Housing Market Landscape in Rhode Island

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Economists versus *Economists*

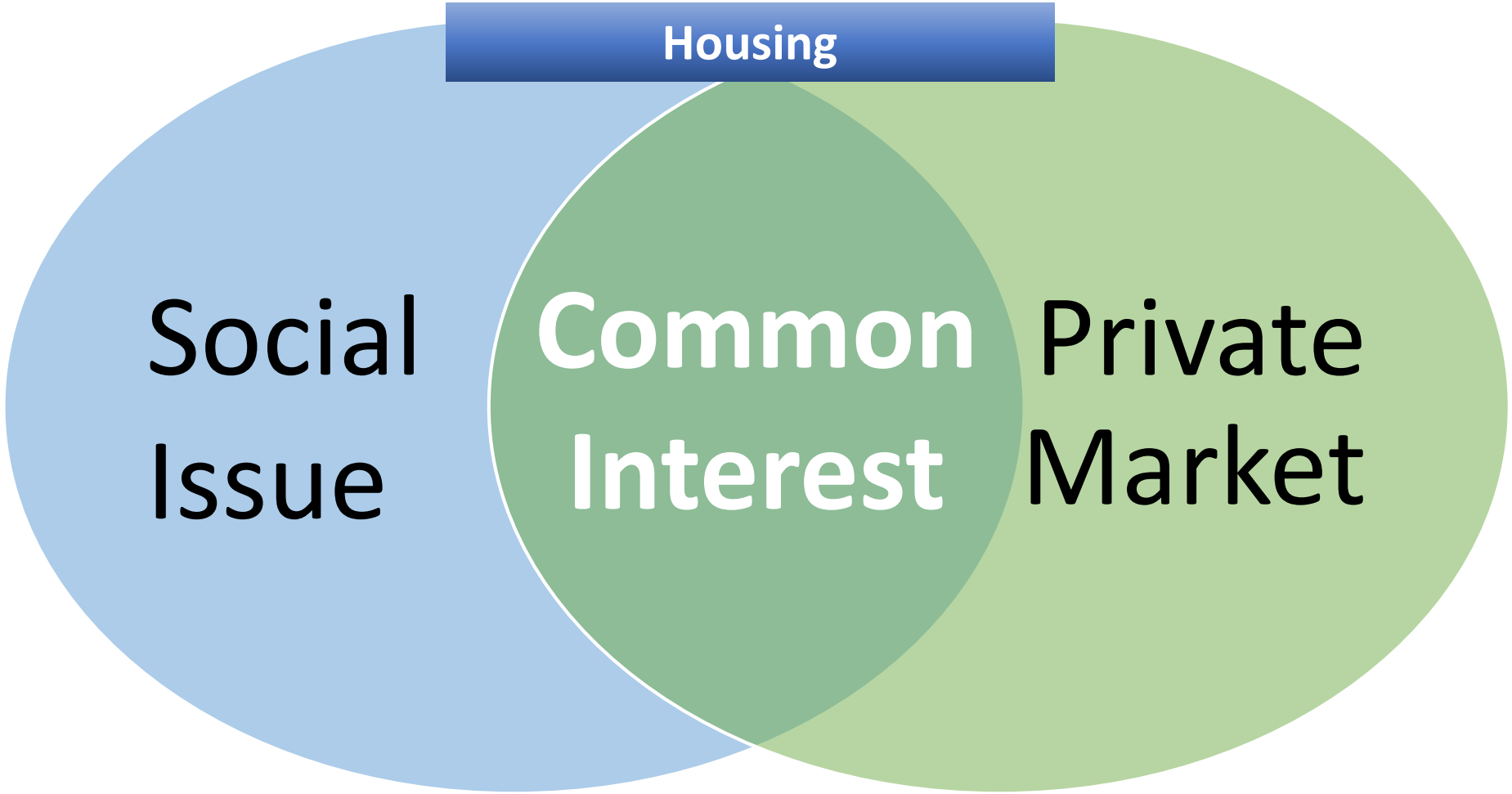
Positive Statements

As scientists, economists make **positive statements:**
Describe how the economy works as it is.

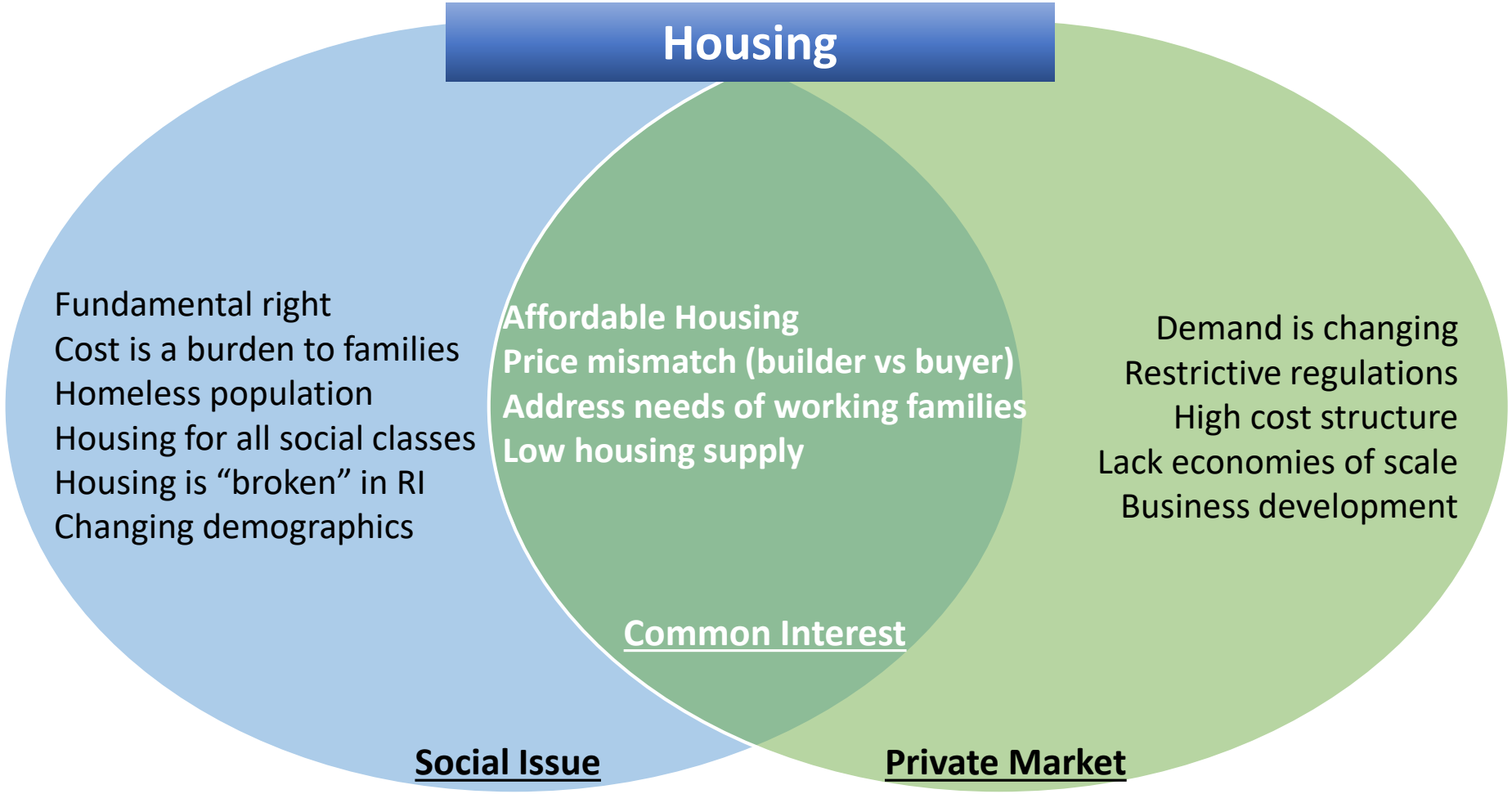
Normative Statements

As policy advisors, economists make ***normative* statements:**
Attempts to prescribe how the economy should be.

