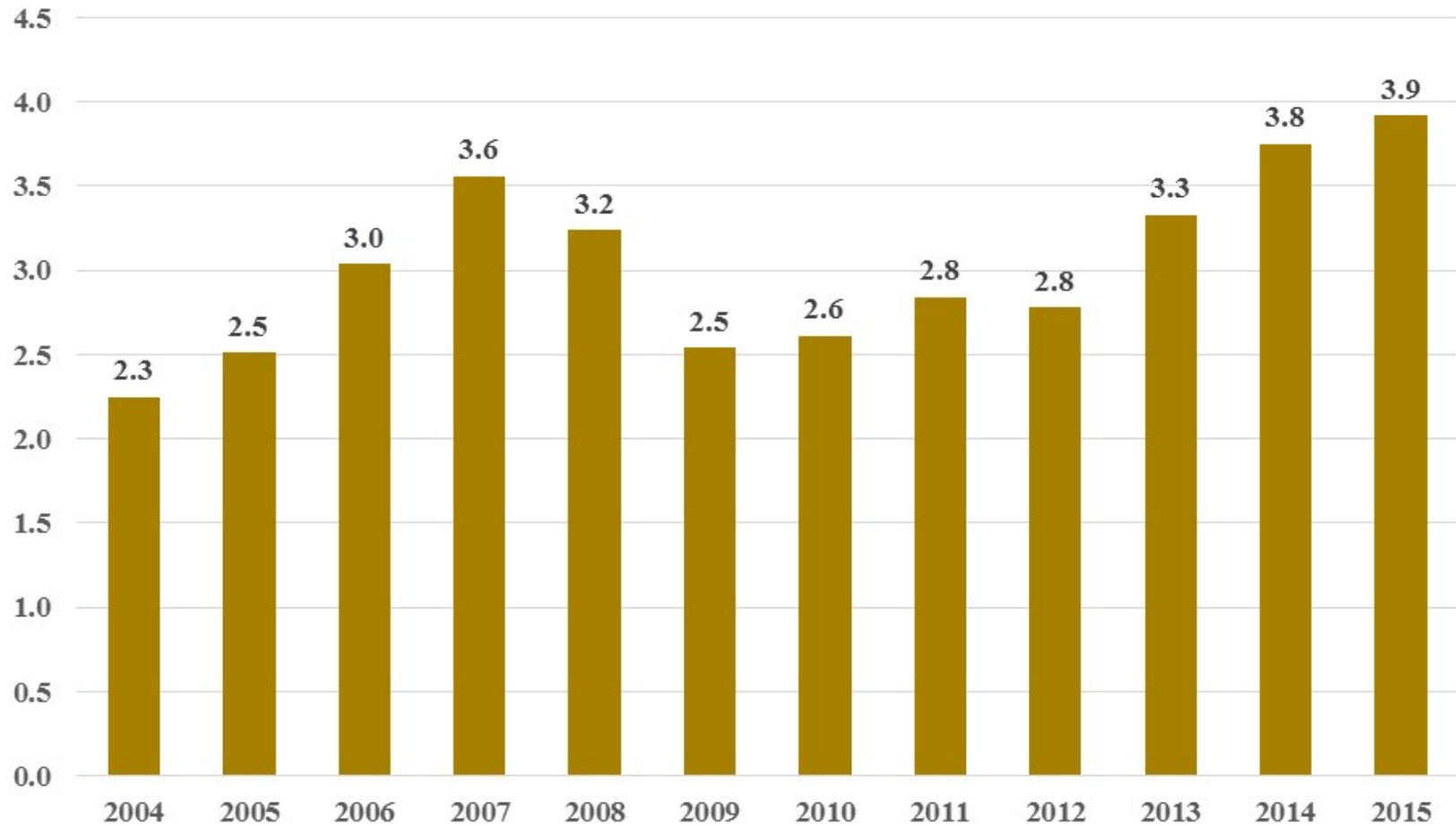
Bigger Houses Continue to Get Built

Single Family Housing Completions by Square Feet of Floor Area (Completions in thousands of units)



Too Many Big Houses

Percent of New Homes Started with 5,000+ square feet

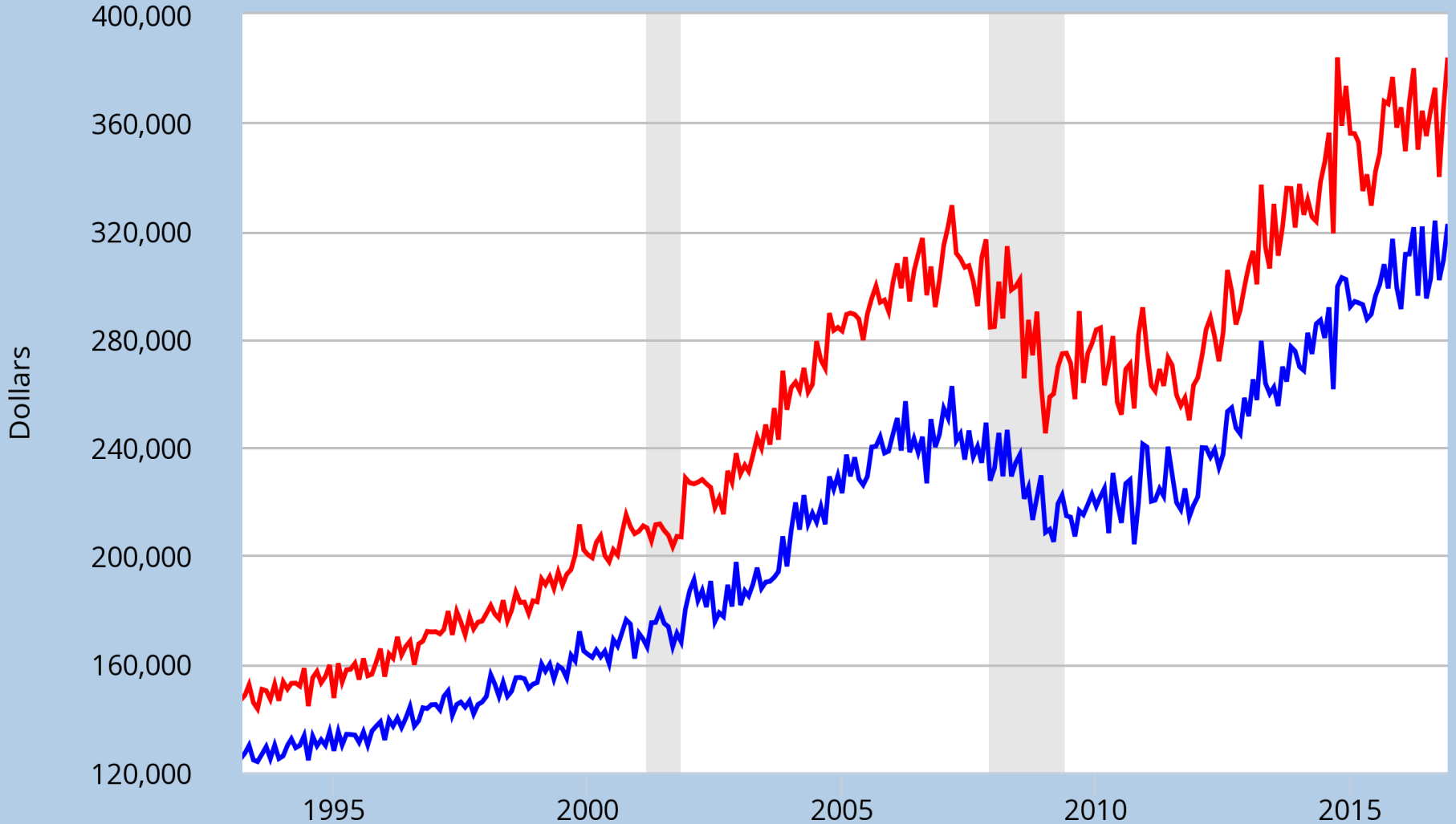


Source: NAHB Tabulations of SOC Data

New Home Prices Are Recovering Too Nicely



- Median Sales Price for New Houses Sold in the United States
- Average Sales Price for New Houses Sold in the United States



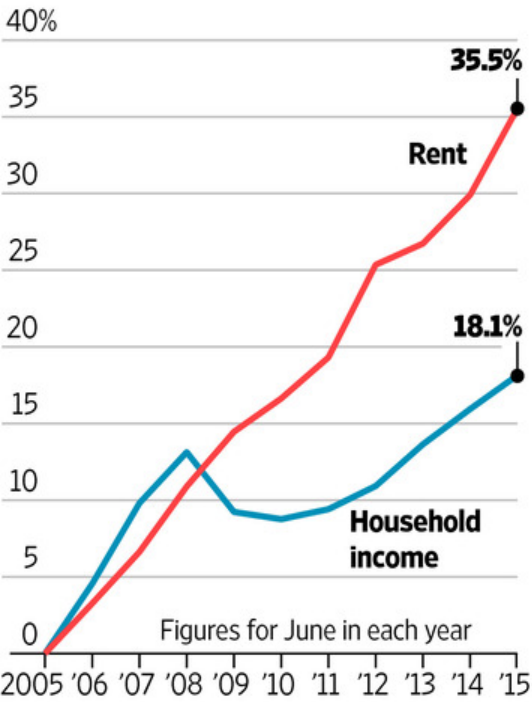
Renters Face an Increasingly Tough Market

To be able to earn nearly \$150,000/year and still qualify for a subsidy? Wow!

Housing Squeeze

With the rise in rents outpacing household incomes...

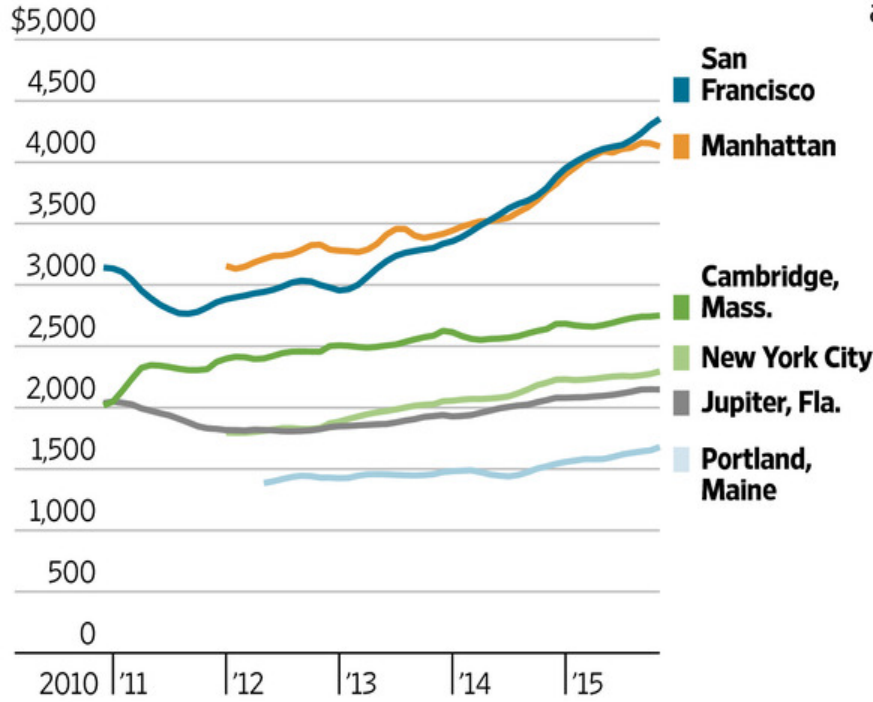
Cumulative change in U.S. median rent and household income



Sources: Zillow, cities *Proposed

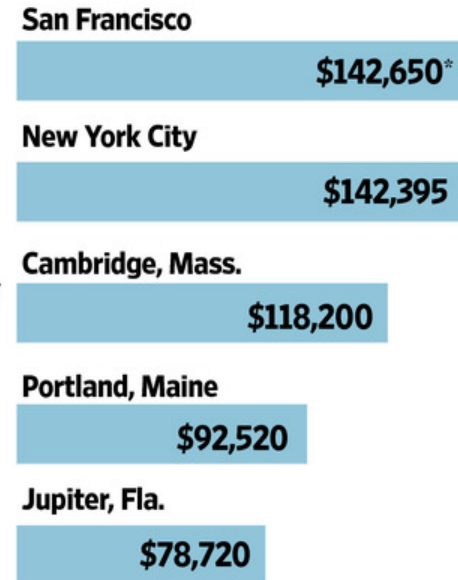
...more households in pricier cities are feeling the pinch...

