

## Forum

# The American Dream — An Impossible Dream?

Stacey Ponticello

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*Norman Block is Chapel Hill, North Carolina's largest realtor and is also an active participant in community affairs. One of his current local, public concerns is the provision of affordable housing in Chapel Hill. In the interview below, Mr. Block explains the economics of housing in Chapel Hill, comments on several suggested solutions to the housing problem, and finally offers a strategy for providing affordable housing.*

*Mr. Block received a Master's Degree in Business Administration and a Juris Doctorate Degree from the University of North Carolina at Chapel Hill in 1978.*

**CP:** *Affordable housing is an important issue in Chapel Hill, N.C., and one that concerns many people across the country. Many young, middle class Americans consider the idea of buying their own home a remote possibility.*

*Our first objective for this interview is general in nature. As an active player in the Chapel Hill real estate market and knowledgeable observer of the nation-wide industry, we would like your opinion on the real estate industry's current and anticipated response to the demand for affordable housing. Secondly, we'd like to focus on the issue of affordable housing within the context of Chapel Hill, thinking of it as a prototype of rapidly growing areas across the country. To this end, we would like your opinion on what the public and private actors can do (either independently or jointly) to provide affordable housing.*

**CP:** What do you feel are the dominant economic forces that have driven up the cost of a home in the last decade? And, have any of these changed in favor of the construction of affordable housing?

**BLOCK:** There are two things at work that have raised the cost of housing. The first has to do with the physical housing product itself — construction costs. That can be divided between labor cost and material cost. Both costs have gone up significantly. Part of it has to do with the petroleum situation

which goes all the way back to the oil crisis. I don't think people realize how many things are oil-related (plastics, fuel for earth-moving equipment and other heavy machinery). We saw some increases based on that. Material costs like lumber went up tremendously also. Almost all components of a house have gotten more expensive. When I started in real estate, a basic house with three bedrooms, hardwood floors, and a couple of skylights — not super elegant — was \$28.00 a square foot. That same house today, not super elegant, is \$50.00 a square foot.

What people don't realize is that the cost of money has gotten much more expensive. For the homeowner, mortgage costs have grown substantially. Let me give you an example. Let's compare the cost of a 1400 square foot house in 1977 and 1985. In 1977, this home would cost \$28.00 a square foot. In 1985, the same house costs \$50.00 a square foot. That brings the two totals up to \$40,000 and \$70,000 respectively. The cost of a lot also rose during this period, from \$10,000 in 1977 to approximately \$18,000 in 1985. With the cost of land added to construction costs, the sale price of this same house becomes \$50,000 in 1977 versus \$70,000 in 1985. During this eight year-period, mortgage rates rose from 8% to 12.5% for an 80% loan to value ratio. Monthly payments on a basic house in 1977 came to \$293.51 per month and \$751.87 in 1985. That's a 156% increase in total monthly payments.



*The stick-built multifamily option*

**CP:** Would building smaller houses be a solution to the current high cost of housing?

**BLOCK:** There's a trap in making houses smaller. When building a house, there are variable and fixed costs. Variable costs change with size, but fixed costs do not. Let's take that 1400 sq. ft. house and shrink it down to 1,000 sq. ft. You have the same amount of fixed costs, and these make up the bulk of the costs. You still have the cost of clearing the land, building the same number of walls, and installing a bathroom and kitchen. So, making houses smaller is not a way to make them substantially less expensive. At best, you can reduce the cost marginally.

**CP:** Do you expect manufactured housing to become a more popular option for middle-income families?

**BLOCK:** I can take you to any subdivision in Chapel Hill and show you any 1400 square foot house for \$50,000, and then take you out to the interstate, to the mobile home lot and show you a double-wide home, 1400 square feet, with the same Armstrong solarium tile floor and all that, and that's going to be in the high 20's. But the mobile home is not acceptable to a lot of people.