The Dimensions of Housing

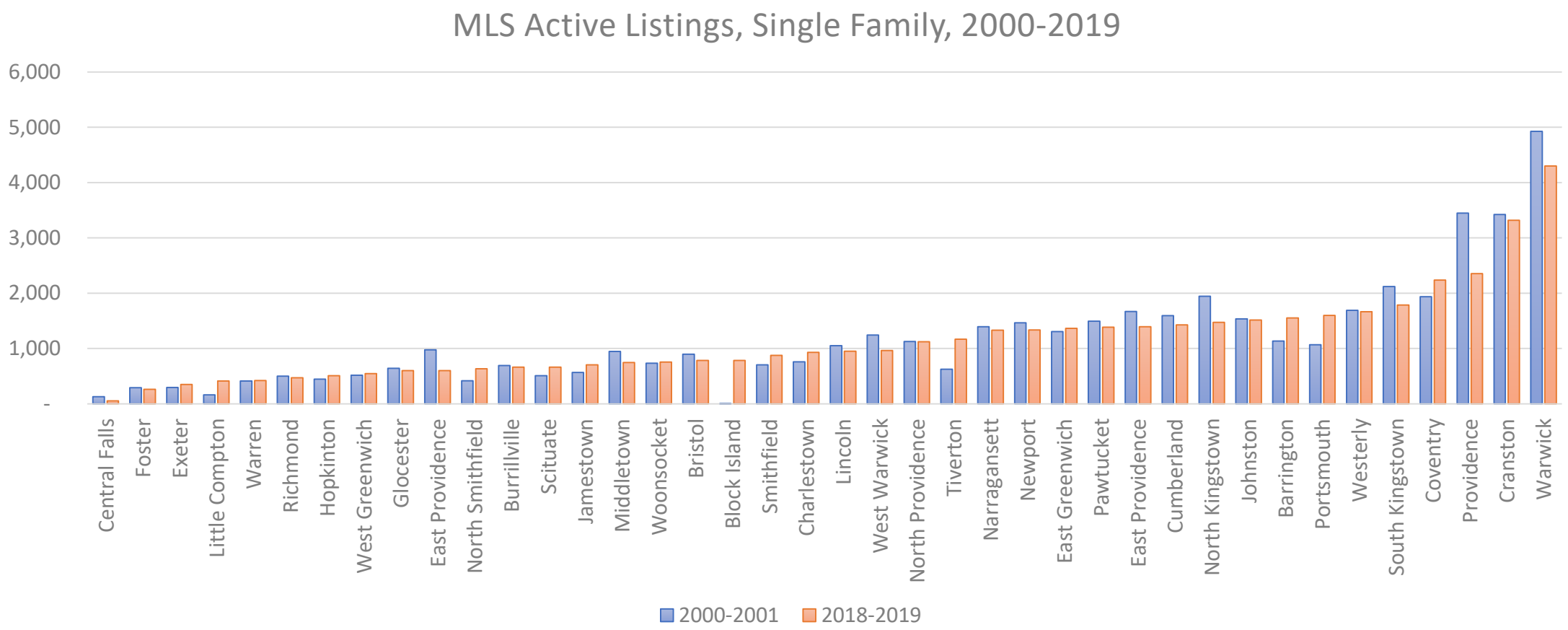


The dimensions of housing & issues discussed in our previous meeting



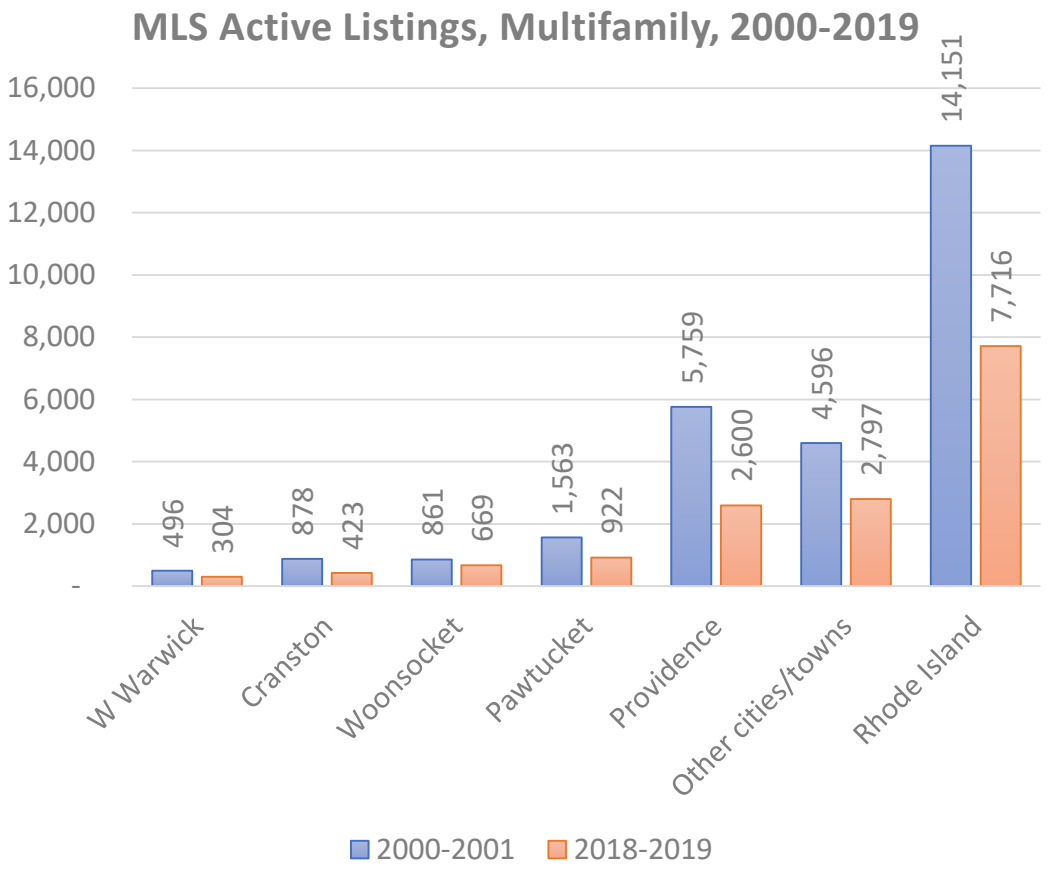
“Common Interest” issues

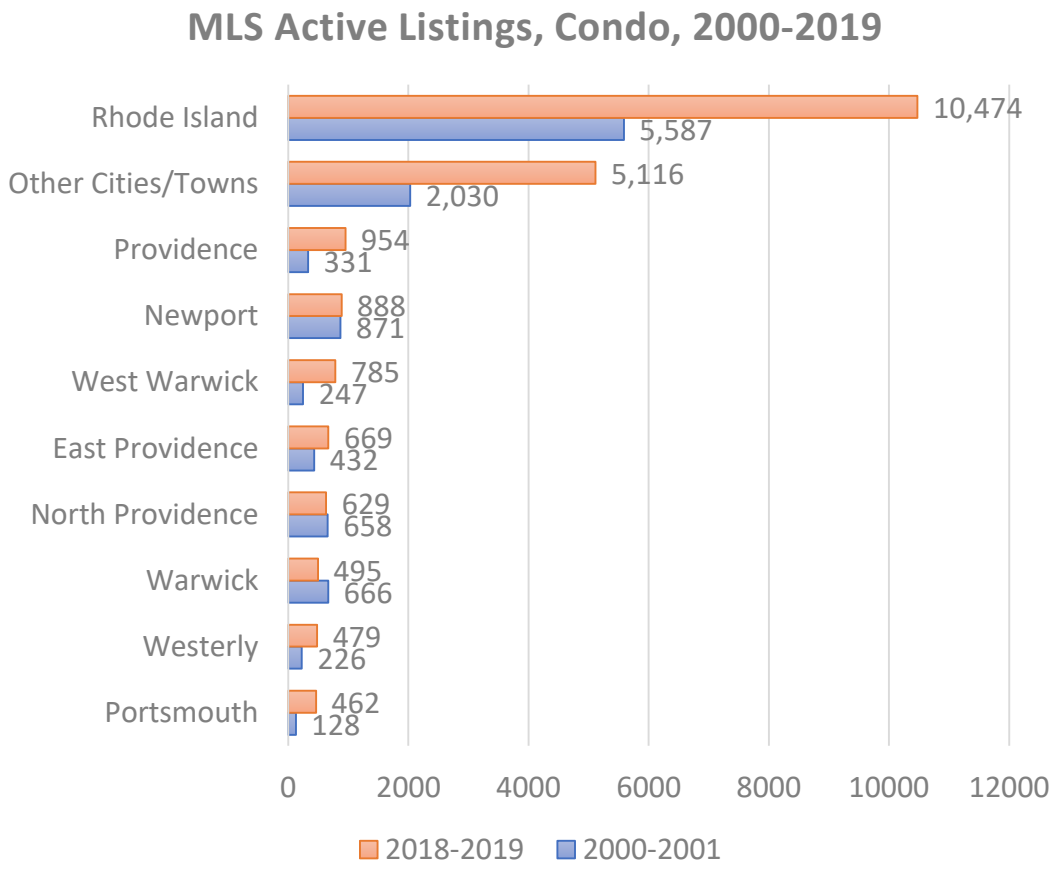
Limited housing supply across the board: Single Family Housing



