

View from the Front Porch:

A New Look at Housing in A Down Economy

By Chris Spruce, Executive Director

Two news items came across my desk recently that describe more than an incremental change in the way working individuals and families will look at homeownership in the months and years ahead.

The first was a report from Maine's Economic Forecasting Commission to the Legislature's Committee on Appropriations and Financials Affairs of a 17% drop in Maine wages in the first quarter of 2009. This, according to the Forecasting Commission's chair, economist Charles Colgan, is tantamount to every Mainer taking a 17% pay cut over a year's time. This is the worst drop in personal income since the Great Depression of the 1930s, Colgan said.

The second item was an op-ed piece in the Boston Globe in early November by Nicholas Retsinas, director of the Joint Center for Housing Studies at Harvard, describing a "rethinking" by American homebuyers of their homeownership "dreams." After the economic crash, wrote Retsinas, "we now see physical downsizing. In 1950, the typical new home was 1,000 square feet; by 2006, it had expanded to 2,600 square feet – notwithstanding smaller households. Today, median new homes have shrunk by 200 square feet. Some builders are offering models under 1,400 square feet...Lot sizes have decreased, thus increasing density. Given gas prices, people are choosing to live closer, not farther, from the places where they work."

Retsinas makes two important observations about likely changes in how Americans view their homes. First, he posits, thinking about your home as an investment is a concept that is losing steam. "(I)n the post-crash mentality," he wrote, "people will buy houses because they anticipate the joy of living in them, not trading them as a commodity." Second, he argued, the days of larger and larger houses being a sign of prosperity for American homeowners may be waning. "(P)eople will showcase their prosperity in other ways," wrote Retsinas, "not necessarily through mansions plunked onto two-acre lots."

Both of these articles are clearly heralding a revision of heretofore commonly accepted theories about the American housing market. With household incomes in decline and not likely to rebound to pre-crash levels anytime soon, Maine working individuals and families will face even greater challenges in securing affordable housing, particularly in those areas of the state where housing prices remain above the statewide median. Further, if gasoline prices continue a march

back above the \$3 per gallon mark, household budgets will be stretched to the point that finding a way to move closer to one's employment site will become a necessity, not a luxury.

We also anticipate that a whole host of factors beyond household economics – concerns about global warming, a preference for “green” building, a quest for greater energy efficiency, among others – will spur a further reduction in the size of the houses to be built in the years ahead. If 2,600 square feet was the standard size three years ago, houses approaching half that size will likely become the standard for new houses three years hence.

These revised expectations for American homeownership reinforce Island Housing Trust's current policies that encourage building “green” modest-sized, moderately-priced houses that maximize energy efficiency, that give a preference to clustering new single family houses on small lots rather than building a single-family house on a multi-acre lot, and that seek to create infill homeownership opportunities in the village areas of Mount Desert Island communities.

Despite the global economic meltdown, working individuals and families on MDI will still need quality, affordable housing in the months and years ahead. With the help of our many supporters, IHT will continue to assist in meeting this need.