



nerej

Housing: Is it the engine or result of growth?

February 09, 2012 - Appraisal & Consulting

As I was thinking about what type of real estate story to write this month, I came back once again to the housing market. I realized that the reason I gravitate to housing is that it encompasses so many of the economic and social factors in our lives. It involves almost everyone: average Americans, bankers, brokers, politicians, lobbyists, religious leaders, the list goes on. Housing is considered both a bell weather of the economy and a force unto its own A cause and an effect, all at the same time.

Housing is unlike commercial and industrial real estate. Those real estate sectors represent a truer reflection of principles of demand and supply. When the need increases, that kind of real estate is built. Although not absolute, there is little government involvement, no social policy, little emotion with commercial and industrial. Yes, bubbles have occurred and areas have been overbuilt, but for the most part the stimulus for growth here is more purely economic factors. Not so with residential. What are the residential factors that foster more of a "misallocated" market in that sector?

- * First, and most obvious, housing is shelter, a basic need on a level with food and water.
- * Besides shelter, housing has also been a personal investment, and in recent times has provided borrowing ability to enhance wealth.
- * Housing involves the total population, unlike sectors such as commercial and industrial, which have less participation.
- * As a result, and perhaps most importantly, housing is of interest to the government and Federal Reserve, whether it's from politicians seeking votes, lobbyists promoting jobs, or social policy advocates looking to ensure a house for every person. Overall, there are interventions and manipulation at many levels.

Made worse by our financial collapse in 2008, housing is more than ever considered an engine of growth that can fix our problems. Economists and politicians feel that we cannot move forward until the housing crisis is solved. The question is, what is meant by "solve." Since housing is currently over supplied and under demanded, the logical economic solution is to stop building until the existing supply is mostly absorbed. But many do not see it this way. Since they view housing as an engine of growth, they believe we need to "build" ourselves out of the recession. They believe we need to provide every fiscal stimulus possible to "create" new demand, even as houses remain vacant, boarded up, and under litigation.

As an example, the National Association of Home Builders (NAHB) stress the need for policy makers to remove housing production barriers that they believe are preventing a market recovery. NAHB says housing can be the answer that policy makers have been searching for to boost jobs and economic recovery. They believe that the tightening of credit and stricter down payment qualifications, by dampening demand, are hurting the recovery, rather than providing the solution to the crisis.

As long as there is confusion between whether housing is the engine of growth, or the result of growth, there will be these diametrically opposed views as to the solution. The engine of growth group believes that "if we build it, they will come," i.e., if we can simply build houses and create construction jobs, GDP goes up, workers have money to spend, and the economy will grow. The other side argues that housing should be treated like other types of real estate, that we should build it when we need it. It should not be influenced by social policy and government stimulus which can set up in-balances.

When we decide what is the cart and what is the horse, what is the cause and what is the effect, and what is their order, we will perhaps understand and act upon the best solution.

Daniel Calano, CRE, is the managing partner and principal of Prospectus, LLC, Cambridge, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540