Source: Author's compilation using data from the Rhode Island Association of Realtors.

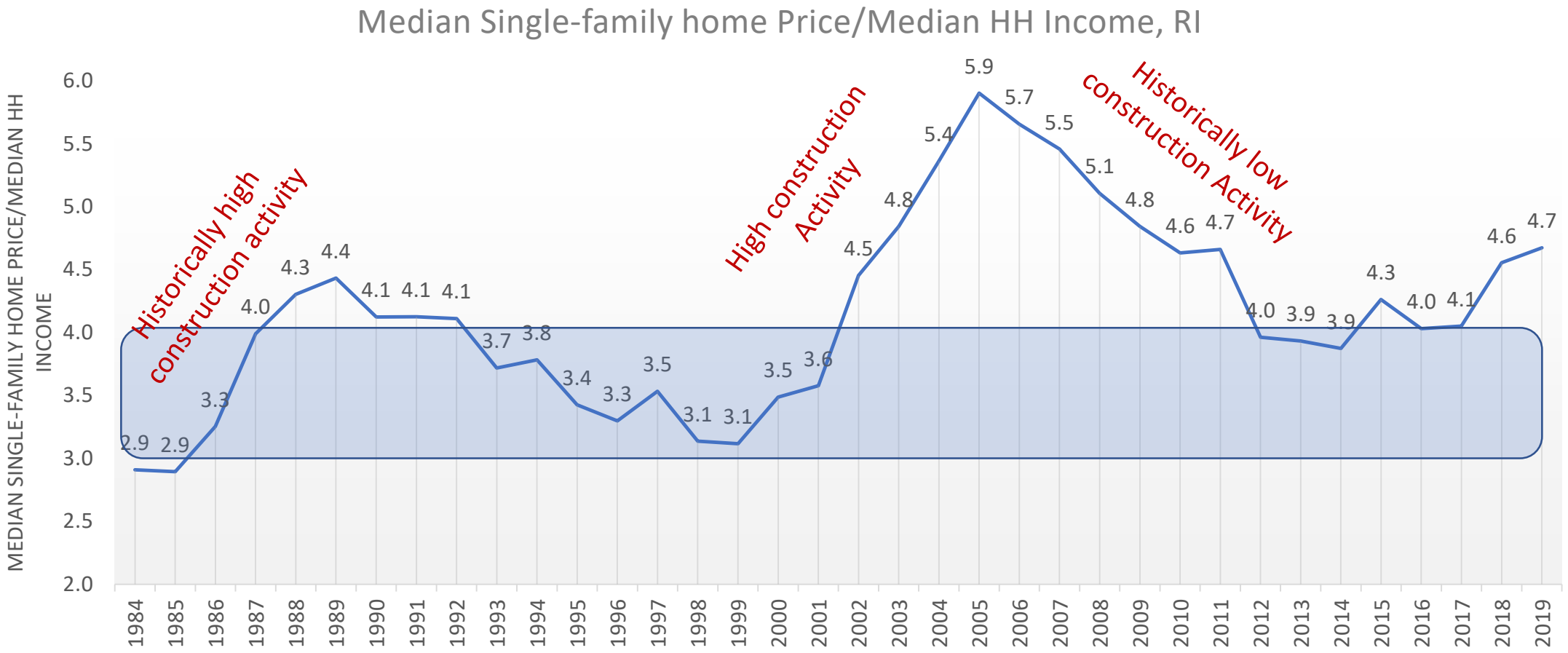
Low income households are the most affected by limited housing supply in Rhode Island





Source: Author's compilation using data from the Rhode Island Association of Realtors.

Housing affordability is a structural problem in RI



Source: Author's compilation using data from the U.S. Federal Reserve.

Framework for policy making

Housing price is the most relevant "common interest" intersection related to social issues and private markets

- High housing prices always reflect the intersection of strong demand and limited supply:
  - If demand is weak, then prices cannot be high, no matter what the supply is.
  - if supply is unrestricted, then prices cannot be much higher than **production costs**, no matter what the demand is.
  - **Evidence:** Supply is restricted in most metropolitan areas in the US.

Message 1: Supply-side conditions matter.

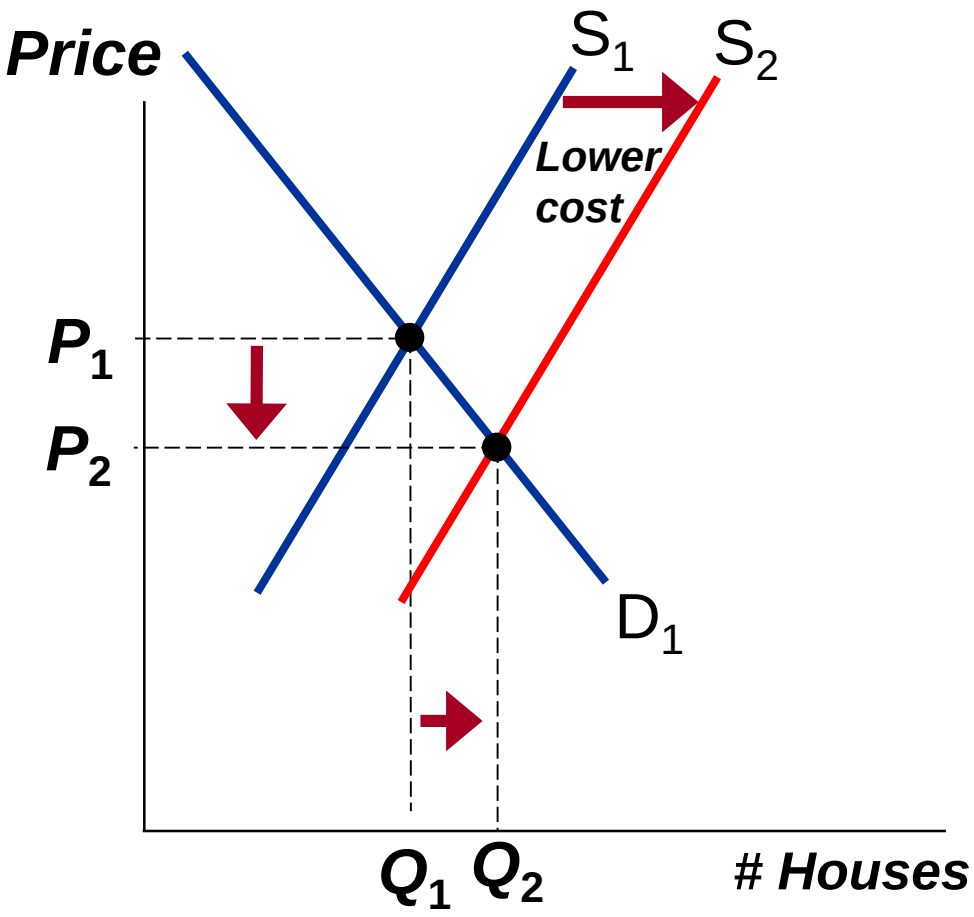
Message 2: High production cost causes high housing price.

