

WPS Review International on Sustainable Housing and Urban Renewal (RI-SHUR)

ENTREVISTA CON

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What can you say about the current status of the housing market in the United States?
Has it changed over time for the better, or worse?

“A very important thing to understand about the housing market is the two dimensions of it that people often confuse. One question’s housing cost, what it costs to build a house, which is basically the question of brick and mortar, labor costs, taxes, land costs, etc. And that applies also to buying a house, because you know, all those are already tucked into the cost of it. But the other thing is housing price. What does it cost to buy the house. As opposed to what it costs to build it. So that’s entirely unrelated to the matter of brick and mortar and so on. It’s about supply and demand. So in a place with a very loose market, with lots of houses around. Price is likely to be very close to cost. And I’m not going to go into the house building business if I’m not going to make a little money out of it. But in a place like Boston, where there’s much much greater demand than there is supply, [price goes up]. In a place like Omaha, the demand and supply are pretty much in tune with each other, so housing prices are just a little bit above cost. In Boston, in San Francisco, in New York City, demand is way higher than supply.

The capacity to expand supply is pretty limited in most of those places, so prices go through the roof. So as a general rule in those most popular cities in the US, the housing market is one of very high prices based on excess of demand, over the ability to increase supply. In some other parts of the country, and you can definitely think of the high priced places on the coasts, and the big middle of the country in the south and midwest, is pretty much a tolerable marketplace. It’s come back after the big collapse in 2008, because of the crisis in predatory lending, and so on, we had lots of foreclosures, so things got a little funny. In a place like Phoenix, which used to have pretty high prices, suddenly had a great oversupply of housing, and prices went down through the floor. That’s coming back now, they’re beginning to build again in a place like Phoenix in the Southwest, where they had overbuilt when the big crisis hit.

Every city in the country and most counties and almost every small place now has zoning ordinances, which limit your ability to increase supply. So in Cambridge we could build a lot more houses if we tore down these three deckers and build 20 story buildings, but zoning wouldn’t let anybody do that so our real problem in most of the tight markets, because in good old capitalism, the supply and demand will seek equilibrium. If we could change the zoning, in these big tight cities... prices would come down.

The high prices based on imbalances with supply and demand, have been pretty constant. I would say that it’s been wavy [over time]. But even during the 2008 crisis, [housing prices in Cambridge and Boston weren’t really affected or

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lowered]. We have been resistant to the big downturns in the housing market in Boston, and San Francisco, and New York, and Honolulu. We've been resistant because of this imbalance in supply and demand. Each those places has some reason for why it's a very popular place to live. Here it's our universities, New York it's all the commerce and Wall Street. San Francisco it's the culture and the attractiveness of the city in general... So those industries continue to keep people flooding in, with a need to be there, and when you go to zoning orders, they stop people from adding anything, then you get the high prices. So ours have not changed terribly much over the years. Is there a housing crisis? are the things that have been done about crises adequate/successful?

In Massachusetts, the general guideline for what you should spend on housing is 30% of your gross income. That's a guideline we use in the affordable housing program, that's a guideline that banks use when they decide how much to loan you. They look at your income. If you're going to buy a house and you're going to commit half your income, [they won't give you that loan]. Because you're committing too much to the house, and when other things, medical and food, come up, then you belch on your mortgage, so we're not going to do that. 31-29% that range. So if you look at 30% as the marker, 51% of all the people in Massachusetts, pay more than 30% of their income for rent or for housing cost.

In an ideal world, you would have a market where maybe 10 to 20% of the people pay more than 30% out of their income. You'll never get to 0, for the most part, but you'd like it to be under 20% that have that problem. If it's under 20%, we're close to having enough subsidy programs to help those people. Not quite enough, we'd have to get down to about 7% before we really have enough federal subsidy programs to cover those people. Then it's not so much a crisis at that point, because while you don't always have a match between the people who need a subsidy and those who get one, it's not an entitlement program, you got to get on a list and win the lottery. If we were under 7% or 5%, of our population paying over 30%, we'd be able to cover a lot of those people with a subsidy program. But at 50%... it's just not a healthy situation.

