

Should the City of Galveston Support the Construction of Subsidized Rental Units?

By David Stanowski

President

Galveston Open Government Project, Inc

GalvestonOGP.org

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The GHA “Conceptual” Rebuilding Plan

90 scattered-site units + 1,437 mixed-income units = **1,527 TOTAL UNITS!**

Most people select the area where they want to live based on the belief that they will share the same basic value system and behavior as their neighbors.

Mixed-Income development is a social engineering experiment that seeks to reverse the natural inclination for people to live with those of similar income levels, value systems, and behavior norms.

What **incentives** can be offered to the middle class to entice them to **live with Subsidized-Housing residents?**

Location? Price?

With hundreds of vacant housing units within a short distance of the proposed sites, what major advantage can be offered by these locations?

If the GHA is planning to spend **\$253,000 per unit**, what price advantage can be offered? **\$2,500/month** for a 2 Br/2Ba?

What if **all** of the residents of the mixed-income development come from existing local rentals?

If the average rent earned in existing units is \$700/month, **the local economy will lose \$1,068,900/month!**

In addition, all management fees and rent earned by the mixed-income developer will flow out of the local economy.

The City will also create **1,527 MORE VACANT HOUSING UNITS!**

Will there be a program to **demolish 1,527 housing units?** How much will that cost? Who will pay for it?

Will these potential costs to the local economy be worth the **social engineering** gain?

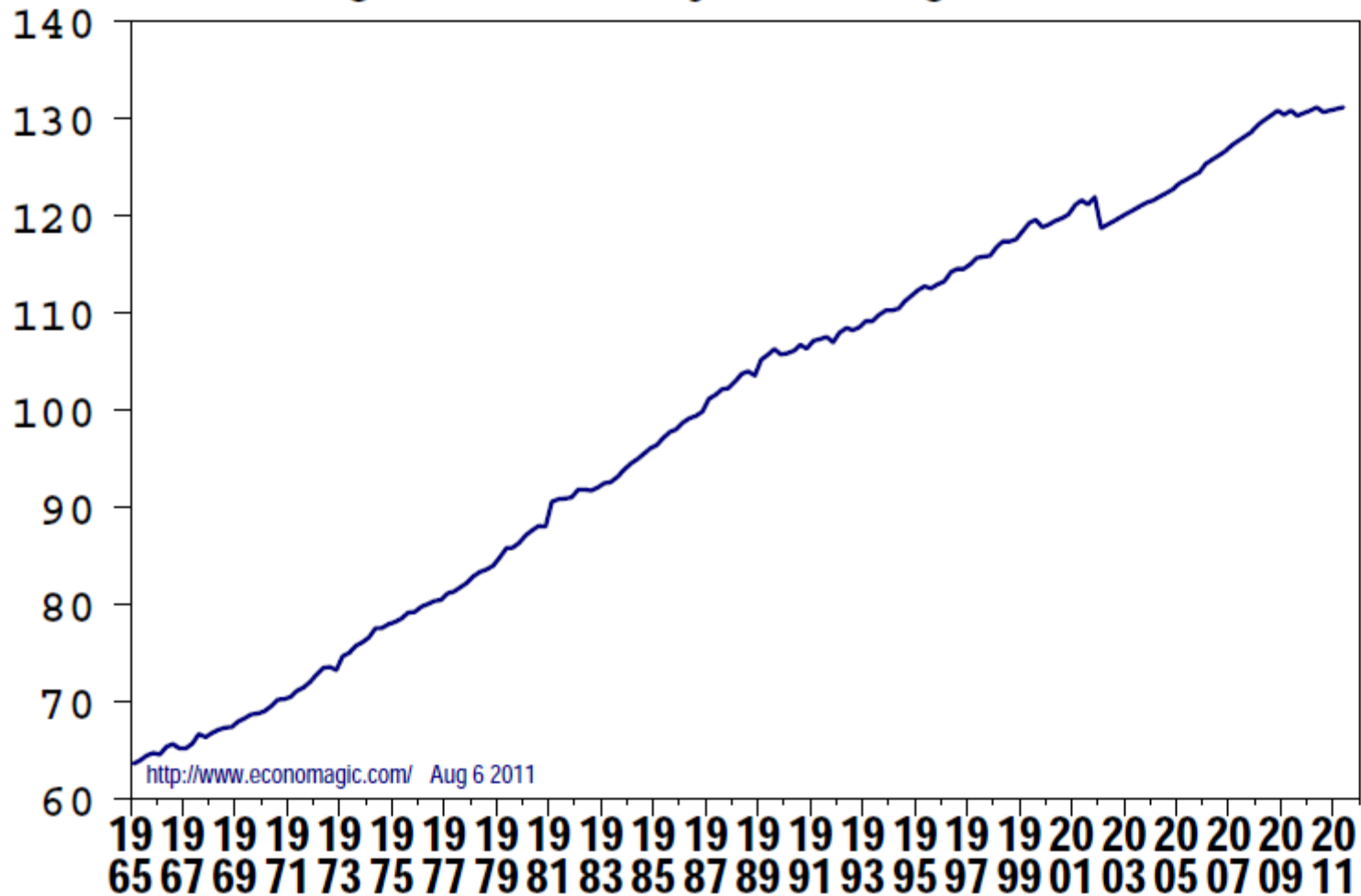
- **Crime and public housing.** Public housing has long been associated with crime. One of the arguments against rebuilding is that it will bring crime back into the city. In our analysis of crime and traditional project-based public housing in Atlanta, we have found something rather intriguing. Specifically that crime, both non-violent and violent, is actually more pronounced in the new HOPE VI mixed income redevelopments than in the traditional public housing. Much of this has to do with crimes of opportunity (there will be more opportunity in the mixed income developments). Thus, it is quite possible that in

Source: Georgia State University comments to GHA: <http://www.galvestonogp.org/GHA/GSUSTudy.pdf>