Policy conundrum or basic economics?

- All else constant:
  - Higher home prices increases housing supply **= Affordability issue**
  - Lower home prices reduces housing supply **= Supply issue**
- How to increase housing supply and keep housing affordable?

  Must lower construction cost to stimulate supply

- **Rhode Island must address high cost of home building as a tool to increase supply, meet housing needs, and promote housing affordability.**



Conceptual framework for policy making

Type of Policy	Policy Goal
"First-best"policy	Implement a policy aimed directly at the ***source of the problem***.
"Second-best" policy	Government intervention that ***distorts market incentives in one market*** may increase welfare by ***offsetting the consequences*** of market failures elsewhere.
"Third-best" policy	The policy maker should target only the known distortion, and not seek to mitigate its welfare cost by introducing other distortions into the economy.

Example	Policy
Industrial pollution impacts housing prices (Negative externality on homeowners).	"Clean Air Act" forces polluters to implement clean technologies or shutdown.
	Impose a tax on polluters proportional to the impact on housing prices and provide equivalent subsidies to homeowners.
	Impose a tax on polluters proportional to the impact on housing prices.

What is source of the housing problems in Rhode Island?

- Social issues are NOT the source of the housing problem:
  - Fundamental right
  - Cost is a burden to families
  - Homeless population
  - Housing for all social classes
  - Housing is “broken” in RI
- Targeting these issues will not solve “housing problems” and may create more market distortions
  - Should address these issues as “social issues” through proper channels/policies.

Key Source of housing problem in Rhode Island: Supply is restricted by outdated, cumbersome, and socially & economically inefficient overregulation.

Principles to guide regulatory reform

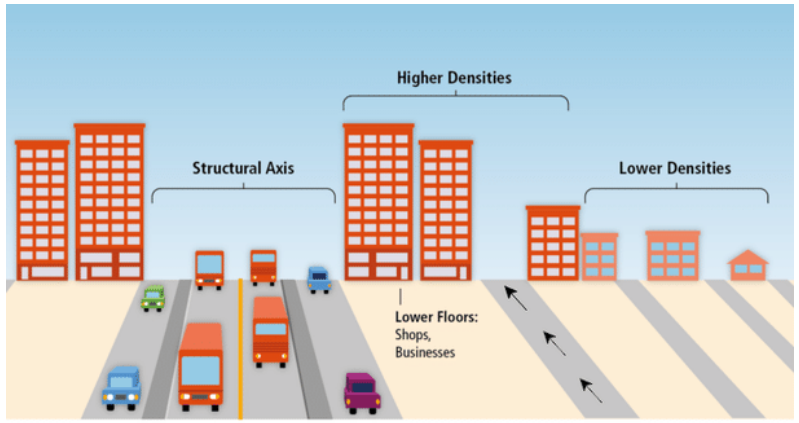
- ***Pareto Criterion*:** Undertake an action if some people are helped and no one is harmed.
  - Efficient, but not feasible in land and construction permit regulations.
- ***Hicks-Kaldor Criterion*:** Undertake any action whose net cost-benefit is positive.
  - Efficient, but has no appeal with policy makers (may look unfair to some).
- ***Revised Hicks-Kaldor Criterion*:** Undertake any Hicks-Kaldor actions and compensate the losers.
  - Difficult in practice, but politically feasible.
  - “Second-best” policy.

Targeting Source of Housing Problem

How public policy can lower construction costs and increase housing supply

1.Rental Regulations

2.Land-use Regulations



3.Permitting Process

4.Basic Infrastructure

Road junctions
Sewer network
Water drainage
Water network
.....

The Case for Rental-supporting legislation

Homeownership may not the best option for some families:

- No flexibility: Housing needs change due to family structu and job market
- High transaction cost
- No unexpected costly housing expenses & easier to plan housing expenses
- Major family asset with significant exposure to market risk
  - Real estate generates lower return than stock market in the long run
- Homeownership decreases labor mobility, affecting both individuals and markets:
  - Mobility is strongly associated with housing supply

1.Supply-side rental policies

- Homestead exemptions distort housing market
  - Who pays it?
    - RENTERS - who usually have lower income.
  - Regressive tax (High income households benefit the most)
- **Policy alternative:**
  - Low income real estate tax credits.
  - Curb homestead exemptions.

Homestead exemptions in RI

- Central Falls
- Johnston
- West Greenwich
- Woonsocket
- North Providence
- East Providence
- Providence
  - Separate tax rates (same effect)

Supply-side rental policies

- Do not fall into temptation of adopting rent controls;
  - Reduces investments on renovations and limits supply even further.

- **Policy alternative:**
  - State-level income tax credits to low income families.
  - Rent vouchers to low income families.

2.Supply-side land-use regulations

- Land is one of the most heavily regulated assets in the US.
  - Cities and towns are the culprit.
  - Not all regulations are bad for socio-economic development.
- Current residents have strong incentives to block land development.
  - Interest groups are strongly organized to defend their agenda.
- Land supply restrictions increase the wealth of owners at the expense of first-time buyers.
  - Costly nightmare for developers.
- Evidence: land-use regulations have caused a steep decrease in:
  - Land values in heavily regulated municipalities.
  - The share of land developed in more regulated municipalities.

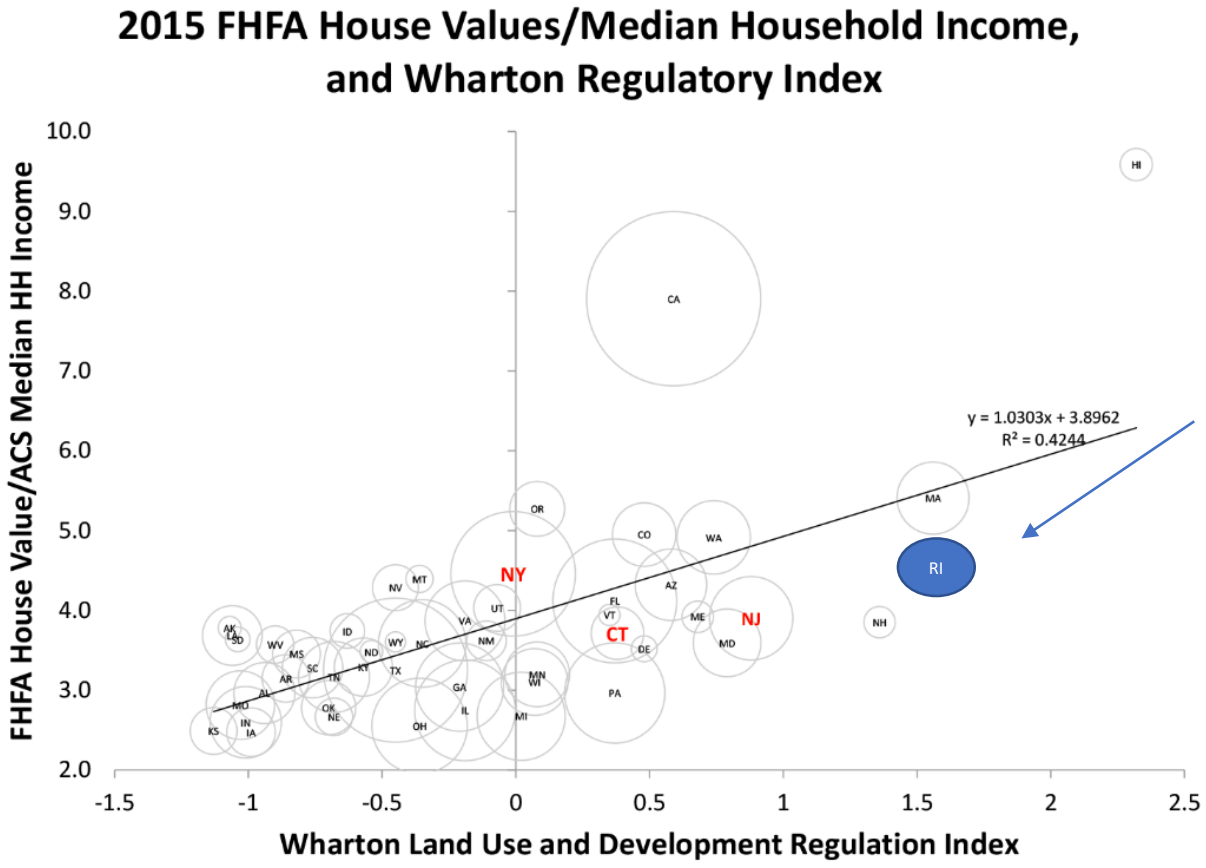
Land Regulations Matter

RI ranks #2 most land-regulated state in the country

Index based on:

- # of approvals required for zoning changes,
- # of approvals required for approval of developments already conforming with local zoning,
- whether there are existing caps on building different kinds of units,
- density restrictions (minimum lot size greater than 1 acre),
- space requirements,
- exactions (impact fees) for new construction,
- time required for the approval process
  - large and small single-family development and multifamily projects.

