

Final - Gaggle - Housing crisis.mp3

Mary Jo Pitzl [00:00:05] In her second year, governor Katie Hobbs red veto stamp hasn't gotten nearly as much use as her record breaking first year. But just last month, Hobbs did deny House Bill, 2570, called the Arizona Starter Homes Act. This was her second veto of the year, introduced by Republican Representative Leo Basuki from Lake Havasu City. The bill was intended to make homebuilding more efficient and thus more affordable. But Hobbs said the bill couldn't guarantee an affordable home price. She argued it went too far because it cut much of the local control that cities have over development. The bipartisan coalition of lawmakers who backed the bill said it was the best approach they had to the affordability dilemma that Arizona is in the middle of. Despite this rare across the aisle proposition being shot down, lawmakers say they haven't given up and they plan to work to make a meaningful impact on housing yet this session. Welcome to The Gaggle, a politics podcast by The Arizona Republic and azcentral.com. I'm your host, Mary Jo Pixel. I cover state politics and policy for the Republic. Today we're joined by Mark Stapp. He is the Fred E Taylor Professor of Real Estate at the W.P. Carey School of Business at Arizona State University. Step joins us to talk about what would ease the crunch on housing prices and what Arizona politicians can learn from efforts made outside the state. Well, Mark, welcome to the gaggle.

Mark Stapp [00:01:52] Well, thank you for having me here.

Mary Jo Pitzl [00:01:54] Well, let's jump right into it. We're talking about housing affordability, and it seems like basic economics. Right? To make home affordable, the costs of creating it need to come down. So talk to us about what are those cost savings. Is it the regulatory framework materials labor. And is it realistic to think that we can achieve cost savings, especially in a market like Greater Phoenix and beyond, where housing prices have gone up so fast, so quickly?

Mark Stapp [00:02:26] So the answer Mary Joe, is all of the above. There is no single one thing that we can say if we fix that, or if we reduce that particular cost, then the cost of the housing would come down uniformly across the metropolitan area, across the whole country, for that matter, is not going to happen. And you're right, it is basic economics. When you look at all of the costs associated with creating a house, there are many and there are many that are completely out of the control of the home builder. And there are many things that we would call exogenous, meaning they're coming from the outside. So interest rates as an example, you know, people look at mortgage interest rates and they say, well, you know, mortgage interest rates are going to come down. Homebuilders are buying down those rates trying to get people into new homes, making it more affordable. But, you know, interest rates affect the home builder too. They affect their cost of capital. It affects the cost of capital for all of the suppliers that are doing business. It affects the cost of capital for the people were selling the land, you know, so that one thing runs through the entire system. And there's a lot of components in a house. And the people have looked at the housing industry and said, you know what? Here's the the magic fix is 3D printed homes. If we can do that, you know, we'll be able to have affordable housing. Well, when you look at the cost of building a house, for instance, let's the framing, which is what the 3D printed home is replacing. Essentially, the structure is only about 18% of the house. And with 3D printing, you don't get it for free. You may have less cost, you may save you some time, but you're only affecting the cost of the home marginally. You still have all of the other things the land, the water, the sewer, the grading, the permits, the interior finishes, the floor finishes, the appliances, the cabinets, the carpet, all of that stuff you still have to pay for. So let's just one example of saying, if we could just fix that one thing, if we

could have prefabricated homes, it would be much cheaper. You can affect things marginally, but you're not going to have a profound across the market fix. You know, the other is the regulatory environment. If we just get rid of zoning, well that's not necessarily going to do it either. Number one, I don't think that that's going to happen. Two is you still have some regulatory costs like permits, impact fees, other regulatory costs. They get included in this as well. You can increase density in that helps reduce the overall cost within a project. But you know these are marginal cost differences.

Mary Jo Pitzl [00:05:29] So that's what it gets us to. The Starter Home Act, the legislation that came out of the Arizona legislature a couple weeks ago, which Governor Hobbs vetoed, saying it went too far. It really wouldn't guarantee that you'd get an affordable home. So can you critique that bill? I mean, it seems like it was presented as a bit of a silver bullet, apparently, since you're saying it's not just one thing, but many things. But were there strengths and weaknesses in that legislation?