First of all, the people who are paying over 50% of their income for housing are not the only people with a housing problem. We've got some other people who are not paying over 30%, but they're doubled up with their sister, and her three kids, and their four kids, so pretty soon, that's going to fall apart, and they're going to have to move some place else, and the kids are going to have to keep changing schools. Or we have some people living in dangerous, crappy housing, they're not paying over 30%, but they are in danger of a fire or sick from the bad air and so on. Then we've got some people in shelters and all the rest of it, so the 30% carrier is not the only problem, but what's happening with those people is that they can't eat well, they can't have any entertainment, they can't buy books, there are just lots of limits, and in many cases, what you really should be looking at is not just housing costs at 30% but housing plus transportation at about 45-50%.

One of the problems is, increasingly these days, as [the young generation] moves back into the city, and occupies a lot of the housing that is there, that has usually been the place where low income people live. And that means they can walk, take the bus or subway. If they have to go [further out], they now have a transportation problem. What that means is that they've got to start getting a

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car, or share car costs with somebody else, so now the housing cost is down to 40% but the transportation is up 20%, so its a real crisis.

Adequate successful? "Several people in important political positions have identified and spoken about [this problem]. The professional community has been holleringa bout this problem for 15 years, 20 years. A community of which I consider myself a part. Political leaders took a while to catch on that this really was an issue. Governer Patrick a year ago proposed a funding initiative that would help create 10,000 new affordable housing units a year for the next ten years. Not adequate, but its on the road to getting there. New mayor of Boston, Mayor Walsh has proposed that would generate 50,000 new affordable units all together... in Boston in the next 10 years. Again, a start. So, people who control the funding are at least acknowledging the program and one element, the executive branch, maybe less the legislative branch is prepared to say 'put some money on the table and lets get this done.' But, the problem then becomes, where do you build it? Because the reason that zoning ordinances are so restrictive is because of the next door neighbor. In your neighborhood, you don't want anymore tall buildings, think about the traffic, think about the shadows... so any time a planning board or a zoning board starts to say, 'How about we change the zoning ordinacnes and double the dencities so instead of a three story limit well have a six story limit.' [Citizens outcry and officials decide to find another way.] Or maybe some other town will do this instead of ours.

If you think of changes of this nature as having stages, there was a 10 or 15 year stage where the professionals knew the problem, identified the problem, wrote about it in journals, then youve got a chunk of time where the political leaders uprush laws, usually in the executive branch, get it and start talking about it, where in the middle of that period right now then you've got another period where the legislators come around, [and agree that something has to be done no matter what zoning says]. And that stage doesnt always come, for everything. But it does come for some things, environmental regulations you can look at going through that phase, infrastructure you can look at going through those stages. Housing, were not quite in that legislator lets go we've got to do this stage yet. But you can see a few leaders, the leader of the housing committee in the senate and the house got this last year.

They understood this, and were willing to do something legislatively but they couldn't get the leadership of the house and senate to make those changes, so we're not there yet. Has the housing crisis ended? has the sector improved? No, by no means. The professionals in this field have been worried for a while and the governer talks a lot about this. The last governor, and this governor as well. That, the danger for Massachusetts is that the housing crisis will kill the goose that laid the golden egg. Which is our innovation industry, the biotech. Because right now, we graduate hundreds of people every year, that have a new entrepreneurial idea for a new business they'd like to get started. If we graduated 500, lets say 25 of them actually get a business going, and theyre going to be the next Uber or the next Facebook, or whatever it is. Well the first stage after they get out of the garage... now I need myself 10, 20, 30, young engineers who are going to really take this to the operable stage.