Median monthly rent in select areas



...prompting officials to include some in affordable-rental programs.

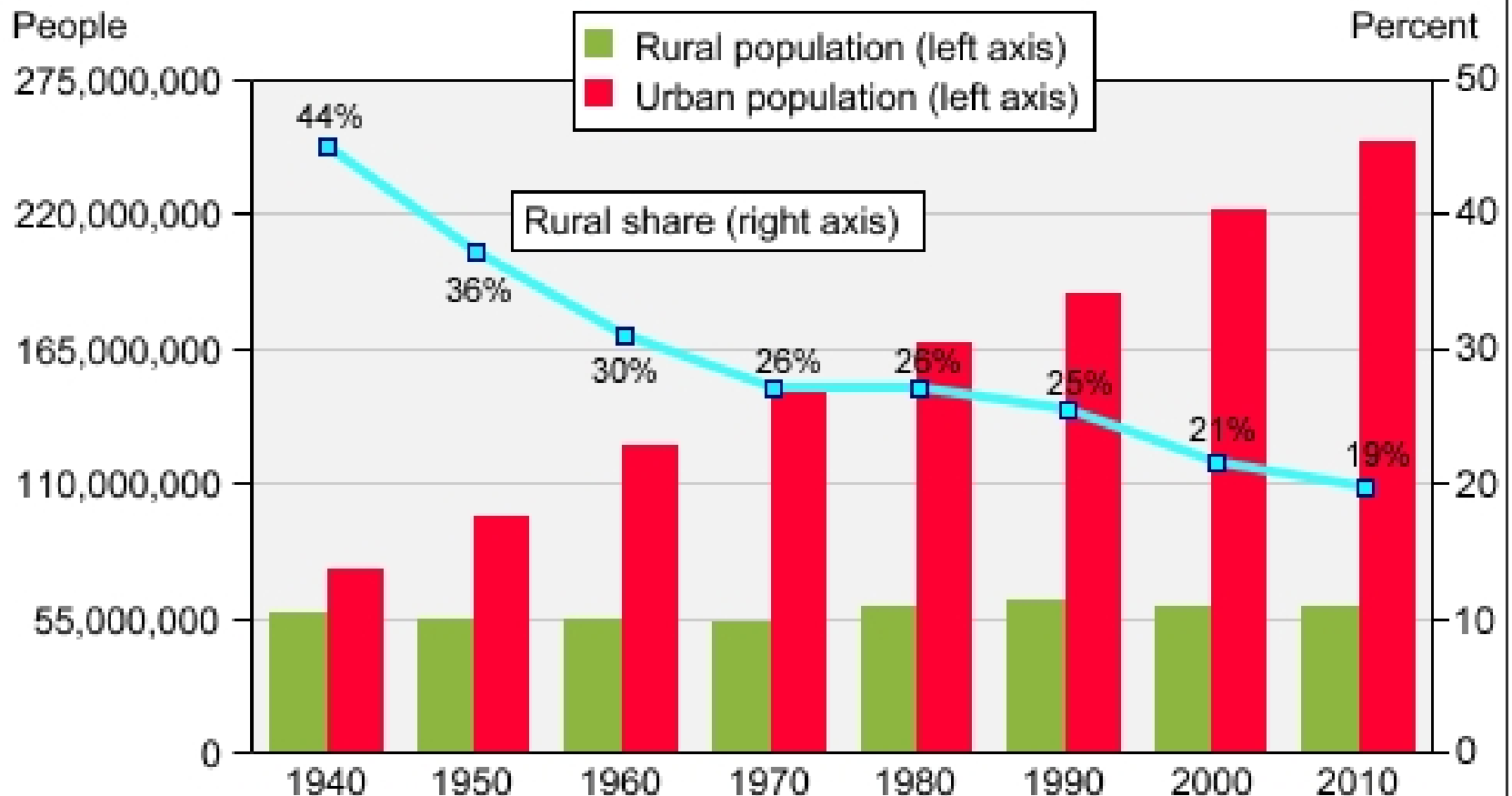
Maximum incomes for families of four in rental programs aimed at affordable middle-class housing



THE WALL STREET JOURNAL.

Collectively Rural Counties are Stagnant

U.S. rural and urban population, 1940-2010



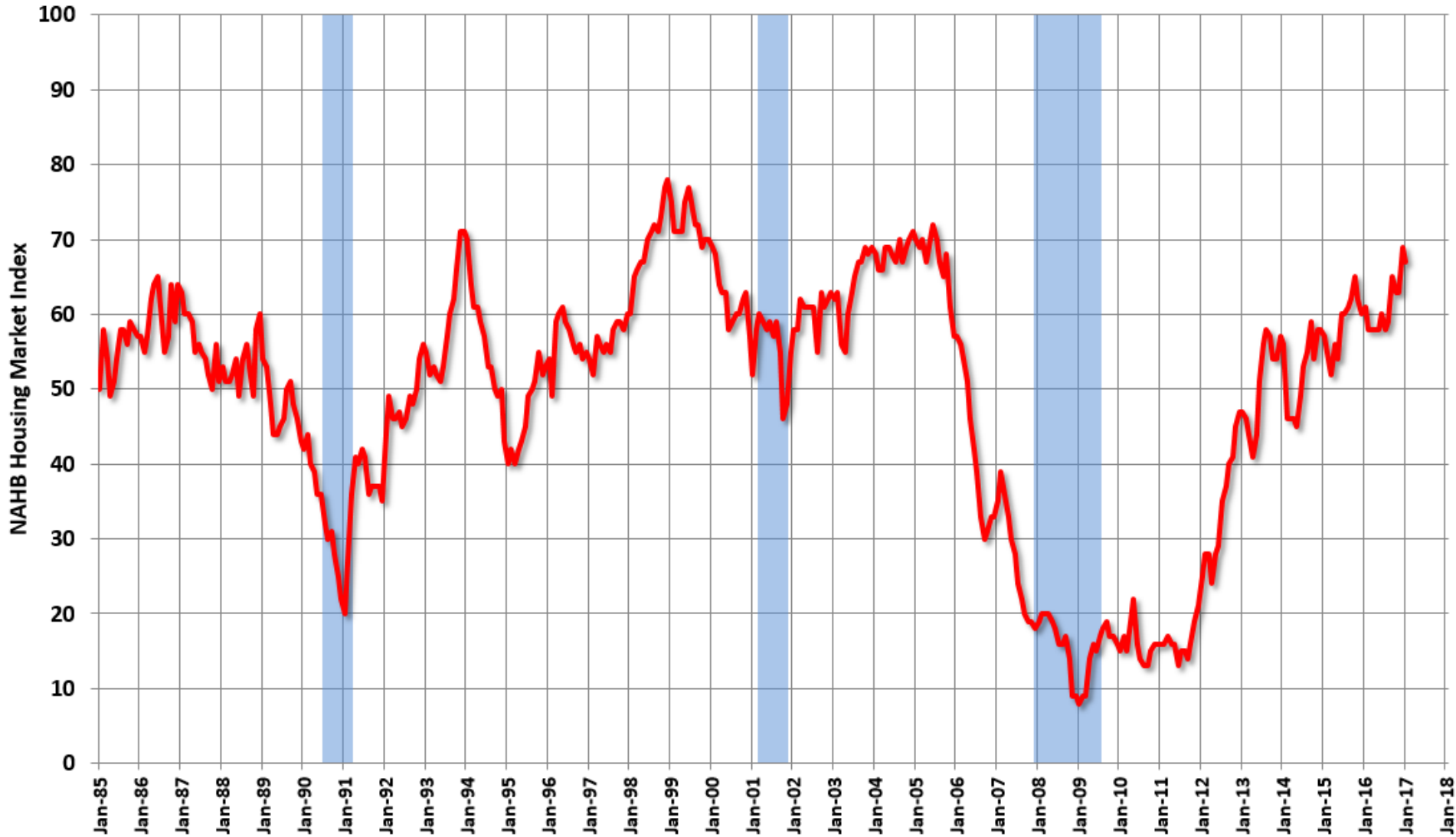
Source: USDA, Economic Research Service compilation of U.S. Census Bureau data. 1940-1990 data are from <http://www.census.gov/population/censusdata/urpop0090.txt>; 2000 data are from Summary File 1; and 2010 data are from <http://www.census.gov/geo/www/ua/uafacts.html>.

Builders Are Happier, But Is This As Good As It Gets?

Builders have rarely been happier

NAHB Housing Market Index

Recession HMI

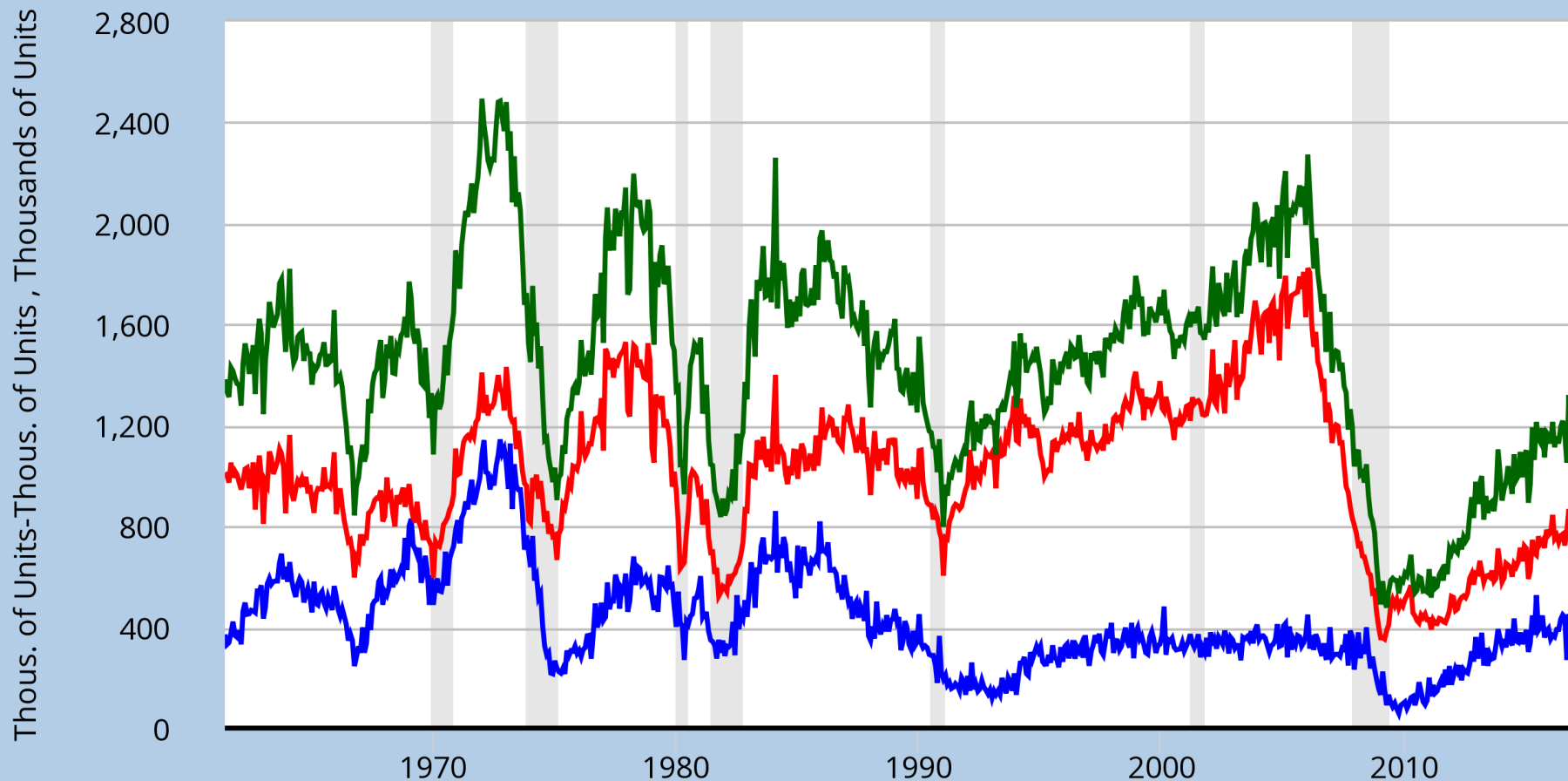


Single-Family and Multifamily Starts – A Nice Recovery

Lack of lots, gun shy lenders, high prices, higher rates, SF looks good



- Housing Starts: Total: New Privately Owned Housing Units Started-Privately Owned Housing Starts: 1-Unit Structures
- Privately Owned Housing Starts: 1-Unit Structures
- Housing Starts: Total: New Privately Owned Housing Units Started