Mark Stapp [00:06:01] Listen, it was focused on trying to remove some of the constraint to adding more inventory as much as anything else. This is a supply and demand issue. And I think one of the things the bill was trying to do was remove barriers to adding more supply quicker, and by adding more supply quicker, by removing local jurisdictional barriers where you can reduce costs, you have more certainty. It doesn't take it was long in the pre-development phase. You know, there's some number of benefits there. So I think that that's what the target was, is to try and increase the amount of supply in a way that does it quickly so that it has an impact. On supply and demand. The thing is, a lot of the costs that we're talking about aren't always related to supply and demand imbalance. So again, I think that these things have marginal and not outsized impacts, because although you might remove the barrier of approval, you still have all of those other regulatory across the permits, the impact fees, things of that nature which will still be embedded in this. So I think one of the downsides of that is, and, you know, I have a tendency to agree with this. Simply removing local jurisdictions from the approval process completely isn't necessarily a good idea in the long run, and can have unintended consequences. So those are a couple of thoughts about the bill.

Mary Jo Pitzl [00:07:40] You know, critics of that bill during the debate were pointing out that there's like more than 100,000 units that are through the pipeline. They're ready to go to be built, but it's not happening. What's the holdup?

Mark Stapp [00:07:54] Well, you know, the other thing is you have to get approvals from staff in local jurisdictions, right? So you have plan approval, you have inspections, you have other things like that where although you might remove the zoning component, you still have this other involvement. You know what you know. So I'm not saying you get rid of those things, but people have to realize that you simply don't go from, oh, no zoning to let's just start building houses, right? You have subdivision ordinances, you know, design processes. You have to go through your plan, review, you have permits. All those things only take time. The other is the builders have to feel as though they can sell the homes. And they're a lot of their costs have nothing to do with their local regulatory environment. Some of them do. You know, some of them are the cost of lumber, the cost of appliances, the cost of flooring, the availability of labor and the cost of labor to be able to build the homes. Availability of land that is developable. It costs that support that affordable housing. So I don't think the bill was going to was going to solve those problems. And, the cost of, of mortgage rates is obviously a big part of this as well. And it would have no effect on that. So again, you're going to collect one part of this whole complex process and do it marginally. It's not going to end up creating a significant reduction in the cost of homes.

And then, you know, the market has a say in this. And we have a very, very, very tight supply of existing homes. We're really depending on home builders to make up the inventory necessary to support our, you know, growing economy because of the jobs growth we have. And that's been difficult to do too, because, you know, there's that what they call the locking effect on existing home mortgages. You get 80 some percent of mortgages are 5% or below. And, you know, people don't have the economic trade off incentive if their mortgage rates are very low, 60 some percent or 4%. So there's a big difference there that also impacts. And then I think the other the other part of this is simply because you have units available in the form of lots, doesn't mean they're in the right place, doesn't mean that they are the right type of home for the buyers that we are getting in the marketplace. You know, there's a lot of matching concerns. Simply saying we got a lot of lots that may be available doesn't mean the employees that are coming to this market. The new residents want to live in that place. You know, that's that's also a little bit more difficult in trying to make sure that we have inventory that is wanted and needed. In the places that it's wanted and needed it places that are wanted and needed.

Mary Jo Pitzl [00:11:03] So if I'm a home buyer and I'm listening to this, I'm I'm getting pretty discouraged. Is there a way out? I mean, is there a prescription or a pathway that's been defined that would work in this market?

