

**Slides for the Conference on  
Expanding and Diversifying Housing: Approaches  
and Impacts on Opportunity**

Morris A. Davis

Paul V. Profeta Professor of Real Estate  
and Professor of Finance  
Rutgers Business School

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# Housing Affordability – A Macro Perspective

- **“Housing affordability” is an equilibrium phenomenon**
  - Owners decide how much they want to charge
  - Renters decide where to live and how much they want to pay
- **Housing affordability crises are worldwide**
  - Local explanations may not be sufficient
- **Macro story involves**
  - Productivity changes
  - Industry clustering
  - Worldwide savings glut

## The productivity story

- **Imagine a world in which there are only two goods**
  - Hot dogs
  - Buns
- **Each hot dog requires exactly one bun**
- **Suppose productivity growth is faster for hot dogs than buns:**
  - The price of hot dogs will fall relative to buns
  - Hot dog employees will fall
  - Bun employees will increase

## On productivity

- **Replace “hot dog” with manufacturing and “buns” with services**
- **Manufacturing vs overall productivity, 1950 – 2019**
  - Manufacturing: 2.7% per year
  - Non-farm business: 2.2% per year (includes manufacturing)
- **Manufacturing employment vs services employment**

	1955-1959		2015-2018	
	Workers	Share	Workers	Share
<b>Manufacturing</b>	19,765	40%	19,458	15%
<b>Services</b>	26,356	54%	104,499	83%

Manufacturing = Construction and Manufacturing  
 Services = Transportation, Trade, FIRE and Services  
 Share = Percentage out of Total Private Employment

## On agglomeration and clustering

- **Industries tend to cluster**
- **Simplification: Two types of cities**
  - Manufacturing: Cleveland, Detroit, Pittsburgh, Milwaukee
  - Services: Boston, Los Angeles, New York, San Francisco
- **Where are renters willing to pay more? In places with more employment opportunities.**
- **Why can't "manufacturing" cities become "service" cities?**
  - Some do (Pittsburgh)
  - Agglomeration forces are very strong

## Some more historical perspective

- **I believe this story fits many global and historical facts**
- **Innovations and investment in transportation helped add feasible supply and keep price growth muted**
  - Out of developable land?
  - Agglomeration forces for tech seem larger than for other industries
- **Recent accelerating force: global capital flows**
  - Foreigners buying units and keeping them vacant

## How do we get out of this?

- **Prediction: The affordability problem will get worse**
  - Difficult to create new high-tech clusters
- **Existing methods to create new housing supply difficult**
  - Increasing density of existing development: Political will?
  - Is existing road network at capacity?
- **Can we do anything to increase supply of housing?**
  - Driverless cars
  - Other experimental transportation