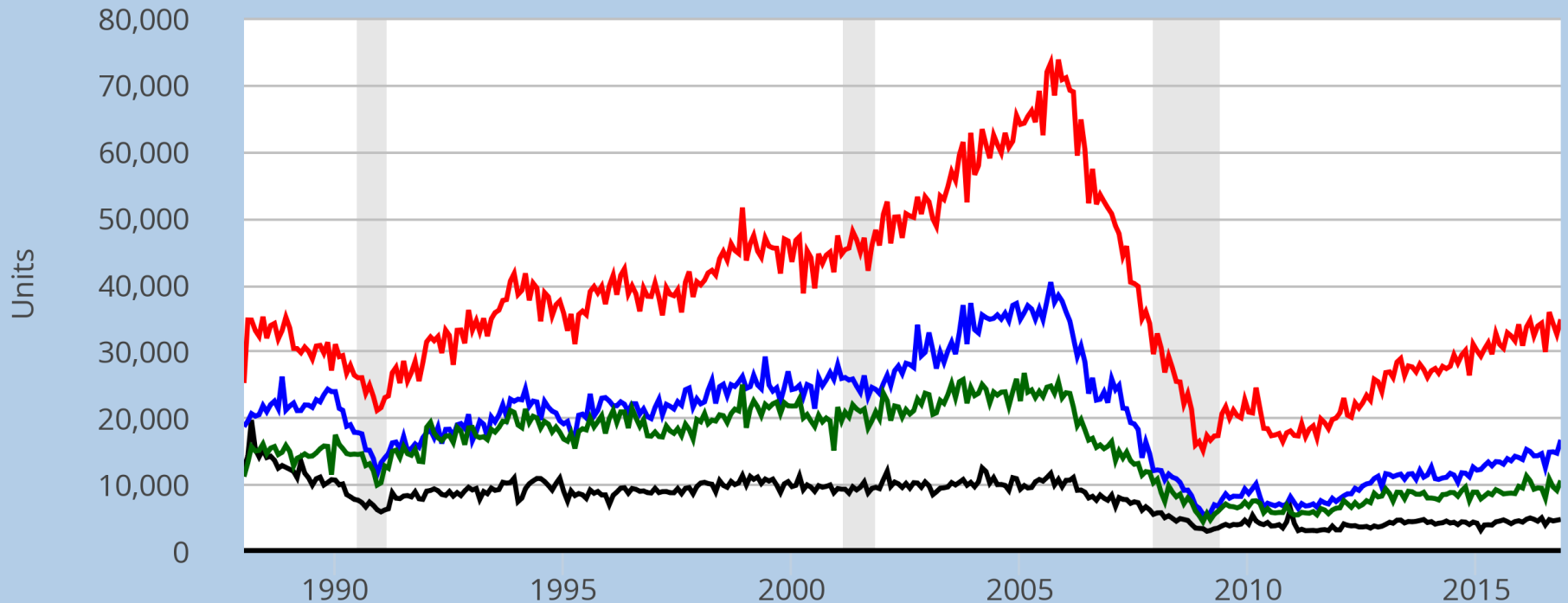


Single-Family Starts by Region

Starts in the West are growing very slowly



- New Private Housing Units Authorized by Building Permits: 1-Unit Structures for the South Census Region
- New Private Housing Units Authorized by Building Permits: 1-Unit Structures for the Northeast Census Region
- New Private Housing Units Authorized by Building Permits: 1-Unit Structures for the West Census Region
- New Private Housing Units Authorized by Building Permits: 1-Unit Structures for the Midwest Census Region

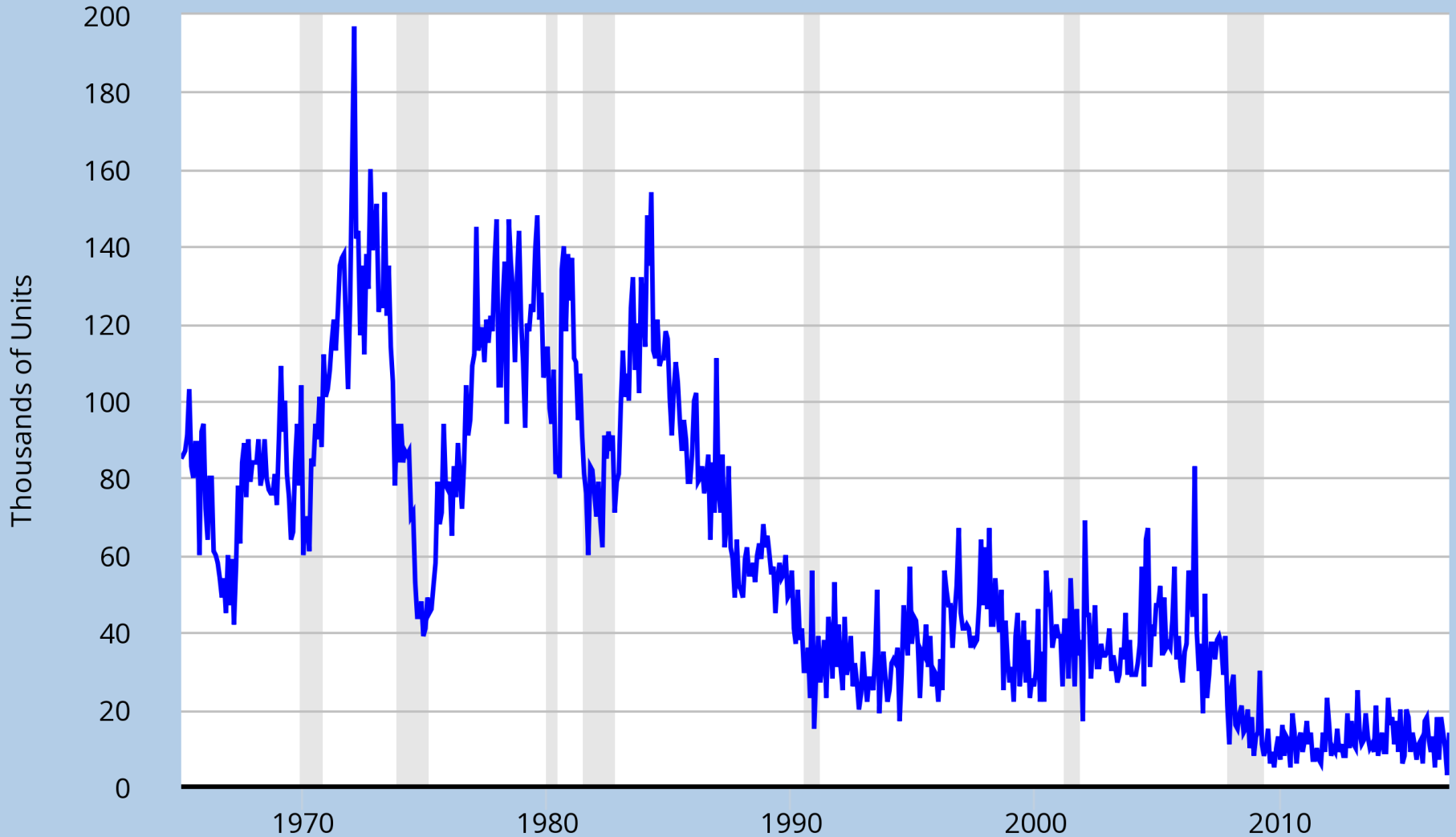


Multifamily Housing Starts are Dead

2-4 Units Activity: They should be encouraged.



— Housing Starts: 2-4 Units©



Source: U.S. Bureau of the Census

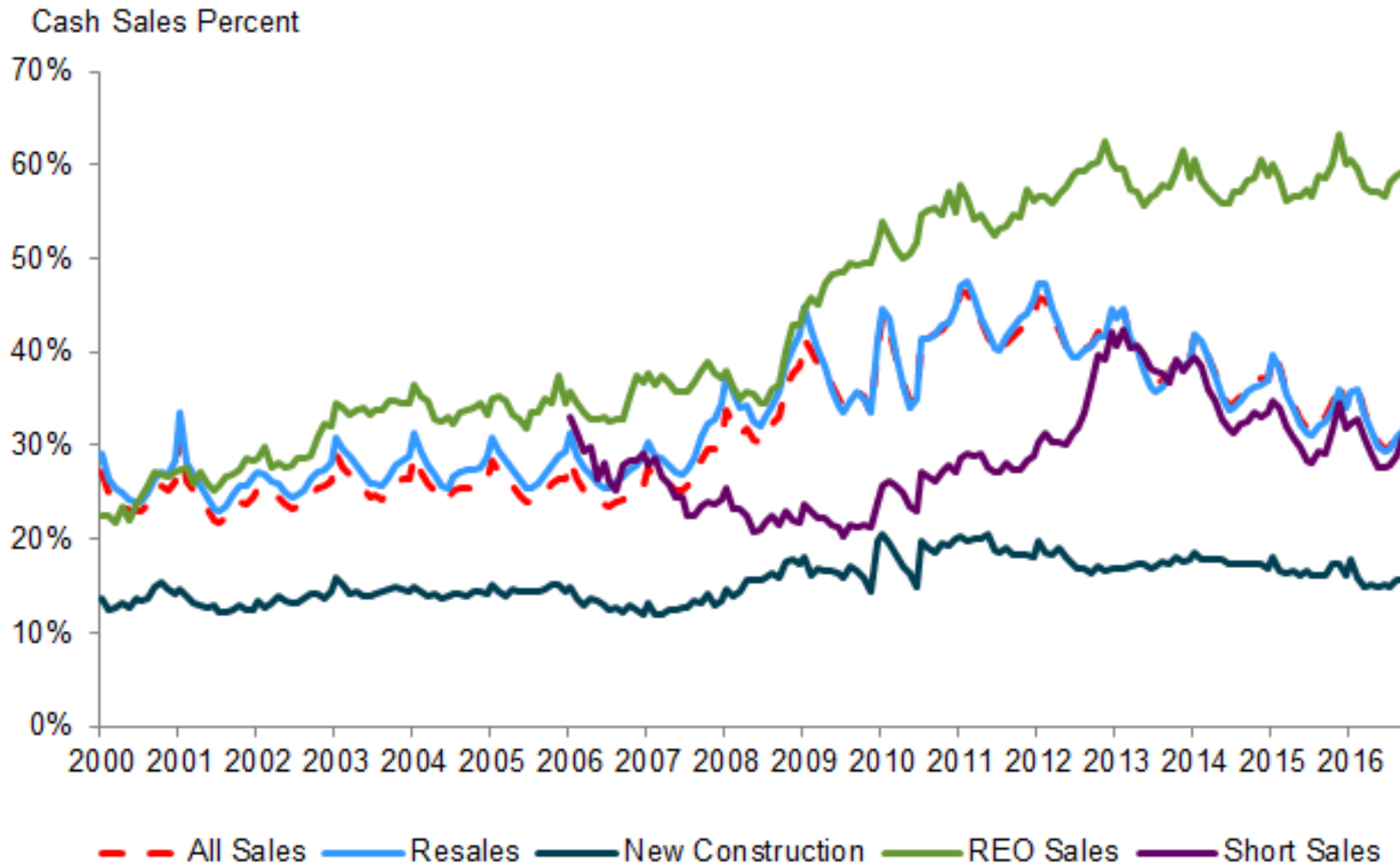
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myf.red/g/cqpG

Cash Sales are Down from Peak

Cash sales were 31.7% in 9/16, down 130 BP Y-o-Y. Resales are 80% of all sales. Historically cash sales are 25%. Peak was 46.5% in 1/11. Return to normal by 2019.