Market Analysis

Supply

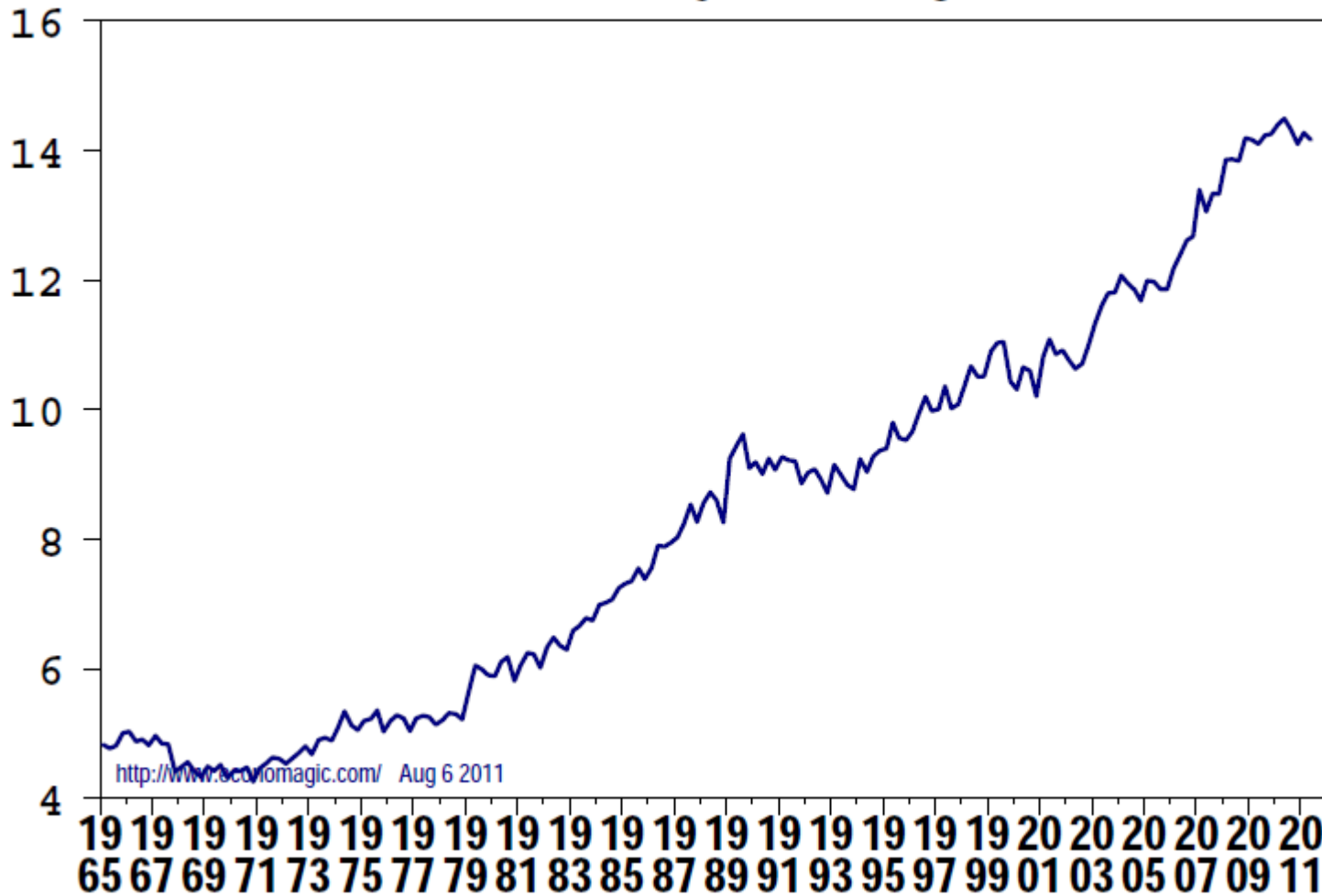
All Housing Units: Inventory of housing units in the US (Thousands)



Currently **131,173,000** Total Housing Units

Source: Census Bureau: <http://www.economagic.com/em-cgi/data.exe/cenHVS/table08c01>

Year-Round Vacant: Inventory of housing units in the US (Thousands)