Excessive barriers to housing supply is hurting Rhode Island's economy.

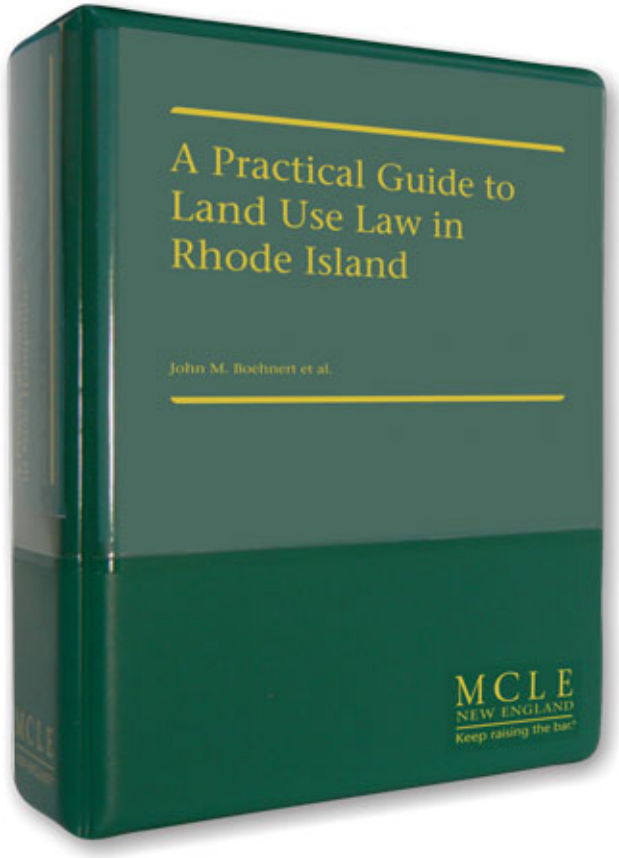


Source: http://rutgersrealestate.com/blog-re/affordable-housing-supply-side-innovation/

Rhode Island Land Use Regulations

- Overarching state policy needs to be revisited:
  - The Rhode Island Comprehensive Planning and Land Use Act was adopted **in 1988**.
  - The State delegates land use authority to its municipalities and establishes basic guiding principles.

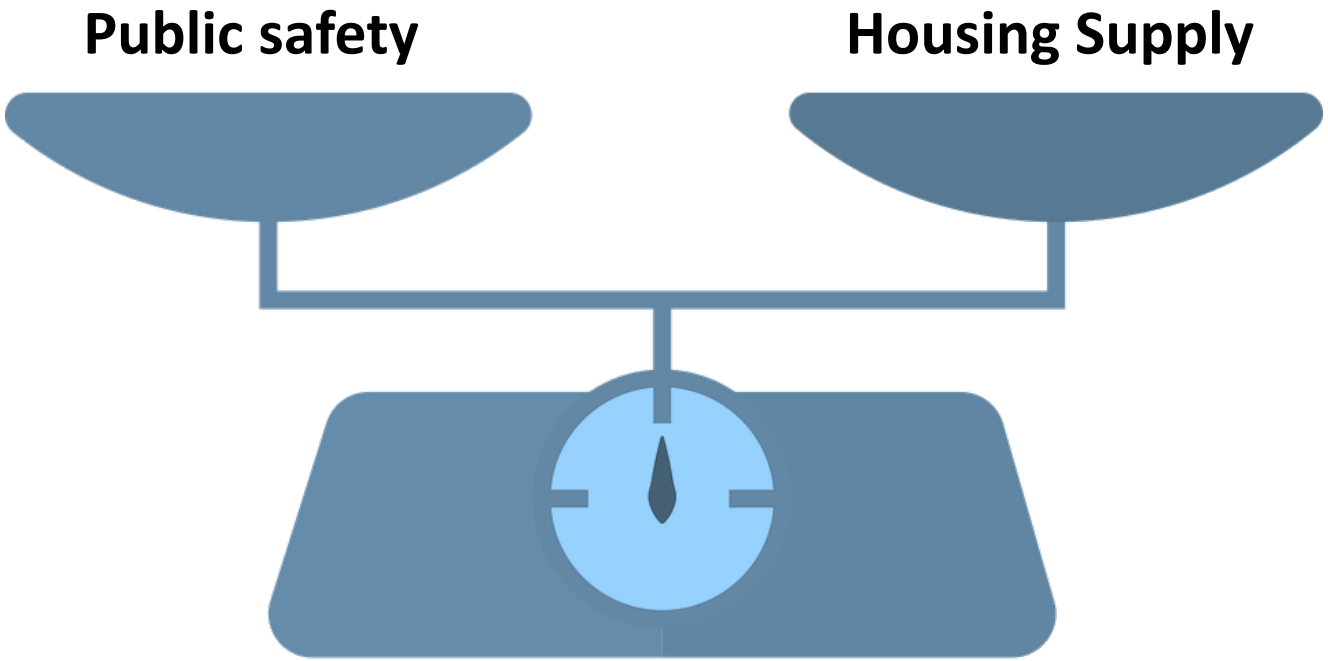
- **Proposed Actions**
  - The state government must take a more active role in reducing regulatory barriers.
  - **First-order task:** Develop a comparative assessment of land use regulations across cities and towns in RI and benchmark them.
  - **Second-order task:** Engage municipalities and make a case to streamline and modernize regulations. RI's economy cannot afford the land regulations in place.
  - Review taxes on vacant land.



Only 338 pages!

3. Construction Permitting

- Construction regulation matters for public safety.
- Overly complicated or costly permitting constrains supply and increase housing price, negatively affecting families and the economy.
- **Striking the right balance is a challenge when it comes to construction permitting regulations.**



