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APPROVED: Citizens League
Board of Directors
March 15, 1978

TO: Members, Board of Directors

FROM: Housing Task Force, James L. Weaver, Chairman

SUBJECT: Recommended strategy for new housing construction

A. INTRODUCTION -- In the two years since the Citizens League issued the latest of its reports on metropolitan development and housing, several developments have occurred which prompted the Citizens League Board of Directors to instruct the Housing Task Force to prepare this follow-up statement.

In January 1976, the League issued its report "Balancing the New Use and Re-Use of Land." That report noted the connection between the type of construction of new housing and the maintenance of the existing stock of housing. In that report, the League called on the Metropolitan Council to revise its Development Guide to cover the future location and type of new housing construction, in relationship to the existing stock.

Two earlier reports of the League also were related to this issue. In April 1971, the report "Better Use of Land and Housing" documented the under-occupancy of thousands of single-family dwellings in older neighborhoods, obstacles to turn-over of these dwellings, and the absence of the ability to assemble parcels of land for new construction of housing in these neighborhoods. In June 1973, the report "Building Confidence in Older Neighborhoods" stressed the importance of maintaining entire neighborhoods, not just individual houses.

The Board of Directors felt that it is important, now, to restate some of the League's positions in a more unified statement, in order to relate these to developments since our last report was issued. For example, the Metropolitan Land Planning Act was passed in 1976, with new directions to municipalities to prepare comprehensive plans consistent with regional guidelines. Also, the Metropolitan Council itself is now wrestling with its own future role in housing. Should it remain involved essentially in the area of providing low-income and subsidized units? Or should it also, in its Development Framework Guide, pursue overall housing policies designed to implement its guide?

B. SUMMARY - If an established single-family neighborhood in the Twin Cities area is to sustain itself over the long run, then it is essential that (1) young families with children have the opportunity to move into the neighborhood, and (2) longer-term residents whose children have grown and moved away have the opportunity for housing better suited to their current needs, in familiar locations near their present homes.

These two factors are intimately related. A sufficient number of younger families with children will be able to move into the neighborhood only if the all-adult families are given the chance to move into different types of housing nearby, thereby vacating affordable housing for younger families.

Unfortunately, the system isn't working this way now. The households without children, primarily in the over-45-age range, are not moving, because there is no place to go. Meanwhile the younger families with children are acquiring new housing in brand new subdivisions. Such a phenomenon accentuates the problem of declining enrollments in some school districts, while a few others are growing rapidly.

Municipalities and school districts need a different attitude toward housing in established neighborhoods. To make it possible for more young families with children to move into existing housing, they need to encourage the construction of new housing for all-adult families.

C. STATEMENT OF THE PROBLEM - Too much emphasis on encouraging the construction of highly-popular single-family houses -- to the exclusion of other types of housing units -- is producing more large units than actually are needed, limiting options for buyers of all ages and negatively affecting the long-term health of existing neighborhoods.

1. Most new housing is single-family. During 1976, single-family housing units accounted for 67 per cent of new building permits in the seven-county metropolitan area. Surveys of housing preferences indicate continued, sustained demand for single-family housing.

2. Demand for new housing units is likely to continue to be substantial. During the 1965-76 period, annual building permits for housing in the Twin Cities area averaged about 18,000 units, according to the Metropolitan Council. One Council estimate puts the demand as high as 22,000 units a year for the next decade.

3. Region's households could be housed if most new units were much smaller. Almost one-half of all dwelling units in the metropolitan area (both renter-occupied and owner-occupied) have at least three bedrooms. But only about one-third of all households have at least four occupants, according to the Bureau of the Census. Taking Metropolitan Council projections of household size, it conceivably would be possible to satisfy the need for the next decade by building two-bedroom or smaller units almost exclusively. Household size in the metropolitan area has dropped from 3.4 persons per unit in 1950 to 2.8 persons per unit in 1977, according to the Metropolitan Council. Yet large units continue to be built. Between 1970 and 1974, according to the Bureau of the Census, three-fourths of all new owner-occupied housing units in the Twin Cities metropolitan area had at least three bedrooms.

4. But the pool of potential buyers of new housing is too narrow. Buyers of new housing units are predominantly 40-and-under households with children or with children contemplated. Nationally, the median age of buyers of new homes has dropped from 38 in 1965 to 33 in 1975, according to the Urban Institute, a Washington, D.C., study group. Almost two-thirds of buyers of new owner-occupied housing in the Twin Cities area from 1970-1974 were under 35 years of age, according to the U. S. Bureau of the Census. By way of contrast, about 72 per cent of the owners of all housing units in the metropolitan area are over 35, according to the Census.

