What is a Housing �Crisis�?

Posted by Peter Dreier on June 26, 2008

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Do we face a housing crisis when home prices are spiraling upward or when they are tumbling downward? Or both?

Between 2000 and 2006, the median price of a new single-family home (in 2007 dollars) increased from $215,075 to $254,423, according to The State of the Nation's Housing released last week by the Harvard Joint Center for Housing Studies. In many parts of the country, home prices were much higher, and escalating even faster than the national figures.

During that period, however, incomes for most workers and most families stagnated. As a result, affordability levels declined dramatically. Whether they owned or rented, Americans were spending more of their income for housing. Among homeowners, after-tax mortgage payments rose from 17.9 percent to 22.6 percent of income between 2000 and 2006 — add in property taxes and utility costs and the cost burdens are even more severe. Among tenants, gross rent rose from 25.8 percent to 29 percent of income during this period, and again, with utilities, the squeeze on renters gets worse.

By 2006, about a third of all Americans were paying more than 30 percent of household income, just to keep a roof over their heads. The "housing wage" — the income needed to afford a typical apartment in different parts of the country — climbed dramatically, as calculated by the National Low Income Housing Coalition's annual report, Out of Reach. The housing crunch was a reality for a growing number of workers, according to the Center for Housing Policy's recent report Paycheck to Paycheck. Homebuilders, brokers, and landlords were doing well, because demand was growing faster than supply, but consumers were feeling the pain in the wallet. Any way you sliced it, rising housing prices represented a serious national problem, even a "crisis."

In contrast, in the past year or so home prices have been plummeting. This is the result of two overlapping factors. One is the general bursting of the so-called "housing bubble." The widening gap between incomes and housing prices couldn't last forever. The other is the subprime crisis, the mortgage meltdown, and the escalating wave of foreclosures. The new "State of the Nation's Housing" report calls this the "unraveling housing market." In 2007, more than 400,000 households lost their homes, an increase of 51 percent over 2006. The Center for Responsible Lending projects that two million families are likely to lose their homes in the next few years.

But it isn't just borrowers who are losing. Home prices dropped by over 12 percent during a 12-month period beginning February 2007 — much, much higher in some parts of the country. A congressional committee projected a loss of $71 billion in housing wealth as a result of the mortgage meltdown. The U.S. Conference of Mayors projected that 10 states alone would lose $6.6 billion in local tax revenue.

The housing industry — homebuilders, contractors, realtors, brokers, and lenders — is shedding jobs. The decline in home prices and home sales is plunging the country into a

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recession. The nation's homeownership rate, which peaked at 69 percent in 2004, has been declining significantly in the past few years. Meanwhile, however, rents are rising, because there's now more competition for the limited supply of rental housing. In fact, affordability levels haven't really improved, because family incomes — as well as savings and wealth — have fallen.

Nobody, however, is celebrating the decline in home prices as a beacon of more "affordable" housing. Nobody thinks that the growing number of newspaper ads and signs on telephone polls advertising fire-sales of foreclosed homes is a good thing. All these trends clearly constitute a housing "crisis."

Rising home prices — crisis. Falling home prices — crisis. What's wrong with this picture?

The problem is that, under both scenarios, the gap between incomes and home prices persisted beyond what any reasonable society should allow. Why? Don't blame builders, or bankers, or landlords, or homeowners. They were doing what we expect them to do — maximize their returns.

The problem is that the federal government has let "market forces" and greed dominate the nation's housing. Speculation and boom-and-bust cycles will persist until they are reigned in by government. Government is necessary to make business, and markets, act responsibly. Without it, capitalism becomes anarchy. Without clear groundrules, every segment of the housing industry — builders, banks, brokers, landlords, investors, and others — become so short-sighted and greedy that they don't see the train wreck coming around the corner.

The major housing problem facing the U.S. is the gap between what people earn and the price of housing. We can't solve the problem unless we deal with both wages and housing costs.

Growing inequality, stagnant wages, and persistent poverty are one part of the problem. A housing industry that caters to the wealthiest segment of the population, a banking industry that engages in predatory lending and redlining, landlords that exploit shortages by rising rents far beyond their cost increases, and local communities that utiliilze exclusionary "snob" zoning and NIMBYism to keep out working-class people are the other part of the problem.

Government policy can address both aspects of this problem, but only if elected officials and policymakers are willing to challenge the priorities of irresponsible and short-sited corporations and the exclusionary zoning policies of wealthy suburbs.

We need stronger regulations on builders, bankers, brokers, investors, and landlords. We need more subsidies to help working families buy and rent homes. We need a higher minimum wage and an expansion of the Earned Income Tax Credit. We need to pass the Employee Free Choice Act to give workers a stronger voice in their workplaces and society.

America is experiencing a new Gilded Age — a frenzy of corporate mergers, widening economic disparities, and deteriorating social conditions. It now has the biggest concentration of income and wealth since 1928. Under the Bush administration, the incomes of most Americans fell, but the average income of top wage earners (those above the 95 percentile) increased from $324,427 in 2001 to $385,805 in 2006. Wealth has long been much more unequally distributed than income; that inequality has recently increased. More than 37 million Americans live below the poverty line.

Not surpisingly, the American Dream — the ability to buy a home, pay for college tuition and health insurance, take an annual vacation, and save for retirement — has become increasingly elusive. American workers face declining job and pension security — what Jacob Hacker calls the "great risk shift." The cost of food, health care, and other necessities is rising faster than incomes. A growing number of families are in debt.

Whether housing prices are rising or falling, these underlying conditions persist. Until we address these fundamental problems, we won't solve the nation's housing problems. And we'll continue to have a housing crisis.

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William Youngblood
1 Jul 08, 8:47 pm

There are two other considerations to think about when discussing housing for those of lesser economic means: the first is the tremendous over-regulation at the State and local levels having to do with land/project approvals, an insufficient amount of land zoned for affordable housing (10% in California) and the over zealous planners who truly believe they know the way. All of these have contributed significantly to the housing boom/bust cycle. The second issue is that houses are just too big. Until about the mid 1960's, houses were mostly around 800 square feet - the size of most master bedroom wings these days. Houses are just too big! In addition the housing construction process has been stuck in pre-industrialization mode since balloon framing came along. This entire process needs to be re-thought given the need to preserve what resources we have left.
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