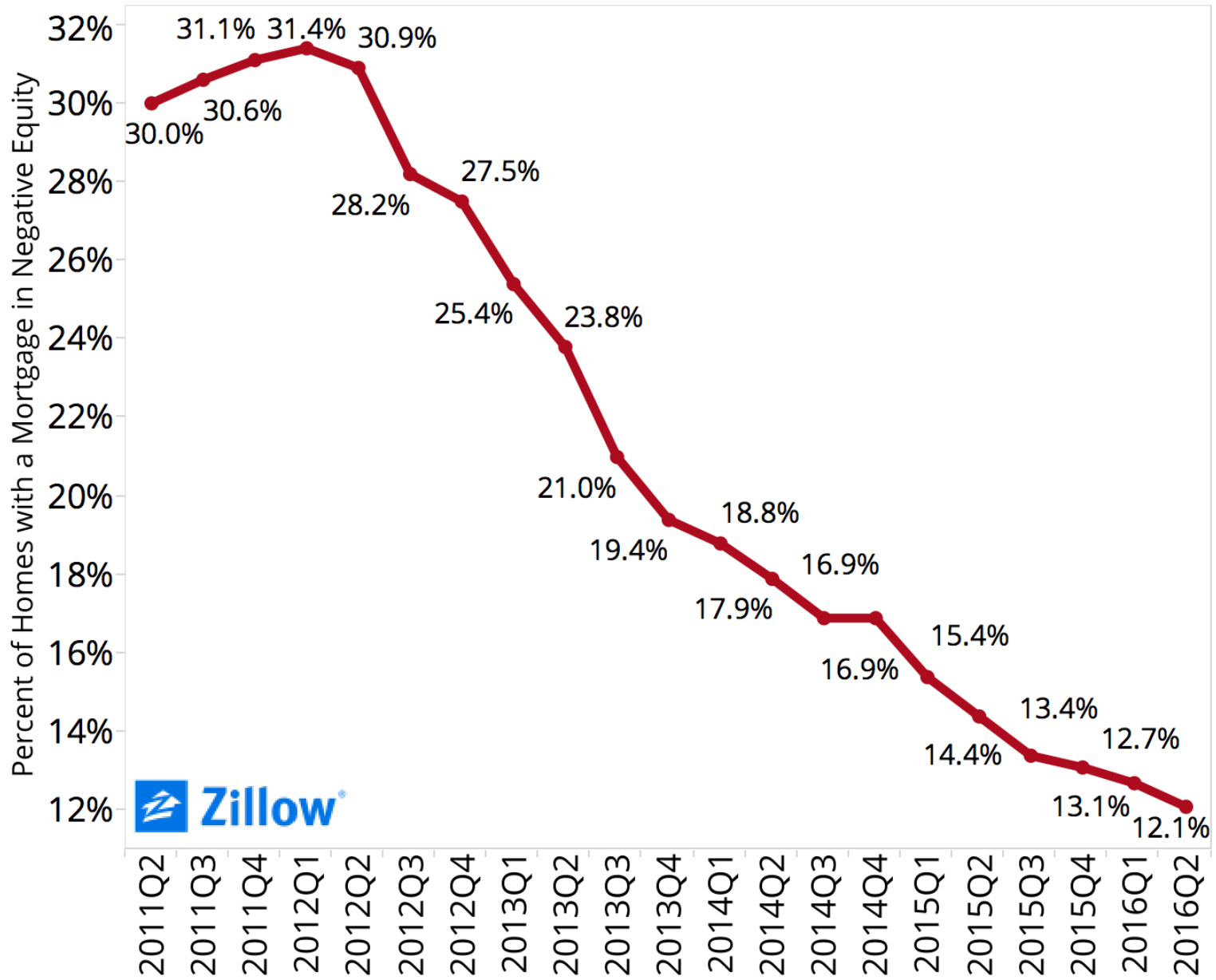
Figure 1: Cash Sales Share by Sale Type



Negative Equity is Less and Less of a Problem

Percent of loans in negative equity situation

Figure 1: U.S. Negative Equity

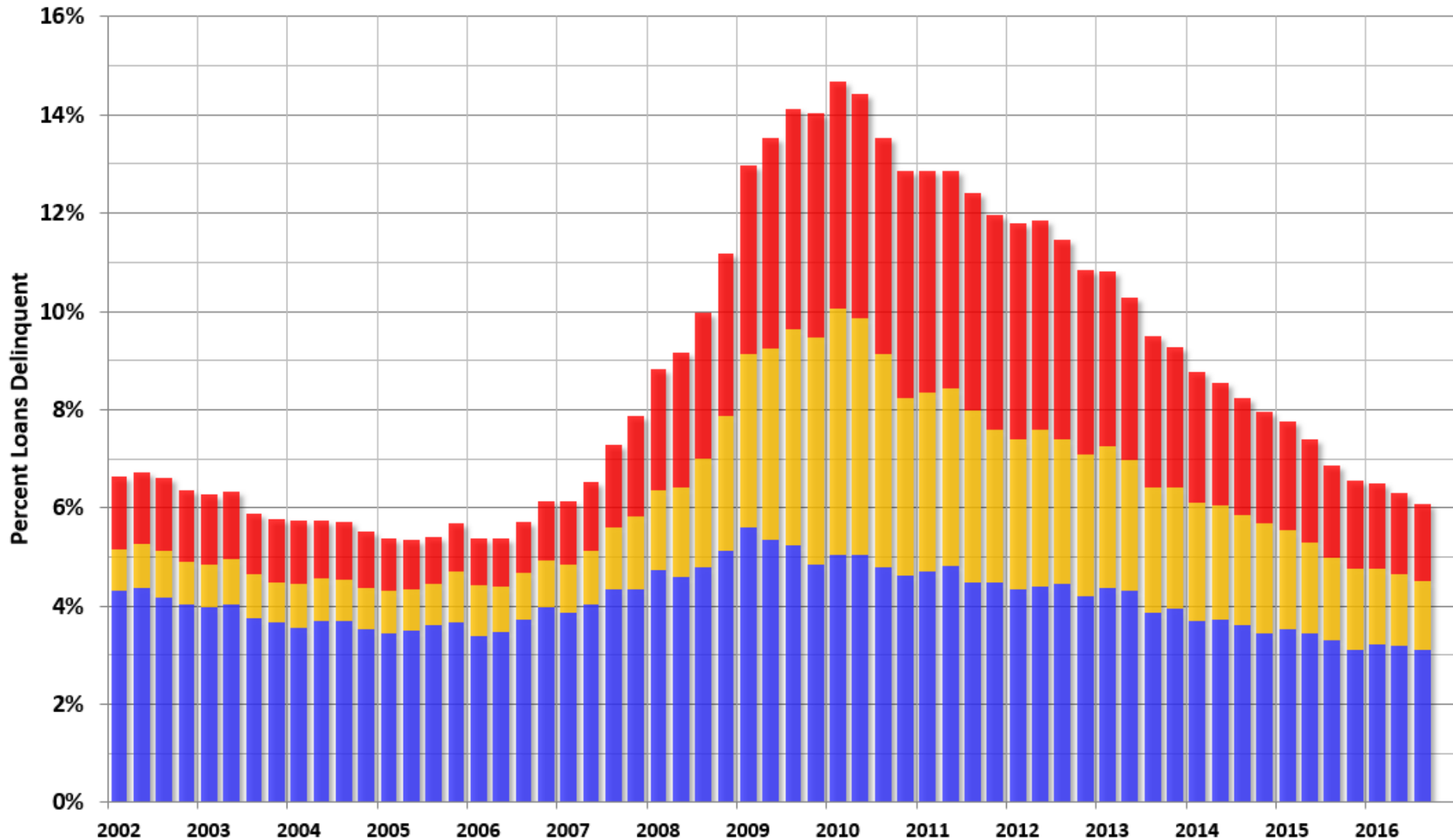


Delinquencies & Foreclosures Continue Falling

30 and 60 day delinquencies are below normal!

Mortgage Delinquencies and Foreclosures by Period Past Due, All Loans

■ 30 and 60 Day (SA) ■ 90 Day (SA) ■ Foreclosure Process



Source: MBA

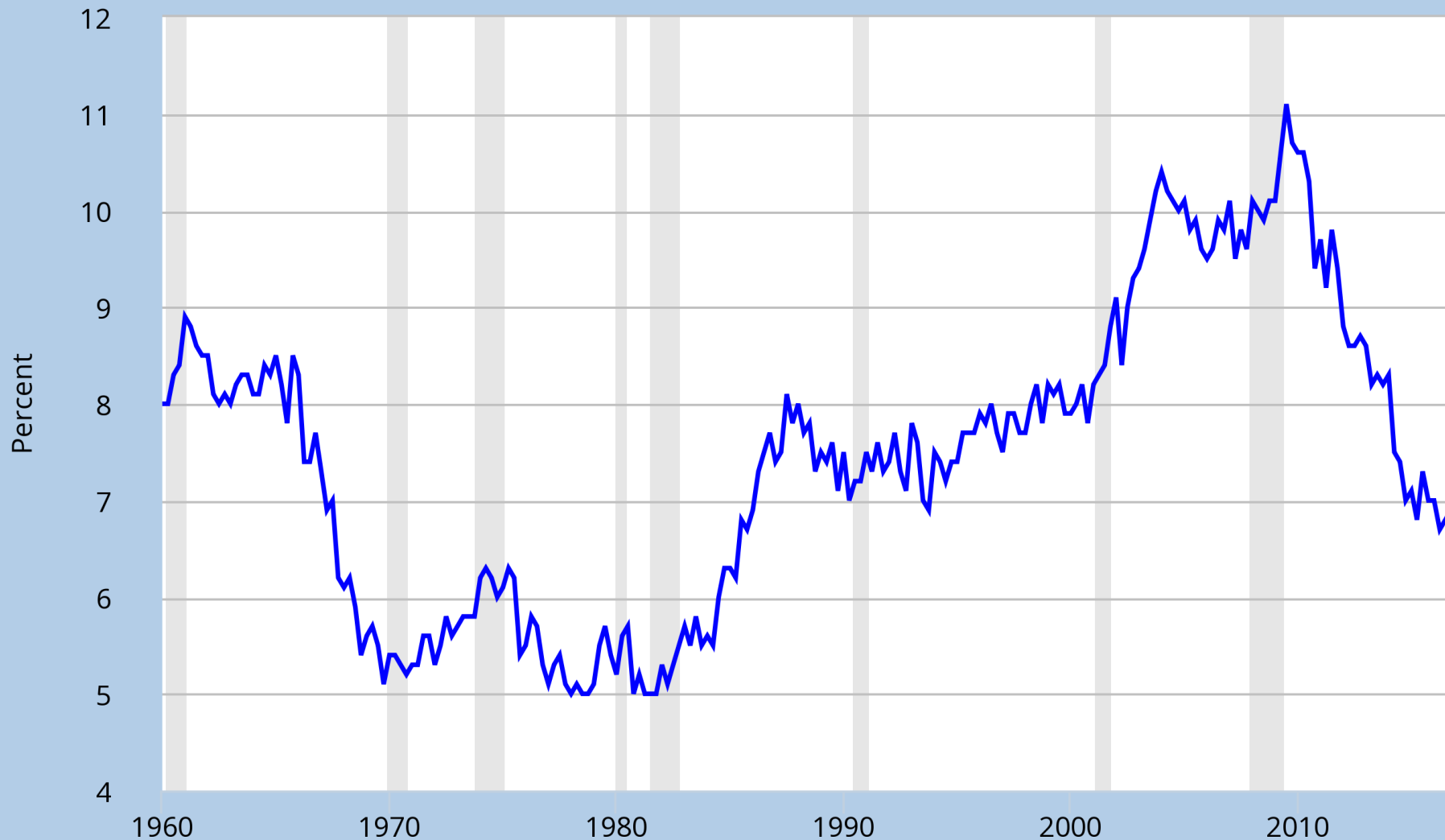
<http://www.calculatedriskblog.com/>

Apartment Vacancy Rates

The MF cycle has probably turned. Rental vacancy rates are starting to level off.