Goal: Efficient permitting process

Permitting process is too costly, particularly its impact on land development

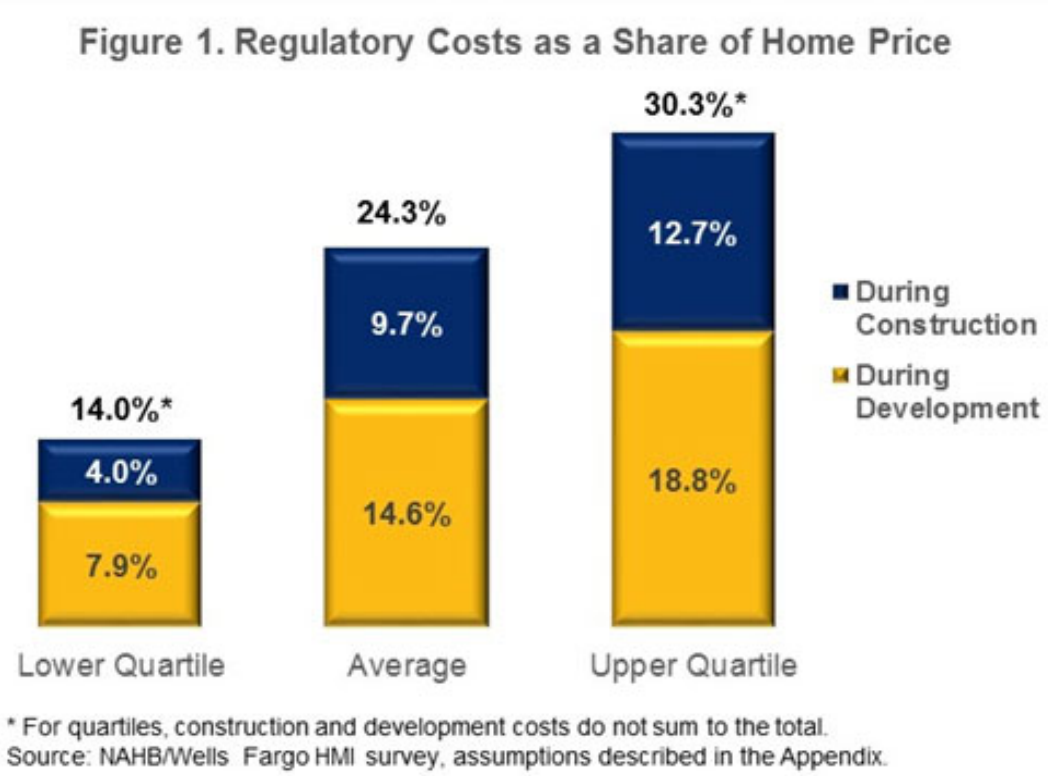


Table 1. Regulatory Costs Imposed During the Development Phase

A. Costs as a percentage of the price of a finished lot sold to a builder

	Lower Quartile	Average	Upper Quartile
"Pure" cost of delay	2.3%	5.1%	7.4%
Cost of applying for zoning / subdivision approval	3.4%	11.6%	16.9%
Costs incurred after approval / before construction	5.6%	11.7%	13.7%
Value of land dedicated / left unbuilt	2.2%	9.9%	11.7%
Impact of changes in development standards	4.0%	16.4%	22.4%
Total	**29.8%**	**54.7%**	**70.7%**

B. Costs as a share of final price of the home sold to the ultimate buyer

	Lower Quartile	Average	Upper Quartile
"Pure" cost of delay	0.6%	1.4%	2.0%
Cost of applying for zoning / subdivision approval	0.9%	3.1%	4.5%
Costs incurred after approval / before construction	1.5%	3.1%	3.7%
Value of land dedicated / left unbuilt	0.6%	2.6%	3.1%
Impact of changes in development standards	1.1%	4.4%	6.0%
Total	**7.9%**	**14.6%**	**18.8%**

Source: Survey used to generate the NAHB/Wells Fargo HMI, March 2016; various assumptions described in the Appendix.

Places to look to increase efficiency and competitiveness in construction permitting

Feature	Comments/Examples
Reduce time for processing permit applications	Consolidate internal administrative procedures and hiring more staff.
Introduce or improve one-stop shop	Support/launch a one-stop shop to obtain a building permit and necessary approvals.
Reduce fees	Reduce cost of permitting.
Streamline procedures	Analyze permitting process case-by-case and implement improvements.
Introduce risk-based approvals	Eliminate environmental impact assessments for low-risk projects.
Innovate on building control process	Construction oversight may be decentralized and performed by professional organizations (no municipal inspections may be required).
Improve electronic platforms or online services	Invest in digitalization.

Example to follow?

RAPID: Regulatory and Permitting Information Desktop Toolkit

https://openei.org/wiki/RAPID

Regulatory Processes for Renewable Energy and Bulk Transmission Projects

The Regulatory and Permitting Information Desktop (RAPID) Toolkit offers a solution to navigating the complex system of federal and state regulations necessary to secure project approval. The RAPID Toolkit provides easy access to federal and state permitting information, best practices, and reference material for renewable energy and bulk transmission project development.

Bulk Transmission
Regulations & Permitting

Geothermal
Regulations & Permitting

Hydropower
Regulations & Permitting

Solar
Regulations & Permitting

Rhode Island Solar Permitting Process (RI)

The steps of the Rhode Island solar permitting process are summarized in the chart below. Roll over each section for a summa
covers. Click a section to learn more about the required permits and regulations related to that topic.

Choose a Process Topic

Project Development Timeline

- Land Use Planning
- Site Considerations
- Land Access
- Environmental Process
  - Environmental Review
  - On Site Evaluation
  - Cultural Resources
  - Biological Resources
  - Pre-Existing Land Use
  - Water Quality
  - Geological Resources
  - Aesthetic & Recreational Resources
  - Waste & Hazardous Material
- Water Access & Rights
- Transmission Siting & Interconnection
- Siting & Construction Process
  - Construction & Transportation
  - Power Plant Siting & Construction

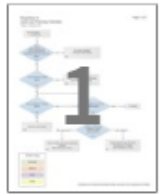
Rhode Island Solar Land Use Planning (1-RI)

Land Use Plans (LUPs) are used by state and federal agencies to manage public lands and they form the basis for every action and approved use of those lands. Different agencies will refer to LUPs by different names, but all LUPs serve the same purpose; to dictate what actions can and cannot be taken on the managed unit of land. Non-conforming uses require a LUP be amended or revised before a right-of-way or special use permit can be authorized.

More Information

Determine Which State and Federal Permits Apply

Use this overview flowchart and following steps to learn which federal and state permits apply to your projects.



- 1.1 to 1.2 – For a Given Location, Is Solar Development Consistent with the Land Use Plan? No Action Needed, Continue With Project
- 1.3 to 1.4 - Is the Project on State Land? Initiate State Land Use Planning
- 1.5 to 1.6 - Is the Project on Federal Land? Is the Project on BLM or USFS Land?
- 1.7 - Is This a USFS Plan Revision or a Plan Amendment?
- 1.8 – Initiate USFS Land Use Plan Amendment Process
- 1.9 – Initiate USFS Land Use Planning Process
- 1.10 to 1.11 – Is the Project Within a SEZ, Variance Areas, or Exclusion Area? The Land Use Plan Has Already Been Amended; Continue with Project
- 1.12 – Is This a Plan Revision or a Plan Amendment?
- 1.13 to 1.15 - Does the Amendment Require an EA or EIS?
- 1.16 – Continue with Project

Construction permitting: **Actions**

- **Proposed Actions**
  - The state government must take a more active role in reducing regulatory barriers.
    - Shared-authority with municipalities.
    - Consider legislation to streamline and modernize construction permitting process.
  - Develop a comparative assessment of construction permitting across cities and towns in RI.
  - One-stop shop (virtual and f-2-f) to provide construction permit information (follow RAPID model).
  - State-level development tax credit to high density housing projects.

Basic Infrastructure

4. Rhode Island has a capital investment problem

Capital Investment per capita, State & Local, 2017

State	Total		Education		Transportation		Sewerage		Solid waste management		Utility	
	$	Rank	$	Rank	$	Rank	$	Rank	$	Rank	$	Rank
Rhode Island	**744.6**	**44**	**90.4**	**50**	**239.2**	**40**	**35.7**	**40**	**9.1**	**11**	**88.3**	**27**
Connecticut	1,117.5	22	295.9	24	337.4	22	86.4	6	5.5	23	83.2	33
Massachusetts	1,259.2	13	323.1	17	262.1	38	67.3	12	2.9	39	240.6	8
United States	1,121.4		301.6		313.4		59.3		6.8		163.4	

Source: Author's compilation using data from the U.S. Census Bureau.