An illustration of the fact that older households are not buyers of new housing is their length of tenure in their present dwellings. Approximately 60 per cent of Twin Cities area owner-occupied households in the age group 45-64 had been living in their present homes for more than 20 years, as of the 1970 Census. In the 65-and-over age group, 78 per cent had been living in their present homes for more than 20 years.

5. The current pool of potential buyers doesn't include those households which now are more than adequately housed. Current housing construction practice focuses on households which have been *inadequately* housed. That is, these households are growing in size and need more space, or they are growing in income and desire more amenity. But little attention seems to be devoted to marketing specifically to households which now are *more than adequately* housed. That is, these households no

longer may want to use or maintain the type of housing unit which fit the needs when children were present. In 1974, according to the Bureau of the Census, almost 37 per cent of all owner-occupied dwelling units in the metropolitan area had no more than two occupants, and almost 55 per cent had no more than three occupants.

6. Housing options for occupants of all ages is limited by current practice.

To the extent households where children no longer are present don't move from their more-than-adequate housing, potential younger buyers of such housing are forced more into the new housing market, where minimum prices may be more than those of existing units. And, of course, these young buyers are thereby denied sufficient opportunities to acquire housing in the built-up portions of the metropolitan area, which already have public services in place for these buyers and their families.

Lack of turnover of an existing housing unit can impede the development of better housing opportunities for many households. When one unit sells, a whole chain of vacancies is likely to occur. The longer the vacancy chain, the more households that can improve their housing status. A University of Minnesota study indicated recently that a vacancy chain is likely to be longer when a middle-income housing unit is vacated to begin the chain.

The absence of alternative housing opportunities for all-adult households means these households may be required to consume more housing than they want to or is appropriate for their current needs. Consequently, they may be required to pay higher utility bills than necessary or affordable, or they may have pressures to make maintenance or rehabilitation improvements which they are neither physically or psychologically motivated to undertake.

7. Unusually long tenure in a dwelling unit may lead to deferred maintenance or rehabilitation. Occupants are most likely to make improvements in their dwellings during the first seven years of occupancy, according to surveys of four Twin Cities neighborhoods conducted by Public Service Options, a joint venture of the Citizens League and the Upper Midwest Council. The surveys also indicated that persons who have lived in their homes for several years are less likely to recognize needed improvements, particularly on the exterior of the dwellings, than are new occupants.

8. Targeting new housing to all-adult households is likely to require different construction practices. New housing units for these households probably will have to require less maintenance, give greater promise of personal safety and be more energy-efficient than the units these households currently occupy. The households are much less likely to insist on conventional detached dwellings on individual lots. Many may prefer townhouses, patio homes, or condominiums. Although some of these households may be willing to relocate at some distance from their present homes, many are likely to want locations which are in or near their present neighborhoods, because they like familiar surroundings and want to remain close to friends and churches.

D. CONCLUSIONS - The private and public housing organizations have not paid adequate attention to the problems of a narrow market for new housing nor to the potential of broadening this market to households without children.

1. The builders of new housing units in the Twin Cities area may be overlooking an opportunity to expand the pool of buyers. The industry is highly-fragmented, with few large builders. For example, of the 221 members of the Minneapolis Builders Association, 139 of them built fewer than 10 housing units each in 1976. Another 82 built between 11 and 50 units each, and 10 builders built more than 50 units each. Smaller builders have been very successful with single-family construction in certain locations. They are familiar with the local government officials and the local

bankers. They personally may live near their projects. They may have had little or no experience in another kind of construction or planning which appears to involve a more complicated public approval process.

Regional and state building associations do not appear to be stimulating their members to explore new markets. For example, the associations don't recommend to their members the type and location of new housing units in the metropolitan area. Even the associations are fragmented. One association represents the single-family construction industry; another represents multi-family construction and management, which includes townhouses and condominiums as well as rental apartments.

2. Related businesses which likely would benefit from a new group of buyers of housing and, consequently, a greater turnover of existing housing, have not urged a change in policy. Obvious benefits would accrue to realtors, who depend on turnover for their business. So far, realtors have benefited by turnover caused by business relocations, increase in family size, desire to buy-up, and, in a significant number of cases, dissolution of a family by divorce. But realtors have not seen the potential benefit of turnover of housing that would come about as all-adult households acquire units more suited to their current needs. More turnover would also help the home movers, decorators, and others.

The organized housing unit maintenance industry, now still in its infancy, would have a major increase in potential business if more units were built in which the maintenance is done corporately by the owners of the units.