— Rental Vacancy Rate for the United States



Source: U.S. Bureau of the Census

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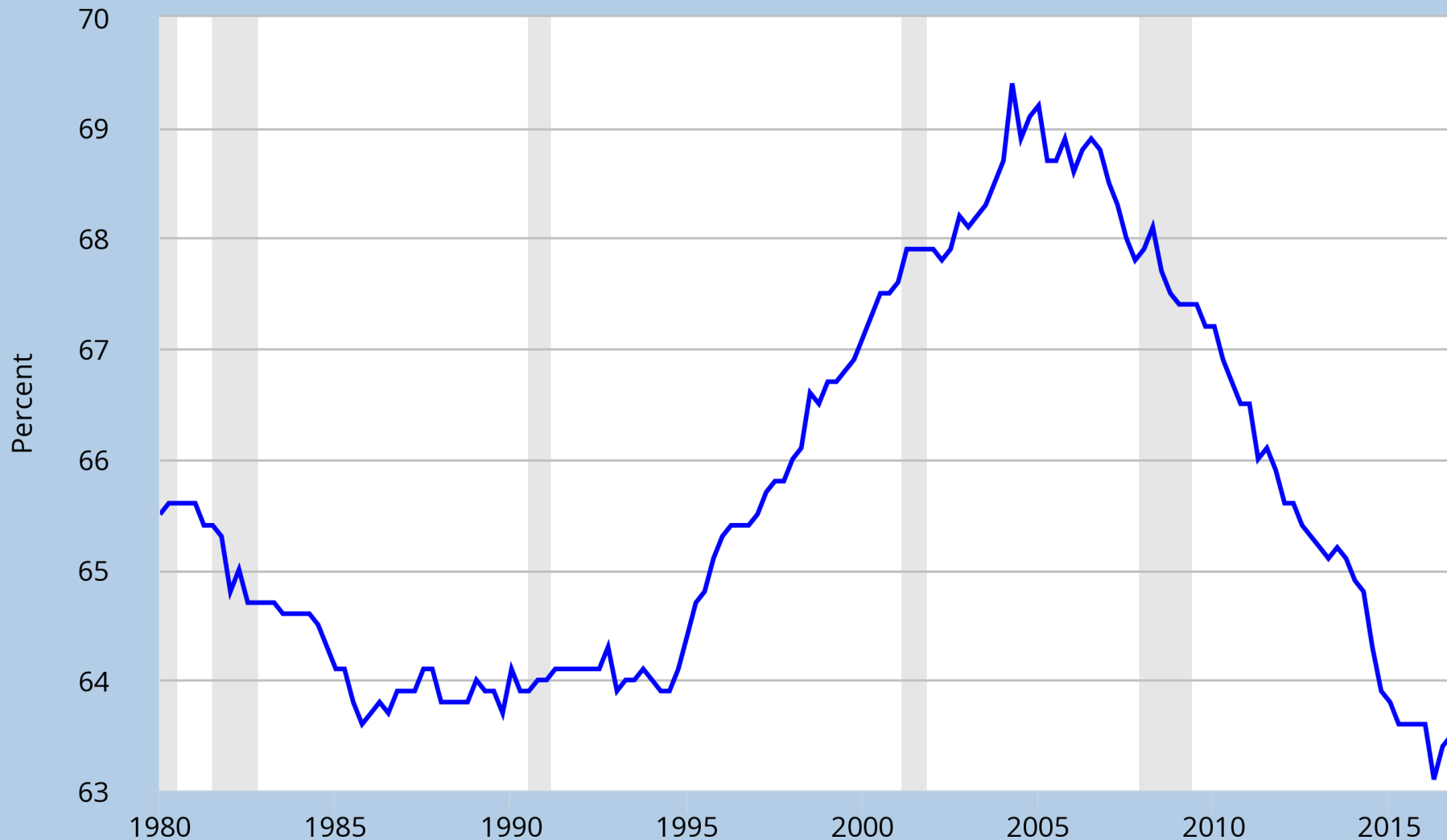
myf.red/g/cCxJ

The U.S. Home Ownership Rate Has Bottomed?

Demographic changes should start pushing it up



— Homeownership Rate for the United States



Source: U.S. Bureau of the Census

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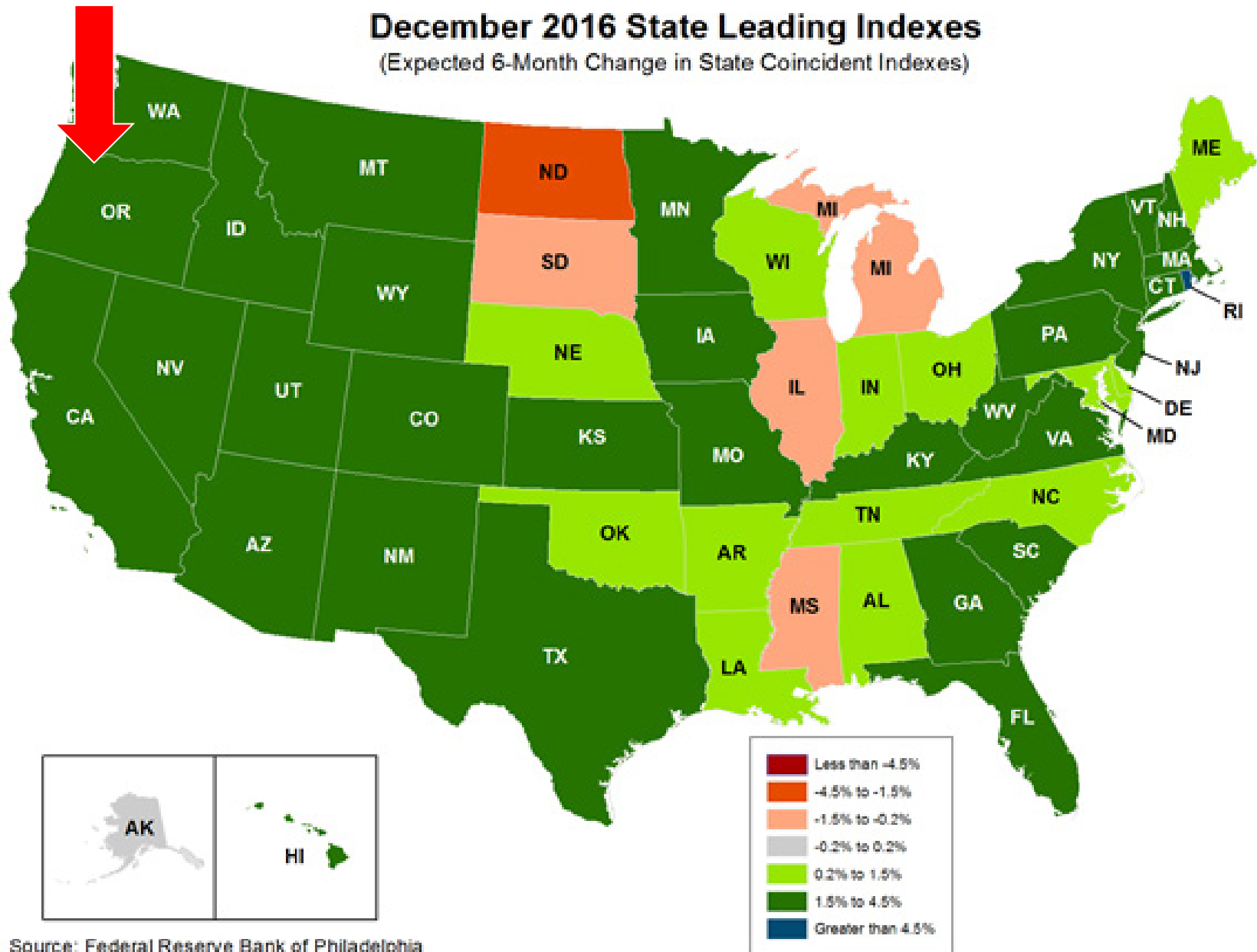
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**What About
Things Here?**

The Future Looks Good

December 2016 State Leading Indexes

(Expected 6-Month Change in State Coincident Indexes)



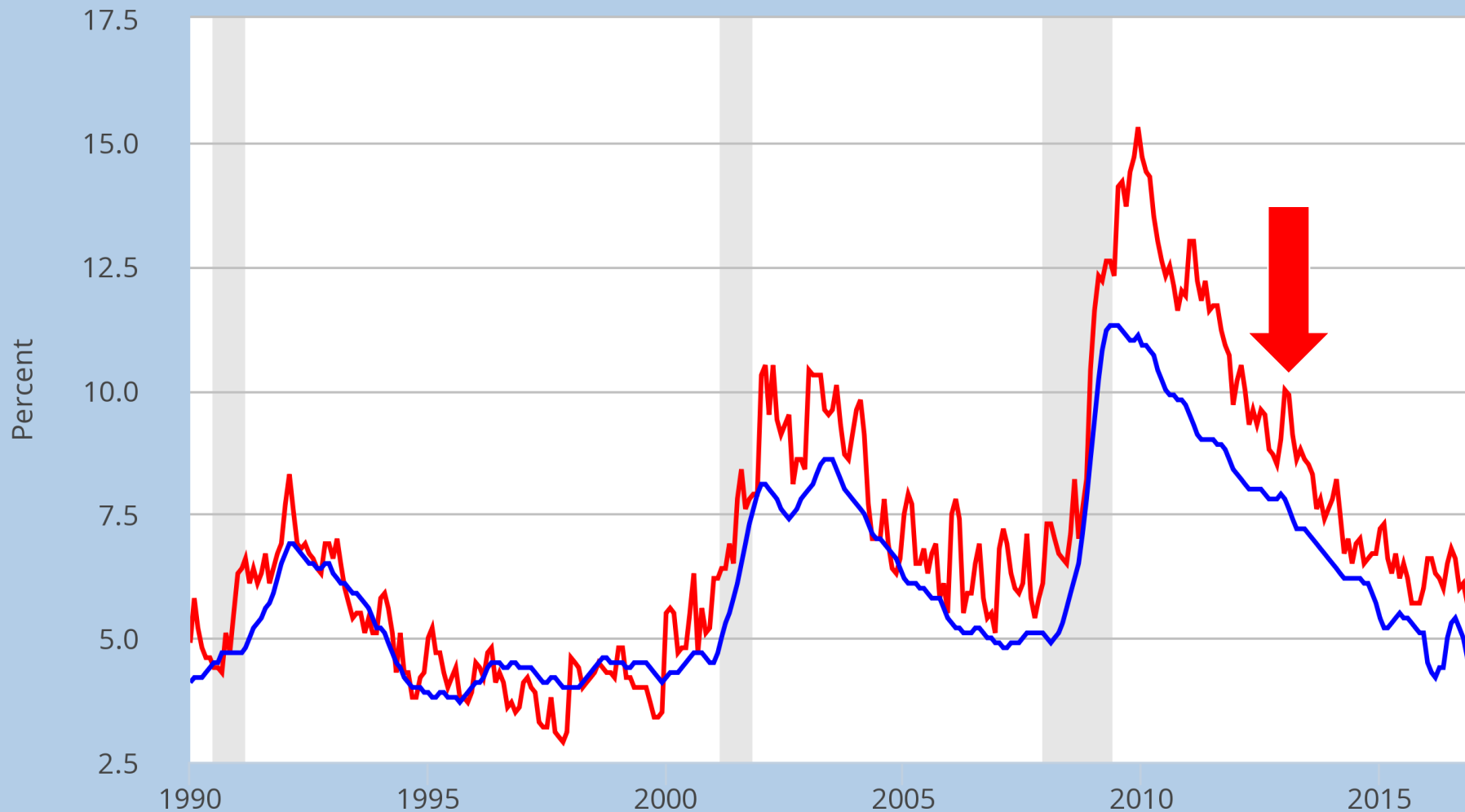
Source: Federal Reserve Bank of Philadelphia