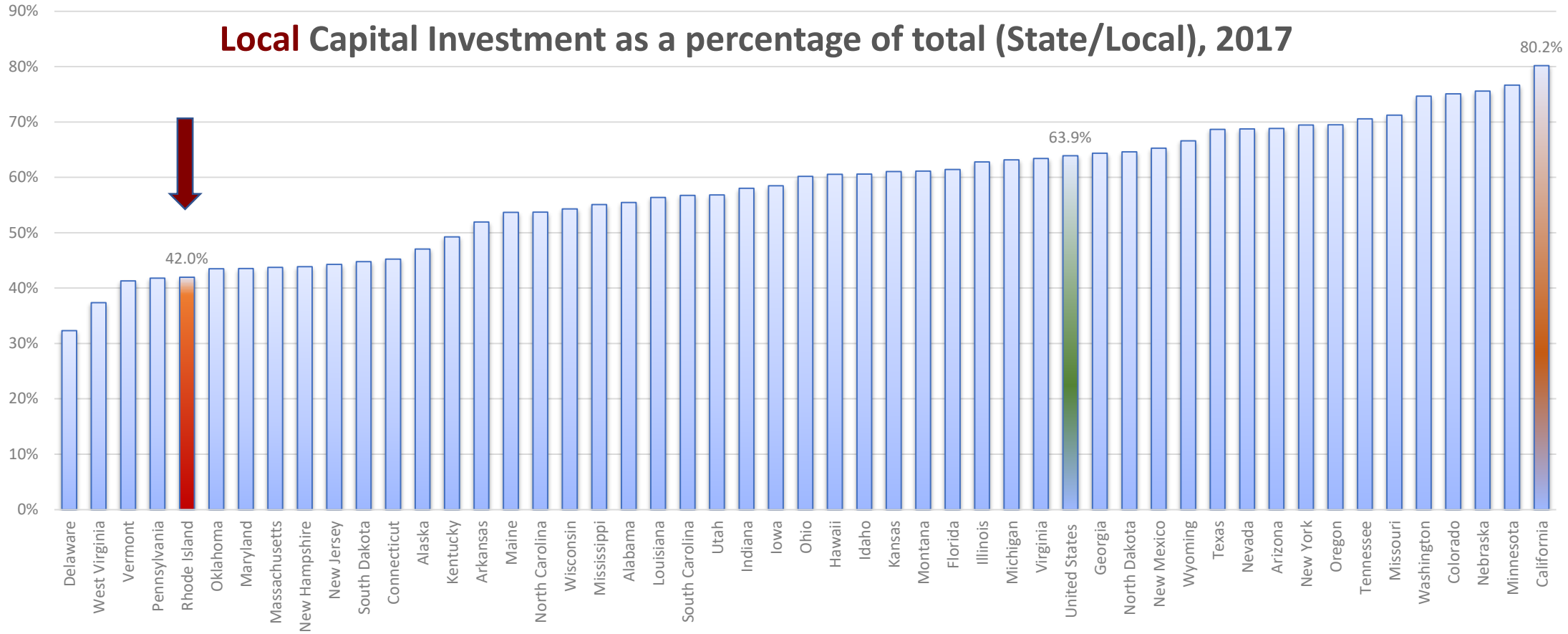
RI cities and towns are not investing enough

Capital Investment per capita, Local, 2017

State	Total		Education		Transportation		Sewerage		Solid waste management		Utility	
	$	Rank	$	Rank	$	Rank	$	Rank	$	Rank	$	Rank
Rhode Island	**312.6**	**48**	**74.3**	**48**	**18.0**	**48**	**35.7**	**39**	**0.3**	**50**	**76.6**	**28**
Connecticut	505.3	34	126.8	40	32.2	45	86.4	6	1.9	43	45.7	42
Massachusetts	550.5	28	180.4	22	43.7	38	48.0	29	2.9	36	61.0	35
United States	716.5		207.8		83.9		58.8		6.7		138.4	

Source: Author's compilation using data from the U.S. Census Bureau .

Is it time to ask Cities & Towns in Rhode Island to contribute more to infrastructure ?



Source: Author's compilation using data from the U.S. Census Bureau.

How much more public capital investment RI needs to close the public capital investment gap?

Additional public capital Investment required to achieve "capita" level of **Massachusetts**:	Additional public capital Investment required to achieve "per capita" level similar to **US average**:
$550 million (annually)	**$440 million (annually)**
Represents an increase of **74%** compared to 2017 levels.	Represents an increase of **54%** compared to 2017 levels

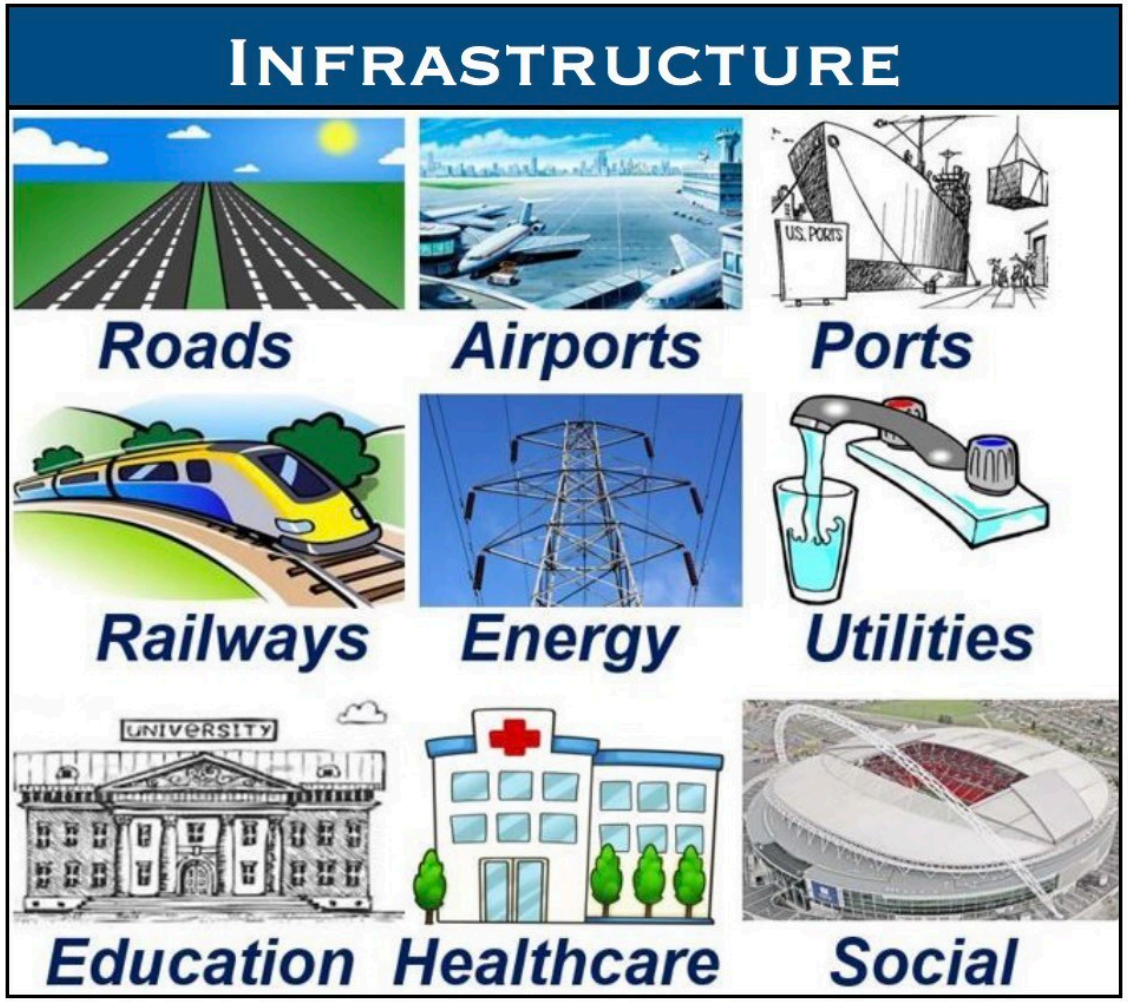
If RI cities & towns would invest an amount equal to the US average, it would generate $428 million in additional capital investment.

Source: Author's calculations using data from U. S Census Bureau and U.S. Bureau of Labor Statistics.