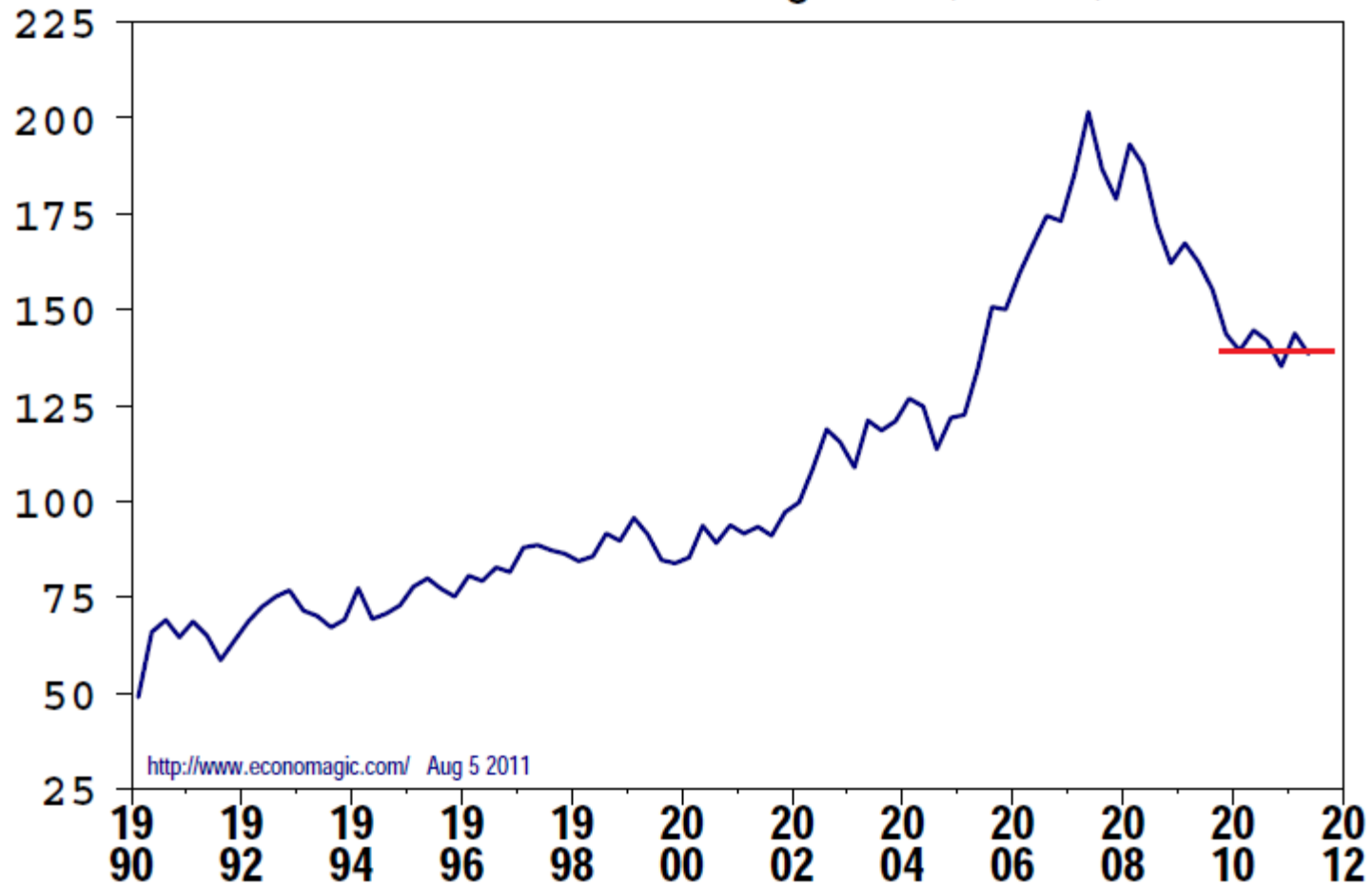


Currently **14,165,000** Year-Round Vacant Housing Units

Source: Census Bureau: <http://www.economagic.com/em-cgi/data.exe/cenHVS/table08c03>

Total Housing Units	Year Round Vacant Housing Units	% Year Round Vacant Housing Units
131,173,000	14,165,000	10.8%

Median Sales Price: U.S. Housing Units (dollars)

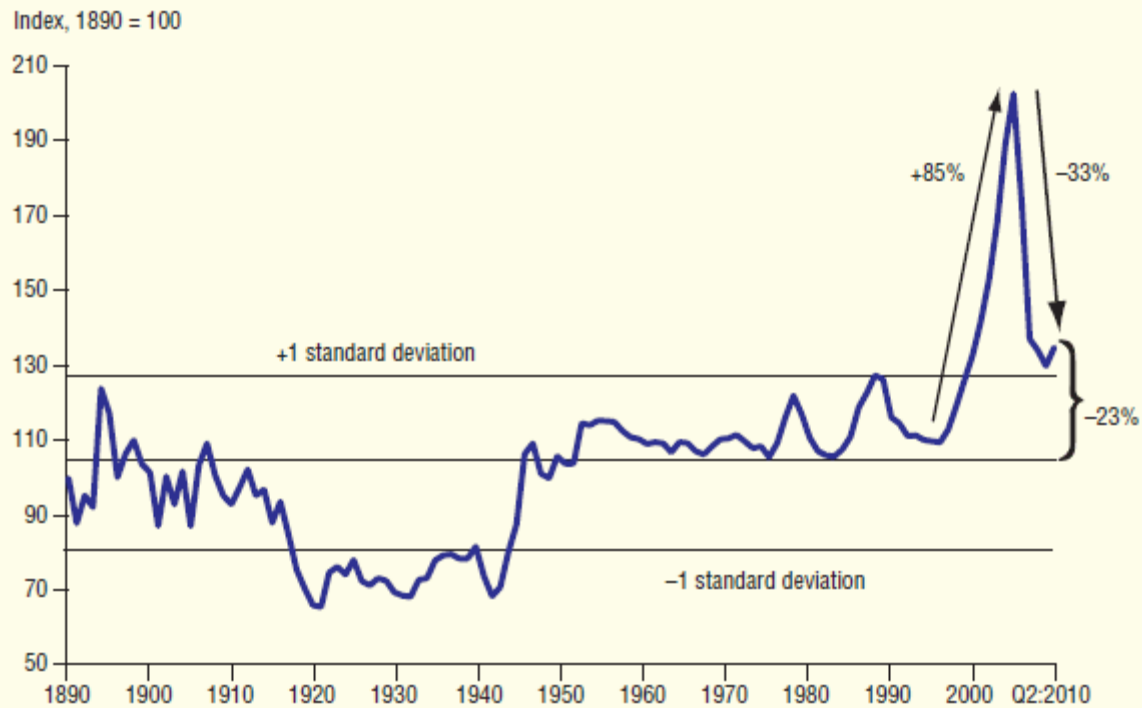


33% Below Peak; Prices unable to hold 1Q 2010 low

Source: Census Bureau: <http://www.economagic.com/em-cgi/data.exe/cenHVS/table11c06>