Clark County Unemployment Rate

It's relatively high but continues to catch up to the rate in the overall MSA



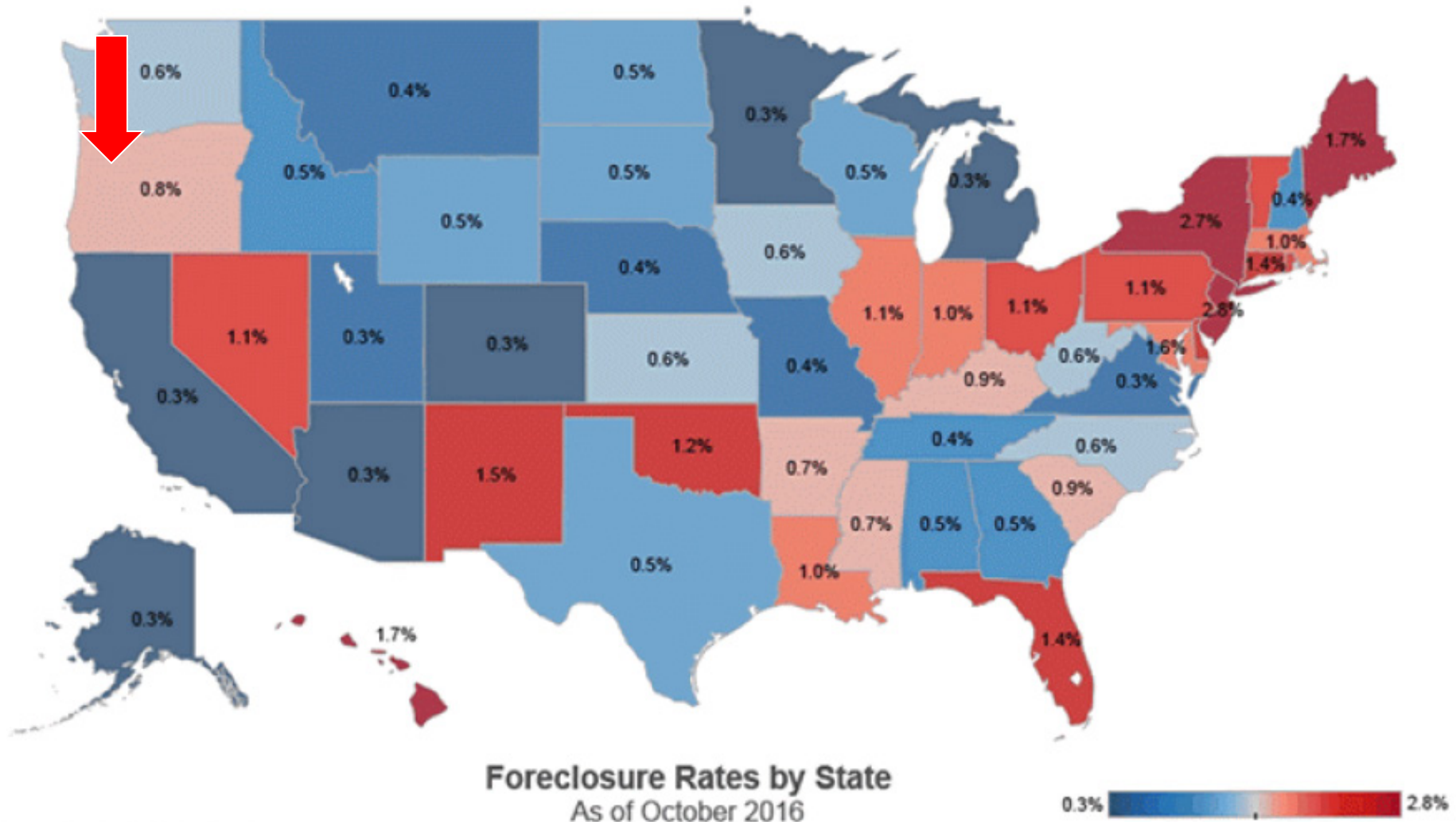
- Unemployment Rate in Clark County, WA
- Unemployment Rate in Portland-Vancouver-Hillsboro, OR-WA (MSA)



Let's Do this Without A Lawyer, Thank You!

Foreclosure inventory is 1% of homes with mortgage, still double the historic average.

Figure 3 – Foreclosure Inventory Rate by State

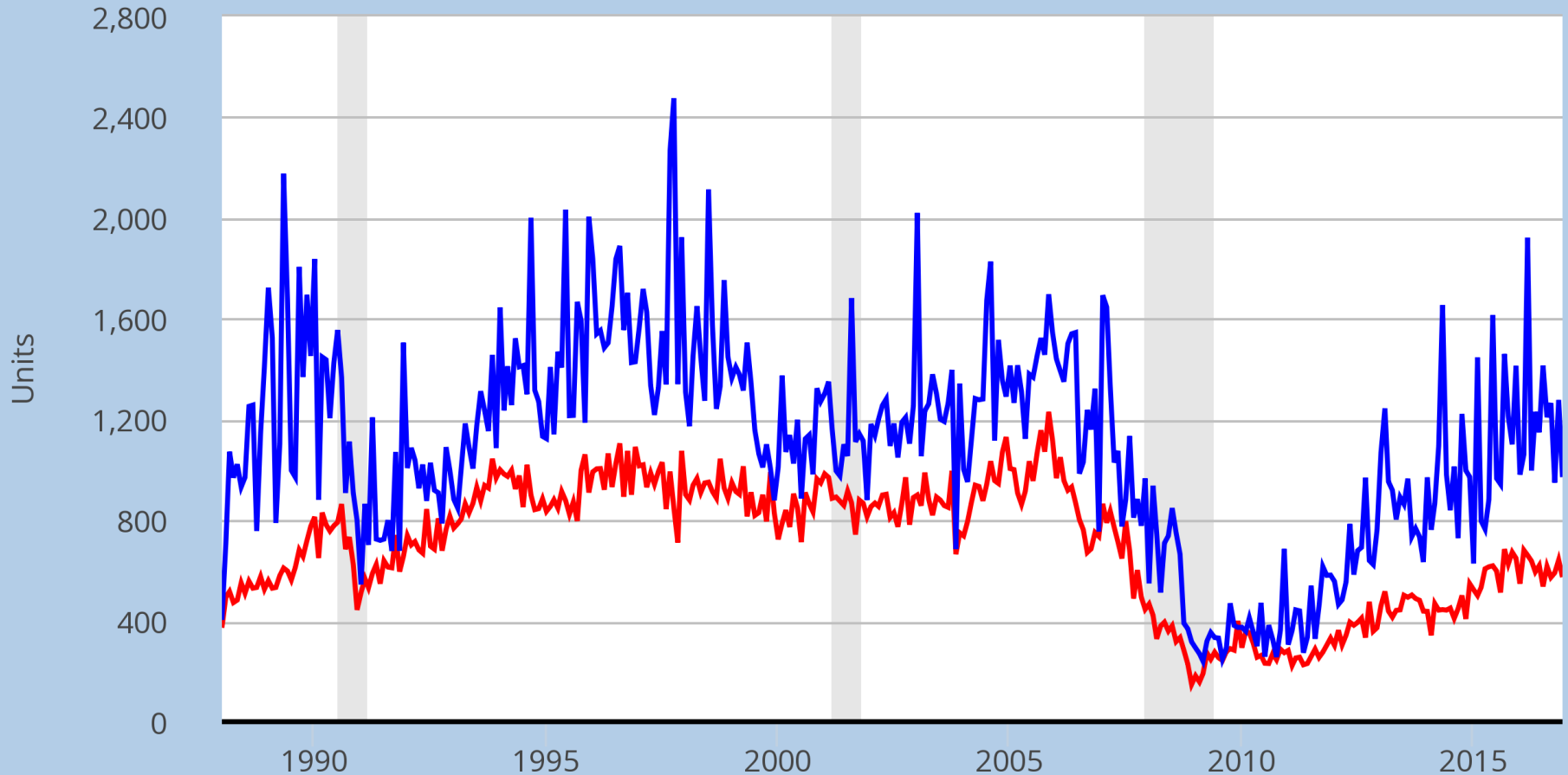


Housing Starts in Portland-Vancouver MSA

Single-family is listless, multifamily is amazingly strong



- New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Portland-Vancouver-Hillsboro, OR-WA (MSA)
- New Private Housing Units Authorized by Building Permits for Portland-Vancouver-Hillsboro, OR-WA (MSA)

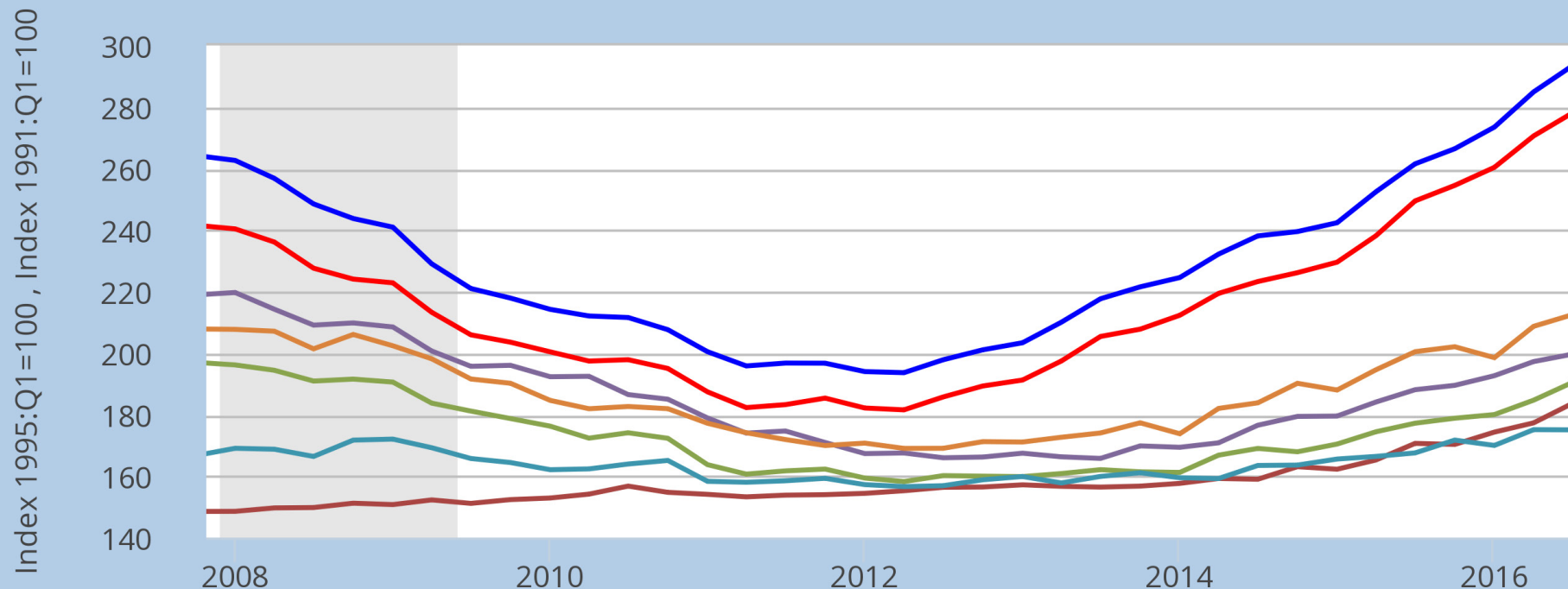


Washington State Housing Prices

Two of these lines aren't like the others! Portland-Vancouver and Seattle stick out!