3. Municipal and school governments, anxious to maintain and increase their family populations, have failed to sense that to attract more families with children within their borders, it is in their own best interests to make it possible to build more housing for families without children. City governments and their residents continue to work to preserve single-family neighborhoods, by restricting other kinds of housing in or near such neighborhoods. Nevertheless, new housing opportunities for all-adult households may attract such households to move, thereby making more single-family housing available. In effect, preserving single-family neighborhoods means building more housing for families without children.

The "recycling" of residents in single-family housing is key to effective utilization of the streets, schools, parks, and public utilities which were installed there to serve the neighborhood in the first place.

Sites are, of course, a very major problem. However, the problem of sites can be over-emphasized. Entire blocks or even half-blocks may not be needed. Two or three lots may be all that is needed to provide a site that could be used for construction of adult housing, say a 3-story condominium or a few townhouses. Old commercial corners in residential neighborhoods, such as abandoned service stations, may be good possibilities. Abandoned school sites, inevitably, are in residential neighborhoods. However, pressure may be present to build single-family units on such sites as a "solution" to the problem of declining school-age population. Actually, a better approach might be to use the site for adult housing, thereby freeing-up more existing housing units in the neighborhood for families with children.

Municipal governments cannot expect builders to show a great deal of interest in such construction if the builders are required to spend excess time defending their projects to the neighborhoods and political units. To attract builders, public financing may help by writing-down the cost of land, or public authority may help in assembling a parcel of sufficient size.

4. The Metropolitan Council has failed to provide adequate leadership to the housing industry and municipalities in the region on the type of new construction of housing. The Council's policies limit new construction of dwelling units within the urbanized and urbanizing portion of the Twin Cities metropolitan area. The Council also has devoted considerable effort to encourage the dispersal of newly-constructed low- and moderate-income housing around the region. The Council, however, has not addressed the question of what kind of new housing units should be built in what proportion.

5. The state's publicly-assisted housing finance institutions appear to be reacting to proposals made by others, rather than taking the initiative on what kind of housing should be built. By remaining neutral in terms of type and location of housing within the metropolitan area, the Minnesota Housing Finance Agency is, in effect, re-enforcing the status quo. Local HRAs give prime emphasis to making land available for new housing for low- and moderate-income households, and seemingly less emphasis on finding more housing opportunities for such households in the existing housing stock.

E. RECOMMENDATIONS - To create a life cycle of housing opportunities in and near neighborhoods throughout the Twin Cities metropolitan area, thereby making efficient utilization and improved maintenance more likely. This would be accomplished by a housing management program for the area which explicitly integrates the policies on construction of new housing units with utilization and maintenance of the existing housing stock.

What needs to be done - A new effort would be undertaken to target a specific segment of new, owner-occupied housing construction in the Twin Cities area specifically to the over-45 age group and others who prefer dwellings designed for all-adult households.

This would represent a change from current practice, in which the owner-occupied construction market is thought to be almost exclusively made up of younger families with children. (There is, of course, another kind of market, not addressed in this report, which is the market for new rental units, made up of such groups as young singles and the elderly.)

Building for the over-45 age group means such construction probably would not be of the rambler-split level-colonial variety which characterizes the bulk of the new construction for growing families. Instead, the units probably would be smaller, but more quality per square foot. They would likely be located in familiar locations, probably fairly near to the former residences of the buyers. The units would likely be more energy-efficient, provide better security, and require less maintenance. They might well have common walls. They need not extend above the treetops, nor would there likely be more than five or ten units on a given plot of land. Patio homes, condominiums and townhouses probably best characterize this type of housing.

As a result of this new construction practice, growing families will be given more of a chance to buy existing single-family homes which become available when the new housing units are built. By receiving broader options, growing families will find their needs satisfied in the fully-developed portions of the metropolitan area, not just on the suburban fringe. This means better utilization of the existing stock of housing and public investments, such as schools, within the fully-developed area. And it even is possible that a growing family, with very limited dollars available, might get more house per dollar invested from the existing stock than by buying a brand new unit.

A further benefit of greater turnover of the existing housing stock is that it might stimulate more exterior improvements to homes, which can help upgrade the overall quality of single-family neighborhoods. Persons are more likely to make substantial improvements in the first years of occupancy.

These points re-enforce and elaborate upon the Citizens League recommendation -- in its report, "Balancing the New Use and Re-Use of Land," January 1976 -- that the stock of larger, family-sized housing is a public asset that must be maintained and that policies on new construction should be designed to help preserve the existing stock.

Implementation: Responsibility of both the public and private sectors.