Mark Stapp [00:11:18] You know, I think there's there's no one single thing. So the bill that we were talking about earlier is focused on one particular aspect of the process. When we use the term affordable housing, it means something very specific. I think when we're talking about market rate housing, we're talking about attainable housing, and we're talking about housing that the first time homebuyer can afford. And again, that's very difficult to do. I think the recognizing the fact that we have to have a mechanism that allows more inventory to be built and buy any more inventory at all levels, you're going to impact the market. I don't think that the market solves this problem itself. I think that there has to be regulatory incentives that are put into the marketplace, and those incentives might include things like allowing higher densities. I think that's one of the things the bill was trying to do, because if you can get more units on the same piece of property and you have costs that are common to all those lots, you can get more lots. You can reduce the per unit cost. Right. That's what builders are trying to do. So I think that I think a good thing is we have to be able to allow that to happen. We have to allow more housing in all types. Right. So there's what they call the missing middle. And the missing middle is those densities that are townhouses, that are duplexes that are, you know, they're not the single family detached through the patio homes, the slightly higher density ownership to be developed without a lot of pushback by neighborhood groups and political officials have to have, I think, the political will to say, you know what? This is for the good of the entire community. Although you may not like it, you are also not going to live here forever. And this is about the overall community itself in itself, and we need that to happen. Well, if you're really talking about affordable housing, there needs to be other kinds of incentives. And I think reducing permit fees, reducing the time frames that staff take to review plans, subdivision plats, permits, I think getting staff involved in the process and saying, listen, it's imperative that we get things through this process faster. And then there's no substitute for interest rates coming down. I think that's obviously a big a big one.

Mary Jo Pitzl [00:13:52] So we look at things like Arizona's Housing Trust Fund. You know, last year the legislature put an historic 150 million into that fund to match federal dollars to help subsidize the cost of maybe getting into a home or continuing to afford one. How much does that fit into this whole diaspora of options?

Mark Stapp [00:14:15] Yeah. So the the Housing Trust Fund was, I think, you know, historically really focused on trying to help develop affordable housing. And that's a entirely different kind of animal when we talk about affordable versus attainable. Could it be used? Sure. Because, you know, it's about interest rates. It's about down payments. It's about the ability to afford without making yourself house poor. And so the application of those funds on a highly organized and readily available scale to help homeowners that are first time homebuyers certainly makes a difference. I don't know that it changes the cost of the housing. What it does is it helps people get into the house. Right. So those are two separate things here. But I think it's you know, I think that that's obviously important. But we're talking about affordability and housing. We're talking about all kinds of rental and ownership. And we have affordability issues in both. And unless we've got the incentives in the marketplace to allow more units to be built in, more units to be built in less time, it's going to be hard to solve the problem.

Mary Jo Pitzl [00:15:33] So it's our policy should focus more on housing, the attainability aspect of housing or affordability. I think in the general, you know, mindset, they sort of get conflated. But is there one that takes precedence over the other?

Mark Stapp [00:15:49] I don't think so. I mean, when we're talking about true affordable housing, what would be considered, you know, from a federal perspective? Housing people poor. I would say 60% in below the area median income. That's an entirely different marketplace as opposed to attainable housing, which is, you know, people that are probably 80 to 120% of area median income. That lower end requires subsidy. There's just zero doubt about it. You need governmental subsidy and incentives in order to house people who are poor. And I'm talking about working poor, and I'm talking about people at the lower end of the income spectrum and people who have a variety of issues that keep them from either staying in housing or getting housing at all. That's critically important to us. I mean, just look at what was happening with the social services campus. There is a bigger disconnect between housing costs and income. This problem is going to expand and the market will not fix it. It's going to require public policy decisions in subsidy, period. That's hard. It's hard for sometimes because of political, ideological reasons. But unless we can do it, it's not going to be solved. Is it relates to the attainable side. There's a variety of programs that can help people get in their homes. But as it relates to simply lowering the cost of these homes, I don't think it's going to happen. Here's an example. If you look at what our average price of a home sold. Existing homes sold in January. It was \$786,000, I think, whereas the average was, I think 475. So the reason for the average or the median was for 75. The difference between the average and the median is because it's highly skewed to the upper end of the marketplace. Right. Which means there's nothing happening at the lower end of the marketplace. It's all happening where people have money, right? And that's really throws this entire market out of balance. It's so hard to get homes built where they need to be built in the type of homes that people want and need at the lower end of that marketplace. And I think, you know, the regulatory environment should focus on trying to help that happen faster.