RI needs a new economic vision for infrastructure

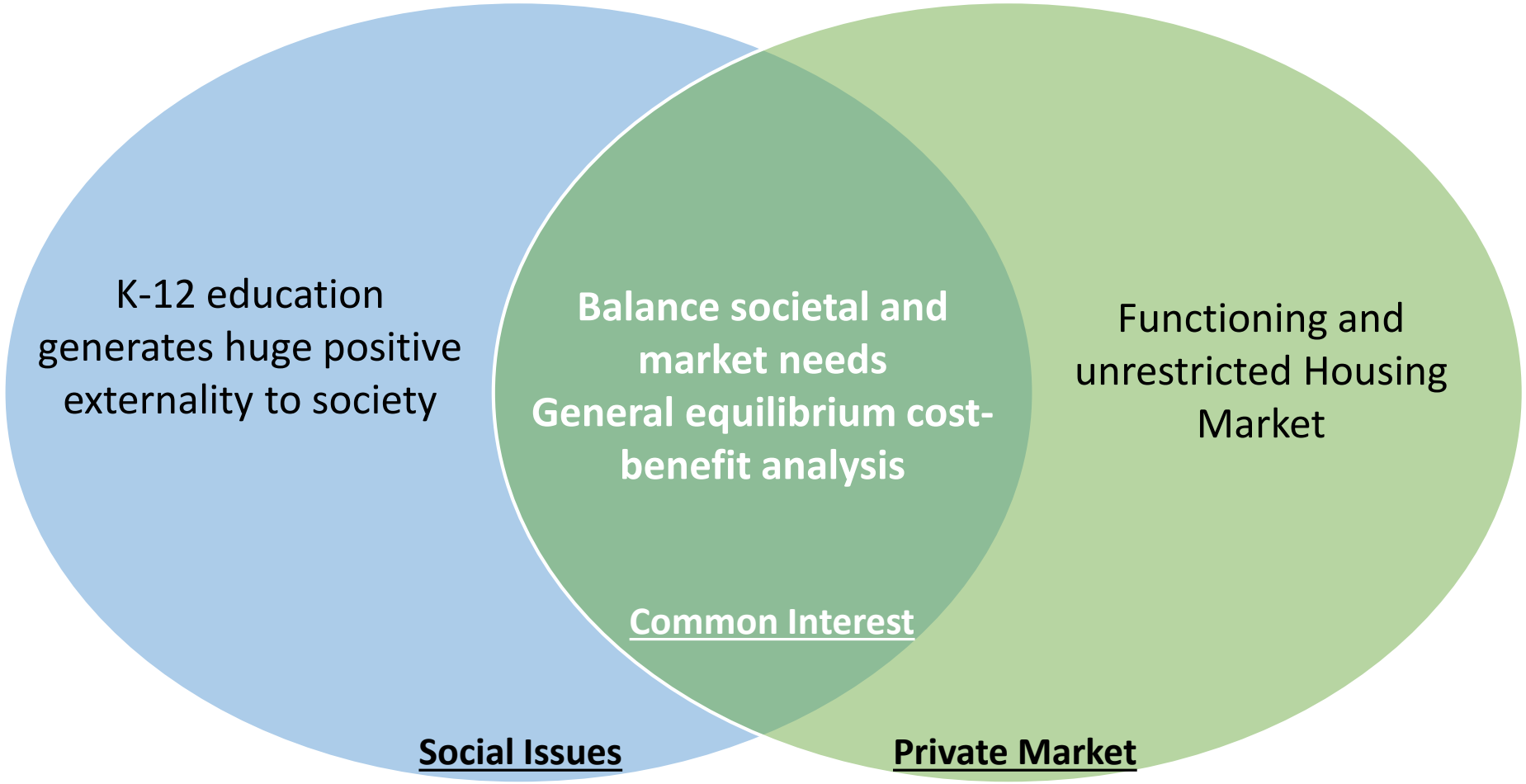
Proposed Actions

- Legislature must enhance partnership with cities and towns to modernize basic infrastructure.
- City & Town Councils must take measures to:
  - Improve fiscal capacity;
  - increase spending on infrastructure.
- Actively seek Federal grants and support.
- Prioritize areas with significant externalities.
- Leverage private sector interest in strategic areas.
  - Can Rhode Island leverage PPPs to address Capital & Infrastructure Needs?

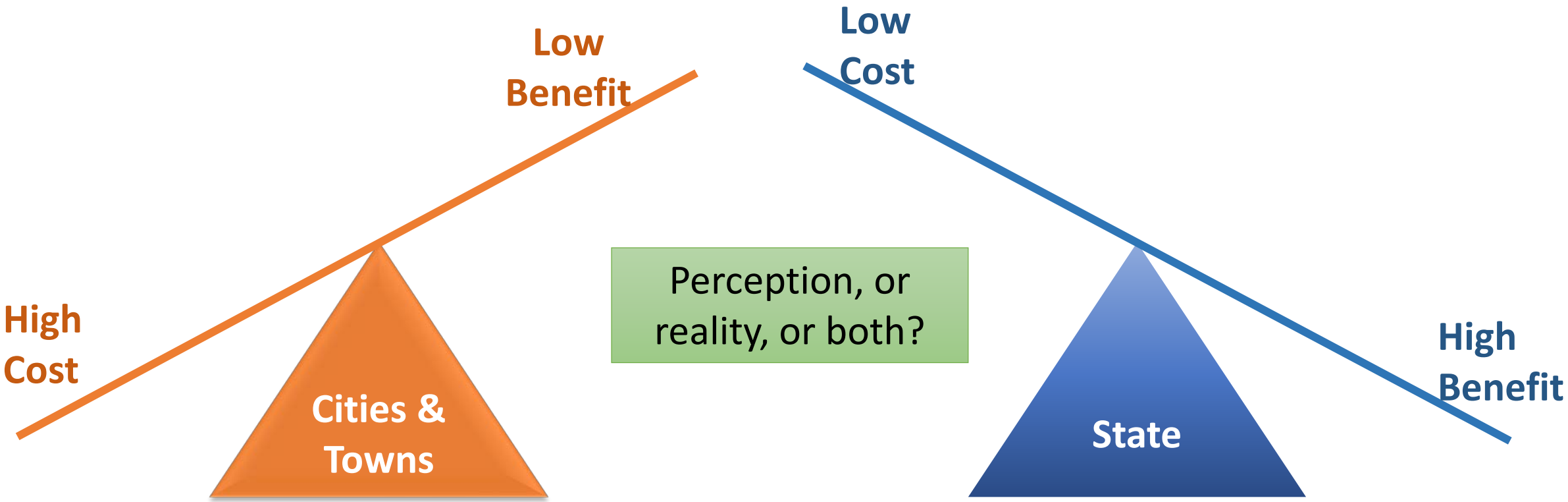


Education and Housing Policy

Education and Housing



Young people are the engine of development! But….



Facts

Cost to Educate K-12 children, 2018
• Total spending= $2.53 billion • State Education Aid =$935 million • Average Cost per pupil=$17,755

Economic benefit created by child-rearing household Spending
Short-term: Study shows that it supports: • 7.9% of state's GDP= ~4.5 billion • 9.5% of state's employment= ~48,000
L*ong-term:* **An educated and growing labor force** is critical to the future of the state's economy.

"There is no power for change greater than a community discovering what it cares about." Margaret J. Wheatley

Education and Housing Policy

1. There are economies of scale in education in Rhode Island: Must optimize K-12 enrollment.

How: *Higher density housing*, local education consortiums, and/or consolidation.

2. Attracting and retaining young families is important to foster economic development in Rhode Island.

"Concern:" Young families will bring children and increase local spending on education

Proposed Action:

Compensate local cities and towns for positive externality of young families.

- Example:
  - Expand state credit for capital investment in schools;
    - School Housing Aid Formula takes into consideration district's relative wealth, not the district's ability to receive new families. Reconsider focus on "wealth-based" criterion.
  - **Density Bonus:** Expand benefits on top of "School Funding Formula" to provide more than proportional financial support to cities/towns that increase student population.
  - Support "choice" by facilitating process to incentivize parents of high-density developments to opt for a school in another district.


thank you
merci
gracias
danke
謝謝
ngiyabonga
teşekkür ederim
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Баярлалаа
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kiitos
dankie
dhanyavad
nanni
nandri
bedankt
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