Right now, there is a large gap between mobile homes and traditional ones. Part of the problem is that the aesthetics of the manufactured homes have to be acceptable to the neighbors and the community, and the town won't allow them to be zoned like other homes. Although manufactured housing has become more sophisticated, I don't see the gap between the two closing any time soon. In the current marketplace, I see that people who are interested in detached single family houses – but who cannot afford them – are opting for stick-built multifamily housing rather than mobile homes.

**CP:** Have there been any innovations in building technology or design that might make construction less expensive?

**BLOCK:** We have experimented with the idea of using manufactured building components to bring down the cost of traditional houses. We tried using manufactured walls and panels, but we found that it had little effect on price.

**CP:** Would changing density ordinances encourage the development of lower-cost housing in high growth areas like Chapel Hill? For example, would raising the permissible density level result in the construction of affordable housing?

**BLOCK:** Chapel Hill currently has a higher density ordinance than it did several years ago. What this has done is change the spatial arrangement of Chapel Hill's residential areas. I don't know that it has lowered the cost per unit of housing, but it has increased the number of multifamily houses.

**CP:** We'd like to switch gears a little bit and focus solely on Chapel Hill issues. How do you perceive the current status of the affordable housing issue in Chapel Hill?

**BLOCK:** My comment to that is that there is more conversation than action about affordable housing. I don't want this town to become an exclusive community. That would eliminate the charm and specialness of the community, things like the flower ladies and the little parts of Chapel Hill.

Also, I feel embarrassed when I think that the teachers who instruct my children, the public safety forces who protect our city, and even the secretaries in my office can't afford to live here. Some commute from as far as 30 miles away. I'd like to do something about it, but I can't stop running my business.

Here's why there's so little action – there really are no financial incentives to build affordable housing. Given the demand in Chapel Hill, any builder

in Chapel Hill can make all the money he wants to make, and have all the business he wants to have by building homes at \$100,000 and up. Naturally, the more expensive the house, the bigger the profit margin. Why should anyone take the financial risk of accepting a small margin when it costs the same in time and energy to supervise the construction of more expensive housing. I don't see anybody taking that challenge, at least anyone who is a good businessman. I hear a lot of conversation about affordable housing, but I'm not optimistic about anything getting done. And, the federal government is getting out of the housing business as you know.

**CP:** Can you describe a scenario for Chapel Hill in which public and private actors create a strategy for the development of affordable housing?

**BLOCK:** I think the city would have to step in with the land. They would have to make land available at a reasonable cost because one of the traps in Chapel Hill is that the land is very expensive. The city currently owns two tracts of land which it could designate for affordable housing. Then we have to get some highly motivated, good citizen-type businessmen. They won't work for nothing, but they might accept a lower profit margin.

The city would also have to lower its development standards to help bring costs down further. For example, in place of sidewalks, it would have to accept grass swales and grass shoulders as Carrboro does. Also, Orange Water and Sewer prices are *extremely* expensive. To make it work, you'd have to have the city identify and acquire land, lower its development standards, and assist with water and sewer hook-up charges. Even if it did work, the city would have the problem of selecting people who are eligible to buy that housing. The city, in conjunction with private developers, may be able to build 30 affordable houses, but there are probably more than 1,000 interested households.

Another possible source of land is the University. It owns a lot of land in Chapel Hill, and they have a vested interest in building affordable housing since junior faculty and staff members often have difficulty finding affordable housing.

**CP:** What about the Council members, they're advocating a building moratorium at the same time as they are acknowledging affordable housing as an important issue?

**BLOCK:** There's no question that the Council can control supply, but they can't control demand.

Raleigh, Durham and Chapel Hill are growing together quickly. All the economic trends predict steady growth, and that means rising housing costs. When they open up I-40, demand is going to swell further. Also, if the Council declares a moratorium, as I predict they will, it too will impose an upward pressure on prices. I'm not saying they're wrong, but they need to understand the effect of a moratorium on prices. Given the level of demand in Chapel Hill, a moratorium will cause housing prices to go way up.

The Council must set priorities. If it decides to commit itself to the issue of affordable housing, then other municipal services will suffer, given budget constraints. This is a decision they will have to make soon. □

*Norman Block*