Mary Jo Pitzl [00:18:27] That seems like that might speak to, you know, having maybe smaller homes on smaller lots, which would, you know, obviously cost less than a bigger house on a big lot. Will people buy into that? Will they accept, you know, a smaller home or go for a patio home, you know, versus the standalone single family.

Mark Stapp [00:18:47] The buyers? I think so. I mean, because small is not necessarily mean, not well designed. Small does not mean that it doesn't provide for you and your family what you need. The key is the community that they're in. Right. So communities

aren't the streets, the curbs, the gutters, the sidewalks, or even the houses. It's the people in. It's the amenities and it's the services in part and parcel with all of this is the fact that we have to invest not only in our physical infrastructure, we have to invest in our social and cultural infrastructure, because that's what makes the quality of life, and that's what makes the desirability of a place. So the smaller homes, well designed and well planned communities with appropriate amenities will be highly desirable. Right. And if you can get people at the lower end of the income scale into those homes, they have better health outcomes. They have better educational outcomes. They have better lifestyle outcomes. And that makes us a better place to live.

Mary Jo Pitzl [00:19:55] Where, if any place, do you see that happening?

Mark Stapp [00:19:59] You know, homebuilders are trying you know, if you if you look at what the homebuilders are doing, they're producing good products. There's a lot of criticism. But the fact of the matter is they have the ability in they do design and deliver quality product. It's about helping them do that on a more significant scale to get more inventory into the market. But recognizing the fact that not everybody wants to live west of the white tanks or in Coolidge or in Maricopa. So we need the political will to continue to allow development and redevelopment of areas through this missing middle in more of the central metropolitan Phoenix area. Because that's where most of the jobs are. Right. And we want this connection between land use, jobs, transportation, etc..

Mary Jo Pitzl [00:20:56] Yeah. You know, I live in a in an old neighborhood and there's a lot of duplexes in there. I mean, these are, you know, historic district. But there was an era, it appeared, where duplexes were, you know, quite the thing. Is that maybe on a comeback?

Mark Stapp [00:21:12] I would hope so. That requires local jurisdictions. The approval and getting those approvals are sometimes difficult because you have neighborhood activists who don't like that. They don't like apartments, they don't like high density. You know, I've worked on projects in 11 different states, and the arguments are always the same. Transportation density. They're evil. People live in apartments and they're no good. They're going to ruin the value of our community because they're renters. Well, renters are voters. Two renters have an equal political weight, and they also contribute to the community equally. Simply because they don't own a home doesn't make them any less or a resident. That's the crazy part. But this persists.

Mary Jo Pitzl [00:22:00] As you talk about like, the cultural, social, and a lot of the more other parts of infrastructure that play into this. You know, I think about water, another big issue that we have here, how much does water play into the ability to maybe make housing more attainable and or affordable? I mean, since most of our water is used outside of the home as opposed to inside, does that have an impact?

Mark Stapp [00:22:27] Well, it certainly has an impact on us as a region. Right. And I think most of your listeners probably familiar with, with the assured 100 year water supply requirements that exist in the fact that we want to ensure we have a sustainable, resilient water supply, there's costs that go with that. You know, there's likely this is here's the thing about the water supply is we have enough water. We want to ensure that we have enough water and therefore we need to be responsible. And I think we are we have the most advanced water laws in the United States, period, for good reason. And that goes all the way back into the 1870s and 80s. But as we grow and continue to to put demands on that, we're going to run out of one of the benefits we had, which was taking agriculture out of

production, converting it to municipal uses, housing, employment. Right. And so that that was saving water. But we're now almost done with using all of that agricultural land we can convert. And now we're in the desert. So we're not going to have that benefit. We're looking at those water sources to supply those new developments. And there may be a cost associated with ensuring we have this durable, sustainable supply. And that may have an impact on the cost of developing, which means the cost of housing. The one of the concerns is that if we don't solve this and we begin using it as a growth boundary, it's going to cause the cost of housing within the growth boundary to go up substantially. And I think that's going to have the opposite effect on us. This is a known problem in the solutions or no. I think there's just some time here for the policy makers in the technical people to resolve how best to solve it, but it will be solved, and I think it will be solved in a way that involves government involvement and some changes. But I don't think they're going to be drastic, but they may increase the cost of development.