- All-Transactions House Price Index for Portland-Vancouver-Hillsboro, OR-WA (MSA)
- All-Transactions House Price Index for Kennewick-Richland, WA (MSA)
- All-Transactions House Price Index for Spokane-Spokane Valley, WA (MSA)
- All-Transactions House Price Index for Olympia-Tumwater, WA (MSA)
- All-Transactions House Price Index for Yakima, WA (MSA)
- All-Transactions House Price Index for Wenatchee-East Wenatchee-East Wenatchee, WA (MSA)
- All-Transactions House Price Index for Seattle-Bellevue-Everett, WA (MSAD)

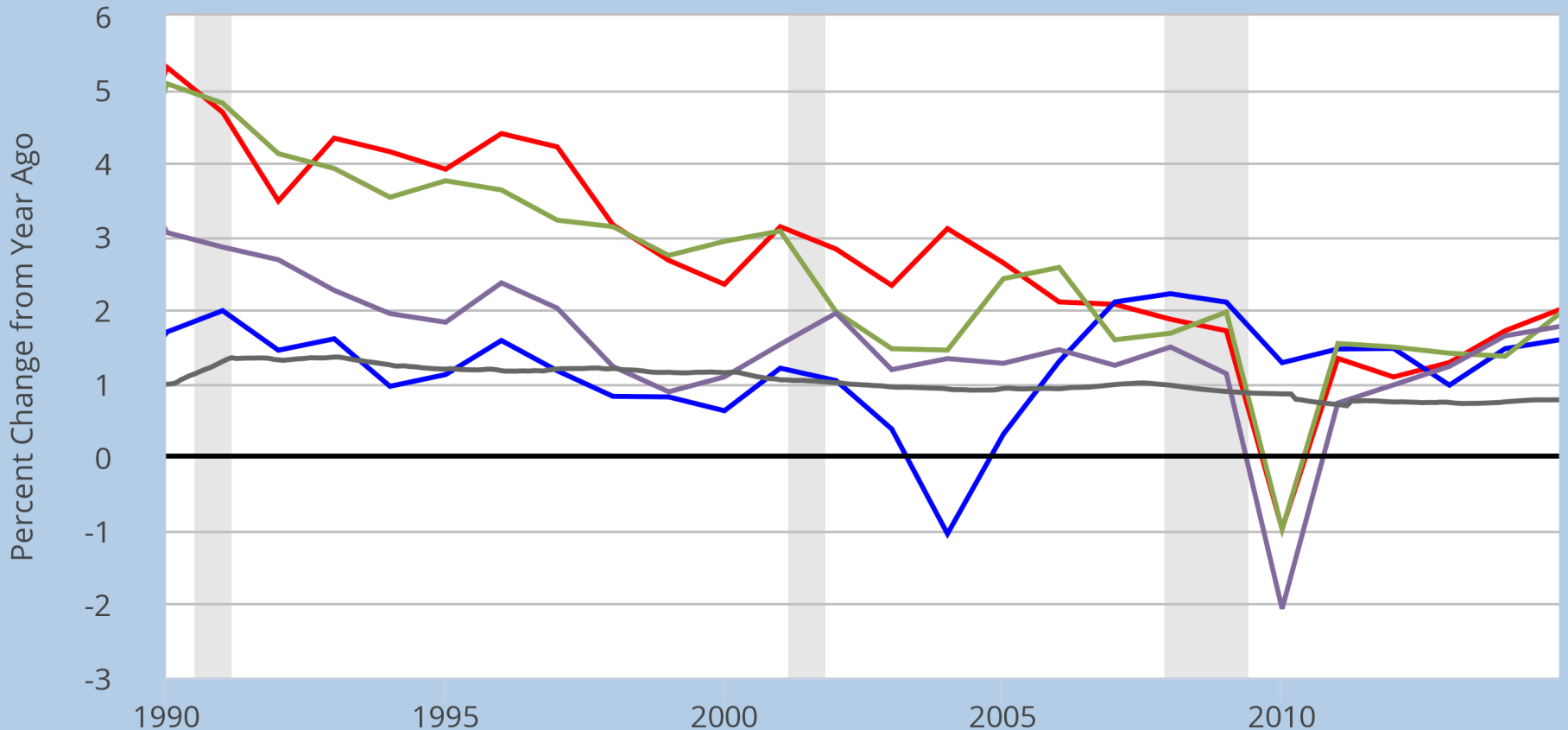


Population Growth Rates in Clark County

Growth rates are spectacular! Clark is always at or near the top



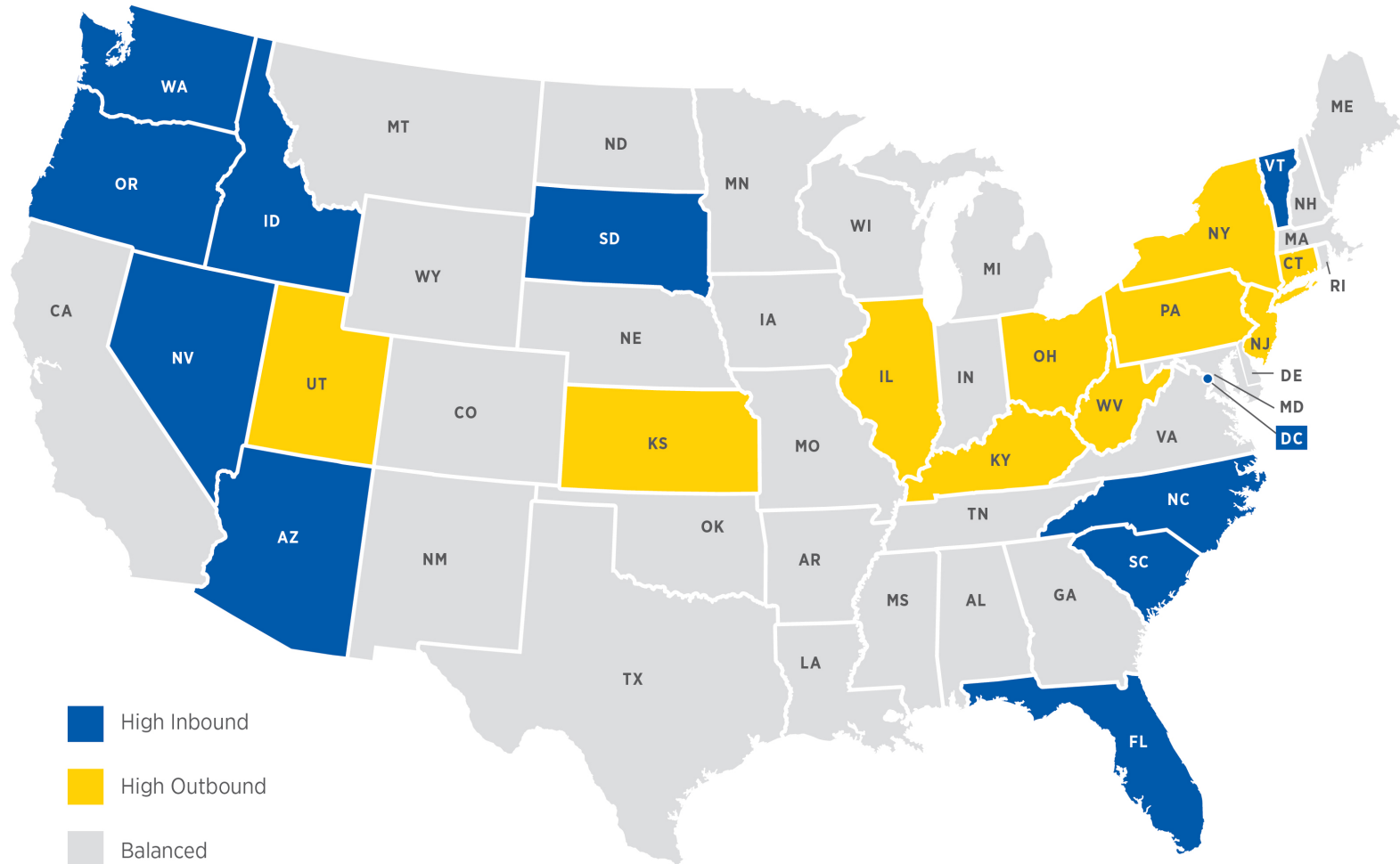
- Resident Population in Clark County, WA
- Resident Population in Multnomah County, OR
- Resident Population in Washington County, OR
- Resident Population in Clackamas County, OR
- Total Population: All Ages including Armed Forces Overseas



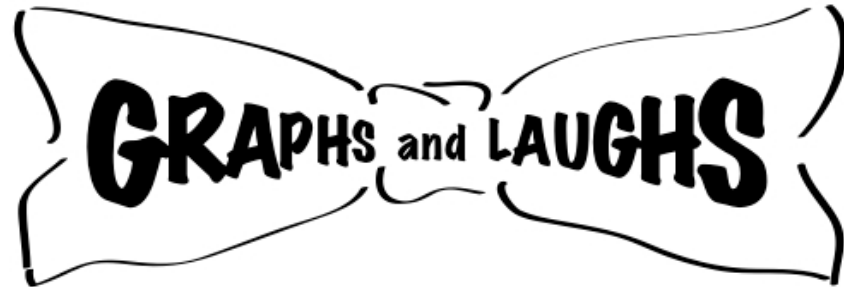
Interstate Migration Patterns: 2016

Since 2012 Washington has had substantial inbound traffic

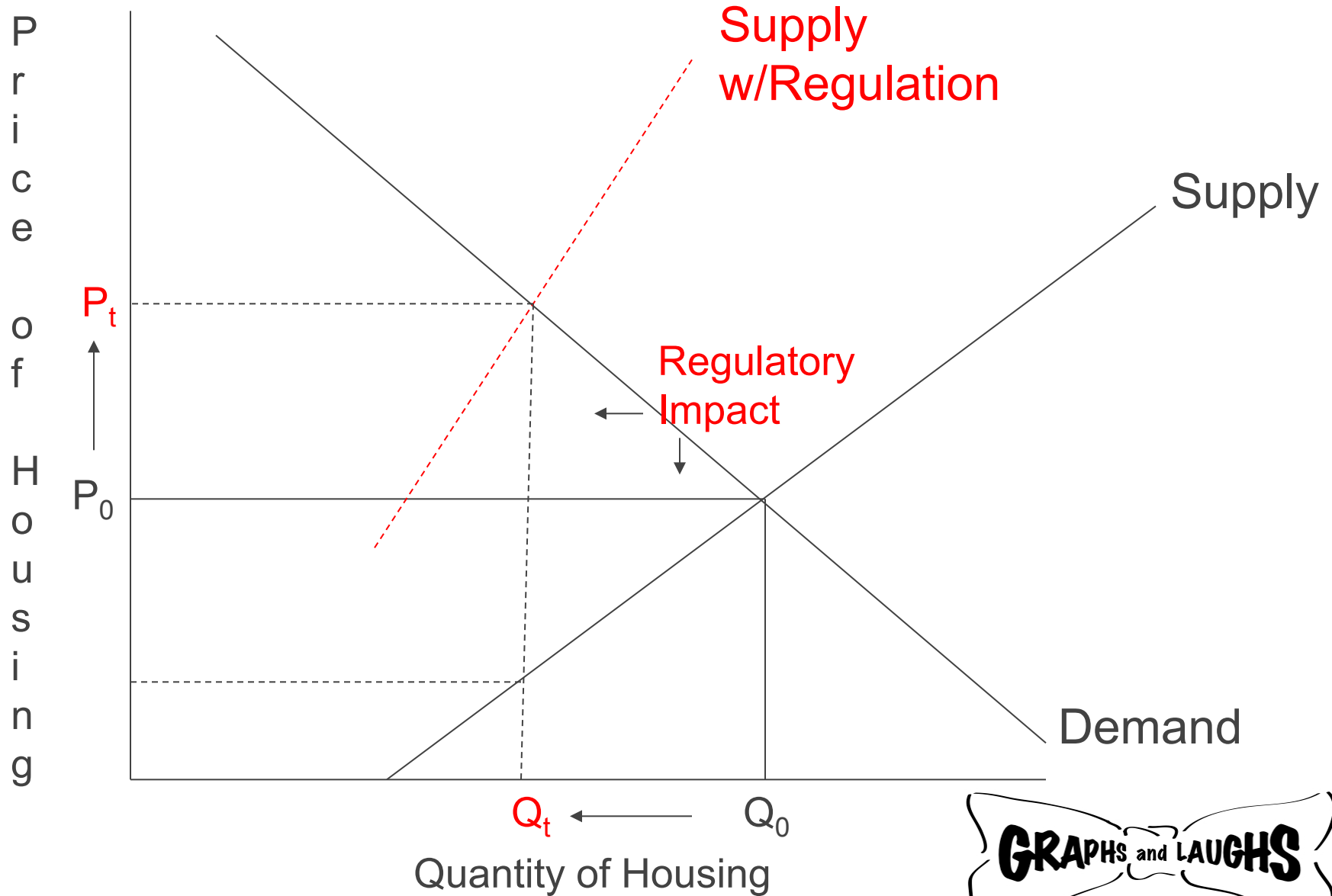
United Van Lines 2016 Movers Study



Microeconomics of Regulations



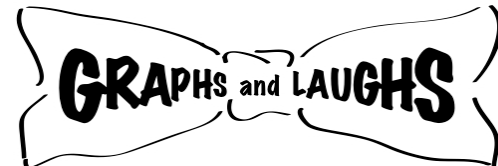
Microeconomics



Microeconomics

Government regulation will:

- A) Increase new house prices
- B) Decrease housing supply
- C) Increase existing house prices
- D) Push building outside regulated zone
- E) Decrease land prices

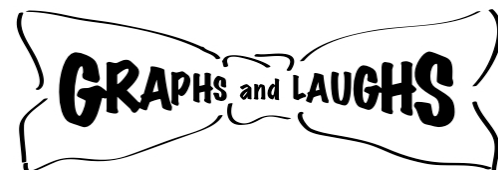


Who Bears the Regulatory Burden?