But basically I'm paying those guys a buck 95 an hour and stock options which will make them rich one day. But in the innerroom you can't pay your rent with stock options. And you only earn a buck 95 in cash, so what some of those new

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engineers from MIT with this bright new idea say to themselves is [can't afford to pay engineers enough to support their housing, so they will move to cheaper North Carolina, with slightly worse engineers.] So what I worry about, and what I think a lot of professors in this area worry about is that this great moment were in where biotech, and hightech of other kinds is exploding, is that if we don't watch ourselves, we'll shut the window on those new businesses starting here and they'll head to North Carolina or some other place where housing costs are cheap, so thats a very serious element of the problem, that we are endangering our economic future by sitting on the housing production.

"What do you think about renewable energy? and do you think Energy efficiency in housing is improving in the USA? What is cambridge doing about this (energy efficiency)?

"It's getting a little better, again, the professionals are out ahead of things, as you might imagine. You should just know that the Boston area in particular in Massachusetts, has a very high incidence of great housing professionals. Per Capita, more than any other place in the country. So we are ahead of the curb thinking about housing issues. If yuo look at the operating budget, for your home or for a rental property, what you find is that typically, utilities are the biggest cost you have after your mortgage. So if you can chop those costs down, you can make housing much more affordable for a much wider range of people, but thats part of what your 30% has to go to, not just paying mortgage, but to paying utilities and insurance. So what that means is we've got professionals who are alert to this problem and are looking every way they can for least expensive energy.

We've got some level of engineering progress to find better systems. We've got a little fewer contractors that know how to build in these kinds of ways, some architects [a smaller number]. The regulatory environment is the slowest catch up. So in order to make more progress you need all of these elements, you need developers who want to embrace this, you need homeowners and renters who demand it, youve got to have designers who know how to design it, contractors who know how to build it... Its fair to say that were on the cusp of getting to a place where renewable energy will be a much more commonly available material. Wind and water, I think is another possibility. I've got a hunch that 10 years from now, we'll be wondering why people were still using gas back in 2014. "

I've got a hunch that 10 years from now, we'll be wondering why people were still using gas back in 2014. Because, as with many things, wind power is pretty expensive right now, and it's pretty expensive because demand is low. The costs are fairly fixed, but the demand is somewhat low. So as soon as we bring the demand up, the cost can go down. That's what will happen as more and more people plan for it. So solar panels get more efficient, [as] somebody one of these days is going to figure out how to store solar power. We haven't figured that out yet, but somebody is going to figure that out sometime. I think 10 years 15 years, whatever it is, we'll be looking back on 2014 saying, 'Oh my god, the stuff was right there, we just didn't know how to tie it in.'"

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So we're on the road in that category, we're not there yet but we're on the road I think. Because of how big the utility budget is in everybody's lives, a lot of people have an incentive to figure that out. The only people dragging their feet on that one are the current, conventional utility [companies]. Oil guys would like you to not move so fast along this line, because they still have to recover their costs for drilling the stuff out of the ground, same with the gas guys but we'll get there.

Once we figure out how to use wind and solar power, it would be better for the environment and it'll be cheaper for housing, correct?

Absolutely, it's one of those win win situations, and that's why I think it will happen sooner rather than later. The supply and demand thing is harder, the zoning ordinance thing is harder, these are some pretty powerful forces in favor of not changing anything, to go against the forces that want to change something.

In the solar and wind power and renewables in general, you've got a very building group of people who want to see that change. You've got a couple of sort of fossilized industries who are still fighting against them, but their arguments are getting less and less meaningful to people and everybody sees what it's costing us, so I think that change will come.

It isn't every time that you've got the environmental industry joining forces with the technology industry... When you get them on the same side then the weight of the argument begins to shift.

Is Cambridge doing anything different about energy efficiency?

The planners here and the technology people are really really good and we've had great city managers for the last 40 years. I'm not aware what may particularly be going on in that arena, though I suspect Cambridge is as far in front as anybody is. Zoning ordinances will probably make it easier to put solar panels on your roof than some other places and things of that nature. And I suspect our building department is more willing to approve some of those kinds of new innovative systems than any other building departments. And there are many citizens here who have incentives to move in that direction.

