

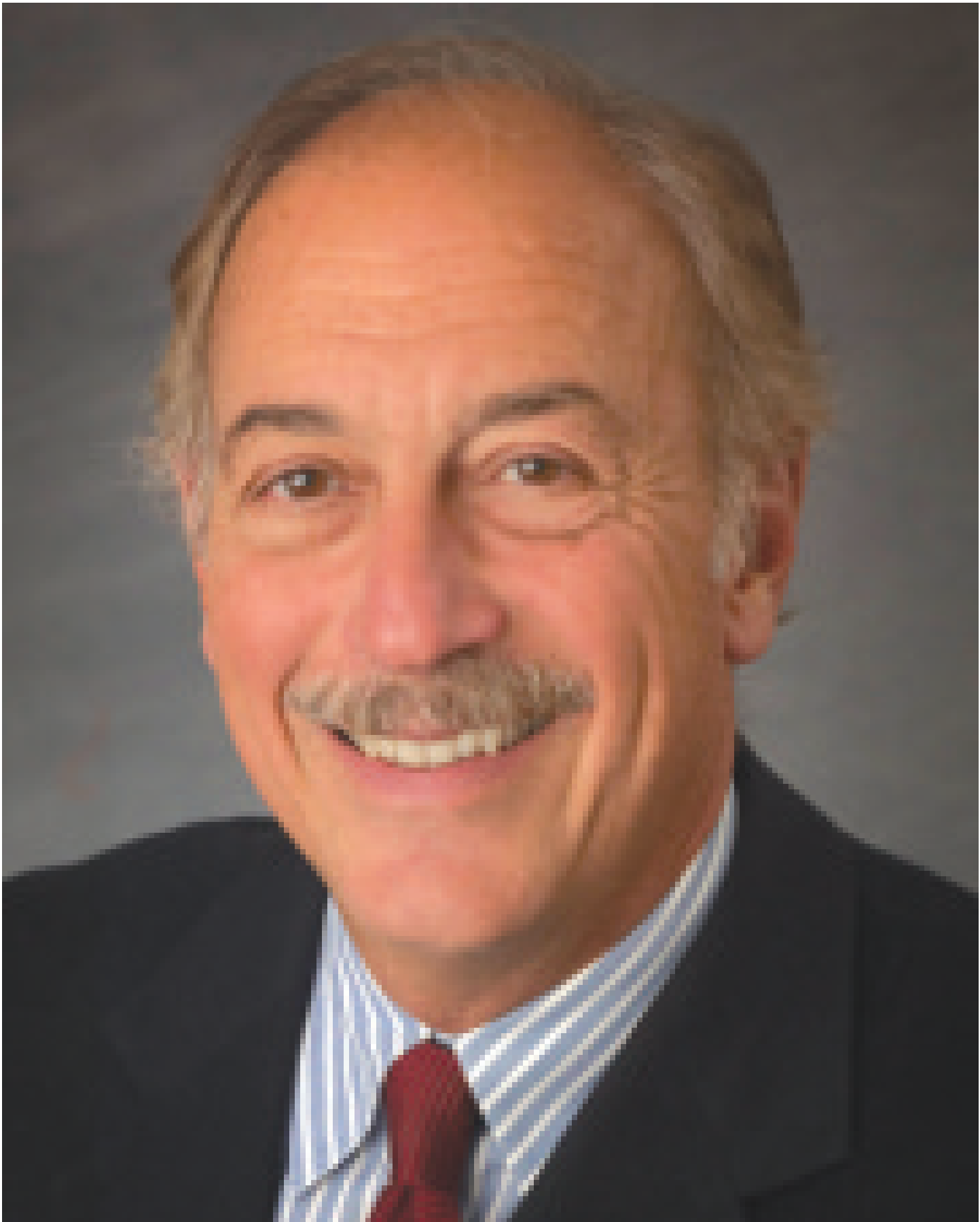


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Affordable housing: Continuing the conundrum - by Daniel Calano

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Everybody agrees: Housing is expensive, or worse, not affordable, at almost every level of society. Cities have been working on the problem forever, housing advocacy groups likewise. I wrote about it a few monthly articles ago, and this is a needed update. Simply put, the problem is still that there is more demand than supply, some suggesting that hundreds of thousands of housing units must be built to make a dent. But the problem is far more nuanced than that. And, there are now more problematic issues in play. As the song goes...“I can see clearly now, but the rain is (not) gone.”

As I wrote before, the Federal Reserve Bank helped fuel inflation by funding the “COVID economy.” And now, it works hard to lower inflation, dramatically far down, to something below a 3% CPI, in contrast to the current 6%+. The past few years of quantitative easing, creating inflation, are now being reversed with aggressive quantitative tightening. The impact has been successful, with increased rates lowering demand, thus costs for materials, and to a smaller degree labor, the main ingredients in housing construction.

In many areas, the year over year average cost for buying or renting shelter has been reduced by a range of 5 to 10%... Good, but not good enough. Labor is still expensive for all businesses, alongside an historically low unemployment rate, with any job openings thus being negotiated at high salaries. As a result, the Fed is openly and aggressively trying to increase unemployment, thus making more jobs available at lower cost. The double whammy is higher borrowing costs with which to buy housing, combined potentially with lower income due to job and income loss. Not a good formula for buying affordable housing. The irony is that the Fed wants very much to reduce housing costs in a lower inflationary economy. But, in the process, it is also reducing the buyer income with which to buy. Also as a result, builders are less enthusiastic about speculative housing construction, recognizing that buyers have less money, lower credit and weaker access to banks.

On top of basic financial problems, there are other newer difficulties emerging. One main one is recent verification that younger potential buyers have to pay off their college loans. This is a significant detriment, if not impossibility, of having enough available income for first-time purchases. With so many college students having borrowed money over the years, and college costs so high, the realization that loans must be paid off has clearly depressed young buyer interest. Further, it is recently reported that some potential buyers have given up on buying a house and decide instead to spend their “savings” on more “experiences,” travel and goods, a sad situation indeed.

Some other new disincentives relate to government gridlock, shutdowns, future elections, and larger global events. The argument continues about whether the U.S. will have a recession, but it already exists in real time across parts of Europe and Asia. As a main example, China is in the throes of a recession, with major housing slumps and related business failures. Even this is unclear in its magnitude, since the Chinese government is opaque about what is going on. All in all, the environment is in for more uncertainty.

While all this does not comprise a “black swan event,” there are many factors negatively impacting housing affordability. The pundits do not agree on how long impacts will be negative, but many

suggest that the full impact of these issues will be realized over the next two to four years. Let's hope otherwise. The truth is, however, that government intervention during difficult COVID times was well intended, but led to inflation. And now government intervention, also well intended, is leading towards a deflated less vibrant economy. Not meant to be a political statement at all, but it does seem to be the facts.

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