The private market sector - We urge private builders, real estate firms and others involved in housing in the Twin Cities area to review our proposal and examine the potential market for an expansion of new construction for all-adult households. We encourage builders of new housing and the brokers of existing housing to consider developing closer relationships because of their common interest.

City governments and housing and redevelopment authorities - As city governments revise their comprehensive plans (now occurring as required by the Metropolitan Land Planning Act), we urge that they examine whether their own housing policies are calculated to provide a reasonable mix of housing types, so that, as desired, persons may move into housing suited to their current needs without having to move to unfamiliar locations.

We urge that city governments look, in their own self interests, to the impact which a new policy of construction of adult housing would have on accomplishing long-term "recycling" and maintenance of their single-family neighborhoods and on utilization of their schools, parks and other public facilities.

We urge city governments and housing and redevelopment authorities to assist prospective builders in considering their communities by:

- Taking inventory of all vacant buildings and lots in and near single-family neighborhoods to determine (a) current ownership, (b) likely plans in the future, (c) asking price, if for sale, (d) zoning, and (e) size of parcels.
- Determining the extent to which municipal assistance might be desirable in assisting assembly of land, whether financial aid or use of municipal powers to acquire property.
- Making it clear to builders in advance precisely what the locality is willing to do and what will be expected of the builders. In addition, the locality should indicate the number of available sites, type and number of units that could be accommodated, possible land price, and zoning.

School boards - We urge that school boards examine critically their policies on disposal of school sites to determine what can be done, in their own best interests, to make it possible for families with children to locate in their borders, thereby easing the problems of declining enrollment. They should look most carefully at whether abandoned school sites should be used for adult housing. If used for adult housing, it is likely many more units could be built on a site, which, in turn, would stimulate more turnover of existing single-family dwellings which could be occupied by young families with children.

We further urge school boards to monitor the land use plans of their respective municipalities and, as needed, encourage the appropriate municipal councils to adopt housing policies calculated to give maximum assurance that housing will be available for young families with school-age children.

The Metropolitan Council - We urge that the Metropolitan Council revise its Development Framework Guide to include specific policies designed to make more housing opportunities available for families with children in what the Council calls the "fully-developed area," which includes many close-in suburbs and the central cities. To make this possible, the Council's guide should call for more construction of all-adult housing units within the fully-developed area, which will be calculated to bring about greater turnover of the existing stock of single-family housing. Such turnover will thereby make more housing opportunities available in the existing housing stock for families with children.

We urge the Metropolitan Council to give "bonus points," so to speak, in its review of federal grant requests, when municipalities demonstrate that their local plans and ordinances are designed to provide a variety of housing options for residents, thereby promoting more efficient utilization of their housing stock.

We urge the Metropolitan Council to take the initiative in identifying obstacles to construction of all-adult housing in the fully-developed area and seek ways to overcome such obstacles. For example, it might sponsor design competition for ways to blend such housing into existing neighborhoods.

We urge the Metropolitan Council to review needs for additional legislation in the areas of:

- The administrative process involved in new construction in the built-up area compared with the process on raw land on the urban fringe. If the risks and rewards in these locations are out of balance, builders will gravitate naturally to where the risks are less and the rewards are greater.
- Site assembly, to assist builders in acquiring holdout parcels. A proposal in the 1971 Citizens League report, "Better Use of Land and Housing," to give owners of holdout parcels an opportunity to be financial partners in the new development should be among the options explored.
- Capital gains taxes and their impact on incentives to move. The question of reducing the age of eligibility below 65 for a once-in-a lifetime partial exemption from capital gains taxes when a home is sold should be explored.
- Techniques for financing housing, including variable-interest mortgages, graduated rate mortgages, and reverse annuity mortgages for older homeowners.
- Impact of present state taxation policies on encouraging or inhibiting turnover, including review of the circuit-breaker's impact.

Minnesota Housing Finance Agency - We urge the Minnesota Housing Finance Agency to follow the Metropolitan Council guidelines on housing utilization in its allocations of funds within the metropolitan area.

"Post scripts" in implementation

What is the interest of existing single-family neighborhoods? -- Existing single-family neighborhoods need to examine what kind of new construction policy will do the most for helping maintain their neighborhoods' vitality in coming years. This is particularly important for neighborhoods which may have vacant school sites or abandoned service station corners or similar properties in or near their neighborhoods which might be utilized for new housing. Neighborhoods need to analyze, critically, the impact of alternative approaches; for example, whether the new construction should be single-family detached, patio homes, condominiums or town-houses. Neighborhoods need to ask themselves whether adequate alternative housing opportunities are available for residents of their areas who no longer may need or necessarily want the space they have in their present three- or four-bedroom single-family houses.