Chart 1

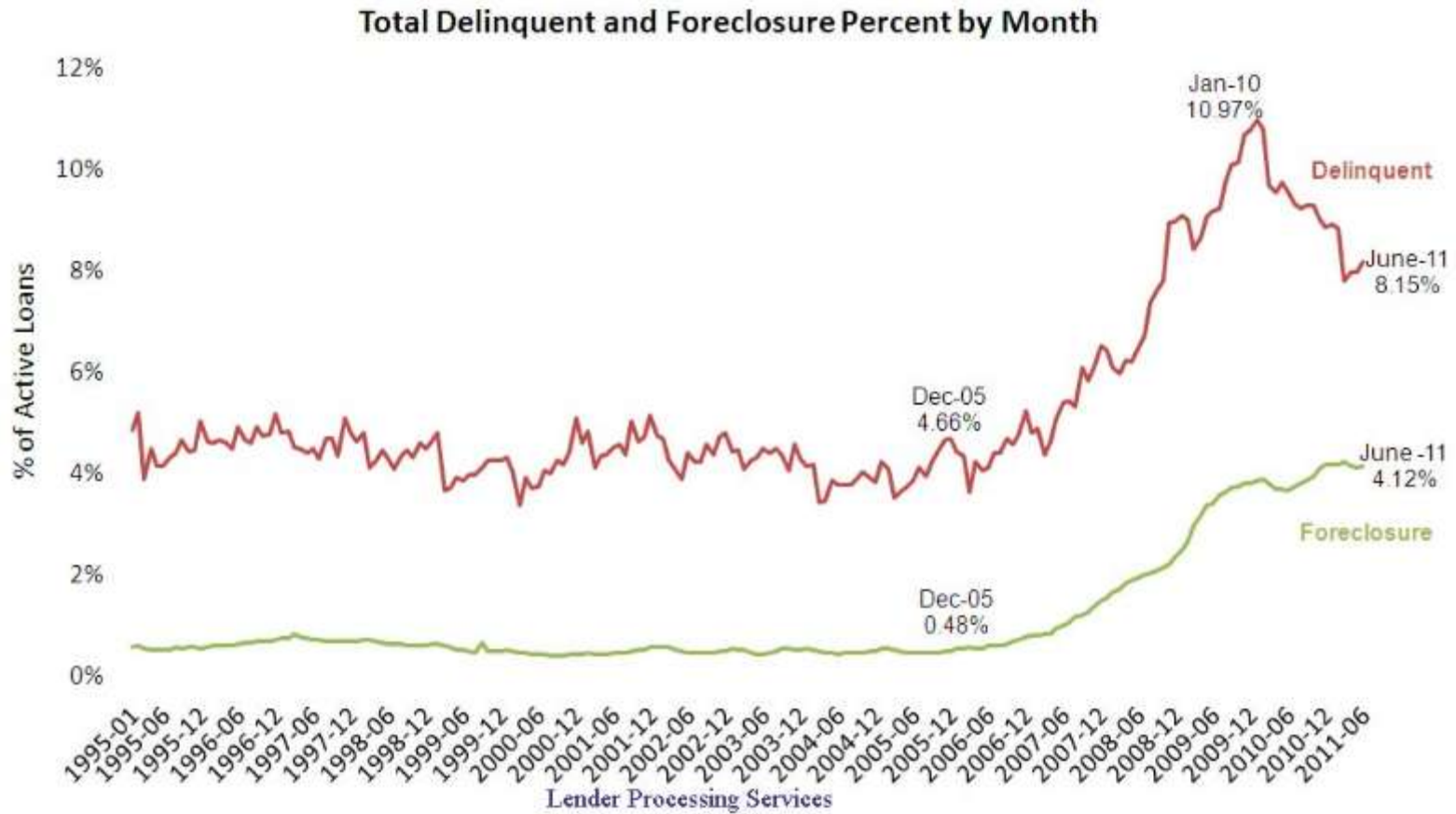
U.S. Real Home Prices Returning to Long-Term Mean?



SOURCES: *Irrational Exuberance*, 2nd ed., by Robert J. Shiller, Princeton, N.J.: Princeton University Press 2005 and 2009, as updated; authors' calculations.

Prices still 23% Above the Mean

Source: Dallas FED: <http://dallasfed.org/research/eclett/2010/e11014.html>



Foreclosures still 8 times Normal Rate
 Source: Lender Processing Services: <http://www.lpsvcs.com>

Galveston Housing Units

Year	Total Housing Units	Total Vacant Housing Units	Seasonal Vacant Housing Units	Year Round Vacant Housing Units	% Year Round Vacant Housing Units
1990	30,898	6,741			
2000	30,017	6,175	2,238	3,937	13.1%
2010	32,368	12,425	4,504 estimated	7,921 estimated	24.5% estimated

