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Beyond the Mortgage Crisis, a Persistent Problem of Cost

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By Roger K. Lewis
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There's a growing problem in this region that we don't hear enough about: the continuously shrinking supply of affordable housing.

The problem is also worsening in other metropolitan areas with stable economies, escalating land and construction costs, and climbing real estate values.

The supply and affordability problem affects more than those at the bottom of the income pyramid. In Washington and elsewhere, it's increasingly difficult for middle-income households to find, buy and keep a home.

Now, as conditions in the housing and credit markets deteriorate, we may hear more about the supply of affordable housing, as opposed to the supply of affordable financing. Perhaps we will again consider the needs and methods for delivering housing, and the costs.

Attention has focused on the obvious, far-reaching financial story. Who has not read about the subprime mortgage debacle with its deluge of foreclosures and loss of wealth, about the intense pain inflicted on borrowers, lenders, investors, and housing-related businesses and workers?

Incredibly lax home-loan underwriting practices, the primary cause of the debacle, were intended to make the unaffordable affordable. Almost all the housing produced in recent years was affordable not because of subsidized land and construction costs but rather because home-financing standards went out the window.

Less obvious, and less frequently analyzed and reported, is the profoundly troubled relationship between real housing production costs, the cost of financing and household income.

This critical economic relationship was lucidly addressed this week in a [Washington Post](#) op-ed article, "Don't Blame Subprimes," by Michael Hill, president and chief executive of Emerge Homes, a luxury builder.

"Those bad loans were just a response to our real problem," the op-ed's subheadline proclaimed. "What's happening in the market today is not the bursting of a five-year bubble," Hill wrote, "but the bursting of a 40-year bubble" and "the incongruity between incomes and home pricing."

Hill cited sobering national statistics. Median household income was about half the median price of a home 40 years ago. Twenty years ago, the median home price was approximately three times median household income. During the past decade, the ratio of home price to income nationally reached 4 to 1.

In regional urban markets such as Washington, ratios are much worse, because local median home prices are substantially higher than national medians. "Try to find a single-family home in the D.C. area for the

national median of \$221,900," Hill wrote. Instead, he said, the median home price in metropolitan Washington is about eight times the median household income.

Hill concluded by suggesting a financing solution to the price-income incongruity: a new kind of "mortgage product," an alternative to the conventional, 30-year fixed-rate or adjustable-rate loan. He didn't offer details.

Innovative financing could help, but it would only partially close the price-income gap, especially considering how capital is generated, priced and allocated in today's worldwide markets.

The gap will remain wide unless we also address housing supply and production costs, which continue to rise and put most market-rate housing out of reach of millions of households. In fact, no matter how financing is structured, subsidies in some form will be needed for much of the middle class.

There was a time when Americans embraced national policies that recognized and tried to close this gap using below-market financing and affordable-housing production subsidies. But such federal policies were swept away after 1980, when [Ronald Reagan](#) was elected president and public attitudes about housing changed. Since then, progressive state and local jurisdictions have stepped up their efforts to foster production, often with limited money and mixed results.

For example, [Montgomery County](#) has sought to increase the supply of affordable housing by requiring developers of multi-unit residential projects to set aside a specified percentage of units as moderately priced dwellings, to be sold or rented at below-market prices. As compensation for subsidizing what are known as MPDUs, the developer is granted density increases.

But the county's policy is flawed. Developers have had the option of buying out of the MPDU requirement by contributing money to an affordable-housing fund, intended to finance housing to be developed in the future at other sites. The fund has grown, but the number of MPDUs not provided by developers has far outstripped the number of MPDUs produced by the fund.

The county's goals are noble, and the private-public policy is sound. But even if the flaws are eliminated, the county will never close its affordability gap without more direct subsidy and more county-sponsored housing production.

It's telling that in [Europe](#), publicly financed housing is called "social housing," while here we typically call it low- or moderate-income housing.

The European term expresses the civic purpose of affordable housing, which in many European cities is built by government and inhabited mostly by the middle class. In contrast, American terminology stigmatizes such housing by describing the limited economic means of its occupants.

Perhaps someday we will come to believe that it wouldn't be un-American to build publicly financed social housing to ensure that America's workers have a decent place to live.

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