The only seven candidates are:

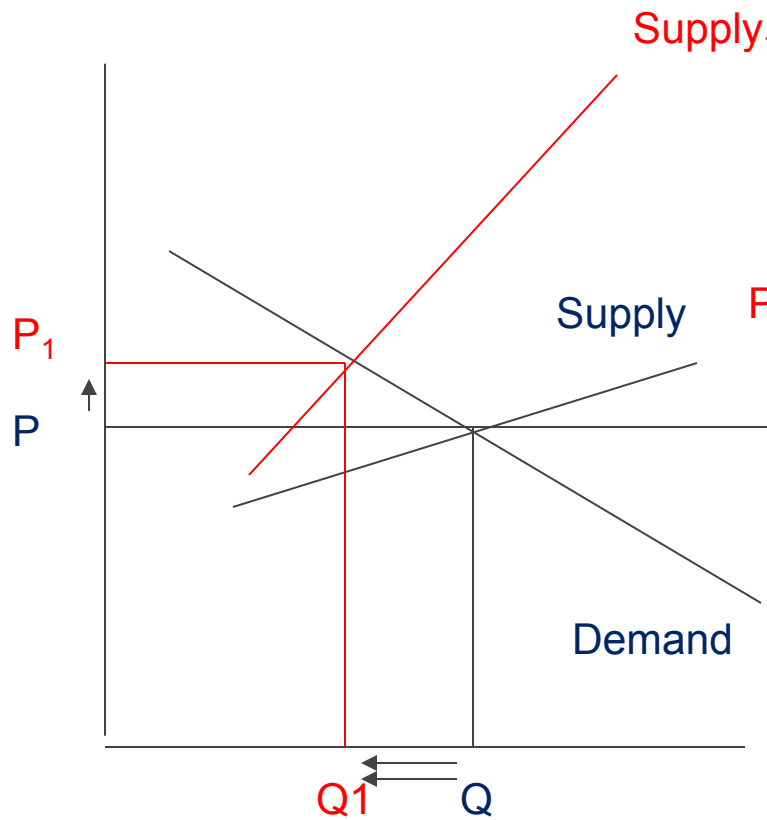
Suppliers, Workers, Builders, Developers, Landowners, Buyers, (Renters)

- Politicians/activists like to think builders pay.
- But, do they really?
- It depends on who is more **mobile**. Think about the **elasticity** of supply and demand.

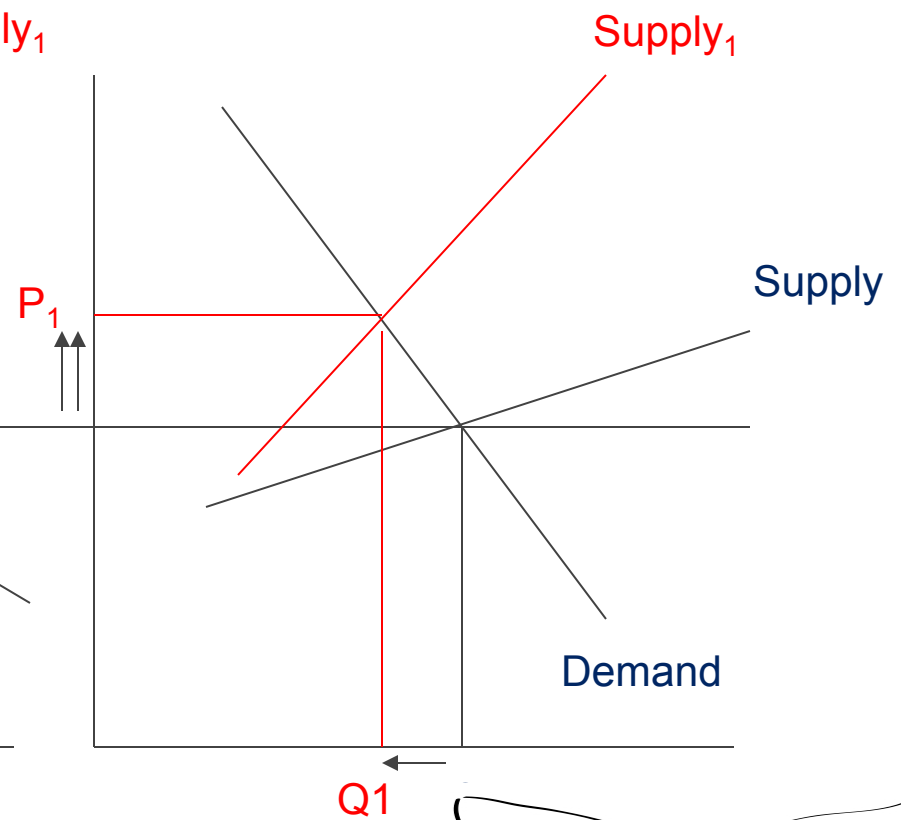


Who Bears the Regulatory Burden?

Panel A

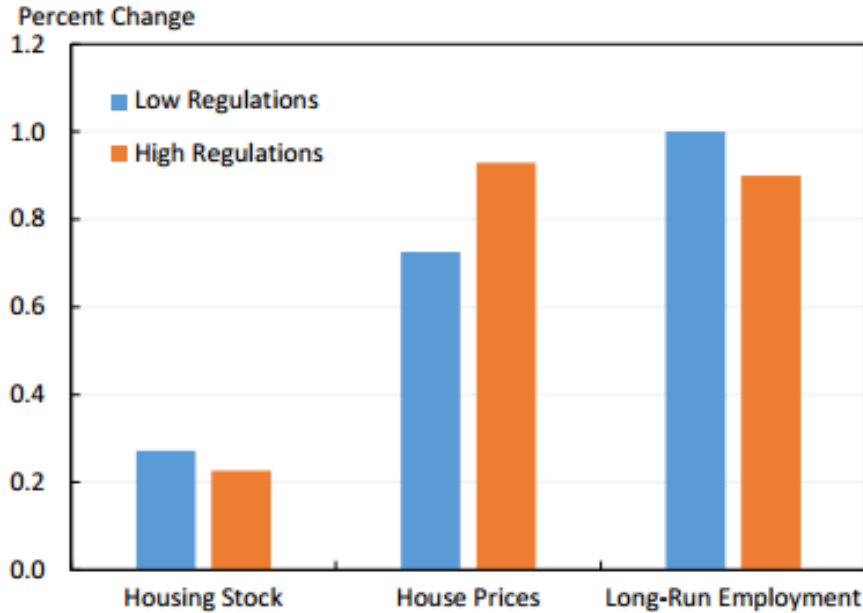


Panel B



Who Bears the Regulatory Burden?

Effects of One-Percent Higher Labor Demand

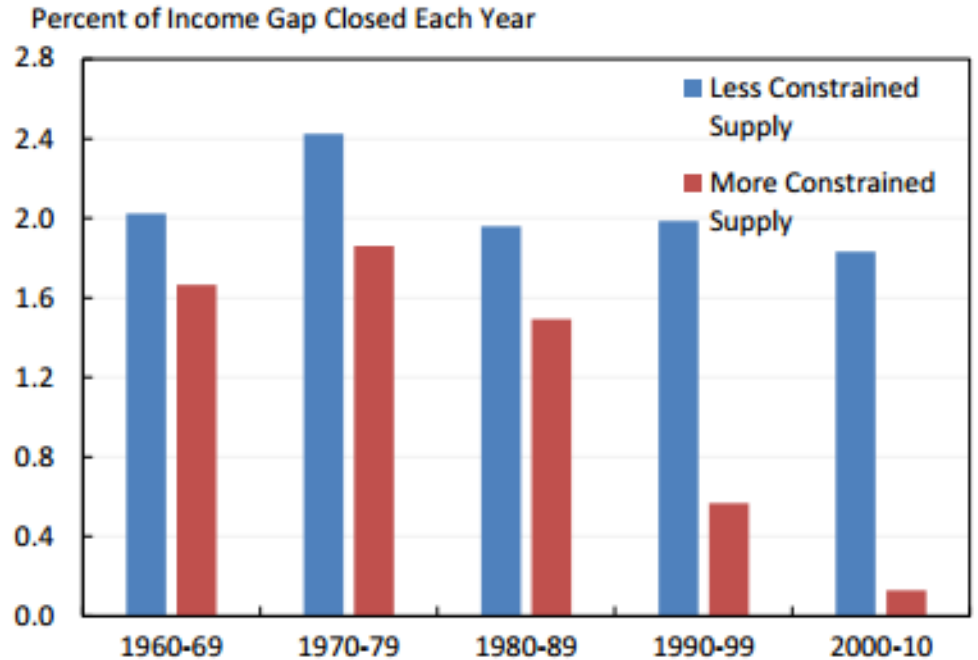


More regulation leads to higher priced houses, fewer new houses and less employment growth!

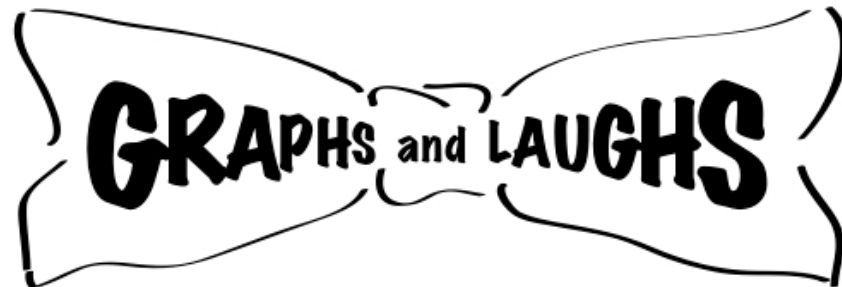
More regulation leads to less income convergence!



Speed of Income Convergence Across States by Housing Supply



Affordable Housing Solutions



Solutions That Require Limited \$

Important to build all types of housing

Ensure EDC growth plans mesh with housing plans

Micro-housing / SRO facilities

Modular/manufactured housing

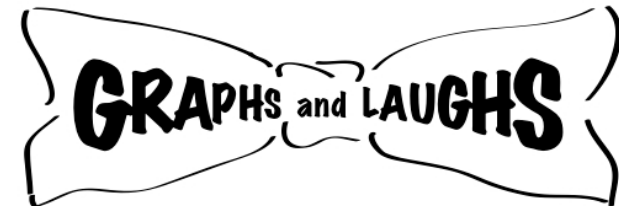
Accessory dwelling units

Dynamic zoning

Experimental overlay districts

Encourage density

Tax land at highest and best use



Solutions That Require Limited \$

Encourage social investing by the private sector

Land banks

End exclusionary zoning

End inclusionary zoning & deed restrictions

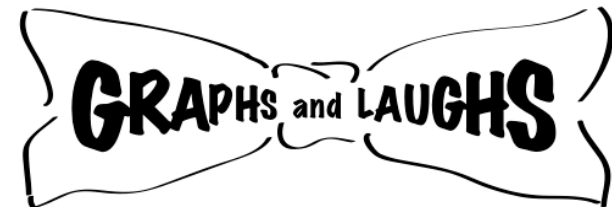
Promote transit oriented development (TOD)

Expedite reviews for affordable projects

Promote brownfield development

Promote household mobility within WA

Continually monitor housing providers



Solutions That Require Limited \$

Encourage auctions to build new units

Reduce the use of impact fees

Don't discourage the building of expensive units

Legalizing pot should be twinned with more construction

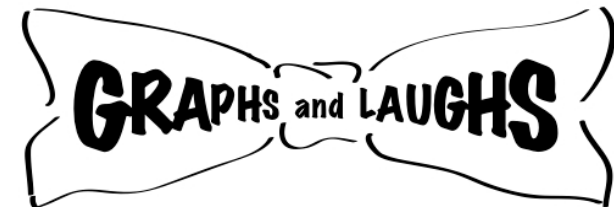
Publicize the housing goal(s) to be achieved

Work with home builders and Realtors

Visitability and universal design are important as we age

Work with Habitat for Humanity

Densify suburbia as it grows out



ANY QUESTIONS?

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www.econ70.com

Do you want to get my daily 70 word economics email?
Please give me your business card or text "bowtie" to 22828

Thank YOU all very very much!

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