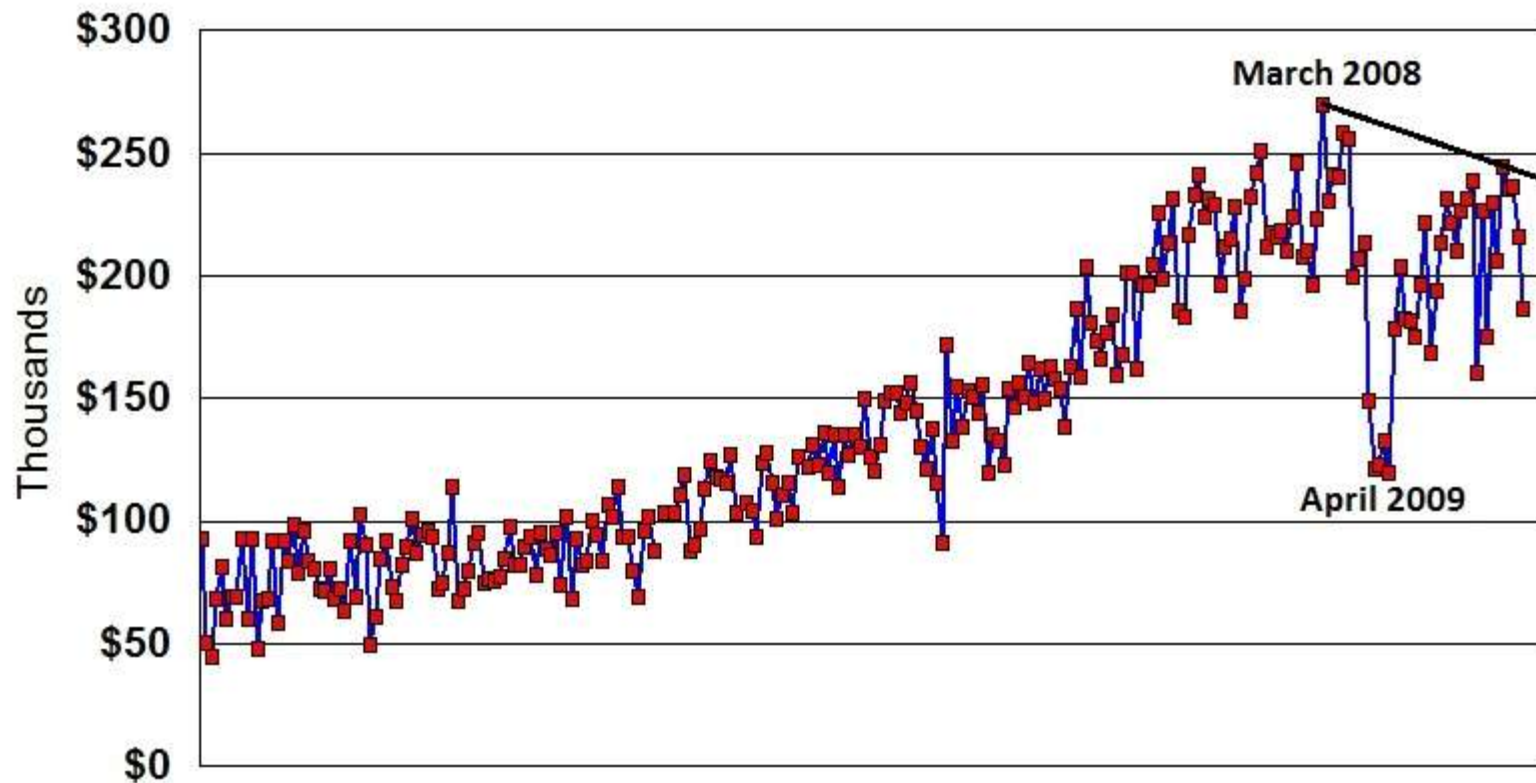
Source: Census Bureau

Total Housing Units	Year Round Vacant Housing Units	% Year Round Vacant Housing Units
32,368	7,921	24.5%

7,921

Distressed Vacant Housing Units!

Galveston Average Home Price January 1990 to June 2011

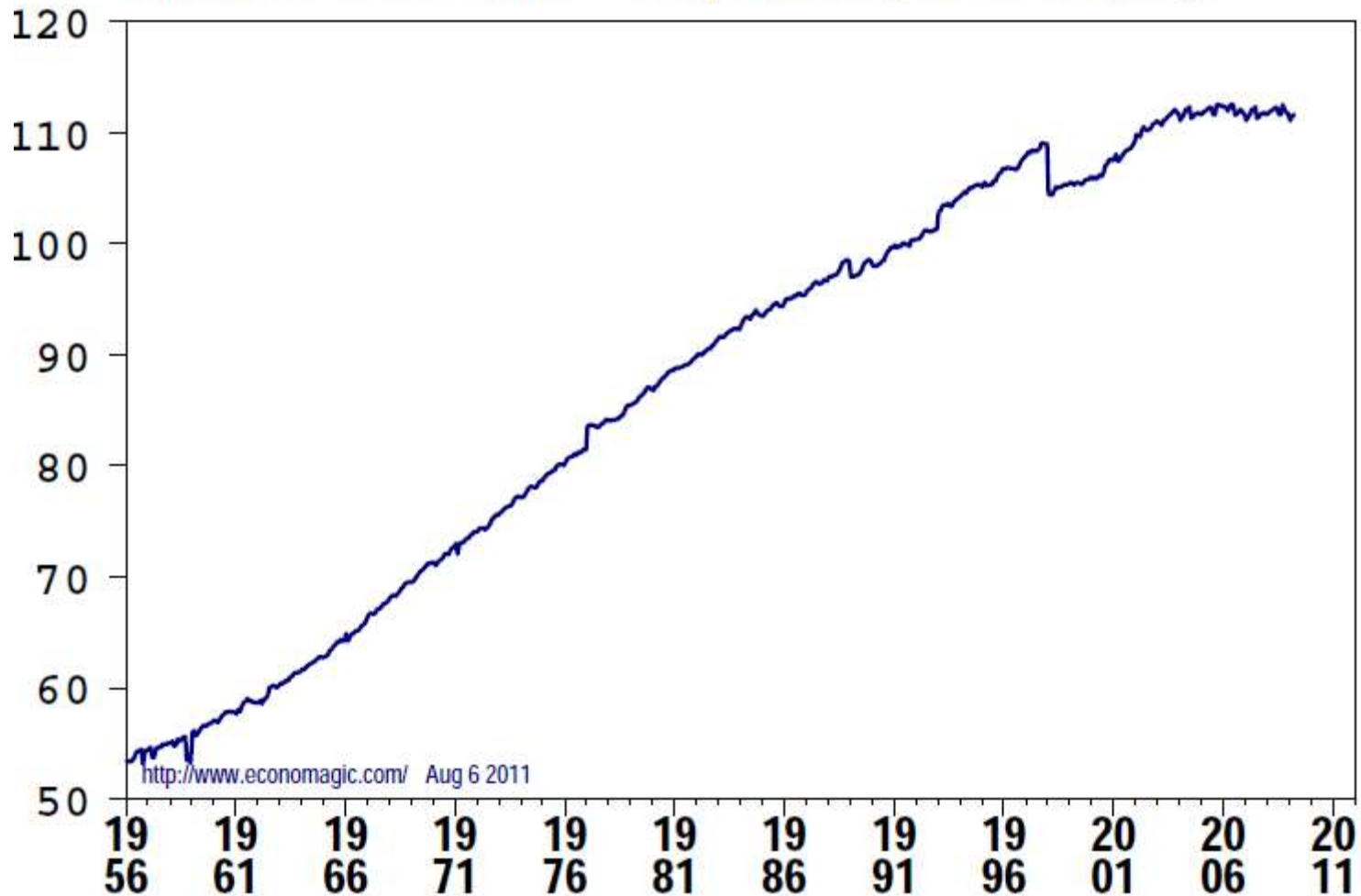


31% Below Peak

Source: Texas A&M: <http://recenter.tamu.edu/data/hs/hs250.asp>

Demand

Number of Households: US (estimate, in thousands)