Is there a high rate of unoccupied housing in the US, and in the Boston area? The short answer is no. But once again, just like Tip O'neal used to say about politics, all real estate is local. So Detroit has a very high incidence rate of vacant homes. You can buy a house in Detroit for \$5,000; a single family home on a half acre lot, no problem. You would just be on the block, where you might be the only family on that block. And there's two other people in what used to be 20 homes.

So there are places for a long time, like Phoenix, that have a huge supply of unoccupied homes because they had overbuilt before the crises hit. So as a general rule, there's not much unoccupied housing, but in specific places, it's

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a real serious problem. The general is you want a vacancy rate of around 5%. That's the kind of rate you get when there's a normal turnover of homes, and 'I've sold you a house and I've left already but you haven't moved in yet.'

So most economists will tell you that a 5% vacancy rate is about right, for a decent back and fourth. So in Cambridge, it would be 2%. And that's probably nothing but moving time. But you know, in Detroit it might be 15-20%. St Louis has a big problem with vacant homes. And there are some people who want to say, 'look, there are a lot of vacant homes in Detroit, because there's an over demand in Boston. Let's have everyone in Boston move to Detroit and occupy those homes.' It's insanity to talk like that. People who live in Boston are here for some reason, and there may be one or two of them who would just as soon go to Detroit, it doesn't matter, their skills are computer based and they can operate from Detroit as well as from Boston, and the cheap housing, and 'off I go.' 10, 20, not thousands. People are some place because they need or want to be there.

Does urban renewal cause gentrification? and if you could give examples of us cities being gentrified. As a broad generalization, yes urban renewal causes gentrification. Why?

A. Because you are taking something away. If you're speaking of urban renewal it is important to distinguish between capital "Urban Renewal" which is a federal program the government had back in the 50's to tear up old parts of cities and rebuild them with new stuff. It was generally a demolition clearance and demolition program. It was a specific program, it was in the federal legislation called "Urban Renewal." It focussed a great deal on downtowns and not on suburban neighborhoods, so it really was mostly a downtown program. and it caused gentrification in its own way. Sometimes the neighborhoods that got torn down, and then rebuilt, were low income housing neighborhoods. So the program for a while was known as "negro removal" instead of "Urban Renewal."

The more general phrase, just for the sake of description lets call it "urban rehabilitation" or "urban regeneration." The more general business of lets tare some old stuff down and put some new stuff in, inevitably causes gentrification because, A. you remove some very low cost housing when you do it.

B. Because you take some housing out of the situation, you've decreased the supply and therefore automatically other prices start going up, because of that reduction in supply. See, you pretty much force those people who had a house in this less expensive place to go somewhere else. So that neighborhood has changed. And if you rebuild housing in that neighborhood, where you tore down the bad stuff, it's good stuff. It's new and so it's more costly, and therefore it goes up. Now, there are ways to control that, frankly ways that most cities don't use for a variety of reasons.

But the short story is, and I should say, and some of that let's call it statistical gentrification, that is the price of new homes is higher than the price of old homes, people who can afford the new homes therefore are richer than people

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who could afford the old homes, and therefore the average income in this neighborhood is higher than it was in that neighborhood, and that's all sort of statistical. And it's not in every case, evil, it's not crazy conservative politics or anything like that. It's just what happens when you change [the neighborhood].

And there isn't pretty much, a place in the country where over a period of time, prices don't begin to go up, just because of inflation and so on. There's another part of gentrification which is intentional, it is evil, or at least it's very very poor judgement; which is, 'that part of our city is unsightly, there's homeless people over there, and the houses are not in very good shape, and we don't like seeing that stuff, we don't like seeing them, and so, I want to get rid of that.' And that is evil, that is a lack of respect and a lack of concern for people of more modest means.

And in the old "Urban Renewal" program, that was just 'whatever, let them go figure out some other place to live,' then they put up with some fights of the more progressive elements of city thinking, we put in a relocation program that required people who were removed from their homes to get a payment that would help them resettle. And more lately in some other federal programs, that look like urban renewal, but have different dimensions to them like the "Hope/help 6 program the "Choice Neighborhoods Program," those programs have been much more thoughtful than, 'ok, we are going to tare down the homes of 500 families here.