Mary Jo Pitzl [00:24:45] So as you look at the current housing landscape, where are things that give you hope or encouragement that, you know, we might be able to get more attainability and more affordability?

Mark Stapp [00:24:58] I'm hopeful. Right in where I see some really positive things is because the governor's office has made this a priority. Right. And so this requires political leadership from the top down. I also think that because most jurisdictions recognize that this has become a critical issue, we are having this dialog at various levels of government. And prior to the pandemic, there was people like myself and others in the industry that we're talking about. Affordability as an issue really wasn't picked up on a governmental level, on a policy level. We now recognize it, and I think that that's very positive. It's only been a short while, unfortunately, for people who want to buy a house. A year or two doesn't seem like a short while, but this is really become, I think, on the top of the public policy discussion list. And I think that there's a desire. I think there's generally a will. There's not a complete consensus yet, but we're not far away. You know, I think we'll do that. The other thing is we're going to young metropolitan area. We are young and we are growing, and we have the resources to be able to solve this problem. And we don't have the embedded social and physical infrastructure that's going to make it difficult to change our development patterns or, or character, right? That's adding these other kinds of housing into our existing landscape. Things of that nature. So I think we have a place in our history where now is the time to figure out how to solve these problems, because it will allow us to develop as a more desirable place for decades. And so I find that to be positive as well.

Mary Jo Pitzl [00:26:53] That's encouraging to hear some glimmers of hope, especially as we look at the policies that are being proposed down at the statehouse. They do seem to be sort of in separate lanes and not a holistic approach. And I know there's still working on to produce something this year. I'm not quite sure what that will look like. Do you have any clues?

Mark Stapp [00:27:15] I mean, there's so many different bills that relate to this, I don't know. I'm hopeful that the bill the governor vetoed. They go back and look at it and tweak it and continue to work with the governor's office and League of Cities and Towns and homebuilders. Maybe we can get something out of this. Same with all of the bills. It's an economic development issue. I mean, I think this is a regional issue. I don't think there's a single city or town that can just be a free rider and say, yeah, we don't really care. Not not in our community. And recognizing the fact that the solution to this benefits everybody in

the region is important because it is an economic development issue for us, a really significant one.

Mary Jo Pitzl [00:28:03] Well, Mark, thanks for coming on and sharing your expertise with our listeners. We really, really appreciate it. And if people want to follow your work either online or on social media, what's the best way to reach you?

Mark Stapp [00:28:17] Well, they can email me. I really don't have a social media presence. I think that if they look at some of what's coming out of ASU in general, the Morrison Institute does a great job. On some of these, we have some faculty members within the various schools that are doing really, really wonderful work around some of these issues. And, you know, I'm always happy to respond to people's emails if they have further questions or comments or thoughts.

Mary Jo Pitzl [00:28:48] So and so what's that email address.

Mark Stapp [00:28:51] It's mark dot stab at ASU Edu.

Mary Jo Pitzl [00:28:56] Thank you very much for all your time. We really do appreciate it.

Mark Stapp [00:28:59] It was my pleasure. Thanks for having me on.

Mary Jo Pitzl [00:29:12] That is it for this week. Listeners. Do you have questions about today's episode or topics that you'd like us to cover on the show? Well, send us a message at (602) 444-0804. Or a voice memo to the gaggle at Arizona republic.com. That is all. One word, all spelled out. This episode was edited and produced by Amanda Liberto. Episode oversight is by Kara Edwardson and our news direction is from Kathy Tula mello. Our theme song and music comes from Universal Production Music. Never miss an episode of The Gaggle by subscribing to us wherever you listen. If you learned something new today, be sure to share this episode with your friends. You can also leave us a review and read us five stars. You can follow the gaggle on social media at A-Z. See podcasts. I'm at Mary J. Petzel that's pit XL, The Gaggle is An Arizona Republic and azcentral.com production. Thanks for listening and we'll talk to you next week.