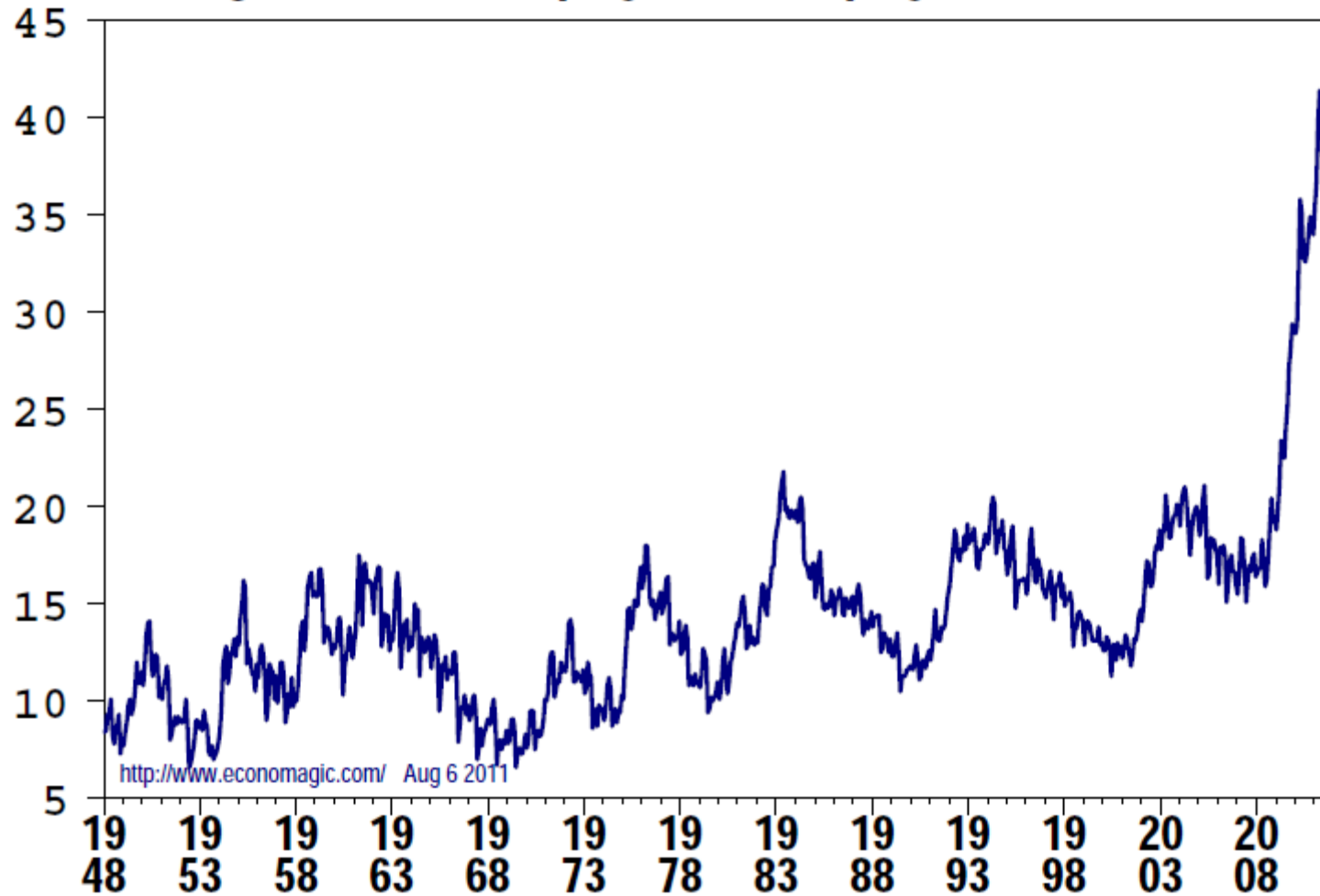


Number of Households **Peaked in May 2006** at 112,573,000

Household formation has been stagnant since 2003-2004

Source: Census Bureau: <http://www.economagic.com/em-cgi/data.exe/cenHVS/table13c01>

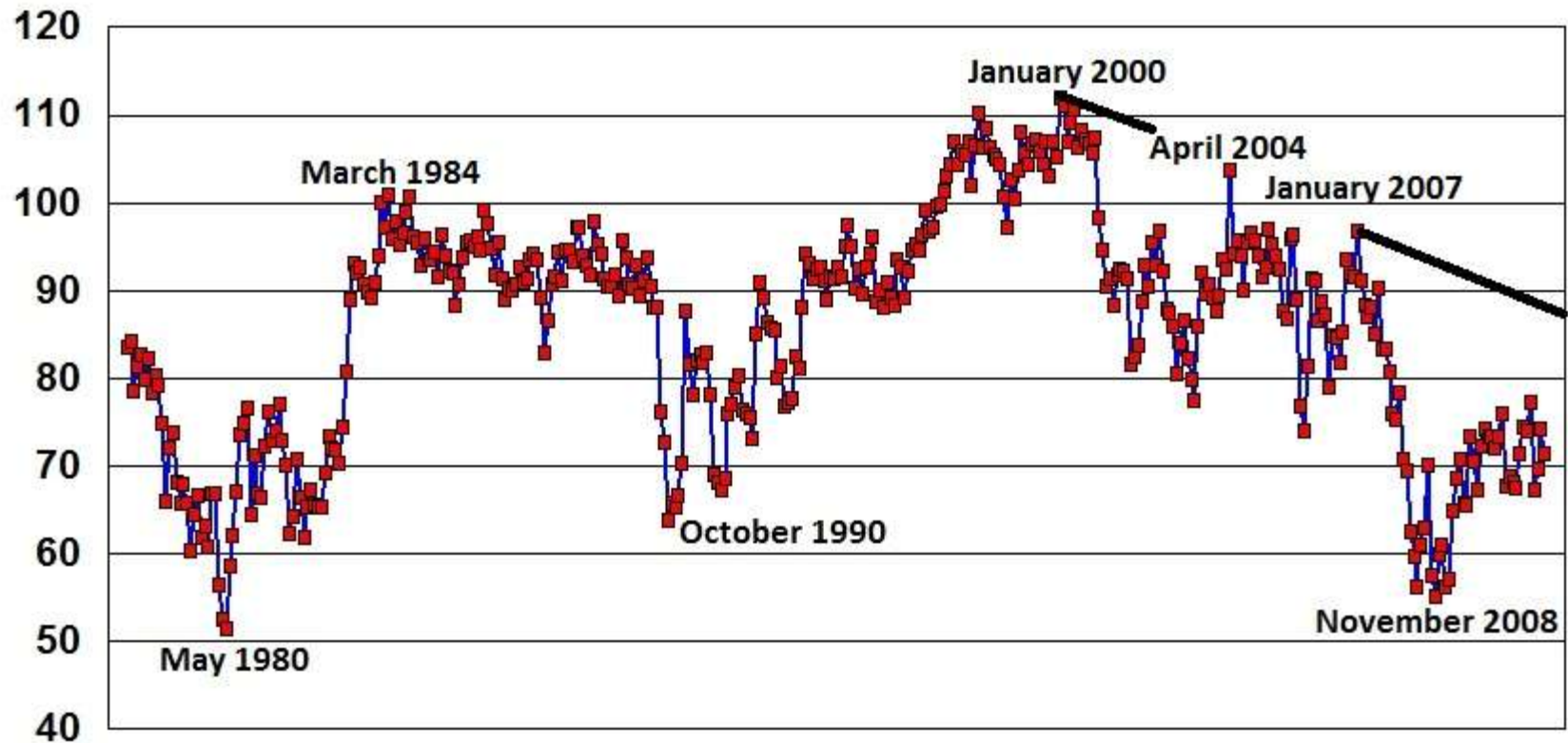
Average Weeks Unemployed; Unemployed; Number of weeks