What are we going to do with those 500 families, how are we going to help them to figure out a place to move. We'll build some new housing in that area, which will be subsidized, so so it will be available to them more or less in a similar [situation to their old one]. We are going to provide a lot of finances for help and relocating." City finance mortgages and things like that, so more recently, cities have been more sensitive to this gentrification issue. And I think the worst of the mean spiritedness is gone, it doesn't mean people don't either consciously or unconsciously still do some of this stuff. And you can bet your bottom dollar, that if Boston gets the Olympics... Well Atlanta's a good example.

When Atlanta got the Olympics, among the first things they did, was tare down public housing, right next to the site of the Olympic stadium, and ship those poor people off to someplace else, and rebuilt it with some very nice mixed income housing. Quite attractive, some of it was still affordable to low income people, but about a third as much as what had been there originally. And you can bet your bottom dollar, if Boston gets the Olympics, there will be some neighborhoods that are a little shabbier, that will get a lot of attention here, so that when the cameras roll during the Olympics in 2024, Boston looks great. And that motivates bad spirited gentrification, which places people below image.

Advice for Spanish professionals in housing sector about their housing crisis?

Well, the first thing I should say is that I shouldn't give any advice because I'm not very knowledgable about the Spanish situation. To really give advice on a

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thing like this, you need to know the current situation, you need to know cultural elements of what a house means in Spain. And you need to know financing arrangements, whats possible in the way of financing in another system; you need to know about subsidies.

In the Netherlands, something like 80% of the people have a housing subsidy of one kind or another; in this country it's 10%. Except for the people who own their homes which is 16% more, all those people get a subsidy on their income. Our biggest federal subsidy is the income tax break you get for owning a home.

So absent that, it's really hard for me to give advice. What I think you can say as a general rule, since Spain is a part of the Western economy and therefore they live in at least some level of a capitalist economy. The one thing I'd say is a sort of a starting point is that... one is, is that it is critically important to think about people at the lower end of the economic scale.

The most cost effective, and in my mind the most ethical way to deal with housing is to make sure that those people have a decent permanent home in a safe place. The 1949 housing act in this country, that was our promise. We said we wanted a decent home with a suitable living environment for every American family. We've never kept that promise. But start by thinking about those people, and their sort of in two categories, that sort of people. One category is low wage earners. People who are working. They are working as a waitress, or they're working as a part time laborer, or they're working as a gas station attendant or something like that. But they're working they're spending 40 hours a week, they're growing a pay check. How do we make sure there's a home for those people. And that's a kind of economic transaction, so they are going to pay something, if it's not enough to cover the real costs, then what we do is a subsidy to make it easy for those people and how do we keep there from being a stigma to that.

Our public housing problem in this country caused by the stigma for people who live in public housing, and so we'd like to avoid that, so some kind of housing allowance system is usually the best way to do that. So thats the first question, and we also know in this country, and I assume it's true in Spain, that a permanent, decent house, is still the cheapest way. Because all the other systems, if you don't have a home, you're on the street, you're in a shelter, you're in a mental institution, you're in a hospital, you're in a jail, you're in some other place, and all these other systems, tax payers pay for, 100%. In the case of the subsidy, you know, I'm paying something, I just can't quite afford the full boat, so you're helping me out a little bit. And its much cheaper for you to help me out a little bit and keep me in a permanent house.

Because lots of other problems arise when I don't have a permanent house. The one that scares me the most is the statistic that the average homeless person in this country moves three times a year. From shelter to another shelter; or from their sisters house to a shelter, to another sisters house. Every time you move those kids, they go into a new school, make new fridns, learn with a totally different teacher.

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So when that kid goes wrong, somewhere down the road, not all of them do, but some do, we call it a family problem, or a school problem, or a justice problem... It's really a housing problem. If that kid had a chance to stay in the same school with the same teacher, same friends, the chance of their succeeding is much much better. And that's a cost that we blame on other systems. But its often a cause that we can solve by doing the housing thing.

