TABLE 16  Average Sales Price of Portfolio (New Single-Unit Houses Sold in 1987) Compared with Average Price of Houses Actually Sold, United States, Selected Years, 1977 to 1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Price of Portfolio (in dollars)</th>
<th>Average Price of Houses Actually Sold (in dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>67,400</td>
<td>54,200</td>
</tr>
<tr>
<td>1982</td>
<td>108,400</td>
<td>83,900</td>
</tr>
<tr>
<td>1987</td>
<td>127,700</td>
<td>127,200</td>
</tr>
<tr>
<td>1992</td>
<td>144,100</td>
<td>144,100</td>
</tr>
<tr>
<td>1993</td>
<td>150,300</td>
<td>147,700</td>
</tr>
<tr>
<td>1994</td>
<td>157,500</td>
<td>154,500</td>
</tr>
<tr>
<td>1995</td>
<td>161,900</td>
<td>158,700</td>
</tr>
<tr>
<td>1996</td>
<td>165,100</td>
<td>166,400</td>
</tr>
</tbody>
</table>


▶ Housing Shortage

The term housing shortage has both economic and normative interpretations. In a positive economic theory, a housing shortage is the amount by which the demand for housing at a given price exceeds the supply of housing. In a normative interpretation, a housing shortage is the amount by which the need for housing exceeds the available supply.

In the former interpretation, we should imagine a demand curve and a supply curve for housing in each local housing market. The demand curve is a list of housing prices showing the total amount of housing demanded in the market at each price point. Price here can mean either the selling price of an owner-occupied dwelling or the monthly carrying cost of a rented or owned dwelling. The supply curve is another list of house prices showing the total amount of housing supplied at each price point. Although it may be true that many consumers want more housing in principle (whether more is defined in terms of quantity or quality), the positive economic view is that an equilibrium price exists, at which there is no excess demand. However, this does not entirely exclude the possibility of a housing shortage. Two cases of housing shortage can be envisaged. One case is a situation in which the market is not in equilibrium for some reason. Sometimes, this happens because the housing market is imperfect. For example, externalities exist (costs of a property not borne directly by the buyer or seller) or information is incomplete. Other times, public action prevents the housing market from reaching equilibrium. One common example is a rental market under rent control; rents are held below market, and hence the amount of housing demanded is greater than the amount of housing that landlords are prepared to supply.

Another common example is public housing, for which rents are subsidized and dwellings are allocated by merit rather than market; here, there are housing shortages because more consumers want to live there than the system is prepared to supply. Still another example would be local restrictions on building that prevent developers from offering housing that some consumers want. The second case draws a distinction between supply in the short run versus the long run. In the short run, the supply of housing is relatively fixed. A sudden increase in demand leads to a run-up in the price of housing. However, over the longer term, housing suppliers respond by building more housing and converting other structures to housing, thus driving price back down. A housing shortage here is seen to be the difference between demand at the currently high short-run equilibrium price and the demand that would be met if only price had fallen to its long-run equilibrium level.

Now, consider the second, normative view of housing shortage. To begin, a policy planner would (a) identify categories of potential consumers having similar housing needs, (b) enumerate these categories, and (c) specify minimum standards of housing for each kind. Potential consumers, as used here, constitute more than just the set of households currently observed. Some households consist of two or more consumers who are presently doubled-up but for whom separate accommodation is preferable. The homeless are also potential consumers. Standards of housing adequacy for each category of potential consumer would be based on perceived needs, arise from a perspective that sees housing as a necessity of life, and presumably describe the kind of housing that consumers would choose if only they were able to afford it. In this sense, housing standards are not independent of the planner’s notion of a minimum standard of living. The planner then measures housing shortage as the number of consumers who are not presently in adequate housing.

