

Land costs make for high-cost housing starts

Smolski

(Continued from page 17)

By Chester Smolski

Urban Deeds

Here in the Northeast, where housing prices are among the highest in the nation, it is difficult to find measures to reduce the price of housing to make it more affordable. Even with talk of an impending recession, house prices have moderated only slightly, and the real estate business finds itself in a very troubled state.

With close to 11,000 houses currently on the market through the Multiple Listing Service in Rhode Island, sales of existing housing down more than nine percent in the first six months of the year, building permits down by 12 percent through the first eight months of this year and a median house price of \$127,000, it is difficult to be overly optimistic about affordable Rhode Island real estate in the near future. Surprisingly, even with a slowdown in the economy and the distressful state of the housing business, house prices have moderated only slightly. The Providence metropolitan area is now the 18th most expensive in the nation, according to the National Association of Realtors. That compares poorly with the \$97,000 national median home price.

If recent indicators of the economy continue in their dismal state, prices for existing housing will likely moderate, but new housing will still continue to be a problem. The US median price for a new house in August stands at \$120,200, according to the Census Bureau, continuing its upward movement. But the slowed economy has caused forecasters to project new housing sales this year only at 500,000, compared with 650,000 last year.

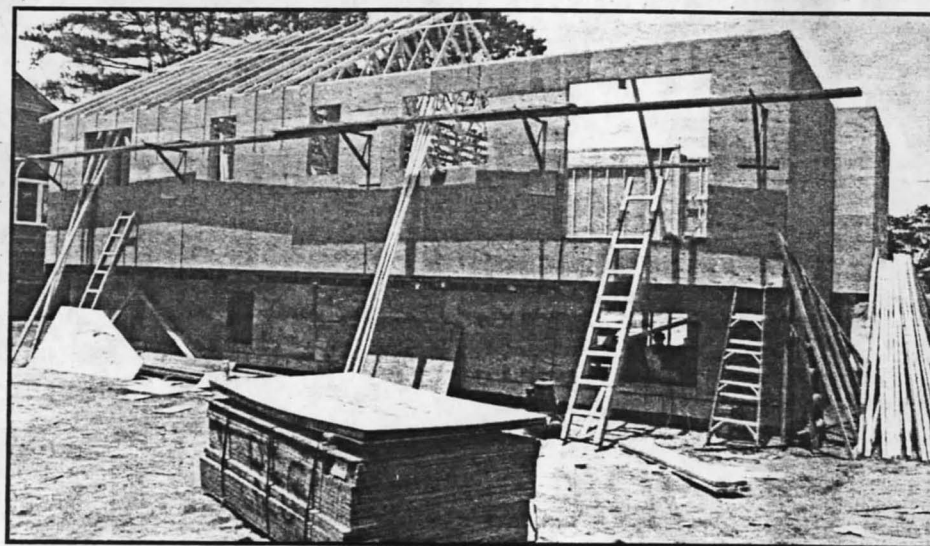
Given this dismal state of the housing market, what can be done to mollify the situation?

The August issue of *Housing Economics*, published by the National Association of Home Builders, reports on a national survey on construction and land development costs. In the period between 1949 and 1989, it found that labor and material costs had declined from 69 percent to 53 percent of the price of a new house. But land, by comparison, had increased from 11 to 22 percent nationwide, and in the Northeast, land costs represented 28 percent of the price of a new house.

The US Census Bureau claims that the average price of a residential lot has climbed by 813 percent in the last 20 years, with more than one-half of this increase occurring in the past five years. The average residential lot price of \$5200 in 1969 represented 19 percent of the cost of a house. In 1989, the \$42,300 lot price represented 28.5 percent of the price of a house.

A recent study by the Urban Land Institute looked at land prices in 30 urban markets, and corroborated these figures. Based on a standardized improved lot of 10,000 square feet, lot prices went from \$25,817 in 1985 to \$41,963 in 1990, a 62 percent increase. Measured another way, lot prices increased six percent annually during this period, while the consumer price index went up by only four percent annually.