The Duration of Unemployment is the **worst it's been since 1948!**

Source: BLS: <http://www.economagic.com/em-cgi/data.exe/blsln/lnu03008275>

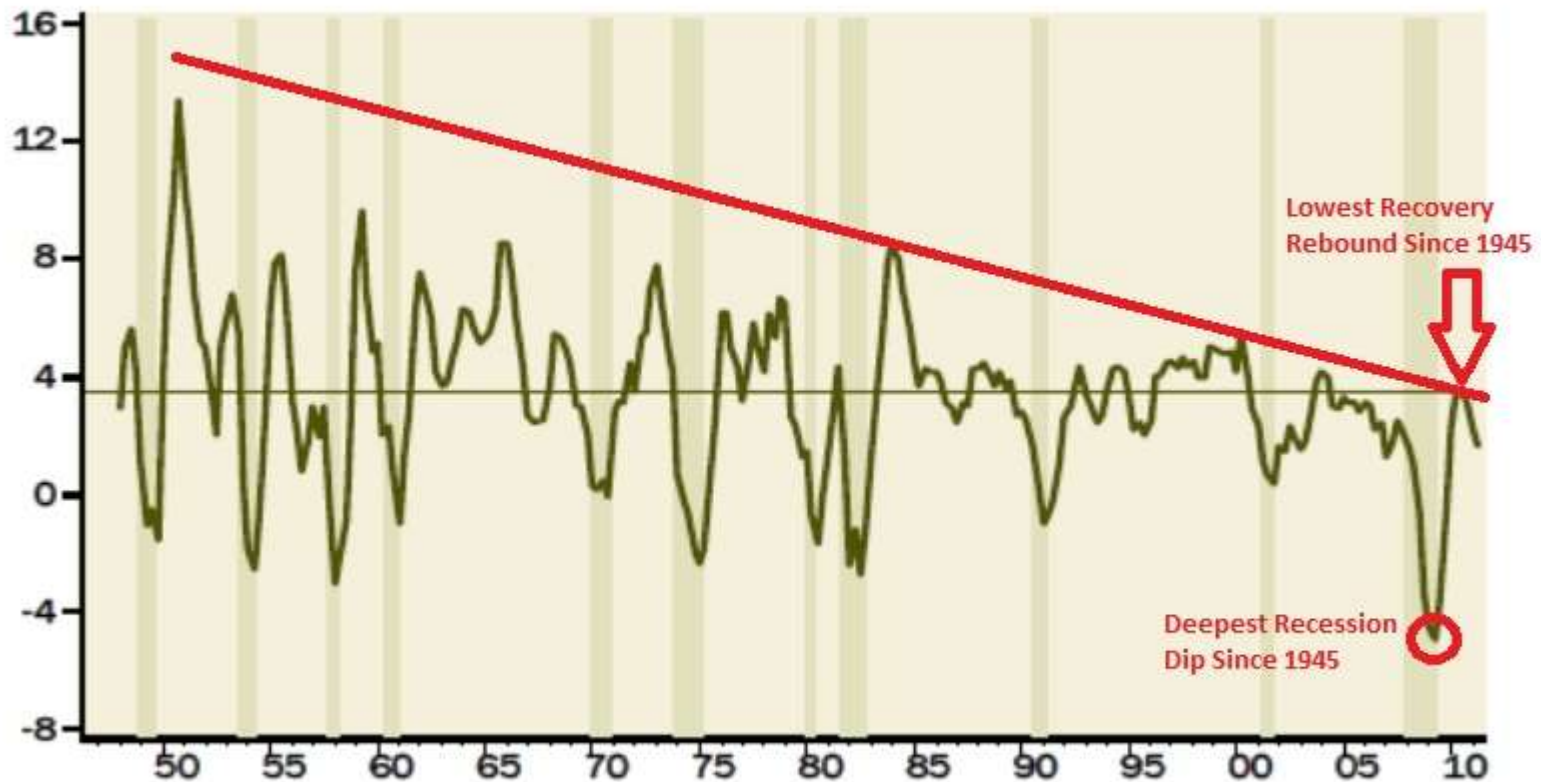
University of Michigan Consumer Sentiment January 1978 to June 2011