Standards of housing adequacy can be defined along several dimensions. One is physical adequacy of the dwelling. The Canadian government uses what it calls the “core need” approach to measure physical adequacy. This measure rates a dwelling as adequate if it requires only regular
upkeep or, at most, minor repairs and if it possesses hot and cold running water, an inside toilet, and an installed bath or shower. Across Canada's 10 provinces, 904,000 households lived in inadequate dwellings in 1995.

A second dimension is suitability of the dwelling with respect to the persons living there, taking into account that needs differ: for example, by gender, activity limitation, workforce participation, and ability to communicate.

A third dimension of adequacy is accessibility to community facilities and services, jobs, shopping, and other amenities. Related to this is the importance of neighborhood social mix; some planners and housing experts argue that neighborhoods should mix incomes and household types.

A fourth dimension of adequacy has to do with the relationships of housing to the physical environment. Within this, adequacy may be defined in terms of the presence of harmful chemicals in or near housing (e.g., methane and radon gases, urea-formaldehyde foam insulation, soil contamination, and PCB and other toxic waste storage and disposal) and contamination within the home arising from superfund construction techniques and synthetic building materials (the "sick building syndrome"). In a similar vein, adequacy can be assessed in terms of the appropriateness and efficiency of the residential structure and its mechanical components as seen from a sustainable development, perspective: for example, construction waste disposal.

A fifth dimension of adequacy is empowerment and personal safety within the home and neighborhood. In the context of the private home, this would include mechanisms for protecting against domestic violence. In the case of communal buildings, this includes consideration of physical security in basement garages, stairwells, elevators, and walkways. For all kinds of dwellings, physical safety in the neighborhood, sense of control, and sense of community would be aspects of concern in assessing adequacy.

From a normative view, is housing inadequacy simply indicative of low income? Put differently, if every consumer were sufficiently affluent, would housing adequacy no longer be an issue in public policy? The answer would have to be largely, but not entirely, yes. An affluent consumer could afford to purchase or rent a dwelling that met many of the requisite standards for adequacy. However, in some respects, adequacy is also an outcome of municipal provision of services and amenities, and these are typically out of the hands of the consumer. (SEE ALSO: Housing Markets)

—John R. Miron

Further Reading


Housing Starts

Housing starts are widely used to indicate business activity and consumer confidence. The U.S. Bureau of the Census defines the start of construction as when excavation begins for the footings or foundations of a privately owned building containing any housing units. Construction of every housing unit in a multi-unit building is assumed to start with excavation for the building.

In counting housing starts, the bureau does not include moved or relocated buildings, housing units created in an existing residential or nonresidential structure, or housing units that form group quarters. Furthermore, the bureau excludes publicly owned housing units (contract awards) in its measure of housing starts, but it does include units in structures built by private developers with public subsidies or units that, on completion, are offered for sale to local public housing authorities under the Department of Housing and Urban Development (HUD) "Turnkey" program. In addition, the bureau excludes mobile homes (those that have transportation gear as an integral part of the unit and can be towed from site to site), although they do include excavations for prefabricated, panelized, componentized, sectional, and modular units as housing starts.

The Bureau of the Census estimates housing starts using the monthly Survey of Construction. Bureau representatives draw random samples of building permits in about 840 jurisdictions where building permits are required for construction. Recipients of building permits are surveyed to determine whether excavation has begun, and sample data are then blown up to form national estimates for permit-issuing areas. Upward adjustment of these housing starts is made to account for starts without permit authorization, or prior to permit issuance. The bureau also estimates housing starts in places where no building permit is required; in this case, national estimates are blown up from a random sample of about 130 places where the bureau searches intensively for all housing units started.

Table 17 summarizes annual counts of housing starts in the United States since 1959. In general, starts rise quickly in the first two years of the trough-to-peak of the business cycle; starts peaked in 1963, 1972, 1978, and 1986. Also evidenced in Table 17 is the postwar baby boom, which contributed to the surge in housing starts in the early 1970s. (SEE ALSO: Building Cycle; Housing Completions; Housing Investment)

—John R. Miron

Further Reading