What is the relationship between this statement and the "trickle-down" theory of housing? -- One of the possible responses to this statement is that it seems designed to create a "privileged class," for whom new homes would be built, while allowing the rest of the people opportunities only in the used housing market. The "trickle-down" theory is that new housing is built for the wealthier people, with the rest of the population left to use the old housing they vacated. Without question, our statement says that more housing opportunities should be made available in the existing stock for young families with children. And the statement does not urge a halt to all new single-family construction. But, for us, the issue is not that new construction is good and existing housing is bad. As a matter of fact, an inexpensively-built new single-family home is more than likely to be inferior in quality to a previously-occupied home. For too long, in fact, we have perpetuated the myth that the only good housing is new housing. Our statement is designed to destroy that myth.

Is this statement directed at forcing elderly persons out of their homes? No. This statement is directed mainly at the 45-64 age group, who currently are at the peak of their income-earning potential, whose children are likely to have grown up and moved away, who are likely living in a house larger than they really need, and who would be receptive to a different style of dwelling unit. The statement is not designed to force anyone to do anything. Householders will act in their own best interests. The point we are trying to make is that optional housing arrangements just have not been made available in the right amount and in the right places to meet the needs of households where children are not present.

How does this statement relate to controversies over high-density housing? -- Quite clearly, this statement can be misunderstood. Many of us may have a certain mind-set which understands only (a) single-family neighborhoods, (b) high-rises, and (c) apartments. But many other types of owner-occupied dwellings are available besides the single-family detached unit. They often are designed so that more units can be built on a given parcel of land than if the land were divided into single-family lots. But this type of construction need not be high-rise. In fact, it is very likely that it can blend into the existing neighborhood environment better than, for example, a new, cut-corners, \$40,000 rambler on a 40-foot lot in the middle of a block.

What if the new occupants of single-family dwellings don't happen to be young families with children? This will be the case sometimes, but that's not so bad. First, turnover of the dwelling will have occurred, thereby having a positive effect on its maintenance. Second, children may be present in future years, even though not now.

Third, the turnover of one unit will likely produce a chain of vacancies, any one of which may be an opportunity for a younger family with children. Fourth, the construction of new units as we recommend will have provided more suitable housing for the former occupants, irrespective of who acquires their old single-family dwellings.

BACKGROUND

The recommendations in this statement follow up on three previous Citizens League reports concerned with housing utilization and neighborhood maintenance. The reports are:

"Better Use of Land and Housing," April 30, 1971

"Building Confidence in Older Neighborhoods," June 7, 1973

"Balancing the New Use and Re-Use of Land," January 26, 1976

Each of these reports was prepared by a volunteer committee of Citizens League members. A limited number of single copies of these reports are available on request at the Citizens League office.

When Citizens League reports are completed, a standing committee of the Board of Directors - the Community Information Committee - is given the responsibility for following up on the implementation of the reports. At any one time the Community Information Committee may have as many as 30 different reports in various stages of implementation on its agenda. To assist Community Information Committee work, the Board of Directors has set up four task forces in the areas of housing, governmental structure, transportation and taxation and finance. In each of these areas the League has a number of reports.

The Board of Directors of the Citizens League in July 1977 assigned the Housing Task Force to review developments since the three above-mentioned housing reports were issued, and to determine the extent to which policies of the Metropolitan Council now cover the type of new housing construction, the utilization of existing housing, and the relationship between the two. The task force was assigned to look at (a) the magnitude of the overall demand for new housing unit construction in the metropolitan area in coming years; (b) the facts on utilization of existing housing; (c) the facts on location and type of new housing now being constructed in the metropolitan area; (d) the current housing market: what kind of housing people prefer, factors which determine why they move when they do and where they move, incentives for people to remain where they are, incentives for people to seek other housing; and (e) the consequences of a continuation of present policies on cost and availability of housing and on implementing the development framework of the Metropolitan Council.

The Housing Task Force held 11 meetings from late September 1977 to early February 1978. The preparation of follow-up statements do not involve or require the same sort of intensive backgrounding which is characteristic of regular Citizens League research committees, since the statements normally elaborate on previous recommendations. However, the Housing Task Force received considerable input from persons in real estate, housing marketing, housing construction, and persons in local, regional and state government involved in housing policy.

Active members of the Task Force were James L. Weaver, chairman; Roger Conhaim, Gary Dodge, Robert Engstrom, Janet Fischer, Adrienne Gutierrez, Roger Hankey, Ray Harris, Peter Hutchinson, Donald Jacobson, William Masuda, Charles Neerland, Valerie Pace, August Rivera, Joe Selvaggio, James Storm and Bill Betzler.