Consumer Sentiment 30% lower than in 2000

Source: University of Michigan: <http://www.isr.umich.edu/home/news/>

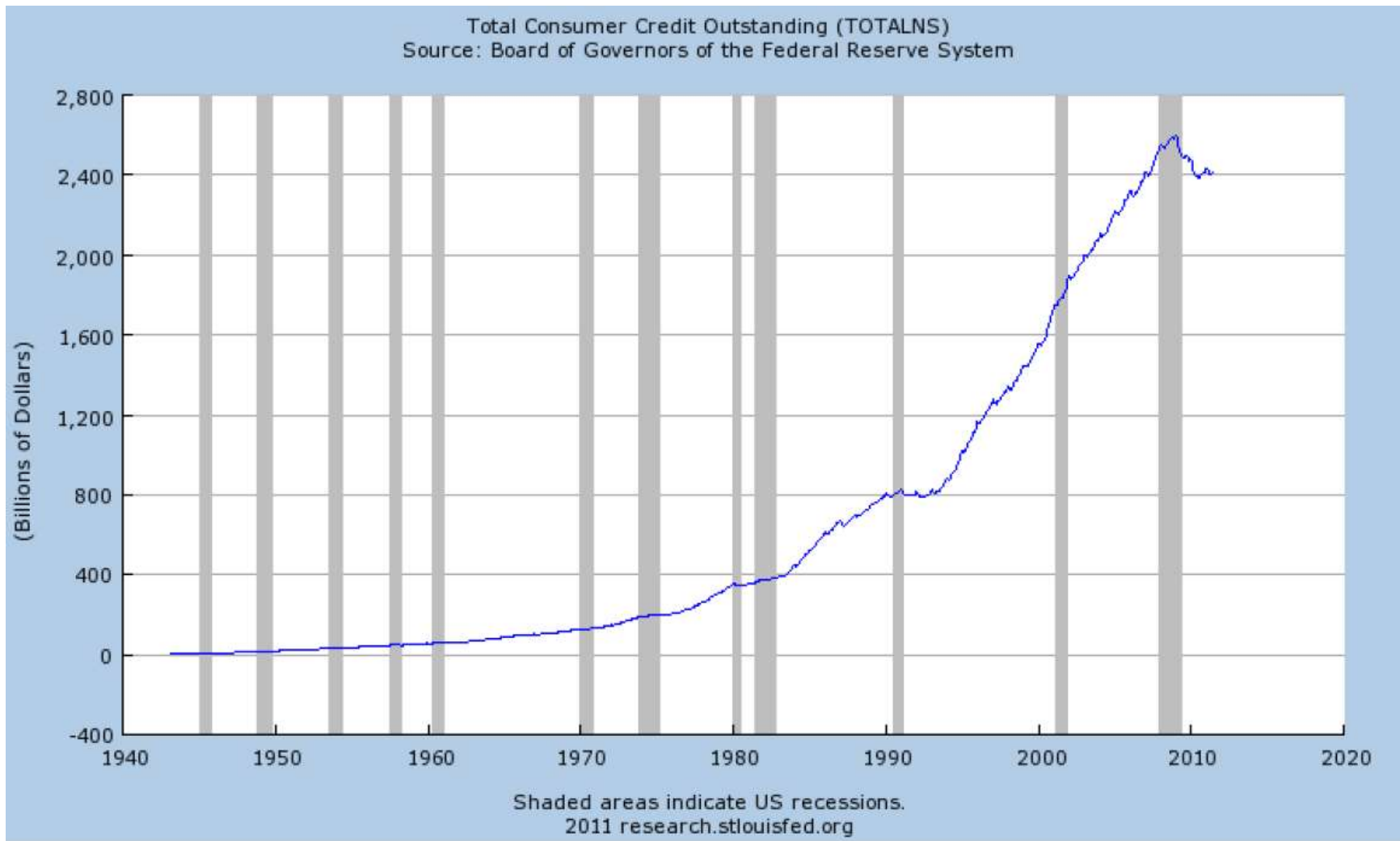
United States: Real Gross Domestic Product (year-over-year percent change)



Shaded regions represent periods of U.S. recession

Source: Haver Analytics, Gluskin Sheff

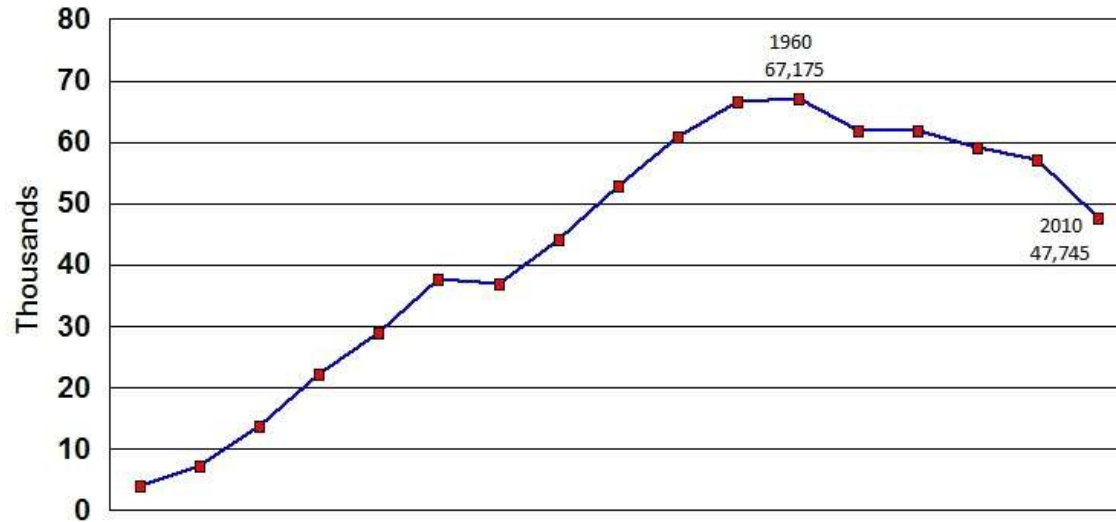
An Economy in Decline!



First DECLINE in consumer credit in 68 years!

Source: FED: <http://research.stlouisfed.org/fred2/series/TOTALNS?rid=14&soid=1>

Galveston Population 1850 to 2010



Source: Census Bureau

	Population Growth 1960-2010
State of Texas	+162.49%
Galveston County	+107.54%
City of Galveston	-28.92%

Source: Census Bureau

Conclusion:

The U.S. has entered a **long-term decline in its standard of living.**

This decline is not likely to end until the **excess real estate inventory is cleared** from the market; should take 4-5 years.

The stock market may also take that long to find a long-term bottom.

Consumers are going through a secular shift towards **austerity and frugality.**

They want to reduce risk by taking on **less debt, saving more, and consuming less.**

The time for **Class A apartments** in this low-income city was near the top in 2000; **Not Now!**