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

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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
  – Hog 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

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<thead>
<tr>
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<th>1955-1959</th>
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<th>2015-2018</th>
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<tbody>
<tr>
<td></td>
<td>Workers</td>
<td>Share</td>
<td>Workers</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>19,765</td>
<td>40%</td>
<td>19,458</td>
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<tr>
<td>Services</td>
<td>26,356</td>
<td>54%</td>
<td>104,499</td>
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</tbody>
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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