As house prices vary regionally throughout the country, so do lot prices. The 1990



If recent indicators of the economy continue in their dismal state, prices for existing housing will likely moderate, but new housing will still continue to be a problem.

photo by Peter Goldberg

ULI study found that a 10,000 square foot lot in San Jose, Calif., was worth \$230,000, while the same-size lot in San Diego, Calif., was valued at \$150,000, showing five-year increases of 27 and 25 percent, respectively.

Although not as high in price as in these two cities, the presently hot city of Seattle, judged to have the best residential and business climate, has seen lot prices escalate by 20 percent from 1985 prices. Seattle's median home price in the second quarter of this year, at \$147,600, represents a 35.5 percent increase over the past year, making it the highest increase in the nation. Land costs are a major contributor to this phenomenon.

Not all land prices increased, according to the ULI study. Houston's lot price of \$18,000 tied with Cincinnati as second

lowest, down by 10 percent from 1985 to 1990. Louisville, at \$23,000, and New Orleans, at \$32,000, were the only other of the 30 urban markets studied to record a decline in lot prices.

According to *Affordable Housing Bulletin*, "Land costs are now one of the major impediments to building affordable housing." If that is the case, and the above figures would appear to confirm this assertion, what can be done? In Rhode Island, the problem is especially acute, with house lots averaging approximately \$69,000, according to Thomas Mulhearn, executive vice president of the Rhode Island Association of Realtors.

One has to keep in mind that buildable lots lead to the construction and sale of new

(continued on page 18)

houses, versus the sale of existing houses, where lot prices are not considered. And new houses cost more than existing houses. For example, at the national level, as mentioned earlier, the current price of a new house is \$120,200, versus the \$97,000 price of an existing house. So even though the price of an existing house in Rhode Island is \$127,000, the price of a new house would be considerably higher. Using the \$69,000 average lot price as a guide to represent the almost one-third of the price of a new house commonly cited here, the typical new house would cost more than \$200,000.

Given the inordinate land prices in the state, which rank Rhode Island fifth among the 30 urban markets studied by ULI, what possibilities are there that might make land and housing affordable? Simply stated, building at higher densities, on smaller lots, would result in savings from 20 to 50 percent. This has been the case in California, where land costs are among the highest in the nation.

Not only do builders construct houses on smaller lots, but they also have the use of innovative zoning in that still rapidly growing state.

What this means is that the land is used more efficiently, thus it is cheaper and reduced as a percent of the total cost of the house. It does not mean that houses are necessarily inexpensive. For example, in the Huntington Beach, Calif., Ocean Point development, a 2700 square foot house sits on a 2875 square foot zero-lot. The \$460,000 price of the house would be approximately \$700,000 if set on a typical 6000 square foot lot, as is common to the area.

The \$180,000 price tag for a detached house on a 50-by-100 foot zero-lot purchased in the Spring Knolls development in Old Bridge, N.J., would be at least 20 percent higher if the typical 100-by-100 lot had been used. And the buyer, a bachelor, reflects the view of many other prospective home owners who claim that they don't want to do the grass: They are quite happy with a small patio.

Are such innovative zoning measures possible in Rhode Island? Yes, they are, but the process would be made easier if the General Assembly had passed the Zoning Enabling Act in their last session. Put together over a two-year period by the Land Use Commission, a body consisting of builders, developers, environmentalists, concerned citizens, academics and others who were able to compromise their views to get a good bill, this second stage of land use planned for the state was killed by politics, personalities and other bills that may have gotten in the way.

Land costs will continue to rise, according to the National Association of Home Builders, because of increasing scarcity and the continuing rise of development costs—including impact fees—open space dedication and zoning constraints aimed at limiting growth. To counteract these measures, efficient and increased use of the land for housing would help lower housing costs. This requires a more enlightened view toward some of the archaic zoning practices currently in vogue in the state.

Passage of the Comprehensive Planning and Land Use Regulation Act in 1988, a model for development, now needs new zoning techniques to make it happen. This is why passage of the Zoning Enabling Act, the means to implement innovative zoning, must be high on the agenda of the next General Assembly.

Chester E. Smolski is the director of urban studies at Rhode Island College.