

The governor and the high price of homes

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The recent well-publicized Cranston land sale that put the governor of Rhode Island in the spotlight, has raised questions about the ethics of a public figure being involved in a highly profitable real estate deal.

The propriety of Gov. DiPrete's actions will be debated by the politicians in this coming election, and the outcome of that discussion will likely influence the decision of many voters in their choice for the state's top government position; even though DiPrete has withdrawn his name from the firm involved. But that land sale has also raised questions about the factors that play a role in determining house prices in the state.

It should be stated that if the governor were not involved in that land deal, then the publicity associated with it would probably have not occurred. The sellers probably would have received heaps of praise from those who knew them as sharp operators who worked a smart operation that brought a Texan into the state to develop the land.

This is what real estate speculation is all about, and it goes on all of the time. For those who know the system well, it can be highly profitable as that sale demonstrated.

The Cranston land sale raises a question of affordable housing, an issue that the governor has strongly addressed and for which he has had legislation enacted. He feels strongly that impact fees and small house-lot size are two measures that can reduce the cost of housing. In fact, his major objections to the Comprehensive Planning and Land Use Regulation Act that became law without his signature this past June were that the act did not address these two points.

The act is a long-range view of land development throughout the state and purposely did not address the immediate issue of affordable housing. The housing affordability question was handled by several pieces of legislation that were passed at this last session, some initiated by the governor and some by the General Assembly.

Impact fees are becoming more common in the country as a measure by which communities collect "up-front" money from developers to help pay for the impact of development upon the community. New roads, schools, amenities and other additions to the municipality that will be used by the new residents are being paid for by the new residents when they move into the community, but the developer normally pays the fee for each home, and the cost is added to the price of the house.

In Rhode Island, only four communities currently impose some type of monetary impact fee; Cranston is one of these communities.

Can house prices be lowered if house lots are reduced in size? This argument has been made by the Rhode Island Realtors and others who recognize high land-cost as one reason for inordinately high house prices in the Providence metropolitan area.

The Realtors, in fact, recently released results of a study they did of Rhode Island residential lots. The average price of a house lot was \$71,436 this summer, up by a whopping 56.4 percent more than last year.

In this state, where land costs run at 30 percent to 40 percent of the cost of a house, that land cost would push the average house price to more than \$200,000. The median house price here is \$130,000, but it must be remembered that this is the sale of an existing house, while land cost addresses a new house to be built sometime in the future.

We are not alone in having to cope with land shortage and high land costs. Recent figures from Connecticut suggest the cost of land is 44 percent of the total cost of a house. So the question of high land prices needs to be addressed if house prices are to become affordable.

Are smaller lots the answer? In a recent report, the Rhode Island League of Cities and Towns states that "there is no evidence that 1) smaller lot sizes will significantly reduce overall house sale prices, or 2) smaller lot sizes will make a

significantly greater number of houses or rental units available to low- and moderate-income families."

The Cranston land deal proves this statement. The 8.8 acre site was zoned for 108 units; this works out to 12 units per acre. At the first sales price of \$470,000, the land cost for each unit would be \$4366, or \$1.23 per square foot.

The property was rezoned at double the density, 216 units, which means that the amount of land for each unit would be one-half that of the lower density, or 24 units per acre. At a price tag of \$2.4 million, the land cost for each unit would increase 2.5 times to \$11,112 per unit, or about five times to \$6.26 per square foot.

Put another way, the land cost of one unit on a large lot would be \$4366 but that same land would cost \$22,224 at the higher selling price, a cost more than five times greater, although the number of houses would double.

So the question remains: How does reducing lot size help to lower the cost of housing? In the above example it doesn't and, in fact, would make the house price greater.

The Cranston land deal demonstrates two things:

- lowering the size of house lots does not reduce the price of housing; and

- there needs to be a land-speculation tax in the state.

There are individuals who are taking advantage of the current shortage of buildable land, and the Cranston sale is one of many that have been repeated over and over. Developers get rich, consumers pay too high prices, too many people are priced out of the market and, most of all, the community of which that land is a part, gets no benefits at all.

Communities have to recognize that land is a decreasing commodity, and the sale of that commodity must ensure that community good comes with individual gain. If they and the state do nothing, soon the cupboard will be bare, and the community will have lost its most precious asset.

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