So thats the first thing I would say, that anybody in any country, is figure out how it is that you serve the poor. There's another group of people that don't work regularly, that are really quite poor. They're not living paycheck to paycheck, they're living short term job to short term job, to borrowing from their mom to whatever. And thats a whole other set of issues about how we serve that set of people. So that's one thing, to think about the lower income.

The second thing I would say is... that most places in the world including us, focus too much on home ownership and not on appropriate rental housing. And what that means is that when I take a big high-rise building and turn it into a condominium and I give you a housing that's yours now, that may not work for you in numerous ways. And it would be much better off if we had responsible owners of that rental housing and you were renting an apartment in that place. If I give you the unit, guess what, when you have a plumbing problem, who's problem is it? Its yours.

If you live in a rental property and have a plumbing problem, its the managers problem, and the manager will take care of it. If you live in a rental property and your next door neighbor is a crime lord, waving his guns around the home with your kids there, or selling drugs out of the apartment, if it's a condo, you've got no way out. If nobody can tell that guy to leave, then you're stuck and the only thing you can do is protect your kids and move out. An apartment next to a drug lord, youre not going to be able to send you an apartment for very much money, so you're kind of stuck. If its a rental property, the property manager can throw that guy out.

So I think we've focused somewhat too much on ownership housing, and not enough on appropriate rental housing. I've got some bizarre ideas about rental housing, I'd like it not to be in the hands of private entrepreneurs, Id like all the rental housing to be owned by either the government or a non-profit entity, or a condo association of residents who can hire their own management company. But I'd like it to be more social ownership than entrepreneurial ownership. Nonetheless, rental as opposed to ownership is something I'd like to see much more balanced. In terms of financing, I think if it were properly regulated, our system with a secondary mortgage market is a very ideal system, it moves money around, makes money very liquid.

When we want to build a lot of homes in one particular part of the country, if theres not money there yet, we can find money to move there with our secondary market. But it needs to be properly regulated, because thats what fell apart in 2008. So those are just a couple of fringe ideas. I also think the design is very important these days, and increasingly, if we turn our architects loose,

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they're going to be able to find ways to build and innovate new kinds of housing types, that will save us some money on energy and square footage. It will be easier to manage as property. We'll be able to perhaps handle density in the right way, do parking in the right way.

The design world and the zoning world, changing regulations to make possible fencing?? or transit, make sense in almost any kind of culture. More than that, it'd be hard for me to give them advice. Tools for housing considering Spanish demographics of the aging population, migrating population and the political economy?

I do understand Europe's ongoing issue with immigration, some countries handling it reasonably well, some not so well. The situation outside Paris a couple years ago where France had stuck a bunch of immigrants into some public housing on the outskirts of the city, and exploded into a riot and so on so fourth, it's a disaster, so you just can't have stuff like that. We're always better off if affordable housing is integrated with the general population. Instead of saying, 'that's where the poor people live in those hundred apartments over there.' You've got a hundred unit apartment building a third of which are subsidized so people with lower income can live there, and the other third is sort of middle income people who are working and can pay a modest rent but not an exhorobant one.

And another third might be market place where people can pay lots of money. So we need to integrate our population to not have distinct housing for distinct groups, I think that's always a good solution. I do think that the public sector has to step up and subsidize homes. Mexico has a pretty good way of doing this now with their big "inonavit??" organizations which is both their social security system, and a mortgage system for buying housing. I think there are a lot of good things about a system like that. It integrates your retirement funds with your ability to have mortgage and so on so fourth. Its a little more socialized than our system is here in the states, thats why we resist it i guess, but I think it has some merit.

So I think I would concentrate on terms on making sure rental housing is a credible option and an adequate option. Integrating populations instead of segregating them. There is some natural segregation that takes place... I think theres some natural segregation and [thats fine]. And in the second generation, that community's going to start to disperse and we need to make sure it can do that.